TA SECURITIES
A MEMBER OF THE TA GROUP
MENARA TA ONE, 22 JALAN P. RAMLEE, 50250 KUALA LUMPUR, MALAYSIA TEL: +603-20721277 / FAX: +603-20325048

RESULTS UPDATE
Thursday, October 20, 2016
FBMKLCI: 1,668.27
Sector: Telco

DiGi.Com Berhad

TP: RM4.95 *(-1.0%)*
Last Traded: RM5.00
SELL

Moving Away from Irrational IDD Pricing

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Paul Yap | **Tel: 603-2167 9603** | **paulyap@ta.com.my** | **www.taonline.com.my**

Review

- Digi reported a 9MFY16 net profit of RM1,258mn (+4.2% QoQ, -6.1% YoY). This was within ours and consensus expectations at 76.5% and 74.7%. A third interim dividend of 5.6sen was declared, bringing YTD dividends to 16.1sen (-5.8% YoY).
- A sequential improvement in margins were driven by lower traffic charges (-12.5% QoQ), as a decision was taken to stray away from irrational IDD price war. Service revenue stood flat. A 3.7% QoQ drop in prepaid voice revenue (partly due to IDD) was offset by higher internet revenue (+5.9% QoQ). Postpaid subscribers gained net adds for the 10th consecutive quarter, but ARPU (-2.4% QoQ) fell on acquisitions of lower priced entry level postpaid plans.
- For the 9MFY16, service revenue decreased 1.9% YoY to RM4.7bn. Despite a larger prepaid subscriber base (+356k net adds), the decline was attributed to a fall in prepaid ARPU to RM34 (-10.5% YoY) – caused by price competition. Due to its strong migrant base, we believe the group was particularly impacted by the irrational IDD price war. Prepaid voice revenue fell 9.5% YoY. It has since shifted its focus on more sustainable growth and driving internet revenue.
- The postpaid segment fared better, with revenue increasing 9.1% YoY. It continued to gain market share with YoY net adds of 218k subscribers. Postpaid ARPU, however, fell slightly to RM80 (-1.2% YoY). In an effort to simplify offerings, it has recently consolidated its postpaid packages. However, signifying continued competitive pressures, its new Digi Postpaid 80 plan offers consumers an increased 20GB data at RM80/month.
- In terms of costs, operations and maintenance costs increased 27.1% YoY due to network expansion activities. Partly offsetting this, traffic charges trended lower by 4.9% YoY. This was attributed to a weaker ringgit and lower IDD traffic. EBITDA margins improved 1.0pp to 44.9%.

Impact

- We make no changes to our earnings forecasts.

Outlook

- In light of its YTD performance, service revenue was revised to a low single digit decline (previously sustain at 2015 levels). EBITDA margin is estimated to be slightly below 45%. Meanwhile, capex was guided at 13% of revenue. Competitive pressures will continue to be a key challenge for both the postpaid and prepaid segment. TM's mobility arm, webe, has started its nationwide rollout since 30th September 2016. Additionally, we do not expect a significant rebound in prepaid ARPUs amid weak macroeconomic conditions.

Share Information	
Bloomberg Code	DIGI MK
Stock Code	6947
Listing	Main Market
Share Cap (m)	7,775.0
Market Cap (RMm)	38,875.0
Par Value (RM)	0.01
52-wk Hi/Lo (RM)	5.74/4.31
12-mth Avg Daily Vol (shrs)	7,338.5
Estimated Free Float (%)	21.6
Beta	1.01
Major Shareholders (%)	
	Telenor - 49.0
	EPF - 12.1
	Amanahraya Trust - 6.4

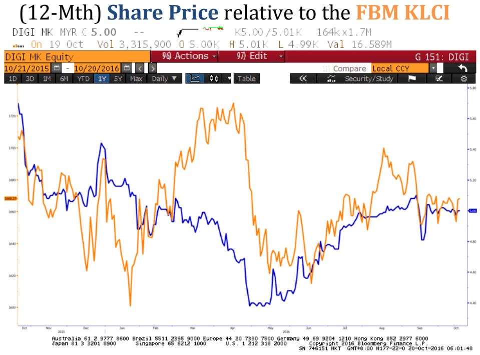
Forecast Revision (%)	FY16	FY17
Forecast Revision (%)	-	-
Net Profit (RMmn)	1,644	1,645
Consensus	1,685	1,711
TA/Consensus (%)	97.5	96.1
Previous Rating	SELL (Maintained)	

