Digi.Com Berhad

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

Maintain NEUTRAL

Moderate outlook

***Revised* Target Price: RM3.59**

(Previously RM3.80)

KEY INVESTMENT HIGHLIGHTS

- **2HFY22 normalised earnings came below expectations**
- **Consistency in Postpaid growth**
- **Prepaid subscribers back to growth**
- **Revised earnings estimate downward**
- **Maintain NEUTRAL with a revised TP of RM3.59**

Below expectations. Digi.com Bhd's (DIGI) 2Q22 normalised profits were lower at RM213.0m (-23.9%yoy). The decline in 2QFY22 earnings was primarily attributable to higher net financing expenses and higher tax provision related to Cukai Makmur, although maintaining a healthy 13.8% normalised PAT margin. Meanwhile, topline was at RM1.54b (-4.9 %yoy and +1.1%qoq). The sequential improvement in topline was aided by a favourable trend across all categories. Overall, normalised profits for 2HFY22 of RM213.0m came in below our and consensus expectations, accounting for 40.0% and 41.5% of full-year earnings estimates, respectively. The negative divergence was mostly the result of a new temporary tax rate increase.

Service revenue narrowed marginally. Mobile service revenue fell by -1.1%yoy to RM1.33b in 2QFY22 as consistent postpaid, B2B, and fibre growth from excellent acquisitions and appealing packages were insufficient to overcome prepaid softness in migrant segment. The increase in postpaid revenue (+1.1%yoy) was aided by an increase of +183k in mobile subscribers, while an increase in fibre base of +17k more than offsetting lower ARPU. Prepaid revenue was down by -4.2%yoy as gains in the Malaysian sector were insufficient to balance the conscious exit of the low-end rotating migrant segment, which has now been completed. With continuous expansion in postpaid and fibre, as well as quality improvement in the prepaid base, the blended ARPU remained stable at RM42.

Consistency in Postpaid growth. DIGI's 2Q22 postpaid revenue increased by +1.1%yoy to RM629m, owing to steady membership growth and good churn control. This segment's subscribers increased for the seventh quarter in a row. The present expansion has been fueled by increased demand for high-speed subscriptions and appealing bundling options like as family lines, fibre, handset contracts, and smart content bundles. The ARPU fell to RM60 due in part to a higher mix of entry-level plans.

RETURN STATISTICS	
Price @ 15th July 2022 (RM)	3.42
Expected share price return (%)	+5.0
Expected dividend yield (%)	+4.3
Expected total return (%)	**+9.3**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	7.5	10.5
3 months	-2.3	-1.0
12 months	-19.5	-13.6

KEY STATISTICS	
FBM KLCI	1,418.44
Syariah compliant	Yes
F4BGM Index	Yes
ESG Grading Band (Star rating)	☆☆☆☆
Issue shares (m)	7775.00
Estimated free float (%)	19.91
Market Capitalisation (RM'm)	26,590.50
52-wk price range (RM)	3.1 - 4.5
Beta vs FBM KLCI (x)	1.13
Monthly velocity (%)	0.40
Monthly volatility (%)	13.39
3-mth average daily volume (m)	3.99
3-mth average daily value (RM'm)	13.77
Top Shareholders (%)	
Telenor ASA	49.00
Employees Provident Fund Board	14.87
Amanah Saham Nasional Bhd	8.53

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Prepaid subscribers back to growth. Prepaid revenue fell -4.2%yoy to RM616m in 2QFY22 owing to the withdrawal of the low-end rotating migrant category. However, the subscriber base increased by +96k year on year to 7.1m in a highly competitive market where DIGI focused on capturing higher value customers. The improvement was due to a bigger share of Malaysian subscribers. Furthermore, the departure of price-sensitive and high rotational end subscribers will increase the quality of the remaining migrant base.

Capital expenditure (capex). In 2QFY22, DIGI reported capital spending of RM86.0m, representing 11.4% of capex-to-sales ratio. An increase of +103.5%yoy was due to the phases and completion of the major projects. Moving forward, we expect capex to remain consistent, with a priority focus on network improvement and growth, as well as IT modernization.

Dividend. DIGI declared a dividend of 2.8sen per share for 2QFY22. This is payable to shareholders on 30 September 2022.

Maintain NEUTRAL. As earnings missed our expectation, we revised our earnings estimates for FY22/23F downward by -0.9% and -2.4%. Our **target price** is revised to **RM3.59** from RM3.80 as we rollover our valuation to FY23. We peg FY23 revised EPS of 16.8sen against the Group's five-year historical PER average of 21.3x. DIGI-Celcom merger is currently proceeding as anticipated and the acquisition is scheduled to be completed in full on 2HFY22, subject to approval. Meanwhile, the implementation of 5G under the Single Wholesale Network (SWN) is still under constructive dialogue. Potential negative risks include lower-than-expected profitability, increased mobile competition, a delayed merger completion, and uncertainty over 5G rollout. 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)	2019	2020	2021	2022F	2023F
Revenue	6,297.4	6,152.7	6,335.7	6,344.9	6,513.5
EBITDA	3,299.0	3,026.6	1,539.6	3,099.5	3,206.5
PBT	1,890.3	1,622.0	1,514.9	1,705.2	1,747.6
Normalised PAT	1,415.1	1,231.2	1,134.0	1,142.5	1,310.7
Normalised EPS (sen)	18.2	15.8	14.6	14.7	16.9
Normalised EPS Growth (%)	-8.1	-13.0	-7.8	0.7	14.7
PER (x)	18.8	21.6	23.4	23.3	20.3
Dividend Per Share (sen)	18.2	15.6	14.9	14.6	16.8
Dividend yield (%)	5.3	4.6	4.4	4.3	4.9

Source: Company, MIDFR

DIGI.COM BHD: 2QFY22 RESULTS SUMMARY

Financial year ending 31st December (in RM'm, unless otherwise stated)	Quarterly Results			Cumulative		
	2Q22	% YoY	% QoQ	2H2022	2H2021	%YTD
Revenue	1538.9	-4.9	1.1	3060.6	3168.7	-3.4
EBITDA	732.6	-1.5	0.8	1459.5	1480.1	-1.4
Depreciation and amortisation	-309.3	-4.8	4.0	-606.7	-633.9	-4.3
EBIT	423.3	1.1	-1.4	852.8	846.3	0.8
Finance costs	-67.5	26.3	9.7	-129.1	-130.1	-0.8
Interest income	6.2	-14.5	-3.5	12.6	15.1	-16.2
PBT	362.0	-2.9	-3.3	736.4	731.3	0.7
Taxation	-142.0	53.0	2.7	-280.2	-186.6	50.2
PAT	220.0	-21.4	-6.8	456.2	544.7	-16.3
Normalised PAT	213.0	-23.9	-14.1	461.0	550.0	-16.2
Normalised EPS (sen)	2.7	-23.9	-14.1	5.9	7.1	-16.2
		+/-ppts	+/-ppts			+/-ppts
EBIT margin (%)	27.5	1.6	-0.7	27.9	26.7	1.2
Normalised PAT margin (%)	13.8	-3.5	-2.5	15.1	17.4	-2.3
Effective tax rate (%)	39.2	14.3	2.3	38.1	25.5	12.5

Source: Company, MIDFR

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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.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology