2Q17 MD&A
Advanced Info Service Plc.

Executive Summary

AIS continued to focus on quality postpaid segment while strengthening data leadership on 4G. We focused on profitable growth through quality subscription with potential ARPU growth, while protected existing quality prepaid subscribers. 1H17, the CAPEX of Bt22,843mn were spent on network quality and efficiency to strengthen the leadership in mobile data. Meanwhile, attractive handset campaigns and competitive pricing were targeted to attract/maintain mid to high-end postpaid subscribers and encourage prepaid to postpaid migration. Following that, in 2Q17, mobile revenue increased 4.6% YoY, underpinned by postpaid segment, which expanded its contribution to 38% of service revenue (from 34% in 2Q16). The average data consumption rose to 4.7GB/data sub/month, driven by the hype of video streaming and growing 4G adoption (39%).

AIS Fibre recorded 445,900 subscriptions with expanded ARPU, on track with the target to be one of the major players in the next three years. As the third year of operation, AIS has gained decent customers perception, which allows us to lessen aggressive campaigns. Instead, some campaigns were offered to encourage mid to high-end package subscriptions. More contents bundling packages on both fixed broadband and mobile were offered to serve growing demand for video streaming at affordable price. Following that ARPU continued to improve to Bt600, closer to the market price. Fixed broadband revenue expanded from 0.5% to 2.3% to service revenue in 2Q17.

In 2Q17, AIS' service revenue growth momentum continued at 6.6% YoY and 2.5% QoQ, driven by both postpaid mobile segment and fixed broadband business. Overall cost of service was relatively flat QoQ while SG&A rose QoQ as handset subsidy continued. YoY cost increase was mainly driven by 4G expansion and TOT partnership cost. EBITDA was Bt17,108mn and was relatively flat YoY and QoQ, with a margin of 43.8%. Net profit was Bt7,215mn, a decreased of 25% YoY and 6.2% QoQ due to addition of license and 4G network expansion.

FY17 guidance has remained unchanged. (Please see detail on page 6) Aligning with the guidance, in 1H17, AIS recorded 5.3% growth in service revenue and 44.2% EBITDA margin. The market outlook for 2H17 will remain competitive with targeted customer acquisition. We will leverage the synergy of our three core businesses: mobile, fixed broadband, and digital contents to expand the share of wallet as well as create brand loyalty, customer stickiness. The new Frequency Allocation Act was announced in the Royal Gazette in Jun-17. The Act entails the procedure to select new NBTC members who will replace the existing NBTC whose term is ending in Oct-17.

2Q17 Market and competitive environment

The mobile competitive landscape remained challenging in terms of handset campaigns and data pricing. The growth was largely driven by postpaid segment, underpinned by natural trend of prepaid to postpaid migration and attractive handset campaigns. In addition, in early Apr-17, unlimited data pricing was introduced to acquire/protect high-value customers. Postpaid service offered more continuity of data experience for subscribers whereas, for operators, it provided the better quality of subscriber than prepaid. Meanwhile, there are some handset subsidies continued to offer in prepaid segment.

For the fixed broadband market, the operators continued to expand footprints to capture the new demand while there was more attraction to customers toward fibre technology. Although the price and speed for the entry package remained unchanged, the market landscape remained competitive with attractive discount campaigns to enhance mid- to high-end package subscriptions. Meanwhile, the fixed broadband and content bundling packages has become more prevalent. The operators cooperated with content partners to attract groups who enjoy home entertainment at affordable price.

Operational Summary

In 2Q17, AIS continued to focus on acquiring quality subscription in postpaid segment with selective handset offerings while maintaining competitive pricing. Postpaid net addition improved 330,100 while prepaid decreased 504,400. Blended ARPU increased from Bt244 to Bt251, largely driven by prepaid to postpaid migration and handset bundling campaigns. Blended VoU grew to 4.7GB/data sub/month supported by growing popularity of video streaming and more variety of contents.

AIS Fibre continued its focus on quality of new acquisition and recorded a net addition of 72,000 in 2Q17. Fixed broadband ARPU increased to Bt600, reflecting the market price, as aggressive discounts continue to expire while targeting to attract customers toward higher speed package with better value for money.

