

TRUE Corp (TRUE TB)

3Q23 profit beat our forecast due to low integration cost

Reiterate BUY with a lower TP of THB7.50

We reiterate BUY on TRUE due to expected quarterly earnings improvement from 1Q24E onwards. 3Q23 core loss of THB1.9b (better than THB2.4b loss in 2Q23) beat our forecast thanks to lower-than-expected integration cost. However, we expect 4Q23E core loss to widen QoQ to THB2.2b due to higher integration cost. We cut our DCF-based TP to THB7.5 from THB8.6; we raise WACC to 5.8% from 5.7% after factoring in a higher cost of debt of 4.2% (vs 4.0% in the previous WACC calculation).

Core loss narrowed QoQ to THB1.9b in 3Q23

TRUE reported 3Q23 net loss of THB1.6b. Excluding one-time items, 3Q23 core loss was THB1.9b (better than 2Q23 loss of THB2.4b). 3Q23 core loss beat our forecast of THB2.2b loss thanks to low integration cost of THB400m (vs our estimate of THB1.1b). 3Q23 normalised EBITDA rose 2.1% QoQ due to 0.5% core revenue growth and cost savings under synergy initiatives. 3Q23 mobile revenue (79% of revenue) grew 0.2% QoQ due to flat ARPU (THB200/month) and 254k subscriber increase.

Expect core loss to expand to THB2.2b in 4Q23

While we expect revenue and synergy benefits to continue rising QoQ, we forecast core loss to widen to THB2.2b in 4Q23E from THB1.9b in 3Q23 due to an increase in integration cost to TH1.9b in 4Q23E from THB400m in 3Q23. Rising integration costs should stem from organisation modernisation and reduction of towers. We expect quarterly earnings improvement in FY24E due to stable integration cost of THB1b/quarter.

Raise FY24E core loss to factor in higher cost of debt

We raise FY24E core loss from THB2.3b to THB3.1b after raising effective interest rate from 4.0% to 4.2% (vs 3.7% average cost of debt in the latest round of bond sales). We believe TRUE will need to raise the interest rates to attract bondholders and banks next year after the THB12b bond issuances missed the THB18b target in Nov'23. The higher cost of debt of 4.2% also results in higher WACC and our lower DCF-based TP of THB7.5.

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)	(3,119)	336
Core EPS (THB)	0.28	(0.00)	(0.24)	(0.09)	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	2.2	2.4	2.4
Net dividend yield (%)	4.4	2.6	0.0	0.0	0.1
ROAE (%)	11.4	(5.6)	(7.3)	(3.6)	0.4
ROAA (%)	1.4	(0.0)	(1.0)	(0.4)	0.0
EV/EBITDA (x)	5.7	6.4	6.3	6.0	5.6
Net gearing (%) (incl perps)	200.8	252.9	261.2	285.8	300.8
Consensus net profit	-	-	(6,457)	(1,726)	4,620
MIBG vs. Consensus (%)	-	-	(7.0)	(80.7)	(92.7)

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BUY

Share Price	THB 5.80
12m Price Target	THB 7.50 (+29%)
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.

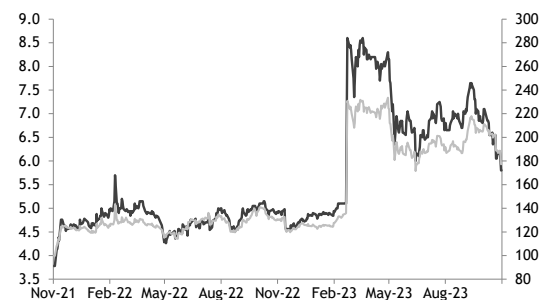
Statistics

52w high/low (THB)	8.60/4.52
3m avg turnover (USDm)	13.4
Free float (%)	73.6
Issued shares (m)	34,552
Market capitalisation	THB200.4B
	USD5.6B

Major shareholders:

