



Company report

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DIGI.COM

(DIGI MK EQUITY, DSOM.KL)

3 Aug 2020

Halving entry-level postpaid prices

HOLD

(Maintained)

Rationale for report: Company update

Price	RM4.25
Fair Value	RM4.40
52-week High/Low	RM5.08/RM3.82

Key Changes

Fair value	↕
EPS	↕

YE to Dec	FY19	FY20F	FY21F	FY22F
Revenue (RM mil)	6,297.4	6,009.2	6,069.9	6,088.7
Core net profit (RM mil)	1,432.9	1,239.5	1,329.2	1,371.3
FD Core EPS (sen)	18.4	15.9	17.1	17.6
FD Core EPS growth (%)	(7.0)	(13.5)	7.2	3.2
Consensus Net Profit (RM mil)	-	1,308.6	1,374.8	1,321.6
DPS (sen)	18.2	15.9	17.1	17.6
PE (x)	23.1	26.7	24.9	24.1
EV/EBITDA (x)	11.4	11.9	11.3	10.9
Div yield (%)	4.2	3.7	3.9	4.0
ROE (%)	215.0	204.3	240.2	247.7
Net Gearing (%)	710.9	823.1	726.3	615.5

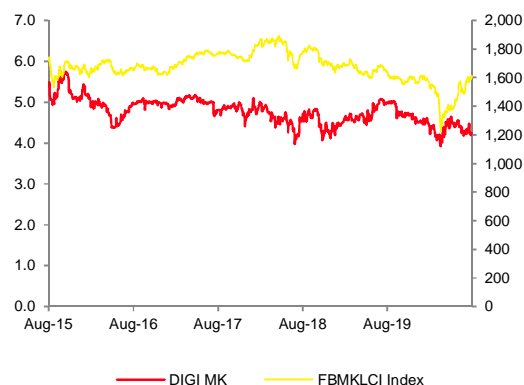
Stock and Financial Data

Shares Outstanding (million)	7,775.0
Market Cap (RM mil)	33,043.8
Book Value (RM/share)	0.08
P/BV (x)	50.1
ROE (%)	215.0
Net Gearing (%)	710.9

Major Shareholders	Telenor(49.0%) EPF(14.5%)
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Free Float	35.0
Avg Daily Value (RM mil)	14.2

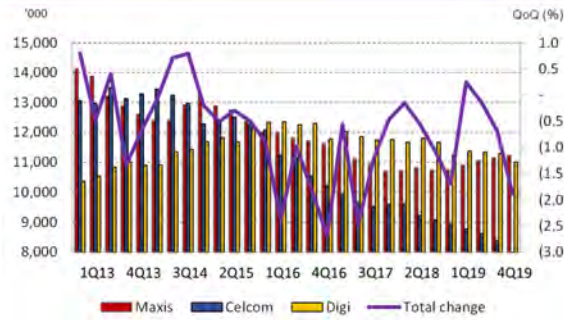
Price performance	3mth	6mth	12mth
Absolute (%)	(8.4)	(1.8)	(15.0)
Relative (%)	(19.6)	(5.4)	(12.9)



