

## Continued solid postpaid growth momentum and stronger sequential returns

*With a highly competitive data network riding on robust 4G LTE and 4G LTE-A network coverage, we continued to make stronger inroads into postpaid market and registered relatively resilient service revenue against seasonally softer quarter. Underlying EBITDA and PAT margins improved to 43% and 24% for the quarter. On year-on-year basis, service revenue and EBITDA decline narrowed to 1.8% (4Q 2015: -2.5%) and 9.2% (4Q 2015: -12.5%) when compared against pre-GST market conditions.*

### EXECUTIVE SUMMARY

RM million	1Q16	4Q15	Q-o-Q	Y-o-Y
Service revenue	1,560	1,587	-1.7%	-1.8%
Total revenue	1,653	1,725	-4.2%	-7.7%
EBITDA	704	701	0.4%	-9.2%
EBITDA margin	43%	41%	2.0pp	-0.7pp
PAT	399	382	4.5%	-16.7%
Capex	171	288	-40.6%	-11.4%
Ops cashflow	533	413	29.1%	-8.4%
Ops cashflow margin	32%	24%	8.3pp	-0.2pp
EPS (sen)	5.1	4.9	4.1%	-17.7%
DPS (sen)	5.1	4.9	4.1%	-16.4%

The beginning of 2016 has been an action-packed journey for Digi with many important milestones cutting across products and services, digital services, network, spectrum portfolio and talents.

Our 4G LTE and 4G LTE-A network rapidly advanced and reached 73% and 33% of population nationwide, respectively. Leveraging on the robust data network, we continued to deliver strong growth momentum on postpaid while prepaid stronghold remained resilient albeit faced with persistent intense competition.

Service revenue moderated sequentially consistent with seasonal trends but substantially cushioned by 6.9% year-on-year growth and 3.1% sequential growth from postpaid service revenue.

Active internet subscribers rose to 7.9 million or 64.2% of total subscribers while 4G LTE subscribers grew to 2.9 million.

The constant focus to reflect relevant offers based on customers' trends anchored Digi's resilience and growing subscriber base.

We delivered higher sequential EBITDA at RM704 million while ops cashflow and profit after tax (PAT) improved to RM533 million and RM399 million, respectively.

The Board remained committed to healthy shareholders return and declared 1<sup>st</sup> interim dividend of 5.1 sen or RM397 million, equivalent to almost 100% dividend payout for the quarter.

### OPERATIONAL AND FINANCIAL UPDATES

#### Sharpening our strategic focus for sustainable business opportunities

As the market evolves from traditional mobile voice and messaging into data and growing demand for digital services, Digi aims to capitalise on the new opportunities with integrated digital services and experience towards becoming customers' favourite partner in digital life.

This new journey will require us to drive growth and digitise our core business, while acquiring and developing new capabilities to successfully transition into an integrated digital service provider.

To achieve this ambition, our strategic focus and execution game-plan across the business value chain in 2016 – 2020 will be anchored on these four (4) pillars:

- Loved by customers
- Engaging digital products
- Most efficient operator
- Winning team



Our relentless focus on customer excellence will continue to shape and springboard Digi to the next level.

### **Exciting value propositions to tap on Digi's strong 4G LTE network**

As part of the strategic focus on loved by customers, we continued to drive high quality, user friendly and personalised customer propositions and experiences in Digi's product offerings, campaigns and customer journey.

In March 2016, we launched new Digi Postpaid plans with internet quota rollover feature and bundled relevant digital services. We have also introduced promotional postpaid internet quota top-up options and RM10/day worry-free data roaming for social messaging and light data users.

On prepaid, we continued to drive usage and relevance through prepaid reload campaigns with internet quotas and Digi Wow reload coupons for IDD calls and internet. The competition intensity in the prepaid market remained at all-time high as disruptive promotional pricing extended into 1H 2016. Nonetheless, Digi has pro-actively taken some prudent steps on products with unsustainable pricing which resulted in some dilution to prepaid service revenue but better overall earnings.

