

2 November 2021

Communications | Telecommunications

## Advanced Info Service (ADVANC TB)

**Buy** (Maintained)

### An Attractive Reopening Proxy; Maintain BUY

Target Price (Return): THB210.00 (+11%)  
 Price (Market Cap): THB189.00 (USD16,811m)  
 ESG score: 3.30 (out of 4)  
 Avg Daily Turnover (THB/USD) 1,464m/44.3m

- Maintain BUY, with new DCF-derived THB210.00 TP**, 11% upside and c.3% FY22F yield. Advanced Info Service's (AIS) 3Q/9M21 results were broadly in line with our/consensus estimates. Growth continued to be fuelled by robust fixed broadband (FBB) adoption and positive enterprise traction on the back of accelerated corporate digitalisation initiatives. We see green shoots of recovery with the lifting of travel restrictions driving a stronger 4Q21 and going into FY22F.
- Broadly in line.** 3Q21 core earnings narrowed 1% QoQ (+1% YoY) on steady EBITDA. This brought 9M21 core earnings to THB19.8bn, at 76% and 75% of our and consensus estimates. Management has retained its earlier guidance of "flat or slight decline" in core service revenue and "flat EBITDA" for the year, reflecting the still fragile consumer sentiment. We make no changes to our forecasts, with a progressive revenue recovery expected going into FY22F following the lifting of border/travel restrictions.
- Core service revenue up 0.1% YTD and 1.4% QoQ**, ahead of Total Access Communication's (DTAC TB, NR) -2.1% QoQ. Growth continues to be led by mobile, FBB and enterprise revenues. Postpaid revenue growth of 2.7% QoQ more than offset the extended contraction in prepaid revenue (-2.2% QoQ), helped by pre-to-post conversion and 5G revenue uplift, with the pandemic exerting pressure on discretionary spending and competition surrounding unlimited plans. 5G subs base expanded another 50% QoQ to 1.5m (3% of overall subs base), in tandem with wider population coverage of >42% as at end-September (2Q21: >25%).
- FBB still the bright spot**, up 7.4% QoQ (9M21: +20%) with FBB subs having surpassed the earlier year-end target of 1.6m (record quarterly net-adds of 133,000) from robust work-from-home demands. FBB growth continues to be at the expense of ARPU, with competition centred at THB400 entry-level plans.
- Enterprise to the fore.** We continue to see AIS benefitting from stronger enterprise pipelines. Management is targeting 20-25% enterprise revenue contribution in the longer term, from c. 10% currently. While enterprise non-mobile revenue grew 23% YoY in 3Q21, cloud, data centre and solutions revenue have surged 85% YoY from the accelerated corporate digitalisation initiatives in preparation of the re-opening of the country in 4Q21.
- TP now incorporates a ESG premium.** Our TP on the stock has now incorporated a 2% ESG premium on the stock's intrinsic value based on our in-house valuation methodology. AIS executes well on the sustainability agenda and is one of the highest ranked ESG constituent on the SET. Key risks are competition, protracted economic weakness and weaker-than-expected earnings.

#### Analysts

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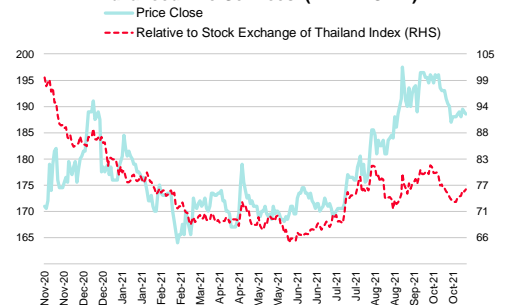
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	7.1	(3.6)	5.0	10.2	9.3
Relative	(4.2)	(4.1)	(1.0)	8.3	(25.8)
52-wk Price low/high (THB)					164 – 198

Advanced Info Services (ADVANC TB)



Source: Bloomberg

#### Overall ESG Score: 3.30 (out of 4)

##### E: Good

AIS provides a comprehensive disclosure of its emissions and energy consumption figures. It has managed to reduce emissions with significant efficiency gains, and is targeting a reduction of 90% greenhouse gas emissions intensity in 2023 vs the baseline set in 2015. AIS has also partnered with the Natural Resources & Environment Ministry to set up e-waste drop points as part of a "Thais Say No to E-Waste" programme

##### S: Good

AIS leverages its digital infrastructure and solutions to help bridge the digital divide within the society by implementing a range of policies and projects while working closely with relevant agencies to achieve lasting results. The company has also won numerous awards for its human capital management and enjoys a high retention rate - signifying a strong level of employee satisfaction. Female employees make up 60% of the total.

