

COMPANY UPDATE

Advanced Info Service (ADVANC TB)

Downside Limit To Around Bt120.00

We expect ADVANC's net profit to increase qoq in 4Q15, boosted by an absence of depreciation expenses of around Bt3.0b per quarter after its 900-MHz spectrum concession expired in Sep 15, and better handset sales and margins. We also notice that during the last price war in Thailand in 2006-07, average PE stood at 15.9x. Hence, we think ADVANC's share price has a downside limit to around Bt120.00. **Maintain BUY. Target price: Bt170.00.**

4Q15 RESULTS PREVIEW

Year to 31 Dec (Btm)	4Q14	3Q15	4Q15F	yoy % chg	qoq % chg
Revenue	40,462	36,778	37,974	-6.1	3.3
COGS	22,834	20,399	19,147	-16.1	-6.1
SG&A	5,106	4,935	5,465	7.0	10.7
EBITDA	17,562	17,396	16,814	-4.3	-3.3
Net income	9,119	8,616	10,595	16.2	23.0
EPS (Bt)	3.08	2.95	3.58	16.2	21.1
SG&A/Sales (%)	12.6	13.4	14.4		
EBITDA margin (%)	58.5	58.1	55.4		
Net profit margin (%)	22.5	23.4	27.9		

Source: ADVANC, UOB Kay Hian

WHAT'S NEW

- We expect Advanced Info Service (ADVANC) to post a record net profit of Bt10.6b in 4Q15, up 21.1% qoq and 16.2% yoy, due to: a) an absence of depreciation expenses of around Bt3.0b per quarter after its 900-MHz spectrum concession expired in Sep 15, b) better handset sales and margins as the iPhone 6S and 4G Lava phones were launched in Nov 15. We expect handset sales to increase 15% qoq and handset margins to recover to -9.9% in 4Q15 from -11.1% in 3Q15, and c) lower regulatory cost to 10% in 4Q15 from 11% of its service revenue excluding interconnection charge (IC) in 3Q15. However, services revenue is expected to remain flat qoq, voice revenue is expected to continue declining by 4.0% qoq while internet data revenue should still increase by 6.0% qoq. In addition, we see SG&A expense increasing to 18% of service revenue in 4Q15 from 16.5% in 3Q15 as ADVANC carried out more marketing activities including a 4G marketing campaign and New Year countdown events.

KEY FINANCIALS

Year to 31 Dec (Btm)	2013	2014	2015F	2016F	2017F
Net turnover	142,783	149,329	153,466	152,646	148,719
EBITDA	64,138	65,370	70,221	47,033	51,673
Operating profit	46,766	46,737	49,863	30,098	34,165
Net profit (rep./act.)	35,750	36,033	38,961	21,693	24,858
Net profit (adj.)	35,983	35,844	38,928	21,693	24,858
EPS (Bt)	12.2	12.1	13.2	7.3	8.4
PE (x)	10.8	10.8	10.0	17.9	15.6
P/B (x)	8.5	8.3	12.2	16.7	15.7
EV/EBITDA (x)	7.1	7.0	6.5	9.7	8.8
Dividend yield (%)	8.7	9.2	10.0	7.8	6.0
Net margin (%)	25.0	24.1	25.4	14.2	16.7
Net debt/(cash) to equity (%)	8.4	37.4	123.8	288.0	335.4
Interest cover (x)	65.6	42.8	44.7	13.1	13.9
ROE (%)	80.2	77.8	100.5	63.0	70.5
Consensus net profit	-	-	38,885	39,483	41,237
UOBKH/Consensus (x)	-	-	1.00	0.55	0.60

Source: ADVANC, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	Bt131.00
Target Price	Bt170.00
Upside	+29.8%
(Previous TP)	Bt255.00)

COMPANY DESCRIPTION

Largest mobile phone operator in Thailand provides digital phone services through the Global Systems for Mobile Communication (GSM) Network.

STOCK DATA

GICS sector	Telecommunication Services
Bloomberg ticker:	ADVANC TB
Shares issued (m):	2,973.1
Market cap (Btm):	389,475.5
Market cap (US\$m):	10,770.9
3-mth avg daily t'over (US\$m):	63.5

Price Performance (%)

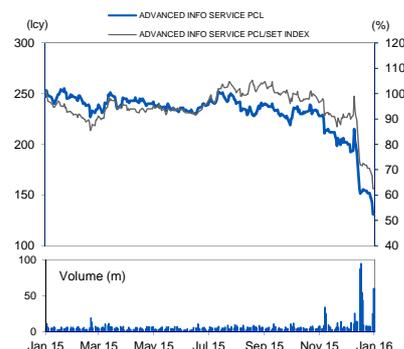
52-week high/low	Bt255.00/Bt131.00
1mth	35.1
3mth	(40.2)
6mth	(45.0)
1yr	(47.4)
YTD	(13.8)

