MANAGEMENT DISCUSSION & ANALYSIS – THIRD QUARTER OF FINANCIAL YEAR 2021 (3Q2021)

Improvement in results seen from continued recovery and efficiency focus

- Service revenue returned to sequential growth on higher contribution from postpaid and prepaid segments
- Positive recovery in total subscriber base of +148K Q-Q
- Malaysian subscribers recorded improvement of 4.0% Q-Q and 9.9% Y-Y
- Resilient blended ARPU stable at RM43 supported by high quality gross adds
- Encouraging sequential EBITDA and PAT increase of 6.1% and 11.8%, respectively reflecting efficiencies and strategy execution
- Third interim dividend of 4.0 sen declared, representing a 100% of dividend payout ratio

3Q 2021 OPERATIONAL SUMMARY

Subscriber development

Total subscribers grew to 10,365K subs or +148K whilst blended ARPU remained at RM43, reflecting our continuous efforts to offer flexible, affordable and high-speed internet proposition amongst Malaysians. Recent government initiatives designed to improve internet accessibility during lockdown had yielded active data subscriber growth for the fifth consecutive quarter. Consequently, our prepaid base strengthened to 7,118K subs or +86K Q-Q alongside a steady ARPU of RM34. Our postpaid subscriber base continued its upward trend with net adds of +62K Q-Q to 3,247K subs for five quarters in a row driven by favourable demands in smart bundles and entry-level plans. ARPU however shed -RM1 to RM63 partially due to lower voice ARPU. We continue to focus on manifesting deep and trusted customer relationships with our strategic acquisition and contracting mix to improve loyalty and customer engagements amongst our quality base.

Network performance

Digi remains committed to deliver seamless digital connectivity as we have achieved 100% of greenfield and brownfield site targets for JENDELA, underlining our commitment in accelerating Malaysia's 4G coverage to support national digitalisation plans. The process to gradually shut down 3G network is well underway with only less than 300K of 3G-subscribers against a growing internet subscribers base of 9.0 million. The heightened need for high quality connectivity is supported by our strategy to deliver attractive value-add services on our secure 4G LTE and LTE-A networks, which covers over 92% and 75% of population nationwide, respectively, alongside a strong fiber network of over 10k KM. In addition, our high network quality is yet again recognised by independent international observers as the fastest and most consistent network. Amidst the prolonged lockdown period in 3Q2021, Digi continued to support data hungry subscribers as evidenced by data traffic growth of 6.3% Q-Q, 30.7% Y-Y, and reached an average data per user of 22.4GB.

Operational Statistics	3Q2020	4Q2020	1Q2021	2Q2021	3Q2021	Q-Q %	Y-Y %
Postpaid ('000)	3,022	3,044	3,090	3,185	3,247	1.9%	7.4%
Prepaid ('000)	7,658	7,397	7,160	7,032	7,118	1.2%	-7.1%
Total subscribers ('000)	10,680	10,441	10,250	10,217	10,365	1.4%	-2.9%
Postpaid ARPU (RM)	67	66	65	64	63	-1.3%	-5.8%
Prepaid ARPU (RM)	33	32	33	34	34	-0.3%	2.8%
Blended ARPU (RM)	**42**	**42**	**43**	**43**	**43**	**-0.2%**	**0.9%**
Monthly active users for MyDigi ('mil)	4.3	4.4	4.5	4.9	4.7	-3.5%	10.1%
Monthly average data per user (GB)	17.4	19.0	19.7	21.4	22.4	4.7%	28.7%
Internet subscribers	82.2%	83.5%	85.9%	86.4%	86.7%	0.3%	5.5%
Smartphone penetration rate	85.6%	87.3%	89.2%	90.1%	90.9%	0.9%	6.2%
Population Coverage (%)							
4G (LTE)	91.3%	91.6%	91.7%	91.8%	92.2%		
4G Plus (LTE-A)	74.4%	74.8%	75.0%	75.1%	75.4%		
Fibre Network (km)	9,847	9,981	10,052	10,084	10,131		