Financial Indicators	FY16	FY17
Net Gearing (x)	3.9	4.3
CFPS (sen)	29.7	30.6
P/CFPS (x)	16.8	16.3
ROE (%)	327.0	338.3
ROA (%)	32.6	29.8
NTA/Share (RM)	0.01	0.02
P/NTA (x)	615.6	276.2

Scorecard	% of FY	
vs TA	76.5	Within
vs Consensus	74.7	Within

Share Performance		
Price chg (%)	**DiGi**	**FBM KLCI**
1 mth	4.0	0.8
3 mth	1.8	(0.1)
6 mth	7.3	(2.4)
12 mth	(12.3)	(2.2)

(12-Mth) **Share Price** relative to the **FBM KLCI**



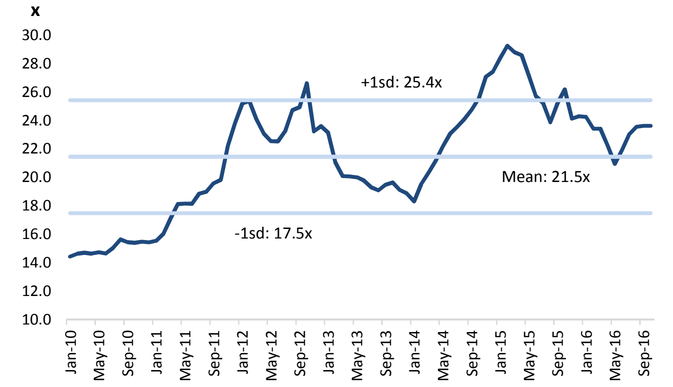
Source: Bloomberg

- The group has been allocated 2x5MHz and 2x20MHz in the 900MHz and 1800MHz spectrum band. Increased exposure to lower band spectrum implies better indoor coverage and potential capex savings. Pricing will be split into a one-off fee component of RM598.5m, with annual maintenance fees of RM51.5mn. Already imputed into our model, we estimate FY17 and FY18 earnings will be reduced by 1.8% and 2.5%. Leverage, however, should remain comfortable with estimated Net debt/EBITDA at 0.6x.

Valuation

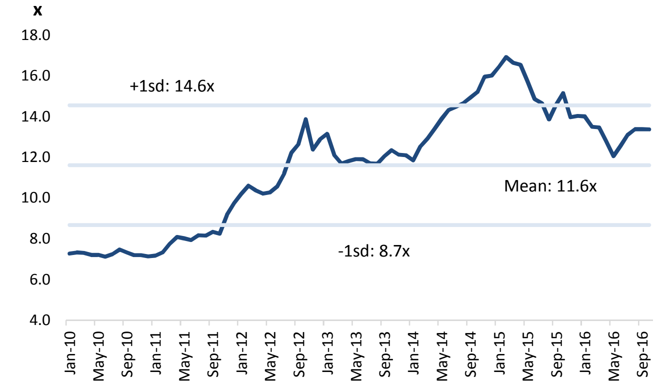
- We value Digi at a an unchanged TP of RM4.95/share – based on a DCF valuation with WACC at 7.7% and long term growth rate of 1.0%. Sustained competitive pressures within the industry remain our key concern for the stock, as we project flattish earnings growth. We believe the stock is fairly valued at current levels, trading slightly above its historical average forward EV/EBITDA at 13.4x. **SELL.**

Figure 1 : Forward PE



Source: Bloomberg, TA Securities

Figure 2 : EV/EBITDA



Source: Bloomberg, TA Securities

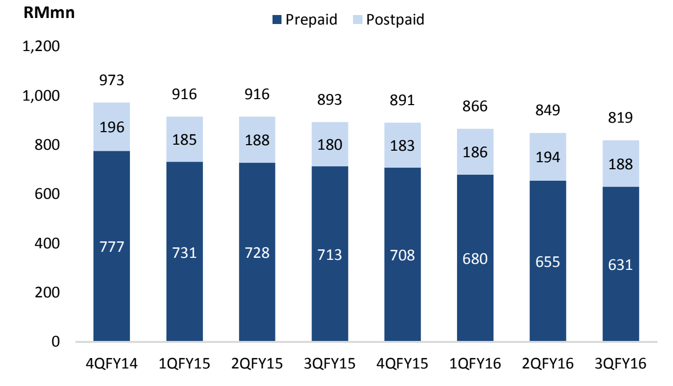
Table 1: Earnings Summary (RMmn)

