

Steven Chong

(603) 7890 8888 (ext 2068)

stevenchong@apexsecurities.com.my

Recommendation: **BUY**

Current Price: **RM 3.37**

Previous Target Price: **RM 4.15**

Target Price: ↓ **RM 4.05**

Upside/Downside: 20.2%

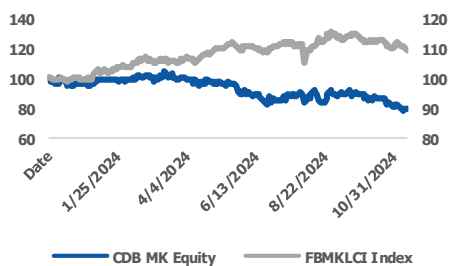
Stock information

| | |
|--------------------------|-------------------|
| 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) | 39,535.2 |
| 52-Week Price Range (RM) | 4.43-3.25 |
| Beta (x) | 1.2 |
| Free float (%) | 23.3 |
| 3M Average Volume (m) | 3.5 |
| 3M Average Value (RM' m) | 12.6 |

Top 3 Shareholders (%)

| | |
|--------------------------------|------|
| Telenor ASA | 33.1 |
| Axiata Group Bhd | 33.1 |
| Employees Provident Fund Board | 10.2 |

Share Price Performance



| | 1M | 3M | 12M |
|--------------|------|------|-------|
| Absolute (%) | -6.4 | -6.4 | -20.9 |
| Relative (%) | -3.9 | -3.8 | -28.0 |

CelcomDigi Berhad

Held back by modest growth in mobile service

Summary

- **CDB reported 3QFY24 CNP of RM444.2m (-9.0% yoy, +5.3% qoq), bringing 9MFY24 CNP to RM1.29bn (+11.5% yoy), , accounted to 65% and 71% of ours and consensus forecasts respectively due to lower-than-expected net adds in postpaid subscribers.**
- **As a result, we lowered our FY24-26 earnings by -16.1%/-14.6%/-5.5% to RM1.65bn/RM1.87bn/RM2.33bn respectively.**
- **Maintained our BUY recommendation with a lower TP of RM4.05, based on key assumptions of WACC 6.9% and terminal growth of 0.5%.**

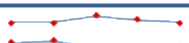
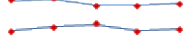







Results Review

- **Results review.** 3QFY24 CNP stood at RM444.2m, (-9.0% yoy, +5.3% qoq), dragged by normalisation of tax expenses, following the over-provision of deferred tax seen in 3QFY23. Revenue remained flattish at RM3.1bn (+0.7% yoy, -1.4% qoq) mainly led by growth in postpaid and home fibre segment.
- **Below expectations.** 9MFY24 core net profit of RM1.29bn makes up to only 65% and 71% of both our and consensus expectations. The variance was mainly due to lower-than-expected service revenue which remain mostly flat at +0.6% yoy, compared to our expectation of +3.0% yoy.
- **Operations Highlights.** In 3Q24, total subscriber stood at 20.2m, down -1.6% qoq from 20.6m. Postpaid subscriber base grew modestly (+1.6% qoq, from 5.6m to 5.7m), while the decline in prepaid subscribers has started to slowdown (-0.8% qoq, from 12.9m to 12.8m) driven by reduced dependence on one-time SIM customers. ARPU for postpaid dropped (-3.2% qoq, RM63 to RM61) in tandem with higher uptake on attractive packages and competitive pricing. Elsewhere, prepaid ARPU (flat qoq to RM28) remained stable. Home fibre continues to show strong growth supported by new additions in subscriber base (+12.8% qoq, from 141k to 159k), with ARPU increased +5.8% qoq, from RM103 to RM109.
- **Declared dividend of 3.6 sen per share.** Expect a dividend of 3.5 sen per share in 4QFY24 potentially bringing, total dividend for FY24 at 14.1 sen per share, which translates into a dividend yield of 4.2% based on current share price of RM3.37.
- **Outlook.** Outlook for 2024 was revised on the account of i) flat to slight decrease in Service Revenue (from single digit growth), and ii) single digit decline in EBIT (from flat growth). That said, we anticipate significant synergy savings starting in 2025, as the integration costs for the merger are expected to peak in 2024. Currently, gross synergy will surpass the Group's internal FY24 guidance of RM700m, reaching c.RM1.1-RM1.2bn.

