

Advanced Info Service (ADVANC TB)

HOLD

Share Price THB 220.00
12m Price Target THB 230.00 (+8%)

Lacklustre outlook for FY22E

FY22E profit decline could disappoint consensus

We forecast FY22 core net profit to drop by 6% YoY due to weak mobile revenue (-1.3% YoY) and rising expenses. Our forecast is below the street. We believe there is 11% downside risk to consensus FY22E as the Russia-Ukraine war and intense mobile competition have dimmed the outlook for revenue growth. We initiate coverage with a HOLD rating and a DCF-based TP of THB230.

Headwinds to lead to 6% profit drop in FY22E

Our FY22E core net profit drop of 6% YoY to THB25.4b assumes revenue growth of only 1.0% YoY and rising expenses (i.e. network opex and D&A expense). We forecast FY22 mobile revenue (87.5% of FY22E core service revenue) to drop by 1.3% YoY due to weak consumer purchasing power and another round of intense mobile tariff competition that began in mid-April. We forecast mobile revenue to drop again QoQ in 2Q22 before stabilising in 3Q22E as we expect tourist arrivals to rebound in 2H22.

The street may need to cut its FY22E earnings

Our THB25.4b FY22E core net profit is 11% lower than Bloomberg consensus, which is likely anchored by the company's guidance of mid to single-digit revenue growth for FY22, higher than our forecast of 1.0% YoY revenue growth. We believe ADVANC's target has become outdated after the Russia-Ukraine war broke out in late-Feb as forecasts for Thailand's GDP growth for this year have been cut and as inflation rises rapidly. Also, we forecast increases in: i) network opex (+4.0% YoY, driven by electricity costs); and ii) D&A expenses (+1.1% YoY due to network expansion).

Initiate with HOLD and THB230 TP

Our TP of THB230 (7.5% WACC, 2.0% LTG) includes: i) 700MHz spectrum purchase from NT; and ii) network leasing to NT. We expect the network leasing deal to be worth c.TH15bn, which could bring about positive sentiment when the deal is announced. Our HOLD is supported by 8.0% potential total return (4.5% upside to TP and 3.5% FY22E yield). Key upside is easing mobile competition while downside risks would be: i) a recession; and ii) slower-than-expected recovery in tourist arrivals in 2H22.

FYE Dec (THB m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	172,889	181,333	182,518	190,077	195,180
EBITDA	89,553	91,554	90,028	94,225	97,087
Core net profit	27,432	27,038	25,380	30,214	31,006
Core EPS (THB)	9.23	9.09	8.53	10.16	10.43
Core EPS growth (%)	(14.8)	(1.4)	(6.1)	19.0	2.6
Net DPS (THB)	6.92	7.69	7.68	9.14	9.38
Core P/E (x)	19.1	25.3	25.8	21.7	21.1
P/BV (x)	6.9	8.4	7.8	7.5	7.2
Net dividend yield (%)	3.9	3.3	3.5	4.2	4.3
ROAE (%)	37.9	34.2	30.6	35.2	34.9
ROAA (%)	8.6	7.7	7.1	8.6	9.4
EV/EBITDA (x)	7.4	8.8	8.4	7.8	7.3
Net gearing (%) (incl perps)	105.2	91.8	71.7	53.4	37.2
Consensus net profit	-	-	28,488	31,653	35,710
MKE vs. Consensus (%)	-	-	(10.9)	(4.5)	(13.2)

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Company Description

ADVANC is No.1 mobile operator with 46.3% mobile revenue market share in 2021. Its 5G network had 76% population coverage at end-4Q21.

Statistics

52w high/low (THB)	240.00/169.00
3m avg turnover (USDm)	40.0
Free float (%)	34.1
Issued shares (m)	2,974
Market capitalisation	THB654.3B USD19.1B

Major shareholders:

Intouch Holdings	40.4%
Singtel Strategic Investments	23.3%
Thai NVDR	8.2%

Price Performance



	-1M	-3M	-12M
Absolute (%)	2	(7)	30
Relative to index (%)	3	(5)	26

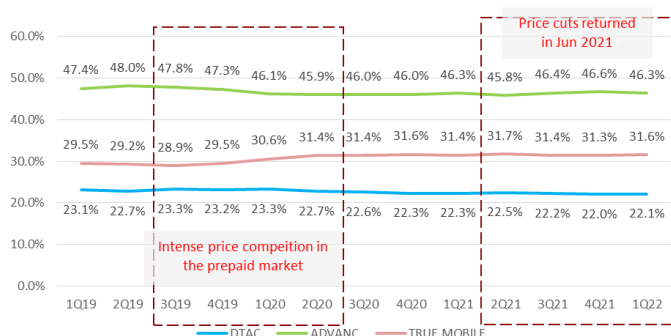
Source: FactSet

ESG@MAYBANK IBG
Tear Sheet Insert

Value Proposition

- ADVANC was the first provider of mobile phone service in Thailand. Two players joined the market, but ADVANC has maintained the lead in the market. It is the largest player in terms of subscriber base and for now it's leading in the introduction of 5G services.
- ADVANC has been moving to diversify its revenue by growing fixed broadband (FBB) & Enterprise Business/Other services. By FY23E, it aims to reduce mobile revenue contribution to 60-70% of total from over 90%.
- Cost of services is gradually falling, but declining ARPU is dragging down ROIC.

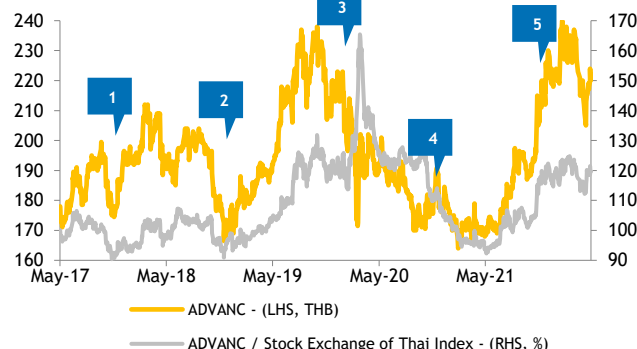
Quarterly mobile revenue market share



Source: Company

Price Drivers

Historical share price trend



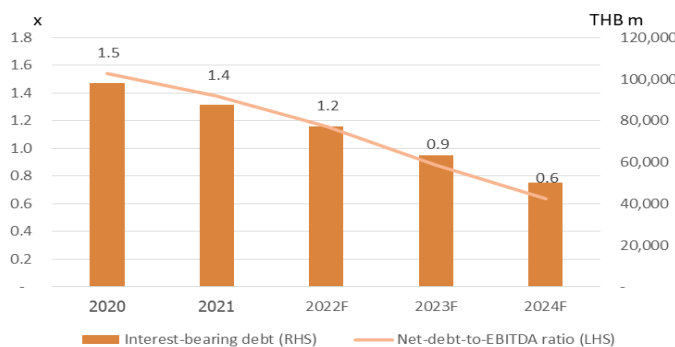
Source: Company, MST

- Share price started to recover from disappointment of high 4G spectrum costs.
- Despite healthy revenue growth (+3.8% YoY) share price still tanked due to weak market sentiment amid rising interest rate.
- Low-end fixed-speed unlimited data plans in the prepaid market started emerging causing ARPU and revenue to suffer.
- Share price briefly recovered as competition in the prepaid market started easing in 3Q20.
- Share price was boosted by prospects of higher dividend payout, hype around TRUE-DTAC's merger and post-Covid-19 economic recovery.

