

PP14767/09/2012(030761)

Digi.Com Berhad

“Slower but of no Concern”

Results Review

- Actual vs. expectations.** Digi.Com (Digi) 6M15 net profit of RM943 million (-4% y-o-y) came in line with ours and consensus estimates respectively, accounting 47% and 46% of ours and consensus full year estimates respectively. The weaker 6M15 earnings were hampered by higher depreciation charges (+24% y-o-y) as well as higher finance cost (+41% y-o-y). Nevertheless, Digi managed to contained expenses, primarily its direct cost (-9% y-o-y, -14.5% q-o-q).
- Topline analysis.** Digi’s revenue slipped to RM1.72 billion in 2Q15 (-1% y-o-y, -4% q-o-q) as a result of lower device revenue of only RM134 million (-33% y-o-y, -51% q-o-q). The lower device revenue was largely expected given the full effect of Goods and Services Tax (GST) that raised the smart phones prices especially Iphone variants. Positively, service revenue was trending up confidently (+1% y-o-y, +0.1% q-o-q) on the back steady contribution from voice and data revenue.
- Dividend.** There were a slight decline in interim dividend. Digi announced lower dividend of 5.9 cent vs. 6.1 cent in 1Q15, translating into 99% payout ratio.
- Recovery in service revenue as well as EBITDA.** Service revenue grew marginally by 0.1% q-o-q after the latter slipped for the first time since 1Q14 on the back of weaknesses in prepaid segment. EBITDA margin surged to 46% vs. 43% in 1Q15 driven by cost containment of materials. The Group has slowed down its sales and marketing expenses amid GST threats.

Tuesday, July 14, 2015

BUY (TP:RM6.60)

Current Price (RM)	RM5.53
New Fair Value (RM)	RM6.60
Previous Fair Value (RM)	RM6.60
Previous Recommend.	HOLD
Upside To Fair Value	20%
Dividend Yield (FY15)	4.6%

Stock Code	
Bloomberg	DIGI MK

Stock & Market Data		
Listing	MAIN MARKET	
Sector	Telco	
Shariah Compliance	Yes	
Issued Shares (mn)	7,775.0	
Market Cap (RM mn)	42,840	
YTD Chg In Share Price	-10.7%	
Beta (x)	0.99	
52-week Hi/Lo (RM)	RM6.65	RM5.34
3M Average Volume (shrs)	11,856mn	
Estimated Free Float	34.9%	

Major Shareholders	
Telenor	49.0%
EPF	13.7%
KWAP	1.5%

- **Stiff competition to persist.** Competition in the prepaid segment seems to have intensified. Digi's prepaid ARPU took a big hit, falling 7.9% y-o-y (-2.6% q-o-q) to RM38. Price aggression, particularly in the IDD segment, on top of increased competition, had weighed earnings. Nevertheless, Digi added 111k subscribers in the prepaid segment despite operational challenges and weaker spending post GST.
- **Adding competition in postpaid segment.** Digi marketing has benefited postpaid segment where subscriber added by 13k q-o-q with encouraging take up rate for smartphone bundles. Moving forward, Digi fast expanding LTE coverage will further benefit postpaid subscribers where subscriber will relish Digi high speed network.
- **No change to KPI.** Despite slower 1H15, management is maintaining its 2015 guidance although it has turned more cautious due to increasing competition and full blown effect of GST implementation. Capex spent was at RM393 million where we believe the majority have been channelled to expand LTE coverage by 45% of population by the end of FY15.
- **Outlook.** Despite fierce competition, we foresee that Digi's ability to grow service revenue as impressive. This includes its ability to hold voice revenue from further decline as faced by industry wide. Additionally, in highly competitive environment, Digi's decision to slowdown direct expenses may prove defining and fruitful.
- **Change to forecast.** We maintain our FY15 and FY16 forecast. Nonetheless, FY15 and FY16 earnings are expected to grow by 3% y-o-y and 4% y-o-y respectively assisted by 1) impact of network modernization that expand its high speed coverage 2) biggest beneficiary of GST 3) higher take up rate in bundled offerings.
- **Valuation.** We maintain our target price on Digi at RM6.60 based on EV/EBITDA of 14.2x, a 15% premium of its last 3-year average and the stock is a **BUY**. Digi's strong operational metrics and nimble marketing strategy apart from a very attractive dividend payout ratio will push investors to shift its holding into the stocks. Rerating catalyst on the stock will be underpinned by 1) new spectrum award from MCMC 2) completion of its 3G and LTE network expansion.

