

Solid year-on-year performance with stronger growth and profitability

Service revenue strengthened 2.1% year-on-year to RM1,484 million anchored on postpaid revenue growth of 15.5% and prepaid internet revenue growth of 20.9%. Gross profit registered an uplift of RM44 million year-on-year while EBITDA rose 3.6% year-on-year to RM743 million with margin at 47%. Alongside with efficient capex investment, ops cash flow increased 22.1% year-on-year to RM596 million.

EXECUTIVE SUMMARY

RM million	2Q18	1Q18	Q-Q	Y-Y
Service revenue	1,484	1,483	0.1%	2.1%
Total revenue	1,586	1,599	-0.8%	2.2%
Gross profit	1,221	1,223	-0.2%	3.7%
EBITDA (boi)	743	741	0.3%	3.6%
EBITDA margin	47%	46%	0.5pp	0.6pp
Profit before tax	492	481	2.3%	1.9%
Profit after tax	359	352	2.0%	0.0%
Capex	147	181	-18.8%	-35.8%
Ops cash flow	596	560	6.4%	22.1%
Ops cash flow margin	38%	35%	2.6pp	6.1pp
EPS (sen)	4.6	4.5	2.2%	0.0%
DPS (sen)	4.9	4.9	0.0%	6.5%

All analysis and comparisons are made based on old accounting principles.

In 2Q 2018, Digi strengthened growth and efficiency momentum to turn in a solid year-on-year performance with:

- Stronger uplifts on top line across service revenue, gross profit and EBITDA;
- Continued efficient operations; and
- Robust EBITDA and ops cash flow.

We continued to step up on Digi 4GPlus network coverage and capacity to empower more Malaysians to enjoy affordable and quality internet services and the benefits of digital connectivity. Our LTE-A and 4G-LTE network, supported with extensive fiber network reached 58% and 89% of population nationwide.

Leveraging on the extensive 4GPlus network footprint, digital enablers and *Freedom to Internet* propositions, we gained 462K additional 4G subscribers on our network to 7.1 million or 81% of our smartphone users.

Data traffic volumes surged 73% year-on-year and 14% quarter-on-quarter, while average monthly data usage amongst our internet subscribers soared to 8.2GB.

Our digital self-serve channel – MyDigi continued to deliver healthy increase in upsell transactions of 20.9 million, an uplift of 8.9% from 19.2 million in the preceding quarter and more than 2.6 million monthly active MyDigi users during the quarter.

As part of the digital transformation strategy, Digi advanced collaboration with an in-house managed service provider with an ambition to establish a data-centric network operating model centred on customer experience. This new innovative operating model will fast track Digi’s adoption of tools for analytics and machine learning, rollout of latest technologies as well as quicker access to proven methodologies and global pool of competencies to deliver optimal network operations.

In line with current quarter’s financial performance and after accounting for the financial effects from the adoption of MFRS 15 and MFRS 9, the Board declared 2nd interim dividend of 4.9 sen or RM381 million for the quarter.

OPERATIONAL AND FINANCIAL UPDATES

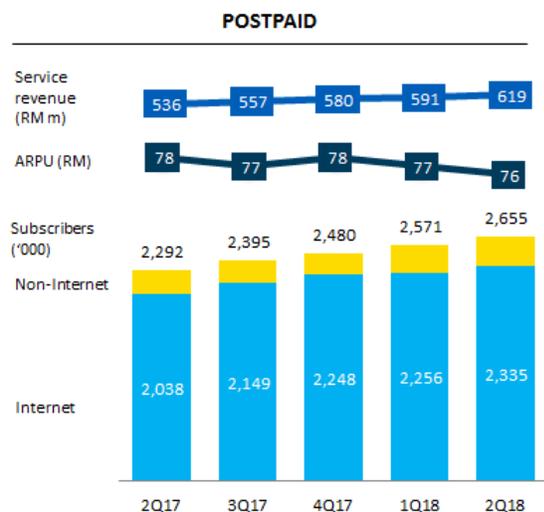
Solid postpaid revenue growth underpinned by stronger postpaid base

During the quarter, we continued to register positive take-ups for Digi Postpaid and Postpaid Family plans including encouraging subscriptions for the high value plans enabled with Borderless Roaming proposition from our existing customers.

The increased demand for plan upgrades and prepaid to postpaid conversions were supported by sharper focus on base management, leveraging on data insights and digitisation capabilities.



At the same time, our entry level postpaid plans alongside affordable and worry-free 4G bundles continued to garner strong demand and supported Digi's growing postpaid subscriber base.



