

COMPANY RESULTS

DiGi.Com (DIGI MK)

2Q22: Below Expectations; Positive Merger Synergies In 2023

2Q22 core net profit fell 26% yoy to RM213m on the back of higher finance cost and tax from Cukai Makmur. This brings 1H22 core net profit to RM461m (-17% yoy) – below expectations. Digi revised 2022 EBITDA guidance downward to account for inflationary pressure and merger cost and we cut 2022 net profit by 8%. The Digi-Celcom merger is expected to be completed by 2H22, potentially lifting 2023 net profit by 15%. **BUY** on weakness. Target price: RM3.85.

2022 RESULTS

Year to 31 Dec (RMm)	2022	qoq % chg	yoy % chg	1H22	yoy % chg
Revenues	1,539	1.1	(4.9)	3,061	(3.4)
Reported EBITDA	742	(0.1)	0.3	1,484	0.5
EBITDA Margin (%)	48.2	(0.6)	2.5	48.5	1.9
Pre-tax profits	362	(3.2)	(2.9)	736	0.7
Net profit	220	(6.8)	(21.4)	456	(16.3)
Core Net profit	213	(14.1)	(25.8)	461	(17.2)
EPS (sen)	2.8	(6.8)	(21.4)	5.9	(16.3)
DPS (sen)	2.8	(3.4)	(22.2)	5.7	(18.6)
Subscribers ('000)	10,492	2.6	2.7		
Blended ARPUs (RM/mth)	42	0.0	(2.3)		

Cost Structure (% of revenue)	2021	3Q21	4Q21	1Q22	2Q22
Direct expenses	29.9%	25.9%	28.0%	25.0%	25.0%
S&M	5.9%	5.2%	6.1%	6.3%	6.2%
Staff cost	3.5%	4.0%	3.9%	4.3%	4.0%
Bad debts	0.9%	1.1%	0.9%	0.7%	0.8%
G&A, others	14.4%	14.1%	14.5%	15.0%	15.9%

Source: Digi, UOB Kay Hian

RESULTS

- **2Q22 results below expectations.** DiGi.com's (Digi) 2Q22 core net profit fell 26% yoy and 14% qoq to RM213m. This reflected: a) weaker prepaid revenue, b) increase in opex (+3% yoy and +3% qoq), c) higher finance cost, and d) higher effective tax rate (2Q22: 39%, 1Q22: 37%, 2Q21: 25%) from the impact of one-off Cukai Makmur. 2Q22 core net profit accounts for 20% and 19% of our and consensus full-year forecasts, below expectations.
- **Dividend.** The group declared its second interim net DPS of 2.8 sen/share (99% payout). Our full-year estimates of 12.5 sen/share (100% payout) will translate to 3.7% yield.

KEY FINANCIALS

Year to 31 Dec (RMm)	2020	2021	2022F	2023F	2024F
Net turnover	6,153	6,336	6,163	6,268	6,293
EBITDA	3,077	3,035	2,923	2,985	2,998
Operating profit	1,855	1,771	1,646	1,846	1,948
Net profit (rep./act.)	1,221	1,162	975	1,262	1,335
Net profit (adj.)	1,232	1,190	975	1,262	1,335
EPS (sen)	15.8	15.3	12.5	16.2	17.2
PE (x)	21.6	22.3	27.3	21.1	19.9
P/B (x)	43.9	42.0	41.8	41.6	41.3
EV/EBITDA (x)	10.1	10.2	10.6	10.4	10.4
Dividend yield (%)	4.6	4.4	3.7	4.7	5.0
Net margin (%)	19.8	18.3	15.8	20.1	21.2
Net debt/(cash) to equity (%)	849.9	751.4	704.4	658.3	627.1
Interest cover (x)	16.8	14.1	15.3	16.1	15.7
ROE (%)	192.8	187.6	153.7	197.9	208.0
Consensus net profit	-	-	1,110	1,325	1,385
UOBKH/Consensus (x)	-	-	0.88	0.95	0.96

Source: DiGi.Com, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM3.42
Target Price	RM3.85
Upside	+12.6%

COMPANY DESCRIPTION

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

STOCK DATA

GICS sector	Communication Services
Bloomberg ticker:	DIGI MK
Shares issued (m):	7,775.0
Market cap (RMm):	26,590.5
Market cap (US\$m):	5,976.3
3-mth avg daily t'over (US\$m):	3.1

Price Performance (%)

