

# Jasmine Broadband Internet Infrastructure Fund JASIF

Jasmine Broadband Internet Infrastructure Fund

Bloomberg Reuters

JASIF TB  
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## On hold for new asset injection

**Injection of new assets will give new life to JASIF via removing price overhangs. Benefits identified include extension of the lease to 2032F with a possible option to extend to 2042F and a narrowing in the yield gap between JASIF and DIF. We initiate coverage with a BUY and a TP of Bt11.5.**

**Fund background.** JASIF is a freehold fund invested in 980k core km optical fiber cable (OFC) throughout Thailand. JAS is the only tenant and has a 23.5% stake.

**New asset injection is crucial.** JASIF share price has been pressured for the past 12 months due to uncertainty over new asset injection, which has been delayed for two years. We believe all key conditions will be finalized this year and see three benefits arising out of a successful asset injection, which we detail below.

**1) Existing lease extended to 2032F.** The current lease agreement between JASIF and JAS ends in 2026F and as that date approaches, the market is concerned about whether or not it will be extended and if extended if there will be a deep discount on the rental rate. We do expect an amendment to the current lease agreement on existing assets to match the agreement for new assets that we expect to run through 2032F, but we also expect the rental rate for the period 2026-2032 to continue with the current formula which is based on CPI. On this basis, we do not expect to see a deeply discounted rental rate.

**2) Potential option to extend lease agreement to 2042F.** After the precedent set by DIF, we believe there will be a clause allowing JAS to extend the lease agreement for another 10 years after 2032 (or until 2042) if certain conditions are met. Assuming JASIF utilizes this precedent in its new agreement with JAS, we see a high chance of an extension to 2042F. This would help assure unitholders of a long-term stable dividend stream.

**3) Yield gap between JASIF and DIF would be narrowed.** Historically, the yield gap between these two funds has been 1.2-1.9ppt, with JASIF always offering the higher yield. Currently, the gap is 2.6ppt based on expected dividend yield in 2019F. We believe a successful new asset injection would narrow the yield gap to at least 1.9ppt. This implies JASIF share price could rise to Bt11.1/sh.

**Initiating coverage as a BUY and DCF-based TP Bt11.5.** We derive our TP based on 8.0% WACC and 0% LTG. We like JASIF, which offers the highest dividend yield among IFFs and REITs at 9.0% in 2019F. We see a near-term catalyst from new asset injection, which we have already factored in. Key risks are further delay in the injection of new assets and if JAS disposes another 4.5% of JASIF.

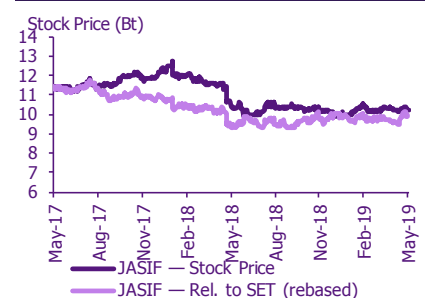
## BUY

### Stock data

Last close (May 27) (Bt)	10.20
12-m target price (Bt)	11.50
Upside (Downside) to TP (%)	12.75
Mkt cap (Btbn)	56.10
Mkt cap (US\$mn)	1,765

Mkt cap (%) SET	0.34
Sector % SET	2.56
Shares issued (mn)	5,500
Par value (Bt)	10
12-m high / low (Bt)	10.6 / 9.8
Avg. daily 6m (US\$mn)	3.06
Dividend policy (%)	≥ 90

### Price performance



Source: SET, SCBS Investment Research

### Share performance

(%)	1M	3M	12M
Absolute	0.0	(1.9)	(1.9)
Relative to SET	2.6	0.4	5.1

Source: SET, SCBS Investment Research

### Expected total return (ETR)

Target price	(Bt)	11.50
12-month dividend	(Bt)	0.91
Capital gain	(%)	12.75
Dividend yield	(%)	8.96
Total return	(%)	21.70

Source: SET, SCBS Investment Research

### Forecasts and valuation

Year to 31 Dec	Unit	2017	2018	2019F	2020F	2021F
Revenue	(Btmn)	5,776	5,814	5,877	10,768	10,886
EBITDA	(Btmn)	5,416	5,424	5,402	9,944	9,957
Core profit	(Btmn)	5,443	5,455	5,402	9,449	9,536
Reported profit	(Btmn)	7,148	5,099	5,402	9,449	9,536
Core EPS	(Bt)	0.99	0.99	0.98	0.99	1.00
DPS	(Bt)	0.93	0.90	0.91	0.92	0.93
P/E, core	(x)	10.3	10.3	10.4	10.3	10.2
EPS growth, core	(%)	5.8	0.2	(1.0)	1.3	0.9
P/BV, core	(x)	1.0	1.0	0.9	1.0	1.0
ROE	(%)	9.4	9.3	9.1	11.8	9.4
Dividend yield	(%)	9.2	8.8	9.0	9.1	9.2
FCF yield	(%)	8.6	8.9	9.7	(30.7)	8.9
EV/EBIT	(x)	10.4	10.3	10.3	11.0	10.9
EBIT growth, core	(%)	5.8	0.1	(0.4)	74.8	0.7
EV/CE	(x)	1.0	1.0	1.0	1.0	1.0
ROCE	(%)	9.4	9.5	9.5	9.3	9.3
EV/EBITDA	(x)	10.4	10.3	10.3	10.5	10.4
EBITDA growth	(%)	5.7	0.1	(0.4)	84.1	0.1

Source: SCBS Investment Research

### Analyst

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## Financial statement

### Profit and Loss Statement

FY December 31	Unit	2015	2016	2017	2018	2019F	2020F	2021F
Total revenue	(Btmn)	4,377	5,442	5,776	5,814	5,877	10,768	10,886
Cost of goods sold	(Btmn)	(174)	(219)	(256)	(275)	(358)	(665)	(727)
Gross profit	(Btmn)	<b>4,203</b>	<b>5,223</b>	<b>5,520</b>	<b>5,540</b>	<b>5,519</b>	<b>10,103</b>	<b>10,159</b>
SG&A	(Btmn)	(78)	(99)	(104)	(116)	(117)	(159)	(202)
Other income	(Btmn)	31	27	27	32	0	5	29
Interest expense	(Btmn)	(68)	(6)	-	-	-	(500)	(450)
Pre-tax profit	(Btmn)	<b>4,088</b>	<b>5,145</b>	<b>5,443</b>	<b>5,455</b>	<b>5,402</b>	<b>9,449</b>	<b>9,536</b>
Corporate tax	(Btmn)	-	-	-	-	-	-	-
Equity a/c profits	(Btmn)	0	0	0	0	0	0	0
Minority interests	(Btmn)	-	-	-	-	-	-	-
Core profit	(Btmn)	<b>4,088</b>	<b>5,145</b>	<b>5,443</b>	<b>5,455</b>	<b>5,402</b>	<b>9,449</b>	<b>9,536</b>
Extra-ordinary items	(Btmn)	641	310	1,705	(356)	-	-	-
Net Profit	(Btmn)	<b>4,729</b>	<b>5,455</b>	<b>7,148</b>	<b>5,099</b>	<b>5,402</b>	<b>9,449</b>	<b>9,536</b>
EBITDA	(Btmn)	4,126	5,124	5,416	5,424	5,402	9,944	9,957
Core EPS	(Bt)	<b>0.74</b>	<b>0.94</b>	<b>0.99</b>	<b>0.99</b>	<b>0.98</b>	<b>0.99</b>	<b>1.00</b>
Net EPS	(Bt)	0.86	0.99	1.30	0.93	0.98	0.99	1.00
DPS	(Bt)	0.74	0.90	0.93	0.90	0.91	0.92	0.93

