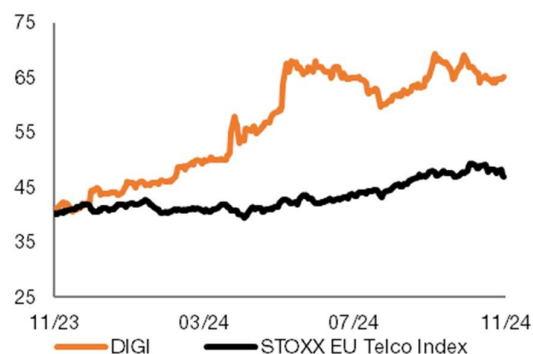


# DIGI Communication

Recommendation: **BUY**

Target price (12m ex-div): **RON 84 (unch.)**

EUR mn	Q3 2023	Q3 2024	Change YoY
Revenues	430	491	14.2%
EBITDA	150	565	276.0%
EBIT	45	447	900.2%
Net Profit	13	343	2536.9%
Net debt	1,675	1,340	-20.0%
EBITDAaL margin	30.1%	30.7%	0.6%pt
Net debt to TTM EBITDA	3.0x	1.3x	-57.4%
Total RGUs (ths)	23,175	26,302	13.5%
ARPU – Romania (EUR)	4.5	4.5	0.0%
ARPU - Spain (EUR)	9.3	8.7	-6.5%



Share price close as of 13/11/2024	RON 65.2	Bloomberg	DIGI RO
Number of shares [mn]	95.2	Reuters	DIGI.BX
Market cap. [RON bn/EUR bn]	6.4/1.3	Free float	35.1%
Daily turnover 12M [EUR million]	0.3	52-week range	RON 43 - 69

## Consistent growth in Q3, net profit boosted by Spanish network sale

**DIGI has reported its Q3 2024 earnings today morning.** Revenues increased by 14.2% YoY, mainly driven by the Spanish segment where the revenue increased by 22.1% YoY. While the OPEX and DD&A both increased YoY, the EBIT came in ten times higher at EUR 447mn driven by an EUR 390mn other income coming from the partial sale of its Spanish FTTH network. EBITDA arrived at 565.4 in Q3, up by 276% YoY and Net profit rose to EUR 342.8mn from last year's EUR 13mn.

### Key messages:

- The key markets, Romania and Spain have maintained a strong performance. The underlying growth trend continued in the third quarter of 2024 as well. Total RGUs have increased by 13.5% YoY and passed 26 million clients, thanks to the attractive offering DIGI provided. The strong RGU growth was mainly driven by the Spanish segment which grew by 30% YoY while the Other geographical segment including Italy and Portugal also rose by 16% YoY, thanks to new customers in Italy. The customer base in the Romanian segment further grew as well especially in the mobile segment which increased by 13.7%, where DIGI has lower market share. Fixed internet RGUs grew by 7% YoY while the fixed telephony segment continued to trend downwards. ARPUs were relatively stable compared to previous quarter, on a yearly basis Spanish ARPU decreased by 6.5% and 8.2% decrease observable for the Other segment, while in Romania it remained flat YoY and increased by 2.3% QoQ.
- OPEX was in-line with consensus, showing an 11.3% increase YoY due to underlying growth of the business. Other income lifted EBIT to EUR 447mn, as a result of its partial FTTH network sale to Sota Investments in Spain. EBITDA came in at EUR 565.4mn, +276% YoY while EBITDAaL increased by 16.6% and arrived at 150.8mn which clearly shows the underlying growth of the business. The EBITDA margin on a group level came in at 115% while excluding other income it was 35.7% which is 0.7%pt higher YoY. EBITDAaL margin arrived at 30.7% in Q3, 0.6%pt higher YoY.

