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| | |
|-------------------------------|----------------|
| Recommendation: | HOLD |
| Current Price: | RM 4.00 |
| Previous Target Price: | RM 4.36 |
| Target Price: | RM 4.19 |
| Upside/Downside: | 4.7% |

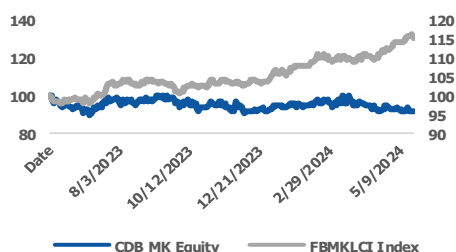
Stock information

| | |
|--------------------------|-------------------|
| 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) | 46,926.0 |
| 52-Week Price Range (RM) | 4.6-4 |
| Beta (x) | 1.2 |
| Free float (%) | 13.4 |
| 3M Average Volume (m) | 2.6 |
| 3M Average Value (RM' m) | 10.7 |

Top 3 Shareholders (%)

| | |
|--------------------------------|------|
| Telenor ASA | 33.1 |
| Axiata Group Bhd | 33.1 |
| Employees Provident Fund Board | 9.9 |

Share Price Performance



| | 1M | 3M | 12M |
|--------------|------|-------|-------|
| Absolute (%) | -4.3 | -8.0 | -12.3 |
| Relative (%) | -6.3 | -11.7 | -23.7 |

CelcomDigi Berhad

Below expectation










Summary

- CDB's 1QFY24 core net profit at RM399.9m was below our and consensus expectation.
- Reported drop in sales in 1QFY24 attributed to lower service revenue.
- Downgrade to HOLD with a lower target price of RM4.19 (WACC 6.8%, terminal growth 0.5%).

Results Review

- **Results review.** 1QFY24 reported net profit declined 15.6% qoq but was up 15.7% yoy to RM371.1m attributed to lower tax charges thanks to the reversal of tax provision incurred from prior year. Revenue for the quarter fell 3.7% qoq and 0.8% yoy as service revenue suffered from decline in ARPU.
- **Below expectations.** 1QFY24 net profit of RM399.9m makes up to 16% and 19.3% of both our and consensus forecasted net profit and was below expectation. The variance was mainly due to higher-than-expected staff costs, arising from a one-off severance package of RM139m.
- **Operations Highlights.** Postpaid revenue dropped 1.6% qoq and 2.6% yoy to RM1.25b amid lower ARPU of RM64 (vs RM69 in 1Q23) despite higher subscribers growth at 4.1% yoy to 6.9m. Similarly, Prepaid revenue also slipped 1.5% yoy and 2.3% qoq to RM1.12b with a flat ARPU of RM28 and lower subscribers that fell 1% yoy to 13.3m. Meanwhile, Home Fibre revenue stood at RM46m which grew 17% yoy but fell 1% qoq with subscribers continue growing at a fast pace to 145k (+35.2% yoy). Nonetheless, Home Fibre's ARPU has declined during the quarter to RM112 (vs RM126 in 1Q23).
- **Merger integration.** The Group is ahead on its network integration and modernisation programme achieving 50% of its target before June 24. These activities include restructuring on staff personnel as well as innovation and introducing new distribution structure. Since the merger between Celcom and Digi, the Group has achieved RM426m of gross synergy from economies of scales and renegotiations of commercial terms.
- **Outlook.** We were introduced with 2024 guidance of a) low single digit growth in Service Revenue, b) Flat growth in EBIT, c) capex intensity of 15%-18%, d) gross synergy target at RM700m.
- **Valuation.** We downgrade to **HOLD** recommendation (previously BUY) with a lower target price of RM4.19 based on DCF valuation (WACC of 6.8% with a long-term growth rate of 0.5%). We also revise downwards our earnings forecast for FY24F and FY25F by -15.6% and -14.1% respectively taking into account the higher OPEX.
- **Risk.** Price slashing by competitors. Changes in government regulations.

