

18 May 2020

Communications | Telecommunications

Advanced Info Service (ADVANC TB)

Buy (Maintained)

Expecting a Weaker 2Q Outlook; Maintain BUY

Target Price (Return): THB220.00 (+16%)
 Price: THB190.00
 Market Cap: USD17,580m
 Avg Daily Turnover (THB/USD) 2,002m/62.2m

Analyst

Pakorn Khaeian
 +662 088 9627
pakorn.kh@rhbgroup.com

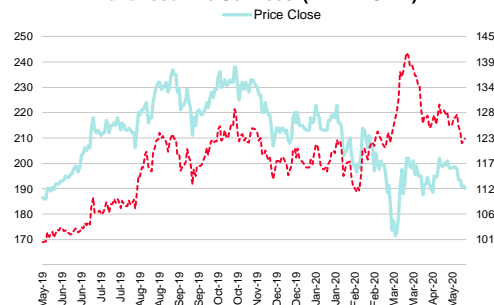


- **Maintain BUY with new TP of THB220.00 from THB250.00**, 16% upside and 4% yield. 1Q20's earnings came in below our and Street estimates mainly dragged by higher opex with relatively flat topline despite rising data consumption. 2Q20 outlook should weaken due to the tourism-related segment and economic measure launched by NBTC.
- **1Q20 results missed.** 1Q20's earnings fell 10.8% to THB 6.7bn, below our estimates, dragged by higher amortisation cost from the recent spectrum acquisition (2600MHz) that outweighed the cost savings from the TOT partnership agreement and marketing activities. Core service revenue remained flat (0.1% YoY) – the fall in mobile revenue (-1.1% YoY) and device sales (-40% YoY) due to the lockdown were offset by stronger revenue from the FBB segment, bolstered by its larger subs base.
- **Lower subs with flat ARPU.** Total mobile subs decreased to 32m (-2% QoQ, -0.8% YoY) largely dragged by negative net adds of the prepaid segment of 0.9m due to ongoing intense competition and the absence of traveller tourist SIM cards. Postpaid subs also grew at the slowest pace (0.4% QoQ) in the past five years due to the closure of its physical branches on the back of the lockdown. Its blended ARPU also came in flat (-0.8% QoQ) after the unlimited data packages were reintroduced to the market.
- **FBB remains pressured by aggressive discount pricing strategy.** While 1Q20 FBB subs grew strongly to 1.1m (5.1% QoQ), ARPU continued to fall – its six consecutive quarter – due to aggressive discount packages launched by its key competitors. Management also guided for slower subs acquisition this year as it wants to shift its focus to high quality customers with value-added service offerings.
- **Outlook toned down.** We expect the soft revenue to weaken further in 2Q20 mainly dragged by the tourism-related segment, lower device sales and slower pre-to-post migration. Rising price sensitivity should continue to pressure data monetisation and outweigh the benefits from cost savings on the network, rental and marketing activities in the short term.
- **The rollout of 5G remains intact.** Despite unprecedented economic conditions and unlike other operators, Advance Info Service has decided to proceed with its 5G network rollout plan – the coverage target is 13% of total population (59% of EEC area) by year-end. Plans to build up the non-standalone (NSA) base stations for the multi-band technology should allow it to enhance network capacity for the 5G commercial service.
- **Keep BUY.** We trim FY20F revenue to 0% (vs 1.5%) after lowering our blended ARPU assumption to -2.5% YoY (vs 1%), cut prepaid subs growth to flat (vs 1.5% YoY) and lower net-adds subs from FBB to 150,000 (vs 200,000). Our FY20F-21F earnings are revised down by c.5% after we factor in the higher cost of its spectrum acquisition in our model. Our TP implies 18x FY20F P/E – in line with its historical mean. Downside risks are the possibility of price control by the Government and outstanding litigation risk with state-owned enterprises (SOEs).