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

Price Performance



	-1M	-3M	-12M
Absolute (%)	(15)	(15)	18
Relative to index (%)	(13)	(7)	36

Source: FactSet

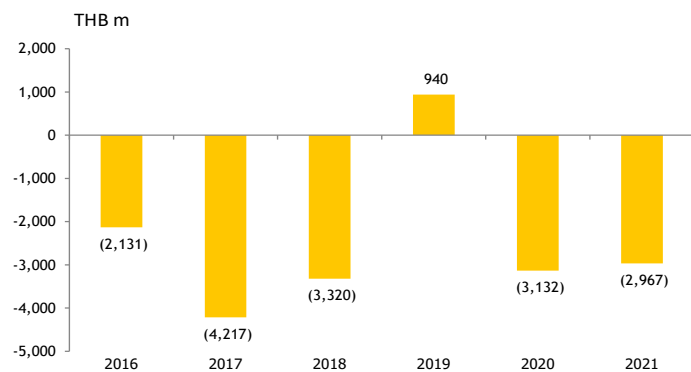
ESG@MAYBANK IBG

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)

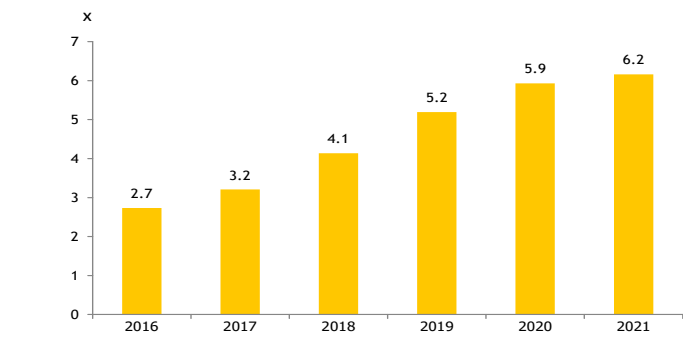


Source: Company

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.

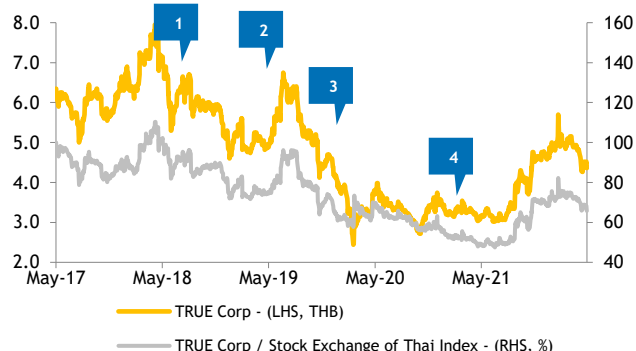
Net-debt-to-EBITDA ratio (pre-TFRS16 accounting)



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 ¹	26.6 Medium Risk
Score Momentum ²	0.0
Last Updated	15 Aug 2022
Controversy Score ³ (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 tonCO₂e per THB1m of service revenue. Then, the GHG emission intensity dropped from 3.44 tonCO₂e per THB1m of revenue in 2020 to 2.8 tonCO₂e 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.

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).

Quantitative Parameters (Score: 44)						
	Particulars	Unit	2019	2020	2021	ADVANC TB (2021)
E	Scope 1	m tCO2e	17,199.48	13,768.00	10,566.00	8,931
	Scope 2	m tCO2e	435,418.52	403,740.00	326,623.00	636,390
	Total	m tCO2e	452,618	417,508	337,189	645,321
	Scope 3	m tCO2e	6,213	580	370	NA
	Total	m tCO2e	458,831	418,088	337,559	NA
	Scope 1 & 2 emission intensity	tCO2e/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
Total			68

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. 3Q23 core loss narrowed QoQ to THB1.9b

TRUE reported 3Q23 net loss of THB1.6b. Excluding THB314m FX gain and THB50m amalgamation cost, 3Q23 core loss was THB1.9b (better than 2Q23 loss of THB2.4b). 3Q23 core loss beat our forecast of THB2.2b loss thanks to low integration cost of THB400m (vs our estimate of THB1.1b).

