

# Thailand Industry Focus

# Thailand Telecom Sector

Refer to important disclosures at the end of this report

DBS Group Research . Equity

1 Feb 2016

## Big upside potential from non-entry of JAS

- **Bangkok Post reports that the regulator NBTC is quietly drawing plans for a new 900MHz auction**
- **JAS's inability to pay for the 900MHz spectrum may benefit ADVANC and DTAC; we estimate only 2.3% ROI for JAS mobile**
- **Upgrade ADVANC and DTAC to BUY with revised TPs of Bt185 and Bt43 respectively. Prefer DTAC to ADVANC**
- **The key risk to our call will be JAS securing a foreign partner and submitting a letter of guarantee**

### **New entrant JAS Mobile may not be able to pay for the spectrum.**

According to Bangkok Post, NBTC is quietly drawing plans to call for a new 900MHz auction if JAS fails to secure its funding. The details should include default penalty and conditions for re-auction. The source from NBTC added that the potential South Korean partner already scrapped the deal with JAS. ADVANC will be interested in participating in the new auction if the reserve price is not the same as the earlier one. The deadline for JAS Mobile to pay its first instalment of Bt8bn together with letters of guarantee is 21 March 2016.

**JAS may struggle indeed in our view.** Its parent Jasmine International Group had gross revenue below Bt14bn and total assets below Bt51bn in FY15. JAS has a very weak business case and we estimate ROI of only 2.3% in three years even on the most optimistic assumptions.

**Big upside potential from non-entry of JAS in the mobile sector.** Our TP for ADVANC assuming non-entry of JAS and 900MHz spectrum auction at Bt75bn including annual Bt10bn tower deal with TOT is revised to Bt185 as we raise terminal growth to 2% from 0% earlier. Our TP for DTAC assuming non-entry of JAS and ADVANC securing the 900MHz licence is Bt43 as we raise terminal growth rate to 2% from 0%. Currently ADVANC and DTAC offer FY16F dividend yields of 7.3% and 10% respectively.

SET : 1,300.98

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### **STOCKS**

	Price Bt	Mkt Cap US\$m	Target Price Bt	Performance (%)		Rating
				3 mth	12 mth	
Advanced Info Service	169.00	14,077	185.00	(27.5)	(32.7)	BUY
Total Access Communication	33.50	2,222	43.00	(50.7)	(64.7)	BUY

Source: DBS Bank

**Advanced Info Service** : ADVANC is the largest cellular operator in Thailand with a 44% market share.

**Total Access Communication** : DTAC is the second largest cellular operator in Thailand with a subscriber base market share of 30%.

## Thailand Telecom Sector

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**Weak business case for JAS Mobile at the current spectrum cost.** Assuming 5m subscribers in three years at an ARPU of Bt185 (10% discount to average ARPU of Bt205), JAS Mobile may secure revenue of Bt11.1bn. Assuming an optimistic 20% EBITDA margins, we estimate EBITDA of Bt2.2bn. On the capex side, spectrum itself needs Bt75bn while JAS Mobile has mentioned capex for network rollout of

Bt20bn for 5m subscribers. We estimate total capex of Bt95bn including the cost of spectrum. Given potential EBITDA of Bt2.2bn and capex of Bt95bn, we estimate ROI of 2.3% only. Network rollout capex could be close to Bt50bn if JAS Mobile were to expand its network for nationwide coverage in our estimate.

## Company Guide

# Thailand Company Guide

## Advanced Info Service

Version 2 | Bloomberg: ADVANC TB | Reuters: ADVA.BK

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### BUY (Upgrade)

Last Traded Price: Bt169 (SET : 1,300.98)

Price Target : Bt185 (9% upside) (Prev Bt140)

Potential Catalyst: Non-entry of JAS

Where we differ: Our earnings estimates are below consensus as we factor tower deal with TOT

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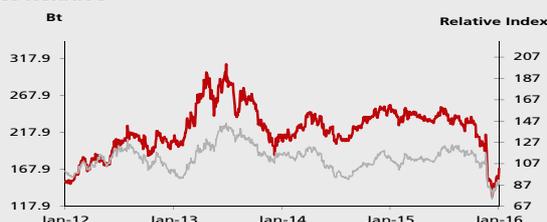
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### What's New

- JAS struggles with spectrum payment due to the lack of a foreign partner
- According to Bangkok Post, the regulator NBTC is quietly planning for a new 900MHz auction

#### Price Relative



#### Forecasts and Valuation

FY Dec (Bt m)	2014A	2015F	2016F	2017F
Revenue	149,329	156,510	160,078	165,863
EBITDA	65,988	70,997	66,501	76,450
Pre-tax Profit	45,910	48,174	46,402	47,241
Net Profit	36,033	37,628	36,244	36,900
Net Pft (Pre Ex.)	36,033	37,628	36,244	36,900
Net Pft Gth (Pre-ex) (%)	(1.3)	4.4	(3.7)	1.8
EPS (Bt)	12.1	12.7	12.2	12.4
EPS Pre Ex. (Bt)	12.1	12.7	12.2	12.4
EPS Gth Pre Ex (%)	(1)	4	(4)	2
Diluted EPS (Bt)	12.1	12.7	12.2	12.4
Net DPS (Bt)	12.1	12.7	12.2	12.4
BV Per Share (Bt)	15.7	16.0	15.7	15.9
PE (X)	13.9	13.4	13.9	13.6
PE Pre Ex. (X)	13.9	13.4	13.9	13.6
P/Cash Flow (X)	9.1	8.1	8.8	7.4
EV/EBITDA (X)	7.9	7.8	8.8	8.0
Net Div Yield (%)	7.2	7.5	7.2	7.3
P/Book Value (X)	10.7	10.6	10.7	10.7
Net Debt/Equity (X)	0.4	1.1	1.8	2.3
ROAE (%)	77.9	79.9	76.9	78.6
Earnings Rev (%):		(1)	(1)	(10)
Consensus EPS (Bt):		12.9	11.7	12.7
Other Broker Recs:		B: 21	S: 4	H: 5

Source of all data: Company, DBS Bank, Bloomberg Finance L.P

### JAS May Not Enter the Sector

#### Non- entry of JAS will change the competitive landscape

According to Bangkok Post, NBTC is quietly drawing plans to call for a new 900MHz auction if JAS mobile fails to secure its funding. The source from NBTC added that the potential South Korean partner already scrapped the deal with JAS mobile. The deadline for Jas Mobile to pay its first installment of Bt8bn together with letters of guarantee is 21 March 2016. JAS had gross revenue below Bt14bn and total assets below Bt51bn in FY15 and so Bt75bn may be too much to raise without a foreign partner, in our view.