Table 1: Peers Comparison

Company	FYE	Price (RM)	EPS (RM)		P/E (x)		P/B (x)		ROE (%)	Div Yield (%)	TP	Call
			FY15	FY16	FY15	FY16	FY15	FY16				
Axiata	Dec	6.29	0.31	0.34	23	21	2.8	2.8	11.6	3.1	7.40	Buy
Maxis	Dec	6.48	0.27	0.28	27	25	12.0	12.6	32.1	4.5	7.10	Hold
Digi	Dec	5.53	0.27	0.28	23	22	65.3	62.1	301.5	4.2	6.60	Buy
Telekom	Dec	6.70	0.27	0.29	27	25	3.4	3.4	11.3	3.6	6.87	Hold
Time DotCom	Dec	6.48	0.28	0.32	21	18	1.3	1.2	8.0	1.0	NR	NR
Average			0.28	0.30	24	22	17.0	16.4	72.9	3.28		

Source: Bloomberg, M&A Securities

Table 2: Financial Summary

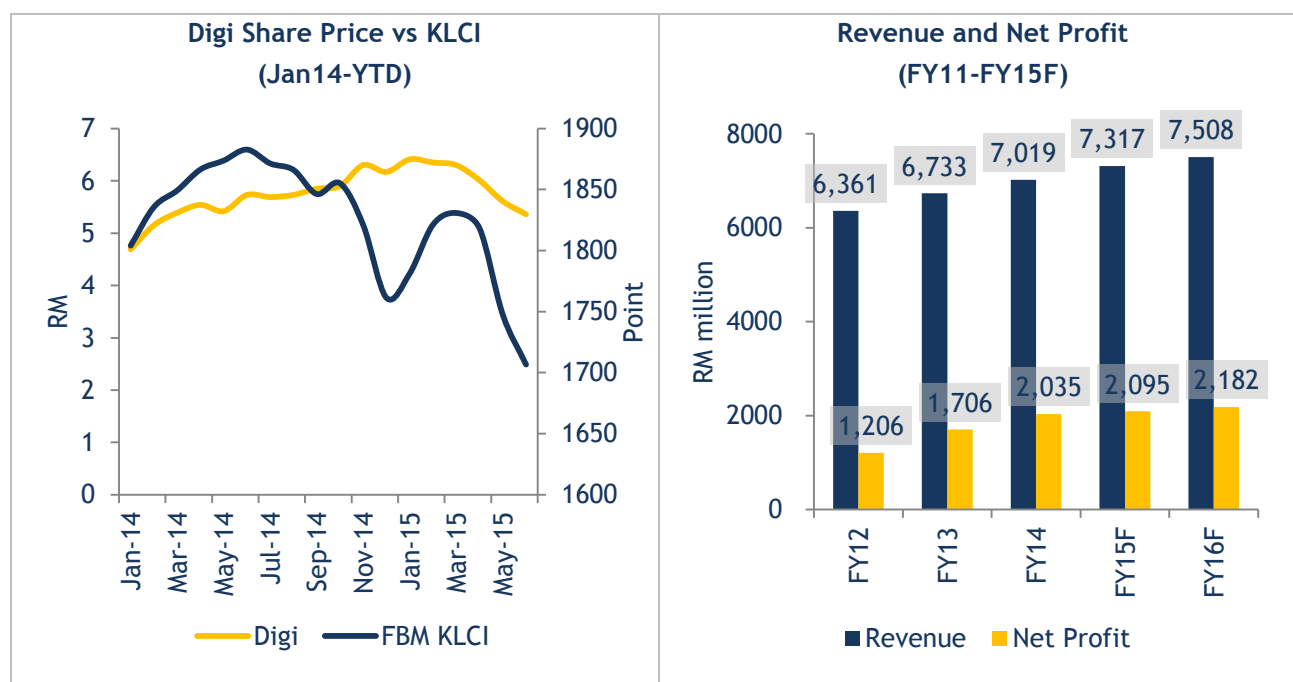
YE: Dec (RM million)	2Q15	1Q15	2Q14	y-o-y	q-o-q	6M15	6M14	y-o-y
Turnover	1,723	1,791	1,746	-1%	-4%	3,514	3,464	1%
Expenses	-940	-1020	-955	-2%	-8%	-1,960	-1,901	3%
Other income	4	4	4	7%	8%	8	11	-30%
EBITDA	788	775	795	-1%	2%	1,562	1,574	-1%
Depreciation	-150	-139	-115	30%	8%	-289	-233	24%
EBIT	638	635	680	-6%	0%	1,273	1,340	-5%
Finance income	2	3	3	-30%	-33%	5	6	-25%
Finance cost	-13	-12	-9	53%	9%	-25	-18	41%
PBT	626	626	674	-7%	0%	1,252	1,328	-6%
Taxation	-162	-147	-175	-7%	10%	-309	-344	-10%
PAT	464	479	499	-7%	-3%	944	984	-4%
EPS								
EBITDA margin	45.7%	43.3%	45.5%			44.5%	45.4%	
PBT margin	36.3%	34.9%	38.6%			35.6%	38.4%	
PAT margin	26.9%	26.8%	28.6%			26.8%	28.4%	
Capex	201	192	193.6			393	394.9	
Operation matrix	2Q15	1Q15	2Q14	y-o-y chg	q-o-q chg			
Prepaid								
Subscribers (million)	10.04	9.93	9.20	9%	1%			
Net addtion (million)	0.11	0.23	0.08	38%	-52%			
ARPU (RM/month)	38	39	41	-7%	-3%			
Revenue (RM million)	1,141	1,154	1,135	1%	-1%			
Postpaid								
Subscribers (million)	1.77	1.75	1.69	5%	1%			
Net addtion (million)	0.13	0.37	0.09	44%	-65%			
ARPU (RM/month)	82	81	83	-1%	1%			
Revenue (RM million)	448	434	433	3%	3%			

