1Q19 MD&A
Advanced Info Service Plc.

Executive Summary

Mobile growth remained soft from ongoing price competition

Overall mobile market in 1Q19 reflected industry's effort in gradually discontinuing fixed-speed unlimited plans, which have been limiting data monetization. As majority of fixed-speed unlimited subscriptions came in 2H18 with one-year validity, an uplift in blended ARPU remained challenging in 1Q19. In strategic areas, aggressive price plans and handset campaigns were launched, especially in prepaid, in which AIS was competitive to preserve scale. As a result, mobile revenue grew 1.1% YoY and 0.4% QoQ with 322k net subscribers added while 4G penetration continued to rise to 63%. Nonetheless, with our focus on brand and network investment, we continued to see improving perception among particular segments including teens and tourists.

Fixed broadband saw healthy growth focusing on FMC

AIS Fibre has achieved robust results with revenue growing 27% YoY and 6.3% QoQ while net customer acquisition rose to 64,500 in the quarter, resulting in total subscribers of 795,000. Despite elevated price competition in operator-switching segment, the Power4Maxx, a fixed- mobile-content convergence package (FMC), has decently captured market demand, supported by an active outbound approach to reach high-valued mobile customers. Following our intention to win homes, standalone broadband ARPU may decline, currently standing at B563, in exchange for higher ARPH (average revenue per household) in the long run.

Expanded strategic digital services for both enterprise and consumer

With a complete end-to-end product proposition after acquiring CSL, AIS has continued strengthening its position in the enterprise market including having won several strategic turnkey projects, underpinning our target to achieve high single-digit growth in enterprise segments in FY19. The latest strategic cooperation with China Unicom is also targeted to bring about opportunities to better serve localized Chinese companies. On the other hand, to monetize our largest mobile customer access, AIS has established an insurance broker company to be a point of online insurance sale and utilized Rabbit LINE Pay as a preferred payment channel. While the awareness of our video platform (AIS PLAY) continued (2mn active subscribers), in 1Q19 AIS has made a strong presence in eSports arena aiming to support gaming ecosystems and to create business cases for monetization in the future.

Core service revenue (Pre-TFRS 15) grew 2.5% YoY with guidance maintained

In summary, Pre-TFRS 15, AIS's core service revenue in 1Q19 was Bt33,962mn, increasing 2.5% YoY and 0.8% QoQ, against the mid-single digit growth FY19 guidance. EBITDA stood at Bt18,906mn, flat YoY but increasing 4.6% QoQ following revenue improvement and changes in network OPEX (excluding cost of TOT partnership +10% YoY, -1.6% QoQ) and SG&A (+7.1% YoY, -2.6% QoQ). Net profit was reported at Bt7,615mn, decreasing 5.3% YoY due to higher network and license D&A but increasing 11% QoQ. Full-year budgeted CAPEX is maintained as guided at Bt20,000-25,000mn.

Since Jan-19, AIS has adopted TFRS 15 without restatements, which mainly affects cost allocation of handset subsidies (See Significant Event). Considering relevant comparison, throughout 2019 the discussion of AIS's performance will be based on without TFRS15.

Significant Event

Since Jan-19, AIS has adopted TFRS 15, Revenue from Contracts with Customers, on modified retrospective approach. As a result, AIS elected to recognize the cumulative effect of initially applying this Standard as an adjustment to the beginning balance of retained earnings as at 1-Jan-19. The effect of related transactions is presented in Note 2 of financial statements and also provided on page 4. Considering the entire contract term, profitability of the contract remains the same. By the Standard, key changes compared to prior to 2019, are as follows:

a) Device subsidy previously recognized as handset loss will be reallocated between device sales and service revenue weighted by fair market values of the handset price and full-contract price plan. As a result, device sales would increase, and service revenue would decrease. Also, device subsidy recognized as marketing expense will be capitalized as contract assets and amortized against the service revenue over the customer contract term.

b) On balance sheet, there will be a new item namely "Contract assets", representing the difference between the revenue recognized and the upfront cash received from customers as well as capitalized device subsidies.