- **Valuation.** Trimmed our CNP for FY24-FY26 by -16.1%/-14.6%/-5.5% to RM1.65bn/RM1.87bn/RM2.33bn respectively after slashing our service revenue forecast. Re-iterate our **BUY** recommendation with a lower target price of RM4.05 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) | 3QFY24 | 3QFY23 | YoY (%) | 1QFY24 | QoQ (%) | 9M23 | 9M24 | YoY (%) | 5 Quarters Trend | Comments |
|-----------------------|---------|---------|---------|---------|---------|---------|---------|---------|---|--|
| Revenue | 3,126.5 | 3,105.0 | 0.7 | 3,171.0 | (1.4) | 9,407.3 | 9,403.4 | (0.0) |  | Lower-than-anticipated service revenue |
| EBITDA | 1,501.8 | 1,581.0 | (5.0) | 1,345.4 | 11.6 | 4,599.8 | 4,261.5 | (7.4) |  | |
| Pre-tax profit | 594.1 | 586.4 | 1.3 | 446.6 | 33.0 | 1,501.0 | 1,569.6 | 4.6 |  | Dragged by higher tax |
| Net profit | 437.0 | 455.7 | (4.1) | 393.2 | 11.1 | 1,127.5 | 1,236.7 | 9.7 |  | |
| Core net profit | 444.2 | 488.1 | (9.0) | 421.8 | 5.3 | 1,155.5 | 1,288.1 | 11.5 |  | |
| Core EPS (sen) | 3.8 | 4.2 | (9.0) | 3.6 | 5.3 | 9.8 | 11.0 | 11.5 |  | |
| EBITDA margin (%) | 48.0 | 50.9 | | 42.4 | | 48.9 | 45.3 | |  | |
| PBT margin (%) | 19.0 | 18.9 | | 14.1 | | 16.0 | 16.7 | |  | |
| Core PATMI margin (%) | 14.2 | 15.7 | | 13.3 | | 12.3 | 13.7 | |  | |

Source: Company, Apex Securities

Financial Highlights
Income Statement

| FYE Dec (RM m) | FY22 | FY23 | FY24F | FY25F | FY26F |
|-----------------------------|----------------|----------------|----------------|----------------|----------------|
| Revenue | 12511.0 | 12685.0 | 12667.0 | 12842.2 | 13228.8 |
| Operating Profit | 5957.0 | 6157.2 | 5938.9 | 6021.0 | 6400.7 |
| EBITDA | 5931.0 | 5952.3 | 5727.9 | 5803.7 | 6176.8 |
| Depreciation & Amortisation | 2585.0 | 3229.4 | 2941.0 | 2797.3 | 2606.1 |
| EBIT | 3346.0 | 2722.9 | 2786.9 | 3006.3 | 3570.7 |
| Net Finance Income/(Cost) | -479.0 | -539.0 | -627.9 | -561.8 | -536.1 |
| Associates & JV | 0.0 | 0.0 | 0.0 | 0.0 | 1.0 |
| Pre-tax Profit | 2867.0 | 2184.0 | 2159.0 | 2444.6 | 3034.6 |
| Tax | -888.0 | -614.2 | 518.2 | 586.7 | 728.3 |
| Profit After Tax | 1979.0 | 1569.8 | 1640.9 | 1857.9 | 2306.3 |
| Minority Interest | 0.0 | -14.6 | -14.0 | -15.8 | -19.7 |
| Net Profit | 1979.0 | 1584.4 | 1654.9 | 1873.7 | 2326.0 |
| Exceptionals | 149.6 | 174.4 | 0.0 | 0.0 | 0.0 |
| Core Net Profit | 2128.6 | 1758.8 | 1654.9 | 1873.7 | 2326.0 |

Key Ratios

| FYE Dec (RM m) | FY22 | FY23 | FY24F | FY25F | FY26F |
|----------------|-------|-------|-------|-------|-------|
| EBITDA margin | 47.4% | 46.9% | 45.2% | 45.2% | 46.7% |
| EBIT margin | 26.7% | 21.5% | 22.0% | 23.4% | 27.0% |
| PBT margin | 22.9% | 17.2% | 17.0% | 19.0% | 22.9% |
| PAT margin | 15.8% | 12.4% | 13.0% | 14.5% | 17.4% |
| NP margin | 15.8% | 12.5% | 13.1% | 14.6% | 17.6% |
| Core NP margin | 15.8% | 12.5% | 13.1% | 14.6% | 17.6% |
| ROE | 12.1% | 9.6% | 10.0% | 11.0% | 13.6% |
| ROA | 5.3% | 4.3% | 4.7% | 5.3% | 6.6% |
| Net gearing | 25.4% | 28.5% | 31.9% | 28.4% | 24.7% |

Valuations

| | FY25F |
|------------------------|-------------|
| Terminal growth rate | 0.5% |
| WACC | 6.9% |
| Fair Value (RM) | 4.05 |

