

Digital Telecommunications (DIF TB)

Long-term lease and 8% yield

Initiate with BUY; DIF is a stable yield play

DIF is the owner of telecom towers and fibre, used in mobile and fixed-broadband businesses, and the lease contracts have revenue-weighted-average lease of 17 years remaining (vs 8.2 years at JASIF). The long lease duration and stable yield of c.8% from FY22E onwards lead us to initiate coverage on DIF with BUY and an end-FY23E TP of THB14.80, based on a DCF approach. We prefer DIF over JASIF (Jasmine Broadband Internet Infrastructure Fund, CP THB8.70, HOLD, TP THB8.10) thanks to longer lease terms and higher IRR (DIF's 8.7% vs JASIF's 5.6%).

Owner of telecom towers and fibre

DIF has freehold ownership of fibre network and telecom towers. In FY21, TRUE contributed 96% of DIF's revenue, and DTAC contributed 4%. TRUE holds 20.6% of DIF's shares, and its wholly-owned subsidiary, Telecom Asset Management, is a telecom asset manager for DIF. In FY21, fibre contributed 67% of revenue while the remaining 33% came from towers.

DIF is TRUE's long-term commitment

TRUE's lease agreements with DIF will expire in Sep 2043 for fibre and Sep 2033 for towers. The contracts imply revenue-weighted-average lease terms of 17 years remaining (vs 8.2 years at JASIF). We estimate IRR of 8.7% for DIF (vs 5.6% for JASIF), assuming that i) TRUE will extend the fibre lease by five years after the current contract expires in 2043 and ii) TRUE will continue leasing towers indefinitely (0% TG at end-FY64E).

Initiate with BUY and DCF-based TP of THB14.80

We initiate coverage on DIF with a DCF-based TP of THB14.80 (7.4% WACC). Our BUY call is supported by 17% potential return (7.7% FY23E yield and 8.8% upside to the TP). Upside risk is an increase in leases from the New Co in the long run (2-3 years from now). If TRUE does not extend any of the existing lease contracts with DIF, the worst-case scenario would imply and IRR of 3.9% (vs JASIF's worst-case IRR of 1.1%) and fair value of THB11.30 (vs JASIF's worst-case fair value of THB6.30).

FYE Dec (THB m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	14,691	14,727	14,440	14,631	14,818
EBITDA	14,348	14,375	14,076	14,263	14,446
Core net profit	12,406	12,669	12,407	12,463	12,614
Core EPS (THB)	1.17	1.19	1.17	1.17	1.19
Core EPS growth (%)	2.1	2.1	(2.1)	0.4	1.2
Net DPS (THB)	1.04	1.04	1.04	1.04	1.06
Core P/E (x)	11.1	11.7	11.7	11.6	11.5
P/BV (x)	0.8	0.8	0.8	0.8	0.8
Net dividend yield (%)	8.1	7.5	7.7	7.7	7.8
ROAE (%)	7.7	7.4	6.6	6.6	6.7
ROAA (%)	5.5	5.7	5.6	5.6	5.7
EV/EBITDA (x)	11.2	11.8	11.8	11.6	11.4
Net gearing (%) (incl perps)	13.5	12.3	12.1	11.6	11.1
Consensus net profit	-	-	12,153	12,199	12,380
MKE vs. Consensus (%)	-	-	(3.8)	(3.7)	(3.9)

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BUY

Share Price THB 13.60
12m Price Target THB 14.80 (+17%)

Company Description

DIF owns a core fibre optic network and telecom towers mostly being used by TRUE, which operates a fixed broadband and mobile businesses.

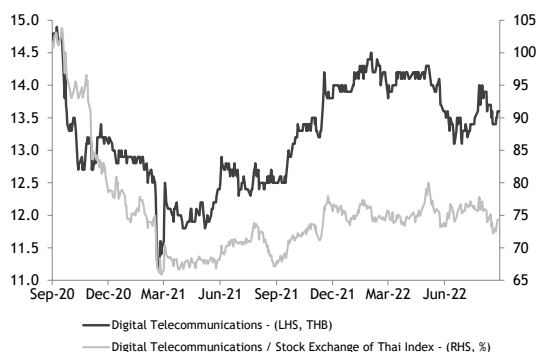
Statistics

52w high/low (THB)	14.50/12.50
3m avg turnover (USDm)	4.9
Free float (%)	67.9
Issued shares (m)	10,632
Market capitalisation	THB144.6B USD4.0B

Major shareholders:

True Corporation	20.6%
Social Security Office	2.3%
Land and Houses Bank	2.1%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(1)	(1)	9
Relative to index (%)	(2)	1	11

Source: FactSet

Terms defined

NBTC - National Broadcasting and Telecommunications Commission.
New Co - merged company of TRUE and DTAC.

Other listed stocks mentioned

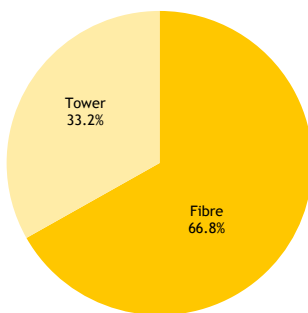
JASIF - Jasmine Broadband Internet Infrastructure Fund (CP THB8.70, HOLD, TP THB8.10).
TRUE - True Corporation (TRUE TB, CP THB4.56, HOLD, TP THB4.76).
DTAC - Total Access Communication (DTAC TB, CP THB43.0, BUY, TP THB48.60).

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Tear Sheet Insert

Value Proposition

- DIF owns a fibre network and telecom towers and leases its assets out to telecom operators in Thailand.
- The infrastructure fund was founded in 2013 by True Corporation (TRUE TB), which sold telecom assets to the fund and agreed to lease them back. Originally, TRUE owned 33.3% of DIF shares, but the stake had dropped to 20.6% by the end of Jun 2022.
- Since the IPO, TRUE has tried to position DIF as an independent tower company, but revenue from TRUE still accounts for over >95% of DIF's revenue each year.
- DIF's fund manager is SCB Asset Management (SCBAM). SCBAM is not actively looking for more asset injection by TRUE or any company at the moment. Currently, TRUE's priority is to finish the amalgamation with DTAC.

DIF's revenue breakdown in 2021

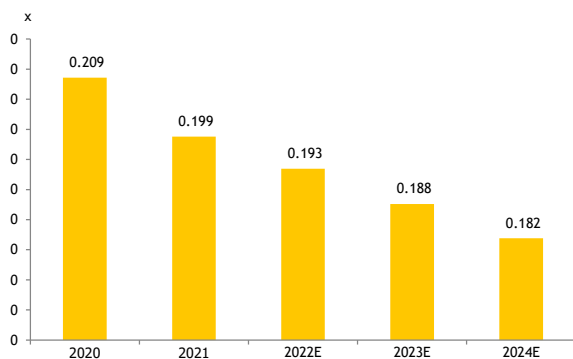


Source: Company

Financial Metrics

- At the end of 2021, DIF had THB39.4b liabilities, comprising THB27.3b interest-bearing debt and THB12.2b lease liabilities.
- FY21 net-debt-to-equity ratio was 0.2x (or only 0.13x excluding lease liabilities).

