

DiGi.Com Berhad

“Bring On the Competition”

We continue to like Digi for its transformational journey as the Group managed to beef up its network services while successfully delivering stable network coverage. Its focus on internet plan will effectively shore up its efforts in monetizing data. We value Digi at RM6.60 based on EV/EBITDA of 14.2x, a 15% premium over its last 3 years average. The stock is a BUY.

**Rising competition, but still deliver.** Despite a clear leader in prepaid segment, competitors are fast catching-up with Digi in prepaid segment. Nevertheless, we feel Digi still have an edge over its competitors due to its strength in lower income prepaid subscribers that can upgrade to affordable smartphones on the back of rising popularity of low cost handsets from China and Korea.

**Eyeing postpaid market share.** Digi has been consistently adding subscriber in postpaid segment in steady pace and posted the best net adds in 1Q15 on the back of bundled offering. Of note, we noticed that there has been less competition in postpaid segment where only Maxis and Celcom battling to lead in this segment and hence, we opine that should Digi consistently adding subscriber at the expense of its competitors, Digi could win the battle with Celcom and Maxis in this segment.

**Monetizing data works well.** Data revenue (including SMS) was well up to RM672 million in 1Q15 (+18% y-o-y, +3% q-o-q) capitalizing on the affordable and innovative internet packages to serve in affordable segment through “Internet for All” strategy. The strategy was well paid off through wide range of affordable prices bundling with internet quota, voice calls and SMS.

**Windfall from GST closure.** Malaysia Communications and Multimedia Commission (MCMC) recently announced that GST for mobile prepaid reloads will be imposed based on customers’ usage and GST will not be charged on purchasing

BUY (TP:RM6.60)

Current Price (RM)	RM5.36
New Fair Value (RM)	RM6.60
Previous Fair Value (RM)	RM6.60
Previous Recommend.	HOLD
Upside To Fair Value	23%
Dividend Yield (FY15)	4.8%

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)	43,306	
YTD Chg In Share Price	-9.72%	
Beta (x)	0.96	
52-week Hi/Low (RM)	RM6.65	RM5.34
3M Average Volume (shrs)	11,167mn	
Estimated Free Float	34.9%	

Major Shareholders	
Telenor	49.0%
EPF	13.88%
KWAP	1.5%

reloads. As we stated earlier, we maintain our stance that Digi is the clear winner as their prepaid subscriber forms 83% of their total subscribers in 1Q15.

**Shaky start, but service revenue still well.** Digi's 1Q15 net profit of RM479 million (-1% y-o-y, -14% q-o-q) accounted 23% of ours and consensus full-year forecasts respectively. Service revenue trended down sequentially (-2% q-o-q) in lieu of seasonality factor (1Q is seasonally a weaker quarter), but was up 2% y-o-y. Higher subscribers for both prepaid and postpaid segments were partly offset by lower ARPU.

**Outlook.** Despite rising competition, Digi started FY15 brilliantly via offering effective data monetization plan by giving more relevant products offerings, smartphones bundles and targeted channel activities. Regarding GST, Customs Department has now given its nod to go for GST charges under prepaid segment. It will further benefit Digi as its subscribers composition is largely made up of prepaid segment. That said, Digi's increasingly stronger momentum in prepaid segment will benefit its bottomline by 4.3% in FY15 alone, based on our projection.

**Earnings outlook.** 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; and 3) higher take up rate in bundled offerings

**Valuation.** We maintain our target price on Digi of 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; and 2) completion of its 3G and LTE network expansion.

