

# TRUE Corp (TRUE TB)

## NDR trip introduced foreign investors to the new TRUE

### Paving the road to recovery; reiterate BUY

We reiterate BUY on TRUE due to expected earnings recovery and cheap valuation (FY24E EV/EBITDA at 11% discount to the pre-merger level). We brought the deputy CEO, co-CFO and the Head of IR to meet 15 institutional investors in Malaysia and Singapore during 2-4 Oct. Half of the investors have not monitored Thai Telcos closely for several years, so hearing about easing competition and synergy guidance has piqued their interest. The key highlights from the meetings are as follows.

### Prioritising synergy delivery and profitable growth

When asked about merging two different corporate cultures, the CFO explained that the old TRUE focused on market share gains while DTAC focused on cost savings. Now that the merged entity is already the market share leader, TRUE focuses on delivering cost savings/synergy. The company is leveraging Telenor's expertise in fast execution and lean organisation; Telenor Asia's CEO Petter-Borre Furberg is the chairman of the Executive Committee, which monitors TRUE's monthly performance.

### Synergies from single grid and opex savings

The THB250b NPV of synergy guidance is derived from THB295b gross synergy and THB45b integration cost. The single-grid network will be the biggest synergy contributor (lower O&M, land lease, electricity costs and network capex) followed by opex savings from 'Unified Organisation' initiatives, which include a 30% reduction in shops, admin expense and office rent. Single grid and organisation opex savings will contribute 35% and 23% of gross synergy value, respectively.

### Kicking off the recovery journey in 3Q23E

We expect a slow pace of earnings recovery in 3-4Q23E as TRUE is ramping up integration costs. We forecast a 3Q23E core loss of THB2.2b, slightly better than 2Q23 core loss of THB2.4b as the benefits of 1% QoQ revenue growth, lower electricity tariffs and elimination of operational excess should largely be offset by the integration cost of THB1b (vs <THB300m cost in 2Q23). Quarterly earnings recovery will likely accelerate in FY24E thanks to stable integration costs, rising synergy value and ARPU uplifts.

FYE Dec (THB m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	224,091	215,070	215,485	218,629	223,395
EBITDA	87,027	81,944	84,864	88,469	93,702
Core net profit	9,609	(117)	(8,123)	(2,270)	283
Core EPS (THB)	0.28	(0.00)	(0.24)	(0.07)	0.01
Core EPS growth (%)	nm	nm	nm	nm	nm
Net DPS (THB)	0.21	0.13	0.00	0.00	0.00
Core P/E (x)	17.2	nm	nm	nm	nm
P/BV (x)	1.5	1.7	2.7	2.8	2.8
Net dividend yield (%)	4.4	2.6	0.0	0.0	0.1
ROAE (%)	11.4	(5.6)	(7.3)	(2.6)	0.3
ROAA (%)	1.4	(0.0)	(1.0)	(0.3)	0.0
EV/EBITDA (x)	5.7	6.4	6.7	6.4	6.0
Net gearing (%) (incl perps)	200.8	252.9	261.2	287.9	297.6
Consensus net profit	-	-	(4,927)	(532)	4,829
MIBG vs. Consensus (%)	-	-	(40.2)	(326.6)	(94.1)

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## BUY

Share Price	THB 6.90
12m Price Target	THB 8.60 (+25%)
Previous Price Target	THB 8.60

### Company Description

TRUE, a merger of TRUEE and DTAC, is the largest telecom operator in Thailand with 51m mobile subscribers and 4m FBB subscribers as of end-2Q23.

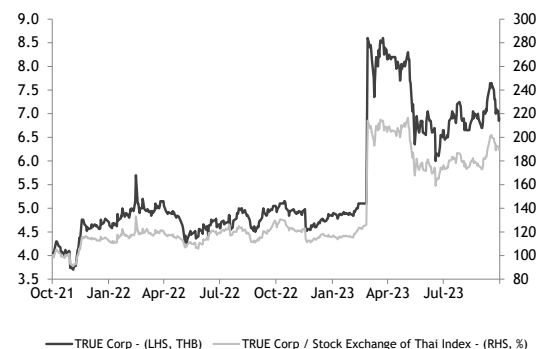
### Statistics

52w high/low (THB)	8.60/4.52
3m avg turnover (USDm)	13.1
Free float (%)	73.6
Issued shares (m)	34,552
Market capitalisation	THB238.4B
	USD6.4B

### Major shareholders:

Telenor Asia	19.6%
Citrine Global and Citrine Venture SG	17.1%
Thai NVDR	10.0%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	2	4	37
Relative to index (%)	9	8	49

Source: FactSet

### Terms defined

O&M - operation and maintenance  
NPV - net present value

### Other companies mentioned in this note

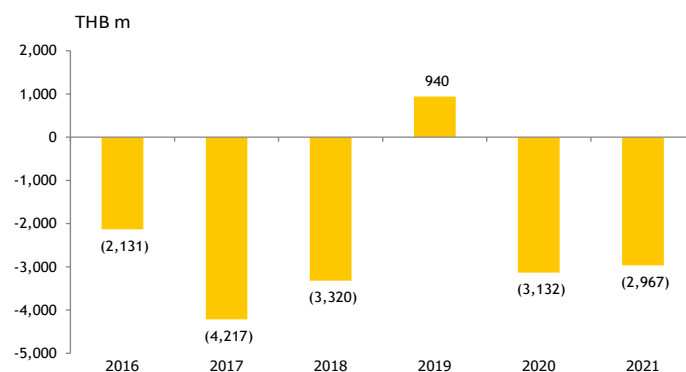
Telenor ASA (TEL OL, CP NOK119, not rated)  
CP Group (not listed)

ESG@MAYBANK IBG  
Tear Sheet Insert

## Value Proposition

- From fixed-line operator under BTO to cable-TV, 2G under concession, then 3G/4G under licensing, TRUE now offers an array of telecom services. Its 5G service was launched in Oct 2020 to help lift post-paid ARPU.
- Like other operators, TRUE is trying to move subscribers to smartphones & higher spectrums and offer bundled services.
- No. 1 mobile operator, with 51m mobile subscribers as of end-2Q23.
- TRUE aims to turn profitable in FY25E.

### Core net profit/(loss)

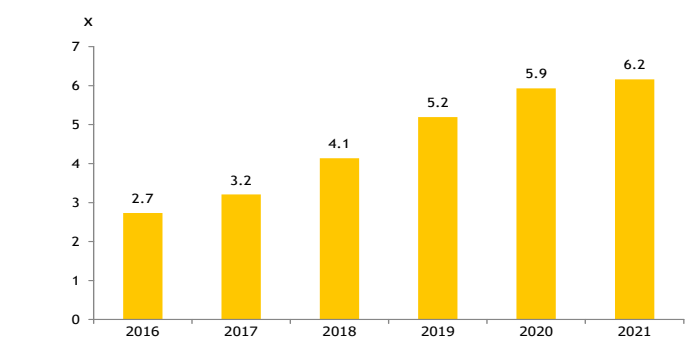


Source: Company

## Financial Metrics

- After raising THB65b in 2014, TRUE again raised THB60b in 2015 to lighten its B/S as it assumed obligations of THB110b for 4G licences payable during FY15-2019.
- Overhead costs, content costs and heavy network capex still weigh on profitability and its balance sheet.
- Failure to accumulate cash means elevated debt or risk of cash call. Negative FCF is still an issue for TRUE, although it is an annual objective to turn this to positive.