3Q23 normalised EBITDA rose 2.1% QoQ due to 0.5% core revenue growth and cost savings under synergy initiatives; this represented three consecutive quarters of EBITDA increases. Other cost of providing services declined by 2% QoQ, and SG&A expenses were flat QoQ thanks to structural efficiency programme.

In 3Q23, TRUE's QoQ mobile revenue growth of 0.2% outperformed ADVANC's 0.6% revenue decline. TRUE likely gained market share from ADVANC in the tourist and migrant segments.

Fig 1: 3Q23 core loss was THB1.9b (vs THB179m loss in 3Q22 and THB2.4b loss in 2Q23)

THB m	3Q22	2Q23	3Q23	YoY	QoQ	2022	2023E	YoY	9M23 as of % of FY23E
Revenue from mobile unit	32,460	31,269	31,335	-3.5%	0.2%	123,334	127,228	3.2%	73.6%
Revenue from broadband Internet	5,894	5,935	5,910	0.3%	-0.4%	22,248	24,030	8.0%	73.2%
Revenue from pay-TV unit	1,641	1,569	1,660	1.2%	5.8%	6,680	6,290	-5.8%	77.8%
Other revenue	459	657	730	59.0%	11.1%	7,566	3,502	-53.7%	55.3%
Service revenue ex. IC	40,199	39,430	39,635	-1.4%	0.5%	159,828	161,050	0.8%	73.3%
IC revenue	457	382	342	-25.2%	-10.5%	1,841	2,672	45.1%	85.1%
Service revenue	40,656	39,812	39,977	-1.7%	0.4%	161,669	163,722	1.3%	73.5%
Product sale	7,276	4,107	4,876	-33.0%	18.7%	30,080	30,982	3.0%	47.5%
Network rental income	4,556	5,193	5,079	11.5%	-2.2%	23,321	20,781	-10.9%	74.4%
Total revenue	52,488	49,112	49,932	-4.9%	1.7%	215,070	215,485	0.2%	69.8%
Regulatory cost	(1,121)	(1,059)	(1,147)	2.3%	8.3%	(4,016)	(4,429)	10.3%	74.0%
Network opex and other costs of services	(13,695)	(16,019)	(14,592)	6.5%	-8.9%	(63,339)	(63,774)	0.7%	74.3%
IC cost	(526)	1,057	(380)	-27.8%	-136.0%	(1,985)	(118)	-94.1%	-241.7%
Cost of sales	(7,722)	(4,537)	(5,224)	-32.3%	15.1%	(31,742)	(32,841)	3.5%	48.0%
SG&A exp	(7,796)	(6,234)	(7,147)	-8.3%	14.6%	(32,044)	(29,459)	-8.1%	72.3%
EBITDA	21,630	22,320	21,443	-0.9%	-3.9%	81,944	84,864	3.6%	74.5%
Normalised EBITDA	21,630	21,060	21,493	-0.6%	2.1%	81,944	83,604	2.0%	74.2%
D&A exp	(16,373)	(17,837)	(17,859)	9.1%	0.1%	(63,540)	(70,280)	10.6%	73.8%
Operating profit	5,257	4,483	3,583	-31.8%	-20.1%	18,404	14,584	-20.8%	76.7%
Interest exp	(5,641)	(5,857)	(5,940)	5.3%	1.4%	(23,003)	(23,558)	2.4%	73.1%
Tax charge	(246)	(1,986)	202	-182.1%	-110.2%	(1,399)	(2,250)	60.8%	91.0%
Share of profit from associates	745	687	696	-6.6%	1.3%	2,426	2,806	15.7%	74.8%
Other income (exp)	276	(232)	(469)	-269.9%	102.2%	(1,263)	500	-139.6%	40.0%
MI	(26)	(40)	(16)	-38.5%	-60.0%	(109)	-	-100.0%	NA
FX gain loss	-373	545	314	-184.2%	-42.4%	-1188	1010	-185.0%	131.1%
Core net profit	(179)	(2,375)	(1,862)	940.2%	-21.6%	(117)	(8,123)	6840.6%	72.5%
Non-recurring item	223	55	264	18.4%	380.0%	(5,797)	1,215	-121.0%	121.7%
Net profit to shareholders of the company	44	(2,320)	(1,598)	-3731.8%	-31.1%	(5,914)	(6,908)	16.8%	63.8%
Profitability ratios									
Gross margin - service revenue ex. IC	63.1%	56.7%	60.3%			57.9%	57.7%		
Gross margin - product sale	-6.1%	-10.5%	-7.1%			-5.5%	-6.0%		
Normalised EBITDA margin, based on total rev	41.2%	42.9%	43.0%			38.1%	38.8%		
SG&A to revenue	-14.9%	-12.7%	-14.3%			-14.9%	-13.7%		
Core net margin	-0.3%	-4.8%	-3.7%			-0.1%	-3.8%		
Net margin	0.1%	-5.8%	-4.0%			-3.7%	-4.2%		

