

# DiGi.com (DIGI MK)

## Boosted by lower tax

### A more upbeat outlook

FY21 results were in line with our/consensus forecasts as softer 4Q21 EBITDA was offset by lower tax. For FY22 ex-5G, management is guiding for stable EBITDA (on positive revenue momentum) and capex intensity. Maintain HOLD with a lower DCF-based TP of MYR4.00 (-7%). We prefer TM (T MK, BUY, CP: MYR5.02, TP: MYR7.40) in the telco space.

### Results in line

Digi's 4Q21 net profit of MYR305m (+9% YoY, -3% QoQ) brings FY21 net profit to MYR1,162m (-5% YoY), 100% of both our and consensus full-year forecasts respectively. Service revenue and thus EBITDA declined sequentially, but was offset by QoQ lower tax expense. A final interim DPS of 3.9sen was declared (+8% YoY, -3% QoQ), again representing c.100% payout ratio for the quarter.

### Softer revenue trends

4Q21 service revenue declined by 1.6% QoQ (-2.1% YoY), with prepaid revenue being affected by service disruptions in Oct 2021 (customer billing platform), and weaker market momentum (conclusion of PRIHATIN packages). Postpaid revenue declined marginally QoQ on lower ARPU. Meanwhile, costs were higher sequentially on higher COGS (higher device costs) and advertising costs. Consequently, 4Q21 EBITDA margin contracted by 3.0ppt QoQ to 46.7%. Digi recorded lower tax due to positive adjustments in deferred tax (tax penalties and Cukai Makmur).

### Maintain HOLD

For FY22, management expects 1) EBITDA to remain stable YoY, with higher service revenue being offset by higher opex and, 2) capex-to-revenue to remain stable YoY. We raise our FY22/23 net profit forecasts by 6%/11% respectively on higher revenue assumptions (FY22 includes 11% impact from Cukai Makmur), and introduce FY24 forecasts. Our TP (DCF-based assuming 6.8% WACC, 2% LT growth, and includes possible cost synergies) is lowered to MYR4.00 (from MYR4.30) as we incorporate higher capex in line with guidance.

FYE Dec (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	6,153	6,336	6,393	6,474	6,498
EBITDA	3,077	3,010	2,992	3,030	3,041
Core net profit	1,221	1,162	1,047	1,192	1,193
Core EPS (sen)	15.7	14.9	13.5	15.3	15.3
Core EPS growth (%)	(14.8)	(4.8)	(9.9)	13.8	0.1
Net DPS (sen)	15.6	14.9	13.5	15.3	15.3
Core P/E (x)	26.4	29.2	28.7	25.2	25.2
P/BV (x)	53.1	53.6	47.4	47.4	47.4
Net dividend yield (%)	3.8	3.4	3.5	4.0	4.0
ROAE (%)	192.9	187.6	165.5	188.4	188.5
ROAA (%)	14.9	14.5	13.3	15.1	15.1
EV/EBITDA (x)	12.1	12.8	11.6	11.5	11.5
Net gearing (%) (incl perps)	849.9	751.4	757.4	764.6	771.5
Consensus net profit	-	-	1,198	1,282	na
MKE vs. Consensus (%)	-	-	(12.6)	(7.0)	na

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# HOLD

Share Price MYR 3.86  
12m Price Target MYR 4.00 (+7%)  
Previous Price Target MYR 4.30

### Company Description

Digi is a leading mobile telecommunication company in Malaysia.

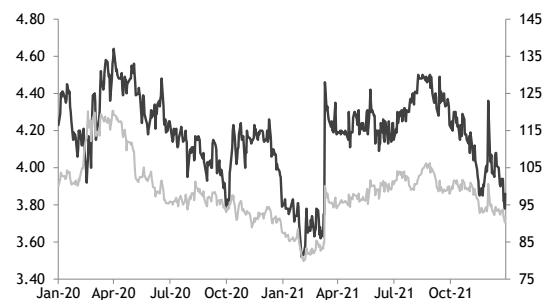
### Statistics

52w high/low (MYR)	4.50/3.52
3m avg turnover (USDm)	2.1
Free float (%)	33.4
Issued shares (m)	7,775
Market capitalisation	MYR30.0B USD7.2B

