MD&A

Executive Summary

In Q118, dtac reported strong EBITDA growth of 21% YoY and EBITDA margin of 43.8%, mainly driven by lower handset subsidies and regulatory cost, despite 1.1%YoY decline in service revenue (excluding IC). Solid postpaid revenue growth continued from prepaid-to-postpaid conversion, while prepaid revenues were still on a declining trend.

During the quarter, we launched the "Jaidee" campaign to emphasize the best value position. In addition, we increased customer engagement with the "dtac rewards" loyalty program. We continued to drive customers' and retailers' digital journey, which provided not only simplified processes but also more convenience for customers and retailers.

As the end of concession approaches, we have been preparing for the transition with the 2.1GHz network densification. In addition, we sign a 2300MHz partnership deal with TOT Public Company Limited (TOT) in order to secure additional spectrum and enhance customers' mobile internet experience on the widest 4G bandwidth. Furthermore, we are in a discussion with CAT Telecom Public Company Limited (CAT) on a long-term lease agreement for telecom infrastructure under concession. Our focus is still on generating strong cash flow from operation and maintaining financial flexibility in order to be financially prepared for future investment. At the end of Q118, our net debt to EBITDA declined to 0.6x, with amount of cash on hand of THB 29,503 million.

We are conducting business as usual regardless of the auction timeline and expect no interruption of service provided to customers. For 2018, we expect service revenue (excluding IC) to be around the same level as the previous year and EBITDA margin in the range of 34% - 36%, underpinned by best value offers, prepaid-to-postpaid conversion, lower regulatory cost and device subsidies, and ongoing digital transformation. Furthermore, we expect to spend CAPEX of THB 15-18 billion.

Operational Summary

In Q118, total subscriber base was 21.8 million, decreasing 841k subscriber from previous quarter due to 934k lower prepaid subscribers, which were partly offset by 93k higher postpaid subscribers. Postpaid acquisition slowed down as we were trying to balance acquisition and subscriber quality. Postpaid subscriber represented 26% of total subscriber base at the end of the quarter, increasing from 21% in Q117 and 25% in Q417. Average Revenue per User excluding IC (ARPU) increased 8.6%YoY and 1.0%QoQ to THB 240 per month as a result of higher postpaid subscriber mix.

At end of Q118, the number of subscribers registered on 2.1GHz licensed network represented 98% of total subscriber base, comparing to 96% in Q117 and 98% in Q417. With increasing 4G base stations and growing streaming content popularity, the number of 4G users increased to 8.5 million (or 39% of total subscriber base), while the number of 4G devices increased to 11.9 million (or 55% of total subscriber base). Smartphone penetration increased to 75%, up from 73% in the previous quarter. In Q118, we continued 2G handset upgrade campaigns for selective high value 2G users to upgrade their phones to 3G/4G compatible.

Active subscribers (in thousand)	Q117	Q417	Q118	%QoQ	%YoY
Postpaid *(under concession from CAT)*	379	297	257	-13%	-32%
Prepaid *(under concession from CAT)*	647	221	214	-3.4%	-67%
Postpaid *(under 2.1GHz license)*	4,841	5,340	5,473	2.5%	13%
Prepaid *(under 2.1GHz license)*	18,443	16,794	15,868	-5.5%	-14%
Total	24,310	22,652	21,812	-3.7%	-10%
Net additional subscribers (in thousand)	**Q117**	**Q417**	**Q118**	**%QoQ**	**%YoY**
Postpaid	195	115	93	-19%	-52%
Prepaid	-365	-560	-934	-67%	-156%
Total	-170	-445	-841	-89%	-395%
MOU (minutes/sub/month)	**Q117**	**Q417**	**Q118**	**%QoQ**	**%YoY**
Postpaid	264	260	253	-2.8%	-4.2%
Prepaid	130	116	112	-3.9%	-14%
Blended	157	149	146	-2.5%	-7.0%
Postpaid excluding IC	185	185	180	-2.8%	-3.1%
Prepaid excluding IC	101	90	86	-4.2%	-15%
Blended excluding IC	118	112	109	-2.8%	-7.9%
ARPU (THB/sub/month)	**Q117**	**Q417**	**Q118**	**%QoQ**	**%YoY**
Postpaid	559	578	560	-3.0%	0.1%
Prepaid	153	152	150	-1.1%	-1.9%
Blended	233	250	249	-0.4%	6.6%
Postpaid excluding IC	533	551	541	-1.9%	1.6%
Prepaid excluding IC	144	144	144	0.6%	0.2%
Blended excluding IC	221	237	240	1.0%	8.6%

