

MANAGEMENT DISCUSSION AND ANALYSIS**Well-positioned start for 2020 coming from strong growth momentum in preceding quarters**

Service revenue excluding interconnect rose 0.7% Year-on-Year (YoY) to RM1.37 billion, a resilient underlying performance amid continued competition in the mobile industry and emerging impact from Covid-19. This was underpinned by 13.3% YoY in internet and digital revenue growth to RM977 million, a record high contribution representing 70% of total service revenue. The first quarter results reflect our continued focus in building sustainable revenue mix and modernising our operations in connecting customers to what matters most.

EXECUTIVE SUMMARY

RM million	1Q2019	4Q2019	1Q2020	Q-Q	Y-Y
Service revenue	1,392	1,437	1,387	-3.5%	-0.4%
Service revenue excluding interconnect (IC)	1,357	1,400	1,366	-2.4%	0.7%
Total revenue	1,509	1,678	1,560	-7.0%	3.4%
Gross profit	1,206	1,201	1,163	-3.2%	-3.6%
EBITDA (before other items)	806	817	756	-7.5%	-6.2%
<i>EBITDA margin</i>	53%	49%	49%	-0.4pp	-4.9pp
Profit before tax	453	461	435	-5.6%	-4.0%
Profit after tax	342	343	332	-3.2%	-2.9%
Capex	169	205	139	-32.2%	-17.8%
Ops cash flow	637	612	617	0.8%	-3.1%
<i>Ops cash flow margin</i>	42%	37%	40%	-3.1pp	-2.7pp
Earnings per share (sen)	4.4	4.4	4.3	-3.2%	-2.9%

All analysis and comparisons are based on post MFRS 16.

2020 unfolded with new opportunities for Digi powered on digital channels and established systems to engage with customers more deeply and move faster to fuel the rising needs for connectivity and adjacent services. For Digi, the years of embedding resilience and digitalisation across all operations have come to fruition as we posted a good set of results driven by strategic initiatives executed in 2019. These initiatives include:

- Driving growth through focused customer offerings and innovative digital solutions
- Building network capacity and speed to maintain the high availability and quality of networks
- Disciplined operational efficiency initiatives to deliver profitable operations
- Enhanced data protection, privacy and security across the value chains

The year has also ushered in unexpected risks arising from macroeconomic, regulatory as well as health and safety aspects. Notwithstanding the weaker macroeconomic and competitive operating landscape, restrictions on travel and the spread of the novel coronavirus (Covid-19) since the start of the year led to steep surge in demand for secure and consistent mobile network connectivity. Digi's commitment in ensuring operations readiness to keep customers and businesses connected to what matters most becomes more relevant than ever.

Financial Highlights for First Quarter ended 31 March 2020 (1Q 2020)

- Total revenue improved by 3.4% YoY to RM1.56 billion, underpinned by focused customer offerings to drive quality subscriber base and network connectivity.
- Postpaid revenue grew 5.5% YoY to RM656 million, or 6.6% YoY if excluding interconnect attributed by healthy acquisitions, conversion of prepaid to postpaid plans and plan upgrades.



- Internet & digital revenue rose to 13.3% YoY to RM977 million driven by solid growth on internet usage, demand from gaming activities, subscription management services and customised digital solutions for large corporates and SMEs.
- Opex sustained at RM411 million on the back of continued network investments alongside disciplined focus on efficient operations.

Operational Highlights for 1Q 2020

- Network Net Promoter Score (NPS) strengthened +4pp YoY, with improved customers’ confidence and satisfaction of our network performance and quality.
- Subscribers re-traced to 11.0 million, mainly from contraction from non-revenue generating subscribers while active subscriber base remained steady.
- Monthly active users for MyDigi rose to 4.0 million, a significant increase from 3.2 million a year ago.

