Advanced Info Service Plc.

Executive Summary

AIS continued revenue growth momentum in 3Q17, attributed to both mobile and fixed broadband businesses. 3Q17 service revenue (excluding IC) was Bt32,455mn, +6.0% YoY and +0.9% QoQ, resulting in YTD growth of 5.5%. Increasing 4G penetration (42%) and data usage (5.9GB/data sub/month) improved mobile revenue to stand at Bt31,569mn, +3.9% YoY and +0.5% QoQ. Customer perception is gradually improving after the launch of AIS NEXT G and differentiated offerings. In addition, a focus on profitable segments resulted in strong postpaid net addition of 235,300 whereas prepaid base declined 522,500, many of which migrated to postpaid supported by attractive price plans for video streaming.

AIS Fibre revenue was Bt886mn, +282% YoY and +20% QoQ, and represented 2.7% of total service revenue. Total subscribers stood at 481,500 with a net addition of 35,600 in 3Q17. The net addition slowed down due to the launch of new measures to target high-value customers, causing the drop in acquisition rate. The growth is expected to gradually improve with long-term targets maintained. On the other hand, existing customers showed a continuing ARPU uplift to Bt637 in 3Q17 compared to Bt600 in 2Q17, after discounted subscriptions expired. Our plan to expand coverage further from the current 28 cities remains to capture fibre demand.

Profitability improved following on-going cost optimization and FY17 guidance maintained. AIS reported 3Q17 EBITDA of Bt17,589mn, +15% YoY and +2.8% QoQ, mainly due to revenue growth and controlled SG&A. YTD, AIS spent Bt33,822mn of cash CAPEX to enhance 4G capacity and increase fixed broadband last miles. Following the government's announcement of tax incentive program, AIS recognized a YTD tax benefit in 3Q17 amounting Bt309mn (see significant event). As a result, net profit was Bt7,469mn, +14% YoY and +3.5% QoQ.

Significant Events

1. On 2nd October 2017, AIS submitted an intention to acquire the entire stake, upon conditions, of CSL (CS LOXINFO). The conditions mainly involve the deal approvals from THCOM and Singtel, the two major shareholders of CSL, and the NBTC. The tender offer at a price of Bt7.80/share shall be commenced after all conditions are completed. For more detail, see "Resolutions of the Board of Directors Meeting Regarding Connected Transaction on the Offer to Tender the Entire Ordinary Shares of CSL" submitted to the SET on 6th October 2017.
2. In July 2017, the government has announced a continuation of tax incentive program (Royal Decree 642) similar to last year. The investment in assets during the period from 1 January 2017 to 31 December 2017 can qualify for 1.5 times tax benefits. These benefits will be recognized over 5-years period starting from 2017. Accordingly, in 3Q17, AIS recognized a tax benefit of Bt309mn, covering January 2017 to September 2017.
3. End of May 2017, the NBTC announced a USO rate reduction from 3.75% of revenue down to 2.5%. In 3Q17, the full-quarter impact of the rate reduction was recognized. Since 3Q17, regulatory fee composes of
    1) 1.5% of revenue as license fee
    2) 2.5% of revenue as USO fee, and
    3) Bt2/mobile number/month of numbering fee.

3Q17 Market and Competitive Environment

Mobile market continued to grow following customer behavior using more mobile data while 4G penetration expanding. Handset subsidies stay as a key attraction for operators to acquire and retain subscribers. However, the scale of overall subsidized campaigns has been controlled. Pricing environment has been stable and slightly improved on the high-end segment after a raise in minimum ARPU of unlimited price plans.

Fixed broadband market kept expanding while customers are offered more choices between subscriptions of pure broadband versus broadband plus other services. Operators continue to increase fibre footprints in new areas and urge customers to replace the old ADSL technology with new FTTH.

