

Best performing postpaid revenue growth with solid acquisition trajectory

Digi sealed the final quarter with a record high postpaid revenue growth of 13.6% year-on-year and delivered steady sequential service revenue at RM1.56 billion. EBITDA improved 5.7% year-on-year to RM741 million with healthy margin at 44% while ops cashflow surged 21.3% year-on-year to RM501 million. Solid data and digital services demand from internet-loving Malaysians continued to drive promising growth opportunities for Digi.

EXECUTIVE SUMMARY

RM million	4Q16	3Q16	Q-o-Q	Y-o-Y
Service revenue	1,555	1,554	0.1%	-2.0%
Total revenue	1,670	1,619	3.2%	-3.2%
EBITDA	741	775	-4.4%	5.7%
EBITDA margin	44%	48%	-3.5pp	3.7pp
PAT ^[1]	410	438	-6.4%	7.3%
Capex	240	202	18.8%	-16.7%
Ops cashflow	501	573	-12.6%	21.3%
Ops cashflow margin	30%	35%	-5.4%	6.1%
EPS ^[1] (sen)	5.3	5.6	-5.4%	8.2%
DPS (sen)	4.8	5.6	-14.3%	-2.0%

2016 was an exciting year as Digi challenged itself quarter after quarter to deliver industry-leading growth on postpaid, drive sustainable prepaid revenue and rapidly paced itself to deliver Digi's leading 4G+ network nationwide for its 12.3 million subscribers.

During the year, Digi remained highly focused on delivering value across products and services, digitisation of core business, accelerating 4G+ network expansions, scaling up capabilities and readiness to become customers' favourite partner in digital life in line with its 2016 commitment.

The relentless drive for best internet experience led to significant step up on 4G LTE and 4G+ network coverage with improved indoor network quality in 2016.

In the final quarter of 2016, Digi registered sequentially stronger service revenue anchored by solid postpaid growth momentum despite being weighed down by weaker prepaid development and industry headwinds.

Active internet subscribers reached 8.1 million or 65.8% of total subscribers while LTE subscribers grew another 509K to 4.2 million subscribers, representing 34.9% of total subscribers.

Summing up the 4 quarters, Digi delivered 2016 financial performance within its guidance and at higher EBITDA margin of 45% from 43%, a year ago.

	2016 Updated Guidance	2016 Actual
Service revenue growth	Low single digit decline	-1.9%
EBITDA margin	Slightly below 45%	45%
Capex	Around 13% of service revenue	12.5%

OPERATIONAL AND FINANCIAL UPDATES

Strengthened internet positioning with attractive entertainment and weekend propositions

With an established 4G+ network that reached majority of the population nationwide, Digi continued to strengthen its internet positioning in prepaid via Digi Prepaid LiVE and Digi Prepaid Best plans.

These prepaid plans which are tailored to cater for best video and music streaming experience on 4G+ network continued to draw strong appeal among the young and entertainment oriented prepaid subscribers.

As part of the tactical campaign to drive internet adoption and usage among the prepaid subscribers, Digi introduced 50% more quota on its monthly internet passes and affordable daily digital services

^[1] Exclude one-off prior year tax provision of RM35 million



passes including unlimited SD video streaming option for RM1 per day.

The favourable take-up for these new plans especially Digi Prepaid LIVE and internet passes spurred stronger prepaid internet subscribers and higher data usage on Digi's cutting-edge 4G+ network capacity and efficiency capabilities.

However, prepaid growth remained challenging from persistent intense competition and deteriorating market conditions.

On the other hand, Digi's new and simplified postpaid plans with unique proposition on weekends and border roaming flexibility successfully fuelled solid acquisition momentum with a record high postpaid revenue growth for the quarter.

Consistent with the plan to fortify the best 4G+ network for entertainment position, Digi launched its home broadband plans in November 2016 with enticing non-stop entertainment propositions.