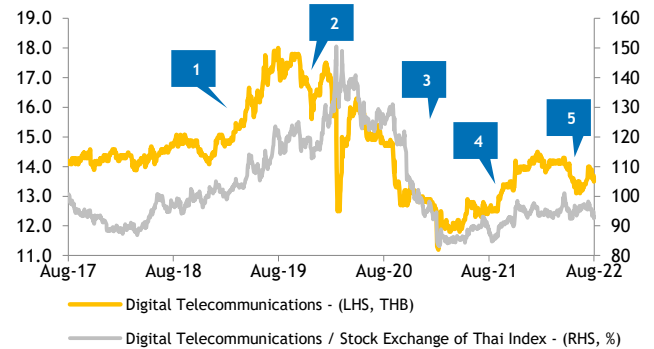
Net D/E ratio (interest-bearing debt and lease liabilities)



Source: Company

Price Drivers

Historical share price trend



Source: Company, MST

1. In May 2019, TRUE announced its plan to inject more assets into DIF. The transaction was completed in Aug 2019.
2. DIF's share price had a small correction after the asset injection was completed in Aug 2019 as the asset acquisition did not lead to significant increases in DPS.
3. TRUE sold DIF shares in Dec 2019. The telecom operator continued to sell DIF shares two more times in Jun and Sep 2020. The poor sentiment from the share sales and Covid-19 outbreak led to poor price performance during 2020.
4. A relief rally was supported by the low-interest-rate environment and the lack of DIF share sales.
5. DIF's share price dropped as TRUE sold 300m of DIF shares at c. THB13.20/sh.

Swing Factors

Upside

- More asset injections by TRUE or merged company of TRUE and DTAC.
- Increases in occupancy rates of telecom towers and fibre by TRUE or merged company of TRUE and DTAC.

Downside

- The revenue-weighted-average lease duration is c.17 years remaining. The contracts are lease agreements by TRUE, so the worst-case scenario is TRUE failing to pay rent to DIF.

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Risk Rating & Score ¹	N/A
Score Momentum ²	N/A
Last Updated	N/A
Controversy Score ³	N/A

Business Model & Industry Issues

- DIF is a telecom infrastructure fund, set up and managed by SCB Asset Management (SCBAM, wholly-owned subsidiary of Siam Commercial Bank). DIF is a product of sale-and-lease back agreement by True Corporation (TRUE TB).
- DIF also hires Telecom Asset Management, TRUE’s wholly-owned subsidiary, to provide maintenance service for the infrastructure fund. Telecom Asset Management also provides admin and marketing services for the fund.
- There is no budget or reporting related to social responsibility at DIF’s level, but SCBAM has conducted its own ESG activities that are not related to DIF.

Material E issues

- There is no separate set of ESG reporting for DIF. We only see corporate governance principles and practices (law-abiding policies) and some social activities at SCBAM’s level.

Key G metrics and issues

- There is heavy reliance on TRUE to honour contractual obligations. TRUE contributed c.96% of DIF’s revenue in FY21, so the fund relies heavily on the outlook for TRUE’s fixed-broadband and mobile businesses.
- DIF was a brainchild of TRUE back in 2013 when the infrastructure fund was created and listed on the Stock Exchange of Thailand as all assets were injected into the fund by TRUE. JAS has remained the biggest shareholder of DIF since the fund’s inception (current stake of 20.6%).
- It is worth noting that Telecom Asset Management, a wholly-owned subsidiary of TRUE, is the asset manager (key responsibilities are maintenance and marketing services) of the fund. Having TRUE’s subsidiary as an asset manager may make TRUE’s competitors hesitant to lease assets from DIF due to concerns related to data privacy and network quality.

Material S issues

- There is no separate set of ESG reporting for DIF. We only see corporate governance principles and practices (law-abiding policies) and some social activities at SCBAM’s level.

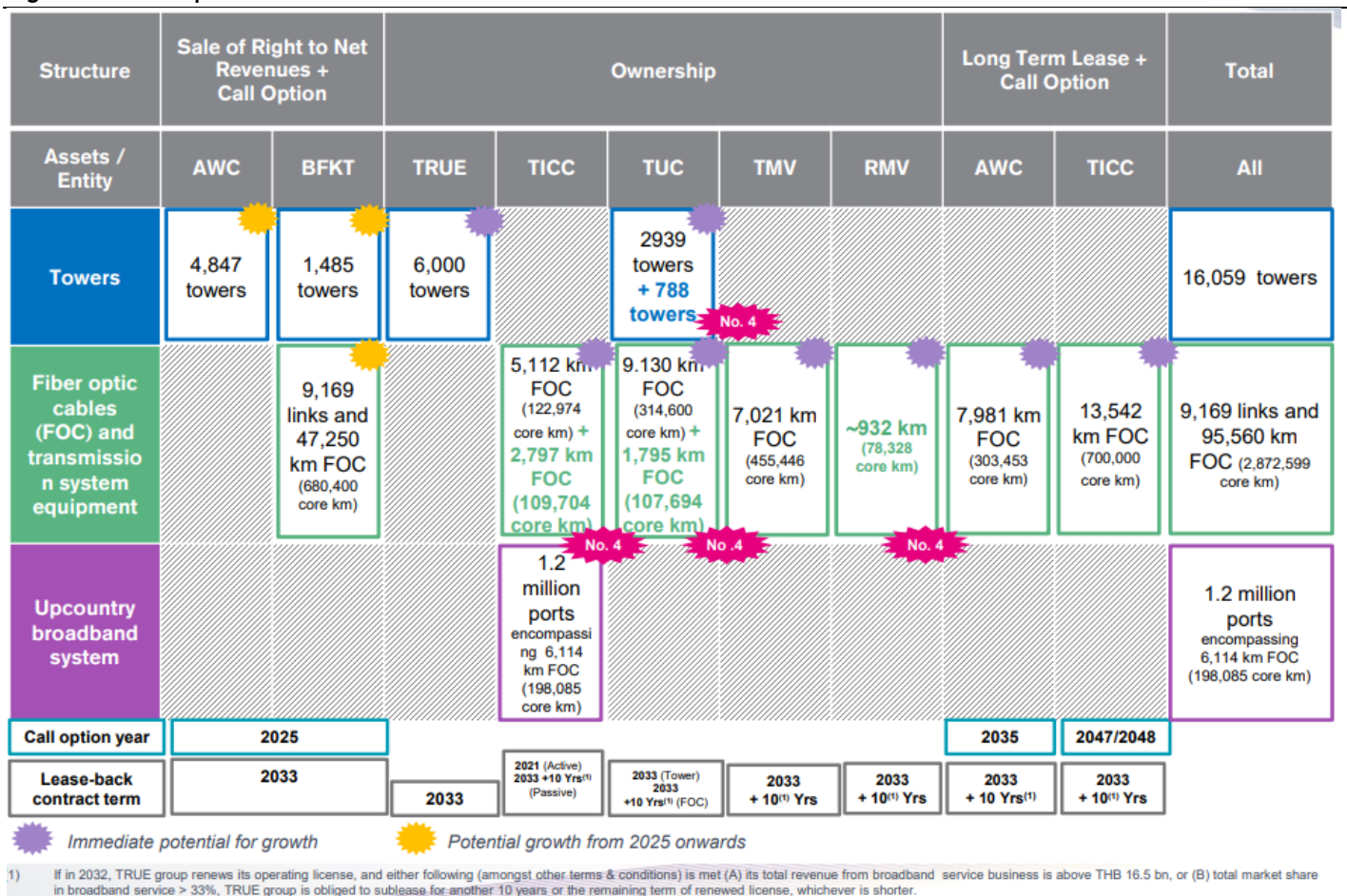
¹**Risk Rating & Score** - derived by Sustainalytics and assesses the company’s exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company’s enterprise value, respectively, from ESG-driven 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).