Financial Metrics

- ADVANC has the cleanest balance sheet among the three telcos with only 1.5x net-debt-to-EBITDA ratio (TFRS16 accounting) at end-FY21 (vs TRUE's 6.4x and DTAC's 2.6x).
- Barring substantial investment projects, we forecast ADVANC to be free of interest-bearing debt by FY27E.
- The clean balance sheet has allowed the company to raise its DPR from 75.0% in FY20 to 84.9% in FY21.
- It also had the highest EBITDA margin of 49.2% in FY21 (vs TRUE's 40.2% and DTAC's 36.0%).
- The company also had the highest ROE of 34.2% in FY21 (vs TRUE's -1.7% and DTAC's 15.1%).

ADVANC's interest-bearing debt is steadily declining



Source: Company

Swing Factors

Upside

- Easing mobile competition (i.e. increases in price of fixed-speed unlimited data plans).
- Inflation recedes and consumer purchasing power improves as the Russia-Ukraine war ends.
- Joint ventures in data centre and digital lending businesses.
- M&A deals in the fixed-broadband industry.
- Stronger-than-expected non-mobile enterprise revenue.

Downside

- Recession.
- Slower-than-expected recovery in tourist arrivals in 2H22.

Risk Rating & Score ¹	20.3 Medium Risk
Score Momentum ²	0.0
Last Updated	24 Feb 2021
Controversy Score ³ (Updated: 28 May 2022)	None - no evidence of controversies

Business Model & Industry Issues

- Mobile service is an enabler of many economic activities, including e-commerce, mobile banking, mobile money, cloud services, IoT solutions and more. Digital innovations have high priority in its materiality matrix. However, mobile service is also an enabler of activities that can cause social problems and social ills, such as gambling, pornography and cyberbullying. Data privacy and cyber security is the second highest priority in its materiality matrix.
- The entry of 5G services promises new revenue streams if scalable user cases are found. But it can also scale up potential social risk, especially on vice. Social responsibility will take on more meaning beyond CSR projects such as donations and freebies etc. As the industry leader, ADVANC must take a lead in setting the best practice in cyber wellness and online safety.
- Mobile phone service providers are neither direct major polluters nor highly extractive on natural resources. The important environmental issues to address are the indirect consequence of mounting e-waste as well as the health hazard posed by the EMS, especially amid increasing density of telco towers and base stations. However, as these all involve equipment manufacturers and vendors, these matters are ranked low in its materiality matrix.

Material E issues

- By adopting multiple energy-efficient technologies in the management of base stations nationwide, ADVANC reduced indirect GHG emissions from electricity consumption by 18,743 tCO₂e in 2021. This was partly supported by the installation of additional solar panels at 2,744 base stations.
- By 2023, ADVANC aims to have reduced GHG emissions intensity, as calculated by the ratio of direct and indirect emissions to data traffic by 90% compared to the baseline in 2015. It also aims to increase renewable energy usage to 5% of total energy consumption.
- In 2021, waste from ADVANC's operation dropped by 67%. In addition, the operator collected 160k pieces of e-waste and reduced paper usage thanks to 8.4m e-bill accounts.
- In 2023, ADVANC aims to collect 360k units of obsolete mobile and related electronic waster from proper recycling and reduce non-recyclable e-waste from ADVANC to 5% of total waste from 35 in 2018.

Material S issues

- ADVANC retained 85% of the talent pool and had 85% of the staff in critical roles to undergo new ability training in digital technology in 2021.
- As of end-2021, ADVANC's 5G network covered 76% of Thailand's population. The operator aims to raise the population coverage to 85% by the end of 2022.
- ADVANC's key strength lies in its innovative digital-inclusion projects, including: i) AIS Academy; ii) Aor Sor Mor Online application; and iii) AIS 5G Battling Covid-19.
- The HR department launched AIS Academy as internal training platform in 2015 before extending the offering to all Thai citizens from 2018 onwards. In 2020, AIS Academy launched an online learning platform called "LearnDi anywhere", which offered free courses in business, technology and finance, among other topics.

Key G metrics and issues

- The 11-member board has two women. Of all board members, 36% were non-executive directors, and 91% were independent directors. Total monetary remuneration for the chairman of the board, independent directors, and non-executive directors totalling 6 people was THB26.8m.
- ADVANC's auditor for the past five years has been Deloitte Touche Tohmatsu Jaiyos Audit.
- For data security ADVANC has received certifications from: 1) ISO27001 Information Security Mgt Systems since 2015; 2) CSA STAR (Cloud Security Alliance) Self-Assessment since 2016; and 3) PCI DSS (Payment Card Industry Data Security Standard) since 2017.
- In May 2020, ADVANC's 8.3b records related to customers' internet usage were leaked. After a week of data leakage, ADVANC confirmed that it owned the data and apologised for the security lapse. We believe the data breach could be related to the rise in complaints regarding loss of customer data from 171-178 complaints in FY18-19 to 583 complaints in FY20.
- In 2019, the Digital Quotient Promotion programme was rolled out. This measures the digital proficiency of 8-12 years old using metrics recommended by WEF, OECD and IEEE and applied in 110 countries. In 2019 the first year of the rollout the programme was implemented in 24 schools with 3,100 students participating.
- The AIS Secure Net (network protector programme), which was launched in 2019, assists customers at risk of cyber threats. In 2021, there were 131,195 users of the service.
- Like other operators, ADVANC has several disputes pending from the concessionary era covering 1990-2018. Losing any of the cases could have a negative impact on the enterprise.

