MANAGEMENT DISCUSSION AND ANALYSIS

Healthy earnings underpinned by solid postpaid growth and efficient operations

Digi started off 2019 with solid organic postpaid revenue[1] growth of 13.5% year-on-year and internet revenue growth of 13.3%. Effects from changes in prepaid subscribers and revenue mix, 2019 interconnect rate revision and accelerated contract asset (CA) amortisation moderated topline growth. EBITDA margin stood resilient at 48% while ops cash flow remained healthy at RM555 million or 37% margin.

EXECUTIVE SUMMARY

RM million	1Q18	4Q18	1Q19	Q-Q	Y-Y
Service revenue	1,461	1,437	1,393	-3.1%	-4.7%
Service revenue[1]	1,483	1,482	1,441	-2.8%	-2.8%
Total revenue	1,635	1,674	1,509	-9.9%	-7.7%
Gross profit	1,259	1,239	1,206	-2.7%	-4.2%
EBITDA (boi)	775	740	723	-2.3%	-6.7%
EBITDA margin	47%	44%	*48%*	*3.7pp*	*0.5pp*
Profit before tax	515	518	485	-6.4%	-5.8%
Profit after tax	386	378	366	-3.2%	-5.2%
Capex	181	230	168	-27.0%	-7.2%
Ops cash flow	594	510	555	8.8%	-6.6%
Ops cash flow margin	36%	*30%*	*37%*	*6.3pp*	*0.4pp*

[1] Revenue ex- contract asset amortisation
All analysis and comparisons are based on post MFRS 9 and MFRS 15.
A summary of the financial impact post adoption of MFRS 16 will be included as part of Other Updates

Strategic shifts undertaken in preceding years to reduce reliance on traditional voice significantly changed our prepaid mix to be more internet centric when compared to a year ago. With more than 52% of prepaid revenue from internet vs 44% in prior year, the dynamics has radically shifted in terms of underlying subscribers, ARPU and revenue baseline towards a more sustainable growth for the future.

The start of 2019 also registered effects from regulated interconnect rate revision alongside prolonged intense data competition in the market. Nonetheless, Digi continued to deliver solid double digit postpaid revenue growth to RM671 million[1] and actively grew internet revenue to 61.9% of service revenue or RM862 million.

Overall internet subscriber base stood healthy at 9.0 million or 80% of subscriber base, an increase of 391K from a year ago while data traffic volumes surged 51% year-on-year and monthly data usage amongst our subscribers increased to 10.2GB.

Good progress in the execution of our efficiency initiatives turned in 0.4% Opex reduction year-on-year while delivering nationwide 4G LTE capacity upgrades, LTE-A network coverage expansion to 67% of population and continued fiberisation efforts to 8,500KM. Our 4G subscriber base rose to over 8.0 million or 88.5% of our smartphone users.

Meanwhile, MyDigi monthly active users climbed to 3.2 million and upsell transactions on MyDigi and digital distribution channel for the quarter solid at 21.0 million.

On comparable basis, earnings per share for the quarter remained resilient at 4.7 sen per share and after adjusting for MFRS 16 impact re-traced to 4.4 sen per share.

The Board declared 1st interim dividend of 4.3 sen or RM334 million for the quarter.

OPERATIONAL AND FINANCIAL UPDATES

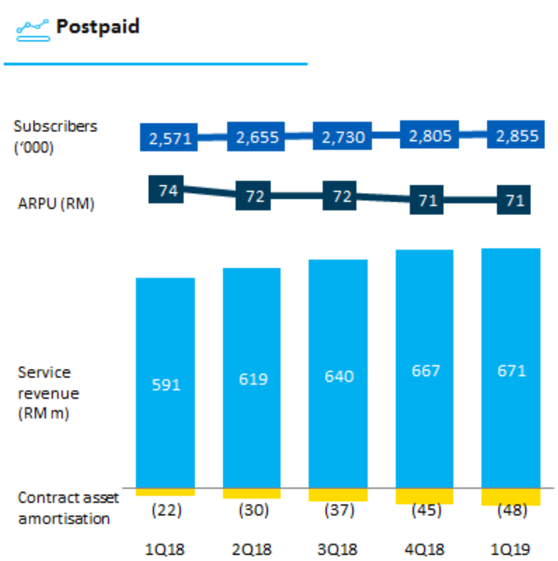
POSTPAID: *Solid underlying growth fuelled by growing subscriber base and steady ARPU*

During the quarter, our postpaid growth activities remained intact driven by highly focused acquisition and retention strategies. We registered another 50K postpaid net adds to almost 2.9 million postpaid subscribers.

Postpaid ARPU remained steady at RM71 supported by plan upgrades and ARPU increase from existing customers while strengthening entry level postpaid base.