FYE Dec	FY14	FY15	FY16F	FY17F	FY18F
Revenue	7,019	6,914	6,910	7,090	7,275
EBITDA	3,163	2,982	2,921	3,012	3,108
EBITDA margin (%)	45.1	43.1	42.3	42.5	42.7
Depreciation and amortisation	(492)	(642)	(661)	(720)	(778)
EBIT	2,671	2,341	2,261	2,292	2,330
Net finance costs	(26)	(46)	(69)	(99)	(105)
Others	0	0	0	0	0
Profit before tax	2,645	2,295	2,191	2,193	2,226
Taxation	(614)	(586)	(548)	(548)	(556)
MI	0	0	0	0	0
Profit after tax	2,031	1,709	1,644	1,645	1,669
Core net profit	2,028	1,710	1,644	1,645	1,669
EPS (sen)	26.1	22.0	21.1	21.2	21.5
EPS growth (%)	18.5	(15.7)	(3.9)	0.1	1.5
PER (x)	19.2	22.8	23.7	23.7	23.4
EV/EBITDA (x)	12.6	13.4	13.7	13.3	12.9
DPS (sen)	26.0	22.0	21.1	21.2	21.5
Dividend yield (%)	5.2	4.4	4.2	4.2	4.3

Table 2: 9MFY16 Results Analysis (RMmn)

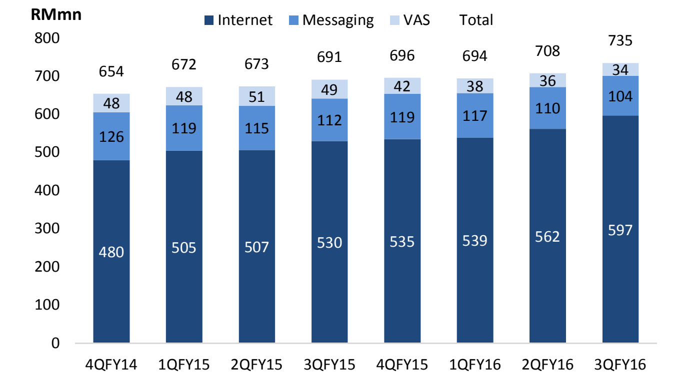
FYE Dec	3QFY15	2QFY16	3QFY16	QoQ (%)	YoY (%)	9MFY15	9MFY16	YoY (%)
Revenue	1,675	1,655	1,619	(2.2)	(3.3)	5,189	4,927	(5.0)
Service revenue	1,584	1,557	1,554	(0.2)	(1.9)	4,761	4,671	(1.9)
Voice	893	849	819	(3.5)	(8.3)	2,725	2,534	(7.0)
Prepaid	713	655	631	(3.7)	(11.5)	2,172	1,966	(9.5)
Postpaid	180	194	188	(3.1)	4.4	553	568	2.7
Data	691	708	735	3.8	6.4	2,036	2,137	5.0
Mobile internet	530	562	597	6.2	12.6	1,542	1,698	10.1
Messaging	112	110	104	(5.5)	(7.1)	346	331	(4.3)
VAS	49	36	34	(5.6)	(30.6)	148	108	(27.0)
Device & other revenue	91	98	65	(33.7)	(28.6)	428	256	(40.2)
EBITDA	719	735	775	5.4	7.8	2,281	2,214	(2.9)
Depreciation and amortisation	(170)	(144)	(174)	21.2	2.6	(459)	(473)	3.1
EBIT	549	592	601	1.6	9.4	1,822	1,741	(4.5)
Net finance costs	(12)	(16)	(16)	(2.9)	28.7	(33)	(46)	41.9
Others	0	0	0	n/a	n/a	0	0	n/a
Profit before tax	537	576	585	1.7	9.0	1,789	1,695	(5.3)
Taxation	(140)	(155)	(147)	(5.2)	4.7	(449)	(437)	(2.8)
MI	0	0	0	n/a	n/a	0	0	n/a
Net profit	397	421	438	4.2	10.5	1,340	1,258	(6.1)
Core net profit	397	421	438	4.2	10.5	1,340	1,258	(6.1)
Capex	223	167	202	21.0	(9.4)	616	540	(12.3)
EPS (sen)	5.1	5.4	5.6	4.3	10.6	17.2	16.2	(6.1)
DPS (sen)	5.1	5.4	5.6	3.7	9.8	17.1	16.1	(5.8)
Profitability ratios				**pp**	**pp**			**pp**
EBITDA margin (%)	42.9	44.4	47.9	3.5	4.9	44.0	44.9	1.0
EBIT margin (%)	32.8	35.7	37.1	1.4	4.3	35.1	35.3	0.2
PBT margin (%)	32.1	34.8	36.2	1.4	4.1	34.5	34.4	(0.1)
Net profit margin (%)	23.7	25.4	27.1	1.7	3.4	25.8	25.5	(0.3)
Tax rate (%)	26.1	26.9	25.1	(1.8)	(1.0)	25.1	25.8	0.7
Operational metrics				**Net adds**	**Net adds**			
Subscriber base ('000)	11,675	12,347	12,249	(98)	574			
Prepaid	9,899	10,393	10,255	(138)	356			
Postpaid	1,776	1,954	1,994	40	218			
ARPU (RM)	45	42	41	(2.4)	(8.9)			
Prepaid	38	34	34	0.0	(10.5)			
Postpaid	81	82	80	(2.4)	(1.2)			