¹**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. ²**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. ³**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

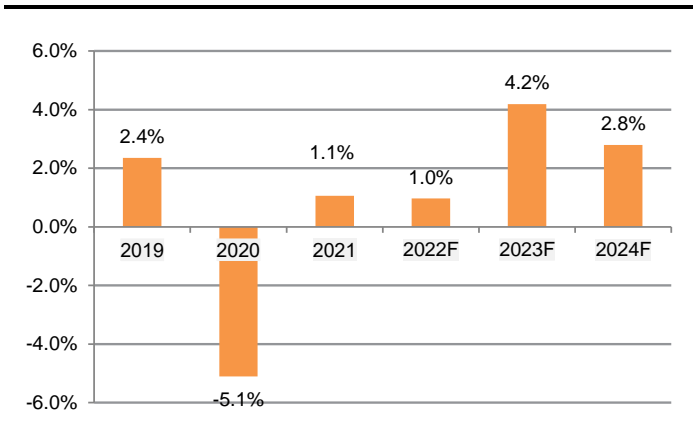
Lacklustre outlook in FY22E

We forecast FY22E core net profit drop of 6%

Our FY22E core net profit drop of 6% YoY to THB25.4b assumes revenue growth of only 1% YoY and rising expenses (i.e. network opex and D&A expense). We forecast FY22 mobile revenue (87.5% of FY22E core service revenue) to drop by 1.3% YoY due to weak consumer purchasing power and another round of intense mobile tariff competition that began in Apr 2022. Other revenue forecasts include 20.9% YoY growth for FBB revenue (7.7% of FY22E core service revenue) and 20.0% YoY growth for other service revenue (4.8% of FY22E core service revenue).

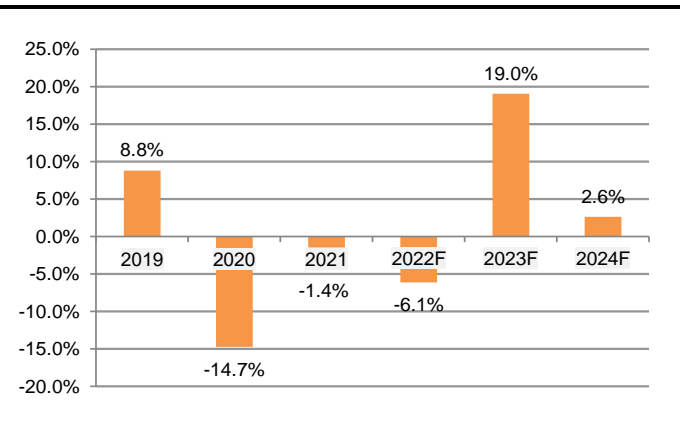
The weak economic trends have led to intensifying competition. In mid-Apr, the three operators cut the price of 15mbps-speed unlimited data plans (30-day prepaid packages) from THB300 to THB150.

Fig 1: Core service revenue growth



Source: Company, MST

Fig 2: Core net profit growth



Source: Company, MST

The street may need to cut its FY22E earnings

ADVANC announced its revenue target in Feb 2022. Since then, the Bank of Thailand revised its GDP growth forecast down from 3.4% to 3.2% (as of Mar 2022), and the inflation rate is rising mainly due to the Russia-Ukraine war; Thailand’s inflation rate was 1.2% in 2021, but it jumped to monthly rates of 5-6% in the first four months of 2022. This is negative for the telco sector because GDP growth and mobile revenue growth have historically been highly correlated and higher cost of living would lead to less money for consumers to top up their prepaid mobile plans (we estimate prepaid revenue to account for 44% of mobile revenue in FY22E).

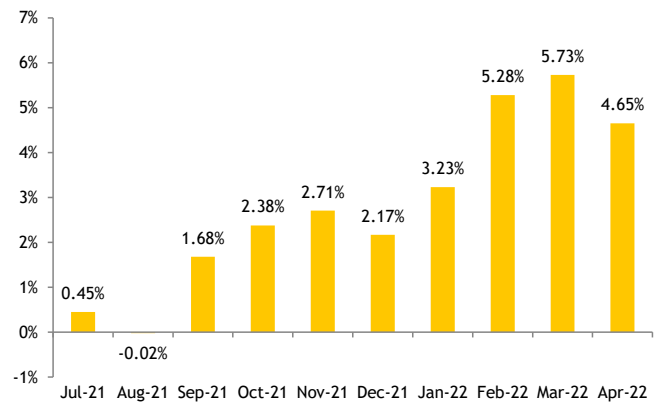
Our THB25.4b FY22E core net profit is 11% below Bloomberg consensus, which is likely anchored by the company’s guidance of mid to single-digit revenue growth for FY22, higher than our forecast of 1.0% YoY service revenue growth. We expect ADVANC to revise its 2022 revenue target down when it announces 2Q22 results in early Aug 2022.

Fig 3: FY22 targets (MIB vs consensus) as of 30 May 2022

	FY22F (THB m)		Downside risk to BB consensus
	Bloomberg consensus	Maybank	
Total revenue	185,409	182,518	-1.6%
EBITDA	93,399	89,885	-3.8%
Core net profit	28,473	25,380	-10.9%

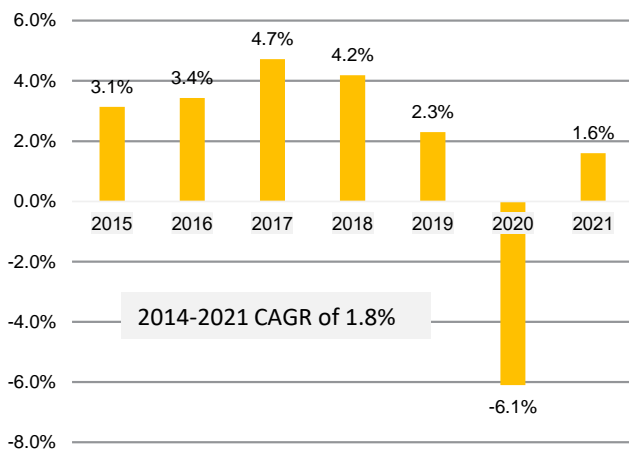
Source: Company, Bloomberg, MST

Fig 4: Thailand’s monthly inflation rate



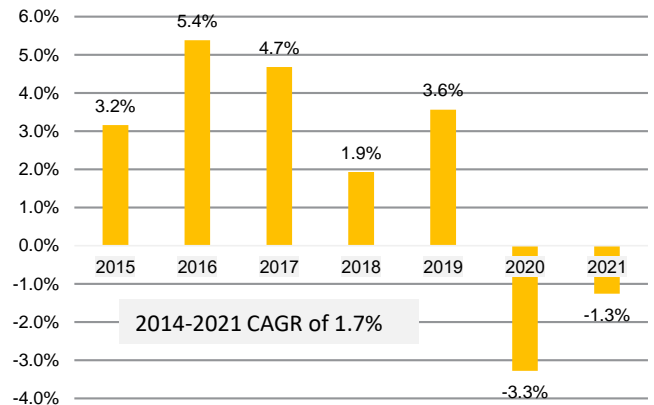
Source: Trading Economics, MST

Fig 5: Thailand’s GDP growth



Source: Company, Bank of Thailand, MST

Fig 6: Industry’s mobile revenue growth



Source: Company, MST

ADVANC’s spectrum and network negotiations with NT

The background of NT’s 700MHz spectrum licences

In Feb 2020, CAT Telecom, a state-owned enterprise won the ownership of 700MHz spectrum licences (20MHz of uplink and downlink bandwidth) in the auction at the price tag of THB34.3bn. In Jan 2021, CAT merged with another state-owned enterprise called TOT to form a new entity called the National Telecom (NT). In Apr 2021, the ownership of 700MHz spectrum licences were transferred from the government to NT.

