



## DiGi.Com Berhad

Commendable Quarter Driven by Prepaid Internet

TP: RM5.19 (-12%)

Last Traded: RM5.91

SELL

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### Review

- Digi's 9M14 net profit of RM1.46bn (+27% YoY) was within expectations, accounting for 80% and 76% of our full-year estimates and consensus' respectively. It was a decent showing by Digi after a solid 2Q14, with YTD performance tracking management's guidance (revenue growth: 4%-6% and EBITDA margin of 45%).
- Consistent with the industry trend of data cannibalising voice, 9M14 topline growth (+4% YoY) was mainly due to data (+40% YoY), which offset decline in voice (-3% YoY). Data usage was driven by popularity of Digi's prepaid bundle for affordable smartphones. Stable EBITDA margin (45%) coupled with absence of accelerated depreciation resulted in 9M14 bottomline expanding by 27% YoY.
- Digi had excellent traction in the prepaid segment whereby 4Q14 net adds surged to 440K (4Q13: 8K) and 9M14 prepaid revenue climbed 5% YoY. This was a result of Digi's internet campaign to stimulate adoption amongst prepaid users. This includes smartphone bundles, 12-month internet bundles, and bite-sized internet plans. In contrast, postpaid revenues were flat and net adds were subdued at 2K (2Q14: 10K). We believe this is likely due to Maxis' aggression in postpaid.
- 4Q14 Blended ARPU was resilient at RM47 on the back of Digi's effective internet initiatives. Surge in Data ARPU to RM14 (3Q13: RM10) offset weaker Voice ARPU of RM28 (3Q13: RM31). Weakness in voice was due to competitive pressure and data cannibalisation.
- Digi managed to execute well despite undergoing billing migration measures in 2Q14. Their newly completed convergent billing platform is now in the stabilisation phase and is expected to result in faster product launches, real-time market intelligence, lower cost structure etc.
- Digi declared a 3<sup>rd</sup> interim dividend of 6.2 sen/share (3Q13: 5.7 sen), which implies a payout ratio of 99%. Net debt to EBITDA remains strong at 0.15x.

### Impact

- We tweaked our assumptions to incorporate Digi's stronger-than-expected momentum in prepaid and weak performance in postpaid. We also lower our depreciation cost assumptions in-line with what was achieved in 9M14. This results in a net change of 5%/3%/2% to our FY14/15/16 earnings forecasts.

### Valuation

- Our DCF (WACC: 7.3%, terminal growth: 1.6%) derived TP for Digi is raised slightly to RM5.19 (previous: RM5.13) as a result of our earnings revision.
- In spite of Digi's decent performance in the past 2 quarters, we remain downbeat as competitive pressures escalate where: 1) Celcom is finally launching new products (since Nov 2013) in 4Q14 following completion of its newly enhanced back-end IT system, and 2) Maxis' new CEO (since 4Q13), Morten Lundal, has been aggressively revamping Maxis' dealer

### Share Information

Stock Code	DIGI
Listing	Main Board
Share Cap (m)	7,775
Market Cap (RMm)	45,950
Par Value (RM)	0.01
52-wk Hi/Lo (RM)	4.56/6.12
12-mth Avg Daily Vol (shrs)	8,751
Estimated Free Float (%)	31
Beta	0.98
Major Shareholders (%)	Telenor - 49%
	EPF - 13%

### Forecast Revision (%)

	FY14	FY15
Forecast Revision (%)	5	3
Net Profit (RM mn)	1,933.9	2,041.6
Consensus	1,947.0	2,038.0
TA/Consensus (%)	99	100
Previous Rating	Sell (Maintained)	

### Financial Indicators

	FY14	FY15
Net Gearing (x)	0.6	0.7
ROE (%)	2.6	2.6
ROA (%)	0.5	0.5
NTA/Share (RM)	0.03	0.03
P/NTA (x)	216.3	181.5

### Scorecard

	% of FY
vs TA	80 Within
vs Consensus	76 Within

### Share Performance

Price chg (%)	DiGi	KLCI
1 mth	2.4	(2.7)
3 mth	5.5	(3.9)
6 mth	13.0	(2.9)
12 mth	19.6	0.0

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



Source: Bloomberg

network and product plans to regain market share. In particular, we understand that Celcom has been successful at gaining ground in the migrant prepaid market via its MVNO partners. This segment happens to be one of Digi's key revenue contributors.

- Key re-rating catalysts for Digi include: 1) implementation of a business trust structure to unlock cashflows – finally after prolonged delay, 2) sustained prepaid subscriber base traction in spite of competitive headwinds, and 3) green light from authorities to bill prepaid customers 6% GST in 2015– Digi stands to benefit the most given a larger mix of prepaid subscribers.

