



AIS and TRUE win licenses for 1800-MHz spectrum

Event

- The National Broadcasting and Telecommunications Commission (NBTC) announced the bidding results for 2 licenses of 15 MHz each on the 1800 MHz spectrum. TRUE won the first license at the 39.79 billion baht bid and AIS successfully bid 40.99 billion baht for the second. The two bids totaled 80.78 billion baht. The National Telecommunications Commission will endorse the bid results by November 18th, 2015 before issuing the licenses for both winners. Both TRUE and AIS are expected to provide 4G services on the licensed spectrum.

Analysis

- The bids for 1800-MHz spectrum were altogether 48.95 billion baht (154%) above the reserve price. The fast growing demand for data usage has prompted telecom operators to compete and expand their networks. During 2010-2014, data usage by cell phone users was up 35% every year. Telecom operators therefore had to increase the bandwidth to meet the booming demand. As four bidders competed for only two licenses, competition was fierce and the bid prices were raised by 154% of the reserve price. The prices were 200% of the estimated real spectrum value for the first license and 206% for the second
- EIC views that the high bid prices will only have a small effect on business operators, unlike the auction for digital television. There is a low chance that telecom operators will encounter financial difficulties and liquidity problems as faced by businesses following the expensive digital TV auction. With few telecom operators in the market, they are also endowed with a large base of customers, ample funding and ability to survive in the business. Nonetheless, the high-cost license may negatively affect profits by 5-10% in the short term as well as extending the break-even
- In accordance with regulations on service fees imposed by the NBTC, auction winners will look for other non-price strategies to maintain revenue and profits. While the high auction prices were well-above the reserve price and the estimated real value, the NBTC requires general service fees on the 1800-MHz

spectrum to be lower than average 3G service fees on the 2100-MHz. Moreover, there must be economical packages for low-income users, the handicapped and the disadvantaged. The operators therefore must find other strategies to maintain their revenue and profit growth. For example, operators may cooperate with content producers to encourage more data usage and offer high-data packages at a marginal price increase. This combined strategy will reduce the service fee per unit to be lower than that on the 2100-MHz spectrum.

- Both winners of the 1800-MHz auction are existing major players in the market. However, JAS is the one to watch as they may exert themselves as a new player in the upcoming auction for the 900-MHz spectrum. EIC sees that JAS has a preference for the 900-MHz spectrum over the 1800-MHz. They are therefore willing to invest to be present in the cellphone business. The lower spectrum can indeed double service coverage and save on investment in networks by 10 times. If JAS wins the bid for the 900-MHz spectrum, it will significantly promote the company's broadband Internet services and extend other data services. However, the 900-MHz auction will be a fierce competition as the present players are trying to maintain their customer base and market share as much as possible.

Implication

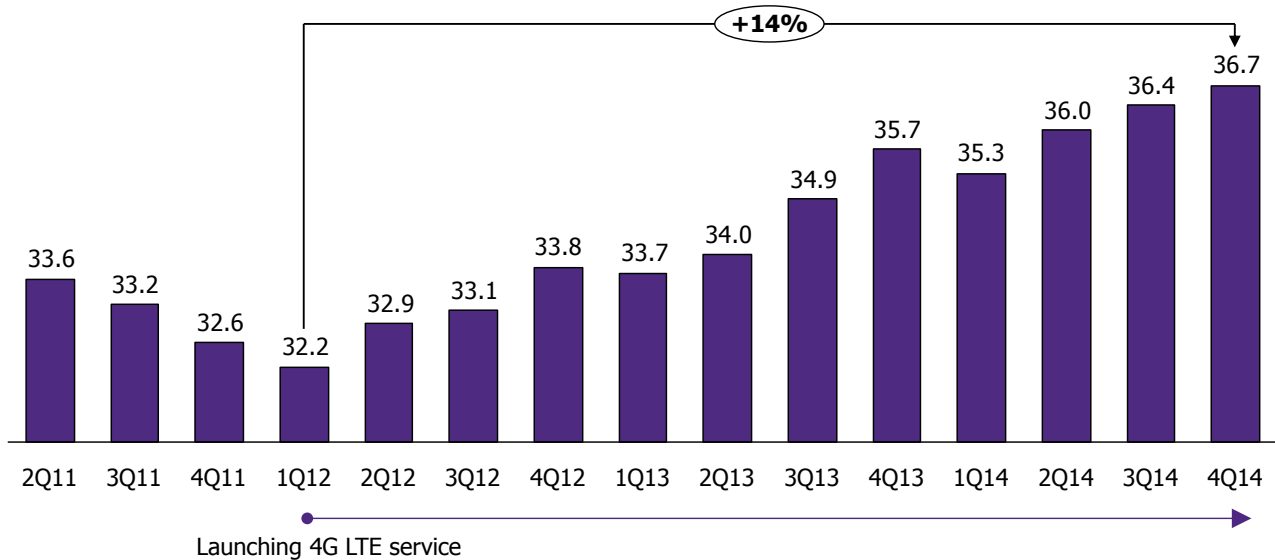
- The transition to the 4G technology makes a great opportunity for growth in the telecommunication business. EIC views that if operators pick appropriate strategies on marketing campaigns and investment for the 1800-MHz 4G networks, this can accelerate data usage and significantly raise average revenue per unit (ARPU). Take South Korea as an example: SK Telecom, a major cellphone provider in South Korea, launched its 4G services with an unlimited LTE data plan. The package was almost double the average service price to draw a new generation of users who are heavy data users, making their average revenue per unit increase by 14% in 3 years. As for the Thai case, EIC expects that the 4G technology will increase the revenue for data operators in 2016 which will continually grow by 20-25% annually.
- Not only does the auction for the 1800-MHz spectrum support growth in the telecommunication sector, but it also triggers growth in related sectors. The auction and transition into the 4G technology will have a direct impact on investment in telecommunication infrastructure. Auctions in developing countries like Indonesia and India spurred growth in the telecommunication sector by 16-40% YOY. This positive factor can help producers and sellers of telecommunication equipment. Moreover, it also supports related industries such as cellphone producers and retailers, e-commerce and m-commerce

as well as video streaming businesses.

Figure 1: The launch of 4G LTE services by SK Telecom in South Korea significantly increased their average revenue per unit (ARPU)

SK Telecom's Average Revenue per User (ARPU)

Unit: Thousand won/ month



Source: EIC analysis based on data from SK Telecom

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