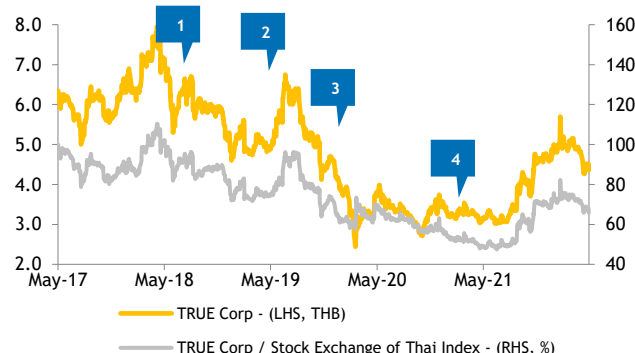
### Net-debt-to-EBITDA ratio (pre-TFRS16 accounting)



Source: Company

## Price Drivers

### Historical share price trend



Source: Company, MST

- TRUE's gains in mobile revenue market share began to stall as the company started reducing its handset subsidies.
- 1H19 was a period of easing mobile competition and healthy QoQ mobile revenue growth for the industry.
- Low-end fixed-speed unlimited data plans in the prepaid market started emerging in 3Q-4Q19 causing ARPU and revenue to suffer.
- Covid-19 outbreak and intense competition kept share price low.
- In Nov 2021, TRUE and DTAC officially announced that they were planning to merge.

## Swing Factors

### Upside

- Easing of mobile competition.

### Downside

- Recession.
- Higher-than-expected costs related to post-merger integration.

Risk Rating & Score <sup>1</sup>	26.6 Medium Risk
Score Momentum <sup>2</sup>	0.0
Last Updated	15 Aug 2022
Controversy Score <sup>3</sup> (Updated: 18 Jul 2023)	Category 1 - Low

## Business Model & Industry Issues

- TRUE's main performance goal is to start generating annual core net profit sustainably, and some of its cost-cutting initiatives are aligned with ESG goals (i.e. reduction in electricity consumption electricity).
- TRUE is internationally recognised as an environmentally friendly company thanks to its inclusion in several indices, including FTSE4Good Index and Emerging Market Index under Dow Jones Sustainability Indices (DJSI).
- In order to control costs, the company is also putting more pressure on employees to raise productivity. Employee satisfaction rating fell from 76% in 2017 to 64% in 2018. The company stopped reporting employee satisfaction rating in 2019.
- TRUE's key strengths lie in solving environmental issues while there could be some risks on the employee and litigation fronts.

## Material E issues

- TRUE was a member of sustainability index FTSE4Good Index for five years in a row from 2017 to 2021. It is also the first and only Thai telecom company in the Emerging Market Index of Dow Jones Sustainability Indices.
- TRUE has won Sustainability Investment award from the Stock Exchange of Thailand for four consecutive years from 2018 to 2021.
- TRUE's GHG emission intensity had FY17-20 CAGR of 10%, but the annual emission intensity had remained below its targeted ceiling of 3.5-3.7 tonCO<sub>2</sub>e per THB1m of service revenue. Then, the GHG emission intensity dropped from 3.44 tonCO<sub>2</sub>e per THB1m of revenue in 2020 to 2.8 tonCO<sub>2</sub>e per THB1m of revenue in 2021 thanks to work-from-home policy (lower office leases) and installations of solar panels on more base station sites.

## Material S issues

- TRUE has strong network quality with 98% population coverage for its 4G network and average Internet download speed of 15.6mbps (vs ADVANC's 18.1mbps and DTAC's 10.2mbps), according to Opensignal's survey in Nov 2021.
- TRUE's 5G network covered over 85% of Thai population at the end of 2022.
- In 2018, TRUE's employee satisfaction rating fell to 64% from 76% in 2017. The lower score was likely due to the company's recurring net losses, which could have forced the operator to push its employees harder to raise productivity.
- In 2019, TRUE stopped reporting employee engagement and employee satisfaction ratings separately and bundled the two into "overall employee satisfaction and engagement score", which has stayed around 70% over the past four years.

## Key G metrics and issues

- The 15-member board of directors in 2021 had only one woman. Of its 19 executive committee members, only two are women.
- TRUE has Employee Joint Investment Programme (EJIP) and phase one was rolled out 1 January 2017-31 December 2020. For executives to be eligible to the programme they must be working with TRUE for no less than three years. Maximum employee contribution is 3-5% on a monthly basis and TRUE will match the amount equivalent to 3-10% of monthly salary depending on the rank. In 2019, 11 executives joined the programme and TRUE made an aggregate contribution of THB13.76m. EJIP phase 2 was launched covering three years 2020-2022. The terms were similar to EJIP Phase 1.
- Pricewaterhouse Coopers ABAS has been the company's auditor for the past five years. In 2021 the audit fee was THB28.33m.
- Like other operators, TRUE has several legal disputes pending from the concessionary era covering 1990-2018. Losing any of the cases could have a negative impact on the enterprise.
- All electronic devices (mobile phones and tablets covering leading & house brands) sold at True Shops are certified for their quality and safety according to standards set by the NBTC.

<sup>1</sup>**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. <sup>2</sup>**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. <sup>3</sup>**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).

Quantitative Parameters (Score: 44)						
	Particulars	Unit	2019	2020	2021	ADVANC TB (2021)
E	Scope 1	m tCO <sub>2</sub> e	17,199.48	13,768.00	10,566.00	8,931
	Scope 2	m tCO <sub>2</sub> e	435,418.52	403,740.00	326,623.00	636,390
	<b>Total</b>	<b>m tCO<sub>2</sub>e</b>	<b>452,618</b>	<b>417,508</b>	<b>337,189</b>	<b>645,321</b>
	Scope 3	m tCO <sub>2</sub> e	6,213	580	370	NA
	<b>Total</b>	<b>m tCO<sub>2</sub>e</b>	<b>458,831</b>	<b>418,088</b>	<b>337,559</b>	<b>NA</b>
	Scope 1 & 2 emission intensity	tCO <sub>2</sub> e/THB m revenue	3.22	3.44	2.80	NA
	Green energy share of usage	%	0.1%	2.0%	2.8%	1.6%
	Power usage effectiveness (PUE) at data centres	%	NA	NA	NA	1.51
	% of waste reused, recycled, or sold	%	25.6%	12.7%	12.8%	80.3%
	Green building certified	m sqft	NA	NA	NA	0.23
S	% of women in workforce	%	53.5%	54.3%	60.4%	60.5%
	% of women in management roles	%	46.5%	46.6%	46.8%	50.1%
	Average training hours per employee	number	20.7	24.7	37.7	32.0
	Number of data breach, leak, theft	number	0	0	0	0.0
G	Top 8 employees' compensation as % of EBIT	%	1.8%	1.5%	1.2%	NA
	Directors' payout as % of EBIT	%	0.4%	0.3%	0.2%	0.1%
	Independent directors on board	%	38%	38%	31%	36.4%
	Women directors on board	%	6.3%	6.3%	6.3%	18.2%
	Dividend payment as % of EBIT	%	42.3%	21.9%	18.8%	NA