Major Shareholders

Shin Corporation	42.5
Singtel Strategic Investment	19.1
NVDR	3.3

FY16 NAV/Share (Bt)	7.83
FY16 Net Debt/Share (Bt)	22.54

PRICE CHART



Source: Bloomberg

ANALYST

Chaiwat Arsirawichai
 +662 659 8301
 chaiwat@uobkayhian.co.th

STOCK IMPACT

- **Services revenue to be flat qoq but data revenue will continue to grow.** Although voice revenue could drop 4% qoq in 4Q15 on the back of weak consumption and the substitution of mobile internet data, non-voice revenue should continue to grow by 6% qoq, supported by rising data and smartphone usage, as well as 3G cell site proliferations.
- **Expect handset margin to slightly improve** in 4Q15 due to higher iPhone 6S sales and sales of its house brand LAVA 4G phone should still see some growth. Moreover, we expect handset margin to improve from -11.1% in 3Q15 to -9.9% in 4Q15.
- **Lower depreciation and regulatory expenses** of around Bt3.5b per quarter from 4Q15 onwards due to expiry of the 2G 900-MHz spectrum concession in Sep-15. We expect regulatory fees to decline further by 1% qoq along with the 3G migration plan as the company continues to entice customers to adopt 3G handsets, which represent 62% of its total number of handsets (3G regulatory fees are much lower than 2G regulatory fees).
- **Concern over 2G handset subsidy programme.** The company is aggressively launching its handset subsidy programme where 2G customers can get a new 3G/4G smartphone for free but will need to top up amounts of Bt100, Bt790, Bt990, or Bt1,290 depending on the handset models. The company believes the National Broadcasting & Telecommunication Commission (NBTC) will allow a 90-day remedy period for 2G service. Currently ADVANC has 12m 2G handset users, of which around 3m-4m users have a high Average Revenue Per User (ARPU) above Bt300/month/user, and this will generate more than 50% of total 2G revenue. We expect ADVANC to book handset subsidy expenses by amortising the handset cost over a period of more than 12 months because the customers that join this programme need to sign a one year contract.
- **ADVANC less impacted by the 4G auctions than peers.** Although ADVANC only obtained one licence on the 1,800-MHz spectrum, we still believe that this may be positive to AIS in the long term as it will avoid the overpay situation, and we think that its 15 MHz of bandwidth on the 2,100-MHz spectrum and 15 MHz of bandwidth on the 1,800-MHz spectrum are sufficient to service to its 3G/4G customers. However, AIS may need to bear more expenses in migrating its 2G customers (12m subscribers using 2G handsets). We think AIS needs to be more aggressive in giving 3G handsets for free to their 2G subscribers before their SIM cards stop working.

EARNINGS REVISION/RISK

- We cut earnings forecasts for 2016 down by 25.6% to reflect; a) the extra expenses on the 2G handset subsidy programme, b) a 5% yoy decrease in ARPU due to the increasingly competitive environment, and c) increase in SG&A/sales from 16.5% to 23%.

VALUATION/RECOMMENDATION

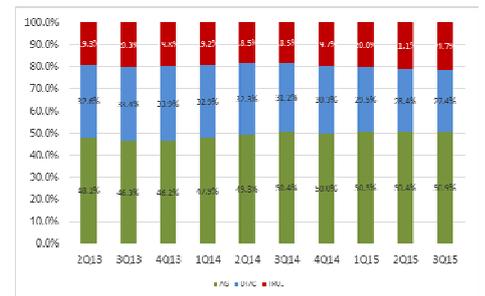
- **Maintain BUY with a new target price of Bt170.00.** Although we expect some overhang issues in the next couple of months, maintain BUY as we think the share price collapse has almost priced in all the negatives. We also note that during the last price war in Thailand in 2006-07, average PE stood at 15.9x. Hence, we think ADVANC's share price has a downside limit to around Bt120.00.

