3Q18 MD&A
Advanced Info Service Plc.

Executive Summary

Acquired 1800MHz license and expanded strategic distribution and services

In Aug-18, AIS has secured additional 2x5MHz of 1800MHz license bandwidth from the auction. This has resulted in AIS being the operator having the largest bandwidth in the industry, 2x60MHz in total, and has enhanced AIS's capability to provide the most efficient 4G network on the contiguous 2x20MHz bandwidth on 1800MHz, giving 15-30% speed increase for all 4G users. With the current spectrum portfolio comprising 900/1800/2100MHz, we aim to continue delivering leading network quality and superior customer experience.

In 3Q18, we engaged in two key partnerships to strengthen core business as well as to drive our mobile money business. First, we have announced a strategic partnership with Jaymart, a local well-known retail chain for telecom/IT products, to enhance our acquisition strategy in key competing areas. Another is the collaboration with Singtel to launch a cross-border mobile wallet platform "VIA" with an aim to facilitate seamless cross-border payment for both Thai and Singaporean travellers, while playing an important role in being the operator ready to provide a cross-border gateway for other e-wallets.

Revenue continued pressured by unlimited plans

Mobile revenue in 3Q18 remained softened from the customer's subscription of fixed-speed unlimited plans, resulting in mobile revenue decreasing 0.2% YoY and 1.1% QoQ. However, as the low-tier fixed-speed plans had been seized, we expect the pressure on ARPU to gradually ease. On fixed broadband business "AIS Fibre", we added 53,300 subscribers amidst competitive market, delivering revenue growth of 26% YoY and 2.1% QoQ. The focus of AIS Fibre remained on quality customer acquisition and service as we continue to scale up. As a result, core service revenue in 3Q18, which excluded IC and equipment rental, was Bt33,134mn, increasing 2.1% YoY but decreasing 0.9% QoQ.

EBITDA remained growth YoY but softened QoQ

Cost management continued resulting in controlled network OPEX. SG&A rose in the quarter to support customer acquisition and the one-time expense of Bt134mn on withholding tax. As a result, normalizing the one-time expense, AIS reported 3Q18 EBITDA of Bt17,951mn, increasing 2.1% YoY but declining 5.5% QoQ, and net profit of Bt6,934mn, decreasing 7.2% YoY and 13% QoQ.

Revised core service revenue growth

With the 9M18 core service revenue growth of 3.9% YoY, reflecting timid market growth, we revised down FY18 core service revenue growth to increasing +3.5-4.5% YoY from 5-7% YoY previously. However, EBITDA margin guidance of 45-47% is maintained with the 9M18 margin at 46.2%.

Market and Competitive Environment

The mobile fixed-speed unlimited offerings have continued to take on more subscribers, limiting the ability to grow ARPU with higher data usage. As the fixed-speed low-tier packages were seized during the quarter, the ARPU pressure is expected to gradually ease. Aggressive marketing campaigns around the 4G network and value-for-money price plans continued to be localized in some key cities. On fixed broadband, competition remained intense in pricing and acquisition whereby the incumbents continued to re-contract customers with steep discount. Integrated players continued to attract customers with bundling plans (home broadband, mobile and contents) aiming to realize customer value in the long term.

3Q18 Operational Summary

In 3Q18, total mobile subscribers were 40.6mn, adding 552k subscribers contributed from both postpaid and prepaid. Overall, the unlimited plans have resulted in ARPU dilution, -2.7% QoQ to Bt251 on a blended basis, coupled with the strong growth in VoU, +13% QoQ to 10GB per subscriber per month. Postpaid segment continued to grow strongly, adding 192k QoQ driven by promotional handset discounts and prepaid-to-postpaid migration, while prepaid segment acquired a net addition of 360k following an uptake in segmented SIMs and improving churn management.

Fixed broadband subscribers stood at 676,700, growing 9% QoQ or a net addition of 53,300. However, amidst pricing competition, ARPU declined 2.2% QoQ to Bt597. Focusing on quality acquisition, AIS Fibre maintained coverage in 50 key cities while continued to improve operational efficiency to better target valued customers.