Financial Summary

Revenues

In Q118, total revenues amounted to THB 19,060 million, decreasing 3.5%YoY and 6.0%QoQ due to declining service and handset revenues and Interconnection (IC) rate reduction. Starting from Q118, the new IC rate was THB 0.19 per minute, decreasing from THB 0.27 per minute. Service revenues excluding IC amounted to THB 16,040 million, decreasing 1.1%YoY and 1.2%QoQ, mainly due to lower international and others service revenues.

Bundle of voice and data revenues amounted to THB 14,867 million, increasing 1.0%YoY, driven by higher postpaid revenues. However, prepaid revenues continued to decrease partly due to subscriber migration from prepaid to postpaid. Bundle of voice and data revenues were stable QoQ.

International Roaming (IR) revenues amounted to THB 309 million, decreasing 14%YoY due to competition and alternative services in the market. QoQ, IR revenues increased 7.4% due to higher inbound revenue.

Other service revenues amounted to THB 865 million, decreasing 25%YoY and 19%QoQ partly due to lower IDD revenues.

Handset and starter kit sales amounted to THB 2,302 million, decreasing 5.9%YoY and 24%QoQ, due to lower number of handset units sold. However, margin of handset and starter kit sales improved significantly from lower subsidies and less number of handset unit sold. Loss from handset and starter kit sales amounted to THB 293 million in Q118, decreasing from loss of THB 958 million in Q117 and loss of THB 538 million in Q417.

Cost of Services

Cost of services excluding IC amounted to THB 11,069 million and was stable -0.1%YoY due to lower regulatory cost and other operating costs of services, offset by higher network OPEX. QoQ, cost of services excluding IC slightly decreased 0.2% driven by lower other operating costs and network OPEX.

Regulatory costs amounted to THB 1,932 million, decreasing 25%YoY mainly driven by the USO rate reduction last year and the new progressive rates of license fee announced in Q417. However, regulatory cost increased 11% QoQ as a result of the one-time adjustment due to the new progressive rates of license fee in Q417. In addition, there was a one-time adjustment of provision related to disputes with CAT on revenue share, resulted in higher regulatory cost by THB 124 million in this quarter. Consequently, regulatory cost to service revenues excluding IC dropped to 12.0% from 15.8% in Q117, but increased from 10.8% in Q417.

Network OPEX amounted to THB 1,875 million, increasing 17%YoY, due to 2.1GHz network densification. However, network OPEX decreased 3.6%QoQ partly due to cost control. The number of 2.1GHz base station was 41.3k, increasing 25%YoY and 2.5%QoQ.

Other operating costs of services amounted to THB 559 million, decreasing 32%YoY and 20%QoQ, mainly due to lower commission and costs of international roaming and IDD.

Depreciation and Amortization (D&A) of costs of services amounted to THB 6,703 million, increasing 10%YoY and 0.1%QoQ due to network investment.

Selling, General and Administrative Expenses (SG&A)

SG&A expenses amounted to THB 3,643 million, decreasing 6.3%YoY and 13%QoQ, mainly driven by lower selling and marketing expenses and ongoing efficiency measures.

Selling and Marketing (S&M) expenses amounted to THB 1,052 million, decreasing 22%YoY and 19%QoQ, due to optimization of sales channels toward digital platforms and enhancing efficiency particularly in media spending by utilizing more digital advertising. In Q118, we launched "Jaidee" campaigns to strengthen our brand perception as best value for customers, while engaging customers with "dtac reward" program. The QoQ decrease also came from high seasonal spending in Q4.

General administrative expenses amounted to THB 1,989 million and were stable YoY. QoQ, general administrative expenses decreased 11% mainly driven by lower staff cost and the one-time impact from THB 178 million of actuarial valuation of employee retirement benefit accrued in Q417.

Provision for bad debt amounted to THB 386 million, increasing 20%YoY driven higher postpaid subscriber base. QoQ, provision for bad debt decreased 7.1%QoQ as we continued to improve revenue collection process and controlled subscriber quality.