### Equity Analyst

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- Based on recent development regarding the acquisition of Telekom Romania, DIGI will acquire certain assets from Telekom Romania while Vodafone Romania will indirectly acquire OTE's share in Telekom. Finalization of transaction is still ongoing therefore no further details were shared.
- DIGI refinanced the EUR 450mn Senior Secured Notes outstanding which was due in 2025. Additionally, it reported close to EUR 400mn proceeds from borrowings obtained in this period.
- In November, DIGI also launched its mobile and fixed services in Portugal and successfully completed the acquisition of Nowo Communication in October. Broadband packages start at EUR 10/month, TV packages at EUR 12/month and mobile packages start at EUR 4/months with options ranging from 50 GB to unlimited data. As expected DIGI entered into the Portugal market with aggressive pricing, e.g. NOS offers SIM cards with 10GB data +500 mins./SMS for EUR 20/month and Vodafone offers SIM cards with 5GB data + 1000 mins./SMS for EUR 10/month. DIGI's EUR 4 offers shows definitely more attractive with 50GB data and unlimited mins.
- DIGI continued to work on the transition from an MVNO status to MNO in Spain. While it intends to roll out its own mobile network, it will continue to rely on Telefonica's network based on the national roaming agreement they signed in the previous quarter. The Spanish FTTH network sale includes 6mn homes passed and they delivered 4.5mn in September, the remaining 1.5mn is expected to be delivered over the next 3 years. This would imply around EUR 54mn cash inflow per year. DIGI will rent back the network which is expected to cost between 5 and 10% of revenues generated through the network based on management's assumption.

**Key positives:**

- Romanian segment kept its strong position, and the Spanish segment could further rise, though the pace of RGU growth slightly decreased.
- The acquisition of Nowo Communications in Portugal was successfully completed and will bring approx. 270,000 mobile telephony clients and 130,000 fixed telecommunications clients nationwide. It also launched the operation in November and its mobile network covers 93% of Portugal's population, though we need to wait another quarter to see the first results.

**Key negatives:**

- Still limited visibility on the payback time of the huge CAPEX, while CAPEX to Sales ratio decreased to 32% in Q3, 11%pt lower compared to end of 2023. Mgmt. increased the guidance to EUR 900m for 2024 and they expect CAPEX level to be around EUR 700-750mn in 2025.
- While the RGU grow is undebatable, there is still no plan for subscription fee increase, ARPUs continued to decrease in Spain and in Italy while Romanian ARPU came in slightly higher, but it is still at EUR 4.5.
- No major news came out regarding the Belgian operation and the development there. Launch is expected before year end.

**Opinion:** KPIs are mostly in line with our expectations. The expected cash inflow from the sale of Spanish FTTH network increased DIGI's liquidity for the rest of the year and contributed to its bond repayment and increased CAPEX level. In the upcoming years financing will not be a problem as the maturing loans will amount to EUR 189mn and 173mn in 2025 and 2026, respectively. Cash generated by the operation will be sufficient to cover the expiring loans amounts, in our view. RGU and ARPU dynamics follow the underlying strategy and mostly in-line with our forecast.