##### G: Excellent

The Board is made up of 11 directors from multi-disciplinary backgrounds, of which 46% are independent. There is only one female director. The Investor Relations (IR) Department provides regular updates to the investment community, embodying good transparency and disclosure practices

Forecasts and Valuation	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Total turnover (THBm)	180,894	172,890	171,509	175,356	180,480
Recurring net profit (THBm)	31,647	27,434	25,921	26,485	28,718
Recurring net profit growth (%)	6.1	(13.3)	(5.5)	2.2	8.4
Recurring P/E (x)	17.71	20.43	21.62	21.16	19.52
P/B (x)	8.1	7.4	6.9	6.3	5.7
P/CF (x)	7.01	8.01	8.04	7.52	7.12
Dividend Yield (%)	3.9	3.7	3.2	3.3	3.6
EV/EBITDA (x)	8.00	7.03	7.14	6.72	6.17
Return on average equity (%)	49.2	37.9	33.0	31.0	30.5
Net debt to equity (%)	107.2	105.2	94.5	62.3	31.8

Source: Company data, RHB

## Financial Exhibits

<b>Asia</b>		<b>Financial summary (THB)</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
Thailand		Recurring EPS	10.64	9.23	8.72	8.91	9.66
Communications		DPS	7.34	6.92	6.10	6.24	6.76
<b>Advanced Info Service</b>		BVPS	23.30	25.41	27.40	30.14	33.30
ADVANC TB		Return on average equity (%)	49.2	37.9	33.0	31.0	30.5
Buy							
		<b>Valuation metrics</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
<b>Valuation basis</b>		Recurring P/E (x)	17.71	20.43	21.62	21.16	19.52
DCF (WACC: 8.43%, TG: 1%)		P/B (x)	8.1	7.4	6.9	6.3	5.7
		FCF Yield (%)	10.2	7.5	4.0	7.1	7.8
		Dividend Yield (%)	3.9	3.7	3.2	3.3	3.6
<b>Key drivers</b>		EV/EBITDA (x)	8.00	7.03	7.14	6.72	6.17
Strong FBB growth from bundling efforts and the expanded footprint and ARPU uplift from 5G services		EV/EBIT (x)	15.08	16.33	17.38	17.11	15.70
		<b>Income statement (THBm)</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
<b>Key risks</b>		Total turnover	180,894	172,890	171,509	175,356	180,480
Competition, weaker than expected recovery in the economy and data monetisation challenges		Gross profit	69,854	63,519	57,845	57,391	58,764
		EBITDA	79,342	91,030	89,249	91,755	95,919
<b>Company Profile</b>		Depreciation and amortisation	(37,229)	(51,842)	(52,553)	(55,735)	(58,208)
Advanced Info Service is the leading integrated telecommunication services provider in Thailand offering mobile, fiber broadband and enterprise services. Singtel has a direct 23.3% stake in the company		Operating profit	42,113	39,188	36,696	36,020	37,711
		Net interest	(4,777)	(5,917)	(5,213)	(3,884)	(2,950)
		Pre-tax profit	37,402	32,518	30,724	31,394	34,040
		Taxation	(6,209)	(5,089)	(4,808)	(4,913)	(5,327)
		Reported net profit	31,190	27,434	25,921	26,485	28,718
		Recurring net profit	31,647	27,434	25,921	26,485	28,718
		<b>Cash flow (THBm)</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
		Change in working capital	(739)	(2,041)	(8,796)	(7,683)	(8,158)
		Cash flow from operations	79,922	69,984	69,673	74,532	78,763
		Capex	(23,029)	(28,057)	(47,153)	(35,000)	(35,000)
		Cash flow from investing activities	(26,973)	(55,021)	(47,153)	(35,000)	(35,000)
		Dividends paid	(21,050)	(20,219)	(20,013)	(18,343)	(19,325)
		Cash flow from financing activities	(42,395)	(16,147)	(37,855)	(38,737)	(33,598)
		Cash at beginning of period	9,067	19,637	18,421	3,073	3,822
		Net change in cash	10,554	(1,184)	(15,335)	795	10,165
		Ending balance cash	19,637	18,425	3,127	4,020	14,277
		<b>Balance sheet (THBm)</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
		Total cash and equivalents	19,637	18,421	3,073	3,822	13,890
		Tangible fixed assets	125,510	122,518	120,057	114,190	106,236
		Total investments	67	110	110	110	110
		Total assets	289,669	350,171	329,214	309,808	297,440
		Short-term debt	24,872	18,748	16,963	14,919	13,482
		Total long-term debt	69,172	79,301	63,232	44,836	31,903
		Total liabilities	220,275	274,481	247,622	220,078	198,322
		Total equity	69,394	75,689	81,593	89,730	99,118
		Total liabilities & equity	289,669	350,171	329,214	309,808	297,440
		<b>Key metrics</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
		Revenue growth (%)	6.5	(4.4)	(0.8)	2.2	2.9
		Recurrent EPS growth (%)	6.1	(13.3)	(5.5)	2.2	8.4
		Gross margin (%)	38.6	36.7	33.7	32.7	32.6
		Operating EBITDA margin (%)	43.9	52.7	52.0	52.3	53.1
		Net profit margin (%)	17.2	15.9	15.1	15.1	15.9
		Dividend payout ratio (%)	70.0	75.0	70.0	70.0	70.0
		Capex/sales (%)	12.7	16.2	27.5	20.0	19.4
		Interest cover (x)	8.82	6.62	7.04	9.27	12.78