Mobile Business Subscribers	2Q16	3Q16	4Q16	1Q17	2Q17
Postpaid	5,812,800	6,108,700	6,429,600	6,661,400	6,991,500
Prepaid	33,542,200	33,764,700	34,601,600	33,986,400	33,482,000
Total subscribers	**39,355,000**	**39,873,400**	**41,031,200**	**40,647,800**	**40,473,500**
Net additions					
Postpaid	400,400	295,900	320,900	231,800	330,100
Prepaid	26,300	222,500	836,900	-615,200	-504,400
Total net additions	**426,700**	**518,400**	**1,157,800**	**-383,400**	**-174,300**
ARPU (Baht/sub/month)					
Postpaid	608	597	600	579	593
Prepaid	188	186	186	181	182
Blended	**248**	**248**	**251**	**244**	**251**
MOU (minute/sub/month)					
Postpaid	313	305	296	280	271
Prepaid	234	213	201	190	169
Blended	**246**	**226**	**215**	**205**	**186**
VOU (GB/data sub/month)					
Postpaid	3.4	4.1	5.0	5.7	6.7
Prepaid	2.4	2.7	3.2	3.5	4.1
Blended	**2.6**	**3.0**	**3.6**	**4.0**	**4.7**
Device Penetration					
4G-handset penetration	19%	24%	29%	35%	39%
Fixed Broadband Business					
FBB subscribers	115,000	195,000	301,500	373,900	445,900
FBB net addition	43,000	80,000	106,500	72,400	72,000
FBB ARPU (Baht/user/month)	520	498	510	541	600

1H17 Snapshot

For 1H17, AIS had total revenues of Bt77,937mn increasing 5.7% from both service and SIM and device sales revenues. Service revenue (excluding IC) was Bt63,517mn increasing 5.3%, against the FY17 guidance of 4-5%. The mobile revenue grew 3.6% YoY driven by postpaid segment while fixed broadband grew 420% YoY following the larger subscriber base. Cost of service (excluding IC) was Bt30,715mn increasing 28% YoY from higher D&A from the 900MHz license and 4G network as well as network opex, offset by lower regulatory fee. SG&A was Bt12,140mn decreasing 17% from lower cost for handset subsidies partially offset by higher admin expenses and bad debt. As a result, EBITDA was Bt34,455mn improving 13% YoY. EBITDA margin was 44.2%, compared to 41.3% in 1H16 and to the FY17 guidance of 42-44%. Following higher D&A and finance cost, net profit declined 16% to Bt14,908mn.

2Q17 Financial Summary

Revenue

In 2Q17, AIS' **total revenue** was Bt39,079mn increasing 7.1% YoY and 0.6% QoQ mainly from solid growth in service revenue of both mobile and fixed broadband.

Service revenue (excluding IC) was Bt32,153mn increasing 6.6% YoY and 2.5% QoQ driven by the growth in postpaid segment and larger subscriber base of AIS Fibre. The mobile service revenue (excluding IC) alone grew 4.6% YoY and 1.9% QoQ following higher data consumption.

- **Voice revenue** was Bt11,080mn decreasing 14% YoY and 3.1% QoQ from data substitution.
- **Non-voice revenue** was Bt18,701mn increasing 21% YoY and 5.2% QoQ as a result of increasing 4G-user penetration to 39% and higher consumption on video streaming.
- **Fixed broadband revenue** was Bt738mn increasing 404% YoY and 34% QoQ. The revenue proportion of fixed broadband has increased to 2.3% of service revenue (excluding IC). Subscribers as of 2Q17 were 445,900, a net addition of 72,000. During 1H17, we have slowed down discount campaigns and focused on acquiring organic demand for fibre. This has resulted in improving trend of ARPU from Bt510 in 4Q16 and Bt541 in 1Q17 to Bt600 in this quarter.
- **International revenues and others** were Bt1,634mn decreasing 0.9% YoY but increasing 2.2% QoQ.

SIM & device sales were Bt5,858mn increasing 20% YoY driven by higher sales of medium- to high-end handsets with discounts. However, SIM and device sales decreased 8.6% QoQ due to seasonality. Handset margin, partially reflecting the cost of handset subsidies, in 2Q17 was -2.7%, compared to 2.3% in 2Q16 and -6.7% in 1Q17.

Net Interconnection charge (Net IC) was Bt60mn decreasing from Bt85mn in 2Q16, partially due to the IC rate change since Jan-17. QoQ, net IC increased from Bt34mn in 1Q17.

Cost & Expense

Cost of service (excluding IC) was Bt15,512mn increasing 37% YoY and 2% QoQ mainly from higher depreciation and amortization cost and payments to TOT while regulatory fee declined.

