



## DiGi.Com Berhad

Aiming for Larger Share of Malaysian Subscribers

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*The immediate outlook remains challenging for DiGi. We expect competition to sustain into 2017, premised on the entrance of webe, spectrum reallocation exercise and efforts by Celcom to gain market share. Recent weakness in the ringgit may pose challenges to its IDD segment – through higher traffic costs and smaller migrant wallet share. Competitive pressures may limit its ability to reprice IDD rates upwards. Focus is on gaining a larger share of Malaysian subscribers, to ease fluctuations from the migrant market. A larger share of lower band spectrum awarded will improve its appeal to the enterprise segment. No change to our earnings estimates. Maintain SELL on DiGi with a TP of RM4.95/share.*

**Competition Still Intense.** Showing no signs of relief, competitions remains intense in both the postpaid and prepaid segment. Implying lower data yields, we continue to see an increase in data offered at existing price points. Recently, Digi refreshed its postpaid packages, doubling its data allocation to 20GB (10GB anytime + 10GB weekend) at the same price of RM80/month. To create simplicity, postpaid packages were also streamlined to three main plans. Similarly, in the prepaid segment, it has bumped up its offerings to include 50% more quota for its data add-ons. We expect this trends to sustain into 2017 – underpinned by the entrance of webe, spectrum reallocation exercise and efforts by Celcom to regain market share. With no announcements made to extend the duration of the GST prepaid rebate, this may also have an impact on prepaid usage in 2017.

**Weaker Ringgit to Pose Challenges.** Recent weakness in the ringgit may pose challenges to its IDD segment – due to higher traffic costs and a squeeze in migrant's wallet share. While it has recalibrated its IDD prices since 2QFY16, this does not take into account the recent further weakness to the ringgit. The current average USD/MYR rate for 4Q2016 stands at RM4.30, a 6.3% increase from the previous quarter. Existing competitive pressures may limit its ability to reprice rate upwards. We estimate every 1% increase in its traffic cost, decreases its earnings by 0.5%, ceteris paribus.

**Targeting Malaysian Subscribers.** Not ignoring its IDD market, focus will be on gaining a larger share of Malaysian subscriber. This will help ease dependency and volatility related to its migrant market. Its data focused Digi Prepaid Live proposition is targeted to Malaysian subscribers, while its IDD themed Digi Prepaid BEST pack is aimed at migrant workers. Aiding its cause, an increased share of lower band spectrum will help it penetrate opportunities within the enterprise segment.

**Working on New Spectrum.** The spectrum migration exercise is currently being carried out in phases, beginning September 2016 until June 2017. During this time, base stations will be migrated to the new reallocated spectrum blocks. By 1<sup>st</sup> July 2017, all operators should be operating in their new spectrum blocks. There are still no updates with regards to a further review of spectrum in the 700MHz, 2300MHz and 2600MHz bands. Ideally, the group would like to have approximately 10-15MHz of lower band spectrum.

TP: RM4.95 (-0.1%)

Last Traded: RM4.98

SELL

### Share Information

Stock Code	DIGI
Listing	Main Market
Share Cap (m)	7,775.0
Market Cap (RMm)	38,719.5
Par Value (RM)	0.01
52-wk Hi/Low (RM)	5.49/4.31
12-mth Avg Daily Vol (shrs)	6,783.8
Estimated Free Float (%)	21.1
Beta	0.99
Major Shareholders (%)	

Telenor ASA - 49.0

EPF - 11.9

Skim Amanah Saham - 7.0

Kumpulan Wang Persaraan - 5.1

### Forecast Revision (%)

	FY16	FY17
Forecast Revision (%)	-	-
Net profit (RMm)	1,644	1,645
Consensus	1,690	1,698
TA/Consensus (%)	97.3	96.9
Previous Rating	Sell (Maintained)	

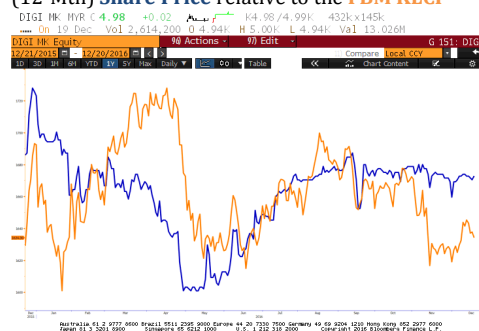
### Financial Indicators

	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)	0.0	0.0
P/NTA (x)	613.2	275.1

### Share Performance

Price chg (%)	DiGi	KLCI
1 mth	(0.2)	0.6
3 mth	3.5	(1.3)
6 mth	6.4	0.0
12 mth	(2.9)	(0.6)

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



**Valuation.** Leave our earnings estimates unchanged. We value DiGi at a TP of RM 4.95 – based on an unchanged WACC of 7.7% and long term growth rate of 1.0%. We are projecting flattish earnings for the group in 2017, amid sustained competitive pressures and challenges in its IDD segment. We believe the stock is fairly valued, as it trades slightly above its historical average EV/EBITDA at 13.3x. **SELL.**

