

COMPANY RESULTS

DiGi.Com (DIGI MK)

1Q22: Below Expectations; Management Expects Celcom-Digi Merger In 2H22

1Q22 core net profit fell 8% yoy to RM248m due to the Cukai Makmur impact, prepaid weakness, and higher staff costs. Digi expects a return in service revenue growth (after six consecutive yoy declines) in 2022. Key drivers are postpaid, B2B and fibre. Management expects the merger to be completed sometime in 2H22. Cut 2022 earnings forecast by 5% to account for a higher tax rate and potential cost arising from the merger. Maintain HOLD with a marginally lower target price of RM4.15.

1Q22 RESULTS

Year to 31 Dec (RMm)	1Q22	4Q21	1Q21	qoq % chg	yoy % chg
Revenues	1,522	1,583	1,550	(3.8)	(1.8)
Normalised EBITDA	744	740	743	0.5	0.1
Normalised EBITDA Margin (%)	48.9	46.8	47.9	2.1	1.0
Pre-tax profits	374	365	359	2.5	4.3
Net profit	236	305	265	(22.5)	(10.9)
Core Net profit	248	253	270	(2.0)	(8.1)
EPS (sen)	3.0	3.9	3.4	(22.5)	(10.9)
DPS (sen)	2.9	3.9	3.4	(25.6)	(14.7)
Subscribers ('000)	10,241	10,318	10,250	(0.7)	(0.1)
Blended ARPUs (RM/mth)	42	42	43	0.0	(2.3)

Cost Structure (% of revenue)	1Q21	2Q21	3Q21	4Q21	1Q22
Direct expenses	26.9%	29.9%	25.9%	28.0%	25.0%
S&M	6.6%	5.9%	5.2%	6.1%	6.3%
Staff cost	4.0%	3.5%	4.0%	3.9%	4.3%
Bad debts	0.6%	0.9%	1.1%	0.9%	0.7%
G&A, others	14.8%	14.4%	14.1%	14.5%	15.0%

Source: Digi, UOB Kay Hian

RESULTS

- 1Q22 results below expectations.** DiGi.com's (Digi) 1Q22 core net profit fell 8% yoy and 2% qoq to RM248m due to: a) higher effective tax rate (1Q22: 37%, 4Q21: 16%, 1Q21: 26%) amid the impact of the one-off Cukai Makmur, b) lower prepaid revenue (-4% yoy and -2% qoq), and c) higher staff cost (+5% yoy, +7% qoq). This was offset by resilient postpaid revenue (+3% yoy, +1% qoq). 1Q22 core net profit accounts for 22% of our and consensus' full-year forecast, below expectations
- Dividend: 96% earnings payout.** The group declared its first interim dividend of 2.9 sen/share (96% payout). Our full-year estimates of 14.7 sen (100% payout) will translate to a 3.5% yield.

KEY FINANCIALS

Year to 31 Dec (RMm)	2020	2021	2022F	2023F	2024F
Net turnover	6,153	6,336	6,497	6,457	6,482
EBITDA	3,077	3,035	3,093	3,088	3,100
Operating profit	1,855	1,771	1,801	1,929	2,028
Net profit (rep./act.)	1,221	1,162	1,078	1,324	1,396
Net profit (adj.)	1,232	1,190	1,078	1,324	1,396
EPS (sen)	15.8	15.3	13.9	17.0	18.0
PE (x)	24.1	25.0	27.6	22.4	21.3
P/B (x)	49.0	46.9	46.7	46.4	46.1
EV/EBITDA (x)	11.1	11.3	11.1	11.1	11.0
Dividend yield (%)	4.1	3.9	3.6	4.4	4.7
Net margin (%)	19.8	18.3	16.6	20.5	21.5
Net debt/(cash) to equity (%)	849.9	751.4	707.7	662.9	632.2
Interest cover (x)	16.8	14.1	16.1	16.5	16.2
ROE (%)	192.8	187.6	169.9	207.5	217.2
Consensus net profit	-	-	1,201	1,291	1,385
UOBKH/Consensus (x)	-	-	0.90	1.03	1.01

Source: DiGi.Com, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	RM3.82
Target Price	RM4.15
Upside	+8.6%
(Previous TP)	RM4.30

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):	29,700.5
Market cap (US\$m):	6,820.6
3-mth avg daily t'over (US\$m):	2.9

Price Performance (%)

52-week high/low RM4.50/RM3.78

1mth	3mth	6mth	1yr	YTD
(2.8)	(1.0)	(9.7)	(8.6)	(12.4)