700MHz spectrum licences entail 10 years of instalment, implying THB3.4bn payment per year. NT has already paid two instalments worth a combined THB6.9bn to the NBTC during 2021-22, so there is THB27.4bn left to be paid over the next eight years. According to Bangkok Post’s news article in May 2022, NT is planning to sell half of its 700MHz spectrum holding (10MHz bandwidth) to ADVANC and use the remaining half to operate its mobile business. In addition, NT plans to lease physical network from ADVANC to support its 700MHz network rollout. We expect ADVANC’s network leasing deal to NT and the spectrum purchase from NT to be announced in 3Q22E.

Fig 7: ADVANC planning to buy 700MHz spectrum licences from NT

	Purchase price (THB m)	Annual instalment (THB m)									
		2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
NT's original 700MHz spectrum purchase (20MHz)	34,306	3,431	3,431	3,431	3,431	3,431	3,431	3,431	3,431	3,431	3,431
		Already paid by NT									
	Purchase price (THB m)	Annual instalment (THB m)									
		2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
ADVANC's 700MHz spectrum purchase from NT (10MHz)	13,722			1,715	1,715	1,715	1,715	1,715	1,715	1,715	1,715

Source: NBTC, MST

NT has agreed to lease network sites from ADVANC

NT plans to rent ADVANC's cellular network and related equipment in order to provide its 5G services on the remaining 10MHz bandwidth. According to ADVANC's management during the analyst meeting on 11 May 2022, the NT's board directors already approved of the deal, which is now pending the cabinet's approval.

ADVANC has not disclosed financial details about the deal so far this year, so all data about the deal we have are from news articles (source: Krungthep Turakij and Thansettakij) in Jan 2021. Based on these news articles, ADVANC was planning to let NT use 13.5k base station sites at the total cost of THB20bn to be paid over three years. In our model, we assume that key details are still the same except that NT has negotiated the price tag down from THB20bn to THB15bn. We estimate the NPV of the deal at THB3.0/share for ADVANC (7.5% WACC) at the end of FY22E.

Fig 8: Key assumptions for ADVANC's network lease to NT

Key assumptions		Description
Number of base station sites	14,750	Utilising ADVANC's existing network sites
Term (years)	13.3	Expiring in May 2036, the same expiry date as NT's 700MHz spectrum licence
NT's payment (THB m)	15,000	Equal instalments of THB5.0bn over 3 years
Technology	5G	5G services based on NT's 700MHz spectrum and ADVANC's physical network

Source: Krungthep Turakij, Thansettakij, MST

ADVANC has agreed to buy spectrum from NT

ADVANC plans to buy 700MHz spectrum licences (10MHz bandwidth) from NT at THB13.7bn, representing THB1.7bn annual payment over the next eight years (see Fig 1). We estimate the negative NPV of the deal at THB3.4/share. Upon acquiring the spectrum licences from NT, ADVANC will have a total of 40MHz of bandwidth under 700MHz spectrum.

Other small upsides to our earnings forecasts

Other upside risks to our forecasts for ADVANC include the launches of i) digital lending joint venture (JV) with Siam Commercial Bank and ii) data centre JV with GULF and Singtel. However, we estimate that the digital lending JV implies only 0.3% upside to our FY23F earnings forecast for ADVANC. Similarly, the data centre JV implies only 0.3% to our FY24F earnings forecast. We expect both deals to be announced during 2Q-3Q22E.

Fig 9: Potential upside risk from ADVANC's digital lending JV with SCB

First capital injection (THB m) by ADVANC and SCB	600	
Estimated D/E ratio (x)	6	
Gross loans	4,200	(1)
Target customer groups	1.) mobile device financing 2.) personal loans and nano finance	
Estimated loan yield	25%	
Estimated cost of fund	3%	
NIM	22.0%	(2)
Net interest income	924	(1) x (2)
Net margin (after deducting opex, provision expenses and tax)	20%	
Net profit	185	
Potential profit contribution to ADVANC given its 50% stake	92	
Potential profit contribution as % of ADVANC's FY23F core net profit	0.3%	

Source: Company, MST

Fig 10: Potential upside risk from ADVANC's data centre JV with GULF and Singtel

Hyperscale data centre business with GULF and Singtel	
Revenue (THBm/MW/year)	100
Gross margin	30-40%
Net profit margin	10%
First-phase capacity (MW)	30
Revenue (THB m)	3,000
Net profit (THB m)	300
Potential profit contribution to ADVANC, assuming 33.3% stake	100
Potential profit contribution as % of ADVANC's FY24F core net profit	0.3%

Source: Company, MST

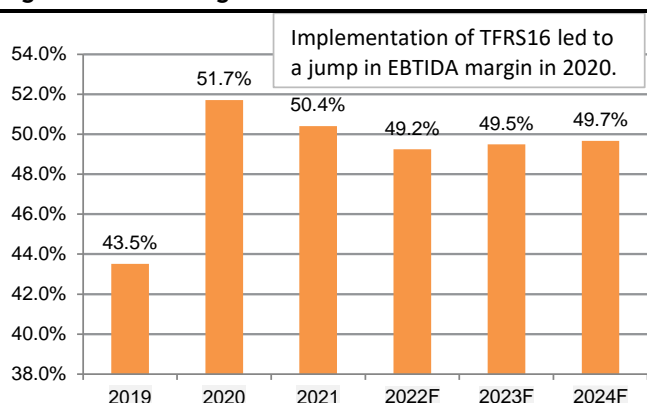
Valuation and recommendation

Initiate coverage on ADVANC with HOLD

We initiate coverage with HOLD and DCF-based TP of THB230 (7.5% WACC and 2.0% LTG). ADVANC’s share price has already dropped by 8% from this year’s peak of THB240 (highest share price since 15 Sep 2015) on 17 Feb 2022. A BUY call is still not warranted in our view mainly due to the poor outlook for 2Q22E mobile revenue and 11% potential downside to Bloomberg consensus FY22E core EPS, which is likely anchored by the company’s guidance of mid to single-digit revenue growth for FY22. We expect ADVANC to revise its 2022 revenue target down when the company announces 2Q22 results in early Aug 2022.

