

COMPANY RESULTS

Advanced Info Service (ADVANC TB)

2Q19: Strong Results On Better-than-expected ARPU And Lower Handset Subsidies

ADVANC posted impressive results in 2Q19, beating our and consensus estimates, on a better-than-expected ARPU and lower-than-expected handset subsidies. Although current share price is close to our 2019 target price, we keep our BUY rating as we expect earnings growth momentum to continue. Maintain BUY. Target price: Bt220.00.

2Q19 RESULTS

Year to 31 Dec (Btm)	2Q18	1Q19	2Q19	yoy % chg	qoq % chg
Revenue	42,228	43,824	44,688	5.8	2.0
- Service Revenue	33,464	33,962	35,394	5.8	4.2
- Sales	5,919	6,867	6,453	9.0	-6.0
COGS	-19,201	-19,817	-20,170	5.0	1.8
Handset subsidy	-179	-292	-256	n.a.	n.a.
SG&A	-6,197	-6,786	-7,706	24.4	13.6
EBITDA	18,905	18,906	10,117	-46.5	-46.5
Net income	8,006	7,615	7,726	-3.5	1.5
EPS (Bt)	2.7	2.6	2.6	-3.5	1.5
SG&A/Sales (%)	-14.7	-15.5	-17.2		
EBITDA margin (%)	44.8	43.1	22.6		
Net profit margin (%)	19.0	17.4	17.3		

Source: Advanced Info Service, UOB Kay Hian

RESULTS

- Advanced Info Service (ADVANC) reported a qoq increase in its 2Q19 net profit of Bt7.7b, and beat our and consensus estimates by 17% and 9.1% respectively, on a higher-than-expected average revenue per user (ARPU) and lower-than-expected handset subsidies on better market competition. The results were up 1.5% qoq but down 3.5% yoy. In 2Q19, ADVANC booked a Bt508m provision expense (after tax) relating to employee benefits but this was partially offset by a forex gain of Bt252m in 2Q19.

KEY FINANCIALS

Year to 31 Dec (Btm)	2017	2018	2019F	2020F	2021F
Net turnover	157,722	169,856	171,500	173,564	177,640
EBITDA	70,072	73,807	75,108	76,248	77,715
Operating profit	40,386	39,928	40,551	41,001	41,763
Net profit (rep./act.)	30,078	29,682	30,668	30,468	28,574
Net profit (adj.)	29,853	29,564	30,668	30,468	28,574
EPS (Bt)	10.1	10.0	10.4	10.3	9.7
PE (x)	21.0	21.2	20.5	20.6	22.0
P/B (x)	11.3	10.9	9.4	8.3	7.4
EV/EBITDA (x)	10.0	9.5	9.4	9.2	9.0
Dividend yield (%)	3.3	3.3	3.4	3.4	3.2
Net margin (%)	19.1	17.5	17.9	17.6	16.1
Net debt/(cash) to equity (%)	191.3	174.0	109.4	124.3	69.8
Interest cover (x)	14.9	14.8	17.0	15.0	10.0
ROE (%)	61.1	52.4	49.4	42.8	35.7
Consensus net profit	-	-	30,632	32,302	33,712
UOBKH/Consensus (x)	-	-	1.00	0.94	0.85

Source: Advanced Info Service, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	Bt206.00
Target Price	Bt220.00
Upside	+6.8%

COMPANY DESCRIPTION

Largest mobile phone operator in Thailand that provides 2G/3G/4G phone services through 900MHz, 1800MHz, 2100MHz spectrum licence and provides fixed broadband services via fibre optic.

STOCK DATA

GICS sector	Communication Services
Bloomberg ticker:	ADVANC TB
Shares issued (m):	2,973.2
Market cap (Btm):	630,313.9
Market cap (US\$m):	20,466.7
3-mth avg daily t'over (US\$m):	34.5

Price Performance (%)