### Balance Sheet

FY December 31	Unit	2015	2016	2017	2018	2019F	2020F	2021F
Total current assets	(Btmn)	3,999	464	13	47	490	2,940	2,673
Total fixed assets	(Btmn)	55,641	55,951	57,656	57,300	57,300	107,300	107,300
Total assets	(Btmn)	<b>61,616</b>	<b>58,102</b>	<b>59,683</b>	<b>59,846</b>	<b>60,290</b>	<b>112,739</b>	<b>112,473</b>
Total loans	(Btmn)	3,850	0	0	0	0	10,000	9,000
Total current liabilities	(Btmn)	4,747	1,359	928	941	988	1,814	1,859
Total long-term liabilities	(Btmn)	0	0	0	0	0	10,000	9,000
Total liabilities	(Btmn)	<b>4,747</b>	<b>1,359</b>	<b>928</b>	<b>941</b>	<b>988</b>	<b>11,814</b>	<b>10,859</b>
Paid-up capital	(Btmn)	55,000	54,314	54,184	54,184	54,184	94,184	94,184
Total equity	(Btmn)	<b>56,869</b>	<b>56,743</b>	<b>58,755</b>	<b>58,905</b>	<b>59,302</b>	<b>100,925</b>	<b>101,613</b>
BVPS	(Bt)	<b>10.34</b>	<b>10.32</b>	<b>10.68</b>	<b>10.71</b>	<b>10.78</b>	<b>10.62</b>	<b>10.70</b>

### Cash Flow Statement

FY December 31	Unit	2015	2016	2017	2018	2019F	2020F	2021F
Core Profit	(Btmn)	4,088	5,145	5,443	5,455	5,402	9,449	9,536
Depreciation and amortization	(Btmn)	0	0	0	0	0	0	0
Operating cash flow	(Btmn)	1,156	9,439	4,986	5,440	5,448	10,763	10,006
Investing cash flow	(Btmn)	(53,152)	(3,544)	(174)	(458)	0	(40,496)	(1,425)
Financing cash flow	(Btmn)	52,140	(5,581)	(5,266)	(4,950)	(5,005)	32,174	(8,848)
Net cash flow	(Btmn)	<b>144</b>	<b>315</b>	<b>(454)</b>	<b>32</b>	<b>444</b>	<b>2,441</b>	<b>(267)</b>

### Key Financial Ratios

FY December 31	Unit	2015	2016	2017	2018	2019F	2020F	2021F
Gross margin	(%)	96.0	96.0	95.6	95.3	93.9	93.8	93.3
Operating margin	(%)	94.3	94.2	93.8	93.3	91.9	92.3	91.5
EBITDA margin	(%)	94.3	94.2	93.8	93.3	91.9	92.4	91.5
EBIT margin	(%)	95.0	94.6	94.2	93.8	91.9	92.4	91.7
Net profit margin	(%)	108.0	100.2	123.7	87.7	91.9	87.8	87.6
ROE	(%)	14.4	9.1	9.4	9.3	9.1	11.8	9.4
ROA	(%)	13.3	8.6	9.2	9.1	9.0	10.9	8.5
Net D/E	(%)	0.1	net cash	net cash	net cash	net cash	0.1	0.1
Interest coverage	(%)	60.4	899.7	0.0	0.0	0.0	19.9	22.1
Debt service coverage	(%)	1.1	899.7	0.0	0.0	0.0	19.9	22.1
Payout Ratio	(%)	0.0	86.1	90.7	71.8	97.1	93.0	93.0

### Main Assumptions

FY December 31	Unit	2015	2016	2017	2018	2019F	2020F	2021F
OFCs	(core km)	980,500	980,500	980,500	980,500	980,500	1,780,500	1,780,500
Rental rate for Main Lease Agreement	(Bt/core)	425.0	425.0	425.8	428.6	433.2	437.1	441.9
Rental rate for Rental Assurance Agreement	(Bt/core)	750.0	750.0	751.4	756.4	764.5	771.4	779.8
OFCs maintenance fee	(Bt/core)	200.0	206.0	212.2	218.5	225.1	231.9	238.8

## Financial statement Profit and Loss Statement

FY December 31	Unit	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19
Total revenue	(Btmn)	1,444	1,444	1,482	1,454	1,454	1,454	1,454	1,469
Cost of goods sold	(Btmn)	(63)	(71)	(81)	(66)	(66)	(74)	(69)	(72)
<b>Gross profit</b>	<b>(Btmn)</b>	<b>1,381</b>	<b>1,373</b>	<b>1,401</b>	<b>1,388</b>	<b>1,388</b>	<b>1,379</b>	<b>1,385</b>	<b>1,397</b>
SG&A	(Btmn)	(26)	(26)	(40)	(27)	(34)	(29)	(25)	(34)
Other income	(Btmn)	7	6	11	7	7	8	9	10
Interest expense	(Btmn)	0	0	0	0	0	0	0	0
<b>Pre-tax profit</b>	<b>(Btmn)</b>	<b>1,362</b>	<b>1,354</b>	<b>1,372</b>	<b>1,368</b>	<b>1,360</b>	<b>1,358</b>	<b>1,369</b>	<b>1,374</b>
Corporate tax	(Btmn)	0	0	0	0	0	0	0	0
Equity a/c profits	(Btmn)	0	0	0	0	0	0	0	0
Minority interests	(Btmn)	0	0	0	0	0	0	0	0
<b>Core profit</b>	<b>(Btmn)</b>	<b>1,362</b>	<b>1,354</b>	<b>1,372</b>	<b>1,368</b>	<b>1,360</b>	<b>1,358</b>	<b>1,369</b>	<b>1,374</b>
Extra-ordinary items	(Btmn)	(418)	150	(2,133)	(56)	100	(300)	(100)	200
<b>NET Profit</b>	<b>(Btmn)</b>	<b>944</b>	<b>1,504</b>	<b>(761)</b>	<b>1,312</b>	<b>1,460</b>	<b>1,059</b>	<b>1,269</b>	<b>1,574</b>
EBITDA	(Btmn)	1,362	1,354	1,372	1,368	1,360	1,358	1,369	1,374
<b>Core EPS</b>	<b>(Bt)</b>	<b>0.25</b>	<b>0.25</b>	<b>0.25</b>	<b>0.25</b>	<b>0.25</b>	<b>0.25</b>	<b>0.25</b>	<b>0.25</b>
Net EPS	(Bt)	0.17	0.27	(0.14)	0.24	0.27	0.19	0.23	0.29