- **Regulatory fee** was Bt1,654mn decreasing 26% YoY and 8.9% QoQ. This represents 5.1% of service revenue (excluding IC), down from 7.4% in 2Q16 and 5.8% in 1Q17. Since 30 May 2017 the NBTC announced a new rate of USO fee of 2.5% of net revenue from the previous rate of 3.75%. As a result, the total regulatory fee on the license scheme has changed from 5.25% to 4% of service revenue.
- **Depreciation & Amortization** was Bt7,218mn increasing 64% YoY from 4G network investment and the amortization of the 900MHz license granted in end of Jun-16. QoQ, D&A increased 6% mainly from 4G capacity enhancement.
- **Network OPEX** was Bt4,973mn increasing 59% YoY mainly from payments to TOT amounting Bt2,375mn (none in 1H16). QoQ, network opex slightly declined 1.4%.
- **Other costs of service** were Bt1,668mn increasing 6.7% YoY and 8.5% QoQ mainly from cost of contents.

SG&A expenses were Bt6,701mn increasing 3.7% YoY from higher admin expenses and bad debt. QoQ, SG&A increased 23% from handset subsidies and admin expenses.

- **Marketing expenses** were Bt2,869mn decreasing 8.1% YoY but increasing 33% QoQ. In 2Q17, AIS continued to focus on handset subsidies in postpaid segment in order to acquire quality customers and customer demand to move from prepaid to postpaid.
- **General admin expenses** were Bt3,152mn increasing 8% YoY due to higher staff cost and cost related to fixed broadband. QoQ, general admin expenses increased 19% mainly due to higher handset provision and the low base in 1Q17 from staff cost adjustment.
- **Depreciation & Amortization** was Bt114mn increasing 13% YoY and 3.7% QoQ due to shop expansion.
- **Bad debt** was Bt565mn increasing 77% YoY and 7.6% QoQ from larger postpaid and fixed broadband subscriber base. Bad debt to postpaid revenue was 4.4% in 2Q17, up from 3.1% in 2Q16 but down from 4.5% in 1Q17.

Finance costs was Bt1,324mn, inclusive of approximately Bt500mn of deferred interest from spectrum licenses, increasing 57% YoY and 2.4% QoQ due to higher interest-bearing debt.

Net FX gain was Bt12mn down from Bt179mn in 2Q16 and Bt150mn in 1Q17. Expenses and borrowings denominated in foreign currencies are hedged to reduce currency risk.

Profit

In summary, the revenue growth in 2Q17 was offset by higher network opex YoY and cost for handset subsidies QoQ, which resulted in a relatively flat **EBITDA** of Bt17,108mn, +0.6% YoY but -1.4% QoQ. **EBITDA margin** stood at 43.8%, compared to 46.6% in 2Q16 and 44.6% in 1Q17. The 900MHz license and 4G investment has caused higher D&A and finance cost. Consequently, **net profit** was Bt7,215mn decreasing 25% YoY and 6.2% QoQ. **Net profit margin** was 18.5%, compared to 26.3% in 2Q16 and 19.8% in 1Q17.