1. Corporate information

1.1 Owner of fibre optic cable (FOC) and telecom towers

Digital Telecommunications Infrastructure Fund (DIF TB) is the largest infrastructure fund in Thailand by market capitalisation. The fund owns fibre network and telecom towers, which are predominantly being used by True Corporation (TRUE TB) in mobile and fixed-broadband businesses. DIF raised THB58b at its IPO in 2013. The fund then proceeded to purchase assets four more times in 2015, 2017, 2018 and 2019; the four transactions costed DIF a total of THB97b.

Fig 1: DIF’s asset portfolio



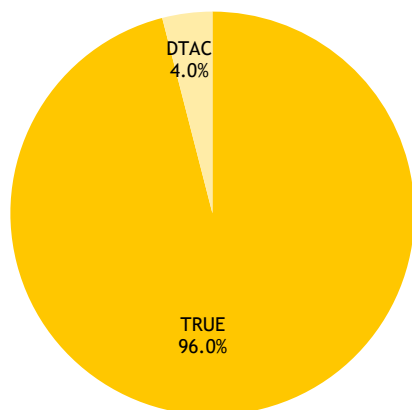
Source: Company, MST

1.2 Revenue breakdown

TRUE contributed 96% of FY21 revenue

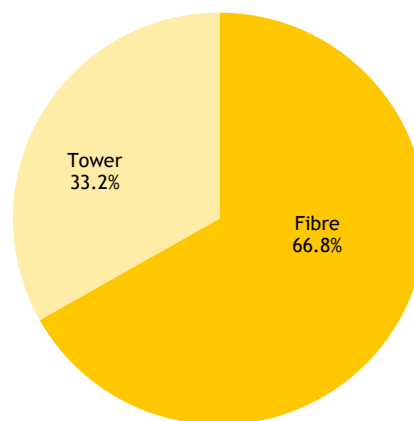
DIF has bought all of its assets from TRUE, which has agreed to lease the assets back under long-term lease agreements. In FY21, TRUE contributed 96% of DIF’s revenue while the remaining 4% was from Total Access Communication (DTAC TB).

Fig 2: Revenue breakdown by client in FY21



Source: Company, MST

Fig 3: Revenue breakdown by asset type in FY21



Source: Company, MST

Majority of revenue comes from fibre

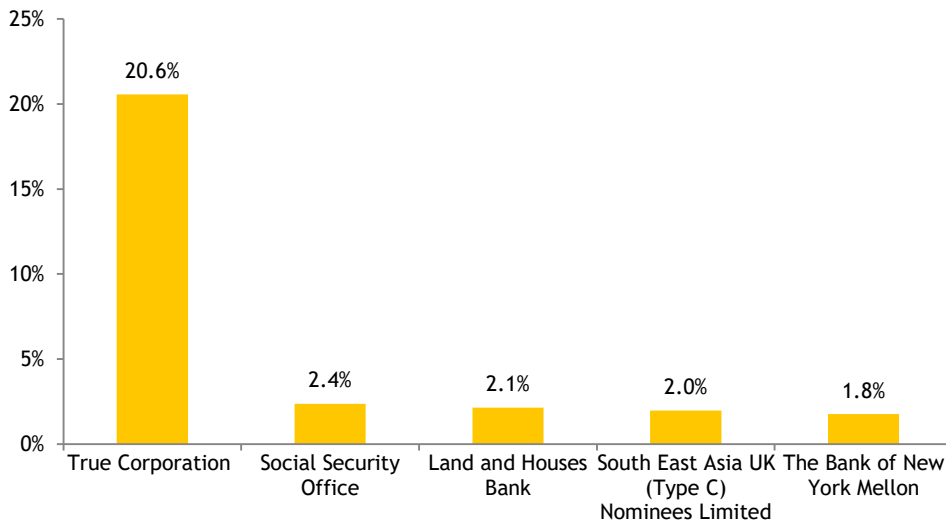
In FY21, FOC contributed 67% of DIF’s revenue while the remaining 33% came from telecom towers. TRUE’s lease agreements with DIF will expire in Sep 2043 for fibre and Sep 2033 for towers, implying revenue-weighted-average lease terms of 17 years remaining.

DIF has 3.07m core km of fibre, and the rental rate for fibre is fixed at THB350 per core km per month until the end of the current lease contract in Sep 2043. The infrastructure also owns 16.1k towers, and the average revenue per tower is THB25.3k per tower per month. The rental rate for tower is scheduled to increase by 2.7% annually until the end of current lease contract in Sep 2033.

1.3 TRUE is still the biggest shareholder with a 20.6% stake

DIF, originally named True Telecommunications Growth Infrastructure Fund or TRUEGIF, was established as a sale-and-lease-back agreement by TRUE in 2013. From 2016 to 3Q19, TRUE’s stake in DIF was in the narrow range of 28-30%. Starting in 4Q19, TRUE started divesting DIF shares; the last share sale occurred in Jun 2022, resulting in a reduced stake of 20.6%. TRUE’s wholly-owned subsidiary, Telecom Asset Management, is also a telecom asset manager for DIF; it provides maintenance, admin, and marketing services and charged DIF THB47m fees in FY21.