Source: Company, MST

Fig 2: Operational statistics

	3Q22	4Q22	1Q23	2Q23	3Q23	YoY	QoQ
MOBILE BUSINESS							
Subscriber (m)							
Prepaid	36.87	34.02	34.72	35.39	35.71	-3%	1%
Postpaid	17.73	15.77	15.744	15.74	15.67	-12%	0%
Subscriber (m)	54.61	49.78	50.46	51.12	51.37	-6%	0%
Net addition (m)							
Prepaid	0.87	0.30	0.70	0.67	0.32	-63%	-52%
Postpaid	0.13	0.03	(0.02)	(0.01)	(0.07)	-152%	644%
Net addition (m)	1.00	0.33	0.68	0.66	0.25	-75%	-61%
ARPU (THB)							
Prepaid	99	107	102	102	104	5%	2%
Postpaid	436	414	414	416	417	-4%	0%
Blended ARPU (THB)	200	205	200	200	200	0%	0%
FBB BUSINESS							
FBB subscribers (m)	4.90	3.82	3.835	3.827	3.788	-23%	-1%
FBB net addition (m)	0.08	0.07	0.013	0.008	0.039	-148%	388%
FBB ARPU	460.0	470.0	463	475	477	4%	0%
PAY-TV BUSINESS							
PAY-TV subscribers (m)	1.52	1.49	1.447	1.415	1.401	-8%	-1%
PAY-TV net addition (m)	(0.04)	(0.04)	0.04	0.03	0.01	-69%	-56%
PAY-TV ARPU	276.0	271.0	279	280	278	1%	-1%

Source: Company, MST

2. Below-target bond sales leads to earnings downgrade in FY24E

TRUE sold bonds worth a combined THB12.3b, lower than the planned amount of THB18b (THB14b target + THB4b greenshoe). The management cited two litigations in late Oct'23 (more clarifications below) as the reasons for below-target bond sales. Prior to the bond sales in early Nov'23, TRUE's bond issuances were usually over-subscribed.

To mitigate funding risk, TRUE plans to reduce its reliance on bond issuances; this could lead to higher costs of debt as bank loans are usually more costly. As a result, we raise FY24E effective interest rate from 4.0% to 4.2% as we assume that TRUE will have to refinance THB71b debt at an average interest rate of 4.2% (vs 3.7% cost of the new bonds in Nov'23) next year. The interest rate adjustment leads us to raise FY24E core loss from THB2.3b to THB3.1b.

Fig 3: Changes in earnings forecasts

	Pro-forma (TRUE + DTAC)	New TRUE								
		Current			Previous			Changes		
		2022	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E
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	84,864	88,469	93,702	0.0%	0.0%	0.0%
EBITDA margin (%)	38.1%	39.4%	40.5%	41.9%	39.4%	40.5%	41.9%	0.0%	0.0%	0.0%
D&A expenses	63,540	70,280	71,865	73,727	70,280	71,865	74,918	0.0%	0.0%	-1.6%
Interest expenses on ITB debt	14,057	15,051	15,528	15,280	15,051	14,680	14,142	0.0%	5.8%	8.1%
Core net profit/(loss) (THB m)	-117	-8,123	-3,119	336	-8,123	-2,270	283	0.0%	37.4%	18.7%
Net profit/(loss) (THB m)	-5,914	-6,908	-3,119	336	-6,908	-2,270	283	0.0%	37.4%	18.7%

