

Celcomdigi Berhad

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

Facing Revenue Pressure

KEY INVESTMENT HIGHLIGHTS

- **Downgrade to NEUTRAL with a lower DCF-derived target price of RM3.53 post 3QFY24 results announcement**
- **3QFY24 normalised earnings of RM400m (-23.5%yoy) was impacted by higher cost of sales and opex**
- **The above led to cumulative normalised earnings of +9.2%yoy to RM1,188m which was below our expectation**
- **Challenging revenue growth outlook to persist in the near-term while more time is need before a better cost structure can be seen**

Near-term weakness to persist. We are downgrading our recommendation on Celcomdigi bhd (CDB) to **NEUTRAL** with a lower **target price** of **RM3.53** post the 3QFY24 results announcement. Revenue outlook for the group seems tepid as the improvement in postpaid and home & fibre segment was barely offsetting the decline in prepaid and enterprise. Moreover, we note that there was a higher cost of material and traffic expenses while not much reduction in seen for the operating expenditure. Post the merger, there is only a considerable decline in depreciation and amortisation in view of lower capex which we view is inadequate. Management alluded that a more positive impact on the cost structure can only be seen from 2026 onwards.

Contraction in normalised earnings. CDB reported 3QFY24 earnings of RM437m, a decline of -32.7%yoy. Meanwhile, the normalised earnings were RM409m (-48.1%yoy). Despite a marginal improvement in revenue to RM3.1b (+0.7%yoy), there was a notable increase in cost of materials and traffic expenses to RM721.7m (+13.5%yoy) while opex remained at similar level of RM900m. This led to a lower profit margin of 13.1%.

Note, service revenue posted a +0.7%yoy contraction to RM2,689m. This was mainly led by lower prepaid service revenue which reflects the impact of SIM consolidation and focus acquisition. The enterprise segment revenue was also weaker due to lower contributions from mobile.

Disappointing result. The poor 3QFY24 financial performance led to 9MFY24 reported earnings of RM1,219m. On a normalised basis 9MFY24 earnings came in at RM1,188m, an improvement of +9.2%yoy. While revenue was stagnant at RM9.4b, the group recorded higher cost of goods sold as well as opex which led to single digit improvement in bottom-line.

All in, CDB's 9MFY24 earnings performance came in below our expectation, making up 60% of our full year FY24 earnings estimates.

Conservative earnings estimates. Taking cues from CDB's 9MFY24 financial performance, we adjusted FY24 to FY26 earnings estimates lower by between -6.1% to -13.2%. We factored in slower service revenue growth and lower profit margin assumption.

Lower target price of RM3.53. Subsequent to the adjustment to our earnings forecast, we revised CDB's DCF-derived **target price** to **RM3.53** from RM4.43 previously. Note that we also reduce the terminal growth to 1% which we think reflects the group outlook in the foreseeable term.

Downgrade to NEUTRAL

(Previously BUY)

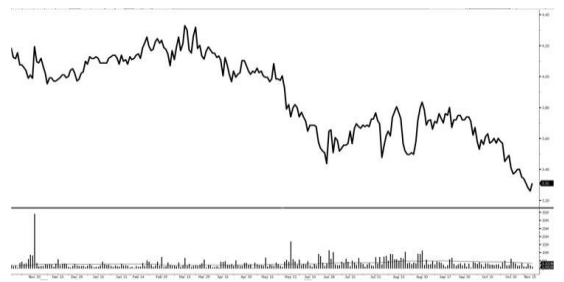
Revised Target Price: RM3.53

(Previously RM4.43)

RETURN STATISTICS

Price @ 18 th November 2024 (RM)	3.37
Expected share price return (%)	+4.7
Expected dividend yield (%)	+3.3
Expected total return (%)	+8.0

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-8.9	-7.2
3 months	-11.6	-14.1
12 months	-24.0	-31.4

INVESTMENT STATISTICS

FYE Dec (RM)	2024E	2025F	2026F
Revenue	12,664	12,878	13,282
Operating Profit	2,578	2,820	3,128
Profit Before Tax	2,193	2,445	2,756
Core PATAMI	1,734	1,883	2,122
Core EPS (sen)	15	16	18
DPS (sen)	10.3	11.2	12.7
Dividend Yield (%)	3.1	3.3	3.8

KEY STATISTICS

FBM KLCI	1,604.04
Issue shares (m)	11,731.51
Estimated free float (%)	23.26
Market Capitalisation (RM'm)	38,596.66
52-wk price range	RM3.25 - RM4.43
3-mth average daily volume (m)	3.66
3-mth average daily value (RM'm)	13.35
Top Shareholders (%)	
Telenor ASA	33.10
Axiata Group Bhd	33.10
Employees Provident Fund	10.04