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(10.8)	(0.8)	(6.9)	(18.1)	1.3
Relative	8.2	(2.7)	9.2	2.4	22.9
52-wk Price low/high (THB)					172 – 238

Advanced Info Services (ADVANC TB)



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (THBm)	169,856	180,894	180,486	184,059	187,024
Recurring net profit (THBm)	29,816	31,647	32,005	34,113	35,915
Recurring net profit growth (%)	(1.3)	6.1	1.1	6.6	5.3
Recurring P/E (x)	18.95	17.84	17.64	16.55	15.72
P/B (x)	9.8	8.2	7.1	6.2	5.5
P/CF (x)	8.56	7.07	12.66	8.53	8.22
Dividend Yield (%)	3.7	3.9	4.0	4.2	4.5
EV/EBITDA (x)	8.97	8.06	7.96	7.50	7.05
Return on average equity (%)	55.0	49.2	43.0	40.1	37.3
Net debt to equity (%)	173.5	107.2	106.2	69.8	40.0

Source: Company data, RHB

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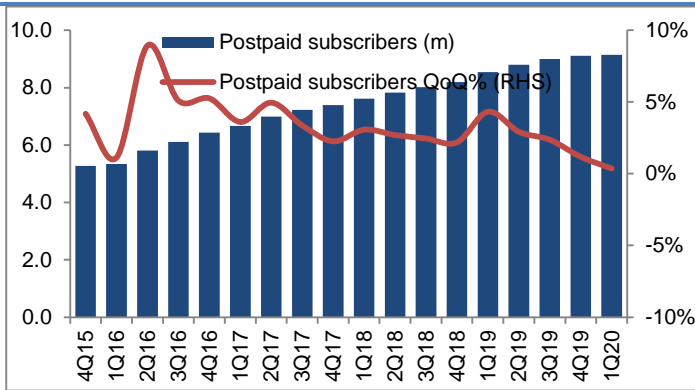
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Figure 1: DCF valuation

FYE Dec (THBm)	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F
Operating EBIT	42,310	43,919	45,031	45,405	45,783	46,244	46,870	47,574	48,348	49,185
Operating EBIT x (1-t)	35,286	36,628	37,555	37,868	38,183	38,567	39,089	39,676	40,322	41,020
D&A	39,247	39,809	40,841	41,711	42,519	43,174	43,584	43,828	43,905	43,817
Δ Net Working Capital	-22,217	-4,220	-5,534	-5,730	-6,089	-6,258	1,414	899	723	546
FCF from Operations	52,316	72,216	72,862	73,848	74,612	75,483	84,087	84,403	84,950	85,382
Capex	-32,908	-21,758	-21,758	-21,758	-23,950	-22,200	-22,200	-22,200	-22,200	-22,200
Net FCFF	19,408	50,458	51,104	52,090	50,662	53,283	61,887	62,203	62,750	63,182
Discounted net FCFF	19,408	46,534	43,463	40,856	36,646	35,543	38,072	35,290	32,831	30,486
Terminal Value										849,888
PV of Net FCFF	328,642									
PV of Terminal Value	410,078									
Implicit Growth Rate	1.0%									
WACC	8.43%									
NPV to firm	738,721									
(-) Net debt	-84,521									
(-) Minority interest	-131									
NPV to Equity	654,068									
No. of outstanding shares (m)	2,973									
Per share (THB)	220									