#### Too low ROI for JAS mobile at the current spectrum cost.

Assuming 5m subscribers in three years at an ARPU of Bt185 (10% discount to average ARPU of Bt205), JAS mobile may secure revenue of Bt11.1bn. Assuming an optimistic 20% EBITDA margin, we estimate EBITDA of Bt2.2bn. On the capex side, spectrum itself needs Bt75bn while JAS mobile has mentioned network rollout capex of Bt20bn for 5m subscribers. Given potential EBITDA of Bt2.2bn and total investment of Bt95bn, we estimate ROI of only 2.3%.

#### Valuation:

Our DCF-based (WACC 8.4%, TG 2%) TP is revised to Bt185 for ADVANC as we raise terminal growth to 2% from 0% earlier. We upgrade to BUY. We assume (i) non-entry of JAS (ii) ADVANC securing 900 MHz spectrum auction at Bt75bn and (iii) ADVANC paying Bt10bn annually to TOT in infrastructure deal. ADVANC may, however, bid lower for 900 MHz spectrum due to its infrastructure deal with TOT. In terms of sensitivity, each Bt10bn drop in 900 MHz spectrum auction price will raise our TP by 2%. Besides, the stock also offers an attractive dividend yield of 7%.

#### Key Risks to Our View:

JAS securing a foreign partner to submit letter of guarantee to the regulator leading to its entry in the mobile sector.

#### At A Glance

Issued Capital (m shrs)	2,973
Mkt. Cap (Btm/US\$m)	502,453 / 14,077
Major Shareholders	
Intouch Holdings PCL	40.5
Singtel Strategic Invest	23.3
Thai NVDR Co Ltd	5.0
Free Float (%)	31.2
3m Avg. Daily Val (US\$m)	79.2

ICB Industry : Telecommunications / Mobile Telecommunications

**CRITICAL DATA POINTS TO WATCH**

**Earnings Drivers:**

**Without a foreign partner, JAS is unable to enter the market**

We are of the view that JAS's subsidiary, Jas Mobile Broadband, may not be able to enter the mobile market due to its lack of necessary collateral to obtain the letters of guarantee. Thai banks commonly ask for collateral in full amount when issuing letters of guarantee for companies with no track record and unclear future. JAS's potential collateral is worth Bt26bn, including Bt16bn JASIF holding and Bt10bn cash; this is still way below the Bt60bn to be guaranteed by the bank(s). On the back of JAS's non-entry, we raise ADVANC's terminal growth rate from 0% to 2%.

**ADVANC, TOT officially hold hands**

On 26 Jan 2016, ADVANC and TOT officially announced partnership on TOT's 2.1GHz network (15MHz). The terms have been agreed by both parties, and the contract is being reviewed by the Office of the Attorney General. The deal should help ease concerns of overcrowded network once ADVANC's 2G migration is complete.

**2G migration should pick up the pace in the coming months**

1m out of 12m 2G users have moved to the 3G/4G network so far. The pace should pick up in the coming weeks as the device upgrade campaign becomes well known, and the deadline for the shutdown of 2G service approaches (31 March 2016). ADVANC preliminarily plans to roam on DTAC's network to accommodate any remaining 2G users after the deadline.

**FY16F norm. profit expected to decline by 4%**

Although we expect ADVANC's revenue to rise by 2% this year, FY16F norm. profit is expected to drop by 4% due to the Bt10bn rental payment to TOT for network and 2.1GHz spectrum and the Bt7bn handset subsidy as it is encouraging 2G clients to upgrade to 3G/4G devices.

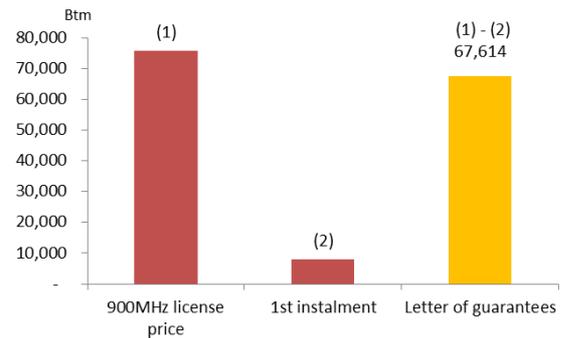
**Cut FY17F profit by 10% due to higher amortisation**

With the expected non-entry of Jas Mobile, we expect a spectrum re-auction. We also forecast ADVANC to win a 900MHz licence at Bt75bn, resulting in an additional Bt5bn amortisation expense per year and 10% earnings in FY17F.

**Entering the age of limited data plan**

Attractive packages were presented at the launch event on 26 Jan, all of which were limited data plans. For example, monthly limited data plans costing Bt488-688 offer 10-20GB of 3G/4G usage and 200-300 minutes of talk time while existing unlimited data plans with similar prices have only 3-6GB for mobile internet. DTAC also started offering similar plans and TRUE is expected to follow suit soon. The aggressive pricing will make it even more difficult for Jas Mobile to make a dent in the market.

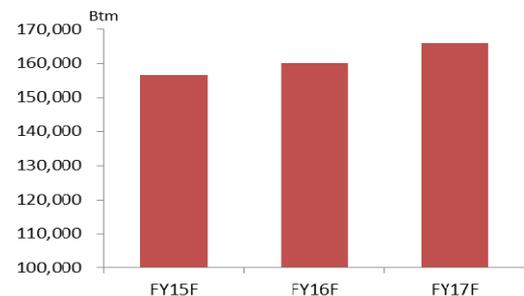
**Amount needed to be guaranteed by the banks for JAS's 900MHz licence**



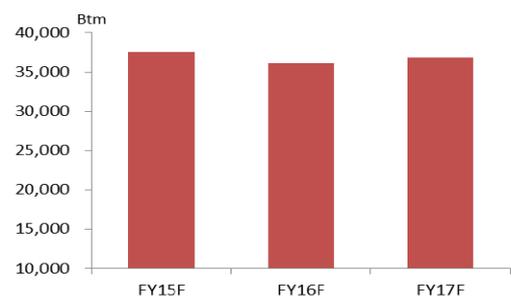
**Payment schedule of 1800MHz and 900MHz licences**

(Unit: Btm)	90 days after winning	End of 2nd year Late '17	End of 3rd year Late '18	End of 4th year Late '19
ADVANC's 1800MHz	20,493	10,247	10,247	
TRUE's 1800MHz	19,896	9,948	9,948	
JAS's 900MHz	8,040	4,020	4,020	59,574
TRUE's 900MHz	8,040	4,020	4,020	60,218

**Revenue**



**Norm. profit**



**Examples of ADVANC's new phone plans**

Monthly cost (Bt)	3G/4G (GB)	Minutes of talk time
299	1.5	100
488	10	200
688	20	300
1,888	75	1,500

Source: Company, DBS Bank

**Balance Sheet:**

Gearing ratio is expected to go up from 1.6x in FY15F to 2.4x in FY16F. Higher debt loads are for i) Bt38- Bt40bn 3G/4G capex p.a. and ii) instalments of licence fees.

