

PP14767/09/2012(030761)

Tuesday, October 27, 2015

Digi.Com Berhad

“Survives the Headwinds”

Results Review

- Actual vs. expectations.** Digi.Com (Digi) 9M15 net profit of RM1.34 billion (-9% y-o-y) came in below from ours and consensus estimates respectively, accounting 67% and 69% of ours and consensus full year estimates respectively. The weaker 9M15 earnings was hampered by slower revenue (-1% y-o-y) as well as higher depreciation booked (+27% y-o-y). The weaker Ringgit brought forex translation to a loss of RM27.9 million vs. a drop of RM535 million in 9M14 as the IDD segment took a big hit derailed by the falling Ringgit.
- Topline analysis.** Digi weaker performance continued for 3 consecutively quarters as revenue slipped to RM1.67 billion in 3Q15 (-5% y-o-y) as a result of flat service revenue performance of RM893 million (+0% y-o-y) and weaker device revenue of RM91 million (-89% y-o-y). The weaker results were largely unexpected given the anticipation of GST impact starting in July 2015 pursuant to the expiry of free airtime and SMS. Digi’s EBITDA margin weakened by 280bps to 42.9% in 3Q15 vs. 45.7% in 2Q15 despite Digi managed to contain opex by 3.2% y-o-y in 3Q15. Excluding the forex impact, normalized EBITDA would register a marginal contraction of 2.5% y-o-y in 9M15.
- Dividend.** Digi declared lower dividend of 5.1 cent vs. 6.2 cent in 2Q15. This brings 9M15 dividend to 17.1 cent vs. 18.8 cent in 9M14, translating into 99% payout ratio.
- Service revenue weaker on voice segment.** Overall, it was decent performance as Digi managed to lift data revenue by 10.2% y-o-y to RM691 million on the back of higher contribution from the internet segment (+18% y-o-y), aided by stronger smartphone penetration of 58.4%.

Research Team
research@mna.com.my
03-22821820 ext. 257, 229,221,249,258

BUY (TP:RM6.10)

Current Price (RM)	RM5.51
New Fair Value (RM)	RM6.10
Previous Fair Value (RM)	RM6.10
Previous Recommend.	BUY
Upside To Fair Value	10%
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)	0.97	
52-week Hi/Lo (RM)	RM6.65	RM4.86
3M Average Volume (shrs)	11,856mn	
Estimated Free Float	34.9%	

Major Shareholders		
Telenor	49.0%	
EPF	14.1%	
ASB	3.2%	

- **Consumer sentiment remains soft post-GST.** The impact of GST was severe-than-expected as the measures introduced by Malaysia Communication and Multimedia Commission (MCMC) in prepaid segment failed to excite the users amid increasing wallet pressure. Postpaid segment took a big hit as revenue reduced to RM443 million vs. RM448 million pre-GST whilst prepaid segment's revenue turned flat at RM1.14 billion.
- **Subscriber addition was mixed.** Postpaid subscriber grew by 5k q-o-q on the back of positive uptake on internet packages. However, stiff competitions in postpaid segment have brought ARPU down by RM1 q-o-q to RM81. Meanwhile in the prepaid segment, subscriber fell to 9.89 million (-145k q-o-q) despite the introduction of 2 plans to spur this segment. Nevertheless, ARPU was steady at RM38.
- **Leader in 4G LTE network.** Digi is now leading the LTE market with coverage now reaching 50% of populations, ahead of their year-end target with LTE subscribers stood at 1.5 million or 13.2% of total subscribers.
- **Outlook.** The weaker performance by Digi will set the benchmark for other teco performance in this results season. We view Digi's hesitance in joining the price war by other telcos may give an edge to the bottomline in the short term as Digi is aiming to gain on data yielding rather than destructive plan as offered by others. Additionally, despite weaker performance in 3Q15, we still believe Digi can turn around the results given its spectrum advantages and cost containment.
- **Change to forecast.** We maintain our FY15 and FY16 forecast. Nonetheless, FY15 and FY16 is 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 RM6.10 based on last 3-year average EV/EBITDA of 14.1x, 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. Rating 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	6.32	0.31	0.34	23	21	2.8	2.8	11.6	3.1	7.10	Buy
Maxis	Dec	6.70	0.27	0.28	27	25	12.0	12.6	32.1	4.5	7.00	Hold
Digi	Dec	5.53	0.27	0.28	23	22	65.3	62.1	301.5	4.2	6.10	Buy
Telekom	Dec	6.77	0.27	0.29	27	25	3.4	3.4	11.3	3.6	6.87	Hold
Time DotCom	Dec	7.00	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