Qualitative Parameters (Score: 83)	
a) Is there an ESG policy in place and whether there is a standalone ESG committee or is it part of a risk committee?	<i>Yes, TRUE has an ESG framework and Sustainability Goals 2030. The Corporate Governance Committee (board level) has supervised sustainability at TRUE.</i>
b) Is the senior management salary linked to fulfilling ESG targets?	<i>Yes, TRUE has set executives' KPIs and salary that align with the Sustainability Goals 2030.</i>
c) Does the company follow the task force of climate related disclosures (TCFD) framework for ESG reporting?	<i>Yes</i>
e) Has the company been involved in controversies which have impacted their management/stock price performance?	<i>Yes, On 28 Oct 2005, TOT filed an arbitration claim against TRUE, claiming that the latter was in breach of revenue sharing agreement (ADSL). On 4 Sep 2018, TRUE lost the legal case and was ordered to pay THB76.2b (excluding interests); as result, the share price dropped by 10.7% during 5-6 Sep 2018. The company appealed the Arbitration Institute's order at the Central Admin Court and won the case on 29 Dec 2020 (share price rose by 9.4% on 28-29 Dec 2020). Currently, the case is at Supreme Admin Court.</i>
f) What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company?	<i>2030 targets include i) becoming carbon neutral; ii) 20% decrease in water consumption per revenue; and iii) zero e-waste to landfill.</i>
g) Does carbon offset form part of the net zero/carbon neutrality target of the company?	<i>Yes</i>

Target (Score: 100)		
Particulars	Target	Achieved
Carbon-neutral (zero carbon emission of TRUE's operation scope 1 and 2) by 2030 (unit: m tCO2e)	0	337,189
Reduce Scope 1 and 2 GHG emission by 1% in 2021, compared to 2020 level	1.0%	19.0%
Reduce water consumption per revenue by 2%, compared to 2020 level	2.0%	36%
Zero landfill e-waste in 2021	0.0%	0.0%
Make 10% of the packaging recyclable or biodegradable in 2021	10.0%	90.0%
Achieve an average of 29 hours of training per employee in 2021	29.0	37.7
100% of employees receive sustainability training in 2021	100.0%	100%
Impact		
NA		
Overall Score: 68		
As per our ESG matrix, True Corporation (TRUE TB) has overall score of 68.		

ESG score	Weights	Scores	Final Score
Quantitative	50%	44	22
Qualitative	25%	83	21
Target	25%	100	25
<b>Total</b>			<b>68</b>

As per our ESG assessment, TRUE has an established framework, internal policies, and tangible mid/long-term targets, but it has some challenges on the litigation side. TRUE's overall ESG score is 68, which makes its ESG rating above average in our view (average ESG rating = 50).

# 1. Prioritising synergy delivery and profitable growth

## 1.1 Aiming for EBITDA to grow faster than revenue

We brought Deputy CEO Sharad Mehrotra, co-CFO Nakul Sehgal and the Head of IR Naureen Quayum to meet 15 institutional investors in Malaysia and Singapore during 2-4 Oct. This was their first physical meeting with foreign investors since the announcement of synergy guidance on TRUE's Capital Markets Day (26 Sep 2023).

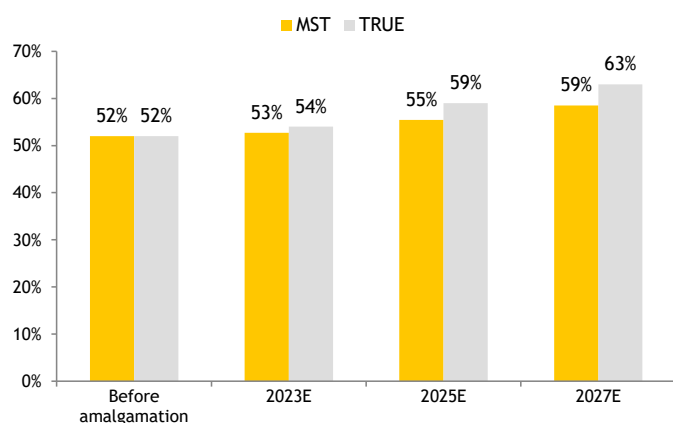
Fig 1: Six key takeaways from the Capital Markets Day on 26 Sep 2023



Source: Company, MST

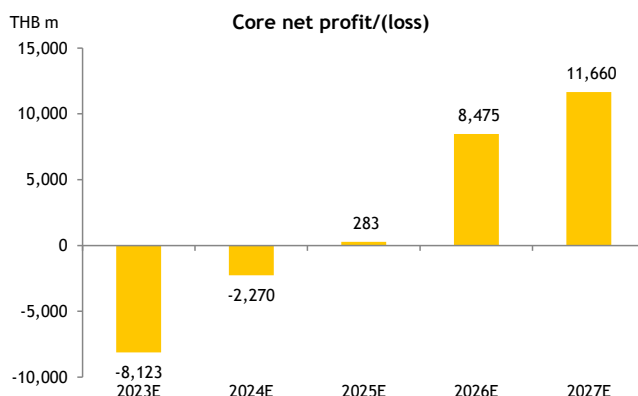
Most investors asked about how TRUE planned to merge two companies with different corporate cultures and goals. The CFO explained that the old TRUE focused on the market share gains while DTAC focused on cost savings. Now that the merged entity is already the market share leader, TRUE focuses on delivering synergies and profitable growth (EBITDA growing faster than revenue). We forecast EBITDA as a percentage of core service revenue to grow from 53% in FY23E to 55% in FY25E, resulting in a turnaround from THB8b core net loss to THB283m core profit.

Fig 2: EBITDA margin (MST's forecasts vs TRUE's targets)



Source: Company, MST

Fig 3: MST's core net profit/(loss) forecasts



Source: Company, MST



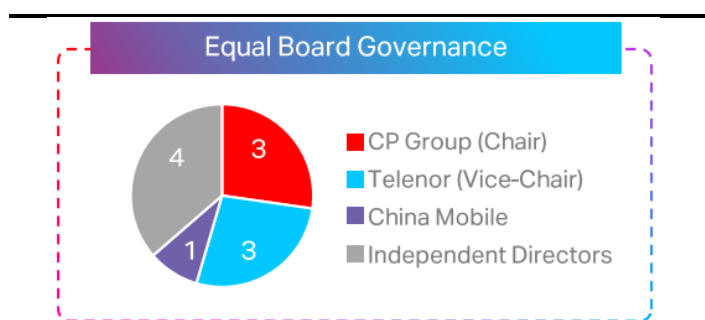
## 1.2 Leveraging Telenor's expertise in organisational restructuring

TRUE is leveraging on Telenor's expertise in fast execution and lean organisation with the full support of CP Group and Board Chairman Mr. Supachai Chearavanont.