Mobile Business Subscribers	3Q17	4Q17	1Q18	2Q18	3Q18
Postpaid	7,226,800	7,390,100	7,617,100	7,822,600	8,014,700
Prepaid	32,959,500	32,665,400	32,432,900	32,272,100	32,632,300
Total subscribers	**40,186,300**	**40,055,500**	**40,050,000**	**40,094,700**	**40,647,000**
Net additions					
Postpaid	235,300	163,300	227,000	205,500	192,100
Prepaid	-522,500	-294,100	-232,500	-160,800	360,200
Total net additions	**-287,200**	**-130,800**	**-5,500**	**44,700**	**552,300**
ARPU (Baht/sub/month)					
Postpaid	590	581	578	574	560
Prepaid	182	183	184	183	175
Blended	**254**	**256**	**257**	**258**	**251**
MOU (minute/sub/month)					
Postpaid	264	257	251	242	241
Prepaid	163	151	148	136	124
Blended	**181**	**170**	**168**	**156**	**147**
VOU (GB/data sub/month)					
Postpaid	7.5	8.3	9.2	10.9	12.7
Prepaid	5.4	6.2	7.0	8.2	9.2
Blended	**5.9**	**6.7**	**7.6**	**8.9**	**10.1**
Device Penetration					
4G-handset penetration	42%	46%	50%	54%	57%
Fixed Broadband Business					
FBB subscribers	481,500	521,200	571,800	623,400	676,700
FBB net addition	35,600	39,700	50,600	51,600	53,300
FBB ARPU (Baht/user/month)	637	635	618	610	597

9M18 Snapshot

For 9M18, AIS's **total revenue** increased by 7.5% YoY to stand at Bt125,271mn, including the consolidation of CSL, equipment rental from TOT partnership, and sales revenue. **Core service revenue** (excluding IC & equipment rental) was Bt99,745mn, increasing 3.9% YoY, and reflected timid market growth particularly in mobile. As a result, we revised FY18 guidance to increase 3.5-4.5% YoY. Mobile revenue increased 1.4% YoY mainly from the growth in postpaid segment offset by a decline in prepaid and ARPU dilution from fixed-speed unlimited plans, while fixed broadband revenue continued to grow by 48% YoY due to subscriber addition of 155,500 or 30% from end-17. SIM and device margin remained at -3.2%, compared to -4.8% in 9M17.

Cost of service was Bt56,317mn, increasing 14% YoY which includes cost of TOT partnership. Excluding the TOT partnership cost, cost of service increased 5.2% YoY due to higher network depreciation. SG&A stood at Bt19,327mn, rising 3.1% YoY mainly from higher staff cost and the one-time admin expense in 3Q18, offset by lower marketing expenses. As a result, **EBITDA** was Bt55,721mn, increasing 7.1% YoY with an **EBITDA margin** (excluding equipment rental) of 46.2%, compared to 44.7% in 9M17 and continue to expect full year margin in the range of 45-47%. **Net profit** was Bt22,843mn, rising 2.1% YoY, following EBITDA expansion while offset by higher network D&A.

3Q18 Financial Summary

Revenue

In 3Q18, **total revenue** increased 9.2% YoY to Bt42,110mn mainly driven by fixed broadband, consolidation of CSL, equipment rental, and SIM and device sales. However, total revenue dropped 0.3% QoQ due to softened mobile revenue.

Service revenue was Bt36,245mn, increasing 8.0% YoY but decreasing 0.2% QoQ. Excluding IC & equipment rental, **core service revenue** was Bt33,134mn, increasing 2.1% YoY but decreasing 1.0% QoQ, with slower market growth.

