

19 October 2020

# Digi.com Bhd

## 3QFY20 Below Expectations

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**9MFY20 CNP of RM953m (-12% YoY) and interim dividend of 4.1 sen missed our expectations as we had counted on better postpaid performance and lower costs. The earnings were within consensus. Broadband play with partnerships provide access to 3.7m households while its "bite-sized" products are well received, feeding data-hungry consumers. We cut our FY20E/FY21E earnings by 10%/6% but potential dividend yields remained attractive at c.4%. Maintain OP but with a revised DCF-driven TP of RM4.25 (from RM4.65, WACC: 7.1%, TG: 1.5%).**

**9MFY20 missed our expectations.** 9MFY20 core net earnings of RM953m missed our estimates but deemed within consensus, making up 66% and 73% of respective full-year assumptions. The negative deviation on our part was mainly due to our stronger postpaid and lower cost assumptions. However, the recovery in sales in 3QFY20 materialised as expected. An interim dividend of 4.1 sen (YTD: 12.0 sen) was declared but this missed our initial 18.4 sen expectation on the back of our higher earnings optimism.

**YoY**, 9MFY20 total revenue was stagnant at RM4.59b (-1%), as device sales supported a 3% decline in service revenue. This came from poorer prepaid contributions (-6%) during the year as the MCO drove sim card consolidation and churning of inactive accounts. Postpaid contribution only tipped slightly (+1%) as early-year gains from prepaid migration was offset by progressive down-trading and the return to more affordable prepaid plans offering more data-centric propositions. As of 3QFY20, prepaid subscribers were at 7.66m users with ARPU of RM33/mth (3QFY19: 8.34m users, ARPU: RM29/mth). Postpaid subscribers came in at 3.02m users with ARPU of RM67/mth (3QFY19: 2.99m users, ARPU: RM71/mth). Core EBITDA registered at RM2.32b (-6% YoY) from higher device costs and traffic charges, translating to 9MFY20 earnings of RM953m (-12%) after accounting for one-off adjustments (refer to overleaf).

**QoQ**, 3QFY20 service revenue growth of 4% was driven by stronger Prepaid revenue (+10%) as consumers leaned towards better affordability during a post-MCO economy. In tandem with the higher revenue, 3QFY20 profits registered at RM321m (+7%).

**Value-driven.** While the group has not competed directly by offering fully "unlimited" mobile offerings as its competitors, DIGI continues to gain new users with its entry-level plans, with "bite-sized" add-ons to supplement higher data needs. Partnerships to provide home fibre broadband connection have taken shape from agreements with TM, Time dotcom and Allo. Collectively, it is estimated that DIGI has access to an addressable market of 3.7m households. Strategies to win involve the bundling of broadband and postpaid mobile packages for more competitive value to customers. Still, recent economic uncertainties pose some challenges to the group. These include the need for tighter credit screening of potential postpaid sign ups and the loss of migrant users, though we do not believe they are overly detrimental to group prospects.

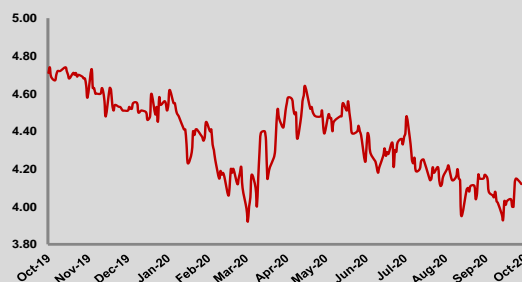
**Post-results**, we cut our FY20E/FY21E earnings by 10%/6% on the back of softer postpaid ARPUs and more conservative operating cost assumptions. This also toned down our expected dividend payments from 18.4 sen/18.7 sen to 16.5 sen/17.6 sen from pay-out close to 100%.

**Maintain OUTPERFORM but with a lower DCF-driven TP of RM4.25 (from RM4.65, previously).** Our TP (based on WACC: 7.1%, TG: 1.5%) implies an EV/Fwd. EBITDA of 12.0x against our FY21E earnings. Despite the cut in earnings and adjusted dividends, DIGI's position as the top dividend-yielder still remains firmly in place, enhanced by recent share price weakness. This is also in line with our belief that DIGI is the least affected during this unprecedented times, and by new competitive forces, mainly due to its already low-based ARPUs.

