

### SECTOR UPDATE

## Telecommunications – Thailand

Getting Ready For 5G Auction; Less Competition Than During 2018

**We expect all mobile operators to participate in the 5G spectrum auction in Feb 20, especially in the 2600MHz spectrum auction which has a low starting price and more flexible payment terms. However, they are likely to bid for fewer licences due to the lag in 5G usage in Thailand and limited ARPU upside from 4G monthly plans. We expect limited impact due to more intense market competition in Nov 19 compared with that during the 2018 aggressive campaigns. Maintain OVERWEIGHT**

### WHAT'S NEW

- NBTC reaffirmed 5G auction in Feb 20.** The National Broadcasting and Telecommunication Commission (NBTC) has reaffirmed that the 5G spectrum auctions (on four bands) would take place on 16 Feb. The NBTC aims to accelerate the availability of ultra-high-speed wireless technology nationwide. The four spectrum ranges are 700MHz, 1800MHz, 2600MHz and 26GHz. The 700MHz range will be divided into three licences, each containing 5MHz of bandwidth, with a reserve price of Bt8.7b. The 1800MHz range will have seven licences, each of 5MHz with a reserve price of Bt12.4b. The 2600MHz range has 19 licences, each with 10MHz with a reserve price of Bt1.86b. The 26GHz range has 27 licences, each with 100MHz and a reserve price of Bt423m. ADVANC and DTAC said the 700MHz and 1800MHz licences may not be attractive as the major operators already hold some bandwidth in these ranges, while the reserve prices for the two bands are very high. They are also concerned about technical conditions for the 2600MHz usage and the high reserve price.
- More flexible payment terms.** 10% of the winning price per licence must be paid within the first year the licence is obtained. A grace period for payment will then be given to the operators from the second year to the fourth year. From the fifth to the 10th year, an annual instalment payment of 15% of the remaining licence cost must be paid.
- More intense market competition but better than 2018 campaigns.** Mobile operators have launched more aggressive prepaid price plans since Nov 19. They offer the minimum monthly price plan of Bt150 per month with unlimited internet data, fixed internet speed at 4 megabits per second (Mbps) at Bt200 per month but fixed internet speed at 10Mbps. Based on our channel check, current promotions are less aggressive than last year as this round focuses on new customers in the prepaid, unlike in the 2018 aggressive campaigns where they focused on existing and new customers and in both prepaid and postpaid markets. We expect TRUE will have an upper hand in the current round of competition because its prepaid average revenue per user (ARPU) of Bt115 is substantially lower than the minimum monthly price plan of unlimited fixed internet speed package (Bt150/month for 4Mbps).

### PEER COMPARISON

Company	Ticker	Rec.	Last Price (Bt)	Target Price (Bt)	Upside/ (Downside) (%)	Market Cap (US\$m)	----- PE -----			EPS CAGR CAGR (%)	P/B 2019F (x)	Yield 2019F (%)	ROE 2019F (%)	EV/EBITDA 2019F (x)
							2018A (x)	2019F (x)	2020F (x)					
Advance Info Services	ADVANC TB	BUY	211.00	247.00	17.1	20,535	21.0	19.8	18.9	5.6	8.1	3.7	46.0	7.9
Total Access Comm	DTAC TB	HOLD	53.25	55.00	3.3	4,127	n.a.	19.3	20.8	n.a.	4.4	2.4	22.3	6.9
True Corporation	TRUE TB	BUY	4.38	6.20	41.6	4,784	24.7	29.3	81.2	-44.9	1.2	n.a.	1.4	3.3
<b>Sector</b>						<b>29,446</b>	<b>33.3</b>	<b>20.6</b>	<b>21.8</b>		<b>3.5</b>	<b>2.8</b>	<b>17.2</b>	<b>7.1</b>

Source: UOB Kay Hian

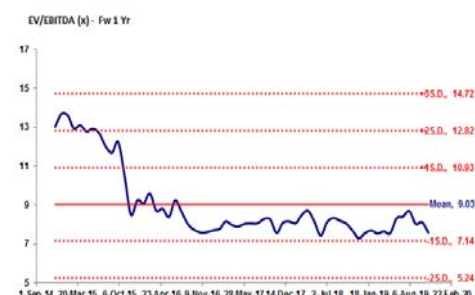
## OVERWEIGHT (Maintained)

### STOCK PICKS

Company	Rec	Share Price (Bt)	Target Price (Bt)
ADVANC	BUY	214.0	247.0
TRUE	BUY	4.44	6.20