- **Mobile revenue** was Bt30,862mn, decreasing 0.2% YoY and 1.1% QoQ, underpinned by the fixed-speed unlimited plans which limits the ARPU growth. Postpaid segment continued to grow strongly following the demand to use mobile data and handset subsidies. 4G penetration increased to 57%, up from 42% in 3Q17.
- **Fixed broadband revenue** was Bt1,117mn, increasing 26% YoY and 2.1% QoQ, driven by a net addition of 53,300 subscribers or 3.3% QoQ. With pricing competition, ARPU declined from Bt610 in 2Q18 to Bt597 in this quarter.
- **Other service revenues,** which included revenues from CSL, enterprise data services and others, were Bt1,155mn, increasing 83% YoY due to the recognition of CSL revenue. QoQ, other service revenues decreased 1.0%.
- **Interconnection charge (IC) and equipment rental** were Bt3,111mn, increasing 182% YoY and 9.3% QoQ due to equipment rental from partnership with TOT recognized since Mar-18.

SIM & device sales were Bt5,865mn, increasing 17% YoY but decreasing 0.9% QoQ. SIM & device margin still remained negative at -5.5%, compared to -4.9% in 3Q17 and -3.0% in 2Q18.

Cost & Expense

In 3Q18, **cost of service** was Bt19,835, increasing 18% YoY and 3.3% QoQ mainly from cost of partnership with TOT and higher D&A.

- **Regulatory fee** was Bt1,429mn, decreasing 4.8% YoY mainly from deductible TOT roaming expense. QoQ, regulatory fee increased 2.2%. Regulatory fee to core service revenue was 4.3% in 3Q18, compared to 4.6% in 3Q17 and 4.2% in 2Q18.
- **Depreciation and amortization** was Bt8,401mn, increasing 10% YoY and 2.8% QoQ due to investment in 4G network and fixed broadband. The newly acquired 1800MHz spectrum was amortized since 24-Sep-18.
- **Network OPEX** was Bt7,223mn increasing 43% YoY and 5.0% QoQ due mainly to recognition of TOT partnership since Mar-18. Excluding the TOT cost, network OPEX increased mildly 2.9% YoY and 3.0% QoQ.
- **Other costs of service** were Bt2,781mn, increasing 5.4% YoY and 1.1% QoQ mainly from higher cost for content offset by lower prepaid commission.

SG&A expenses were Bt6,794mn increasing 3.0% YoY from higher admin expense offset by lower marketing expense. QoQ, SG&A rose 9.6% from an increase in both marketing and admin expense.

- **Marketing expenses** were Bt2,426mn, decreasing 6.9% YoY but increasing 12% QoQ, mainly from the movement in handset campaigns and higher advertising spending to increase customer awareness in the quarter. Marketing expenses to total revenue was 5.8% in 3Q18, compared to 6.8% in 3Q17 and 5.1% in 2Q18.
- **Admin and other expenses** were Bt4,368mn increasing 9.4% YoY and 8.2% QoQ mainly from higher staff cost and a one-time expense of Bt134mn due to the Revenue Department's challenge for the company to pay the withholding tax on revenue sharing (see Note 20 on Contingent Liabilities).

Net FX gain was Bt12mn, compared to Bt41mn in 3Q17 and Bt106mn in 2Q18, following currency fluctuation in the quarter.

Finance cost was Bt1,277mn decreasing 4.6% YoY and 1.0% QoQ due to lower deferred interest from spectrum licenses. Average cost of borrowing remained at 3.1% per year, stable both YoY and QoQ.

Profit

In 3Q18, **EBITDA** was Bt17,817mn, increasing 1.3% YoY from improvement in core service revenue, lower regulatory fee and marketing expenses. QoQ, EBITDA decreased 6.2% mainly from softened revenue and higher SG&A. Reported EBITDA margin in 3Q18 was 42.3%. However, **excluding equipment rental, reported EBITDA margin** would be 44.5%, down from 45.6% in 3Q17 and 47.0% in 2Q18. With higher network depreciation, **net profit** was Bt6,800mn, decreasing 9.0% YoY and 15% QoQ. Normalizing the one-time expense (see general admin expense), EBITDA increased 2.1% YoY but decreased 5.5% QoQ, while net profit decreased 7.2% YoY and 13% QoQ.

