

Sprinting ahead with 4G LTE-A deployment, solid postpaid growth and returns

With internet penetration at a healthy level of 64.5% and increasing customers' demand for digital products and services, we intensified our digital transformation pace with the deployment of 4G LTE-A network across key market centers, covering more than one third of the population nationwide. We embraced digital innovations as our foundation in unraveling opportunities to serve our customers better, beyond competitive pricing. Service revenue remained resilient at RM1.56 billion, anchored by solid postpaid growth while EBITDA improved to RM735 million or 44% margin for the quarter.

EXECUTIVE SUMMARY

RM million	2Q16	1Q16	Q-o-Q	Y-o-Y
Service revenue	1,557	1,560	-0.2%	-2.0%
Total revenue	1,655	1,653	0.1%	-3.9%
EBITDA	735	704	4.4%	-6.7%
EBITDA margin	44%	43%	1.8pp	-1.3pp
PAT	421	399	5.5%	-9.3%
Capex	167	171	-2.3%	-16.5%
Ops cashflow	568	533	6.6%	-3.4%
Ops cashflow margin	34%	32%	2.1pp	0.2pp
EPS (sen)	5.4	5.1	5.9%	-10.0%
DPS (sen)	5.4	5.1	5.9%	-8.5%

Digi delivered a well-fought quarter to seal 1H 2016 with relatively resilient performance although industry service revenue growth continued to be challenged by aggressive high speed data quotas bundling and heavy discounts on the back of increased consumer wallet pressure.

Nonetheless, Digi remained steadfast with steady sequential service revenue at RM1.56 billion, registered strong growth momentum on postpaid and took the opportunity to strengthen 4G LTE and 4G LTE-A network coverage to 76% and 34% of the population nationwide, respectively.

Active internet subscribers steadily rose to 8.0 million alongside with increase of smartphone penetration to 62.0% while 4G LTE subscribers grew another 395,000 to 3.3 million.

EBITDA for the quarter improved 4.4% sequentially to RM735 million while ops cashflow and profit after tax (PAT) strengthened to RM568 million and RM421 million, respectively.

Consistent with current quarter's financial performance, the Board declared a 2nd interim dividend of 5.4 sen or RM420 million, equivalent to almost 100% dividend payout.

OPERATIONAL AND FINANCIAL UPDATES

Putting skin in the game towards digital transformation



Our digital transformation starts and ends with fulfilling the needs of our customers. With this core belief in mind, Digi initiated the appointment of Chief Digital Officer and formation of Digi-X division as a next step of digital transformation.

This team will be spearheading the development of digitally adjacent businesses and competencies, digital innovations as well as unlocking new business models and partnerships.



At the same time, Digi initiated steps to revolutionise and digitise core mobile operations by empowering intuitive digital channels for dealer distribution and customer self-serve functions via the mobile sales app (MSA) and MyDigi platform, respectively.

(MSA enables dealers with more efficient sim registration and activation with accurate ID verification on the go via the convenience of a smartphone or tablet whereas MyDigi serves as an intuitive one stop digital platform for self-care, customer support, rewards and primary distribution channel to customers.)

These new digital capabilities will enable nimble and agile core mobile operations with significantly improved speed to execution and to serve more customers nationwide efficiently.

In addition, we are also leveraging on Telenor’s scale and opportunities on areas such as acquisition of global platforms and capabilities, strategic partnerships with global digital players and development of adjacent digital businesses opportunities such as financial services and cloud storage.

We will also tap on analytics capabilities across Telenor to enable personalisation of digital services, recommendation engines for product development, digital distribution as well as smart planning and investment as part of our digital transformation journey.