Fig 4: Top five shareholders as of 18 Aug 2022



Source: Company, MST

1.4 Infrastructure fund structure

Infrastructure fund is a type of mutual fund established to mobilise funds from general and institutional investors to invest in Thailand’s infrastructure projects, which include, but are not limited to, rail transit systems, water, airports and telecommunications. Investments are recognised as costs and will be presented at fair value without depreciation or amortisation. The SEC stipulates that the dividend payout shall not be less than 90% of distributable income.

The withholding tax on dividends (investors’ level) is exempted for 10 years from inception. Also, infrastructure funds have no corporate tax liability, as they are exempted from corporate income tax in Thailand. DIF had an IPO in Dec 2013, implying that the exemption of withholding tax on dividends will expire in Dec 2023.

2. Investment focus

2.1 Lease agreements have 17 years remaining

DIF's revenue-weighted-average lease duration has 17 years remaining. TRUE's lease agreements with DIF will expire in Sep 2043 for fibre (66% of FY22E revenue) and Sep 2033 for towers (30% of FY22E revenue). DTAC's lease agreement with DIF will expire in Dec 2023 (4% of FY22E revenue). Seventeen years is the longest lease guarantee among infrastructure funds and REITs in Thailand.

Fig 5: DIF's lease agreements

	Lease-back agreement by TRUE	FY21 revenue breakdown
Tower leases	Lease until Sep 2033	33%
Fibre leases	Lease until Sep 2033 + 10 years*	63%
Third-party leases	Renewable annual contract	4%
Total	17 years of remaining guarantee (revenue-weighted-average)	100%

*The 10-year extension for fibre if one of the following conditions is met in 2032

1) TRUE's fixed-broadband revenue is above THB16.5bn	2021: THB29.5bn
2) TRUE's fixed-broadband market share is above 33%	2019: 37.5%

Source: Company, MST

2.2 Key assumptions after the lease contracts expire

2.3.1. Expect TRUE to eventually replace DIF's fibre network

Assuming 5-year extension after the current lease expires

We expect TRUE to continue leasing fibre from DIF for five years after the current lease agreement (66% of FY22E revenue) expires in Sep 2043; the 5-year extension, the same assumption that we use for the lease extension at JASIF, should give TRUE enough time to roll out its own fibre network to replace DIF's. We believe TRUE will eventually roll out a fibre network to replace DIF's network due to i) limited useful life of fibre optic cable (25-30 years) and ii) fibre capex being cheaper than two years of rent from DIF.

Fibre optic cable has limited useful life of 25-30 years

1.1m core km of fibre, or 43% of DIF's fibre, was injected into the fund during 2013-15. Assuming 30 years of useful life implies that this set of fibre would be out of order by 2043-45 (vs the lease expiry in 2043). DIF bought the remaining 1.5m core km of fibre, or 57% of its fibre in 2017-19, implying that this batch of fibre will be out of order by 2047-2049. Note that most of DIF's fibre had been operational under TRUE for a few years before the injection into DIF, so we believe all of DIF's fibre would be at least 30 years by the end of FY49E.

Fibre investment is cheaper than two years of fibre rent from DIF

On the capex front, we estimate that it would cost TRUE THB17.3b to replace DIF's fibre network (vs THB9.5b rental payment that TRUE is paying annually for the use of DIF's fibre). Our calculation of THB17.3b capex is based on JAS's estimates in 2019; JAS estimated that it would cost THB9.5b to roll out 1,680,500 core km of fibre, implying replacement cost of THB5.6k per core km. DIF's 3,070,684 core km of fibre and THB5.6k capex per core km result in THB17.3b replacement cost for DIF's assets.

Fig 6: Estimated useful lives of cable assets

Organisation	Categories as stated in reports	Estimated Life (Years)
Federal Communication Commission	Aerial Cable - Metallic	20 - 25
	Aerial Cable - Non Metallic	25 - 30
	Underground Cable - Metallic	25 - 30
	Underground Cable - Non Mettalic	25 - 30
	Buried Cable - Metallic	20 - 26
	Buried Cable - Non Metallic	25 - 30
Corning	Fibre Optic Cables in General	> 25
Technology Futures, Inc	Newly Installed Fibre Optic Cable	20 - 25

Source: *Expected Life Study: Telecommunication and Cable Assets by Nevada Department of Taxation, MST*

2.3.2. Expect TRUE to rent towers from DIF indefinitely

We believe TRUE can rent towers from DIF indefinitely

We forecast TRUE to continue leasing towers from DIF indefinitely after the current lease agreement (30% of FY22E revenue) expires in Sep 2033. In 2012, ELL Tower Solutions estimated that galvanised steel telecom towers could last for 30-50 years. In 2013, a detailed life cycle assessment (LCA) study by Steel Market Development Institute (SMDI) estimated 80-year life span for steel utility poles.

2.3 No concrete plan for more asset injections

DIF had four asset injections after the IPO. The latest round asset injection by TRUE to DIF was back in Aug 2019; the transaction, comprising 788 telecom towers and 295,726 core km of fibre, was worth THB15.7b. TRUE has not disclosed any plan to inject more assets to DIF at this point as the company's priority is its goal to merge with DTAC by the end of FY22E.

Larger portfolio of telecom infrastructure at the merged company at TRUE and DTAC (New Co) may lead to more asset injections in the long run, but TRUE's management has said that the decision to sell more assets to DIF is up to the New Co's management team. If amalgamation of TRUE and DTAC is completed within 1Q23E, we expect no asset injection by the New Co in FY23-24E as merged company will have to focus on integration and restructuring processes.

2.4 Potential upside from increases in leases by New Co

Although we expect no asset sale by the New Co to DIF during the first few years of its operation, DIF may enjoy higher rental income if the New Co switches from using some of DTAC's network sites to renting more of DIF's tower slots. The average occupancy of DIF's tower was 2.33 out of 4.0 slots per tower as of 2Q22 (implied occupancy rate of 58%).

There are a few limitations for switching from DTAC's network sites to DIF's. First, it could be impractical to utilise more of DIF's towers in major cities with high population density (i.e. Bangkok, Chiang Mai and Phuket). We expect the majority of the towers in those towns to already be fully occupied as TRUE is accommodating high demand for data usage. Second, the New Co may decide to completely shut down DTAC's network sites without utilising more of DIF's network in remote rural areas where data usage is relatively light. In short, switching from DTAC's to DIF's network sites seems feasible in suburban areas where data usage is neither very light nor very heavy.

3. Competitive landscape and positioning

3.1 Telecom infrastructure sharing is rare in Thailand

The vast majority of telecom network capacities being used in Thailand are self-developed. Also, most network sharing are public-private collaborations in the mobile business between the state-owned enterprise National Telecom and other operators; private enterprises rarely share networks with each other. JASIF, which is also a product of sale-and-lease-back agreement, has only one tenant, TTTBB. FOC sharing among FBB operators in Thailand is non-existent. DTAC is the only third-party lessee of DIF's telecom towers, but it accounts for only 4% of DIF's annual revenue.

