

PP14767/09/2012(030761)

Digi.Com Berhad

“Priority to Digitise”

Digi.Com Berhad (Digi) hosted its Analyst’s Day on last Friday where the senior management outlined their views and future strategies to the investment community. In summary, the management shared their views of challenging 2H16 outlook where stiff competition is expected to continue. Notwithstanding that, we maintain our BUY call on Digi with a target price of RM5.75.

Key Highlights

- Rough ride 1H16.** The 1H16 witnessed various themes dampening the telecommunication industry but this is not the case for Digi as various initiatives taken managed to nullify the impacts. Overall, Digi registered slower earnings in 1H16 of RM819 million (-15% y-o-y) due to slower topline growth of RM3.11 billion (-1.9% y-o-y). Earnings were impacted by lower service revenue of RM3.1 billion in 1H16 (-1.9% y-o-y) due to weaknesses in prepaid segment. Despite stiff competition, Digi managed to augment its subscribers in both prepaid and postpaid on y-o-y basis due to its relentless customer focus and competitive bundled offerings. On top of that, Digi’s monetization effort pays well as internet revenue surged 4.2% y-o-y in 1H16.
- Digi competitiveness.** The rapid changes of subscriber behaviours were well tracked by Digi thanks to dedicated team that continuously offer competitive products relevant to the market. This is done by via its clear market and brand positioning, strengthen customer promises on network and customer services having witnessed its transformation from traditionally a giant in prepaid into on par with its peers in terms of network and products.
- Digi-X - The way forward.** Digi has set the tone by setting up Digi -X by focusing on four areas namely

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Monday, July 25, 2016

BUY (TP:RM5.75)

Current Price (RM)	RM4.91
New Fair Value (RM)	RM5.75
Previous Fair Value (RM)	RM5.75
Previous Recommend.	BUY
Upside To Fair Value	17%
Dividend Yield (FY16)	4.0%

Stock Code	
Bloomberg	DIGI MK

Stock & Market Data

Listing	MAIN MARKET	
Sector	Telco	
Shariah Compliance	Yes	
Issued Shares (mn)	7,775.0	
Market Cap (RM mn)	38,175	
YTD Chg In Share Price	-9.1%	
Beta (x)	0.98	
52-week Hi/Lo (RM)	RM5.85	RM4.31
3M Average Volume (shrs)	10,190mn	
Estimated Free Float	34.9%	

Major Shareholders

Telenor	49.0%
EPF	14.1%
ASB	3.22%

Digital Business, Digital Innovation, Digital Platforms and Partnership & Startups. Digi-X will be helmed by Praveen Rajan which will transform Digi to beyond its traditional telco realm, in addition to fuelling innovation within its core business. Though Digi-X is new departments in Digi, Digi-X will hold several initiatives to commence the transformations, through programs of Digi incub8 and Digi accelerate, focusing on idea stage startups and fast track startup business.

- **Digitalisation its core business.** One of the highlights during the briefing was the digitisation of its core business where Digi will undertake the journey to become a truly integrated services provider, whether to its vendor or subscribers. For the start, the introduction of self-service applications for vendors and subscribers were well received. Additionally, Digi had struck various partnership which will enhance the customer experience namely partnership with YouTube, iFlix and WeChat.
- **Spectrum.** Management is unsure when the spectrum announcement from MCMC will be made. However the award of spectrum 5MHz in the 900 MHz will position its coverage into a better quality, as it ensure the in-door coverage network is well received vs. previously where the deployment of 900MHz band were restricted to ultra-rural areas.
- **Championing LTE segment.** Management view LTE as the game changer moving forward to satisfy 2G and 3G network coverage to be in the same level with competitors. 4G-LTE coverage now stands at 76% with LTE-A at 34% coverage.
- **Challenging 2H16.** Digi is set to battle in challenging 2H16 but management has set various targets in 2H16 to ensure they are in the right path. Data monetisation will always be the priority as management will tweak the products to suit the subscriber needs. Additionally, Digi will focus on to lower its COGS as the pressure from slower service revenue will hurt its margin.
- **Earnings Outlook.** No change to our FY16 and FY17 forecast. At this juncture, FY16 and FY17 earnings are expected to grow by 7% y-o-y and 14% y-o-y respectively assisted by 1) impact of network modernization that expands its high speed coverage 2) biggest beneficiary of GST 3) higher take up rate in bundled offerings
- **Valuation.** We rate Digi at RM5.75 as we applied lower EV/EBITDA of 14.5x and reiterate our **BUY** call. Digi's strong operational metrics and nimble marketing strategy apart from a very attractive dividend payout ratio will push investors to shift its holding into the stock. Rating catalyst on the stock will be underpinned by 1) new spectrum award from MCMC 2) completion of its 3G and LTE network expansion.

