3QFY22 Results Review (Below) | Friday, 21 October 2022

Digi.Com Berhad

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

Maintain NEUTRAL

Stay Resilient

***Revised* Target Price: RM3.50**

(Previously RM3.59)

KEY INVESTMENT HIGHLIGHTS

- **9MFY22 normalised earnings missed expectations**
- **Service revenue remained resilient**
- **Postpaid growth maintained steady**
- **Prepaid subscribers' growth stayed solid**
- **Revised earnings estimate downward**
- **Maintain NEUTRAL with a revised TP of RM3.50**

Missed expectations. Digi.com Bhd's (DIGI) 3Q22 revenue and normalised profits were recorded at RM1.53b (-3.3%yoy) and RM242m (-18.0%yoy) respectively. The decline in earnings was mainly due to Cukai Makmur Prosperity tax and higher net finance costs. Nonetheless, DIGI maintained a healthy normalised PAT margin at 15.8%. The Group's normalised profits for 9MFY22 of RM703m came in below our and consensus expectations, accounting for 61.5% and 69.1% of full earnings estimates respectively. The negative divergence is mostly the result of higher-than-expected tax rate.

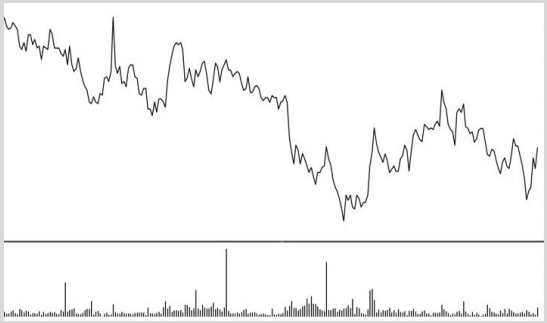
Resilient service revenue. 3QFY22 service revenue (excluding Digital) experienced a marginal drop -2.2%yoy, reported at RM1.25b in 3QFY22 despite adverse macro trend and the end of Jaringan Prihatin programme (JP). Meanwhile, EBITDA stood at RM736m, up 0.7%yoy with a healthy 48.1% margin, attributed to resilient topline development, modernisation initiatives and efficient cost management.

Steady postpaid growth. DIGI's 3QFY22 postpaid revenue increased by +1.3%yoy to RM639m meanwhile postpaid subscribers grew for the eighth quarter in a row, with +164k yoy net additions to a total of 3.4m subscribers. The present postpaid growth has been fueled from increased demand for high-speed subscriptions and attractive bundling family, device and contract offer. The ARPU diluted to RM61 (or -RM2yoy) following higher entry-level and contracted subscriber base and roaming usages.

Solid prepaid subscriber base. Prepaid revenue fell -6.7%yoy to RM602m in 3QFY22 as recent strong recovery of the migrant segment was unable to cushion the impact from the end of Jaringan Prihatin where the Group fared encouragingly excellent since its inception. Yet, the subscriber base increased by +177k yoy to 7.3m on the back of encouraging underlying development from the Juara Internet Malaysiaku campaign and the launch of new Prepaid Unlimited products, which yielded higher active Prepaid subscriber base for both Malaysian and migrant segments.

RETURN STATISTICS	
Price @ 20th Oct 2022 (RM)	3.50
Expected share price return (%)	+0.0
Expected dividend yield (%)	+4.7
Expected total return (%)	**+4.7**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	0.29	1.92
3 months	3.55	1.10
12 months	-20.45	-11.13

KEY STATISTICS	
FBM KLCI	1,437.72
Syariah compliant	Yes
F4BGM Index	Yes
ESG Grading Band (Star rating)	☆☆☆☆
Issue shares (m)	7775.00
Estimated free float (%)	19.98
Market Capitalisation (RM'm)	27212.50
52-wk price range (RM)	3.1 - 4.43
Beta vs FBM KLCI (x)	1.13
Monthly velocity (%)	0.40
Monthly volatility (%)	15.72
3-mth average daily volume (m)	1.97
3-mth average daily value (RM'm)	7.00
Top Shareholders (%)	
Telenor ASA	49.00
Employees Provident Fund Board	14.80
Amanah Saham Nasional Bhd	8.53

MIDF Research
research@midf.com.my

Capital expenditure (capex). DIGI invested RM173.0m capex or 11.3% of capex-to-sales ratio in 3QFY22 to further improve its network quality and coverage. The YTD22 capex of RM434m was within target of RM800m, or 12.0% of sales.

Dividend. DIGI declared a dividend of 3.4sen per share for the 3QFY22, which is equivalent to RM264.0m or 99.9% dividend payout.