Operational Summary

In 3Q17 AIS continued to focus on postpaid segment which resulted in a net addition of 235k with increasing data volume of usage (VOU) to 7.5GB/data sub/month, up from 6.7GB in 2Q17. Prepaid segment saw a net loss of 523k due to prepaid-to-postpaid migration and least prepaid subsidies. Nevertheless, prepaid subscribers also continued to consume more data with VOU rising to 5.4GB, up from 4.1GB in 2Q17. As a result, total subscribers stood at 40.2mn with blended ARPU of Bt254, improving 1.2% QoQ, while voice usage continued declining to 181 minutes in this quarter.

AIS Fibre total subscribers were 481,500, increasing 35,600 QoQ. The net addition softened from the launch of measures to acquire high-value customers such as a collection of Bt650 entrant fee. However, ARPU of existing fibre users continued to improve to Bt637, up from Bt600 in 2Q17, following expiration of discounted subscriptions.

Mobile Business Subscribers	3Q16	4Q16	1Q17	2Q17	3Q17
Postpaid	6,108,700	6,429,600	6,661,400	6,991,500	7,226,800
Prepaid	33,764,700	34,601,600	33,986,400	33,482,000	32,959,500
Total subscribers	**39,873,400**	**41,031,200**	**40,647,800**	**40,473,500**	**40,186,300**
Net additions					
Postpaid	295,900	320,900	231,800	330,100	235,300
Prepaid	222,500	836,900	-615,200	-504,400	-522,500
Total net additions	**518,400**	**1,157,800**	**-383,400**	**-174,300**	**-287,200**
ARPU (Baht/sub/month)					
Postpaid	597	600	579	593	590
Prepaid	186	186	181	182	182
Blended	**248**	**251**	**244**	**251**	**254**
MOU (minute/sub/month)					
Postpaid	305	296	280	271	264
Prepaid	213	201	190	169	163
Blended	**226**	**215**	**205**	**186**	**181**
VOU (GB/data sub/month)					
Postpaid	4.1	5.0	5.7	6.7	7.5
Prepaid	2.7	3.2	3.5	4.1	5.4
Blended	**3.0**	**3.6**	**4.0**	**4.7**	**5.9**
Device Penetration					
4G-handset penetration	24%	29%	35%	39%	42%
Fixed Broadband Business					
FBB subscribers	195,000	301,500	373,900	445,900	481,500
FBB net addition	80,000	106,500	72,400	72,000	35,600
FBB ARPU (Baht/user/month)	498	510	541	600	637

9M17 Snapshot

For 9M17, AIS total revenue improved 5.1% YoY to Bt116,516mn, driven by both service and handset sales revenues. Service revenue (excluding IC) was Bt95,972mn and increased 5.5% YoY, compared to the full year guidance of 4-5%. Mobile service revenue rose 3.7% YoY from increasing popularity of video streaming and expanded postpaid segment. Fixed broadband revenue increased 353% YoY from expanded subscription base and increased ARPU as the discount campaigns wear off. Despite lower regulatory fee, cost of service (excluding IC) increased 24% YoY to Bt46,480mn, from 4G and spectrum investment. SG&A expenses declined 14% YoY to Bt18,739mn following softer handset subsidies. Following that, EBITDA improved 14% YoY to Bt52,043mn and the EBITDA margin rose to 44.7%, compared to 41.2% last year and to the full year guidance of 42-44%. Net profit declined 7.5% YoY to Bt22,377mn due to increased D&A and finance cost following 4G investment and spectrum license acquisition.

3Q17 Financial Summary

Revenue

In 3Q17, **total revenue** was Bt38,580mn and increased 4% YoY supported by better revenue from mobile and fixed broadband. QoQ, the revenue dropped 1.3% from softer handset sales.

Service revenue (excluding IC) was Bt32,455mn, an increase of 6% YoY and 0.9% QoQ driven by both mobile and fixed broadband services. **Mobile service revenue** improved 3.9% YoY and 0.5% QoQ underpinned by growing postpaid segment.