Figure 3 : Voice Revenue



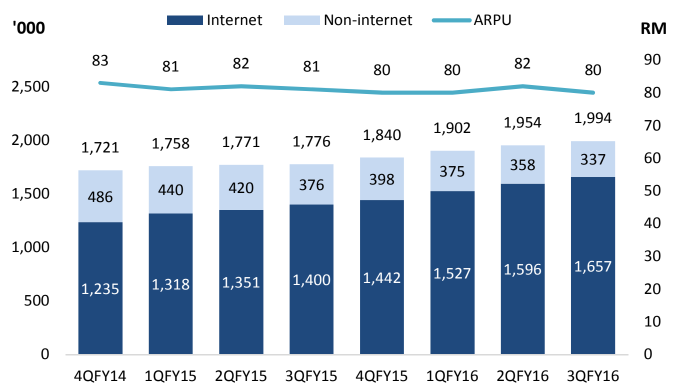
Source: Companies, TA Securities

Figure 4 : Data Revenue



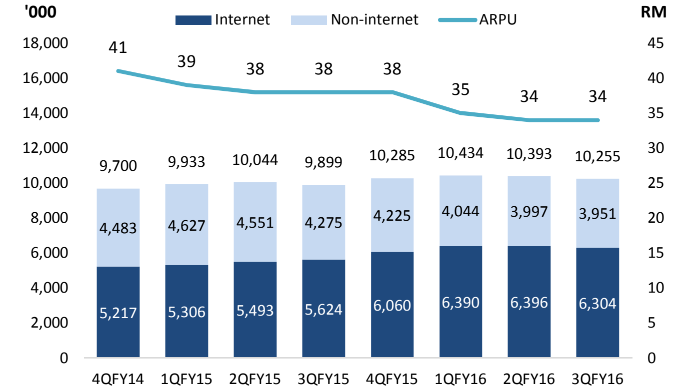
Source: Companies, TA Securities

Figure 5 : Postpaid



Source: Companies, TA Securities

Figure 6 : Prepaid



Source: Companies, TA Securities

Stock Recommendation Guideline

BUY : Total return within the next 12 months exceeds required rate of return by 5%-point.
HOLD : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.
SELL : Total return is lower than the required rate of return.
Not Rated: The company is not under coverage. The report is for information only.

Total Return is defined as expected share price appreciation plus gross dividend over the next 12 months.
Required Rate of Return of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

for TA SECURITIES HOLDINGS BERHAD(14948-M)

(A Participating Organisation of Bursa Malaysia Securities Berhad)

Kaladher Govindan – Head of Research