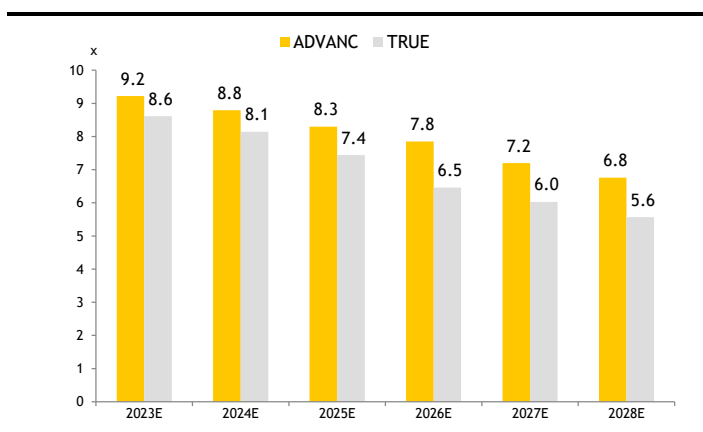
Source: Company, MST

3. Funding alternatives to bonds

At the end of 2Q23, the company had three credit facilities with commercial banks worth a combined THB88.8b as follows:

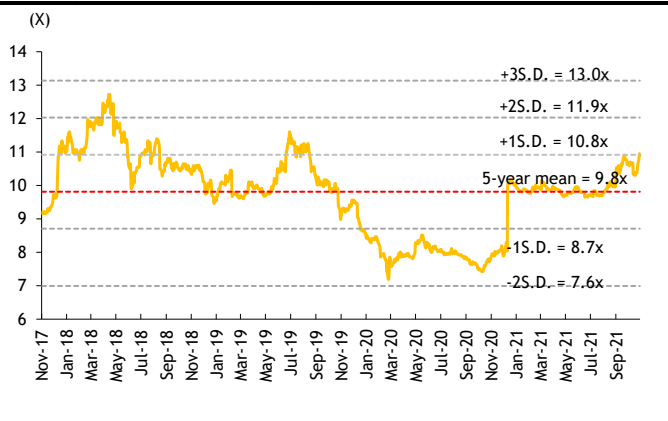
- 1) **Loan facility of USD2.05b**, of which USD668m has been drawn down. TRUE entered this credit facility in 2Q23 at the interest rate of SOFR plus a margin; the current SOFR is 5.32% (3 Nov 2023). The credit line will expire in Jun 2025.
- 2) **Loan facility of THB8.5b**, of which THB2.8b has been drawn down. TRUE entered this credit facility in 2Q23 at the interest rate of THOR plus a margin; the current THOR is 2.49% (7 Nov 2023). This credit line will expire in Jun 2025.
- 3) **Loan facility of THB7.0b**. TRUE entered this credit facility in 3Q23. The loan carries interest rate of MLR minus specific rate. The loan will be redeemed in Jul 2025.

Fig 4: Pre-TFRS16 EV/EBITDA (ADVANC vs TRUE)



Source: Company, MST

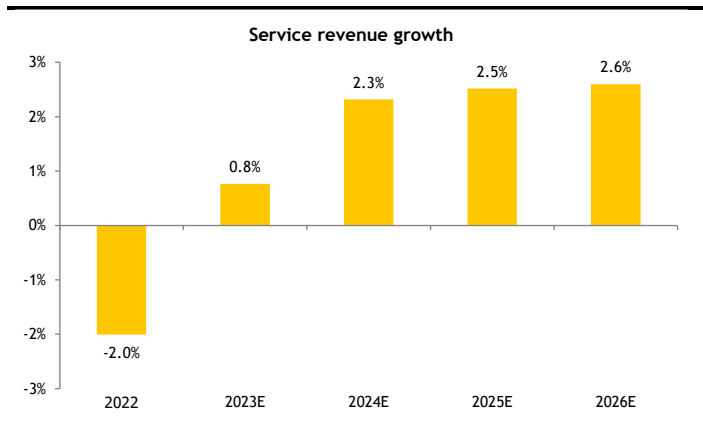
Fig 5: Based on TRUE's 1-year-forward EV/EBITDA* band prior to the merger announcement, the 5-year mean was 9.8x (Nov 2016 - Nov 2021)