3.2 DIF's advantages over JASIF

Growth opportunity. There are only two telecom infrastructure funds in Thailand, JASIF and Digital Telecommunications Infrastructure Fund (DIF, non-rated). Approximately 4% of DIF's revenue comes from a third-party lessee (not related to True Corporation, a major shareholder and key tenant of DIF), which is Total Access Communication or DTAC. We believe there are more opportunities for new leases at DIF than JASIF. If TRUE and DTAC successfully merge, we believe DIF may be able to benefit from the merged company's network consolidation (DTAC moving some of its equipment from existing network sites to DIF's towers).

Longer years of lease agreement. At the current market price, DIF offers a FY23E yield of 7.7%, lower than JASIF's 11.0% yield. However, DIF has a longer revenue-weighted-average remaining lease of 17.0 years (vs JASIF's 8.2 years).

Fig 7: Lease agreements (DIF vs JASIF)

	TRUE's leases with DIF	vs	TTTBB's leases with JASIF
Revenue-weighted-average lease guarantee (remaining years)	17.0		8.2
First expiration of rental guarantee	Sep 2033 (33% of revenue)		Feb 2026 (18% of revenue)
Second expiration of rental guarantee	Sep 2043 (63% of revenue)		Jan 2032 (82% of revenue)

Source: Company, MST

Superior IRR. We estimate IRR of 8.7% for DIF (vs 5.6% for JASIF), assuming that i) TRUE will extend the fibre lease by five years after the current contract expires in Sep 2043 and ii) TRUE will continue leasing towers indefinitely (0% TG at end-FY64E). If ADVANC buys TTTBB and JASIF and change the lease contracts (TTTBB is a sole tenant of JASIF) according to its proposals, we would estimate IRR for JASIF at 3.1% (assuming no lease after FY37E).

If we calculate IRR based on only existing contractual obligations (no lease extensions), we estimate IRR of 3.9% for DIF and 1.1% for JASIF.

Fig 8: DIF vs JASIF (fair values, dividend yields and IRRs under different scenarios)

	MST's forecasts			Worst-case scenario (no lease extension)			ADVANC reduces rent to JASIF by 31% pa		
	Fair value	FY23E yield	IRR	Fair value	FY23E yield	IRR	Fair value	FY23E yield	IRR
DIF	14.80	7.7%	8.7%	11.30	7.7%	3.9%	NA	NA	NA
JASIF	8.10	11.0%	5.6%	6.30	11.0%	1.1%	6.90	6.8%	3.1%
	BASE CASE								

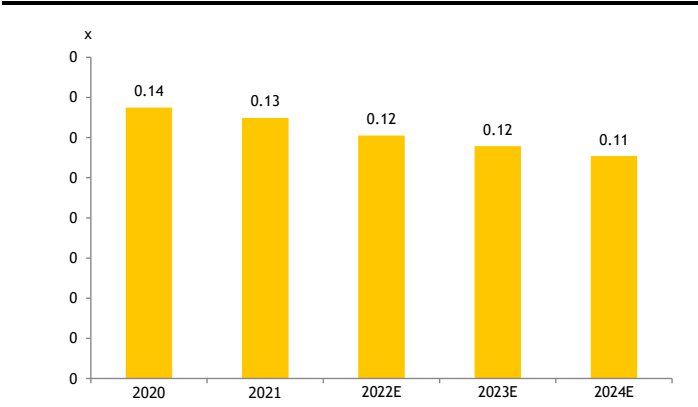
Source: Company, MST

4. Financial analysis

4.1 Healthy balance sheet

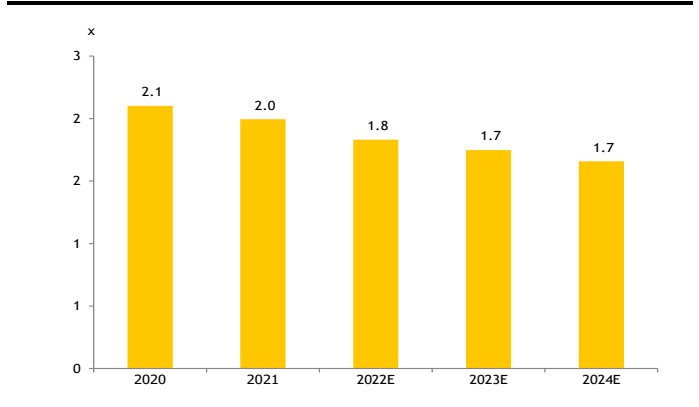
At the end of 2021, DIF had THB27.3b interest-bearing debt and THB12.2b lease liabilities. FY21 net-debt-to-equity ratio was 0.13x. We expect net-debt-to-equity ratio to drop to 0.12x by the end of FY22E. We forecast net-debt-to-EBTIDA ratio of 1.5x.

Fig 9: Net-debt-to-equity ratio (based on interest-bearing debt)



Source: Company, MST

Fig 10: Net-debt-to-EBITDA ratio (based on interest-bearing debt)



Source: Company, MST

4.2 Expect DIF to refinance THB13b debt in Nov 2022

DIF has THB12.8b in bank loans (4.82% interest rate) that will be due on 24 Nov 2022. We expect DIF to refinance the loan in the same manner as the first tranche of debt that was due in Mar 2020. Specifically, we forecast DIF to start paying 10% of the loan (THB1.3b) over the 5-year period (THB256m/year) while leaving the remaining 90% of the loan (THB11.5b) for refinancing negotiation at the end of the 5-year period (Nov 2027).

Fig 11: Debt refinancing in Mar 2020

1st bank loan	
Original terms	
Bank loan	THB13.1b
Original due date for the loan	05-Mar-20
Refinancing terms	
DIF scheduled to pay off 10% of the loan over five years	THB1.3b or THB262m/year
The remaining balance will be due in March 2025	THB11.8b

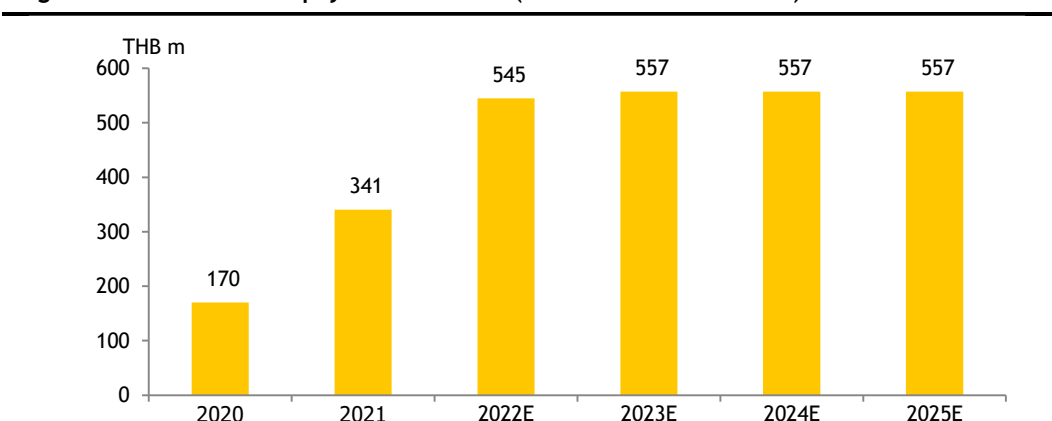
Source: Company, MST

Fig 12: Expected debt refinancing in Nov 2022

2nd bank loan	
Original terms	
Bank loan	THB12.8b
Original due date for the loan	24-Nov-22
Refinancing terms	
DIF scheduled to pay off 10% of the loan over five years	THB1.3b or THB256m/year
The remaining balance will be due in Nov 2027	THB11.5b