52-week high/low Bt218.00/Bt166.50

1mth	3mth	6mth	1yr	YTD
0.0	11.3	17.8	5.0	22.9

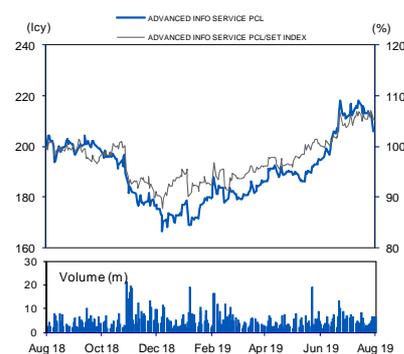
Major Shareholders

	%
Intouch Holding	40.5
Singtel Strategic Investment	23.3
NVDR	5.5

FY19 NAV/Share (Bt) 22.50

FY19 Net Debt/Share (Bt) 24.62

PRICE CHART



Source: Bloomberg

ANALYST(S)

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- **Service revenue grew 4.2% qoq and 5.8% yoy in 2Q19.** Mobile revenue grew 4.3% qoq and 5.3% yoy in 2Q19 with improved market competition and price adjustments after unlimited data plans were discontinued while overall data prices were gradually lifted. This drove an improvement in blended ARPU (up by 4.1% qoq and 1.8% yoy) to Bt563/subscriber/month in 2Q19 and a better revenue growth momentum. Prepaid subscribers softened as ADVANCE recorded one-off churns for traveler SIM cards (the peak tourism seasons in Thailand are in 4Q and 1Q). Fixed broadband saw sequential revenue growth of 7% qoq and 26% yoy, outpacing the industry. AIS Fibre added 60,400 new subscribers in the quarter despite aggressive price competition, reaching a total of 855,400 subscribers.

STOCK IMPACT

- **Expect 2H19 earnings to increase hoh,** driven by improving market competition and the absence of one-time employee benefits. We also expect ADVANC's opex and amortisation expenses to slightly increase over the next 1-2 years as ADVANC has achieved almost-nationwide coverage for its 3G/4G services. Thus, we expect ADVANC to keep its capex at a low level of around Bt20b-25b per year for the next 1-2 years before entering a new investment cycle in 2021-22 for 5G technology. Moreover, we still have not factored in the earnings upside from the potential decrease in telecommunication tower expenses and 2G equipment rental expenses (both from TOT), as ADVANC is still in the midst of negotiations with TOT. Note that the National Broadcasting and Telecommunications Commission (NBTC) has ordered all 2G services for Thailand to end by 31 Oct 19.
- **Maintain dividend payout ratio of 70%.** ADVANC will be taking up a 700MHz licence and will be given a longer time to pay for 900MHz licences by the NBTC. However, ADVANC will be keeping its dividend payout ratio at 70% of net profit as it prepares to bid for more 5G spectrum bands in the near future as well as prepare capex for 5G deployment when Thailand is 5G ready (ADVANC's management expects 5G commercial services to come on stream in 2021-22 for Thailand). The NBTC plans to auction several spectrum bands including 700MHz, 2,600MHz, 3,400-3,700MHz, 26GHz and 28GHz spectrum ranges through a multi-band auction in Oct 19, as well as another 90MHz of bandwidth for 1,800MHz spectrum band in Apr 20.
- **To focus on fixed broadband business, enterprise business and new businesses** over the next couple of years. ADVANC's management expects the proportion of the company's mobile service revenue to drop to 70% of total revenue in three years, with remaining revenue contribution expected to come from AIS Fibre, the enterprise business and new businesses. By 2024, ADVANC's management expects the proportion of mobile service revenue to drop to 50% or be equivalent to the combined revenues of fixed broadband, the enterprise business, digital business and new businesses. ADVANC is investing in insurance brokerage, digital advertising and nanofinance ventures through their partners to ensure sustainable revenue growth. Insurance brokerage and digital advertising are set to be launched this year, while studies are nanofinance ventures are currently being undertaken by three bank partners.

EARNINGS REVISION/RISK

- **None.** 1H19 core earnings accounted for 50.2% of our full-year forecast.

VALUATION/RECOMMENDATION

- **Maintain BUY with a target price of Bt220.00** based on DCF valuation. Although ADVANC's current share price is close to our 2019 target price, we keep our BUY rating as we expect earnings upside on the potential decrease in TOT tower expenses as well as TOT 2G rental expenses, which we have still not included in our earnings forecasts. We expect the current stock market volatility to be positive to ADVANC as it is a defensive stock with a high dividend yield of around 3.7%, and it also has a strong operating cash flow.