Source: Company data, RHB

2 November 2021

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Figure 1: Results review table

FYE Dec (THBm)	3Q20	2Q21	3Q21	QoQ (%)	YoY (%)	9M20	9M21	YoY (%)	Comments
<b>Revenue</b>	<b>41,715.0</b>	<b>42,757.0</b>	<b>42,377.0</b>	<b>(0.9)</b>	<b>1.6</b>	<b>126,816</b>	<b>130,995</b>	<b>3.3</b>	Mobile service revenue was flat QoQ while FBB and enterprise revenue grew 7.4% and 15% QoQ respectively
<b>EBITDA</b>	<b>22,091.0</b>	<b>23,006.0</b>	<b>22,888.0</b>	<b>(0.5)</b>	<b>3.6</b>	<b>67,165</b>	<b>68,474</b>	<b>1.9</b>	Good cost optimisation
<i>EBITDA Margin (%)</i>	<i>53.0</i>	<i>53.8</i>	<i>54.0</i>			<i>53.0</i>	<i>52.3</i>		Lower marketing spending due to the pandemic
Depreciation	(12,545.0)	(12,961.0)	(13,055.0)	0.7	4.1	(37,615)	(38,615)	2.7	
<b>EBIT</b>	<b>9,546.0</b>	<b>10,045.0</b>	<b>9,833.0</b>	<b>(2.1)</b>	<b>3.0</b>	<b>29,550</b>	<b>29,859</b>	<b>1.0</b>	
<i>EBIT Margin (%)</i>	<i>22.9</i>	<i>23.5</i>	<i>23.2</i>			<i>23.3</i>	<i>22.8</i>		
Interest expense	(1,449.0)	(1,460.4)	(1,413.8)	(3.2)	(2.4)	(4,559)	(4,260)	(6.6)	
Interest income	452.0	26.9	(646.7)	(2,503.3)	(243.1)	1,579	(862)	(154.6)	
Associates	0.0	0.0	0.0	nm	nm	-	-	nm	
El/Others	(823.0)	0.0	0.0	#DIV/0!	(100.0)	(2,343)	(233)	(90.1)	
<b>Pretax profit</b>	<b>7,726.0</b>	<b>8,611.5</b>	<b>7,772.5</b>	<b>(9.7)</b>	<b>0.6</b>	<b>24,227</b>	<b>24,504</b>	<b>1.1</b>	
<i>Pretax Margin (%)</i>	<i>18.5</i>	<i>20.1</i>	<i>18.3</i>			<i>19</i>	<i>19</i>		
Tax	(1,215.0)	(1,571.1)	(1,399.0)	(11.0)	15.1	(3,961)	(4,447)	12.3	
<i>Effective tax rate (%)</i>	<i>(15.7)</i>	<i>(18.2)</i>	<i>(18.0)</i>			<i>(16)</i>	<i>(18)</i>		
Minority Interest	2.0	0.4	0.6	26.5	(72.3)	4	2	nm	
<b>Net Profit</b>	<b>6,513.0</b>	<b>7,040.8</b>	<b>6,374.1</b>	<b>(9.5)</b>	<b>(2.1)</b>	<b>20,270</b>	<b>20,059</b>	<b>(1.0)</b>	
<b>Core Profit</b>	<b>6,513.0</b>	<b>6,639.0</b>	<b>6,571.6</b>	<b>(1.0)</b>	<b>0.9</b>	<b>20,270</b>	<b>19,855</b>	<b>(2.0)</b>	Broadly in line with estimates
<i>Net Margin (%)</i>	<i>15.6</i>	<i>15.5</i>	<i>15.5</i>			<i>16.0</i>	<i>15.2</i>		