Our HOLD is supported by 8.0% potential total return (4.5% upside to our TP and 3.5% FY23E dividend yield). Note that valuation metrics (Figure 5-7) imply that ADVANC is fairly priced; for example, ADVANC is trading at 8.7x FY23F EV/EBITDA (vs 5-year mean of 8.5x), based on pre-TFRS16 accounting, and 13.4x FY23E EV/OpFCF (vs 5-year mean of 13.1x). OpFCF or operating FCF is derived from EBITDA, deducted by the average of annual network capex forecasts over the next three years. We view EV/OpFCF as superior valuation metric to EV/EBITDA since the former also takes into account the important cash outflows for telecom businesses.

Fig 11: EBITDA margin



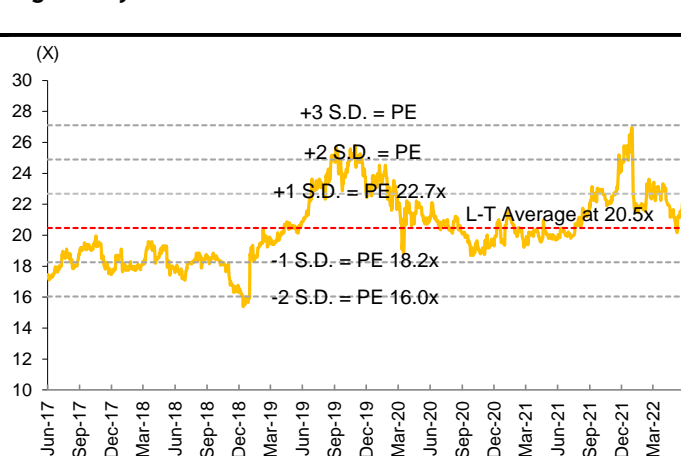
Source: Company, MST

Fig 12: FY22 targets (MIB vs consensus) as of 30 May 2022

	FY 22F (THB m)		Downside risk to BB consensus
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Total revenue	185,409	182,518	-1.6%
EBITDA	93,399	89,885	-3.8%
Core net profit	28,473	25,380	-10.9%

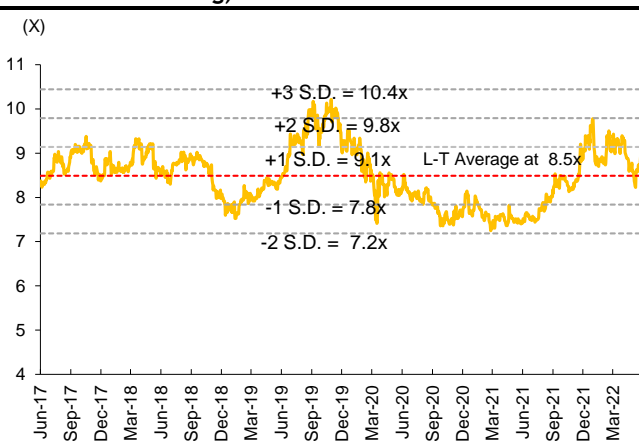
Source: Company, MST

Fig 13: 1-year-forward P/E band



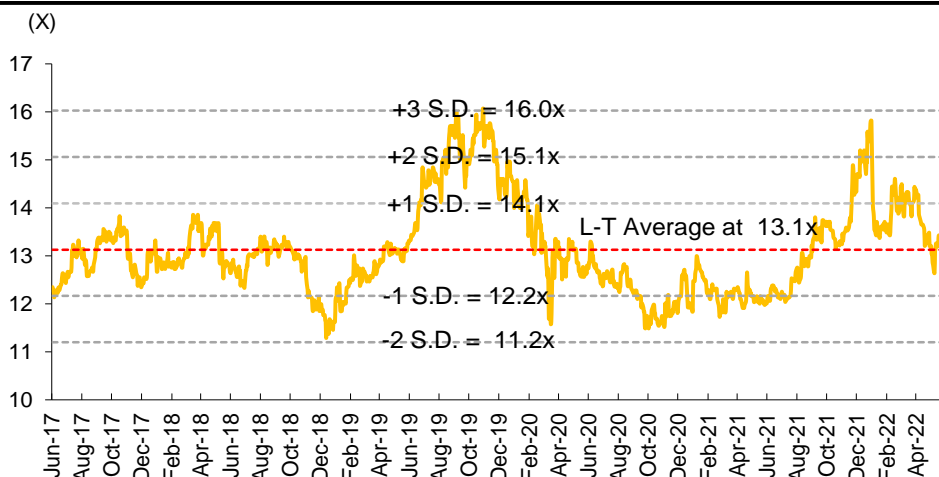
Source: Bloomberg, MST

Fig 14: 1-year-forward EV/EBITDA band (based on pre-TFRS16 accounting)



Source: Bloomberg, MST

Fig 15: 1-year-forward EV/OpFCF



Source: Bloomberg, MST

THB230 TP does not include merger’s benefits

In the long run, we expect ADVANC to eventually benefit from easing competition if TRUE and DTAC successfully merge to become one entity. However, we have not factored in the benefits of having fewer operators in our model for ADVANC yet because we expect competition to remain intense not only during the merger process, but also in the following 1-2 years after the merger completion. The merged company may take around two years to integrate network sites and IT systems; during this period, we expect service quality to drop in some areas, and ADVANC could take advantage by offering cheap packages to steal market share from the merged company. In short, we expect price competition to remain intense before it starts improving 3-4 years from now.

