

# INTERLINK TELECOM

## ITEL TB

THAILAND / INFORMATION&COMM TECH

# BUY

## Soft start in 1Q23E

- Given its large backlog of THB3.5b at end 2022, we project 2023 total revenue to rise 6% y-y and core profit to grow 20% y-y.
- 1Q23 core profit, however, is estimated to slump 47% q-q and 25% y-y due to seasonality and a change in the USO 1 contract.
- Recommend BUY with a TP of THB4.50.

TARGET PRICE	THB4.50
CLOSE	THB2.92
UP/DOWNSIDE	+54.1%
TP vs CONSENSUS	-18.2%

### The largest fiber-optic network provider in Thailand

Interlink Telecom (ITEL TB) provides telecommunication network services with a Type 3 telecommunications business license and its own network. ITEL's services include high-speed data networks, telecommunications network installation, and data centre storage. The recurring revenue from its data service and data centre units accounts for 50% of total service revenue and both recorded consistent growth even during the pandemic. In March 2022, ITEL acquired a 51% stake in Blue Solutions (BS). Its consolidation of BS's performance since 1Q22 has enhanced the group's installation business.

### Recurring income to rise

ITEL and BS, its subsidiary, had a backlog worth THB3.5b at end 2022, 57% of which will be recognised in 2023, 28% in 2024, and the rest in 2025 onwards. We expect its total service revenue to reach THB3.6b in 2023 (+6% y-y), 56% of which is already secured. We expect its service revenue to grow at a 3% CAGR in 2023-2025 driven by data services and growing demand for high-speed communications services. Its core profit is estimated to rise at a 9% CAGR due to improved gross margins, efficient cost control, and declining interest expenses.

### Soft start in 1Q23E

We project ITEL to deliver a THB41m core profit in 1Q23, down 47% q-q and 25% y-y, caused by an expected decline in total service revenue of 54% q-q and 5% y-y. Besides seasonality, revenue from its data service unit (55% of total) is forecast to drop 10% y-y and stay flat q-q because of a change in the Universal Service Obligation (USO) 1 contract.

### Recommend BUY with a TP of THB4.50

We recommend BUY for ITEL with a P/E-based TP of THB4.50 based on 20x 2023E P/E, equal to its five-year average. The 50% share price plunge during the past 12 months reflected delays in the industry's bidding process in 2022, in our view. Its share price, currently trading at 13x 2023E P/E and only 7.7x 2023E EV/EBITDA, -1.3SD of its five-year P/E and EV/EBITDA averages – is at the lowest level in three years. This report represents a continuation of FSSIA's coverage of ITEL, previously published under FSS Research.

### KEY STOCK DATA

YE Dec (THB m)	2022	2023E	2024E	2025E
Revenue	3,393	3,593	3,740	3,791
Net profit	254	315	354	375
EPS (THB)	0.19	0.23	0.26	0.27
vs Consensus (%)	-	21.1	10.6	-
EBITDA	860	943	989	1,011
Core net profit	254	315	354	375
Core EPS (THB)	0.19	0.23	0.26	0.27
EPS growth (%)	(4.1)	17.5	12.6	5.9

Core P/E (x)	15.10	12.92	11.48	10.81
Dividend yield (%)	2.1	2.33	2.66	2.87
EV/EBITDA (x)	6.4	7.77	7.21	6.69
Price/book (x)	1.11	1.00	1.00	0.99
Net debt/Equity (%)	85.8	76.8	70.5	55.9
ROE (%)	7.89	8.48	8.7	8.73



Share price performance	1 Month	3 Month	12 Month
Absolute (%)	(12.6)	(22.8)	(50.9)
Relative to country (%)	(8.0)	(14.8)	(46.5)
Mkt cap (USD m)	116		
3m avg. daily turnover (USD m)	0.5		
Free float (%)	50		
Major shareholder	Interlink Communication PLC.. (50%)		
12m high/low (THB)	6.05/2.92		
Issued shares (m)	1,364.52		

Sources: Bloomberg consensus; FSSIA estimates



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## Investment thesis

In 2012, ITEL was granted a license to install fiber-optic networks along Thailand's railway routes for 30 years. The company has a key competitive advantage in providing data services with its nationwide networks, reliable services, experienced engineering teams, and long-term relationships with its customers.

The company provides three types of services: data service, network installation, and data centres. Its data service and data centre units offer recurring income with consistent growth. In order to leverage its data service business, ITEL also has operations in network installation, which offer project-based revenue depending on bidding outcomes. The acquisition of Blue Solutions (BS) in 2022 will help enhance ITEL's installation services.

With growing demand for data connectivity, we believe ITEL is well-positioned to capture future opportunities.

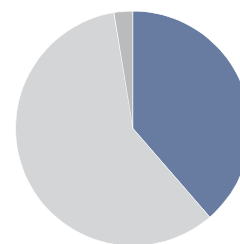
## Company profile

ITEL is a telecommunications network service provider with a nationwide fibre optic network that also provides telecommunication infrastructure installation services. ITEL's telecommunication license Type 3 from the National Broadcasting and Telecommunications Commission (NBTC) allows the company to own networks and render services.