## OUTPERFORM ↔

Price : RM3.98  
Target Price : RM4.25 ↓

### Share Price Performance



KLCI 1,503.84  
YTD KLCI chg -5.3%  
YTD stock price chg -10.8%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	DIGI MK Equity
Market Cap (RM m)	30,944.5
Shares Outstanding	7,775.0
52-week range (H)	4.74
52-week range (L)	3.92
3-mth avg daily vol	2,641,177
Free Float	21%
Beta	0.8

### Major Shareholders

Telenor ASA	49.0%
Employees Provident Fund	14.8%
Amanah Saham Bumiputra	8.4%

### Summary Earnings Table

FY Dec (RM m)	2019A	2020E	2021E
<b>Turnover</b>	<b>6,297</b>	<b>5,779</b>	<b>6,167</b>
EBITDA	3,301	2,973	3,151
Core EBITDA	3,425	2,985	3,151
EBIT	2,104	1,888	1,981
PBT	1,892	1,672	1,798
<b>Net Profit</b>	<b>1,433</b>	<b>1,288</b>	<b>1,384</b>
<b>Core Net Profit</b>	<b>1,557</b>	<b>1,300</b>	<b>1,384</b>
Consensus (NP)	-	1,308	1,411
Earnings Revision	-	-10%	-6%
Core EPS (sen)	20.0	16.7	17.8
Core EPS growth	1.0%	-16.5%	6.5%
NDPS (sen)	18.2	16.5	17.6
BVPS (RM)	0.1	0.1	0.1
PER (x)	19.9	23.8	22.4
PBV (x)	46.9	46.8	45.9
Net Gearing (x)	7.1	6.4	5.4
Net Div. Yield (%)	4.6	4.2	4.4



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**Risks to our call include:** (i) weaker-than-expected service revenue, (ii) stronger-than-expected OPEX, and (iii) stiffer competition.

## Results Highlights

	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE Dec (RM m)	FY20	FY20	Chg	FY19	Chg	FY20	FY19	Chg
<b>Turnover</b>	<b>1,579</b>	<b>1,452</b>	<b>8.7%</b>	<b>1,562</b>	<b>1.1%</b>	<b>4,591</b>	<b>4,620</b>	<b>-0.6%</b>
Service Revenue	1,374	1,317	4.3%	1,414	-2.8%	4,078	4,208	-3.1%
EBITDA	786	770	2.1%	834	-5.8%	2,312	2,486	-7.0%
<b>Core EBITDA*</b>	<b>786</b>	<b>782</b>	<b>0.5%</b>	<b>834</b>	<b>-5.8%</b>	<b>2,324</b>	<b>2,472</b>	<b>-6.0%</b>
EBIT	473	442	7.0%	541	-12.6%	1,364	1,582	-13.7%
PBT	432	377	14.6%	489	-11.7%	1,244	1,432	-13.1%
Taxation	-111	-89	-24.4%	-133	16.5%	-304	-342	11.2%
<b>Net Profit</b>	<b>321</b>	<b>288</b>	<b>11.5%</b>	<b>356</b>	<b>-9.8%</b>	<b>941</b>	<b>1,090</b>	<b>-13.7%</b>
<b>Core Net Profit*</b>	<b>321</b>	<b>300</b>	<b>7.1%</b>	<b>356</b>	<b>-9.8%</b>	<b>953</b>	<b>1,076</b>	<b>-11.5%</b>
Core EPS (sen)	4.1	3.9	7.1%	4.6	-9.8%	12.3	13.8	-11.5%
DPS (sen)	4.1	3.7		4.5		12.0	13.8	
EBITDA margin	49.8%	53.0%		53.4%		50.3%	53.8%	
Core EBITDA	49.8%	53.9%		53.4%		50.6%	53.5%	
EBIT margin	30.0%	30.4%		34.6%		29.7%	34.2%	
PBT margin	27.4%	26.0%		31.3%		27.1%	31.0%	
CNP margin	20.3%	20.6%		22.8%		20.8%	23.3%	
Effective tax rate	25.7%	23.7%		27.2%		24.4%	23.9%	

