

Digital Telecommunications (DIF TB)

Market price reflects no extension of tower lease

Fine-tuning forecasts beyond tower lease expiry

We reiterate BUY on DIF due to 25% potential total return (9% FY23E yield and 16% upside to our new TP). We fine-tune our post-Sep 2033 revenue forecasts to factor in lower tower leases from TRUE, resulting in a drop in our DCF-based target price to THB12.6 from THB13.6. If we had assumed i) no renewal of tower lease after the existing contract expires in Sep 2033 and ii) only four-year extension of fibre lease until FY47E, the fair value for DIF would have been only THB10.9/sh, on par with the market price.

We cut revenue from tower leases beyond FY33E

TRUE's tower leases (32% of DIF's FY23E revenue) will expire in Sep 2033. Originally, we assumed that monthly tower revenue will drop by 22% after the current tower lease agreement expires in FY33E. Now, we forecast FY34E tower revenue of THB2.7b, down 50% from THB5.4b in FY32E as TRUE will likely switch to using DTAC's towers in some areas. Following TRUE's merger with DTAC in Mar 2023, we believe TRUE's telecom network now overlaps with DIF's network, giving TRUE lopsided bargaining power when negotiating a renewal of tower leases with DIF in the future.

Reiterate BUY with a lower TP of THB12.60

After cutting tower revenues post-Sep 2033, we arrive at a lower DCF-based TP of THB12.60 (7.3% WACC). Our new forecasts imply IRR of 7.4%. DIF offers a FY23E dividend yield of 9.0%, which is 6.4ppt higher than the 10-year government bond yield of 2.6%. The yield gap of 6.4ppt is approximately 1 s.d. above its 5-year mean of 5.2%.

Key risks are no lease renewals and contract changes

If we had assumed i) no more tower lease after the existing contract expires in Sep 2033, and ii) four more years of fibre leases after the current contract expires in 2043, the fair value for DIF would have been THB10.9/sh (IRR = 6.0%). The additional four years are for TRUE to roll out its fibre network for fixed-broadband business to replace DIF's network. Another risk is TRUE amending payment terms to DIF; nevertheless, any change to the lease contracts would have to be approved by unitholders.

FYE Dec (THB m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	14,727	14,406	14,437	14,228	14,326
EBITDA	14,375	14,053	14,083	13,869	13,874
Core net profit	12,669	12,335	12,067	11,932	11,932
Core EPS (THB)	1.19	1.16	1.13	1.12	1.12
Core EPS growth (%)	2.1	(2.6)	(2.2)	(1.1)	(0.0)
Net DPS (THB)	1.04	1.03	0.98	0.94	0.95
Core P/E (x)	11.7	11.4	9.6	9.7	9.7
P/BV (x)	0.8	0.8	0.7	0.7	0.7
Net dividend yield (%)	7.5	7.8	9.0	8.6	8.7
ROAE (%)	7.4	4.3	6.6	6.4	6.4
ROAA (%)	5.7	5.6	5.5	5.4	5.4
EV/EBITDA (x)	11.9	11.6	9.2	9.3	9.1
Net gearing (%) (incl perps)	13.0	13.1	8.1	7.2	6.3
Consensus net profit	-	-	12,137	11,866	12,230
MIBG vs. Consensus (%)	-	-	(6.4)	(5.4)	(8.3)

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BUY

Share Price	THB 10.90
12m Price Target	THB 12.60 (+25%)
Previous Price Target	THB 13.60

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.

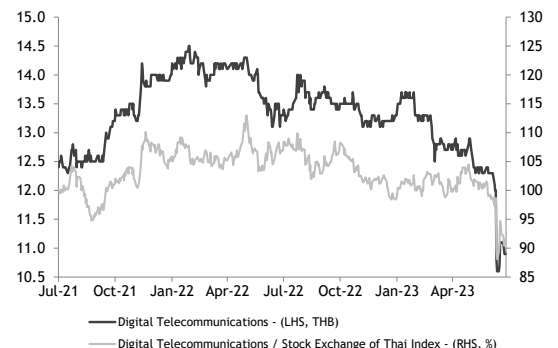
Statistics

52w high/low (THB)	14.00/10.60
3m avg turnover (USDm)	5.0
Free float (%)	67.9
Issued shares (m)	10,632
Market capitalisation	THB115.9B
	USD3.3B

Major shareholders:

True Corporation	20.6%
Social Security Office	2.5%
Land and Houses Bank	2.1%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(12)	(15)	(18)
Relative to index (%)	(10)	(10)	(14)

