

Thai Telecoms

Weighing the Impact of Spectrum Auctions

- **Buy AIS, DTAC cut to Neutral** — While we continue to like the Thai telcos from a structural perspective, we see the pending spectrum auctions as a potential drag in earnings and NPV. Unlike the 2.1GHz auctions, which were clearly NPV positive given the regulatory cost savings linked to 3G migration, the upcoming auctions won't result in additional cost savings as these had already been factored in by the market with the '12 auction. We temper our TPs to Bt270 for AIS & Bt122 for DTAC.
- **Factoring in spectrum auctions** — The NBTC is looking to auction 25MHz of 1800MHz spectrum in 3Q14 and at least 17.5 MHz of 900MHz spectrum in 4Q14. We've assumed AIS will spend Bt31bn and DTAC Bt14bn to secure spectrum in the 2014 auction rounds. This in turn should result in Bt1bn-2bn in annual amortization costs on top of the additional financing drag needed to acquire the spectrum. In addition, we assume AIS/DTAC will spend Bt10/20bn for the 2018 spectrum auction.
- **Don't expect an irrational auction** — Using game theory, we believe that the auctions are likely to be rational with limited competition, unlike what we've seen spiraling in India and Taiwan. This is linked to the lack of desperation for True to bid for 900MHz as it already has 850MHz using its CAT-Hutch deal. DTAC on the other hand is not likely to be desperate for 1800MHz spectrum as it already allocated 50MHz through FY18 under the CAT concession and could move to reacquire spectrum much more cheaply when it expires in 2018. Thus, we see only 2 serious bidders for the 1800 band (AIS and True) and the 900 band (DTAC and AIS).
- **Slow 1H to be expected** — We see room for revenue guidance to be tempered for AIS and DTAC given the prolonged political impasse, which in turn serves to weaken the economic growth outlook and by extension, consumer spending. We reduce our revenue growth outlook by 1-2ppts to reflect this. The impact on NPV, however, would be partially offset by a c40bp decline in bond yields YTD.
- **Still one of the best structural stories in Asia** — While we see headwinds linked to the spectrum auctions and the weak economy, the Thai names still offer some of the best growth stories (21%-22% EPS CAGR) as well as yields (5%-8%).
- **Thai telcos still preferred in ASEAN** — We prefer AIS over DTAC with its prior 3G network handicap being eliminated by 1H14 with 3G network coverage touching 95%. This, coupled with its extensive fibre investment, should allow AIS network superiority, which in turn would stabilize market share and catalyze growth.

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Company	Ticker	Rating		Target Price		Current Year Earnings Estimates	
		Old	New	Old	New	Old	New
AIS	ADVANC.BK	1	1	Bt275.00	Bt270.00	Bt13.16	Bt12.63
TAC	DTAC.BK	1	2	Bt128.00	Bt122.00	Bt6.37	Bt6.26
Intouch Hldg	INTUCH.BK	1	1	Bt95.00	Bt93.00	Bt5.01	Bt4.82

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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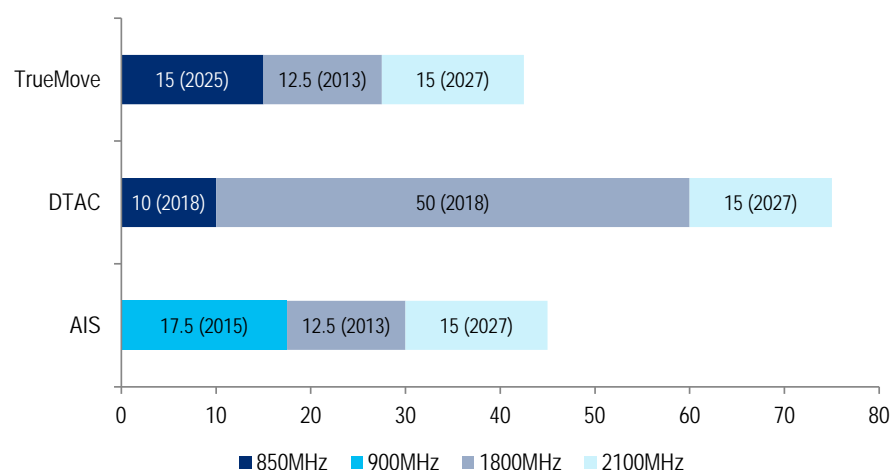
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The Upcoming Spectrum Auctions

Spectrum to be auctioned in FY14

The NBTC is slated to auction 25 MHz of 1800MHz spectrum (12.5MHz from DPC/AIS and 12.5MHz from True) in August 2014. In addition, at least 17.5MHz of 900 MHz spectrum (possibly up to 20MHz of the government's 2.5MHz guard band is included) currently held by AIS until 2015 may be auctioned by November 2014 so as to allow sufficient time for the companies to plan ahead for their network. The likelihood of auctions pushing through is high, in our view, as demonstrated by the successful Digital TV auctions by the NBTC in Dec 2013.

Figure 1. Thailand current spectrum assignment



*1800 spectrum for AIS/True concession which expired in 2013 have been extended to 2014 for auction.

Source: Citi Research

Don't expect an irrational auction

Based on press reports (The Nation), the NBTC is looking to auction 1800MHz band at Bt11.6bn reserve price per 12.5MHz and 900 MHz band at Bt9bn reserve price per 5MHz (based on earlier press reports from the same publication). Unlike India or Taiwan, however, we don't believe that the auctions will spiral out of control. This is primarily because there are likely to be fewer bidders for the spectrum. Using game theory, we assume the following:

AIS and True will go for 1800 MHz. AIS and True will need to get the spectrum back and will move to secure spectrum. True will need the spectrum to address its non-migrated 2G subscribers while AIS needs the spectrum to launch 4G services and potentially address its non-migrated 2G subs by 2015. DTAC, however, isn't desperate for 1800 MHz spectrum with its 2G concession (where it holds 50MHz of 1800 MHz spectrum) expiring only in 2018. From a financial prudence standpoint, DTAC could be better served waiting toward the expiry of its 2G concession and getting the spectrum cheaper rather than paying premium prices in the near term by competing with AIS and True, who would value the spectrum much more than DTAC. As such, we believe that the 1800 spectrum will be split between AIS and True without the need for irrational bidding.

DTAC and AIS will go for 900 MHz. DTAC is likely to bid for the 900MHz spectrum given the material capex savings from the use of lower frequency. AIS is also likely to bid aggressively to secure part of (not the entire) 17.5MHz/20MHz block. True,

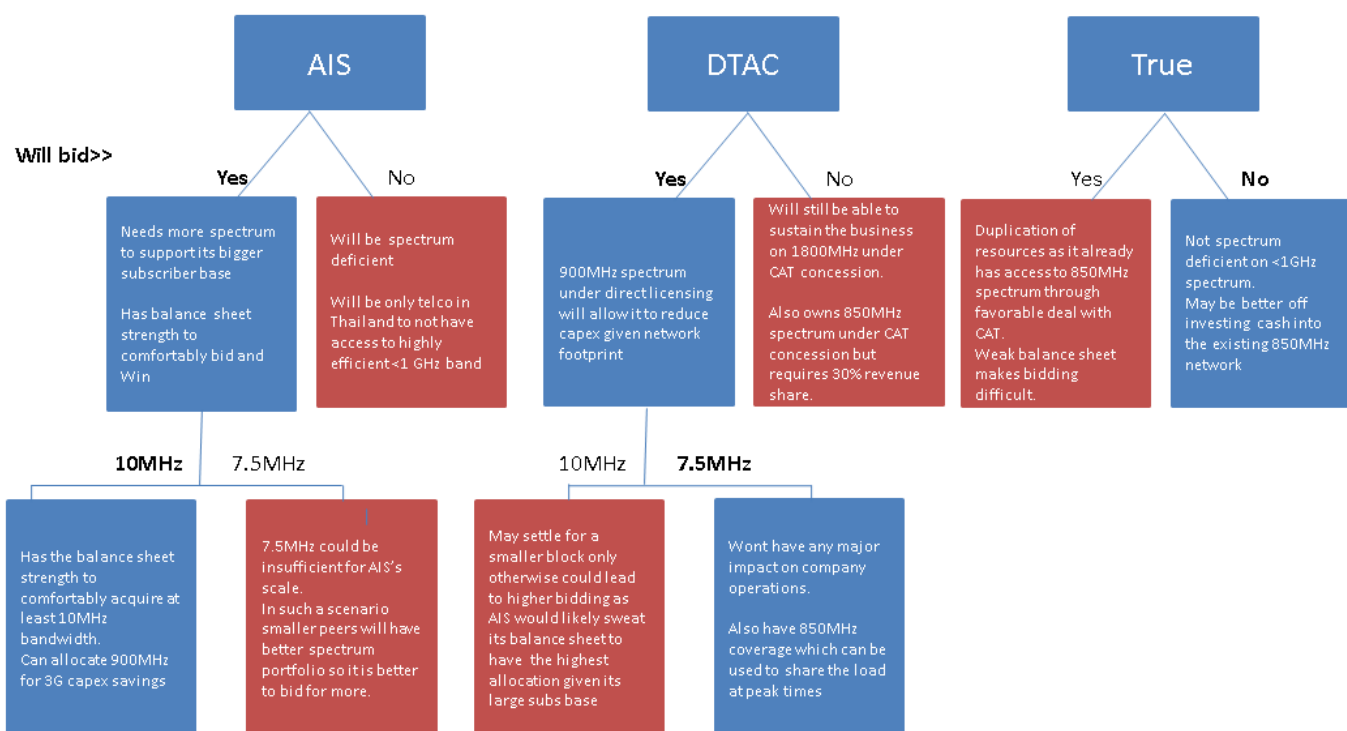
however, isn't desperate to obtain 900 spectrum as it already possesses 850MHz spectrum through its 14-year deal with CAT. As such, it doesn't make much sense for True to bid for the 900MHz spectrum given the expensive duplication with its 850MHz deal/network with CAT. This injects rationality into the 900MHz auction.

Risk of new entrant is low....but cannot be ruled out

It is possible to see potential new entrants given the upcoming spectrum auctions. The press, for instance (The Nation, Telegeography), has reported that CAT is looking to potentially collaborate with Korea's SKT to launch 4G services through the 1800MHz spectrum auctions. We believe, however, that the entry of new entrants would be unlikely, similar to the 2100MHz spectrum auctions in 2012. At that time, no foreign entities were willing to commit, given the absence of a 2G subs base to migrate from among other entry barriers such as foreign ownership limitation, absence of infrastructure, on-net centric call patterns (c70% of traffic) which handicaps smaller/new operators, and low tariffs. In addition, the current government fluidity would make it difficult for CAT/TOT to secure cabinet approval to bid in the auctions as well as partner and build out a new network. It may be possible to see some local entities as wanting to qualify for the auctions similar to 2012. The likelihood of success, however, is very low given the greenfield status.