3Q 2021 FINANCIAL SUMMARY

Revenues

Service revenue of RM1,343 million returned to sequential growth of 0.2% underpinned by improvements in postpaid and core prepaid revenues as total subscriber base strengthened to 10.37 million coupled with a resilient blended ARPU. Y-Y decline of -2.3% was mainly attributed to the prolonged stricter lockdown since June 2021 and the strategic decision to exit from the high churn-low end of the migrant segment. The reduction of gaming revenue from changes in reload limits had also led to lower digital revenue by -12.2% Q-Q and -18.8% Y-Y to RM65 million.

The prepaid revenue saw a stable Q-Q performance, largely attributed to the growth in the Malaysian segment and continued data usage growth (albeit a Y-Y reduction of -3.4%) to RM645 million. Meanwhile, the postpaid revenue strengthened to RM633 million, up 1.6% Q-Q and 1.1% Y-Y, the highest in five quarters, reflecting our strategic efforts to drive data monetisation as well as delivering sustainable subscriber and revenue mix. As such, internet and digital revenue mix strengthened to 77.5% of service revenue.

Overall, the topline contribution of RM1,584 million was in line Y-Y despite a marginal drop of -2.1% Q-Q largely due to lower device and other revenues by -13.3% Q-Q to RM241 million. Nevertheless, favourable take-ups for mobile bundles further lifted Y-Y device sales growth by 17.6% as devices sold rose to 353K units.

Cost Of Goods and Services (COGS)

COGS was reduced sequentially by -15.3% in line with lower device and digital revenues which led to lower device and digital costs. Similarly, traffic costs declined marginally on lower traffic volumes and lesser travel activities throughout the Covid-19 pandemic. Y-Y COGS increased by 0.7% as lower digital costs and traffic charges were unable to offset costs from higher device volumes.

Operating Expenditures (OPEX) – excluded other incomes and forex effects

OPEX of RM386 million was down -3.5% Q-Q as a result of savings and timing effects in sales and marketing. This was sufficient to cushion the increase in staff and personnel, operations and maintenance costs alongside higher license and permit renewal fees. Provision for doubtful debts (PFDD) increased by RM3 million to RM17 million on higher device bundling proposition.

On a Y-Y basis, an OPEX reduction of -2.8% was recorded mainly due to optimised advertising and promotion spend and improved collection process, alongside the non-recurring cost benefits of RM19 million in 3Q2020 versus RM15 million in the quarter under review. Excluding one-off effects, underlying OPEX improved marginally by 3.6% Y-Y as ongoing efficiency initiatives and better credit management more than compensated for higher personnel costs. OPEX to service revenue ratio remained healthy at 28.7%, highlighting Digi's relentless focus on modernisation and digitalisation.

EBITDA Before Other Items (boi)

Following the sequential recovery in service revenue and efficient cost management, EBITDA grew by RM45 million to RM788 million, an increase of 6.1% Q-Q and 0.3% Y-Y, corresponding to a resilient EBITDA margin of 49.7%.

Profit After Tax (PAT)

As flowthrough, PAT was lifted by 11.8% Q-Q to RM313 million, or a 19.8% margin. Lower depreciation and amortisation and sustained net finance costs have also contributed to the Q-Q improvement. Y-Y PAT fell by -2.5% mainly due to higher depreciation and amortisation costs from a higher intangible and right-of-use ("ROU") assets base, alongside higher net one-off effects in 3Q2020 vs 3Q2021.

Capex And Operations Cash Flow (OCF)

In 3Q2021, Digi maintained a steady investment activity with Capex reaching RM170 million, or 10.7% of total revenue, in relation to strategic modernisation initiatives for network capacity enhancements and digitalisation of operations. Subsequently, OCF rose to RM618 million, or a healthy OCF margin of 39.0%.

