

SELL (Unchanged)

Change in Numbers

TP: Bt 2.70 (Unchanged)

Downside : 11.2%

9 JULY 2021

True Corporation Pcl (TRUE TB)

Not yet out of the woods

We maintain our SELL call on TRUE with an unchanged TP of Bt2.7. We expect its cash flow to remain negative into 2023F, with the industry likely continuing to be pressured by weak consumption and tourism. We prefer ADVANC as our top pick in the telecom sector.

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Still unattractive in our view

We still see TRUE as an unattractive investment choice given its weak operational outlook over the next few years. *First*, we project its free cash flow to remain negative into 2023F due to slow revenue growth and debt piling up. *Secondly*, its market share gain pace is slowing as the three incumbent operators are on a more level playing field, both in terms of network coverage and service quality. *Thirdly*, TRUE is expensive in our view trading at 6x EV/EBITDA in 2022F, a similar level to Advanced Info Service (ADVANC, BUY, Bt169.50) which has a much stronger operation and financial health. We therefore maintain our SELL rating on TRUE and prefer ADVANC, which also offers a 4% yield, as our pick in telecom sector. Our DCF-based 12-month TP is maintained at Bt2.7/share despite rolling over our valuation to a 2022F base year, as we expect slower growth for TRUE.

Debt piling up

We expect TRUE's cash flow and earnings to remain negative until 2023F (Exhibits 1-2) despite its aggressive cost cuts and already peaked capex. This is due to weak domestic consumption and a slow tourism recovery (3-4% of the sector's total revenue). Together with slowing market share gain momentum, we project only 2% p.a. revenue growth for TRUE in 2021-23F (vs. 8% p.a. in 2017-19) and 6% p.a. EBITDA growth (10% p.a.). We estimate this negative cash flow to result in its debt level rising to Bt275bn in 2021F and Bt302bn in 2023F (Bt224bn in 2020). We project its net D/E to peak at 4.2x in 2024F (2.3x in 2020).

Slower market share gains

TRUE's market share gain momentum has been slowing down from 1.5pp p.a. in 2016-19 to a flat revenue share over the past 12 months. We project a 0.5pp p.a. gain in 2021-23F for TRUE to reach 33% (from 31.4% in 2020). While gaps in service quality and network coverage among the incumbents have not been noticed by customers, effectiveness of TRUE's pricing strategy has subsided, since any price competition is more easily matched by rivals. We believe the competitive gap could rise when 5G fully hits the market, say in the next two years, since the #3 player, Total Access Communication Pcl (DTAC, BUY, Bt30.00), is still lagging in getting core 5G spectrum and rolling out a 5G network.

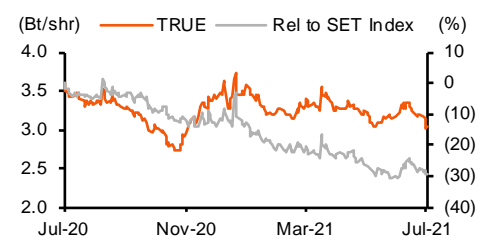
Less of a loss in 2Q21F, but still a loss

We expect TRUE to report a lower loss of Bt182m in 2Q21F (vs. a Bt444m loss in 1Q21) due to cost-cutting efforts on flat revenue growth. However, we do not see this as a business turnaround trend as we expect 2H21F to continue to be weak with losses given the soft economy pressuring revenue. Note that with its higher debt level, TRUE is also suffering from rising interest expenses. We do not expect TRUE to turn a profit before 2023F.

COMPANY VALUATION

Y/E Dec (Bt m)	2020A	2021F	2022F	2023F
Sales	138,212	139,497	141,692	143,725
Net profit	1,048	(1,596)	(881)	(992)
Consensus NP	—	(1,884)	(695)	1,126
Diff frm cons (%)	—	na	na	na
Norm profit	(3,134)	(1,596)	(881)	(992)
Prev. Norm profit	—	(6,631)	(3,279)	(630)
Chg frm prev (%)	—	na	na	na
Norm EPS (Bt)	(0.1)	(0.0)	(0.0)	(0.0)
Norm EPS grw (%)	na	na	na	na
Norm PE (x)	na	na	na	na
EV/EBITDA (x)	5.7	6.3	6.3	6.2
P/BV (x)	1.2	1.3	1.3	1.4
Div yield (%)	2.3	3.0	3.0	3.0
ROE (%)	na	na	na	na
Net D/E (%)	233.4	319.5	370.6	399.6

