

THAILAND



TELCO - MOBILE

RECOMMENDATION

OVERWEIGHT

NEUTRAL

UNDERWEIGHT

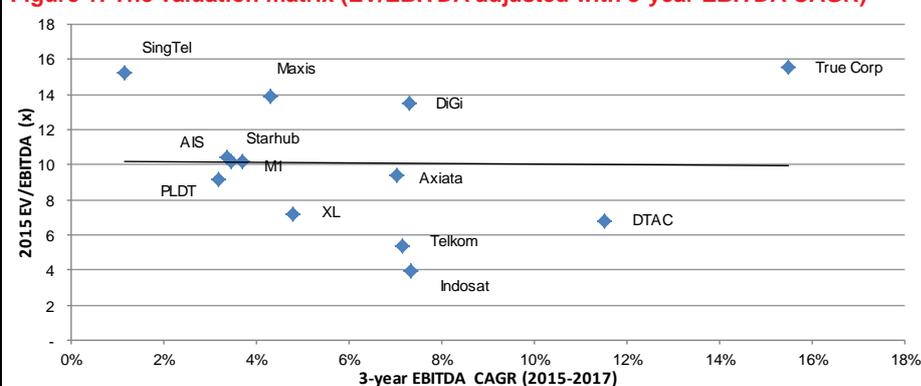
SECTOR FLASH NOTE
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Cautiously optimistic

Despite similar trends for our previews, 1Q15 mobile industry performance trumped our forecasts (9%/2% vs. 8%/-2%, revenue and EBITDA growth % yoy, implying stronger mobile broadband demand and less aggressive marketing activities). But we are still cautious over competitive intensity in the upcoming quarters – with DTAC (our top pick) becoming more aggressive, AIS aiming to convert as many as 2G device customers to 3G and True aiming to maintain its revenue growth traction. So, we remain Neutral on the sector.

Figure 1: The valuation matrix (EV/EBITDA adjusted with 3-year EBITDA CAGR)



SOURCES: CIMB, COMPANY REPORTS

What Happened

AIS was a clear winner in terms of operating performance. DTAC was still a loser but to a lesser extent. True continued to gain market share but at a higher cost. Overall industry revenue grew 9% yoy on the back of higher mobile data consumption and stronger device sales as telcos were quite aggressive in boosting 3G device penetration and mobile data.

What We Think

We continue to see more intense competition for three key reasons: 1) unequal bandwidth for 4G, 2) likely higher cost under the remedy period, and 3) revenue and cost advantages coming from customers with 3G devices.

On infrastructure sharing, we think that it is already good enough if private telcos could make deals to lease SOEs' concessionary assets (towers under disputes, active and passive network equipment) with or without exclusivity. The best-case scenario is the telecom pool concept, under which all telcos will be able to access any SOE infrastructure. This model will be best for DTAC, whose business model hinges heavily on the infrastructure-sharing scheme.

On 4G auction, though we believe that the 4G auction will happen as scheduled in Nov 15, we have to closely monitor any progress of the Digital Economy Bill and Frequency Allocation (NBTC) Bill enactments. We have identified two issues that may lengthen the 4G spectrum auction process: departures of commissioners and slow process of the digital economy policy drafting.

What You Should Do

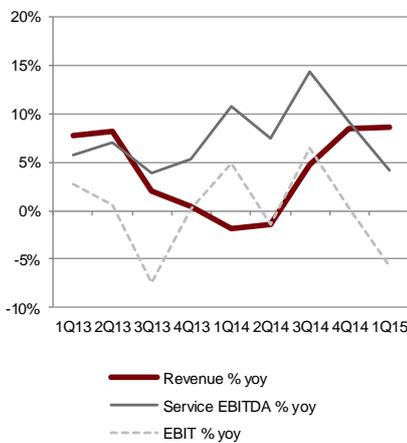
We are Neutral on the Thailand mobile sector given the intense competition and risk of 4G auction delay. DTAC is our top pick as it is expected to bag one spectrum licence (1800MHz or 900MHz) and be a prime beneficiary under any favourable infrastructure-sharing scenario, besides its cheap relative valuation.

1Q15 wrap-up ➤

AIS was a clear winner in terms of operating performance. DTAC was still a loser but to a lesser extent. True continued to gain market share but at a higher cost. The 2Q15 operating performance picture could be much more interesting as DTAC has raised the stakes by striving to regain revenue growth momentum via the adoption of its 1800MHz concessionary spectrum for 4G services.