Fuelling digital innovations and opportunities amongst budding entrepreneurs

ENGAGEMENT WITH START-UP COMMUNITIES

Digi Incub8

- Pre-accelerator program for idea stage startups
- 6-day intensive bootcamp
- Access to business support, mentorship, capital and the network to build and grow digital business opportunities

Digi Accelerator

- 360° launchpad to fast track startup businesses
- 4-month bootcamp with regional and global exposure, seed funding, as well as commercialisation support
- 1st batch of winners: Vase, Local Usher and GrabGas

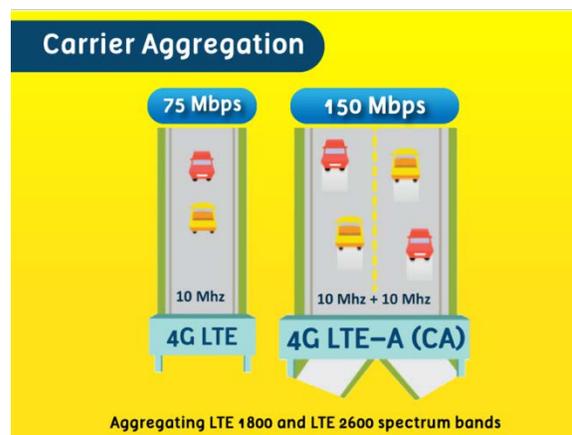
Telenor- Digi Ignite

- Global startup program for budding intrapreneurs with great ideas on digital products or services
- 1st batch of 8 winners from across 10 countries. Digi's ALFRED team among the winning team

Over the last 2 quarters, we have initiated various engagements with the digital start-up communities through programs such as Digi Incub8, Digi Accelerator and Telenor-Digi Ignite to nurture budding entrepreneurs and *intrapreneurs* on the development of digital services opportunities.

These programs encompassed platforms for ideation, bootcamp, business support, mentorship, seed funding as well as commercialisation support to springboard prospective digital start-up to the next level.

Sprinting ahead with 4G LTE-A deployment



Since the beginning of 2016, Digi continued to lead the market with rapid deployment of LTE-A network coverage in key market centres (KMCs) to enable our customers to enjoy internet experience twice the speed of 4G LTE on their LTE-A capable devices.

At the same time, we continued to strengthen and expand 4G LTE network coverage to 76% of the population nationwide, supported by over 6,500 LTE sites and 7,000 km of fiber network.

Consequently, we have increased the data traffic delivery efficiency and internet service quality with approximately 27% of data traffic delivered on 4G LTE network compared to 6%, a year ago.

Our growing LTE subscriber base to 3.3 million from 1.3 million, a year ago, have been a strong driver for us to continue the momentum on 4G LTE coverage expansion while leveraging on efficient technology and fiber rollout to support exponential data growth.

Our relentless focus does not only concentrate at deploying digital technology but also to win by constantly challenging problem-solving methods by recombining elements in distinctive and unconventional ways. That ability is critical with the explosion of digital technology in the years ahead.



Bringing the best choices, convenience and value for Digi's customers

Over the quarter, Digi continued to design and shape its postpaid plans with new cut and bend relevant to changes in customers' behaviour and lifestyle.

The revamped postpaid offers embedded sharper focus on internet, digital services, and flexible internet sharing propositions. In addition, Digi continued to ride on 4G LTE campaigns nationwide with attractive promotional offers on higher tiered subscriptions in addition to affordable, worry-free quota top up options.

As for prepaid, Digi took a bold move to recalibrate reload campaigns, IDD pricing in exchange for stronger prepaid internet proposition and targeted offers such as internet centric reloads, promotional quota upsizing for mobile internet subscriptions and complimentary off-peak quotas. During the quarter, Digi also took the opportunity to launch its 360° Ramadan prepaid campaigns in conjunction with the Hari Raya festive celebration.

Beyond core subscription plans, Digi continued to deliver its commitment to make life easier for customers with the flexibility of charging in-app and game purchases to Digi postpaid and prepaid accounts via Google Play Store.

