

COMPANY UPDATE

True Corporation (TRUE TB)

Expect Improving Core Earnings In 4Q19 To Support Share Price

TRUE expects a significant qoq improvement in service revenue in 4Q19 as it aims for a bigger market share on the back of more aggressive promotions, higher ARPU and the peak season for international roaming revenue. We expect mobile operators to participate in the 5G auctions, especially the 26GHz spectrum due to its low auction price. We expect better earnings momentum to provide positive sentiment for the stock. Maintain BUY. Target price: Bt6.20.

WHAT'S NEW

- **Expect significant qoq improvement in 4Q19.** True Corporation's (TRUE) management expects a significant qoq improvement in service revenue in 4Q19. TRUE is expected to gain market share, especially in the prepaid market on the back of more aggressive promotions. It also expects strong service revenue growth momentum in the postpaid market, supported by strong smartphone sales in 4Q19 to drive high-end user subscription and postpaid average revenue per user (ARPU). 4Q is also the peak season for international roaming during the travel season.
- **Revised down service revenue growth target.** Management has lowered its service revenue growth guidance from mid- to high-single-digit to 3-5% yoy for 2019 to reflect the lower-than-expected service revenue in 3Q19. TRUE's service revenue growth was flat yoy in 9M19. Based on the new service revenue growth guidance, TRUE expects its service revenue at Bt32.6b-35.0b in 4Q19, up 7-15% qoq, as it believes its new strategy to compete more aggressively in the prepaid market competition will help it gain market share while the peak season in the postpaid and international roaming segments will lead to an improvement in its mobile ARPU. It was also awarded the exclusive broadcast rights for all English Premier League matches for three seasons over 2019-22 in Thailand, Laos and Cambodia, and this will result in more contribution to its service revenue from 4Q19. TRUE is maintaining its outlook for a positive core profit in 2019.

KEY FINANCIALS

Year to 31 Dec (Btm)	2017	2018	2019F	2020F	2021F
Net turnover	141,290	161,820	140,122	145,073	150,228
EBITDA	39,361	53,998	31,250	44,256	42,821
Operating profit	5,889	20,406	5,053	11,562	13,685
Net profit (rep./act.)	2,323	7,035	5,926	2,137	2,885
Net profit (adj.)	(4,210)	(3,499)	1,730	2,137	2,885
EPS (Bt)	(0.1)	(0.1)	0.0	0.1	0.1
PE (x)	n.m.	n.m.	104.4	84.5	62.6
P/B (x)	1.4	1.4	1.3	1.3	1.3
EV/EBITDA (x)	5.2	3.8	6.6	4.6	4.8
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	1.6	4.3	4.2	1.5	1.9
Net debt/(cash) to equity (%)	81.7	101.0	36.3	34.9	32.8
Interest cover (x)	4.7	7.2	4.5	4.4	3.8
ROE (%)	1.8	5.3	4.2	1.5	1.9
Consensus net profit	-	-	2,978	3,538	4,509
UOBKH/Consensus (x)	-	-	0.58	0.60	0.64

Source: TRUE, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	Bt4.44
Target Price	Bt6.20
Upside	+40.0%

COMPANY DESCRIPTION

Integrated holding company with businesses in mobile, fixed lines, Internet and pay-TV.

STOCK DATA

GICS sector	Communication Services
Bloomberg ticker:	TRUE TB
Shares issued (m):	33,368.2
Market cap (Btm):	152,159.0
Market cap (US\$m):	5,030.7
3-mth avg daily t'over (US\$m):	25.9

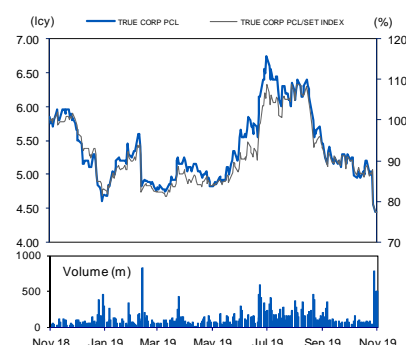
Price Performance (%)

52-week high/low	Bt6.75/Bt4.56			
1mth	3mth	6mth	1yr	YTD
(13.1)	(24.0)	(7.7)	(22.1)	(12.3)

Major Shareholders

	%
CP Group	64.7
Uniq Network	9.6
Wide Broadcast	7.6
FY19 NAV/Share (Bt)	3.51
FY19 Net Debt/Share (Bt)	1.34

