DiGi's larger market share not reflected in share price

It's a matter of coherence, says one analyst, meaning companies have to clearly translate strategy into practice to gain investor confidence

DIGI.COM Bhd's market share has jumped the most, based on the latest data from the Malaysian Communications and Multimedia Commission (MCMC). Its strong performance in the fourth quarter of last year was achieved amidst intense competition in the mobile telecommunications industry.

In the latest MCMC figures, DiGi's share of the prepaid market increased by nearly three percentage points as of Dec 31 last year, from a year earlier. The telco managed to maintain its share of the postpaid market at 21%. As a result, its share of overall subscribers expanded by over two percentage points (% points).

Celcom lost share in both the prepaid and postpaid segments while Maxis gained 1% point in the prepaid market.

Except for the big three players – DiGi, Maxis Bhd and Celcom Axiata Bhd – the breakdown of subscribers for the remaining seven or eight players is not known.

However, DiGi's share price has not moved in tandem with its bigger market share and underperformed the other telcos.

The investing public is surprised that the higher market share was not positively rewarded by a better share price performance. The consensus is that DiGi's shares, and those of other telcos, should underperform the market but only marginally.

Year to date, DiGi has underperformed the market by a substantial 12% points.

For the year ended Dec 31, 2015, DiGi posted a lower net profit of RM1.72 bil compared with RM2.03 bil in the previous year on a slightly lower revenue of RM6.91 bil. For Q1FY16 ended March 31, net profit fell to RM399.04 mil from RM479.22 mil on a lower revenue of RM1.65 bil.

A senior regional telecommunications analyst says: "Despite the consensus' perception of a bleak outlook for the [mobile telecommunications] sector, there must be a limit to the decline in one's share price."

She believes DiGi's share price could improve if the dividend yield is maintained. She says: "If DiGi can maintain the dividend of over 20 sen, or a yield of [almost] 5%, I don't see the price declining much more."

The analyst says: "[DiGi's share price] lagging is a huge oversight. The stock has been oversold. The company has gained market share. Even with concern over its outlook and that of the sector, the price should be underperforming only marginally against the market. It shouldn't be underperforming the market by 12% points."

On telco stocks having underperformed the market, PwC Southeast Asia Consulting senior executive director, and retail and consumer consulting leader Michael Graham says: "We observe a global trend when it comes to telecommunications and media assets. This relates to coherence, or being able to clearly articulate the trade-off and concessions, in the context of strategic plans. This becomes increasingly important as the market saturates.

"In any industry that is approaching maturity, characterised by slowing growth and high degree of penetration, the ability to clearly translate strategy into practice drives investor confidence and that is no different in Malaysia. Specifically, this relates to innovation beyond the core voice business and is equally important when viewed nationally and organically, as well as internationally and inorganically."

Hong Leong Investment Bank, in a recent research report on DiGi, highlights the exorbitant spectrum fee incurred and the inability to monetise data revenue as the main risks for the telco.

Kenanga Research says competition has not only been persistent but heightened as well. This could severely dampen DiGi's earnings prospects.

On the failure of the share price to reflect DiGi's growth, the senior telecommunications analyst says one should not measure the telcos merely from the total subscribers' angle. She says: "At the end of the day, the basis is to have a strong basic platform of subscribers for growth. The market also looks at quality of subscribers like the earnings derived per subscriber. In this case, the earnings per subscriber for Maxis and DiGi are about the same."

PwC's Graham does not read too much into market leader in terms of subscribers. He says: "Deliberate leadership in specific segments is more important. Scale and critical mass matter, of course, particularly to justify the basic economics of networks. But to lead at any cost, introduces complexity and undue tension into front-facing functions like sales and marketing, and ultimately impacts the service delivery functions, such as care or after-sales service.

"Understanding the subscriber base and satisfying segment-specific needs are more important to sustain one's leadership. Implications of such a deliberate strategy on branding remains the art whereas the analytics to maintain the course is the science."

Huge credit for DiGi

The senior telecommunications analyst says: "DiGi's 2-3%-point increase [in market share] is considered a huge credit in such a fiercely competitive market. Previously the big three mobile telcos lost market share to the smaller players."

Overall, the three major players' combined market share increased by 1% point to 84% as of the end of last year, from 83% in the previous year.

The release of the Q4FY15 figures has reduced jitters among the telcos, which are keen to know their market share. MCMC's delay in releasing the latest figures did not help. The regulator was late by three months in the latest release compared with the Q4 2014 data, which were released on March 11, 2015. The Q4 2015 figures were released on May 31.

Graham believes competition will only get more intense. He says: "The 14 or so mobile virtual network operators [MVNOs] are struggling to exceed and sustain more than one million subscribers each. Combine that with the imminent launch of Webe Mobile and Yes' WiMAX-to-LTE swap, and you have a recipe for even fiercer competition."

An MVNO is a mobile telco that does not own network infrastructure. To provide services to its customers, the MVNO enters into agreements with network operators to obtain bulk access to network services. – **Ng Wai Mun**

DIGI.COM BHD

KEY BOARD MEMBERS AND MANAGEMENT
ALBERN MURTY (CEO)
KARL ERIK BROTEN (CFO)

MAJOR SHAREHOLDERS	
Telenor Asia Pte Ltd	49%
Employees Provident Fund	12%

MARKET CAP (June 15)	RM35.69b
SHARE PRICE (June 15)	RM4.59
52-WEEK HIGH (Sept 18, 2015)	RM5.85
52-WEEK LOW (April 29)	RM4.31

FINANCIAL RESULTS (Q1 ended March 31)	
REVENUE	RM1.65b
NET PROFIT	RM399m

Graham believes competition will only get fiercer

DiGi's market share

	Postpaid	Prepaid	Overall
2014	21.1%	26.4%	25.4%
2015	21.1%	29.1%	27.5%

Sources: **DiGi & MCMC**

Total mobile phone subscribers (excl DiGi, Maxis and Celcom)

	Postpaid	Prepaid
2014	0.34 mil	7.29 mil
2015	0.97 mil	6.07 mil

Sources: **MCMC, DiGi, Maxis and Celcom**

Smaller telcos squeezed in declining prepaid market

THE Malaysian Communications and Multimedia Commission's (MCMC) data for the fourth quarter of last year have revealed that the overall postpaid subscribers have been increasing each quarter while the pre-paid subscribers have been declining since end-2014.

As of the end of last year, the number of postpaid subscribers grew by 7% to 8.74 million while the number of prepaid subscribers contracted by 4% to 35.4 million, compared with 2014 figures.

A telco executive says: "A lot of prepaid subscribers switch over to postpaid as the data [packages] offered to postpaid [subscribers] are more attractive. These would comprise subscribers which consume large data volumes. The mobile telcos will sit up to take note as this [latest data] means there is a significant change in the manner in which subscribers are consuming data. More and more data are required.

"Getting more spectrum comes into play now. Subscribers can rest assured the telcos will go back to the drawing board. In the near future, do expect the market to be flooded with more packages, with more data offered to entice subscribers."

This data consumption trend involves the smaller telcos more than the big three. Since end-2014, these smaller players have collectively lost almost one million prepaid subscribers and gained over 600,000 postpaid users.

Changes to the big three mobile telcos' share of prepaid and postpaid subscribers are negligible, involving less than 1%.

The executive adds: "The sector is so fluid and dynamic. Those involved in the industry could not predict the changes in market share over the next 12 months. The ability to retain one's market share is considered an achievement."