

PROFIT POTENTIAL

Brokerage houses are bullish on the prospects for the merger of True and DTAC, though a lawsuit could ruin the party. **B2**

TELECOMMUNICATIONS

Brokerages bullish on proposed merger

True-DTAC union faces court battle

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Market analysts believe all telecom operators should benefit from a merger of True Corporation and Total Access Communication (DTAC), although the looming lawsuit against the National Broadcasting and Telecommunications Commission's (NBTC) decision to endorse the deal could delay its completion, which is expected in January next year.

Analysts submitted positive outlooks on the amalgamation of True and DTAC, saying it will result in better cost management and generate new revenue streams in a more competitive telecom era.

Customer privileges should increase, while a regulatory measure calls for service fees to fall by 12%, with the investment savings leading to consumer benefits, said analysts.

After the telecom regulator voted 3-2 that it did not have the authority to approve or reject the merger, the two companies are likely to seek more clarity on the proposed control measures for the merged firm, especially those

related to price controls. The merger is expected to be completed in January 2023, Maybank Securities said.

"Most key measures are in line with our forecasts, including a three-year dual-brand measure and 5G population coverage of 85% within three years," said the brokerage.

Asia Plus Securities (ASPS) said among the specific conditions required by the NBTC, the contentious points are likely going to be reducing the service fee by 12% within 90 days and not allowing a reduction in cell sites. ASPS said studies should be conducted to reach a mutual understanding with the NBTC.

The service fee reduction should be compensated by economies of scale after the amalgamation, while reducing the number of cell sites should reduce costs, said ASPS.

Once service fees have dropped, competitors will be pressured to reduce their prices to compete on the same playing field, said the brokerage.

The amalgamation, according to ASPS, is positive for the mobile phone industry as the major operators will be reduced from three to two, resulting in less aggressive competition.

For True and DTAC, competitive potential would be lifted, with their combined subscribers tallying 53.6 million, or roughly 50% of the market, with a better business performance expected from investments and cost reductions,

said analysts.

Finansia Syrus Securities Plc indicated the merger would be a positive long-term factor for the industry in terms of reducing competition, with more profit-making opportunities.

Maybank Securities said if the final regulatory measures were not too harsh on the telecom operators, Advanced Info Service Plc (AIS) should also benefit from the merger in both the medium and long term.

In the medium term, or within 2023, AIS would likely gain mobile revenue market share from the merged company, which would be busy with its restructuring and integration processes, according to the brokerage.

The integration will involve network sites, IT systems and overlapping departments. Restructuring will include contract terminations, employee layoffs and network decommissioning.

"We expect next fiscal year to be rough for the new company in terms of both financial performance and potentially poor service quality in the areas that go through network integration. From fiscal 2024, fewer operators should lead to easing competition and increases in margins," said Maybank.

Kasikorn Securities Plc predicts True and DTAC will move ahead with the merger process and tender offers next month, with December seeing the switching of stocks. The stock of



Consumer advocates at a protest held last Thursday at the NBTC's head office demand the regulator reject the True-DTAC merger deal. APICHART JINAKUL

the merged company is expected to be listed on the Stock Exchange of Thailand by year-end, pending the NBTC's conditions.

A voluntary tender offer from DTAC is expected at 47.76 baht, while True's tender is projected at 5.09 baht, maintaining the perception that this amalgamation would add value through cost reductions and revenue generation, said Kasikorn Securities.

Downside risks remain because of an upcoming lawsuit against the NBTC board's process of "acknowledgement", which may delay the merger completion beyond January 2023.

The Thailand Consumer Council recently said it was planning to request two things from the Central

Administrative Court: a revocation of the NBTC's acknowledgement of the merger process and a temporary injunction on the amalgamation of True and DTAC.

In the upcoming lawsuit, which is expected to be filed next month, the council claims the NBTC board neglected its duty to protect consumers' interests because the majority of the board voted to acknowledge the proposed merger, as opposed to using its power to approve or reject it. Hence, the acknowledgement process for the merger was unlawful and the merger should be voided, according to the council.

"We expect the process of emergency inquiry to take around 1.5 months

from the day the lawsuit is filed," Maybank said.

The worst-case scenario is the court accepts the case and issues a temporary injunction. The legal proceedings would start and the court would stop True and DTAC from merging while the lawsuit was pending. In this scenario, the merger could be delayed by more than a year, said the brokerage.

"If the merger is delayed by one year, the start of the new company's synergistic period will be moved from fiscal 2025 to 2026, and there is a 5% downside to our target prices for True and DTAC. If the merger is cancelled altogether, we estimate standalone fair values for True and DTAC at 4.0 baht and 33.90 baht, respectively," Maybank said.