Postpaid turned in a revenue growth of 15.5% year-on-year and 4.7% quarter-on-quarter to reach RM619 million while postpaid internet revenue rose 32.5% year-on-year and 8.7% quarter-on-quarter to RM400 million.

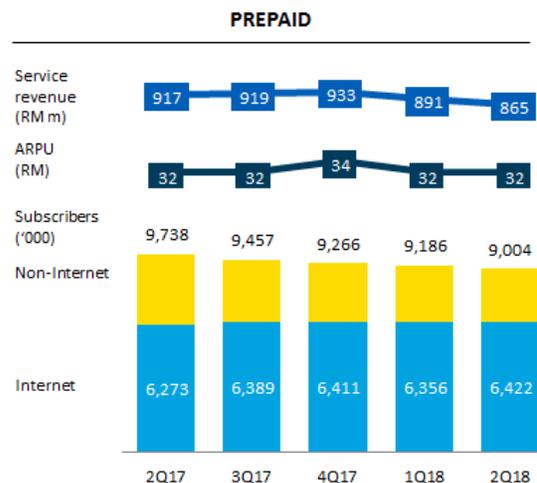
ARPU moderated to RM76 on the back of stronger postpaid subscriber base of 2.7 million, fuelled by increased entry level postpaid subscriptions from continued momentum from prepaid to postpaid conversions.

Uplift in prepaid performance fuelled by 20.9% year-on-year prepaid internet revenue growth

As part of the continued focus to drive internet adoption and usage amongst the prepaid subscribers alongside stronger internet revenue, we continued to offer the flexibility of affordable bite-sized internet passes via tactical Digi Rah Rah Internet passes for 2018 World Cup matches, one-time Internet Cili Padi passes and recurring internet access through biGBonus and Super Tererrr plans.

Increased demand for these internet passes and plans boosted by seasonal demand, targeted campaigns and offers led to higher internet adoption and usage amongst our prepaid subscribers. As a result, prepaid internet revenue surged 20.9% year-on-year while sequential prepaid internet revenue

strengthened 3.1% to RM405 million or 46.8% of prepaid revenue.



Prepaid revenue decline narrowed to -5.7% year-on-year and -2.9% sequentially when compared to same quarter last year (2Q 2017: -13.9% and -3.7% respectively), backed by stronger prepaid internet revenue growth to cushion the revenue decline from legacy prepaid voice and messaging services.

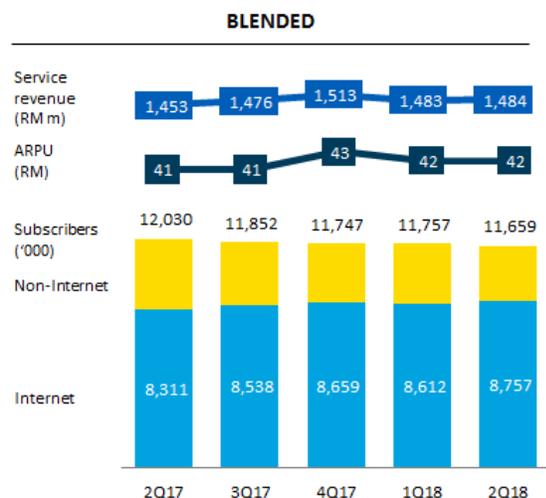
Prepaid ARPU stabilised at RM32 while prepaid subscriber base traced to 9.0 million on the back of continued prepaid to postpaid conversions and sharper focus on internet centric acquisitions.

Stronger service revenue growth year-on-year

Service revenue grew 2.1% year-on-year fuelled by strong postpaid growth and stronger internet uptake from prepaid amid setback by revenue dilution from prepaid legacy services and effects from mobile termination rates revision effective from 1 January 2018 onwards.

Internet revenue climbed 26.4% year-on-year and 5.8% quarter-on-quarter to RM805 million or 54.2% of service revenue backed by higher smartphone adoption to 76.1% and encouraging increase in upsell transactions to 20.9 million on MyDigi.

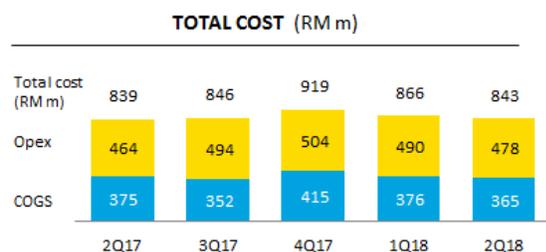




Subscriber base remained resilient at 11.7 million coupled with higher internet penetration of 75.1% and sustained ARPU at RM42 albeit challenged by intense price competition and dilution from legacy voice and messaging services.