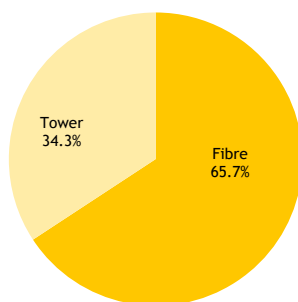
Source: FactSet

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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 2022

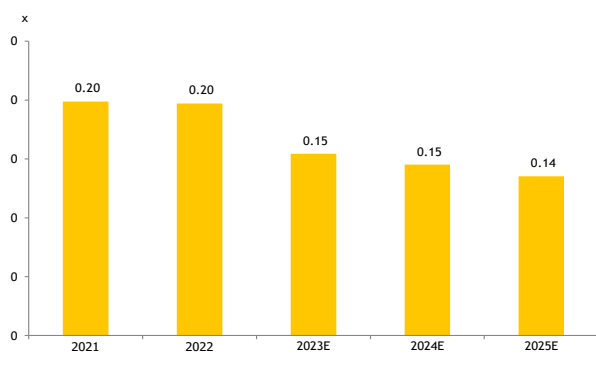


Source: Company

Financial Metrics

- At the end of 2022, DIF had THB44.9b liabilities, comprising THB27.0b interest-bearing debt and THB11.4b lease liabilities.
- FY22 net-debt-to-equity ratio was 0.2x (or only 0.13x excluding lease liabilities).

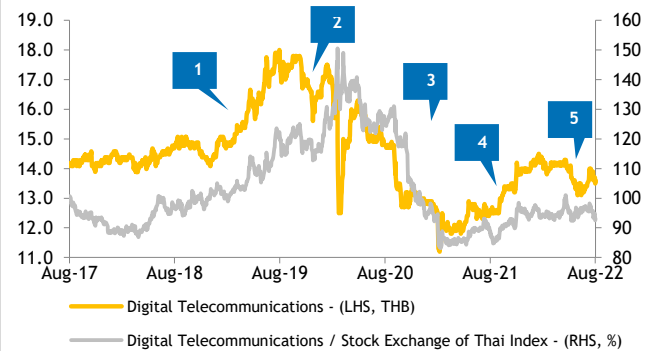
Net D/E ratio (interest-bearing debt and lease liabilities)



Source: Company

Price Drivers

Historical share price trend



Source: Company, MST

1. In May 2019, TRUE said 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.16 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.

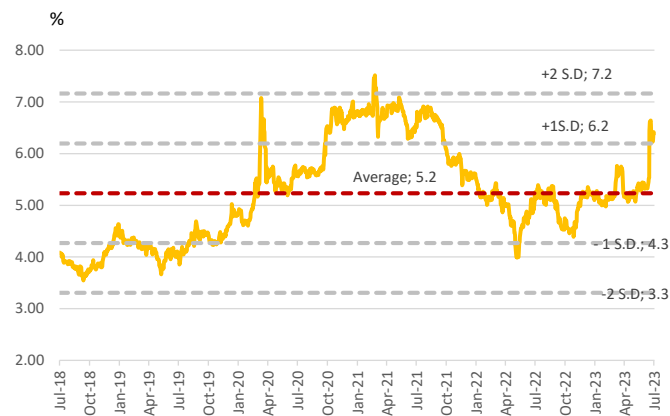
¹**Risk Rating & Score** - derived by Sustainalytics and assesses the company’s exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company’s enterprise value, respectively, from ESG-driven financial impacts. ²**Score Momentum** - indicates changes to the company’s scores 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).

Fig 1: We now assume 50% decrease in monthly tower rent after the existing contract expires in Sep 2033

OLD ASSUMPTIONS	VS	NEW ASSUMPTIONS
TOWER LEASE (32% of FY23E revenue)		TOWER LEASE (32% of FY23E revenue)
-Monthly tower revenue drops by 22% after the lease expires on 30 Sep 2033		-Monthly tower revenue drops by 50% after the lease expires on 30 Sep 2033
-FY34E revenue from tower lease = THB4.3b (vs THB5.5b in FY32E)		-FY34E revenue from tower lease = THB2.7b (vs THB5.4b in FY32E)
-Annual rental hike after Sep 2033 = 2.3-3.0%		-Annual rental hike after Sep 2033 = 2%
FIBRE LEASE (65% of FY23E revenue)		FIBRE LEASE (65% of FY23E revenue)
-Stable fibre revenue until Dec 2048 (5 years after the current contract expires)		-Stable fibre revenue until Dec 2047 (4 years after the current contract expires)
-No fibre revenue after Dec 2048		-No fibre revenue after Dec 2047

