

7 December 2021

Communications | Telecommunications

DiGi.Com (DIGI MK)

Neutral (Maintained)

Riding On Its Own 5G Core Network

Target Price (Return): MYR4.47 (9.6%)
 Price (Market Cap): MYR4.08 (USD7,495m)
 ESG score: 3.30 (out of 4)
 Avg Daily Turnover (MYR/USD) 9.73m/2.33m

- Maintain NEUTRAL, new TP of MYR4.47, previously MYR4.78, 10% upside and c.4% yield.** While Digi's base management activities have managed to stem the pressure on prepaid ARPU, we believe the sluggish prepaid market and unrelenting competition will continue to crimp its mobile revenue share. In our view, a 5G core (5GC) standalone (SA) network would allow Digi to differentiate its services in the longer-term with manageable capex. Re-rating catalysts are positive merger developments and higher than expected merger synergies.
- Mobile service revenue (MSR) share slips further.** Digi's MSR growth of 0.2% QoQ trailed Maxis's (MAXIS MK, NEUTRAL, TP: MYR4.75) +1.7% and Celcom's +1.3% in 3Q21. As a result, its MSR share (Big-3) eased to 30.1% in 3Q21 from 30.4% in 2Q21. Active base management has been effective in stemming the ARPU decline though the unrelenting competition and overall softness in the prepaid market would lead to further MSR erosion, in our view.
- 5GC SA network option.** Following feedbacks received during the public consultation on the access list review, the regulator has decided to grant the option for mobile network operators (MNO) to rollout their own 5GC network. This is a departure from the preliminary position that the development of a 5GC SA network is to be undertaken exclusively by Digital Nasional Berhad (DNB). In its submission to the regulator, Digi said its own 5GC would allow for greater service differentiation and innovation and the ability to offer future advanced services (such as network slicing) with full control over its customer journey. We believe the capex to develop its 5GC SA network is manageable as Digi's existing core network already supports 5G non-standalone (NSA) with a software enhancement likely required.
- No-objection notice from regulator for merger expected in 1Q22.** Based on the regulatory guidelines on M&A, Digi's merger with Celcom will be assessed on a two phased process. Phase 1 typically takes 30 days while Phase 2 assessment can take up to 120 days. The regulator (MCMC) would issue a notice of non-objection if it rules that the merger is not likely to have the effect of substantially lessening competition in the market or result in a dominant position. We do not foresee a dissenting opinion as the overarching objectives of the merger are supportive of the regulator's views on healthy and sustainable competition in the longer-term.
- Forecast adjustments.** We lower FY21-23F core earnings by 1.2%/14.2%/2.7% after baking in stronger prepaid competition and Cukai Makmur. Our TP has incorporated a 6% ESG premium based on our in-house methodology.
- Key risks** are competition, earnings misses, and adverse regulatory developments. Upside risks are positive merger developments and stronger than expected merger synergies.

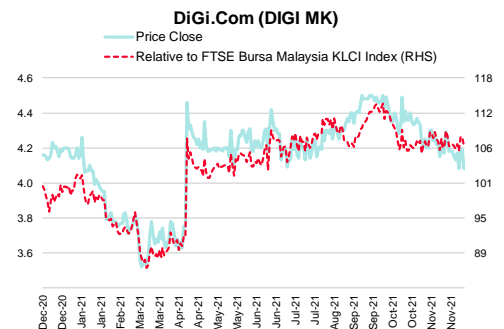
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(1.5)	(5.1)	(7.3)	(2.4)	(2.2)
Relative	7.3	(1.9)	(1.1)	3.6	6.3
52-wk Price low/high (MYR)	3.52 – 4.50				



Source: Bloomberg

Overall ESG Score: 3.30 (out of 4)

E: GOOD

Digi is committed to the reduction in overall carbon footprint via proactive measures to increase the efficiency of its network as part of the GSM Association's Zero to 2050 commitment. The company publishes annual emission metrics, which are consistent with environmental disclosures released by Telenor

S: EXCELLENT

Digi helps in meeting the nation's digital inclusion agenda as a technology and communications enabler. The company has one of the best industry/community social outreach programmes, thanks to best practices developed by its major shareholder

G: EXCELLENT

The board is made up of seven directors, of which 43% are women, the highest among its peers. The remuneration disclosures of independent directors are on a named basis. An in-house investor relations unit provides regular corporate updates to the investment community via face to face meetings and/or conference calls.