Device and other revenue for the quarter increased 3.0% year-on-year to RM102 million spurred by stronger demand for device bundles. However, compared with preceding quarter, device and other revenue trimmed 12.1% due to relatively lower other revenue.

Continued focus on efficiency delivered stronger Gross Profit and Q-Q Opex



Cost of goods sold (COGS) declined 2.7% year-on-year and 2.9% quarter-on-quarter mainly due to volumes reduction from legacy voice and messaging services coupled with improved traffic cost structure established as part of the operational efficiency (OE) initiatives.

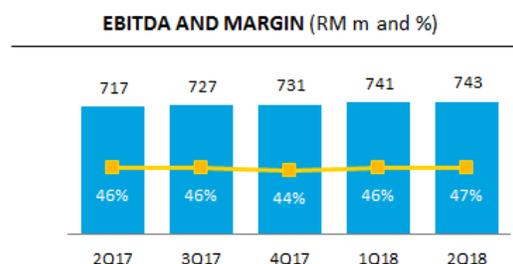
Gross profit strengthened 3.7% year-on-year to RM1,221 million on the back of higher internet revenue contribution and improvement in COGS.

Opex increase of 3.0% year-on-year included impact from prior year one-off saving. Meanwhile, Opex improved 2.4% quarter-on-quarter to 32.2% opex to service revenue.

Our cost development continued to be well-supported by structural OE initiatives in sales and marketing activities including commissions rationalization aided by digitization capabilities as well as optimized network operations.

We will continue to sharpen our focus on operational efficiencies opportunities to equip Digi with the financial resilience and flexibility to invest in new capabilities and service innovations in connecting to what matters most for our customers.

Solid EBITDA and PAT as a flow through from stronger growth and efficiencies



EBITDA strengthened 3.6% year-on-year and flat quarter-on-quarter to RM743 million or 47% margin as a flow through from higher service revenue and efficient cost management.

Profit before tax (PBT) for the quarter rose 1.9% year-on-year and 2.3% quarter-on-quarter to RM492 million as a result of stronger EBITDA and after accounting for RM40 million new network operating model transition cost and relatively modest depreciation charges of RM183 million.

The lower depreciation of 5.7% year-on-year and 20.8% quarter-on-quarter included a reversal of depreciation on fully depreciated assets along with substantially lower amortization cost on 2100Mhz spectrum asset upon re-assignment in 1 April 2018 for the next 16 years.

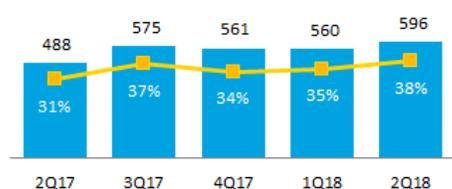


PAT AND MARGIN (RM m and %)



Profit after tax (PAT) strengthened to RM359 million, flat year-on-year and 2.0% quarter-on-quarter.

OPS CASH FLOW AND MARGIN (RM m and %)



As a flow through from stronger EBITDA and relatively lower year-on-year capex spend this quarter, ops cash flow leaped 22.1% year-on-year and 6.4% quarter-on-quarter to RM596 million or 38% margin.

During the quarter, Digi invested RM147 million Capex or 9.9% of service revenue, while efficiently delivered 4G-LTE and LTE-A network coverage expansion to 89% and 58% of population supported by 8,300km of Fiber network nationwide.

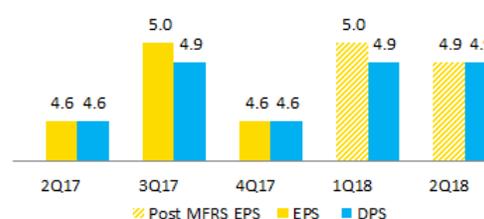
We remained focus on continuous network upgrades and optimisation, efficient spectrum deployment and stronger IT capabilities to support quality and affordable internet services for our increasing internet subscriber base.

Healthy shareholders return and strong balance sheet

Earnings for the quarter after accounting for impact from MFRS 15 and 9 summed up to RM384 million or earnings per share (EPS) of 4.9 sen.

Consistent with current quarter's financial performance, the Board of Directors declared 2nd interim dividend of 4.9 sen per share equivalent to RM381 million, payable to shareholders on 28 September 2018.

EPS AND DPS (sen)



Total assets stood relatively stable, up 0.7% year-on-year and 0.1% quarter-on-quarter to RM6.04 billion, after accounting for efficient network and digital capabilities investments in addition to 2100Mhz spectrum investment made in 1Q 2018.

