

3Q23 MD&A

Advanced Info Service Plc.

Executive Summary

3Q23 illustrated AIS core business growth from quality focus despite low season challenges.

3Q23 Thai economy demonstrated a cautious growth from expansions of private consumption and tourism sector, while facing global and local economic headwinds and challenges from high interest rate environment. Overall, AIS reported core service revenue of Bt34,080mn, increasing 2.9% YoY and 0.5% QoQ from a quality growth of fixed broadband business and a rebound in non-mobile enterprise business.

Mobile business softened QoQ from seasonality but continued improving YoY through value focus.

Mobile revenue reported Bt29,311mn, increasing 0.7% YoY following an improved economic environment and stable competition along with the strategy to focus on quality customers, value uplifting through cross-sells and upsells, and increased tourist-related usages. However, it softened minimally -0.6% QoQ, mainly from seasonal effects amid consistent efforts to upsell value packages.

AIS emphasizes growing mobile business with value creation for all customers leveraging on superior service and product quality, especially on the 5G services which now has 87% of nationwide population coverage. As a consequence, the 5G subscriber was accelerated to 8.5mn or 19% of total mobile subscriber base. AIS also continues delivering variety of privileges and benefits through ecosystem economy with various partners to enhance customer experiences and execute product bundling strategy with value-added services to uplift the ARPU.

FBB business continued a healthy growth from quality acquisition.

Fixed broadband revenue recorded at Bt3,021mn, a strong growth of 19% YoY and 5.8% QoQ resulted from a continuous expansion into upcountry areas to capture new demands while providing value-enhancing products through content bundling and convergence strategy. AIS is committed to leveraging best-in-class service quality and innovative products to serve the growth driven by genuine consumer demands.

Enterprise business rebounded with a better economic certainty.

Non-mobile enterprise business reported a revenue of Bt1,520mn, growing 20% YoY and 14% QoQ, mainly from a rebound in demand of enterprise customers from a clearer political situation and a sizable project closed in the quarter. The strategy for the enterprise segment continues focusing on high-margin services of connectivity and value-added services of cloud, smart solutions, and specific 5G vertical solutions in targeted industries.

Sustaining growth in the bottom line with profitable revenue focus and cost discipline.

3Q23 provided an EBITDA of Bt23,674mn, increasing 7.2% YoY and 1.5% QoQ with a healthy margin of 51% from revenue growth, lower pressure in utility cost, as well as efficient cost management in marketing expenses.

AIS reported a net profit of Bt8,146mn, increasing 35% YoY and increasing 14% QoQ benefited from a better operating performance, fully depreciated 3G assets, and one-time gain recognized in this quarter.

Market and Competitive Environment

3Q23 continued displaying a fragile global economy due to financial market tightening and macroeconomic headwinds which created contraction risks, especially for Thai export sectors. Nonetheless, private consumption showed a sign of improvements from inflation benefiting from a recovery trend in the tourism sector, despite the arrivals remaining slower than expected.

Mobile industry was affected by the softened local economic activities from the rainy season in 3Q but continued to benefit from increasing tourism-related usage and efforts to uplift the ARPU. The competition stabilized since the beginning of the year while operators are moving away from traditional services towards value enhancement such as cross-selling and upselling to better monetize heightened customer demands. Furthermore, operators continue encouraging 5G adoption to enhance user experiences, and to uplift the ARPU.

Fixed broadband industry still benefited from a low penetration rate estimated at 48% in 3Q23 and grew with genuine demand driving both quality subscriber and revenue growth. Most service providers focused on capturing the new demand in up-country areas coupled with enhancing services offering new technologies and a variety of products through convergence strategy to accelerate growth.

Enterprise services continue to witness cautious spending in the Thai private sector due to ongoing global economic and financial risks. Nonetheless, a genuine demand for digital transformation remained for Thai businesses to improve organization operational capabilities. Hence, the corporates maintain their needs for quality connectivity services as well as increasing demand for data storage services like cloud and data center. Industry players also focus more on tailored service offerings in targeted industries, aiming to create values beyond connectivity with vertical smart solutions.

