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## Waiting on synergies

# HOLD

(Maintained)

### Rationale for report: Company Result

Price	RM3.92
Fair Value	RM3.85
52-week High/Low	RM4.17/RM3.25

#### Key Changes

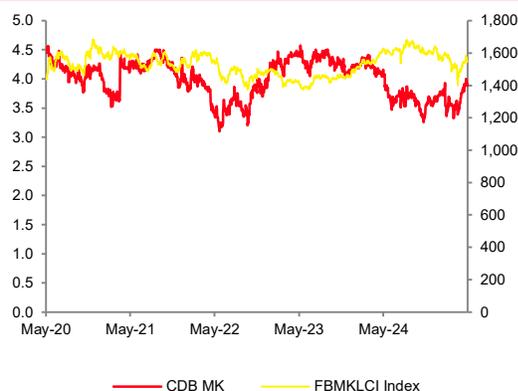
Fair value	↔
EPS	↔

YE to Dec	FY24	FY25F	FY26F	FY27F
Revenue (RM mil)	12,679.4	12,629.7	12,625.1	12,618.1
Core net profit (RM mil)	1,812.4	1,934.2	1,977.9	1,987.1
FD Core EPS (sen)	15.4	16.5	16.9	16.9
FD Core EPS growth (%)	(25.0)	6.7	2.3	0.5
Consensus Net Profit (RM mil)	-	-	-	-
DPS (sen)	14.1	15.4	16.7	16.9
PE (x)	25.2	23.7	23.1	23.0
EV/EBITDA (x)	10.1	9.6	9.7	9.8
Div yield (%)	3.6	4.0	4.3	4.4
ROE (%)	8.5	12.0	12.2	12.2
Net Gearing (%)	nm	nm	nm	nm

#### Stock and Financial Data

Shares Outstanding (million)	11,731.5
Market Cap (RMmil)	45,752.9
Book Value (RM/Share)	1.37
P/BV (x)	2.8
ROE (%)	8.5
Net Gearing (%)	-
Major Shareholders	Axiata Group (33.1%) Telenor ASA (33.1%) EPF (10.6%)
Free Float	23.3
Avg Daily Value (RMmil)	10.1

Price performance	3mth	6mth	12mth
Absolute (%)	13.7	9.9	(3.9)
Relative (%)	17.1	13.0	0.9



#### Investment Highlights

**CelcomDigi's 1Q25 core earnings (-12% YoY) came within the lower end of expectations, due to higher costs (+2% YoY). Execution remains the largest risk for the stock, if it fails to deliver on promised synergies. Service revenue fell 1% YoY, but its prepaid segment is showing signs of stabilisation. Backed by its defensive revenues and decent dividend yield of 4%, we retain HOLD at an unchanged TP of RM3.85/share.**

- **Retain HOLD at TP of RM3.85/share.** This is based on a target EV/Ebitda of 9.5x and CY26 Ebitda. We like the group as a defensive option, considering the inelastic demand for its services and decent dividend yield of 4%. A first interim dividend of 3.7sen/share was declared. The biggest risk to the group is execution, if it fails to deliver on promised synergies.
- **Within lower end of expectations.** CelcomDigi reported a 1Q25 core profit of RM425mil (-12% YoY). This is within the lower end of expectations, forming 22% and 23% of ours and consensus full year estimates. Total cost increased 2% YoY, due to 5G traffic costs, backhaul transmission and device costs. 5G traffic cost during the quarter was RM55mil, which is expected to sustain at these levels for the foreseeable future.
- **Prepaid drag stabilising.** Albeit behind, management is keeping to its 2025 growth targets for revenue of low single digit and Ebit by low to mid-single digit. 1Q25 service revenue declined 1% YoY, due to a fall in prepaid revenues (-6% YoY). This more than offset postpaid (+3% YoY) and home & fibre (+49% YoY) revenue growth. Positively, its prepaid subs base is stabilising, growing for the 2nd consecutive quarter at +113k QoQ. This is part of its strategic decision to reduce reliance on one-time rotational SIMs and focusing on data centric customers.
- **Update on merger synergies.** With respect to synergies, the group disclosed that it is on track to deliver steady state annualised cost savings of RM700-800mil post-2027. 1QFY25 net synergies totalled RM3mil, after accounting for integration costs of RM63mil. Network integration and modernisation reached 80% completion as of end Mar 2025. Targets are to have 75% of its systems integrated by year end. In terms of retail, over 50 new digital concept stores have been launched and more than 300 exclusive partner stores will be transformed, over the next phase.