### Major shareholders:

Telenor ASA	49.0%
Employees Provident Fund	15.2%
Permodalan Nasional Bhd.	10.3%

### Price Performance



— DiGi.com - (LHS, MYR) — DiGi.com / Kuala Lumpur Composite Index - (RHS, %)

	-1M	-3M	-12M
Absolute (%)	(4)	(11)	(2)
Relative to index (%)	(2)	(8)	2

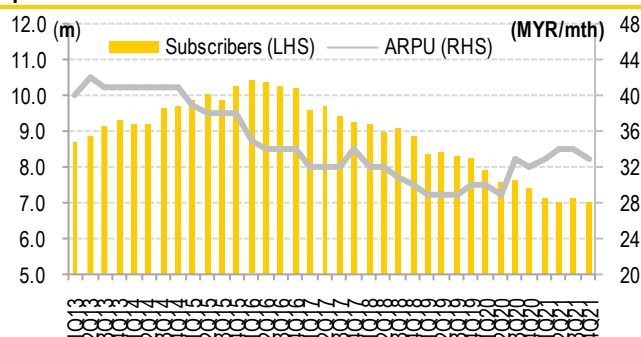
Source: FactSet

## Summary Results Table - DiGi.Com

FY Dec (MYR m)	Quarterly					Cumulative		
	4Q21	4Q20	%YoY	3Q21	%QoQ	FY21	FY20	%YoY
Revenue	1,582.6	1,560.8	1.4	1,584.4	(0.1)	6,335.7	6,152.7	3.0
EBITDA	739.8	766.0	(3.4)	788.5	(6.2)	3,010.1	3,077.2	(2.2)
EBIT	419.2	439.7	(4.6)	464.4	(9.7)	1,729.9	1,804.7	(4.1)
Net interest expense	(54.1)	(62.7)	(13.7)	(46.0)	17.8	(215.0)	(182.6)	17.7
<b>Pre-tax profit</b>	<b>365.1</b>	<b>376.9</b>	<b>(3.1)</b>	<b>418.5</b>	<b>(12.8)</b>	<b>1,514.9</b>	<b>1,622.0</b>	<b>(6.6)</b>
Tax	(60.6)	(96.7)	(37.4)	(105.7)	(42.7)	(352.8)	(401.1)	(12.0)
Minority Interests	0.0	0.0	N/A	0.0	N/A	0.0	0.0	N/A
<b>Reported Net Profit</b>	<b>304.6</b>	<b>280.2</b>	<b>8.7</b>	<b>312.8</b>	<b>(2.6)</b>	<b>1,162.1</b>	<b>1,221.0</b>	<b>(4.8)</b>
Service revenue	1,321.0	1,350.0	(2.1)	1,343.0	(1.6)	5,341.0	5,428.0	(1.6)
EBITDA margin (chg in ppts)	46.7	49.1	(2.3)	49.8	(3.0)	47.5	50.0	(2.5)
Reported EPS (sen)	3.9	3.6	8.7	4.0	(2.6)	14.9	15.7	(4.8)
Net DPS (sen)	3.9	3.6	8.3	4.0	(2.5)	14.9	15.6	(4.5)
Net cash/(debt)	(4,754.7)	(5,149.2)	(7.7)	(4,547.7)	4.6	(4,754.7)	(5,149.2)	(7.7)
Gearing (%)	751.4	849.9		711.4		751.4	849.9	
Capex	291.0	276.2	5.4	165.7	75.6	803.4	736.2	9.1
<b>Operations</b>								
<b>Prepaid</b>	<b>4Q21</b>	<b>4Q20</b>	<b>%YoY</b>	<b>3Q21</b>	<b>%QoQ</b>	<b>FY21</b>	<b>FY20</b>	<b>%YoY</b>
Subscribers, period end (m)	7.0	7.4	(5.1)	7.1	(1.4)	7.0	7.4	(5.1)
Net additions (m)	(0.10)	(0.26)	(62.8)	0.09	N/A	(0.38)	(0.85)	(55.9)
Subscribers, average (m)	7.1	7.5	(6.1)	7.1	(0.1)	7.3	7.9	(7.3)
ARPU (MYR/month)	33.0	32.0	3.1	34.0	(2.9)	32.6	30.4	7.2
<b>Revenue</b>	<b>699.9</b>	<b>722.6</b>	<b>(3.1)</b>	<b>721.7</b>	<b>(3.0)</b>	<b>2,865.9</b>	<b>2,882.3</b>	<b>(0.6)</b>
<b>Postpaid</b>	<b>4Q21</b>	<b>4Q20</b>	<b>%YoY</b>	<b>3Q21</b>	<b>%QoQ</b>	<b>FY21</b>	<b>FY20</b>	<b>%YoY</b>
Subscribers, period end (m)	3.3	3.0	8.5	3.2	1.5	3.3	3.0	8.5
Net additions (m)	0.05	0.02	177.8	0.06	(19.4)	0.26	0.01	3112.5
Subscribers, average (m)	3.3	3.0	8.0	3.2	1.7	3.2	3.0	6.0
ARPU (MYR/month)	62.0	66.0	(6.1)	63.0	(1.6)	63.5	68.5	(7.3)
<b>Revenue</b>	<b>608.6</b>	<b>600.1</b>	<b>1.4</b>	<b>607.8</b>	<b>0.1</b>	<b>2,416.5</b>	<b>2,460.7</b>	<b>(1.8)</b>