## Balance Sheet

FY December 31	Unit	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19
Total current assets	(Btmn)	898	965	928	901	910	928	941	894
Total fixed assets	(Btmn)	57,578	57,728	57,656	57,600	57,700	57,400	57,300	57,500
<b>Total assets</b>	<b>(Btmn)</b>	<b>59,282</b>	<b>59,698</b>	<b>59,683</b>	<b>59,703</b>	<b>59,962</b>	<b>59,774</b>	<b>59,846</b>	<b>60,108</b>
Total loans	(Btmn)	0	0	0	0	0	0	0	0
Total current liabilities	(Btmn)	898	965	928	901	910	928	941	894
Total long-term liabilities	(Btmn)	0	0	0	0	0	0	0	0
<b>Total liabilities</b>	<b>(Btmn)</b>	<b>898</b>	<b>965</b>	<b>928</b>	<b>901</b>	<b>910</b>	<b>928</b>	<b>941</b>	<b>894</b>
Paid-up capital	(Btmn)	54,184	54,184	54,184	54,184	54,184	54,184	54,184	54,184
<b>Total equity</b>	<b>(Btmn)</b>	<b>58,384</b>	<b>58,732</b>	<b>58,755</b>	<b>58,802</b>	<b>59,052</b>	<b>58,845</b>	<b>58,905</b>	<b>59,213</b>
<b>BVPS</b>	<b>(Bt)</b>	<b>10.62</b>	<b>10.68</b>	<b>10.68</b>	<b>10.69</b>	<b>10.74</b>	<b>10.70</b>	<b>10.71</b>	<b>10.77</b>

## Cash Flow Statement

FY December 31	Unit	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19
Core Profit	(Btmn)	1,362	1,354	1,372	1,368	1,360	1,358	1,369	1,374
Depreciation and amortization	(Btmn)	0	0	0	0	0	0	0	0
Operating cash flow	(Btmn)	1,376	1,421	1,336	1,336	1,371	1,381	1,352	1,344
Investing cash flow	(Btmn)	78	(199)	(151)	(54)	(146)	(113)	(145)	(24)
Financing cash flow	(Btmn)	(1,450)	(1,155)	(1,265)	(1,265)	(1,210)	(1,265)	(1,210)	(1,320)
<b>Net cash flow</b>	<b>(Btmn)</b>	<b>4</b>	<b>67</b>	<b>(80)</b>	<b>17</b>	<b>15</b>	<b>3</b>	<b>(3)</b>	<b>(0)</b>

## Key Financial Ratios

FY December 31	Unit	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19
Gross margin	(%)	95.7	95.1	94.5	95.5	95.5	94.9	95.3	95.1
Operating margin	(%)	93.9	93.3	91.8	93.6	93.1	92.9	93.6	92.8
EBITDA margin	(%)	94.3	93.7	92.6	94.1	93.6	93.4	94.2	93.5
EBIT margin	(%)	94.3	93.7	92.6	94.1	93.6	93.4	94.2	93.5
Net profit margin	(%)	65.4	104.1	(51.3)	90.2	100.4	72.8	87.3	107.1
ROE	(%)	9.3	9.2	9.3	9.3	9.3	9.2	9.3	9.3
ROA	(%)	9.2	9.1	9.2	9.2	9.1	9.1	9.2	9.2
Net D/E	(%)	net cash	net cash	net cash	net cash	net cash	net cash	net cash	net cash
Interest coverage	(%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt service coverage	(%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

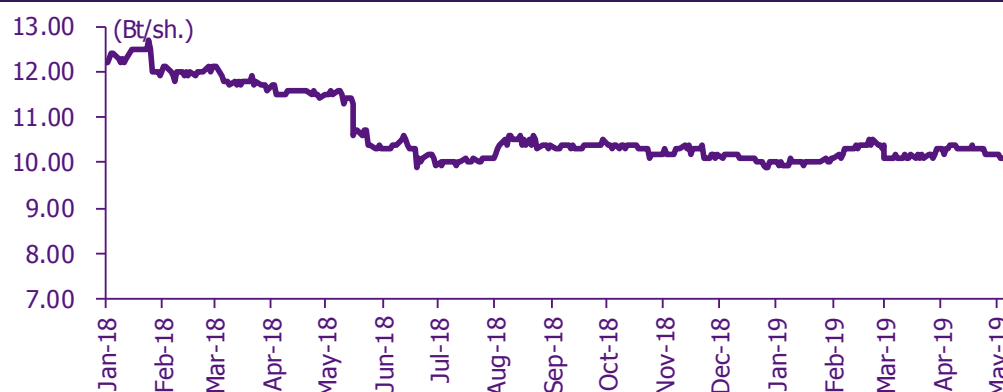
## Main Assumptions

	Unit	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19
OFCs	(core km)	980,500	980,500	980,500	980,500	980,500	980,500	980,500	980,500
Rental rate for Main Lease Agreement	(Bt/core km/mth)	425.8	425.8	425.8	428.6	428.6	428.6	428.6	433.2
Rental rate for Rental Assurance Agreement	(Bt/core km/mth)	751.4	751.4	751.4	756.4	756.4	756.4	756.4	764.5
OFCs maintenance fee	(Bt/core km/mth)	212.2	212.2	212.2	218.5	218.5	218.5	218.5	225.1

## Investment highlights

JASIF share price has been under pressure for the past 12 months due to the uncertainty over the injection of new assets. Based on our discussion with BBLAM and JAS, both parties are working to finalize all commercial terms this year. We see three key potential benefits to JASIF from a new asset injection.

**Figure 1: JASIF's share price has been under pressure for the past 12 months**



Source: SCBS Investment Research, Bloomberg

**1) Lease agreement on existing assets would be extended.** The market has been concerned about whether or not the current lease agreement between JAS and JASIF will be extended after it expires in 2026F or, if extended, there will be a deep discount on rental rate. In our view, a new asset injection would remove this overhang. We expect the current lease agreement that runs to 2026F to be extended to 2032F to match the new lease agreement for the new assets. We also believe the rental rate on this extension (2026-2032) will use the current formula, which is based on CPI for both master lease and revenue assurance agreements. This means no deep discount on rental rate.

**2) Potential lease extension for another 10 years to 2042F.** DIF set a precedent by offering a 10-year extension and we expect a similar clause to allow JAS to extend the lease for another 10 years (until 2042) if certain conditions are met. DIF is allowing a 10-year extension if TRUE renews its operating license and one of two conditions are met: 1) TRUE's total revenue from fixed broadband service is above a pre-determined threshold or 2) total market share in fixed broadband service is greater than 33% (approximately 38% currently). Based on a discussion with DIF, we see a high chance of an extension. Assuming JASIF applies a similar condition to JAS, the chance is similarly high that JAS will extend the lease agreement with JASIF until 2042F. This would lengthen the lease contract from 7 years to 23 years, equivalent to DIF, and assure unitholders of a long-term stable dividend stream.