Financial position

As at end of Sep-18, total assets increased 2.6% from Dec-17 to Bt291,392mn mainly from the acquired 1800MHz spectrum license. Total liabilities were Bt240,570mn increasing 3.0% from higher interest-bearing debt and accrued payment of the new spectrum license. Currently, interest-bearing debt stood at Bt113,300mn, up from Bt109,700mn, while net debt to EBITDA stood at 1.4x, up from 1.3x. Total equity increased 0.8% to Bt50,821mn, mainly from higher retained earnings.

Cash Flow

For 9M18, AIS generated operating cash flow after tax of Bt48,882mn, increasing 4.5% YoY following improved EBITDA. Total cash CAPEX was Bt16,513mn, accounted for 17% of core service revenue. AIS also paid license fee to the NBTC totaling Bt10,280mn. As a result, free cash flow for 9M18 was Bt22,089mn (OCF less CAPEX less license fee), compared to Bt12,940mn in 9M17. AIS paid Bt5,042mn for the acquisition of CSL and the investment in Rabbit LINE Pay (RLP) and dividend of Bt21,852mn. To support capital required, net borrowings of Bt3,442mn were issued. In summary, outstanding cash remained at Bt8,247mn.

Guidance tracking	9M18	Revised FY18 Guidance
Service revenue (excluding IC & equipment rental) growth	+3.9% YoY	+3.5-4.5% YoY
SIM and device sales growth	+5.0% YoY	Decline
SIM and device sales margin	-3.2%	Near zero
EBITDA margin (excluding equipment rental)	46.2%	45-47%
Cash CAPEX	Bt16,513mn	Approximately Bt25,000mn

Income statement (Bt mn)	3Q17	2Q18	3Q18	%YoY	%QoQ	9M17	9M18	%YoY
Mobile revenue	30,937	31,203	30,862	-0.2%	-1.1%	91,963	93,237	1.4%
Fixed broadband revenue	886	1,094	1,117	26%	2.1%	2,172	3,224	48%
Other service revenues	633	1,167	1,155	83%	-1.0%	1,837	3,284	79%
Core service revenue	**32,455**	**33,464**	**33,134**	**2.1%**	**-1.0%**	**95,972**	**99,745**	**3.9%**
IC and equipment rental	1,102	2,845	3,111	182%	9.3%	3,257	7,375	126%
Service revenue	**33,558**	**36,309**	**36,245**	**8.0%**	**-0.2%**	**99,229**	**107,120**	**8.0%**
SIM and device sales	5,022	5,919	5,865	17%	-0.9%	17,287	18,152	5.0%
Total revenues	**38,580**	**42,228**	**42,110**	**9.2%**	**-0.3%**	**116,516**	**125,271**	**7.5%**
Regulatory fee	(1,502)	(1,398)	(1,429)	-4.8%	2.2%	(4,971)	(4,303)	-13%
Depreciation & Amortization	(7,618)	(8,173)	(8,401)	10%	2.8%	(21,643)	(24,515)	13%
Network operating expense	(5,051)	(6,879)	(7,223)	43%	5.0%	(15,068)	(19,563)	30%
Other costs of services	(2,640)	(2,751)	(2,781)	5.4%	1.1%	(7,905)	(7,936)	0.4%
Cost of service	**(16,811)**	**(19,202)**	**(19,835)**	**18%**	**3.3%**	**(49,586)**	**(56,317)**	**14%**
Cost of SIM and device sales	(5,270)	(6,098)	(6,189)	17%	1.5%	(18,120)	(18,724)	3.3%
Total costs of service and sale	**(22,080)**	**(25,299)**	**(26,023)**	**18%**	**2.9%**	**(67,707)**	**(75,041)**	**11%**
Gross profit	**16,500**	**16,929**	**16,087**	**-2.5%**	**-5.0%**	**48,810**	**50,230**	**2.9%**
SG&A	**(6,599)**	**(6,197)**	**(6,794)**	**3.0%**	**9.6%**	**(18,739)**	**(19,327)**	**3.1%**
Marketing Expense	(2,608)	(2,160)	(2,426)	-6.9%	12%	(7,634)	(6,837)	-10%
Admin and others	(3,992)	(4,037)	(4,368)	9.4%	8.2%	(11,106)	(12,491)	13%
Operating profit	**9,900**	**10,731**	**9,293**	**-6.1%**	**-13%**	**30,070**	**30,903**	**2.8%**
Net foreign exchange gain (loss)	41	106	12	-70%	-88%	203	(10)	-105%
Other income (expense)	87	76	119	37%	57%	389	443	14%
Finance cost	(1,339)	(1,290)	(1,277)	-4.6%	-1.0%	(3,956)	(3,859)	-2.4%
Income tax	(1,221)	(1,599)	(1,345)	10%	-16%	(4,331)	(4,602)	6.3%
Non-controlling interest	0.4	(19)	(1)	-347%	-95%	1	(31)	-4082%
Net profit for the period	**7,469**	**8,005**	**6,800**	**-9.0%**	**-15%**	**22,377**	**22,843**	**2.1%**