PRICE PERFORMANCE



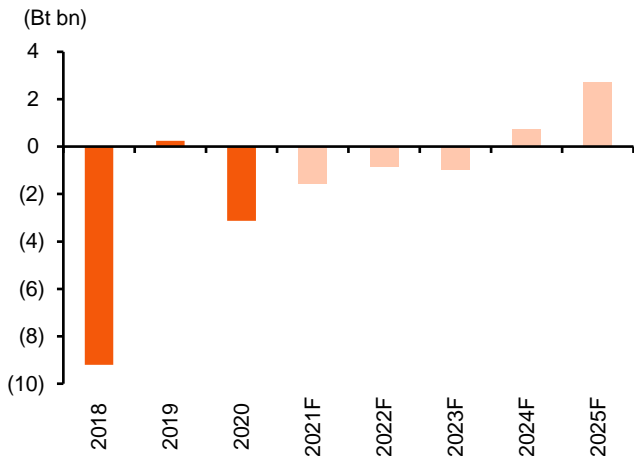
COMPANY INFORMATION

Price as of 9-Jul-21 (Bt)	3.04
Market Cap (US\$ m)	3,112.9
Listed Shares (m shares)	33,368.2
Free Float (%)	31.8
Avg Daily Turnover (US\$ m)	6.6
12M Price H/L (Bt)	3.74/2.72
Sector	Telecom
Major Shareholder	CP Group 17.84%

Sources: Bloomberg, Company data, Thanachart estimates

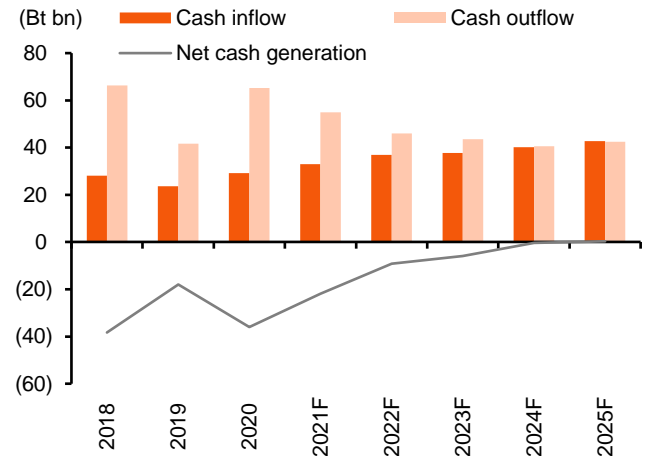


Ex 1: Profit Looks Set To Stay Negative...



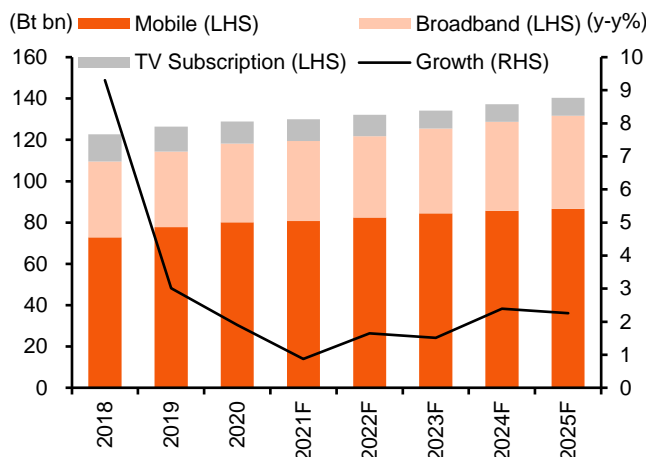
Sources: Company data, Thanachart estimates

Ex 2: ...And Cashflow Generation



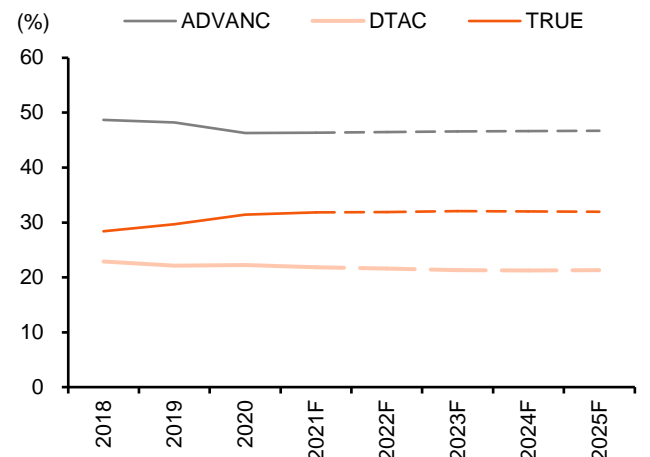
Sources: Company data, Thanachart estimates