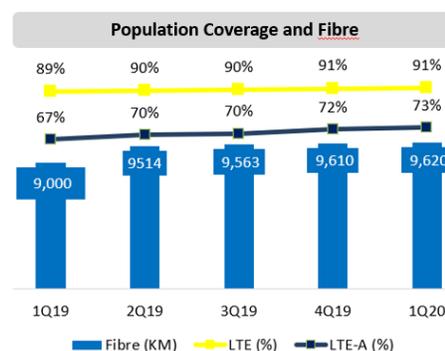
OPERATIONAL AND FINANCIAL UPDATES

NETWORK PERFORMANCES: Investing to secure network availability and reliability nationwide

Digi plays an important role to deliver secure, reliable and efficient connectivity to its customers and customised services catered to their needs while safeguarding their data.

During the quarter under review, continuous efforts have been placed to drive network consistency and coverage nationwide in line with our promise to provide quality and reliable network experience.

We have progressively been investing in 4G network coverage and capacity expansions over the years. Our 4G LTE and LTE-A network coverage now serves over 91% and 73% of Malaysia population nationwide, respectively alongside robust and extensive fiber network.



Our improved network performance is affirmed in the periodic Network NPS survey from over 30,000 Digi customers, which registered an uplift of +4pp YoY and +2pp QoQ on customers’ confidence and satisfaction in our network nationwide.

Digi strongly believes in a collaborative, partnership-based approach to deliver full potential of network capability in Malaysia. In January 2020, we announced a collaboration with TIME dotcom (TIME) that marks another milestone in Digi’s commitment to provide more connectivity options across the country. Digi will leverage on TIME’s fiber broadband infrastructure to extend its Digi Home Broadband offerings to more Malaysians.

Separately in February 2020, Digi along with Celcom and Maxis signed a Memorandum of Understanding (MoU) to explore joint fiber infrastructure development to efficiently deploy fiber backhaul and rollout fiber to base stations in the country. The collaboration will enable improved 4G connectivity nationwide, in line with the government’s National Fiberisation and Connectivity Plan (NFCP) ambitions and call for more cooperation within the ecosystem. By leveraging on existing infrastructure, these collaborations allow Digi to focus on rolling out services and improving access and customer experiences in the targeted areas faster and in a more cost-efficient manner.



TOTAL REVENUE: Resilient underlying growth amid challenging and uncertain times

Mobile service revenue was resilient at RM1,387 million, -0.4% YoY mainly attributed to decline from traditional voice and roaming revenues due to stricter travel advisory amid Covid-19 outbreak, alongside impact from lower interconnect rates. Excluding interconnect revenues of RM21 million, underlying service revenue improved 0.7% YoY.

On the other hand, 70% of service revenue comprised of internet and digital revenue accelerated 13.3% YoY. This was supported by 9.2 million internet subscribers, strong demand for gaming activities and encouraging upsell transactions on MyDigi of 21.4 million. Additionally, device and other revenues grew 49.1% YoY anchored on higher demand for Digi's easy device ownership plans.