**3) Narrowed yield gap between JASIF and DIF.** In the past, the yield difference between JASIF and DIF has ranged from 1.2-1.9ppt, with JASIF always offering the higher yield for three reasons: 1) less asset diversification (OFC only vs telecom tower + FOC for DIF), 2) JASIF has a shorter lease agreement tenor and 3) its financially stronger sponsor. Currently, the yield difference is 2.6ppt based on 2019F (9.0% for JASIF and 6.4% for DIF). A successful new asset injection would narrow the yield gap to at least 1.9ppt. This implies JASIF share price could rise to Bt11.1/sh.

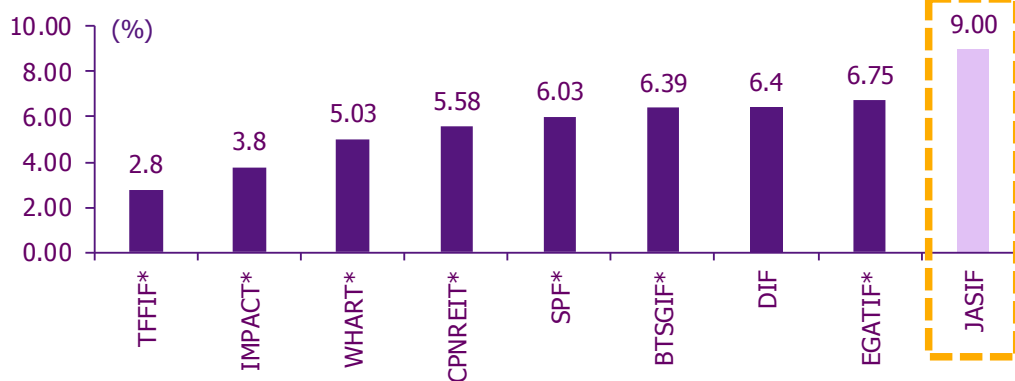
**Figure 2: The yield gap between JASIF and DIF**

	DIF	JASIF	Diff Comment
2015	7.70	7.54	(0.16) JASIF started trading in Feb 2015, so the dividend yield in 2015 did not reflect full-year operation.
2016	6.72	8.65	1.93
2017	6.80	8.03	1.23
2018	6.95	8.29	1.34
2019F	6.40	9.00	2.60
<b>Simple average</b>			<b>1.08 Average yield gap during 2014-2018</b>

Source: SCBS Investment Research, Bloomberg

**The highest dividend yield among REIT and IFF.** Based on our estimates, JASIF's dividend yield in 2019F will be 9.0%, topping all other REITs and IFF. Admittedly, this is chiefly a result of the uncertainty over the current lease contract that expires in 2026F. We note that JASIF unitholders do not have to pay withholding tax of 10% until 2025F.

**Figure 3: JASIF's dividend yield is the highest among the REIT and IFF**



Source: SCBS Investment Research, Bloomberg  
Note: \*based on Bloomberg consensus

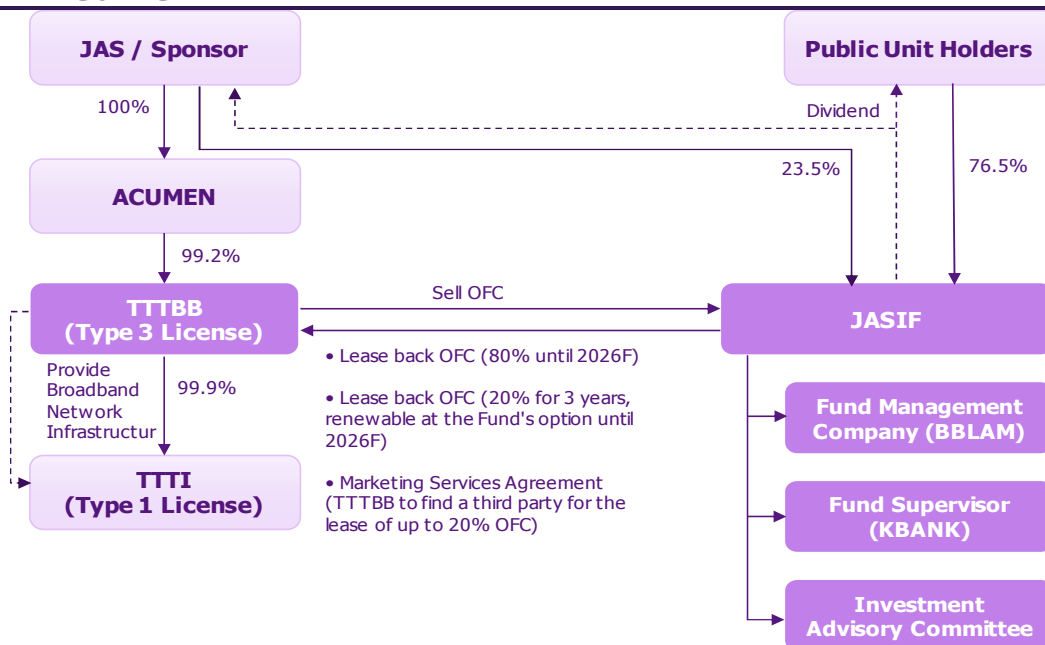
## Background

### Fund background and assets

Jasmine Broadband Internet Infrastructure Fund (JASIF) invested in OFCs developed and managed by Triple T Broadband (TTTBB), a subsidiary of Jasmine International (JAS). The OFC network is an important part of the telecommunication network, which is capable of delivering triple-play services on demand (e.g. fixed broadband internet, VoIP and IPTV). JAS is the sponsor of JASIF and a major shareholder of TTTBB, the owner of the OFCs that were transferred to JASIF. JAS is required to hold not less than 19% (it holds 23.5% currently) of JASIF until Feb 2021F. Thereafter, JAS has no holding limit.

Fund units were listed and traded on the SET beginning February 10, 2015. The fund is managed by BBL Asset Management (BBLAM).

**Figure 4: Structure of the fund**



Source: SCBS Investment Research, JASIF

### Asset summary

Currently, JASIF is invested in 980,500 core km of OFCs at a cost of Bt55bn. The OFC network blankets the nation, with 30% in Bangkok and the rest in the provinces. JAS is the only tenant for JASIF. The current lease agreement between JAS and JASIF ends in Feb 2026F.

**Figure 5: JASIF's existing assets**

Fibre optic cable (core km)	980,500
Investment cost (Btmn)	55,000
Investment cost per core km (Bt)	56,122

Source: SCBS Investment Research, JASIF

### Lease agreement

JAS has an agreement with JASIF to lease 80% of network capacity for Bt433.2 per core km per month based on 2019 numbers. JAS also guarantees it will lease the remaining 20% of capacity for Bt764.5 per core km per month. The rental rate for both portions will go up annually based on Thailand CPI but will not exceed 3% per year. If the CPI is negative, rental rate will be unchanged. On the cost side, the key item is maintenance fees, which will rise 3% per annum until 2026F.