**Share Price Drivers:**

**Confirmed JAS's exit**

For the licence payments, JAS has until 21 March 2016 to pay its first instalment of Bt8.0bn along with the letters of guarantee for the remaining amount of Bt68bn. If JAS cannot obtain letters of guarantee by that time, JAS's non-entry will be official, implying a substantial positive impact on the competitive landscape for the whole industry.

**Key Risks:**

**Potential entry of JAS in the mobile sector.**

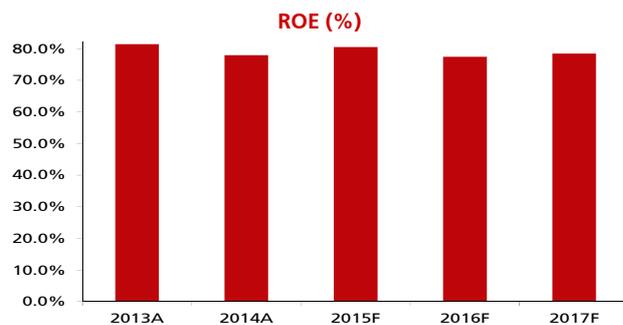
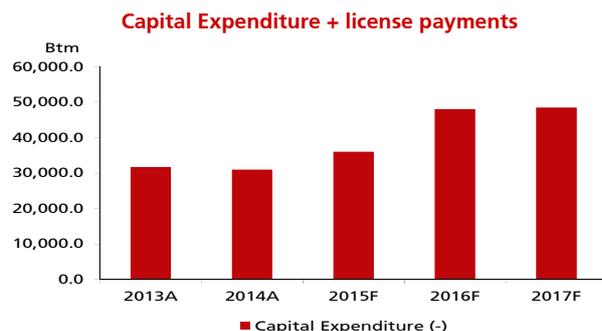
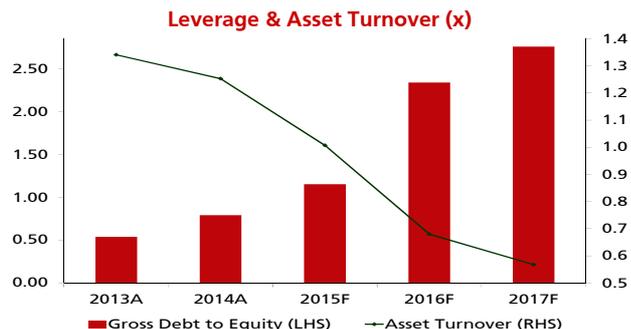
JAS securing a foreign partner to submit letter of guarantee to the regulator leading to its entry in the mobile sector is the key risk to our view. JAS intends to capture over 6% market share in three years from now.

**Uncertainty over the potential re-auction**

If JAS fails to secure the financing for the 900MHz licence, it remains to be seen how the Office of The National Broadcasting and Telecommunications Commission (NBTC) will handle the re-auction; in essence, NBTC will need to i) specify the penalty amount on JAS, and ii) set a date for the new auction. TRUE insists that it will pay for the 900MHz licence regardless of JAS's action.

**Company Background**

ADVANC is the largest cellular operator in Thailand with over 40% market share.



Source: Company, DBS Bank

**Income Statement (Btm)**

FY Dec	2013A	2014A	2015F	2016F	2017F
Revenue	142,783	149,329	156,510	160,078	165,863
Cost of Goods Sold	(81,141)	(83,548)	(84,819)	(88,677)	(91,332)
<b>Gross Profit</b>	<b>61,642</b>	<b>65,781</b>	<b>71,691</b>	<b>71,401</b>	<b>74,531</b>
Other Opng (Exp)/Inc	(15,040)	(19,044)	(21,598)	(21,290)	(22,060)
<b>Operating Profit</b>	<b>46,602</b>	<b>46,737</b>	<b>50,093</b>	<b>50,110</b>	<b>52,471</b>
Other Non Opg (Exp)/Inc	323	330	346	362	366
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(454)	(1,157)	(2,265)	(4,071)	(5,597)
Exceptional Gain/(Loss)	(233)	0.0	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>46,238</b>	<b>45,910</b>	<b>48,174</b>	<b>46,402</b>	<b>47,241</b>
Tax	(10,008)	(10,080)	(10,577)	(10,188)	(10,372)
Minority Interest	44.1	30.0	31.5	30.3	30.9
Preference Dividend	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>36,274</b>	<b>36,033</b>	<b>37,628</b>	<b>36,244</b>	<b>36,900</b>
Net Profit before Except.	36,507	36,033	37,628	36,244	36,900
EBITDA	63,466	65,988	70,997	66,501	76,450
<b>Growth</b>					
Revenue Gth (%)	0.9	4.6	4.8	2.3	3.6
EBITDA Gth (%)	3.3	4.0	7.6	(6.3)	15.0
Opg Profit Gth (%)	2.4	0.3	7.2	0.0	4.7
Net Profit Gth (Pre-ex) (%)	5.0	(1.3)	4.4	(3.7)	1.8
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	43.2	44.1	45.8	44.6	44.9
Opg Profit Margin (%)	32.6	31.3	32.0	31.3	31.6
Net Profit Margin (%)	25.4	24.1	24.0	22.6	22.2
ROAE (%)	81.4	77.9	79.9	76.9	78.6
ROA (%)	34.1	30.2	24.3	15.4	12.6
ROCE (%)	49.0	45.1	33.8	20.0	16.3
Div Payout Ratio (%)	99.6	100.0	100.0	100.0	100.0
Net Interest Cover (x)	102.6	40.4	22.1	12.3	9.4