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Significant Events in 3Q23

- Advanced Wireless Network Company Limited (“AWN”) entered into an agreement to accept a transfer of the license of 700 MHz spectrum for 5MHz for telecommunications service from National Telecom Public Company Limited (“NT”). The total spectrum value is THB 14,866 million whereby AWN shall make a spectrum transfer payment to NT and the remaining annual spectrum installments to NBTC. The transfer of license completed on 24th October 2023.
- In Sep-23, AWN entered into 13-year agreements with NT for providing telecommunication equipment rental of 13,500 sites to NT to provide 5G mobile service on NT’s 700 MHz spectrum and for providing national roaming service to NT. AWN will start recognizing rental income when the service is delivered in phases to NT within 2 years.
- Financial impacts of both events have not yet occurred in 3Q23.

3Q23 Operational Summary

3Q23 witnessed a decline in gross add due to a more stringent control on Prepaid Identification (PI) that impacted new subscribers’ registration, as well as continued focus on quality subscriber acquisition. Consequently, the total mobile subscribers declined by 867k or -1.9% QoQ but with an improved ARPU to 216 baht, rising 1.2% QoQ. The quality focus riding on the benefit of 5G adoption brought 5G subscribers to 8.5mn.

AIS Fibre benefited from an expansion towards under-penetrated areas focusing on quality acquisitions generated a net add of 51,900 subscribers and reached 2.38mn total subscribers as at the end of 3Q23. The strategy to continuously uplift the broadband services by cross-sell and up-sell resulted in an ARPU of 428 baht, an improvement of 3.2% QoQ.

Mobile Business Subscribers	3Q22	2Q23	3Q23	%YoY	%QoQ
Postpaid	12,371,000	12,673,200	12,663,800	2.4%	-0.1%
Prepaid	33,290,700	32,643,000	31,785,900	-4.5%	-2.6%
Total subscribers	45,661,700	45,316,200	44,449,700	-2.7%	-1.9%
Net additions (Churns)					
Postpaid	296,100	4,300	(9,400)	NM%	NM%
Prepaid	(138,800)	(809,200)	(857,100)	518%	5.9%
Total net additions	157,300	(804,900)	(866,500)	NM%	7.7%
ARPU (Baht/sub/month)					
Postpaid	453	448	446	-1.4%	-0.5%
Prepaid	123	123	125	1.9%	1.7%
Blended	212	213	216	2.1%	1.2%
MOU (minute/sub/month)					
Postpaid	155	146	141	-9.0%	-3.4%
Prepaid	58	56	55	-5.2%	-1.8%
Blended	82	78	77	-6.1%	-1.3%
VOU (GB/data sub/month)					
Postpaid	31.9	34.7	35.6	12%	2.6%
Prepaid	28.3	31.0	31.6	12%	1.9%
Blended	29.6	32.3	33.0	11%	2.2%
5G subscription					
5G subscription	5,500,000	7,770,000	8,496,000	54%	9.3%
Fixed Broadband Business					
FBB subscribers	2,085,900	2,328,700	2,380,700	14%	2.2%
FBB net addition	114,500	60,500	51,900	-55%	-14%
FBB ARPU (Baht/user/month)	418	414	428	2.4%	3.2%

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9M23 Snapshot

9M23 core service revenue reported at Bt101,514mn, representing an increase of 2.3% YoY, in line with Thailand's economic recovery. Mobile revenue continues to recover with an increase of 1.0% YoY from value-enhancing efforts. Fixed broadband business continued to be a key growth driver with a 15% increase YoY through the accelerated expansion of services into up-country areas and efforts to up-sell and deliver additional bundled products to uplift the ARPU. Enterprise and other service revenue increased by 6.7% YoY following the demand that returned after improved political and economic conditions.

The cost of services increased by 1.6% YoY, due to higher network operating expenses from rising electricity costs and roaming traffic with NT. Depreciation and amortization costs showed a decrease of -1.3% YoY benefited from fully depreciated 3G assets. With optimization efforts on cost and campaign, the marketing expenses decreased by -27% YoY. Consequently, the total SG&A decreased by -8.4% YoY.

9M23 EBITDA increased by 4.2% YoY as a result of an improvement in core service revenue and well-controlled SG&A. The net profit closed at Bt22,084mn, surging 18% YoY driven by operating performance, lower depreciation cost, and net exchange rate gain.