Note:

\* Core adjustments include: (i) 2Q20 RM4m MFRS 16 reversal of site rental expense, (ii) 2Q20 RM16m asset retirement obligation expense, (iii) 2Q19 RM34m non-recurring traffic cost benefit, and (iv) 2Q19 RM20m MFRS 16 site rental expenses

Source: Company, Kenanga Research

## Revenue Breakdown

	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
	FY20	FY20	Chg	FY19	Chg	FY20	FY19	Chg
<b>Total Revenue (RM'm)</b>	<b>1,579</b>	<b>1,452</b>	<b>8.7%</b>	<b>1,562</b>	<b>1.1%</b>	<b>4,591</b>	<b>4,620</b>	<b>-0.6%</b>
<b>- Service Revenue</b>	<b>1,374</b>	<b>1,317</b>	<b>4.3%</b>	<b>1,413</b>	<b>-2.8%</b>	<b>4,078</b>	<b>4,208</b>	<b>-3.1%</b>
Internet & Digital	1,004	953	5.4%	914	9.8%	2,934	2,658	10.4%
Non-internet	348	344	1.2%	462	-24.7%	1,081	1,441	-25.0%
Interconnect	22	20	10.0%	37	-40.5%	63	109	-42.2%
<b>- Device sales &amp; others</b>	<b>205</b>	<b>135</b>	<b>51.9%</b>	<b>149</b>	<b>37.6%</b>	<b>513</b>	<b>412</b>	<b>24.5%</b>
Prepaid & Digital revenue	748	679	10.2%	747	0.1%	2,158	2,287	-5.6%
Postpaid revenue	626	639	-2.0%	667	-6.1%	1,921	1,911	0.5%
<b>Key Operating Indicators</b>			<b>Chg</b>		<b>Chg</b>			
Prepaid ARPU (RM)	33	29	4	29	4			
Postpaid ARPU (RM)	67	68	-1	71	-4			
<b>Blended ARPU (RM)</b>	<b>42</b>	<b>40</b>	<b>2</b>	<b>40</b>	<b>2</b>			
Prepaid Subs (k)	7,658	7,591	67	8,337	-679			
Postpaid Subs (k)	3,022	3,032	-10	2,993	29			
<b>Total Subs (k)</b>	<b>10,680</b>	<b>10,623</b>	<b>57</b>	<b>11,330</b>	<b>-650</b>			

Source: Company, Kenanga Research

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## Peer Table Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)		Net Div Yld (%)		Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.			
<u>Stocks Under Coverage</u>																			
AXIATA GROUP BHD	2.72	24,941.1	Y	12/2020	-10.0%	-2.9%	-44.7%	2.4%	26.0	46.9	45.8	1.1	1.1	2.4%	2.0%	3.20	MP		
DIGI.COM BHD	3.98	30,944.5	Y	12/2020	-8.2%	6.7%	-16.5%	6.5%	19.9	23.8	22.4	46.9	46.8	196.8%	4.1%	4.25	OP		
MAXIS BHD	4.92	38,489.3	Y	12/2020	-0.7%	4.2%	1.2%	2.8%	25.6	25.3	24.6	5.4	5.4	21.3%	3.7%	4.90	MP		
OCK GROUP BHD	0.440	421.8	N	12/2020	5.2%	9.7%	7.8%	13.2%	15.0	13.9	12.3	0.7	0.7	5.1%	0.0%	0.610	OP		
TELEKOM MALAYSIA BHD	4.20	15,849.3	Y	12/2020	-11.4%	3.5%	-10.5%	8.8%	15.9	17.7	16.3	2.4	2.3	13.3%	3.1%	4.95	OP		
Simple Average					-5.0%	4.2%	-12.5%	6.7%	20.5	25.5	24.3	11.3	11.3	47.8%	2.6%				
<u>Stocks Not Under Coverage</u>																			
TIME DOTCOM BHD	12.70	7,674.1	Y	12/2020	10.0%	8.6%	5.0%	8.8%	23.6	22.5	20.7	2.7	2.5	11.6%	2.4%	14.00	Trading Buy		

Source: Kenanga Research

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**Stock Ratings are defined as follows:****Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

**Sector Recommendations\*\*\***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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