Postpaid revenue[1] grew 13.5% year-on-year and 0.6% quarter-on-quarter to RM671 million while postpaid internet revenue rose 25.3% year-on-year and 4.8% quarter-on-quarter to RM461 million.

As a flow through from prior year's accelerated postpaid contract acquisition, contract asset amortisation for the quarter surged RM26 million year-on-year to RM48 million.



[1] Revenue ex- contract asset amortisation

PREPAID: *Strategically shifted subscriber and revenue mix from traditional voice to stronger internet base*

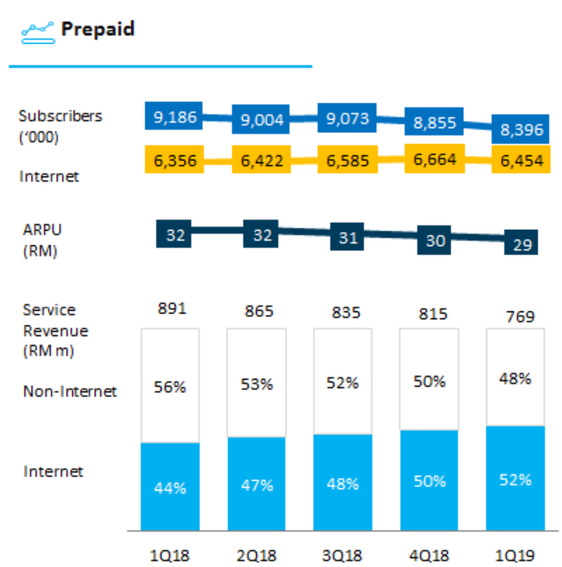
Over the last one year, we have strategically shifted our prepaid subscriber and revenue mix to reduce dependency on legacy voice revenues and to drive healthy growth in internet subscribers and usage.

Prepaid internet subscriber strengthened 98K year-on-year to 6.5 million or 76.9% while internet revenue increased 2.0% year-on-year to RM401 million or 52.1% of prepaid revenue.

The transition contributed to prepaid ARPU and revenue decline of 9.4% and 13.7% year-on-year, although underpinned by improved subscriber base that supported higher internet contribution.

Meanwhile, quarter-on-quarter development on revenue and ARPU mainly due to 1Q seasonal effect, interconnect rate revision and continued prepaid to postpaid conversions. Despite healthy internet usage growth amongst our prepaid subscribers, the prolonged intense data price competition limited monetisation.

During the quarter, we have also changed our channel strategy to modernise and re-energise channel readiness to support our internet growth ambition. The transition affected immediate subscriber acquisition momentum but is expected to be beneficial in driving sustainable growth opportunities for future quarters.

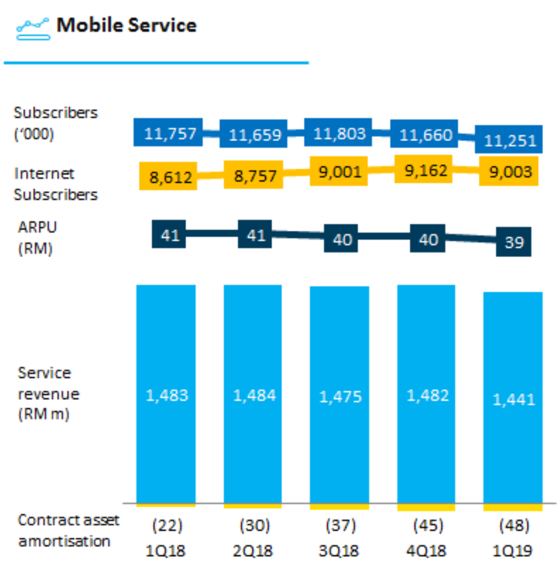


MOBILE SERVICE: *A new baseline from shift in prepaid mix and interconnect rate revision while supported by solid postpaid and internet growth*

Mobile service revenue[1] trended 2.8% lower year-on-year and quarter-on-quarter to RM1.44 billion or RM1.39 billion net of contract assets amortisation, a result from shift in prepaid revenue mix with lower reliance on traditional voice and supported by the solid growth from postpaid.

Internet revenue climbed 13.3% year-on-year and 1.5% quarter-on-quarter to RM862 million or 61.9% of service revenue backed by 81.4% smartphone adoption and encouraging upsell transactions on MyDigi of 21.0 million.

Internet subscribers increased to 80.0% of our 11.3 subscriber base while ARPU marginally lower at RM39 due to seasonal effect and changes in subscriber mix.



