2Q18 MD&A
Advanced Info Service Plc.

Executive Summary

AIS continued to deliver revenue growth in all segments. In 2Q18, core service revenue, which excluded IC and equipment rental, was Bt33,464mn growing 4.1% YoY and 1% QoQ following growth in mobile postpaid segment, fixed broadband, and full-quarter consolidation of CSL. AIS kept on building brand awareness of the NEXT G network, now available in all android handsets, to exhibit leadership in 4G. Handset subsidies remained stable and more targeted; however, the competition in fixed-speed unlimited plans has challenged an ability to increase ARPU.

Fixed broadband added 51,600 subscribers, or 9% from previous quarter. Focusing on 50 key cities, AIS Fibre continued to capture quality customers by upselling FMC (Fixed-Mobile-Content Convergence) packages, which currently accounted for 20% of fixed broadband subscriber base, while a new platform of AIS PLAYBOX is being upgraded to enhance customer experience. As a result, ARPU slightly declined by 1.2% QoQ to stay at Bt610 despite elevated pricing competition.

CSL was delisted and will help capture growth in enterprise. The acquisition of CSL has completed with AWN successfully bought 98.96% of CSL outstanding shares. Following the acquisition, AIS will have greater capability to serve increasing business demand for digital solutions e.g. Cloud, business solutions, and managed services in the enterprise market in the medium term.

Cost management has resulted in profitability improvement. Excluding payment to TOT, cash cost of service and SG&A continued to be stabilized, -4.8% YoY and +2.2% QoQ, due mainly to controlled network OPEX and marketing expenses. As a result, AIS reported EBITDA and net profit of Bt18,998mn and Bt8,005mn, respectively, both growing +11% YoY and flat QoQ.

Revised revenue and CAPEX guidance. In summary for 1H18, AIS delivered core service revenue growth of 4.9% YoY and EBITDA margin (excluding equipment rental) of 47.0%. FY18 guidance is revisited with the expectation of core service revenue to grow 5-7%, EBITDA margin (excluding equipment rental) of 45-47%, and CAPEX to be approximately Bt25,000mn (see page 6).

Significant Event

The NBTC has announced the Information Memorandum (IM) of 900MHz and 1800MHz license auctions in the Royal Gazette in Jul-18. Any operator with an interest to bid can submit an application for both licenses on 8-Aug-18. The auction date of 900MHz will be on 18-Aug-18 and that of 1800MHz will be on 19-Aug-18. Summary of key information is below.

900MHz License			
Number of licenses	1 license with 2x5MHz	Penalty if violating auction rules	Bid bond of Bt1,800mn forfeited and fined not less than Bt5,399mn
Starting price	Bt35,988mn / license	Terms of payment	-Bt4,020mn within 90 days after auction -Bt2,010mn at end of year two -Bt2,010mn at end of year three -The remainder at end of year four

1800MHz License			
Number of licenses	9 licenses with 2x5MHz each; one operator can bid up to 4 licenses	Penalty if violating auction rules	Bid bond of Bt2,500mn forfeited and fined not less than Bt1,875mn
Starting price	Bt12,486mn / license	Terms of payment	-50% within 90 days after auction -25% at end of year two -25% at end of year three

Market and Competitive Environment

The mobile market environment in 2Q18 remained competitive. Postpaid segment continued its growth with more varieties of mid-tier handsets to encourage migration of prepaid to postpaid while localized marketing campaigns in prepaid segment remained in selective areas. Adoption of unlimited fixed-speed plans has increased, posting a challenge to uplift ARPU. Recently, more online channels have given customers increasing convenience to top-up and pay bills following the development of e-payment. In addition, to respond to the digital segment, AIS has launched NU MOBILE, an end-to-end online service, emphasizing on convenience, simplicity, and worry-free to use mobile data.

Competition in fixed broadband has been heightened by the incumbents. Although an average industry ARPU remained in a range of Bt600-700 with a typical 30-50Mbps speed, 10Mbps plans can be accessed at Bt250 and 1Gbps plans are currently affordable at Bt2,999 in selective areas. Sale of convergence packages trended better as integrated operators focused on offering higher bundling value than standalone products.

2Q18 Operational Summary

In 2Q18, total mobile subscribers were 40.1mn with a net addition of 44,700. Postpaid subscribers grew 2.7% QoQ while prepaid subscribers declined 0.5% QoQ as migration from prepaid to postpaid continued. This has resulted in a subscriber mix between postpaid and prepaid from 17% vs 83% in 2Q17 to 19% vs 81% in 2Q18. Following the larger postpaid base, blended ARPU continued to increase by 0.3% QoQ, supported by higher data consumption on 4G.

