

Celcomdigi Berhad

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

On Track to Achieve Synergy Target of RM8b

KEY INVESTMENT HIGHLIGHTS

- **Maintain BUY recommendation with a slight revision in target price to RM4.95 from RM4.94 post the 4QFY23 results announcement**
- **FY23 normalised earnings grew by +3.2%yoy on a comparable basis due to a more favourable cost structure**
- **Operating cost was lower due to cost optimization discipline and the reassessment of credit allowance**
- **Meanwhile, steady improvement in service revenue was seen, supported by the prepaid, home fibre and wholesale**

Remains a favorite. We are keeping our **BUY** recommendation on Celcomdigi Bhd (CDB) with a revised **target price of RM4.95** post the 4QFY23 results announcement. The group maintains its growth momentum in 4QFY23 post the consolidation of Celcom and Digi towards the end of 2022. This was in line with our expectation, making up 98.0% 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 merger synergies as well as steady growth in service revenue.

Earnings growth pick up pace. CDB's 4QFY23 normalised earnings came in at RM503m, a decline of -36.2%qoq. This was mainly attributable to higher taxation and zakat of RM241m (+111.8%qoq). Notwithstanding the latter, there was improvement in PBT resulted from lower depreciation, amortisation and impairment (-37.4%qoq).

Met expectation. Nonetheless, FY23 normalised earnings grew to RM2,182m. On a comparable basis result, this translated into a growth of approximately +3.2%yoy. All in, CDB's FY23 financial performance met our expectation, making up 98.0% of FY23 full year earnings estimates respectively.

Steady service revenue. 4QFY23 service revenue remained steady at RM2,737m (+0.9%qoq on comparable basis). This contributed to full year FY23 service revenue of RM10,859m, a slight uptick of +0.4%yoy. The improvement in service revenue was mainly led by better performance across all segments except for postpaid revenue. Note that the latter declined by -0.8%yoy as a results of reduced demand on-demand data and bulk SMS traffic.

Lower total cost. 4QFY23 total cost increased by +9.1%qoq to RM1,678m which was in tandem with the higher traffic and roaming activities as well as seasonally high device sales. Despite this, full year FY23 cost came off by -0.4%yoy to RM6,527m in view of lower operating cost which benefited from cost optimization discipline and the reassessment of credit allowance.

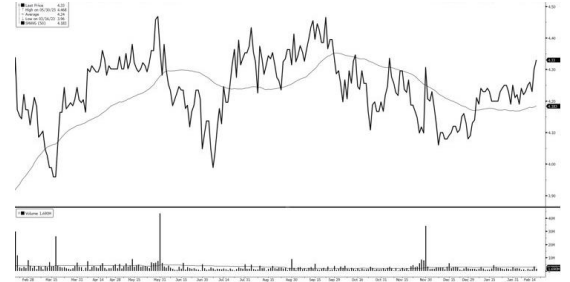
Maintain BUY

Revised Target Price: RM4.95
(Previously RM4.94)

RETURN STATISTICS

Price @ 20 th February 2023 (RM)	4.37
Expected share price return (%)	+14.2
Expected dividend yield (%)	+3.7
Expected total return (%)	+17.9

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	3.1	-0.4
3 months	6.1	-4.6
12 months	-3.1	-7.2

INVESTMENT STATISTICS


FYE Dec (RM)	2024E	2025F	2026F
Revenue	13,725	13,888	14,186
Operating Profit	3,539	3,952	4,265
Profit Before Tax	3,154	3,578	3,894
Core PATAMI	2,334	2,755	2,998
Core EPS (sen)	20	23	26
DPS (sen)	15.9	18.8	20.4
Dividend Yield (%)	3.7%	4.4%	4.8%

KEY STATISTICS

FBM KLCI	1,555.59
Issue shares (m)	8,121.87
Estimated free float (%)	13.36
Market Capitalisation (RM'm)	50,797.4
52-wk price range	RM3.96 - RM4.60
3-mth average daily volume (m)	2.89
3-mth average daily value (RM'm)	12.2
Top Shareholders (%)	
Telenor ASA	33.10
Axiata Group Bhd	33.10
Employees Provident Fund Board	9.84

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Higher capex intensity. CDB's FY23 capex intensity increased to 13.8% from 13.2% a year ago. This led to a higher FY23 capex of RM1,755m (+6.1%yoy), from RM1,654m recorded for FY22. The increase in capex was mainly to cater for the network integration. This is expected to pick up pace in FY24, in-line with management guidance on capex intensity of between 15% to 18%.

Minimal changes in earnings and target price. While FY23 earnings performance was in-line with our expectations, we tweaked FY24 and FY25 earnings by -1.4% and -2.0% respectively after we input actual FY23 financial performance into our financial model. This also led to a marginal increase in our target price to RM4.95 from RM4.94 previously while we maintained our valuation parameters. 

