

COMPANY RESULTS

CelcomDigi (CDB MK)

1Q24: In Line; Earnings Driven By Gross Synergy Savings

CelcomDigi's 1Q24 net profit rose 18% yoy but fell 14% qoq to RM377m. This included a RM140m VSS cost booked in the quarter. Stripping this out, 1Q24 core net profit came in at RM487m (-5% yoy; -3% qoq), in line with expectations. The group estimates 2024 gross synergy of RM700m, partly offset by network integration cost. Maintain HOLD with a DCF-based target price of RM4.50. The stock trades at 9x EV/EBITDA, -1SD below its five-year mean, and offers a 4% dividend yield.

1Q24 RESULTS

Year to 31 Dec (RMm)	1Q24	4Q23	1Q23	qoq % chg	yoy % chg
Revenues	3,154.2	3,274.8	3,180.0	(3.7)	(0.8)
Reported EBITDA	1,330.0	1,597.0	1,511.0	(16.7)	(12.0)
EBITDA Margin (%)	42.2	48.8	47.5	(6.6)	(5.4)
Pre-tax profits	427.3	680.0	460.0	(37.2)	(7.1)
Net profit	376.5	435.1	318.0	(13.5)	18.4
Core Net profit	487.4	502.7	515.1	(3.0)	(5.4)
EPS (sen)	3.2	3.7	2.7	(13.5)	18.4
DPS (sen)	3.5	3.5	3.2	0.0	9.4
Subscribers ('000)	20,321	20,421	20,185	(0.5)	0.7
Blended ARPUs (RM/mth)	39	40	41	(2.5)	(4.9)

Cost Structure (% of revenue)	1Q23	2Q23	3Q23	4Q23	1Q24
Direct expenses	23.1%	20.6%	20.5%	24.5%	23.7%
S&M	5.4%	6.3%	5.3%	5.6%	5.4%
Staff cost	6.9%	7.0%	6.9%	7.5%	11.2%
Bad debts	0.6%	0.7%	1.1%	-2.9%	0.9%
G&A, others	16.5%	18.0%	15.8%	16.5%	6.2%

Source: CelcomDigi, UOB Kay Hian

RESULTS

- **1Q24 results within expectations.** CelcomDigi's 1Q24 core net profit (which excludes RM140m in voluntary separation scheme (VSS) costs) came in at RM487m (-5% yoy; -3% qoq). We do not expect further VSS costs in subsequent quarters, and more importantly, the synergy arising from this move will yield a savings of RM80m-90m for 2024. All in all, 1Q24 core net accounted for 25% of our full-year forecast, which we deem within expectations.
- **Dividends.** The group declared its first interim net DPS of 3.5 sen/share (109% dividend payout). We project 2024 and 2025 net DPS of 15.7 sen and 18.4 sen respectively. This translates to a net dividend yield of 3.9% and 4.6% for 2024 and 2025 respectively.

KEY FINANCIALS

Year to 31 Dec (RMm)	2022	2023	2024F	2025F	2026F
Net turnover	12,511	12,682	13,210	13,360	13,393
EBITDA	5,958	6,222	6,410	6,483	6,500
Operating profit	3,373	2,757	3,074	3,483	3,718
Net profit (rep./act.)	1,964	1,566	1,865	2,180	2,380
Net profit (adj.)	1,964	1,552	1,865	2,180	2,380
EPS (sen)	25.3	13.2	15.9	18.6	20.3
PE (x)	15.8	30.2	25.2	21.5	19.7
P/B (x)	1.9	2.9	2.9	2.9	2.9
EV/EBITDA (x)	9.8	9.4	9.1	9.0	9.0
Dividend yield (%)	3.1	3.3	3.9	4.6	0.0
Net margin (%)	15.7	12.3	14.1	16.3	17.8
Net debt/(cash) to equity (%)	83.9	77.1	69.0	65.0	60.0
Interest cover (x)	24.0	11.6	10.9	11.2	11.9
ROE (%)	23.2	9.6	11.4	13.3	14.5
Consensus net profit	-	-	2,073	2,349	2,591
UOBKH/Consensus (x)	-	-	0.90	0.93	0.92

Source: CelcomDigi, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	RM4.00
Target Price	RM4.50
Upside	+12.5%

COMPANY DESCRIPTION

Mobile operator in Malaysia, providing 2G, 3G and 4G services.