In addition, Digi undertook the opportunity to strengthen customer touch points and distribution channels with more efficient sim registration and accurate ID verification via the flexibility of mobile sales app on smartphones or tablets.

With constant focus to reflect solid value proposition based on customers' trends anchored on quality network, affordable plans and services, relevant digital services and consistent on-ground execution, Digi's prepaid stronghold maintained while growing opportunities from Malaysian subscriber base.

We have also leveraged on cluster based network availability to offer Malaysia's 1st 4G LTE-A mobile broadband device bundle to complement the growing digital lifestyle of Malaysians. The 4G LTE-A broadband services will initially be available in the Klang Valley and extended to other market centres in stages.

### **Creating building blocks for integrated digital service ecosystems and engaging digital products**

Over the quarter, Digi continued to be at the forefront in driving strategic partnerships with global and local content providers while relentlessly enhance new capabilities on digital channels to strengthen our customers' journey.

The growing use of digital services on Digi's network such as Capture, Digi Music Freedom and Direct Operator Billing platform showcased a positive head start for Digi in the race to capture growth opportunities from customers' increasing digital lifestyle trend.

Most notably, we provided an enriched digital engagement experience and modernised self-care capabilities with easy-to-use account monitoring, payment, personalisation and administration through MyDigi at customers' convenience, anytime and anywhere.

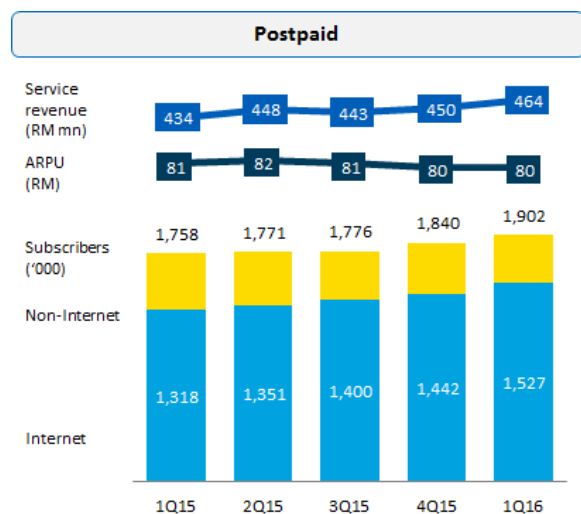
We have also initiated Mobile Connect, a single login solution on Mudah ProNiaga, enabling customers to create and manage their digital identity with their mobile number as the ID link for easy, private and safe log-in.

As we embarked on the journey to explore on digital verticals opportunities through various partnerships and investments, we took a pro-active approach to provide a holistic launchpad to fast-track digital innovation startups through Digi Accelerator programme in collaboration with Dtac and Telenor Myanmar. The shortlisted startups will be given access to seed funding, regional and global exposure and commercialisation opportunities with Digi and Telenor Group.

Digi will also be leveraging on Telenor's recent investment in digital capabilities to strengthen predictive insights and intelligence for contextual offers and marketing going forward.



**Robust postpaid growth fuelled by stronger data network and new postpaid plans**



The consistent focus on high-speed data network coverage and quality coupled with customer centric postpaid offers spurred solid demand for Digi’s postpaid services, with favourable conversion rate from prepaid to postpaid.