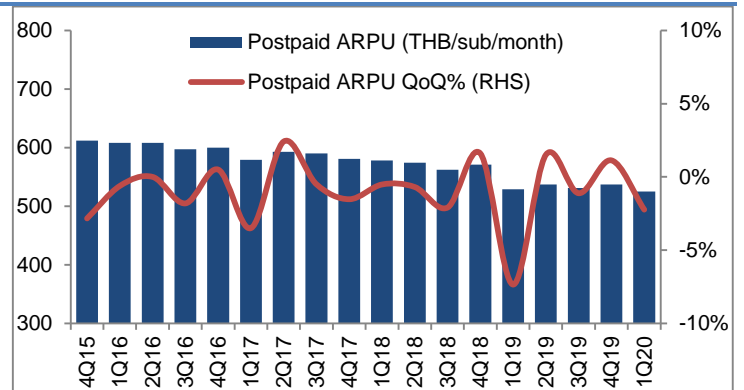
Source: RHB

Figure 2: AIS's postpaid subs



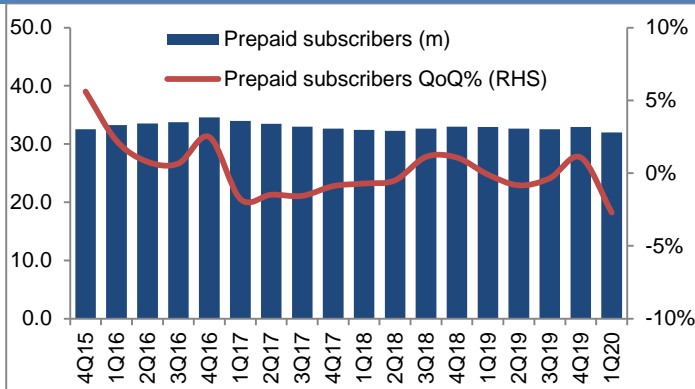
Source: Company data, RHB

Figure 3: AIS's postpaid ARPU ex-IC (post TFRS15)*



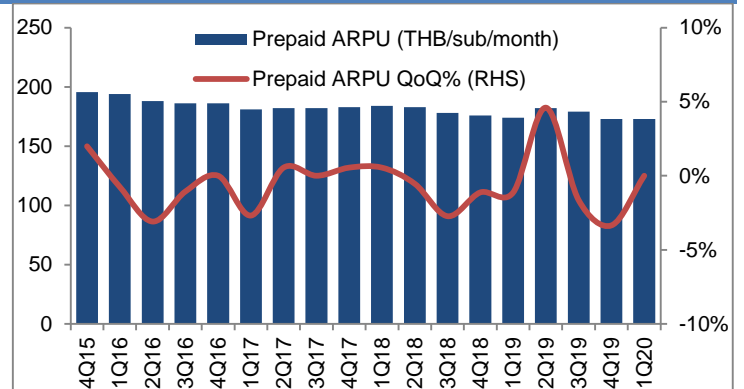
Source: Company data, RHB

Figure 4: AIS's prepaid subs



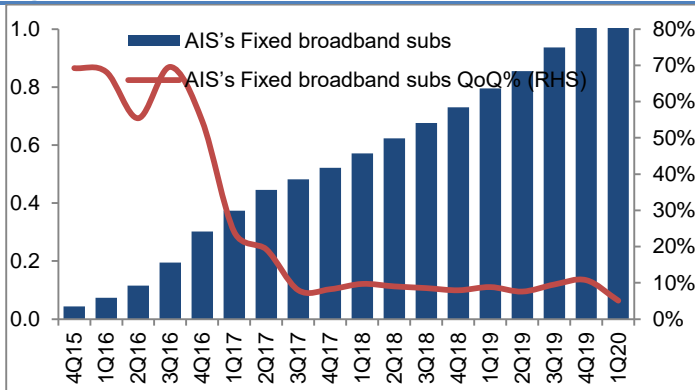
Source: Company data, RHB

Figure 5: AIS's prepaid ARPU ex-IC (post TFRS15)*



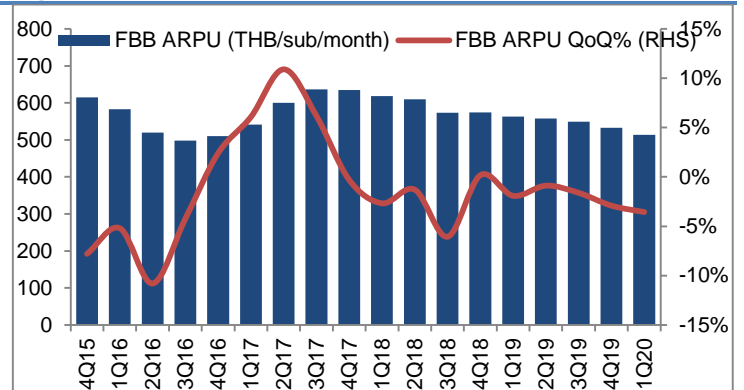
Source: Company data, RHB

Figure 6: AIS's fixed broadband subs



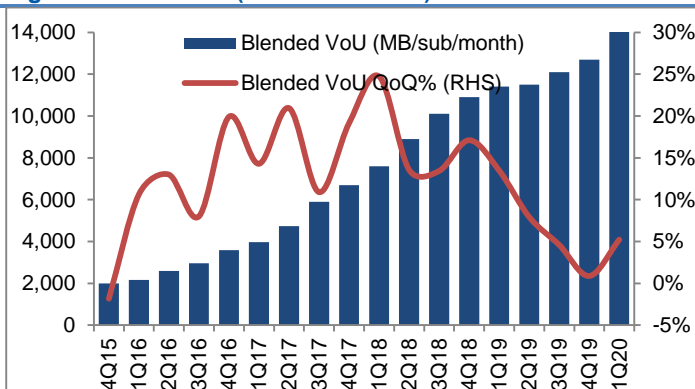
Source: Company data, RHB

Figure 7: AIS's fixed broadband ARPU ex-IC



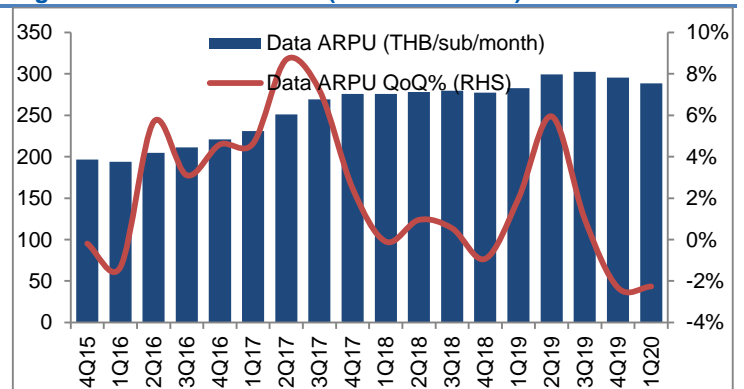
Source: Company data, RHB

Figure 8: AIS's VoU (MB/subs/month)



Source: Company data, RHB

Figure 9: AIS's Data APRU (THB/sub/month)



Source: Company data, RHB

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Figure 10: AIS's 1Q20 results review (post TFRS15)

FYE Dec (THBm)	1Q19	4Q19	1Q20	QoQ (%)	YoY (%)	Comments
Revenue	43,262.0	48,818.0	42,845.0	(12.2)	(1.0)	Decreased slightly YoY mainly from sluggish data monetisation and significant lower device sales due to the lockdown