Investment Highlights

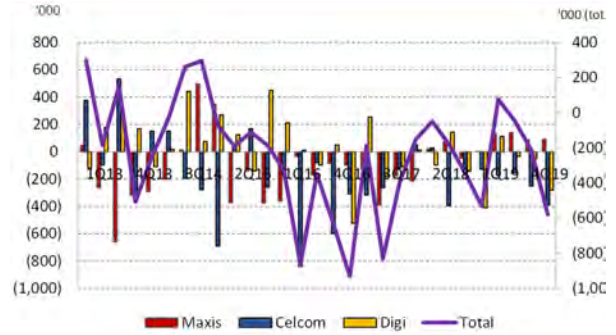
- We retain our HOLD rating on Digi.Com with unchanged forecasts and DCF-based fair value of RM4.40/share. This is based on a WACC of 6.3% and terminal growth rate of 2%, which implies an FY20F EV/EBITDA of 12x — in line with its 2-year average together with a supportive dividend yield of 4%.
- Digi has halved its entry-level postpaid plans with a new package priced at RM38/month for 9GB of data and unlimited calls, repackaging its JomStart to Postpaid Start. While SMS will be charged at 10 sen each, this plan comes with a loyalty bonus of up to 12GB/month. The plan also gets 7.5GB Internet data which is allocated at 250MB per day. Subscribers are entitled to a total of 16.5GB/month in the first 6 months and up to 28.5GB/month after 24 months. Additional 1GB high-speed internet passes are available for only RM1.
- The group also launched a RM58/month plan that offers 15GB of base high-speed data and up to 20GB/month of loyalty bonus based on the tenure of subscription. Subscribers receive an additional 5GB/month of data up to 4x in every 6 months. As in the more affordable plan, users get additional 15GB Internet data which is split evenly across 30 days, translating to extra 500MB data for each day.
- This new more affordable plan at RM38/month is half of Digi's current postpaid offering of RM80/month for 40GB base data with another 40GB loyalty data. It is also 44% below Digi's 2QFY20 postpaid average revenue per user (ARPU) of RM68/month.
- Clearly, this is a challenge to U Mobile's RM40/month postpaid plan which currently offers unlimited data and calls. Also, these are Digi's new entry-level postpaid packages given that 2QFY20 average monthly data consumption has risen 58% YoY to 18GB.
- Recall that Digi launched its Internet Chili Padi prepaid plan offering 3GB and unlimited social media (Facebook, Instagram and Twitter) at only RM15/month in late June this year, which is also half of its 2QFY20 prepaid ARPU of RM29/month. Even U Mobile's most affordable prepaid plan with unlimited data is priced at RM30/month with speed caps at 6Mbps and 6GB of hotspot quota.
- In 2QFY20, Digi's net subscribers fell by 338K QoQ to 10.6mil, comprising a 309K drop from prepaid subscribers and a 29K contraction from postpaid users. With these substantively lower prices, we continue to view these aggressive marketing plans as intensifying celco competition as consumers gravitate towards the most affordable monthly outlays under the current Covid-19-dampened economic outlook and diminished consumer spending power.
- Against an increasingly competitive celco landscape, the stock currently trades at a fair FY21F EV/EBITDA of 11x – slightly below its 2-year average of 12x with decent dividend yields of 4%.

EXHIBIT 1: MOBILE SUBSCRIBERS



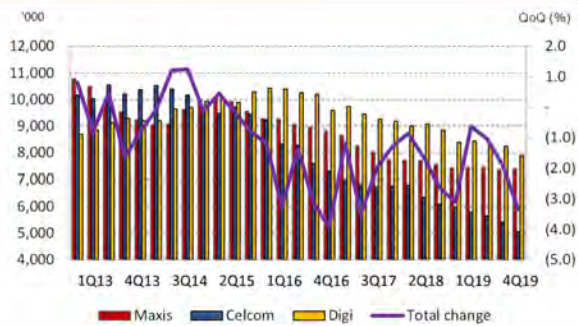
Source: Companies' investor presentation slides

EXHIBIT 2: MOBILE SUBSCRIBER CHANGES



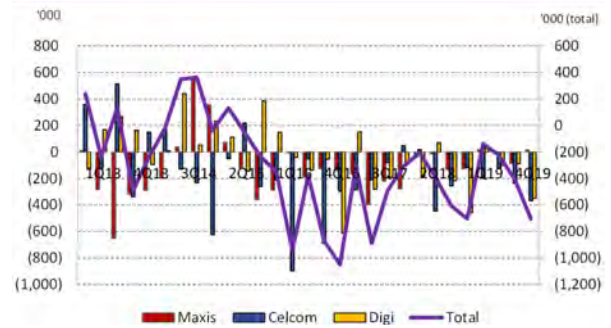
Source: Companies' investor presentation slides

EXHIBIT 3: PREPAID SUBSCRIBERS



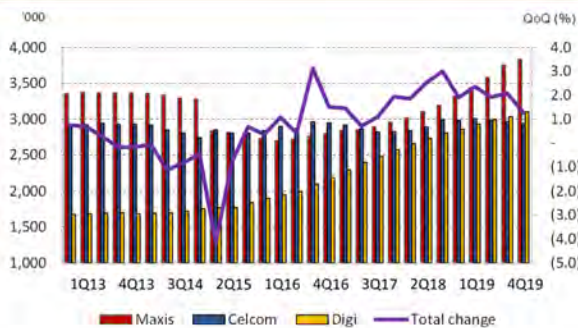
Source: Companies' investor presentation slides