3Q23 Financial Summary

Revenue

In 3Q23, AIS generated a total revenue of Bt46,069mn, representing a marginal decrease of -0.4% YoY, primary due to lower device sales, offset by growth in all core businesses. The total revenue increased by 2.9% QoQ driven by the launch of iPhone15.

Core service revenue (excluding IC and NT partnership) recorded at Bt34,080mn, an increase of 2.9% YoY and 0.5% QoQ mainly driven by strong performance in the fixed broadband and enterprise business segments, along with a slight improvement YoY in mobile revenue.

- **Mobile revenue** was at Bt29,311mn, increasing by 0.7% YoY from a slight improvement in consumer purchasing power and tourist segment. However, mobile revenue decreased by -0.6% QoQ due to seasonality effect.
- **Fixed broadband revenue** was at Bt3,021mn, increasing 19% YoY and 5.8% QoQ from quality acquisition with higher ARPU, resulted from high-values packages and additional product bundle offerings.
- **Enterprise non-mobile revenue & others** was at Bt1,748mn, increasing by 18% YoY and 13% QoQ driven by the enterprise non-mobile business which grew 20% YoY and 14% QoQ from a sizable project in the quarter and resumed spending in ICT solutions.

Revenue from interconnection charge (IC) and NT partnership was at Bt3,313mn, increasing 4.5% YoY from higher traffic usage with NT, despite a lower interconnection rate. However, it decreased -2.9% QoQ due to lower network traffic with NT.

SIM & Device sales reported Bt8,675mn, a decrease of -13% YoY due to iPhone15 launching one week later compared to the iPhone14 release in the previous year. The revenue increased 16% QoQ from a low base in 2Q23. iPhone15 sales also helped improving the sales margin from 1.2% in 2Q23 to 1.8% in 3Q23.

Cost & Expense

In 3Q23, the **cost of service** was Bt21,789mn, relatively flat -0.3% YoY due to lower depreciation cost offset by the increased network cost. It decreased -2.4% QoQ, mainly due to the fully amortized 3G equipment.

- **Regulatory fee** was Bt1,409mn, increasing 2.1% YoY and 3.0% QoQ, in line with an increase in core service revenue. The regulatory fee as a percentage of core service revenue was 4.1%.
- **Depreciation & amortization** was at Bt12,479mn, decreasing -2.7% YoY and decreasing -2.4% QoQ due to fully depreciated 3G network equipment.
- **Network OPEX & NT partnership cost** was at Bt5,394mn, increased by 4.6% YoY mainly due to the NT partnership cost and increased network utility cost from higher electricity price. It decreased -3.6% QoQ, due to a full quarter benefit of a lower FT rate applied since May 2023 and lower NT roaming cost.
- **Other costs of service** recorded at Bt2,508mn, flat YoY. It decreased by -3.0% QoQ with lower IDD costs.

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SG&A expenses were at Bt4,957mn, decreasing -12% YoY while increasing 1.0% QoQ driven by a tight control in marketing and administrative expenditures.

- **Marketing expenses** reported at Bt1,126mn, decreasing -38% YoY and decreasing -4.2% QoQ from lower advertisement and campaigns.
- **Admin & other expenses** were at Bt3,832mn, increasing 0.5% YoY and 2.6% QoQ and remained efficiently managed around 8.3% of total revenue. The provision of bad debts as a % of postpaid and broadband revenue was 2.3% lower than 2Q23 at 2.4%.

Net FX gain at Bt 123mn in 3Q23, compared to FX gain of Bt22mn in 2Q23. AIS has the policy to mitigate the currency risk using hedging instruments where applicable.

Other Income included one-time gain recognized in this quarter of THB434mn from Rabbit Line Pay (RLP) divestment.

Finance cost was at Bt1,366mn, increasing 5.6% YoY and 2.5% QoQ from higher interest expense offset by lower defer spectrum interest. The average cost of borrowing was at 3.2% in this quarter.

Income Tax was at Bt1,887mn, increasing 34% YoY and increasing 9.5% QoQ, following the increase in profit before tax. The effective tax rate was at 18.8% decreasing from 19.4% in 2Q23 as one time gain in this quarter was not taxable.

Profitability

3Q23 **EBITDA** was at Bt23,674mn, increasing 7.2% YoY following an increased core service revenue and well-managed SG&A. It increased 1.5% QoQ from improved operating performance.