Fig 16: FY22 guidance is for mid-single digit revenue growth

FY22 Guided items	Guidance	Rationale
Core service revenue	Mid-single digit growth	<ul style="list-style-type: none"> Leverage 5G service to gain market share in high value segment Grow FRB with target of 2.2mn subscribers with increase in ARPH from FMC strategy Enterprise non-mobile continues to grow double digit
EBITDA	Low-single digit growth	<ul style="list-style-type: none"> Continue to digitally transform focusing on customer experience and to optimize the cost to serve ensure an effective capital allocation to capture growth opportunity
CAPEX *exclude spectrum	Bt30-35bn	<ul style="list-style-type: none"> Build 5G leadership to deliver a superior customer experience, targeted to reach 85% population coverage Expand AIS Fibre coverage to capture untapped demand Enhance our enterprise business and digital services

Source: Company

Fig 17: DCF valuation

DCF VALUATION							
Cost of equity assumption (%)							
Risk free rate							
Market risk premium							
Stock beta							
Cost of equity , Ke							
Cost of debt, Kd							
After-tax cost of debt							
WACC							
Cashflows (THB m)	2023F	2024F	2025F	2026F	2027F	2028F	Perpetuity
<i>Period for discounting</i>	1	2	3	4	5	6	
Cashflows from operation	89,089	91,589	94,302	97,634	100,245	102,638	
Cash payment for lease liabilities	-12,606	-12,984	-13,373	-13,774	-14,188	-14,613	
CAPEX							
PPE	-30,000	-29,000	-26,449	-26,058	-25,620	-26,163	
Licence	-14,528	-15,689	-15,689	-15,689	-15,689	-15,689	
FCFF	36,955	38,916	38,791	42,113	44,749	46,172	853,190
NPV of FCFF	34,371	33,663	31,208	31,510	31,141	29,885	552,218
Sum of NPVs at YE	743,996						
FY22F net debt	60,488						
Equity Value	683,508						
# of shares	2,973						
TP (THB/share)	230.0						
Current share price (THB/share)	220.0						
Upside (downside) to DCF-based TP (%)	4.5%						

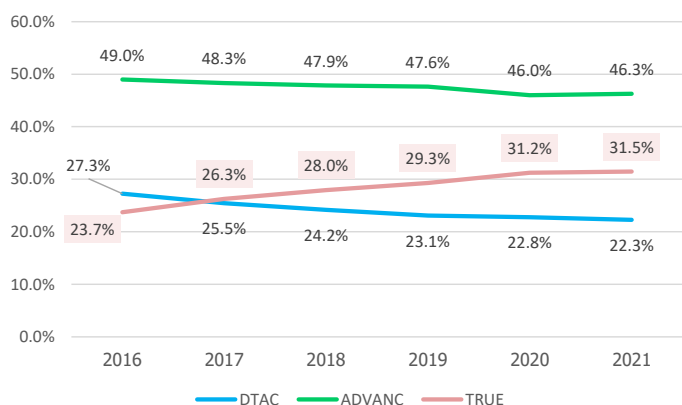
Source: Company, MST

Company background

Number-one mobile operator in Thailand

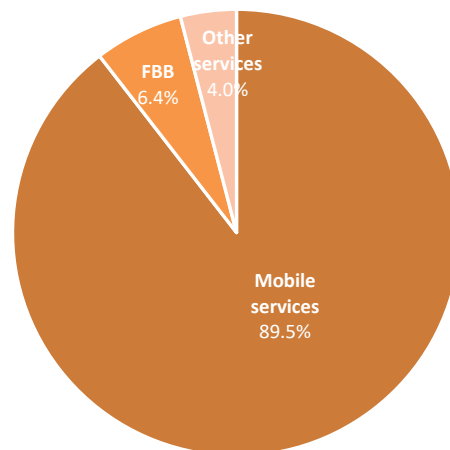
ADVANC is the No.1 mobile operator in Thailand with 46.3% mobile revenue market share in 2021, followed by 31.5% at TRUE and 22.3% at DTAC. At the end of FY21, ADVANC had 44.1m mobile subscribers (THB224/month ARPU), of which 32.6m were prepaid subs and 11.8m were post-paid subs. Prior to the Covid-19 outbreak, ADVANC’s mobile revenue had a 5-year CAGR (FY14-19) of 2.6%. The pandemic and intensifying competition then led to mobile revenue declines of 6.5% YoY in FY20 and 0.7% YoY in FY21. Mobile revenue accounted for 89.5% of FY21 core service revenue.

