

Celcomdigi Berhad

(6947 | CDB MK) Telecommunications & Media | Telecommunications service providers

Maintain Buy

Continuous Cost Down

Revised Target Price: RM4.94
(previously RM4.97)

KEY INVESTMENT HIGHLIGHTS

- **Maintain BUY recommendation with a slight revision in target price RM 4.94 (from RM4.97) post the 3QFY23 results announcement**
- **CDB delivered consistent performance in 3QFY23 with normalized earnings of RM594m (+13.8%qoq) thanks to better cost structure**
- **The group has a more favourable cost structure which saw a -6.3%qoq reduction in total cost for 3QFY23**
- **Meanwhile, quarterly service revenue was relatively stagnant as all segments, except for postpaid, saw better performance**

Remains a favorite. We are keeping our **BUY** recommendation on Celcomdigi Bhd (CDB) with a revised **target price of RM4.94** (from RM4.97) post the 3QFY23 results announcement. The group maintains its growth momentum in 3QFY23 post the consolidation of Celcom and Digi towards the end of 2022. This surpassed our expectation, making up 80.8% of our FY23 full year earnings estimates. Moving forward, we anticipate there should be no let-up in the group's future performance with upside potential emanating from the procurement synergies.

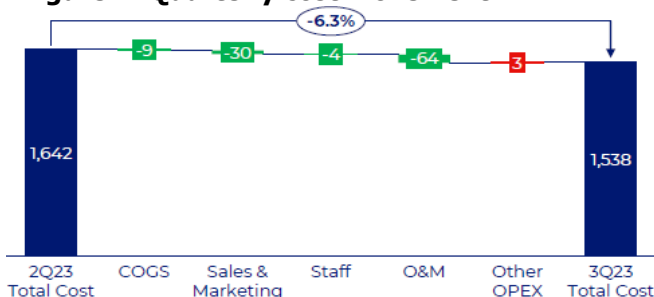
Earnings growth pick up pace. CDB's 3QFY23 normalised earnings came in at RM594m (+13.8%qoq). We view that the improvement came from lower cost (-6.3%qoq) as well as lower effective tax rate of 19.8%. Meanwhile, 3QFY23 service revenue remained steady at RM2.7b.

Exceed expectation. Cumulatively, 9MFY23 earnings amounted to RM1,615m. On comparable basis results, this translates into a growth of approximately 12.8%yoy. All in, CDB's 9MFY23 financial performance surpassed our expectation, making up 80.8% of FY23 full year earnings estimates respectively.

Steady service revenue. 3QFY23 service revenue remained steady at RM2,712m (+0.2%qoq). The marginal decline in postpaid revenue (-0.8%qoq) was made up by higher revenue from the prepaid (+0.2%qoq), wholesale (3.9%qoq) and home fibre (+7.1%qoq) segments. Note that the postpaid revenue was impacted by lower usage and further regulatory curbs on bulk messaging traffic.

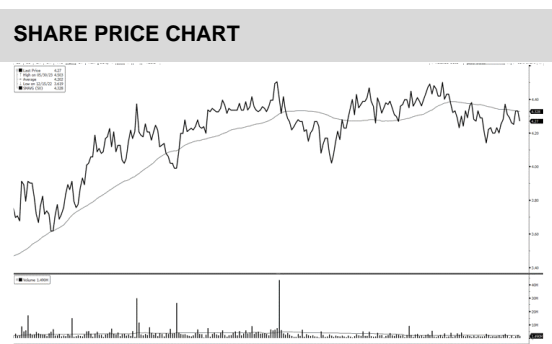
Lower total cost. 3QFY23 total cost declined by -6.3%qoq to RM1,538m which was mainly attributable to lower regulatory network related cost as well as lower sales and marketing activities.

Figure 1: Quarterly cost movement



Source: Company

RETURN STATISTICS	
Price @ 17 th November 2023 (RM)	4.26
Expected share price return (%)	+16.0
Expected dividend yield (%)	+3.3
Expected total return (%)	+19.3



Price performance (%)	Absolute	Relative
1 month	0.0	-1.4
3 months	-2.3	-4.5
12 months	10.3	9.2

INVESTMENT STATISTICS			
FYE Dec (RM)	2023E	2024F	2025F
Revenue	12,861	12,912	13,067
Operating Profit	3,563	3,571	3,985
Profit Before Tax	3,009	3,200	3,650
Core PATAMI	2,227	2,368	2,811
Core EPS (sen)	19	20	24
DPS (sen)	13.3	14.1	16.8
Dividend Yield (%)	3.1	3.3	3.9

KEY STATISTICS	
FBM KLCI	1,460.67
Issue shares (m)	8,121.87
Estimated free float (%)	13.63
Market Capitalisation (RM'm)	50,093.54
52-wk price range	RM3.64 - RM4.60
3-mth average daily volume (m)	2.04
3-mth average daily value (RM'm)	8.88
Top Shareholders (%)	
Telenor ASA	33.10
Axiata Group Bhd	33.10
Employees Provident Fund Board	9.57

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A more conservative capex. CDB's 9MFY23 capex intensity reduced to 7.9% from 10.7% a year ago. This led to a lower 9MFY23 capex of RM745m as opposed to RM989m recorded for 9MFY22. We anticipate this to increase significantly in 4QFY23 to meet its full year guidance of 15% to 18%.