EBITDA margin was at 51.4%, minimally dropped compared to 52.1% in 2Q23 from higher proportion sale revenue following iPhone 15 launch.

The reported net profit was at Bt8,146mn, increasing 35% YoY and increasing 13% QoQ mainly from improving of core service revenue, lower depreciation cost, well-controlled marketing expense. After one time gain, profit was Bt7,713mn, improving 28% YoY and 7.4% QoQ.

Financial position (compare to the ending of FY22)

Total asset as of ending quarter declined -4.2% to Bt322,770mn. Current assets was at Bt40,664mn, increasing 18% from higher cash received from loan. Total non-current assets was at Bt282,107mn, decreasing by -6.8% due to the amortization of spectrum licenses, PPE, and lower right-of-use assets.

Total liabilities amounted to Bt239,284mn declined -4.8% from both current (lower trade & other payable and current portion of long-term debt) and non-current liabilities (lower lease liability and spectrum payable offset by increased long-term borrowings). Interest-bearing debt stood at Bt99,802mn, increasing by 18% due to short-term loan and new debenture issued in 2Q23. Net debt to EBITDA (excluding lease liabilities and license payable) was at 0.9x. Total equity was at Bt83,486mn, decreasing -2.7%.

Cash flow

In 9M23, cash flow from operation (after tax) reported at Bt62,485mn, increasing 9.4% compared to 9M22 following an improvement in EBITDA. Net cash outflow from investing was at Bt24,290mn for network investment and at Bt11,039mn for spectrum license. As a result, free cash flow for 9M23 was at Bt17,640mn (OCF less CAPEX, spectrum license, and lease liability paid). In summary, net cash increased by Bt6,798mn resulting in an outstanding cash of Bt15,811mn at the end of Sep-23.

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Income statement (Bt mn)	3Q22	2Q23	3Q23	%YoY	%QoQ	9M22	9M23	%YoY
Mobile revenue	29,107	29,495	29,311	0.7%	-0.6%	87,171	88,064	1.0%
Fixed broadband revenues	2,541	2,857	3,021	19%	5.8%	7,466	8,588	15%
Other service revenues	1,481	1,551	1,748	18%	13%	4,556	4,862	6.7%
Core service revenue	33,130	33,903	34,080	2.9%	0.5%	99,193	101,514	2.3%
IC and NT partnership	3,171	3,413	3,313	4.5%	-2.9%	9,603	9,981	3.9%
Service revenue	36,301	37,315	37,393	3.0%	0.2%	108,796	111,495	2.5%
SIM and device sales	9,934	7,459	8,675	-13%	16%	27,990	26,060	-6.9%
Total revenues	46,234	44,774	46,069	-0.4%	2.9%	136,786	137,555	0.6%
Regulatory fee	1,380	1,369	1,409	2.1%	3.0%	4,111	4,171	1.5%
Depreciation & Amortization	12,822	12,787	12,479	-2.7%	-2.4%	38,574	38,055	-1.3%
Network OPEX and NT partnership	5,156	5,594	5,394	4.6%	-3.6%	14,797	16,268	9.9%
Other costs of services	2,505	2,585	2,508	0.1%	-3.0%	7,548	7,579	0.4%
Cost of service	21,863	22,334	21,789	-0.3%	-2.4%	65,030	66,074	1.6%
Cost of SIM and device sales	9,833	7,370	8,517	-13%	16%	27,743	25,639	-7.6%
Total costs of service and sale	31,696	29,704	30,306	-4.4%	2.0%	92,773	91,713	-1.1%
Gross profit	14,538	15,070	15,762	8.4%	4.6%	44,013	45,842	4.2%
SG&A	5,633	4,910	4,957	-12%	1.0%	16,861	15,437	-8.4%
Marketing Expense	1,821	1,175	1,126	-38%	-4.2%	5,153	3,783	-27%
Admin and others	3,812	3,736	3,832	0.5%	2.6%	11,708	11,655	-0.5%
Operating profit	8,905	10,159	10,805	21%	6.4%	27,153	30,405	12%
Net foreign exchange gain (loss)	-231	22	123	-153%	454%	-608	207	-134%
Other income (expense)	62	56	473	660%	745%	462	630	36%
Finance cost	1,294	1,333	1,366	5.6%	2.5%	3,936	3,949	0.3%
Income tax	1,410	1,723	1,887	34%	9.5%	4,420	5,207	18%
Non-controlling interest	-0.7	-1.3	-1.0	51%	-23%	-1.9	-3.0	57%
Net profit for the period	6,032	7,180	8,146	35%	13%	18,648	22,084	18%