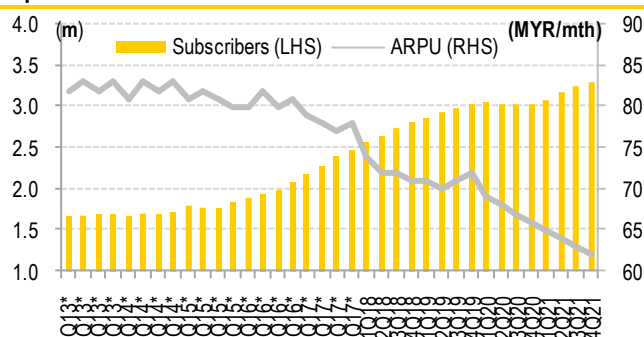
Source: Company, Maybank IBG Research

## Prepaid subscribers and ARPU



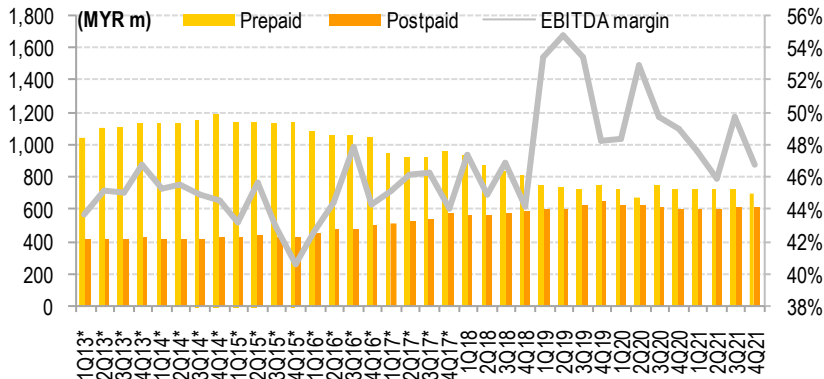
Source: Company, Maybank IBG Research

## Postpaid subscribers and ARPU



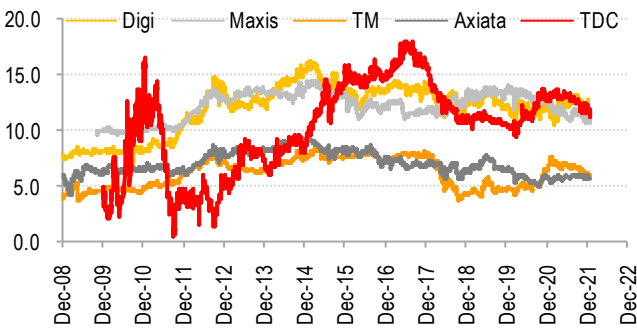
\*Pre-MFRS15, Source: Company, Maybank IBG Research