EBITDA	18,868.0	19,366.0	22,777.0	17.6	20.7	EBITDA grew significantly both QoQ and YoY largely from the change of lease recognition due the adoption of TFRS16.
<i>EBITDA Margin</i>	<i>43.6</i>	<i>39.7</i>	<i>53.2</i>			
Depreciation	(8,691.0)	(9,600.0)	(12,586)	31.1	44.8	Increased mainly from the adoption of TFRS 16 and the acquisition of spectrum licenses.
EBIT	10,177.0	9,766.0	10,191.0	4.4	0.1	
<i>EBIT Margin (%)</i>	<i>23.5</i>	<i>20.0</i>	<i>23.8</i>			
Interest expense	(1,216.8)	(1,171.0)	(1,564.0)	33.6	28.5	Increased mainly due to the change of recognition of TFRS16 and cash preservation for spectrum payment.
Pretax profit	9,094.2	8,368.8	8,092.0	(3.3)	(11.0)	
<i>Pretax Margin (%)</i>	<i>21.0</i>	<i>17.1</i>	<i>18.9</i>			
Tax	(1,523.2)	(1,303.0)	(1,335.0)	2.5	(12.4)	
<i>Effective tax rate</i>	<i>(16.7)</i>	<i>(15.6)</i>	<i>(16.5)</i>			
Minority Interest	(1.0)	(0.8)	(1.0)	25.0	0.0	
Net Profit	7,570.0	7,065.0	6,756.0	(4.4)	(10.8)	Dropped QoQ and YoY despite cost savings benefit from its TOT partnership agreement and lower marketing activities mainly from the impact of softer revenue and higher amortisation cost.
Core Profit	7,570.0	7,396.0	7,251.0	(2.0)	(4.2)	