Ex 3: Organic Revenue Growth Going Forward



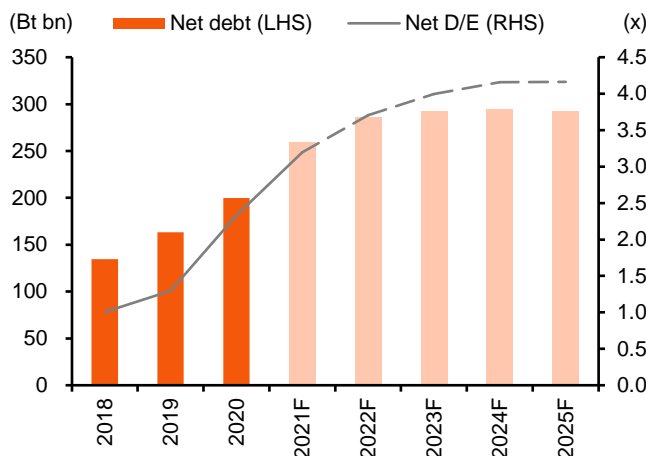
Sources: Company data, Thanachart estimates

Ex 4: We Expect A Stable Mobile Market Share



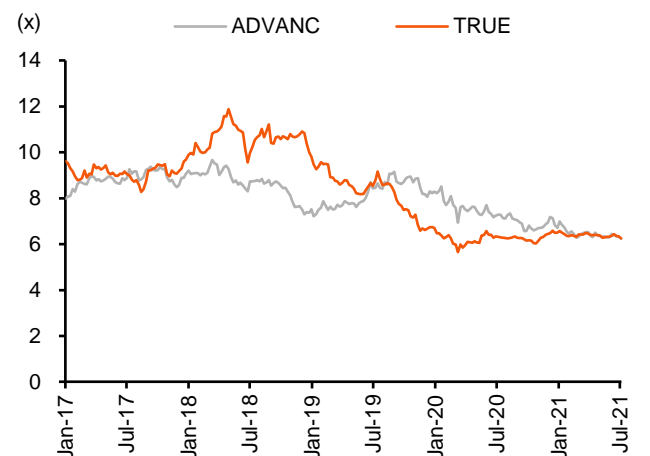
Sources: Company data, Thanachart estimates

Ex 5: Rising Debt With Gearing Yet To Peak



Sources: Company data, Thanachart estimates

Ex 6: TRUE's EV/EBITDA Vs. ADVANC's



Sources: Company data, Bloomberg Thanachart estimates

Ex 7: 12-month DCF-based TP Calculation Using A Base Year Of 2022F

(Bt m)	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	Terminal Value
EBITDA excl. depre from right of use	50,348	51,665	54,296	56,752	58,767	59,849	62,603	64,427	66,098	67,494	68,892	—
Free cash flow	4,569	9,163	14,118	14,657	24,459	25,545	26,573	27,555	27,746	33,919	35,149	531,536
PV of free cash flow	4,236	7,876	11,246	10,823	16,390	15,801	15,169	14,520	13,495	15,229	13,971	211,267
Risk-free rate (%)	2.5											
Market risk premium (%)	8.0											
Beta	1.1											
WACC (%)	7.9											
Terminal growth (%)	2.0											
Enterprise value - add investments	350,024											
Net debt (2021F)	259,553											
Minority interest	404											
Equity value	90,067											
# of shares	33,368											
Equity value/share (Bt)	2.70											