**Revenue and EBITDA margin (MFRS 16 started from 1Q19)**



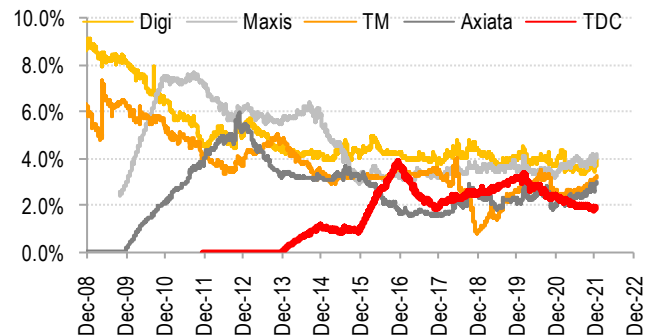
\*Pre-MFRS15, Source: Company, Maybank IBG Research

**EV/EBITDA - Malaysia telcos**



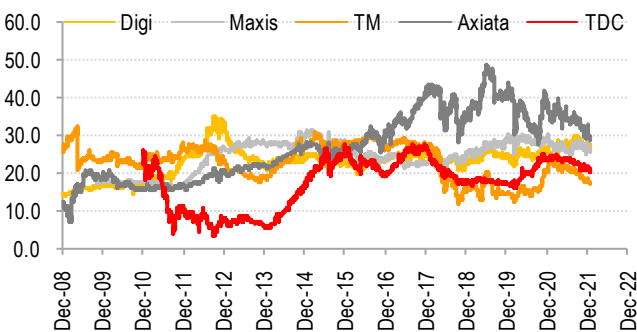
Source: Bloomberg, Maybank IBG Research

**Net dividend yield - Malaysia telcos**



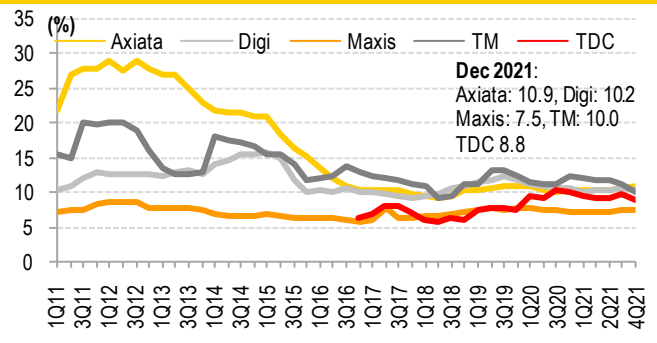
Source: Bloomberg, Maybank IBG Research

**PER - Malaysia telcos**



Source: Bloomberg, Maybank IBG Research

**Foreign shareholding**



Source: Companies

**Risk statement**

There are several risk factors for our earnings estimates, price target, and rating for DiGi. Competitive developments, such as price wars would adversely affect monetisation and thus profitability. Regulatory developments pertaining to spectrum fees, taxation or product pricing also pose a risk to DiGi's earnings.