Table 1: Peers Comparison

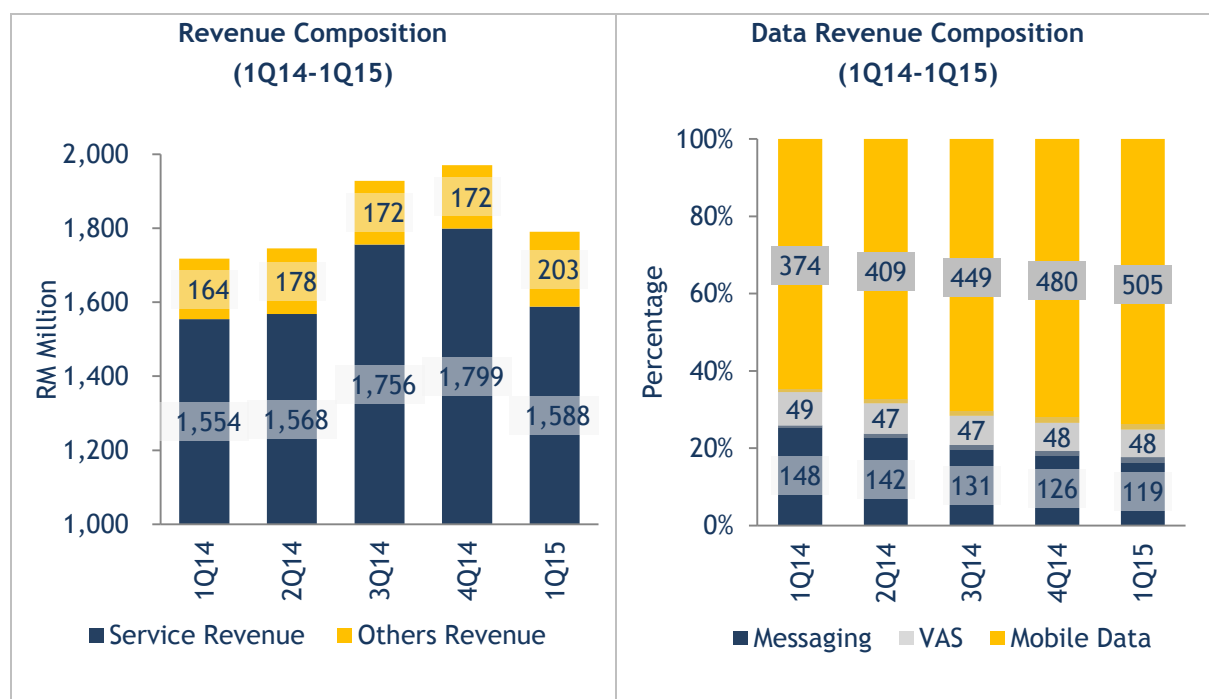
Company	FYE	Price (RM)	EPS (RM)		P/E (x)		P/B (x)		ROE (%)	Div Yield (%)	TP	Call
			FY15	FY16	FY15	FY16	FY15	FY16				
Axiata	Dec	6.40	0.31	0.34	23	21	2.8	2.8	11.6	3.1	7.40	Buy
Maxis	Dec	6.37	0.27	0.28	27	25	12.0	12.6	32.1	4.5	7.10	Hold
Digi	Dec	5.36	0.27	0.28	23	22	65.3	62.1	301.5	4.2	6.60	Buy
Telekom	Dec	6.54	0.27	0.29	27	25	3.4	3.4	11.3	3.6	6.87	Hold
Time DotCom	Dec	6.76	0.28	0.32	21	18	1.3	1.2	8.0	1.0	NR	NR
Average					24	22	17.0	16.4				