Sources: Company data, Thanachart estimates

Valuation Comparison

Ex 8: Comparison With Regional Peers

Name	BBG Code	Country	EPS growth		— PE —		— P/BV —		EV/EBITDA		Div Yield	
			21F (%)	22F (%)	21F (x)	22F (x)	21F (x)	22F (x)	21F (x)	22F (x)	21F (%)	22F (%)
China Mobile	941 HK	HK	3.5	4.0	8.6	8.2	0.8	0.8	1.4	1.4	6.2	6.5
China Unicom Hon	762 HK	HK	13.2	12.5	8.9	7.9	0.4	0.4	0.9	0.9	4.7	5.4
China Telecom Corp Ltd	728 HK	HK	5.8	3.6	10.2	9.9	0.6	0.6	2.0	2.0	5.3	5.8
Bharti Airtel	BHARTI IN	India	na	na	na	56.1	4.7	4.5	9.9	8.5	0.4	0.6
Idea Cellular	IDEA IN	India	na	na	na	na	na	na	10.6	9.3	0.0	0.0
Tata Communication	TCOM IN	India	5.8	11.2	28.7	25.8	562.9	26.9	10.9	10.3	0.7	0.8
Indosat	ISAT IJ	Indonesia	na	159.3	98.3	37.9	2.5	2.4	4.7	4.4	3.3	0.5
Telekomunikasi Indonesia	TLKM IJ	Indonesia	9.3	9.3	13.8	12.6	2.8	2.6	4.9	4.6	5.6	6.2
Axiata Group Bhd	AXIATA MK	Malaysia	175.0	27.3	34.4	27.0	1.9	1.8	5.6	5.4	2.4	3.0
Maxis Bhd	MAXIS MK	Malaysia	4.0	9.2	24.0	22.0	4.8	4.7	11.4	10.9	4.0	4.2
DiGi.Com	DIGI MK	Malaysia	(4.5)	5.3	28.3	26.8	0.6	0.5	12.8	12.5	3.5	3.7
Singapore Telecom	ST SP	Singapore	258.0	14.0	18.7	16.4	1.4	1.3	12.9	12.4	4.7	4.6
StarHub	STH SP	Singapore	(6.9)	3.7	14.9	14.4	0.0	0.0	6.6	6.2	5.0	5.7
SK Telecom	017670 KS	S.Korea	126.4	na	na	8.7	na	0.9	7.2	5.6	0.0	3.3
Taiwan Mobile	3045 TT	Taiwan	126.4	na	11.3	60.1	3.7	10.4	7.2	4.7	6.5	1.4
Advanced Info Service *	ADVANC TB	Thailand	(5.4)	12.3	19.6	17.5	6.2	5.7	6.5	6.1	4.1	4.6
Total Access Comm. *	DTAC TB	Thailand	(34.1)	(0.5)	20.3	20.5	3.2	3.2	4.2	3.9	5.0	5.0
Intouch Holdings *	INTUCH TB	Thailand	1.8	11.0	19.1	17.2	5.0	4.5	na	na	3.4	4.5
True Corp *	TRUE TB	Thailand	na	na	na	na	1.3	1.3	6.3	6.3	3.0	3.0
Average			45.2	20.2	23.9	22.9	35.5	4.0	7.0	6.4	3.6	3.6

Sources: Company data, Thanachart estimates

Note: * Thanachart estimates, using Thanachart normalized EPS

Based on 9 July 2021 closing prices

COMPANY DESCRIPTION

True Corporation Pcl (TRUE) is an integrated telecommunications provider. The company offers a full range of voice, video and data in mobile services, household fixed-broadband internet services, topped off by digital content and live streaming, and a pay-TV subscription service. Online games and digital solutions service are new two markets that TRUE is trying to penetrate.

Source: Thanachart

COMPANY RATING



Rating Scale

Excellent	5
Good	4
Fair	3
Weak	2
Very Weak	1
None	0

Source: Thanachart; * No CG Rating

THANACHART'S SWOT ANALYSIS

S — Strength

- A fully integrated telecommunication service provider.
- A subsidiary of CP Group, one of the largest conglomerates in Thailand.
- A strategic partnership with China Mobile, one of the biggest telecommunication providers with a global scale.

O — Opportunity

- Market-share gain opportunities in the prepaid market.
- Rising mobile data consumption and increasingly connected devices in the "Industry 4.0" era.
- Overseas investments.

W — Weakness

- The company still generates negative free cash flow due to sizable investments in its mobile business segment.
- High financial gearing.

T — Threat

- Aggressive competition in the industry re-emerging.
- High regulatory risk in Thailand's telecommunication industry.

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	3.46	2.70	-22%
Norm profit 21F (Bt m)	(1,884)	(1,596)	na
Norm profit 22F (Bt m)	(695)	(881)	na
Consensus REC	BUY: 7	HOLD: 8	SELL: 7

HOW ARE WE DIFFERENT FROM THE STREET?

- Our 2021-22F earnings estimates are pretty much in line with the Bloomberg consensus numbers.
- However, our TP is lower, likely as we assume a lower potential for TRUE to gain mobile and broadband market share.

