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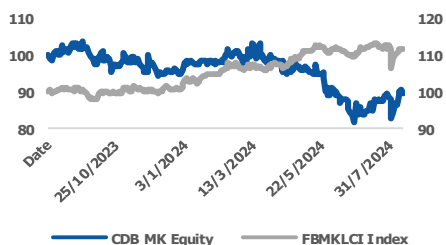
Recommendation:	BUY
Current Price:	RM 3.76
Previous Target Price:	RM 4.19
Target Price:	RM 4.15
Upside/Downside:	10.5%

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)	44,110.5
52-Week Price Range (RM)	4.5-3.42
Beta (x)	1.2
Free float (%)	23.3
3M Average Volume (m)	4.5
3M Average Value (RM' m)	16.7

Top 3 Shareholders	(%)
Axiata Group Bhd	33.1
Telenor ASA	33.1
Employees Provident Fund Board	10.1

Share Price Performance



	1M	3M	12M
Absolute (%)	0.8	-7.4	-14.2
Relative (%)	1.6	-7.8	-23.6

CelcomDigi Berhad

Picking up pace

Summary


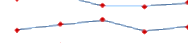



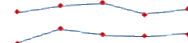



- CDB reported 2QFY24 core net profit of RM422.1m (1QFY24: RM405.1m, 2QFY23: RM348.5m) and 1HFY24 CNP of RM827.2m (1HFY23: RM667.4m), was below our and consensus forecasts, accounting for 40% and 42% of forecasts respectively due to decline in prepaid revenue as actual prepaid subscribers in 1H24 was -6.2% lower than expectations.
- As a result, we lowered our FY24-26 earnings by -5.8%/-2.6%/-1.4% respectively after taking into account stronger-than-anticipated competition within the prepaid market.
- Maintained our call to BUY with a lower TP of RM4.15 from RM4.19 previously based on WACC 6.9% and terminal growth of 0.5%.

Results Review

- **Results review.** 2QFY24 core net profit recorded strong growth at +4.2% qoq and +23.9% yoy to RM422.1m. The higher yoy profit was driven by reduced depreciation charges and tax expenses, in tandem with the revision of asset useful life and the recognition of Green Tax Incentive. Revenue for the quarter, however, fell -0.5% qoq and -0.7% yoy as service revenue suffered from lower prepaid revenue that partially offset by growth in postpaid and fibre.
- **Below expectations.** 6MFY24 core net profit of RM827.2m came below expectations, making up to 40% and 42% of both our and consensus forecasted net profit. The variance was mainly due to lower-than-expected prepaid revenue growth as actual prepaid subscribers in 1H24 was -6.2% lower than expectations.
- **Operations Highlights.** In 2Q24, total subscriber base stood at 20.2m down -1.2% qoq from 20.5m. While postpaid subscriber base improved (+1.7% qoq, from 7.0m to 7.1m), prepaid subscriber has lagged behind (-2.8% qoq, from 13.3m to 12.9m) due to fewer promotional activities to attract new customers. ARPU for both postpaid (+1.6% qoq, RM64 to RM65) and prepaid (flat qoq to RM28) remained stable throughout the quarter. Concurrently, home fibre continues to show promising revenue growth supported by new additions in subscriber base (+12.4% qoq, from 145k to 163k), while ARPU slipped -2.4% qoq, from RM112 to RM107.
- **Industry Highlights.** All four telecom operators, except YTL, have submitted bids to develop the second 5G network. Presently, telcos lease access to the 5G network from DNB rather than owning 5G spectrum. However, once the successful bidder is announced, the winners will receive two 20MHz blocks (723MHz to 743MHz and 778MHz to 798MHz) for the 700MHz spectrum and a 100MHz block (3.5GHz to 3.6GHz) for the 3.5GHz spectrum. This will inevitably lead to increased capex spending, as the winner will need to invest in developing their own infrastructure moving forward.
- **Outlook.** Retain 2024 outlook of i) low single digit growth in Service Revenue, ii) Flat growth in EBIT, iii) capex of 15%-18%.

- **Valuation.** Revised downwards our earnings forecast for FY24-FY26 by -5.8%/-2.6%/-1.4% respectively after adjusting our service revenue forecast. Re-iterate our **BUY** recommendation with a slightly lower target price of RM4.15 based on DCF valuation (WACC of 6.9% with a long-term growth rate of 0.5%).
- **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)	2QFY24	2QFY23	YoY (%)	1QFY24	QoQ (%)	1H23	1H24	YoY (%)	5 Quarters Trend	Comments
Revenue	3,105.9	3,122.7	(0.5)	3,154.2	(1.5)	6,303.7	6,260.2	(0.7)		Dragged by lower service revenue
EBITDA	1,414.2	1,500.8	(5.8)	1,328.7	6.4	3,018.8	2,742.9	(9.1)		
Pre-tax profit	528.8	471.1	12.2	429.9	23.0	939.1	958.7	2.1		
Net profit	406.5	343.5	18.3	376.5	8.0	661.6	782.9	18.3		Lower depreciation and recognition of
Core net profit	422.1	348.5	21.1	405.1	4.2	667.4	827.2	23.9		Green Tax Incentive
Core EPS (sen)	3.6	3.0	21.1	3.5	4.2	5.7	7.1	23.9		
EBITDA margin (%)	45.5	48.1		42.1		47.9	43.8			
PBT margin (%)	17.0	15.1		13.6		14.9	15.3			
Core PATMI margin (%)	13.6	11.2		12.8		10.6	13.2			