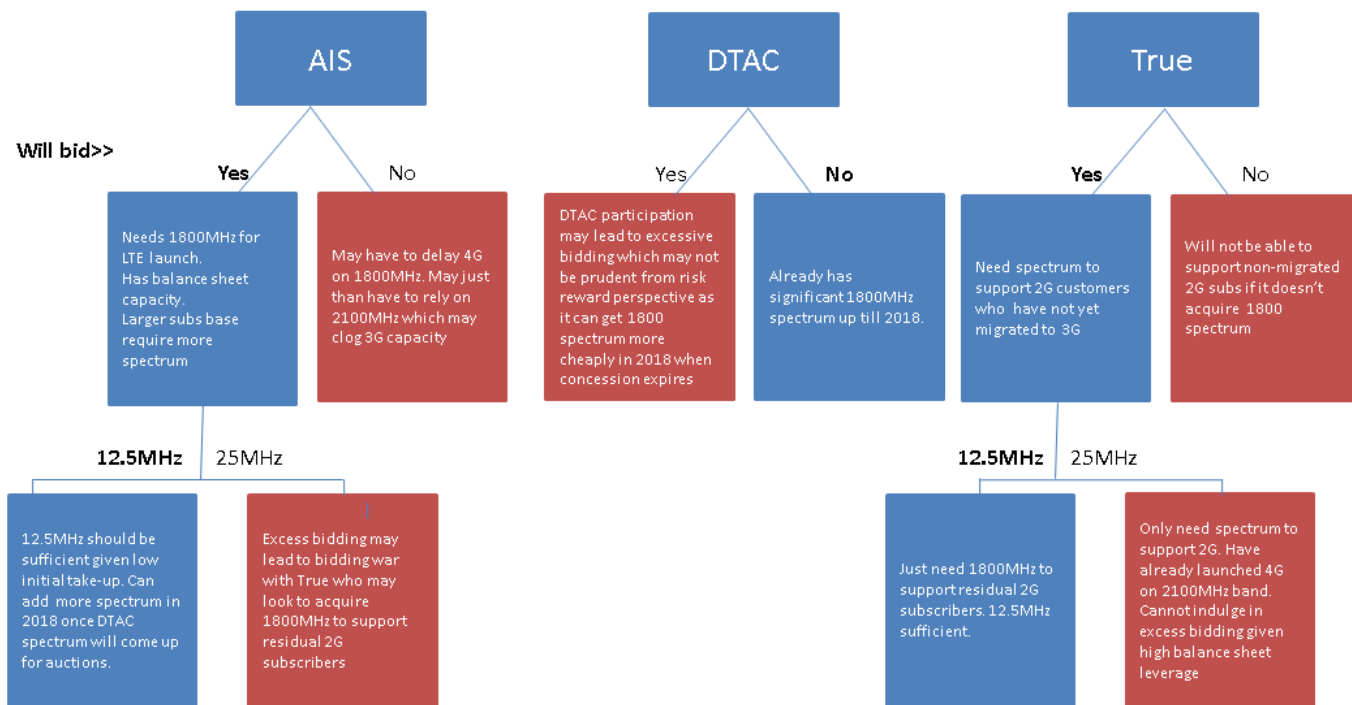
The NBTC has suggested that if the number of bidders would equate the number of licenses up for auction, the auction would be cancelled. While this creates some stigma of uncertainty if an insufficient number of bidders materialize, we do think it would be highly unlikely for the NBTC to not issue the spectrum given the adverse effect on the entire industry and the consuming public. In this case, we assume the NBTC would issue licenses, but probably at a higher fee vs. the reserve price of Bt11.6bn.

Figure 2. 900 MHz Auction Decision Tree



Source: Citi Research

Figure 3. 1800 MHz Spectrum Decision Tree



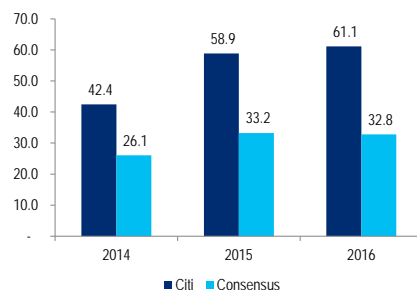
Source: Citi Research

Assessing the impact on companies

While the Street has been overwhelmingly positive on AIS/DTAC factoring in regulatory cost savings from 3G migration starting 2013 (as suggested by Buy/Hold/Sell spreads), it has yet to factor in the cost of upcoming spectrum auctions/renewals. This is evident in the consensus gearing levels, which are flat/declining, indicative of the lack of any major spending on spectrum.

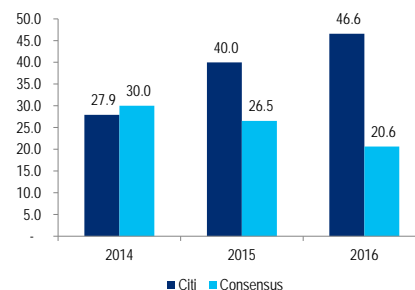
Flat to declining consensus net debt trends for AIS/DTAC indicate the absence of significant spending required for spectrum

Figure 4. AIS Net debt (Bt bn) - Citi vs. Consensus



Source: Citi Research

Figure 5. DTAC Net debt (Bt bn) - Citi vs. Consensus



Source: Citi Research

With increasing clarity on the spectrum auctions, we see a risk of cuts in consensus TP and EPS estimates for AIS/DTAC as the Street is likely to gradually need to impute the costs of spectrum renewal in their numbers. This is linked to our assessment that spectrum renewals will entail yet-to-be-factored substantial costs, while lower regulatory cost benefits are already imputed in the Street numbers. Thus the impact of it should be slightly net negative from an EPS and NPV standpoint. Unlike the 2.1GHz auctions in 2012 where regulatory cost savings had more than compensated for the investment in spectrum/license, we don't see any further migration-based cost savings from the pending spectrum auctions in 2014 as the Street had already factored that in upon the 2012 auctions.

Model assumptions

For the upcoming spectrum auctions, we assume the following for our models:

1. 25MHz of 1800MHz spectrum to be auctioned in 3Q14 followed by 17.5MHz of 900MHz spectrum in 4Q14.
2. Given the current spectrum assignment & varied B/S capabilities, we see the following likely operator behavior in the upcoming auctions:

Figure 6. 2014 Spectrum auction approach scenario

Operator	Likely Approach	
	900MHz	1800 MHz
AIS	May look to take 10MHz of spectrum given capex efficiency on lower spectrum bands.	Most likely to win 12.5MHz of spectrum which can potentially be used to launch 4G services. Should further acquire at least 10MHz of 1800MHz once it will come up for auctions on DTAC concession expiry in 2018
DTAC	May look to take 7.5MHz of spectrum to raise capex efficiency/network footprint especially in the provincial areas where it lags AIS.	May not bid aggressively for it as they already hold 50MHz spectrum in this band under CAT concession. Has already launched LTE using 2100 band Can take 1800 spectrum in a more cost efficient manner by re-acquiring spectrum upon its expiry in 2018.
True Move	Unlikely to bid aggressively as it already uses 850MHz through its CAT-Hutch deal. Doesn't have balance sheet strength to compete.	Will likely to defend 12.5 MHz spectrum which can in turn be used to support existing 2G customers that haven't ported to 3G.

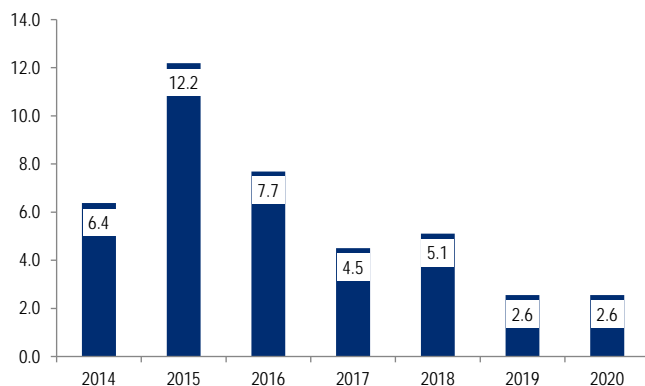
Source: Citi Research

For our models, we assume AIS will bid for and win 10MHz of 900MHz and 12.5MHz of 1800 spectrum. DTAC will bid for and win 7.5MHz of 900MHz spectrum only. True on the other hand would re-acquire 12.5MHz of 1800MHz spectrum only. We further assume that AIS will spend another Bt10.2bn for 10MHz of 1800 spectrum and DTAC will spend another Bt20.4bn for 20MHz of 1800 spectrum by 2018 when DTAC's 2G concession expires.

3. 1800MHz spectrum is assumed to be awarded at Bt12.8bn per 12.5MHz block (a slight premium to the Bt11.6bn reserve price) given our assumption of no irrational competition for this band. We further assume that 900MHz spectrum will be auctioned at a reserve price of Bt9bn per 5 MHz block. These licenses are set to run for 19 years.
4. We factor a 20% increase in network costs as telcos will probably need to rent 2G equipment from CAT/TOT upon concession expiry (2015 for AIS, 2018 for DTAC). We assume a 20% markup over the cost model. We also assume that network rental expenses will fade beyond 2020 with subscribers fully migrating to at least 3G handsets by then, allowing the telcos to eliminate 2G asset rentals from TOT/CAT.

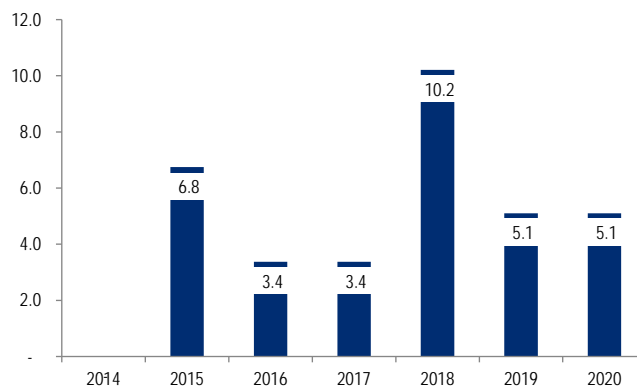
Based on the assumed auction parameters, we believe AIS will need to spend a total of Bt41bn and DTAC Bt34bn over the next 7 years just to secure their spectrum. This includes both 2014 and 2018 spectrum renewals/auctions.

Figure 7. AIS Spectrum Payment Schedule Estimate (Bt bn)



Source: Citi Research

Figure 8. DTAC Spectrum Payment Schedule Estimate (Bt bn)



Source: Citi Research

Auction Sensitivity Analysis

Based on our scenario analysis, our TPs will decline to Bt270 for AIS (from Bt275) and Bt122 for DTAC (from Bt128) based on our auction and NPV assumptions. These factor in the cash drain from the auctions as well as the effects of slower revenue growth outlook and improving WACC outlook as discussed in the next section.