Innovative Digi concept store with enriched retail engagement experience



Paperless Registration | Self-Serve | Digital Walls | Innovative Layouts | Enriched Retail Experience

During the quarter, Digi rolled out its new concept store, revitalised with enriched retail engagement experience, innovative store format and use of digital capabilities to serve customers better.

Digi concept store is intended to move away from the traditional retail functions to more value creating moments for customers that will redefine retail engagement for best customer experience both on and off line with Digi.

Meanwhile, Digi continued to track well in its efforts to digitise core business with rapid surge of monthly active users on its digital self-serve channel – MyDigi to over 1.5 million, beyond initially anticipated and

successfully secured more than 80% of its dealers on Digi's mobile sales agent platform.

Soaring growth in data usage supported by Digi's leading 4G+ network nationwide

During the year, Digi accelerated the deployment of 4G+ network coverage and capacity to deliver the best internet experience for entertainment.

Digi's 4G LTE network coverage rose from 65%, a year ago to 85% of population nationwide while 4G+ network coverage rapidly expanded to 41% on the back of extensive fiber network spanning across 7,600km (4Q15: 6,400km).

This has fuelled the proliferation of LTE adoption from 2.3 million to 4.2 million LTE subscribers, a sharp increase of 81%, representing 1.9 million new LTE subscribers in 2016.

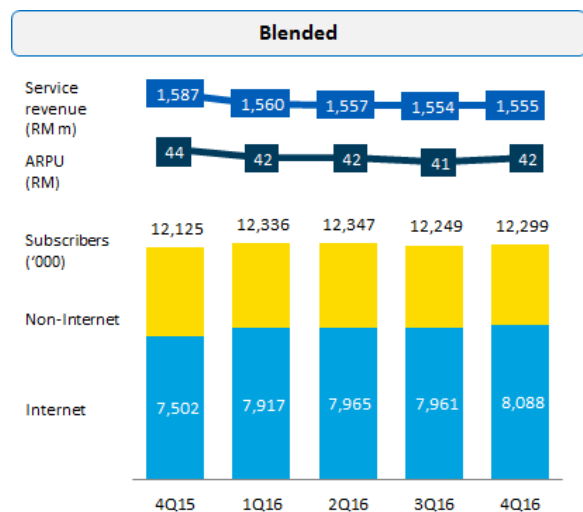
Meanwhile, internet subscribers rose another 586K in 2016 to 8.1 million, with two out of three new internet subscribers from postpaid and average data usage significantly increased by 0.9 times for prepaid and 1.4 times for postpaid, compared to a year ago.

As part of Digi's 4G innovation, Digi introduced voice over LTE (VoLTE) service during the quarter for customers to enjoy better call experiences through higher quality audio, faster call connections and simultaneous use of data.

Other than the usual network deployment efforts, Digi also commenced network readiness for 900Mhz spectrum deployment during the quarter.

Resilient service revenue with stronger subscribers and ARPU

Digi's service revenue remained stable quarter-on-quarter at RM1.56 billion backed by solid postpaid revenue growth and stabilised prepaid development amid further deceleration of industry service revenue.



Internet revenue rose 3.2% quarter-on-quarter and 15.1% year-on-year to RM616 million or 39.6% of service revenue, as smartphone adoption reached 64.7% and active internet subscribers surged 7.8% to 65.8% of total subscribers.

Internet revenue for the year grew 11.4% to RM2.31 billion and significantly cushioned overall revenue decline from challenging market conditions and evolving customer usage behaviour to deliver a resilient service revenue of RM6.23 billion for the year with low single digit decline at 1.9%.

The solid postpaid acquisitions during the quarter fortified subscriber base to 12.3 million while ARPU climbed stronger to RM42.