Figure 1: Results Comparison

| FYE Dec (RM m) | 1QFY24 | 1QFY23 | YoY (%) | 4QFY23 | QoQ (%) | FY22 | FY23 | YoY (%) | 5 Quarters Trend | Comments |
|-----------------------|---------|---------|---------|---------|---------|----------|----------|---------|---|--------------------------------------|
| Revenue | 3,154.0 | 3,181.0 | (0.8) | 3,275.0 | (3.7) | 12,511.0 | 12,685.0 | 1.4 |  | Dragged by lower service revenue |
| EBITDA | 1,329.1 | 1,518.0 | (12.4) | 1,351.6 | (1.7) | 5,931.0 | 5,952.8 | 0.4 |  | |
| Pre-tax profit | 430.3 | 468.0 | (8.1) | 687.9 | (37.4) | 2,862.0 | 2,215.4 | (22.6) |  | Boosted by reversal of tax provision |
| Net profit | 371.3 | 321.0 | 15.7 | 440.0 | (15.6) | 1,959.0 | 1,570.5 | (19.8) |  | |
| Core net profit | 399.9 | 321.8 | 24.3 | 440.0 | (9.1) | 2,128.6 | 1,744.2 | (18.1) |  | |
| Core EPS (sen) | 3.4 | 2.7 | 24.3 | 3.8 | (9.1) | 16.7 | 13.4 | (19.8) |  | |
| EBITDA margin (%) | 42.1 | 47.7 | | 41.3 | | 47.4 | 46.9 | |  | |
| PBT margin (%) | 13.6 | 14.7 | | 21.0 | | 22.9 | 17.5 | |  | |
| Core PATMI margin (%) | 12.7 | 10.1 | | 13.4 | | 17.0 | 13.8 | |  | |

Source: Company, Apex Securities

Financial Highlights
Income Statement

| FYE Dec (RM m) | FY21 | FY22 | FY23 | FY24F | FY25F |
|-----------------------------|---------------|----------------|----------------|----------------|----------------|
| Revenue | 6336.0 | 12511.0 | 12685.0 | 13655.6 | 13798.5 |
| Operating Profit | 3009.0 | 5957.0 | 6157.2 | 6510.7 | 6481.0 |
| EBITDA | 2992.0 | 5931.0 | 5952.3 | 6299.6 | 6263.6 |
| Depreciation & Amortisation | 1263.0 | 2585.0 | 3229.4 | 2941.0 | 2878.9 |
| EBIT | 1729.0 | 3346.0 | 2722.9 | 3358.7 | 3384.7 |
| Net Finance Income/(Cost) | -215.0 | -479.0 | -539.0 | -627.9 | -447.8 |
| Associates & JV | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Pre-tax Profit | 1514.0 | 2867.0 | 2184.0 | 2730.8 | 2936.9 |
| Tax | -353.0 | -888.0 | -614.2 | 655.4 | 704.9 |
| Profit After Tax | 1161.0 | 1979.0 | 1569.8 | 2075.4 | 2232.0 |
| Minority Interest | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net Profit | 1161.0 | 1979.0 | 1569.8 | 2075.4 | 2232.0 |
| Exceptionals | 0.0 | 149.6 | 174.4 | 0.0 | 0.0 |
| Core Net Profit | 1161.0 | 2128.6 | 1744.2 | 2075.4 | 2232.0 |

Key Ratios

| FYE Dec (RM m) | FY21 | FY22 | FY23 | FY24F | FY25F |
|----------------|--------|-------|-------|-------|-------|
| EBITDA margin | 47.2% | 47.4% | 46.9% | 46.1% | 45.4% |
| EBIT margin | 27.3% | 26.7% | 21.5% | 24.6% | 24.5% |
| PBT margin | 23.9% | 22.9% | 17.2% | 20.0% | 21.3% |
| PAT margin | 18.3% | 15.8% | 12.4% | 15.2% | 16.2% |
| NP margin | 18.3% | 15.8% | 12.4% | 15.2% | 16.2% |
| Core NP margin | 18.3% | 15.8% | 12.4% | 15.2% | 16.2% |
| ROE | 183.5% | 12.1% | 9.5% | 12.2% | 12.8% |
| ROA | 14.8% | 5.3% | 4.3% | 5.8% | 6.3% |
| Net gearing | 46.3% | 25.4% | 28.5% | 24.3% | 21.2% |

Key Assumptions

| FYE Dec (RM m) | FY21 | FY22 | FY23 | FY24F | FY25F |
|------------------------|------|-------|-------|-------|-------|
| Postpaid Mobile ('000) | 3297 | 6672 | 6938 | 6900 | 6950 |
| Prepaid ('000) | 7021 | 13313 | 13483 | 13800 | 14000 |
| Postpaid ARPU (RM) | 62 | 70 | 66 | 70 | 70 |
| Prepaid ARPU (RM) | 33 | 29 | 28 | 30 | 30 |