TRUE has set up its Executive Committee, which has monthly meetings, to closely govern business performance and monitor synergy progress. Telenor Asia's CEO Petter-Borre Furberg is the chairman of the Executive Committee. Of the nine committee members, five are from the Telenor/DTAC side (including the Chief Transformation Officer) while four are from CP/old TRUE side. Telenor and CP Group have a 30.3% stake each in TRUE.

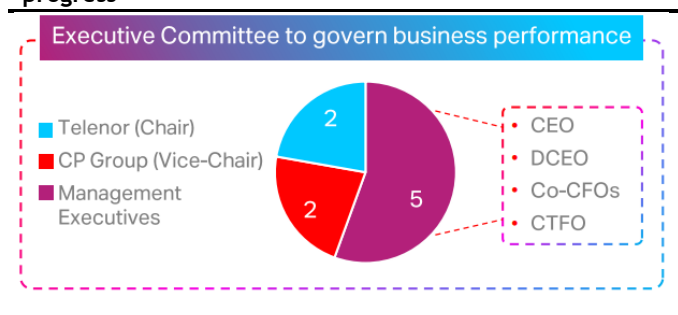
To illustrate the budget discipline of the new TRUE, Nakul mentioned during the meetings that every capex transaction above THB5m has to go through the co-CFOs, deputy CEO and the CEO Manat Manavutiveth. The top management meets every two weeks to consider and approve capex transactions.

Fig 4: Breakdown of the board of directors



Source: Company, MST

Fig 5: Executive Committee keeps a close eye on synergy progress



Source: Company, MST

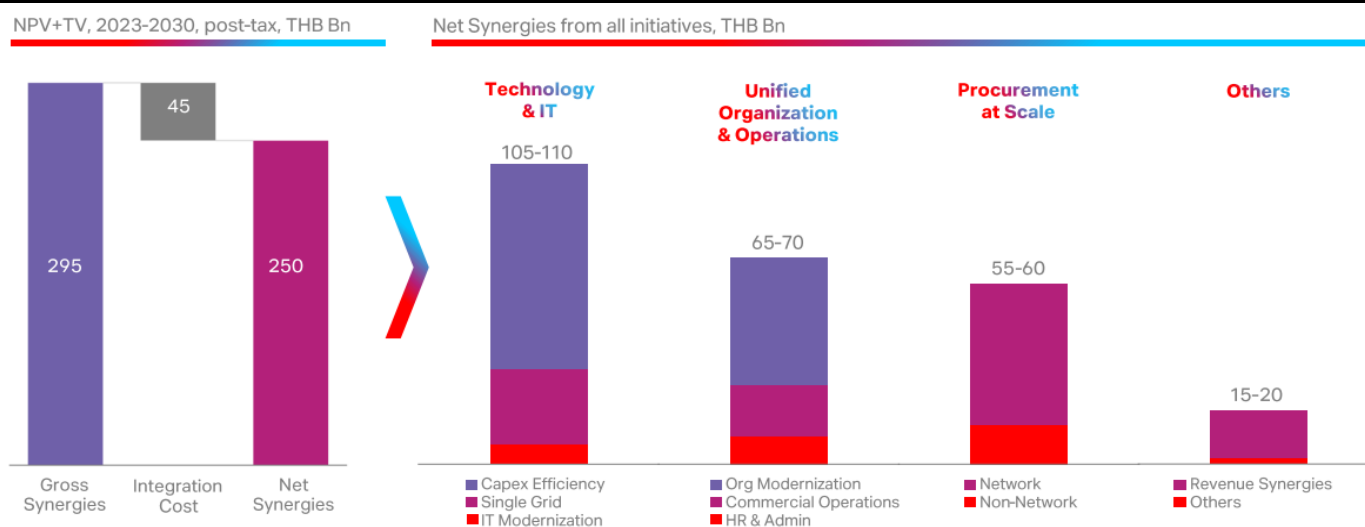
## 2. Synergy from single grid and opex savings

### 2.1 Reducing number of shops despite having to keep two brands

The single-grid network will be the biggest synergy contributor, followed by opex savings from 'Unified Organisation & Operations' initiatives, which include 30% reduction in shops, admin expense and office rent.

Most investors asked about a potential brand merger and its role in synergy value creation. The National Broadcasting and Telecommunications Commission requires TRUE to keep the TrueMove and dtac brands for three years (until Mar '26). The company currently has no plan to merge the brands after the 3-year period. However, overlapping shops would allow for 30% shop reduction in 1.5 years, said the management.

Fig 6: TRUE aims for synergy NPV of THB250b, of which THB170b is from terminal value and THB80b is from FY23-30E cashflows



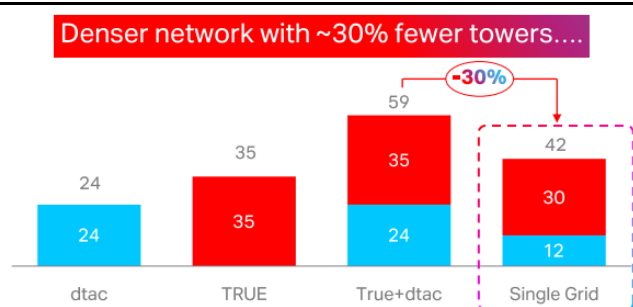
Source: Company, MST

## 2.2 Single grid is the largest synergy contributor

The net synergy NPV of THB250b is derived from THB295b gross synergy value and THB45b integration cost. The single-grid network alone will contribute 35% of the gross synergy value.

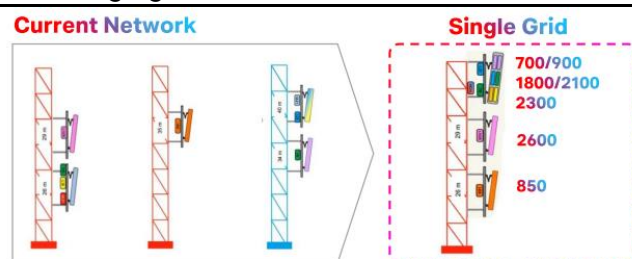
Consolidating TRUE's and DTAC's networks into a single grid (to be completed in Sep 2025) will lead to a 30% reduction in the number of combined towers, resulting in cost savings from O&M and land leases. The single grid will also improve capex efficiency thanks to avoidance of overlapping capex and spectrum pooling.