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Metrics</b>					
P/E (reported) (x)	27.0	27.6	28.7	25.2	25.2
Core P/E (x)	26.4	29.2	28.7	25.2	25.2
P/BV (x)	53.1	53.6	47.4	47.4	47.4
P/NTA (x)	(12.0)	(13.7)	(11.8)	(11.6)	(11.3)
Net dividend yield (%)	3.8	3.4	3.5	4.0	4.0
FCF yield (%)	6.0	5.9	5.7	6.2	6.2
EV/EBITDA (x)	12.1	12.8	11.6	11.5	11.5
EV/EBIT (x)	20.7	22.3	19.9	19.5	19.5
<b>INCOME STATEMENT (MYR m)</b>					
Revenue	6,152.7	6,335.7	6,392.6	6,474.4	6,497.7
EBITDA	3,077.2	3,010.1	2,991.7	3,030.0	3,040.9
Depreciation	(1,272.6)	(1,280.2)	(1,238.4)	(1,246.8)	(1,254.0)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	1,804.7	1,729.9	1,753.3	1,783.2	1,786.9
Net interest income / (exp)	(182.6)	(215.0)	(212.9)	(214.8)	(217.1)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	1,622.0	1,514.9	1,540.4	1,568.4	1,569.8
Income tax	(401.1)	(352.8)	(492.9)	(376.4)	(376.7)
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	1,221.0	1,162.1	1,047.5	1,192.0	1,193.0
Core net profit	1,221.0	1,162.1	1,047.5	1,192.0	1,193.0
<b>BALANCE SHEET (MYR m)</b>					
Cash & Short Term Investments	302.9	204.5	166.4	120.7	77.0
Accounts receivable	1,037.8	1,101.5	1,120.9	1,135.2	1,139.3
Inventory	137.2	116.6	122.6	124.2	124.6
Property, Plant & Equip (net)	2,883.1	2,863.6	2,861.8	2,860.5	2,859.6
Intangible assets	3,280.0	3,112.8	3,176.3	3,230.8	3,277.7
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	544.8	440.7	440.7	440.7	440.7
<b>Total assets</b>	<b>8,185.7</b>	<b>7,839.8</b>	<b>7,888.7</b>	<b>7,912.2</b>	<b>7,918.9</b>
ST interest bearing debt	774.5	1,123.4	1,123.4	1,123.4	1,123.4
Accounts payable	1,738.3	1,790.1	1,839.0	1,862.5	1,869.2
LT interest bearing debt	4,677.5	3,835.9	3,835.9	3,835.9	3,835.9
Other liabilities	390.0	458.0	458.0	458.0	458.0
<b>Total Liabilities</b>	<b>7,579.9</b>	<b>7,207.0</b>	<b>7,255.8</b>	<b>7,279.4</b>	<b>7,286.1</b>
Shareholders Equity	605.9	632.8	632.8	632.8	632.8
Minority Interest	0.0	0.0	0.0	0.0	0.0
<b>Total shareholder equity</b>	<b>605.9</b>	<b>632.8</b>	<b>632.8</b>	<b>632.8</b>	<b>632.8</b>
<b>Total liabilities and equity</b>	<b>8,185.7</b>	<b>7,839.8</b>	<b>7,888.7</b>	<b>7,912.2</b>	<b>7,918.9</b>
<b>CASH FLOW (MYR m)</b>					
Pretax profit	1,622.0	1,514.9	1,540.4	1,568.4	1,569.8
Depreciation & amortisation	1,272.6	1,280.2	1,238.4	1,246.8	1,254.0
Adj net interest (income)/exp	182.6	215.0	212.9	214.8	217.1
Change in working capital	(402.8)	(323.7)	23.4	7.6	2.2
Cash taxes paid	(393.0)	(248.7)	(492.9)	(376.4)	(376.7)
Other operating cash flow	398.1	380.0	0.0	0.0	0.0
Cash flow from operations	2,679.5	2,817.8	2,522.2	2,661.2	2,666.4
Capex	(736.1)	(801.9)	(800.0)	(800.0)	(800.0)
Free cash flow	1,943.5	2,015.9	1,722.2	1,861.2	1,866.4
Dividends paid	(1,275.1)	(1,135.2)	(1,047.5)	(1,192.0)	(1,193.0)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	(88.3)	(325.8)	0.0	0.0	0.0
Other invest/financing cash flow	(735.9)	(644.5)	(712.9)	(714.8)	(717.1)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(155.9)	(89.5)	(38.2)	(45.6)	(43.8)

