MANAGEMENT DISCUSSION & ANALYSIS – SECOND QUARTER OF FINANCIAL YEAR 2021 (2Q2021)

Delivered revenue growth and stabilised EBITDA momentum reflecting our resiliencies

- *Topline performance rose 4.4% Q-Q and 11.4% Y-Y on steady commercial activities and sharp execution*
- *Malaysian active subscribers enlarged 2.2% Q-Q and 5.2% Y-Y to sustain blended ARPU at RM43*
- *Y-Y profitability reduction as challenged by macro pressures while registered encouraging sequential EBITDA and PAT recoveries of 0.8% and 5.7% respectively*
- *Second interim dividend of 3.6 sen per share was declared, representing a near 100% dividend payout ratio*

2Q 2021 OPERATIONAL SUMMARY

Subscriber development

Our continuous efforts to drive high-speed internet proposition amongst Malaysians have yielded higher Malaysian active data subscriber base by 2.2% Q-Q and 5.2% Y-Y, for the fourth consecutive quarter. This achievement was partially elevated by favorable responses towards the strategic product line-ups for Jaringan PRIHATIN programme. Consequently, prepaid ARPU strengthened to RM34, +RM1 Q-Q and +RM5 Y-Y albeit the sequential reduction in prepaid subscriber base of -128k to 7.03 million. The encouraging take-ups in Jaringan PRIHATIN and prepaid high-speed internet passes were unable to offset the continued reduction of rotational migrant subs amid the continuation of closed borders and prolonged lockdown period.

Postpaid subscriber base enlarged to 3.19 million for four quarters in a row following net adds of 95k Q-Q driven by favorable demands in smart bundles and entry-level plans. ARPU however trimmed to RM64 partially due to lower roaming and voice ARPU. Finally, total subscriber base tapered by -33k to 10.22 million whilst blended ARPU sustained to RM43 manifesting our strategic progress to shift acquisition mix and build contracted base through our renewed Digi Postpaid portfolio.

Network performance

Amidst the prolonged lockdown period since the start of the year, we continued our essential duties to deliver consistent and fastest 4G LTE and LTE-A network, which now covers over 92% and 75% of population nationwide, respectively alongside extensive fiber network of 10k KM. We achieved 100% of upgraded site and new site deployed targets for JENDELA, underlining our commitment in accelerating Malaysia's 4G connectivity and coverage to support national digitalisation plans. The acceleration of mobile internet adoption has also led to growing internet subscribers to 8.83 million along with higher average data per user of 21.4GB.

Operational Statistics	2Q2020	1Q2021	2Q2021	Q-Q	Y-Y
Postpaid ('000)	3,032	3,090	3,185	3.1%	5.1%
Prepaid ('000)	7,591	7,160	7,032	-1.8%	-7.4%
Total subscribers ('000)	10,623	10,250	10,217	-0.3%	-3.8%
Postpaid ARPU (RM)	68	65	64	-1.0%	-5.5%
Prepaid ARPU (RM)	29	33	34	1.7%	15.0%
Blended ARPU (RM)	**40**	**43**	**43**	**-0.1%**	**7.0%**
Monthly active users for MyDigi ('mil)	4.3	4.5	4.9	8.5%	13.8%
Monthly average data per user (GB)	18.0	19.7	21.4	8.6%	18.9%
Internet subscribers	82.0%	85.9%	86.4%	0.6%	5.4%
Smartphone penetration rate	85.9%	89.2%	90.1%	1.0%	4.9%
Device sold ('000 units)	92.6	137.7	330.2	139.8%	261.3%
Population Coverage (%)					
4G (LTE)	90.9%	91.7%	91.8%		
4G Plus (LTE-A)	73.6%	75.0%	75.1%		
Fibre Network (km)	9,740	10,052	10,084		

MANAGEMENT DISCUSSION & ANALYSIS – SECOND QUARTER OF FINANCIAL YEAR 2021 (2Q2021)

2Q 2021 FINANCIAL SUMMARY

Revenues

Total revenue improved by 4.4% Q-Q and 11.4% Y-Y to RM1,618 million, underpinned by better performance of mobile segment and device sales. Excluding a non-recurring device revenue gains of RM37 million, underlying total revenue grew 2.0% Q-Q and 8.9% Y-Y on steady commercial momentum and sharp execution across all segments. Internet and digital revenue rose 1.2% Q-Q and 7.0% Y-Y to RM1,020 million, representing higher sustainable revenue mix of 76.1% from 72.4% same period last year. Meanwhile, service revenue recovery of 0.2% Q-Q and 1.7% Y-Y emphasised our strategic efforts in driving data monetisation and increasing penetration rate in the youth and B40 segments.