Fig 7: Single-grid network leads to 30% reduction in towers



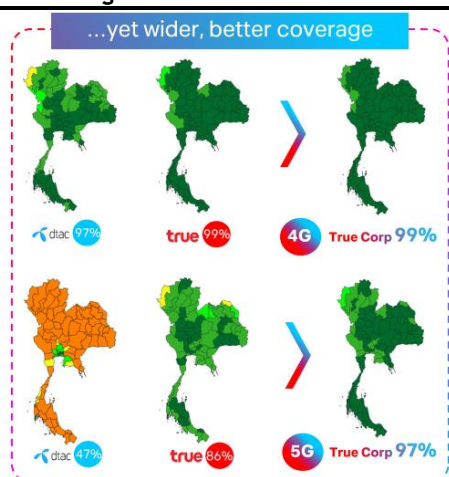
Source: Company, MST

Fig 8: An illustration of a consolidation of current networks into a single grid in a location



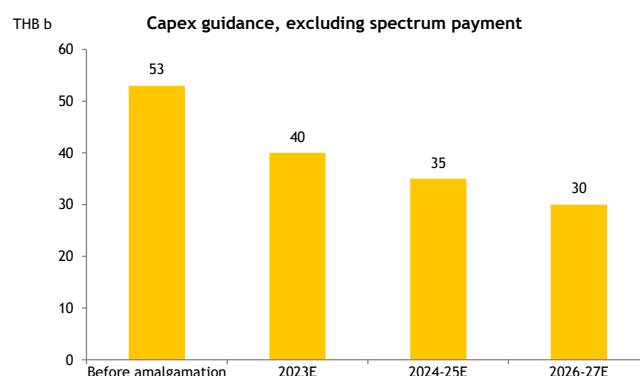
Source: Company, MST

**Fig 9: Network consolidation leads to larger 4G and 5G population coverage**



Source: Company, MST

**Fig 10: TRUE's guidance of capex forecasts (accrual basis)**



Source: Company, MST

## 2.3 Clarifying integration costs

TRUE aims for synergy NPV of THB250b, comprising THB295b gross synergy and THB45b integration cost (>80% of integration cost will be capex). Integration costs include: i) fees for network vendors; ii) purchases of new network equipment to enable carrier aggregation and improve electricity efficiency; iii) investment in stronger telecom towers to accommodate more antennas on each tower, and; iv) severance packages.

# 3. Kicking off the recovery journey in 3Q23E

## 3.1 Expect core loss to narrow slightly QoQ in 3Q23E

We expect a slow pace of earnings recovery in 3-4Q23E as TRUE is ramping up integration costs. We forecast 3Q23E core loss of THB2.2b, slightly better than 2Q23 core loss of THB2.4b as the benefits of 1% QoQ revenue growth, lower electricity tariffs and elimination of operational excesses should largely be offset by the expected integration cost of THB1b (vs <THB300m cost in 2Q23). We forecast 3Q23E normalised EBITDA of THB21.2b (+1.0% YoY, +0.5% QoQ).

Quarterly earnings recovery will likely accelerate in FY24E thanks to stable integration costs each quarter, rising synergy value and ARPU uplifts from easing competition.



Fig 11: We forecast TRUE to post a THB2.2b core loss in 3Q23E (vs core losses of THB675m in 3Q22 and THB2.4b in 2Q23)

THB m	3Q22	2Q23	3Q23E	YoY	QoQ	2022	2023E	YoY	9M23E as of % of FY23E
Revenue from mobile unit	32,460	31,269	31,457	-3.1%	0.6%	123,334	127,228	3.2%	73.7%
Revenue from broadband Internet	5,894	5,935	6,113	3.7%	3.0%	22,248	24,030	8.0%	74.1%
Revenue from pay-TV unit	1,641	1,569	1,600	-2.5%	2.0%	6,680	6,290	-5.8%	76.9%
Other revenue	459	657	657	43.1%	0.0%	7,566	3,502	-53.7%	53.2%
<b>Service revenue ex. IC</b>	<b>40,454</b>	<b>39,430</b>	<b>39,827</b>	<b>-1.6%</b>	<b>1.0%</b>	<b>159,828</b>	<b>161,050</b>	<b>0.8%</b>	<b>73.4%</b>
IC revenue	468	382	382	-18.4%	0.0%	1,841	2,672	45.1%	86.6%
<b>Service revenue</b>	<b>40,922</b>	<b>39,812</b>	<b>40,209</b>	<b>-1.7%</b>	<b>1.0%</b>	<b>161,669</b>	<b>163,722</b>	<b>1.3%</b>	<b>73.6%</b>
Product sale	7,275	4,107	4,500	-38.1%	9.6%	30,080	30,982	3.0%	46.3%
Network rental income	4,293	5,193	5,193	21.0%	0.0%	23,321	20,781	-10.9%	74.9%
<b>Total revenue</b>	<b>52,490</b>	<b>49,112</b>	<b>49,902</b>	<b>-4.9%</b>	<b>1.6%</b>	<b>215,070</b>	<b>215,485</b>	<b>0.2%</b>	<b>69.8%</b>
Regulatory cost	(1,785)	(1,059)	(1,070)	-40.1%	1.0%	(4,016)	(4,429)	10.3%	72.2%
Network opex and other costs of services	(13,530)	(16,019)	(14,976)	10.7%	-6.5%	(63,339)	(63,774)	0.7%	74.9%
IC cost	(523)	1,057	(423)	-19.1%	-140.0%	(1,985)	(118)	-94.1%	-205.2%
Cost of sales	(7,721)	(4,537)	(4,658)	-39.7%	2.7%	(31,742)	(32,841)	3.5%	46.3%
SG&A exp	(7,974)	(6,234)	(6,977)	-12.5%	11.9%	(32,044)	(29,459)	-8.1%	71.7%
<b>EBITDA</b>	<b>20,957</b>	<b>22,320</b>	<b>21,171</b>	<b>1.0%</b>	<b>-5.1%</b>	<b>81,944</b>	<b>84,864</b>	<b>3.6%</b>	<b>74.2%</b>
<b>Normalised EBITDA</b>	<b>20,957</b>	<b>21,060</b>	<b>21,171</b>	<b>1.0%</b>	<b>0.5%</b>	<b>81,944</b>	<b>83,604</b>	<b>2.0%</b>	<b>73.8%</b>
D&A exp	(16,195)	(17,837)	(17,837)	10.1%	0.0%	(63,540)	(70,280)	10.6%	73.8%
<b>Operating profit</b>	<b>4,762</b>	<b>4,483</b>	<b>3,566</b>	<b>-25.1%</b>	<b>-20.5%</b>	<b>18,404</b>	<b>14,584</b>	<b>-20.8%</b>	<b>76.6%</b>
Interest exp	(6,427)	(5,857)	(5,974)	-7.0%	2.0%	(23,003)	(23,558)	2.4%	73.3%
Tax charge	(246)	(1,986)	(236)	-4.1%	-88.1%	(1,399)	(2,250)	60.8%	110.5%
Share of profit from associates	746	687	687	-7.9%	0.0%	2,426	2,806	15.7%	74.5%
Other income (exp)	1,885	(232)	(232)	-112.3%	0.0%	(1,263)	500	-139.6%	87.4%
<b>Core net profit</b>	<b>(675)</b>	<b>(2,375)</b>	<b>(2,190)</b>	<b>224.4%</b>	<b>-7.8%</b>	<b>(117)</b>	<b>(8,123)</b>	<b>6840.6%</b>	<b>76.5%</b>
Non-recurring item	223	55	-	-100.0%	-100.0%	(5,797)	1,215	-121.0%	100.0%
<b>Net profit to shareholders of the company</b>	<b>(452)</b>	<b>(2,320)</b>	<b>(2,190)</b>	<b>384.4%</b>	<b>-5.6%</b>	<b>(5,914)</b>	<b>(6,908)</b>	<b>16.8%</b>	<b>72.4%</b>
<b>Profitability ratios</b>									
Gross margin - service revenue ex. IC	62.1%	56.7%	59.7%			57.9%	57.7%		
Gross margin - product sale	-6.1%	-10.5%	-3.5%			-5.5%	-6.0%		
Normalised EBITDA margin, based on total revenue	39.9%	42.9%	42.8%			38.1%	38.8%		
SG&A to revenue	-15.2%	-12.7%	-14.0%			-14.9%	-13.7%		
Core net margin	-1.3%	-4.8%	-4.4%			-0.1%	-3.8%		
Net margin	-1.1%	-5.8%	-5.4%			-3.7%	-4.2%		

Source: Company, MST

### 3.2 Fine-tuning integration cost and synergy in FY23E

We raise our forecast of FY23E core net loss from THB6.1b to THB8.1b as we i) raise integration cost from THB1.6b to THB2.5b and ii) fine-tune synergy assumptions. Our earnings forecasts from FY24E onwards remain the same.