Source: Bursa Malaysia

Table 3: Financial Forecast

YE: Dec (RM million)	FY12	FY13	FY14	FY15F	FY16F
Revenue	6,361	6,733	7,019	7,317	7,508
Expenses	(3,455)	(3,714)	(3,868)	(4,021)	(4,058)
EBITDA	2973	3061	3180	3327	3414
Depreciation & Amortisation	(1,330)	(878)	(492)	(542)	(519)
EBIT	1,643	2,183	2,688	2,785	2,895
Finance cost	(52)	(43)	(39)	(29)	(24)
PBT	1,591	2,140	2,649	2,757	2,871
Taxation	(385)	(434)	(614)	(662)	(689)
PAT	1,206	1,705	2,035	2,095	2,182
EPS (RM)	0.16	0.22	0.26	0.27	0.28
EBITDA Margin	47%	45%	45%	45%	45%
PBT Margin	25%	32%	38%	38%	38%
PAT Margin	19%	25%	29%	29%	29%
PER (x)	34.1	22.6	23.6	19.9	13.6
Gross Yield	5.0%	4.3%	4.2%	4.6%	4.8%
P/BV (x)	157.4	58.3	86.6	24.9	24.9
EV/EBITDA	14.2	12.8	15.3	15.0	14.3

Source: Bursa Malaysia, M&A Securities



Source: Bloomberg, M&A Securities

M&A Securities

STOCK RECOMMENDATIONS

BUY	Share price is expected to be $\geq +10\%$ over the next 12 months.
TRADING BUY	Share price is expected to be $\geq +10\%$ within 3-months due to positive newsflow.
HOLD	Share price is expected to be between -10% and $+10\%$ over the next 12 months.
SELL	Share price is expected to be $\geq -10\%$ over the next 12 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT	The sector is expected to outperform the FBM KLCI over the next 12 months.
NEUTRAL	The sector is expected to perform in line with the FBM KLCI over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform the FBM KLCI over the next 12 months.

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M & A Securities SdnBhd (15017-H)

(A wholly-owned subsidiary of INSAS BERHAD)

A Participating Organisation of Bursa Malaysia Securities Berhad

Principal Office:

Level 1,2,3 No.45 & 47,43-6

The Boulevard, Mid Valley City,

Lingkaran Syed Putra,

59200 Kuala Lumpur

Tel: +603 - 2282 1820 Fax: +603 - 2283 1893

Website: www.mnaonline.com.my