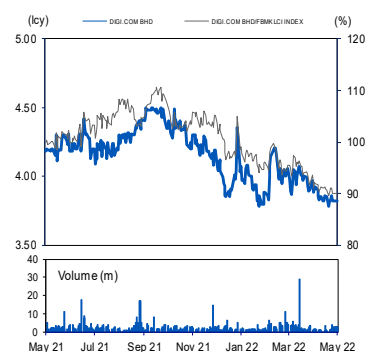
Major Shareholders

	%
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

- **1Q22 revenue dropped 2% yoy and 4% qoq to RM1,522m**, due to seasonally lower device revenue (flat yoy, -19% qoq), prepaid weakness (-4% yoy, -2% qoq), and lower digital revenue (-25% yoy, -10% qoq). This was partly offset by improvement in postpaid revenue.
- **Postpaid service revenue grew 3% yoy (flat qoq) to RM633m** (the sixth consecutive service revenue growth), driven by higher subscriber growth with 42,000 net adds qoq, customer stickiness and continuous pre-to-post migration. ARPU, however, was lower at RM61/month (4Q21: RM63/month, 1Q21: RM65/month) due to entry-level dilution.
- **Prepaid revenue dropped 4% yoy and 2% qoq to RM615m** due to subscriber loss (-119,000 subscribers qoq) and lower ARPU of RM32/month (4Q21: RM33/month, 1Q21: RM33/month) on intense competition and Digi's focus on acquisition of quality subs.
- **4Q21 normalised EBITDA margin grew 1ppt yoy and 2 ppt qoq to 48.9%**, on the back of lower COGS (-6% yoy, -24% qoq) on lower digital and device sales. Opex was flat with Digi's modernisation initiatives cushioning its network expansion cost and inflationary pressure. Together with lower depreciation (-4% yoy, -3% qoq), with the 3G network shut down in 4Q21, 1Q22 core net profit came in at RM248m.
- **Merger slated to be completed within 2H22.** The proposed Celcom-Digi merger is progressing as planned and is on track to be completed by 2H22. With regards to the Statement of Issues (SOI) raised by the regulator MCMC, Digi is still in the midst of providing a comprehensive response to the regulator. While there could be potential cost savings of around RM500m-1b, the group may incur additional cost arising from the merger in 2022.

EARNINGS REVISION/RISK

- We lower our 2022 earnings by 5% to account for higher effective tax rate (Digi guided 33% for 2022, our previous forecast was 32%), and higher cost arising from the merger.
- **2022 outlook.** Digi maintained its target for service revenue to return growth after six consecutive yoy declines (since 2016). This is expected to be driven by momentum in postpaid, B2B and fibre, which would help offset the weakness in prepaid. Digi also aims to have EBITDA at around 2021's level with good cost discipline. For capex, Digi aims to spend about 13% of total revenue, mainly on the JENDELA initiatives. We understand that all these guidance have not factored in any impact from the 5G rollout and Celcom-Digi merger.

VALUATION/RECOMMENDATION

- **Maintain HOLD with a marginally lowered DCF-based target price of RM4.15** (discount rate: 7.2%, terminal growth: 2%) in tandem with earnings cut. At our target price, the stock will trade at 12x 2022F EV/EBITDA (its five-year mean valuation). Our target price reflects an expected merger synergy of RM500m (from opex and capex savings) from 2H23 onwards.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

• Environmental

- In 2020, Digi's carbon intensity/data terabyte and energy usage/data terabyte improved 31% and 27% yoy. There were also 699 indoor sites converted from air-conditioning to fan/filter free cooling systems, and 55 fuel-powered off-grid sites converted to grid power.
- Key initiatives in 2021 include reviewing more remote off-grid sites for feasibility to use photovoltaic solar and hybrid solutions as power sources.

• Social

- During COVID-19, Digi continued traffic management and network optimisation at essential sites, providing 1GB of free data since 22 Mar 20 for selected education and productivity services to facilitate e-learning.

• Governance

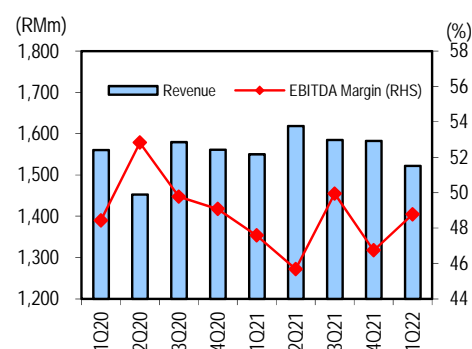
- Good company transparency along with an Anti-Bribery and Anti-Corruption Policy.

