

Telecom Sector – Underweight

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News update

Two major consolidations in Thai telco industry

- Two merger deals likely to be finalized in 1Q23F
- Major players are now neck-to-neck in scale aspect
- We see an arbitraging opportunity on DTAC-TRUE deal
- ADVANC remains our best fundamental pick

We expect two consolidation activities in Thai telecom industry to be finalized within 1Q23F; 1) an amalgamation between Total Access Communication Pcl (DTAC) and True Corporation Pcl (TRUE) and 2) an acquisition by Advanced Info Service Pcl (ADVANC) for the currently second largest fixed broadband service (FBB) operator in Thailand, Triple T Broadband (TTTBB).

Mobile service market

- After being granted a conditional approval from the National Broadcasting and Telecommunications Commission (NBTC), DTAC and TRUE are now in the final phase of its amalgamation plan in which they target it to complete within 1Q23F.
- The amalgamation will be done through a share swap from shares of two existing firms into shares of the new 'merged-co'. The swap ratios are 1 share of new merged-co per 6.13444 existing DTAC's shares or 0.60018 TRUE's shares. After the consolidation, major shareholders of the new merged-co will be 29.0% CP Group, 19.6% Telenor Asia, 10.4% China Mobile, 7.7% Thai Telco Holdings, and 33.2% are minorities.
- As a result of DTAC-TRUE merger, Thai mobile service market will turn into an oligopoly market with the new merged-co having 54% of total subscriber share, while ADVANC holds another 46% (Exhibit 1).

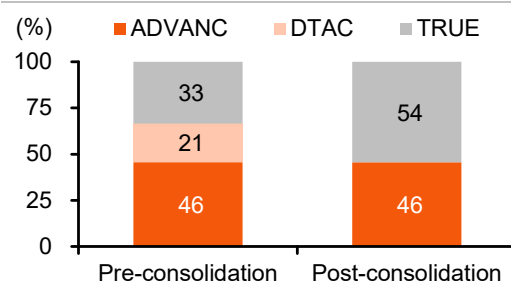
Fixed broadband market

- ADVANC is requesting an approval from NBTC to acquire 100% stake in TTTBB, the second largest player in Thai FBB service industry with 21% share in total subscriber base. We believe the deal will be approved and could be finalized by end-1Q23F.
- If the acquisition deal goes through, ADVANC's subscriber share in Thai FBB market will surge to 39%, a similar level to TRUE which is now the market leader with 42% share (Exhibit 2).

Our view:

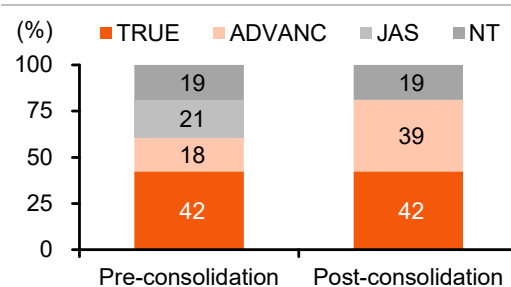
- We expect milder pricing competition intensity in both telecom markets post consolidations based on a significantly lower diminishing return for players in gaining market share via a price cut when their market shares are already in similar levels.
- However, we also don't expect a significant pricing uplift in near-term since we believe the key pressure on industry's revenue is purchasing power of the customers rather than the price cuts. We maintain our view that new technology or new applications are required for the telecom users to be willing to pay more for the services.

Ex 1: Mobile Market's Subscriber Share



Sources: Company data, NBTC

Ex 2: Shares Of Subscribers In FBB Market



Sources: Company data, NBTC

Ex 3: Arbitrage-Free Prices Between DTAC And TRUE Based On The Share Swap Deal

DTAC (Bt/share)	TRUE (Bt/share)
42.0	4.11
43.0	4.21
44.0	4.30
45.0	4.40
46.0	4.50
47.0	4.60
48.0	4.70
49.0	4.79
50.0	4.89
51.0	4.99
52.0	5.09

Source: Thanachart estimates

- Despite being dropped down to the second largest player in the industry post major market consolidations, we still have ADVANC as our best investment pick to play on post-COVID industry's revenue and earnings recovery story due to its much stronger profitability and financial health over peers.
- Having said that, we see an arbitraging opportunity from DTAC-TRUE share swapping deal as their current market prices imply that TRUE is now 8% overvalued compared to DTAC, based on the already fixed share swap ratios. See our Exhibit 3 for a table of arbitrage-free prices between DTAC and TRUE.
- Note that current market capitalization of Jasmine International Pcl (JAS, non-rated) is now only at Bt18.9bn, lower than proceeds it would get from its sales of TTTBB business and investment units of Jasmine Broadband Internet Infra Fund (JASIF) to ADVANC for a total price of Bt32.4bn.

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