Fixed broadband subscribers stood at 623,400, growing 9% QoQ or 51,600 subscribers. AIS Fibre continued to focus on quality acquisition and increasing utilization rate in 50 key cities. Currently, 20% of fixed broadband users are subscribing to convergence packages combining fixed broadband at home, mobile data, and content (FMC). As a result, ARPU remained at Bt610, declining 1.2% QoQ, despite heightened price competition.

Mobile Business Subscribers	2Q17	3Q17	4Q17	1Q18	2Q18
Postpaid	6,991,500	7,226,800	7,390,100	7,617,100	7,822,600
Prepaid	33,482,000	32,959,500	32,665,400	32,432,900	32,272,100
Total subscribers	**40,473,500**	**40,186,300**	**40,055,500**	**40,050,000**	**40,094,700**
Net additions					
Postpaid	330,100	235,300	163,300	227,000	205,500
Prepaid	-504,400	-522,500	-294,100	-232,500	-160,800
Total net additions	**-174,300**	**-287,200**	**-130,800**	**-5,500**	**44,700**
ARPU (Baht/sub/month)					
Postpaid	593	590	581	578	574
Prepaid	182	182	183	184	183
Blended	**251**	**254**	**256**	**257**	**258**
MOU (minute/sub/month)					
Postpaid	271	264	257	251	242
Prepaid	169	163	151	148	136
Blended	**186**	**181**	**170**	**168**	**156**
VOU (GB/data sub/month)					
Postpaid	6.7	7.5	8.3	9.2	10.9
Prepaid	4.1	5.4	6.2	7.0	8.2
Blended	**4.7**	**5.9**	**6.7**	**7.6**	**8.9**
Device Penetration					
4G-handset penetration	39%	42%	46%	50%	54%
Fixed Broadband Business					
FBB subscribers	445,900	481,500	521,200	571,800	623,400
FBB net addition	72,000	35,600	39,700	50,600	51,600
FBB ARPU (Baht/user/month)	600	637	635	618	610

1H18 Snapshot

In 1H18, total revenue (Bt83,161mn) increased 6.7% YoY driven by higher service revenue while SIM and device sales were flat. Core service revenue, which excluded IC and equipment rental, grew 4.9% YoY, compared to revised FY18 guidance of 5-7%, from growth in both mobile, fixed broadband, and consolidation of CSL.

Overall, the handset subsidies in mobile have softened YoY, resulting in lower marketing expenses and softer loss of device margin, both combined coming down from 7.2% of total revenue in 1H17 to 5.6% in 1H18. However, pricing competition has caused mobile revenue (Bt62,376mn) to grow softly at 2.2% YoY. On the other hand, fixed broadband revenue (Bt2,107mn) grew 64% YoY after improvements in both subscriber base and ARPU, while revenue from CSL has been consolidated since Feb-18 and amounted to around Bt800mn in 1H18.

Cost of service (Bt36,483mn) increased 11% YoY due to payment of partnership with TOT and higher D&A, offset by lower regulatory fee. Excluding payment to TOT, network OPEX would continue to decline 1.6% YoY following ongoing cost management.

In summary, EBITDA amounted to Bt37,903mn, increasing 10% YoY. EBITDA margin (excluding equipment rental) improved to 47.0%, up from 44.2% in 1H17, and in line with the FY18 guidance of 45-47%. Net profit was Bt16,042mn, increasing 7.6% YoY following EBITDA improvement.

2Q18 Financial Summary

Revenue

In 2Q18, AIS had **total revenue** of Bt42,228mn, increasing 8.1% YoY and 3.2% QoQ mainly from growth in service revenue offset by softened SIM and device sales.

Service revenue in 2Q18 was Bt36,309mn, increasing 9.3% YoY and 5% QoQ mainly driven by growth of fixed broadband and the full-quarter recognition of CSL revenue and equipment rental. Excluding IC and equipment rental, core service revenue grew 4.1% YoY and 1% QoQ.