**P&L**

<b>FYE Dec (RMmn)</b>	<b>FY14</b>	<b>FY15</b>	<b>FY16F</b>	<b>FY17F</b>	<b>FY18F</b>
Revenue	7,019	6,914	6,910	7,090	7,275
EBITDA	3,163	2,982	2,921	3,012	3,108
Depreciation & amortisation	(492)	(642)	(661)	(720)	(778)
Net finance cost	(26)	(46)	(69)	(99)	(105)
JV/Associates	0	0	0	0	0
Others	0	0	0	0	0
PBT	2,645	2,295	2,191	2,193	2,226
Taxation	(614)	(586)	(548)	(548)	(556)
MI	0	0	0	0	0
Net profit	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
DPS (sen)	26.0	22.0	21.1	21.2	21.5

**Ratios**

<b>FYE Dec (RMmn)</b>	<b>FY14</b>	<b>FY15</b>	<b>FY16F</b>	<b>FY17F</b>	<b>FY18F</b>
<b>Valuations</b>					
PER	19.1	22.6	23.6	23.5	23.2
EV/EBITDA	12.6	13.4	13.6	13.2	12.8
Dividend yield	5.2	4.4	4.2	4.2	4.3
PBV	56.4	74.6	79.7	79.6	77.6

**Profitability ratios**

ROAE	301.1	283.7	327.0	338.3	338.8
ROAA	50.4	38.1	32.6	29.8	29.3
EBITDA margin	45.1	43.1	42.3	42.5	42.7
PBT margin	37.7	33.2	31.7	30.9	30.6

**Liquidity ratios**

Current ratio	0.5	0.4	0.3	0.3	0.3
Quick ratio	0.4	0.3	0.3	0.3	0.3

**Leverage ratios**

Total liabilities/equity	5.3	8.0	10.2	10.5	10.6
Net debt/equity	0.8	2.0	3.9	4.3	4.5
Int. coverage ratio	103.4	51.2	32.6	23.2	22.3

**Growth ratios**

Sales	4.2	(1.5)	(0.1)	2.6	2.6
Pretax	23.6	(12.7)	(5.1)	0.1	1.5
Earnings	18.5	(15.7)	(3.9)	0.1	1.5
Total assets	14.7	8.3	16.5	3.5	2.7

**Balance Sheet**

<b>FYE Dec (RMmn)</b>	<b>FY14</b>	<b>FY15</b>	<b>FY16F</b>	<b>FY17F</b>	<b>FY18F</b>
Fixed assets	2,382	2,643	2,975	3,273	3,544
Associates + Subsidiaries	0	0	0	0	0
Goodwill	502	517	1,021	924	822
Others	0	82	82	82	82
LT assets	2,884	3,242	4,078	4,280	4,448
Inventories	65	117	91	93	95
Trade receivables	733	922	827	849	871
Cash	526	234	287	251	213
Others	95	148	148	148	148
Current assets	1,419	1,420	1,352	1,341	1,327
<b>Total assets</b>	<b>4,303</b>	<b>4,662</b>	<b>5,431</b>	<b>5,620</b>	<b>5,774</b>
Trade payables	1,840	2,056	1,947	1,998	2,050
ST borrowings	804	1,269	1,764	1,875	1,946
Others	439	433	433	433	433
Current liabilities	3,083	3,757	4,144	4,305	4,429
LT borrowings	244	25	441	469	487
Others	290	360	360	360	360
LT liabilities	534	386	801	829	847
Share capital	78	78	78	78	78
Reserves	608	442	408	409	421
Shareholders' funds	686	519	486	487	499
MI	0	0	0	0	0
<b>Total liabilities and equity</b>	<b>4,303</b>	<b>4,662</b>	<b>5,431</b>	<b>5,620</b>	<b>5,774</b>

**Cash Flow**

<b>FYE Dec (RMmn)</b>	<b>FY14</b>	<b>FY15</b>	<b>FY16F</b>	<b>FY17F</b>	<b>FY18F</b>
PBT	2,645	2,309	2,191	2,193	2,226
Depreciation and amortisation	492	642	661	720	778
Net interest	26	46	69	99	105
Other non-cash	25	22	0	(0)	0
Changes in WC	(32)	(128)	12	27	28
Tax paid	(501)	(601)	(548)	(548)	(556)
Finance cost	(36)	(56)	(78)	(108)	(112)
Others	80	(7)	0	0	0
<b>Operational cash flow</b>	<b>2,699</b>	<b>2,225</b>	<b>2,308</b>	<b>2,383</b>	<b>2,467</b>
Capex	(900)	(897)	(898)	(922)	(946)
Interest received	13	11	8	9	8
Others	7	0	-599	0	0
<b>Investing cash flow</b>	<b>(880)</b>	<b>(886)</b>	<b>(1,488)</b>	<b>(912)</b>	<b>(938)</b>
Net share issue	0	0	0	0	0
Dividend paid	(2,006)	(1,889)	(1,677)	(1,644)	(1,657)
Net change in debts	297	246	911	138	90
Others	0	0	(0)	0	0
<b>Financial cash flow</b>	<b>(1,709)</b>	<b>(1,643)</b>	<b>(766)</b>	<b>(1,506)</b>	<b>(1,567)</b>
<b>Net cash flow</b>	<b>110</b>	<b>(304)</b>	<b>53</b>	<b>(36)</b>	<b>(38)</b>
Opening cash flow	411	526	234	287	251
Forex	5	11	0	0	0
Others	0	0	0	0	0
<b>Closing cash flow</b>	<b>526</b>	<b>234</b>	<b>287</b>	<b>251</b>	<b>213</b>

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#### 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.

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