

DiGi to sell iPhone soon

News

According to a news report yesterday, DiGi has signed an agreement to sell Apple Inc's iPhone in Malaysia. According to CEO Johan Dannelind, DiGi will start selling iPhone 3G and 3GS in the "coming months", thus ending Maxis' monopoly on selling iPhones in Malaysia. The value of the deal was undisclosed.

Apart from DiGi, it is understood that Celcom Axiata, a wholly-owned subsidiary of Axiata, is considering selling iPhones as well in Malaysia, subject to a viability study as the iPhone requires a dedicated end-to-end system. CEO Datuk Seri Shazalli Ramly said Celcom could have marketed the smartphone two years ago but it was then focusing on the broadband service, which was registering strong growth back then.

Dannelind expects the three-year agreement to help DiGi increase sales more than 5% this year. According to Dannelind, the potential for growth in broadband is "huge" and "the size of the market now is about half a billion ringgit and it could easily rise 9-, 10-fold over the next five years as more and more people use their handsets to access the Internet." (BT)

Comments

We are mildly positive on this development, as DiGi will be able to compete more effectively in postpaid and wireless broadband market given the popularity of the iPhone among Malaysian consumers. The offering of the smart phone should also help stem the decline of blended ARPU. In addition, DiGi should see higher data revenue contribution currently at c.20% to overall mobile revenue.

However, higher A&P costs and handset subsidies may put downside pressure on DiGi's EBITDA margins this year. Besides offering attractive subsidies, DiGi has to ensure its monthly data plans are more competitive than Maxis', given that DiGi has only about 30% 3G population coverage compared to Maxis at 60%.

For FY09, DiGi's EBITDA margins have already trended lower y-o-y to 43.3% in FY09 (FY08: 45.1%) due to wireless broadband expansion costs, as well as higher traffic costs and bad debts.

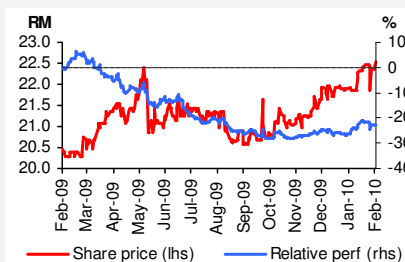
Give the indication that DiGi will offer the iPhone in the "coming months", we expect the smart phone to be offered only in 2HCY09. Hence, we expect the impact to be minimal to earnings this year.

As we make no changes to our earnings forecast, we reiterate our HOLD rating on DiGi with a DCF-derived target price of RM23.20 (WACC: 6.9%, g: 2.0%).

FYE 31 Dec	2008	2009	2010F	2011F	2012F
Net profit	1,140.7	1,000.4	1,100.6	1,145.6	1,211.8
EPS (sen)	146.7	128.7	141.6	147.3	155.9
P/E (x)	15.3	17.5	15.9	15.3	14.4
DPS (sen)	188.0	178.0	184.0	191.5	202.6
Dividend yield (%)	8.3	7.9	8.2	8.5	9.0
P/BV (x)	9.2	11.6	14.8	20.8	36.8

TELECOMMUNICATION

Share Price Chart



Source: Bloomberg

Price Performance

Price (RM)	22.52		
52-week Range (RM)	20.28 – 22.52		
Avg Daily Volume ('000)	274		
	1M	3M	6M
Absolute (%)	2.7	5.9	6.0
Relative (%)	4.8	5.9	(1.9)

Key Data

Market Cap (RM m)	17,182.8
Issued Shares (m)	777.5

Major Shareholders

	%
Telenor	49.0
EPF	16.2
Time dotCom	7.1

Balance Sheet Highlights (RM m)

(@ 31.12.2010) (performance indicator's annualised)

Total Assets	4,732
Total Liabilities	3,194
Total Debt (Gross)	770
Shareholders' Equity	1,539
Return on Assets (%)	23.3
Return on Equity (%)	93.0
Net Cash / Share (RM)	-
Debt / Equity (x)	0.7
Interest Cover (x)	39.5

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Key to stock recommendations:

Buy = Share price is expected to appreciate by >10% over the next 12 months

Hold = Share price is expected to move by less than +/-10% over the next 12 months

Sell = Share price is expected to decline by >10% over the next 12 months

Key to sector recommendations:

Overweight = Industry expected to outperform the market over the next 12 months

Neutral = Industry expected to perform in-line with the market over the next 12 months

Underweight = Industry expected to underperform the market over the next 12 months

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