BEFORE/AFTER SPECTRUM AUCTIONS

	Before				After			
	Spectrum	Bandwidth (MHz)	Used for	No. sub (m. sub.)	Spectrum	Expire Year	Bandwidth (MHz)	Used for
ADVANC	2100-MHz	15	3G	37.3	2100-MHz	2027	15	3G
	900-MHz	17.5	2G	10	1800-MHz	2033	15	4G
DTAC	2100-MHz	15	3G/4G	23.5	2100-MHz	2027	15	3G/4G
	1800-MHz	50	2G/4G	3.5	1800-MHz	2018	50	2G/4G
	850-MHz	10	4G		850-MHz	2018	10	4G
TRUE	2100-MHz	15	3G/4G	19.3	2100-MHz	2027	15	3G
	850-MHz	15	3G		850-MHz	2025	15	3G
					900-MHz	2030	10	2G/3G
					1800-MHz	2033	15	4G
JAS					900-MHz	2030	10	4G

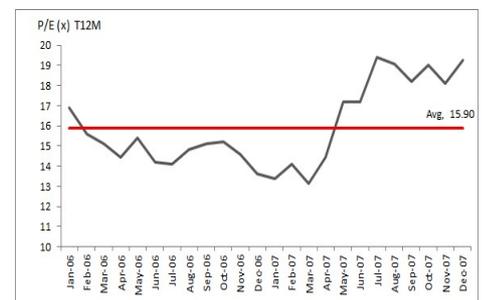
Source: Respective companies, UOB Kay Hian.

INTERNET DATA REVENUE SHARE



Source: Respective companies, UOB Kay Hian

ADVANC PE RATIO DURING 2006-07



Source: Bloomberg, UOB Kay Hian.

PROFIT & LOSS

Year to 31 Dec (Btm)	2014	2015F	2016F	2017F
Net turnover	149,329	153,466	152,646	148,719
EBITDA	65,370	70,221	47,033	51,673
Deprec. & amort.	18,633	20,358	16,935	17,508
EBIT	46,737	49,863	30,098	34,165
Total other non-operating income	684	606	618	630
Associate contributions	0	1	2	3
Net interest income/(expense)	(1,527)	(1,572)	(3,602)	(3,726)
Pre-tax profit	46,083	48,931	27,116	31,072
Tax	(10,080)	(9,975)	(5,423)	(6,214)
Minorities	30	5	0	0
Preferred dividends	0	0	0	0
Net profit	36,033	38,961	21,693	24,858
Net profit (adj.)	35,844	38,928	21,693	24,858

CASH FLOW

Year to 31 Dec (Btm)	2014	2015F	2016F	2017F
Operating	66,125	71,723	29,806	35,470
Pre-tax profit	46,083	48,930	27,114	31,069
Tax	(10,080)	(9,975)	(5,423)	(6,214)
Deprec. & amort.	18,633	20,358	16,935	17,508
Associates	0	0	0	0
Working capital changes	(1,336)	10,012	1,400	1,585
Non-cash items	13,359	1,711	(10,110)	(8,353)
Other operating cashflows	(534)	688	(110)	(126)
Investing	(23,106)	(35,556)	(46,482)	(35,505)
Capex (growth)	(24,460)	(32,000)	(42,935)	(31,968)
Capex (maintenance)	(4,000)	(4,000)	(4,000)	(4,000)
Investments	0	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	5,354	444	453	462
Financing	(40,341)	(38,119)	19,346	1,824
Dividend payments	(36,264)	(38,960)	(30,325)	(23,273)
Issue of shares	0	0	0	0
Proceeds from borrowings	0	0	0	0
Loan repayment	26,344	445	42,042	18,076
Others/interest paid	(30,421)	395	7,629	7,022
Net cash inflow (outflow)	2,679	(1,952)	2,671	1,789
Beginning cash & cash equivalent	16,831	19,510	17,558	20,229
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	19,510	17,558	20,229	22,018

BALANCE SHEET

Year to 31 Dec (Btm)	2014	2015F	2016F	2017F
Fixed assets	82,065	90,564	143,705	185,941
Other LT assets	5,159	4,598	4,718	4,853
Cash/ST investment	19,510	17,558	20,229	22,018
Other current assets	19,617	15,915	15,253	14,528
Total assets	126,351	128,635	183,905	227,339
ST debt	0	12,000	0	0
Other current liabilities	40,334	46,645	47,383	48,242
LT debt	37,050	44,923	86,965	105,040
Other LT liabilities	2,101	5,658	5,809	5,961
Shareholders' equity	46,865	31,807	23,173	24,755
Minority interest	0	132	131	129
Total liabilities & equity	126,351	128,635	183,905	227,339

KEY METRICS

Year to 31 Dec (%)	2014	2015F	2016F	2017F
Profitability				
EBITDA margin	43.8	45.8	30.8	34.7
Pre-tax margin	30.9	31.9	17.8	20.9
Net margin	24.1	25.4	14.2	16.7
ROA	30.2	32.4	14.7	14.6
ROE	77.8	100.5	63.0	70.5
Growth				
Turnover	4.6	2.8	(0.5)	(2.6)
EBITDA	1.9	7.4	(33.0)	9.9
Pre-tax profit	0.6	6.2	(44.6)	14.6
Net profit	0.8	8.1	(44.3)	14.6
Net profit (adj.)	(0.4)	8.6	(44.3)	14.6
EPS	(0.4)	8.6	(44.3)	14.6
Leverage				
Debt to total capital	44.2	64.1	78.9	80.8
Debt to equity	79.1	179.0	375.3	424.3
Net debt/(cash) to equity	37.4	123.8	288.0	335.4
Interest cover (x)	42.8	44.7	13.1	13.9

Disclosures/Disclaimers

This report is prepared by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities.