Forecasts and Valuation	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Total turnover (MYRm)	6,297	6,153	6,065	6,223	6,279
Recurring net profit (MYRm)	1,329	1,199	1,126	986	1,081
Recurring net profit growth (%)	(13.7)	(9.8)	(6.1)	(12.5)	9.7
Recurring P/E (x)	23.87	26.46	28.17	32.18	29.34
P/B (x)	48.1	52.4	66.8	64.2	61.5
P/CF (x)	11.71	12.61	12.23	12.37	11.61
Dividend Yield (%)	4.5	3.8	3.8	3.0	3.3
EV/EBITDA (x)	11.01	11.99	12.39	12.29	12.01
Return on average equity (%)	216.0	192.5	208.4	203.4	214.0
Net debt to equity (%)	710.9	849.9	1,142.1	1,092.6	1,031.8

Source: Company data, RHB

See important disclosures at the end of this report

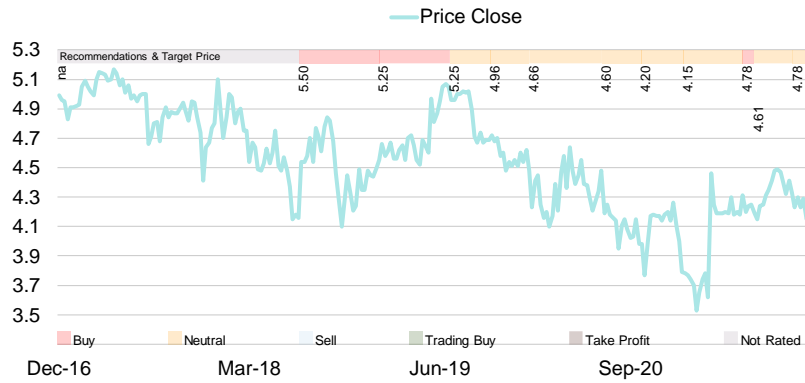
Market Dateline / PP 19489/05/2019 (035080)