**Figure 6: Key lease agreement between JASIF and JAS on existing assets**

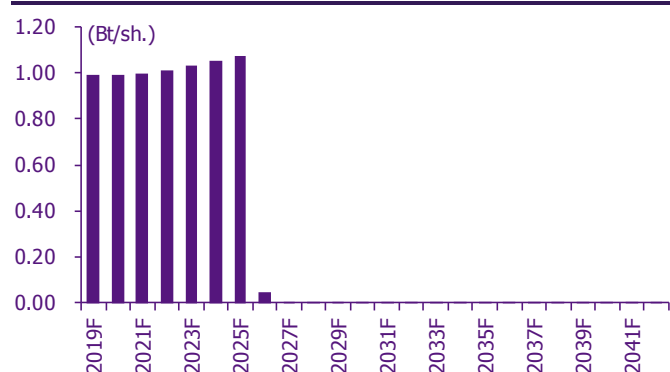
		Comment
Maturity	Until Feb 2026	
Total fibre optic cable capacity (core km)	980,500	
Main lease agreement (core km)	784,400	80% of total capacity and leased by JAS ending Feb 2026
Rental rate for main lease agreement (Bt/core km/mth)	433.2	Based on 2019 numbers and will grow in line with CPI, but cap at 3%
Rental assurance agreement (core km)	196,100	20% of total capacity and also leased by JAS ended Feb 2026
Rental rate for rental assurance agreement (Bt/core km/mth)	764.5	Based on 2019 numbers and will grow in line with CPI, but cap at 3%
Maintenance fee (Bt/ core km/year)	225.1	Based on 2019 numbers and will grow by 3% per year

Source: SCBS Investment Research, JASIF

### Financial outlook

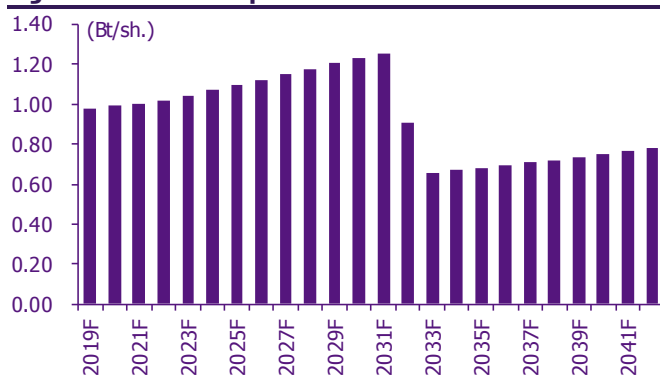
We forecast JASIF core EPS to grow by a 0.5% 3-year CAGR (2018-2021F). This implies a dividend per share at Bt0.91 in 2019F, Bt0.92 in 2020F and Bt0.93 in 2021F based on 93% dividend payout. Based on the current share price, JASIF dividend yield will rise from 9.0% in 2019F to 9.2% in 2021F. In our assumption, we assume: 1) new asset injection of 800,000 core km at Bt50bn, 2) the new asset injections will be completed in 4Q19, 3) financing structure for the new asset acquisition will be 80% equity and 20% debt, 4) a 20% rental rate discount and no rental assurance in 2033F and (5) lease agreement will end in 2042F.

**Figure 7: Core EPS outlook under existing lease term**



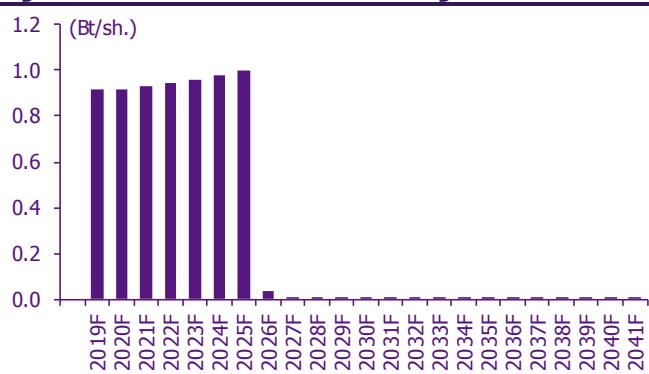
Source: SCBS Investment Research

**Figure 8: ...under expected new lease term**



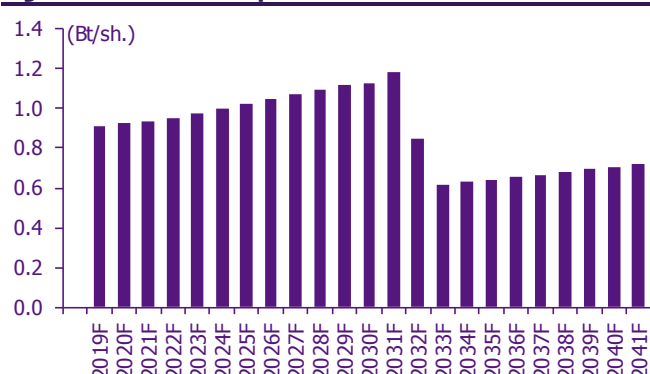
Source: SCBS Investment Research

**Figure 9: DPU outlook under existing lease term**



Source: SCBS Investment Research

**Figure 10: ...under expected new lease term**



Source: SCBS Investment Research

**Figure 11: Our assumptions on existing and new lease agreement post new asset injection**

	Current lease agreement	Expected new lease agreement	Expected new lease agreement on contract renewal
<b>Existing assets</b>			
Maturity	Until Feb 2026	Until Feb 2032	During 2032F-2042F
Asset	980,500 core km	980,500 core km	980,500 core km
Master lease agreement	80% of OFC capacity	80% of OFC capacity	80% of OFC capacity
Rental rate assumption	+0-3% per annum	+0-3% per annum	20% discount from latest rate and then grow 0-3%
Revenue assurance agreement	20% of OFC capacity	20% of OFC capacity	No
Rental rate assumption	+0-3% per annum	+0-3% per annum	No
Maintenance fee	+3% per annum	+3% per annum	+3% per annum
<b>New assets</b>			
Maturity		Until Feb 2032	During 2032F-2042F
Asset		800,000 core km	800,000 core km
Master lease agreement		80% of OFC capacity	80% of OFC capacity
Rental rate assumption		+0-3% per annum	20% discount from latest rate and then grow 0-3%
Revenue assurance agreement		20% of OFC capacity	No
Rental rate assumption		+0-3% per annum	No
Maintenance fee		+3% per annum	+3% per annum

Source: SCBS Investment Research, JASIF

### BUY with a TP Bt11.5 based on DCF

We initiate coverage of JASIF with a BUY rating on a DCF-based TP of Bt11.5 (8.0% WACC and 0% LTG). We believe the main market concerns will be removed after a second asset injection. This should help narrow the yield gap between JASIF and DIF. In the worst case of a further delay, we believe its decent dividend yield of 9.0% in 2019F will help cushion downside. The key downside risk to our call is no lease extension after 2032F, which would cut our TP to Bt8.1. In an extreme scenario, which we believe is unlikely, with no new asset injection and no lease extension after 2026F, our TP would be Bt5.2. These two scenarios would transform the freehold structure into a leasehold.