Shareholder Return

Earnings for the quarter strengthened to 4.0 sen per share, an increase of 0.4 sen Q-Q and a marginal drop of 0.1 sen Y-Y. Based on the good performance in 3Q2021 and a strong balance sheet, the Board of Directors approved a third interim dividend of 4.0 sen per share, equivalent to RM311 million of dividend payout and a dividend payout ratio of 100% to valued shareholders.

Prospects For The Financial Year Ending 31 December 2021

Operationally, Digi will continue to execute on its strategy focusing on strengthening mobile offerings and digital services for subscribers to benefit from growing digital opportunities. Most importantly, we remain highly committed in continuing our effort to support societal recovery from Covid-19 and to expand the widest network coverage in rural areas, connecting customers to what matters most. As the operating and retail environment is gradually returning to normal conditions, Digi is revising the FY2021 guidance to low single digit decline for service revenue, low-to-mid single digit decline for EBITDA and capex-to-total revenue ratio of 13.0% to 14.0%.

Lastly, the proposed transaction relating to the prior-announced proposed merger between Celcom Axiata Berhad and Digi Telecommunications Sdn Bhd is progressing as planned. The completion of the proposed transaction is subject to receipt of regulatory approvals, approval by all shareholders, and other customary terms and conditions. Expected dates for approval and completion of the transaction within the second quarter of 2022 remain unchanged.

KEY FINANCIAL RATIOS AND SUMMARISED FINANCIAL STATEMENTS

Key Financial Ratios	3Q2020	4Q2020	1Q2021	2Q2021	3Q2021	9M2020	9M2021
Earnings per share (sen)	4.1	3.6	3.4	3.6	4.0	12.1	11.0
Dividend per share (sen)	4.1	3.6	3.4	3.6	4.0	12.0	11.0
CAPEX to total revenue (%)	8.5%	17.6%	10.1%	12.1%	10.7%	10.8%	11.0%
Operations cash flow margin (%)	41.3%	31.5%	37.4%	33.8%	39.0%	39.5%	36.7%
Conventional debt over total asset (%)	7.5%	6.8%	6.2%	5.5%	4.7%		
Net debt to EBITDA (times)	1.5	1.7	1.7	1.6	1.5		

Summary of Financial Position (RM'm)	3Q2020	4Q2020	1Q2021	2Q2021	3Q2021
Cash and short-term deposits	365	303	217	403	590
Other assets	7,671	7,884	7,759	7,662	7,575
TOTAL ASSETS	**8,036**	**8,187**	**7,976**	**8,065**	**8,165**
Conventional borrowings	604	555	493	444	382
Islamic borrowings	2,166	2,316	2,242	2,242	2,167
Finance lease	2,250	2,581	2,586	2,618	2,589
Other liabilities	2,372	2,129	2,064	2,155	2,388
Total liabilities	**7,392**	**7,581**	**7,385**	**7,459**	**7,526**
Total equity	644	606	591	606	639