- **Mobile revenue** was Bt31,203mn, increasing 1.3% YoY and flat QoQ due partially to seasonality and pricing competition. Postpaid segment continued to grow from increasing 4G demand and prepaid-to-postpaid conversion, while prepaid segment saw a slower pace of decline. 4G penetration rose to 54% from 39% in 2Q17, which has driven data volume of usage (VOU) to currently 8.9 GB.
- **Fixed broadband revenue** was Bt1,094mn, increasing 48% YoY and 8% QoQ following a net subscriber addition of 51,600 in the quarter. Despite heightened competition, ARPU slightly dropped 1.2% QoQ to Bt610, supported by more FMC subscriptions. Currently, fixed broadband revenue contributed 3.3% of core service revenue.
- **Other service revenues,** which included revenues from CSL, enterprise data services and others, were Bt1,167mn, increasing 90% YoY and 21% QoQ mainly due to a full-quarter recognition of CSL revenue in 2Q18.
- **Interconnection charge (IC) and equipment rental** were Bt2,845mn, increasing 166% YoY and 101% QoQ due to a full-quarter recognition of equipment rental from partnership with TOT.

SIM & device sales were Bt5,919mn increasing 1% YoY but decreasing 7.1% QoQ due to less sale of high-tier handsets. SIM and device margin was -3% compared to -2.7% in 2Q17 and -1.1% in 1Q18.

Cost & Expense

In 2Q18, **cost of service** was Bt19,202mn increasing 16% YoY and 11% QoQ mainly from higher cost of partnership with TOT and depreciation.

- **Regulatory fee** was Bt1,398mn, decreasing 15% YoY from USO fee rate adjustment since Jun-17. QoQ, regulatory fee dropped 5.2% from deductible TOT roaming expense. Regulatory fee to core service revenue stood at 4.2%, down from 5.1% in 2Q17 and 4.5% in 1Q18.
- **Depreciation and amortization** was Bt8,173mn, increasing 13% YoY and 2.9% QoQ due to 4G and fixed broadband network expansion.
- **Network OPEX** was Bt6,879mn, increasing 38% YoY and 26% QoQ mainly due to the change in accounting treatment on the partnership with TOT since 1Q18. Excluding all costs paid to TOT, network OPEX would have increased 2.9% YoY and 6.5% QoQ.
- **Other costs of service**, which included interconnection cost, were Bt2,751mn increasing 2.8% YoY and 15% QoQ from higher cost of content and IC cost.

SG&A expenses were Bt6,197mn decreasing 7.5% YoY and 2.2% QoQ mainly from lower marketing expenses.

- **Marketing expenses** were Bt2,160mn declining 25% YoY and 4% QoQ from softened handset subsidies and a focus on quality acquisition, partially offset by increasing advertising expense to enhance brand perception. Marketing expenses to total revenue stood at 5.1%, down from 7.3% in 2Q17 and 5.5% in 1Q18.
- **Admin and other expenses** were Bt4,037mn, increasing 5.4% YoY from higher staff cost but decreasing 1.2% QoQ.

Net FX gain was Bt106mn, compared to Bt12mn in 2Q17 and a net loss of Bt129mn in 1Q18. The gain was incurred from partially-hedge CAPEX payables following currency fluctuation.

Finance cost was Bt1,290mn decreasing 2.6% YoY from lower interest-bearing debt and flat QoQ. Average cost of borrowing was maintained at 3.1% per year.

Profit

In 2Q18, **EBITDA** continued to improve 11% YoY and 0.5% QoQ to stand to Bt18,998mn, following revenue growth and continuous cost management. **Reported EBITDA margin** was 45.0%, compared to 43.8% in 2Q17 and 46.2% in 1Q18. **Excluding equipment rental, EBITDA margin** would be 47.0%, improved from 43.8% in 2Q17 and 46.9% in 1Q18. Net **profit** was Bt8,005mn increasing 11% YoY and flat QoQ, following EBITDA improvement. Effective tax rate stayed at 17% given the recognition of tax incentives from investments last years.

Financial position

As at end of Jun-18, AIS had total assets of Bt282,765mn, slightly down from end of Dec-17. Current assets were Bt33,352mn declining from lower cash outstanding, offset with higher receivables and inventories following growing postpaid subscribers. Non-current assets, 95% of which were fixed assets and spectrum licenses, remained flat at Bt249,413mn.

Total liabilities declined 3% to Bt226,696mn, mainly from lower interest-bearing debt which decreased slightly to Bt102,800mn. The company has a spectrum liability of Bt14,267mn to be paid to the NBTC in 2H18. Total equity was Bt56,069mn increasing 11% from higher retained earnings.

Cash Flow

In 1H18, AIS generated Bt31,193mn of operating cash flow (after-tax). Cash CAPEX to expand 4G and fixed broadband capacities was Bt11,265mn, or 16% of service revenue, against FY18 revised guidance of approximately Bt25,000mn (see page 6). As a result, free cash flow for 1H18 was Bt19,928mn, compared to Bt7,415mn in 1H17 due to both improved operating cash flow and lower capex. The free cash flow was sufficient to fund company's strategic execution and debt repayment. In total of 1H18, AIS paid Bt4,225mn for the acquisition of CSL and the investment in Rabbit LINE Pay (RLP), repaid Bt7,058mn of borrowings and paid Bt10,614mn as dividends for 2H17 performance. As a result, outstanding cash was Bt7,555mn.