Table 1: Peers Comparison

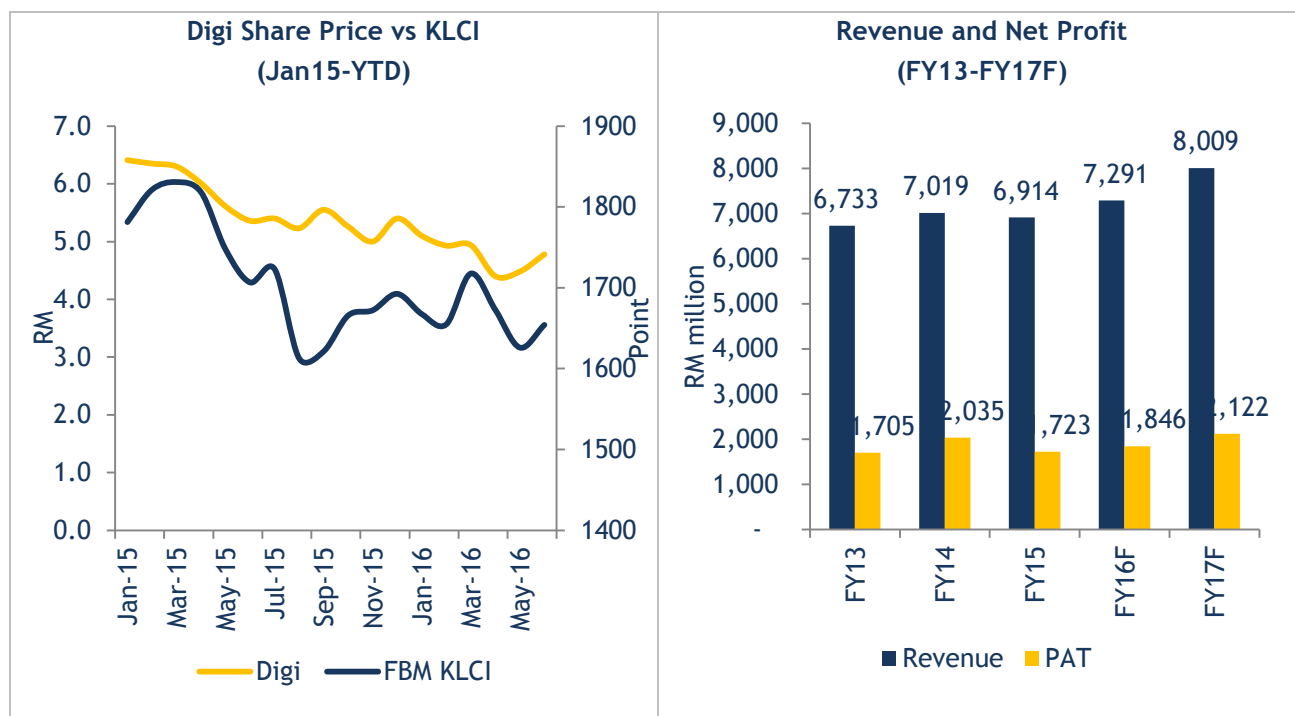
Company	FYE	Price (RM)	EPS (RM)		P/E (x)		P/B (x)		ROE (%)	Div Yield (%)	TP	Call
			FY16	FY17	FY16	FY17	FY16	FY17				
Axiata	Dec	5.73	0.29	0.32	20.4	18.4	2.2	2.1	11.5	3.7	6.45	Buy
Maxis	Dec	6.00	0.26	0.27	24.8	24.0	11.4	10.4	39.1	3.1	6.46	Hold
Digi	Dec	4.91	0.23	0.23	21.5	21.3	73.5	60.5	285.8	4.5	5.75	Buy
Telekom	Dec	6.80	0.24	0.26	27.2	25.4	3.2	3.15	9.1	3.2	6.87	Hold
Time DotCom	Dec	7.49	0.33	0.38	22.3	19.2	2.0	1.9	21.0	0.9	NR	NR
Average			0.27	0.29	23.24	21.6	18.5	15.6	73.3	2.9		