Market and Competitive Environment

Mobile market in 1Q19 continued to face pricing pressure. Although competition in postpaid segment has improved with most of low-tier fixed-speed unlimited plans discontinued, several aggressive plans which offered a large bucket of data and attractive voice quota were launched in prepaid. Low-end handset subsidies remained selectively offered by area while high-end handset models were mainly targeted for upgrading existing customers with comparable subsidy values among operators.

Price competition in fixed broadband continued and resulted in a launch of 100Mbps package at Bt600. In competitive areas, existing customers were attracted to change an operator by an offering of up to 50% discount for a few months, which caused industry's ARPU to be pressured. Convergence packages combining fixed broadband, mobile SIM, and content maintained their traction in key cities.

1Q19 Operational Summary

In 1Q19, total mobile subscribers grew to 41.5mn increasing 0.8% QoQ. Underpinned by attractive handset campaigns and continuing prepaid-to-postpaid migration, postpaid segment added 354k subscribers while ARPU declined 1.2% QoQ to Bt564. Prepaid segment saw a slight decline of 32k subscribers with ARPU declining 1.4% QoQ to Bt174, driven by aggressive data plans in the market. Overall, blended data consumption softly grew from 10.9 GB/data subscriber/month in 4Q18 to 11.4 GB in this quarter following the barring of fixed-speed unlimited subscriptions.

During this quarter, AIS Fibre acquired 64,500 net customers, compared to an average of 52,300 a quarter in FY18, and resulted in total subscribers of 795,000. With improving brand awareness, AIS Fibre has been focusing on cross selling convergence offerings to existing high-valued mobile customers while remained competitive in protecting existing base. Following that, standalone broadband ARPU declined to Bt563 or -2% QoQ, in exchange for higher ARPH (average revenue per household) in the long term.

Mobile Business Subscribers	1Q18	2Q18	3Q18	4Q18	1Q19
Postpaid	7,617,100	7,822,600	8,014,700	8,189,900	8,543,800
Prepaid	32,432,900	32,272,100	32,632,300	32,979,300	32,946,900
Total subscribers	**40,050,000**	**40,094,700**	**40,647,000**	**41,169,200**	**41,490,700**
Net additions					
Postpaid	227,000	205,500	192,100	175,200	353,900
Prepaid	-232,500	-160,800	360,200	347,000	-32,400
Total net additions	**-5,500**	**44,700**	**552,300**	**522,200**	**321,500**
ARPU (Baht/sub/month)					
Postpaid	577[1]	573[1]	561[1]	571[1]	564
Prepaid	184[1]	183[1]	179[1]	176[1]	174
Blended	**258**[1]	**259**[1]	**254**[1]	**255**[1]	**253**
Postpaid (TFRS 15)	-	-	-	-	529
Postpaid (TFRS 15)	-	-	-	-	174
Blended (TFRS 15)	**-**	**-**	**-**	**-**	**246**
MOU (minute/sub/month)					
Postpaid	251	242	241	244	237
Prepaid	148	136	124	121	113
Blended	**168**	**156**	**147**	**145**	**138**
VOU (GB/data sub/month)					
Postpaid	9.2	10.9	12.7	14.0	14.4
Prepaid	7.0	8.2	9.2	9.8	10.3
Blended	**7.6**	**8.9**	**10.1**	**10.9**	**11.4**
Device Penetration					
4G-handset penetration	50%	54%	57%	59%	63%
Fixed Broadband Business					
FBB subscribers	571,800	623,400	676,700	730,500	795,000
FBB net addition	50,600	51,600	53,300	53,800	64,500
FBB ARPU (Baht/user/month)	618	610	573	574	563

[1] Reclassified some revenues from content in FY18 previously booked under other service revenue to mobile revenue

1Q19 Financial Summary (Pre-TFRS 15)

Revenue

In 1Q19, **total revenue** was Bt43,824mn increasing 7.1% YoY driven by both service revenue, especially from fixed broadband, and device sales. QoQ, total revenues slightly decreased 1.7% from lower device sales and IC revenue.