Figure 9. AIS TP Sensitivity

	900 MHz/ 1800MHz# →	Spectrum obtained			
		7.5 MHz/ 0.0 MHz	7.5 MHz/ 12.5 MHz	10.0 MHz/ 12.5 MHz	10.0 MHz/ 25.0 MHz
Final Spectrum price					
25% below base assumption		277	275	274	271
@base price		274	271	270	266
25% below base assumption		271	267	265	261
50% below base assumption		268	263	261	256
75% below base assumption		265	259	257	250

Based on 2014 auctions. We further assume 10MHz addition in 2018 auction under our base case scenario at Bt5.1bn per 5MHz block.

Source: Citi Research

Figure 10. DTAC TP Sensitivity

	900 MHz/ 1800MHz** →	Spectrum obtained		
		0.0MHz/ 20.0MHz	7.5 MHz/ 20.0MHz	12.5MHz/ 20.0MHz
Final Spectrum price				
25% below base assumption		129	125	124
@base price		127	122	121
25% below base assumption		126	120	118
50% below base assumption		124	117	114
75% below base assumption		123	114	111

** 1800MHz to be acquired only in the 2018 round (not 2014) at Bt5.1bn per 5MHz block

Source: Citi Research

Figure 11. AIS leverage (FY15 net debt to EBITDA) Sensitivity

	900 MHz/ 1800MHz →	Spectrum obtained			
		7.5 MHz/ 0.0 MHz	7.5 MHz/ 12.5 MHz	10.0 MHz/ 12.5 MHz	10.0 MHz/ 25.0 MHz
Final Spectrum price					
25% below base assumption		0.56	0.65	0.67	0.76
@base price		0.58	0.70	0.73	0.85
25% below base assumption		0.60	0.75	0.79	0.95
50% below base assumption		0.62	0.81	0.85	1.04
75% below base assumption		0.64	0.86	0.91	1.13

Only assuming acquisition in 2014 auctions

Source: Citi Research

Figure 12. DTAC (FY15 net debt to EBITDA) Sensitivity

	900 MHz/ 1800MHz** →	Spectrum obtained		
		0.0MHz/ 20.0MHz	7.5 MHz/ 20.0MHz	12.5 MHz/ 20.0MHz
Final Spectrum price				
25% below base assumption		0.83	0.96	1.00
@base price		0.83	1.00	1.05
25% below base assumption		0.83	1.04	1.11
50% below base assumption		0.83	1.08	1.16
75% below base assumption		0.83	1.12	1.22

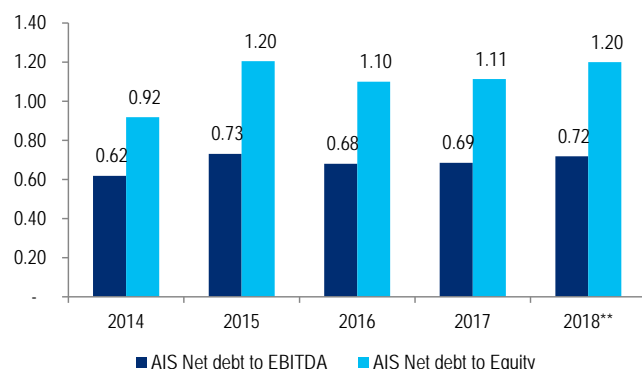
** 1800MHz to be acquired in 2018 is not reflected in 2015 leverage data

Source: Citi Research

No dividend cut risk assuming rational auction participation

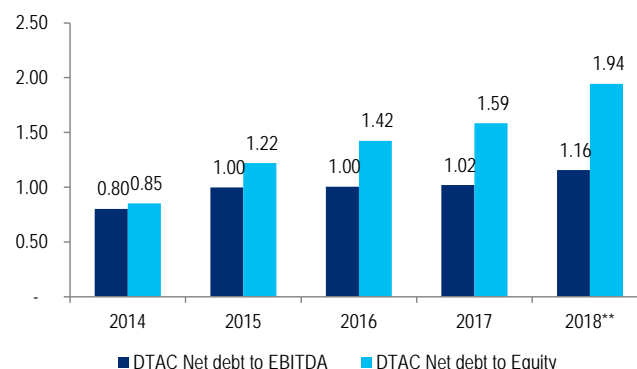
Under our current assumptions of selective spectrum bidding and rational auction participation, we see that AIS and DTAC leverage and gearing levels should remain manageable as license payment are most likely to be spread over a three-year period similar to the previous 2012 auction. This in turn gives clarity on the continuance of 100% payout translating into strong 5-8% yield levels.

Figure 13. AIS leverage and gearing assumptions



** Assume 10MHz of 1800MHz spectrum acquisition in 2018 (currently owned by DTAC under CAT concession). Source: Citi Research

Figure 14. DTAC leverage and gearing assumptions



** Assume 20MHz of 1800MHz spectrum acquisition in 2018 (currently owned by DTAC under CAT concession). Source: Citi Research

Ripple effects of political crisis – Slower revenue growth for FY14E

While political rallies may have subsided, we do see its ripple effects to affect economic growth as well as the consumer spending outlook given the government's inability to proceed with its spending. Citi economists now expect 2014 Thailand GDP growth at only 1.8% compared to 4.0% expectations in 4Q13 and real domestic demand growth at 0% vs. 3.8%.

Previously telcos had guided for a robust revenue growth for 2014 (6-8% service revenue growth for AIS and 3-5% total revenue growth for DTAC), which we believe was based on the stronger economic growth outlook at the end of 4Q. However, as the political impasse had extended, the economic growth outlook had taken a step for the worse. Based on this we do see risk of downward revision in telco revenue growth guidance given the softness in the economy. This hinges on our two basic assumptions: 1) Reduced data growth potential, which to a large extent is still considered as discretionary spending in most of the EM markets. Discretionary spending is subject to downgrades in the event of contraction in spending budgets and; 2) slower smartphone take-up/conversion, which in turn delays the ARPU accretion estimated at ~10-15% in Thailand.

Assuming a weaker data revenue growth in FY14, we've reduced our service revenue growth expectations by 1-2% on average for FY14/16. This reflects weaker discretionary spending both on data and smartphone upgrades, which in turn would have helped in higher data spending.

Figure 15. AIS ARPU and Service revenue revision

		New			Old			% change		
	2013	2014	2015	2016	2014	2015	2016	2014	2015	2016
Blended ARPU -- (derived)	227	215	211	209	218	213	210	-1.6%	-1.1%	-0.7%
% Growth		-5%	-2%	-1%						
Service Revenue - Ex IC (Bt mn)	112,528	118,799	126,632	133,647	120,652	128,003	134,499	-1.5%	-1.1%	-0.6%

Source: Citi Research

Figure 16. DTAC ARPU and Service revenue revision

		New				Old			% change		
	2013	2014	2015	2016	2014	2015	2016	2014	2015	2016	
Blended ARPU -- (derived)	203	200	198	198	201	200	200	-0.8%	-1.1%	-1.4%	
% Growth		-1.8%	-0.9%	0.0%							
Service Revenue - Ex IC (ex IC)	70,267	73,388	76,959	80,829	73,956	77,794	81,886	-0.8%	-1.1%	-1.3%	

Source: Citi Research

While we note the potential for weaker discretionary spending, we see improving risk outlook as partially mitigating this from a share price perspective. Bond yields have declined c40bp YTD as concerns over a further escalation of the political impasse fade alongside the elimination of mass demonstrations. This in turn helps offset the negative effects of softer earnings momentum on the share price.

Figure 17. Thailand 10-year bond yields



Source: Bloomberg

Earnings Revision

We cut our FY14-16 AIS and DTAC earnings estimates by 1-6% and 2-11%, respectively. This factors in:

1. 1%/2% service revenue cut for DTAC/AIS, respectively, given our assumption of slower data growth in 2014 owing to slower economic growth leading to reduced discretionary spending.
2. Higher amortization and financing costs owing to spectrum payment of Bt41bn for AIS and Bt34bn for DTAC for FY14/20E.
3. c1pts cut in EBITDA margins owing to a 20% increase in network costs from FY16/FY18E for AIS/DTAC, respectively, assuming telcos will rent network equipment from TOT/CAT on concession expiry at 20% markup.

Figure 18. AIS earnings revision

	New			Old			% Change		
	2014	2015	2016	2014	2015	2016	2014	2015	2016
Service Revenues (ex IC)	118,799	126,632	133,647	120,652	128,003	134,499	-1.5%	-1.1%	-0.6%
Interconnect	7,804	8,507	9,083	7,804	8,507	9,083	0.0%	0.0%	0.0%
Handset	26,213	26,213	26,213	26,213	26,213	26,213	0.0%	0.0%	0.0%
Revenues	152,817	161,352	168,943	154,670	162,723	169,796	-1.2%	-0.8%	-0.5%
EBITDA	68,645	80,578	89,858	70,308	81,587	88,045	-2.4%	-1.2%	2.1%
Margins	44.9%	49.9%	53.2%	45.5%	50.1%	51.9%			
PAT	37,558	42,897	56,335	39,134	45,515	57,114	-4.0%	-5.8%	-1.4%
NPV	270			275			-2.0%		

Source: Citi Research

Figure 19. DTAC earnings revision

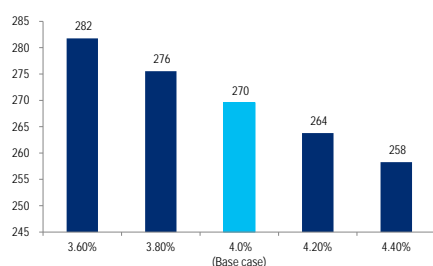
	New			Old			% Change		
	2014	2015	2016	2014	2015	2016	2014	2015	2016
Service Revenues (ex IC)	73,388	76,959	80,829	73,956	77,794	81,886	-0.8%	-1.1%	-1.3%
Interconnect	7,350	7,722	7,894	7,350	7,722	7,894	0.0%	0.0%	0.0%
Handset	15,178	15,633	15,633	15,178	15,633	15,633	0.0%	0.0%	0.0%
Revenues	95,916	100,313	104,356	96,484	101,149	105,413	-0.6%	-0.8%	-1.0%
EBITDA	34,766	40,007	46,386	35,080	40,970	47,897	-0.9%	-2.3%	-3.2%
Margins	36.2%	39.9%	44.4%	36.4%	40.5%	45.4%			
PAT	14,831	18,669	21,428	15,082	19,780	23,969	-1.7%	-5.6%	-10.6%
NPV	122			128			-4.4%		

Source: Citi Research

While we cut our estimates by 1-11% for FY14-16, we adjust our WACC assumptions to reflect the c40bp decline in risk free rates YTD (64bp decline from peak levels in FY13). We anchor our risk-free rate assumptions to 4.0%, slightly higher vs the current 3.5% yield on the 10-year bond and the 1-year average of 3.9%.