EV/EBITDA BAND



Source: ADVANC, Bloomberg, UOB Kay Hian

4G PENETRATION CONTINUED UPTREND

4G Penetration on total base



Net subscriber addition ('000)



Source: ADVANC

PROFIT & LOSS

Year to 31 Dec (Btm)	2018	2019F	2020F	2021F
Net turnover	169,856	171,500	173,564	177,640
EBITDA	73,807	75,108	76,248	77,715
Deprec. & amort.	33,879	34,557	35,248	35,953
EBIT	39,928	40,551	41,001	41,763
Total other non-operating income	573	584	596	608
Associate contributions	n.a.	n.a.	n.a.	n.a.
Net interest income/(expense)	(4,983)	(4,407)	(5,068)	(7,770)
Pre-tax profit	35,637	36,728	36,528	34,601
Tax	(5,923)	(6,060)	(6,060)	(6,027)
Minorities	(32)	0	0	0
Preferred dividends	0	0	0	0
Net profit	29,682	30,668	30,468	28,574
Net profit (adj.)	29,564	30,668	30,468	28,574

CASH FLOW

Year to 31 Dec (Btm)	2018	2019F	2020F	2021F
Operating	69,132	82,946	82,050	78,430
Pre-tax profit	35,637	36,728	36,528	34,601
Tax	(5,923)	(6,060)	(6,060)	(6,027)
Deprec. & amort.	33,879	34,557	35,248	35,953
Associates	0	0	0	0
Working capital changes	(8,579)	5,860	4,816	2,268
Non-cash items	14,118	11,526	11,641	11,757
Other operating cashflows	0	335	(122)	(122)
Investing	(43,877)	(21,633)	(81,633)	(21,674)
Capex (growth)	(39,877)	(17,633)	(77,633)	(17,674)
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	0	0	0	0
Financing	(30,377)	(27,113)	(20,504)	(19,169)
Dividend payments	(21,852)	(21,468)	(21,328)	(20,002)
Issue of shares	0	0	0	0
Proceeds from borrowings	0	0	0	0
Loan repayment	(4,980)	(10,000)	0	0
Others/interest paid	(3,545)	4,355	824	832
Net cash inflow (outflow)	(5,122)	34,200	(20,086)	37,587
Beginning cash & cash equivalent	14,189	9,067	43,267	23,181
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	9,067	43,267	23,181	60,768

BALANCE SHEET

Year to 31 Dec (Btm)	2018	2019F	2020F	2021F
Fixed assets	241,961	301,313	330,093	358,985
Other LT assets	13,639	4,096	4,228	4,359
Cash/ST investment	9,067	43,267	23,181	60,768
Other current assets	25,838	20,310	20,767	20,950
Total assets	290,505	368,986	378,269	445,062
ST debt	5,900	0	0	0
Other current liabilities	55,661	55,993	61,266	63,717
LT debt	103,233	116,137	117,299	119,658
Other LT liabilities	68,042	75,826	76,679	77,540
Shareholders' equity	57,521	66,598	75,738	84,310
Minority interest	148	128	127	126
Total liabilities & equity	290,505	368,986	378,269	445,062

KEY METRICS

Year to 31 Dec (%)	2018	2019F	2020F	2021F
Profitability				
EBITDA margin	43.5	43.8	43.9	43.7
Pre-tax margin	21.0	21.4	21.0	19.5
Net margin	17.5	17.9	17.6	16.1
ROA	10.4	9.3	8.2	6.9
ROE	52.4	49.4	42.8	35.7
Growth				
Turnover	7.7	1.0	1.2	2.3
EBITDA	5.3	1.8	1.5	1.9
Pre-tax profit	(0.8)	3.1	(0.5)	(5.3)
Net profit	(1.3)	3.3	(0.7)	(6.2)
Net profit (adj.)	(1.0)	3.7	(0.7)	(6.2)
EPS	(1.0)	3.7	(0.7)	(6.2)
Leverage				
Debt to total capital	65.4	63.5	60.7	58.6
Debt to equity	189.7	174.4	154.9	141.9
Net debt/(cash) to equity	174.0	109.4	124.3	69.8
Interest cover (x)	14.8	17.0	15.0	10.0

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