Source: Bloomberg, M&A Securities

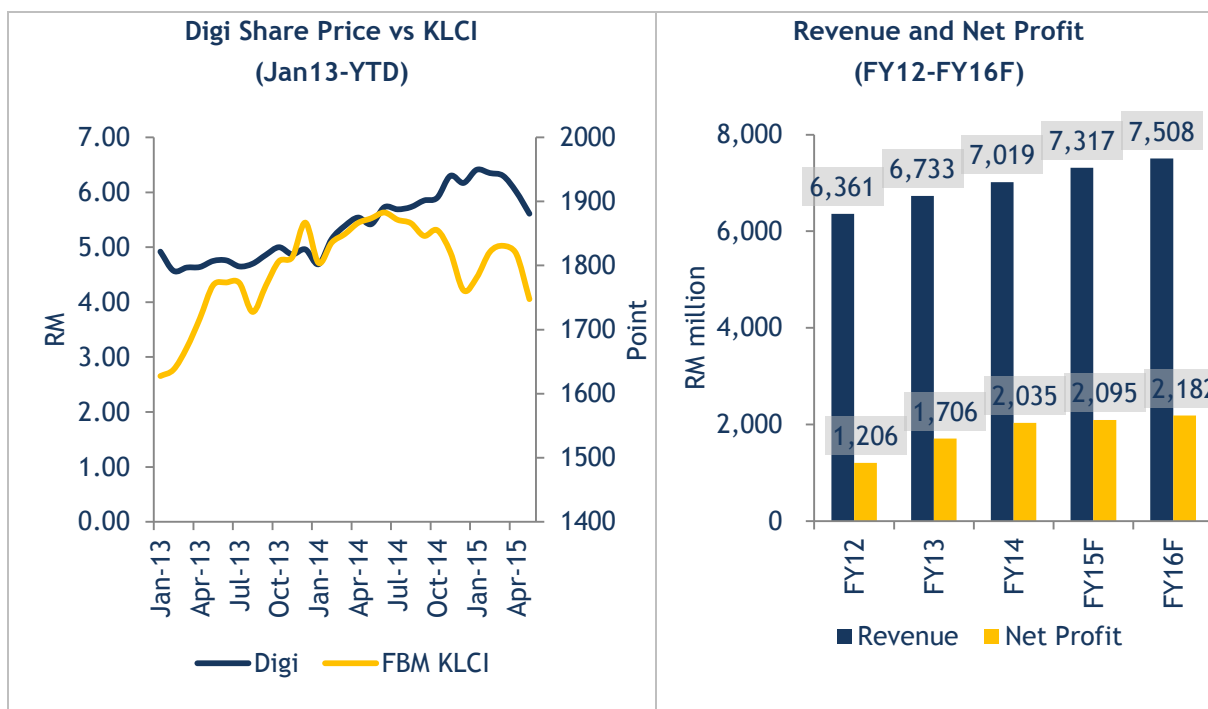
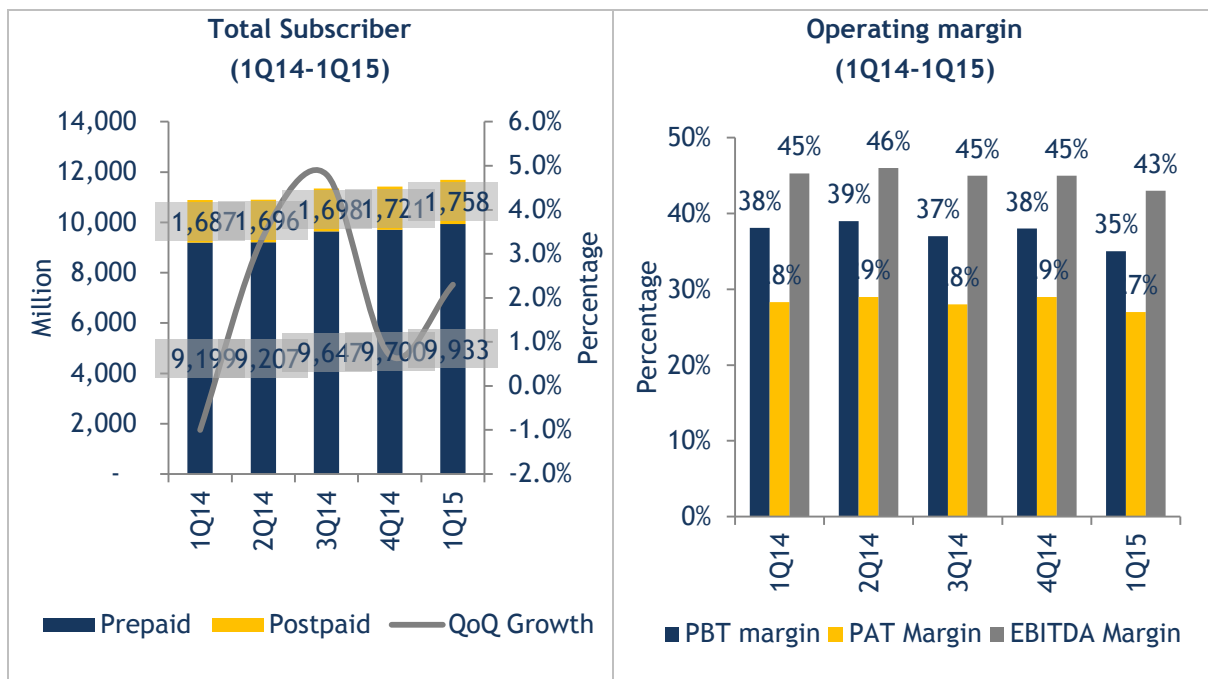
Table 2: Financial Forecast

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
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

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

## SECTOR RECOMMENDATIONS

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

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