Well-fought quarter with sustained service revenue at RM1.56 billion

With the industry revenue continued to be challenged with steep price declines while battling with intense competition and soft consumer spending, Digi remained resilient and sustained service revenue similar to prior quarter albeit 2.0% lower when compared against same quarter last year.

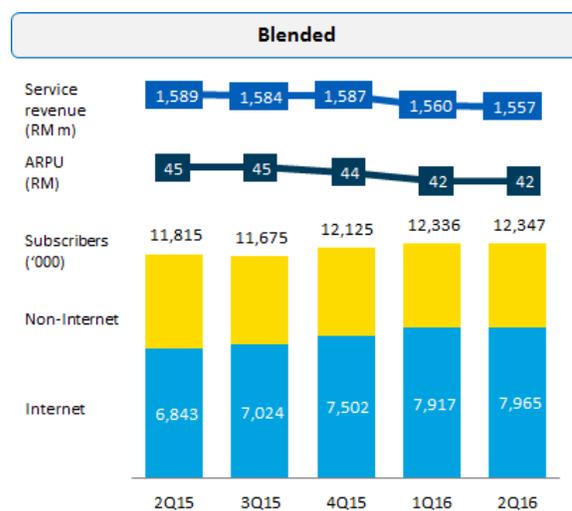
The robust growth development on postpaid continued to bolster sequential decline on prepaid service revenue which was moderated by effects from prolonged price war and IDD price rationalisation.

Internet revenue made up a total of 36.1% of the service revenue for the quarter and continued to grow as smartphone adoption rose to 62.0% and

active internet subscribers to 64.5% of total subscriber base.

ARPU steady at RM42 backed by 12.3 million subscribers.

Device and other revenue remained flat at RM98 million for the quarter following increased subscriptions for sim-only packages and also included the re-grossing of rental income for shared sites that have no impact on EBITDA as a corresponding rental cost is recognised as part of opex.



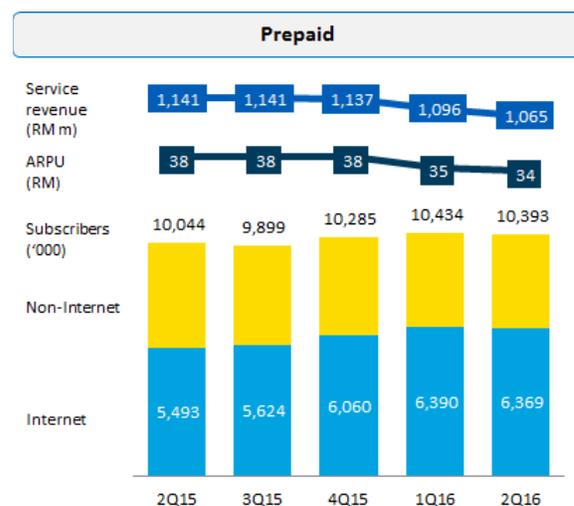
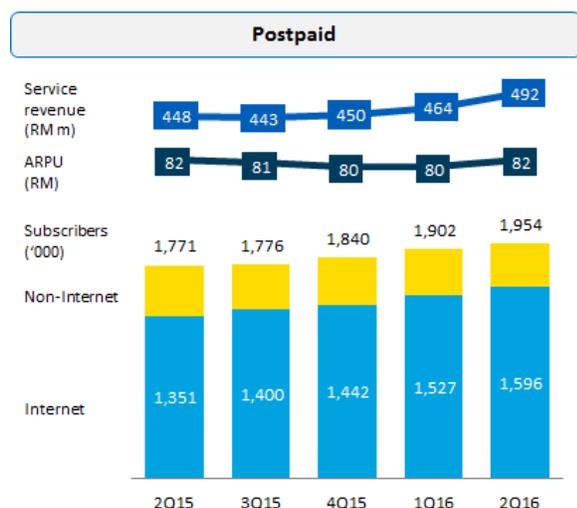
Solid postpaid growth supported by stronger subscriber base and ARPU

Postpaid service revenue registered another round of record growth of 9.8% year-on-year and 6.0% quarter-on-quarter while postpaid subscriber base strengthened 10.3% year-on-year to almost 2.0 million subscribers.