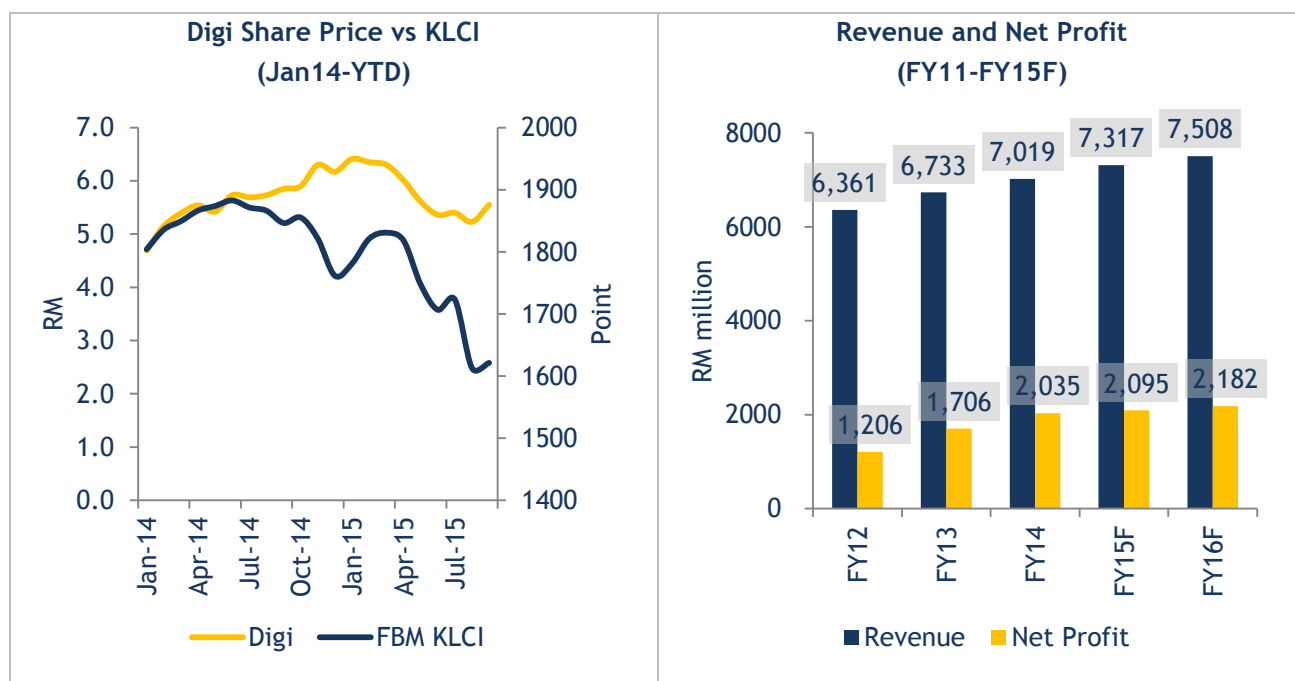
YE: Dec (RM million)	3Q15	2Q15	3Q14	y-o-y	q-o-q	9M15	9M14	y-o-y
Turnover	1,675	1,723	1,756	-5%	-3%	5,189	5,220	1%
Expenses	-959	-940	-970	-1%	2%	-2919	-2871	3%
Other income	4	4	2	55%	-6%	11	13	-30%
EBITDA	719	788	789	-9%	-9%	2281	2362	-1%
Depreciation	-170	-150	-127	34%	13%	-459	-360	24%
EBIT	549	638	662	-17%	-14%	1822	2002	-5%
Finance income	3	2	4	-18%	70%	8	10	-25%
Finance cost	-15	-13	-9	66%	16%	-40	-27	41%
PBT	537	626	657	-18%	-14%	1789	1985	-6%
Taxation	-140	-162	-170	-17%	-13%	-449	-514	-10%
PAT	397	464	487	-19%	-15%	1340	1471	-4%
EPS	5.1	5.97	6.26	-19%	-15%	17.24	18.92	-9%
EBITDA margin	42.9%	45.7%	44.9%			44.0%	45.3%	
PBT margin	32.1%	36.3%	37.4%			34.5%	38.0%	
PAT margin	23.7%	26.9%	27.7%			25.8%	28.2%	
Capex	223	201	193.6			616	670	
Operation matrix	3Q15	2Q15	3Q14	y-o-y chg	q-o-q chg			
Prepaid								
Subscribers (million)	9.89	10.04	9.64	3%	-1%			
Net addtion (million)	0.14	0.11	0.08	75%	27%			
ARPU (RM/month)	38	38	41	-7%	0%			
Revenue (RM million)	1,141	1,141	1,153	-1%	0%			
Postpaid								
Subscribers (million)	1.77	1.77	1.69	5%	0%			
Net addtion (million)	0.05	0.13	0.09	-44%	-62%			
ARPU (RM/month)	81	82	83	-2%	-1%			
Revenue (RM million)	443	448	433	2%	-1%			

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.

DISCLOSURES AND DISCLAIMER

This report has been prepared by M&A SECURITIES SDN BHD. Readers should be fully aware that this report is for informational purposes only and no representation or warranty, expressed or implied is made as to the accuracy, completeness or reliability of the information or opinion contained herein. The recommendation and opinion are based on information obtained or derived from sources believed to be reliable.

This report contains financial forecast/projection based on our assumptions which may defer from the actual financial results announced by the companies under coverage. All opinions, estimates and assumptions are subject to change without notice. Analysts will initiate, update and cease coverage solely at the discretion of M&A SECURITIES SDN BHD.

Investors are to be cautioned that value of any securities invested may fluctuate from time to time. We advise investors to seek financial, legal and other advice for investing based on the recommendation of our report as we have not taken into account each investors' specific investment objectives, risk tolerance and financial position.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. M&A SECURITIES SDN BHD can accept no liability for any consequential loss or damage whether direct or indirect. Investment should be made at investors' own risks.

M&A SECURITIES SDN BHD and INSAS GROUP of companies, their respective directors, officers, employees and connected parties may have interest in any of the securities mentioned and may benefit from the information herein. M&A SECURITIES SDN BHD and INSAS GROUP of companies and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This report may not be reproduced, distributed or published in any form or for any purpose.

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