### Key risks

**1) Further share disposal by JAS.** At IPO, JAS held 33.33% in JASIF. In May 2018, JAS sold 9.8% for Bt10.5/sh, leaving it 23.5%. Current contract conditions mandate a holding of at least 19%, meaning that JAS could sell another 4.5% (247.5mn shares). Note that the average trading volume for JASIF is 10mn shares per day.

**2) Default risk from key tenant.** We see this as the key risk for JASIF since JAS is its only tenant. Based on our assumption of a new asset injection of 800,000 core km and JAS maintains its holding at 23.5%, JAS would have to pay additional net rental expense of Bt3.8bn per annum. By our estimates, total net rental expense JAS has to pay JASIF including the new assets accounts for 66% of JAS's adjusted EBITDA. We believe JAS has the capability to absorb the additional rental expense.

**3) Underground relocation expenses.** If the OFC must be moved underground, JASIF will have to shoulder the additional cost. So far, JASIF has not paid any expenses related to this. For conservative purposes, we already assume Bt80-150mn per annum for relocation expenses, which leaves little downside risk to our forecast for this expense.



**4) Rising 10-year Thai government bond yield.** The average difference between JASIF's dividend yield and 10-year Thai government bond yield since the inception of the fund is 5.5ppt. A sharp and rapid rise in bond yield would pressure share price. Currently, the yield gap is at 6.5ppt, making JASIF's share price less sensitive to any sharp rise in government bond yield. SCBS does not expect to see a sharp rise in government bond yield in the next 12 months and we thus believe the risk that JASIF's share price will be pressured by rising government bond yield is low.

**Figure 12: Current yield gap is above historical average**

	Average price (Bt/sh)	Dividend per share	Dividend yield (%)	Average risk-free rate (%)	Diff. (ppt)
2015	9.81	0.74	7.54	2.73	4.81
2016	10.4	0.90	8.65	2.17	6.48
2017	11.63	0.93	8.03	2.61	5.42
2018	10.86	0.90	8.29	2.66	5.62
	<b>Simple average</b>		<b>Simple average</b>		<b>5.58</b>
<b>2019F</b>			<b>9.00</b>	<b>2.50</b>	<b>6.50</b>

Source: SCBS Investment Research, Bloomberg

**5) Threat of 5G on fixed broadband.** Some are saying that 5G technology will replace fixed broadband since it can deliver equivalent or even higher speed. This remains to be seen, but in our view, the two technologies are complementary rather than competitive. We do not expect mobile operators to offer unlimited data packages on 5G as they do for fixed broadband.

**Figure 13: Valuation summary** (price as of May 27, 2019)

	Price (Bt) 27-May-19	Mkt Cap (Btm)	PE (x)			EPS Growth (%)			PBV (x)			Div. Yield (%)			ROE (%)			EV/EBITDA (x)		
			19F	20F	21F	19F	20F	21F	19F	20F	21F	19F	20F	21F	19F	20F	21F	19F	20F	21F
DIF *	16.2	156,135	15.4	15.2	15.1	19.6	1.4	0.6	1.1	1.1	1.1	6.4	6.4	6.5	6.7	7.0	7.0	16.9	15.6	15.5
JASIF *	10.2	56,100	10.4	10.3	10.2	(1.0)	1.3	0.9	0.9	1.0	1.0	9.0	9.1	9.2	9.1	11.8	9.4	10.3	10.5	10.4
BTSGIF	12.6	72,929	16.2	15.2	14.5	6.9	6.2	5.1	1.1	1.2	1.2	6.4	6.8	7.5	7.1	7.6	8.6	15.7	14.8	13.1
CPNREIT	29.5	65,268	17.3	16.1	14.8	(1.3)	7.2	9.3	2.2	2.2	n.a	5.6	5.9	6.8	12.7	13.4	15.2	19.0	18.0	17.0
EGATIF	12.8	26,694	28.4	29.1	31.2	(53.9)	(2.2)	(6.8)	1.3	1.3	1.4	6.3	3.4	3.3	4.4	4.5	4.4	28.3	28.8	31.0
IMPACT	23.6	34,987	25.1	23.5	22.8	15.8	6.7	3.2	2.1	2.1	n.a	3.8	4.1	4.2	8.7	9.0	9.5	24.4	22.9	22.8
SPF	23.8	22,610	16.0	15.8	14.9	5.8	1.7	6.0	n.a	n.a	n.a	6.0	6.1	5.5	11.7	12.1	12.6	15.9	15.3	14.6
WHART	14.7	33,052	20.4	20.3	21.0	9.9	0.7	(3.4)	n.a	n.a	n.a	5.0	5.1	4.8	7.2	7.4	7.1	23.4	19.5	17.2
			<b>18.7</b>	<b>18.2</b>	<b>18.1</b>	<b>0.2</b>	<b>2.9</b>	<b>1.9</b>	<b>1.5</b>	<b>1.5</b>	<b>1.2</b>	<b>6.1</b>	<b>5.9</b>	<b>6.0</b>	<b>8.4</b>	<b>9.1</b>	<b>9.2</b>	<b>19.2</b>	<b>18.2</b>	<b>17.7</b>

Source: SCBS Investment Research, Bloomberg

\* SCBS estimates



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**CG Rating 2018 Companies with CG Rating**

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ADVANC, AKP, AMATA, AMATAV, ANAN, AOT, AP, BAFS, BANPU, BAY, BCP, BCPG, BRR, BTS, BWG, CFRESH, CHO, CK, CKP, CM, CNT, COL, CPF, CPI, CPN, CSL, CSS, DELTA, DEMCO, DRT, DTAC, DTC, EA, EASTW, EGCO, GC, GEL, GFPT, GGC\*, GOLD, GPSC, GRAMMY, GUNKUL, HANA, HMPRO, ICC, ICHI, INTUCH, IRPC, IVL, JSP, KBANK, KCE, KKP, KSL, KTB, KTC, LHFG, LIT, LPN, MAKRO, MBK, MCOT, MINT, MONO, MTC, NCL, NKI, NVD, NYT, OISHI, OTO, PCSGH, PDJ, PG, PHOL, PLANB, PLANET, PPS, PRG, PSH, PSL, PTG, PTT, PTTEP, PTTGC, PYLON, Q-CON, QH, QTC, RATCH, ROBINS, S & J, SABINA, SAMART, SAMTEL, SAT, SC, SCB, SCC, SCCC, SDC, SE-ED, SIS, SITHAI, SNC, SPALI, SPRC, SSSC, STEC, SVI, SYNTEC, TASCOS, TCAP, THAI, THANA, THANI, THCOM, THIP, THREL, TIP, TISCO, TKT, TMB, TNDT, TOP, TRC, TRU, TRUE, TSC, TSTH, TTCL, TU, TVD, UAC, UV, VGI, VIH, WACOAL, WAVE, WHA, WINNER

