Digi.Com Bhd

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

Maintain Neutral

Slower acquisition activities

Unchanged Target Price: RM4.30

KEY INVESTMENT HIGHLIGHTS

- **1Q20 normalised earnings dropped by -10.7%yoy to RM296.4m, in-line with ours and consensus expectations**
- **Earnings was impacted by higher cost of materials (+62.5%yoy) and traffic charges (+31.5%yoy)**
- **Growth in postpaid revenue was negated by the contraction in prepaid revenue**
- **Anticipation of higher capex in the coming quarters to ensure users stay connected and supported**
- **Maintain NEUTRAL with an unchanged TP of RM4.30**

Within expectation. Digi's 1Q20 normalised earnings amounted to RM296.4m which represent a contraction of -10.7%yoy. This was mainly due to lower EBITDA achieved, resulting from higher cost of materials (+62.5%yoy) and traffic charges (+31.5%yoy). All in, Digi's 1Q20 financial performance came in within ours and consensus expectations, making up 21.4% and 21.1% of full year FY20 earnings respectively.

Resilient service revenue. 1Q20 mobile service revenue remained resilient at RM1,387m (-0.4%yoy). This was mainly supported by the expansion in postpaid revenue to RM656m (+5.5%yoy) as the subscriber base grew to 3.1m (+7.2%). However, the prepaid and digital revenue contracted by –8.2%yoy to RM434m , in-line with the reduction in the prepaid subscriber base to 6.4m (-1.5%yoy).

Capital expenditure (capex). Digi's 1Q20 investment came in at RM139m, a decline of -17.3%yoy which represented a capex to service revenue ratio of 10% (vs 1Q19: 12%). This was mainly to support capacity upgrade and fibre network expansion to deliver consistent quality data connectivity as well as digital capabilities in core businesses and processes. Moving forward, we expect the capex to increase in the coming quarters as we expect the group to frontload some of its capex allocation. This will form part of the larger RM400m additional network investment among the telcos to support increased demand and provide continued network availability and capacity.

Dividend. Digi announced 1Q20 dividend of 4.2sen per share, bearing a payout ratio of 98.4%. This is in-line with our expectation, which made up 23.7% of our full year FY20 dividend of 17.7sen.

Impact. No change to our earnings estimates at this juncture.

Target price. We are maintaining our target price of **RM4.30**. This is based on DDM valuation methodology. Our target price implies a forward FY20 PER of 24.1x.

RETURN STATISTICS	
Price @ 23rd April 2020 (RM)	4.50
Expected share price return (%)	-4.4
Expected dividend yield (%)	+3.9
Expected total return (%)	**-0.5**

SHARE PRICE CHART

Share price performance (%)	Absolute	Relative
1 month	12.5	5.1
3 months	3.4	14.3
12 months	-0.2	18.3

KEY STATISTICS	
FBM KLCI	1,391.38
Syariah compliant	Yes
Issue shares (m)	7,775.00
Estimated free float (%)	21.84
Market Capitalisation (RM'm)	34,987.50
52-wk price range (RM)	3.82 – 5.10
Beta vs FBM KLCI (x)	0.91
Monthly velocity (%)	11.02
Monthly volatility (%)	12.25
3-mth average daily volume (m)	3.96
3-mth average daily value (RM'm)	16.79
Top Shareholders (%)	
Telenor ASA	49.00
Employees Provident Fund Board	13.91
Amanah Saham Nasional Bhd	8.34

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Maintain NEUTRAL. The group has shown resilient service revenue. This was mainly supported by the higher postpaid revenue as the postpaid subscriber base continues to increase. Nonetheless, the advent of the Covid19 pandemic has led to slower pace of new subscriber acquisition. Meanwhile, the prepaid revenue continues to contract in view of the pre-to-post conversion. However, the contraction is partially buffered by higher prepaid ARPU. Moving forward, given the extension in the movement control order, we could foresee slower addition of new subscribers. To partially account for the subdued revenue growth, we view that more focus will be on operation efficiency which would help to sustain healthy profit margin. This includes careful network management to minimise sudden huge increase in capex which could potentially affect its cashflow. Meanwhile, we expect dividend yield of approximately four percent would also keep investors' interest in the company. All factors considered, we are maintaining our **NEUTRAL** recommendation on the stock.

INVESTMENT STATISTICS

Financial year ending 31st December (in RM'm, unless otherwise stated)	2018	2019	2020E	2021F	2022F
Revenue	6,527.1	6,297.4	6,221.5	6,239.1	6,313.8
EBITDA	2,993.5	3,301.0	2,823.7	2,880.4	3,008.1
PBT	2,079.4	1,892.3	1,819.8	1,825.1	1,900.9
Normalised PAT	1,540.3	1,416.2	1,383.1	1,396.2	1,454.2
Normalised EPS (sen)	19.8	18.2	17.8	18.0	18.7
Normalised EPS Growth (%)	5.4	-8.1	-2.3	1.0	4.2
PER (x)	22.7	24.7	25.3	25.1	24.1
Dividend Per Share (sen)	19.8	18.4	17.7	17.9	18.6
Dividend yield (%)	4.4	4.1	3.9	4.0	4.1

Source: Company, MIDFR

DIGI.COM BHD: 1QFY20 RESULTS SUMMARY

Financial year ending 31st December (in RM'm, unless otherwise stated)	Quarterly				
	1Q20	1Q19	% YoY	4Q19	% QoQ
Revenue	1,560.3	1,508.5	3.4	1,678.1	-7.0
EBITDA	755.6	805.7	-6.2	811.0	-6.8
Depreciation and amortisation	-306.2	-305.2	0.3	-290.8	5.3
EBIT	449.4	500.5	-10.2	520.3	-13.6
Finance costs	-21.5	-51.7	-58.4	-67.9	-68.4
Interest income	7.5	3.7	101.1	8.7	-13.0
PBT	435.4	452.6	-3.8	461.0	-5.5
Taxation	-103.4	-111.1	-6.9	-118.1	-12.4
PAT	332.0	341.5	-2.8	342.9	-3.2
Normalised PAT	296.4	337.9	-10.7	338.2	-12.4
Normalised EPS (sen)	3.81	4.35	-10.7	4.35	-12.4
EBITDA margin (%)	48.4	53.4	-9.3	48.3	0.2
EBIT margin (%)	28.8	33.2	-13.2	31.0	-7.1
Normalised PAT margin (%)	19.0	22.6	-16.1	20.4	-7.0
Effective tax rate (%)	23.8	24.5	-3.2	25.6	-7.3

Source: Company, MIDFR

DISCLOSURES AND DISCLAIMER

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 *rise* 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 *fall* 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.