Fig 18: Annual mobile revenue market share



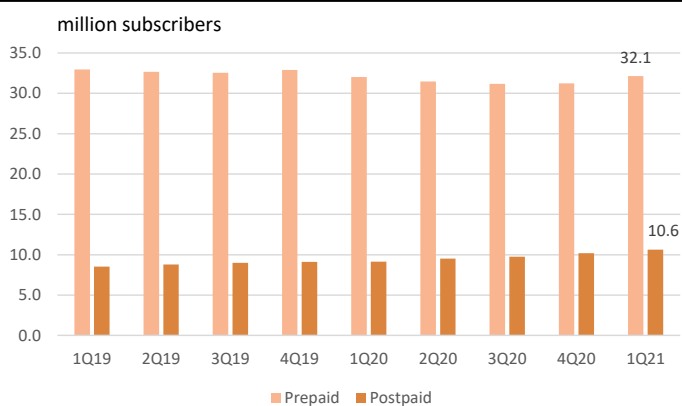
Source: ADVANC, DTAC, TRUE, MST

Fig 19: Core service revenue breakdown



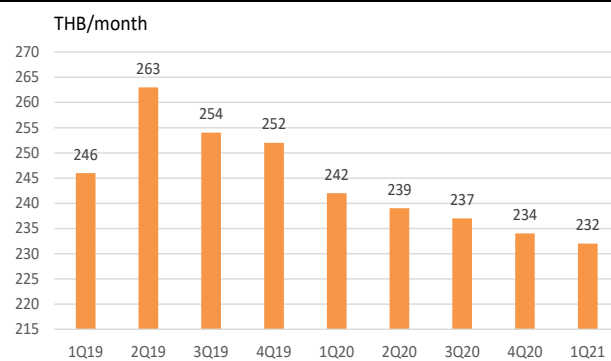
Source: Company, MST

Fig 20: Quarterly prepaid and postpaid subscribers



Source: Company, MST

Fig 21: Quarterly mobile ARPU

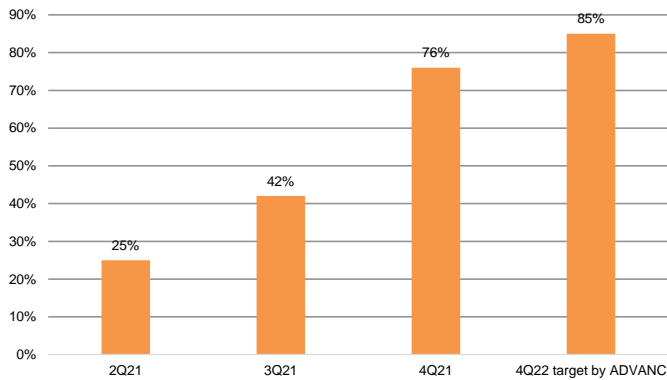


Source: Company, MST

ADVANC is the leading 5G operator in Thailand

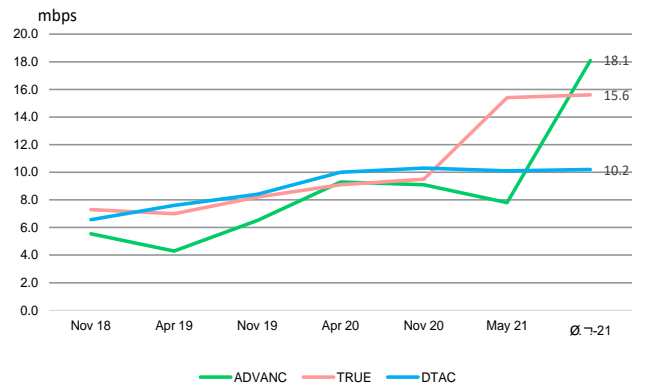
At end-4Q21, ADVANC’s 5G network had 76% population coverage, and the company targets 85% coverage by the end of FY22E. On the heels of ADVANC’s 5G network expansion, its Internet download speed has improved substantially. Based on the Nov 2021 survey by Opensignal, ADVANC’s 5G download speed on average was 219.6mbps, much faster than TRUE’s 81.5mbps and DTAC’s 25.7mbps. Its average Internet speed (including 3G, 4G and 5G) jumped from 7.8mbps in May 21 to 18.1mbps in Nov 21, higher than 15.6mbps at TRUE and 10.2mbps at DTAC.

Fig 22: ADVANC’s 5G population coverage is still growing



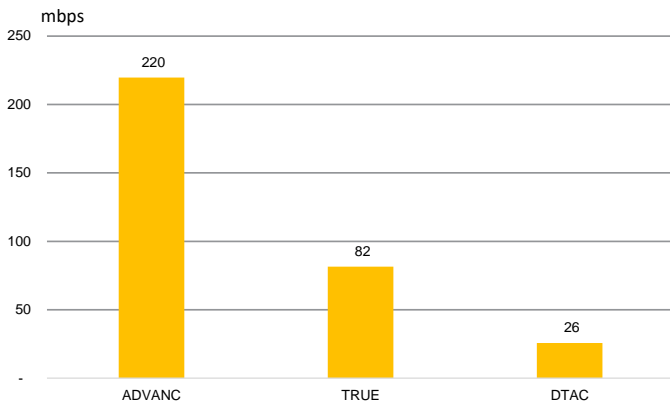
Source: Company, MST

Fig 23: As ADVANC expands its 5G coverage, its overall Internet download speed surpassed peers' in Nov 2021



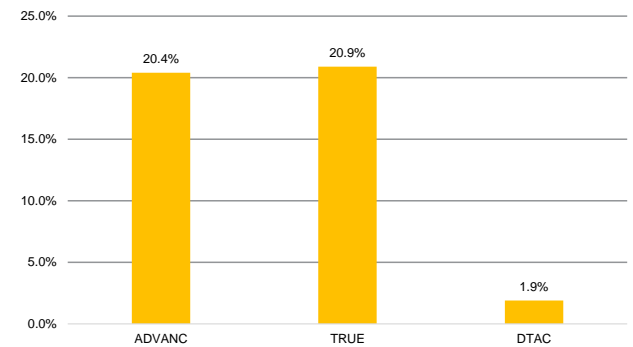
Source: Opensignal, MST

Fig 24: ADVANC had the highest average 5G download speed at 220mbps, as of Nov 2021



Source: Company, MST

Fig 25: 5G availability (proportion of time mobile subscribers in Opensignal database with 5G devices and subscriptions had active 5G connection)



Source: Opensignal, MST

FBB business is growing

ADVANC entered the FBB business in FY15 and its FBB subscriber base rose from 44,000 at end-FY15 to 1.8m at end-FY21, making it the No.3 FBB player in Thailand in terms of subscriber base. ADVANC started disclosing FBB revenue in FY16, and its 3-year CAGR (FY16-19) was 88%. FBB revenue continued growing strongly in FY20-21 (c.21% increase p.a.) thanks to the work-from-home trend. In FY21, FBB accounted for 6.4% of core service revenue.

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	20.6	20.2	25.8	21.7	21.1
Core P/E (x)	19.1	25.3	25.8	21.7	21.1
P/BV (x)	6.9	8.4	7.8	7.5	7.2
P/NTA (x)	6.9	8.4	7.8	7.5	7.2
Net dividend yield (%)	3.9	3.3	3.5	4.2	4.3
FCF yield (%)	5.9	5.9	7.3	6.8	7.2
EV/EBITDA (x)	7.4	8.8	8.4	7.8	7.3
EV/EBIT (x)	17.5	21.2	21.0	19.3	18.1
INCOME STATEMENT (THB m)					
Revenue	172,889.0	181,332.9	182,518.3	190,076.8	195,179.6
EBITDA	89,553.0	91,554.0	90,027.7	94,225.4	97,086.8
Depreciation	(51,842.0)	(53,374.0)	(53,957.2)	(56,168.1)	(57,738.3)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	37,711.0	38,180.0	36,070.6	38,057.3	39,348.5
Net interest income / (exp)	(5,917.0)	(5,626.0)	(5,430.2)	(1,374.9)	(1,676.0)
Associates & JV	10.0	0.0	10.0	10.0	10.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	722.0	340.0	767.7	767.7	767.7
Pretax profit	32,526.0	32,894.0	31,418.0	37,460.1	38,450.1
Income tax	(5,089.0)	(5,970.0)	(6,037.6)	(7,246.0)	(7,444.0)
Minorities	(3.0)	(2.0)	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	27,434.0	26,922.0	25,380.4	30,214.1	31,006.1
Core net profit	27,432.0	27,038.1	25,380.4	30,214.1	31,006.1
BALANCE SHEET (THB m)					
Cash & Short Term Investments	18,420.8	12,739.3	16,643.7	16,475.0	16,427.7
Accounts receivable	17,781.2	16,552.3	16,660.5	17,350.4	17,816.2
Inventory	2,372.1	2,104.3	2,125.5	2,211.2	2,252.6
Property, Plant & Equip (net)	122,518.0	117,844.0	120,525.2	122,322.3	122,167.6
Intangible assets	120,223.8	142,639.0	152,384.5	138,705.9	125,027.4
Investment in Associates & JVs	830.6	982.9	982.9	982.9	982.9
Other assets	68,024.8	63,360.0	52,435.4	43,462.9	33,754.7
Total assets	350,171.2	356,221.7	361,757.7	341,510.6	318,429.1
ST interest bearing debt	18,748.4	14,131.7	29,131.7	29,131.7	29,131.7
Accounts payable	40,570.7	45,055.4	45,716.2	47,386.5	48,554.8
LT interest bearing debt	79,301.2	73,696.6	48,000.0	34,000.0	21,000.0
Other liabilities	135,862.0	141,514.0	154,547.0	143,608.0	129,258.0
Total Liabilities	274,481.9	274,397.2	277,395.1	254,126.6	227,944.5
Shareholders Equity	75,564.0	81,698.8	84,236.8	87,258.2	90,358.8
Minority Interest	125.4	125.8	125.8	125.8	125.8
Total shareholder equity	75,689.3	81,824.5	84,362.6	87,384.0	90,484.6
Total liabilities and equity	350,171.2	356,221.7	361,757.7	341,510.6	318,429.1
CASH FLOW (THB m)					
Pretax profit	32,526.0	32,894.0	31,418.0	37,460.1	38,450.1
Depreciation & amortisation	51,842.0	53,374.0	53,957.2	56,168.1	57,738.3
Adj net interest (income)/exp	5,917.0	5,626.0	5,430.2	1,374.9	1,676.0
Change in working capital	(88.1)	(1,034.3)	3,037.9	800.8	604.1
Cash taxes paid	(5,089.0)	(5,970.0)	(6,037.6)	(7,246.0)	(7,444.0)
Other operating cash flow	421.8	441.5	1,248.0	530.7	564.0
Cash flow from operations	85,529.8	85,331.2	89,053.7	89,088.6	91,588.5
Capex	(27,947.8)	(25,786.1)	(30,000.0)	(30,000.0)	(29,000.0)
Free cash flow	30,746.9	40,035.9	48,014.5	44,560.9	46,899.9
Dividends paid	(20,218.8)	(21,204.1)	(24,030.6)	(25,017.5)	(27,549.1)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	(8,781.2)	(22,103.3)	(22,935.0)	(26,605.6)	(25,983.8)
Other invest/financing cash flow	(29,797.9)	(21,919.2)	(8,183.7)	(7,634.1)	(9,103.0)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(1,215.9)	(5,681.5)	3,904.4	(168.7)	(47.3)