Service revenue was Bt36,957mn, increasing 6.9% YoY and 0.2% QoQ. Excluding IC & equipment rental, **core service revenue** was Bt33,962mn increasing 2.5% YoY and 0.8% QoQ, driven by 4G growth, higher fixed broadband subscribers, and sales in enterprise.

- **Mobile revenue** was Bt31,555mn increasing 1.1% YoY and 0.4% QoQ following subscriber growth of 322k in the quarter while data consumption increased to 11.4 GB/data subscriber/month. The trend of prepaid-to-postpaid migration continued, supported by handset subsidies and attractive price plans.
- **Fixed broadband revenue** was Bt1,288mn increasing 27% YoY and 6.3% QoQ driven by growing subscriber base with a net addition of 64,500 subscribers. ARPU in 1Q19 declined to Bt563, compared to Bt618 in 1Q18 and Bt574 in 4Q18, following FMC offerings and price competition.
- **Other service revenues,** which mainly include non-mobile enterprise revenues and others, were Bt1,119mn, increasing 21% YoY and 7.0% QoQ following growth in enterprise sales and acquisition of CSL in Feb-18.

Interconnection charge (IC) and equipment rental were Bt2,995mn, increasing 111% YoY due to recognition of equipment rental from partnership with TOT since Mar-18, partially offset by lower IC revenue. QoQ, IC and equipment rental declined 6.5% from lower IC revenue.

SIM & device sales were Bt6,867mn rising 7.8% YoY driven by higher volume of localized handset campaigns. QoQ, SIM & device sales decreased 11% from lower unit price driven by sales in mid-tier smartphones. SIM and device margin in 1Q19 remained -4.2%, compared to -1.1% in 1Q18 and -4.3% in 4Q18.

Cost & Expense

In 1Q19, **cost of service** was Bt19,817mn increasing 15% YoY due to higher D&A and cost of the partnership with TOT. QoQ, cost of service dropped 2.8% from lower IC cost.

- **Regulatory fee** was Bt1,403mn decreasing 4.9% YoY and 1.2% QoQ. Currently, regulatory fee to core service revenue remained at 4.1%.
- **Depreciation and amortization** was Bt8,691mn increasing 9.5% YoY from investment in network and 1800MHz license acquired in Sep-18. QoQ, D&A slightly dropped 0.9%.
- **Network OPEX** was Bt7,371mn increasing 35% YoY but flat QoQ. The increase YoY was mainly from partnership with TOT. Excluding the TOT cost, network OPEX increased 10% YoY from network expansion in both mobile and broadband but dropped 1.6% QoQ.
- **Other costs of service** were Bt2,352mn decreasing 2.1% YoY mainly due to lower prepaid commission. QoQ, other costs of service dropped 17% from lower IC cost.

SG&A expenses were Bt6,786mn increasing 7.1% YoY from both marketing and admin expenses but decreasing 2.6% QoQ mainly from lower advertisement.

- **Marketing expenses** were Bt2,587mn rising 15% YoY driven by advertisement to increase brand awareness and low spending level in 1Q18. QoQ, marketing expenses declined 4.6% mainly from lower advertisement. Marketing expenses to total revenue stood at 5.9%, compared to 5.5% in 1Q18 and 6.1% in 4Q18.
- **Admin and other expenses** were Bt4,198mn increasing 2.7% but declining 1.3% QoQ mainly due to staff cost.

Net FX gain was Bt84mn increasing from Bt129mn net loss 1Q18 but decreasing from Bt129mn net gain in 4Q18 following currency fluctuation in the quarter while foreign debts were all fully hedged.

Finance cost was Bt1,217mn decreasing 5.8% YoY and 5.5% QoQ due to lower deferred interest from spectrum licenses as well as lower interest-bearing debt QoQ. Average cost of borrowing stood at 3.0% per year.