EBITDA (Bt mn)	3Q17	2Q18	3Q18	%YoY	%QoQ	9M17	9M18	%YoY
Operating Profit	9,900	10,731	9,293	-6.1%	-13%	30,070	30,903	2.8%
Depreciation & amortization	7,738	8,325	8,556	11%	2.8%	21,986	24,960	14%
(Gain) loss on disposals of PPE	-	10	12	NA	12%	157	22	-86%
Management benefit expense	(36)	(56)	(41)	13%	-26%	(119)	(145)	22%
Other financial cost	(13)	(12)	(2)	-86%	-85%	(51)	(20)	-62%
EBITDA	**17,589**	**18,998**	**17,817**	**1.3%**	**-6.2%**	**52,043**	**55,721**	**7.1%**
Reported EBITDA margin (%)	45.6%	45.0%	42.3%			44.7%	44.5%	

Financial Position (Bt mn/% to total asset)	4Q17		3Q18	
Cash	10,650	3.7%	8,247	2.8%
ST investment	2,643	0.9%	2,128	0.7%
Trade receivable	14,179	5.0%	16,429	5.6%
Inventories	3,951	1.4%	3,573	1.2%
Others	3,418	1.2%	2,692	0.9%
Current Assets	**34,841**	**12%**	**33,069**	**11%**
Spectrum license	107,524	38%	113,936	39%
Network and PPE	132,579	47%	130,821	45%
Intangible asset	4,499	1.6%	5,011	1.7%
Defer tax asset	2,562	0.9%	2,799	1.0%
Others	2,062	0.7%	5,756	2.0%
Total Assets	**284,067**	**100%**	**291,392**	**100%**
Trade payable	14,686	5.2%	15,295	5.2%
ST loan & CP of LT loans	9,575	3.4%	19,319	6.6%
Accrued R/S expense	5,362	1.9%	5,362	1.8%
Others	39,977	14%	39,017	13.4%
Current Liabilities	**69,601**	**25%**	**78,993**	**27%**
Debenture & LT loans	100,102	35%	94,005	32%
Others	63,938	23%	67,572	23%
Total Liabilities	**233,641**	**82%**	**240,570**	**83%**
Retained earnings	24,675	8.7%	25,666	8.8%
Others	25,752	9.1%	25,155	8.6%
Total Equity	**50,427**	**18%**	**50,821**	**17%**

Key Financial Ratio	3Q17	2Q18	3Q18
Interest-bearing debt to equity (times)	2.6	1.8	2.2
Net debt to equity (times)	2.3	1.7	2.0
Net debt to EBITDA (times)	1.4	1.2	1.4
Current Ratio (times)	0.4	0.5	0.4
Interest Coverage (times)	13	13	13
Debt Service Coverage Ratio (times)	2.7	4.4	2.6
Return on Equity	76%	64%	66%

Figures from P&L are annualized YTD.