Depreciation and Amortization (D&A) of SG&A amounted to THB 217 million, decreasing 4.8%YoY and 3.7%QoQ.

EBITDA and Net Profit

EBITDA (before other items) amounted to THB 8,354 million and increased 21% YoY mainly driven by lower handset subsidies and decline in regulatory costs and S&M expenses. QoQ, EBITDA increased 6.6%, due to lower handset subsidies and SG&A expenses. As a result, EBITDA margin increased to 43.8%, compared to 34.9% in Q117 and 38.6% in Q417, mainly driven by lower handset subsidies and operational efficiency improvement measures.

Net profit amounted to THB 1,315 million, increasing 474%YoY and 142%QoQ, driven by strong EBITDA growth and a one-time adjustment of provision related to disputes with CAT on revenue share, resulting in lower financial cost by THB 528 million (before tax) in this quarter.

Balance Sheet and Key Financial Information

At the end of Q118, total asset amounted to THB 113,877 million and decreased 0.5% from the previous quarter due to lower non-current asset partly offset by higher cash and cash equivalent. Cash and cash equivalent increased to THB 29,503 million, up from THB 26,048 million in Q417. Interest-bearing debt was stable compared to end of last year at THB 49,000 million. As a result, net debt to EBITDA was 0.6x, decreasing from 1.1x in Q117 and 0.8x in Q417.

In Q118, we spent CAPEX of THB 2,479 million, decreasing 45%YoY and 44%QoQ. As a result, operating cash flow (defined by EBITDA-CAPEX) increased 143%YoY and 71%QoQ to THB 5,875 million driven by EBITDA growth and lower CAPEX.

Statement of financial position (THB million)	Q417	Q118
Cash and cash equivalent	26,048	29,503
Other current assets	13,167	13,046
Non-current assets	75,286	71,329
Total assets	114,501	113,877
Current liabilities	36,537	34,562
Non-current liabilities	48,729	48,766
Total liabilities	85,266	83,328
Total shareholders' equity	29,235	30,549
Total liabilities and shareholders' equity	114,501	113,877

Cash flows statement (THB million)	3M17	3M18
Cash flows from operating activities	5,884	7,039
Cash paid for interest expenses and tax	(709)	(611)
Net cash flows from operating activities	5,175	6,428
Net cash flows from investing activities	(5,405)	(2,958)
Net cash receipt/(Repayment) - loan & debenture	-	(15)
Dividend paid	-	-
Other items	-	-
Net cash flows from financing activities	-	(15)
Net change in cash & cash equivalent Increase/(decrease)	(231)	3,455
Beginning cash & cash equivalent	18,293	26,048
Ending cash & cash equivalent	18,063	29,503

Income statement (THB million)	Q117	Q417	Q118	%QoQ	%YoY
Voice & Data	14,715	14,876	14,867	-0.1%	1.0%
IR	357	288	309	7.4%	-14%
Others	1,151	1,070	865	-19%	-25%
Service revenues ex. IC	16,224	16,234	16,040	-1.2%	-1.1%
IC revenues	848	788	564	-28%	-33%
Service revenues	17,071	17,021	16,605	-2.4%	-2.7%
Handsets and starter kits sales	2,446	3,039	2,302	-24%	-5.9%
Other operating income	230	214	154	-28%	-33%
Total revenues	19,748	20,274	19,060	-6.0%	-3.5%
Cost of services	(11,893)	(11,889)	(11,653)	-2.0%	-2.0%
Regulatory	*(2,571)*	*(1,746)*	*(1,932)*	*11%*	*-25%*
Network	*(1,604)*	*(1,945)*	*(1,875)*	*-3.6%*	*17%*
IC	*(807)*	*(800)*	*(583)*	*-27%*	*-28%*
Others	*(821)*	*(702)*	*(559)*	*-20%*	*-32%*
Depreciation and Amortization	*(6,090)*	*(6,696)*	*(6,703)*	*0.1%*	*10%*
Cost of handsets and starter kits	(3,405)	(3,577)	(2,594)	-27%	-24%
Total cost	(15,297)	(15,466)	(14,247)	-7.9%	-6.9%
Gross profit	4,451	4,808	4,814	0.1%	8.1%
SG&A	(3,889)	(4,172)	(3,643)	-13%	-6.3%
Selling & Marketing expenses	*(1,357)*	*(1,293)*	*(1,052)*	*-19%*	*-22%*
General administrative expenses	*(1,983)*	*(2,239)*	*(1,989)*	*-11%*	*0.3%*
Provision for bad debt	*(322)*	*(416)*	*(386)*	*-7.1%*	*20%*
Depreciation and Amortization	*(227)*	*(225)*	*(217)*	*-3.7%*	*-4.8%*
Loss from assets impairment	-	(6)	-	-100%	n/a
Gain/(Loss) on foreign exchange	16	(16)	(56)	-253%	-443%
Interest income	43	63	51	-19%	18%
Other income & share of profit from investment in associated company	13	57	193	242%	1,438%
EBIT	634	733	1,358	85%	114%
Finance cost	(367)	(371)	173	-146%	-147%
Income tax expenses	(38)	180	(216)	-220%	472%
Net profit attributable to equity holder	229	542	1,315	142%	474%