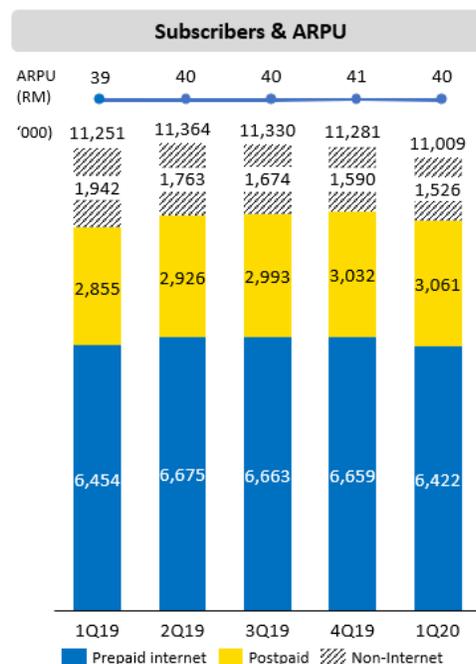
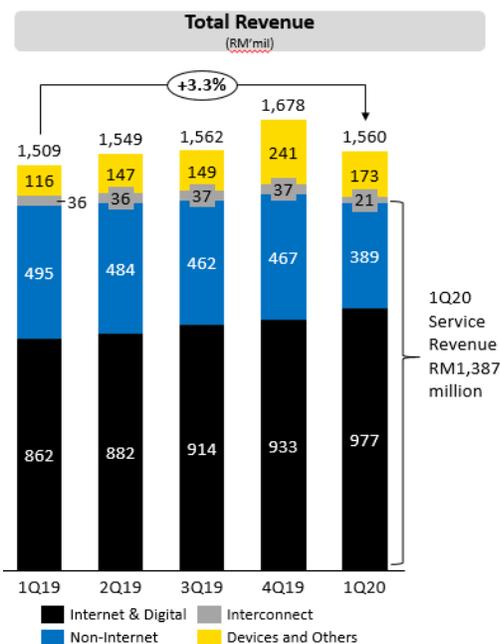
On a Quarter-on-Quarter (QoQ) basis, service revenue trended lower by -3.5% QoQ, or -2.4% QoQ excluding interconnect largely due to seasonality impact and lower roaming revenues as previous quarter's momentum were driven by year-end promotions and higher number of device launches coupled with increased travel activities. Device and other revenues moderated -28.2% QoQ after coming from a stronger 4Q 2019 growth momentum driven by highly focused acquisition and retention strategies to retain long tenure customers and strengthen quality postpaid base.

Evidently, we also registered a surge in monthly data usage of 14.5GB per user as compared to 10.3 GB per user in 1Q 2019, an increase of 42% YoY.

Blended ARPU grew to RM40 as compared to last year's achievement on the back of 11.0 million subscriber base due to disciplined focus on building quality revenue generating subscriber mix demonstrated by a 7.2% YoY increase in postpaid subscriptions. Postpaid and prepaid ARPU stood at RM69 and RM30, respectively for the quarter.

On QoQ basis, blended ARPU contracted by RM1 partially attributed to lower interconnect ARPU as a result of reduction in regulated price. Our postpaid growth activities remained intact anchored on attractive Phone Freedom 365 plans bundle offerings for Family Packages as well as the inaugural launch of Digi Home Fiber plans. We registered another 29K postpaid net adds to 3.1 million of postpaid subscribers.

Digi is committed to deliver growth and strengthen market position through focused customer offerings and consistent experiences to meet the persistent need for connectivity and related services.

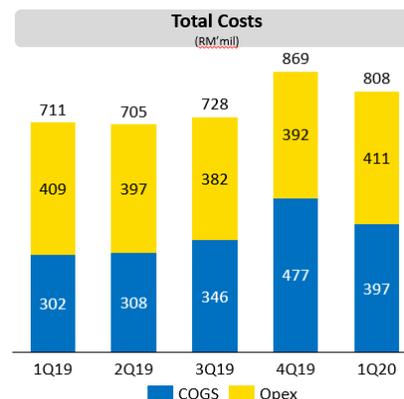


COST: Efficient cost structure yielded by strategic implementation of operational efficiency programmes

Cost of goods sold (COGS) rose 31.5% YoY mainly driven by higher device cost from device bundles and investment into contract renewals and plan upgrades. This was mitigated by lower traffic cost from reduction in regulated interconnect rate. Nonetheless, COGS was a marked improvement of 16.8% QoQ due to lower device and traffic costs.

Opex for the quarter of RM411 million was flattish at 0.5% YoY or 29.6% of service revenue yielded by strategic implementation of operational efficiency programmes in 2019. The increment of 4.8% QoQ in Opex was due to a recognition of non-recurring cost benefits of RM14 million in preceding quarter.