EXHIBIT 4: PREPAID SUBSCRIBER CHANGES



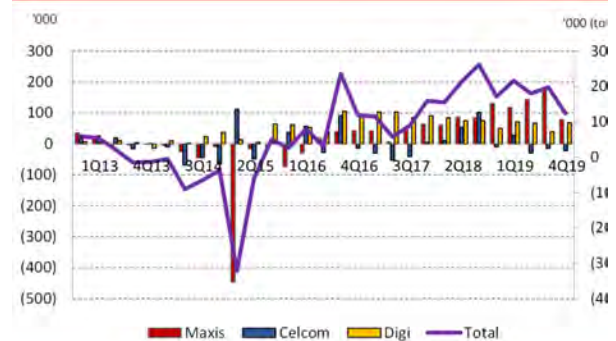
Source: Companies' investor presentation slides

EXHIBIT 5: POSTPAID SUBSCRIBERS



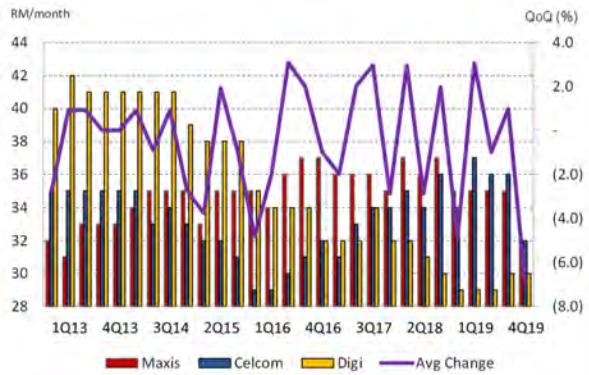
Source: Companies' investor presentation slides

EXHIBIT 6: POSTPAID SUBSCRIBER CHANGES



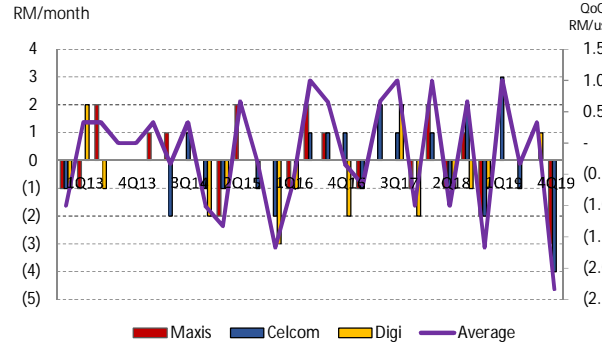
Source: Companies' investor presentation slides

EXHIBIT 7: PREPAID ARPU



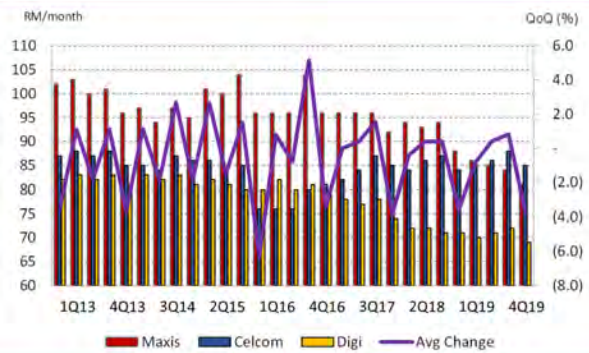
Source: Companies' investor presentation slides

EXHIBIT 8: PREPAID ARPU CHANGES



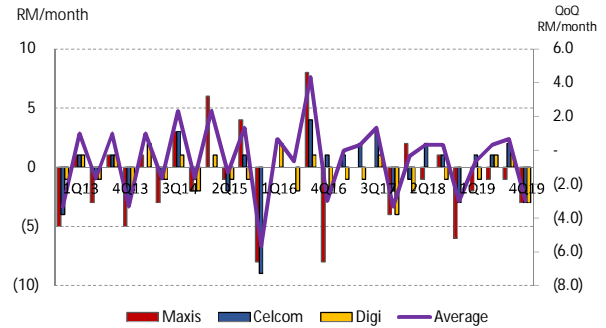
Source: Companies' investor presentation slides