PRICE CHART



Source: Bloomberg

ANALYST(S)

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- Fixed broadband business (FBB) still challenging.** FBB competition is still high, especially after AIS Fibre attempted to gain FBB market share. Advanced Info Service (ADVANC) has set a goal to become the no.1 player in the segment within three years - it is currently ranked fourth. ADVANC added net subscribers of 81,600 to 937,000 in 3Q19 vs TRUE Online (net addition of 93,000 to 3.7m) and JAS (net addition of 91,300 to 3.19m). TRUE expects the FBB market for Thailand to reach maturity within the next few years, with around 80% of 21m households in Thailand having wired internet connections. Moreover, TRUE intends to sustain its market leadership. TRUE claimed it was very successful with its new package (named Gigatex) at 1Gbps at Bt899/month. Customers are provided with True's Gigatex Fiber Router, valued at Bt3,900, for free. These should help TRUE maintain its FBB ARPU and subscriber base and capture more high value-add customers going forward.

STOCK IMPACT

- Net profit to improve in 4Q19.** We expect net profit to improve in 4Q19, supported by strong improvement in service revenue as well as continued expansion in subscriber and ARPU. Although we are seeing more intense competition, we expect this to be short-lived and fully offset by the positive impact on the removal of low-priced unlimited data fixed-speed price plans in 4Q19. Moreover, after the company impaired its network equipment assets by around Bt4b in 3Q19, we expect some upside from savings in amortization expense, which could lift bottom line gradually in the next couple of quarters.
- To participate in 5G spectrum auctions.** TRUE is interested to bid in the 5G spectrums. TRUE aims to be the first mover in the 5G roll-out and commercial launch as 5G services are expected to target business-to-business (B2B) and business-to-consumer (B2C) in various sectors, including agriculture, transportation and automobile. Moreover, TRUE can leverage its expertise in large-scale solutions platforms and enjoy higher margins in the future.
- Keep an eye on 5G auction date in Feb 20.** The National Broadcasting and Telecommunication Commission (NBTC) has reaffirmed that 5G spectrum auctions would take place on 16 Feb 20 (on four bands - 700MHz, 1800MHz, 2600MHz, 26GHz). However, the NBTC has raised the reserve price for the 26GHz spectrum by Bt123m to Bt423m based on a Swedish university's study. The new reserve price is roughly 80% of the Bt523m speculated to be the winning price in a study by Chalmers University of Technology in Sweden. The 26GHz spectrum auction has 27 licences, each with 100MHz of bandwidth. Winning bidders will pay only once, instead of 10 years of instalments, for the 26GHz spectrum. There is no change in the auction conditions for the other three spectrum ranges - 700MHz, 1800MHz and 2600MHz. A public hearing is scheduled for 3 Dec 19. We expect all three mobile operators (ADVANC, TRUE, and DTAC) to participate this 5G auctions especially on 26GHz spectrum due to a low auction price of Bt423m per 100MHz of bandwidth.

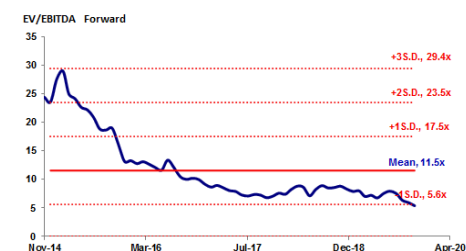
EARNINGS REVISION/RISK

- None.

VALUATION/RECOMMENDATION

- Maintain BUY and SOTP-based target price is Bt6.20.** The drop in share price should have priced in the lower-than-expected net profit in 3Q19. We expect better earnings momentum to provide positive sentiment for the stock. Also, its share price has been lagging peers'.

EV/EBITDA BAND



Source: Bloomberg, UOB Kay Hian

SOTP VALUATION

	Bt m	Bt/sh	Comment
Mobile business	172,839	5.2	Target EV/EBITDA of 5x
(+) True Online	39,227	1.2	Target EV/EBITDA of 5x
(+) True Vision	5,000	0.1	Target EV/EBITDA of 5x
(+) value of fund retained	54,381	1.6	Market value
EV	271,447	8.1	
(-) debts	(65,762)	(2.0)	
Equity value	205,685	6.20	