Source: Company, DBS Bank

**Quarterly / Interim Income Statement (Btm)**

FY Dec	3Q2014	4Q2014	1Q2015	2Q2015	3Q2015
Revenue	35,355	40,444	40,579	38,135	36,778
Cost of Goods Sold	(19,278)	(22,816)	(23,439)	(20,569)	(20,399)
<b>Gross Profit</b>	<b>16,077</b>	<b>17,628</b>	<b>17,140</b>	<b>17,566</b>	<b>16,379</b>
Other Oper. (Exp)/Inc	(4,643)	(5,068)	(4,716)	(4,933)	(4,935)
<b>Operating Profit</b>	<b>11,434</b>	<b>12,560</b>	<b>12,424</b>	<b>12,633</b>	<b>11,445</b>
Other Non Opg (Exp)/Inc	176	134	67.8	57.3	215
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(471)	(457)	(332)	(366)	(416)
Exceptional Gain/(Loss)	120	(26.0)	137	28.1	(132)
<b>Pre-tax Profit</b>	<b>11,259</b>	<b>12,211</b>	<b>12,296</b>	<b>12,352</b>	<b>11,112</b>
Tax	(2,311)	(3,100)	(2,400)	(2,507)	(2,495)
Minority Interest	7.00	11.0	(0.2)	(3.1)	1.42
<b>Net Profit</b>	<b>8,955</b>	<b>9,122</b>	<b>9,897</b>	<b>9,849</b>	<b>8,616</b>
Net profit bef Except.	8,835	9,148	9,760	9,821	8,748
EBITDA	16,429	17,734	17,947	18,190	17,611

**Growth**

Revenue Gth (%)	(3.1)	14.4	0.3	(6.0)	(3.6)
EBITDA Gth (%)	5.4	7.9	1.2	1.4	(3.2)
Opg Profit Gth (%)	4.5	9.8	(1.1)	1.7	(9.4)
Net Profit Gth (Pre-ex) (%)	4.5	3.5	6.7	0.6	(10.9)

**Margins**

Gross Margins (%)	45.5	43.6	42.2	46.1	44.5
Opg Profit Margins (%)	32.3	31.1	30.6	33.1	31.1
Net Profit Margins (%)	25.3	22.6	24.4	25.8	23.4

**Balance Sheet (Btm)**

FY Dec	2013A	2014A	2015F	2016F	2017F
Net Fixed Assets	56,422	69,441	86,689	113,912	136,796
Invt in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other LT Assets	20,639	17,783	56,854	128,075	119,542
Cash & ST Invt	16,831	19,510	20,402	24,082	21,608
Inventory	2,865	2,520	3,140	3,212	3,180
Debtors	10,264	10,415	11,251	11,507	11,392
Other Current Assets	5,005	6,682	5,486	5,611	5,555
<b>Total Assets</b>	<b>112,026</b>	<b>126,351</b>	<b>183,822</b>	<b>286,399</b>	<b>298,073</b>
ST Debt	9,303	2,572	0.0	0.0	0.0
Creditor	11,718	11,903	12,552	12,677	12,931
Other Current Liab	24,470	28,431	26,002	27,124	28,387
LT Debt	15,355	34,478	75,000	110,000	130,000
Other LT Liabilities	5,287	2,101	22,696	89,749	79,610
Shareholder's Equity	45,748	46,750	47,489	46,797	47,124
Minority Interests	144	114	82.9	52.6	21.7
<b>Total Cap. &amp; Liab.</b>	<b>112,026</b>	<b>126,351</b>	<b>183,822</b>	<b>286,399</b>	<b>298,073</b>
Non-Cash Wkg. Capital	(18,054)	(20,718)	(18,676)	(19,471)	(21,191)
Net Cash/(Debt)	(7,827)	(17,540)	(54,598)	(85,918)	(108,392)
Debtors Turn (avg days)	23.4	25.3	25.3	25.9	25.2
Creditors Turn (avg days)	53.8	66.7	69.5	63.4	69.0
Inventory Turn (avg days)	12.1	15.2	16.1	16.0	17.2
Asset Turnover (x)	1.3	1.3	1.0	0.7	0.6
Current Ratio (x)	0.8	0.9	1.0	1.1	1.0
Quick Ratio (x)	0.6	0.7	0.8	0.9	0.8
Net Debt/Equity (X)	0.2	0.4	1.1	1.8	2.3
Net Debt/Equity ex MI (X)	0.2	0.4	1.1	1.8	2.3
Capex to Debt (%)	128.5	83.6	102.6	43.7	37.3
Z-Score (X)	7.0	6.1	3.8	3.7	3.5

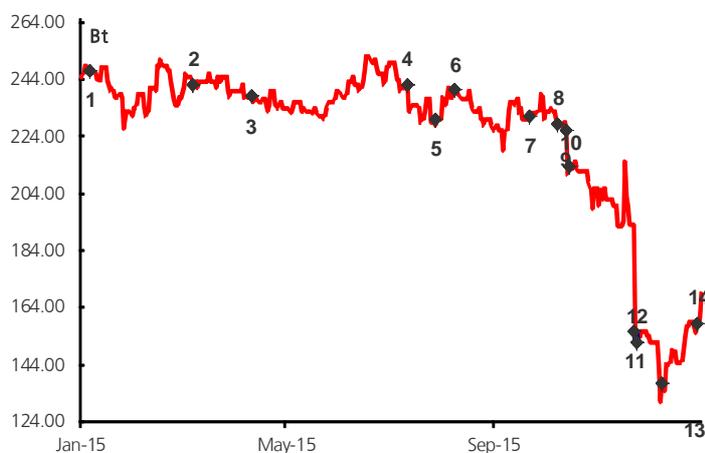
Source: Company, DBS Bank

## Cash Flow Statement (Btm)

FY Dec	2013A	2014A	2015F	2016F	2017F
Pre-Tax Profit	46,238	45,910	48,174	46,402	47,241
Dep. & Amort.	16,541	18,922	20,559	16,028	23,613
Tax Paid	(10,008)	(10,080)	(10,577)	(10,188)	(10,372)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	651	(233)	1,580	757	1,682
Other Operating CF	(21.2)	536	2,374	4,186	5,718
<b>Net Operating CF</b>	<b>53,401</b>	<b>55,054</b>	<b>62,110</b>	<b>57,186</b>	<b>67,881</b>
Capital Exp.(net)	(31,690)	(30,964)	(76,982)	(48,040)	(48,490)
Other Invt.(net)	12.7	67.3	(2.9)	(3.1)	(3.2)
Invt in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	504	2,165	21,459	545	308
<b>Net Investing CF</b>	<b>(31,174)</b>	<b>(28,731)</b>	<b>(55,526)</b>	<b>(47,498)</b>	<b>(48,186)</b>
Div Paid	(33,889)	(35,052)	(36,890)	(36,936)	(36,572)
Chg in Gross Debt	4,308	12,392	23,462	35,000	20,000
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(2,264)	(2,526)	(2,265)	(4,071)	(5,597)
<b>Net Financing CF</b>	<b>(31,845)</b>	<b>(25,186)</b>	<b>(15,692)</b>	<b>(6,007)</b>	<b>(22,169)</b>
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	(9,617)	1,136	(9,108)	3,680	(2,474)
Opg CFPS (Bt)	17.7	18.6	20.4	19.0	22.3
Free CFPS (Bt)	7.30	8.10	(5.0)	3.08	6.52