Fig 12: Changes in earnings forecasts

		New TRUE								
	Pro-forma (TRUE + DTAC)	Current			Previous			Changes		
	2022	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
Service revenue (THB m)	159,828	161,050	164,782	168,932	161,050	164,782	168,932	0.0%	0.0%	0.0%
Mobile	123,334	127,228	130,812	134,481	127,228	130,812	134,481	0.0%	0.0%	0.0%
Fixed broadband	22,248	24,030	24,759	25,567	24,030	24,759	25,567	0.0%	0.0%	0.0%
Pay TV and entertainment	6,680	6,290	5,604	5,168	6,290	5,604	5,168	0.0%	0.0%	0.0%
Digital services and others	7,566	3,502	3,607	3,715	3,502	3,607	3,715	0.0%	0.0%	0.0%
Total revenue (THB m)	215,070	215,485	218,629	223,395	215,485	218,629	223,395	0.0%	0.0%	0.0%
Operating EBITDA (THB m)	81,944	84,864	88,469	93,702	86,305	88,417	93,162	-1.7%	0.1%	0.6%
EBITDA margin (%)	38.1%	39.4%	40.5%	41.9%	40.1%	40.4%	41.7%	-1.7%	0.1%	0.6%
D&A expenses	63,540	70,280	71,865	74,918	70,280	71,865	74,918	0.0%	0.0%	0.0%
Interest expenses on ITB debt	14,057	15,051	14,680	14,142	15,051	14,680	14,142	0.0%	0.0%	0.0%
Core net profit/(loss) (THB m)	-117	-8,123	-2,270	283	-6,142	-2,270	283	32.3%	0.0%	0.0%
Net profit/(loss) (THB m)	-5,914	-6,908	-2,270	283	-4,927	-2,270	283	40.2%	0.0%	0.0%

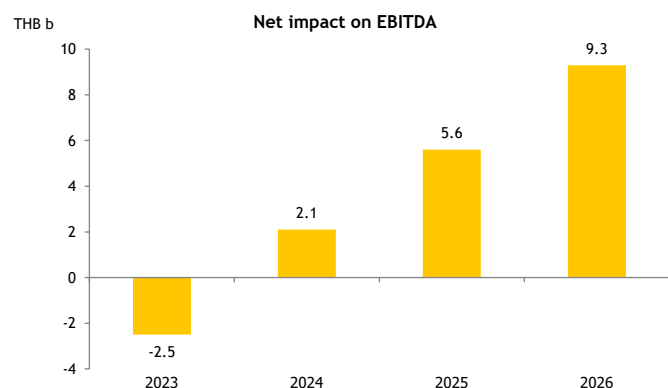
Source: Company, MST

### 3.3 TRUE aims for a turnaround to profit in FY25E

Due to the rising positive impact of synergies, TRUE aims to turn around from net losses in FY23-24E to net profit in FY25E. Management guidance implies THB2.5b negative impact on EBITDA in FY23E; then, there should be net positive impact (gross synergy outweighing integration costs) of THB2.1b/THB5.6b/THB9.3b on EBITDA in FY24/25/26E.

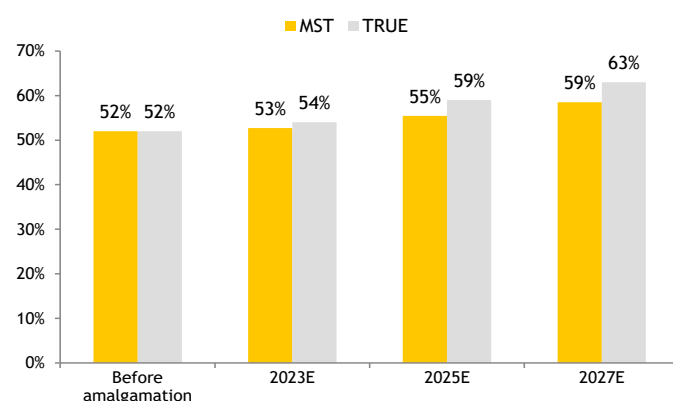
We forecast TRUE to turn around to THB283m core profit in FY25E after experiencing core losses of THB8.1b in FY23E and THB2.3b in FY24E.

**Fig 13: Net impact of synergies on EBITDA (estimates based on TRUE's guidance)**



Source: Company, MST

**Fig 14: EBITDA margin (TRUE's guidance vs MST's forecasts)**



Source: Company, MST

## 4. Other concerns and questions

### 4.1 Will price war return?

Mobile and fixed-broadband competition has been easing in 2023, and TRUE has made it clear at analyst meetings (including the Capital Markets Day on 26 Sep) that it wants to see competition ease further. Management expects the company's mobile ARPU to rise over the next 2-3 years.

We believe the risk of another price war is low so long as TRUE and ADVANC can continue growing their mobile revenues at a comparable pace (an environment of stable market share). In fact, TRUE just raised the prices of some low-end prepaid plans with 30-50GB data quotas by 13% on 5 Sep. ADVANC has not followed suit yet.

### 4.2 What are the risks of synergy delivery?

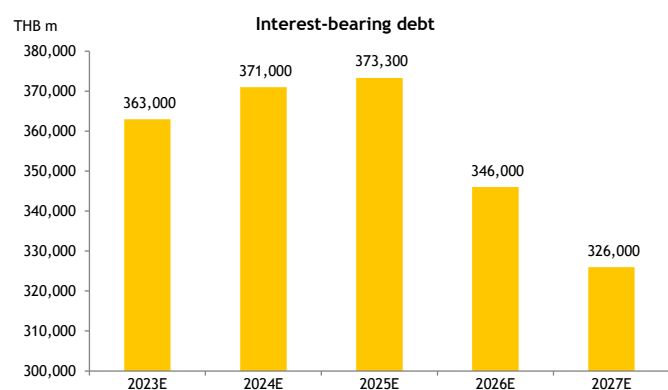
Most investors we met were curious about the key downside risks to the synergy guidance. The CFO mentioned risks of people integration and network integration. Both integration processes will take approximately two years, and so far things are going according to plan.