Source: UOB Kay Hian

5G AUCTIONS IN 4 SPECTRUMS BANDS

Range	Total bandwidth	No. of licences	Reserve price/licence
700MHz	15MHz	3	8.7 billion baht
2600MHz	190MHz	19	1.86 billion baht
1800MHz	35MHz	7	12.4 billion baht
26GHz	2700MHz	27	423 million baht*

*The 26GHz reserve price was raised from 300 million baht, and the payment term was adjusted from a range of 10 years to one time

Source: NBTC, Bangkok Post

PROFIT & LOSS

Year to 31 Dec (Btm)	2018	2019F	2020F	2021F
Net turnover	161,820	140,122	145,073	150,228
EBITDA	53,998	31,250	44,256	42,821
Deprec. & amort.	33,592	26,197	32,694	29,136
EBIT	20,406	5,053	11,562	13,685
Total other non-operating income	(3,751)	3,000	(4,070)	(4,477)
Associate contributions	3,789	5,027	5,077	5,128
Net interest income/(expense)	(7,477)	(7,015)	(10,166)	(11,148)
Pre-tax profit	12,967	6,596	2,403	3,188
Tax	(6,010)	(730)	(266)	(303)
Minorities	77	60	0	0
Preferred dividends	0	0	0	0
Net profit	7,035	5,926	2,137	2,885
Net profit (adj.)	(3,499)	1,730	2,137	2,885

CASH FLOW

Year to 31 Dec (Btm)	2018	2019F	2020F	2021F
Operating	28,839	42,924	28,603	25,777
Pre-tax profit	9,178	1,569	(2,674)	(1,940)
Tax	(6,010)	(730)	(266)	(303)
Deprec. & amort.	33,592	26,197	32,694	29,136
Associates	3,789	5,027	5,077	5,128
Working capital changes	0	12,900	(1,950)	(1,915)
Non-cash items	(11,711)	(5,027)	(5,077)	(5,128)
Other operating cashflows	0	2,989	800	800
Investing	(60,817)	(40,228)	(38,200)	(36,274)
Capex (growth)	(59,169)	(38,579)	(36,550)	(34,623)
Capex (maintenance)	(2,000)	(2,000)	(2,000)	(2,000)
Investments	0	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	352	351	350	349
Financing	34,398	63	1	1
Dividend payments	(1,034)	0	0	0
Issue of shares	0	0	0	0
Proceeds from borrowings	0	0	0	0
Loan repayment	0	0	0	0
Others/interest paid	35,432	63	1	1
Net cash inflow (outflow)	2,419	2,759	(9,596)	(10,495)
Beginning cash & cash equivalent	18,299	20,718	23,477	13,881
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	20,718	23,477	13,881	3,386

BALANCE SHEET

Year to 31 Dec (Btm)	2018	2019F	2020F	2021F
Fixed assets	205,812	159,495	161,090	162,701
Other LT assets	165,064	164,914	164,388	163,863
Cash/ST investment	20,718	23,477	13,881	3,386
Other current assets	103,974	92,244	95,376	98,485
Total assets	495,569	440,131	434,735	428,436
ST debt	84,909	7,725	(26,794)	(48,425)
Other current liabilities	116,990	118,160	119,342	120,535
LT debt	70,416	68,735	92,422	101,346
Other LT liabilities	89,370	98,844	100,955	103,277
Shareholders' equity	133,291	146,069	148,206	151,091
Minority interest	593	599	605	611
Total liabilities & equity	495,569	440,131	434,735	428,436

KEY METRICS

Year to 31 Dec (%)	2018	2019F	2020F	2021F
Profitability				
EBITDA margin	33.4	22.3	30.5	28.5
Pre-tax margin	8.0	4.7	1.7	2.1
Net margin	4.3	4.2	1.5	1.9
ROA	1.5	1.3	0.5	0.7
ROE	5.3	4.2	1.5	1.9
Growth				
Turnover	14.5	(13.4)	3.5	3.6
EBITDA	37.2	(42.1)	41.6	(3.2)
Pre-tax profit	257.0	(49.1)	(63.6)	32.7
Net profit	202.9	(15.8)	(63.9)	35.0
Net profit (adj.)	n.a.	n.a.	23.5	35.0
EPS	n.a.	n.a.	23.5	35.0
Leverage				
Debt to total capital	53.7	34.3	30.6	25.9
Debt to equity	116.5	52.3	44.3	35.0
Net debt/(cash) to equity	101.0	36.3	34.9	32.8
Interest cover (x)	7.2	4.5	4.4	3.8

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