**We reiterate our Buy recommendation and maintain our TP of RON 84 per share.**

### QUARTERLY RESULTS [EUR MILLION]

[EUR mn]	2023		2024			Difference		2024	
	Q3	Q4	Q1	Q2	Q3	YoY	QoQ	Q3 Cons.	Fact vs. Cons.
<b>Revenue</b>	<b>429.5</b>	<b>451.6</b>	<b>446.7</b>	<b>472.9</b>	<b>490.6</b>	<b>14.2%</b>	<b>3.7%</b>	<b>488.0</b>	<b>0.5%</b>
-Romania	257.2	265.1	260.7	274.2	281.3	9.4%	2.6%		
-Spain	166.1	176.0	177.5	191.7	202.8	22.1%	5.8%		
-Others	6.2	10.5	7.1	7.1	6.5	4.8%	-8.5%		
OPEX	-283.4	-294.8	-283.7	-304.5	-315.3	11.3%	3.5%	-315.0	0.1%
DD&A	-105.6	19.8	-113.3	-116.0	-118.3	12.0%	2.0%	-110.6	7.0%
EBIT	44.7	53.3	49.7	54.3	447.1	900.2%	723.4%	62.4	616.5%
<b>EBITDA</b>	<b>150.4</b>	<b>160.9</b>	<b>163.1</b>	<b>170.2</b>	<b>565.4</b>	<b>276.0%</b>	<b>232.2%</b>	<b>173.0</b>	<b>226.8%</b>
EBITDAaI	129.3	141.4	139.9	144.7	150.8	16.6%	4.2%		
Financial income	2.3	0.8	2.6	2.2	5.5	139.1%	150.0%		
Financial expense	-28.4	-10.2	-21.5	-22.2	-20.9	-26.4%	-5.9%		
<b>Net finance cost</b>	<b>-26.1</b>	<b>-9.5</b>	<b>-18.9</b>	<b>-20.0</b>	<b>-15.4</b>	<b>-41.0%</b>	<b>-23.0%</b>	<b>-42.1</b>	<b>-63.4%</b>
Profit before tax	17.7	43.9	30.0	34.0	431.7	2339.0%	1169.7%	20.3	2026.6%
Tax	-4.7	8.6	-4.4	-5.3	-88.9	1791.5%	1577.4%	-4.5	1875.6%
<b>Profit</b>	<b>13.0</b>	<b>52.4</b>	<b>25.6</b>	<b>28.8</b>	<b>342.8</b>	<b>2537%</b>	<b>1090%</b>	<b>15.8</b>	<b>82%</b>
<b>EBITDA margins</b>	<b>35.0%</b>	<b>35.6%</b>	<b>36.5%</b>	<b>36.0%</b>	<b>115.2%</b>	80.2%	79.3%		
<b>EBITDAaI margins</b>	<b>30.1%</b>	<b>31.3%</b>	<b>31.3%</b>	<b>30.6%</b>	<b>30.7%</b>	0.6%	0.1%		

KPI's	2023		2024			Difference	
	Q3	Q4	Q1	Q2	Q3	YoY	QoQ
<b>RGU</b>							
Romania	16,653	16,963	17,266	17,561	17,886	7.4%	1.9%
Spain & Italy	6,113	6,481	7,027	7,517	7,941	29.9%	5.6%
Others	409	420	435	456	475	16.1%	4.2%
<b>Total RGU</b>	<b>23,175</b>	<b>23,864</b>	<b>24,728</b>	<b>25,534</b>	<b>26,302</b>	<b>13.5%</b>	<b>3.0%</b>
<b>ARPU</b>							
-Romania	4.5	4.5	4.4	4.4	4.5	0.0%	2.3%
-Spain	9.3	9.3	8.8	8.8	8.7	-6.5%	-1.1%
-Others	6.1	6.2	5.9	5.6	5.6	-8.2%	0.0%
Trailing 12m EBITDA	565	591	621	645	1,060	87.7%	64.4%
Net debt	1,675	1,623	1,695	1,863	1,340	-20.0%	-28.1%
Net debt to Trailing 12m EBITDA	3.0	2.7	2.7	2.9	1.3	-57.4%	-56.2%
CAPEX / Sales	36.0%	42.8%	36.3%	43.1%	32.0%	-11.1%	-25.8%

Source: DIGI, Concorde Research

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Accumulate	Total return is expected to be in the range of 10-20%
Neutral	Total return is expected to be in the range of 10%-(-10%)
Reduce	Total return is expected to be in the range of -10-(-20%)
Sell	Total return is expected to be lower than -20%
Under Revision	The stock is put Under Revision if the covering analyst considers new information may change the valuation materially and if this may take more time.
Coverage in transition	Coverage in transition rating is assigned to a stock if there is a change in analyst.

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