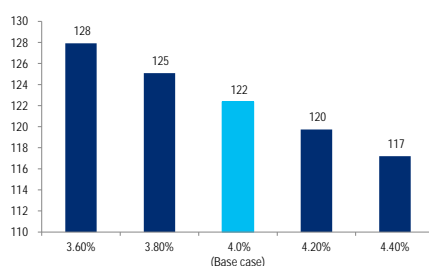
Based on these, we cut our AIS TP to Bt270 (from Bt275) and DTAC TP to Bt122 (from Bt128).

Figure 20. AIS NPV sensitivity to Risk Free Rate



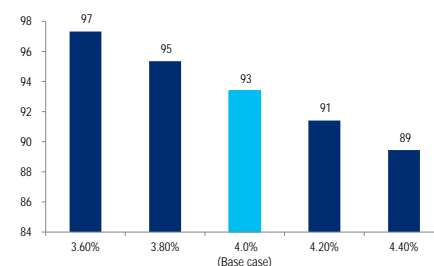
Source: Citi Research

Figure 21. DTAC NPV sensitivity to Risk Free Rate



Source: Citi Research

Figure 22. Intuch NPV sensitivity to Risk Free Rate



Source: Citi Research

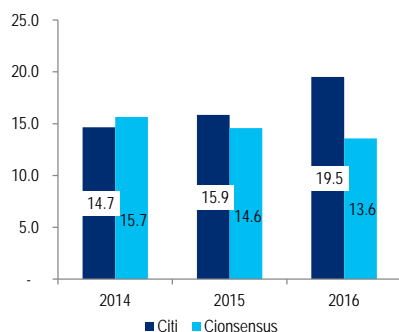
Downgrade DTAC to Neutral, Maintain AIS at Buy

DTAC: Positives are now priced in; Costly spectrum renewal aren't

We downgrade DTAC to Neutral (from Buy) following the strong share price performance of the company. DTAC share price has outperformed AIS by 13%/28% over the 6M/12M and the SET Index by 8%/27% for the same period. While we previously favored DTAC among the Thai telcos from 4Q12 through 1Q14, we now find that the Street had priced in the benefits of 3G migration into the stock. We believe the spectrum auctions will have a more taxing impact on DTAC's value, with our estimated spending of 34bn over the next 7 years accounting for c12% of market cap on a non-discounted basis compared to 6% for AIS. As such, we believe that the impact on DTAC's share price from the spectrum auctions will be more severe.

Secondly, we believe AIS' aggressive network build-out will serve to reverse DTAC's more favorable revenue momentum from 2H14 onwards. AIS' aggressive 3G network expansion and fibre roll-out will serve to cover 95% of the population a full year ahead of targets (vs. 80% for DTAC). While AIS had lost out on revenue market share in the past given its inferior 3G networks (it was the only one without 3G on 850MHz), the network handicap should be all but eliminated by 1H14 following its network upgrade, allowing the company to better compete with peers such as DTAC. This potentially places AIS on a faster growth track vs. DTAC, reversing the prior year's momentum.

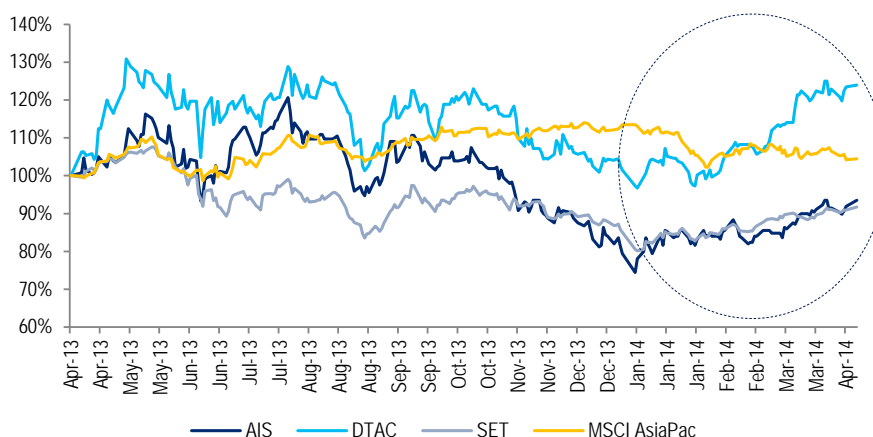
Figure 23. DTAC capex estimates Citi vs. Consensus



Source: Citi Research

Finally, we believe the Street has yet to factor in potential for significant capex increases from DTAC. While AIS has moved to front-load its capex ahead of its 2015 2G concession expiry, DTAC had taken a more conservative approach to network build-out given a longer-ended 2G concession expiry. However, as the 2G concession expiry nears, DTAC is likely to need to significantly build-out its fibre backhaul/transmission network similar to what AIS is currently doing or otherwise face rising network rental expenses linked to fibre leases to CAT as it returns its BOT equipment at the end of the concession. As such, we believe the Street will need to eventually raise capex expectations or lower margin estimates to account for asset rentals.

Figure 24. AIS has lagged domestic and regional telco peers, while DTAC had significantly outperformed already



Source: Citi Research

AIS: Underperformance opens buying opportunity

Over the last year, AIS had variably underperformed both DTAC and broader regional peers because of its slower-than-expected revenue momentum in FY13 (owing to network deficiencies) and flat group margin guidance for FY14 while the Street was expecting a sharp improvement related to regulatory cost savings. This, however, creates a buying opportunity in our view as we note that underlying currents appear to favor AIS on both the above investor concerns. AIS is aggressively ramping up its 3G network and fibre backhaul/backbone well ahead of peers (Bt40bn capex vs. DTAC's Bt15bn for FY14) and should take the lead in 3G network coverage by 1H14. This in turn should allow it to deliver superior data growth reversing its FY13 revenue underperformance. Network superiority is a central theme to longer-term outperformance as discussed in our report: [Pan-Asia Telecoms - Network Advantages: Better Revenue Momentum, Lower Costs](#). We believe that AIS' offer of superior network coverage and quality on 3G by 1H14 will allow the company to sustainably grow faster than peers as evidenced by experiences in other regions.

Secondly, flat group margin guidance is linked to bigger low margin handset sales as AIS aims to push affordable 3G handsets to consumers, potentially temporarily sacrificing margin from handset sales (from c7% average margin previously). While handset margins may fade in the near term, we believe that the benefits will be well worth it given the accelerated migration into lower regulatory fees of 5% from the current 20-30%, assuming 2G roaming.

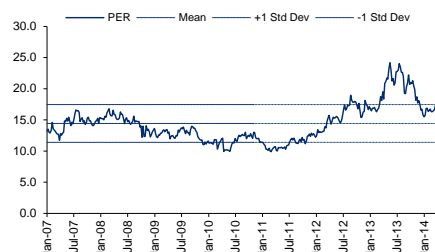
Finally, given its bigger AIS scale, the impact of spectrum renewal on NPV and the balance sheet should be relatively softer (Bt14/sh), thus it should not be as value draining as it is for smaller peers. On the other hand, AIS has already front-loaded its capex into FY13-14 and the risk of sharp rises in spending requirements beyond the next two years and its related risk on NPV should be relatively lower.

Valuations: Inexpensive when growth adjusted

While Thai telcos are trading at c1.0-1.5 standard deviations above long-term mean levels, they have sharply corrected from their peak owing to the recent political uncertainty and rampant competition concerns. Competition concerns at this point,

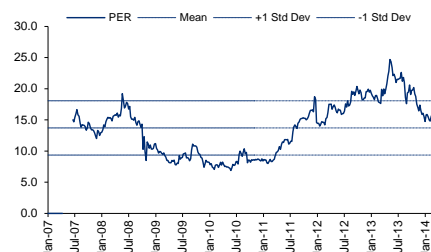
however, are easing with the market better understanding the recent marketing initiatives as not really revenue dilutive. Political risks appear to have peaked as well with mass rallies now eliminated and the courts calling for a new election to validate leadership.

Figure 25. AIS PER band



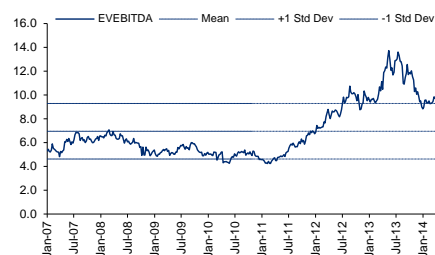
Source: Citi Research

Figure 26. DTAC PER band



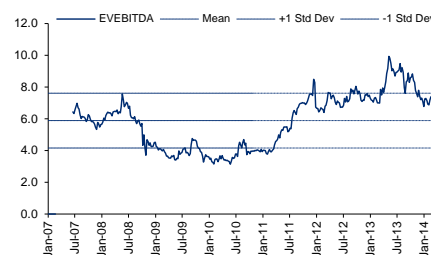
Source: Citi Research

Figure 27. AIS EV/EBITDA band



Source: Citi Research

Figure 28. DTAC EV/EBITDA band

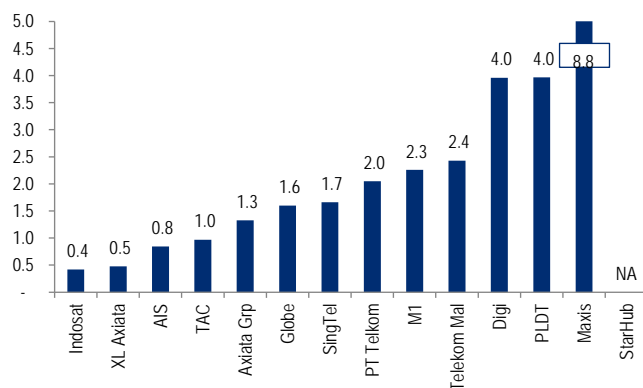


Source: Citi Research

On a growth-adjusted basis, we see Thai telcos as trading at the low end of their ASEAN sector peers given 21-22% EPS CAGR while prospective yields of 5-8% remain at the high end. We believe this provides the downside protection for the telcos.

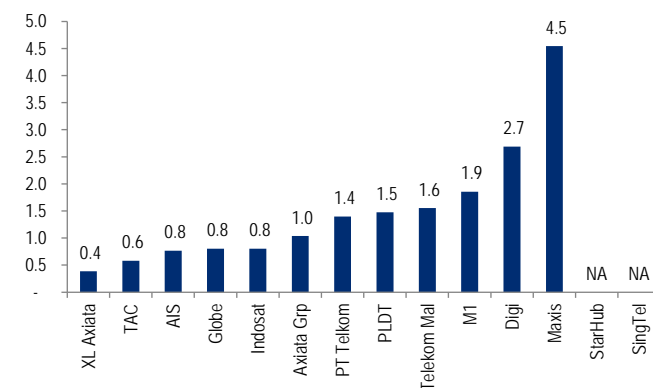
However, at this point, we see limited valuation expansion potential for DTAC as the stock has significantly outperformed while the upcoming spectrum renewal/cash outflow is expected to create a bigger value drain. On a prospective PEG basis, we now find AIS to be lower priced than DTAC.