EXHIBIT 9: POSTPAID ARPU



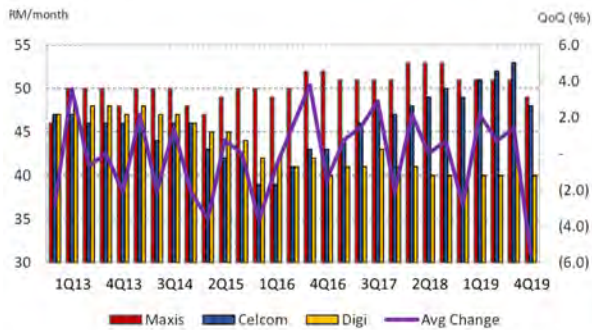
Source: Companies' investor presentation slides

EXHIBIT 10: POSTPAID ARPU CHANGES



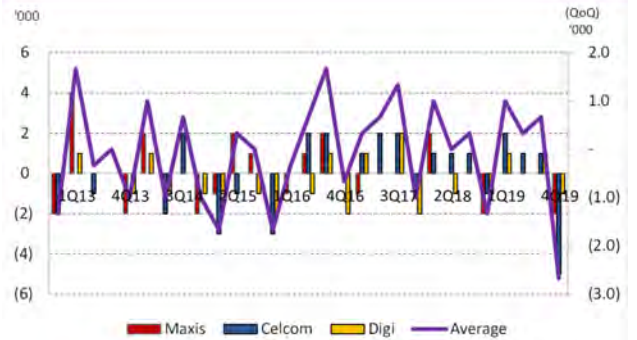
Source: Companies' investor presentation slides