Source: Company, MST

Fig 13: Estimated debt repayment schedule (all bank loans combined)

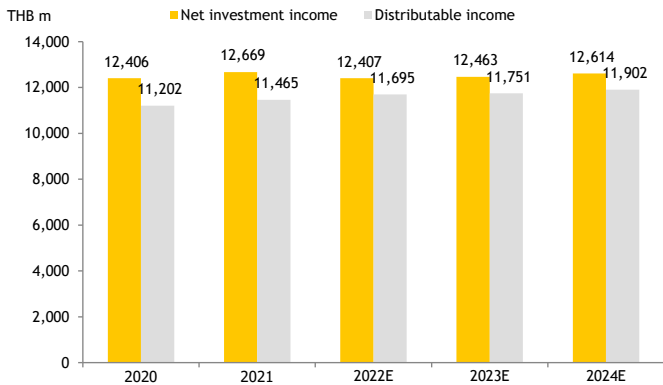


Source: Company, MST

4.3 Flat profit in FY23-25E

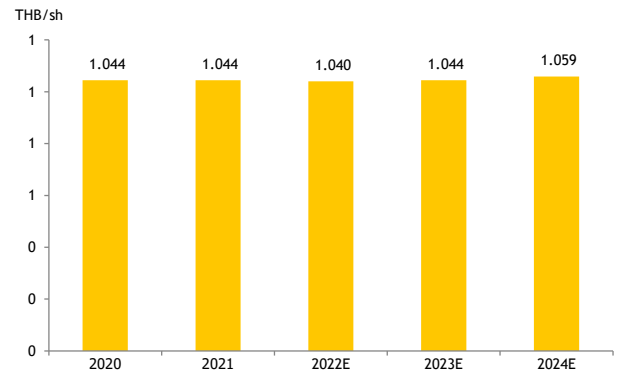
We forecast FY22E net investment income to drop by 2.1% on the back of 1.9% revenue decrease. The revenue decrease in FY22E should stem from the expiry of lease (active equipment in broadband system outside Bangkok) in Dec 2021. Then, we expect net investment income to be flattish (0-1% growth) during FY23-25E on the back of c.1% revenue increase. The rental rate of DIF’s fibre is fixed at THB350/core km/month while the rental hike for towers is 2.7% pa.

Fig 14: Net investment income and distributable income



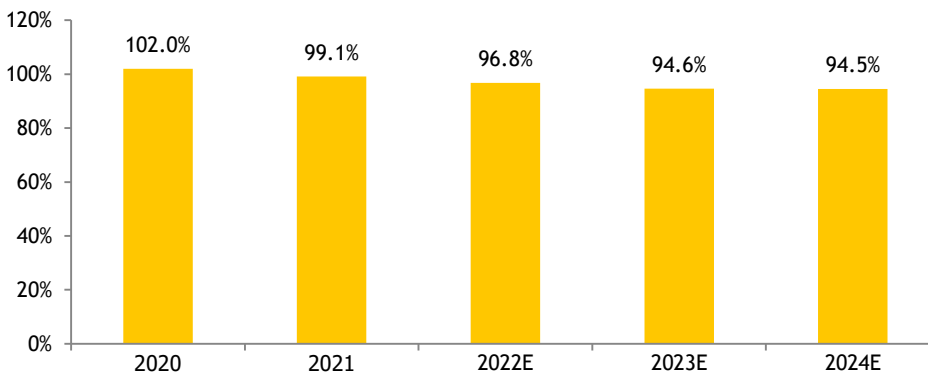
Source: Company, MST

Fig 15: DPS



Source: Company, MST

Fig 16: Dividend payout ratio (based on distributable income)



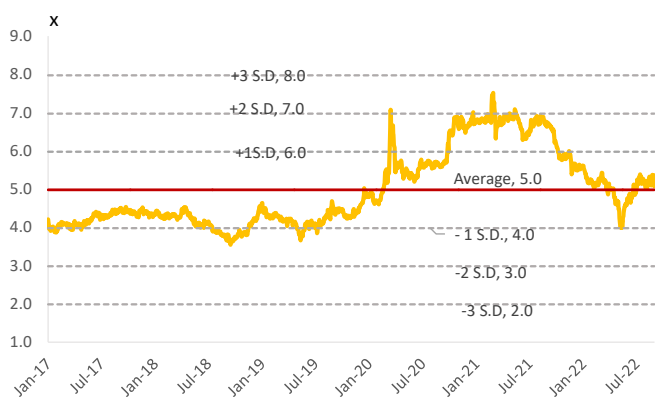
Source: Company, MST

5. Valuation

5.1 Initiate with BUY and THB14.80 TP

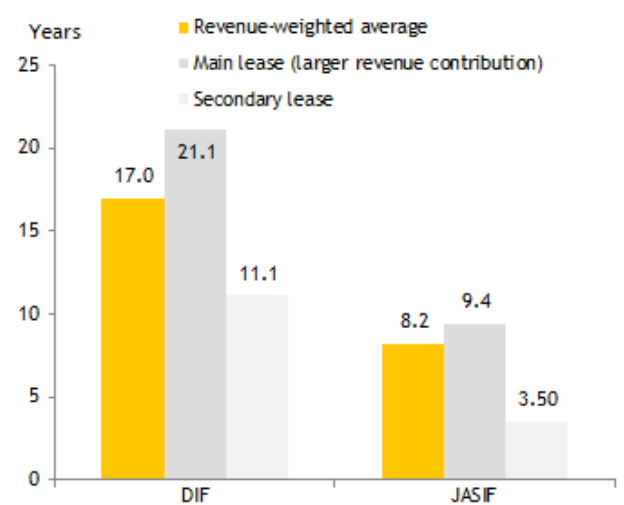
We initiate coverage on DIF with a BUY call and a DCF-based TP of THB14.80 (7.4% WACC, 0% TG). We like DIF for its 8% FY23E yield and long lease agreements (revenue-weighted average lease term of 17 years remaining). If TRUE successfully merges with DTAC, we expect the merged co’s balance sheet to be larger and healthier than TRUE’s, reducing of the risk of renegeing on rental payment to DIF. TRUE merging with DTAC should result in FY23E net-debt-to-EBITDA ratio (based on interest-bearing debt) of 3.9x, lower than TRUE’s standalone net-debt-to-EBITDA ratio of 4.6x.