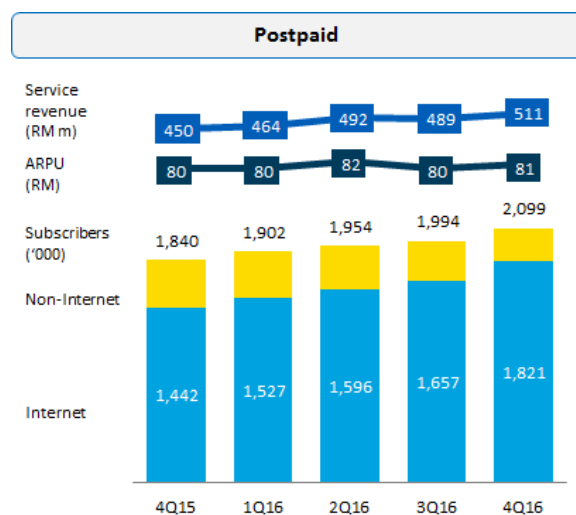
Sales of device and other revenue rose sequentially from RM65 million to RM115 million (4Q 2015: RM138 million) on the back of higher device sales in conjunction with the iPhone 7 launch and year end device bundle promotions.

In line with the higher demand for sim-only subscriptions during the year, full year sales of device and other revenue moderated 34.5% from RM566 million to RM371 million.

Highest postpaid growth in the last 8 quarters with solid net adds

Postpaid revenue recorded its highest year-on-year growth of 13.6% to RM511 million, an increase of

4.5% quarter-on-quarter and registered doubled net adds volume at 105K.



The continued solid acquisitions throughout the year led to 14.1% higher postpaid subscribers to 2.1 million, from 1.8 million a year ago.

Postpaid internet subscribers surged to 86.8% or 1.8 million and favourably fuelled postpaid internet revenue growth by 8.0% quarter-on-quarter and 36.5% year-on-year to RM269 million.

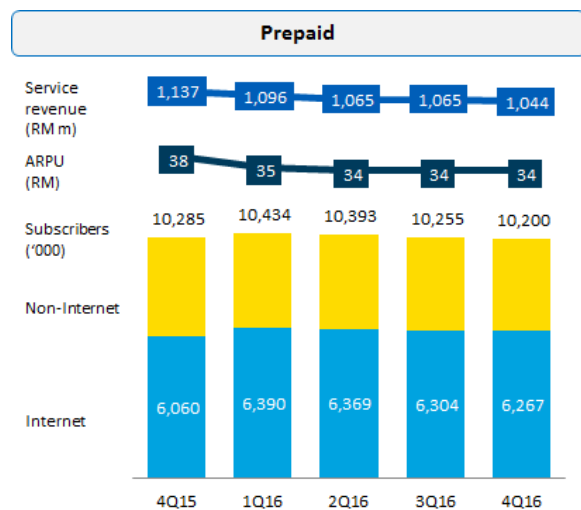
Meanwhile, postpaid ARPU remained robust and strengthened to RM81 over a larger subscriber base.

Summing up for the year, Digi successfully delivered industry-leading postpaid revenue growth of 10.2% to RM1.96 billion for FY2016 with the support from solid execution of innovative internet propositions tailored for customers' increasing digital lifestyle and enabled through Digi's leading nationwide 4G+ network.

Stabilised prepaid with solid support from Digi Prepaid LiVE

The encouraging take-up from Digi Prepaid LiVE and internet passes during the quarter supported stronger internet adoption and usage while prepaid ARPU and margins stabilised amid intense competition and deterioration in market conditions that impeded prepaid growth.





The new prepaid plans registered favourable take-up and contributed to stronger average data usage and modest prepaid internet revenue growth of 2.7% year-on-year to RM347 million.

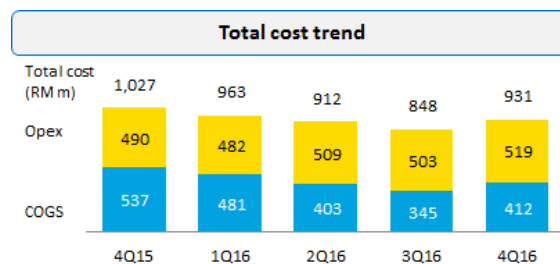
Despite challenged by headwinds within the prepaid market including the weaker consumer sentiment and aggressive competition, Digi took a cautious approach to drive sustainable prepaid revenue with targeted segment propositions as the prepaid industry continued to experience adverse revenue and subscriber development.