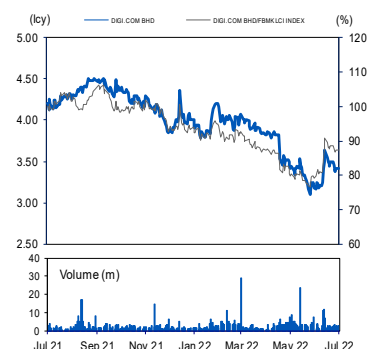
52-week high/low		RM4.50/RM3.10		
1mth	3mth	6mth	1yr	YTD
6.2	(11.2)	(14.7)	(17.4)	(21.6)

Major Shareholders

	%
Telenor ASA	49.0
Employees Provident Fund	12.2
AmanahRaya	6.5

FY22 NAV/Share (RM)	0.08
FY22 Net Debt/Share (RM)	0.58

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **2Q22 revenue fell 5% yoy but rose 1% qoq to RM1,539m** on prepaid weakness (-4% yoy, flat qoq) and lower device revenue (-23% yoy, flat qoq).
- **Postpaid revenue grew 1% yoy to RM629m (flat qoq)** driven by a higher number of subscribers with 41,000 net adds qoq (7th consecutive subscriber growth), bundling packages with fibre services and continuous pre-to-post migration. ARPU, however, was lower at RM60/month (1Q22: RM61/month, 2Q21: RM64/month) due to the entry level dilution.
- **Prepaid revenue tumbled 4% yoy to RM616m (flat qoq)** on lower ARPU of RM33/month compared with a year ago (1Q22: RM32/month, 2Q21: RM34/month) given intense competition despite 226,000 net adds sequentially. Digi continues to focus on Malaysian prepaid customers.
- **2Q22 normalised EBITDA margin went up 2ppt yoy to 47.8%** on the back of lower COGS (-21% yoy, +1% qoq) from lower traffic and material costs.
- **Merger slated to be completed by 2H22.** We expect the Celcom-Digi merger to be successfully completed in 2H22 after receiving the Malaysian Communications and Multimedia Commission's (MCMC) approval. The next phase includes: a) approval by minority shareholders of Digi and Celcom in separate EGMs, b) approval from the Securities Commission (SC) for the proposed merger, and c) approval from Bursa for the listing and quotation of the consideration shares on Bursa Securities.
- **A successful merger can lift MergeCo's net profit by 15%.** We assume the MergeCo will see net cost savings of RM500m in 2023, after factoring in RM864m in 5G wholesale fees (we assume Digi and Celcom will sign a 5G wholesale agreement by 15 Jul 22).

EARNINGS REVISION/RISK

- **We cut 2022 earnings by 8%** to account for weaker prepaid revenue and a decline in EBITDA margin (per latest management guidance) to factor in cost arising from a potentially successful merger exercise with Celcom by 2H22.
- **2022 revised EBITDA outlook.** Digi revised its 2022 EBITDA outlook guidance to a low single-digit EBITDA decline. This includes mounting inflationary pressure and merger costs.

VALUATION/RECOMMENDATION

- **Maintain BUY with a DCF-based target price of RM3.85** (discount rate of 5%, growth rate of 2%). At our fair value, the stock trades below its mean EV/EBITDA of 12.5x. The stock offers 4.8% dividend yield for 2023.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

• Environmental

- Organised a Telco Sector Climate Roundtable for the 2nd year.
- Digi's climate action plans for 2022 includes 56 sites with hybrid solar deployment, 46 generator to grid conversion projects, 12 sites with extreme weather resilience upgrade and 6,900 sites with CSON Artificial Intelligence tools.

• Social

- Partnered with UNICEF and MDEC in the creation of a Hearing-Impaired Skills for Digital Future module.
- Promotes safe internet and social media usage by pioneering virtual simulation workshops and establishing awareness campaigns targeted to customers and communities.

• Governance

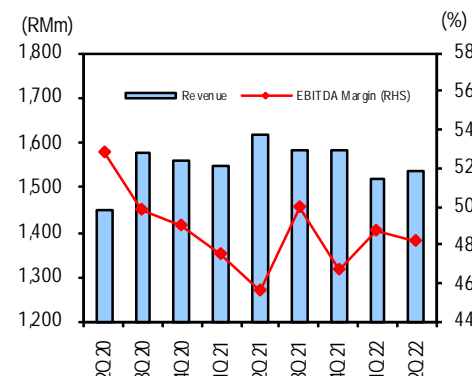
- Good company transparency along with an Anti-Bribery and Anti-Corruption Policy.