Fig 17: Yield gap band (DIF’s last-12-month dividend yield minus Thailand’s 10-year government bond yield)



Source: Bloomberg, Company, MST

Fig 18: Remaining lease duration of DIF and JASIF



Source: Company, MST

5.2 No salvage value for fibre at end-FY48E

We forecast TRUE to lease fibre from DIF until the end of FY48E, approximately five years after the current lease agreement expires. We expect no salvage value for DIF’s fibre network at end-FY48E as we estimate that most of the fibre will have been operational for over 30 years by then (fibre has an estimated useful life of 25-30 years).

On the tower front, we assume that TRUE will lease towers from DIF indefinitely. We calculate terminal value of tower rent at the end of FY64E, based on 7.6% WACC and 0% terminal growth rate. The present value of the terminal value accounts for only 2% of the enterprise value.

Fig 19: DCF valuation

Unit: THB m	2023E	2024E	2025E	2026E	2027E	2028E	2029E	Perpetuity
Free Cashflow to Firm								
+ Operating CF	15,044	15,312	15,640	11,864	12,855	15,407	15,577	
- CAPEX	-	-	10	-	-	-	-	
+ interest expense	1,835	1,889	1,912	1,882	1,850	1,817	1,781	
- lease payment	- 1,291	- 1,291	- 1,291	- 1,291	- 1,291	- 1,291	- 1,291	
FCF	15,588	15,910	16,251	12,455	13,414	15,932	16,066	
Terminal Value	-	-	-	-	-	-	-	62,500
No. of year left	-	1	2	3	4	5	6	41
WACC	-	7.3%	7.4%	7.4%	7.4%	7.4%	7.4%	7.6%
Discounted value @ WACC	-	14,821	14,100	10,063	10,090	11,156	10,471	3,397
Value of total assets	177,785							
- net debts	- 20,545							
Value of equity	157,240							
Number of shares	10,632							
end-FY23E TP	14.80							
Upside/(Downside)	9.6%							
Terminal growth rate	0.0%							
Market price	13.5							
WACC Calculation	7.3%							
Beta	1.01							
Rf	3.5%							
Rm	7.8%							
Cost of Equity	7.8%							
Equity weight	86.1%							
Cost of Debt	4.0%							

Source: Company, MST

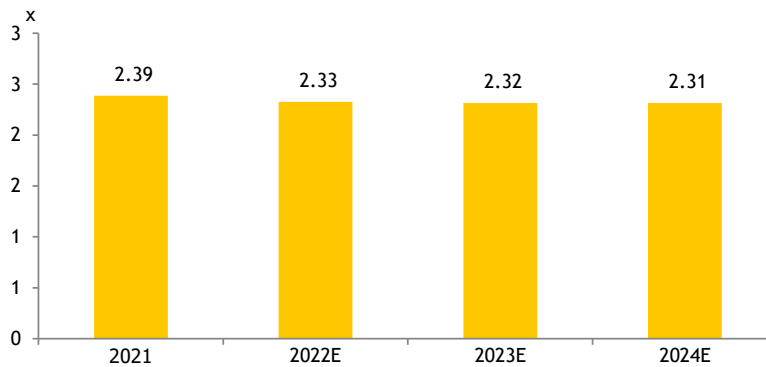
6. Risks

6.1 TRUE's ability to pay rent

TRUE failing to pay rent to DIF (breach of long-term lease agreements) would likely lead to SCB Asset Management, DIF's fund manager, suing TRUE on behalf of DIF unitholders. Also, TRUE would not be able to operate its mobile and fixed-broadband businesses without the tower and fibre network owned by DIF. A non-compete clause with the lease agreements bar TRUE from building fibre and tower in the same area as DIF's network, so there is no alternative telecom network for TRUE during the duration of the existing lease agreements.

We estimate TRUE's rent coverage ratio (EBITDA divided by rent payment to DIF) at 4.2x in FY22E. If we include interest expenses for interest-bearing debt in the denominator, the rent-and-interest coverage ratio is 2.3x, leading us to believe that TRUE will be able to continue paying rent to DIF.

Fig 20: TRUE's rent-and-interest coverage ratio (EBITDA divided by a combination of i) rental payment to DIF and ii) interest expenses)



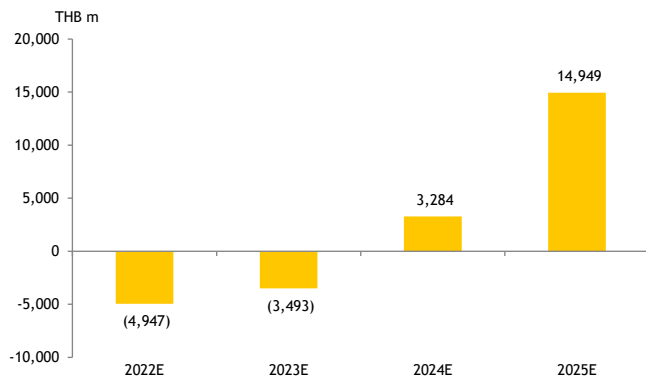
Source: Company, MST

6.2 TRUE's sales of DIF shares

Although TRUE's sales of DIF shares do not lead to any fundamental changes at DIF, a sale always brings about negative sentiment in the past partly because the sales transactions were done at a 5-10% discount to the market price. In recent years, TRUE has sold DIF shares in 4Q19, 2Q20, 3Q20 and 2Q22. Further share sales are possible in FY22-23E on the back of i) negative free cash flows to firm (FCFF) of THB5.0b/THB3.5b in FY22/23E (TRUE's standalone basis) and ii) high net debt to EBITDA of 4.4x/4.6x in FY22/23E (TRUE's standalone basis), which limits TRUE's capacity to issue more bonds.

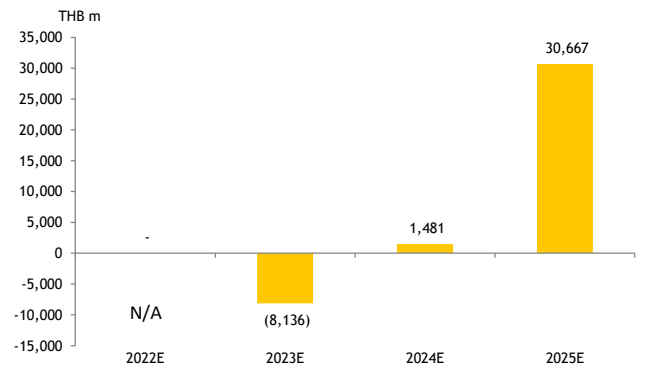
Regardless of the merger approval by the NBTC, we expect TRUE or the New Co to start generating positive FCFF in FY24E, which should reduce TRUE's need to sell DIF shares to raise funds. If the NBTC approves the amalgamation, New Co's healthier balance sheet should also lead to higher capacity to issue more bonds.

