

**Company Result**

**20 October 2016**

**DiGi.Com Bhd**

**HOLD**

**Improved margins despite lower revenue**

**Maintained**

<b>Share Price</b>	<b>RM5.00</b>
<b>Target Price</b>	<b>RM4.71</b>

**Results Highlight**

**Company Description**

One of the three biggest mobile telecommunication companies in Malaysia.

**Stock Data**

Bursa / Bloomberg code	6947 / DIGI MK
Board / Sector	Telco
Syariah Compliant status	Yes
Issued shares (m)	7,775.0
Par Value (RM)	0.01
Market cap.	RM38.88bn
52-week price Range	RM4.31 – RM5.75
Beta (against KLCI)	1.01
3-m Average Daily Volume	5.78m
3-m Average Daily Value	RM28.82

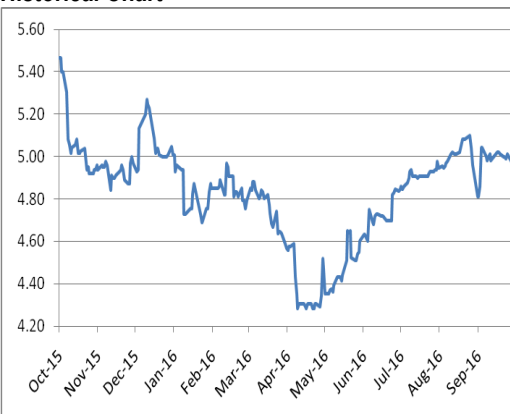
**Share Performance**

	1m	3m	12m
Absolute (%)	4.0	0.4	-12.6
Relative (%-pts)	2.9	2.2	-10.0

**Major Shareholders**

	%
TELENOR ASA	49.00
EMPLOYEES PROVIDENT FUND	12.12
SKIM AMANAH SAHAM	
BUMIPUTRA	6.41
KUMPULAN WANG PERSARAAN	5.03
TIME DOTCOM BHD	1.43

**Historical Chart**



Source: Bloomberg

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- **3Q16 net income improved** after rising 10.3% YoY and 4% QoQ to RM438m due to higher margins following lower IDD margins and stronger internet revenue. The higher earnings came despite quarterly revenue declined 3.3% YoY and 2.2% QoQ to RM1.62bn.
- **Below forecast** – Nine-month revenue of RM4.93bn came below forecast after achieving 69% of our full year forecast while net profit of RM1.26bn was within estimate after making up 72.6% of FY16 estimate.
- **Flat service revenue QoQ** – 3Q16 prepaid revenue was unchanged QoQ but declined 6.7% YoY to RM1.07bn. Postpaid revenue was 0.6% QoQ lower but increased 10.4% YoY to RM489m.
- **YoY subscriber growth but QoQ decline** – In 3Q16, total subscribers increased 23.7% YoY but declined 0.8% QoQ to 12.25m, after prepaid subscribers dropped 12.2% YoY and 1.3% QoQ to 10.26m while postpaid subscribers increased 12.3% YoY and 2% QoQ to 1.99m.
- **Resilient ARPU** – Amid the competitive environment, DiGi's blended ARPU for 3Q16 was slightly lower at RM41 (vs RM42 in 2Q16) as prepaid ARPU was unchanged at RM34 while postpaid ARPU declined to RM80 (vs RM82 in 2Q16).
- **Steady operating cash flow** – 3Q16 operating cash flow increased slightly to RM573m (vs RM568m in 2Q16) as capex increased to RM202m (vs RM167m in 2Q16). Cash reserves decreased to RM331m (vs RM366m in 2Q16) as interest-bearing debts remain flat at RM1.46bn. As a result, net debt/EBITDA was unchanged at 0.4x.
- **Spectrum payment decision** – On the upfront fee for the 900MHz and 1800 MHz spectra, management will decide by 1<sup>st</sup> Nov on whether to pay a lump sum or by installment. To recap, DiGi has to pay RM598.5m of upfront fee and annual fees of RM51.5m for 15 years beginning 1 July 2017.
- **Third interim dividend** – DiGi declared its third interim dividend of 5.6 sen/share, taking total dividend so far to 16.1 sen/share. We expect full year dividend of 22 sen, which translates into a yield of 4.4%.
- **Slightly lower dividend forecast** - Following the anticipated spectrum payment, we are reducing payout

rate forecast to 95% from 99%. This translates into full year dividend of 21.5 sen in FY17, or a slightly lower yield of 4.3%.