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

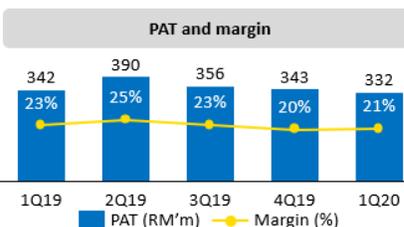
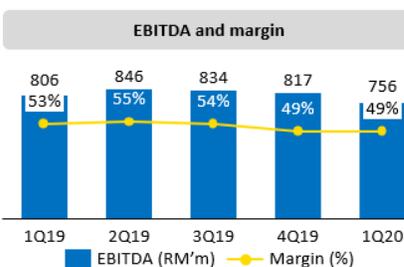


EBITDA and PAT: Moderated earnings as a result of higher investments to grow contracted base

Softer topline development from shift in revenue mix and increased in investments on postpaid contracting and renewal activities moderated EBITDA by -6.2% YoY and -7.5% QoQ to RM756 million although EBITDA margin sustained at 49%.

Profit before tax (PBT) declined by -4.0% YoY and -5.6% QoQ to RM435 million as a flow through from EBITDA and after accounting for RM306 million depreciation and amortisation cost despite a lower net finance cost of RM14 million.

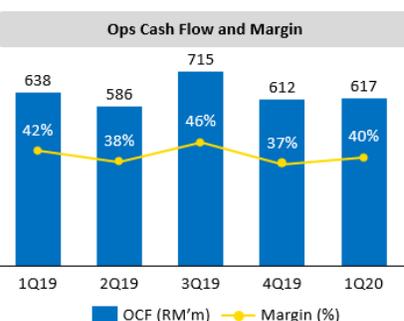
Consequentially, Profit after tax (PAT) traced to RM332 million with margin of 21% on improved revenue mix and resilience to unlock future growth opportunities.



CAPEX AND OPS CASH FLOW: Prioritisation of investments to support increased demand and provide continued network availability & capacity

Digi invested RM139 million Capex or 10.0% of service revenue, as a flow through from network rollouts acceleration in 4Q 2019, mainly for capacity upgrades and fiber network expansion as well as traffic management. We remained steadfast in our data driven way of work with renewed focus on customer experience to prioritise on network deployment and to support the increasing data demands and changing customer usage patterns.

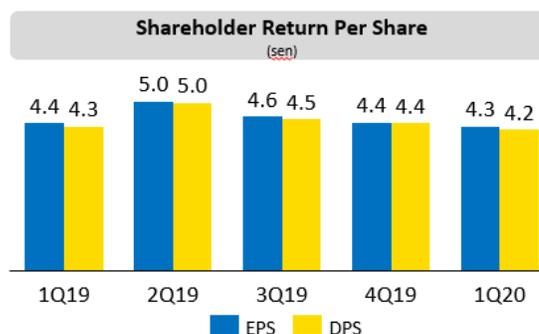
Ops cashflow declined -3.1% YoY to RM617 million or 40% margin after recording a relatively lower Capex. Nevertheless, it remains as our ultimate priority to maintain the high availability and quality of networks to ensure connectivity remains accessible for all, especially in times where virtual work environment are becoming the new norm.



SHAREHOLDER RETURN: Resilient EPS and dividend payout

Earnings for the quarter stood at 4.3 sen per share and trimmed 0.1 sen per share as compared to the same period last year.

The Board of Directors declared 1st interim dividend of 4.2 sen per share equivalent to RM327 million, payable to shareholders on 26 June 2020.



SUMMARISED BALANCE SHEET: Steady financial capability and flexibility to fund our investments and other operational obligations

Total Assets as at 31 March 2020 sustained at RM8.00 billion; -0.2% against the same period last year on the back of prudent allocation of resources and asset management.

Meanwhile, borrowings traced to RM2.97 billion, of which 76% comprised Islamic borrowings. We remain cognisant on equipping the business with financial strength to fund future growth opportunities and provide sustainable shareholder return.

Digi's net debt to EBITDA ratio remained healthy at 1.5 times while conventional debt over total assets at 9%, well-within the Shariah threshold.