Debt Repayment Schedule			License payment schedule	
Bt mn	**Debenture**	**Loan**	**1800MHz**	**900MHz**
4Q18	-	10,000	10,247	-
2019	7,789	3,364	-	4,020
2020	-	24,829	3,128	59,574
2021	1,776	12,079	3,128	-
2022	-	13,440	-	-
2023	7,820	6,550	-	-
2024	6,638	150	-	-
2025	-	300	-	-
2026	7,180	750	-	-
2027	9,000	750	-	-

Credit Rating	
Fitch	National rating: AA+ (THA), Outlook: Stable
S&P	BBB+, Outlook: Negative

Source and Use of Fund: 9M18 (Bt mn)

Source of fund		Use of fund	
Operating cash flow	55,175	CAPEX & Fixed assets	16,513
Sale of equipment	759	Payment of spectrum license	10,280
Interest received	135	Dividend paid	21,852
Proceed from ST borrowings	3,300	Income tax paid	6,293
Proceed from LT borrowings	3,000	Finance cost and financial lease paid	1,930
Cash decrease	2,403	Repayment of LT borrowings	2,858
		Investment in joint venture and others	792
		Cash paid for business acquisition	4,254
Total	**64,772**	**Total**	**64,772**

2018 MANAGEMENT OUTLOOK & STRATEGY (Revised)

Core service revenue	+3.5-4.5% YoY (revised from +5-7% YoY)
SIM & Device sale	Decline and make near-zero margin
Consolidated EBITDA margin (excluding equipment rental)	45-47%
Cash CAPEX	Approximately Bt25bn
Dividend policy	Minimum 70% of net profit

Core service revenue to grow 3.5-4.5% in 2018

In 9M18, AIS reported core service revenue (or service revenue excluding IC and equipment rental) growth of 3.9% YoY. We revised our FY18 growth to be 3.5-4.5% YoY to reflect the performance in 9M18 and the softened mobile industry growth. AIS will continue to focus on providing quality 4G network as well as building up brand awareness. Migration from prepaid to postpaid is expected to continue, supported by an ongoing adoption of customer value management aiming to improve quality ARPU.

AIS Fibre has continued its growth despite heightened pricing environment, resulting in current total subscribers of 676,700. We will continue to focus on quality acquisition and FMC proposition targeting at revenue per household.

The delisting of CSL was completed in Jul-18. This acquisition is part of AIS's long-term strategy in the enterprise business. For FY18, we expect revenue from CSL to contribute less than 2% of core service revenue growth due to revenue elimination after consolidation.

EBITDA margin to maintain at 45-47% with cash outflow CAPEX of approx. Bt25,000mn

AIS continues to digitally transform to optimize the cost to serve customers while ensuring an effective spending on marketing campaigns. Following 9M18 EBITDA margin (excluding equipment rental) of 46.2%, we expect EBITDA margin for FY18 to stay in a range of 45-47%. All investment plans to enhance both mobile and fixed broadband networks remain the same. As a result, we expect cash outflow CAPEX (excluding spectrum payment) in FY18 to be approximately Bt25,000mn.

Dividend policy at minimum 70% of net profit

AIS is committed to driving long-term growth while delivering return to shareholders. We place importance in maintaining strong financial health and flexibility to pursue future growth. Our dividend policy is to pay a minimum 70% of net profit. By preserving cash flow, we ensure that we have the financial flexibility to lead, compete, and pursue growth prospect in any changing circumstances.

The dividend payment shall still be made twice a year and is based on consolidated earnings and subjected to the availability of retained earnings on the separate financial statements. In all cases, dividend payment shall depend on cash flow, investment plan including any other future obligations of the Company and/or subsidiaries. Such dividend shall not adversely affect the Company and subsidiaries ongoing operations.

Contact us: http://investor.ais.co.th | investor@ais.co.th | (66) 2 029 5014