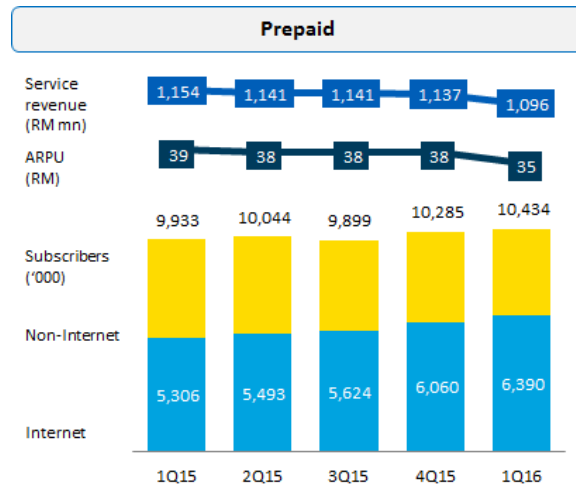
Postpaid service revenue registered a record growth of 6.9% year-on-year and 3.1% quarter-on-quarter while postpaid subscriber base strengthened 8.2% year-on-year to 1.9 million subscribers.

Postpaid internet subscribers increased to 1.5 million, representing 80.3% of postpaid subscriber base and contributed to higher postpaid internet revenue of RM207 million (1Q 2015: RM181 million, 4Q 2015: RM197 million).

Despite challenged by industry’s aggressive internet quotas and low entry postpaid plans, Digi postpaid ARPU remained solid at RM80 over a larger subscriber base, with upside opportunities from better data monetisation.

**Steadfast prepaid stronghold and growing Malaysian subscribers**

Digi prepaid service revenue registered slightly steeper seasonal sequential decline of 3.6% (1Q 2015: -3.2%) amid competing in a market with aggressive reload freebies and discounts.



After a year of intense competition amid weaker consumer sentiment when compared against pre-GST market conditions, prepaid service revenue moderated by 5.0% year-on-year.

With prepaid competition heavily induced by aggressive high speed internet quotas bundled in reloads, prepaid internet revenue growth decelerated to 2.5% year-on-year while quarter-on-quarter development trimmed by 1.8% to RM332 million.

Prepaid ARPU lowered to RM35 on the back of 10.4 million prepaid subscribers as a consequence of increasing multi-sims and prevalent rotational sims in a highly competitive prepaid market.

Going forward, Digi will step up priorities on innovative prepaid value propositions based on customers’ trends and behaviours to stay ahead of the game sustainably.

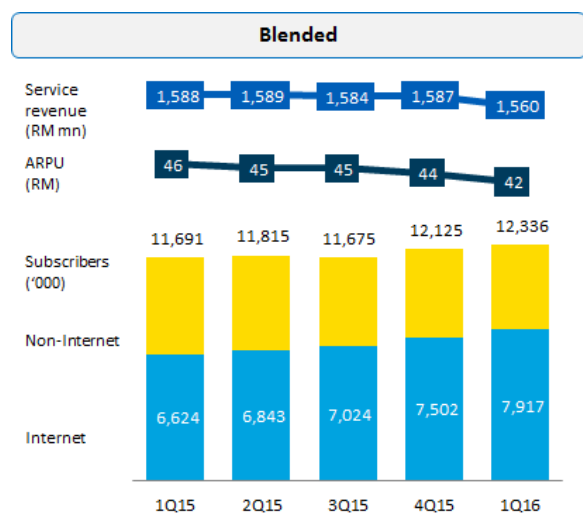
**Resilient on core service revenue while growing digital services opportunities**

Amid challenging market conditions in a seasonally soft quarter, Digi turned in a commendable service revenue at RM1,560 million with year-on-year decline narrowed to 1.8% (4Q 2015: -2.5%) against pre-GST market conditions.

Internet revenue made up a total of 34.6% of the service revenue for the quarter and continued to grow as smartphone adoption rose to 61.3% and



active internet subscribers to 64.2% of total subscriber base.

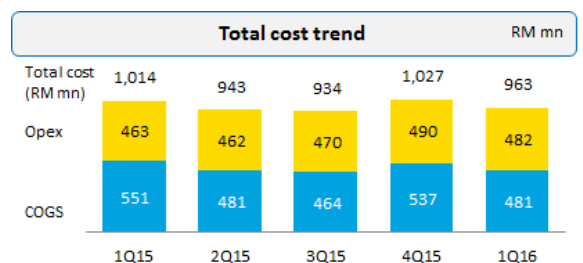


ARPU moderated to RM42 on the back of intense competition and weaker spending although subscriber base strengthened to 12.3 million.