Sustainable demand for mobile connectivity led to improved prepaid revenue of 0.5% Q-Q and 2.6% Y-Y to RM643 million, after registering higher prepaid data revenue to offset the decline in traditional and non-internet usages. Postpaid revenue of RM623 million was up 1.0% Q-Q supported by enlarged subscriber base whilst Y-Y decrease of -2.4% reflected ongoing challenging operating environment. Finally, device and other revenues of RM278 million stemming from positive take-ups for mobile bundles and newly launched smartphones as devices sold rose to 330k units.

Cost of goods and services (COGS)

Sequential COGS increased 16.1% from higher traffic and materials costs given the continued support for better network coverage during MCO and for fueling stronger demands for device bundles, despite lower digital costs. Higher device cost was also partially affected by non-recurring corresponding device cost of RM37 million, which zerorised the one-off device revenue gain. Y-Y increment of 52.2% was mainly a reflection of overall robust on-ground activities and rising traffic volumes, as compared to the slowdown at the hike of Covid-19 pandemic last year.

Operating expenditures (OPEX)

Q-Q OPEX lowered -1.0% as a result of focused cost management in sales and marketing, operations and maintenance as well as staff cost aspects to mitigate the hike in credit loss allowances and other administrative expenses. Provision for doubtful debts (PFDD) rose to RM14 million, or equivalent to PFDD ratio of 2.3% to account for collection risks during festive seasons. On a Y-Y basis, the increase of 8.4% was mainly due to a non-recurring cost benefit of RM25 million in 2Q20 versus -RM1 million cost adjustment in the quarter under review. Excluding one-off effects, underlying OPEX increased marginally by 1.3% Y-Y largely driven by improved efficiency in operations and maintenance alongside better collection process. Lastly, OPEX to service revenue remained healthy at 29.9%.

EBITDA before other items (boi)

Better topline development and prudent cost allocation yielded a steady EBITDA performance Q-Q and Y-Y. On a normalised basis excluding one-off effects, EBITDA amounted to RM744 million to reflect stabilising momentum of 0.3% Q-Q and -0.1% Y-Y. Normalised EBITDA (boi) margin equalised to 47.1% to underscore our efficiencies.

Profit after tax (PAT)

On a normalised view, PAT strengthened to RM281 million by 4.4% Q-Q or 17.8% margin on lower net finance charges. Previous quarter included a RM22 million fair value loss on higher projected forward-looking interest rates, despite higher depreciation and amortisation for increased Rights-Of-Use (ROU) assets in 2Q21. Y-Y normalised PAT uplifted 4.4% amid topline improvement, lower depreciation and net finance costs.

Capex and operations cash flow (OCF)

Digi invested higher capex Y-Y of RM196 million or 12.1% of total revenue for network capacity enhancements and new site deployments. OCF reduced to RM547 million after adjusting for higher capex.

Shareholder return

Earnings for the quarter amounted to 3.6 sen per share, an increase of 0.2 sen Q-Q despite a marginal drop of 0.1 sen Y-Y. Meanwhile, the Board of Directors declared second interim dividend of 3.6 sen per share, equivalent to RM280 million of dividend payout or a dividend payout ratio of 100% to valued shareholders.

2021 outlook and guidance

The company has signed a conditional share purchase agreement with Axiata Group Berhad as part of the prior-announced proposed merger of telecommunications operations Celcom Axiata Berhad and Digi Telecommunications Sdn Bhd on 21 June 2021. While we prepare for the next phases of the proposed merger to create a leading telecommunication service provider in Malaysia, the completion of the proposed transaction will be subject to approval by all shareholders, receipt of regulatory approvals, and other customary terms and conditions.

Operationally, we remain steadfast on driving businesses as usual for the remaining of 2021 on delivering near-term priorities; build on robust financials, organisational agility, and our trusted brand and responsible business standards.

Digi is reaffirming FY2021 guidance of low single digit decline for service revenue, medium single digit decline for EBITDA and capex-to-total revenue ratio of 14.0% to 15.0%.

KEY FINANCIAL RATIOS AND SUMMARISED FINANCIAL STATEMENTS

Key Financial Ratios	2Q2020	1Q2021	2Q2021
Earnings per share (sen)	3.7	3.4	3.6
Dividend per share (sen)	3.7	3.4	3.6
CAPEX to total revenue (%)	15.5%	10.1%	12.1%
Operations cash flow margin (%)	37.6%	37.4%	33.8%
Conventional debt over total asset (%)	8.2%	6.2%	5.5%
Net debt to EBITDA (times)	1.5	1.7	1.6

Summary of Financial Position (RM'm)	2Q2020	1Q2021	2Q2021
Cash and short-term deposits	519	217	403
Other assets	7,650	7,759	7,662
TOTAL ASSETS	**8,169**	**7,976**	**8,065**
Conventional borrowings	666	493	444
Islamic borrowings	2,240	2,242	2,242
Finance lease	2,251	2,586	2,618
Other liabilities	2,400	2,064	2,155
Total liabilities	**7,557**	**7,385**	**7,459**
Total equity	611	591	606
TOTAL LIABILITIES AND EQUITY	**8,169**	**7,976**	**8,065**