## EXHIBIT 1: 1Q25 EARNINGS SUMMARY

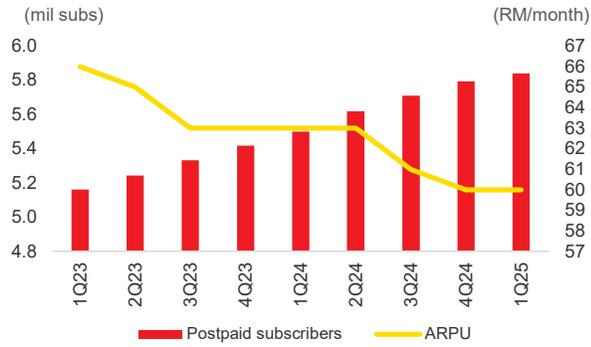
RMmil	1Q25	1Q24	YoY (%)	4Q24	QoQ (%)
Revenue	3,209	3,154	1.7	3,276	-2.0
<b>EBITDA</b>	1,348	1,327	1.6	1,552	-13.1
Margin (%)	42.0	42.1	-0.1	47.4	-11.3
Depreciation and amortisation	(654)	(769)	15.0	(1,001)	34.7
<b>EBIT</b>	694	558	24.4	551	26.0
Interest income	3	20	-85.8	3	-12.7
Interest expense	(144)	(153)	5.7	(156)	7.7
JV/Associates	(2)	3	nm	6	nm
El	5	2	>100	(217)	nm
<b>PBT</b>	558	427	30.6	181	>100
Tax	(165)	(56)	-193.6	(20)	-734.8
Effective tax rate (%)	29.6	13.2	>100	10.9	>100
MI	(4)	5	nm	(4)	-2.4
Net profit	389	376	3.3	157	>100
<b>Core net profit</b>	425	482	-11.9	487	-12.8
EPS (sen)	3.3	3.2	1.9	1.3	>100
Core EPS (sen)	3.6	4.1	-11.9	4.2	-12.8
DPS (sen)	3.7	3.5	5.7	3.7	0.0

RMmil	1Q25	1Q24	YoY (%)	4Q24	QoQ (%)
<b>Service revenue</b>	2,654	2,688	-1.3	2,719	-2.4
<b>Consumer revenue</b>	2,372	2,394	-0.9	2,412	-1.7
Postpaid	1,066	1,033	3.2	1,062	0.4
Prepaid	1,056	1,121	-5.8	1,088	-2.9
Wholesale & others	195	203	-3.9	206	-5.3
Home & fiber	55	37	48.6	56	-1.8
<b>Enterprise revenue</b>	282	294	-4.1	307	-8.2
Mobile	228	233	-2.2	242	-5.8
ICT & connectivity revenue	54	52	3.8	56	-3.6
Fixed	0	9	nm	9	nm
<b>Total cost</b>	1,861	1,824	2.0	1,729	7.6
<b>COGS</b>	853	749	13.9	814	4.8
Cost of materials	572	541	5.7	557	2.7
Traffic charges	281	208	35.1	258	8.9
<b>OPEX</b>	1,008	1,075	-6.2	915	10.2
Sales and marketing	171	170	0.9	165	3.9
Staff costs	249	354	-29.8	135	84.2
Operations and maintenance	228	222	2.9	246	-7.1
Other expenses	163	145	12.4	183	-10.9
USP fund and license fees	164	156	5.1	123	33.3
Credit loss allowances	32	27	17.5	63	-49.6

