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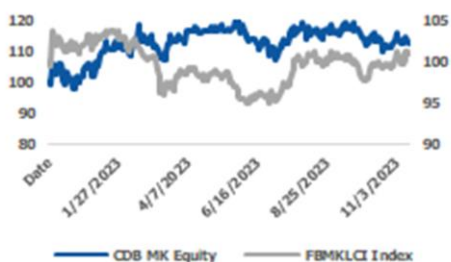
Recommendation:	HOLD
Current Price:	RM 4.26
Previous Target Price:	RM 4.08
Target Price:	RM 4.36
Upside/Downside:	2.3%

Stock information

Board	MAIN
Sector	Telecommunication
Bursa / Bloomberg Code	6947 / CDB MK
Syariah Compliant	Yes
FTSE4Good Index	Yes
FTSE ESG Rating	★★★★
Bloomberg ESG Rating	N/A
Shares issued (m)	11,731.5
Market Cap (RM' m)	49,976.2
52-Week Price Range (RM)	3.64-4.6
Beta (x)	1.3
Free float (%)	46.7
3M Average Volume (m)	2.0
3M Average Value (RM' m)	8.9

Top 3 Shareholders	(%)
Axiata Group Bhd	33.1
Employees Provident Fund Board	9.6
Amanah Saham Nasional Bhd	5.7

Share Price Performance



	1M	3M	12M
Absolute (%)	-0.7	-2.7	10.1
Relative (%)	-2.0	-3.7	9.2

CelcomDigi Berhad

Cost savings gaining traction










Summary

- **CelcomDigi's 9MFY23 normalised net profit at RM1.64b came above our expectations due to lower regulatory and network costs, lower tax in absence of Cukai Makmur and lower depreciation.**
- **Looking ahead, CelcomDigi is expected to realise their post-merger synergies of RM200-250m in 2023.**
- **We maintain our HOLD recommendation with a higher target price of RM4.36 (WACC 6.01%, terminal growth 1%).**

Results Review

- **Results review.** 3QFY23 net profit declined 3.8% yoy to RM459m, due to higher depreciation but rose 31.9% qoq, due to lower operating costs (sales & marketing, operation & maintenance and regulatory costs). Revenue for the quarter was flat (+1% yoy and -0.6% qoq) at RM3.1b mainly on lower Postpaid revenue while Prepaid, Wholesale and Home Fibre recorded slight growths.
- **Above expectation.** In 9MFY23, normalised net profit of RM1.64b (excluding accelerated depreciation) makes up to 88% our forecasted net profit of RM1.87b. Reported net profit of RM1.13b accounted for 83% and 68% of our and consensus net profit forecasts.
- **Operations Highlights.** Postpaid revenue declined 2.2% yoy and 0.7% qoq to RM1.26b due to lower ARPU of RM67 (vs RM68 in 2QFY23) that offset higher subscribers (+92k qoq to 6.86m). Meanwhile, Prepaid revenue grew 1.9% yoy and 0.2% qoq to RM1.15b with a flat ARPU of RM28 and higher subscribers (+22k qoq to 13.6m).
- **Industry Highlights.** The telecommunication industry is gearing up for 5G with focus on the Enterprise segment as the Consumer segment is harder to monetise.
- **Outlook.** Despite flattish revenue in 3QFY23, CelcomDigi is still on track to meet management guidance of a) growth in Service Revenue and b) Flat to single digit growth in EBITDA. However, management expects capex to accelerate in 4QFY23 as current capex-to-revenue ratio of 7.9% is still behind its guidance of 15-18%.
- **Valuation.** Lifted our FY23 normalised earnings forecast by 18% while reduced our revenue estimate by 7%, on the back of the better-than-expected reported bottom line. Re-iterate our **HOLD** recommendation on CelcomDigi, but with a higher target price of RM4.36 (previously RM4.08) as we roll over our valuation metrics to FY24.
- **Risk.** Price slashing by competitors. Changes in government regulations. Higher-than-expected 5G capex affecting cashflow and dividend.

Figure 1: Results Comparison

FYE Dec (RM m)	3QFY23	3QFY22	YoY (%)	2QFY23	QoQ (%)	9MFY22	9MFY23	YoY (%)	5 Quarters Trend	Comments
Revenue	3,104.0	3,072.0	1.0	3,123.0	(0.6)	9,205.0	9,407.0	2.2		Lower postpaid revenue
EBITDA	1,566.8	1,462.0	7.2	1,480.0	5.9	4,401.0	4,557.8	3.6		Lower regulatory and network costs
Pre-tax profit	572.0	689.0	(17.0)	468.0	22.2	2,113.0	1,500.0	(29.0)		
Net profit	459.0	477.0	(3.8)	348.0	31.9	1,457.0	1,128.0	(22.6)		Lower tax and depreciation
Core net profit	598.0	477.0	25.4	527.0	13.5	1,457.0	1,643.0	12.8		Excluding accelerated depreciation
Core EPS (sen)	5.1	4.1	25.4	4.5	13.5	12.4	14.0	12.8		
EBITDA margin (%)	50.5	47.6		47.4		47.8	48.5			
PBT margin (%)	18.4	22.4		15.0		23.0	15.9			
Core PATAMI margin (%)	19.3	15.5		16.9		15.8	17.5			