Income statement (Bt mn)	2Q16	1Q17	2Q17	%YoY	%QoQ	1H16	1H17	%YoY
Voice revenue	12,855	11,433	11,080	-14%	-3.1%	26,427	22,513	-15%
Non-voice revenue	15,519	17,784	18,701	21%	5.2%	30,350	36,485	20%
Fixed broadband revenue	146	549	738	404%	34%	247	1,286	420%
IR & others	1,649	1,599	1,634	-0.9%	2.2%	3,292	3,233	-1.8%
Service revenue (excluding IC)	**30,169**	**31,364**	**32,153**	**6.6%**	**2.5%**	**60,317**	**63,517**	**5.3%**
IC revenue	1,431	1,087	1,068	-25%	-1.7%	2,872	2,155	-25%
SIM and handset sales	4,882	6,407	5,858	20%	-8.6%	10,545	12,265	16%
Total revenues	**36,482**	**38,858**	**39,079**	**7.1%**	**0.6%**	**73,735**	**77,937**	**5.7%**
Regulatory fee	(2,223)	(1,815)	(1,654)	-26%	-8.9%	(6,811)	(3,469)	-49%
Depreciation & Amortization	(4,403)	(6,807)	(7,218)	64%	6%	(8,381)	(14,025)	67%
Network operating expense	(3,120)	(5,043)	(4,973)	59%	-1.4%	(5,651)	(10,017)	77%
Other cost of services	(1,563)	(1,537)	(1,668)	6.7%	8.5%	(3,159)	(3,205)	1.5%
Cost of service (excluding IC)	**(11,309)**	**(15,203)**	**(15,512)**	**37%**	**2%**	**(24,002)**	**(30,715)**	**28%**
IC cost	(1,346)	(1,053)	(1,008)	-25%	-4.3%	(2,694)	(2,061)	-24%
Cost of SIM and handset sales	(4,768)	(6,836)	(6,015)	26%	-12%	(10,449)	(12,850)	23%
Total costs	**(17,424)**	**(23,091)**	**(22,535)**	**29%**	**-2.4%**	**(37,144)**	**(45,626)**	**23%**
Gross profit	**19,059**	**15,767**	**16,544**	**-13%**	**4.9%**	**36,590**	**32,310**	**-12%**
SG&A	**(6,460)**	**(5,439)**	**(6,701)**	**3.7%**	**23%**	**(14,555)**	**(12,140)**	**-17%**
Marketing Expense	(3,121)	(2,157)	(2,869)	-8.1%	33%	(8,197)	(5,026)	-39%
General administrative & staff cost	(2,917)	(2,648)	(3,152)	8%	19%	(5,557)	(5,800)	4.4%
Bad debt provision	(320)	(525)	(565)	77%	7.6%	(604)	(1,091)	81%
Depreciation	(101)	(110)	(114)	13%	3.7%	(197)	(224)	14%
Operating profit	**12,599**	**10,327**	**9,843**	**-22%**	**-4.7%**	**22,036**	**20,170**	**-8.5%**
Net foreign exchange gain (loss)	179	150	12	-93%	-92%	204	162	-20%
Other income (expense)	117	176	127	8.3%	-28%	234	303	30%
Finance cost	(842)	(1,293)	(1,324)	57%	2.4%	(1,594)	(2,617)	64%
Income tax	(2,456)	(1,668)	(1,443)	-41%	-14%	(3,211)	(3,111)	-3.1%
Non-controlling interest	0.1	0.2	0.2	84%	29%	0.3	0.4	19%
Net profit for the period	**9,596**	**7,693**	**7,215**	**-25%**	**-6.2%**	**17,669**	**14,908**	**-16%**

EBITDA (Bt mn)	2Q16	1Q17	2Q17	%YoY	%QoQ	1H16	1H17	%YoY
Operating Profit	12,599	10,327	9,843	-22%	-4.7%	22,036	20,170	-8.5%
Depreciation & amortization	4,504	6,917	7,332	63%	6%	8,577	14,249	66%
(Gain) loss on disposals of PPE	-	160	(3)	NA	-102%	-	157	NA
Management benefit expense	(35)	(34)	(48)	38%	39%	(71)	(82)	17%
Other financial cost	(57)	(23)	(16)	-72%	-29%	(115)	(38)	-67%
EBITDA	**17,012**	**17,347**	**17,108**	**0.6%**	**-1.4%**	**30,427**	**34,455**	**13%**
EBITDA margin (%)	46.6%	44.6%	43.8%			41.3%	44.2%	

Financial Position (Bt mn/% to total asset)	4Q16		2Q17	
Cash	11,226	4.1%	9,526	3.4%
ST investment	2,963	1.1%	2,726	1.0%
Trade receivable	11,377	3.9%	12,378	4.4%
Inventories	3,085	1.1%	4,347	1.5%
Others	3,248	1.2%	3,001	1.1%
Current Assets	**31,899**	**12%**	**31,977**	**11%**
Spectrum license	115,378	42%	111,483	40%
Network and PPE	118,271	43%	129,014	46%
Intangible asset	4,099	1.5%	4,338	1.5%
Defer tax asset	2,618	0.9%	2,660	0.9%
Others	3,404	0.7%	1,878	0.7%
Total Assets	**275,670**	**100%**	**281,350**	**100%**
Trade payable	17,737	6.4%	16,043	5.7%
ST loan & CP of LT loans	11,685	4.2%	13,160	4.7%
Accrued R/S expense	5,361	1.9%	5,362	1.9%
Others	34,545	13%	33,776	12.0%
Current Liabilities	**69,328**	**25%**	**68,340**	**24%**
Debenture & LT loans	87,130	32%	90,412	32%
Others	76,504	28%	77,752	28%
Total Liabilities	**232,962**	**85%**	**236,505**	**84%**
Retained earnings	16,971	6.2%	19,124	6.8%
Others	25,737	9.3%	25,721	9.1%
Total Equity	**42,708**	**15%**	**44,846**	**16%**

Key Financial Ratio	2Q16	1Q17	2Q17
Interest-bearing debt to equity (times)	1.94	2.52	2.31
Net debt to equity (times)	1.62	2.17	2.03
Net debt to EBITDA (times)	1.25	1.18	1.32
Current Ratio (times)	0.63	0.43	0.47
Interest Coverage (times)	18	14	13
Debt Service Coverage Ratio (times)	2.7	7.3	3.4
Return on Equity	77%	75%	64%

Figures from P&L are annualized YTD.