Postpaid internet subscribers increased to 1.6 million, representing 81.7% of postpaid subscriber base and contributed to higher postpaid internet revenue of RM239 million, up 15.5% quarter-on-quarter and 26.5% year-on-year.

Despite challenged by industry's aggressive internet quotas and heavy discounts, Digi's postpaid ARPU strengthened to RM82 over a larger subscriber base, as a flow through from increasing take-up from higher commitment plans.





Modest prepaid service revenue but substantiated by stronger data monetisation

During the quarter, Digi launched a series of targeted prepaid campaigns to improve data monetisation through prepaid mobile internet subscriptions and recalibrated IDD pricing.

Prepaid subscriber base ended the quarter relatively flat at 10.4 million on the back of higher rotational churns and more targeted acquisition efforts.

Prepaid service revenue levelled 2.8% quarter-on-quarter and 6.7% year-on-year mainly due to lower IDD traffic post rationalisation and also effects from continued migration of prepaid to postpaid plans during the quarter but substantiated with stronger data monetisation and IDD margin uplifts.

Prepaid internet revenue moderated 2.7% sequentially to RM323 million as a consequence of higher migration to postpaid during the quarter that surpassed the incremental prepaid internet subscription revenue gained during the quarter.

Prepaid ARPU dipped marginally to RM34 on the back of relatively stable prepaid subscribers.

While we still have a lot of work to do to transform and reform the prepaid industry, the quarter showcased a healthier profitability development with improved data monetisation and IDD price rationalisation.

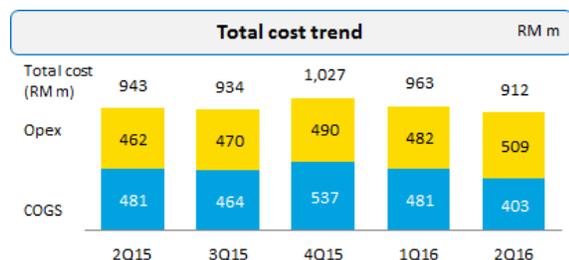
Improved cost base although opex inflated by imputed rental for shared sites

Cost of goods sold (COGS) improved 16.2% year-on-year and quarter-on-quarter mainly as a flow through from lower device cost as well as lower traffic cost mainly from IDD.

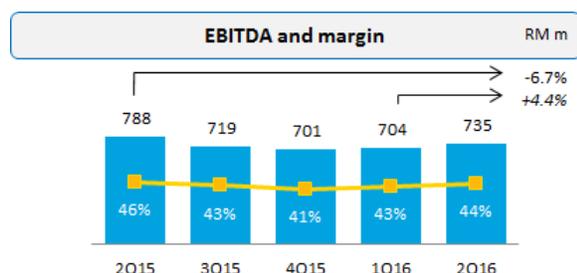
Traffic cost declined 17.5% quarter-on-quarter and 3.7% year-on-year to RM312 million, with more optimised IDD traffic cost following the rationalisation exercise and cushioned by relatively stronger MYR currency.

Opex to service revenue ratio spiked up to 32.7% from 30.9% in the preceding quarter, mainly due to higher site rental with the re-grossing of imputed rental cost for shared sites hosted by other operators as well as increased network related costs from continued rapid expansion plan on 4G LTE and 4G LTE-A network.

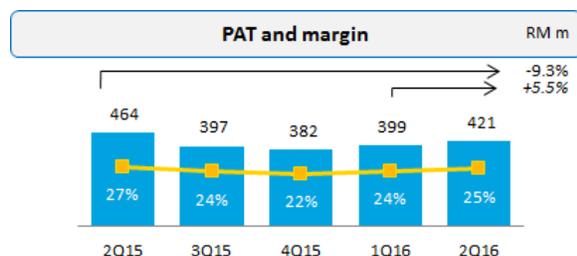
The re-grossing of rental cost for shared sites have no impact on EBITDA as a corresponding rental income is recognised as part of other revenue.