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2S, AAV, ACAP, AGE, AH, AHC, AIRA, AIT, AKR, ALLA, ALT, AMA, AMANAH, APCO, AQUA, ARIP, ARROW, ASIA, ASIMAR, ASK, ASN, ASP, ATP30, AU, AUCT, AYUD, BA, BBL, BDMS, BEC, BEM, BFIT, BGRIM, BIZ, BJC, BJCHI, BLA, BOL, BPP, BROOK, BTW, CBG, CEN, CENTEL, CGH, CHEWA, CHG, CHOW, CI, CIMBT, CNS, COM7, COMAN, CPALL, CSC, CSP, DCC, DCORP, DDD, EASON, ECF, ECL, EE, EPG, ERW, ETE, FN, FNS, FORTH, FPI, FSMART, FVC, GBX, GCAP, GLOBAL, GLOW, GULF, HARN, HPT, HTC, HYDRO, ICN, ILINK, INET, IRC, ITD\*, JAS, JCKH, JKN, JWD, K, KBS, KCAR, KGI, KKC, KOOL, KTIS, L&E, LANNA, LDC, LH, LHK, LOXLEY, LRH, LST, M, MACO, MAJOR, MALEE, MBKET, MC, MEGA, METCO, MFC, MFEC, MK, MOONG, MSC, MTI, NCH, NEP, NINE, NOBLE, NOK, NSI, NTV, NWR, OCC, OGC, ORI, PAP, PATO, PB, PDI, PJW, PLAT, PM, PORT, PPP, PREB, PRECHA, PRINC, PRM, PT, QLT, RICHY, RML, RS, RWI, S, S11, SALEE, SANKO, SAWAD, SCG, SCI, SCN, SE, SEAFCO, SEAOLIL, SELIC, SENA, SFP, SIAM, SINGER, SIRI, SKE, SMK, SMPG, SMT, SNP, SORKON, SPC, SPI, NEX, SPVI, SR, SSF, SST, STA, SUC, SUSCO, SUTHA, SWC, SYMC, SYNEX, TACC, TAE, TAKUNI, TBSP, TCC, TEAM, TFG, TFMAMA, THRE, TICON, TIPCO, TK, TKN, TKS, TM, TMC, TMI, TMILL, TMT, TNITY, TNL, TNP, TNR, TOA, TOG, TPA, TPAC, TPBI, TPCORP, TRITN, TRT, TSE, TSR, TSTE, TTA, TTW, TVI, TVO, TWP, TWPC, U, UMI, UOBKH, UP, UPF, UPOIC, UT, UWC, VNT, WHAUP, WICE, WIJK, XO, YUASA, ZMICO

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7UP, ABICO, ABM, AEC, AEONTS, AF, AJ, ALUCON, AMARIN, AMC, AS, ASAP, ASEFA, ASIAN, BCH, BEAUTY, BGT, BH, BIG, BLAND, BM, BR, BROCK, BSBM, BTNC, CCET, CCP, CGD, CHARAN, CHAYO, CITY, CMO, CMR, COLOR, CPL, CPT, CRD, CSR, CTW, CWT, D, DCON, B52, DIMET, EKH, EMC, EPCO, ESSO, ESTAR, FE, FLOYD, PROUD, FSS, FTE, GENCO, GIFT, GJS, GLAND, GPI, GREEN, GTB, GYT, HTECH, IFS, IHL, III, INOX, INSURE, IRCP, IT, ITEL, J, JCK, JMART, JMT, JTS, JUBILE, KASET, KCM, KIAT, KWC, KWG, KYE, LALIN, LEE, LPH, MATCH, MATI, MBAX, M-CHAI, MDX, META, MILL, MJD, MM, MODERN, MPG, NC, NDR, NETBAY, NNCL, NPK, OCEAN, PAF, PDG, PF, PICO, PIMO, PK, PL, PLE, PMTA, PPPM, PRIN, PSTC, PTL, RCI, RCL, RJH, ROJNA, RPC, RPH, SAMCO, SAPPE, SCP, SF, SGF, SGP, SKN, SKR, SKY, SLP, SMIT, SOLAR, SPA, SPCG, SPG, SQ, SRICHA, SSC, SSP, STANLY, STPI, SUN, SUPER, SVOA, T, TCCC, TCMC, THE, THG, THMUI, TIC, TITL, TIW, TMD, TOPP, TPCH, TPIPP, TPOLY, TTI, TVT, TYCN, UEC, UMS, UNIQ, VCOM, VIBHA, VPO, WIN, WORK, WP, WPH, ZIGA

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The disclosure of the survey result of the Thai Institute of Directors Association ("IOD") regarding corporate governance is made pursuant to the policy of the Office of the Securities and Exchange Commission. The survey of the IOD is based on the information of a company listed on the Stock Exchange of Thailand and the Market for Alternative Investment disclosed to the public and able to be accessed by a general public investor. The result, therefore, is from the perspective of a third party. It is not an evaluation of operation and is not based on inside information.

The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. SCB Securities Company Limited does not conform nor certify the accuracy of such survey result.

To recognize well performers, the list of companies attaining "Good", "Very Good" and "Excellent" levels of recognition

(Not including listed companies qualified in the "no announcement of the results" clause from 1 January 2017 to 19 October 2018) is publicized.

CSL was voluntarily delisted from the Stock Exchange of Thailand effectively on July 26, 2018

\* บริษัทหรือกรรมการหรือผู้บริหารของบริษัทที่มีชาวต่างชาติกำกับดูแลกิจการ เช่น การกระทำผิดเกี่ยวกับหลักทรัพย์ การทุจริต คอร์รัปชัน เป็นต้น ซึ่งการใช้ข้อมูล CGR ควรตระหนักถึงข้อดังกล่าวประกอบด้วย