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	(4.4)	4.9	0.7	4.1	2.7
EBITDA growth	14.3	2.2	(1.7)	4.7	3.0
EBIT growth	(8.3)	1.2	(5.5)	5.5	3.4
Pretax growth	(13.0)	1.1	(4.5)	19.2	2.6
Reported net profit growth	(12.0)	(1.9)	(5.7)	19.0	2.6
Core net profit growth	(14.8)	(1.4)	(6.1)	19.0	2.6
Profitability ratios (%)					
EBITDA margin	51.8	50.5	49.3	49.6	49.7
EBIT margin	21.8	21.1	19.8	20.0	20.2
Pretax profit margin	18.8	18.1	17.2	19.7	19.7
Payout ratio	75.0	84.9	90.0	90.0	90.0
DuPont analysis					
Net profit margin (%)	15.9	14.8	13.9	15.9	15.9
Revenue/Assets (x)	0.5	0.5	0.5	0.6	0.6
Assets/Equity (x)	4.6	4.4	4.3	3.9	3.5
ROAE (%)	37.9	34.2	30.6	35.2	34.9
ROAA (%)	8.6	7.7	7.1	8.6	9.4
Liquidity & Efficiency					
Cash conversion cycle	(83.8)	(86.2)	(93.0)	(92.2)	(92.7)
Days receivable outstanding	37.6	34.1	32.8	32.2	32.4
Days inventory outstanding	11.7	6.6	6.1	6.1	6.1
Days payables outstanding	133.1	126.9	131.8	130.5	131.2
Dividend cover (x)	1.3	1.2	1.1	1.1	1.1
Current ratio (x)	0.4	0.4	0.3	0.3	0.3
Leverage & Expense Analysis					
Asset/Liability (x)	1.3	1.3	1.3	1.3	1.4
Net gearing (%) (incl perps)	105.2	91.8	71.7	53.4	37.2
Net gearing (%) (excl. perps)	105.2	91.8	71.7	53.4	37.2
Net interest cover (x)	6.4	6.8	6.6	27.7	23.5
Debt/EBITDA (x)	1.1	1.0	0.9	0.7	0.5
Capex/revenue (%)	16.2	14.2	16.4	15.8	14.9
Net debt/ (net cash)	79,628.8	75,089.0	60,488.0	46,656.7	33,704.0

Source: Company; Maybank IBG Research

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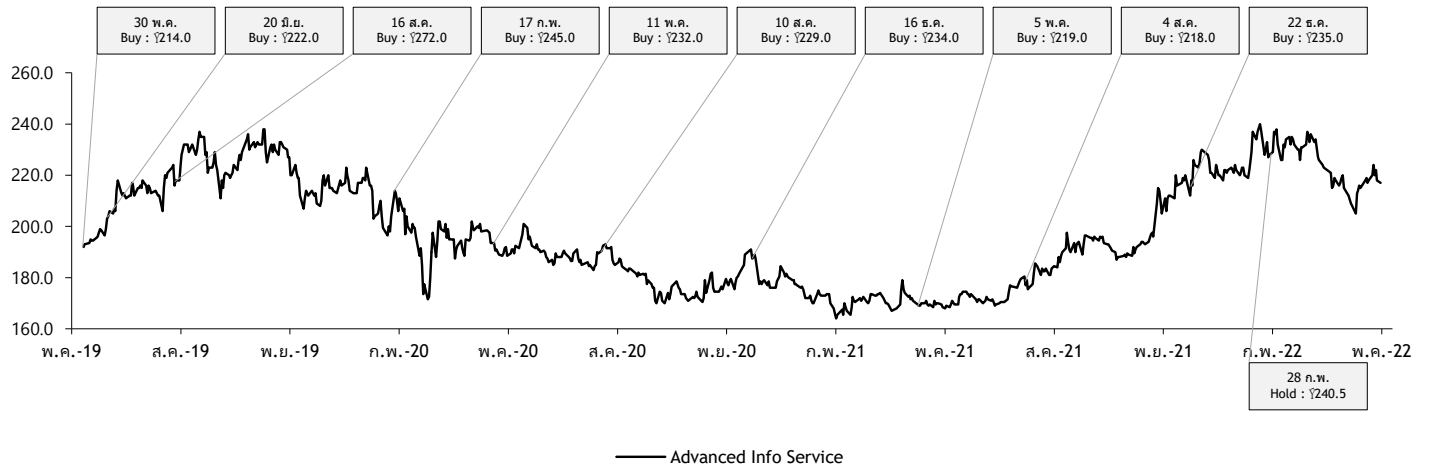
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