Source: Company data, RHB

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Figure 11: AIS's 1Q20 segmental results review (post TFRS15)

FYE Dec (THBm)	1Q19	4Q19	1Q20	QoQ (%)	YoY (%)	Comments
Revenue						
Mobile revenue	30,678.0	31,770.0	30,334.0	(4.5)	(1.1)	Mainly dragged by lower prepaid revenue as intense competition continued coupled with the significant dropped in traveller tourist SIM cards following COVID-19
Others (IR, IDD, other fees)	1,078.0	1,213.0	1,116.0	(8.0)	3.5	
Interconnection revenue	2,995.0	3,443.0	3,290.0	(4.4)	9.8	
Handset sales	7,222.0	10,813.0	6,465.0	(40.2)	(10.5)	Handset sales decreased significantly QoQ from the closure of stores and lower purchasing power due to economic slowdown
Total revenue	43,261.0	48,818.0	42,845.0	(12.2)	(1.0)	
Service revenue excl. IC	33,044.0	34,562.0	33,090.0	(4.3)	0.1	
Expense						
Handset costs	7,159	10,656	6,419	(39.8)	(10.3)	Decreased both QoQ and YoY from lower device subsidies
Interconnection cost	1,117	1,140	993	(13.0)	(11.1)	
Depreciation & amortization	8,691	9,600	12,586	31.1	44.8	
Network opex	7,371	7,293	7,173	(1.6)	(2.7)	Decreased slightly despite an ongoing network expansion thanks to the lower rental expenses from the TOT settlement
Other cost of services	1,235	1,261	1,097	(13.0)	(11.1)	
Regulatory fee	1,403	1,459	1,409	(3.4)	0.4	
Marketing expense	1,934	2,523	1,762	(30.2)	(8.9)	Decreased both QoQ and YoY due to lower marketing activities during the lockdown
General admin & staff cost	3,722	4,796	3,879	(19.1)	4.2	
Subtotal	33,238.0	39,509.0	35,950.0	(9.0)	8.2	
Depreciation (CF)	(6,447.7)	(7,237.0)	(7,237.4)	0.0	12.2	Increased from ongoing investment in 4G network and fixed broadband
Amortisation (CF)	(2,399.3)	(2,520.6)	(5,769.0)	128.9	140.4	Increased mainly from the acquisition of 2600MHz spectrum license in 1Q20
Management benefit (IS)	44.9	33.0	40.0	21.2	(10.9)	
Disposals and write-off of assets (CF)	(29.0)	(40.9)	(370.0)	804.6	na	
Other finance costs paid (CF)	(3.0)	(5.0)	5.0	(200.0)	(266)	
Restatement	24,404.1	29,738.4	22,616.7	(23.9)	(7.3)	
Total	(6,447.7)	(7,237.0)	(7,237.4)	0.0	12.2	
EBITDA	18,868.0	19,366.0	22,777.0	17.6	20.7	

Source: Company data, RHB

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Figure 12: AIS's 1Q20 key operating data