Fig 21: TRUE's standalone FCFF



Source: Company, MST

Fig 22: New Co's FCFF



Source: Company, MST

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	11.8	10.5	12.4	12.3	12.1
Core P/E (x)	11.1	11.7	11.7	11.6	11.5
P/BV (x)	0.8	0.8	0.8	0.8	0.8
P/NTA (x)	0.6	0.7	0.7	0.7	0.7
Net dividend yield (%)	8.1	7.5	7.7	7.7	7.8
FCF yield (%)	11.4	9.5	8.6	9.2	9.3
EV/EBITDA (x)	11.2	11.8	11.8	11.6	11.4
EV/EBIT (x)	11.2	11.8	11.8	11.6	11.4

INCOME STATEMENT (THB m)

Revenue	14,690.9	14,726.6	14,439.9	14,631.3	14,818.0
EBITDA	14,348.5	14,374.7	14,076.3	14,263.3	14,445.6
Depreciation	0.0	0.0	0.0	0.0	0.0
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	14,348.5	14,374.7	14,076.3	14,263.3	14,445.6
Net interest income / (exp)	(1,941.0)	(1,703.9)	(1,669.3)	(1,800.5)	(1,831.2)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	1,018.1	218.7	(712.0)	(712.0)	(712.0)
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	13,425.6	12,889.4	11,695.0	11,750.7	11,902.4
Income tax	(1.6)	(1.4)	0.0	0.0	0.0
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	13,424.0	12,888.0	11,695.0	11,750.7	11,902.4
Core net profit	12,405.9	12,669.4	12,407.0	12,462.7	12,614.4

BALANCE SHEET (THB m)

Cash & Short Term Investments	4,034.2	5,671.7	5,387.0	5,763.2	6,081.3
Accounts receivable	3,091.9	310.7	309.7	308.7	307.7
Inventory	0.0	0.0	0.0	0.0	0.0
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	0.0	0.0	0.0	0.0	0.0
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	215,858.4	216,174.8	215,751.5	215,751.5	215,751.5
Total assets	222,984.5	222,157.2	221,448.2	221,823.4	222,140.5
ST interest bearing debt	390.0	544.6	557.1	557.1	557.1
Accounts payable	4,626.5	1,833.1	857.1	968.6	1,020.2
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	27,195.9	26,722.8	26,237.2	25,751.6	25,266.0
Other liabilities	16,345.0	16,841.0	16,957.0	17,049.0	17,114.0
Total Liabilities	48,557.4	45,941.5	44,608.3	44,326.1	43,957.7
Shareholders Equity	174,427.1	176,215.7	176,839.9	177,497.3	178,182.7
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	174,427.1	176,215.7	176,839.9	177,497.3	178,182.7
Total liabilities and equity	222,984.5	222,157.2	221,448.2	221,823.4	222,140.5

CASH FLOW (THB m)

Pretax profit	13,425.6	12,889.4	11,695.0	11,750.7	11,902.4
Depreciation & amortisation	0.0	0.0	0.0	0.0	0.0
Adj net interest (income)/exp	(1,941.0)	(1,703.9)	(1,669.3)	(1,800.5)	(1,831.2)
Change in working capital	(218.9)	3,078.9	142.4	146.4	150.5
Cash taxes paid	0.0	0.0	0.0	0.0	0.0
Other operating cash flow	(1,018.1)	(218.7)	712.0	712.0	712.0
Cash flow from operations	15,653.7	14,045.7	12,423.5	13,243.5	13,480.9
Capex	0.0	0.0	0.0	0.0	0.0
Free cash flow	15,653.7	14,045.7	12,423.5	13,243.5	13,480.9
Dividends paid	(11,099.0)	(11,300.4)	(11,355.1)	(11,463.5)	(11,675.2)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	(366.3)	(390.0)	(544.6)	(557.1)	(557.1)
Other invest/financing cash flow	(2,558.7)	(2,405.2)	(2,424.3)	(2,612.6)	(2,704.1)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	1,629.8	(50.0)	(1,900.5)	(1,389.7)	(1,455.4)

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	6.0	0.2	(1.9)	1.3	1.3
EBITDA growth	6.1	0.2	(2.1)	1.3	1.3
EBIT growth	6.1	0.2	(2.1)	1.3	1.3
Pretax growth	(29.0)	(4.0)	(9.3)	0.5	1.3
Reported net profit growth	(29.0)	(4.0)	(9.3)	0.5	1.3
Core net profit growth	8.9	2.1	(2.1)	0.4	1.2
Profitability ratios (%)					
EBITDA margin	97.7	97.6	97.5	97.5	97.5
EBIT margin	97.7	97.6	97.5	97.5	97.5
Pretax profit margin	91.4	87.5	81.0	80.3	80.3
Payout ratio	82.7	86.1	94.6	94.5	94.6
DuPont analysis					
Net profit margin (%)	91.4	87.5	81.0	80.3	80.3
Revenue/Assets (x)	0.1	0.1	0.1	0.1	0.1
Assets/Equity (x)	1.3	1.3	1.3	1.2	1.2
ROAE (%)	7.7	7.4	6.6	6.6	6.7
ROAA (%)	5.5	5.7	5.6	5.6	5.7
Liquidity & Efficiency					
Cash conversion cycle	nm	nm	nm	nm	nm
Days receivable outstanding	69.9	41.6	7.7	7.6	7.5
Days inventory outstanding	nm	nm	nm	nm	nm
Days payables outstanding	nm	nm	nm	nm	nm
Dividend cover (x)	1.2	1.2	1.1	1.1	1.1
Current ratio (x)	0.8	1.0	1.0	1.0	1.1
Leverage & Expense Analysis					
Asset/Liability (x)	4.6	4.8	5.0	5.0	5.1
Net gearing (%) (incl perps)	13.5	12.3	12.1	11.6	11.1
Net gearing (%) (excl. perps)	13.5	12.3	12.1	11.6	11.1
Net interest cover (x)	7.4	8.4	8.4	7.9	7.9
Debt/EBITDA (x)	1.9	1.9	1.9	1.8	1.8
Capex/revenue (%)	0.0	0.0	0.0	0.0	0.0
Net debt/ (net cash)	23,551.7	21,595.6	21,407.2	20,545.4	19,741.7

Source: Company; Maybank IBG Research

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