Valuations

| | FY24F |
|----------------------|-------|
| Terminal growth rate | 0.5% |
| WACC | 6.8% |

Fair Value (RM)
4.19

*FY22 is based on pro-forma merger between Celcom and Digi

Source: Company, Apex Securities

Balance Sheet

| FYE Dec (RM m) | FY21 | FY22 | FY23 | FY24F | FY25F |
|--------------------------------------|---------------|----------------|----------------|----------------|----------------|
| Cash | 204.5 | 1221.0 | 397.0 | 560.3 | 758.9 |
| Receivables | 1050.4 | 2425.0 | 2474.0 | 2663.3 | 2691.2 |
| Inventories | 116.6 | 164.0 | 247.0 | 265.9 | 268.7 |
| Other current assets | 51.1 | 245.0 | 297.0 | 297.0 | 297.0 |
| Total Current Assets | 1422.6 | 4055.0 | 3415.0 | 3786.5 | 4015.8 |
| Fixed Assets | 2863.6 | 6409.0 | 6127.0 | 5234.4 | 4563.2 |
| Intangibles | 284.1 | 18695.0 | 18951.0 | 18951.0 | 18951.0 |
| Other non-current assets | 3269.5 | 8380.0 | 7934.0 | 7934.0 | 7934.0 |
| Total Non-current assets | 6417.2 | 33484.0 | 33012.0 | 32119.4 | 31448.2 |
| Short-term Debt | 1123.4 | 4139.0 | 2228.0 | 2228.0 | 2228.0 |
| Payables | 1444.0 | 3522.0 | 4285.0 | 4690.1 | 4803.5 |
| Other Current Liabilities | 364.7 | 696.0 | 909.0 | 909.0 | 909.0 |
| Total Current Liabilities | 2932.1 | 8357.0 | 7422.0 | 7827.1 | 7940.5 |
| Long-term Debt | 3835.9 | 10748.0 | 10769.0 | 9269.0 | 8269.0 |
| Other non-current liabilities | 439.1 | 2119.0 | 1777.0 | 1777.0 | 1777.0 |
| Total Non-current Liabilities | 4274.9 | 12867.0 | 12546.0 | 11046.0 | 10046.0 |
| Shareholder's equity | 632.8 | 16212.0 | 16348.0 | 16921.4 | 17366.2 |
| Minority interest | 0.0 | 103.0 | 111.0 | 111.0 | 111.0 |
| Equity | 632.8 | 16315.0 | 16459.0 | 17032.4 | 17477.2 |

Cash Flow

| FYE Dec (RM m) | FY21 | FY22 | FY23 | FY24F | FY25F |
|-----------------------------|----------------|----------------|----------------|----------------|----------------|
| Pre-tax profit | 1514.0 | 2867.0 | 2184.0 | 2730.8 | 2936.9 |
| Depreciation & amortisation | 1263.0 | 100.5 | 107.0 | 103.2 | 112.0 |
| Changes in working capital | -46.4 | 656.0 | 631.0 | 196.9 | 82.7 |
| Others | 77.7 | -806.4 | 2820.1 | 2182.4 | 2062.0 |
| Operating cash flow | 2808.3 | 2817.0 | 5742.0 | 5213.3 | 5193.6 |
| Net capex | -803.4 | -888.0 | -1806.0 | -2048.3 | -2207.8 |
| Others | 10.4 | -1534.0 | -338.0 | 0.0 | 0.0 |
| Investing cash flow | -793.0 | -2422.0 | -2144.0 | -2048.3 | -2207.8 |
| Changes in borrowings | -826.0 | 1890.0 | -2836.0 | -1500.0 | -1000.0 |
| Issuance of shares | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Dividends paid | -1135.0 | -1011.0 | -1502.0 | -1502.0 | -1787.2 |
| Others | -153.0 | -258.0 | -85.0 | 0.0 | 0.0 |
| Financing cash flow | -2114.0 | 621.0 | -4423.0 | -3002.0 | -2787.2 |
| Net cash flow | -98.7 | 1016.0 | -825.0 | 163.0 | 198.6 |
| Forex | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Others | 1.0 | 0.0 | 1.0 | 0.0 | 0.0 |
| Beginning cash | 303.0 | 205.4 | 1221.4 | 397.4 | 560.3 |
| Ending cash | 205.4 | 1221.4 | 397.4 | 560.3 | 758.9 |

APEX SECURITIES BERHAD – CONTACT LIST

APEX SECURITIES BHD

DEALING TEAM

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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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