Sources: Bloomberg consensus, Thanachart estimates

RISKS TO OUR INVESTMENT CASE

- Faster-than-expected subscriber gains and less aggressive price cuts may lead to TRUE breaking even earlier than we assume. This represents the key upside risk to our call.
- An easing of regulatory risk related to spectrum auctions and revenue sharing may present an upside risk to our numbers.
- A lessening of competition in the industry represents another upside risk to our projections.

Source: Thanachart

INCOME STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Sales	138,456	138,212	139,497	141,692	143,725
Cost of sales	106,691	100,638	100,058	100,746	102,660
Gross profit	31,765	37,575	39,439	40,946	41,065
% gross margin	22.9%	27.2%	28.3%	28.9%	28.6%
Selling & administration expenses	26,306	26,928	25,997	25,791	25,567
Operating profit	5,459	10,647	13,442	15,154	15,498
% operating margin	3.9%	7.7%	9.6%	10.7%	10.8%
Depreciation & amortization	27,612	42,008	44,125	46,816	47,470
EBITDA	33,071	52,655	57,567	61,971	62,969
% EBITDA margin	23.9%	38.1%	41.3%	43.7%	43.8%
Non-operating income	(1,520)	757	198	126	101
Non-operating expenses	(260)	(801)	(200)	(200)	(100)
Interest expense	(9,422)	(17,565)	(18,474)	(19,435)	(20,001)
Pre-tax profit	(5,743)	(6,963)	(5,034)	(4,355)	(4,502)
Income tax	942	19	(100)	(150)	(200)
After-tax profit	(6,685)	(6,982)	(4,934)	(4,205)	(4,302)
% net margin	-4.8%	-5.1%	-3.5%	-3.0%	-3.0%
Shares in affiliates' Earnings	6,864	3,725	3,214	3,198	3,182
Minority interests	64	123	124	126	128
Extraordinary items	5,394	4,182	0	0	0
NET PROFIT	5,637	1,048	(1,596)	(881)	(992)
Normalized profit	243	(3,134)	(1,596)	(881)	(992)
EPS (Bt)	0.2	0.0	(0.0)	(0.0)	(0.0)
Normalized EPS (Bt)	0.0	(0.1)	(0.0)	(0.0)	(0.0)

We project earnings to remain negative into 2023F

BALANCE SHEET

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
ASSETS:					
Current assets:	134,449	104,406	101,866	98,307	99,789
Cash & cash equivalent	49,450	24,469	15,095	10,095	10,095
Account receivables	47,613	44,919	47,773	48,525	49,221
Inventories	7,274	4,508	6,853	6,900	7,032
Others	30,113	30,509	32,145	32,787	33,441
Investments & loans	28,692	24,478	24,478	24,478	24,478
Net fixed assets	228,962	231,894	256,704	275,184	290,141
Other assets	131,889	256,770	272,849	268,553	245,024
Total assets	523,993	617,548	655,898	666,522	659,432
LIABILITIES:					
Current liabilities:	151,150	175,786	176,882	177,469	177,744
Account payables	70,487	69,968	65,792	66,244	67,503
Bank overdraft & ST loans	16,663	4,774	20,599	22,219	22,665
Current LT debt	18,037	61,008	38,107	41,105	41,931
Others current liabilities	45,964	40,036	52,385	47,900	45,645
Total LT debt	178,030	158,491	215,942	232,931	237,608
Others LT liabilities	68,794	197,653	181,845	178,904	170,985
Total liabilities	397,974	531,931	574,670	589,304	586,337
Minority interest	651	528	404	278	150
Preferred shares	0	0	0	0	0
Paid-up capital	133,473	133,473	133,473	133,473	133,473
Share premium	26,384	26,384	26,384	26,384	26,384
Warrants	0	0	0	0	0
Surplus	(1,898)	(2,040)	(2,040)	(2,040)	(2,040)
Retained earnings	(32,591)	(72,727)	(76,993)	(80,876)	(84,872)
Shareholders' equity	125,368	85,089	80,824	76,940	72,945
Liabilities & equity	523,993	617,548	655,898	666,522	659,432