Income Statement (RM'm)	3Q2020	2Q2021	3Q2021	Q-Q %	Y-Y %	9M 2020	9M2021	Y-Y %
Postpaid revenue	626	623	633	1.6%	1.1%	1,920	1,873	-2.4%
Prepaid revenue	668	643	645	0.3%	-3.4%	1,981	1,928	-2.7%
Digital revenue	80	74	65	-12.2%	-18.8%	177	219	23.7%
Service revenue	**1,374**	**1,340**	**1,343**	**0.2%**	**-2.3%**	**4,078**	**4,020**	**-1.4%**
Devices and other revenue	205	278	241	-13.3%	17.6%	513	732	42.7%
Total revenue	**1,579**	**1,618**	**1,584**	**-2.1%**	**0.3%**	**4,591**	**4,752**	**3.5%**
Cost of goods and services (COGS)	(407)	(484)	(410)	-15.3%	0.7%	(1,122)	(1,311)	16.8%
Cost of materials	*(218)*	*(291)*	*(235)*	*-19.2%*	*7.8%*	*(542)*	*(756)*	*39.5%*
Traffic charges	*(189)*	*(193)*	*(175)*	*-9.3%*	*-7.4%*	*(580)*	*(555)*	*-4.3%*
Gross profit	**1,172**	**1,134**	**1,174**	**3.5%**	**0.2%**	**3,469**	**3,441**	**-0.8%**
GP margin	*74.2%*	*70.1%*	*74.1%*	*4.0%*	*-0.1%*	*75.6%*	*72.4%*	*-3.2%*
Operating expenditures (OPEX)	(397)	(400)	(386)	-3.5%	-2.8%	(1,177)	(1,189)	1.0%
Sales & marketing	*(107)*	*(96)*	*(82)*	*-14.6%*	*-23.4%*	*(309)*	*(280)*	*-9.4%*
Staff costs	*(59)*	*(57)*	*(64)*	*12.3%*	*8.5%*	*(174)*	*(183)*	*5.2%*
Operations & maintenance	*(38)*	*(49)*	*(47)*	*-4.1%*	*23.7%*	*(152)*	*(155)*	*2.0%*
USP fund and license fees	*(77)*	*(79)*	*(84)*	*6.3%*	*9.1%*	*(237)*	*(244)*	*3.0%*
Other expenses	*(86)*	*(105)*	*(92)*	*-12.4%*	*7.0%*	*(242)*	*(286)*	*18.2%*
Credit loss allowances	*(30)*	*(14)*	*(17)*	*21.4%*	*-43.3%*	*(63)*	*(41)*	*-34.9%*
EBITDA	**786**	**743**	**788**	**6.1%**	**0.3%**	**2,312**	**2,269**	**-1.9%**
EBITDA (boi) margin	*49.8%*	*45.9%*	*49.7%*	*3.8%*	*-0.1%*	*50.4%*	*47.7%*	*-2.7%*
Normalised EBITDA excl. cost one-offs	*741*	*744*	*766*	**3.0%**	**3.4%**	*2,242*	*2,253*	**0.5%**
Normalised EBITDA (boi) margin	*47.1%*	*47.1%*	*48.6%*	*1.5%*	*1.5%*	*48.9%*	*47.9%*	*-1.0%*
Depreciation, amortisation and impairment	(313)	(325)	(322)	-0.9%	2.9%	(947)	(956)	1.0%
Other items	-	1	(2)			-	(2)	
Profits before interests and tax (PBIT)	**473**	**419**	**464**	**10.7%**	**-1.9%**	**1,365**	**1,311**	**-4.0%**
Net finance costs	(41)	(46)	(46)	0.0%	12.2%	(120)	(161)	34.2%
Profit before tax (PBT)	**432**	**373**	**418**	**12.1%**	**-3.2%**	**1,244**	**1,150**	**-7.6%**
Taxation	(111)	(93)	(105)	12.9%	-5.4%	(303)	(292)	-3.6%
Profit after tax (PAT)	**321**	**280**	**313**	**11.8%**	**-2.5%**	**941**	**858**	**-8.8%**
PAT margin	*20.3%*	*17.3%*	*19.8%*	*2.5%*	*-0.5%*	*20.5%*	*18.1%*	*-2.4%*
Normalised profit after tax (PAT)	*268*	*287*	*295*	**2.8%**	**10.1%**	*878*	*852*	**-3.0%**
Normalised PAT margin	*17.0%*	*18.2%*	*18.7%*	*0.5%*	*1.7%*	*19.2%*	*18.1%*	*-1.1%*
Capex	134	196	170	-13.3%	26.9%	498	523	5.0%
Capex / Revenue %	*8.5%*	*12.1%*	*10.7%*	*-1.4%*	*2.2%*	*10.8%*	*11.0%*	*0.2%*
Operations cash flow	652	547	618	13.0%	-5.2%	1,814	1,746	-3.7%

OPEX excluded other incomes, forex effects and other items. Please see more details in the note of the Financial Statements.