Device and other revenue for the quarter trimmed to RM93 million as sales volume of smartphones reduced as expected amid shift in demand and focus for more affordable smartphones and sim-only packages.

**Efficient opex development and improved cost base from lower device sales**

Cost of goods sold (COGS) improved 54.8% year-on-year and 34.0% quarter-on-quarter mainly as a flow through from lower volume of smartphones sold.



Traffic cost remained elevated at RM378 million, up 17.0%, from a year ago with increased IDD traffic volumes and cost hike from weaker MYR currency. Sequential traffic cost remained fairly stable with

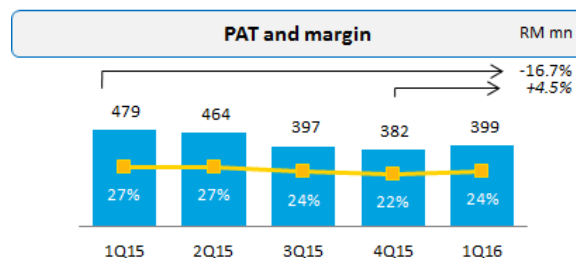
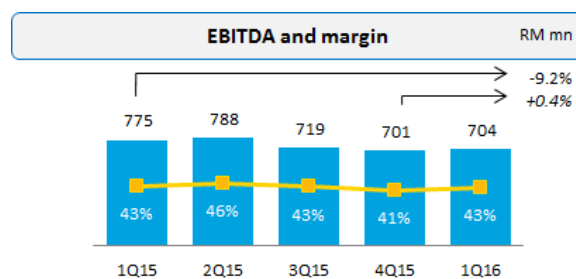
increased traffic volume cost cushioned by relatively stronger MYR currency.

Opex to service revenue ratio remained fairly steady at 30.9%, as we continued rapid expansion plan on 4G LTE and 4G LTE-A network.

We have also initiated the review and re-negotiation of major vendor contracts for more sustainable operating model to drive stronger resilience in changing market conditions.

Operational excellence remained a core priority for Digi to deliver reliable and affordable services to our customers while continue to create shareholders value.

**EBITDA and PAT strengthened sequentially**



Although persistently challenged on IDD margins and data monetisation, our relentless drive on operational efficiency and sequentially stronger MYR currency cushioned margins pressure and improved EBITDA to RM704 million or 43% margin.

PAT surged 4.5% quarter-on-quarter to RM399 million, as accelerated depreciation for data centre migration in the preceding 2 quarters ceased.

With a significant portion of the 4G LTE network deployment frontloaded to secure significantly stronger network coverage and infrastructure



capability in the final quarter of 2015, capex for the quarter moderated to RM171 million as planned.

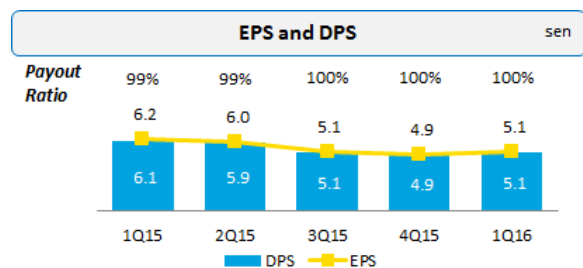
Digi's 4G-LTE network continued to reach many more Malaysians with 73% population coverage nationwide, backed by 6,700 km of fiber network. This means greater capacity and capability to deliver quality high-speed data and to support growing use of digital services amongst our customers.

Ops cashflow for the quarter increased to RM533 million or 32% margin as a flow through from stronger EBITDA and relatively lower capex for the quarter.

