

## COMPANY RESULTS

### DiGi.com (DIGI MK)

3Q22: Results In Line; Positive Merger Synergies In 2023

DiGi's 3Q22 core net profit rose 14% qoq to RM242m on the back of strong postpaid net adds, good cost discipline and lower effective tax rate. Net profit declined yoy on prepaid weakness and tax from Cukai Makmur. This brought 9M22 core net profit to RM703m (-17% yoy), in line with expectations. The DiGi-Celcom merger is expected to be completed in 2H22. Maintain BUY on weakness. Target price: RM3.85.

#### 3Q22 RESULTS

Year to 31 Dec (RMm)	3Q22	qoq % chg	yoy % chg	9M22	yoy % chg
Revenues	1,532	(0.5)	(3.3)	4,593	(3.4)
Reported EBITDA	750	1.1	(5.2)	2,234	(1.5)
EBITDA Margin (%)	49.0	1.6	(2.0)	48.6	1.9
Pre-tax profits	380	4.9	(9.3)	1,116	(2.9)
Net profit	265	20.2	(15.5)	720.6	(16.0)
Core Net profit	242	13.6	(18.0)	703	(17.5)
EPS (sen)	3.4	20.2	(15.5)	9.3	(16.0)
DPS (sen)	3.4	21.4	(26.1)	9.1	(21.6)
Subscribers ('000)	10,698	2.0	3.3		
Blended ARPUs (RM/mth)	40	(4.8)	(7.0)		
<b>Cost Structure (% of revenue)</b>	<b>3Q21</b>	<b>4Q21</b>	<b>1Q22</b>	<b>2Q22</b>	<b>3Q22</b>
Direct expenses	25.9%	28.0%	25.0%	25.0%	25.4%
S&M	5.2%	6.1%	6.3%	6.2%	5.9%
Staff cost	4.0%	3.9%	4.3%	4.0%	4.2%
Bad debts	1.1%	0.9%	0.7%	0.8%	0.0%
G&A, others	14.1%	14.5%	15.0%	15.9%	15.7%

Source: DiGi, UOB Kay Hian

#### RESULTS

- 9M22 results in line.** DiGi.com's (DiGi) 3Q22 core net profit fell 18% yoy but rose 14% qoq to RM242m. The sequential growth was a result of: a) sustained postpaid growth, b) good cost discipline, and c) lower effective tax rate. The yoy decline in net profit was due to higher net finance cost and Cukai Makmur. This brings 9M22 core net profit to RM703m (-18% yoy). The results are in line with our expectations but below street estimates, accounting for 72% and 69% of house and street's full-year estimates respectively.
- Dividend.** The group declared its third interim net DPS of 3.4 sen/share (100% payout). Our full-year estimate of 12.5 sen/share (100% payout) will translate to a yield of 3.6%.

#### 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	RM3.50
Target Price	RM3.85
Upside	+12.6%

#### COMPANY DESCRIPTION

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

#### STOCK DATA

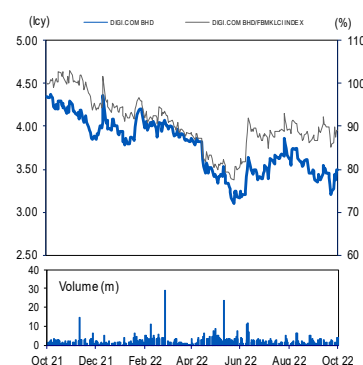
GICS sector	Communication Services
Bloomberg ticker:	DIGI MK
Shares issued (m):	7,775.0
Market cap (RMm):	27,212.5
Market cap (US\$m):	5,714.6
3-mth avg daily t'over (US\$m):	3.1
Price Performance (%)	

52-week high/low RM4.43/RM3.10

1mth	3mth	6mth	1yr	YTD
0.3	1.2	(-9.3)	(20.5)	(-11.84)

<b>Major Shareholders</b>	<b>%</b>
Telenor ASA	49.0
Employees Provident Fund	14.80
Amanah Saham Nasional Bhd	8.53
FY22 NAV/Share (RM)	0.08
FY22 Net Debt/Share (RM)	0.59