Debt repayment schedule			License payment schedule	
Bt mn	Debenture	Loan	1800MHz	900MHz
2H17	-	9,901	10,247	-
2018	-	2,799	10,247	4,020
2019	7,789	3,364	-	4,020
2020	-	24,829	-	59,574
2021	1,776	12,079	-	-
2022	-	12,636	-	-
2023	7,820	6,400	-	-
2024	6,638	-	-	-
2025	-	-	-	-
2026	7,180	-	-	-

Source and use of fund : 1H17			(Bt mn)
Source of Fund		**Use of Fund**	
Operating cash flow	32,624	CAPEX & Fixed asset	22,843
Proceed of LT borrowings	6,654	Dividend paid	12,755
Sale of equipment	9	Income tax paid	2,366
Interest received	82	Finance cost & Financial lease paid	1,555
Cash decrease	1,700	Repayment of LT borrowings	1,294
		Repayment of ST borrowings	200
		Investment in joint venture	45
		Effect of exchange rate on cash balance	11
Total	**41,069**	**Total**	**41,069**

Financial position

Comparing with Dec-16, as of Jun-17 AIS had total assets of Bt281,350mn increasing 2.1% mainly from higher 4G network and PPE. Total liabilities were Bt236,505mn increasing 1.5% from higher interest-bearing debt which stood at Bt103bn compared to Bt98bn in FY16. Total equity was Bt44,846mn increasing 5% from higher retained earnings. Current ratio was maintained at 0.5x. Net debt to EBITDA stood at 1.3x, down from 1.4x while average finance cost remained at 3.1% pa.

Cash Flow

In 1H17, following the improved EBITDA, AIS generated Bt30,259mn of operating cash flow (after tax) compared to Bt26,843mn in 1H16. Cash CAPEX spent was Bt22,843mn (against FY17 guidance of Bt40-45bn) or 36% of service revenue (excluding IC). This resulted in a free cash flow of Bt7,416mn. Net increase in borrowing was Bt5,160mn. In Apr-17, AIS paid dividend amounting Bt12,755mn for the 2H16 performance. Overall, cash has decreased Bt1,700mn to an outstanding amount of Bt9,526mn.

2017 MANAGEMENT OUTLOOK & STRATEGY (maintained)

Service revenue (excluding IC)	• increase 4-5% YoY
Handset sales	• increase with near-zero margin
Consolidated EBITDA margin	• 42-44%
CAPEX	• Bt40-45bn
Dividend payout	• minimum 70% of net profit

Build strong leadership in mobile data

In 2016, after acquiring 1800MHz, AIS has quickly built a nationwide 4G network covering 98% population in response to the accelerating demand for quality mobile data. We expect that the demand for faster speed will continue strongly, and will be more efficiently served by 4G network. To build on our leadership in mobile data, the investment in 2017 will focus on 4G capacity including the expanded deployment of 2-carrier and 3-carrier aggregation in key cities. Also, we will continue to encourage further smartphone adoption and migrating 2G users through targeted handset subsidies.

Selectively expand new fixed broadband coverage and uplift utilization

Since the launch in April 2015, AIS Fibre has achieved coverage in 28 cities and serves 445,900 subscribers as of 2Q17. Striving to become a significant player in the next three years, we continue to expand our business and build stronger operational foundation. In 2017, we will pursue selective expansion of new service areas with due consideration to demand and return on investment. At the same time, we will also put focus on increasing capacity utilization in the existing coverage areas through more effective sales and distribution channels, while remaining competitive in fibre pricing. We expect investment in fixed broadband of around Bt5bn this year.

Continue to grow with improvement in revenue and EBITDA

In summary, we expect the consolidated service revenue (excluding IC) to improve 4-5% YoY. With our focus on acquiring quality subscribers, we expect an improvement of handset sales with a near-zero margin contribution. This will partially be offset with a full-year recognition of payments to TOT for the use of spectrum, towers, and equipment. Overall, we expect the consolidated EBITDA margin to improve and stay in the range of 42-44%. The total cash CAPEX (excluding spectrum payment) is expected to be in the range of Bt40-45bn for both mobile and fixed broadband.

New dividend policy: a minimum payout of 70%

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. The dividend policy is thus revised to a minimum 70% payout of net profit from 2017 onwards. 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.

AIS Investor Relations

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