Income statement (Bt mn)	2Q17	1Q18	2Q18	%YoY	%QoQ	1H17	1H18	%YoY
Mobile revenue	30,800	31,172	31,203	1.3%	0.1%	61,027	62,376	2.2%
Fixed broadband revenue	738	1,013	1,094	48%	8.0%	1,286	2,107	64%
Other service revenues	615	962	1,167	90%	21%	1,204	2,129	77%
IC and equipment rental	1,068	1,418	2,845	166%	101%	2,155	4,263	98%
Service revenue	**33,221**	**34,565**	**36,309**	**9.3%**	**5.0%**	**65,672**	**70,875**	**7.9%**
SIM and device sales	5,858	6,368	5,919	1.0%	-7.1%	12,265	12,287	0.2%
Total revenues	**39,079**	**40,933**	**42,228**	**8.1%**	**3.2%**	**77,937**	**83,161**	**6.7%**
Regulatory fee	(1,654)	(1,475)	(1,398)	-15%	-5.2%	(3,469)	(2,874)	-17%
Depreciation & Amortization	(7,218)	(7,941)	(8,173)	13%	2.9%	(14,025)	(16,114)	15%
Network operating expense	(4,973)	(5,462)	(6,879)	38%	26%	(10,017)	(12,341)	23%
Other costs of services	(2,675)	(2,403)	(2,751)	2.8%	15%	(5,266)	(5,155)	-2.1%
Cost of service	**(16,520)**	**(17,281)**	**(19,202)**	**16%**	**11%**	**(32,776)**	**(36,483)**	**11%**
Cost of SIM and device sales	(6,015)	(6,437)	(6,098)	1.4%	-5.3%	(12,850)	(12,535)	-2.5%
Total costs of service and sale	**(22,535)**	**(23,718)**	**(25,299)**	**12%**	**6.7%**	**(45,626)**	**(49,018)**	**7.4%**
Gross profit	**16,544**	**17,215**	**16,929**	**2.3%**	**-1.7%**	**32,310**	**34,144**	**5.7%**
SG&A	**(6,701)**	**(6,336)**	**(6,197)**	**-7.5%**	**-2.2%**	**(12,140)**	**(12,533)**	**3.2%**
Marketing Expense	(2,869)	(2,250)	(2,160)	-25%	-4.0%	(5,026)	(4,410)	-12%
Admin and others	(3,831)	(4,086)	(4,037)	5.4%	-1.2%	(7,114)	(8,123)	14%
Operating profit	**9,843**	**10,879**	**10,731**	**9.0%**	**-1.4%**	**20,170**	**21,610**	**7.1%**
Net foreign exchange gain (loss)	12	(129)	106	789%	-182%	162	(23)	-114%
Other income (expense)	127	248	76	-40%	-69%	303	324	7.0%
Finance cost	(1,324)	(1,292)	(1,290)	-2.6%	-0.2%	(2,617)	(2,582)	-1.3%
Income tax	(1,443)	(1,658)	(1,599)	11%	-3.5%	(3,111)	(3,257)	4.7%
Non-controlling interest	0.2	(11)	(19)	-8541%	75%	0.4	(30)	-7568%
Net profit for the period	**7,215**	**8,037**	**8,005**	**11%**	**-0.4%**	**14,908**	**16,042**	**7.6%**

EBITDA (Bt mn)	2Q17	1Q18	2Q18	%YoY	%QoQ	1H17	1H18	%YoY
Operating Profit	9,843	10,879	10,731	9.0%	-1.4%	20,170	21,610	7.1%
Depreciation & amortization	7,332	8,079	8,325	14%	3.0%	14,249	16,404	15%
(Gain) loss on disposals of PPE	(3)	-	10	-419%	NA	157	10	-93%
Management benefit expense	(48)	(48)	(56)	17%	17%	(82)	(104)	26%
Other financial cost	(16)	(6)	(12)	-25%	117%	(38)	(18)	-54%
EBITDA	**17,108**	**18,905**	**18,998**	**11%**	**0.5%**	**34,455**	**37,903**	**10%**
Reported EBITDA margin (%)	43.8%	46.2%	45.0%			44.2%	45.6%	