#### PRICE CHART



Source: Bloomberg

#### ANALYST(S)

**Chong Lee Len**  
+603-2147 1992  
leelen@uobkayhian.com

### STOCK IMPACT

- **3Q22 revenue was flat qoq but fell 3% yoy to RM1,532m.** This was largely due to the run-down of Malaysia's Jaringan Prihatin prepaid programme (started a year ago as part of the government's COVID-19 support).
- **Strong postpaid revenue, up 1% yoy and 2% qoq to RM639m.** This was driven by 39,000 net adds (eight consecutive months of subscriber growth) with continuous pre-to-post migration. ARPU saw a RM1/month uplift to RM61/month (2Q22: RM60/month, 3Q21: RM63/month) due to higher smartphone bundles and take-ups of value postpaid plans.
- **Prepaid revenue tumbled 2% qoq and 7% yoy to RM602m** due to lower ARPU of RM31/month (1Q22: RM33/month, 2Q21: RM34/month) caused by intense competition despite the 167,000 net adds sequentially. The ARPU decline also reflects the run-down of the Jaringan Prihatin programme. Digi continues to focus on Malaysian prepaid customers (accounting for two-thirds of its prepaid customer base) while benefitting from the return of migrant workers.
- **3Q22 EBITDA margin inched up 1% qoq to 48.9% on the back of resilient revenue,** good cost discipline, improved credit management and modernisation ahead of the Digi-Celcom merger.
- **Merger slated to be completed in 2H22.** We expect the merger to be successfully completed in 2H22 as Digi and Celcom work towards getting shareholders' approval via an EGM. Digi has received approval from the Securities Commission on the proposal.
- **A successful merger exercise could lift the 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 5G wholesale agreement will start from 1 Jan 23).

### EARNINGS REVISION/RISK

- None.

### 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)

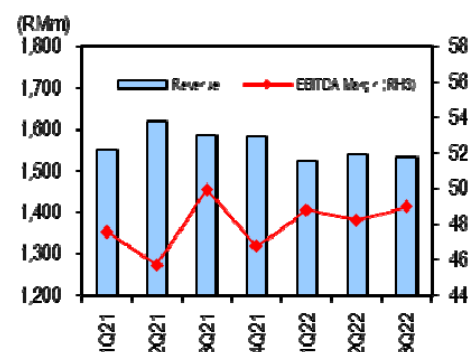
<b>• Environmental</b>	
- Organised a Telco Sector Climate Roundtable for the 2nd year.	
- Digi's climate action plans for 2022 includes 56 sites with hybrid solar deployment, 46 generators to grid conversion projects, 12 sites with extreme weather resilience upgrade and 6,900 sites with CSON Artificial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

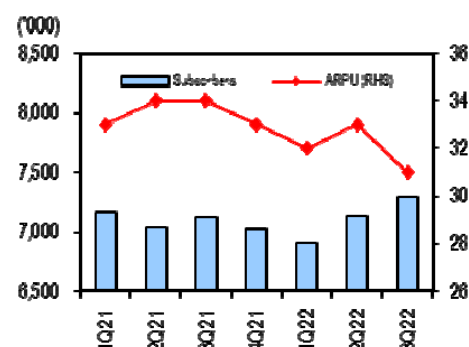
Source: Digi, UOB Kay Hian

### REVENUE AND EBITDA MARGIN



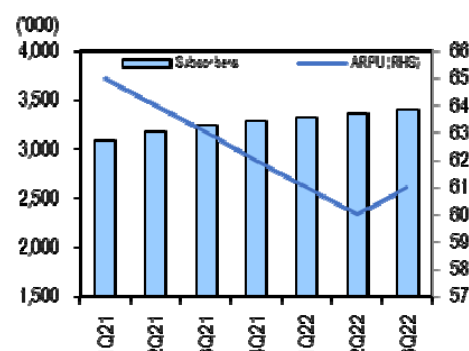
Source: Digi, UOB Kay Hian

### 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
<b>Total assets</b>	<b>7,840</b>	<b>7,561</b>	<b>7,230</b>	<b>7,347</b>
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
<b>Total liabilities &amp; equity</b>	<b>7,840</b>	<b>7,561</b>	<b>7,230</b>	<b>7,347</b>

**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
<b>Profitability</b>				
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
<b>Growth</b>				
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
<b>Leverage</b>				
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

## Disclosures/Disclaimers

This report is prepared by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities.