	1Q25	1Q24	YoY (%)	4Q24	QoQ (%)
<b>Total subscribers ('000)</b>	20,655	20,466	0.9	20,394	1.3
<b>Consumer</b>	19,019	18,945	0.4	18,843	0.9
Postpaid	5,839	5,499	6.2	5,793	0.8
Prepaid	12,975	13,322	-2.6	12,862	0.9
Home & Fibre	205	124	65.3	188	9.0
<b>Enterprise</b>	1,636	1,521	7.6	1,551	5.5
<b>ARPU (RM)</b>	40	40	0.0	41	-2.4
<b>Consumer</b>					
Postpaid	60	63	-4.8	60	0.0
Prepaid	27	28	-3.6	28	-3.6
Home & Fibre	96	105	-8.6	107	-10.3

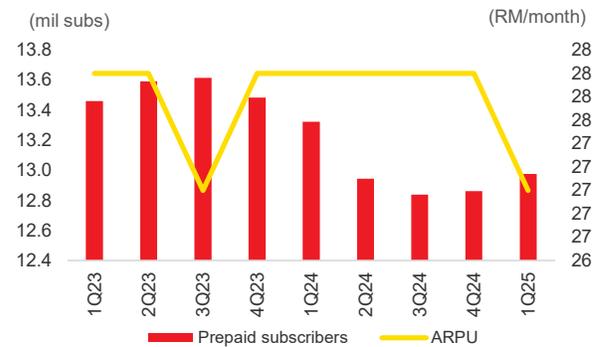
Source: CelcomDigi, AmlInvestment Bank

**EXHIBIT 2: POSTPAID SUBSCRIBERS AGAINST ARPU**



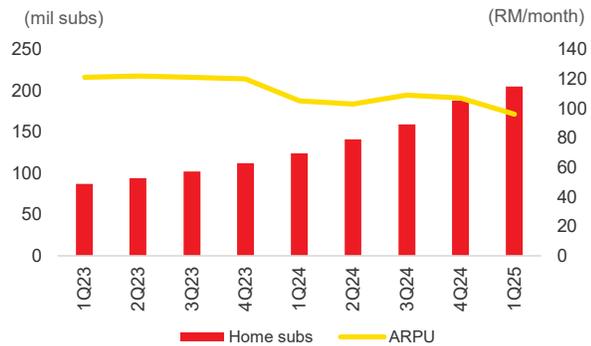
Source: CelcomDigi, AmlInvestment Bank

**EXHIBIT 3: PREPAID SUBSCRIBERS AGAINST ARPU**



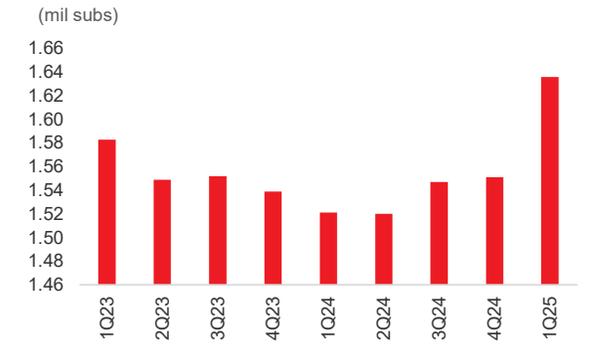
Source: CelcomDigi, AmlInvestment Bank

**EXHIBIT 4: HOME FIBRE SUBSCRIBERS AGAINST ARPU**



Source: CelcomDigi, AmlInvestment Bank

**EXHIBIT 5: ENTERPRISE SUBSCRIBERS**



Source: CelcomDigi, AmlInvestment Bank

**EXHIBIT 6: VALUATIONS**

Target EV/Ebitda (x)	9.5x
FY26F Ebitda	RM5,959mil
Enterprise value	RM56,614mil
Net debt	(RM12,600mil)
Equity value	RM44,014mil
Shares outstanding	11,732mil
4-star ESG premium	3%
12-month target price	RM3.85