- **Voice revenue** was Bt10,351mn, decreasing 17% YoY and 6.6% QoQ from voice-data cannibalization.
- **Non-voice revenue** was Bt19,570mn, increasing 21% YoY and 4.6% QoQ, driven by growing popularity of video streaming, worry-free data packages, and increasing 4G device penetration (42%). As a result, non-voice revenue expanded to 60% of service revenue (excluding IC) compared to 53% in 3Q16 and 58% in 2Q17 respectively.
- **Fixed broadband revenue** was Bt886mn an increase of 282% YoY and 20% QoQ, driven by expanded AIS Fibre subscription which reached 481,500 and increased ARPU of 28% YoY and 6.2% QoQ to Bt637. Net addition slowed down to 36k compared to 72K in 2Q17.
- **International revenues and others** were Bt1,648mn, slightly decreasing 0.6% YoY but increasing 0.9% QoQ.

Net Interconnection charges (Net IC) was Bt56mn, increasing from Bt51mn in 3Q16 but dropped from Bt60mn in 2Q17.

SIM & device sales were Bt5,022mn, a decrease of 0.8% YoY and 14% QoQ. In 3Q17, sales margin remained negative at -4.9% and partly reflected competitive handset subsidy campaigns, compared to -2.7% in 2Q17. However, the margin improved from -16% in 3Q16, when aggressive handset campaigns were deployed to promote 2G migration.

Cost & Expense

Total cost was Bt22,080 mn, an increase of 6.3% YoY but a decrease of 2% QoQ in 3Q17. Cost of service (excluding IC) was Bt15,764mn increasing 17% YoY and 1.6% QoQ, underpinned by higher costs related to 4G investment which was partly offset by lower regulatory fee.

- **Regulatory fee**, including numbering fee, was Bt1,502mn, decreasing 15% YoY and 9.2% QoQ. The regulatory fee on the license scheme has changed from 5.25% to 4% of service revenue starting from end of May 2017 according to the NBTC announcement. Following that, in 3Q17, regulatory fee represented 4.6% of service revenue (excluding IC), down from 5.8% in 3Q16 and 5.1% in 2Q17.
- **Depreciation and amortization** was Bt7,618mn, increasing 24% YoY and 5.5% QoQ due to 4G network investment.
- **Network OPEX** was Bt5,051mn, increasing 23% YoY as we started TOT partnership to utilize spectrum and equipment late last year. Excluding the payment to TOT (Bt2,375mn/quarter), network opex would be relatively flat YoY. QoQ, network opex increased 1.6% from 2CA and 3CA expansion.
- **Other costs of service** were Bt1,593mn, increasing 4.9% YoY from higher content costs as more exclusive digital contents were added to AIS video platforms. QoQ, the cost decreased 4.5% from lower prepaid commission following lower prepaid revenue.

SG&A expenses were Bt6,599mn, decreasing 9.1% YoY and 1.5% QoQ supported by softened handset subsidy.

- **Marketing expenses** were Bt2,608mn, dropping 32% YoY and 9.1% QoQ. In 3Q17, AIS' handset campaigns were more targeted in gaining mid- to high-end postpaid segment and serving customer migration from prepaid to postpaid. As a result, marketing expenses to total revenue decreased to 6.8%, compared to 10.3% in 3Q16 and 7.3% in 2Q17.
- **General admin expenses** were Bt3,321mn, increasing 12% YoY mainly due to expansion in fixed broadband business. QoQ, the expenses rose 5.4% due to higher handset provision.
- **Depreciation and amortization** was Bt120mn increasing 13% YoY and 5.3% QoQ from shop expansion and renovation.
- **Bad debt** was Bt551mn, increasing 57% YoY in accordance with larger revenue contribution from postpaid segment. QoQ, bad debt dropped 2.6%. In 3Q17, bad debt to postpaid revenue was 4.1%, compared to 3.2% in 3Q16 and 4.4% in 2Q17.

Finance cost, including approximately Bt500mn of deferred interest from spectrum licenses, was Bt1,339mn which increased 2.1% YoY and 1.1% QoQ from slightly higher interest-bearing debt.