**This report is prepared for general circulation.** It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of UOBKH. This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as UOBKH may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject UOBKH and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by UOBKH to be reliable. However, UOBKH makes no representation as to the accuracy or completeness of such sources or the Information and UOBKH accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. UOBKH and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of UOBKH and its connected persons are subject to change without notice. UOBKH reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) UOBKH, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) UOBKH, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; (3) the officers, employees and representatives of UOBKH may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business"); and (4) UOBKH may otherwise have an interest (including a proprietary interest) in the subject corporation(s) referred to in this report.

As of the date of this report, no analyst responsible for any of the content in this report has any proprietary position or material interest in the securities of the corporation(s) which are referred to in the content they respectively author or are otherwise responsible for.

## IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by UOBKH, a company authorized, as noted above, to engage in securities activities in Singapore. UOBKH is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution by UOBKH (whether directly or through its US registered broker dealer affiliate named below) to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). All US persons that receive this document by way of distribution from or which they regard as being from UOBKH by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through UOB Kay Hian (U.S.) Inc ("UOBKHUS"), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through UOBKH.

UOBKHUS accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to and intended to be received by a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of UOBKHUS and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

### Analyst Certification/Regulation AC

Each research analyst of UOBKH who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKH or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including UOBKH's total revenues, a portion of which are generated from UOBKH's business of dealing in securities.

Reports are distributed in the respective countries by the respective entities and are subject to the additional restrictions listed in the following table.

General	This report is not intended for distribution, publication to or use by any person or entity who is a citizen or resident of or located in any country or jurisdiction where the distribution, publication or use of this report would be contrary to applicable law or regulation.
Hong Kong	This report is distributed in Hong Kong by UOB Kay Hian (Hong Kong) Limited ("UOBKHHK"), which is regulated by the Securities and Futures Commission of Hong Kong. Neither the analyst(s) preparing this report nor his associate, has trading and financial interest and relevant relationship specified under Para. 16.4 of Code of Conduct in the listed corporation covered in this report. UOBKHHK does not have financial interests and business relationship specified under Para. 16.5 of Code of Conduct with the listed corporation covered in this report. Where the report is distributed in Hong Kong and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKHHK (and not the relevant foreign research house) in Hong Kong in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Hong Kong who is not a professional investor, or institutional investor, UOBKHHK accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Indonesia	This report is distributed in Indonesia by PT UOB Kay Hian Sekuritas, which is regulated by Financial Services Authority of Indonesia ("OJK"). Where the report is distributed in Indonesia and contains research analyses or reports from a foreign research house, please note recipients of the analyses or reports are to contact PT UOBKH (and not the relevant foreign research house) in Indonesia in respect of any matters arising from, or in connection with, the analysis or report.
Malaysia	Where the report is distributed in Malaysia and contains research analyses or reports from a foreign research house, the recipients of the analyses or reports are to contact UOBKHM (and not the relevant foreign research house) in Malaysia, at +603-21471988, in respect of any matters arising from, or in connection with, the analysis or report as UOBKHM is the registered person under CMSA to distribute any research analyses in Malaysia.
Singapore	This report is distributed in Singapore by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore. Where the report is distributed in Singapore and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKH (and not the relevant foreign research house) in Singapore in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, UOBKH accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Thailand	This report is distributed in Thailand by UOB Kay Hian Securities (Thailand) Public Company Limited, which is regulated by the Securities and Exchange Commission of Thailand.
United Kingdom	This report is being distributed in the UK by UOB Kay Hian (U.K.) Limited, which is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
United States of America ('U.S.')	This report cannot be distributed into the U.S. or to any U.S. person or entity except in compliance with applicable U.S. laws and regulations. It is being distributed in the U.S. by UOB Kay Hian (US) Inc, which accepts responsibility for its contents. Any U.S. person or entity receiving this report and wishing to effect transactions in any securities referred to in the report should contact UOB Kay Hian (US) Inc. directly.

Copyright 2022, UOB Kay Hian Pte Ltd. All rights reserved.

<http://research.uobkayhian.com>

RCB Regn. No. 197000447W