Key operating statistics	1Q19	4Q19	1Q20	QoQ (%)	YoY (%)	Comments
Total subscribers ('000)	41,490.7	42,013.8	41,156.1	(2.0)	(0.8)	
Postpaid ('000)	8,543.8	9,107.4	9,140.8	0.4	7.0	Increased slightly QoQ due to slower pre-to-post migration due to the economic slowdown
Prepaid ('000)	32,946.9	32,906.4	32,015.3	(2.7)	(2.8)	Dropped mainly from the absence of traveller tourist SIM cards due to international travel restrictions.
Blended ARPU (THB)	246.0	252.0	252.0	0.0	2.4	
Postpaid ARPU (THB)	529.0	537.0	525.0	(2.2)	(0.8)	
Prepaid ARPU (THB)	174.0	173.0	173.0	0.0	(0.6)	Impacted by intense competition
Blended VoU (MB/data sub/month)	11,400.0	12,700.0	14,700.0	15.7	28.9	
Postpaid VoU	14,400.0	16,600.0	16,990.0	2.3	18.0	
Prepaid VoU	10,300.0	11,100.0	13,800.0	24.3	34.0	
RMPB (THB/MB)	0.02	0.02	0.02	(19.5)	(20.2)	
Data subs ('000)	25,724.2	27,309.0	26,751.5	(2.0)	4.0	
4G devices ('000)	26,139.1	29,829.8	30,044.0	0.7	14.9	
FBB subs ('000)	795.0	1,037.6	1,090.4	5.1	37.2	Mostly driven by the FMC bundle packages that leverage on its mobile subs base
ARPU (THB)	563.0	533.0	514.0	(3.6)	(8.7)	Remain pressured by intense competition in FBB market

Source: Company data, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-02-07	Buy	250	200
2020-02-07	Buy	250	200
2019-11-04	Buy	250	231
2019-09-27	Buy	250	221
2019-08-07	Buy	227	220

Source: RHB, Bloomberg

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Buy:	Share price may exceed 10% over the next 12 months
Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
Take Profit:	Target price has been attained. Look to accumulate at lower levels
Sell:	Share price may fall by more than 10% over the next 12 months
Not Rated:	Stock is not within regular research coverage

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**KUALA LUMPUR****RHB Investment Bank Bhd**

Level 3A, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur 50400
Malaysia
Tel : +603 9280 8888
Fax : +603 9200 2216

JAKARTA**PT RHB Sekuritas Indonesia**

Revenue Tower, 11th Floor, District 8
- SCBD
Jl. Jendral Sudirman Kav 52-53
Jakarta 12190
Indonesia
Tel : +6221 509 39 888
Fax : +6221 509 39 777

HONG KONG**RHB Securities Hong Kong Ltd.**






12th Floor, World-Wide House
19 Des Voeux Road
Central
Hong Kong
Tel : +852 2525 1118
Fax : +852 2810 0908

BANGKOK**RHB Securities (Thailand) PCL**

10th Floor, Sathorn Square Office
Tower
98, North Sathorn Road, Silom
Bangrak, Bangkok 10500
Thailand
Tel: +66 2088 9999
Fax :+66 2088 9799

SINGAPORE**RHB Securities Singapore
Pte Ltd.**

10 Collyer Quay
#09-08 Ocean Financial Centre
Singapore 049315
Tel : +65 6533 1818
Fax : +65 6532 6211

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90 - 100		ดีเลิศ	Excellent
80 - 89		ดีมาก	Very Good
70 - 79		ดี	Good
60 - 69		พอใช้	Satisfactory
50 - 59		ผ่าน	Pass
ต่ำกว่า 50	No logo give	N/A	N/A

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ทั้งนี้บริษัทหลักทรัพย์ อาร์เอชบี (ประเทศไทย) จำกัด (มหาชน) มิได้ยืนยันหรือรับรองถึงความครบถ้วนและถูกต้องของผลสำรวจดังกล่าวแต่อย่างใด