Source: Company, DBS Bank

## Target Price &amp; Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date	Closing Price	Target Price	Rating
1:	06 Feb 15	247.00	225.00	HOLD
2:	07 Apr 15	242.00	225.00	HOLD
3:	11 May 15	238.00	225.00	HOLD
4:	10 Aug 15	242.00	225.00	HOLD
5:	27 Aug 15	230.00	225.00	HOLD
6:	07 Sep 15	240.00	225.00	HOLD
7:	21 Oct 15	231.00	230.00	HOLD
8:	06 Nov 15	228.00	230.00	HOLD
9:	11 Nov 15	226.00	231.00	HOLD
10:	13 Nov 15	213.00	231.00	HOLD
11:	21 Dec 15	155.50	173.00	FULLY VALUED
12:	22 Dec 15	151.50	169.00	FULLY VALUED
13:	06 Jan 16	137.50	140.00	HOLD
14:	27 Jan 16	158.00	140.00	HOLD

Source: DBS Bank

DBS Group Research . Equity

1 Feb 2016

**BUY** (Upgrade from Sell)

Last Traded Price: Bt33.50 (SET : 1,300.98)

Price Target : Bt43.00 (28% upside) (Prev Bt31.50)

Potential Catalyst: Non-entry of JAS

Where we differ: None

**Analyst**

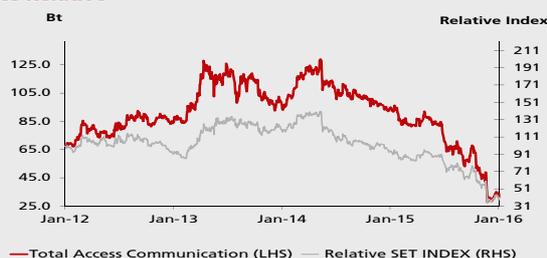
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**What's New**

- **JAS struggles with spectrum payment due to the lack of a foreign partner**
- **According to Bangkok Post, the regulator NBTC is quietly planning for a new 900MHz auction**

**Price Relative****Forecasts and Valuation**

FY Dec (Bt m)	2014A	2015F	2016F	2017F
Revenue	90,415	86,297	86,539	86,587
EBITDA	31,080	28,634	30,324	32,068
Pre-tax Profit	13,281	8,693	9,966	10,895
Net Profit	10,729	6,951	7,975	8,718
Net Pft (Pre Ex.)	10,729	6,976	7,975	8,718
Net Pft Gth (Pre-ex) (%)	(1.0)	(35.0)	14.3	9.3
EPS (Bt)	4.53	2.94	3.37	3.68
EPS Pre Ex. (Bt)	4.53	2.95	3.37	3.68
EPS Gth Pre Ex (%)	(1)	(35)	14	9
Diluted EPS (Bt)	4.53	2.94	3.37	3.68
Net DPS (Bt)	6.91	2.94	3.37	3.68
BV Per Share (Bt)	13.8	10.6	11.4	12.3
PE (X)	7.4	11.4	9.9	9.1
PE Pre Ex. (X)	7.4	11.4	9.9	9.1
P/Cash Flow (X)	2.8	3.2	3.0	2.6
EV/EBITDA (X)	3.4	4.1	3.9	3.6
Net Div Yield (%)	20.6	8.8	10.1	11.0
P/Book Value (X)	2.4	3.2	2.9	2.7
Net Debt/Equity (X)	0.9	1.5	1.4	1.3
ROAE (%)	32.9	27.7	29.4	29.9
Earnings Rev (%):		0	0	0
Consensus EPS (Bt):		2.82	2.55	2.60
Other Broker Recs:		B: 11	S: 8	H: 0

Source of all data: Company, DBS Bank, Bloomberg Finance L.P

**JAS May Not Enter the Sector****Non-entry of JAS will change the competitive landscape**

According to Bangkok Post, NBTC is quietly drawing plans to call a new 900MHz auction if JAS mobile fails to secure its funding. The source from NBTC added that the potential South Korean partner already scrapped the deal with JAS mobile. The deadline for Jas Mobile to pay its first installment of Bt8bn together with letters of guarantee is 21 March 2016. JAS had gross revenue below Bt14bn and total assets below Bt51bn in FY15 and so Bt75bn may be too much to raise without a foreign partner, in our view.

**Too low ROI for JAS mobile at the current spectrum cost.**

Assuming 5m subscribers in three years at an ARPU of Bt185 (10% discount to average ARPU of Bt205), JAS mobile may secure revenue of Bt11.1bn. Assuming an optimistic 20% EBITDA margins, we estimate EBITDA of Bt2.2bn. On the capex side, JAS mobile estimates network capex of Bt20bn for 5m subscribers in addition to the spectrum cost of Bt75bn. Given potential EBITDA of Bt2.2bn and total investment of Bt95bn, we estimate ROI of only 2.3%.

**Valuation:**

Upgrade to BUY with a DCF-based TP of Bt43 (WACC 8.5%, terminal growth 2%) as we raise terminal growth rate to 2% from 0% earlier. We assume that ADVANC secures the 900MHz licence in our model. The stock offers an attractive dividend yield of 10%.

**Key Risks to Our View:**

JAS securing a foreign partner to submit letter of guarantee to the regulator leading to its entry in the mobile sector is the key risk.

**At A Glance**

Issued Capital (m shrs)	2,368
Mkt. Cap (Btm/US\$m)	79,322 / 2,222
Major Shareholders	
Telenor ASA	42.6
Thai Telco Holdings Ltd	22.4
Thai NVDR Co Ltd	8.5
Free Float (%)	20.9
3m Avg. Daily Val (US\$m)	12.8

ICB Industry : Telecommunications / Mobile Telecommunications

**CRITICAL DATA POINTS TO WATCH****Earnings Drivers:**

**Without a foreign partner, JAS is unable to enter the market.**

We are of the view that JAS's subsidiary, Jas Mobile Broadband, may not be able to enter the mobile market due to its lack of necessary collateral to obtain the letters of guarantee. Thai banks commonly ask for collateral in full amount when issuing letters of guarantee for companies with no track record and unclear future. JAS's potential collateral is worth Bt26bn, including Bt16bn JASIF holding and Bt10bn cash; this is still way below the Bt60bn to be guaranteed by the bank(s). On the back of JAS's non-entry, we raise DTAC's terminal growth rate from 0% to 2%.