Net FX gain was Bt41mn compared to Bt67mn in 3Q16 and Bt12mn in 2Q17. FX gain/loss was incurred from CAPEX payables as a result of currency fluctuation whereas foreign debts were all fully hedged.

Profit

In 3Q17, **EBITDA** was Bt17,589mn, increasing 15% YoY and 2.8% QoQ. This was underpinned by a decent growth in revenue with softer handset subsidy cost, which was partly offset by higher network related costs. **EBITDA margin** rose to 45.6% from 41.1% in 3Q16 and 43.8% in 2Q17, above the full year guidance of 42-44%. With the improved EBITDA and tax benefit from investment of Bt309mn, **net profit** was Bt7,469mn, increasing 14% YoY and 3.5% QoQ, despite higher D&A and finance cost. **Net profit margin** improved to 19.4% from 17.6% in 3Q16 and 18.5% in 2Q17.

Financial position

Comparing to Dec-16, total assets were Bt279,731mn and rose 1.5% from higher network and PPE following 4G expansion. Total liabilities were Bt237,838mn and increased 2.1% due to higher interest-bearing debt of Bt108,500mn, compared to Bt98,100mn in Dec-16. Total equity decreased by 1.9% to Bt41,893mn from softer retained earnings. Excluding 900MHz and 1800MHz spectrum liability of Bt88,108mn lined up toward 2020, net debt to EBITDA remained at 1.4x with average cost of debt at 3% p.a.

Cash Flow

In 9M17, AIS generated operating cash flow (after tax) of Bt46,762mn, which improved from Bt41,245mn in 9M16 due to improved revenue and lower handset subsidies. Accumulated CAPEX was Bt33,822mn, representing 35% of service revenue (excluding IC), compared to the full year guidance of Bt40-45bn. As a result, free cash flow was Bt12,940mn. Net increase in borrowing was Bt10,160mn. However, cash decreased from the dividend paid of Bt23,190mn. As a result, cash and cash equivalent were Bt9,450mn.

Income statement (Bt mn)	3Q16	2Q17	3Q17	%YoY	%QoQ	9M16	9M17	%YoY
Voice revenue	12,494	11,080	10,351	-17%	-6.6%	38,921	32,864	-16%
Non-voice revenue	16,242	18,701	19,570	21%	4.6%	46,592	56,055	20%
Fixed broadband revenue	232	738	886	282%	20%	480	2,172	353%
IR & others	1,659	1,634	1,648	-0.6%	0.9%	4,950	4,881	-1.4%
Service revenue (excluding IC)	**30,627**	**32,153**	**32,455**	**6.0%**	**0.9%**	**90,944**	**95,972**	**5.5%**
IC revenue	1,405	1,068	1,102	-22%	3.2%	4,278	3,257	-24%
SIM and handset sales	5,064	5,858	5,022	-0.8%	-14%	15,609	17,287	11%
Total revenues	**37,096**	**39,079**	**38,580**	**4.0%**	**-1.3%**	**110,830**	**116,516**	**5.1%**
Regulatory fee	(1,769)	(1,654)	(1,502)	-15%	-9.2%	(8,580)	(4,971)	-42%
Depreciation & Amortization	(6,156)	(7,218)	(7,618)	24%	5.5%	(14,536)	(21,643)	49%
Network operating expense	(4,094)	(4,973)	(5,051)	23%	1.6%	(9,745)	(15,068)	55%
Other cost of services	(1,518)	(1,668)	(1,593)	4.9%	-4.5%	(4,677)	(4,798)	2.6%
Cost of service (excluding IC)	**(13,537)**	**(15,512)**	**(15,764)**	**17%**	**1.6%**	**(37,538)**	**(46,480)**	**24%**
IC cost	(1,354)	(1,008)	(1,046)	-23%	3.8%	(4,048)	(3,107)	-23%
Cost of SIM and handset sales	(5,878)	(6,015)	(5,270)	-10%	-12%	(16,326)	(18,120)	11%
Total costs	**(20,768)**	**(22,535)**	**(22,080)**	**6.3%**	**-2.0%**	**(57,913)**	**(67,707)**	**17%**
Gross profit	**16,327**	**16,544**	**16,500**	**1.1%**	**-0.3%**	**52,918**	**48,810**	**-7.8%**
SG&A	**(7,260)**	**(6,701)**	**(6,599)**	**-9.1%**	**-1.5%**	**(21,815)**	**(18,739)**	**-14%**
Marketing Expense	(3,828)	(2,869)	(2,608)	-32%	-9.1%	(12,024)	(7,634)	-37%
General administrative & staff cost	(2,976)	(3,152)	(3,321)	12%	5.4%	(8,534)	(9,121)	6.9%
Bad debt provision	(350)	(565)	(551)	57%	-2.6%	(954)	(1,641)	72%
Depreciation	(106)	(114)	(120)	13%	5.3%	(303)	(344)	13%
Operating profit	**9,067**	**9,843**	**9,900**	**9.2%**	**0.6%**	**31,103**	**30,070**	**-3.3%**
Net foreign exchange gain (loss)	67	12	41	-39%	245%	271	203	-25%
Other income (expense)	94	127	87	-7.8%	-32%	328	390	19%
Finance cost	(1,311)	(1,324)	(1,339)	2.1%	1.1%	(2,905)	(3,956)	36%
Income tax	(1,371)	(1,443)	(1,221)	-11%	-15%	(4,581)	(4,331)	-5.5%
Non-controlling interest	(17)	0.2	0.4	-102%	66%	(17)	0.8	-105%
Net profit for the period	**6,529**	**7,215**	**7,469**	**14%**	**3.5%**	**24,198**	**22,377**	**-7.5%**