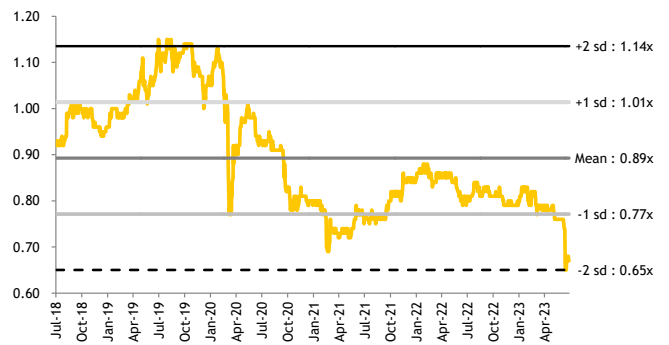
Source: Company, MST

Fig 2: The current yield gap of 6.4ppt is approximately 1 s.d. above the 5-year mean of 5.2%



Source: Company, MST

Fig 3: DIF is trading at 0.67x P/NAV, 2 s.d. below the 5-year mean of 0.89x



Source: Company, MST

Fig 4: TRUE's lease contracts with DIF implies 16 years of lease guarantee (revenue-weighted average) as of 9 Jul 2023

	Lease-back agreement by TRUE	FY23E revenue breakdown
Tower leases by TRUE	Lease until Sep 2033	32%
Fibre leases by TRUE	Lease until Sep 2033 + 10 years*	65%
Third-party leases	Renewable annual contract	3%
Total	16 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 2022: THB22.2bn
- 2) TRUE's fixed-broadband market share is above 33% 1Q23: 29.0%

Source: Company, MST

Fig 5: 1Q23 earnings preview

FYE Dec 31 (THB m)	2Q22	1Q23	2Q23E	YoY	QoQ	FY23E	YoY	6M23E as % of FY23E
Revenue:								
Income from investment	774	774	774	0.0%	0.0%	3,095	0.0%	50.0%
Rental income	2,828	2,840	2,840	0.4%	0.0%	11,341	0.3%	50.1%
Others	8	9	9	0.0%	0.0%	1	0.0%	100.0%
Total revenue	3,602	3,614	3,614	0.3%	0.0%	14,437	0.2%	50.1%
Interest income	4	7	7	74.9%	0.0%	13	-31.7%	109.7%
Expenses:								
Fund admin expenses	-43	-40	-40	-6.3%	0.0%	-167	-2.6%	48.4%
Property expenses	-46	-46	-46	-1.1%	0.0%	-186	2.7%	49.1%
Interest expenses	-434	-496	-496	14.4%	0.0%	-2,030	17.1%	48.9%
Total expenses	-523	-583	-583	11.5%	0.0%	-2,383	14.0%	49.0%
Net investment income (core net profit)	3,082	3,038	3,038	-1.4%	0.0%	12,067	-2.2%	50.3%
Core EPS	0.29	0.29	0.29	-1.4%	0.0%	1.13	-2.2%	50.3%
Net realised gain (loss)	0	0	0	na	na	0	#DIV/0!	na
Unrealised gain from investments (loss)	-229	-229	0	na	na	-712	na	na
Net profit	2,877	2,808	3,038	5.6%	8.2%	11,355	52.2%	51.5%
No. of units (m) - Average	10,632	10,632	10,632	0.0%	0.0%	10,632		
DPU (Bt)	0.260	0.245	0.245	-5.8%	0.0%	0.976	-5.6%	50.2%

Source: Company, MST

Fig 6: We have a DCF-based target price of THB12.6 (7.3% WACC, 0% TG for tower lease)

Unit: THB m	2024E	2025E	2026E	2027E	2028E	2029E	Perpetuity
Free Cashflow to Firm							
+ Operating CF	13,491	13,727	10,991	10,172	13,555	13,692	
- CAPEX	-	10	-	-	-	-	
+ interest expense	1,973	1,979	1,983	1,920	1,852	1,778	
- lease payment	- 1,453	- 1,482	- 1,512	- 1,542	- 1,573	- 1,604	
FCF	14,011	14,214	11,462	10,551	13,834	13,865	
Terminal Value	-	-	-	-	-	-	39,663
Discount period (years)	-	1	2	3	4	5	-
WACC	7.3%	7.3%	7.3%	7.3%	7.3%	7.3%	0.0%
Discounted value @ WACC	14,011	13,248	9,955	8,537	10,428	9,733	6,483
Value of total assets	146,755						
- net debts	- 12,588						
Value of equity	134,167						
Number of shares	10,632						
End-FY24E TP	12.60						
Upside/(Downside)	15.6%						
Terminal growth rate	0.0%						
Market price	10.9						
WACC Calculation	7.3%						
Beta	0.61						
Rf	3.0%						
Rm	10.4%						
Cost of Equity	7.5%						
Equity weight	86.5%						
Cost of Debt	5.7%						
Debt weight	13.5%						