Prepaid revenue contracted 2.0% quarter-on-quarter or 8.2% year-on-year to RM1.04 billion while prepaid revenue for the year closed 6.6% lower at RM4.27 billion over a relatively stable prepaid subscriber base of 10.2 million.

Although 2016 marked a challenging year for prepaid, Digi delivered strong mitigation actions to cushion the decline with higher postpaid conversions and sustainable prepaid revenue with improved margins during the year.

Solid operational efficiency to support increased acquisition activities and 4G+ network expansions

Cost of goods sold (COGS) significantly improved 23.3% year-on-year while quarter-on-quarter increase of 19.4% was mainly driven by higher device sales and traffic cost.



COGS for the year improved 19.3% to RM1.64 billion attributed to significantly lower device cost and improved traffic cost during the year.

The relentless cost focus and improved COGS in FY2016 contributed to 1.5% higher gross profit at RM4.96 billion, despite weaker service revenue development.

Opex for the quarter continued to reflect solid cost discipline and operational efficiencies with sequential increment mainly driven by increased sales and marketing cost from higher subscriber acquisitions and cost associated with progressive 4G+ network expansions.

Full year opex (excluding re-grossing of shared site rental of RM54 million) marked a solid improvement with annual opex increment managed at 3.9% compared to 6.6%, a year ago.

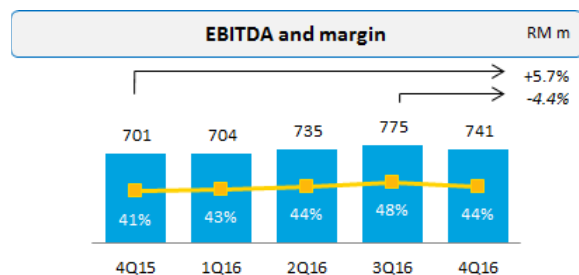
Operational efficiencies remained a core priority for Digi to drive sustainable operations to deliver affordable product and service innovations to customers.

5.7% EBITDA growth to RM741 million at 44% margin

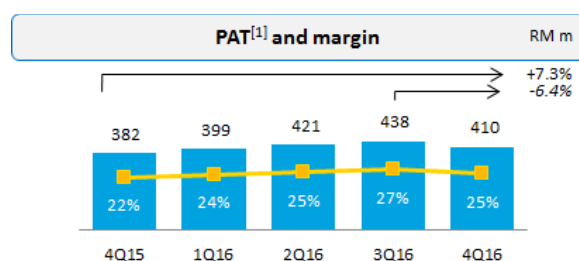
Digi delivered a solid EBITDA growth of 5.7% year-on-year or 44% margin with the continued support from improved gross margins, stronger internet revenue contribution alongside a well-managed cost structure.

As a flow through from increased market activities, higher device sales and progressive 4G+ network expansions during the quarter, EBITDA moderated 4.4% quarter-on-quarter.





EBITDA margin for the year improved 1.7pp to 45% while absolute EBITDA remained resilient at RM2.96 billion.



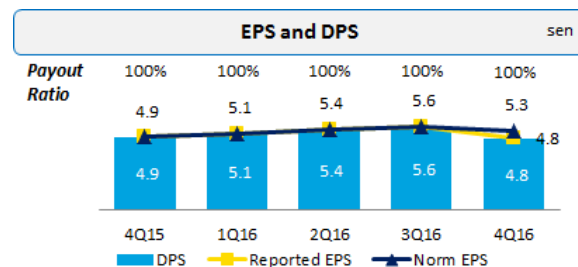
PAT^[1] strengthened 7.3% year-on-year to RM410 million as a flow through from stronger EBITDA during the quarter, although trended lower sequentially to support higher device sales

During the quarter, Digi invested the remaining RM240 million from its planned capex to accelerate 4G+ network expansions with improved capacity and quality as well as commenced network readiness works for the newly allocated 900Mhz and 1800Mhz spectrum bands.