ข้อมูล Anti-Corruption Progress Indicator 2560

ประกาศเจตนารมณ์ CAC

A	ASK	CHG	FC	GREEN	JUTHA	MATCH	NINE	PIMO	RWI	SPPT	TFI	TU	VNT
AI	AU	CHOTI	FER	GSTEL	KASET	MATI	NMG	PK	SANKO	SPRC	THE	TVD	WAVE
AIE	BCH	CHOW	FPI	GUNKUL	KBS	MBAX	NNCL	PL	SAUCE	SR	TICON	TVO	WHA
AIRA	BJC	CIG	FSMART	HARN	KCAR	MC	NTV	PLANB	SC	SRICHA	TIP	TVT	WICE
AJ	BJCHI	COL	GEL	IFS	KTECH	MFEC	NUSA	POST	SCCC	SST	TKN	TWPC	WIJK
ALUCON	BLAND	COM7	GFPT	ILINK	KWC	MIDA	NWR	PRINC	SCN	STA	TLUXE	U	TRUE
AMATAV	BR	CPALL	GGC	INET	KYE	MILL	OGC	PRO	SEAOIL	SUPER	TMILL	UPA	
AOT	BROCK	CPF	GIFT	IRC	L&E	ML	PACE	PSTC	SE-ED	SUSCO	TMT	UREKA	
APCO	BRR	CPR	GJS	J	LEE	MTLS	PAF	PYLON	SENA	SWC	TNP	UWC	
AQUA	CEN	CSC	GLOBAL	JMART	LIT	NBC	PAP	QTC	SIRI	SYMC	TPA	VGI	
ARROW	CGH	EKH	GOLD	JMT	LVT	NCL	PATO	ROH	SMART	TAKUNI	TSE	VIBHA	
ASIA	CHEWA	EPCO	GPSC	JUBILE	MAKRO	NEP	PCSGH	ROJNA	SPACK	TBSP	TTI	VIH	

ได้รับการรับรอง CAC

ADVANC	BKI	CPN	FE	INTUCH	LANNA	MSC	PLAT	PTT	SAT	SNP	TCMC	TMD	UOBKH
AKP	BLA	CSL	FNS	IRPC	LHBANK	MTI	PM	PTTEP	SCB	SORKON	TFG	TNITY	WACOAL
AMANAH	BROOK	DCC	FSS	IVL	LHK	NKI	PPP	PTTGC	SCC	SPC	TGCI	TNL	
AP	BTS	DEMCO	GBX	K	LPN	NSI	PPS	Q-CON	SCG	SPI	THANI	TOG	
ASP	BWG	DIMET	GCAP	KBANK	MBK	OCC	PRANDA	QH	SGP	SSF	THCOM	TOP	
AYUD	CENTEL	DRT	GLOW	KCE	MBKET	OCEAN	PREB	QLT	SINGER	SSI	THRE	TPCORP	
BAFS	CFRESH	DTAC	HANA	KGI	MCOT	PB	PRG	RATCH	SIS	SSSC	THREL	TRU	
BANPU	CIMBT	DTC	HMPRO	KKP	MFC	PDI	PSH	RML	SITHAI	SVI	TIPCO	TSC	
BAY	CM	EASTW	HTC	KSL	MINT	PE	PSL	ROBINS	SMIT	SYNTEC	TISCO	TSSTH	
BBL	CNS	ECL	ICC	KTB	MONO	PG	PT	S & J	SMPC	TAE	TKT	TTCL	
BCP	CPI	EGCO	IFEC	KTC	MOONG	PHOL	PTG	SABINA	SNC	TCAP	TMB	TVI	

