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Tuesday, September 08, 2015

# Digi.Com Berhad

## “4G is the Way Forward”

Digi hosted its Analyst’s Day yesterday where the senior management outlined their views and future strategies to the investment community. Its new CEO, Mr Albern Murty shared its 5 months journey at the helm and the key areas of its focus, and his vision on Digi moving forward.

### Key Highlights

- **Driving Digi as a growth company.** Mr Albern shared that he took over the seat at the most testing period due to softening consumer sentiments as a result of GST implementation confusion on the prepaid billing. Nevertheless, he managed to lift Digi’s mobile internet to a healthy level through conservative and careful offering without jeopardizing data monetization though that came at the expense of flat ARPU.
- **Building up customer experiences.** Comprehending the intense competitions, Digi took customers’ experience to the streets by organizing streets campaign involving the top management. This initiative proved to be a frontrunner as potential subscriber took the initiative close to their temperament as Digi’s brand trended up due to the event.
- **Equipped for keen competition.** Management noted that current competition environment is not healthy due to little space on monetization value. The competition involving freebies on reload value as well as free internet were heating up the telco space with Celcom and Maxis participated in price cut competitions in both postpaid and prepaid segment, of which we view Celcom took more drastic move in response to the price cut. For Digi, we view that the price cut was modest with the absence of starter pack discount as well as free data to safeguard ARPU.

### BUY (TP:RM6.10)

Current Price (RM)	RM5.13
New Fair Value (RM)	RM6.10
Previous Fair Value (RM)	RM6.60
Previous Recommend.	BUY
Upside To Fair Value	19%
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)	39,885	
YTD Chg In Share Price	-16.8%	
Beta (x)	0.97	
52-week Hi/Lo (RM)	RM6.65	RM4.86
3M Average Volume (shrs)	10,190mn	
Estimated Free Float	34.9%	

### Major Shareholders

Telenor	49.0%
EPF	14.1%
ASB	3.22%

Market Access

- **Opportunity in postpaid segment.** Of note, the price war that begun in April was started by Celcom followed by Digi, Maxis and UMobile. Despite the competition in postpaid segment was controlled by Maxis and Celcom, Digi has been consistently adding subscriber in postpaid segment, and on course to be a threat Maxis and Celcom position. Digi is banking on its 3G network that currently reached 86% of population as at 2Q15 and its LTE network is in cruise control to reach 45% of population by the end of 2015.
- **Championing LTE segment.** Management view LTE as the game changer moving forward subsequent to satisfying 2G and 3G network coverage to be in the same level with competitors. To lead in the 4G space, Digi aims to get one third of the network site to be ready for 4G network by capitalizing on the rising data traffic growth. In longer term, Digi aims to lift its 4G network to cover 70% of populations without mentioning the amount of capex needed.
- **Nurturing Malaysia best talents.** One of Digi efforts is nurturing Malaysia best talents. Digi's healthy working environment through physical and digital office will ensure the best for its workers. Should the workers perform at a very high level, the workers will be sent them to Telenor subsidiaries to gain more experience and ready to lead Digi if required by Digi management.
- **Ringgit depreciation.** In response to Ringgit depreciation, management is of the view that the falling Ringgit will not bring material impact to Digi bottomline in the short term as Digi revenues are denominated in Ringgit. However, there could be an impact on Digi capex on longer term as some of the equipment on site are from foreign countries and the weakening Ringgit may spike the cost of equipment.
- **Outlook.** Despite fierce competition, we foresee that Digi's ability to grow its service revenue is impressive, including its ability to hold voice revenue from further decline as face by the industry wide. Additionally, in highly a competitive environment, Digi's decision to slowdown its direct expenses may prove defining.
- **Earnings Outlook.** We maintain our FY15 and FY16 forecast. At this stage, FY15 expected to fell marginally by 1.6% and FY16 earnings expected to grow by 4.8% 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 lower our TP on Digi to RM6.10 as we rolle our valuation into FY16 EBITDA and 3-year average EV/EBITDA of 14.1x and the stock is still 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

