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FY12 Results Preview

Advanced Info Services

Buy ↔ THB	
Target	THB254
Previous	THB254
Price	THB212

Telecommunications

ADVANC is the largest mobile operator in Thailand with a GSM900 and GSM1800 network under concession from TOT and CAT.

Stock Statistics

Bloomberg Ticker	ADVANC TB
Market Cap	THB630,296m
	USD21,115m
52 wk H/L price (THB)	227 148
3m ADT	THB1,218m
YTD Returns	1.4%
Beta (x)	0.62

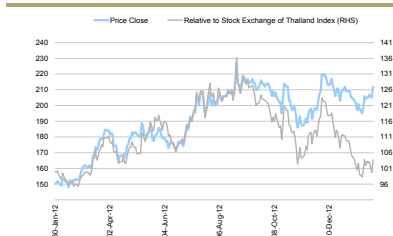
Major Shareholders (%)

InTouchPlc	42.5
SingTel	21.3

Share Performance (%)

Month	Absolute	Relative
1m	1.4	-4.8
3m	7.6	-8
6m	6	-19.5
12m	39.5	2.1

6-month Share Price Performance



Source: Bloomberg

Likely To Stay On Course

We do not foresee any surprises for ADVANC's 4Q/FY12 results, due to be announced on 7 Feb. That said, there may be downside risks to its dividend payout given the one-off expenses incurred in 4Q2012. We advise investors to accumulate the stock on any pullback in share price. ADVANC remains a BUY with FV unchanged at THB254.

Robust top-line. ADVANC will announce its FY12 results on 7 Feb. An investor conference call will be held on the same day. We expect 4Q12 service revenue to come in stronger q-o-q and y-o-y, fuelled by the rapid adoption of smartphones and the introduction of interim 3G service on 900MHz. Approximately 16% of its subscribers are using smartphones but only 10% are currently on 3G. The introduction of the iPhone 5 is expected to boost handset sales and raise 3G take-up.

iPhone not that lucrative. We think the strong sales of the iPhone5 (launched in Dec 2012) may be a double-edged sword for ADVANC going by the past experience of the iPhone 4 and 4S models. This is because the higher sales of the iPhone have historically been accompanied by an erosion in profit margin. The group's handset sales and cost rose sharply between 3Q10-1Q11 and 4Q11-2Q12, periods which coincided with brisk sales of the previous iPhone models.

Marketing expenses on the rise. We see a spike in marketing expenses in 4Q12 making dent on its EBITDA margin. Management had previously guided for marketing expense to make up 2%-2.5% of FY12 revenue. For 9MFY12, A&P as a percentage of revenue totalled 1.9%.

Maintain BUY. We are maintaining our FY12/FY13 core earnings forecasts pending the release of its results and the fresh guidance on revenue growth and capex to be issued by management. There may be downside risk to its dividend payout given the two one-off expenses in 4Q12 (see Page 2). Maintain BUY, with THB254 FV, based on FCFF (WACC: 9.2%, TG: 1.5%). We advise investors to accumulate on any share price pullback.

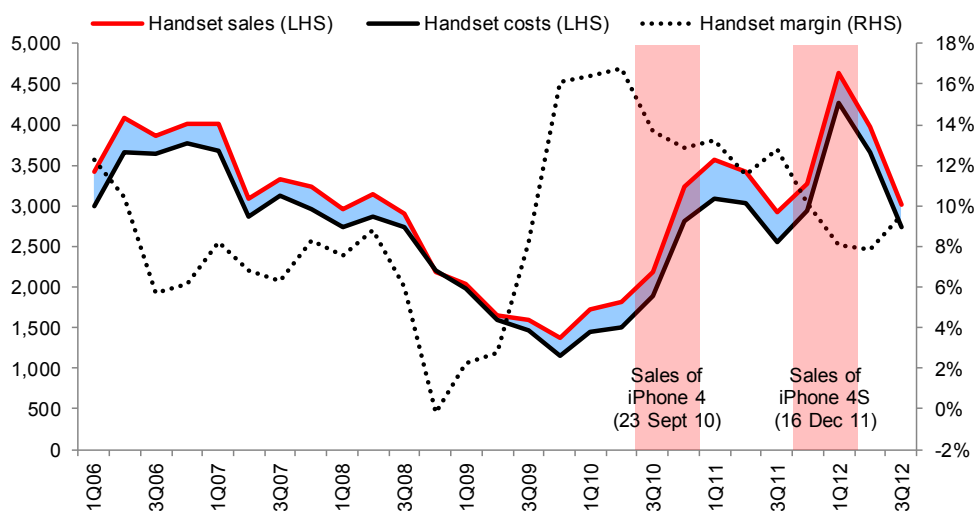
Forecasts and Valuations	Dec-10	Dec-11	Dec-12F	Dec-13F	Dec-14F
Total turnover (THBm)	111,280	126,437	139,374	149,137	159,554
Recurring net profit (THBm)	22,107	26,600	34,482	36,933	42,169
Recurring net profit growth	25.5%	20.3%	29.6%	7.1%	14.2%
Core EPS (THB)	7.4	9.0	11.6	12.4	14.2
Core EPS growth	25.3%	20.2%	29.6%	7.1%	14.2%
DPS (THB)	12.9	8.4	11.6	12.4	14.2
Dividend Yield	6.1%	4.0%	5.5%	5.9%	6.7%
Core P/E (x)	28.5	23.7	18.3	17.1	14.9
Return on average equity	36.4%	55.2%	83.2%	83.2%	90.8%
P/B (x)	15.3	16.1	14.5	14.0	13.2
EV/EBITDA (x)	12.6	11.2	10.3	9.8	8.8
Net debt to equity	52.3%	7.4%	13.7%	14.2%	1.5%
OSK vs consensus EPS			(3.2%)	(5.0%)	(3.4%)

