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INVESTOR UPDATE

MARCH, 2020

DIGICEL GROUP LIMITED UPDATE

PLEASE SEE IMPORTANT DISCLOSURES & COPYRIGHT INFRINGEMENT IN THE APPENDIX

COMPANY OVERVIEW

Digicel is a leading provider of communication services in the Caribbean and South Pacific regions. The Company offers a range of mobile communications, Business Solutions, Cable TV & Broadband and other related products and services to retail, corporate and government customers. Digicel offers HSPA+ or LTE technology in 31 markets and holds the number one mobile market position in 25 of its markets, with a mobile subscriber market share of more than 50% in 22 markets. Mobile services were launched in Jamaica, the Company's first market, in 2001 and as of September 30, 2019, Digicel had 13.3 million mobile subscribers.

FINANCIAL PERFORMANCE – SIX MONTHS ENDED SEPTEMBER 30, 2019 (USD)

Profitability

Digicel Group Limited reported revenues of $1.14B for the six months ended Sept. 30, 2019, a 0.8%, or $8.77M decline year-over-year. Underlying total revenue, adjusted for adverse FX movements were up 4% to $1.19B, driven by growth in the Mobile, Business Solutions and Home & Entertainment segments. Service revenues amounted to $1.09B and were down 1% from the prior year period as a result of adverse exchange rate movements. On a constant currency basis, service revenues were up 4% over the prior year period's result.

Reported voice revenues amounted to $382M and were down 9% from the prior year period. Underlying voice revenue, adjusted for FX, stood at $406M, down 4% year-on-year as voice to data substitution continued across Digicel's markets. Data revenue rose 7% to $433M on reported terms and 13% to $457M on a constant currency basis. Data now represents a larger share of mobile revenues than voice at 53% for the six-month period.

Mobile revenue of $815M was down 1% but up 4% when adjusted for foreign exchange impact, amounting to $863M. Business solutions revenues for the period increased 6% to $126M in constant currency terms. Reported business solutions revenues amounted to $121M, 2% higher than the prior year period.

Home & Entertainment (H&E) revenues stood at $101M for the six month period, up 5% year-over-year. Underlying H&E revenues of $102M was up 6% over the prior year period. This improvement was driven by a growth in FTTH revenue compared to the prior year period, partially offset by lower Sportsmax revenues as the previous year benefitted from the airing of the FIFA World Cup.

Other revenue amounted to $56M and was down 10% on a reported basis and 8% on a constant currency basis. This decline was attributed to reduced CPL revenues in the second quarter and is related to the timing of fixtures. Handset/Equipment revenues rose 3% to $45M and were up 6% to $46M on a constant currency basis.

Total subscribers as at Sept. 30, 2019 fell by 807,000 year-over-year to 13.3 million. Mobile subscribers stood at 12.9 million, down 834,000 in the year to September 2019 and 87,000 over the preceding quarter. This decline was driven by a 499,000 reduction in Papua New Guinea, due to mandatory SIM registration implemented by the regulator, and by declines in Jamaica (127,000) and El Salvador (64,000) due to increased competition in the quarter ended 30 June 2019, Haiti (30,000) and other markets (110,000).

The reduction in other markets was identified as mostly low average revenue per user (ARPU) subscribers as a result of Digicel's focus on higher ARPU subscribers. H&E subscribers increased by 27,000 or 7%, year-over-year, driven by growth in FTTH subscribers. Cost of sales fell 6.8% to $260.54M which resulted in gross profits of $877.99M, a 1.2% increase year-over-year. The gross profit margin improved to 77.1%, up from 75.6% in the prior year period. The increase in gross profit margin was not sufficient to offset the 9.9% increase reported in operating expenses which closed the period at $635.67M.

As such, Digicel's operating profit for the first half of the financial year fell 16.3% to $242.32M. As a result the operating profit margin fell to 21.3%, down from 25.2%. Digicel reported depreciation & amortization of $242.54M, up 10.1% year-over-year. EBITDA amounted to $484.86M, down 4.9% from the prior year period.

Finance costs amounted to $312.04M up 19.7% from the prior year period. This increase reflected a $236M net increase in Digicel International Finance Limited debt following the issuance of a $600M DIFL bond and the subsequent repayment of the DIFL Term Loan A and Revolving Credit Facility borrowings. Digicel's interest coverage ratio – EBIT to interest expense - fell from 1.11x to 0.78x in the six-month period of the 2020FY. EBITDA to interest expense stood at 1.55x, down from 1.96x.

