Telecom Sector – Overweight

News update

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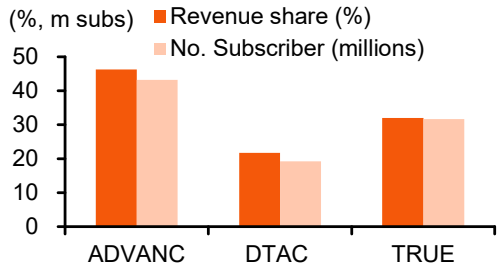
Scenario analysis on potential DTAC-TRUE merger

- **Intense market speculation on DTAC and TRUE to merge**
- **We estimate Bt10bn synergy benefits**
- **TRUE looks to gain more from the deal, based on our analysis**
- **But we see no more upside to play**

Speculation over potential merging deal between DTAC and TRUE spurred up in the market again this week, obviously seen from 13% and 18% share price runs for the two companies last week without any significant change on the fundamentals. As the talks expect the deal to be a non-cash merging through a share swap, we provide our scenario analysis below, based on assumption of direct share swap between two firms which would be only two shareholders in the "merged-co".

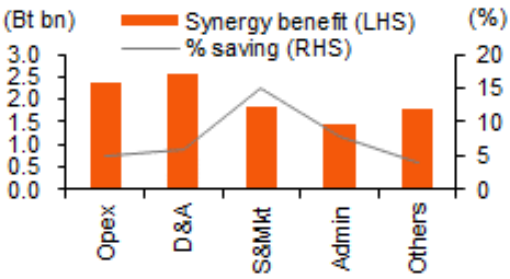
- The merged-Co would become the largest mobile service operator in Thailand at 54% of revenue share. This makes the industry become a duopoly market, with ADVANC holding another 46% of the market share.
- We expect the merged-co to generate Bt12bn profit per year, based on our current earnings forecasts on the two original firms and our estimated Bt10bn synergy benefits from the merger.
- Examples the cost savings are 1) 5% saving on network-related costs (including depreciation) given there are many overlapping assets between those two firms, 2) 15% lower market expenses especially on advertising costs, 3) 8% lower staff expenses as we believe the merged-co would later reduces number of employees, and 4) lower spectrum amortization cost as DTAC would not have to bid for the 3500MHz license.
- Assuming average trading valuation for Thai telcos at 20x PE over past five years, we estimate market capitalization of the merged-co at Bt240bn.
- Since the talk in the market expects the deal to be in a share swap basis but yet any clue on a swap ratio, Ex4 shows our sensitivity analysis on how much DTAC and TRUE should worth given a range of swap ratios. Note that *case D* implies share swap ratio at current market prices and *case B* implies the ratio based on our DCF-valuation on both companies.
- Our base case (*Case C*, a middle ground between current market prices and our DCF-valuation) indicates that TRUE's share price has run ahead of the potential benefits, while there is an 18% upside on DTAC.
- Having said that, we don't see it worth taking a risk since if the swap ratio heavily favors TRUE, which is likely due to the news flows that Telenor is eager to make the deal happen, upside on DTAC would be less.

Ex 1: Thai Mobile Service Market Share



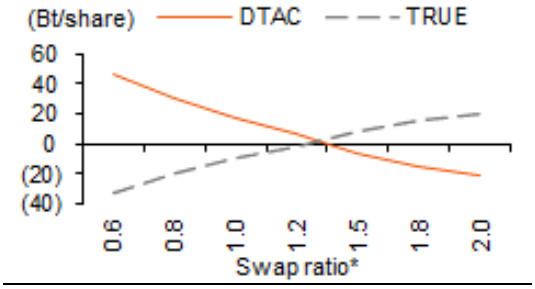
Source: Company data
Note: As of 2Q21

Ex 2: Our Estimated Synergy Cost Savings



Source: Thanachart estimates

Ex 3: Estimated Post-deal Valuations



Source: Thanachart estimates
Note: * Swap ratio is defined as # of DTAC's shares per 1 TRUE's share

Ex 4: Our Scenario Analysis On Potential Merger Between DTAC and TRUE

Case	**A**	**B**	**C**	**D**	**E**	**F**	**G**
Swap ratio	**0.6**	**0.8**	**1.0**	**1.2**	**1.5**	**1.8**	**2.0**
(DTAC shares : 1 TRUE share)			*(base case)*				
% Holding in merged-co							
DTAC	62.5%	55.6%	50.0%	45.5%	40.0%	35.7%	33.3%
TRUE	37.5%	44.4%	50.0%	54.5%	60.0%	64.3%	66.7%
Holding value in merged-co (Bt bn)							
DTAC	162.9	144.8	130.4	118.5	104.3	93.1	86.9
TRUE	97.8	115.9	130.4	142.2	156.4	167.6	173.8
% Upside to our valuations							
DTAC	36.0%	20.9%	8.8%	-1.1%	-13.0%	-22.3%	-27.5%
TRUE	-1.3%	17.0%	31.6%	43.6%	58.0%	69.2%	75.5%
Implied share price post-deal announcement (Bt/share)							
DTAC	62.56	55.61	50.05	45.50	40.04	35.75	33.37
TRUE	2.67	3.16	3.55	3.88	4.26	4.57	4.74

Source: Thanachart estimates
Note: Case B is the closest ratio to our DCF-valuation. Case D is the closet ratio to the current market prices.

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