EBITDA (Bt mn)	3Q16	2Q17	3Q17	%YoY	%QoQ	9M16	9M17	%YoY
Operating Profit	9,067	9,843	9,900	9.2%	0.6%	31,103	30,070	-3.3%
Depreciation & amortization	6,262	7,332	7,738	24%	5.5%	14,839	21,986	48%
(Gain) loss on disposals of PPE	-	(3)	-	NA	-100%	-	157	NA
Management benefit expense	(39)	(48)	(36)	-6.6%	-24%	(110)	(119)	8.3%
Other financial cost	(33)	(16)	(13)	-61%	-18%	(149)	(51)	-65%
EBITDA	**15,257**	**17,108**	**17,589**	**15%**	**2.8%**	**45,684**	**52,043**	**14%**
EBITDA margin (%)	41.1%	43.8%	45.6%			41.2%	44.7%	

Financial Position (Bt mn/% to total asset)	4Q16		3Q17	
Cash	11,226	4.1%	9,450	3.4%
ST investment	2,963	1.1%	2,495	0.9%
Trade receivable	11,377	4.1%	12,939	4.6%
Inventories	3,085	1.1%	2,519	0.9%
Others	3,248	1.2%	2,857	1.0%
Current Assets	**31,899**	**12%**	**30,260**	**11%**
Spectrum license	115,378	42%	109,503	39%
Network and PPE	118,271	43%	130,658	47%
Intangible asset	4,099	1.5%	4,388	1.6%
Defer tax asset	2,618	0.9%	2,743	1.0%
Others	3,404	1.2%	2,178	0.8%
Total Assets	**275,670**	**100%**	**279,731**	**100%**
Trade payable	17,737	6.4%	11,348	4.1%
ST loan & CP of LT loans	11,685	4.2%	17,373	6.2%
Accrued R/S expense	5,361	1.9%	5,362	1.9%
Others	34,546	13%	38,298	14%
Current Liabilities	**69,328**	**25%**	**70,380**	**26%**
Debenture & LT loans	87,273	32%	91,151	33%
Others	76,361	28%	74,307	27%
Total Liabilities	**232,962**	**85%**	**237,838**	**85%**
Retained earnings	16,971	6.2%	16,158	5.8%
Others	25,737	9.3%	25,735	9.2%
Total Equity	**42,708**	**15%**	**41,893**	**15%**