Following the recognition of $26.03M in impairment on investments for the period and a $6.17M loss from associates, Digicel booked a pre-tax loss of $100.74M, a significant reversal of the pre-tax profit of $9.6M recorded for the prior year period. Tax expense rose 20% to $53.32M which resulted in net loss attributable to shareholders of $158.72M, a 291.0% increase year-over-year.

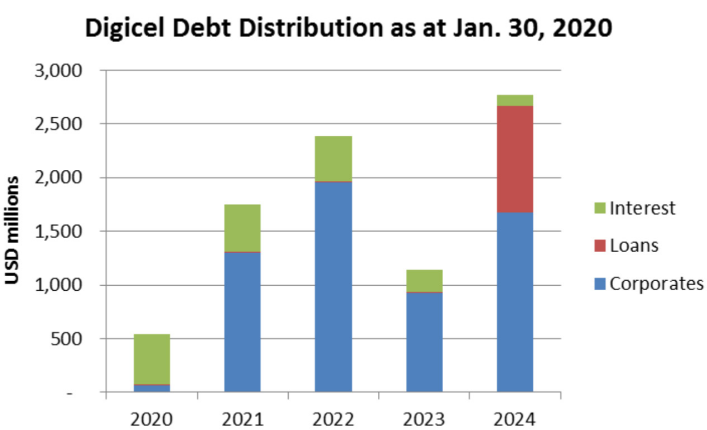
Liquidity & Solvency

Digicel reported total assets of $4.34B as at Sept. 30, 2019, a 2% or $85.59M decline from the balance a year prior. This decline was driven by a 26% fall in current assets to $675.55M, partially offset by a 4% increase in non-current assets to $3.66B. The decline in current assets was largely driven by a 17% decline in accounts receivables and prepayments to $457.9M and a 33% decline in cash & cash equivalents to $180.49M. Accounts receivable and prepayments fell as a result of working capital management improvements and higher bad debt provisions. Inventories also fell by 60% to $15.34M while restricted deposits declined by 63% to $21.81M.

The increase in non-current assets reflects an 11% increase in property, plant & equipment to $2.09M which was partially offset by a 4% decline in intangible assets to $1.33B and a 29% decline in investments in associates to $101.73M. Deferred taxation rose 65% to $66.15M while prepayments rose 17% to $78.13M. The increase in PPE was primarily due to the impact of the implementation of IFRS 16 ($367M), offset by depreciation, impairment and translation movements.

Digicel reported a 6% or $459.34M increase in total liabilities to $8.53B driven by an 8% increase in non-current liabilities to $7.56B, partially offset by a 9% decrease in current liabilities to $970.25M. The increase in non-current liabilities was driven by an 8% increase in long-term loans to $7.24B. The decline in current liabilities was due to an 11% decline in trade and other payables to $664.85M. The increase in long-term debt reflects the $236M increase in DIFL long-term debt and $366M increase in lease obligations.

Digicel's total debt amounted to $7.48B, up 8% from a year prior as short-term debt fell 2% to $237.04M while long-term debt rose 8% to $7.24B. Long-term debt rose $554M following the issuance of $600M in senior secured debt. As discussed above, Digicel's ability to service its debt has weakened with lower interest coverage ratios from a year prior. The chart below displays the distribution of Digicel's debt obligations.



Digicel reported negative shareholders' equity of $4.24B, a 15% or $3.7B increase year-on-year, driven by a 13% increase in accumulated deficit to $3.7B and a 14% increase in foreign exchange translation reserve losses to $854.66M.

Digicel's current ratio stood at 0.70x while the cash ratio closed the period at 0.19x, down from 0.86x and 0.25x, respectively. Digicel reported a $294.7M working capital net outflow relative to a net outflow of $151.04M in the prior year period.

Net cash provided by operating activities amounted to $177.15M, down from $205.38M in the six-month period of the prior year. Net cash used in investing activities amounted to $213.72M, up from $104.56M in the prior year period. This increase was driven by the non-recurrence of disposal of fixed assets, which netted proceeds of $100.34M in the first six months of the 2019FY. Net cash used in financing activities amounted to $49.39M, relative to net cash provided of $43.16M in the the prior year period. During the prior year period, Digicel drew down $73.83M from a credit facility which was not replicated in the current year period.