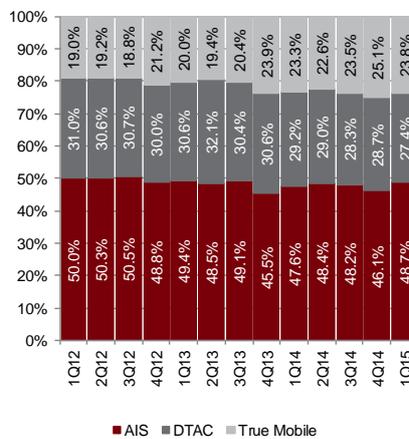
Meanwhile, overall industry revenue grew 9% yoy on the back of higher mobile data consumption and stronger device sales as telcos were quite aggressive in boosting 3G device penetration and mobile data consumption to ramp up the utilisation of their new network capacity. As a result, overall EBITDA expanded only 2% yoy and overall EBIT contracted by 6% yoy in 1Q15.

Figure 2: Stiffer competition has led to higher demand at the expense of profitability



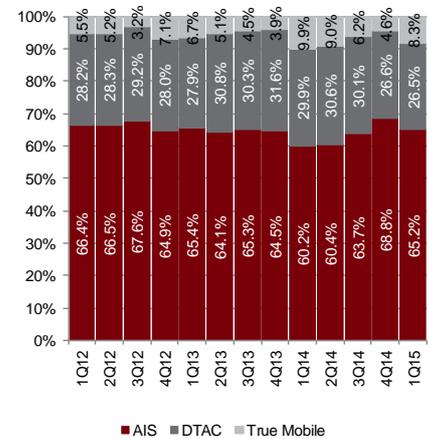
SOURCES: CIMB, COMPANY REPORTS

Figure 3: AIS has regained revenue growth momentum after its 3G network rollout was vastly completed last year



SOURCES: CIMB, COMPANY REPORTS

Figure 4: DTAC lost EBITDA market share for four consecutive quarters but the negative momentum has decelerated markedly

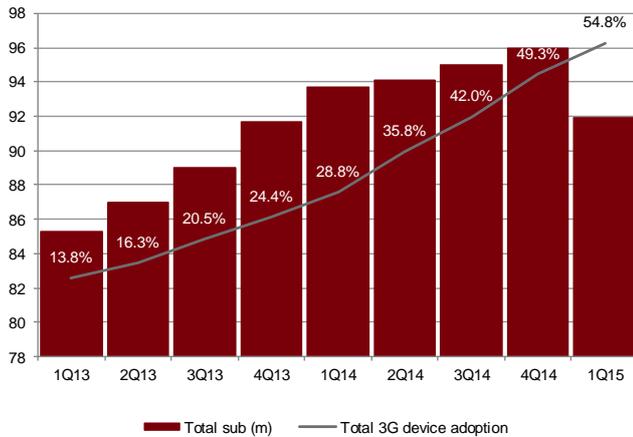


SOURCES: CIMB, COMPANY REPORTS

High marketing activities to continue ➤

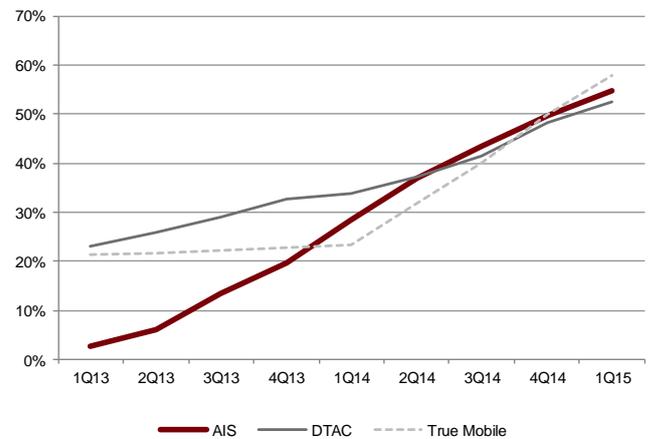
We continue to see more intense competition in the market for three key reasons. First, telcos have unequal spectrum to provide 3G and 4G services, resulting in more aggressive capex and opex to narrow the service and coverage gaps relative to other players. Second, telcos tend to avoid extra costs in providing 2G services under the remedy period as the NBTC is amending the regulation to achieve a higher level of accuracy in distributing excess profits from telcos. Lastly, telcos could face intense pressure if they fall behind their competitors in terms of both revenue market share and cost structure as the customer conversion from 2G to 3G devices could provide the room for ARPU uplift and generate regulatory cost savings.

Figure 5: 3G device penetration still has a long way to go



SOURCES: CIMB, COMPANY REPORTS

Figure 6: 3G device adoption rate by operators



SOURCES: CIMB, COMPANY REPORTS

Tower sharing ➤

Although we are positive on the government’s policy direction to encourage infrastructure sharing and DTAC’s ongoing negotiations with CAT on this issue, we see many stumbling blocks – including the requirement of the public and private partnership regulation, the subjectivity of asset price valuations, the determination of joint venture structures between SOEs and private telcos, etc.