**Valuation takes into account the need for new licences in 2018**

In Aug-18, all of its concessions (55MHz) will expire; the 10MHz under 850MHz spectrum will likely be returned to the State Railway of Thailand while the 45MHz under 1.8GHz will be up for bidding in late-18 or 2019. DTAC needs to win 30MHz (two licences) to bring its holding back to 45MHz, which is close to what it is utilising now at 50MHz. We expect DTAC to pay Bt44bn for each 1800MHz licence in the 2018 auction, based on the auction price of the 1800MHz licence in Nov-15 and 3% inflation p.a. The NPV of cash outflows (-Bt25 per share) and tax savings (+Bt3.5 per share) from the new licences in 2018 lead us to deduct the net amount of Bt21.5 per share from DTAC's valuation, and we end up with Bt43 TP.

**Better prepared financially for the next auction**

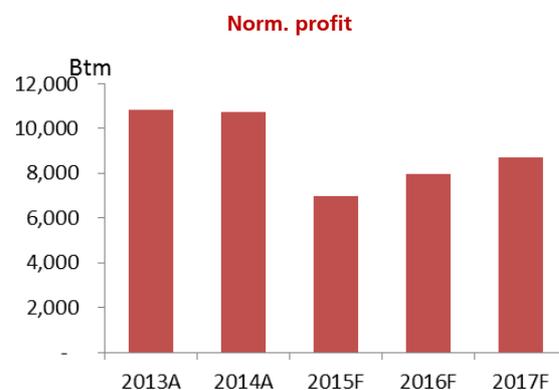
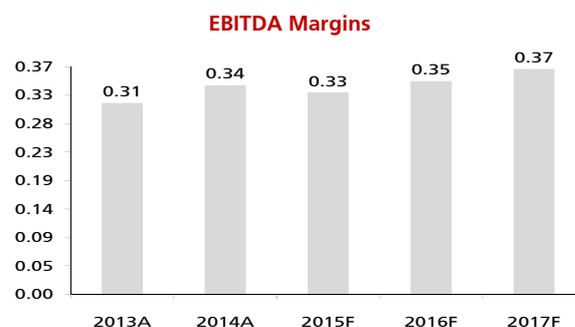
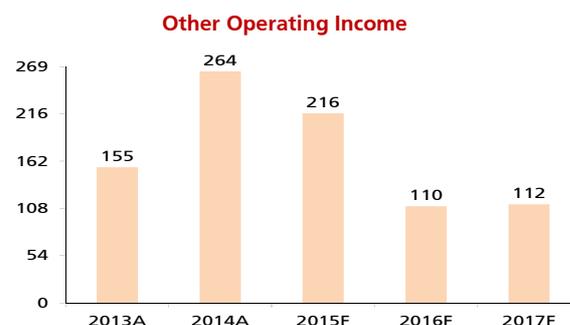
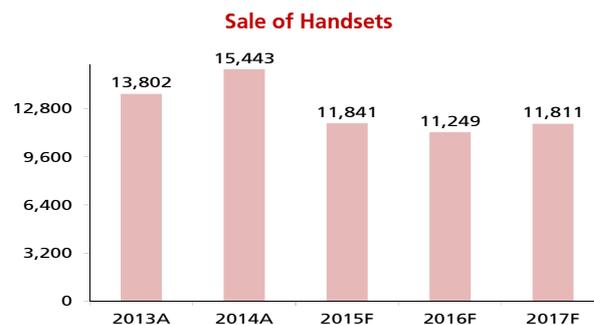
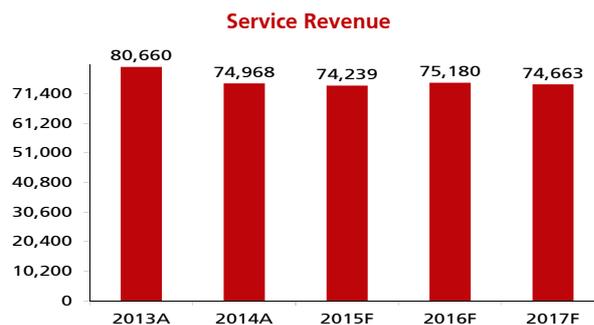
DTAC is quite confident to win at least one licence in the next 1.8GHz auction that will take place 3-4 years from now. The strain on its financials will be lower as it did not win any new licences in the recent two auctions, and it will no longer have the high revenue-sharing scheme in its portfolio after the expiry of all of its concessions.

**Still committed to providing services in Thailand**

DTAC plans to spend around Bt20bn capex on the 3G/4G network next year. It is aiming for 3G coverage of 95% of the population within 1Q16, up from 93% at end-2015 and 80% at the beginning of 2015. It also plans for nationwide 4G coverage by mid-2016, which is on par with ADVANC's. Of the total 50MHz on hand, 20MHz from 2.1GHz and 1.8GHz spectra will be used for 4G services. The majority of the 4G capex will go toward 2.1GHz licence; this is sensible since the 1.8GHz concession expires in 2018.

**Healthy profit growth in FY16-17F**

DTAC's norm. profit is expected to rise by 14% in FY16F, thanks to improving handset margins (-15% in FY16F vs -19% in FY15F) and regulatory cost savings. In FY17F, DTAC's earnings should grow by 9% on the back of lower interest expense.



Source: Company, DBS Bank

**Total Access Communication**

**Balance Sheet:**

We expect DTAC's gearing ratio to decline from 1.8x in FY15F to 1.7x in FY16F and 1.5x in FY17F, as there will be no additional burden from new licences.

**Share Price Drivers:**

**Confirmed JAS's exit**

For the licence payments, JAS has until 21 March 2016 to pay its first instalment of Bt8.0bn along with the letters of guarantee for the remaining amount of Bt68bn. If JAS cannot obtain letters of guarantee by that time, JAS's non-entry will be official, implying a substantial positive impact on the competitive landscape for the whole industry.