Financial Exhibits

Asia	Financial summary (MYR)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Malaysia	Recurring EPS	0.17	0.15	0.14	0.13	0.14
Communications	DPS	0.18	0.16	0.16	0.12	0.14
DiGi.Com	BVPS	0.08	0.08	0.06	0.06	0.07
DIGI MK	Return on average equity (%)	216.0	192.5	208.4	203.4	214.0
Neutral						
	Valuation metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Valuation basis	Recurring P/E (x)	23.87	26.46	28.17	32.18	29.34
DCF methodology (WACC: 6.9%, TG: 0.5%)	P/B (x)	48.1	52.4	66.8	64.2	61.5
	FCF Yield (%)	6.3	5.8	5.5	5.5	6.0
	Dividend Yield (%)	4.5	3.8	3.8	3.0	3.3
	EV/EBITDA (x)	11.01	11.99	12.39	12.29	12.01
	EV/EBIT (x)	17.26	19.90	21.53	22.21	22.27
Key drivers						
i) improved data monetisation ii) stronger than expected margin/earnings iii) stronger than expected synergies from the merger with Celcom						
	Income statement (MYRm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Key risks	Total turnover	6,297	6,153	6,065	6,223	6,279
i) competition, ii) weaker than expected earnings and iii) negative regulatory developments	Gross profit	3,665	3,392	3,260	3,288	3,320
	EBITDA	3,308	3,075	2,998	3,020	3,086
	Depreciation and amortisation	(1,197)	(1,222)	(1,273)	(1,348)	(1,422)
	Operating profit	2,110	1,853	1,725	1,672	1,663
	Net interest	(211)	(183)	(204)	(214)	(224)
	Pre-tax profit	1,899	1,620	1,522	1,458	1,440
	Taxation	(459)	(401)	(396)	(472)	(358)
	Reported net profit	1,440	1,219	1,126	986	1,081
	Recurring net profit	1,329	1,199	1,126	986	1,081
	Cash flow (MYRm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Change in working capital	(139)	(157)	(9)	16	6
	Cash flow from operations	2,709	2,516	2,594	2,564	2,733
	Capex	(699)	(671)	(849)	(809)	(816)
	Cash flow from investing activities	(673)	(641)	(1,180)	(1,139)	(1,147)
	Dividends paid	(1,415)	(1,213)	(1,213)	(966)	(1,060)
	Cash flow from financing activities	1,041	(911)	(963)	(716)	(810)
	Cash at beginning of period	433	458	303	281	550
	Net change in cash	3,076	965	451	708	777
	Ending balance cash	458	303	531	756	1,083
	Balance sheet (MYRm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Total cash and equivalents	458	303	281	550	877
	Tangible fixed assets	2,852	2,883	3,015	3,032	2,982
	Total assets	8,149	8,187	8,281	8,595	8,883
	Short-term debt	689	775	825	875	925
	Total long-term debt	4,461	4,678	4,878	5,078	5,278
	Total liabilities	7,489	7,581	7,806	8,101	8,367
	Total equity	660	606	475	494	516
	Total liabilities & equity	8,149	8,187	8,281	8,595	8,883
	Key metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Revenue growth (%)	(3.5)	(2.3)	(1.4)	2.6	0.9
	Recurrent EPS growth (%)	(13.7)	(9.8)	(6.1)	(12.5)	9.7
	Gross margin (%)	58.2	55.1	53.8	52.8	52.9
	Operating EBITDA margin (%)	52.5	50.0	49.4	48.5	49.1
	Net profit margin (%)	22.9	19.8	18.6	15.8	17.2
	Dividend payout ratio (%)	98.3	99.5	107.7	98.0	98.0
	Capex/sales (%)	11.1	10.9	14.0	13.0	13.0
	Interest cover (x)	8.90	8.72	7.73	7.17	6.84

Source: Company data, RHB

Recommendation Chart

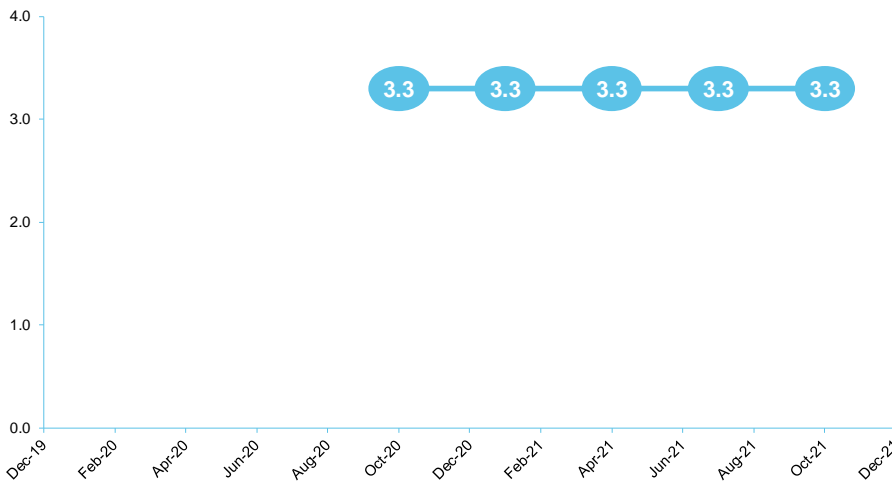


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2021-10-21	Neutral	4.78	4.35
2021-07-19	Neutral	4.61	4.20
2021-06-21	Buy	4.78	4.32
2021-01-29	Neutral	4.15	3.79
2020-10-18	Neutral	4.20	3.98
2020-07-15	Neutral	4.60	4.37
2020-01-23	Neutral	4.66	4.49
2019-10-21	Neutral	4.96	4.67
2019-07-15	Neutral	5.25	5.05
2019-01-25	Buy	5.25	4.55
2018-07-16	Buy	5.50	4.27

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
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