4QFY22 Results Review (Below) | Monday, 27 February 2023

Digi.Com Berhad

Maintain NEUTRAL

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

Improvements Across All Segments

***Revised* Target Price: RM4.11**

(Previously RM3.50)

KEY INVESTMENT HIGHLIGHTS

- **FY22 normalised earnings missed expectations**
- **Continued enhancement across all segments for both Digi's and Celcom's operations**
- **Revised earnings estimate**
- **Maintain NEUTRAL with a revised TP of RM4.11**

1st reporting since Merger. The 4QFY22 and FY22 result review for Digi.Com Berhad ("CelcomDigi") below is a combination of 4QFY22 of Digi and 1-month contribution from Celcom. The 4Q22 revenue and normalised profits for the MergeCo were recorded at RM2.18b (+37.8%yoy) and RM368.0m (+45.5%yoy) respectively. The increase in earnings was mainly due to strong contribution from Postpaid, Enterprise and Fibre businesses supported by effective execution and bunding strategies across all segments. The Group normalised PAT margin was recorded at +0.9%yoy, which could result in higher margin of +16.9% if additional depreciation and finance costs resulting from the harmonisation of accounting policies and estimates and the merger respectively were not included. Overall, the normalised PAT for FY22 of RM703m came in slightly below our but exceeded consensus expectations, accounting for 92% and 118% of full earnings estimates respectively. The negative divergence is mostly the result of lower-than-expected contribution from all business segments.

Service revenue was strong. 4QFY22 service revenue (excluding Digital) was solid with +38.4%yoy or RM1.7b. This is with 1-month contribution from Celcom of RM487.0m in December 2022. To note, Celcom's service revenue in December 2022 was boosted by the favorable response received by their Prepaid products and an increase in contributions from the Enterprise segments, meanwhile Digi's service revenue increased on the back of strong contribution from Enterprise and Fibre businesses. EBITDA stood at RM781.0m, up +5.5%yoy with a healthy 35.8% margin.

Subscribers growth. The 4Q22 subscribers for Digi grew with net add of +278kqoq to a total of 11.0m subscribers from 10.7m in 3Q22 from Postpaid, Enterprise and Prepaid offerings. Celcom's subscriber base declined by -140kqoq following quality base management measures which lifted blended ARPU by RM1. ARPU trends for both Celcom and Digi in the quarter were relatively stable at RM46 and RM40 respectively, supported by steady demand for all mobile product offerings. Overall, CelcomDigi has a total of 20.3m subscribers, with 66.8% being prepaid, 32.9% postpaid, and 0.3% using fibre. The Group added +150kyoy postpaid subscribers, bringing the total to 6.67m, and +162kyoy prepaid subscribers, bringing the total to 13.54m.

RETURN STATISTICS	
Price @ 24th February 2023 (RM)	4.35
Expected share price return (%)	-5.5
Expected dividend yield (%)	+3.9
Expected total return (%)	**-1.6**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	4.1	7.0
3 months	8.8	11.5
12 months	10.1	20.3

KEY STATISTICS	
FBM KLCI	1,456.80
Syariah compliant	Yes
F4BGM Index	Yes
ESG Grading Band (Star rating)	☆☆☆☆
Issue shares (m)	7775.00
Estimated free float (%)	13.07
Market Capitalisation (RM'm)	51,032.06
52-wk price range (RM)	3.1 - 4.59
Beta vs FBM KLCI (x)	1.25
3-mth average daily volume (m)	4.06
3-mth average daily value (RM'm)	16.58
Top Shareholders (%)	
Telenor ASA	33.10
Employees Provident Fund Board	33.10
Amanah Saham Nasional Bhd	9.98

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Capital expenditure (capex). CelcomDigi invested RM470.0m capex or 21.5% of capex-to-sales ratio in 4Q22 (including 1- month contribution from Celcom) to further enhance its network quality and coverage. The YTD22 capex is RM904.0m or 13.3% of sales.

Dividend. CelcomDigi declared a dividend of 3.1sen per share in 4Q22, equivalent to RM364m dividend payout. The total dividend for FY22 is 12.2sen per share vs 14.9sen per share in FY21.

Maintain NEUTRAL. Since earnings missed our expectation, we revised our earnings estimates for FY23F downward by -3.6% and introduce our FY24F estimate. Our revised target price of **RM4.11** is pegged onto FY23 revised EPS of 16.9sen against the 5-year mean average PER of 24.4x (previously was 22.6x). We view the valuation is justified given the integration planning to achieve net synergies of over RM8b net present value, as announced previously. Overall, we stay **NEUTRAL** view on the stock with a revised target price of RM4.11.

INVESTMENT STATISTICS

Financial year ending 31st December (in RM'm, unless otherwise stated)	2020A	2021A	2022A	2023F	2024F
Revenue	6,152.75	6,335.67	6,773.00	6,890.42	7,177.48
EBITDA	3,026.57	2,993.39	3,012.00	3,440.59	3,900.14
PBT	1,622.05	1,514.89	1,218.36	1,746.93	1,907.74
Normalised PAT	1,231.16	1,162.10	765.02	1,310.19	1,411.73
Normalised EPS (sen)	15.83	14.59	14.81	16.85	18.16
Normalised EPS Growth (%)	(13.00)	(7.89)	1.55	13.77	7.75
PER (x)	27.47	29.82	29.37	25.81	23.96
Dividend Per Share (sen)	15.60	14.90	12.20	16.77	18.07
Dividend yield (%)	3.59	3.43	2.80	3.85	4.15

Source: Company, MIDFR

DIGI.COM BHD: 4QFY22 RESULTS SUMMARY

Financial year ending 31st December (in RM'm, unless otherwise stated)	Quarterly Results			Cumulative		
	4Q22	% YoY	% QoQ	FY22	FY21	%YTD
Revenue	2180.8	37.8	42.4	6773.0	6335.7	6.9
EBITDA	781.0	7.3	6.0	3012.0	2993.4	0.6
Depreciation and Amortisation	-596.2	93.6	94.5	-1509.4	-1263.5	19.5
EBIT	184.1	-56.1	-57.2	1466.8	1729.9	-15.2
Finance costs	-96.4	56.7	68.6	-282.6	-245.6	15.1
Interest income	14.4	94.4	104.2	34.1	30.5	11.6
PBT	102.2	-72.0	-73.1	1218.4	1514.9	-19.6
Taxation	-57.8	-4.6	-49.8	-453.3	-352.8	28.5
PAT	44.3	-85.4	-83.2	765.0	1162.1	-34.2
Normalised PAT	368.0	45.5	52.1	1203.0	1134.0	6.1
Normalised EPS (sen)	4.0	23.6	29.2	14.8	14.6	1.6
		+/-ppts	+/-ppts			+/-ppts
EBITDA margin (%)	35.8	-10.2	-12.3	44.5	47.2	-2.8
EBIT margin (%)	8.4	-18.0	-19.6	21.7	27.3	-5.6
Normalised PAT margin (%)	16.9	0.9	1.1	17.8	17.9	-0.1
Effective tax rate (%)	56.6	40.0	26.2	37.2	23.3	13.9

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