REVISED PERFORMANCE GUIDANCE FOR 2022

2022 guidance	
Service Revenue	Return to growth underpinned by momentum in postpaid, B2B and fibre
EBITDA	Low single-digit decline (from stable).
Capex intensity	Around 2021's level with prioritised focus on enhancing network and digital capabilities

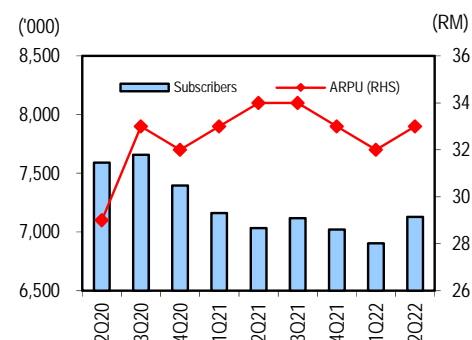
Source: Digi, UOB Kay Hian

REVENUE AND EBITDA MARGIN



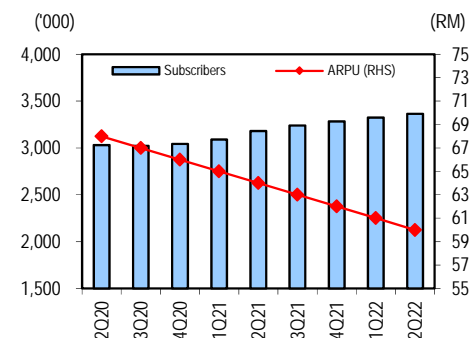
Source: Digi, UOB Kay Hian

QUARTERLY PREPAID ARPU AND SUBS



Source: Digi, UOB Kay Hian

QUARTERLY POSTPAID ARPU AND SUBS



Source: Digi, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Net turnover	6,336	6,163	6,268	6,293
EBITDA	3,035	2,923	2,985	2,998
Deprec. & amort.	1,263	1,277	1,139	1,050
EBIT	1,771	1,646	1,846	1,948
Net interest income/(expense)	(215)	(191)	(186)	(191)
Pre-tax profit	1,515	1,455	1,661	1,757
Tax	(353)	(480)	(399)	(422)
Minorities	0	0	0	0
Net profit	1,162	975	1,262	1,335
Net profit (adj.)	1,190	975	1,262	1,335

BALANCE SHEET

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Fixed assets	2,864	2,419	2,158	1,989
Other LT assets	3,554	3,554	3,554	3,554
Cash/ST investment	205	106	12	292
Other current assets	1,218	1,483	1,507	1,513
Total assets	7,840	7,561	7,230	7,347
ST debt	1,123	1,151	687	707
Other current liabilities	1,809	1,901	1,927	1,934
LT debt	3,836	3,434	3,537	3,623
Other LT liabilities	439	439	439	439
Shareholders' equity	633	636	640	644
Minority interest	0	0	0	0
Total liabilities & equity	7,840	7,561	7,230	7,347

CASH FLOW

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Operating	2,655	2,271	2,589	2,577
Pre-tax profit	1,515	1,455	1,661	1,757
Tax	(353)	(480)	(399)	(422)
Deprec. & amort.	1,263	1,277	1,139	1,050
Associates	41	0	0	0
Working capital changes	(353)	(172)	2	0
Other operating cashflows	541	191	186	191
Investing	(793)	(802)	(859)	(874)
Capex (maintenance)	(801)	(832)	(878)	(881)
Others	8	31	19	7
Financing	(1,961)	(1,568)	(1,824)	(1,423)
Dividend payments	(1,135)	(972)	(1,258)	(1,331)
Issue of shares	0	0	0	0
Proceeds from borrowings	(826)	(375)	(361)	106
Others/interest paid	0	(221)	(204)	(198)
Net cash inflow (outflow)	(99)	(99)	(94)	279
Beginning cash & cash equivalent	303	205	106	12
Changes due to forex impact	1	0	0	0
Ending cash & cash equivalent	205	106	12	292

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	47.9	47.4	47.6	47.6
Pre-tax margin	23.9	23.6	26.5	27.9
Net margin	18.3	15.8	20.1	21.2
ROA	14.5	12.7	17.1	18.3
ROE	187.6	153.7	197.9	208.0
Growth				
Turnover	3.0	(2.7)	1.7	0.4
EBITDA	(1.4)	(3.7)	2.1	0.4
Pre-tax profit	(6.6)	(3.9)	14.1	5.8
Net profit	(4.8)	(16.1)	29.4	5.8
Net profit (adj.)	(3.4)	(18.1)	29.4	5.8
EPS	(3.4)	(18.1)	29.4	5.8
Leverage				
Debt to total capital	88.7	87.8	86.8	87.1
Debt to equity	783.7	721.0	660.2	672.4
Net debt/(cash) to equity	751.4	704.4	658.3	627.1
Interest cover (x)	14.1	15.3	16.1	15.7

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