*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 | 357.8 | 1053.1 | 2529.6 |
| Receivables | 2425.0 | 2474.0 | 2470.5 | 2504.7 | 2580.1 |
| Inventories | 164.0 | 247.0 | 246.6 | 250.1 | 257.6 |
| Other current assets | 245.0 | 297.0 | 297.0 | 297.0 | 297.0 |
| Total Current Assets | 4055.0 | 3415.0 | 3371.9 | 4104.9 | 5664.3 |
| Fixed Assets | 6409.0 | 6127.0 | 5086.1 | 4343.5 | 3986.3 |
| 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 | 31971.1 | 31228.5 | 30871.3 |
| Short-term Debt | 4139.0 | 2228.0 | 0.0 | 0.0 | 0.0 |
| Payables | 3522.0 | 4285.0 | 4416.5 | 4477.6 | 4482.1 |
| Other Current Liabilities | 696.0 | 909.0 | 909.0 | 909.0 | 909.0 |
| Total Current Liabilities | 8357.0 | 7422.0 | 5325.5 | 5386.6 | 5391.1 |
| Long-term Debt | 10748.0 | 10769.0 | 11628.3 | 11097.0 | 11568.9 |
| Other non-current liabilities | 2119.0 | 1777.0 | 1777.0 | 1777.0 | 1777.0 |
| Total Non-current Liabilities | 12867.0 | 12546.0 | 13405.3 | 12874.0 | 13345.9 |
| Shareholder's equity | 16212.0 | 16348.0 | 16500.9 | 16961.4 | 17687.2 |
| Minority interest | 103.0 | 111.0 | 111.0 | 111.0 | 111.0 |
| Equity | 16315.0 | 16459.0 | 16611.9 | 17072.4 | 17798.2 |

Cash Flow

| FYE Dec (RM m) | FY22 | FY23 | FY24F | FY25F | FY26F |
|-----------------------------|----------------|----------------|----------------|----------------|----------------|
| Pre-tax profit | 2867.0 | 2184.0 | 2159.0 | 2444.6 | 3034.6 |
| Depreciation & amortisation | 3229.4 | 2941.0 | 2797.3 | 2606.1 | 2192.5 |
| Changes in working capital | 656.0 | 631.0 | 135.4 | 23.5 | -78.4 |
| Others | -3935.4 | -13.9 | -360.6 | -379.6 | -295.0 |
| Operating cash flow | 2817.0 | 5742.0 | 4731.2 | 4694.6 | 4853.7 |
| Net capex | -888.0 | -1806.0 | -1900.1 | -2054.8 | -2248.9 |
| Others | -1534.0 | -338.0 | 0.0 | 0.0 | 0.0 |
| Investing cash flow | -2422.0 | -2144.0 | -1900.1 | -2054.8 | -2248.9 |
| Changes in borrowings | 1890.0 | -2836.0 | -1368.7 | -531.3 | 471.8 |
| Issuance of shares | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Dividends paid | -1011.0 | -1502.0 | -1502.0 | -1413.2 | -1600.1 |
| Others | -258.0 | -85.0 | 0.0 | 0.0 | 0.0 |
| Financing cash flow | 621.0 | -4423.0 | -2870.7 | -1944.5 | -1128.3 |
| Net cash flow | 1016.0 | -825.0 | -39.6 | 695.4 | 1476.5 |
| 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 | 357.8 | 1053.1 |
| Ending cash | 1221.4 | 397.4 | 357.8 | 1053.1 | 2529.6 |

APEX SECURITIES BERHAD – CONTACT LIST

| APEX SECURITIES BHD | DEALING TEAM | RESEARCH TEAM |
|--|--|--|
| <p>Head Office: 5th Floor Menara UAC, 12, Jalan PJU 7/5, Mutiara Damansara, 47800 Petaling Jaya, Selangor Darul Ehsan, Malaysia</p> <p>General Line: (603) 7890 8899</p> <p>Petaling Jaya Office: 16th Floor, Menara Choy Fook Onn, No.1B Jalan Yong Shook Lin, 46050 Petaling Jaya, Selangor Darul Ehsan, Malaysia</p> <p>General Line: (603) 7620 1118</p> | <p>Head Office: Kong Ming Ming (ext 2002) Lee Chen Ming (ext 2029) Shirley Chang (ext 2026) Ahmad Mujib (ext 2028) Azfar Bin Abdul Aziz (ext 2031) Aizzat Bin Mohd Daud (ext 2030)</p> <p>Institutional Dealing Team: Low Jin Wu (ext 2109)</p> <p>PJ Office: General Line: (603) 7620 1118</p> | <p>Head Office: Kenneth Leong (ext 2093) Steven Chong (ext 2068) Jayden Tan (ext 2069) Chelsea Chew (ext 2070) Tan Sue Wen (ext 2095) Ong Tze Hern (ext 2113) Samuel Woo (ext 2121) Muhammad Subaiyil Amir (ext 2112)</p> |

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

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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