Source: Company, MST

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Metrics					
P/E (reported) (x)	10.5	19.6	10.2	10.3	10.3
Core P/E (x)	11.7	11.4	9.6	9.7	9.7
P/BV (x)	0.8	0.8	0.7	0.7	0.7
P/NTA (x)	0.7	0.6	0.5	0.5	0.5
Net dividend yield (%)	7.5	7.8	9.0	8.6	8.7
FCF yield (%)	8.4	8.5	17.6	11.1	11.3
EV/EBITDA (x)	11.9	11.6	9.2	9.3	9.1
EV/EBIT (x)	11.9	11.6	9.2	9.3	9.1
INCOME STATEMENT (THB m)					
Revenue	14,726.6	14,405.7	14,436.9	14,228.4	14,325.6
EBITDA	14,374.7	14,052.6	14,083.3	13,869.1	13,874.4
Depreciation	0.0	0.0	0.0	0.0	0.0
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	14,374.7	14,052.6	14,083.3	13,869.1	13,874.4
Net interest income / (exp)	(1,703.9)	(1,714.6)	(2,016.4)	(1,936.8)	(1,942.3)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	218.7	(4,872.6)	(712.0)	(712.0)	(712.0)
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	12,889.4	7,465.4	11,354.8	11,220.3	11,220.1
Income tax	(1.4)	(3.3)	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	12,888.0	7,462.1	11,354.8	11,220.3	11,220.1
Core net profit	12,669.4	12,334.6	12,066.8	11,932.3	11,932.1
BALANCE SHEET (THB m)					
Cash & Short Term Investments	4,396.6	4,409.4	11,978.7	12,293.2	12,901.7
Accounts receivable	3,499.0	3,814.8	308.7	307.7	0.0
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	215,990.2	209,278.3	208,119.8	207,959.3	207,994.3
Total assets	223,885.8	217,502.5	220,407.2	220,560.1	220,896.0
ST interest bearing debt	14,687.6	1,091.0	1,178.2	1,003.8	1,091.0
Accounts payable	4,670.1	2,843.0	2,843.0	2,843.0	2,843.0
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	12,579.8	25,913.0	24,808.0	23,877.5	22,859.8
Other liabilities	15,732.0	15,044.0	18,087.0	18,212.0	18,342.0
Total Liabilities	47,669.7	44,891.4	46,916.4	45,935.9	45,135.3
Shareholders Equity	176,216.1	172,611.1	173,490.8	174,624.2	175,760.7
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	176,216.1	172,611.1	173,490.8	174,624.2	175,760.7
Total liabilities and equity	223,885.8	217,502.5	220,407.2	220,560.1	220,896.0
CASH FLOW (THB m)					
Pretax profit	12,889.4	7,465.4	11,354.8	11,220.3	11,220.1
Depreciation & amortisation	0.0	0.0	0.0	0.0	0.0
Adj net interest (income)/exp	(1,703.9)	(1,714.6)	(2,016.4)	(1,936.8)	(1,942.3)
Change in working capital	(109.5)	(174.3)	3,651.5	150.5	461.3
Cash taxes paid	0.0	0.0	0.0	0.0	0.0
Other operating cash flow	(218.7)	4,872.6	712.0	712.0	712.0
Cash flow from operations	12,389.4	11,899.4	20,353.9	12,887.7	13,135.9
Capex	0.0	0.0	0.0	0.0	0.0
Free cash flow	12,389.4	11,899.4	20,353.9	12,887.7	13,135.9
Dividends paid	(11,099.0)	(11,067.1)	(10,896.2)	(10,545.2)	(10,632.4)
Equity raised / (purchased)	0.0	(100.1)	0.0	0.0	0.0
Change in Debt	(390.0)	(155.0)	(1,091.0)	(1,178.2)	(1,003.8)
Other invest/financing cash flow	(2,225.4)	(2,256.3)	(2,800.6)	(2,750.8)	(2,796.6)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(1,325.1)	(1,679.2)	5,566.1	(1,586.4)	(1,296.9)