Figure 29. ASEAN telco PEG valuations (FY14E)



Source: Citi Research

Figure 30. ASEAN telco EV/EBITDA to EBITDA CAGR valuations (FY14E)



Source: Citi Research

Other stocks mentioned: Axiata Group (AXIA.KL; RM6.59; 2); DiGi.Com (DSOM.KL; RM5.25; 1); PT XL AXIATA TBK. (EXCL.JK; Rp4,865; 1); Globe Telecom (GLO.PS; P1,645.00; 1); Indosat (ISAT.JK; Rp3,850; 2); M1 (MONE.SI; S\$3.37; 3); Maxis Berhad (MXSC.KL; RM6.91; 3); StarHub (STAR.SI; S\$4.15; 3); SingTel (STEL.SI; S\$3.71; 2); PLDT (TEL.PS; P2,800.00; 1); PT Telkom (TLKM.JK; Rp2,320; 2); Telekom Malaysia (TLMM.KL; RM5.93; 3).

Companies

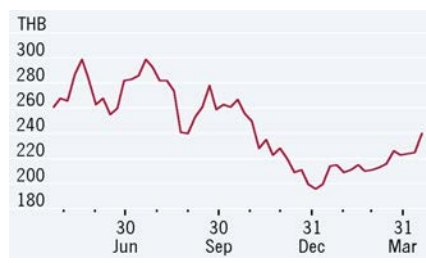
Company Focus

- Estimate Change
- Target Price Change

Buy	1
Price (21 Apr 14)	Bt242.00
Target price	Bt270.00
from Bt275.00	
Expected share price return	11.6%
Expected dividend yield	5.2%
Expected total return	16.8%
Market Cap	Bt719,489M
	US\$22,351M

Price Performance

(RIC: ADVANC.BK, BB: ADVANC TB)



Advanced Info (ADVANC.BK)

Getting the Network Pieces Together

- **Maintain Buy** — AIS remains among our preferred picks in Asia, offering a strong growth and yield combination. Among the Thai telcos, AIS is best placed to acquire the requisite frequencies while maintaining 100% dividend payout levels, given its exceptionally strong balance sheet. At the same time, AIS is expected to take leadership in 3G network and backhaul/transmission capabilities, which in turn should allow it to deliver superior data growth in 2014 and stem previous market share slippages. The stock offers 17x FY15E PER with 22% prospective EPS CAGR (FY14-16E) and 14% EBITDA CAGR driven by 3G migration benefits. Yields remain attractive at 5%-8% for FY14-16E.
- **Spectrum assumptions** — We model that AIS will retain ~10MHz of 900MHz spectrum on which it will initially continue to offer 2G services through network rental agreements with TOT as well as a more-efficient 3G network footprint investment on a direct-license basis. We also assume that AIS will re-acquire 12.5MHz of 1800MHz spectrum that will be used to launch 4G services. We also model AIS to acquire an additional 10MHz of 1800MHz in 2018 once DTAC's concession spectrum comes up for auction.
- **FY14 – Network superiority should return to AIS** — AIS is powering ahead of peers in network build-out with FY13-14 investments 2.7x greater than by peers. This should allow it to achieve 3G network superiority (95% coverage on 3G by 1H14 alongside significant fiber upgrades), a lack of which had hurt its growth in FY13 (lost c2ppts in rev mkt share) given weaker ability to compete in data. This along with its greater migration focus (75% 3G subs by FY14 through pushing affordable 3G handsets) should allow it to deliver superior data revenue growth.
- **100% payout can be sustained** — Even with the heightened capex spending (Bt40bn for FY14) and spectrum payments (cBt41bn), we see net debt to EBITDA as peaking at only 0.7x. This, we believe, should easily allow AIS to retain 100% payout levels, which translates into a strong 5-8% yield.
- **Model assumptions** — We temper our AIS TP to Bt270 from Bt275 and FY14-16 earnings estimates by 1-6% factoring in: 1) spectrum payment of cBt41bn over FY14-20 and; 2) slower FY14 revenue growth owing to weaker-than-previously expected economic momentum. We also assume higher network expenses for FY16 and beyond assuming network rental deal with TOT. However, AIS remains one of the lowest-priced ASEAN telco on a prospective PEG and EV/EBITDA/growth basis.

Statistical Abstract

Year to	Net Profit	Diluted EPS	EPS growth	P/E	P/B	ROE	Yield
31 Dec	(BtM)	(Bt)	(%)	(x)	(x)	(%)	(%)
2012A	34,301	11.54	54.4	21.0	16.7	83.4	4.5
2013A	36,277	12.20	5.8	19.8	15.8	81.7	5.0
2014E	37,558	12.63	3.5	19.2	15.6	81.8	5.2
2015E	42,897	14.43	14.2	16.8	14.7	90.2	6.0
2016E	56,335	18.95	31.3	12.8	12.9	107.8	7.8

Source: Powered by dataCentral

ADVANC.BK: Fiscal year end 31-Dec						Price: Bt242.00; TP: Bt270.00; Market Cap: Bt719,489m; Recomm: Buy					
Profit & Loss (Btm)	2012	2013	2014E	2015E	2016E	Valuation ratios	2012	2013	2014E	2015E	2016E
Sales revenue	141,549	142,783	152,817	161,352	168,943	PE (x)	21.0	19.8	19.2	16.8	12.8
Cost of sales	-83,951	-81,141	-87,508	-87,786	-77,449	PB (x)	16.7	15.8	15.6	14.7	12.9
Gross profit	57,598	61,642	65,309	73,567	91,494	EV/EBITDA (x)	11.7	11.3	10.8	9.5	8.6
Gross Margin (%)	40.7	43.2	42.7	45.6	54.2	FCF yield (%)	4.8	3.2	1.1	3.3	6.6
EBITDA (Adj)	61,437	63,691	68,645	80,578	89,858	Dividend yield (%)	4.5	5.0	5.2	6.0	7.8
EBITDA Margin (Adj) (%)	43.4	44.6	44.9	49.9	53.2	Payout ratio (%)	94	100	100	100	100
Depreciation	-15,949	-17,089	-20,246	-23,901	-15,825	ROE (%)	84.8	81.7	81.8	90.2	107.8
Amortisation	0	0	0	0	0	Cashflow (Btm)	2012	2013	2014E	2015E	2016E
EBIT (Adj)	45,488	46,602	48,399	56,676	74,032	EBITDA	61,437	63,691	68,645	80,578	89,858
EBIT Margin (Adj) (%)	32.1	32.6	31.7	35.1	43.8	Working capital	107	-515	-40	-550	-941
Net interest	-319	-454	-1,738	-3,347	-3,910	Other	-10,411	-11,847	-10,976	-14,655	-19,284
Associates	0	0	0	0	0	Operating cashflow	51,133	51,329	57,630	65,373	69,634
Non-op/Except	445	90	327	332	337	Capex	-9,598	-28,460	-39,925	-25,731	-14,597
Pre-tax profit	45,614	46,238	46,989	53,662	70,460	Net acq/disposals	133	0	0	0	0
Tax	-10,715	-10,008	-9,398	-10,732	-14,092	Other	-7,294	344	-10,036	-15,846	-7,690
Extraord./Min.Int./Pref.div.	-16	44	-33	-33	-33	Investing cashflow	-16,759	-28,117	-49,961	-41,578	-22,287
Reported net profit	34,883	36,274	37,558	42,897	56,335	Dividends paid	-30,241	-33,889	-36,917	-40,228	-49,616
Net Margin (%)	24.6	25.4	24.6	26.6	33.3	Financing cashflow	-32,902	-31,572	-8,972	-30,633	-40,021
Core NPAT	34,301	36,277	37,558	42,897	56,335	Net change in cash	1,472	-8,360	-1,304	-6,837	7,326
Per share data	2012	2013	2014E	2015E	2016E	Free cashflow to s/holders	34,374	23,212	7,668	23,795	47,347
Reported EPS (Bt)	11.73	12.20	12.63	14.43	18.95						
Core EPS (Bt)	11.54	12.20	12.63	14.43	18.95						
DPS (Bt)	10.90	12.20	12.63	14.43	18.95						
CFPS (Bt)	17.20	17.26	19.38	21.99	23.42						
FCFPS (Bt)	11.56	7.81	2.58	8.00	15.93						
BVPS (Bt)	14.53	15.33	15.54	16.44	18.70						
Wtd avg ord shares (m)	2,973	2,973	2,973	2,973	2,973						
Wtd avg diluted shares (m)	2,973	2,973	2,973	2,973	2,973						
Growth rates	2012	2013	2014E	2015E	2016E						
Sales revenue (%)	12.0	0.9	7.0	5.6	4.7						
EBIT (Adj) (%)	16.7	2.4	3.9	17.1	30.6						
Core NPAT (%)	54.4	5.8	3.5	14.2	31.3						
Core EPS (%)	54.4	5.8	3.5	14.2	31.3						
Balance Sheet (Btm)	2012	2013	2014E	2015E	2016E						
Cash & cash equiv.	19,833	11,473	10,169	3,332	10,658						
Accounts receivables	11,727	15,116	16,178	17,081	17,885						
Inventory	1,427	2,865	3,066	3,238	3,390						
Net fixed & other tangibles	40,857	57,785	78,607	82,321	83,686						
Goodwill & intangibles	16,693	15,718	21,123	32,338	39,053						
Financial & other assets	10,432	9,069	9,190	9,294	9,386						
Total assets	100,968	112,026	138,334	147,603	164,057						
Accounts payable	14,785	21,254	22,748	23,687	24,454						
Short-term debt	8,462	9,303	9,303	9,303	9,303						
Long-term debt	11,888	15,355	43,300	52,895	62,490						
Provisions & other liab	22,455	20,394	16,589	12,623	11,963						
Total liabilities	57,590	66,307	91,941	98,509	108,211						
Shareholders' equity	43,190	45,575	46,215	48,885	55,604						
Minority interests	189	144	177	210	243						
Total equity	43,378	45,719	46,393	49,095	55,847						
Net debt	517	13,185	42,434	58,866	61,136						
Net debt to equity (%)	1.2	28.8	91.5	119.9	109.5						

For definitions of the items in this table, please click [here](#).

Advanced Info

Company description

Advanced Info has been granted a 25-year concession, expiring in 2015, by the TOT Corporation Public Co. to provide cellular-phone services in Thailand. The company provides a GSM network in the 900MHz frequency and 2100MHz frequency through its separately formed company AWN under direct license granted by NBTC in 2012. The company was listed on the Stock Exchange of Thailand in Nov 1991. Major shareholders are Intuch and SingTel.