*pre-TFRS16

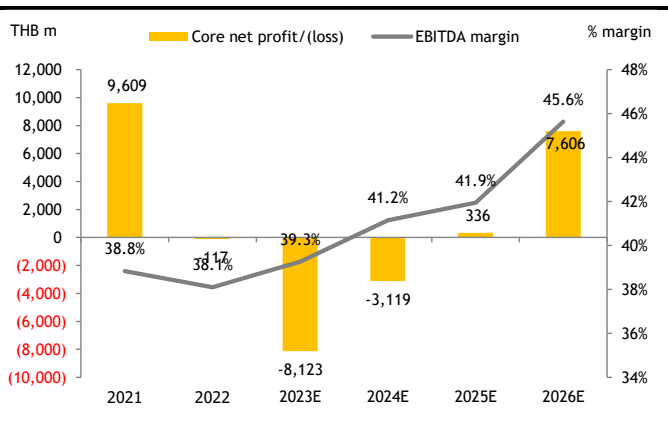
Source: Bloomberg, Company, MST

Fig 6: TRUE's core service revenue growth



Source: Company, MST

Fig 7: TRUE's core net profit/(loss)



Source: Company, MST

Fig 8: We have a DCF-based target price of THB7.5 (5.8% WACC, 2.0 TG) for TRUE

Unit: THB m	2024E	2025E	2026E	2027E	2028E	2029E	2030E	
Cashflow from operating activities	63,561	70,148	82,858	82,261	85,672	88,677	91,654	
Principal repayment for lease liabilities	- 21,703	- 20,869	- 20,885	- 20,920	- 20,974	- 21,046	- 21,137	
Net cashflow from operating activities	41,858	49,279	61,973	61,341	64,699	67,631	70,516	
CAPEX								
PPE	- 38,959	- 36,784	- 27,308	- 28,027	- 28,753	- 29,970	- 30,725	
Spectrum instalment	- 9,994	- 9,994	- 11,781	- 9,994	- 6,198	- 6,198	- 8,998	
Other intangible assets (i.e. digital platforms)	- 3,000	- 3,000	- 3,000	- 3,000	- 3,000	- 3,000	- 3,000	
Total capex	- 51,952	- 49,778	- 42,089	- 41,020	- 37,950	- 39,168	- 42,723	
FCFF	- 10,094	498	19,884	20,321	26,748	28,463	27,794	Terminal value
								722,266
		1	2	3	4	5	6	7
Present value of FCFF	-	471	17,747	17,135	21,309	21,422	19,763	485,192
Sum of PV of FCFF	582,099							
Net debt at end-FY24E	343,042							
Equity value	239,057							
20.56% stake in DIF (after 10% discount)	19,673							
Equity value of New Co pluses 20.56% stake in DIF	258,730							
# of shares	34,552							
New Co's fair value (THB per New Co share)	7.50			WACC	5.8%			
TRUE's market price (THB/sh)	6.55			Terminal growth	2.0%			
Upside/(downside) to TP	14.5%							

Source: Company, MST

4. Two litigations in late Oct'23

4.1 Central Admin Court accepts a lawsuit about TRUE-DTAC amalgamation

What happened

On 30 Oct, the Central Admin Court has accepted a lawsuit filed by Foundation for Consumers (FCC). The FCC filed a lawsuit against the NBTC for giving the greenlight to TRUE-DTAC merger, claiming the NBTC's decision was unlawful.

Our comment

Historical data in the telecom industry showed that the Central Admin Court took 5 years on average to consider a lawsuit. The range of legal proceedings is 2 - 8 years. Once the verdict is out, the losing party can appeal the case at the Supreme Admin Court, which could take another 2-3 years, in our view.