EBITDA (Bt mn)	3Q22	2Q23	3Q23	%YoY	%QoQ	9M22	9M23	%YoY
Operating Profit	8,905	10,159	10,805	21%	6.4%	27,153	30,405	12%
Depreciation & amortization	13,222	13,136	12,844	-2.9%	-2.2%	39,784	39,135	-1.6%
(Gain) loss on disposals of PPE	3	61	64	2153%	5.5%	28	201	615%
Management benefit expense	-36	-36	-35	-1.3%	-2.6%	-104	-103	-1.4%
Other financial cost	-4	-3	-4	2.4%	15%	-13	-11	-15%
EBITDA	22,091	23,317	23,674	7.2%	1.5%	66,848	69,627	4.2%
EBITDA margin (%)	47.8%	52.1%	51.4%	361bps	-69bps	48.9%	50.6%	175bps

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Financial Position (Bt mn%to total asset)	4Q22		3Q23	
Cash	9,014	2.7%	15,811	4.9%
ST investment	982	0.3%	564	0.2%
Trade receivable	16,414	4.9%	17,525	5.4%
Inventories	3,839	1.1%	3,379	1.0%
Others	4,088	1.2%	3,385	1.0%
Current Assets	34,338	10%	40,664	13%
Spectrum license	119,765	36%	110,783	34%
Network and PPE	113,252	34%	106,356	33%
Right of use	42,861	13%	37,279	12%
Intangible asset	16,827	5.0%	18,214	5.6%
Defer tax asset	4,597	1.4%	4,518	1.4%
Others	5,404	1.6%	4,957	1.5%
Total Assets	337,044	100%	322,770	100%
Trade payable	24,215	7.2%	15,555	4.8%
ST loan & CP of LT loans	20,496	6.1%	27,060	8.4%
CP of lease liabilities	11,135	3.3%	11,285	3.5%
Accrued R/S expense	3,361	1.0%	3,361	1.0%
CP of spectrum payable	10,903	3.2%	10,827	3.4%
Others	26,231	7.8%	22,959	7.1%
Current Liabilities	96,341	29%	91,047	28%
Debenture & LT loans	63,914	19%	72,743	23%
LT lease liabilities	32,871	9.8%	27,292	8.5%
Spectrum payable	52,085	15%	42,244	13%
Other	6,015	1.8%	5,959	1.8%
Total Liabilities	251,227	75%	239,284	74%
Retained earnings	60,675	18%	58,252	18%
Others	25,141	7.5%	25,234	7.8%
Total Equity	85,816	25%	83,486	26%

Key Financial Ratio	3Q22	2Q23	3Q23
Interest-bearing debt to equity (times)*	1.2	1.0	1.2
Net debt to equity (times)*	1.1	0.9	1.0
Net debt to EBITDA (times)*	1.0	0.8	0.9
Net debt & lease liability			
& spectrum license payable to EBITDA	2.2	1.9	1.9
Current Ratio (times)	0.3	0.5	0.4
Interest Coverage (times)	14.8	14.7	14.1
Debt Service Coverage Ratio (times)	2.1	4.3	2.5
Return on Equity (YTD)	31%	33%	35%

Figures from P&L are annualized from quarter number.
*Exclude Lease liability

Bt mn	Debt Repayment Schedule		License payment schedule		
	Debenture	Loan	900MHz	2600MHz	700MHz*
4Q23		13,406			2,859
2024	6,638	9,932	7,565		5,189
2025		9,102	7,565	2,934	5,189
2026	15,180	6,853		2,934	5,189
2027	9,000	6,110		2,934	5,189
2028	9,500	5,130		2,934	5,189
2029				2,934	5,189
2030	3,000			2,934	5,189
2031	3,000				
2032					
2033	3,000				