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth ratios (%)					
Revenue growth	0.2	(2.2)	0.2	(1.4)	0.7
EBITDA growth	0.2	(2.2)	0.2	(1.5)	0.0
EBIT growth	0.2	(2.2)	0.2	(1.5)	0.0
Pretax growth	(4.0)	(42.1)	52.1	(1.2)	(0.0)
Reported net profit growth	(4.0)	(42.1)	52.2	(1.2)	(0.0)
Core net profit growth	2.1	(2.6)	(2.2)	(1.1)	(0.0)
Profitability ratios (%)					
EBITDA margin	97.6	97.5	97.6	97.5	96.8
EBIT margin	97.6	97.5	97.6	97.5	96.8
Pretax profit margin	87.5	51.8	78.7	78.9	78.3
Payout ratio	86.1	147.2	91.3	89.1	90.1
DuPont analysis					
Net profit margin (%)	87.5	51.8	78.7	78.9	78.3
Revenue/Assets (x)	0.1	0.1	0.1	0.1	0.1
Assets/Equity (x)	1.3	1.3	1.3	1.3	1.3
ROAE (%)	7.4	4.3	6.6	6.4	6.4
ROAA (%)	5.7	5.6	5.5	5.4	5.4
Liquidity & Efficiency					
Cash conversion cycle	nm	nm	nm	nm	nm
Days receivable outstanding	80.6	91.4	51.4	7.8	3.9
Days inventory outstanding	nm	nm	nm	nm	nm
Days payables outstanding	nm	nm	nm	nm	nm
Dividend cover (x)	1.2	0.7	1.1	1.1	1.1
Current ratio (x)	0.3	1.1	1.3	1.4	1.4
Leverage & Expense Analysis					
Asset/Liability (x)	4.7	4.8	4.7	4.8	4.9
Net gearing (%) (incl perps)	13.0	13.1	8.1	7.2	6.3
Net gearing (%) (excl. perps)	13.0	13.1	8.1	7.2	6.3
Net interest cover (x)	8.4	8.2	7.0	7.2	7.1
Debt/EBITDA (x)	1.9	1.9	1.8	1.8	1.7
Capex/revenue (%)	0.0	0.0	0.0	0.0	0.0
Net debt/ (net cash)	22,870.7	22,594.5	14,007.5	12,588.2	11,049.1

Source: Company; Maybank IBG Research

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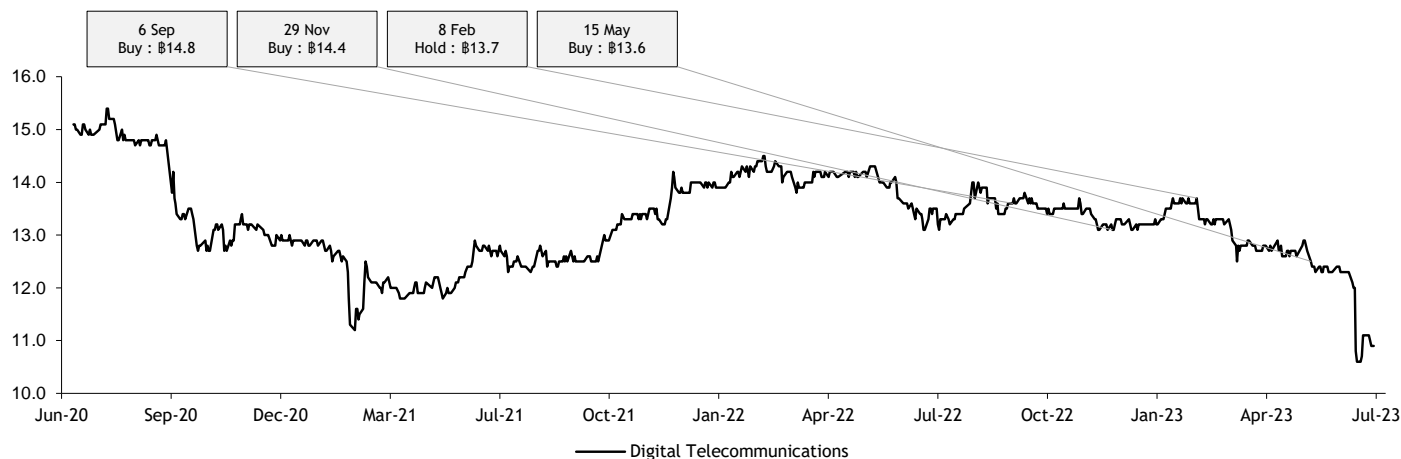
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