Guidance tracking	1H18	Revised FY18 Guidance
Service revenue (excluding IC & equipment rental) growth	+4.9% YoY	+5-7% YoY
SIM and device sales growth	+0.2% YoY	Decline
SIM and device sales margin	-2%	Near zero
EBITDA margin (excluding equipment rental)	47.0%	45-47%
Cash CAPEX	Bt11,265mn	Approximately Bt25,000mn

Financial Position (Bt mn/% to total asset)	4Q17		2Q18	
Cash	10,650	3.7%	7,555	2.7%
ST investment	2,643	0.9%	2,353	0.8%
Trade receivable	14,179	5.0%	16,066	5.7%
Inventories	3,951	1.4%	4,424	1.6%
Others	3,418	1.2%	2,953	1.0%
Current Assets	**34,841**	**12%**	**33,352**	**12%**
Spectrum license	107,524	38%	103,628	37%
Network and PPE	132,579	47%	132,359	47%
Intangible asset	4,499	1.6%	4,963	1.8%
Defer tax asset	2,562	0.9%	2,683	0.9%
Others	2,062	0.7%	5,780	2.0%
Total Assets	**284,067**	**100%**	**282,765**	**100%**
Trade payable	14,686	5.2%	14,116	5.0%
ST loan & CP of LT loans	9,575	3.4%	10,423	3.7%
Accrued R/S expense	5,362	1.9%	5,362	1.9%
Others	39,977	14%	39,394	14%
Current Liabilities	**69,601**	**25%**	**69,295**	**25%**
Debenture & LT loans	100,102	35%	92,408	33%
Others	63,938	23%	64,993	23%
Total Liabilities	**233,641**	**82%**	**226,696**	**80%**
Retained earnings	24,675	8.7%	30,103	11%
Others	25,752	9.1%	25,965	9.2%
Total Equity	**50,427**	**18%**	**56,069**	**20%**

Key Financial Ratio	2Q17	1Q18	2Q18
Interest-bearing debt to equity (times)	2.3	2.1	1.8
Net debt to equity (times)	2.0	1.9	1.7
Net debt to EBITDA (times)	1.3	1.2	1.2
Current Ratio (times)	0.5	0.5	0.5
Interest Coverage (times)	13	13	13
Debt Service Coverage Ratio (times)	3.4	17	4.4
Return on Equity	64%	65%	64%

Figures from P&L are annualized YTD.

Debt Repayment Schedule			License payment schedule	
Bt mn	Debenture	Loan	1800MHz	900MHz
2018	-	5,299	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	-	-	-
2027	9,000	-	-	-

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

Source and Use of Fund: 1H18			(Bt mn)
Source of Fund		**Use of Fund**	
Operating cash flow	34,594	CAPEX & fixed asset	11,265
Sale of equipment	500	Dividend paid	10,614
Interest received and others	106	Income tax paid	3,401
Cash decreased	3,095	Finance cost & financial lease paid	1,732
		Repayment of LT borrowings	2,858
		Repayment of ST borrowings, net	4,200
		Investment in joint venture and others	787
		Cash paid for business acquisition	3,438
Total	**38,295**	**Total**	**38,295**

2018 MANAGEMENT OUTLOOK & STRATEGY

Core service revenue	• +5-7% YoY *(revised from +7-8% YoY)*
SIM & Device sale	• Decline and make near-zero margin *(maintained)*
Consolidated EBITDA margin (excluding equipment rental)	• 45-47% *(maintained)*
Cash CAPEX	• Approximately Bt25bn due to longer payment term *(revised from Bt35-38bn)*
Dividend policy	• Minimum 70% of net profit *(maintained)*

Core service revenue to grow 5-7% in 2018 amid competitive outlook
In 1H18, AIS reported core service revenue (or service revenue excluding IC and equipment rental) growth of 4.9% YoY. Following the competitive outlook in 2H18, we revised our FY18 growth to be 5-7% YoY. Mobile competition in 2H18 is expected to stay elevated while results of upcoming 900&1800MHz auctions remain to be closely observed. 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 623,400. We maintain the target to achieve 800k subscribers by end-18 by focusing 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 lower cash outflow CAPEX of approx. Bt25,000mn
In 2H18, AIS will continue to digitally transform to optimize the cost to serve customers while ensuring an effective spending on marketing campaigns. As a result, we expect EBITDA margin (excluding equipment rental) to stay in a range of 45-47%. All investment plans to enhance both mobile and fixed broadband networks remain the same. However, in terms of cashflow, AIS expects cash outflow CAPEX (excluding spectrum payment) in FY18 to come down to approximately Bt25,000mn after negotiation with vendors on longer payment term.

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.

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