If the court deems the NBTC's decision unlawful, and the NBTC does not appeal at the Supreme Admin Court, TRUE-DTAC merger will have to be reversed, resulting in two separate companies.

Lessons from a precedent case: CP-Tesco merger

A precedent case was FCC's lawsuit against the Trade Competition Commission (TCC) for giving the approval to the CP-Tesco merger. The FCC filed the lawsuit on 15 Mar 2021, and the TCC won the lawsuit on 8 Sep 2023. The Central Admin Court deemed the TCC's approval as lawful because i) there is a set of laws behind the TCC's decision and ii) the approval was done by qualified individuals after thorough studies.

The court's decision allowed CP-Tesco merger to remain intact despite the merger's market share of 83% in the small-retail-space market (calculated from 7-11 and Lotus Express outlets).

We believe the odds are more even favourable for TRUE, which has a post-merger mobile revenue market share of 52%.

TRUE's comment

The company is not concerned about the lawsuit as it has been very transparent during the amalgamation process, and it has done everything according to the law.

It maintains its focus on synergy delivery. The lawsuit is against the NBTC and the NBTC board, so TRUE does not need to take any action at the moment.

4.2 Arbitral Tribunal ordered TRUE to pay additional revenue sharing to NT

What happened

NT demanded TRUE to pay additional revenue share from interconnection charge for 21st - 27th concession years. The Arbitral Tribunal ordered TRUE to pay THB7.1b revenue share and THB4.1b penalty.

Our comment

The case is far from the final resolution as TRUE will now bring the lawsuit to the Central Admin Court, which could take at least two years before giving the verdict. Once the verdict is out, the losing party can appeal the case at the Supreme Admin Court, which could take another 2-3 years, in our view.

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Metrics					
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	2.2	2.4	2.4
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	19.9	22.9	27.1
EV/EBITDA (x)	5.7	6.4	6.3	6.0	5.6
EV/EBIT (x)	17.4	28.5	36.5	31.9	26.5

INCOME STATEMENT (THB m)

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)	(73,726.5)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	28,683.0	18,404.0	14,584.4	16,603.6	19,975.6
Net interest income / (exp)	(22,173.0)	(23,003.0)	(23,558.2)	(24,016.6)	(23,449.2)
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)	(3,118.5)	336.0
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)	(3,118.5)	336.0
Core net profit	9,608.6	(117.0)	(8,122.8)	(3,118.5)	336.0

BALANCE SHEET (THB m)

Cash & Short Term Investments	25,539.0	32,662.4	27,492.3	28,698.1	9,279.1
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	136,879.4
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
Total assets	802,146.3	793,692.3	774,625.2	758,028.8	735,257.6
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	118,469.2	121,307.4
LT interest bearing debt	243,274.5	261,913.4	236,000.0	245,246.0	245,246.0
Other liabilities	315,787.0	295,301.0	302,246.0	282,088.0	268,930.0
Total Liabilities	690,701.8	694,750.3	684,478.4	672,803.2	651,483.2
Shareholders Equity	110,988.3	98,517.4	89,722.2	84,800.9	83,349.8
Minority Interest	456.1	424.6	424.6	424.6	424.6
Total shareholder equity	111,444.4	98,942.0	90,146.8	85,225.5	83,774.4
Total liabilities and equity	802,146.3	793,692.3	774,625.2	758,028.8	735,257.6

CASH FLOW (THB m)

Pretax profit	12,249.0	(4,406.0)	(4,657.8)	(3,118.5)	336.0
Depreciation & amortisation	58,344.0	63,540.0	70,279.6	71,865.3	73,726.5
Adj net interest (income)/exp	21,322.7	21,609.0	23,153.2	23,261.6	22,694.2
Change in working capital	(11,270.3)	(5,100.4)	(1,590.2)	(3,786.3)	(2,416.2)
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	91,031.0
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	54,246.8
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	9,246.0	(21,000.0)
Other invest/financing cash flow	(60,940.4)	(54,432.2)	(52,030.4)	(53,996.8)	(52,665.8)
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)	1,205.8	(19,419.0)