Profit

In 1Q19, **EBITDA** was stable YoY at Bt18,906mn due to higher network OPEX and SG&A, offset by improved service revenue. QoQ, EBITDA expanded 4.6% driven by service revenue improvement, lower network OPEX and SG&A. **EBITDA margin** stood at 43.1%, in line with the guidance. **Net profit** was reported at Bt7,615mn, declining 5.3% YoY mainly from higher network and license D&A but increasing 11% QoQ following EBITDA expansion and a slight drop in D&A.

Financial position (TFRS 15)

As at Mar-19, AIS had total assets of Bt296,634mn increasing 2.1% from end-18 mainly driven by higher cash, partly offset by depreciated network and lower accounts receivable. Current assets also increased from a recognition of contract assets amounting to Bt1,639mn following TFRS 15 adoption since Jan-19 (see Note 2). Total liabilities were Bt239,865mn increasing 3.0% QoQ from dividend payable recognized in 1Q19 and paid in Apr-19, partly offset by lower interest-bearing debt which stood at Bt103,200mn. As a result, net debt to EBITDA came down from 1.3x to 1.1x. Total equity was Bt56,769mn decreasing 1.6% QoQ due to lower retained earnings from dividend appropriated.

Cash Flow

In 1Q19, AIS generated Bt20,611mn of operating cash flow (after tax) increasing 16% YoY following EBITDA expansion. Cash CAPEX was Bt3,123mn. As a result, free cash flow increased to Bt17,488mn (OCF less CAPEX), compared to Bt11,267mn in 1Q18. Net repayment of borrowing was Bt5,900mn. As a result, cash and cash equivalents at the end of the period was Bt20,498mn.

Income statement (Bt mn)	Pre-TFRS 15					Post-TFRS 15	Deviation from
	1Q18	4Q18	1Q19	%YoY	%QoQ	1Q19	Pre-TFRS 15
Mobile revenue[1)]	31,208	31,426	31,555	1.1%	0.4%	30,678	(878)
Fixed broadband revenue	1,013	1,212	1,288	27%	6.3%	1,288	-
Other service revenues[1)]	926	1,045	1,119	21%	7.0%	1,078	(40)
Core service revenue	**33,147**	**33,683**	**33,962**	**2.5%**	**0.8%**	**33,044**	(918)
IC and equipment rental	1,418	3,202	2,995	111%	-6.5%	2,995	-
Service revenue	**34,565**	**36,885**	**36,957**	**6.9%**	**0.2%**	**36,039**	(918)
SIM and device sales	6,368	7,699	6,867	7.8%	-11%	7,222	355
Total revenues	**40,933**	**44,584**	**43,824**	**7.1%**	**-1.7%**	**43,262**	(563)
Regulatory fee	(1,475)	(1,420)	(1,403)	-4.9%	-1.2%	(1,403)	-
Depreciation & Amortization	(7,941)	(8,767)	(8,691)	9.5%	-0.9%	(8,691)	-
Network operating expense	(5,462)	(7,366)	(7,371)	35%	0.1%	(7,371)	-
Other costs of services	(2,403)	(2,830)	(2,352)	-2.1%	-17%	(2,352)	-
Cost of service	**(17,281)**	**(20,383)**	**(19,817)**	**15%**	**-2.8%**	**(19,817)**	-
Cost of SIM and device sales	(6,437)	(8,032)	(7,159)	11%	-11%	(7,159)	-
Total costs of service and sale	**(23,718)**	**(28,414)**	**(26,976)**	**14%**	**-5.1%**	**(26,976)**	-
Gross profit	**17,215**	**16,170**	**16,848**	**-2.1%**	**4.2%**	**16,286**	(563)
SG&A	**(6,336)**	**(6,968)**	**(6,786)**	**7.1%**	**-2.6%**	**(6,262)**	524
Marketing Expense	(2,250)	(2,713)	(2,587)	15%	-4.6%	(1,934)	654
Admin and others	(4,086)	(4,255)	(4,198)	2.7%	-1.3%	(4,328)	(130)
Operating profit	**10,879**	**9,202**	**10,063**	**-7.5%**	**9.3%**	**10,024**	(39)
Net foreign exchange gain (loss)	(129)	129	84	-165%	-35%	84	-
Other income (expense)	248	118	221	-11%	87%	203	(18)
Finance cost	(1,292)	(1,288)	(1,217)	-5.8%	-5.5%	(1,217)	-
Income tax	(1,658)	(1,320)	(1,535)	-7.4%	16%	(1,523)	11
Non-controlling interest	(10.8)	(1)	(1)	-91%	-22%	(1)	-
Net profit for the period	**8,037**	**6,839**	**7,615**	**-5.3%**	**11%**	**7,570**	(45)