Source: UOB Kay Hian

### THAI TELCO FORWARD CORE PE BAND



Source: Bloomberg, UOB Kay Hian

### ANALYST(S)

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

### ESSENTIALS

- Expect all mobile operators (ADVANC, DTAC, TRUE) to bid for fewer 5G spectrum licences in the upcoming auctions** due to: a) the substantially lower starting auction price per MHz of bandwidth, especially the 2600MHz and 26GHz spectrum licences; and b) lower financial impact due to more flexible payment terms. ADVANC has a strong balance, low net debt to EBITDA of 1.6x, and strong operating cash flow of Bt80b. DTAC also has enough capability to get some spectrum licences. We also expect TRUE to sell more towers and fibre assets to the Digital Infrastructure Fund (DIF), issue bond/debenture, or it may sell its DIF stake (28.9%) to improve its balance sheet and raise funds ahead of the upcoming spectrum auctions.
- Limited ARPU upside on 5G.** We expect 5G monthly plans in Thailand may cannot much higher prices than that of 4G monthly plans due to the lag of 5G usage. In Nov 19, China's three main wireless carriers - China Mobile, China Unicom and China Telecom - have all announced 5G plans, with monthly prices as low as Rmb128 (US\$18) or Bt550 per month, 30GB of data and 200 minutes of free voice call. These 5G monthly price plans are slightly cheaper than their current 4G monthly price plans. However, we found that markets like US and South Korea can raise their 5G monthly plans vs 4G plans by 10-15%. So, we think prices will depend on the competition and 5G investment cost in each country.
- Impact from new accounting standard TFRS 16.** The new accounting standard TFRS 16 (related to lease transaction) will take effect on 1 Jan 20. Under TFRS16, the lessee needs to recognise assets and liabilities for all leases on its balance sheet, resulting in a higher debt-to-equity ratio. Depreciation cost related to the lease assets and interest cost on the lease liability is also booked in. These should raise telcos' EBITDA and will hit their bottom lines due to the higher financing cost at the beginning of the lease agreements. We estimate the impact from TFRS 16 on ADVANC's bottom line at less than 2% of 2020 net profit. For DTAC and TRUE are likely to see a higher impact than ADVANC. We expect they will provide more information after announcing their 4Q19 results.
- Maintain OVERWEIGHT.** The telco sector has outperformed the SET index by 15.2% ytd. We foresee sector catalysts, including potentially lower starting auction prices and a significant improvement in 2019 sector earnings. We expect the intense market competition to be short-lived and will ease in the next couple of quarters on more balanced spectrums among all mobile operators. We expect mobile operators to bid for a smaller number of 5G spectrum licences due to lag of 5G use cases in Thailand. We expect to see a small rise in capex for 5G in 2020-21.
- ADVANC (BUY/Target: Bt247.0).** We expect ADVANC's earnings momentum to continue to improve in 4Q19 and 2020 as: a) it will save around Bt500m/quarter in costs from 4Q19 as it no longer has to pay for rental on 2G equipment leased from TOT, and b) it will see a Bt200m-300m/quarter drop in tower rental expense to TOT from 4Q19. ADVANC also has strong balance sheet and high capability to acquire 5G spectrums.
- DTAC (HOLD/Target: Bt55.00).** Earnings momentum remains challenging. We expect DTAC's earnings momentum to peak in 2019 and decline in 2020-21, mainly on higher interest expense related to the new 900MHz payment terms, under which DTAC's expenses will increase by Bt6.2b in 4Q20. Moreover, its 700MHz amortisation expense of Bt1.25b per year will be booked from 4Q20. Entry price is Bt47.00.
- TRUE (BUY/Target: Bt6.2).** We expect TRUE's earnings to improve in the couple of quarters, given: a) strong improvement in service revenue on the removal of low-priced unlimited data fixed-speed price plans in 4Q19 as well as some upside from savings in amortization expense, which could lift bottom line gradually in the next couple of quarters. It is a laggard play with undemanding valuation.

### RISKS

- More intense market competition.

### SPECTRUM ALLOCATION FOR 5G LICENCE AUCTIONS

Range	700MHz	1800MHz	2600MHz	26GHz
Bandwidth (per licence)	2 X 5MHz	2 X 5MHz	10MHz	100MHz
Number of licences	3	7	19	27
Licence cap per winner	3	4	10	12
Reserve price per licence (million baht)	8,792	12,486	1,862	423

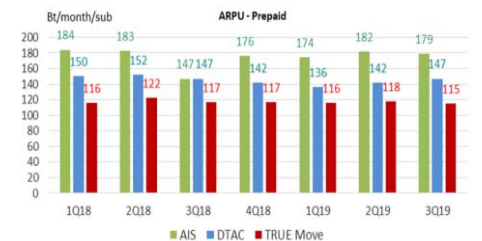
Source: NBTC, Bangkok Post

### TIME LINE FOR 5G SPECTRUM AUCTIONS



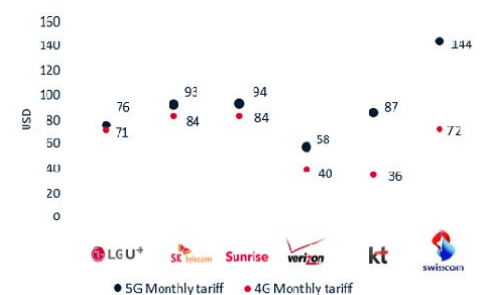
Source: NBTC, Bangkok Post

### ARPU PREPAID OF THAI TELCOS



Source: Respective Companies

### AVERAGE MONTHLY TARIFF ON 4G AND 5G



Source: GSMA, Operator data

### CHINESE TELCOS' 5G MONTHLY PLAN

	5G		4G	
	Monthly Fee (Yuan)	Monthly Data Usage	Monthly Fee (Yuan)	Monthly Data Usage
China Mobile	128	30GB	188	20GB
China Telecom	129	30GB	99	20GB
China Unicom	129	30GB	99	20GB

Source: Bloomberg

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