Income Statement (RM'm)	2Q2020	1Q2021	2Q2021	Q-Q	Y-Y	1H2020	1H2021	Y-Y
Postpaid revenue	638	617	623	1.0%	-2.4%	1,294	1,240	-4.2%
Prepaid revenue	627	640	643	0.5%	2.6%	1,313	1,283	-2.3%
Digital revenue	52	80	74	-7.5%	42.3%	97	154	58.8%
Service revenue	**1,317**	**1,337**	**1,340**	**0.2%**	**1.7%**	**2,704**	**2,677**	**-1.0%**
Devices and other revenue	135	213	278	30.5%	105.9%	308	491	59.4%
Total revenue	**1,452**	**1,550**	**1,618**	**4.4%**	**11.4%**	**3,012**	**3,168**	**5.2%**
Cost of goods and services (COGS)	(318)	(417)	(484)	16.1%	52.2%	(715)	(901)	26.0%
Cost of materials	*(129)*	*(230)*	*(291)*	*26.5%*	*125.6%*	(324)	(521)	*60.8%*
Traffic charges	*(189)*	*(187)*	*(193)*	*3.2%*	*2.1%*	(391)	(380)	*-2.8%*
Gross profit	**1,134**	**1,133**	**1,134**	**0.1%**	**0.0%**	**2,297**	**2,267**	**-1.3%**
Operating expenditures (OPEX)	(369)	(404)	(400)	-1.0%	8.4%	(779)	(804)	3.2%
Sales & marketing	*(92)*	*(102)*	*(96)*	*-5.9%*	*4.3%*	*(202)*	*(198)*	*-2.0%*
Staff costs	*(51)*	*(62)*	*(57)*	*-8.1%*	*11.8%*	*(115)*	*(119)*	*3.5%*
Operations & maintenance	*(56)*	*(59)*	*(49)*	*-16.9%*	*-12.5%*	*(114)*	*(108)*	*-5.3%*
USP fund and license fees	*(80)*	*(81)*	*(79)*	*-2.5%*	*-1.3%*	*(160)*	*(160)*	*0.0%*
Other expenses	*(70)*	*(90)*	*(105)*	*16.7%*	*50.0%*	*(155)*	*(195)*	*25.8%*
Credit loss allowances	*(20)*	*(10)*	*(14)*	*40.0%*	*-30.0%*	*(33)*	*(24)*	*-27.3%*
EBITDA	**770**	**737**	**743**	**0.8%**	**-3.5%**	**1,526**	**1,480**	**-3.0%**
EBITDA (boi) margin	*53.0%*	*47.5%*	*45.9%*	*-1.6%*	*-7.1%*	*50.7%*	*46.7%*	*-3.9%*
Normalised EBITDA excl. cost one-offs[1]	**745**	**742**	**744**	**0.3%**	**-0.1%**	**1,501**	**1,486**	**-1.0%**
Normalised EBITDA (boi) margin	*51.3%*	*47.9%*	*47.1%*	*-0.8%*	*-4.2%*	*49.8%*	*47.5%*	*-2.3%*
Depreciation, amortisation and impairment	(328)	(309)	(325)	5.2%	-0.9%	(634)	(634)	-
Other items	-	-	1			-	1	
Profits before interests and tax (PBIT)	**442**	**428**	**419**	**-2.1%**	**-5.2%**	**892**	**847**	**-5.0%**
Net finance costs	(65)	(69)	(46)	-33.3%	-29.2%	(79)	(115)	45.6%
Profit before tax (PBT)	**377**	**359**	**373**	**3.9%**	**-1.1%**	**813**	**732**	**-10.0%**
Taxation	(89)	(94)	(93)	-1.1%	4.5%	(192)	(187)	-2.6%
Profit after tax (PAT)	**288**	**265**	**280**	**5.7%**	**-2.8%**	**620**	**545**	**-12.1%**
PAT margin	*19.8%*	*17.1%*	*17.3%*	*0.2%*	*-2.5%*	*20.6%*	*17.2%*	*-3.4%*
Normalised profit after tax (PAT)	**269**	**269**	**281**	**4.4%**	**4.4%**	**601**	**550**	**-8.6%**
Normalised PAT margin	*18.5%*	*17.3%*	*17.8%*	*2.9%*	*-3.8%*	*20.0%*	*17.6%*	*-12.0%*
Capex	225	157	196	24.8%	-12.9%	364	353	-3.0%
Operations cash flow	545	580	547	-5.7%	0.4%	1,162	1,127	-3.0%

* *EBITDA herein is EBITDA before other incomes and other expenses (boi). Please see more details in the note of the Financial Statements.*

[1] *Cost one-offs relating to non-recurring cost benefits in 2Q20 of RM25mil and RM1mil non-recurring cost adjustments in 2Q21*