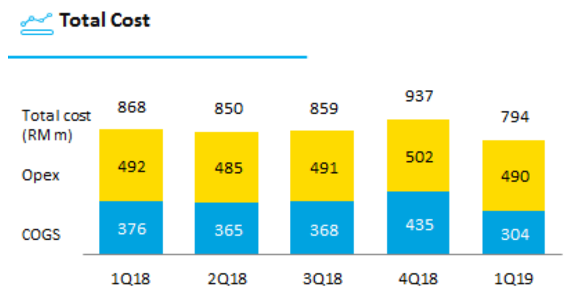
[1] Revenue ex- contract asset amortisation

Device and other revenue moderated to RM116 million, after a record high year-end device sale volume in the preceding quarter boosted by new device launches and easy device ownership program, Phone Freedom 365 (PF365).

To cater for broader postpaid customer base, we have sharpened and enhanced PF365 program in March 2019 and registered stronger take-up for device contracts towards quarter end.

COST: *Efficient operations to support capacity upgrades and enhanced digital capabilities*

Cost of goods sold (COGS) declined 19.1% year-on-year and 30.1% quarter-on-quarter mainly due to seasonally lower device volume in transition to the enhanced PF365 program and reduction in regulated interconnect rate.



Opex for quarter declined 0.4% year-on-year and 2.4% quarter-on-quarter supported by improved efficiencies across sales and marketing and operations and maintenance functions.

Current quarter's opex included a one-time cost reduction relating to Operations & Maintenance (O&M) efficiency initiative, similar to a year ago. Opex to service revenue remained healthy at 35.2%.

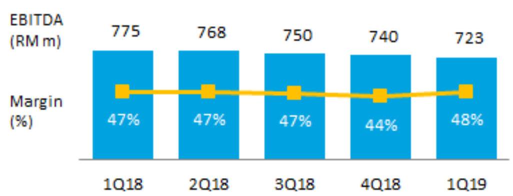
Digi continued to demonstrate lean and efficient cost structure while investing into capacity upgrades and digital capabilities to support our customers' growing data demand.

EBITDA and PAT: *Profitable operations and healthy margins supported by sustainable growth and efficiencies*

EBITDA and margin remained healthy underpinned by solid postpaid growth, stronger prepaid internet base and efficient cost management.

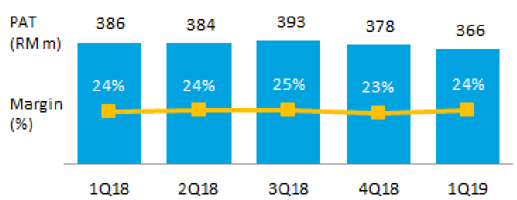
Softer topline development from shift in prepaid mix and seasonally lower device volume moderated EBITDA 6.7% year-on-year and 2.3% quarter-on-quarter to RM723 million although EBITDA margin improved to 48%.

EBITDA and Margin



Profit before tax (PBT) eased 5.8% year-on-year and 6.4% quarter-on-quarter to RM485 million after accounting for RM216 million depreciation cost (1Q 2018: RM231 million) and RM22 million finance cost (1Q 2018: RM29 million).

Profit After Tax (PAT) and Margin

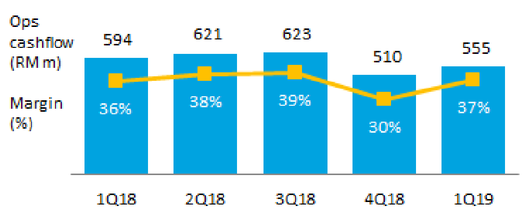


Profit after tax (PAT) remained fairly resilient at RM366 million or 24% margin.

CAPEX AND OPS CASH FLOW: *Continued investments to support capacity upgrades along with enhancement to digital and IT capabilities*

Digi invested RM168 million Capex or 12.1% of service revenue, mainly for capacity upgrades and fibre network expansion, deployment of Network Function Virtualisation (NFV) and LTE-A network coverage to 67% of population.

Ops Cashflow and Margin



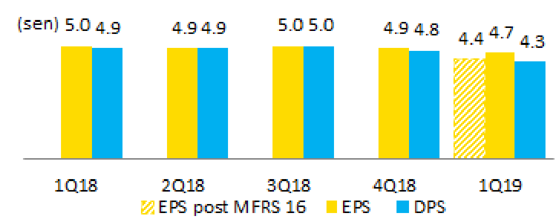
Ops cashflow moderated 6.6% year-on-year in line with EBITDA development for the quarter. However, when compared sequentially, ops cashflow improved 8.8% to RM555m or 37% margin.

SHAREHOLDERS RETURN: *Healthy returns and stronger assets post MFRS 16 adoption*

Earnings for the quarter stood at 4.7 sen per share and trimmed 0.3 sen per share to 4.4 sen after accounting for impact from MFRS 16 adoption.

The Board of Directors declared 1st interim dividend of 4.3 sen per share equivalent to RM334 million, payable to shareholders on 28 June 2019.