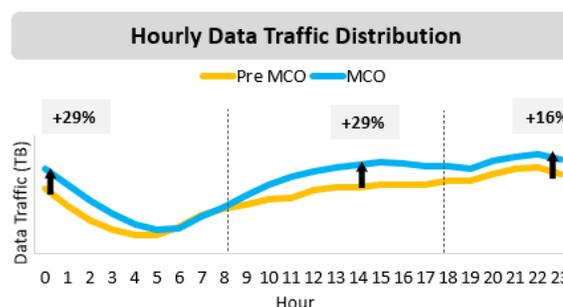
	1Q19	2Q19	3Q19	4Q19	1Q20
Total Assets	8,012	8,197	8,483	8,149	7,997
Total Equity	641	700	667	660	650
Borrowings	2,786	2,787	3,152	3,102	2,965
Finance lease	2,024	2,124	2,154	2,048	2,062
Cash & cash equivalents	244	369	749	458	307

OTHER UPDATES

Keeping customers connected with priority on network consistency and support especially during the Movement Control Order (MCO) period

Malaysia has materialised 40-day MCO with effect from 18 March to 28 April 2020 to curb the spread of Covid-19. During these unprecedented times, Digi recognises its responsibility to help customers stay connected with their social, learning and work life. As such, we experienced new patterns of customer usage and higher traffic on our network and digital services such as MyDigi, Republic GG and other online education tools.

For Digi, total data traffic surged primarily at residential areas due to employees working remotely and learning institutions switching to distance learning. This discovery was in line with the industry as reported by MCMC and agreed that greater data consumption could create congestion causing speeds to fall. Digi has also noticed a change in usage pattern as evidenced by a significant increase of 29% during the hours of 12 midnight to 6pm across the nation.



As part of our commitment to assist government agencies on services needed and to help customers stay connected with their social, learning and work life to address the Covid-19 crisis, we have implemented a list of initiatives:

- Traffic management and optimisation to cater to rising traffic demand at residential areas and critical sites



- Quality of service prioritisation for mission critical and essential services at specific time periods
- Collaboration with application providers to reduce resource intensity for services, such global bit rate adjustment and default resolution settings
- Timely dissemination of information to ensure Malaysians are well informed with vital information on Covid-19 and zero-rated critical service hotlines and websites
- Keeping service channels open to serve customer needs, ensuring accessibility to our services and stability of vital mobility tools
- Enhancing benefits for customers focused on learning, connectivity and productivity

We are highly committed to deliver a reliable, secure network, while mobilising dedicated employees to keep connectivity and customer support levels consistent during this period.

2020 OUTLOOK AND PRIORITIES

With the emerging impact from the Covid-19 pandemic, the global economy is expected to contract in 2020, weighed by unprecedented measures taken to contain the health crisis. In Malaysia, the latest economic indicators suggest a sharp contraction in economic activities evidenced by Bank Negara's GDP projection of -2.0% to 0.5% in 2020, arising from supply-demand shock and a drop in private consumption and affordability.

As business and travel activities will be significantly impacted in 2Q 2020, sales acquisition volumes and travel related revenues are also expected to be challenged before experiencing a gradual recovery when economic activities resume.

Given the evolving Covid-19 situation and its uncertain effect on the country's economic outlook and expected pace of market recovery, we remain committed to our long-term strategy, prospects and continued focus on innovation, taking a practical view on our earnings parameters.

In the months ahead in 2020, we will prioritise on:

- Continue creating value for our stakeholders
- Protecting cash flow through cost measures and financial flexibility
- Investing in strengthening network and IT infrastructure to support growing data demand
- Deliver on core and digital business through focused customer offerings

The solid groundwork we have set in the last three years by consistently executing our strategy, in particular digitalisation, has enabled us to quickly respond to the new virtual environment. As we continue delivering essential connectivity services for all at this time, we believe we are fit to manage through these future developments.

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This report is to be read in conjunction with the announcement to Bursa Malaysia and all other disclosures related to our First Quarter ended 31 March 2020 (1Q 2020) Results Announcement.

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