Source: Company, Apex Securities

Financial Highlights
Income Statement

FYE Dec (RM m)	FY22	FY23F	FY24F	FY25F
Revenue	12511.0	####	####	####
EBITDA	5957.0	6138.2	6029.4	6300.2
Depreciation & Amortisation	-2696.0	-3364.7	-2261.3	-2370.0
EBIT	3221.0	2773.5	3768.1	3930.2
Net Finance Income/ (Cost)	-495.0	-531.1	-500.0	-480.0
Associates & JV	16.0	15.0	15.0	15.0
Pre-tax Profit	3221.0	2773.5	3768.1	3930.2
Tax	-862.0	-564.3	-820.8	-866.3
Profit After Tax	1880.0	1693.0	2462.3	2598.9
Minority Interest	103.0	106.0	110.0	110.0
PATAMI	1777.0	1587.0	2352.3	2488.9
Exceptionals	0.0	516.0	0.0	0.0
Core Net Profit	1880.0	2209.0	2462.3	2598.9

Key Ratios

FYE Dec (RM m)	FY22	FY23F	FY24F	FY25F
EBITDA margin	47.6%	48.6%	47.5%	48.5%
EBIT margin	25.7%	22.0%	29.7%	30.3%
PBT margin	25.7%	22.0%	29.7%	30.3%
PAT margin	15.0%	13.4%	19.4%	20.0%
NP margin	14.2%	12.6%	18.5%	19.2%
Core NP margin	14.2%	12.6%	18.5%	19.2%
ROE	10.9%	9.6%	13.9%	14.2%
ROA	5.3%	4.9%	7.3%	7.7%
Net gearing	83.8%	77.5%	71.6%	66.9%

Key Assumptions

FYE Dec (RM m)	FY22	FY23F	FY24F	FY25F
Postpaid subscribers ('000)	6,672	6,850	6,900	6,950
Prepaid subscribers ('000)	13,313	13,600	13,800	14,000
Postpaid ARPU (RM)	70.0	70.0	70.0	70.0
Prepaid ARPU (RM)	29.0	30.0	30.0	30.0

Valuations

Terminal growth rate	10%
WACC	6.0%
Fair Value (RM)	4.36

Source: Company, Apex Securities

Balance Sheet

FYE Dec (RM m)	FY22	FY23F	FY24F	FY25F
Cash	1221.0	507.5	342.3	288.5
Receivables	2425.0	2526.0	2538.7	2598.0
Other current assets	409.0	570.2	607.7	619.6
Total Current Assets	4055.0	3603.7	3488.7	3506.1
Fixed Assets	6409.0	4307.3	3950.0	3528.5
Intangibles	18695.0	20000.0	20000.0	20500.0
Other non-current assets	127.0	1273.6	1299.9	1329.2
Total Non-current assets	33484.0	32580.8	32249.9	32357.6
Short-term Debt	4139.0	2480.0	2000.0	2000.0
Payables	3522.0	3536.4	3554.2	3637.2
Other Current Liabilities	696.0	1068.4	821.2	834.6
Total Current Liabilities	8357.0	7084.8	6375.4	6471.8
Long-term Debt	10748.0	10798.0	10500.0	10000.0
Other non-current liabilities	2119.0	1815.8	1880.8	1889.7
Total Non-current Liabilities	12867.0	12613.8	12380.8	11889.7
Shareholder's equity	16212.0	16379.9	16872.4	17392.1
Minority interest	103.0	106.0	110.0	110.0
Equity	16315.0	16485.9	16982.4	17502.1

Cash Flow

FYE Dec (RM m)	FY22	FY23F	FY24F	FY25F
Operating cash flow	2817.0	5042.7	4708.6	4953.9
Net capex	-888.0	-1263.0	-1904.0	-1948.5
Others	-1547.0	0.0	0.0	0.0
Investing cash flow	-2422.0	-1263.0	-1904.0	-1948.5
- Debt drawdown	3550.0	1631.0	2000.0	2000.0
- Debt repayment	-1175.0	-3065.0	-1500.0	-1500.0
- Payment of lease liabilities	-485.0	-1000.0	-1000.0	-1000.0
- Finance costs	-258.0	-531.1	-500.0	-480.0
- Dividends paid	-1011.0	-1525.1	-1969.9	-2079.1
Financing cash flow	621.0	-4490.2	-2969.9	-3059.1
Net cash flow	1016.0	-710.5	-165.2	-53.7
Beginning cash	205.0	1218.0	507.5	342.3
Ending cash	1218.0	507.5	342.3	288.5

APEX SECURITIES BERHAD – CONTACT LIST

APEX SECURITIES BHD

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RESEARCH RECOMMENDATION FRAMEWORK

STOCK RECOMMENDATIONS

BUY: Total returns* are expected to exceed 10% within the next 12 months.

HOLD: Total returns* are expected to be within +10% to – 10% within the next 12 months.

SELL: Total returns* are expected to be below -10% within the next 12 months.

TRADING BUY: Total returns* are expected to exceed 10% within the next 3 months.

TRADING SELL: Total returns* are expected to be below -10% within the next 3 months.

*Capital gain + dividend yield

SECTOR RECOMMENDATIONS

OVERWEIGHT: The industry defined by the analyst is expected to exceed 10% within the next 12 months.

NEUTRAL: The industry defined by the analyst is expected to be within +10% to – 10% within the next 12 months.

UNDERWEIGHT: The industry defined by the analyst, is expected to be below -10% within the next 12 months.

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