EBITDA and PAT strengthened sequentially



EBITDA improved 4.4% sequentially to RM735 million or 44% margin anchored by notable uplifts from IDD margins and stronger data monetisation.



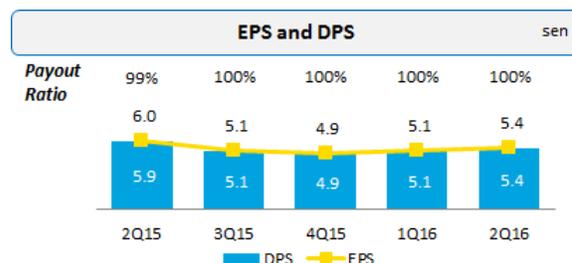
PAT increased to RM421 million, up 5.5% from the preceding quarter as a flow through from stronger EBITDA and lower depreciation for the quarter which included RM20 million reversal of over-accrued depreciation relating to prior years.

The reversal adjustment was identified from the recently concluded comprehensive fixed asset register review undertaken as part of good governance.

Capex for the quarter remained fairly stable at RM167 million with progressive coverage and capacity network expansion on 4G LTE and LTE-A as planned.

Ops cashflow for the quarter increased 6.6% sequentially to RM568 million or 34% margin, supported by stronger EBITDA for the quarter.

Healthy shareholders returns



Earnings per share (EPS) for the quarter strengthened to 5.4 sen, mainly boosted by robust postpaid growth and stronger returns from prepaid in addition to efficient underlying cost structure.

In line with current quarter’s performance, the Board of Directors declared 2nd interim dividend of 5.4 sen per share (net) equivalent to RM420 million, payable to shareholders on 30 September 2016.

Balance sheet RM m

	2Q15	3Q15	4Q15	1Q16	2Q16
Total Assets	4,441	4,449	4,662	4,922	4,708
Total Equity	596	534	519	537	562
Interest-bearing debts	1,246	1,296	1,294	1,631	1,424
Cash & cash equivalents	303	306	234	503	366

Total assets moderated to RM4,708 million mainly due to lower cash balances after repayment of RM400 million revolving credit (RC) facilities.

Interest-bearing debts moderated to RM1.4 billion net of RC repayment and drawdown of additional term loan of RM200 million during the quarter.

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.



Exciting journey into 2H 2016 with more choices and flexibility for customers

Although market challenges will likely to persist into 2H 2016, our competitive network, growing digital capabilities and relentless drive to become customers' favourite partner in digital life will provide Digi with strong resilience against competition headwinds while unlocking growth opportunities from postpaid and digital services.

Our focus for the next 6 months will be to drive resilient performance, strengthen operational excellence and execution to deliver value for our customers and shareholders.

The upfront spectrum fees for the allocated 900Mhz and 1800Mhz band have yet to be announced by the regulator at the point of the publication of this report. We believe the fee structure would be rationale as indicated by the regulator to allow for continued robust infrastructure and technology investments to deliver high quality mobile services nationwide towards a digital nation in 2020.

For the financial year 2016, we aim to sustain service revenue and EBITDA margin at 2015 while managing capex within 13% - 14% of the service revenue with increased leverage on global and collaboration synergies to drive efficient and scalable investments.

	2016 Guidance	1H16
Service revenue	Sustain at 2015 level	3,117
EBITDA margin		43.5%
Capex	13% -14% of service revenue (revised)	10.8%

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.

We remained committed with our continued efforts to fortify Digi's network capability and drive technology innovations to deliver the best internet and digital experience to our customers.

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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, 2016 result.

Disclaimer

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