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	(2.3)	3.0	0.9	1.3	0.4
EBITDA growth	(6.8)	(2.2)	(0.6)	1.3	0.4
EBIT growth	(14.2)	(4.1)	1.4	1.7	0.2
Pretax growth	(14.3)	(6.6)	1.7	1.8	0.1
Reported net profit growth	(14.8)	(4.8)	(9.9)	13.8	0.1
Core net profit growth	(14.8)	(4.8)	(9.9)	13.8	0.1
<b>Profitability ratios (%)</b>					
EBITDA margin	50.0	47.5	46.8	46.8	46.8
EBIT margin	29.3	27.3	27.4	27.5	27.5
Pretax profit margin	26.4	23.9	24.1	24.2	24.2
Payout ratio	99.3	99.7	100.0	100.0	100.0
<b>DuPont analysis</b>					
Net profit margin (%)	19.8	18.3	16.4	18.4	18.4
Revenue/Assets (x)	0.8	0.8	0.8	0.8	0.8
Assets/Equity (x)	13.5	12.4	12.5	12.5	12.5
ROAE (%)	192.9	187.6	165.5	188.4	188.5
ROAA (%)	14.9	14.5	13.3	15.1	15.1
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	(350.1)	(275.3)	(278.3)	(280.3)	(281.6)
Days receivable outstanding	68.4	60.8	62.6	62.7	63.0
Days inventory outstanding	26.6	26.0	24.1	24.5	24.6
Days payables outstanding	445.2	362.1	365.0	367.5	369.2
Dividend cover (x)	1.0	1.0	1.0	1.0	1.0
Current ratio (x)	0.6	0.5	0.5	0.5	0.4
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	1.1	1.1	1.1	1.1	1.1
Net gearing (%) (incl perps)	849.9	751.4	757.4	764.6	771.5
Net gearing (%) (excl. perps)	849.9	751.4	757.4	764.6	771.5
Net interest cover (x)	9.9	8.0	8.2	8.3	8.2
Debt/EBITDA (x)	1.8	1.6	1.7	1.6	1.6
Capex/revenue (%)	12.0	12.7	12.5	12.4	12.3
Net debt/ (net cash)	5,149.2	4,754.7	4,792.9	4,838.5	4,882.3

Source: Company; Maybank

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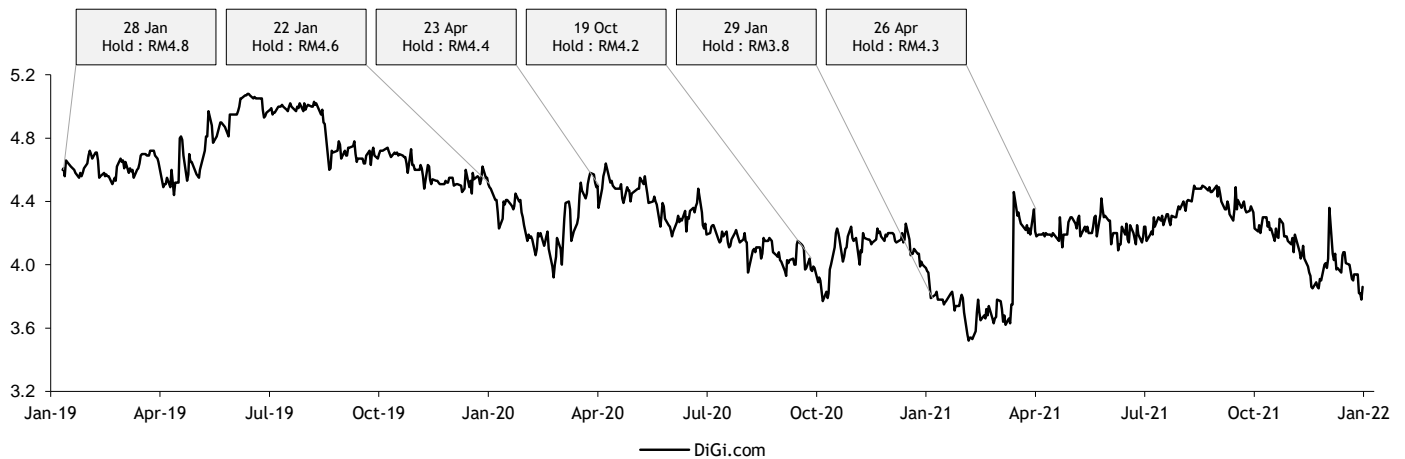
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