[1)] Reclassified some revenues from content in FY18 previously booked under other service revenue to mobile revenue

EBITDA (Bt mn)	Pre-TFRS 15					Post-TFRS 15	Deviation from
	1Q18	4Q18	1Q19	%YoY	%QoQ	1Q19	Pre-TFRS 15
Operating Profit	10,879	9,202	10,063	-7.5%	9.3%	10,024	(39)
Depreciation & amortization	8,079	8,919	8,847	10%	-0.8%	8,847	-
(Gain) loss on disposals of PPE	-	(20)	29	NA	-245%	29	-
Management benefit expense	(48)	(32)	(35)	-27%	7.4%	(35)	-
Other financial cost	(6)	2	3	-155%	61%	3	-
EBITDA	**18,905**	**18,071**	**18,906**	**0.0%**	**4.6%**	**18,868**	(39)
EBITDA margin (%)	46.2%	40.5%	43.1%			43.6%	

Financial Position (Bt mn/% to total asset)	TFRS 15 4Q18		1Q19	
Cash	9,067	3.1%	20,498	6.9%
ST investment	2,221	0.8%	1,997	0.7%
Trade receivable	16,361	5.6%	15,887	5.4%
Inventories	3,823	1.3%	3,615	1.2%
Others	3,433	1.2%	4,041	1.4%
Current Assets	**34,905**	**12%**	**46,038**	**16%**
Spectrum license	111,749	38%	109,610	37%
Network and PPE	130,212	45%	127,833	43%
Intangible asset	5,092	1.8%	5,116	1.7%
Defer tax asset	3,210	1.1%	2,871	1.0%
Others	5,337	1.8%	5,165	1.7%
Total Assets	**290,505**	**100%**	**296,634**	**100%**
Trade payable	18,422	6.3%	18,704	6.3%
ST loan & CP of LT loans	17,104	5.9%	11,206	3.8%
Accrued R/S expense	5,362	1.8%	5,362	1.8%
Others	31,877	11%	44,093	15%
Current Liabilities	**72,764**	**25%**	**79,365**	**27%**
Debenture & LT loans	92,030	32%	92,021	31%
Others	68,042	23%	68,480	23%
Total Liabilities	**232,836**	**80%**	**239,865**	**81%**
Retained earnings	32,505	11%	31,620	11%
Others	25,163	8.7%	25,149	8.5%
Total Equity	**57,669**	**20%**	**56,769**	**19%**

Key Financial Ratio	1Q18	4Q18	1Q19
Interest-bearing debt to equity (times)	2.1	1.9	1.8
Net debt to equity (times)	1.9	1.7	1.4
Net debt to EBITDA (times)	1.2	1.3	1.1
Current Ratio (times)	0.5	0.5	0.6
Interest Coverage (times)	13	12	13
Debt Service Coverage Ratio (times)	17	2.9	4.2
Return on Equity	65%	55%	53%

Figures from P&L are annualized YTD.