This report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of UOBKH. This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as UOBKH may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject UOBKH and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by UOBKH to be reliable. However, UOBKH makes no representation as to the accuracy or completeness of such sources or the Information and UOBKH accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. UOBKH and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of UOBKH and its connected persons are subject to change without notice. UOBKH reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) UOBKH, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) UOBKH, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; (3) the officers, employees and representatives of UOBKH may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business"); and (4) UOBKH may otherwise have an interest (including a proprietary interest) in the subject corporation(s) referred to in this report.

As of the date of this report, no analyst responsible for any of the content in this report has any proprietary position or material interest in the securities of the corporation(s) which are referred to in the content they respectively author or are otherwise responsible for.

IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by UOBKH, a company authorized, as noted above, to engage in securities activities in Singapore. UOBKH is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution by UOBKH (whether directly or through its US registered broker dealer affiliate named below) to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). All US persons that receive this document by way of distribution from or which they regard as being from UOBKH by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through UOB Kay Hian (U.S.) Inc ("UOBKHUS"), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through UOBKH.

UOBKHUS accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to and intended to be received by a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of UOBKHUS and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Analyst Certification/Regulation AC

Each research analyst of UOBKH who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKH or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including UOBKH's total revenues, a portion of which are generated from UOBKH's business of dealing in securities.

Reports are distributed in the respective countries by the respective entities and are subject to the additional restrictions listed in the following table.

General	This report is not intended for distribution, publication to or use by any person or entity who is a citizen or resident of or located in any country or jurisdiction where the distribution, publication or use of this report would be contrary to applicable law or regulation.
Hong Kong	This report is distributed in Hong Kong by UOB Kay Hian (Hong Kong) Limited ("UOBKHHK"), which is regulated by the Securities and Futures Commission of Hong Kong. Neither the analyst(s) preparing this report nor his associate, has trading and financial interest and relevant relationship specified under Para. 16.4 of Code of Conduct in the listed corporation covered in this report. UOBKHHK does not have financial interests and business relationship specified under Para. 16.5 of Code of Conduct with the listed corporation covered in this report. Where the report is distributed in Hong Kong and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKHHK (and not the relevant foreign research house) in Hong Kong in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Hong Kong who is not a professional investor, or institutional investor, UOBKHHK accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Indonesia	This report is distributed in Indonesia by PT UOB Kay Hian Securities, which is regulated by Financial Services Authority of Indonesia (OJK). Where the report is distributed in Indonesia and contains research analyses or reports from a foreign research house, please note recipients of the analyses or reports are to contact PT UOBKH (and not the relevant foreign research house) in Indonesia in respect of any matters arising from, or in connection with, the analysis or report.
Malaysia	Where the report is distributed in Malaysia and contains research analyses or reports from a foreign research house, the recipients of the analyses or reports are to contact UOBKHM (and not the relevant foreign research house) in Malaysia, at +603-21471988, in respect of any matters arising from, or in connection with, the analysis or report as UOBKHM is the registered person under CMSA to distribute any research analyses in Malaysia.
Singapore	This report is distributed in Singapore by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore. Where the report is distributed in Singapore and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKH (and not the relevant foreign research house) in Singapore in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, UOBKH accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Thailand	This report is distributed in Thailand by UOB Kay Hian Securities (Thailand) Public Company Limited, which is regulated by the Securities and Exchange Commission of Thailand.
United Kingdom	This report is being distributed in the UK by UOB Kay Hian (U.K.) Limited, which is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
United States of America ('U.S.')	This report cannot be distributed into the U.S. or to any U.S. person or entity except in compliance with applicable U.S. laws and regulations. It is being distributed in the U.S. by UOB Kay Hian (US) Inc, which accepts responsibility for its contents. Any U.S. person or entity receiving this report and wishing to effect transactions in any securities referred to in the report should contact UOB Kay Hian (US) Inc. directly.

Copyright 2015, UOB Kay Hian Pte Ltd. All rights reserved.

<http://research.uobkayhian.com>

RCB Regn. No. 197000447W