Earnings Per Share and Dividend Per Share



Total assets strengthened to RM8.01 billion, up 32.9% year-on-year and 29.0% quarter-on-quarter underpinned by recognition of MFRS 16 Rights of Use assets.

Balance Sheet

	1Q18	2Q18	3Q18	4Q18	1Q19
Total Assets	6,027	6,035	6,202	6,212	8,012
Total Equity	669	673	684	673	641
Conventional borrowings	1,286	1,287	1,287	1,289	1,289
Islamic borrowings	1,398	1,397	1,398	1,397	1,497
Finance lease	16	13	10	8	2,024
Cash & cash equivalents	461	428	565	433	244

Balance sheet remained robust with strong financial capability and flexibility to fund investments and operational commitments backed by AAA rated RM5.0 billion Sukuk Programmes established in 2017 along with diverse bilateral loan facilities.

Digi's net debt to EBITDA ratio remained healthy at 0.8 times[1] while conventional debt over total assets steady at 21%[1], well-within the Shariah threshold.

[1] Ratio based on pre-MFRS 16. Post MFRS 16 Net debt/EBITDA stood 1.5 times and Conventional debt over total assets at 16%.

OTHER UPDATES

Adoption of MFRS 16: Leases

With effect from 1 January 2019, Digi adopted MFRS 16: Leases using a modified retrospective approach.

A summary of the accounting impact from MFRS 16 on 1Q 2019 income statement as follows:

MFRS 16: Leases

RM million	1Q 2019 (Without MFRS 16)	1Q 2019 (With MFRS 16)	Delta	%
Total revenue	1,509	1,509	-	0.0%
COGS	304	302	(2)	-0.7%
Opex	490	409	(81)	-16.5%
EBITDA	723	806	83	11.5%
EBITDA margin	*47.9%*	*53.4%*	*5.5pp*	
Deprn &A	216	305	89	41.2%
Finance cost	22	48	26	118.2%
Profit before tax	485	453	(32)	-6.6%
Profit after tax	366	342	(24)	-6.6%
Capex	168	168	-	0.0%
Ops cash flow	555	638	83	15.0%
Ops cash flow margin	*36.8%*	*42.3%*	*5.5pp*	
EPS (sen)	4.7	4.4		
DPS (sen)	4.3			

Meanwhile, the adoption of MFRS 16 also resulted in higher assets and liabilities recognised in the current quarter's Balance Sheet, mainly in Rights of Use Assets and Finance Leases balances.

Actively exploring 5G's potential to drive Malaysia's digital future, and deliver on our purpose to connect customers to what matters most

We are working closely with the MCMC and industry partners to test use cases, conduct field trials and explore modes of 5G implementation.

In the recent #5G Malaysia showcase, we have presented use cases on how 5G technology can enable faster, better responses especially in emergencies that require precision data in real-time, Augmented Reality (AR) applications for future learning purposes and Virtual Reality (VR) gaming or eSports.

In the coming months, Digi will set up base stations in the test bed at Putrajaya, and is open to partner interested organisations to carry out field trials.

We believe Malaysia is on the right track with its practical, consultative approach to 5G. And as part of the national 5G taskforce, we will continue to share our learnings in order to recommend a holistic strategy to accelerate local adoption of 5G.

2019 OUTLOOK AND PRIORITIES

In 2019, we will continue to leverage on the solid foundation set in 2018 and continue our focus to deliver on our strategies and key priorities on:

- Capturing growth from existing customers
- Continue to drive postpaid growth and SME/B2B opportunities
- Deploy network for best internet experience
- Continue focus and execution of OE initiatives
- Build 'Customer Obsessed' and 'Innovation 360' culture, cultivate growth and efficiency mindset

We are committed to empowering Malaysians with quality internet services and the benefits of digital connectivity along with delivering sustainable revenue and efficient operations.

We will continue to sharpen our focus on executing on the right strategies, building competitive network and resources in place to support this ambition and continuously drive value creation for our stakeholders.

The 2019 guidance is summarised as follows:

		Pre MFRS 9 & 15	Post MFRS 9 & 15
	2019 Guidance[1]	YTD 1Q 2019	YTD 1Q 2019
Service revenue	Around 2018 level	**RM1,441m**	**RM1,393m**
EBITDA	Low single digit growth	**-0.4%** (RM738m or 49% margin)	**-6.7%** (RM723m or 48% margin)
Capex to service revenue ratio	11% - 12%	**11.7%**	**12.1%**

[1] Guidance above excludes impact of MFRS 16: Leases

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@digi.com.my

www.digi.com.my

This report is to be read in conjunction with the announcement to Bursa Malaysia and all other disclosures related to our 1st Quarter, 2019 result.