**Figure 1: Earnings Summary (RM mn)**

YE 31 Dec		2012	2013	2014E	2015F	2016F
Turnover		6,360.9	6,733.4	7,131.6	7,588.9	8,052.6
Core EBITDA		2,906.3	3,019.6	3,206.8	3,469.1	3,727.4
Core EBITDA Margin	(%)	45.7	44.8	45.0	45.7	46.3
Pretax profit		1,590.9	2,140.2	2,578.6	2,759.0	2,971.4
Net profit		1,205.7	1,705.9	1,933.9	2,041.6	2,198.8
EPS	(sen)	15.5	21.9	24.9	26.3	28.3
EPS Growth	(%)	-3.9	41.5	13.4	5.6	7.7
PER	(x)	38.1	26.9	23.8	22.5	20.9
Net Divd/Shr	(sen)	26.3	21.3	23.9	25.7	28.3
Dividend Yield	(%)	4.5	3.6	4.0	4.4	4.8
EV/EBITDA	(x)	15.9	15.3	14.5	13.4	12.5

**Figure 2: 3Q14 Results Analysis (RM mn)**

YE 31 Dec	3Q14	2Q14	QoQ	3Q13	YoY	9MFY14	9MFY13	YoY
Revenue	1,756.1	1,746.2	0.6%	1,699.7	3.3%	5,219.9	5,000.0	4.4%
<b>Core EBITDA</b>	789.0	795.0	-0.8%	766.0	3.0%	2,362.0	2,233.0	5.8%
Core EBITDA Margin	45%	46%	n.m.	46%	n.m.	45.3	44.7	n.m.
Depreciation	(126.8)	(115.3)	n.m.	(221.2)	n.m.	(360.2)	(756.3)	n.m.
Finance Costs	(9.2)	(8.6)	n.m.	(10.1)	n.m.	(27.2)	(34.3)	n.m.
Interest income	3.9	2.7	46.0%	4.5	-13.7%	10.1	15.1	-32.8%
Exceptionals	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
Other Income/Exp	(0.4)	0.1	n.m.	(0.3)	n.m.	0.2	(0.6)	n.m.
<b>PBT</b>	656.5	673.9	-2.6%	538.9	21.8%	1,985.0	1,456.8	36.3%
Taxation	(169.6)	(175.0)	n.m.	(90.2)	n.m.	(514.0)	(299.5)	n.m.
Net Profit	486.9	498.9	-2.4%	448.7	8.5%	1,471.0	1,157.4	27.1%
<b>Core Net Profit</b>	487.0	499.0	-2.4%	449.0	8.5%	1,471.0	1,158.0	27.0%

Figure 3: 3Q14 Operating Metrics Analysis (RM mn)

	3Q14	2Q14	QoQ	3Q13	YoY	9MFY14	9MFY13	YoY
<b>Revenue Breakdown (RM 'm)</b>								
<b>Service Revenue</b>	<b>1,406</b>	<b>1,379</b>	2%	<b>1,340</b>	5%	<b>4,142</b>	<b>3,887</b>	7%
- <b>Voice</b>	<b>957</b>	<b>970</b>	-1%	<b>1,020</b>	-6%	<b>2,910</b>	<b>3,009</b>	-3%
- Prepaid	763	772	-1%	807	-5%	2,319	2,371	-2%
- Postpaid	194	198	-2%	213	-9%	591	638	-7%
- <b>Data</b>	<b>449</b>	<b>409</b>	10%	<b>320</b>	40%	<b>1,232</b>	<b>878</b>	40%
- Mobile Internet	449	409	10%	320	40%	1,232	878	40%
<b>Device &amp; Other Revenue</b>	<b>172</b>	<b>178</b>	-3%	<b>147</b>	17%	<b>514</b>	<b>445</b>	16%
<b>Subscriber Base ('000)</b>								
<b>Voice</b>	<b>11,345</b>	<b>10,903</b>	4%	<b>10,827</b>	5%			
- Prepaid	9,647	9,207	5%	9,131	6%			
- Postpaid	1,698	1,696	0%	1,696	0%			
<b>Internet</b>	<b>6,011</b>	<b>4,269</b>	41%	<b>6,755</b>	-11%			
- Mobile Broadband	217	222	-2%	235	-8%			
- Mobile Internet	5,794	4,047	43%	6,520	-11%			
<b>Operating Metrics</b>								
<b>Total</b>								
- Net Adds	442	18	>100%	279	58%	350	333	5%
- Blended ARPU (RM)	47	48	-2%	48	-2%			
<b>Prepaid</b>								
- Net Adds	440	8	>100%	269	64%	352	308	14%
- ARPU (RM)	41	41	0%	41	0%			
<b>Postpaid</b>								
- Net Adds	2	10	-80%	10	-80%	(2)	25	<100%
- ARPU (RM)	82	83	-1%	82	0%			

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