Source: Company data, OSK Research estimates

OTHER HIGHLIGHTS

On both occasions, sales of both the iPhone 4 & 4S coincided with weaker handset margins. We expect a similar trend with the arrival of the iPhone 5 in 4Q2012.

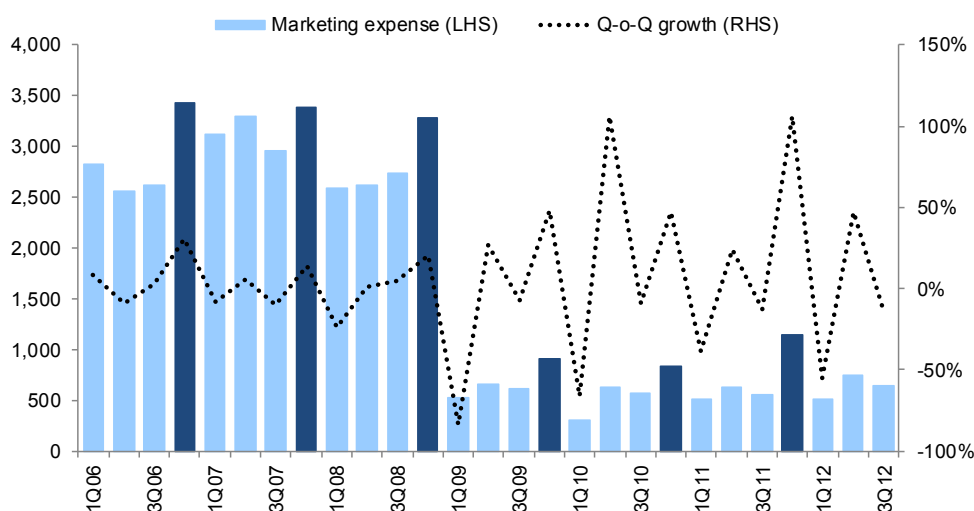
Figure 1 Quarterly handset sales and costs (THBm)



Source: OSK

4Q is typically a quarter of heightened marketing activities. We expect higher A&P cost in 4Q as ADVANC had underspent in the first nine months of the year versus its earlier guidance.

Figure 2 Quarterly marketing expense (THBm)



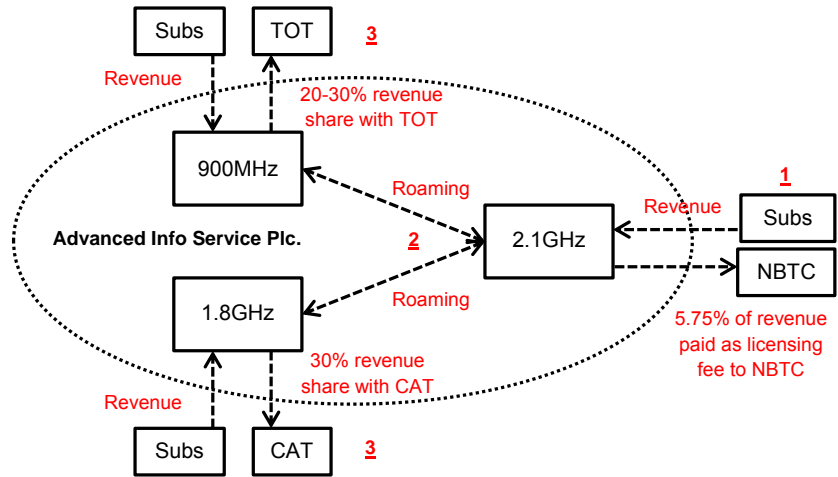
Source: OSK

May get hit by one-off expenses. From our recent conversation with management, we gather that ADVANC will likely incur: i) an impairment charge on its subsidiary, Digital Phone Co. Ltd (DPC) which holds the soon-to-expire 1.8GHz license, and ii) additional provisioning for employee benefits. Although management was tight-lipped on the impact on earnings from both items, we note that these are on-off in nature.