Source: AmlInvestment Bank

### Company profile

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CelcomDigi is Malaysia's largest mobile operator. It is the product of the merger between Celcom and Digi, which was completed in November 2022. Axiata and Norwegian based Telenor, each owns a 33.1% stake in the group. The group has a combined user base of 20mil subscribers. Historically, Celcom has been known for its extensive coverage and Digi for its cost efficiency

### Investment thesis and catalysts

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**Merger synergies.** Assuming flattish revenues, we expect profit to be driven by merger synergies. The group is guiding for post 2027 steady state annual cost reductions of RM800mil, with savings stemming from network (RM150mil), IT (RM140mil), people (RM160mil) and other (RM350mil) costs. However, as this has been well flagged, we believe upside has been priced in.

**Market consolidation.** If news reports of Maxis exploring a buyout of U Mobile is true, this could lead to an industry rerating. Market consolidation would potentially result in reduced competition, creating a more stable pricing environment.

### Valuation Methodology

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Our target price is based on a target EV/Ebitda multiple of 9.5x and CY26 Ebitda. Our multiple is the two-year average for the Malaysia mobile sector. We believe this is more relevant than the five-year average, as it better reflects the sector de-rating post 5G developments in Malaysia.

With the transition to a wholesale network model for 5G, Malaysia mobile players have undergone a sector derating, on expectations of reduced pricing power in the future and threats of increased competition.

### Risk factors

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There are downside risks to share price from execution, if the group is unable to deliver on promised synergies. Competition is a risk, given mature mobile penetration rates and lower barriers to entry, following a transition to the dual 5G network model. We estimate every 1% decrease in ARPU, lowers earnings by 4%