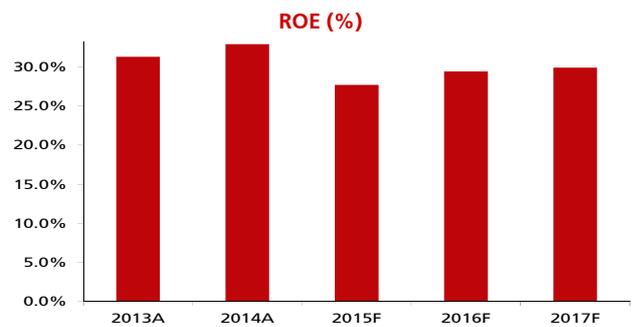
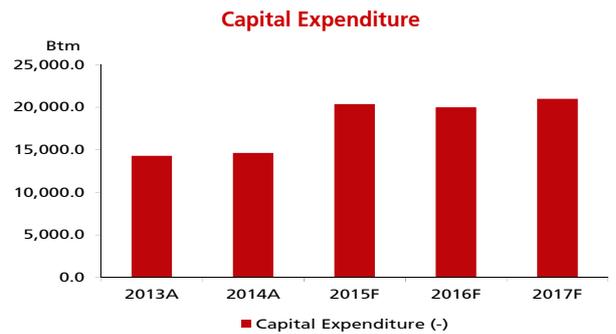
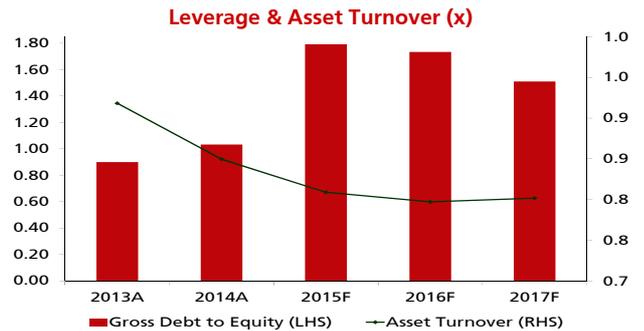
**Key Risks:**

**Potential entry of JAS in the mobile market**

JAS securing a foreign partner to submit letter of guarantee to the regulator leading to its entry in the mobile sector is the key risk to our view. JAS intends to capture over 6% market share in three years from now.

**Company Background**

DTAC is the second largest cellular operator in Thailand with a subscriber base market share of 30%.



Source: Company, DBS Bank

**Income Statement (Btm)**

FY Dec	2013A	2014A	2015F	2016F	2017F
Revenue	94,617	90,415	86,297	86,539	86,587
Cost of Goods Sold	(64,594)	(61,387)	(60,099)	(58,832)	(58,116)
<b>Gross Profit</b>	<b>30,023</b>	<b>29,028</b>	<b>26,197</b>	<b>27,707</b>	<b>28,471</b>
Other Opng (Exp)/Inc	(14,114)	(14,864)	(16,396)	(16,442)	(16,452)
<b>Operating Profit</b>	<b>15,909</b>	<b>14,164</b>	<b>9,801</b>	<b>11,264</b>	<b>12,020</b>
Other Non Opg (Exp)/Inc	145	292	92.6	93.1	93.5
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(1,932)	(1,175)	(1,175)	(1,392)	(1,220)
Exceptional Gain/(Loss)	(265)	0.0	(25.2)	0.0	0.0
<b>Pre-tax Profit</b>	<b>13,857</b>	<b>13,281</b>	<b>8,693</b>	<b>9,966</b>	<b>10,895</b>
Tax	(3,290)	(2,551)	(1,745)	(1,994)	(2,180)
Minority Interest	2.56	4.85	3.15	3.61	3.94
Preference Dividend	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>10,569</b>	<b>10,729</b>	<b>6,951</b>	<b>7,975</b>	<b>8,718</b>
Net Profit before Except.	10,835	10,729	6,976	7,975	8,718
EBITDA	29,750	31,080	28,634	30,324	32,068
<b>Growth</b>					
Revenue Gth (%)	5.7	(4.4)	(4.6)	0.3	0.1
EBITDA Gth (%)	10.6	4.5	(7.9)	5.9	5.8
Opg Profit Gth (%)	4.9	(11.0)	(30.8)	14.9	6.7
Net Profit Gth (Pre-ex) (%)	(3.0)	(1.0)	(35.0)	14.3	9.3
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	31.7	32.1	30.4	32.0	32.9
Opg Profit Margin (%)	16.8	15.7	11.4	13.0	13.9
Net Profit Margin (%)	11.2	11.9	8.1	9.2	10.1
ROAE (%)	31.3	32.9	27.7	29.4	29.9
ROA (%)	10.3	10.1	6.5	7.3	8.1
ROCE (%)	17.5	17.0	11.0	12.0	13.0
Div Payout Ratio (%)	100.0	152.5	100.0	100.0	100.0
Net Interest Cover (x)	8.2	12.1	8.3	8.1	9.9

Source: Company, DBS Bank

## Total Access Communication

### Quarterly / Interim Income Statement (Btm)

FY Dec	3Q2014	4Q2014	1Q2015	2Q2015	3Q2015
Revenue	20,845	25,260	22,884	21,924	19,695
Cost of Goods Sold	(14,104)	(17,698)	(16,196)	(15,984)	(13,678)
<b>Gross Profit</b>	<b>6,741</b>	<b>7,562</b>	<b>6,689</b>	<b>5,940</b>	<b>6,017</b>
Other Oper. (Exp)/Inc	(3,291)	(5,205)	(3,661)	(3,825)	(4,178)
<b>Operating Profit</b>	<b>3,449</b>	<b>2,357</b>	<b>3,028</b>	<b>2,115</b>	<b>1,839</b>
Other Non Opg (Exp)/Inc	55.8	143	198	(177)	120
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(288)	(259)	(301)	(303)	(328)
Exceptional Gain/(Loss)	0.0	0.0	0.0	196	(27.8)
<b>Pre-tax Profit</b>	<b>3,217</b>	<b>2,241</b>	<b>2,925</b>	<b>1,832</b>	<b>1,603</b>
Tax	(649)	(336)	(634)	(263)	(377)
Minority Interest	0.0	5.85	1.00	2.31	1.48
<b>Net Profit</b>	<b>2,580</b>	<b>1,905</b>	<b>2,292</b>	<b>1,571</b>	<b>1,228</b>
Net profit bef Except.	2,580	1,905	2,292	1,375	1,255
EBITDA	7,808	7,161	7,561	6,440	6,762

### Growth

Revenue Gth (%)	(4.7)	21.2	(9.4)	(4.2)	(10.2)
EBITDA Gth (%)	(1.6)	(8.3)	5.6	(14.8)	5.0
Opg Profit Gth (%)	(13.8)	(31.7)	28.5	(30.1)	(13.1)
Net Profit Gth (Pre-ex) (%)	(12.6)	(26.2)	20.3	(40.0)	(8.7)