Slower migration of subscribers to 3G. The National Broadcasting and Telecommunications Commission (NBTC) requires 3G spectrum holders to provide coverage to at least 50% and 80% of the population within two and four years respectively. ADVANCE said it would be approaching the migration of subscribers cautiously given the shortage of 3G devices, as well as to avoid the additional regulatory fees it might incur under the NBTC's new fee mechanism.

An underdeveloped 3G device ecosystem may force ADVANC to incur additional regulatory fees due to subscribers roaming from the 2.1GHz bandwidth to the 900MHz or 1.8GHz frequencies.

Figure 3 Fee structure and collection mechanism

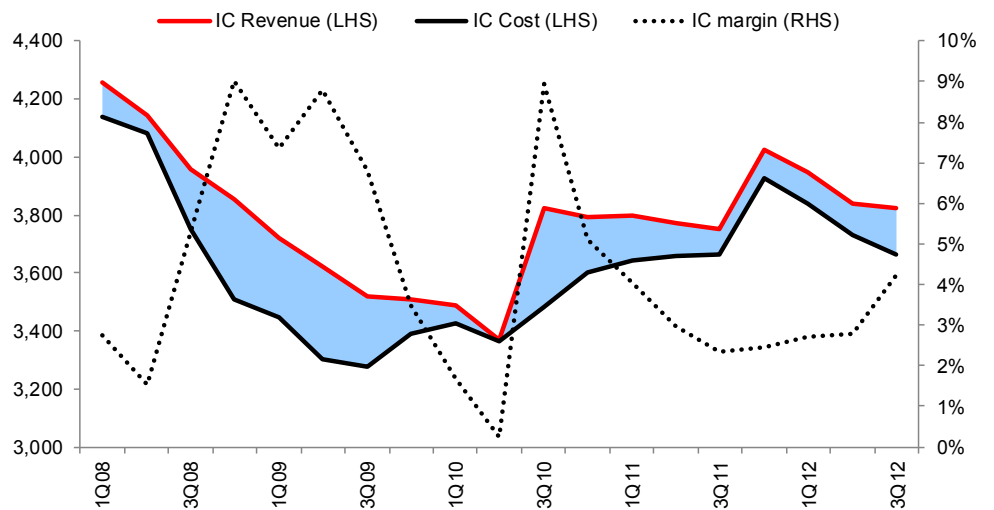


Source: OSK

IC rate cut a non-issue; minimal impact on earnings. Although ADVANC is a net interconnect (IC) recipient, we are unperturbed by NBTC's move this month to cut the IC charge rate to THB0.5/minute. This rate has been self-regulated by mobile operators since 2007 and had ranged from THB0.5 to THB1.0/minute. Given the marginal returns derived from this class of service (3%-5% margin), we expect the new IC rate - which will come into effect this month - to have a minimal impact on ADVANC's bottom-line (< 2%).

The IC charge was cut by NBTC to THB0.5/minute from Jan 2013. Its impact on ADVANC's bottom-line is minimal (< 2%).

Figure 4 Quarterly interconnect (IC) revenue and cost (THBm)