Source: RHB, Company data

Figure 2: Revenue and key opex

FYE Dec (THBm)	3Q20	2Q21	3Q21	QoQ (%)	YoY (%)	Comments
<b>Revenue</b>						
Mobile revenue	29,197.0	29,098.0	29,204.0	0.4	0.0	Supported by government stimulus programme alongside dampened consumer sentiment
Others (IDD, other fees)	1,148.0	1,217.0	1,403.0	15.3	22.2	
Interconnection revenue	3,494.0	3,288.0	3,407.0	3.6	(2.5)	
Handset sales	6,091.0	7,116.0	6,173.0	(13.3)	1.3	
<b>Total revenue</b>	<b>41,715.0</b>	<b>42,757.0</b>	<b>42,377.0</b>	<b>(0.9)</b>	<b>1.6</b>	
<b>Core service revenue excl. IC</b>	<b>32,130.0</b>	<b>32,353.0</b>	<b>32,796.0</b>	<b>1.4</b>	<b>2.1</b>	
<b>Expense</b>						
Cost of sales	6,164.0	6,923.0	6,205.0	(10.4)	0.7	
Interconnection cost	908.7	991.8	1,129.1	13.8	24.3	
Depreciation & amortization	12,545.0	12,961.0	13,055.0	0.7	4.1	
Network opex	4,551.0	4,615.0	4,649.0	0.7	2.2	Higher 5G opex
Other cost of services	1,913.0	2,088.0	2,377.0	13.8	24.3	

Source: RHB, Company data

Figure 3: Key operating metrics

Key operating metrics	3Q20	2Q21	3Q21	QoQ (%)	YoY (%)	Comments
<b>Total subscribers (m)</b>	40.9	43.2	43.7	1.0	6.6	
Postpaid subs (m)	9.8	11.0	11.3	2.6	15.4	Pre-to-post migration and handset bundling
Prepaid subs (m)	31.2	32.2	32.4	0.4	3.9	Tight competition
<b>Blended ARPU (THB)</b>	237	225	226	0.4	(4.6)	
Postpaid ARPU (THB)	498	471	470	(0.2)	(5.6)	Pre-to-post migration
Prepaid ARPU (THB)	157	142	138	(2.8)	(12.1)	Price competition
<b>Blended VoU (MB/ data sub/ month)</b>	17,180	19,700	22,600	14.7	31.5	
Postpaid VoU	19,830	25,700	26,200	1.9	32.1	
Prepaid VoU	16,080	17,300	20,900	20.8	30.0	
RMPB (THB/MB)	0.016	0.012	0.010	(9.8)	(34.7)	
Data subs (m)	27.0	32.4	31.9	(1.7)	17.9	
4G devices (m)	31.1	34.6	0.0	(100.0)	(100.0)	
FBB subs ('000)	1.3	1.5	1.7	8.7	32.9	Ahead of 1.6m target by year end
FBB ARPU (THB)	484	458	455	(0.7)	(6.0)	Higher take-up of entry level plans

Source: RHB, Company data

## Recommendation Chart

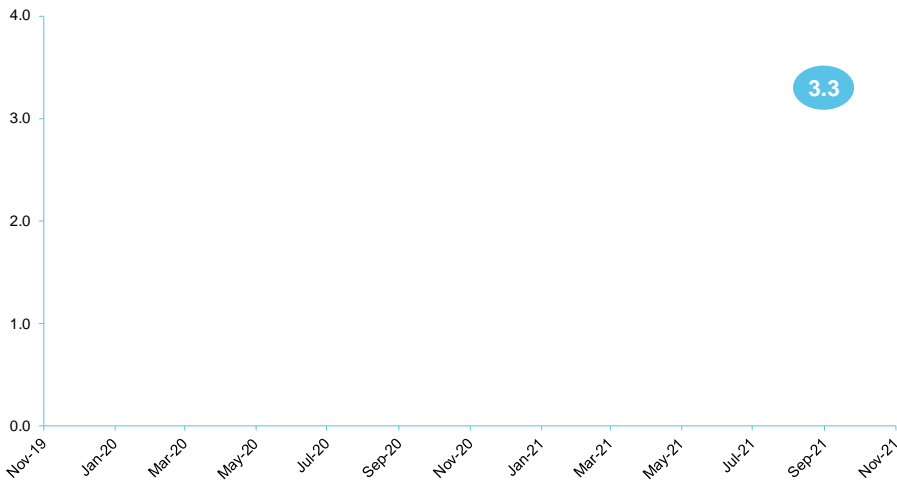


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2021-08-04	Buy	205	179
2021-05-02	Buy	210	171
2020-05-17	Buy	220	189
2019-09-27	Buy	250	221
2019-08-07	Buy	227	220
2019-01-21	Buy	218	172

Source: RHB, Bloomberg

## ESG Rating History



Source: RHB

## RHB Guide to Investment Ratings

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

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