Piling up of debt is our major concern

Sources: Company data, Thanachart estimates

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Earnings before tax	(5,743)	(6,963)	(5,034)	(4,355)	(4,502)
Tax paid	(908)	(32)	108	149	204
Depreciation & amortization	27,612	42,008	44,125	46,816	47,470
Chg In working capital	(3,443)	4,940	(9,376)	(346)	431
Chg In other CA & CL / minorities	28,532	3,658	13,920	(1,928)	268
Cash flow from operations	46,050	43,610	43,743	40,337	43,873
Capex	(37,501)	(18,766)	(41,500)	(36,500)	(34,000)
Right of use	0	(115,190)	(17,261)	(3,500)	(3,000)
ST loans & investments	(1)	(51)	0	0	0
LT loans & investments	(5,600)	4,214	0	0	0
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	(18,511)	90,628	(42,062)	(23,941)	(9,818)
Cash flow from investments	(61,612)	(39,164)	(100,822)	(63,941)	(46,818)
Debt financing	57,854	11,900	50,374	21,608	5,948
Capital increase	0	0	(0)	0	0
Dividends paid	(3,003)	(3,003)	(2,669)	(3,003)	(3,003)
Warrants & other surplus	(10,557)	(38,324)	0	0	0
Cash flow from financing	44,294	(29,427)	47,705	18,605	2,945
Free cash flow	8,549	24,844	2,243	3,837	9,873

Huge capex still required ahead for 5G rollout

VALUATION

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Normalized PE (x)	417.3	na	na	na	na
Normalized PE - at target price (x)	370.6	na	na	na	na
PE (x)	18.0	96.8	na	na	na
PE - at target price (x)	16.0	85.9	na	na	na
EV/EBITDA (x)	8.0	5.7	6.3	6.3	6.2
EV/EBITDA - at target price (x)	7.7	5.5	6.1	6.1	6.1
P/BV (x)	0.8	1.2	1.3	1.3	1.4
P/BV - at target price (x)	0.7	1.1	1.1	1.2	1.2
P/CFO (x)	2.2	2.3	2.3	2.5	2.3
Price/sales (x)	0.7	0.7	0.7	0.7	0.7
Dividend yield (%)	3.0	2.3	3.0	3.0	3.0
FCF Yield (%)	8.4	24.5	2.2	3.8	9.7
(Bt)					
Normalized EPS	0.0	(0.1)	(0.0)	(0.0)	(0.0)
EPS	0.2	0.0	(0.0)	(0.0)	(0.0)
DPS	0.1	0.1	0.1	0.1	0.1
BV/share	3.8	2.6	2.4	2.3	2.2
CFO/share	1.4	1.3	1.3	1.2	1.3
FCF/share	0.3	0.7	0.1	0.1	0.3

Sources: Company data, Thanachart estimates

Comparable multiples to peers, but much weaker operations

FINANCIAL RATIOS

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Growth Rate					
Sales (%)	1.8	(0.2)	0.9	1.6	1.4
Net profit (%)	(19.0)	(81.4)	na	na	na
EPS (%)	(19.0)	(81.4)	na	na	na
Normalized profit (%)	na	na	na	na	na
Normalized EPS (%)	na	na	na	na	na
Dividend payout ratio (%)	53.3	222.8	(188.2)	(341.0)	(302.8)
Operating performance					
Gross margin (%)	22.9	27.2	28.3	28.9	28.6
Operating margin (%)	3.9	7.7	9.6	10.7	10.8
EBITDA margin (%)	23.9	38.1	41.3	43.7	43.8
Net margin (%)	(4.8)	(5.1)	(3.5)	(3.0)	(3.0)
D/E (incl. minor) (x)	1.7	2.6	3.4	3.8	4.1
Net D/E (incl. minor) (x)	1.3	2.3	3.2	3.7	4.0
Interest coverage - EBIT (x)	0.6	0.6	0.7	0.8	0.8
Interest coverage - EBITDA (x)	3.5	3.0	3.1	3.2	3.1
ROA - using norm profit (%)	0.0	na	na	na	na
ROE - using norm profit (%)	0.2	na	na	na	na
DuPont					
ROE - using after tax profit (%)	na	na	na	na	na
- asset turnover (x)	0.3	0.2	0.2	0.2	0.2
- operating margin (%)	na	na	na	na	na
- leverage (x)	3.9	5.4	7.7	8.4	8.8
- interest burden (%)	(156.1)	(65.7)	(37.5)	(28.9)	(29.0)
- tax burden (%)	na	na	na	na	na
WACC (%)	7.9	7.9	7.9	7.9	7.9
ROIC (%)	2.0	3.7	4.7	4.5	4.3
NOPAT (Bt m)	5,459	10,647	13,442	15,154	15,498
invested capital (Bt m)	288,647	284,893	340,376	363,100	365,053

Sources: Company data, Thanachart estimates

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