Source: OSK

FINANCIALS

Profit & Loss (THBm)	Dec-10	Dec-11	Dec-12F	Dec-13F	Dec-14F
Total turnover	111,280	126,437	139,374	149,137	159,554
Cost of sales	(59,217)	(69,814)	(76,975)	(83,595)	(86,490)
Gross profit	52,063	56,623	62,399	65,542	73,064
Other operating costs	(19,367)	(17,675)	(16,718)	(18,544)	(19,562)
Operating profit	32,696	38,948	45,682	46,998	53,502
Operating EBITDA	52,063	56,623	62,399	65,542	73,064
Depreciation of fixed assets	(19,367)	(17,675)	(16,718)	(18,544)	(19,562)
Operating EBIT	32,696	38,948	45,682	46,998	53,502
Other recurring income	679	254	300	300	300
Interest expense	(1,735)	(1,666)	(1,575)	(1,500)	(1,425)
Other non-recurring income	(1,606)	(827)	600	600	600
Pre-tax profit	30,034	36,709	45,006	46,398	52,977
Taxation	(9,367)	(14,365)	(10,351)	(9,280)	(10,595)
Minority interests	(120)	(127)	(173)	(186)	(212)
Profit after tax & minorities	20,547	22,218	34,482	36,933	42,169
Net income to ord equity	20,547	22,218	34,482	36,933	42,169
Recurring net profit	22,107	26,600	34,482	36,933	42,169
Balance Sheet (THBm)	Dec-10	Dec-11	Dec-12F	Dec-13F	Dec-14F
Total cash and equivalents	14,671	19,087	14,969	13,493	18,255
Inventories	932	1,087	1,394	1,641	1,915
Accounts receivable	5,610	7,037	8,362	9,097	9,892
Total current assets	25,903	33,178	30,300	30,345	36,763
Other current assets	4,690	5,966	5,575	6,115	6,701
Total investments	106	106	106	106	106
Tangible fixed assets	55,544	44,121	35,935	38,937	35,910
Intangible assets	4,341	2,310	16,403	15,107	13,823
Total other assets	11,563	6,957	7,816	8,062	8,337
Total non-current assets	71,554	53,494	60,261	62,214	58,176
Total assets	97,457	86,672	90,561	92,559	94,939
Short-term debt	15,883	5,469	4,969	4,469	3,969
Accounts payable	3,160	3,520	3,849	4,180	4,324
Other current liabilities	16,447	20,745	20,963	21,823	22,200
Total current liabilities	35,489	29,734	29,781	30,472	30,493
Total long-term debt	20,478	16,537	16,037	15,537	15,037
Other liabilities	11	938	770	836	865
Total non-current liabilities	20,489	17,474	16,806	16,373	15,902
Total liabilities	55,978	47,209	46,587	46,845	46,395
Share capital	2,970	2,973	2,973	2,973	2,973
Retained earnings reserve	15,858	13,746	18,083	19,637	22,256
Other reserves	22,348	22,535	22,535	22,535	22,535
Shareholders' equity	41,176	39,254	43,591	45,145	47,763
Minority interests	303	210	383	569	781
Other equity	0	(0)	(0)	(0)	(0)
Total equity	41,480	39,464	43,974	45,714	48,544
Total liabilities & shareholders' equity	97,457	86,672	90,561	92,559	94,939

Cashflow (THBm)	Dec-10	Dec-11	Dec-12F	Dec-13F	Dec-14F
Operating profit	32,696	38,948	45,682	46,998	53,502
Depreciation & amortisation	19,367	17,675	16,718	18,544	19,562
Change in working capital	(39)	813	(1,721)	(510)	(1,380)
Other operating cashflow	932	981	300	300	300
Operating cashflow	52,957	58,418	60,978	65,332	71,984
Interest received	379	620	600	600	600
Interest paid	(1,679)	(1,748)	(1,575)	(1,500)	(1,425)
Tax paid	(7,732)	(10,201)	(10,351)	(9,280)	(10,595)
Cashflow from operations	43,924	47,089	49,652	55,152	60,563
Capex	(5,189)	(5,707)	(22,625)	(20,250)	(15,250)
Other investing cashflow	(989)	3,506	-	-	-
Cashflow from investing activities	(6,178)	(2,201)	(22,625)	(20,250)	(15,250)
Dividends paid to ordinary shareholders	(51,351)	(24,102)	(30,145)	(35,378)	(39,551)
Proceeds from issue of shares	353	189	-	-	-
Increase in debt	(511)	(12,873)	(1,000)	(1,000)	(1,000)
Other financing cashflow	(47)	(192)	-	-	-
Cashflow from financing activities	(51,556)	(36,978)	(31,145)	(36,378)	(40,551)
Cash at beginning of period	24,261	10,451	18,361	14,242	12,766
Total cash generated	(13,810)	7,909	(4,118)	(1,476)	4,762
Forex effects	0	0	(0)	-	-
Implied cash at end of period	10,451	18,361	14,242	12,766	17,528

Source : OSK, Bloomberg

OSK Guide to Investment Ratings

Buy: Share price may exceed 10% over the next 12 months

Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

Neutral: Share price may fall within the range of +/- 10% over the next 12 months

Take Profit: Target price has been attained. Look to accumulate at lower levels

Sell: Share price may fall by more than 10% over the next 12 months

Not Rated: Stock is not within regular research coverage

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