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CELCOMDIGI BHD: 3QFY24 RESULTS SUMMARY

FYE 31st December (in RM'm, unless otherwise stated)	Quarterly			Annual		
	3QFY24	% YoY	%QoQ	9MFY24	9MFY23	%YoY
Revenue	3,126	0.7	0.7	9,403	9,407	0.0
EBITDA	1,514	-4.2	7.7	4077	4599	-11.4
Depreciation and amortisation	-743	-14.7	-1.0	-2,077	-2,684	-22.6
EBIT/(LBIT)	770	8.7	17.6	2000	1915	4.5
Finance costs	-155	-3.1	6.2	-454	-482	-5.8
Finance income	4	-84.9	37.4	10	68	-86.0
Share of profit of associate	-12	n.m.	n.m.	-1	24	n.m.
PBT	607	6.0	16.6	1,554	1,501	3.5
Taxation	-166	-307.6	59.0	-327	-373	-12.5
PAT/LAT	440	-32.5	5.9	1227	1127	8.9
MI	4	14.8	-64.1	8	10	n.m.
PATAMI	437	-32.7	7.6	1219	1117	9.2
Normalised PATAMI	409	-48.1	2.2	1,188	1,088	9.2
EPS/(LPS) (sen)	4	-44.5	7.6	10	9	9.2
EBITDA margin (%)	48.4	-2.5	-2.5	43.4	48.9	-5.5
EBIT margin (%)	24.6	1.8	1.8	21.3	20.4	0.9
Normalised PATAMI margin (%)	13.1	-6.9	-6.9	12.6	11.6	1.1
Effective tax rate (%)	27.4	41.4	41.4	21.0	24.9	-3.9

Source: Company, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2022A	2023A	2024E	2025F	20265F
Revenue	6,773	12,682	12,664	12,878	13,282
EBITDA	2,976	5,919	5,408	5,551	5,775
EBIT	1,578	2,689	2,578	2,820	3,128
PBT	1,330	2,181	2,193	2,445	2,756
Reported PATAMI	848	1,552	1,623	1,883	2,122
Normalised PATAMI	1,272	2,182	1,734	1,883	2,122
Normalised EPS (sen)	16.4	18.6	14.8	16.0	18.1
Normalised EPS Growth (%)	12.1	13.7	-20.5	8.6	12.7
PER (x)	21	18.1	22.8	21.0	18.6
Dividend Per Share (sen)	12.2	13.2	10.3	11.2	12.7
Dividend yield (%)	3.6	3.9	3.1	3.3	3.8
Balance Sheet (RM'm)	2022A	2023A	2024E	2025F	20265F
Fixed assets	6,280	6,127	5,196	4,397	3,742
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	32,084	31,284	30,629
Cash	1,221	397	533	1,754	3,070
Trade debtors	2,424	2,474	3,470	3,881	4,185

Others	410	544	544	548	556
Current assets	4,055	3,415	4,546	6,183	7,811
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	5,188	5,260	5,397
Current liabilities	8,762	7,422	7,416	7,488	7,624
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	160	725	1,362
Minority interest	103	111	111	111	111
Equity	16,399	16,459	16,868	17,433	18,069

Cash Flow (RM'm)	2022A	2023A	2024E	2025F	20265F
PBT	1,330	2,181	2,193	2,445	2,756
Depreciation & amortisation	1,398	3,230	2,830	2,731	2,647
Others	-267	-475	-1,001	-343	-175
Changes in working capital	357	806	-670	-672	-755
Operating cash flow	2,817	5,742	3,352	4,160	4,473
Capital expenditure	-888	-1,806	-1,900	-1,932	-1,992
Others	-1,533	-338	100	110	121
Investing cash flow	-2,422	-2,144	-1,800	-1,822	-1,871
Debt raised/(repaid)	-1,175	-3,166	-200	200	200
Equity raised/(repaid)	-1	0	1	2	3
Dividends paid	-1,011	-1,502	-1,214	-1,318	-1,485
Others	2,808	245	-1	-2	-3
Financing cash flow	621	-4,423	-1,414	-1,118	-1,285
Net cash flow	1,017	-825	139	1,221	1,317
Beginning cash flow	205	1,218	394	533	1,754
Ending cash flow	1,218	394	533	1,754	3,070

Profitability Margins (%)	2022A	2023A	2024E	2025F	20265F
EBITDA margin	44	47	43	43	43
PBT margin	20	17	17	19	21
Normalised PATAMI margin	19	17	14	15	16

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