

# Total Access Communication - DTAC

## 3QCY13 core business profit seen up q-q but down y-y

Bloomberg | Reuters  
DTAC.TB | DTAC.BK



Phillip Securities Research Pte Ltd  
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### Report type: Trade Flash

#### Company Overview

DTAC provides a wireless telecommunication service under a 27-year BTO concession granted by CAT Telecom, ending Sep 15, 2018. It offers a range of wireless voice and non-voice or data communications services including postpaid and prepaid service plans.

- Rising data demand kept strong growth momentum in non-voice revenue growing in 3QCY13. On this basis, we expect DTAC to report 3QCY13 profit from core business operations of Bt2,719mn, up q-q but down y-y as a result of mounting expenses and costs.
- DTAC launched its 2.1GHz 3G services on Jul 23, 2013. It expects to have 8-10mn 3G subscribers this year.
- To reflect additional expenses for 2.1GHz 3G network investment, we slightly cut our CY13 net profit outlook for DTAC to Bt11,659mn but the new profit target still represents a growth of 36.48% y-y.
- Following earnings cut, we trim our CY13 target price for DTAC to Bt116/share from Bt119/share. As the new target still offers some upside from current trading levels, we rate DTAC shares an 'ACCUMULATE.'

#### What is the news?

DTAC expects to have around 8-10mn 2.1GHz 3G subscribers this year. Of the total, 5mn subscribers would come from migration from 2G to 3G networks and another 5mn from new SIMs. To date 2.5mn 2G subscribers have been migrated to 3G network, excluding new SIMs.

We expect DTAC to report 3QCY13 profit from core business operations of Bt2,719mn, up from Bt2,562mn in 2QCY13. The forecast assumes that (1) voice revenue will be down in 3QCY13, (2) non-voice revenue will be up sharply on growing popularity of social networks, (3) IC revenues and costs will be down following a cut in IC rate to 45 satang/min from Bt1/min, (4) costs will rise on 3G network investment and costs for new 3G license after 3G service rollout in Jul 2013, (5) marketing expenses will be up due to the launch of 2.1GHz 3G services and its TriNet brand which combines its 2G 1800 MHz, 3G 850 MHz and 3G 2100 MHz into a single network, (6) margins on mobile handset sales will improve following the launch of DTAC TriNet phones, which command higher margins than other brands. In 2QCY13, DTAC booked exceptional items of Bt510mn, comprising (i) a Bt76mn gain from insurance claim for flood damage, (ii) a Bt186mn reversal of provision for NEO, (iii) a Bt248mn reversal of provision for unused prepaid bonus and (iv) a FX loss of Bt135mn. On a net profit basis, DTAC is forecast to post 3QCY13 net profit of Bt2,937mn. In y-y terms, 3QCY13 profit from core business operations is expected to be lower than the Bt2,796.4mn it achieved in 3QCY12 as a result of higher operating costs on 3G network investment.

#### How do we view this?

To reflect additional expenses for 2.1GHz 3G network investment to boost 3G coverage to 50% of population by year-end, we slightly cut our CY13 net profit outlook for DTAC to Bt11,659mn from a previous view of Bt12,189mn. Looking ahead into CY14, DTAC looks set to benefit from regulatory cost savings following migration of 2G subscribers to 3G network as it would no longer pay revenue share to CAT Telecom under new 3G license. For this reason, we estimate DTAC will achieve a higher profit of Bt13,106mn in CY14.

#### Investment Actions?

Following earnings cut, we trim our CY13 target price for DTAC to Bt116/share from Bt119/share. As the new target still offers some upside from current trading levels, we rate DTAC shares an 'ACCUMULATE.'

#### Valuation Method

DCF (WACC 11.44%, terminal g 4.5%)

#### Analyst

Phillip Research Team

+65 65311240

research@phillip.com.sg

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Please contact Phillip Securities Research at [65 65311240] in respect of any matters arising from, or in connection with, this document.