Capex for the year reflected an efficient spending of RM780 million or 12.5% of service revenue with robust 4G+ network coverage nationwide and infrastructure capabilities delivered as planned alongside with savings identified in 2Q16 from the comprehensive fixed asset register review undertaken as part of good governance.

Ops cashflow for the quarter soared up 21.3% year-on-year to RM501 million or 30% margin while full year ops cashflow registered 4.6% growth to RM2.18 billion.

Healthy shareholders' return with new capabilities to tap on growth opportunities



Normalised earnings per share^[1] (EPS) for the quarter strengthened by 8.2% year-on-year to 5.3 sen. Normalised EPS^[1] for the year remained healthy at 21.4 sen (FY2015: 22.2 sen).

The Board of Directors declared 4th interim dividend of 4.8 sen per share equivalent to RM373 million, payable to shareholders on 31 March 2017. This summed up to a total of 20.9 sen dividend per share for the full year, equivalent to RM1,625 million.

Balance sheet RM m

	4Q15	1Q16	2Q16	3Q16	4Q16
Total Assets	4,662	4,922	4,708	4,739	5,498
Total Equity	519	537	562	580	519
Interest-bearing debts	1,294	1,631	1,424	1,461	2,282
Cash & cash equivalents	234	503	366	331	377

Total assets strengthened 17.9% from a year ago with the inclusion of RM598.5 million advance payment for 900Mhz and 1800Mhz spectrum made in November 2016 and continued investments to support Digi's 4G+ network expansion.

Balance sheet remained robust with solid financial capability and flexibility to fund its investments and operational commitments. Digi's net debt to EBITDA ratio remained healthy at 0.6x level, post upfront spectrum payment fee for 900Mhz and 1800Mhz.

^[1] Exclude one-off prior year tax provision of RM35 million

Ready to roar in 2017 although challenging market condition persists

The stronger internet and digital services positioning and robust infrastructure capability in 2016 will pave a favourable head start for Digi into 2017 to pursue innovations amid customers' evolving needs in digital life.

As the year ahead holds new opportunities and similar challenges as 2016, Digi will continue to drive resilient performance and sustainable returns in 2017.

The key priorities in 2017 will focus on relentlessly growing postpaid and Malaysian prepaid opportunities while defending core service revenue streams. Digi will also continue to drive:

- Stronger 4G+ adoption and usage with better monetisation,
- New digital revenue opportunities beyond the immediate future,
- Digitisation of core business and
- Operational efficiencies innovations

Digi's persistent focus on products and service innovations, retail experience reforms, digitisation of core business for future growth will set a strong foundation to enable Digi to capitalise on new growth opportunities and run faster in 2017.

Digi aspires to turn in stronger performance than industry with improved efficiencies and service revenue and EBITDA margin at around 2016 level alongside with capex at 11% - 13% of service revenue.

The 2017 financial guidance is summarised as follows:

	2017 Guidance	2016 Actual
Service revenue (RM)	Around 2016 level	6,226m
EBITDA margin		45%
Capex to service revenue ratio	11% - 13%	12.5%

These are internal management targets which will be reviewed periodically by the Board of Directors. Hence, these internal targets have not been reviewed by our external auditors.

CONTACT US

DIGI.COM

INVESTOR RELATIONS

Lot 10, Jalan Delima 1/1
Subang Hi-Tech Industrial Park
40000 Subang Jaya
Selangor Darul Ehsan
Malaysia

Email:

[Investor_Relations@digicom.my](mailto:Investor_Relations@digi.com.my)

www.digicom.my

This report is to be read in conjunction with the announcement to Bursa Malaysia and all other disclosures related to our 4th Quarter, 2016 result.

Disclaimer

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