Key Financial Ratio	3Q16	2Q17	3Q17
Interest-bearing debt to equity (times)	2.94	2.31	2.54
Net debt to equity (times)	2.57	2.03	2.30
Net debt to EBITDA (times)	1.53	1.32	1.39
Current Ratio (times)	0.49	0.47	0.42
Interest Coverage (times)	16	13	13
Debt Service Coverage Ratio (times)	1.7	3.4	2.7
Return on Equity	90%	64%	73%

Figures from P&L are annualized YTD.

Debt Repayment Schedule			License payment schedule	
Bt mn	**Debenture**	**Loan**	**1800MHz**	**900MHz**
4Q17	-	14,247	10,247	-
2018	-	2,799	10,247	4,020
2019	7,789	3,364	-	4,020
2020	-	24,829	-	59,574
2021	1,776	12,079	-	-
2022	-	13,290	-	-
2023	7,820	6,400	-	-
2024	6,638	-	-	-
2025	-	-	-	-
2026	7,180	-	-	-

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

Source and Use of Fund : 9M17			(Bt mn)
Source of Fund		**Use of Fund**	
Operating cash flow	51,969	CAPEX & Fixed asset	33,822
Proceed of LT borrowings	7,307	Dividend paid	23,190
Proceed of ST borrowings	4,800	Income tax paid	5,207
Sale of equipment	108	Repayment of LT borrowings	1,947
Interest received	121	Finance cost & Financial lease paid	1,840
Effect of exchange rate on cash balance	3	Investment in joint venture	45
Cash decrease	1,776	Cash returned paid to NCI from share capital reduction	33
Total	**66,084**	**Total**	**66,084**

2017 MANAGEMENT OUTLOOK & STRATEGY (maintained)

Service revenue (excluding IC)	• increase 4-5% YoY
Handset sales	• increase with near-zero margin
Consolidated EBITDA margin	• 42-44%
CAPEX	• Bt40-45bn
Dividend payout	• minimum 70% of net profit

Build strong leadership in mobile data

In 2016, after acquiring 1800MHz, AIS has quickly built a nationwide 4G network covering 98% population in response to the accelerating demand for quality mobile data. We expect that the demand for faster speed will continue strongly, and will be more efficiently served by 4G network. To build on our leadership in mobile data, the investment in 2017 will focus on 4G capacity including the expanded deployment of 2-carrier and 3-carrier aggregation in key cities. Also, we will continue to encourage further smartphone adoption and migrating 2G users through targeted handset subsidies.

Selectively expand new fixed broadband coverage and uplift utilization

Since the launch in April 2015, AIS Fibre has achieved coverage in 28 cities and serves 481,500 subscribers as of 3Q17. Striving to become a significant player in the next three years, we continue to expand our business and build stronger operational foundation. In 2017, we will pursue selective expansion of new service areas with due consideration to demand and return on investment. At the same time, we will also put focus on increasing capacity utilization in the existing coverage areas through more effective sales and distribution channels, while remaining competitive in fibre pricing. We expect investment in fixed broadband of around Bt5bn this year.

Continue to grow with improvement in revenue and EBITDA

In summary, we expect the consolidated service revenue (excluding IC) to improve 4-5% YoY. With our focus on acquiring quality subscribers, we expect an improvement of handset sales with a near-zero margin contribution. This will partially be offset with a full-year recognition of payments to TOT for the use of spectrum, towers, and equipment. Overall, we expect the consolidated EBITDA margin to improve and stay in the range of 42-44%. The total cash CAPEX (excluding spectrum payment) is expected to be in the range of Bt40-45bn for both mobile and fixed broadband.

New dividend policy: a minimum payout of 70%

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. The dividend policy is thus revised to a minimum 70% payout of net profit from 2017 onwards. 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.

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