N/A

2S	ARIP	BSM	CSS	FMT	INOX	LTX	NPK	RCL	SFP	SUC	TITLE	TSR	VPO
AAV	AS	BTC	CTW	FN	INSURE	M	NPP	RICH	SGF	SUN	TIW	TSTE	VTE
ABICO	ASAP	BTNC	CWT	FOCUS	IRCP	MACO	NVD	RICHY	SHANG	SUTHA	TK	TTA	WG
ACAP	ASEFA	BTW	D	FORTH	IT	MAJOR	NYT	RJH	SIAM	SVH	TKS	TTL	WHAUP
ACC	ASIAN	BUI	DCON	FTE	ITD	MALEE	OHTL	ROCK	SIMAT	SVOA	TM	TTTM	WIN
ADAM	ASIMAR	CBG	DCORP	FVC	ITEL	MANRIN	OISHI	RP	SKE	SYNEX	TMC	TTW	WINNER
ADB	ASN	CCET	DDD	GC	JAS	MAX	ORI	RPC	SKN	T	TMI	TUCC	WORK
AEC	ATP30	CCP	DELTA	GENCO	JCT	M-CHAI	OTO	RPH	SKR	TACC	TMW	TWP	WORLD
AEONTS	AUCT	CGD	DIGI	GL	JKN	MCS	PAE	RS	SKY	TAPAC	TNDT	TWZ	WP
AF	BA	CHARAN	DNA	GLAND	JSP	MDX	PDG	RSP	SLP	TASCO	TNH	TYCN	WPH
AFC	BAT-3K	CHO	DTCI	GPI	JTS	MEGA	PERM	S	SMK	TC	TNPC	UAC	WR
AGE	BCPG	CHUO	EA	GRAMMY	JWD	METCO	PF	S11	SMM	TCB	TNR	UBIS	XO
AH	BDMS	CI	EARTH	GRAND	KAMART	MGT	PICO	SAFARI	SMT	TCC	TOA	UEC	YCI
AHC	BEAUTY	CITY	EASON	GTB	KC	MJD	PJW	SALEE	SOLAR	TCCC	TOPP	UKEM	YNP
AIT	BEC	CK	ECF	GULF	KCM	MK	PLANET	SAM	SPA	TCJ	TPAC	UMI	YUASA
AJA	BEM	CKP	EE	GYT	KDH	MM	PLE	SAMART	SPALI	TCOAT	TPBI	UMS	ZIGA
AKR	BFIT	CMO	EFORL	HFT	KIAT	MODERN	PMTA	SAMCO	SPCG	TEAM	TPCH	UNIQU	ZMICO
ALLA	BGRIM	CMR	EIC	HOTPOT	KKC	MPG	POLAR	SAMTEL	SPG	TFD	TIPL	UP	
ALT	BGT	CNT	EMC	HPT	KOOL	MPIC	POMPUI	SAPPE	SPORT	TFMAMA	TIPIP	UPF	
AMA	BH	COLOR	EPG	HTECH	KTIS	NC	PORT	SAWAD	SPVI	TGPRO	TPOLY	UPOIC	
AMARIN	BIG	COMAN	ERW	HUMAN	KWG	NCH	PPM	SAWANG	SQ	TH	TPP	UT	
AMATA	BIZ	CPH	ESSO	HYDRO	LALIN	NDR	PRAKIT	SCI	SSC	THAI	TR	UTP	
AMC	BKD	CPL	ESTAR	ICHI	LDC	NETBAY	PRECHA	SCP	SSP	THANA	TRC	UV	
ANAN	BLISS	CPT	ETE	ICN	LH	NEW	PRIN	SDC	STANLY	THG	TRITN	UVAN	
APCS	BM	CRANE	EVER	IEC	LOXLEY	NEWS	PRM	SE	STAR	THIP	TRT	VARO	
APEX	BOL	CRD	F&D	IHL	LPH	NFC	PTL	SEAFCO	STEC	THL	TRUBB	VCOM	
APURE	BPP	CSP	FANCY	III	LRH	NOBLE	RAM	SELIC	STHAI	THMUI	TSF	VI	
AQ	BSBM	CSR	FLOYD	INGRS	LST	NOK	RCI	SF	STPI	TIC	TSI	VNG	

Source: Thai Institute of Directors

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- ได้รับการรับรอง CAC

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