

Equity Beat

15 March 2010

Corporate Update

Digi.com

Yearns for more spectrum

Maintain Neutral

Retain Target Price (TP): RM20.00

- Digi's chairman Sigve Brekke said that the company has a little bit of the 900MHz spectrum and it needs more.
- Looking ahead, we expect Digi to continue to post a single-digit revenue and net profit growth in FY10, a similar growth rate in FY09.
- Thus, at 16.9x EPS10, valuation is lofty relative to single-digit earnings growth potential. We maintain our Neutral recommendation with a target price of RM20 based on 15x EPS10, a 15% discount to its 5-year average of 17x.

STOCK INFO

| | | | |
|------------------------|------------------|------------------------|-------------------|
| Price (12 Mar. 10) | RM22.48 | FBM KLCI | 1311.20 |
| Issued shares (mil) | 777.5 | Bursa / Bloomberg | 6947/ DIGI MK |
| Par Value (RM) | 0.20 | Board / Sector | Main/ Services |
| Market cap. (RM'm) | 17478.2 | Syariah Compliant | Yes |
| Price over NA (x) | 11.3 | | |
| 52-wk price Range (RM) | 20.20 – 23.00 | Major Shareholders (%) | |
| Beta (against KLCI) | 0.5 | Telenor ASA | 49.0 |
| 3-mth Avg Daily Vol | 0.4m | EPF | 16.7 |
| 3-mth Avg Daily Value | 9.0m | Time dotcom | 7.1 |

The Star reported that Digi yearns for more spectrum: Digi's chairman Sigve Brekke said that the company has a little bit of the 900MHz spectrum and it needs more. The beauty of the 900MHz spectrum is that it is easier to have nationwide coverage with it; while with the 1,800MHz Digi can easily provide services in the city centre and that is why it needs more of the 900MHz spectrum. The company is also one of four mobile players with a 1,800MHz, or 3G spectrum, which it got through a share-swap exercise with Time dotCom Bhd after failing to secure a spectrum directly from the Government. Digi has only 4MHz of the 900MHz spectrum band while its rivals, Celcom Axiata Bhd and Maxis Communications Bhd, have 34MHz and 32MHz respectively. Celcom and Maxis got more spectrum as they had acquired other celcos. The 900MHz is used by operators to offer 2G services while the 1,800MHz is for 3G-based services.


Additional spectrum a pre-requisite for Digi's entry by mid-year into the iPhone market: Recall that Digi stated its interest in entering the iPhone market by mid-year. Digi said it had reached an agreement with Apple Inc to distribute iPhone 3G and iPhone 3GS in Malaysia but it did not disclose when the packages for the iPhone will be launched. Those already with an iPhone could switch to any of DiGi's existing Postpaid/Prepaid rate plans. With 7.7m subscribers, Digi will require the additional spectrum for it to offer the iPhone services. But of equal significance, Digi's entry into this market space could spark a price war on services and packages in the smartphone market. The entry of DiGi in the iPhone space will also end Maxis Communications Bhd's nearly one-year monopoly in the segment.



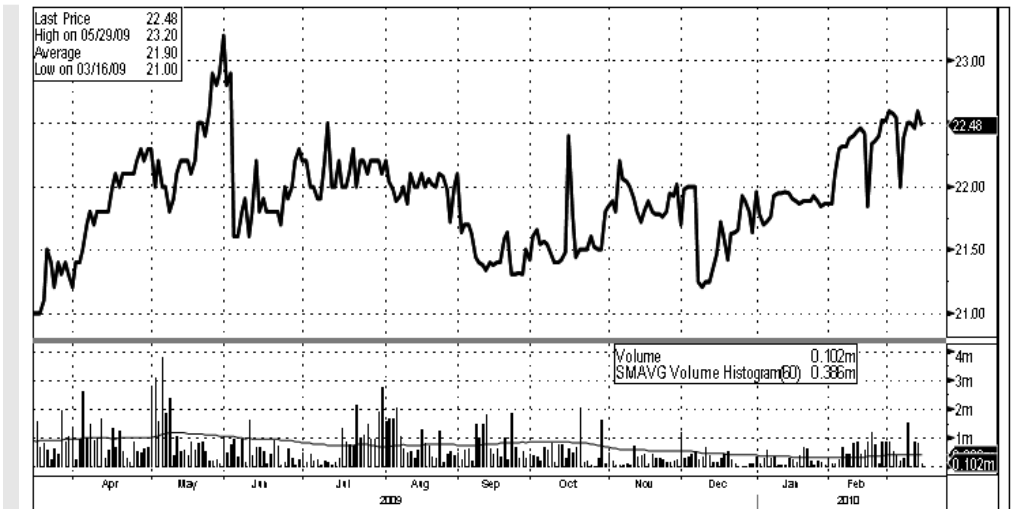
| FYE 31 Dec | FY08 | FY09 | FY10F | FY11F |
|------------------------|--------|--------|--------|--------|
| Revenue (RM'm) | 4814.5 | 4909.6 | 5155.1 | 5401.0 |
| EBIT (RM'm) | 1535.1 | 1393.5 | 1456.2 | 1521.7 |
| Pretax Profit (RM'm) | 1546.9 | 1366.5 | 1420.6 | 1477.4 |
| Net Profit (RM'm) | 1140.7 | 1000.5 | 1035.6 | 1077.0 |
| EPS (sen) | 148.5 | 128.7 | 133.2 | 138.5 |
| EPS growth (%) | 8.6 | -12.3 | 3.5 | 3.9 |
| PER(x) | 15.1 | 17.5 | 16.9 | 16.2 |
| Net Dividend (sen) | 188.0 | 178.0 | 135.0 | 135.0 |
| Net Dividend Yield (%) | 8.5 | 8.0 | 6.1 | 6.1 |

Source: Company, Forecasts by MIDFR

Dividend main appeal as FY10 earnings growth rate expected to remain at single-digit: It declared a second interim dividend of 54 sen single-tier exempt dividend to be paid on March 26, bringing the total payout for the year to RM1.78 per share or 138% of net profit in 2009. going forward, with an above-market dividend yield, Digi's stock will continue to draw investors' interest. We expect Digi to post a single-digit revenue and net profit growth in FY10 due to the relatively weak ARPU and margin pressure from higher traffic costs, bad debts, and mobile internet expansion drive.

Maintain Neutral with a 12-month target price of RM20: Digi's share price has only gained by 2.4% year-to-date and by 18.4% on a one-year total return basis. This underperformance, in our view, is an indication that investors are wary of its earnings growth prospects. In terms of valuation, share price is trading at 16.9x EPS10 making valuation lofty relative to future earnings growth potential, which we estimate to be at 3.5%. Our target price of RM20 is based on a multiple of 15x, a 15% discount to its 5-year average of 17x, given the softer earnings outlook. 

DAILY PRICE CHART



Zulkifli Hamzah
Mohd Izhar Allaudin
Mohd.izhar@midf.com.my
03-2772 1655

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(Bank Pelaburan)
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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

| | |
|--------------|--|
| BUY | Total return is expected to be >15% over the next 12 months. |
| TRADING BUY | Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow. |
| NEUTRAL | Total return is expected to be between -15% and +15% over the next 12 months. |
| SELL | Total return is expected to be <15% over the next 12 months. |
| TRADING SELL | Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow. |

SECTOR RECOMMENDATIONS

| | |
|-------------|--|
| OVERWEIGHT | 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. |
| UNDERWEIGHT | The sector is expected to underperform the overall market over the next 12 months. |