Investment strategy

We rate AIS Buy (1) with a target price of Bt260. AIS' strong free cash flow and balance sheet should help support a generous dividend policy (100% payout) and hence an attractive dividend yield. Cost savings from a shift to 3G licenses should drive better earnings in the medium term and provide upside to fair value. Moreover, the balance sheet remains highly underleveraged, allowing AIS to comfortably acquire requisite spectrum in the upcoming auctions and, at the same time, retain potential capital management options.

Valuation

Our target price of Bt270.0 is based on NPV-derived fair value. Our NPV is derived by using a 8.7% WACC and 1.5% terminal growth rate. At our target price, AIS would trade at 14.2x FY16E PER and 9.6x FY16E EV/EBITDA. We believe near-term valuations do not capture the longer-term benefits due to higher depreciation, financing, marketing and maintenance expenses to be incurred by a 3G network migration.

Risks

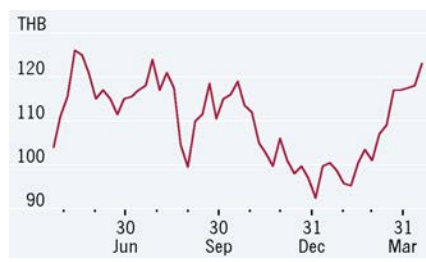
Key downside risks that may prevent AIS shares reaching our target price are: 1) An adverse ruling on any civil cases against AIS following the Thaksin verdict that results in outsized penalties; 2) irrational spectrum auction bidding; and 3) Slower-than-expected adoption of 3G may also reduce value accretion from licensing.

Company Focus

- Estimate Change
- Target Price Change
- Rating Change

Neutral	2
from Buy	
Price (21 Apr 14)	Bt122.50
Target price	Bt122.00
from Bt128.00	
Expected share price return	-0.4%
Expected dividend yield	5.1%
Expected total return	4.7%
Market Cap	Bt290,057M
	US\$9,011M

Price Performance
(RIC: DTAC.BK, BB: DTAC TB)



TAC (DTAC.BK) Downgrade to Neutral

■ **It was a good run** — We downgrade DTAC to Neutral (from Buy). YTD the stock has delivered return of 27%, narrowing the share price upside potential. On the other hand, upcoming spectrum auctions are expected to result in cash outflow without the incremental opex benefit, unlike the FY12 auctions. We assume DTAC will most likely bid for 7.5MHz of 900MHz spectrum in FY16 and 20MHz of 1800MHz spectrum by FY18 which may entail cash outgo of cBt34bn (Bt14/sh undiscounted). However, the stock does offer superior growth potential and inexpensive growth-adjusted valuations anchoring downside potential.

■ **Where the Street may be too optimistic on DTAC's capex trend** — We believe that capex is set to rise and not decline, contrary to current consensus expectations. DTAC's capex had been very moderate as the company's 2G concession extends through FY18. However, we believe DTAC will need to eventually prepare itself for concession expiry and build up its own extensive fibre backhaul/backbone to replace the BOT assets which will be returned to CAT by 2018. Alternatively, DTAC could rent these assets from CAT, but probably at a price that in turn migrates the spending from capex to opex. We forecast capex to progressively rise from Bt15bn in FY14 to Bt19.5bn by FY16 as compared to consensus estimates of Bt16bn declining to Bt14bn by FY16.

■ **Spectrum assumptions** — We model that DTAC will bid for 7.5MHz of 900MHz spectrum, which it will potentially use to offer 2G services helping in 2G regulatory as well as roll out cost savings. On the other hand, we don't think DTAC will need to bid for 1800MHz spectrum in FY14 as it already has 50MHz through its CAT concession, which expires in 2018. While 1800MHz frequencies under direct licensing can help DTAC in launching LTE services, we note that it has already launched the same on 2100MHz band by carving out 5MHz of spectrum. At the same time, scope for 4G services is expected to remain low over the short to medium term in the absence of a subsidy push. In our model we assume that DTAC will renew only 20MHz of 1800MHz spectrum when it expires in 2018.

■ **Model assumptions** — We cut our DTAC TP to Bt122 from Bt128 and FY14-16 earnings estimates by 2-11% factoring in: 1) spectrum payment of cBt31bn over FY14-20E and; 2) slower data revenue growth owing to weaker-than-previously expected economic growth for FY14. While we continue to see DTAC as a quality company, we find that the Street had priced in more for execution and at the same time had not factored in cash drain from spectrum payments and higher capex outlook.

Statistical Abstract

Year to	Net Profit	Diluted EPS	EPS growth	P/E	P/B	ROE	Yield
31 Dec	(BtM)	(Bt)	(%)	(x)	(x)	(%)	(%)
2012A	11,284	4.77	-4.5	25.7	8.3	32.4	4.1
2013A	10,569	4.46	-6.3	27.4	8.9	31.3	3.0
2014E	14,831	6.26	40.3	19.6	8.9	45.3	5.1
2015E	18,669	7.88	25.9	15.5	8.9	57.1	6.4
2016E	21,428	9.05	14.8	13.5	8.9	65.5	7.4

Source: Powered by dataCentral

DTAC.BK: Fiscal year end 31-Dec						Price: Bt122.50; TP: Bt122.00; Market Cap: Bt290,057m; Recomm: Neutral					
Profit & Loss (Btm)	2012	2013	2014E	2015E	2016E	Valuation ratios	2012	2013	2014E	2015E	2016E
Sales revenue	89,497	94,617	95,916	100,313	104,356	PE (x)	25.7	27.4	19.6	15.5	13.5
Cost of sales	-62,306	-64,594	-58,066	-55,475	-52,202	PB (x)	8.3	8.9	8.9	8.9	8.9
Gross profit	27,191	30,023	37,849	44,839	52,154	EV/EBITDA (x)	11.4	10.2	8.8	7.8	6.8
Gross Margin (%)	30.4	31.7	39.5	44.7	50.0	FCF yield (%)	4.8	4.6	4.8	5.7	6.3
EBITDA (Adj)	26,818	29,721	34,766	40,007	46,386	Dividend yield (%)	4.1	3.0	5.1	6.4	7.4
EBITDA Margin (Adj) (%)	30.0	31.4	36.2	39.9	44.4	Payout ratio (%)	106	83	100	100	100
Depreciation	-11,655	-13,812	-14,565	-14,606	-16,993	ROE (%)	32.4	31.3	45.3	57.1	65.5
Amortisation	0	0	0	0	0	Cashflow (Btm)	2012	2013	2014E	2015E	2016E
EBIT (Adj)	15,163	15,909	20,200	25,402	29,393	EBITDA	26,818	29,721	34,766	40,007	46,386
EBIT Margin (Adj) (%)	16.9	16.8	21.1	25.3	28.2	Working capital	671	3,391	-796	-816	-724
Net interest	-734	-1,932	-1,808	-2,212	-2,756	Other	-5,753	-9,050	-5,369	-6,733	-7,965
Associates	25	33	33	34	35	Operating cashflow	21,735	24,062	28,601	32,459	37,696
Non-op/Except	354	-153	113	113	113	Capex	-7,779	-10,851	-14,657	-15,852	-19,511
Pre-tax profit	14,808	13,857	18,539	23,336	26,785	Net acq/disposals	0	0	0	0	0
Tax	-3,526	-3,290	-3,708	-4,667	-5,357	Other	-7,309	-799	-3,036	-9,994	-3,375
Extraord./Min.Int./Pref.div.	2	3	0	0	0	Investing cashflow	-15,088	-11,649	-17,693	-25,846	-22,886
Reported net profit	11,284	10,569	14,831	18,669	21,428	Dividends paid	-49,590	-12,687	-14,831	-18,669	-21,428
Net Margin (%)	12.6	11.2	15.5	18.6	20.5	Financing cashflow	-23,966	-11,495	-11,831	-8,669	-13,428
Core NPAT	11,284	10,569	14,831	18,669	21,428	Net change in cash	-17,318	918	-923	-2,056	1,383
Per share data	2012	2013	2014E	2015E	2016E	Free cashflow to s/holders	13,956	13,211	13,944	16,607	18,186
Reported EPS (Bt)	4.77	4.46	6.26	7.88	9.05						
Core EPS (Bt)	4.77	4.46	6.26	7.88	9.05						
DPS (Bt)	5.06	3.72	6.26	7.88	9.05						
CFPS (Bt)	9.18	10.16	12.08	13.71	15.92						
FCFPS (Bt)	5.89	5.58	5.89	7.01	7.68						
BVPS (Bt)	14.72	13.82	13.82	13.82	13.82						
Wtd avg ord shares (m)	2,368	2,368	2,368	2,368	2,368						
Wtd avg diluted shares (m)	2,368	2,368	2,368	2,368	2,368						
Growth rates	2012	2013	2014E	2015E	2016E						
Sales revenue (%)	13.0	5.7	1.4	4.6	4.0						
EBIT (Adj) (%)	-9.0	4.9	27.0	25.7	15.7						
Core NPAT (%)	-4.5	-6.3	40.3	25.9	14.8						
Core EPS (%)	-4.5	-6.3	40.3	25.9	14.8						
Balance Sheet (Btm)	2012	2013	2014E	2015E	2016E						
Cash & cash equiv.	4,555	5,472	4,549	2,493	3,876						
Accounts receivables	8,386	10,351	8,935	8,795	8,863						
Inventory	0	0	0	0	0						
Net fixed & other tangibles	70,467	71,109	72,010	74,244	78,282						
Goodwill & intangibles	0	0	0	0	0						
Financial & other assets	17,636	18,122	17,312	23,075	24,930						
Total assets	101,043	105,054	102,806	108,607	115,951						
Accounts payable	23,592	28,190	25,968	24,783	23,823						
Short-term debt	8,808	9,540	9,540	6,296	6,296						
Long-term debt	21,460	23,164	26,164	36,164	44,164						
Provisions & other liab	12,338	11,440	8,414	8,643	8,947						
Total liabilities	66,198	72,334	70,086	75,887	83,231						
Shareholders' equity	34,845	32,720	32,720	32,720	32,720						
Minority interests	0	0	0	0	0						
Total equity	34,845	32,720	32,720	32,720	32,720						
Net debt	25,714	27,232	31,155	39,967	46,584						
Net debt to equity (%)	73.8	83.2	95.2	122.1	142.4						

For definitions of the items in this table, please click [here](#).

TAC

Company description

Total Access Communication, founded in August 1989, is Thailand's second largest wireless telecom service provider. The company provides services with 800 Mhz and 1800 Mhz frequency bands under a concession granted by the CAT Pcl. TAC is listed in the Stock Exchange of Thailand and the Singapore Stock Exchange.