EXHIBIT 11: BLENDED ARPU



Source: Companies' investor presentation slides

EXHIBIT 12: BLENDED ARPU CHANGES



Source: Companies' investor presentation slides

EXHIBIT 13: PB BAND CHART

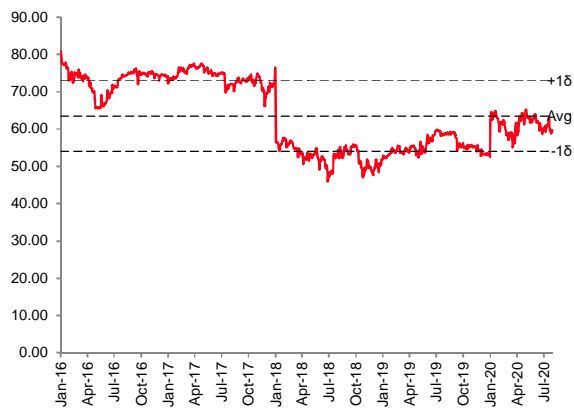


EXHIBIT 14: PE BAND CHART

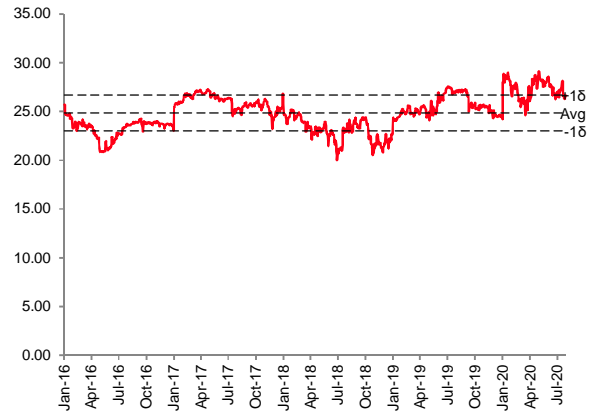


EXHIBIT 15: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Revenue	6,527.1	6,297.4	6,009.2	6,069.9	6,088.7
EBITDA	2,993.5	3,301.0	3,166.0	3,286.4	3,337.4
Depreciation/Amortisation	(826.4)	(1,217.8)	(1,276.6)	(1,288.2)	(1,300.0)
Operating income (EBIT)	2,167.1	2,083.2	1,889.4	1,998.1	2,037.3
Other income & associates	21.5	20.4	19.4	18.5	17.5
Net interest	(109.2)	(211.3)	(233.8)	(220.3)	(201.8)
Exceptional items	-	-	-	-	-
Pretax profit	2,079.4	1,892.3	1,675.0	1,796.3	1,853.1
Taxation	(538.7)	(459.4)	(435.5)	(467.0)	(481.8)
Minorities/pref dividends	-	-	-	-	-
Net profit	1,540.8	1,432.9	1,239.5	1,329.2	1,371.3
Core net profit	1,540.8	1,432.9	1,239.5	1,329.2	1,371.3
Balance Sheet (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Fixed assets	2,881.2	2,852.8	2,271.5	1,907.8	1,474.9
Intangible assets	981.7	324.9	369.1	350.6	333.1
Other long-term assets	253.4	3,114.5	2,896.5	2,693.8	2,505.2
Total non-current assets	4,116.3	6,292.3	5,537.1	4,952.2	4,313.2
Cash & equivalent	433.1	457.7	392.0	626.0	837.6
Stock	61.1	90.5	56.3	56.9	57.0
Trade debtors	1,460.7	1,220.9	1,555.5	1,571.2	1,576.1
Other current assets	134.8	88.0	83.6	87.7	92.1
Total current assets	2,089.8	1,857.2	2,087.3	2,341.8	2,562.8
Trade creditors	369.7	284.4	331.4	334.7	335.7
Short-term borrowings	181.4	688.8	723.2	759.4	797.3
Other current liabilities	2,144.1	1,784.3	1,520.5	1,488.6	1,471.4
Total current liabilities	2,695.2	2,757.5	2,575.1	2,582.7	2,604.5
Long-term borrowings	2,512.7	4,461.0	4,224.9	3,886.9	3,447.0
Other long-term liabilities	325.0	270.9	270.9	270.9	270.9
Total long-term liabilities	2,837.7	4,732.0	4,495.8	4,157.8	3,718.0
Shareholders' funds	673.2	660.0	553.5	553.5	553.5
Minority interests	-	-	-	-	-
BV/share (RM)	0.09	0.08	0.07	0.07	0.07
Cash Flow (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Pretax profit	2,079.4	1,892.3	1,675.0	1,796.3	1,853.1
Depreciation/Amortisation	826.4	1,217.8	1,276.6	1,288.2	1,300.0
Net change in working capital	(79.9)	73.6	(141.5)	(15.6)	(12.2)
Others	(339.3)	(245.3)	(160.9)	(203.9)	(235.2)
Cash flow from operations	2,486.7	2,938.4	2,649.3	2,865.0	2,905.7
Capital expenditure	(783.3)	(692.7)	(661.0)	(667.7)	(669.8)
Net investments & sale of fixed assets	-	-	-	-	-
Others	-	-	-	-	-
Cash flow from investing	(783.3)	(692.7)	(661.0)	(667.7)	(669.8)
Debt raised/(repaid)	-	-	-	-	-
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(1,523.9)	(1,415.1)	(1,239.5)	(1,329.2)	(1,371.3)
Others	-	-	-	-	-
Cash flow from financing	(1,523.9)	(1,415.1)	(1,239.5)	(1,329.2)	(1,371.3)
Net cash flow	179.5	830.6	748.8	868.1	864.7
Net cash/(debt) b/f	179.5	830.6	748.8	868.1	864.7
Net cash/(debt) c/f	359.0	1,661.3	1,497.6	1,736.1	1,729.4
Key Ratios (YE31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Revenue growth (%)	2.9	(3.5)	(4.6)	1.0	0.3
EBITDA growth (%)	4.0	10.3	(4.1)	3.8	1.6
Pretax margin (%)	31.9	30.0	27.9	29.6	30.4
Net profit margin (%)	23.6	22.8	20.6	21.9	22.5
Interest cover (x)	19.8	9.9	8.1	9.1	10.1
Effective tax rate (%)	25.9	24.3	26.0	26.0	26.0
Dividend payout (%)	98.9	98.8	100.0	100.0	100.0
Debtors turnover (days)	75	78	84	94	94
Stock turnover (days)	3	4	4	3	3
Creditors turnover (days)	20	19	19	20	20

Source: Company, AmInvestment Bank Bhd estimates

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