Upward revision in earnings and target price. To account better than expected cost structure, we make an upward revision in FY23 to FY25 earnings estimate to between RM2.2b and RM2.8b (between +0.7% to +11.3%). In addition, we also adjusted downward our dividend assumption to be more reflective of the current run rate. All in, our target price is adjusted slightly lower to RM4.94 (from RM4.97 previously) while we maintain our valuation parameters.



CELCOMDIGI BHD: 3QFY23 RESULTS SUMMARY

FYE 31st December (in RM'm, unless otherwise stated)	Quarterly			Yearly		
	3Q23	% YoY	%QoQ	FY23	FY22	%YoY
Revenue	3,104	104.0	-0.6	9,407	4,592	104.8
EBITDA	1,580	114.6	5.2	4599	2196	109.4
Depreciation and amortisation	-872	184.3	-2.8	-2,684	-913	194.0
EBIT/(LBIT)	709	64.9	17.1	1915	1283	49.3
Finance costs	-160	179.8	-0.1	-482	-186	158.7
Finance income	24	234.6	2.5	68	20	245.9
PBT	572	50.7	22.2	1,501	1,116	34.5
Taxation	-114	-1.5	-5.7	-373	-396	-5.6
PAT/LAT	459	73.5	31.9	1127	721	56.4
MI	3	n.m.	n.m.	10	0	n.m.
PATAMI	456	72.3	32.7	1117	721	55.0
Normalised PATAMI	594	114.5	13.8	1,615	756	113.5
EPS/(LPS) (sen)	5	42.1	13.8	14	6	113.5
EBITDA margin (%)	50.9			48.9	47.8	
EBIT margin (%)	22.8			20.4	27.9	
Normalised PATAMI margin (%)	19.1			17.2	16.5	
Effective tax rate (%)	19.8			24.9	35.4	

Source: Company, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023E	2024F	2025F
Revenue	6,336	6,773	12,861	12,912	13,067
EBITDA	2,993	3,012	6,503	6,386	6,488
EBIT	1,730	1,466	3,563	3,571	3,985
PBT	1,515	1,218	3,009	3,200	3,650
Normalised PATAMI	1,134	1,203	2,227	2,368	2,811
Normalised EPS (sen)	14.6	15.5	19.0	20.2	24.0
Normalised EPS Growth (%)	-7.1	6.1	22.7	6.3	18.7
PER (x)	29	28	22.4	21.1	17.8
Dividend Per Share (sen)	14.9	12.2	13.3	14.1	16.8
Dividend yield (%)	3.5	2.9	3.1	3.3	3.9

Balance Sheet (RM'm)	2021A	2022A	2023E	2024F	2025F
Fixed assets	2,864	6,409	5,205	4,326	3,784
Intangible assets	284	18,695	18,695	18,695	18,695
Others	3,270	8,383	8,383	8,383	8,383
Non-current assets	6,417	33,486	32,282	31,404	30,862
Cash	205	1,221	3,819	3,798	5,026
Trade debtors	1,050	2,426	2,114	3,538	3,938
Others	168	410	482	483	486
Current assets	1,423	4,056	6,415	7,819	9,451
Trade creditors	1,444	0	2,931	2,943	2,978
Short-term debt	1,123	4,139	4,139	4,139	4,139
Others	365	4,222	1,577	1,581	1,591
Current liabilities	2,932	8,361	8,648	8,663	8,709
Long-term debt	3,836	10,748	10,948	10,748	10,948
Others	439	2,119	2,119	2,119	2,119
Non-current liabilities	4,275	12,867	13,067	12,867	13,067
Share capital	770	16,596	16,596	16,596	16,596
Retained earnings	-137	-384	284	994	1,838
Minority interest	0	103	103	103	103
Equity	633	16,314	16,983	17,693	18,536

Cash Flow (RM'm)	2021A	2022A	2023E	2024F	2025F
PBT	1,515	1,218	3,009	3,200	3,650
Depreciation & amortisation	1,263	1,546	2,940	2,815	2,503
Others	-324	-258	526	-1,409	-357
Changes in working capital	201	69	-934	-1,060	-1,104
Operating cash flow	2,655	2,575	5,542	3,545	4,691
Capital expenditure	-803	-888	-1,736	-1,937	-1,960
Others	10	-1,533	151	229	265
Investing cash flow	-793	-2,422	-1,585	-1,708	-1,695
Debt raised/(repaid)	-826	-1,674	200	-200	200
Equity raised/(repaid)	-2	-1	0	1	2
Dividends paid	-1,135	-1,011	-1,559	-1,657	-1,968
Others	2	3,550	0	-1	-2
Financing cash flow	-1,961	864	-1,359	-1,857	-1,768
Net cash flow	-99	1,017	2,598	-21	1,228
Beginning cash flow	303	205	1,218	3,819	3,798
Ending cash flow	205	1,218	3,819	3,798	5,026

Profitability Margins (%)	2021A	2022A	2023E	2024F	2025F
EBITDA margin	47	44	51	49	50
PBT margin	24	18	23	25	28
PATAMI margin	18	18	17	18	22

Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK: GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology