2QFY20 Results Review (Below) | Wednesday, 15 July 2020

Digi.Com Bhd

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

Maintain Neutral

Losing its earning resiliency

Revised Target Price: RM3.95

(from RM4.30)

KEY INVESTMENT HIGHLIGHTS

- **2Q20 normalised earnings of RM281.2m (-27.6%yoy) came in below ours and consensus expectations**
- **Earnings was mainly impacted by reduction in service revenue and also shift in its revenue mix**
- **Slower customer acquisition activities during MCO and continued sim consolidation lead to smaller user base**
- **The group remain committed in its capex commitment in order to improve the network experience**
- **Maintain NEUTRAL with a revised TP of RM3.95**

Quarterly earnings remained below RM300m. Digi's 2Q20 normalised earnings contracted to RM281.2m (-27.6%yoy), driven by lower service revenue which had impacted the EBITDA margin to subside to 53% (vs 2Q19: 55%). This had led to 1H20 normalised earnings amounted to RM577.5m (-19.9%yoy). All in, Digi's 1HQ20 financial performance came in below ours and consensus expectations, making up 41.7% and 42.7% of full year FY20 earnings respectively.

Single digit decline in service revenue. Service revenue in 2Q20 declined by -6.1%yoy to RM1,317m. This was primarily due to lower voice revenue and lower roaming revenue in view of the Movement Control Order (MCO). Nonetheless, the decline was partially buffered by higher internet and digital revenue.

Customer acquisition effort hampered by MCO. Digi's subscriber base reduced to 10.6m (vs 2Q19: 11.4m), mainly due to closure of physical store, involuntary churn and continued sim consolidation. However, the blended ARPU remained stagnant at RM40/mth, supported by higher proportion of postpaid subscriber of 28.5% (vs 2Q19: 25.7%).

Remain committed in its capital spending. Digi's 2Q20 investment came in at RM225m, a decline of -13.4%yoy which represents a capex to service revenue ratio of 17.1% (vs 2Q19: 18.5%). This was mainly to support 4G Plus network rollout acceleration for capacity upgrades, fiber network expansion and traffic management. Moving forward, premised on management guidance, 2H20 capital expenditure should mimic 1H20 spending pattern.

Dividend. Digi announced 2Q20 dividend of 3.7sen per share, which translate into 100% payout ratio. Cumulatively, 1H20 dividend amounted to 7.9sen (vs 1H19: 9.3sen), in-line with the lower earnings generated in 1H20.

Impact. We are revising our earnings estimates downward as we assume higher operating cost as well as higher depreciation and amortization expenses, leading to lower profit margin assumption. As such, FY20/21/22 earnings estimates have been revised lower by about -9% to -14% to RM1,184.3m/RM1,240.4m/RM1,324.5m respectively.

RETURN STATISTICS	
Price @ 14th July 2020 (RM)	4.33
Expected share price return (%)	-8.1
Expected dividend yield (%)	+3.7
Expected total return (%)	**-4.4**

SHARE PRICE CHART

Share price performance (%)	Absolute	Relative
1 month	-1.1	-4.4
3 months	0.5	-16.5
12 months	-14.3	-10.5

KEY STATISTICS	
FBM KLCI	1,598.75
Syariah compliant	Yes
Issue shares (m)	7,775.00
Estimated free float (%)	21.02
Market Capitalisation (RM'm)	33,665.75
52-wk price range (RM)	3.82 – 5.08
Beta vs FBM KLCI (x)	0.81
Monthly velocity (%)	11.02
Monthly volatility (%)	12.25
3-mth average daily volume (m)	3.14
3-mth average daily value (RM'm)	13.87
Top Shareholders (%)	
Telenor ASA	49.00
Employees Provident Fund Board	14.48
Amanah Saham Nasional Bhd	8.42

Analyst
Foo Chuan Loong, **MARTIN**
martin.foo@midf.com.my
03-21738354

Target price. Given the lower earnings estimates, our dividend assumption has also been revised lower. As a result, our target price has been reduced to **RM3.95** (*previously RM4.30*) which is premised on DDM valuation methodology. Our target price implies a forward FY21 PER of 24.7x.

Maintain NEUTRAL. Since 2019, Digi's revenue has been under siege mainly in view of the intense competition among the peers. The MCO which took place in 2Q20 had further impacted the group's ability to generate revenue. It has also led to shift in revenue mix (i.e. lower voice and lower roaming revenues) which has negative implication on the profit margin. Fortunately, this concern was partially allayed by higher mix of postpaid revenue as well as cost improvement on the operating expenditure. The easing of the MCO would also help the group to regain the attrition in subscriber base. Nonetheless, we view that the group's earnings would not return to 2019 level in the foreseeable term. This would also affect the dividend payment. Given the subdued earnings outlook, we opine that dividend yield would come in lower at below four percent. 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	6,323.4	6,442.6
EBITDA	2,993.5	3,301.0	2,871.1	3,007.7	3,179.5
PBT	2,079.4	1,892.3	1,558.3	1,621.4	1,731.4
Normalised PAT	1,540.3	1,416.2	1,184.3	1,240.4	1,324.5
Normalised EPS (sen)	19.8	18.2	15.2	16.0	17.0
Normalised EPS Growth (%)	5.4	-8.1	-16.4	4.7	6.8
PER (x)	21.9	23.8	28.4	27.1	25.4
Dividend Per Share (sen)	19.8	18.4	15.2	15.9	17.0
Dividend yield (%)	4.6	4.3	3.5	3.7	3.9

Source: Company, MIDFR

DIGI.COM BHD: 2QFY20 RESULTS SUMMARY

Financial year ending 31st December (in RM'm, unless otherwise stated)	Quarterly			Cumulative		
	2Q20	**% YoY**	**% QoQ**	**1H20**	**1H19**	**% Ytd**
Revenue	1452.5	-6.2	-6.9	3012.7	3057.2	-1.5
EBITDA	769.8	-9.2	1.9	1524.3	1653.9	-7.8
Depreciation and amortisation	-327.5	6.4	6.9	-633.7	-613.1	3.4
EBIT	442.2	-18.1	-1.6	890.6	1040.8	-14.4
Finance costs	-71.9	27.6	234.8	-92.4	-108.0	-14.5
Interest income	6.9	8.9	-8.3	14.4	10.1	43.1
PBT	377.3	-23.0	-13.4	812.7	942.8	-13.8
Taxation	-89.2	-8.8	-13.7	-192.7	-208.9	-7.8
PAT	288.0	-26.6	-13.2	620.0	734.0	-15.5
Normalised PAT	281.2	-27.6	-5.2	577.5	720.6	-19.9
Normalised EPS (sen)	3.62	-27.6	-5.2	7.4	9.3	-19.9
EBITDA margin (%)	53.0	-3.2	9.4	50.6	54.1	-6.5
EBIT margin (%)	30.4	-12.7	5.7	29.6	34.0	-13.2
Normalised PAT margin (%)	19.4	-23.6	-9.0	19.2	23.6	-18.7
Effective tax rate (%)	23.7	18.6	-0.4	23.7	22.2	7.0

Source: Company, MIDFR

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad Berhad (197501002077 (23878 – X)).
(Bank Pelaburan)
(A Participating Organisation of Bursa Malaysia Securities Berhad)

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.