### Margins

Gross Margins (%)	32.3	29.9	29.2	27.1	30.6
Opg Profit Margins (%)	16.5	9.3	13.2	9.6	9.3
Net Profit Margins (%)	12.4	7.5	10.0	7.2	6.2

### Balance Sheet (Btm)

FY Dec	2013A	2014A	2015F	2016F	2017F
Net Fixed Assets	67,448	66,354	67,985	69,019	70,065
Invt in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other LT Assets	16,501	16,059	15,184	14,361	13,586
Cash & ST Invt	5,472	5,823	6,156	7,772	6,953
Inventory	1,683	3,891	3,714	3,724	3,726
Debtors	10,351	10,453	9,977	10,005	10,011
Other Current Assets	3,598	3,845	3,670	3,681	3,683
<b>Total Assets</b>	<b>105,054</b>	<b>106,426</b>	<b>106,686</b>	<b>108,563</b>	<b>108,024</b>
ST Debt	6,296	5,664	5,000	12,000	9,000
Creditor	28,190	31,301	30,721	28,342	28,500
Other Current Liab	10,655	7,938	4,923	5,159	5,406
LT Debt	23,164	28,000	40,000	35,000	35,000
Other LT Liabilities	4,029	925	943	962	982
Shareholder's Equity	32,708	32,591	25,095	27,100	29,140
Minority Interests	12.0	7.11	3.95	0.35	(3.6)
<b>Total Cap. &amp; Liab.</b>	<b>105,054</b>	<b>106,426</b>	<b>106,686</b>	<b>108,563</b>	<b>108,024</b>
Non-Cash Wkg. Capital	(23,212)	(21,048)	(18,282)	(16,090)	(16,486)
Net Cash/(Debt)	(23,988)	(27,841)	(38,844)	(39,228)	(37,047)
Debtors Turn (avg days)	36.1	42.2	42.2	42.2	42.2
Creditors Turn (avg days)	185.7	255.2	271.1	259.5	272.6
Inventory Turn (avg days)	9.3	31.7	32.8	34.1	35.6
Asset Turnover (x)	0.9	0.8	0.8	0.8	0.8
Current Ratio (x)	0.5	0.5	0.6	0.6	0.6
Quick Ratio (x)	0.4	0.4	0.4	0.4	0.4
Net Debt/Equity (X)	0.7	0.9	1.5	1.4	1.3
Net Debt/Equity ex MI (X)	0.7	0.9	1.5	1.4	1.3
Capex to Debt (%)	48.5	43.5	45.3	42.6	47.7
Z-Score (X)	1.3	1.2	1.0	1.0	1.0

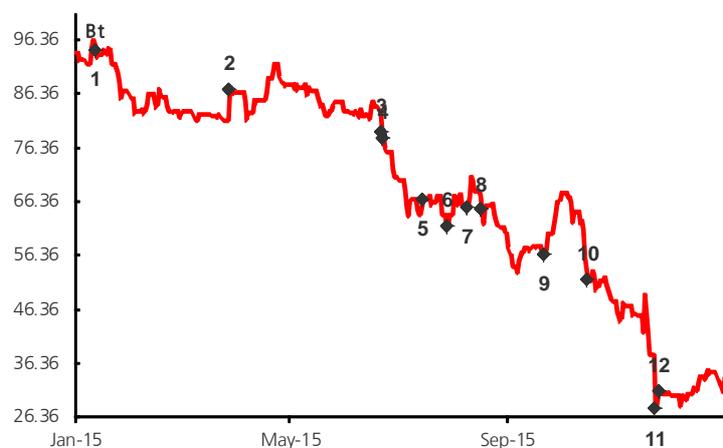
Source: Company, DBS Bank

## Cash Flow Statement (Btm)

FY Dec	2013A	2014A	2015F	2016F	2017F
Pre-Tax Profit	13,857	13,281	8,693	9,966	10,895
Dep. & Amort.	13,695	16,624	18,740	18,966	19,954
Tax Paid	(3,290)	(2,551)	(1,745)	(1,994)	(2,180)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(699)	(158)	(168)	(59.6)	(43.6)
Other Operating CF	5,891	1,243	(1,043)	(739)	1,659
<b>Net Operating CF</b>	<b>29,454</b>	<b>28,439</b>	<b>24,477</b>	<b>26,138</b>	<b>30,284</b>
Capital Exp.(net)	(14,292)	(14,631)	(20,371)	(20,000)	(21,000)
Other Invt.(net)	20.6	15.8	(31.0)	(34.1)	(37.5)
Invt in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	775	14,685	89.1	40.5	(3.5)
<b>Net Investing CF</b>	<b>(13,497)</b>	<b>69.9</b>	<b>(20,313)</b>	<b>(19,994)</b>	<b>(21,041)</b>
Div Paid	(9,215)	(10,649)	(14,473)	(7,463)	(8,346)
Chg in Gross Debt	(808)	2,204	11,336	2,000	(3,000)
Capital Issues	0.0	(15,427)	0.0	0.0	0.0
Other Financing CF	(5,165)	(4,286)	(694)	776	948
<b>Net Financing CF</b>	<b>(15,189)</b>	<b>(28,158)</b>	<b>(3,831)</b>	<b>(4,687)</b>	<b>(10,398)</b>
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	768	351	333	1,457	(1,155)
Opg CFPS (Bt)	12.7	12.1	10.4	11.1	12.8
Free CFPS (Bt)	6.40	5.83	1.73	2.59	3.92

Source: Company, DBS Bank

## Target Price &amp; Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date	Closing Price	Target Price	Rating
1:	11 Feb 15	94.50	95.00	HOLD
2:	27 Apr 15	87.00	88.00	HOLD
3:	21 Jul 15	79.25	78.00	HOLD
4:	22 Jul 15	78.00	78.00	HOLD
5:	13 Aug 15	66.75	70.00	HOLD
6:	27 Aug 15	61.75	70.00	HOLD
7:	07 Sep 15	65.25	70.00	HOLD
8:	15 Sep 15	64.75	70.00	HOLD
9:	20 Oct 15	56.50	63.00	HOLD
10:	13 Nov 15	51.75	63.00	HOLD
11:	21 Dec 15	27.75	31.50	SELL
12:	23 Dec 15	31.00	31.50	SELL

Source: DBS Bank

DBS Bank recommendations are based on an Absolute Total Return\* Rating system, defined as follows:

**STRONG BUY** (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

**FULLY VALUED** (negative total return i.e. > -10% over the next 12 months)

**SELL** (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

*Share price appreciation + dividends*

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- (b) there is any assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments stated therein.

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