OUTLOOK & RECOMMENDATION

The DGL1 8.25% due December 2022 Notes are trading at a lower discount at $65.70 and currently yield 25% to maturity while the DGL2 9.125% due April 2024 currently trades at a price of $16.50 at a yield to maturity of 76.56%. The spread above the risk-free rate is just under 2,400 basis points for the DGL1 8.25% due December 2022. These trade levels underscore the market's outlook on Digicel despite being Senior Secured obligations for Digicel Group One Limited as concerns abound around Digicel's continued ability to service and repay its obligations. These same concerns led to a recent credit rating downgrade by Fitch Ratings.

On November 20, 2019, Fitch Ratings downgraded the long-term foreign currency issuer default rating of all of the rated entities in the Digicel corporate structure including: Digicel Group Limited (DGL3) to "CC" from "CCC-"; Digicel Group Two Limited (DGL2) to "CC" from "CCC-"; Digicel Group One Limited (DGL1) to "CCC" from "B-"; Digicel Limited (DL) to "CCC" from "B-"; and Digicel International Finance Limited (DIFL) to "B-" from "B".

Fitch also downgraded DGL3's unsecured notes to 'C'/'RR5' from 'CC'/'RR5', DGL2's unsecured notes to 'C'/'RR5' from 'CC'/'RR5'; DL's unsecured notes to 'CCC'/'RR4' from 'B-'/'RR4', DGL1's unsecured notes to 'CCC'/'RR4' from 'B-'/'RR4', and DIFL's secured notes and credit facilities to 'B-'/'RR4' from 'B'/'RR4'.

Fitch maintains the belief that Digicel will have to restructure debt at multiple levels in the next 12-18 months due to the group's unsustainable capital structure and imminent refinancing risk. We are in support of this view as current market yields for Digicel debt are at levels that would be unsustainable for Digicel to refinance at. Digicel has over US$1.7B in principal and interest due in 2021 and does not have sufficient liquidity to fund these obligations from internal sources. However, Digicel to date has not officially communicated any intention to undertake any restructuring.

Fitch made note of Digicel's stagnant operating performance: the Group's performance has deteriorated in recent years due to double-digit revenue declines in traditional voice products that have outpaced growth in other business segments. These challenges have been compounded by local currency depreciation against the U.S. dollar which is expected to continue. Despite efforts to diversify from its core mobile focus, growth in business solutions and the Home & Entertainment segment has not been sufficient to drive overall revenue growth.

As such, Digicel's ability to service its debt is now under scrutiny as the interest coverage ratio has been on a downward trend as leverage remains elevated. Net debt to EBITDA moved from 6.86x a year ago to 8.03x at the close of the half year period.

The DGL2 2022 notes have a 'C'/'RR5' ratings. According to Fitch, RR5-rated securities have characteristics consistent with securities historically recovering 11%-30% of current principal and related interest. The market appears to be in alignment with Fitch as the notes are currently trading within that range at $27.79. While the DGL1 2022 notes are senior secured obligations, we have serious concerns about Digicel's ability to continue to service its debt as its cash balance fell by 50% in the year ended September 2019. Free cash flow in the last two financial years has been negative which indicates that Digicel is unable to service its debt and fund capital expenditure with internally-generated funds. As such, Digicel must rely on borrowings or equity injections to maintain and expand in its capital infrastructure.

However, given Digicel's poor operating and financial performance over the past years, Digicel is not able to access the funding it would like at reasonable rates in global capital markets. As a result, Digicel has resorted to both asset sales and cuts in capital expenditure over the past few years, which is counterproductive as continuous investment in capital is required to remain relevant and competitive in the telecommunications sector.

Digicel operates in a capital-intensive industry in markets where competition is fierce. Jamaica is Digicel's largest market in terms of revenue share and has seen regulators introducing number portability which has led to mobile subscribers numbers fall by over 120,000 in the 12 months ended September 2019. Further erosion of Digicel's operating performance is not out of the question given the need for capital investment to stay competitive but the lack of access to funding for capital projects.

We maintain our recommendation to SELL and advise clients to exit their holdings in Digicel as we believe the bonds will continue to trade well below par in the short term with significant risk of further price depreciation as our concerns exacerbate around Digicel's continued ability to service its obligations as its liquidity dwindles.