We think that it is already good enough if private telcos could make deals with SOEs to lease out concessionary assets (towers under disputes, active and passive network equipment) with or without exclusivity. This structure will allow telcos to evaluate revenue and cost models more effectively as well as to prepay future capex. Our existing assumptions simply apply the network lease cost to equalise the amortisation cost, which appears to be 25-30% higher than the market reference rate of TRUEIF. Meanwhile, we think that the joint venture model between SOEs and private telcos looks convincing for both parties but this model may be difficult to implement as it will create either a dilemma in accounting practice or a possible controversial legal issue in the future or both.

The best-case scenario is the telecom pool concept, under which all telcos will be able to access any SOE infrastructure. This model will undoubtedly be good for the whole country in terms of efficiency and will be best for DTAC, whose business model hinges heavily on the infrastructure-sharing scheme. However, this structure will definitely face objections from AIS and True, both of which have been investing heavily in developing their own infrastructure.

Figure 7: Tower distribution profile

	No of towers		Counterparty
	100% ownership	Under disputes	
AIS	5,500	14,500	TOT
DTAC	1,500	10,500	CAT
True Corp	0	5,800	CAT
TRUEIF	9,000	0	none

SOURCES: CIMB, COMPANY REPORTS

Figure 8: Infrastructure-sharing scenario

Scenario	Exclusive lease		
	Failure	contract	Telecom pool
Equity participation	0%	0%	0%
Accessibility to towers			
AIS	5,500	20,000	36,300
DTAC	1,500	12,000	32,300
True Corp	9,000	14,800	30,800

SOURCES: CIMB, COMPANY REPORTS

The new NBTC bill ➤

Although we believe that the 4G auction will happen as scheduled in Nov 15, we have to closely monitor any progress of the Digital Economy Bill and Frequency Allocation (NBTC) Bill enactments by the government and the National Legislation Assembly (NLA). We believe that the government will be pushing

for enactment of the Digital Economy Bill and the NBTC Bill in Jun-Jul 15, prior to the NBTC's reactivation of the 4G spectrum auction procedure on 18 Jul 15. According to local newspapers, both bills are currently being reviewed by the Council of State (COS) and should be forwarded to the cabinet for final approval in the next few weeks before going to the National Legislation Assembly for its consideration.

Based on the draft NBTC bill from the Council of State, we have identified two issues that may lengthen the 4G spectrum auction process. First, the draft bill stipulates that the NBTC will be scrapped if there are fewer than four commissioners. Second, the NBTC's action will have to comply with the national policy for the development of digital society and economy formulated by the Ministry of Digital Economy.

Valuation and recommendation ►

We are Neutral on the Thailand mobile sector in view of the intense competition and risk of 4G auction delay. DTAC is our top pick as it is expected to bag one spectrum licence (1800MHz or 900MHz) and be a prime beneficiary under any favourable infrastructure-sharing scenario, besides its cheap relative valuation. On the other hand, AIS has executed its strategy well so far but its share price is relatively expensive, thus presenting some downside risk if the 4G auction timeframe is delayed. We prefer Intouch to AIS as the former trades at a 19% discount to its market NAV. We reiterate our Reduce rating on True as it will be the prime loser under the 4G spectrum auction and infrastructure-sharing scenarios.

Figure 9: Sector comparisons

Company	Bloomberg Ticker	Recom.	Price	Target Price	Market Cap (US\$ m)	Core P/E (x)		3-year EPS CAGR (%)	Recurring ROE (%)		EV/EBITDA (x)		Dividend Yield (%)	
			(local curr)	(local curr)		CY2015	CY2016		CY2015	CY2016	CY2015	CY2016	CY2015	CY2016
Advanced Info Service	ADVANC TB	Hold	237.00	252.00	20,971	17.4	16.3	5.8%	84.2%	85.4%	10.3	10.4	5.8%	6.2%
Jasmine International	JAS TB	Add	5.50	7.69	1,145	14.0	10.7	9.8%	15.7%	14.8%	9.4	7.6	30.6%	4.5%
Intouch Holdings	INTUCH TB	Add	77.00	88.00	7,348	14.3	13.2	9.3%	121.7%	132.1%	13.1	12.1	6.9%	7.5%
Samart I-Mobile	SIM TB	Add	2.32	4.10	304	11.2	10.0	16.3%	25.9%	26.5%	9.1	8.6	5.2%	6.5%
Thaicom	THCOM TB	Add	36.50	49.00	1,191	17.2	14.9	14.5%	13.3%	14.0%	7.0	6.0	2.9%	3.4%
Total Access Communication	DTAC TB	Add	86.50	99.00	6,096	19.9	15.4	16.1%	33.5%	48.6%	7.0	6.0	6.5%	8.3%
True Corporation	TRUE TB	Reduce	11.80	10.13	8,642	225	71.1	na	1.5%	4.5%	14.2	12.5	0.0%	0.0%
Thailand weighted average						56.3	15.2	7.0%	63.9%	68.7%	10.9	10.3	5.5%	5.4%

SOURCES: CIMB, COMPANY REPORTS

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Distribution of stock ratings and investment banking clients for quarter ended on 31 March 2015		
1420 companies under coverage for quarter ended on 31 March 2015		
	Rating Distribution (%)	Investment Banking clients (%)
Add	55.4%	6.6%
Hold	31.3%	3.8%
Reduce	13.2%	1.3%

Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2014.