CELCOMDIGI BHD: 4QFY23 RESULTS SUMMARY

FYE 31st December (in RM'm, unless otherwise stated)	Quarterly			Yearly		
	4Q23	% YoY	%QoQ	FY23	FY22	%YoY
Revenue	3,275	50.2	5.5	12,682	6,773	87.2
EBITDA	1,344	72.2	-15.0	5,919	2,976	98.9
Depreciation and amortisation	-546	12.5	-37.4	-3,230	-1,398	131.0
EBIT/(LBIT)	798	170.2	12.6	2,689	1,578	70.4
Finance costs	-146	51.6	-8.7	-628	-283	122.2
Finance income	21	44.3	-11.9	89	34	160.8
Share of profit of associate	7	n.m.	n.m.	31	0	n.m.
PBT	680	218.6	18.8	2,181	1,330	64.0
Taxation	-241	180.2	-400.7	-614	-481	27.6
PAT/LAT	439	244.6	-32.6	1,567	848	84.7
MI	4	2409.9	40.7	144	0	n.m.
PATAMI	435	241.6	-33.0	1,423	848	67.8
Normalised PATAMI	503	66.4	-36.2	2,182	1,272	71.6
EPS/(LPS) (sen)	4	166.5	-44.8	19	2	1089.3
EBITDA margin (%)	41.0			46.7	43.9	
EBIT margin (%)	24.4			21.2	23.3	
Normalised PATAMI margin (%)	15.4			17.2	18.8	
Effective tax rate (%)	35.4			28.2	36.2	

Source: Company, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2022A	2023A	2024E	2025F	20265F
Revenue	6,773	12,682	13,725	13,888	14,186
EBITDA	2,976	5,919	6,494	6,597	6,890
EBIT	1,578	2,689	3,539	3,952	4,265
PBT	1,330	2,181	3,154	3,578	3,894
Normalised PATAMI	1,272	2,182	2,334	2,755	2,998
Normalised EPS (sen)	16.4	18.6	19.9	23.5	25.6
Normalised EPS Growth (%)	12.1	13.7	7.0	18.0	8.8
PER (x)	26	22.9	21.4	18.1	16.7
Dividend Per Share (sen)	12.2	13.2	15.9	18.8	23.0
Dividend yield (%)	2.9	3.1	3.7	4.4	5.4

Balance Sheet (RM'm)	2022A	2023A	2024E	2025F	20265F
Fixed assets	6,280	6,127	5,231	4,947	4,876
Intangible assets	19,259	18,951	18,951	18,951	18,951
Others	8,418	7,933	7,936	7,936	7,936
Non-current assets	33,957	33,011	32,118	31,834	31,763
Cash	1,221	397	604	1,265	1,647
Trade debtors	2,424	2,474	3,760	4,185	4,470
Others	410	544	564	567	573
Current assets	4,055	3,415	4,928	6,018	6,690
Trade creditors	0	0	0	0	0
Short-term debt	4,139	2,228	2,228	2,228	2,228
Others	4,624	5,194	5,547	5,602	5,702
Current liabilities	8,762	7,422	7,774	7,829	7,930
Long-term debt	10,748	10,769	10,569	10,769	10,969
Others	2,102	1,777	1,777	1,777	1,777
Non-current liabilities	12,850	12,546	12,346	12,546	12,746
Share capital	16,596	16,596	16,596	16,596	16,596
Retained earnings	-300	-249	218	769	1,069
Minority interest	103	111	111	111	111
Equity	16,399	16,459	16,926	17,476	17,776

Cash Flow (RM'm)	2022A	2023A	2024E	2025F	20265F
PBT	1,330	2,181	3,154	3,578	3,894
Depreciation & amortisation	1,398	3,230	2,956	2,644	2,625
Others	-267	-475	-954	-373	-189
Changes in working capital	357	806	-920	-933	-1,017
Operating cash flow	2,817	5,742	4,236	4,916	5,313
Capital expenditure	-888	-1,806	-2,059	-2,361	-2,554
Others	-1,533	-338	100	110	121
Investing cash flow	-2,422	-2,144	-1,959	-2,251	-2,433
Debt raised/(repaid)	-1,175	-3,166	-200	200	200
Equity raised/(repaid)	-1	0	0	0	0
Dividends paid	-1,011	-1,502	-1,867	-2,204	-2,698
Others	2,808	245	0	0	0
Financing cash flow	621	-4,423	-2,067	-2,004	-2,498
Net cash flow	1,017	-825	210	661	382
Beginning cash flow	205	1,218	394	604	1,265
Ending cash flow	1,218	394	604	1,265	1,647

Profitability Margins (%)	2022A	2023A	2024E	2025F	20265F
EBITDA margin	44	47	47	47	49
PBT margin	20	17	23	26	27
PATAMI margin	19	17	17	20	21

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