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**Contact Information (Singapore Research Team)**

**Management**

**Chan Wai Chee**  
(CEO, Research - Special Opportunities)

**Joshua Tan**  
(Head, Research - Equities & Asset Allocation)

+65 6531 1231

+65 6531 1249

**General Enquiries**

Research Assistant +65 6531 1240

**Global Macro, Asset Strategy**

Joshua Tan +65 6531 1249

**Financials**

Ken Ang +65 6531 1793

**US Equities**

Wong Yong Kai +65 6531 1685

**Telecoms**

Colin Tan +65 6531 1221

**Commodities, Offshore & Marine**

Nicholas Ong +65 6531 5440

**Real Estate**

Lucas Tan +65 6531 1229

**Contact Information (Regional Member Companies)**

**SINGAPORE**

**Phillip Securities Pte Ltd**  
Raffles City Tower  
250, North Bridge Road #06-00  
Singapore 179101  
Tel +65 6533 6001  
Fax +65 6535 6631  
Website: [www.poems.com.sg](http://www.poems.com.sg)

**MALAYSIA**

**Phillip Capital Management Sdn Bhd**  
B-3-6 Block B Level 3 Megan Avenue II,  
No. 12, Jalan Yap Kwan Seng, 50450  
Kuala Lumpur  
Tel +603 2162 8841  
Fax +603 2166 5099  
Website: [www.poems.com.my](http://www.poems.com.my)

**HONG KONG**

**Phillip Securities (HK) Ltd**  
11/F United Centre 95 Queensway  
Hong Kong  
Tel +852 2277 6600  
Fax +852 2868 5307  
Websites: [www.phillip.com.hk](http://www.phillip.com.hk)

**JAPAN**

**Phillip Securities Japan, Ltd.**  
4-2 Nihonbashi Kabuto-cho Chuo-ku,  
Tokyo 103-0026  
Tel +81-3 3666 2101  
Fax +81-3 3666 6090  
Website: [www.phillip.co.jp](http://www.phillip.co.jp)

**INDONESIA**

**PT Phillip Securities Indonesia**  
ANZ Tower Level 23B,  
JI Jend Sudirman Kav 33A  
Jakarta 10220 – Indonesia  
Tel +62-21 5790 0800  
Fax +62-21 5790 0809  
Website: [www.phillip.co.id](http://www.phillip.co.id)

**CHINA**

**Phillip Financial Advisory (Shanghai) Co Ltd**  
No 550 Yan An East Road,  
Ocean Tower Unit 2318,  
Postal code 200001  
Tel +86-21 5169 9200  
Fax +86-21 6351 2940  
Website: [www.phillip.com.cn](http://www.phillip.com.cn)

**THAILAND**

**Phillip Securities (Thailand) Public Co. Ltd**  
15th Floor, Vorawat Building,  
849 Silom Road, Silom, Bangrak,  
Bangkok 10500 Thailand  
Tel +66-2 6351700 / 22680999  
Fax +66-2 22680921  
Website [www.phillip.co.th](http://www.phillip.co.th)

**FRANCE**

**King & Shaxson Capital Limited**  
3rd Floor, 35 Rue de la Bienfaisance 75008  
Paris France  
Tel +33-1 45633100  
Fax +33-1 45636017  
Website: [www.kingandshaxson.com](http://www.kingandshaxson.com)

**UNITED KINGDOM**

**King & Shaxson Capital Limited**  
6th Floor, Candlewick House,  
120 Cannon Street,  
London, EC4N 6AS  
Tel +44-20 7426 5950  
Fax +44-20 7626 1757  
Website: [www.kingandshaxson.com](http://www.kingandshaxson.com)

**UNITED STATES**

**Phillip Futures Inc**  
141 W Jackson Blvd Ste 3050  
The Chicago Board of Trade Building  
Chicago, IL 60604 USA  
Tel +1-312 356 9000  
Fax +1-312 356 9005

**AUSTRALIA**

**PhillipCapital**  
Level 12, 15 William Street,  
Melbourne, Victoria 3000, Australia  
Tel +61-03 9629 8288  
Fax +61-03 9629 8882  
Website: [www.phillipcapital.com.au](http://www.phillipcapital.com.au)

**SRI LANKA**

**Asha Phillip Securities Limited**  
No 10, Prince Alfred Tower,  
Alfred House Gardens,  
Colombo 3, Sri Lanka  
Tel: (94) 11 2429 100 Fax: (94) 11 2429 199  
Website: [www.ashaphillip.net/home.htm](http://www.ashaphillip.net/home.htm)

**INDIA**

**PhillipCapital (India) Private Limited**  
No. 1, C Block, 2nd Floor, Modern Center,  
Jacob Circle, K. K. Marg, Mahalaxmi  
Mumbai 400011  
Tel: (9122) 2300 2999  
Fax: (9122) 6667 9955  
Website: [www.phillipcapital.in](http://www.phillipcapital.in)