- **Lowering earnings forecast** – We are reducing our revenue and EPS forecasts by 5% and 0.8% for FY16 and 6.1% and 2% for FY17 respectively considering quarterly sales came below expectations, difficulties in lifting ARPU and improvement in profit margins.
- **Maintain HOLD – Our recommendation is kept at HOLD with an lower target price of RM4.71** based on DDM as we roll over to FY17 valuation.

### Quarterly Figures

Year to 31 Dec	3Q16	2Q16	QoQ	3Q15	YoY	9M16	9M15	YoY
<b>RM million</b>								
Prepaid revenue	1065	1065	0.0%	1141	-6.7%	3226	3436	-6.1%
Postpaid revenue	489	492	-0.6%	443	10.4%	1445	1325	9.1%
Device & other revenue	65	98	-33.7%	91	-28.6%	256	428	-40.2%
<b>TOTAL REVENUE</b>	1619	1655	-2.2%	1675	-3.3%	4927	5189	-5.0%
<b>EBITDA</b>	775	735	5.4%	719	7.8%	2214	2282	-3.0%
<b>EBITDA margin</b>	48.0%	44.0%	+4p.p	43.0%	+5p.p	44.9%	44.0%	-
<b>PAT</b>	438	421	4.0%	397	10.3%	1258	1340	-6.1%
<b>PAT margin</b>	27.0%	25.0%	+2p.p	24%	+3p.p	25.5%	25.8%	-1.4p.p
<b>Operating cashflow</b>	573	568	0.9%	496	15.5%	1674	1666	0.5%
<b>Prepaid Subscribers (m)</b>	10.26	10.39	-1.3%	11.68	-12.2%			
<b>Postpaid Subscribers (m)</b>	1.99	1.95	2.0%	1.78	12.3%			
<b>Total Subscribers (m)</b>	12.25	12.35	-0.8%	9.90	23.7%			
<b>Prepaid ARPU (RM)</b>	34	34	0.0%	38	-10.5%			
<b>Postpaid ARPU (RM)</b>	80	82	-2.4%	91	-12.1%			
<b>Blended ARPU (RM)</b>	41	42	-2.4%	45	-8.9%			

### Financial Summary

Year to 31 Dec (RM m)	2011	2012	2013	2014	2015	2016F	2017F	2018F
Revenue	5964	6360.9	6733.4	7018.5	6914.0	6775.4	6865.2	7031.7
EBITDA	2765	2929.1	3043.0	3163.0	3033.0	2998.9	3038.6	3150.2
Operating profit	1818.1	1599.3	2165.0	2671.0	2354.5	2355.2	2386.4	2482.2
PBT	1560.3	1591	2140.2	2645.2	2308.7	2321.3	2352.1	2447.0
Net profit	1313.6	1205.8	1705.9	2031.1	1722.6	1717.8	1740.6	1823.0
EPS (sen)	16.1	15.5	21.9	26.1	22.2	22.1	22.4	23.4
P/E (x)	31.1	32.3	22.8	19.2	22.6	22.6	21.5	22.5
DPS (sen)	17.5	26.3	21.3	26.0	22.0	21.9	22.2	23.2
Dividend yield	3.5%	5.3%	4.3%	5.2%	4.4%	4.4%	4.3%	4.5%
EBITDA margin	46.4%	46.0%	45.2%	45.1%	43.9%	44.3%	44.3%	44.8%
PBT margin	26.2%	25.0%	31.8%	37.7%	33.4%	34.3%	34.3%	34.8%
Net profit margin	22.0%	19.0%	25.3%	28.9%	24.9%	25.4%	25.4%	25.9%

(Source: Company, JF Apex)

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**JF APEX SECURITIES - RESEARCH RECOMMENDATION FRAMEWORK**
**STOCK RECOMMENDATIONS**

- BUY** : The stock's total returns\* are expected to exceed 10% within the next 12 months.
- HOLD** : The stock's total returns\* are expected to be within +10% to – 10% within the next 12 months.
- SELL** : The stock's total returns\* are expected to be below -10% within the next 12 months.
- TRADING BUY** : The stock's total returns\* are expected to exceed 10% within the next 3 months.
- TRADING SELL** : The stock's total returns\* are expected to be below -10% within the next 3 months.

**SECTOR RECOMMENDATIONS**

- OVERWEIGHT** : The industry as defined by the analyst is expected to exceed 10% within the next 12 months.
- MARKETWEIGHT** : The industry as defined by the analyst is expected to be within +10% to – 10% within the next 12 months.
- UNDERWEIGHT** : The industry as defined by the analyst, is expected to be below -10% within the next 12 months.

\*capital gain + dividend yield

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