STOCK DATA

GICS sector	Communication Services
Bloomberg ticker:	CDB MK
Shares issued (m):	CDB MK
Market cap (RMm):	11,731.5
Market cap (US\$m):	46,926.0
3-mth avg daily t'over (US\$m):	2.3

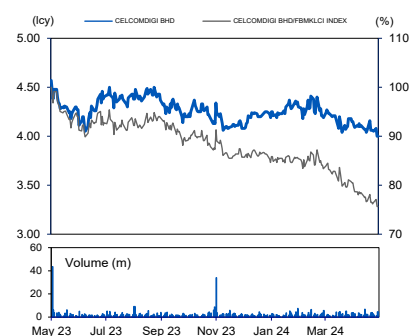
Price Performance (%)

52-week high/low			RM4.57/RM4.00	
1mth	3mth	6mth	1yr	YTD
(4.3)	(7.6)	(3.6)	(10.3)	(2.0)

Major Shareholders

	%
Telenor ASA	33.1
Axiata Group Bhd	33.1
Employees Provident Fund	9.8
FY24 NAV/Share (RM)	1.40
FY24 Net Debt/Share (RM)	0.96

PRICE CHART



Source: Bloomberg

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- **Integration updates.** 1Q24 gross synergy amounted to RM426m (from sourcing efficiency on economies of scales and better re-negotiations of commercial terms). RM140m of these savings flowed through to earnings. Offsetting this cost synergy was RM156m in integration costs mainly from the VSS costs of RM140m. The group targets a gross synergy of RM700m for 2024. CelcomDigi has achieved 44% of the overall network integration targets, with more than 7,200 sites modernised and 2,716 sites phased out.

STOCK IMPACT

- **1Q24 revenue fell 4% qoq and 1% yoy to RM3,154m.** The decline reflected weakness in both postpaid and prepaid service revenues. Sequentially, there was also lower device revenue (+1% yoy, -10% qoq).
- **Postpaid revenue decreased 3% yoy and 2% qoq to RM1,249m.** There were 61,000 net adds qoq given a continuous pre-to-post migration. ARPU was diluted to RM64/month (4Q23: RM66/month, 1Q23: RM69/month).
- **Prepaid revenue went down 1% yoy and 2% qoq to RM1,121m** due to a net loss of 161,000 subscribers qoq. ARPU stabilised at RM28/month (4Q23: RM28/month, 1Q23: RM28 /month).
- **1Q24 service EBITDA margin dropped 8.6ppt to 49.8% in 1Q24** mainly due to the VSS costs of RM140m incurred during the quarter.

EARNINGS REVISION/RISK

- None.
- **Higher integration costs in 2024.** In a CelcomDigi briefing, management reiterated that full network integration is expected to be completed within 2023-25 with estimated higher integration costs in 2024 (RM114m in 2023), as the group intends to ramp up its integration activities. This will be partially offset by its gross synergies.

VALUATION/RECOMMENDATION

- **Maintain HOLD with a DCF-based target price of RM4.50.** Our target price reflects potential higher synergistic savings in 2025 after incurring significant integration costs in 2024. At our fair value, the stock trades at its mean EV/EBITDA of 10x. Dividend yield is 4% for 2024.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG)

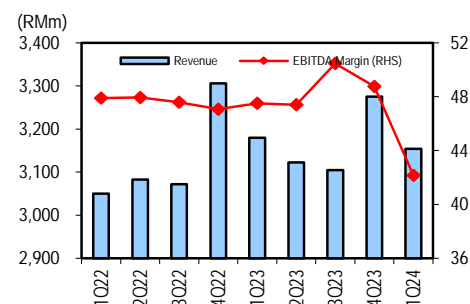
• Environmental <ul style="list-style-type: none"> - Develop a Net Zero 2050 roadmap and targets aligned to SBTi by 2025. - Migration to cloud-based data centres with lower carbon emissions as compared to traditional data centres. - Optimise energy use of networks by adopting energy efficient hardware and best practices and by retiring legacy networks. 	
• Social <ul style="list-style-type: none"> - 100% employees pass-rate in Integrity programme assessment in 2023. - Implemented various social impact programmes (digital inclusion, digital entrepreneurship, and digital skills) and humanitarian efforts. - Supported the government in delivering JENDELA commitments and reaching out to underserved communities through NaDi internet centres (formerly known as PEDi). 	
• Governance <ul style="list-style-type: none"> - 100% of Privacy Control Framework implemented for high-risk data processing functions by 2024. 	

PERFORMANCE GUIDANCE FOR 2024

2024 guidance	
Service Revenue	Maintaining low-single digit growth momentum underpinned by momentum in postpaid, B2B and fibre.
EBIT	Maintaining similar level with 2023
Capex intensity	Around 15% to 18% of total revenue which includes all BAU planned investments and ongoing merger integration activities.