### 4.3 Is there a risk of capital call?

While admitting that the question of capital raising would be better answered by major shareholders, the management has seen no risk of a capital call. TRUE plans to use bond issuances as the main source of funds; a 3-notch rating upgrade from BBB+ to A+ after the amalgamation will give TRUE access to the bond market for the foreseeable future. Other alternatives are partial divestments in digital-service businesses and asset injection into DIF, which remains low on the funding option list due to 10% cost of funds (vs only 4% cost of debt).

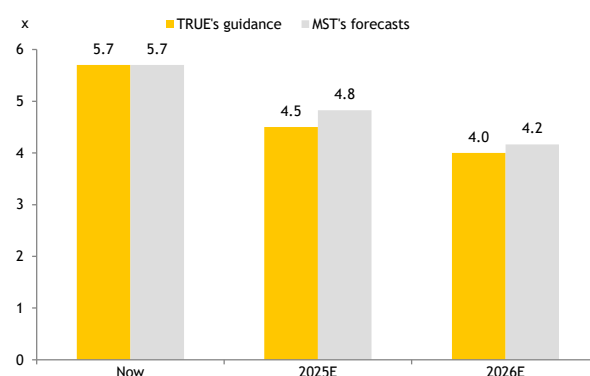
Digital businesses (THB5.5b annual revenue and 1.1k employees) are digital media, digital home, enterprise IoT, digital health, gaming and data analytics. TRUE is looking for strategic partners to help accelerate growth in these businesses.

Fig 15: MST's forecasts of interest-bearing debt



Source: Company, MST

Fig 16: Net debt to EBITDA (MST's forecasts vs TRUE's targets)



Source: Company, MST

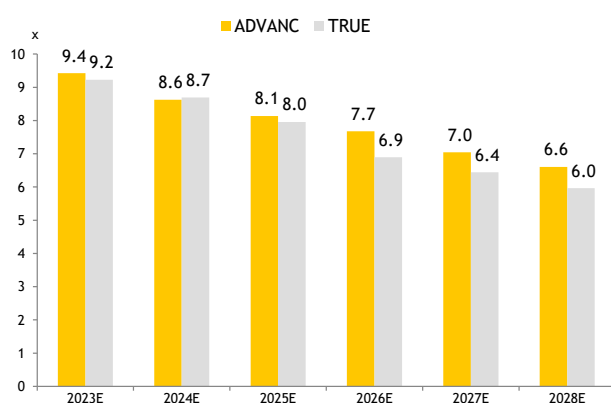
#### 4.4 What is the role of China Mobile?

China Mobile is a passive investor with a 7.8% stake in TRUE. It also acts as a strategic advisor.

#### 4.5 Why does TRUE have two CFOs?

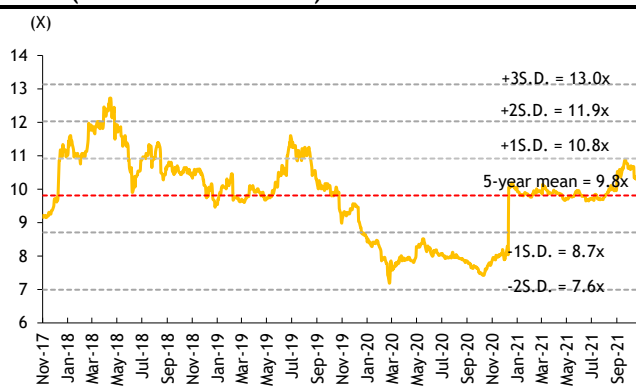
Merging two entities into one large organisation requires full effort from two CFOs, said Nakul. Co-CFO Nakul Sehgal deals with finance, IR, procurement and accounting while Co-CFO Yupa Leewongcharoen focuses on funding and accounting.

Fig 17: Pre-TFRS16 EV/EBITDA (ADVANC vs TRUE)



Source: Company, MST

Fig 18: Based on TRUE's 1-year-forward EV/EBITDA\* band prior to the merger announcement, the 5-year mean was 9.8x (Nov 2016 - Nov 2021)



\*pre-TFRS16

Source: Bloomberg, Company, MST

Fig 19: Peer comparison

Stock	Bloomberg code	Mkt cap (USD'm)	Rating	Price (LC)	TP (LC)	Upside (%)	P/E (x)		P/B (x)		Div yld (%)	
							23E	24E	23E	24E	23E	24E
ADVANC	ADVANC TB	18,135	Buy	226.00	251.00	15	23.2	22.1	7.4	7.1	3.6	3.8
TRUE Corp	TRUE TB	6,432	Buy	6.90	8.60	25	nm	nm	2.7	2.8	0.0	0.0
Digital Telecomm	DIF TB	2,596	Buy	9.05	12.50	48	8.1	8.1	0.6	0.6	10.4	10.1
Jasmine Broadban	JASIF TB	1,446	Hold	6.70	6.55	8	6.5	8.9	0.6	0.6	11.4	10.3