BALANCE SHEET (RM m)

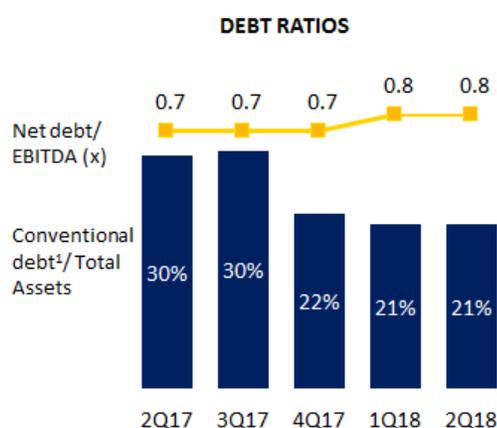
	2Q17	3Q17	4Q17	1Q18	2Q18
Total Assets	5,996	5,869	5,834	6,027	6,035
Total Equity	513	540	519	669	673
Interest-bearing debts	1,810	1,802	1,305	1,302	1,300
Islamic debts	899	899	1,399	1,398	1,397
Cash & cash equivalents	628	661	575	461	428

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 while conventional debt over total assets remained steady at 21%, well-within the Shariah threshold.

In May 2018, Digi has been listed as one of the Shariah-Compliant securities on FBM KLCI by Securities Commissions Malaysia.



OTHER UPDATES

Impact of MFRS changes on 2Q 2018

With effect from 1 January 2018, Digi adopted *MFRS 15 Revenue From Contract With Customers* using a modified retrospective approach.

As highlighted in previous quarter's MD&A, there was a one-off retrospective adjustment of RM128 million to Retained Earnings on 1 January 2018, comprising the following:

- Contract assets - RM93 million
- Contract costs (net) - RM75 million
- Deferred tax liability - RM40 million

These contract assets and contract costs will be amortised over the course of next 2 years.

In 2Q 2018, the accounting of MFRS 15 provided an uplift of RM25 million to the PAT via:

- Reduction in service revenue – RM30 million
- Increase in device revenue – RM62 million
- Increase in Opex – RM7 million

RM million	2Q 2018			
	(Pre-MFRS Δ)	(Post-MFRS Δ)	Delta	%
Service revenue	1,484	1,454	(30)	-2.0%
Total revenue	1,586	1,618	32	2.0%
Opex	478	485	7	1.5%
EBITDA	743	768	25	3.4%
Margin	46.8%	47.5%	0.6	0.6
Profit before tax	492	517	25	5.1%
Profit after tax	359	384	25	7.0%
Capex	147	147	-	0.0%
Ops cash flow	596	621	25	4.2%
Margin	37.6%	38.4%	0.8	0.8
EPS (sen)	4.6	4.9	0.3	7.0%
DPS (sen)	4.9			

The YTD 2Q 2018 impact on income statement post MFRS 15 adoption can be summarised as follows:

- Reduction in service revenue - RM52 million
- Increase in device revenue - RM120 million
- Increase in Opex – RM9 million

2018 OUTLOOK AND PRIORITIES

Good progress on 2018 priorities

With a solid 1H 2018 performance and a sharper focus anchored on connecting our customers to what matters most, we will continue to pursue sustainable growth opportunities ahead to deliver value for our customers and shareholders.

Our focus for the next 6 months will be to step up on growth and efficiencies by:

- Strong execution of strategies in focus areas of growth across postpaid and prepaid;
- Leveraging on data driven-insights and customer segmentation; and
- Delivering on cost agenda on a platform of sustainable and efficient cost structure.

We will intensify our digital transformation pace to ensure future growth and customer experience alongside with building new digital revenue streams beyond the core.

We believe our sharper focus on excellent execution will continue to drive Digi’s versatility and resilience in delivering sustainable growth while empowering more Malaysians to enjoy affordable and quality internet services and the benefits of digital connectivity.

Albeit with continued market challenges ahead in 2H 2018, Digi will continue to aim towards improving 2018 service revenue growth development, sustaining EBITDA margin around 46% - 47% and delivering efficient Capex between 10% - 12% of service revenue.

	2018 Updated Guidance¹	YTD 2Q 2018
Service revenue growth	Flat	1.4%
EBITDA margin	46% - 47%	46.6%
Capex to service revenue ratio	10% - 12%	11.1%

¹ FY 2018 Guidance based on old accounting principles

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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 2nd Quarter, 2018 result.

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