**Anti-corruption Progress Indicator**

**Certified (ได้รับการรับรอง)**

ADVANC, AKP, AMANAH, AP, APCS, ASK, ASP, AYUD, BAFS, BANPU, BAY, BBL, BCH, BCP, BCPG, BGRIM, BJCHI, BKI, BLA, BROOK, BRR, BSBM, BTS, BWG, CENTEL, CFRESH, CHEWA, CIG, CM, CNS, COM7, CPALL, CPF, CPI, CPN, CSC, DCC, DEMCO, DIMET, DRT, DTAC, DTC, EASTW, ECL, EGCO, EPCO, FE, FNS, FPT, FSS, GBX, GC, GCAP, GEL, GFPT, GGC, GJS, GLOW, GOLD, GPSC, GSTEL, GUNKUL, HANA, HARN, HMPRO, HTC, ICC, IFEC, IFS, INET, INTUCH, IRPC, IVL, K, KASET, KBANK, KBS, KCAR, KCE, KGI, KKP, KSL, KTB, KTC, KWC, L&E, LANNA, LHFG, LHK, LPN, M, MAKRO, MALEE, MBAX, MBK, MBKET, MC, MCOT, MFC, MINT, MONO, MOONG, MSC, MTI, NBC, NINE, NKI, NMG, NNCL, NSI, OCC, OCEAN, OGC, PATO, PB, PCSGH, PDG, PDI, PDJ, PE, PG, PHOL, PL, PLANET, PLAT, PM, PPP, PPPM, PPS, PREB, PRG, PRINC, PSH, PSTC, PT, PTG, PTT, PTTEP, PTTGC, Q-CON, QH, QLT, RATCH, RML, ROBINS, S & J, SABINA, SAT, SC, SCB, SCC, SCCC, SCG, SUN, SE-ED, SELIC, SENA, SGP, SINGER, SIRI, SIS, SITHAI, SMIT, SMK, SMPG, SNC, SNP, SORKON, SPACK, SPC, SPI, SPRC, SRICHA, SSF, SSI, SSSC, STA, SUSCO, SVI, SYNTEC, TAE, TASCOS, TCAP, TCMC, TFG, TFI, TFMAMA, THANI, THCOM, THRE, THREL, TIP, TIPCO, TISCO, TKT, TMB, TMD, TMILL, TMT, TNITY, TNL, TNP, TOG, TOP, TPA, TPCORP, TRU, TRUE, TSC, TSTH, TTCL, TU, TVD, TVI, TWPC, U, UBIS, UOBKH, VGI, VNT, WACOAL, WHA, WICE, WIJK

**Declared (ประกาศเจตนากรม)**

A, ABICO, AIE, AJ, AMATA, AMATAV, ANAN, AOT, APCO, ARROW, ASIAN, B, BJC, BLAND, BLISS, BM, BPP, BR, BUI, CEN, CGH, CHG, CHO, CHOTI, CI, CIMBT, CITY, COL, CPR, DDD, EFORL, EKH, ESTAR, ETE, FLOYD, FN, FPI, FTE, GPI, GYT, ICHI, ILINK, INSURE, IRC, ITEL, JAS, JTS, KWG, LDC, LEE, LIT, LRH, MATCH, MATI, META, MFEC, MILL, MTC, NCL, NEP, NWR, ORI, PAP, PK, PLANB, POST, PRM, PRO, PSL, PYLON, QTC, ROJNA, RWI, SAPPE, SCI, SHANG, SPALI, SST, STANLY, SUPER, SWC, SYMC, SYNEX, TAKUNI, THE, THIP, TKN, TMC, TNR, TOPP, TPP, TRITN, TTI, TVO, UEC, UKEM, UP, UREKA, UV, UWC, VIH, XO, YUASA

N/A

2S, 7UP, AAV, ABM, ACAP, ACC, ADAM, ADB, AEC, AEONTS, AF, AFC, AGE, AH, AHC, AI, AIRA, AIT, AJA, AKR, ALL, ALLA, ALT, ALUCON, AMA, AMARIN, AMC, APEX, APURE, AQ, AQUA, ARIP, AS, ASAP, ASEFA, ASIA, ASIMAR, ASN, ATP30, AU, AUCT, BA, BAT-3K, BCT, BDMS, BEAUTY, BEC, BEM, BFIT, BGC, BGT, BH, BIG, BIZ, BKD, BOL, BROCK, BSM, BTNC, BTW, CAZ, CBG, CCET, CCP, CGD, CHARAN, CHAYO, CHOW, CHUO, CK, CKP, CMAN, CMC, CMO, CMR, CNT, COLOR, COMAN, COTTO, CPH, CPL, CPT, CRANE, CRD, CSP, CSR, CSS, CTW, CWT, D, DCON, DCORP, DELTA, B52, DOD, DTCL, EA, EARTH, EASON, ECF, EE, EIC, EMC, EPG, ERW, ESSO, EVER, F&D, FANCY, FC, FMT, PROUD, FORTH, FSMART, FVC, GENCO, GIFT, GL, GLAND, GLOBAL, GRAMMY, GRAND, GREEN, GSC, GTB, GULF, HFT, HPT, HTECH, HUMAN, HYDRO, ICN, IEC, IHL, III, INGRS, INOX, IRCP, IT, ITD, J, JCK, JCKH, JCT, JKN, JMART, JMT, JSP, JUBILE, JUTHA, JWD, KAMART, KC, KCM, KDH, KIAT, KKC, KOOL, KTECH, KTIS, KWM, KYE, LALIN, LH, LOXLEY, LPH, LST, LTX, LVT, MACO, MAJOR, MANRIN, MAX, M-CHAI, MCS, MDX, MEGA, METCO, MGT, MIDA, MJD, MK, ML, MM, MODERN, MORE, MPG, MPIC, MVP, NC, NCH, NDR, NER, NETBAY, NEW, NEWS, NFC, NOBLE, NOK, NPK, NPPG, NTV, NUSA, NVD, NYT, OHTL, OISHI, OSP, OTO, PACE, PAE, PAF, PERM, PF, PICO, PIMO, PJW, PLE, PMTA, POLAR, POMPU, PORT, PPM, PR9, PRAKIT, PRECHA, PRIN, PTL, RAM, RCI, RCL, RICH, RICHY, RJH, ROCK, ROH, RP, RPC, RPH, RS, RSP, S, S11, SAAM, SAFARI, SALEE, SAM, SAMART, SAMCO, SAMTEL, SANKO, SAUCE, SAWAD, SAWANG, SCP, SDC, SE, SEAFCO, SEAOLIL, SF, SFP, SGF, SIAM, SIMAT, SISB, SKE, SKN, SKR, SKY, SLP, SMART, SMM, SMT, SOLAR, SONIC, SPA, SPCG, SPG, SPORT, NEX, SPVI, SQ, SR, SSC, SSP, STAR, STEC, STHAI, STI, STPI, SUC, SUN, SUTHA, SVH, SVOA, T, TACC, TAPAC, TBSP, TC, TCC, TCCC, TCJ, TCOAT, TEAM, TEAMG, TGPRO, TH, THAI, THANA, THG, THL, THMUI, TIC, TIGER, TITL, TIW, TK, TKS, TM, TMI, TMW, TNDT, TNH, TNPC, TOA, TPAC, TPBI, TPCH, TPIPL, TPIPP, TPLAS, TPOLY, TQM, TR, TRC, TRT, TRUBB, TSE, TSF, TSI, TSR, TSTE, TTA, TTL, TTMT, TTW, TVT, TWP, TWZ, TYCN, UAC, UMI, UMS, UNIQ, UP, UPF, UPOIC, UT, UTP, UVAN, VARO, VCOM, VI, VIBHA, VNG, VPO, VRANDA, WAVE, WG, WHAUP, WIN, WINNER, WORK, WORLD, WP, WPH, WR, YCI, YNP, ZEN, ZIGA, ZMICO

**Explanations**

Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of November 30, 2018) are categorised into: companies that have declared their intention to join CAC, and companies certified by CAC.