Debt Repayment Schedule			License payment schedule	
Bt mn	**Debenture**	**Loan**	**1800MHz**	**900MHz**
2019	7,789	3,364	-	4,020
2020	-	14,829	3,128	59,574
2021	1,776	12,079	3,128	-
2022	-	13,440	-	-
2023	7,820	6,550	-	-
2024	6,638	5,150	-	-
2025	-	5,300	-	-
2026	7,180	750	-	-
2027	9,000	750	-	-
2028	-	750	-	-

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

Source and Use of Fund: 1Q19			(Bt mn)
Source of fund		**Use of fund**	
Operating cash flow	21,104	CAPEX & Fixed assets	3,123
Sale of equipment	19	Income tax paid	493
Interest received	36	Finance cost and financial lease paid	218
		Repayment of ST borrowings	5,900
		Cash increase	11,425
Total	**21,159**	**Total**	**21,159**

2019 MANAGEMENT OUTLOOK & STRATEGY (maintained)

All guidance is based on Pre-TFRS 15	
Core service revenue	• Mid-single digit growth
Consolidated EBITDA margin	• Stable from last year
Budgeted CAPEX	• Bt20-25bn
Dividend policy	• Minimum 70% of net profit

Core service revenue is expected to grow mid-single digit

In 2019, AIS strives to continue strengthening core mobile business while putting more focus on growing fixed broadband and enterprise as well as continue the building blocks of new digital services. We target to achieve core service revenue growth of mid-single digit YoY with the focus on being competitive to gain fair market share and hence retain or expand our scale in respective businesses.

For mobile business, 4G adoption and demand is expected to continue rising following improved customer perception of our 4G network supported by the competitive spectrum portfolio. As a leading operator, AIS aims to be competitive in maintaining our mobile business scale as well as enhancing our product and brand proposition to better penetrate and serve certain growing segments.

Having been in the market for four years, AIS Fibre continues to grow with subscriber market share reaching 8%. Our focus on quality acquisition has brought in healthy revenue stream and provided us vital customer access at home. In 2019, deployment of FMC (Fixed-Mobile Convergence) strategy will be more pronounced as we aim to increase ARPU per household (ARPH) leveraging the high-value mobile customer base and deeper household personalization. That said, we aim to achieve 1mn fibre customers milestone this year, implying an estimated market share of 10%.

Post the acquisition of CSL in 2018, strategic alignment has been actively executed. In 2019, we aim to continue our growth in Enterprise Data Service (EDS) while the integrated capability of AIS and CSL shall strongly support our provision of Cloud, Data Centers, ICT managed services as well as other enterprise verticals. Overall, the enterprise revenue, currently representing 10% of core service revenue including revenue from mobile airtime, should continue delivering high-single digit growth in 2019.

EBITDA expands with a margin stable from last year and CAPEX planned at Bt20-25bn

As we have executed the company-wide cost management, our cost structure has been continually optimized amidst the competitive landscape. To support our aspiration in 2019, we ensure to allocate sufficient capital to marking our core mobile leadership and expanding other businesses. As process digitization continues, operating expense is expected to be controlled, offset by the cost to support network growth in all businesses. As a result, we expect EBITDA margin (EBITDA over total revenue) to be stable from last year (43.4% in 2018). With the full range of spectrum portfolio in 900/1800/2100MHz to support more 4G and continued 3G, we plan to invest at a similar range to the previous year with Bt20-25bn in total, of which Bt4-5bn allocated for fixed broadband. This budgeted CAPEX is mainly for 4G capacity expansion incorporating our plan to ensure 5G-compatible architecture and our focus to carefully balancing investment with return.

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.

Disclaimer
Some statements made in this material are forward-looking statements with the relevant assumptions, which are subject to various risks and uncertainties. These include statements with respect to our corporate plans, strategies and beliefs and other statements that are not historical facts. These statements can be identified by the use of forward-looking terminology such as "may", "will", "expect", "anticipate", "intend", "estimate", "continue" "plan" or other similar words. The statements are based on our management's assumptions and beliefs in light of the information currently available to us. These assumptions involve risks and uncertainties which may cause the actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Please note that the company and executives/staff do not control and cannot guarantee the relevance, timeliness, or accuracy of these statements.

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