

Digi.Com Berhad

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

Maintain Neutral

Anticipating another challenging year

Revised Target Price: RM4.30
(Previously RM4.93)

KEY INVESTMENT HIGHLIGHTS

- **Weaker 4Q19 normalised earnings of RM338.2m, impacted by higher depreciation and amortization and finance cost**
- **Full year FY19 financial performance came in -8.1%yoy lower, within ours and consensus expectation**
- **Growth in postpaid revenue overwhelms by the contraction in prepaid revenue**
- **Higher capex allocation could be necessary to maintain competitive edge**
- **Maintain NEUTRAL with a revised TP of RM4.30**

Resilient revenue. Digi's 4Q19 normalised earnings amounted to RM338.2m which represent a contraction of -10.6%yoy. 4Q19 normalised earnings was primarily impacted by a combination of higher depreciation and amortization (+48.8%yoy) and higher finance cost (+82.4%yoy). Meanwhile, 4Q19 revenue remained resilient at RM1,678.1m (+0.2%yoy), mainly supported by higher data revenue (+6.1%yoy)

Within expectations. Cumulatively, FY19 normalised earnings came in lower at RM1,416.2m (-8.1%yoy), tracking the -3.5%yoy contraction in revenue to RM6,297.4m. All in, Digi's FY19 financial performance came in within ours and consensus expectations, making up 95.7% and 95.6% of full year FY19 earnings respectively.

Growth in postpaid revenue remains solid. 4Q19 postpaid revenue grew by +9.6%yoy to RM731m. This was mainly due to healthy customers' demand from Digi's Phone Freedom 365 and Digi postpaid family plans. As a result, the postpaid subscriber base has surpass the 3.0m mark (+8.1%yoy). Meanwhile, ARPU remained resilient at RM71.

...while prepaid revenue contracted at a relatively faster pace. On the contrary, 4Q19 prepaid revenue declined by -9.7%yoy to RM736m. This was mainly attributable to reduction in voice revenue as there is less reliance in traditional voice. The subscriber base dwindled by -1.8%yoy to 8,249 k, while the ARPU is maintain at RM29 per month.

Capital expenditure (capex). Digi's 4Q19 investment amounted to RM205m, leading to FY19 capex of RM753m. The investments were prioritised to optimised the 4G network quality with enhanced capacity through fibre network expansion to 9,610km and re-farming of spectrum portfolio.

Dividend. Digi announced 4Q19 dividend of 4.4sen per share. This led to cumulative FY19 dividend of 18.20sen per share, a decline of -7.1%yoy from 19.6sen per share announced in FY18. Nonetheless, this is still within our expectation, which constitutes 96.3% of our full year FY19 dividend estimates of 19.6sen.

RETURN STATISTICS

Price @ 22 nd January 2020 (RM)	4.51
Expected share price return (%)	-4.7
Expected dividend yield (%)	+3.9
Expected total return (%)	-0.8

SHARE PRICE CHART




Share price performance (%)	Absolute	Relative
1 month	-4.32	-8.49
3 months	-3.32	-11.43
12 months	-3.32	-11.43

KEY STATISTICS

FBM KLCI	1,577.98
Syariah compliant	Yes
Issue shares (m)	7,775.00
Estimated free float (%)	22.44
Market Capitalisation (RM'm)	35,065.25
52-wk price range (RM)	4.30 – 5.10
Beta vs FBM KLCI (x)	1.03
Monthly velocity (%)	13.72
Monthly volatility (%)	9.38
3-mth average daily volume (m)	3.61
3-mth average daily value (RM'm)	16.85
Top Shareholders (%)	
British American Tobacco Holdings	49.00
Aberdeen Asset Management	13.31
Employee Provident Fund	7.61

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

Maintain NEUTRAL. The telecommunication industry is expected to remain competitive. This is partly owing to the substantial changes to the mobile termination rates (MTR) in accordance to the Mandatory Standard on Access Pricing (MSAP). Note that the MTR for 2020 for have been halved to 0.99sen. While both the postpaid and prepaid ARPU has been stable as seen in 4Q19, we expect another round of aggressive price war, possibly to be triggered by U-Mobile, in-conjunction with the upcoming listing exercise. On the other hand, voice revenue has been falling at a faster pace as compared to the acceleration in data revenue. Thus, with the difficulty in growing in revenue, one of the key focus would be to have effective cost management practice to minimize the contraction in revenue. In this regard, Digi's profit margin has been sustaining above the 20% level. This, in-turn, would help to provide a healthy dividend payment to the shareholder. We expect dividend yield would hover around 4% in the foreseeable term. All factors considered, we are maintaining our **NEUTRAL** recommendation on the stock. 

INVESTMENT STATISTICS

Financial year ending 31 st 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)	22.8	24.8	25.4	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: 4QFY19 RESULTS SUMMARY

Financial year ending 31 st December (in RM'm, unless otherwise stated)	Quarterly			Cumulative		
	4Q19	% YoY	% QoQ	2019	2018	%YTD
Revenue	1678.1	0.2	7.4	6,297.4	6,527.1	-3.5
EBITDA	811.0	9.6	-3.0	3,301.0	2,993.4	10.3
Depreciation and amortisation	-290.8	48.0	-0.9	-1,197.4	-804.8	48.8
EBIT	520.3	-4.3	-4.1	2,103.7	2,188.6	-3.9
Finance costs	-67.9	121.3	11.1	-237.0	-130.0	82.4
Interest income	8.7	65.2	24.5	25.7	20.8	23.7
PBT	461.0	-11.1	-5.6	1,892.3	2,079.4	-9.0
Taxation	-118.1	-16.0	-10.8	-459.4	-538.7	-14.7
PAT	342.9	-9.2	-3.7	1,432.9	1,540.8	-7.0
Normalised PAT	338.2	-10.6	-6.1	1,416.2	1,540.3	-8.1
Normalised EPS (sen)	4.35	-10.6	-6.1	18.2	19.8	-8.1
EBITDA margin (%)	48.3	9.3	-9.7	52.4	45.9	14.3
EBIT margin (%)	31.0	-4.5	-10.7	33.4	33.5	-0.4
Normalised PAT margin (%)	20.2	-10.7	-11.6	22.5	23.6	-4.7
Effective tax rate (%)	25.6	-5.5	-5.5	24.3	25.9	-6.3

Source: Company, MIDFR

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

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (197501002077 (23878-X)). It is for distribution only under such circumstances as may be permitted by applicable law. Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

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.