Investment strategy

We rate DTAC as Neutral (2). We see 3G licensing as potentially driving value for the stock, given regulatory savings from a shift to 3G licenses from the expensive 2G concessions, which will change revenue share to 5.25% from 30% for 3G revenues on 2.1GHz license. That said, we believe the upside is now priced in while the upcoming spectrum auctions are expected to result in significant cash outflow without the incremental opex benefit unlike the FY12 auctions.

Valuation

We set our target price for DTAC at Bt122 based on our FY14E DCF (derived using a WACC of 8.6% and terminal growth rate of 1.0%). At our target price, DTAC would trade at 13.4x FY16E PER and 7.2x FY16E EV/EBITDA.

Risks

Key downside risks to our investment thesis and target price on DTAC are: 1) Prolonged political standoff leading to slower growth; 2) irrational spectrum auction bidding; 3) Irrational price competition of the magnitude seen in 2005-2006; Upside risks are: 1) Faster-than-expected pick up in 3G handsets resulting in earlier regulatory cost savings and higher ARPU's; 2) Market share stability without spikes in capital spending; 3) Political stability leading to higher economic growth.

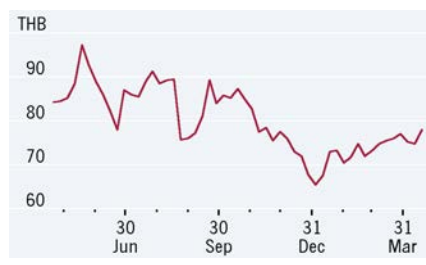
Company Focus

- Estimate Change
- Target Price Change

Buy	1
Price (21 Apr 14)	Bt78.25
Target price	Bt93.00
from Bt95.00	
Expected share price return	18.8%
Expected dividend yield	5.9%
Expected total return	24.7%
Market Cap	Bt250,902M
	US\$7,794M

Price Performance

(RIC: INTUCH.BK, BB: INTUCH TB)



INTUCH (INTUCH.BK) A More Efficient Way to Own AIS

- **Cut TP to Bt90, Maintain Buy** — We cut our Intuch SOTP based TP to Bt93.0 from Bt95.0 and our FY14-16 earnings estimates by 1-6%. This reflects cut in our AIS forecasts and TP which is the biggest value/earnings driver for Intuch as we now impute spectrum renewal costs in our model and slightly cut our FY14 revenue growth estimates factoring slower economic growth for FY14.
- **Dividend Clarity** — While management had guided for a 40% payout ratio, we believe that the company can easily maintain 100% payout levels, which translate into strong 6-9% yield. Although management had guided for business diversification at the parent level, we note that so far it had stayed away from any expensive acquisitions recently with its decision to stay put on acquiring costly SD TV license in 2013. Moreover, elevated AIS capex and upcoming spectrum renewal is not expected to have any impact on Intuch's balance sheet as AIS is equity accounted.
- **A better way to own AIS** — We believe Intuch is a more efficient way to own AIS given better yields (given the holding company discount) and similar earnings momentum (95% of earnings is sourced from AIS). Holding company discount of 20% may narrow as potential share price overhang from a Temasek sell-down fades with the company now in full compliance of foreign ownership limits.

Statistical Abstract

Year to	Net Profit	Diluted EPS	EPS growth	P/E	P/B	ROE	Yield
31 Dec	(BtM)	(Bt)	(%)	(x)	(x)	(%)	(%)
2012A	14,451	4.51	46.7	17.4	11.1	66.1	5.2
2013A	14,838	4.63	2.7	16.9	10.5	64.0	5.8
2014E	15,442	4.82	4.1	16.2	10.1	63.6	5.8
2015E	17,912	5.59	16.0	14.0	9.0	68.0	6.8
2016E	23,492	7.33	31.2	10.7	7.3	75.3	8.9

Source: Powered by dataCentral

INTUCH.BK: Fiscal year end 31-Dec						Price: Bt78.25; TP: Bt93.00; Market Cap: Bt250,902m; Recomm: Buy					
Profit & Loss (Btm)	2012	2013	2014E	2015E	2016E	Valuation ratios	2012	2013	2014E	2015E	2016E
Sales revenue	8,545	9,435	10,368	11,024	11,389	PE (x)	17.4	16.9	16.2	14.0	10.7
Cost of sales	-5,666	-6,131	-6,500	-6,688	-6,827	PB (x)	11.1	10.5	10.1	9.0	7.3
Gross profit	2,879	3,304	3,869	4,336	4,561	EV/EBITDA (x)	14.5	14.4	13.0	11.3	8.8
Gross Margin (%)	33.7	35.0	37.3	39.3	40.1	FCF yield (%)	5.5	5.8	7.1	8.4	10.8
EBITDA (Adj)	17,919	18,208	20,032	22,684	28,378	Dividend yield (%)	5.2	5.8	5.8	6.8	8.9
EBITDA Margin (Adj) (%)	nm	193.0	193.2	nm	nm	Payout ratio (%)	91	98	95	95	95
Depreciation	-2,592	-2,119	-3,052	-3,191	-3,278	ROE (%)	63.1	62.8	63.6	68.0	75.3
Amortisation	0	0	0	0	0	Cashflow (Btm)					
EBIT (Adj)	816	1,251	1,616	1,960	2,122	EBITDA	3,583	3,371	4,668	5,151	5,401
EBIT Margin (Adj) (%)	9.5	13.3	15.6	17.8	18.6	Working capital	371	-175	-124	-60	33
Net interest	-424	-269	-167	17	188	Other	11,820	13,887	14,809	17,056	22,605
Associates	14,337	14,837	15,365	17,533	22,978	Operating cashflow	15,774	17,083	19,353	22,146	28,039
Non-op/Except	-356	-393	-123	-123	-123	Capex	-2,085	-2,543	-1,417	-991	-1,017
Pre-tax profit	14,548	15,426	16,690	19,386	25,165	Net acq/disposals	-57	-34	0	0	0
Tax	-353	-343	-265	-371	-437	Other	-692	-865	0	0	0
Extraord./Min.Int./Pref.div.	-409	-516	-983	-1,104	-1,236	Investing cashflow	-2,834	-3,442	-1,417	-991	-1,017
Reported net profit	13,787	14,568	15,442	17,912	23,492	Dividends paid	-19,623	-13,831	-14,523	-14,670	-17,016
Net Margin (%)	161.3	154.4	148.9	162.5	nm	Financing cashflow	-21,831	-13,142	-14,523	-14,670	-17,016
Core NPAT	14,451	14,838	15,442	17,912	23,492	Net change in cash	-8,904	505	3,413	6,485	10,005
Per share data						Free cashflow to s/holders					
Reported EPS (Bt)	4.30	4.54	4.82	5.59	7.33		13,689	14,540	17,936	21,155	27,022
Core EPS (Bt)	4.51	4.63	4.82	5.59	7.33						
DPS (Bt)	4.08	4.53	4.58	5.31	6.96						
CFPS (Bt)	4.92	5.33	6.04	6.91	8.75						
FCFPS (Bt)	4.27	4.54	5.59	6.60	8.43						
BVPS (Bt)	7.03	7.43	7.71	8.73	10.74						
Wtd avg ord shares (m)	3,206	3,206	3,206	3,206	3,206						
Wtd avg diluted shares (m)	3,206	3,206	3,206	3,206	3,206						
Growth rates											
Sales revenue (%)	6.6	10.4	9.9	6.3	3.3						
EBIT (Adj) (%)	85.8	53.4	29.1	21.3	8.3						
Core NPAT (%)	46.7	2.7	4.1	16.0	31.2						
Core EPS (%)	46.7	2.7	4.1	16.0	31.2						
Balance Sheet (Btm)											
Cash & cash equiv.	5,663	6,856	10,268	16,754	26,759						
Accounts receivables	1,592	2,090	2,283	2,424	2,508						
Inventory	342	252	279	297	306						
Net fixed & other tangibles	18,617	19,945	18,310	16,111	13,849						
Goodwill & intangibles	1,099	1,028	1,028	1,028	1,028						
Financial & other assets	20,690	20,639	20,639	20,639	20,639						
Total assets	48,003	50,810	52,808	57,252	65,090						
Accounts payable	1,846	2,882	2,950	3,029	3,147						
Short-term debt	251	4,490	4,490	4,490	4,490						
Long-term debt	7,047	4,029	4,029	4,029	4,029						
Provisions & other liab	8,314	6,998	7,026	7,045	7,055						
Total liabilities	17,457	18,398	18,494	18,593	18,720						
Shareholders' equity	22,543	23,816	24,735	27,977	34,452						
Minority interests	8,003	8,595	9,578	10,682	11,918						
Total equity	30,546	32,412	34,313	38,659	46,370						
Net debt	1,635	1,663	-1,750	-8,235	-18,241						
Net debt to equity (%)	5.4	5.1	-5.1	-21.3	-39.3						

For definitions of the items in this table, please click [here](#).

INTUCH

Company description

Intuch (Previously known as Shin Corp) operates as a holding company with investments in the wireless telecommunications sector in Thailand via its 40.5% holding in Advanced Info Service (AIS) and the satellite and international telecom business through its 41.1% stake in THAIKOM Public Company Limited (THCOM) and CS LOXINFO Public Company Limited. AIS is Thailand's incumbent wireless telecoms services provider with close to a 44% subscriber market share and more than 50% revenue market share. Thaicom is Thailand's only satellite operator with currently two satellites in operations while two more are slated to be launched by FY14. Intuch was listed on the Stock Exchange of Thailand in 1990. Temasek Holdings is the largest shareholder in Intuch.

Investment strategy

We rate Intuch Buy (1) with a target price of Bt93. We believe that steep holding company discount is not warranted as, unlike the typical holding company structure in Asia, Intuch's investments are mainly aligned toward telecommunications, with AIS contributing c95% of our SOTP value and 97-98% of FY14-16E profits. We find owning Intuch as simply a more efficient way of investing in AIS. Moreover, we believe group growth prospects are actually slightly superior to AIS owing to its exposure to Thaicom, which offers stronger growth potential owing to its improved utilization rate. Yields are thus better than AIS while at the same time offering a better growth outlook and a stronger prospective balance sheet.

Valuation

Given the holding company structure of Intuch, we use a sum-of-the-parts approach (SOTP) by taking the value of its main holdings, AIS (mobile telecom operator) and Thaicom (Satellite operator). We value AIS at Bt270/sh based on our DCF-based valuation (8.7% WACC and 1.5% terminal growth rate). Thaicom is valued at 9.0x FY14E EV/EBITDA. We apply a 12.5% discount to the target operating company valuations to arrive at our Intuch SOTP value of Bt93.0/sh.

Risks

Key downside risks that may prevent Intuch shares reaching our target price are: 1) Irrational spectrum auction competition which will drain AIS's value; 2) slower-than-expected adoption of 3G or rising competition for AIS may reduce earnings and value accretion with AIS being the group's main value and dividend driver; 3) Lower than 100% dividend payout.