Source: Company, MST

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Key Metrics</b>					
P/E (reported) (x)	10.9	nm	nm	nm	nm
Core P/E (x)	17.2	nm	nm	nm	nm
P/BV (x)	1.5	1.7	2.7	2.8	2.8
P/NTA (x)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Net dividend yield (%)	4.4	2.6	0.0	0.0	0.1
FCF yield (%)	14.8	18.1	16.7	19.3	22.8
EV/EBITDA (x)	5.7	6.4	6.7	6.4	6.0
EV/EBIT (x)	17.4	28.5	39.1	34.2	30.2
<b>INCOME STATEMENT (THB m)</b>					
Revenue	224,091.0	215,070.0	215,485.4	218,628.9	223,394.7
EBITDA	87,027.0	81,944.0	84,864.0	88,468.9	93,702.2
Depreciation	(58,344.0)	(63,540.0)	(70,279.6)	(71,865.3)	(74,918.0)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	28,683.0	18,404.0	14,584.4	16,603.6	18,784.1
Net interest income / (exp)	(22,173.0)	(23,003.0)	(23,558.2)	(23,168.3)	(22,310.8)
Associates & JV	3,672.0	2,426.0	2,806.0	3,306.5	3,309.7
Exceptionals	0.0	0.0	1,010.0	0.0	0.0
Other pretax income	2,067.0	(2,233.0)	500.0	988.0	500.0
Pretax profit	12,249.0	(4,406.0)	(4,657.8)	(2,270.2)	283.0
Income tax	(976.0)	(1,399.0)	(2,250.0)	0.0	0.0
Minorities	(93.0)	(109.0)	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	11,180.0	(5,914.0)	(6,907.8)	(2,270.2)	283.0
Core net profit	9,608.6	(117.0)	(8,122.8)	(2,270.2)	283.0
<b>BALANCE SHEET (THB m)</b>					
Cash & Short Term Investments	25,539.0	32,662.4	27,492.3	28,300.5	31,637.1
Accounts receivable	63,206.4	59,422.1	59,536.9	60,405.4	61,722.2
Inventory	2,680.5	2,323.5	2,404.0	2,406.1	2,406.1
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	209,825.1	223,956.3	231,917.6	234,403.6	233,182.6
Intangible assets	170,425.5	158,518.9	145,534.4	132,545.6	135,687.9
Investment in Associates & JVs	24,721.9	21,929.2	23,103.6	24,356.1	25,586.6
Other assets	305,747.9	294,879.7	284,636.3	275,214.0	266,201.7
<b>Total assets</b>	<b>802,146.3</b>	<b>793,692.3</b>	<b>774,625.2</b>	<b>757,631.1</b>	<b>756,424.1</b>
ST interest bearing debt	5,999.5	20,954.1	27,000.0	27,000.0	16,000.0
Accounts payable	125,640.8	116,581.8	119,232.2	120,256.4	119,520.2
LT interest bearing debt	243,274.5	261,913.4	236,000.0	244,000.0	267,300.0
Other liabilities	315,787.0	295,301.0	302,246.0	282,088.0	269,034.0
<b>Total Liabilities</b>	<b>690,701.8</b>	<b>694,750.3</b>	<b>684,478.4</b>	<b>673,344.4</b>	<b>671,854.5</b>
Shareholders Equity	110,988.3	98,517.4	89,722.2	83,862.1	84,145.1
Minority Interest	456.1	424.6	424.6	424.6	424.6
<b>Total shareholder equity</b>	<b>111,444.4</b>	<b>98,942.0</b>	<b>90,146.8</b>	<b>84,286.7</b>	<b>84,569.7</b>
<b>Total liabilities and equity</b>	<b>802,146.3</b>	<b>793,692.3</b>	<b>774,625.2</b>	<b>757,631.1</b>	<b>756,424.1</b>
<b>CASH FLOW (THB m)</b>					
Pretax profit	12,249.0	(4,406.0)	(4,657.8)	(2,270.2)	283.0
Depreciation & amortisation	58,344.0	63,540.0	70,279.6	71,865.3	74,918.0
Adj net interest (income)/exp	21,322.7	21,609.0	23,153.2	22,413.3	21,555.8
Change in working capital	(11,270.3)	(5,100.4)	(1,590.2)	(3,786.3)	(2,311.7)
Cash taxes paid	(3,182.5)	(3,911.5)	(2,250.0)	0.0	0.0
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	79,963.2	81,655.4	82,128.8	84,915.6	91,135.4
Capex	(55,593.4)	(51,372.6)	(42,234.3)	(38,959.0)	(36,784.2)
Free cash flow	24,369.8	30,282.8	39,894.5	45,956.6	54,351.3
Dividends paid	(9,839.4)	(6,832.7)	(2,336.0)	0.0	0.0
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	39,550.7	37,858.4	9,301.8	8,000.0	2,300.0
Other invest/financing cash flow	(60,940.4)	(54,432.2)	(52,030.4)	(53,148.4)	(53,314.6)
Effect of exch rate changes	14.0	0.0	0.0	0.0	0.0
Net cash flow	(6,845.4)	6,876.2	(5,170.1)	808.2	3,336.7

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	62.1	(4.0)	0.2	1.5	2.2
EBITDA growth	65.3	(5.8)	3.6	4.2	5.9
EBIT growth	169.4	(35.8)	(20.8)	13.8	13.1
Pretax growth	1,197.6	nm	nm	nm	nm
Reported net profit growth	966.8	nm	nm	nm	nm
Core net profit growth	nm	nm	nm	nm	nm
<b>Profitability ratios (%)</b>					
EBITDA margin	38.8	38.1	39.4	40.5	41.9
EBIT margin	12.8	8.6	6.8	7.6	8.4
Pretax profit margin	5.5	nm	nm	nm	0.1
Payout ratio	65.4	nm	0.0	0.0	50.0
<b>DuPont analysis</b>					
Net profit margin (%)	5.0	nm	nm	nm	0.1
Revenue/Assets (x)	0.3	0.3	0.3	0.3	0.3
Assets/Equity (x)	7.2	8.1	8.6	9.0	9.0
ROAE (%)	11.4	(5.6)	(7.3)	(2.6)	0.3
ROAA (%)	1.4	(0.0)	(1.0)	(0.3)	0.0
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	(154.2)	(174.5)	(159.3)	(162.4)	(156.9)
Days receivable outstanding	86.9	102.6	99.4	98.8	98.4
Days inventory outstanding	8.3	5.8	5.3	5.4	5.2
Days payables outstanding	249.3	283.0	264.0	266.5	260.5
Dividend cover (x)	1.5	(1.4)	nm	nm	2.0
Current ratio (x)	0.5	0.5	0.4	0.4	0.5
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	1.2	1.1	1.1	1.1	1.1
Net gearing (%) (incl perps)	200.8	252.9	261.2	287.9	297.6
Net gearing (%) (excl. perps)	200.8	252.9	261.2	287.9	297.6
Net interest cover (x)	1.3	0.8	0.6	0.7	0.8
Debt/EBITDA (x)	2.9	3.5	3.1	3.1	3.0
Capex/revenue (%)	24.8	23.9	19.6	17.8	16.5
Net debt/ (net cash)	223,735.0	250,205.1	235,507.7	242,699.5	251,662.9

Source: Company; Maybank IBG Research

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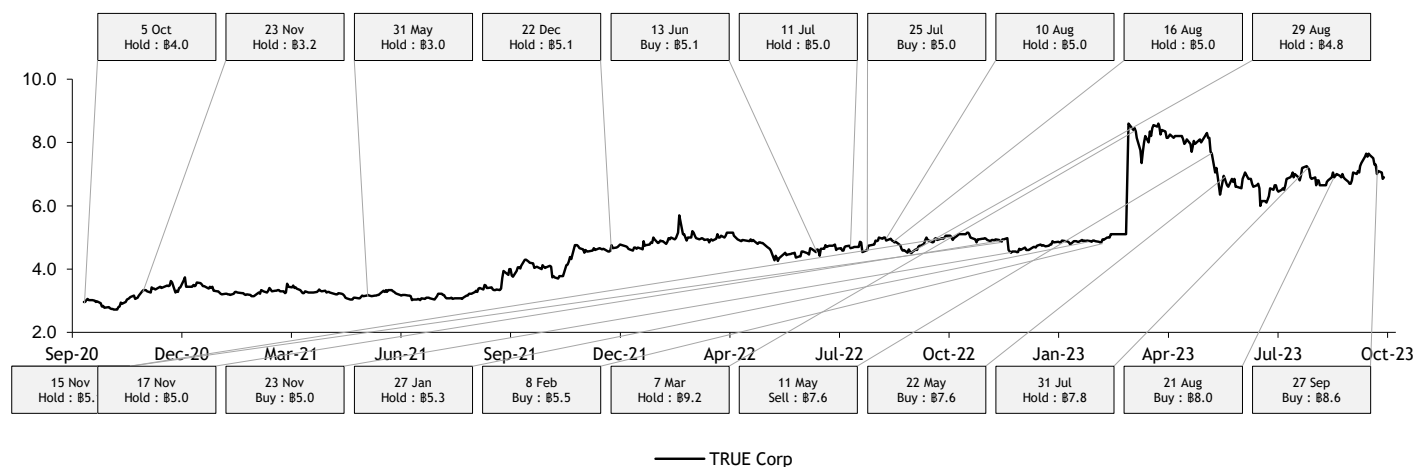
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