Source: Bloomberg, M&A Securities

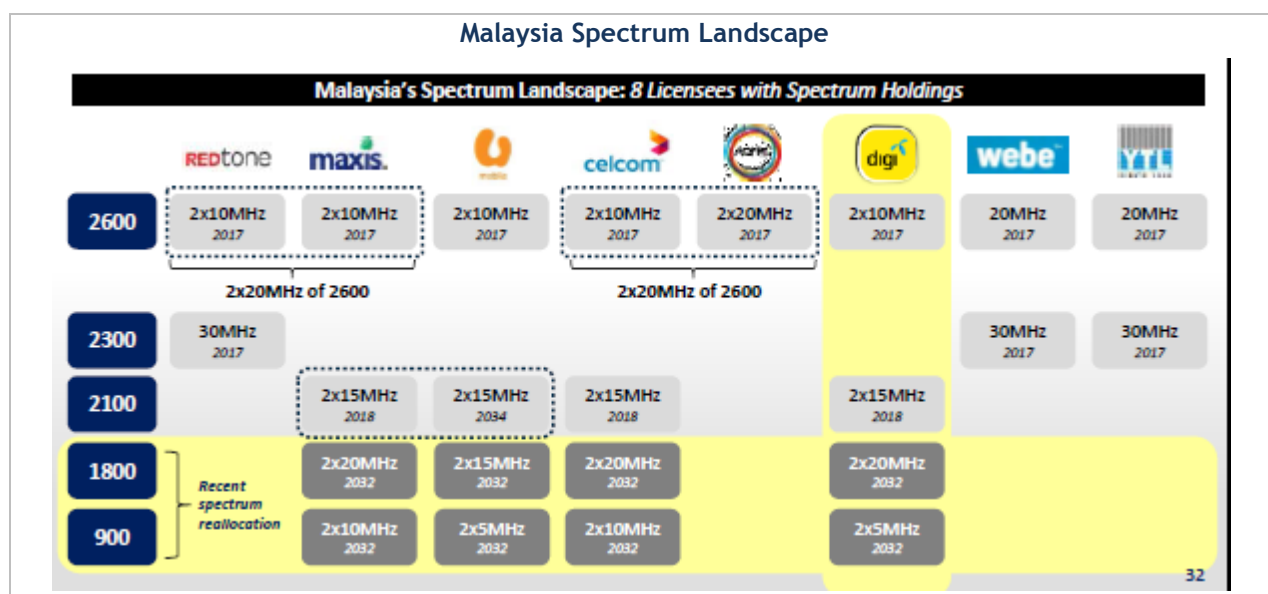
Table 2: Financial Forecast

YE: Dec (RM million)	FY13	FY14	FY15	FY16F	FY17F
Turnover	6,733	7,019	6,914	7,291	8,009
Expenses	-3,714	-3,868	-3,945	-4,229	-4,485
Other income	23	17	13	19	18
EBITDA	3,042	3,167	2,982	3,081	3,542
Depreciation	-878	-492	-628	-679	-766
EBIT	2,164	2,675	2,354	2,402	2,776
Finance income	19	13	11	9	6
Finance cost	-43	-39	-56	34	29
PBT	2,140	2,649	2,309	2,446	2,811
Taxation	-434	-614	-586	-599	-689
PAT	1,705	2,035	1,723	1,846	2,122
EPS (sen)	21.94	26.12	22.15	23.75	27
Dividend - sen	21.3	26	22	24	27
Dividend payment (RMm)	1656	2022	1705	1828	2101
Dividend payout (%)	97%	99%	99%	99%	99%
Retained Earnings	49	14	17	18	21
PER (x)	22.6	23.6	24.9	23.2	20.2
Price	5	6	6	6	6
Gross Yield	4.3%	4.2%	4.0%	4.3%	4.9%
EV/EBITDA	12.8	15.3	14.7	14.1	12.0
EV (Mkt Cap + Total Debt-Cash)	38,902	48,500	43,901	43,431	42,349

Source: Bursa Malaysia, M&A Securities



Source: Bloomberg, M&A Securities



Source: DiGi

M&A Securities

STOCK RECOMMENDATIONS

BUY	Share price is expected to be $\geq +10\%$ over the next 12 months.
TRADING BUY	Share price is expected to be $\geq +10\%$ within 3-months due to positive newsflow.
HOLD	Share price is expected to be between -10% and $+10\%$ over the next 12 months.
SELL	Share price is expected to be $\geq -10\%$ over the next 12 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT	The sector is expected to outperform the FBM KLCI over the next 12 months.
NEUTRAL	The sector is expected to perform in line with the FBM KLCI over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform the FBM KLCI over the next 12 months.

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