EBITDA (THB million)	Q117	Q417	Q118	%QoQ	%YoY
Net profit for the period	229	542	1,315	142%	474%
Finance costs	367	371	(173)	-146%	-147%
Income tax expenses	38	(180)	216	220%	472%
Depreciation & Amortization	6,317	6,921	6,920	0.0%	10%
Other items	(59)	179	76	-58%	229%
EBITDA	6,893	7,833	8,354	6.6%	21%
EBITDA margin	34.9%	38.6%	43.8%		
EBITDA margin-excluding handsets and starter kits	45.4%	48.6%	51.6%		

EBITDA herein is EBITDA before other incomes and other expenses. Please see more details in the note of the financial statement.

Long-term debt repayment schedule (THB million) at end of Q118	Loan	Debenture
In 2018	-	2,000
In 2019	7,875	1,500
In 2020	7,875	4,000
From 2021	1,750	24,000

Key Financial Ratio	Q117	Q417	Q118
Return on Equity (%)	4%	7%	11%
Return on Asset (%)	1%	2%	3%
Interest Coverage Ratio (times)	2.0x	2.7x	5.2x
Net debt to EBITDA (times)	1.1x	0.8x	0.6x
CAPEX to Total Revenue (%)	23%	22%	13%

Outlook 2018

Thailand's telecom industry continues to grow, driven by the increase in data usage. However, the industry is also competitive. Lower revenue for voice services and overpriced spectrum licenses have put pressure on financial return. Nevertheless, the industry remains a growing, profitable market and several revenue opportunities can be seized.

In FY18, dtac will continue strengthening its digital perception, aiming to be the no. 1 digital brand in Thailand by 2020. We will digitize our operation which would allow dtac to be more efficient and provide more customized and relevant offers to our customers while realizing cost savings from reduced physical channels. We expect customers to increase adoption of digital services and channels.

As concession expiration approaching, dtac expect no interruption of service provided to customers regardless of the auction timeline. In addition, the partnership with TOT on 2300MHz wireless service will help strengthen our network capacity to offer the best digital services to the consumers. CAPEX of THB 15 - 18 billion is expected to be spent in FY18.

In FY18, service revenue (excluding IC) is expected to be around the same level as the previous year, while EBITDA margin is expected to be in the range of 34% - 36%. We focus on generating cash flow from operation and maintaining financial flexibility before end of concession.

2018 Guidance:

- Service revenues excluding IC: around the same level as the previous year.
- EBITDA margin: 34% - 36%.
- CAPEX: THB 15-18 billion.

We maintain our dividend policy which is to pay out dividend not less than 50% of the Company's net profits, depending on financial position and future business plans, and aim to pay dividend semi-annually.

Disclaimer

Some statements made in this material are forward-looking statements with the relevant assumptions, which are subject to various risks and uncertainties. These include statements with respect to our corporate plans, strategies and beliefs and other statements that are not historical facts. These statements can be identified by the use of forward-looking terminology such as "may", "will", "expect", "anticipate", "intend", "estimate", "continue" "plan" or other similar words.

The statements are based on our management's assumptions and beliefs in light of the information currently available to us. These assumptions involve risks and uncertainties which may cause the actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Please note that the company and executives/staff do not control and cannot guarantee the relevance, timeliness, or accuracy of these statements.

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