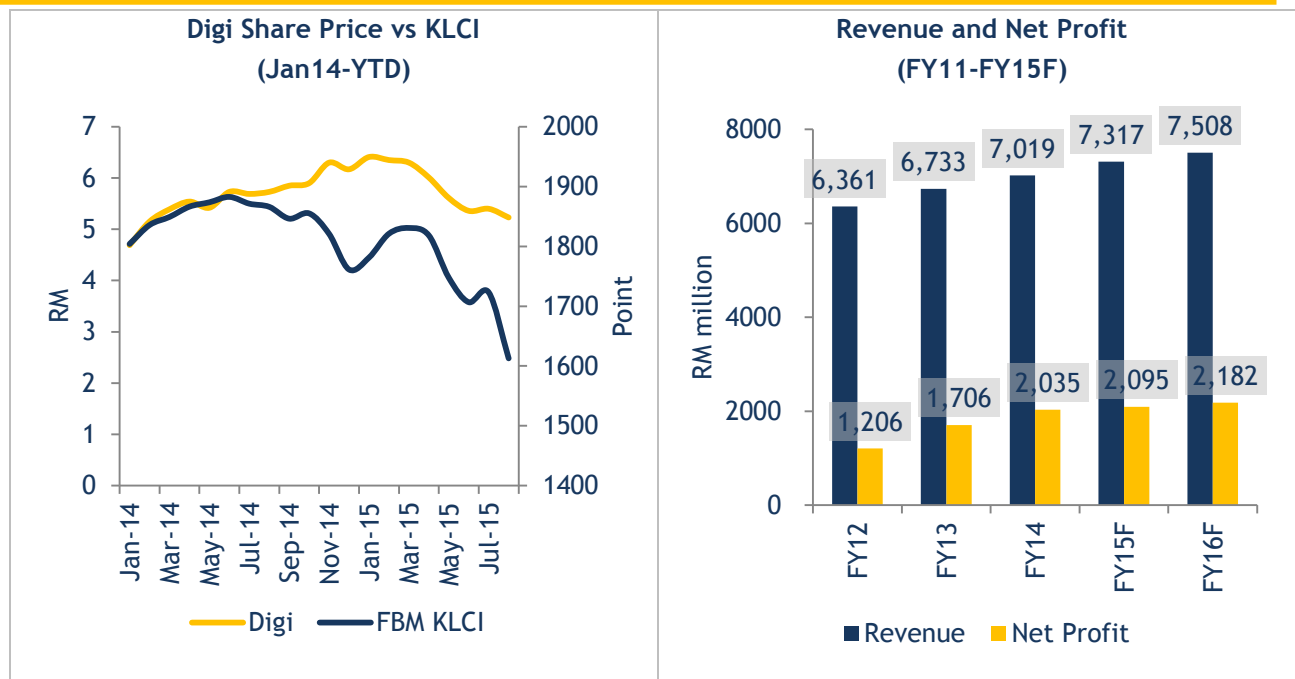
Company	FYE	Price (RM)	EPS (RM)		P/E (x)		P/B (x)		ROE (%)	Div Yield (%)	TP	Call
			FY15	FY16	FY15	FY16	FY15	FY16				
Axiata	Dec	5.86	0.31	0.34	23	21	2.8	2.8	11.6	3.1	7.10	Buy
Maxis	Dec	6.52	0.27	0.28	27	25	12.0	12.6	32.1	4.5	7.00	Hold
Digi	Dec	5.13	0.27	0.28	23	22	65.3	62.1	301.5	4.2	6.10	Buy
Telekom	Dec	6.45	0.27	0.29	27	25	3.4	3.4	11.3	3.6	6.87	Buy
Time DotCom	Dec	6.02	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&amp;A Securities

Table 2: Financial Forecast

YE: Dec (RM million)	FY12	FY13	FY14	FY15F	FY16F
Turnover	6,361	6,733	7,019	7,317	7,508
Expenses	-3,455	-3,714	-3,868	-4,021	-4,118
Other income	23	23	17	23	22
EBITDA	2,929	3,042	3,167	3,319	3,413
Depreciation	-1,330	-878	-492	-642	-679
EBIT	1,599	2,164	2,675	2,677	2,734
Finance income	43	19	13	21	9
Finance cost	-52	-43	-39	-48	34
PBT	1,591	2,140	2,649	2,650	2,778
Taxation	-385	-434	-614	-649	-681
PAT	1,206	1,705	2,035	2,001	2,097
EPS (sen)	15.51	21.94	26.12	25.73	26.97
Dividend - sen	26.3	21.3	26	25	27
Dividend payment (RMm)	2045	1656	2022	1981	2076
Dividend payout (%)	170%	97%	99%	99%	99%
PER (x)	34.1	22.6	23.6	21.4	20.4
Gross Yield	14.2	12.8	15.3	15.0	14.3
EV/EBITDA	14.2	12.8	15.3	13.1	12.7
EV (Mkt Cap + Total Debt-Cash)	41,501	38,902	48,500	43,546	43,425
EBITDA	2,929	3,042	3,167	3,319	3,413

Source: Bursa Malaysia, M&amp;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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