*Includes future payments for recently acquired 5MHz of 700MHz from NT

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

Source and Use of Fund: 9M23 (Bt.mn)

Source of fund	Use of fund
Operating cash flow	68,994 CAPEX & Fixed assets
Net borrowings received	15,497 Dividend paid
Investments in Sub, JV, & Associate	365 Spectrum license
Sale of equipment	79 Lease liability payments
Interest received	68 Income tax and Finance cost paid
Dividend received & Other	18
	Cash increase
Total	85,021
	85,021

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2023 Guidance - unchanged
(excluding 3BB impact)

Core service revenue	Around 3 – 5 %
EBITDA	Mid-single digit growth
CAPEX (exclude spectrum)	Bt27–30bn (depending on Foreign Exchange Rate)

Core service revenue to grow cautiously amid risks and uncertainties at 3 – 5%

In 2023, the macroeconomic outlook remains fragile with the local political situation and recession risk creating uncertainties in several regions. At the same time, the geopolitical risk continues catalyzing global supply chain disruption and affects industrial supplies in manufacturing activities. Nonetheless, Thailand's recovery has gained a firmer ground with tourism-related sectors benefiting from China re-opening its border faster than expected since the beginning of 2023. Despite a lower-than-expected recovery from Chinese tourists, a lower inflation rate helps encourage higher private consumption. AIS sets our aspiration to transform from a Digital Life Service Provider towards a Cognitive Tech-Co with our 3 key foundations in Autonomous Network, IT Intelligence, and Data Analytics to drive growth across our core business areas.

- **Mobile revenue to grow with profitability and value focus** – AIS continues to focus on a profitable market share by delivering superior 5G experiences of network quality and coverage. We will place our efforts on creating value-based differentiation through the privilege ecosystem powered by partnership collaborations to better engage our customers with personalized and real-time offerings.
- **Fixed broadband to leap forward with quality and coverage** – strategy to provide multi products and services will be deployed targeting mid-to-high-end customer segments bringing differentiated quality and services of home solutions expanding into the new under-served areas. It is our dedication to become a key player with double-digit growth and building our organic portfolio towards 2.5mn customers this year.
- **Enterprise business to grow with continued digitization trend focusing on profitable products and targeted industries** – Our key strengths in the partnership ecosystem coupled with our leading 5G and smart solutions will help us grow together with our customers' digital transformation. AIS aims to grow EDS business, the vertical solutions with our flagship 5G Paragon Platform and CloudX to serve data sovereignty targeting 6 sectors; manufacturing, retail, property, transportation & logistics, Banking and Financial institute, and the Government sector.

EBITDA with mid-single digit growth from our focus on profitability

The foundation of Cognitive Tech-Co is in adopting technology to optimize process and cost-to-serve and achieve sustainable growth in profitability amid the challenging cost environment. AIS will continue the journey to enhance the autonomous network and improve IT processes & systems to unlock higher efficiency and productivity of our operations to ensure distinctive customer experiences. Capital allocation will be executed with caution to ensure we streamline ourselves, improve CAPEX and OPEX efficiency, and deliver maximum value to our customers and stakeholders. As a result, EBITDA expects to grow at a mid-single digit rate.

Continued investing in growth opportunities with optimization discipline

CAPEX is planned to be around Bt27-30bn depending on the foreign exchange rate. AIS aims to sustain our network leadership with optimal CAPEX expenditure while delivering a superior customer experience. AIS emphasizes the importance of delivering the best-in-class network quality alongside the growing demand for traffic capacity and coverage. To optimize our investment, we plan on shifting traffic towards 5G network, and at the same time, ensure we deploy our network efficiently across our spectrum portfolio. In addition, we also target our AIS Fibre expansion into the new untapped areas as well as putting resources to grow our enterprise business and digital services with high growth potential.

Dividend policy at minimum 70% of net profit

AIS is committed to driving long-term growth while delivering returns to shareholders. We place importance on maintaining strong financial health and flexibility to pursue future growth. Our dividend policy is to pay a minimum of 70% of net profit. By preserving cash flow, we ensure that we have the financial flexibility to lead, compete, and pursue growth prospects 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 and investment plan including any other future obligations of the Company and/or subsidiaries. Such dividends shall not adversely affect the Company and subsidiaries' ongoing operations.