Maintain NEUTRAL. As earnings missed our expectation, we revised our earnings estimates for FY22/23F downward between -3.0% to -6.4% and derived a **revised target price of RM3.50** (from RM3.59). Our target price is pegged onto FY23 revised EPS of 16.4sen against the unchanged PER of 21.3x. As to date, DIGI-Celcom merger has obtained approval from Securities Commission and are still targeting to complete by 2HFY22. The group also has signed the conditional share subscription agreement for 12.5% equity stake in DNB and accessing the Access Agreement. Potential downside risks include weaker-than-expected earnings, increased mobile competition and a delayed merger completion. All factors considered, we maintain 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	6,297.36	6,152.75	6,335.70	6,310.39	6,461.77
EBITDA	3,299.01	3,026.57	1,539.60	3,065.02	3,154.81
PBT	1,890.32	1,622.05	1,514.90	1,670.72	1,695.86
Normalised PAT	1,415.15	1,231.16	1,134.00	1,069.26	1,271.89
Normalised EPS (sen)	18.20	15.83	14.60	13.75	16.36
Normalised EPS Growth (%)	(8.13)	(13.00)	(7.80)	(5.80)	18.95
PER (x)	19.23	22.10	23.97	25.45	21.40
Dividend Per Share (sen)	18.20	15.60	14.90	13.68	16.28
Dividend yield (%)	5.20	4.46	4.26	3.91	4.65

Source: Company, MIDFR

DIGI.COM BHD: 3QFY22 RESULTS SUMMARY

Financial year ending 31st December (in RM'm, unless otherwise stated)	Quarterly Results			Cumulative		
	3Q22	% YoY	% QoQ	9M22	9M21	%YTD
Revenue	1531.9	-3.3	-0.5	4592.5	4753.1	-3.4
EBITDA	736.4	0.7	0.5	2195.9	2223.9	-1.3
Depreciation and Amortisation	-306.6	-1.9	-0.9	-913.2	-913.2	0.0
EBIT	429.9	2.6	1.5	1282.7	1310.7	-2.1
Finance costs	-57.2	-205.8	-15.3	-186.2	-184.1	1.1
Interest income	7.0	-12.8	13.4	19.7	23.2	-15.0
PBT	379.8	-9.3	4.9	1116.2	1149.8	-2.9
Taxation	-115.3	9.1	-18.8	-395.5	-292.2	35.3
PAT	264.5	-15.5	20.2	720.7	857.6	-16.0
Normalised PAT	242.0	-18.0	13.6	703.0	857.6	-18.0
Normalised EPS (sen)	3.1	-18.0	13.6	9.0	11.0	-18.0
		+/-ppts	+/-ppts			+/-ppts
EBIT margin (%)	28.1	1.6	14.2	27.9	27.6	0.4
Normalised PAT margin (%)	15.8	-2.8	-23.4	15.3	18.0	-2.7
Effective tax rate (%)	30.4	5.1	-7744.6	35.4	25.4	10.0

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 ("MIDF Investment") for distribution to and use by its clients to the extent permitted by applicable law or regulation.

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 MIDF Investment believes are reliable at the time of publication. All information, opinions and estimates contained in this report are subject to change at any time without notice. Any update to this report will be solely at the discretion of MIDF Investment.

MIDF Investment 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. MIDF Investment and its affiliates and related companies and each of their respective directors, officers, employees, connected parties, associates and agents (collectively, "Representatives") shall not be liable for any direct, indirect or consequential loess, loss of profits and/or damages arising from the use or reliance by anyone upon this report and/or further communications given in relation to this report.

This report is not, and should not at any time be construed as, an offer, invitation or solicitation to buy or sell any securities, investments or financial instruments. The price or value of such securities, investments or financial instruments may rise or fall. Further, the analyses contained herein are based on numerous assumptions. This report does not take into account the specific investment objectives, the financial situation, risk profile and the particular needs of any person who may receive or read this report. You should therefore independently evaluate the information contained in this report and seek financial, legal and other advice regarding the appropriateness of any transaction in securities, investments or financial instruments mentioned or the strategies discussed or recommended in this report.

The Representatives may have interest in any of the securities, investments or financial instruments and may provide services or products to any company and affiliates of such companies mentioned herein and may benefit from the information herein.

This document may not be reproduced, copied, distributed or republished in whole or in part in any form or for any purpose without MIDF Investment's prior written consent. This report is not directed or intended for distribution to or use by any person or entity where such distribution or use would be contrary to any applicable law or regulation in any jurisdiction concerning the person or entity.

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