ABRIDGED FINANCIALS

US'000	31-Mar					Six Months ended Sept 30		
	2015	2016	2017	2018	2019	2019FY	2020FY	% Change
Revenues	**2,794,110**	**2,676,656**	**2,505,029**	**2,415,920**	**2,302,212**	**1,147,298**	**1,138,525**	**-0.8%**
Cost of Sales	(753,858)	(717,271)	(668,488)	(619,191)	(566,874)	(279,593)	(260,536)	-6.8%
Gross Profit	**2,040,252**	**1,959,385**	**1,836,541**	**1,796,729**	**1,735,338**	**867,705**	**877,989**	**1.2%**
Operating Expenses	(2,086,304)	(1,978,776)	(1,900,860)	(1,961,780)	(1,823,233)	(578,327)	(635,666)	9.9%
Operating Profit	707,806	697,880	604,169	454,140	478,979	289,378	242,323	-16.3%
Finance Costs	(599,332)	(475,265)	(465,321)	(503,059)	(558,365)	(260,695)	(312,039)	19.7%
Profit Before Taxation	31,422	131,011	116,600	(70,236)	(154,703)	9,598	(100,737)	-1149.6%
Profit for the year	**(168,304)**	**(36,277)**	**(44,855)**	**(228,746)**	**(300,542)**	**(40,591)**	**(158,719)**	**291.0%**
Total Assets	**4,641,435**	**4,291,299**	**4,247,113**	**4,365,336**	**4,226,354**	**4,425,094**	**4,339,505**	**-1.9%**
Total Liabilities	**7,499,231**	**7,474,167**	**7,598,474**	**7,907,442**	**8,192,851**	**8,067,598**	**8,526,933**	**5.7%**
Shareholder's Equity	**(2,933,920)**	**(3,237,097)**	**(3,392,715)**	**(3,586,485)**	**(4,022,413)**	**(3,702,177)**	**(4,243,382)**	**14.6%**
Cash & Cash Equivalents	**499,830**	**193,697**	**232,538**	**157,807**	**281,332**	**268,047**	**180,494**	**-32.7%**
Free Cash Flow	**(340,007)**	**(118,882)**	**(352)**	**(221,107)**	**(78,519)**	**103,730**	**(33,274)**	**-132.1%**
Capital Expenditure	**(773,257)**	**(539,854)**	**(362,347)**	**(468,161)**	**(293,569)**	**(101,649)**	**(210,423)**	**107.0%**
Key Ratios								
Gross profit margin	73.0%	73.2%	73.3%	74.4%	75.4%	75.6%	77.1%	
Operating profit margin	25.3%	26.1%	24.1%	18.8%	20.8%	25.2%	21.3%	
Pre-tax Margin	1.1%	4.9%	4.7%	-2.9%	-6.7%	0.8%	-8.8%	
Net Margin	-6.0%	-1.4%	-1.8%	-9.5%	-13.1%	-3.5%	-13.9%	
Cash Ratio (x)	0.57	0.23	0.21	0.17	0.28	0.25	0.19	
Current Ratio (x)	1.24	0.92	0.67	0.82	0.78	0.86	0.70	
Interest Coverage Ratio	1.58	1.57	1.36	1.00	1.01	1.11	0.78	
EBITDA/Interest Expense	2.48	2.53	2.29	1.99	1.98	1.96	1.55	
Net debt/EBITDA (x)	5.38	5.56	6.18	7.30	7.26	6.86	8.03	

SOURCES: JMMB INVESTMENT & RESEARCH; VARIOUS COMPANY FINANCIAL STATEMENTS; BLOOMBERG; EXCHANGE MEMORANDUM; FITCH RATINGS

APPENDIX

IMPORTANT DISCLOSURES

ABSTRACT— As a part of our new Portfolio Strategy we are recommending strict adherence to the following Portfolio Allocation DEFINITIONS/ RECOMMENDATIONS.

PLEASE NOTE THAT NO INDIVIDUAL ASSET IN YOUR PORTFOLIO SHOULD HAVE A WEIGHTING GREATER THAN 5% UNLESS OTHERWISE RECOMMENDED BY YOUR PORTFOLIO MANAGER OR A SPECIFIC JMMB RESEARCH REPORT. CONSEQUENTLY THE FOLLOWING **DEFINITIONS** ARE PROVIDED FOR CLARITY.

UNDERWEIGHT -
REDUCE EXPOSURE IN YOUR PORTFOLIO TO LESS THAN 5% FOR THIS PARTICULAR ASSET

SELL -
REDUCE EXPOSURE IN YOUR PORTFOLIO TO ZERO.

HOLD/MARKET WEIGHT -
EXPOSURE TO THE ASSET SHOULD BE EQUAL TO 5% OF YOUR TOTAL PORTFOLIO HELD AT JMMB.

OVERWEIGHT/BUY -
EXPOSURE TO THIS ASSET SHOULD BE BETWEEN 5% AND 10% OF YOUR TOTAL PORTFOLIO HELD AT JMMB

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