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth ratios (%)					
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	20.3
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
Profitability ratios (%)					
EBITDA margin	38.8	38.1	39.4	40.5	41.9
EBIT margin	12.8	8.6	6.8	7.6	8.9
Pretax profit margin	5.5	nm	nm	nm	0.2
Payout ratio	65.4	nm	0.0	0.0	50.0
DuPont analysis					
Net profit margin (%)	5.0	nm	nm	nm	0.2
Revenue/Assets (x)	0.3	0.3	0.3	0.3	0.3
Assets/Equity (x)	7.2	8.1	8.6	8.9	8.8
ROAE (%)	11.4	(5.6)	(7.3)	(3.6)	0.4
ROAA (%)	1.4	(0.0)	(1.0)	(0.4)	0.0
Liquidity & Efficiency					
Cash conversion cycle	(154.2)	(174.5)	(159.3)	(160.4)	(158.7)
Days receivable outstanding	86.9	102.6	99.4	98.8	98.4
Days inventory outstanding	8.3	5.8	5.3	5.4	5.3
Days payables outstanding	249.3	283.0	264.0	264.5	262.4
Dividend cover (x)	1.5	(1.4)	nm	nm	2.0
Current ratio (x)	0.5	0.5	0.4	0.4	0.4
Leverage & Expense Analysis					
Asset/Liability (x)	1.2	1.1	1.1	1.1	1.1
Net gearing (%) (incl perps)	200.8	252.9	261.2	285.8	300.8
Net gearing (%) (excl. perps)	200.8	252.9	261.2	285.8	300.8
Net interest cover (x)	1.3	0.8	0.6	0.7	0.9
Debt/EBITDA (x)	2.9	3.5	3.1	3.1	2.8
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	243,547.9	251,966.9

Source: Company; Maybank IBG Research

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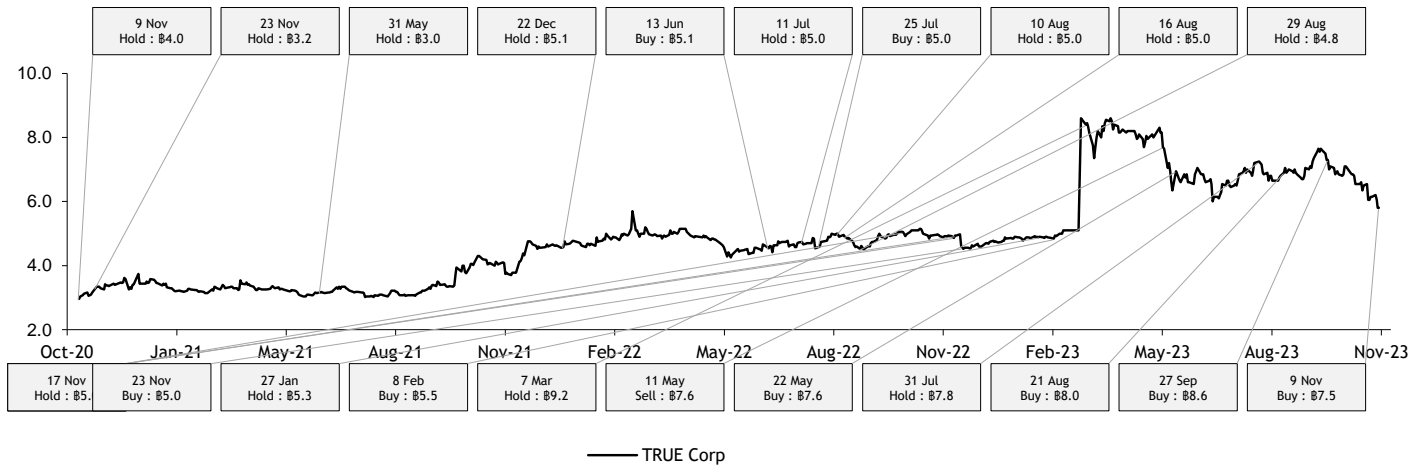
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