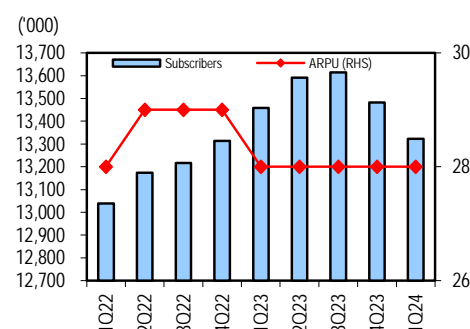
Source: Celcom Digi, UOB Kay Hian

REVENUE AND EBITDA MARGIN



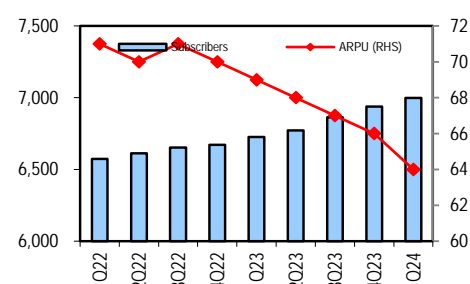
Source: CelcomDigi, UOB Kay Hian

QUARTERLY PREPAID ARPU AND SUBS



Source: CelcomDigi, UOB Kay Hian

QUARTERLY POSTPAID ARPU AND SUBS



Source: CelcomDigi, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2023	2024F	2025F	2026F
Net turnover	12,682	13,210	13,360	13,393
EBITDA	6,222	6,410	6,483	6,500
Deprec. & amort.	3,465	3,336	3,000	2,782
EBIT	2,757	3,074	3,483	3,718
Net interest income/(expense)	(538)	(587)	(576)	(546)
Pre-tax profit	2,180	2,486	2,907	3,173
Tax	(614)	(622)	(727)	(793)
Minorities	0	0	0	0
Net profit	1,566	1,865	2,180	2,380
Net profit (adj.)	1,552	1,865	2,180	2,380

BALANCE SHEET

Year to 31 Dec (RMm)	2023	2024F	2025F	2026F
Fixed assets	6,127	4,909	4,313	3,541
Other LT assets	26,884	26,748	26,748	26,748
Cash/ST investment	397	4,588	5,725	7,028
Other current assets	3,018	4,031	4,074	4,083
Total assets	36,427	40,277	40,860	41,400
ST debt	2,228	3,139	2,639	2,139
Other current liabilities	5,194	6,133	6,193	6,206
LT debt	10,769	12,748	13,748	14,748
Other LT liabilities	1,777	1,777	1,777	1,777
Shareholders' equity	16,347	16,368	16,392	16,418
Minority interest	111	111	111	111
Total liabilities & equity	36,426	40,276	40,859	41,399

CASH FLOW

Year to 31 Dec (RMm)	2023	2024F	2025F	2026F
Operating	5,742	5,714	5,773	5,711
Pre-tax profit	2,181	2,486	2,907	3,173
Tax	(614)	(622)	(727)	(793)
Deprec. & amort.	3,465	3,336	3,000	2,782
Associates	38	0	0	0
Working capital changes	225	(74)	17	4
Other operating cashflows	447	587	576	546
Investing	(2,144)	(1,865)	(2,255)	(1,806)
Capex (maintenance)	(1,756)	(1,981)	(2,405)	(2,009)
Others	(388)	116	150	203
Financing	(4,423)	342	(2,382)	(2,602)
Dividend payments	(1,502)	(1,844)	(2,156)	(2,353)
Issue of shares	0	0	0	0
Proceeds from borrowings	(2,296)	2,890	500	500
Others/interest paid	(625)	(704)	(726)	(749)
Net cash inflow (outflow)	(825)	4,191	1,136	1,303
Beginning cash & cash equivalent	1,221	397	4,588	5,725
Changes due to forex impact	1	0	0	0
Ending cash & cash equivalent	397	4,588	5,725	7,028

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	49.1	48.5	48.5	48.5
Pre-tax margin	17.2	18.8	21.8	23.7
Net margin	12.3	14.1	16.3	17.8
ROA	4.2	4.9	5.4	5.8
ROE	9.6	11.4	13.3	14.5
Growth				
Turnover	1.4	4.2	1.1	0.2
EBITDA	4.4	3.0	1.1	0.3
Pre-tax profit	(23.6)	14.0	16.9	9.2
Net profit	(20.3)	19.1	16.9	9.2
Net profit (adj.)	(21.0)	20.1	16.9	9.2
EPS	(47.6)	20.1	16.9	9.2
Leverage				
Debt to total capital	44.1	49.1	49.8	50.5
Debt to equity	79.5	97.1	100.0	102.9
Net debt/(cash) to equity	77.1	69.0	65.0	60.0
Interest cover (x)	11.6	10.9	11.2	11.9

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