Appendix A-1

Analyst Certification

The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

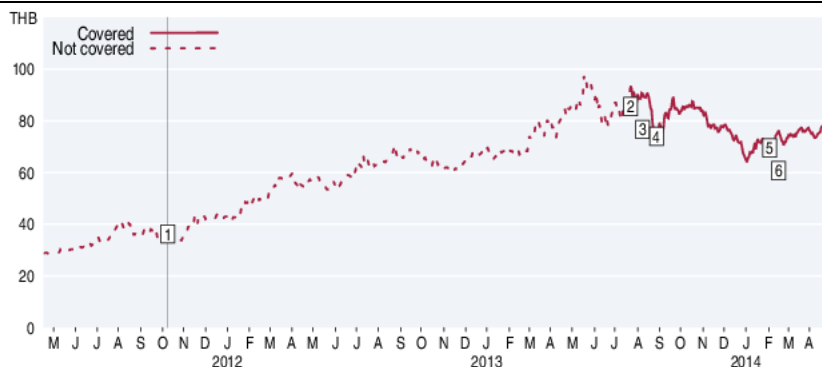
IMPORTANT DISCLOSURES

INTUCH (INTUCH.BK)

Ratings and Target Price History Fundamental Research

Analyst: Arthur Pineda

Covered since July 23 2013



	Date	Rating	Target Price	Closing Price
1	8-Oct-11	Stock rating system changed		
2	23-Jul-13	*1	*106.00	93.25

* Indicates change

	Date	Rating	Target Price	Closing Price
3	8-Aug-13	1	*111.00	90.50
4	28-Aug-13	1	*100.00	74.25

	Date	Rating	Target Price	Closing Price
5	4-Feb-14	1	*94.00	71.25
6	17-Feb-14	1	*95.00	76.25

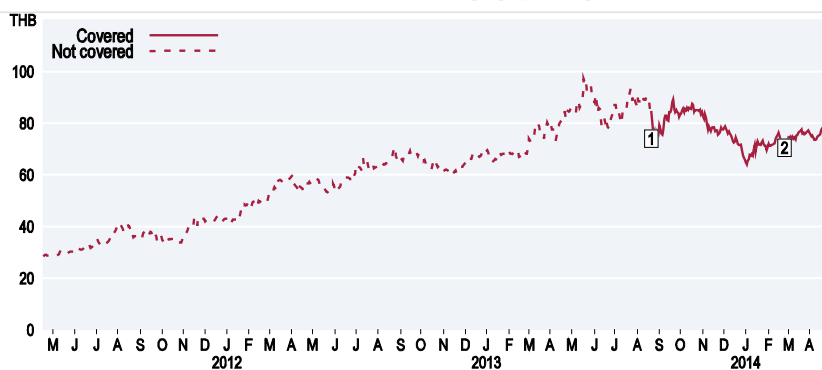
Rating/target price changes above reflect Eastern Standard Time

INTUCH (INTUCH.BK)

Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Arthur Pineda

Covered since July 23 2013



	Date	Rating	Target Price	Closing Price
1	21-Aug-13	*ADD MP	-	84.25

* Indicates change

	Date	Rating	Target Price	Closing Price
2	25-Feb-14	*REM MP	-	71.75

Rating/target price changes above reflect Eastern Standard Time

TAC (DTAC.BK)

Ratings and Target Price History Fundamental Research

Analyst: Arthur Pineda



	Date	Rating	Target Price	Closing Price
1	28-Apr-11	1L	*66.00	47.75
2	23-Aug-11	1L	*75.25	67.75
3	29-Sep-11	1L	*81.50	74.75
4	7-Oct-11	Stock rating system changed		
5	7-Oct-11	*1	81.50	73.50
6	21-Oct-11	1	*88.00	72.25
7	3-Jan-12	1	*78.00	69.50

* Indicates change

	Date	Rating	Target Price	Closing Price
8	6-Feb-12	1	*80.00	68.00
9	23-Jul-12	1	*90.00	79.75
10	28-Aug-12	1	*101.00	86.00
11	3-Oct-12	1	*131.00	90.75
12	8-Feb-13	1	*120.00	88.00
13	24-Apr-13	1	*125.00	104.00
14	31-May-13	1	*132.00	115.00

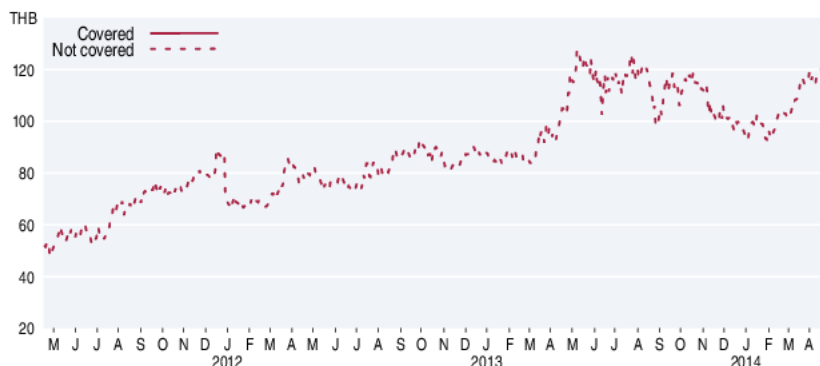
	Date	Rating	Target Price	Closing Price
15	19-Jul-13	1	*138.00	118.00
16	28-Aug-13	1	*130.00	98.00
17	4-Feb-14	1	*120.00	94.75
18	11-Feb-14	1	*125.00	97.00
19	25-Feb-14	1	*128.00	103.00

Rating/target price changes above reflect Eastern Standard Time

TAC (DTAC.BK)

Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Arthur Pineda



* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Advanced Info (ADVANC.BK)

Ratings and Target Price History Fundamental Research

Analyst: Arthur Pineda



	Date	Rating	Target Price	Closing Price
1	9-May-11	1L	*123.00	94.25
2	22-Aug-11	1L	*140.70	114.50
3	7-Oct-11	Stock rating system changed		
4	7-Oct-11	*1	140.70	123.50
5	9-Nov-11	1	*150.00	135.00

* Indicates change

	Date	Rating	Target Price	Closing Price
6	9-Feb-12	1	*168.00	152.00
7	10-Aug-12	1	*227.00	206.00
8	28-Aug-12	1	*245.00	213.00
9	3-Oct-12	1	*272.00	209.00
10	7-Feb-13	1	*265.00	207.00

	Date	Rating	Target Price	Closing Price
11	7-May-13	1	*300.00	270.00
12	7-Aug-13	1	*315.00	285.00
13	28-Aug-13	1	*294.00	238.00
14	4-Feb-14	1	*275.00	211.00

Rating/target price changes above reflect Eastern Standard Time

Advanced Info (ADVANC.BK)

Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Arthur Pineda



	Date	Rating	Target Price	Closing Price
1	11-Nov-11	*ADD MP	-	136.00

* Indicates change

	Date	Rating	Target Price	Closing Price
2	23-May-12	*REM MP	-	181.00

	Date	Rating	Target Price	Closing Price
3	30-Jun-12	*N	-	184.50

Rating/target price changes above reflect Eastern Standard Time

Due to Citi's involvement in Globe Telecom Inc.'s acquisition of Bayan Telecommunication Holdings Inc., Citi Research restricted publication of new research reports of Globe Telecom Inc. (the 'Company'), and suspended its rating and target price on 6 November 2012 (the 'Suspension Date'). Please note that the Company price chart that appears in this report and available on Citi Research's disclosure website does not reflect that Citi Research did not have a rating or target price between the Suspension Date and 15 January 2014 when Citi Research resumed full coverage.

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Citi Research Equity Ratings Distribution

Data current as of 31 Mar 2014

	12 Month Rating			Relative Rating		
	Buy	Hold	Sell	Buy	Hold	Sell
Citi Research Global Fundamental Coverage	49%	40%	12%	1%	98%	1%
% of companies in each rating category that are investment banking clients	55%	53%	45%	58%	53%	42%

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Risk rating takes into account both price volatility and fundamental criteria. Stocks will either have no risk rating or a High risk rating assigned.

Investment Ratings: Citi Research investment ratings are Buy, Neutral and Sell. Our ratings are a function of analyst expectations of expected total return

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Prior to October 8, 2011, the firm's stock recommendation system included a risk rating and an investment rating. **Risk ratings**, which took into account both price volatility and fundamental criteria, were: Low (L), Medium (M), High (H), and Speculative (S). **Investment Ratings** of Buy, Hold and Sell were a function of the Citi Research expectation of total return (forecast price appreciation and dividend yield within the next 12 months) and risk rating. Additionally, analysts could have placed covered stocks "Under Review" in response to exceptional circumstances (e.g. lack of information critical to the analyst's thesis) affecting the company and/or trading in the company's securities (e.g. trading suspension). Stocks placed "Under Review" were monitored daily by management and as practically possible, the analyst published a note re-establishing a rating and investment thesis. For securities in developed markets (US, UK, Europe, Japan, and Australia/New Zealand), investment ratings were: Buy (1) (expected total return of 10% or more for Low-Risk stocks, 15% or more for Medium-Risk stocks, 20% or more for High-Risk stocks, and 35% or more for Speculative stocks); Hold (2) (0%-10% for Low-Risk stocks, 0%-15% for Medium-Risk stocks, 0%-20% for High-Risk stocks, and 0%-35% for Speculative stocks); and Sell (3) (negative total return). For securities in emerging markets (Asia Pacific, Emerging Europe/Middle East/Africa, and Latin America), investment ratings were: Buy (1) (expected total return of 15% or more for Low-Risk stocks, 20% or more for Medium-Risk stocks, 30% or more for High-Risk stocks, and 40% or more for Speculative stocks); Hold (2) (5%-15% for Low-Risk stocks, 10%-20% for Medium-Risk stocks, 15%-30% for High-Risk stocks, and 20%-40% for Speculative stocks); and Sell (3) (5% or less for Low-Risk stocks, 10% or less for Medium-Risk stocks, 15% or less for High-Risk stocks, and 20% or less for Speculative stocks).

Investment ratings are determined by the ranges described above at the time of initiation of coverage, a change in investment and/or risk rating, or a change in target price (subject to limited management discretion). At other times, the expected total returns may fall outside of these ranges because of market price movements and/or other short-term volatility or trading patterns. Such interim deviations from specified ranges will be permitted but will become subject to review by Research Management. Your decision to buy or sell a security should be based upon your personal investment objectives and should be made only after evaluating the stock's expected performance and risk.

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Citigroup Global Markets Singapore PTE LIMITED	Arthur Pineda
Citigroup Global Markets India Private Limited	Hussaini Saiffee

OTHER DISCLOSURES

The subject company's share price set out on the front page of this Product is quoted as at 21 April 2014 10:24 AM on the issuer's primary market.

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