Financial Highlights
Income Statement

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Revenue	12511.0	12685.0	13405.5	13737.5	14151.7
Operating Profit	5957.0	6157.2	6352.2	6509.5	6705.7
EBITDA	5931.0	5952.3	6141.1	6292.1	6481.9
Depreciation & Amortisation	2585.0	3229.4	2941.0	2858.3	2722.0
EBIT	3346.0	2722.9	3200.2	3433.8	3759.9
Net Finance Income/(Cost)	-479.0	-539.0	-627.9	-572.5	-547.6
Associates & JV	0.0	0.0	0.0	0.0	1.0
Pre-tax Profit	2867.0	2184.0	2572.3	2861.4	3212.3
Tax	-888.0	-614.2	617.4	686.7	771.0
Profit After Tax	1979.0	1569.8	1954.9	2174.6	2441.4
Minority Interest	0.0	-14.6	-16.7	-18.6	-20.8
Net Profit	1979.0	1584.4	1971.6	2193.2	2462.2
Exceptionals	149.6	174.4	0.0	0.0	0.0
Core Net Profit	2128.6	1758.8	1971.6	2193.2	2462.2

Key Ratios

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
EBITDA margin	47.4%	46.9%	45.8%	45.8%	45.8%
EBIT margin	26.7%	21.5%	23.9%	25.0%	26.6%
PBT margin	22.9%	17.2%	19.2%	20.8%	22.7%
PAT margin	15.8%	12.4%	14.6%	15.8%	17.3%
NP margin	15.8%	12.5%	14.7%	16.0%	17.4%
Core NP margin	15.8%	12.5%	14.7%	16.0%	17.4%
ROE	12.1%	9.6%	11.6%	12.6%	14.1%
ROA	5.3%	4.3%	5.5%	6.1%	6.8%
Net gearing	25.4%	28.5%	30.5%	27.1%	23.7%

Valuations

Terminal growth rate	0.5%
WACC	6.9%
Fair Value (RM)	4.15

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

Source: Company, Apex Securities

Balance Sheet

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Cash	1221.0	397.0	840.6	1538.5	2881.2
Receivables	2425.0	2474.0	2614.5	2679.3	2760.1
Inventories	164.0	247.0	261.0	267.5	275.6
Other current assets	245.0	297.0	297.0	297.0	297.0
Total Current Assets	4055.0	3415.0	4013.1	4782.3	6213.8
Fixed Assets	6409.0	6127.0	5196.9	4536.6	4220.4
Intangibles	18695.0	18951.0	18951.0	18951.0	18951.0
Other non-current assets	8380.0	7934.0	7934.0	7934.0	7934.0
Total Non-current assets	33484.0	33012.0	32081.9	31421.6	31105.4
Short-term Debt	4139.0	2228.0	0.0	0.0	0.0
Payables	3522.0	4285.0	4630.0	4744.7	4887.7
Other Current Liabilities	696.0	909.0	909.0	909.0	909.0
Total Current Liabilities	8357.0	7422.0	5539.0	5653.7	5796.7
Long-term Debt	10748.0	10769.0	11850.0	11334.8	11717.8
Other non-current liabilities	2119.0	1777.0	1777.0	1777.0	1777.0
Total Non-current Liabilities	12867.0	12546.0	13627.0	13111.8	13494.8
Shareholder's equity	16212.0	16348.0	16817.6	17327.1	17916.3
Minority interest	103.0	111.0	111.0	111.0	111.0
Equity	16315.0	16459.0	16928.6	17438.1	18027.3

Cash Flow

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Pre-tax profit	2867.0	2184.0	2572.3	2861.4	3212.3
Depreciation & amortisation	3229.4	2941.0	2858.3	2722.0	2321.2
Changes in working capital	656.0	631.0	190.4	43.5	54.2
Others	-3935.4	-13.9	-518.0	-531.9	-349.4
Operating cash flow	2817.0	5742.0	5103.0	5094.9	5238.4
Net capex	-888.0	-1806.0	-2010.8	-2198.0	-2405.8
Others	-1534.0	-338.0	0.0	0.0	0.0
Investing cash flow	-2422.0	-2144.0	-2010.8	-2198.0	-2405.8
Changes in borrowings	1890.0	-2836.0	-1147.0	-515.3	383.0
Issuance of shares	0.0	0.0	0.0	0.0	0.0
Dividends paid	-1011.0	-1502.0	-1502.0	-1683.7	-1872.9
Others	-258.0	-85.0	0.0	0.0	0.0
Financing cash flow	621.0	-4423.0	-2649.0	-2199.0	-1489.9
Net cash flow	1016.0	-825.0	443.2	697.9	1342.6
Forex	0.0	0.0	0.0	0.0	0.0
Others	0.0	1.0	0.0	0.0	0.0
Beginning cash	205.4	1221.4	397.4	840.6	1538.5
Ending cash	1221.4	397.4	840.6	1538.5	2881.2

APEX SECURITIES BERHAD – CONTACT LIST

APEX SECURITIES BHD	DEALING TEAM	RESEARCH 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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