## EXHIBIT 7: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY23	FY24	FY25F	FY26F	FY27F
Revenue	12,682.2	12,679.4	12,629.7	12,625.1	12,618.1
EBITDA	5,919.1	5,808.2	6,055.6	5,959.4	5,850.1
Depreciation/Amortisation	(3,230.1)	(3,263.4)	(2,976.2)	(2,851.2)	(2,752.4)
Operating income (EBIT)	2,688.9	2,544.7	3,079.4	3,108.2	3,097.7
Other income & associates	31.0	4.9	-	-	-
Net interest	(539.0)	(597.3)	(534.4)	(505.7)	(483.1)
Exceptional items	-	(217.2)	-	-	-
<b>Pretax profit</b>	<b>2,181.0</b>	<b>1,735.1</b>	<b>2,545.0</b>	<b>2,602.5</b>	<b>2,614.6</b>
Taxation	(614.0)	(346.4)	(610.8)	(624.6)	(627.5)
Minorities/pref dividends	(14.6)	(12.2)	-	-	-
<b>Net profit</b>	<b>1,552.3</b>	<b>1,376.5</b>	<b>1,934.2</b>	<b>1,977.9</b>	<b>1,987.1</b>
Core net profit	2,416.0	1,812.4	1,934.2	1,977.9	1,987.1
Balance Sheet (RMmil, YE 31 Dec)	FY23	FY24	FY25F	FY26F	FY27F
Fixed assets	12,571.6	11,728.0	11,092.1	10,583.2	10,174.7
Intangible assets	18,950.8	18,943.0	18,916.3	18,890.1	18,864.4
Other long-term assets	1,489.0	1,542.8	1,542.8	1,542.8	1,542.8
<b>Total non-current assets</b>	<b>33,011.5</b>	<b>32,213.7</b>	<b>31,551.1</b>	<b>31,016.1</b>	<b>30,581.9</b>
Cash & equivalent	397.0	237.3	165.3	283.8	368.1
Stock	246.7	261.3	204.7	204.6	204.5
Trade debtors	2,474.4	3,148.4	2,439.1	2,438.2	2,436.8
Other current assets	297.3	214.5	214.5	214.5	214.5
<b>Total current assets</b>	<b>3,415.4</b>	<b>3,861.5</b>	<b>3,023.5</b>	<b>3,141.1</b>	<b>3,223.9</b>
Trade creditors	4,285.0	4,974.0	3,887.3	3,885.9	3,883.8
Short-term borrowings	2,227.5	1,860.3	1,818.1	1,751.8	1,698.3
Other current liabilities	909.1	194.8	194.8	194.8	194.8
<b>Total current liabilities</b>	<b>7,421.7</b>	<b>7,029.0</b>	<b>5,900.3</b>	<b>5,832.6</b>	<b>5,776.9</b>
Long-term borrowings	10,769.4	11,189.2	10,689.2	10,317.6	10,017.2
Other long-term liabilities	1,777.0	1,668.0	1,668.0	1,668.0	1,668.0
<b>Total long-term liabilities</b>	<b>12,546.4</b>	<b>12,857.3</b>	<b>12,357.2</b>	<b>11,985.6</b>	<b>11,685.2</b>
<b>Shareholders' funds</b>	<b>16,347.7</b>	<b>16,074.5</b>	<b>16,202.8</b>	<b>16,224.7</b>	<b>16,229.3</b>
Minority interests	111.0	114.3	114.3	114.3	114.3
BV/share (RM)	1.39	1.37	1.38	1.38	1.38
Cash Flow (RMmil, YE 31 Dec)	FY23	FY24	FY25F	FY26F	FY27F
Pretax profit	2,181.0	1,735.1	2,545.0	2,602.5	2,614.6
Depreciation/Amortisation	3,230.1	3,263.4	2,976.2	2,851.2	2,752.4
Net change in working capital	(503.4)	(1,019.5)	(320.7)	(0.4)	(0.7)
Others	175.3	(361.6)	(619.8)	(637.6)	(643.4)
<b>Cash flow from operations</b>	<b>5,083.1</b>	<b>3,617.5</b>	<b>4,580.8</b>	<b>4,815.6</b>	<b>4,723.0</b>
Capital expenditure	(1,811.7)	(2,686.7)	(1,808.4)	(1,811.2)	(1,813.5)
Net investments & sale of fixed assets	(369.8)	242.8	-	-	-
Others	31.9	198.5	9.0	13.0	15.9
<b>Cash flow from investing</b>	<b>(2,149.5)</b>	<b>(2,245.4)</b>	<b>(1,799.5)</b>	<b>(1,798.1)</b>	<b>(1,797.6)</b>
Debt raised/(repaid)	(2,249.8)	97.7	(1,047.4)	(942.9)	(858.6)
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(1,501.6)	(1,654.1)	(1,805.9)	(1,956.0)	(1,982.5)
Others	(6.4)	(10.0)	-	-	-
<b>Cash flow from financing</b>	<b>(3,757.8)</b>	<b>(1,566.4)</b>	<b>(2,853.3)</b>	<b>(2,898.9)</b>	<b>(2,841.2)</b>
<b>Net cash flow</b>	<b>(824.3)</b>	<b>(194.3)</b>	<b>(72.0)</b>	<b>118.5</b>	<b>84.2</b>
<b>Net cash/(debt) b/f</b>	<b>1,220.8</b>	<b>397.0</b>	<b>237.3</b>	<b>165.3</b>	<b>283.8</b>
<b>Net cash/(debt) c/f</b>	<b>397.9</b>	<b>202.8</b>	<b>165.3</b>	<b>283.8</b>	<b>368.1</b>
Key Ratios (YE 31 Dec)	FY23	FY24	FY25F	FY26F	FY27F
Revenue growth (%)	87.2	-	(0.4)	-	(0.1)
EBITDA growth (%)	98.9	(1.9)	4.3	(1.6)	(1.8)
Pretax margin (%)	17.2	13.7	20.2	20.6	20.7
Net profit margin (%)	12.2	10.9	15.3	15.7	15.7
Interest cover (x)	5.0	4.3	5.8	6.1	6.4
Effective tax rate (%)	28.2	20.0	24.0	24.0	24.0
Dividend payout (%)	96.7	120.2	93.4	98.9	99.8
Debtors turnover (days)	70	81	81	71	71
Stock turnover (days)	6	7	7	6	6
Creditors turnover (days)	112	133	128	112	112

Source: Company, AmlInvestment Bank Bhd estimates

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