AAV – Very Good, **ADVANC** – Very Good, **AEONTS** – not available, **AMATA** - Good, **ANAN** – Very Good, **AOT** – Very Good, **AP** - Good, **ASK** – Very Good, **ASP** – Very Good, **BANPU** – Very Good, **BAY** – Very Good, **BBL** – Very Good, **BCH** – not available, **BCP** - Excellent, **BEAUTY** – Good, **BEC** - Good, **BECL** – Very Good, **BGH** - not available, **BH** - Good, **BIGC** - Very Good, **BJC** – Good, **BLA** – Very Good, **BMCL** - Very Good, **BTS** - Excellent, **CCET** – Good, **CENTEL** – Very Good, **CHG** – not available, **CK** – Very Good, **CPALL** – not available, **CPF** – Very Good, **CPN** - Excellent, **DELTA** - Very Good, **DEMCO** – Good, **DTAC** – Very Good, **EA** - Good, **ECL** – not available, **EGCO** - Excellent, **GFPT** - Very Good, **GLOBAL** - Good, **GLOW** - Good, **GRAMMY** - Excellent, **HANA** - Excellent, **HEMRAJ** – Very Good, **HMPRO** - Very Good, **ICHI** - not available, **INTUCH** - Excellent, **ITD** – Good, **IVL** - Excellent, **JAS** – not available, **JUBILE** – not available, **KAMART** – not available, **KBANK** - Excellent, **KCE** - Very Good, **KGI** – Good, **KKP** – Excellent, **KTB** - Excellent, **KTC** – Good, **LH** - Very Good, **LPN** – Very Good, **M** - not available, **MAJOR** - Good, **MAKRO** – Good, **MBKET** – Good, **MC** – Very Good, **MCOT** – Very Good, **MEGA** – Good, **MINT** - Excellent, **OFM** – Very Good, **OISHI** – Good, **PS** – Very Good, **PSL** - Excellent, **PTT** - Excellent, **PTTEP** - Excellent, **PTTGC** - Excellent, **QH** – Very Good, **RATCH** – Very Good, **ROBINS** – Very Good, **RS** – Very Good, **SAMART** - Excellent, **SAPPE** - not available, **SAT** – Excellent, **SAWAD** – not available, **SC** – Excellent, **SCB** - Excellent, **SCBLIF** – Good, **SCC** – Very Good, **SCCC** - Good, **SIM** - Excellent, **SIRI** - Good, **SPALI** - Excellent, **STA** – Very Good, **STEC** - Good, **SVI** – Very Good, **TASCO** – Good, **TCAP** – Very Good, **THAI** – Very Good, **THANI** – Very Good, **THCOM** – Very Good, **THRE** – not available, **THREL** – Good, **TICON** – Good, **TISCO** - Excellent, **TK** – Very Good, **TMB** - Excellent, **TOP** - Excellent, **TRUE** – Very Good, **TTW** – Very Good, **TUF** - Good, **VGI** – Very Good, **WORK** – not available.

CIMB Recommendation Framework

Stock Ratings

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

**Prior to December 2013 CIMB recommendation framework for stocks listed on the Singapore Stock Exchange, Bursa Malaysia, Stock Exchange of Thailand, Jakarta Stock Exchange, Australian Securities Exchange, Taiwan Stock Exchange and National Stock Exchange of India/Bombay Stock Exchange were based on a stock's total return relative to the relevant benchmarks total return. Outperform: expected to exceed by 5% or more over the next 12 months. Neutral: expected to be within +/-5% over the next 12 months. Underperform: expected to be below by 5% or more over the next 12 months. Trading Buy: expected to exceed by 3% or more over the next 3 months. Trading Sell: expected to be below by 3% or more over the next 3 months. For stocks listed on Korea Exchange, Hong Kong Stock Exchange and China listings on the Singapore Stock Exchange. Outperform: Expected positive total returns of 10% or more over the next 12 months. Neutral: Expected total returns of between -10% and +10% over the next 12 months. Underperform: Expected negative total returns of 10% or more over the next 12 months. Trading Buy: Expected positive total returns of 10% or more over the next 3 months. Trading Sell: Expected negative total returns of 10% or more over the next 3 months.*