



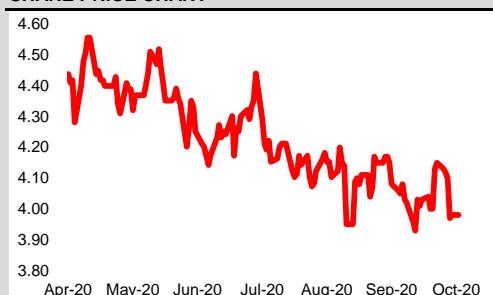
DESCRIPTION

The third largest mobile operator in Malaysia with strong positioning in the prepaid segment and youth market.

12-Month Target Price	RM4.75
Current Price	RM3.98
Expected Return	+19.3%

Market	Main
Sector	Telecommunications
Bursa Code	6947
Bloomberg Ticker	DIGI MK
Shariah-compliant	Yes

SHARE PRICE CHART



52 Week Range (RM)	3.82 – 4.75
3-Month Average Vol (000)	2,660.4

SHARE PRICE PERFORMANCE

	1M	3M	6M
Absolute Returns	-4.8	-8.4	-10.4
Relative Returns	-3.4	-6.2	-18.7

KEY STOCK DATA

Market Capitalisation (RMm)	30,944.5
No. of Shares (m)	7,775.0

MAJOR SHAREHOLDERS

	%
Telenor Asa	49.0
Employees Provident Fund	12.2

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Stronger Contribution From Prepaid Segment

DiGi reported a 10% YoY decline in 3QFY20 net profit, largely due to higher depreciation cost. Noticeably, earnings improved by 11% QoQ on higher revenue, primarily the prepaid segment which posted a 10.2% increase. Prepaid ARPU improved by 10% while 67K was added to subscriber base, sequentially. This suggests some measure of success in efforts by DiGi to grow its Malaysian base to offset the shrinking migrant business. The results were broadly in line with expectations. A third interim dividend of 4.1sen per share was declared (3QFY19: 4.5sen). DiGi provides the most attractive dividend yield among the telco companies under our coverage. For FY20F, we are projecting a yield of 4% for DiGi, compared to sector average of c.3%. Maintain our **Outperform** rating on DiGi.

§ **3QFY20 revenue improved by 1.1% YoY.** Mobile service revenue fell 2.8% YoY due to lower postpaid revenue (-6.1% YoY) with ARPU falling by 5.6% on a 1% increase in subscriber base. This was offset by higher device sales which jumped 37.6% YoY to RM205m. Meanwhile, prepaid revenue was flat. However, on a QoQ basis, prepaid segment delivered an impressive growth of 10.2% on the back of higher ARPU (+10%) and subscriber base (+0.9%). DiGi's latest product launches, DiGi Abadi and DiGi Prepaid NEXT, have received positive traction from price-conscious consumers as they allow the access to high speed internet connectivity via bite-size data passes.

§ **3QFY20 net profit fell by about 10% YoY.** Cost of goods sold increased by 17.6% YoY on higher expenses related to devices and digital services. Meanwhile, opex increased by 3.9% YoY as the previous year included a non-recurring cost of RM17m. Depreciation cost rose 6.8% YoY as DiGi continues to invest in network expansion. An additional RM12m provision for doubtful debt was recognized due to the group's commitment to manage bad debt risks in the current challenging economic environment. EBITDA margin was lower at 50.0% compared to 53.4% in 3QFY19.

§ **Our preferred pick due to its stable earnings and attractive yield.** In our universe of coverage, DiGi provides the highest dividend yield of c.4% (sector average: c.3%). We believe this is sustainable as DiGi's revenue stream is relatively more stable while cost optimization has always been a key focus of the group. Meanwhile, DiGi continues to invest in modernizing and expanding its 4G coverage network. It has established collaborations with Celcom, Telekom Malaysia and Time dotCom to expand its fixed broadband footprint, provide connectivity for business solutions, wholesale and fibre to home. Recently, DiGi announced a partnership with ZTE Corp for its nationwide Radio Access Network modernization, paving the way for improvement in network capacity and customer experience as well as catering for the eventual adoption of 5G technologies.

KEY FORECAST TABLE (RM m)

FYE Dec	2018A	2019A	2020F	2021F	2022F	3-year CAGR
Revenue	6,527.1	6,297.4	6,255.4	6,306.2	6,366.6	0.4%
Operating Profit	2,188.6	2,103.7	1,985.4	1,950.1	1,899.9	-3.3%
Pre-tax Profit	2,079.4	1,892.3	1,785.0	1,758.9	1,720.2	-3.1%
Net Profit	1,540.7	1,433.0	1,356.6	1,336.8	1,307.3	-3.0%
EPS (Sen)	19.8	18.4	17.4	17.2	16.8	-3.0%
P/E (x)	20.1	21.6	22.8	23.1	23.7	
DPS (Sen)	19.6	18.2	16.7	17.0	16.6	
Dividend Yield	4.9	4.6	4.2	4.3	4.2	