MANAGEMENT'S KEY PERFORMANCE GUIDANCE FOR 2022

	2022 guidance
Service Revenue	Return to growth underpinned by momentum in postpaid, B2B and fibre
EBITDA	Around 2021's level driven by ongoing OE discipline.
Capex intensity	Around 2021's level with prioritised focus on enhancing network and digital capabilities

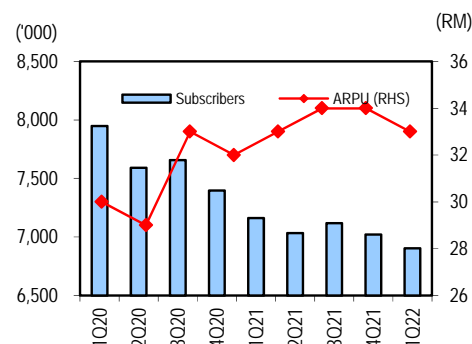
Source: Digi, UOB Kay Hian

REVENUE AND EBITDA MARGIN



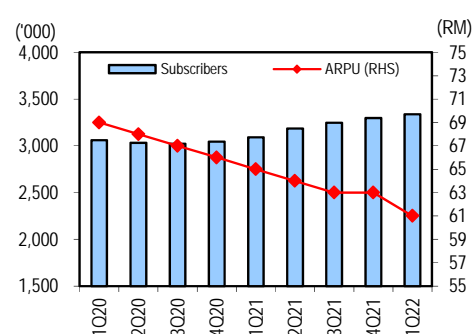
Source: Digi, UOB Kay Hian

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	6,497	6,457	6,482
EBITDA	3,035	3,093	3,088	3,100
Deprec. & amort.	1,263	1,292	1,158	1,072
EBIT	1,771	1,801	1,929	2,028
Net interest income/(expense)	(215)	(192)	(187)	(192)
Pre-tax profit	1,515	1,609	1,742	1,836
Tax	(353)	(531)	(418)	(441)
Minorities	0	0	0	0
Net profit	1,162	1,078	1,324	1,396
Net profit (adj.)	1,190	1,078	1,324	1,396

BALANCE SHEET

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Fixed assets	2,864	2,448	2,194	2,030
Other LT assets	3,554	3,554	3,554	3,554
Cash/ST investment	205	123	44	334
Other current assets	1,218	1,560	1,551	1,556
Total assets	7,840	7,685	7,342	7,474
ST debt	1,123	1,151	695	719
Other current liabilities	1,809	1,984	1,975	1,981
LT debt	3,836	3,475	3,593	3,691
Other LT liabilities	439	439	439	439
Shareholders' equity	633	636	640	645
Minority interest	0	0	0	0
Total liabilities & equity	7,840	7,685	7,342	7,474

CASH FLOW

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Operating	2,655	2,396	2,669	2,659
Pre-tax profit	1,515	1,609	1,742	1,836
Tax	(353)	(531)	(418)	(441)
Deprec. & amort.	1,263	1,292	1,158	1,072
Associates	41	0	0	0
Working capital changes	(353)	(166)	(1)	0
Other operating cashflows	541	192	187	192
Investing	(793)	(847)	(884)	(897)
Capex (maintenance)	(801)	(877)	(904)	(907)
Others	8	31	20	10
Financing	(1,961)	(1,631)	(1,864)	(1,471)
Dividend payments	(1,135)	(1,074)	(1,320)	(1,391)
Issue of shares	0	0	0	0
Proceeds from borrowings	(826)	(334)	(337)	122
Others/interest paid	0	(222)	(207)	(202)
Net cash inflow (outflow)	(99)	(81)	(80)	291
Beginning cash & cash equivalent	303	205	123	44
Changes due to forex impact	1	0	0	0
Ending cash & cash equivalent	205	123	44	334

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	47.9	47.6	47.8	47.8
Pre-tax margin	23.9	24.8	27.0	28.3
Net margin	18.3	16.6	20.5	21.5
ROA	14.5	13.9	17.6	18.8
ROE	187.6	169.9	207.5	217.2
Growth				
Turnover	3.0	2.5	(0.6)	0.4
EBITDA	(1.4)	1.9	(0.2)	0.4
Pre-tax profit	(6.6)	6.2	8.3	5.4
Net profit	(4.8)	(7.3)	22.8	5.4
Net profit (adj.)	(3.4)	(9.4)	22.8	5.4
EPS	(3.4)	(9.4)	22.8	5.4
Leverage				
Debt to total capital	88.7	87.9	87.0	87.2
Debt to equity	783.7	727.0	669.7	684.1
Net debt/(cash) to equity	751.4	707.7	662.9	632.2
Interest cover (x)	14.1	16.1	16.5	16.2

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