**Healthy shareholders returns**

Earnings per share (EPS) for the quarter improved sequentially to 5.1 sen.

In line with current quarter's performance, the Board of Directors declared 1st interim dividend of 5.1 sen per share (net) equivalent to RM397 million, payable to shareholders on 24 June 2016.



	1Q15	2Q15	3Q15	4Q15	1Q16
Total Assets	4,143	4,441	4,449	4,662	4,922
Total Equity	606	596	534	519	537
Interest-bearing debts	1,048	1,246	1,296	1,294	1,631
Cash & cash equivalents	357	303	306	234	503

Total assets strengthened to RM4,922 million on the back of progressive infrastructure investments and relatively higher cash and cash equivalents from loans drawn down to fund working capital commitments.

Balance sheet remained robust on the back of prudent net debt to EBITDA ratio at 0.4x as we continued investments on network and IT

infrastructure capabilities to drive growth opportunities.

**Stronger low band spectrum portfolio for better indoor coverage and network efficiency**

On 1 February 2016, the Malaysian Communications and Multimedia Commission (MCMC) announced a spectrum assignment of 2 x 5Mhz of 900Mhz band and 2 x 20Mhz of 1800Mhz band to Digi for a tenure of 15 years, with full implementation starting 1 July 2017.

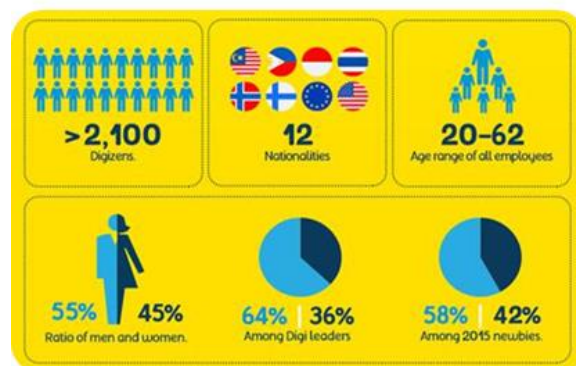
Spectrum Band	Current	New assignment
900 Mhz	2 x 2 Mhz	2 x 5 Mhz
1800 Mhz	2 x 25Mhz	2 x 20 Mhz

We look forward for a fair and balanced spectrum portfolio from the remaining spectrum bands under review ie 700Mhz, 2300Mhz, 2600Mhz to support the growing data demand and empower the nation with affordable and high quality internet services sustainably.

**Leverage on diverse leadership to drive digital ambition and develop NextGen digital talents**

As part of the winning team strategic focus, we took forward leaning steps in developing future ready talents and a culture that inspires everyday innovation. Digi is one of the leading organisations advancing diversity into leadership and Board of Directors.

**43% Female BOD composition**



We took a bold move to be one of the first in the country to launch a 6-month maternity leave to promote a more inclusive working environment for female Digizens and established Women Inspirational Network (WIN) dedicated to support professional development of women leaders in Digi.

During the quarter, we have also launched Digi CXO Apprentice programme with the opportunity for young talents to gain direct mentorship from the CXOs and global exposure to Telenor's 13 business units.

### **Positive start for 2016 with more firepower to compete sustainably**

While the market challenges is expected to continue, our stronger 4G LTE network, growth momentum from postpaid and growing Malaysian prepaid will allow Digi to compete sustainably, and provide a solid foundation for our next chapter of growth fueled by our new strategy.

Our focus for the year will be to deliver on our promise to enable growth and profitability from our core services while we transform our business, unlock new capabilities and opportunities to strengthen our play in digital.

For the financial year 2016, Digi aims to drive resilient performance, strengthen operational excellence and execution to deliver healthy shareholders return sustainably.

There are no changes to the 2016 financial guidance as Digi aims to sustain service revenue, EBITDA margin and Capex at 2015 level.

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

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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 1<sup>st</sup> Quarter, 2016 result.*

#### **Disclaimer**

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