Source: Company, PublicInvest Research estimates

Figure 1: Results Summary

FYE Dec (RMm)	3Q20	3Q19	YoY Chg (%)	QoQ chg (%)	9M20	YoY Chg (%)	Comment
Revenue	1,579.2	1,562.1	1.1	8.7	4,592.0	(0.6)	Higher revenue due to wider range of innovative product launches & digital solutions
Other income	7.9	4.1	92.1	269.6	14.9	15.1	
Forex gains/(losses)	2.7	(4.0)	>100	>100	3.6	>100	
Other exp	(803.9)	(726.1)	10.7	17.0	(2,299.1)	7.4	Higher COGS on higher expenses related to devices & higher advertising spend to recover the loss of sales during lockdown
EBITDA	785.9	836.1	(6.0)	2.1	2,311.3	(7.2)	
Depreciation & Amor	(312.5)	(293.5)	6.5	(4.6)	(946.3)	4.4	
Net interest cost	(41.0)	(54.1)	(24.3)	(37.0)	(119.9)	(21.2)	
PBT	432.4	488.5	(11.5)	14.6	1,245.1	(13.0)	
Tax	(111.7)	(132.4)	(15.7)	25.2	(304.3)	(10.8)	
Net Profit	320.8	356.0	(9.9)	11.4	940.8	(13.7)	YoY mainly dragged by higher depreciation cost and COGS
Subscribers ('000)	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	
Prepaid	8,438	8,337	8,249	7,947	7,591	7,658	
Postpaid	2,926	2,993	3,032	3,061	3,032	3,022	
ARPU (RM/month)							
Prepaid	29	29	30	30	30	33	
Postpaid	70	71	72	69	69	67	

Source: Company, PublicInvest Research estimates

KEY FINANCIAL DATA

INCOME STATEMENT DATA

FY Dec (RMm)	2018A	2019A	2020F	2021F	2022F
Revenue	6,527.1	6,297.4	6,255.4	6,306.2	6,366.6
Operating Profit	2,188.6	2,103.7	1,985.4	1,950.1	1,899.9
Net interest	-109.2	-211.3	-200.4	-191.2	-179.7
Pre-tax Profit	2,079.4	1,892.3	1,785.0	1,758.9	1,720.2
Income Tax	-538.7	-459.4	-428.4	-422.1	-412.8
Effective Tax Rate (%)	25.9	24.3	24.0	24.0	24.0
Reported Net Profit	1,540.7	1,432.9	1,356.6	1,336.8	1,307.3
Growth					
Revenue	2.9%	-3.5%	-0.7%	0.8%	1.0%
Operating Profit	4.5%	-3.9%	-5.6%	-1.8%	-2.6%
Net Profit	4.3%	-7.0%	-5.3%	-1.5%	-2.2%

Source: Company, PublicInvest Research estimates

BALANCE SHEET DATA

FY Dec (RMm)	2018A	2019A	2020F	2021F	2022F
PPE	2,881.2	2,852.8	2,480.7	2,036.3	1,519.9
Other long-term assets	1,194.1	864.0	864.0	864.0	864.0
Cash at bank	433.1	457.7	558.1	645.2	829.2
Other current assets	1,704.2	1,399.5	1,459.2	1,469.1	1,482.3
Total Assets	6,212.7	8,149.4	7,962.0	7,714.6	7,495.5
Short-term borrowings	181.4	688.8	400.0	200.0	150.0
Long-term borrowings	2,512.7	4,461.0	4,500.0	4,500.0	4,300.0
Payables	2,144.1	1,784.3	1,868.0	1,857.3	1,875.1
Other liabilities	701.4	555.3	479.7	429.7	429.7
Total Liabilities	5,539.5	7,489.5	7,247.7	6,987.0	6,754.8
Shareholders' Equity	673.2	660.0	714.2	727.6	740.7
Total Equity and Liabilities	6,212.7	8,149.4	7,962.0	7,714.6	7,495.5

Source: Company, PublicInvest Research estimates

PER SHARE DATA AND RATIOS

FY Dec	2018A	2019A	2020F	2021F	2022F
Book Value Per Share (RM)	0.1	0.1	0.1	0.1	0.1
Gross debt/EBITDA (x)	0.9	1.6	1.6	1.5	1.4
EPS (Sen)	19.8	18.4	17.4	17.2	16.8
DPS (Sen)	19.6	18.2	16.7	17.0	16.6
Payout Ratio (%)	98.9	98.8	96.0	99.0	99.0
ROA (%)	24.8	17.6	17.0	17.3	17.4
ROE (%)	228.9	217.1	189.9	183.7	176.5

Source: Company, PublicInvest Research estimates

RATING CLASSIFICATION

STOCKS

OUTPERFORM	The stock return is expected to exceed a relevant benchmark's total of 10% or higher over the next 12 months.
NEUTRAL	The stock return is expected to be within +/- 10% of a relevant benchmark's return over the next 12 months.
UNDERPERFORM	The stock return is expected to be below a relevant benchmark's return by -10% over the next 12 months.
TRADING BUY	The stock return is expected to exceed a relevant benchmark's return by 5% or higher over the next 3 months but the underlying fundamentals are not strong enough to warrant an Outperform call.
TRADING SELL	The stock return is expected to be below a relevant benchmark's return by -5% or more over the next 3 months.
NOT RATED	The stock is not within regular research coverage.

SECTOR

OVERWEIGHT	The sector is expected to outperform a relevant benchmark over the next 12 months.
NEUTRAL	The sector is expected to perform in line with a relevant benchmark over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform a relevant benchmark over the next 12 months.

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Published and printed by:
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