[www.interlinktelecom.co.th](http://www.interlinktelecom.co.th)

## Principal activities (revenue, 2022)

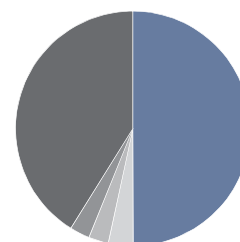
- Data service - 38.6 %
- Installation - 58.8 %
- Data center - 2.6 %



Source: Interlink Telecom

## Major shareholders

- Interlink Communication PLC.. - 50.0 %
- Thai NVDR Co., Ltd. - 3.4 %
- Mr. Nuttanai Anuntarumporn - 2.8 %



Source: Interlink Telecom

## Catalysts

Key potential catalysts include 1) the rise in data consumption; 2) the adoption of faster network technology; and 3) bigger technology budgets at state enterprises.

## Risks to our call

Downside risks to our P/E-based TP include 1) uncertainty regarding bidding outcomes; 2) delays in projects; 3) cost overruns; and 4) risks from technological disruptions.

## Event calendar

Date	Event
May 2023	1Q23 results announcement

## Key assumptions

	2023E (THB m)	2024E (THB m)	2025E (THB m)
Data service revenue	1,599	1,791	1,916
Gross margin (%)	22.2	22.5	23.0
Installation revenue	1,904	1,856	1,782
Gross margin (%)	17.8	17.9	18.0
Data center revenue	90.0	92.7	92.7
Gross margin (%)	31.1	32.0	32.0
SG&A to sales (%)	5.0	5.0	5.1

Source: FSSIA estimates

## Earnings sensitivity

- For every 10% change in THB to USD, we project ITEL's 2023 core profit to change by 1%, all else being equal.
- For every 1% change in blended gross margin, we project ITEL's 2023 core profit to change by 8%, all else being equal.
- For every 10% change in SG&A expense, we project ITEL's 2023 core profit to change by 4%, all else being equal.

Source: FSSIA estimates

## The largest fiber-optic network provider in Thailand

Interlink Telecom (ITEL TB) provides telecommunications network services with a Type 3 telecommunications business license which was granted in 2012 by the NBTC. This type of license allows the company to own networks and provide high speed communication circuits for 15 years. In the same year, the company was granted a license by the State Railway of Thailand to install fiber-optic networks along railway routes for 30 years. The company has also constructed main, alternative, and sub-route network infrastructure alongside roads via electricity poles to connect to customers.

Currently, ITEL operates three business services.

- 1. Data service.** ITEL provides high-speed data services via its Interlink fiber-optic network that uses modern Internet Protocol (IP) technology in accordance with a Service Level Agreement (SLA) standard of not less than 99.99%, including Interlink MPLS IP-VPN, Interlink dark fiber, Interlink Wavelength, Interlink IPLC and broadcast services. The gross margin of its data service unit averaged 25% during 2016-2022.
- 2. Network installation.** This includes consulting services, design, and installation of high-speed communications network systems. Of ITEL's three units, this is the only one whose income stream fluctuates as it is dependent on project progress and bidding outcomes. The network installation unit had the lowest gross margin among the three units at 19% during 2016-2022.
- 3. Data centre.** In 2014, ITEL launched its data centre and began providing data storage services for organisations. Built according to the specifications of data centre TIER 3 and open 24 hours, it covers 2,000 sq m with 369 racks and a service ability of not less than 99.982%. The gross margin of its data centre unit averaged 37% during 2016-2022. ITEL also holds a 33.3% stake in a 10,000 sq m data centre joint venture with ETIX Everywhere Group that supports 1,038 racks.

### Exhibit 1: Summary of data centre properties in each tier

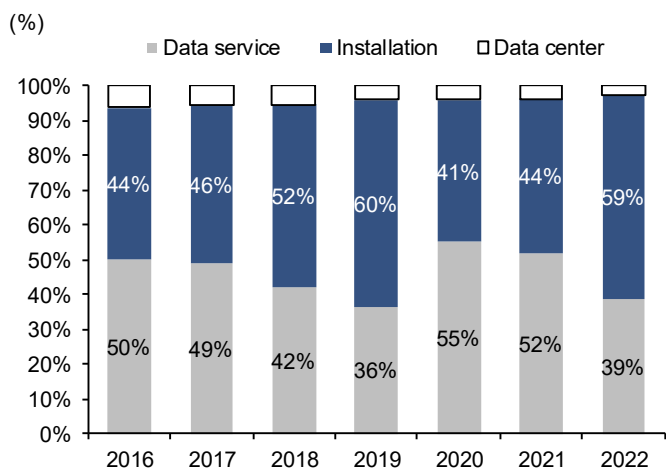
Structure	TIER 1	TIER 2	TIER 3	TIER 4
Electrical and cooling system	1 Active	1 Active	1 Active/1 Passive	2 Active
Number of minimum space equipment	N	N+1	N+1	2(N+1)
The ratio of supporting areas to equipment area	20%	30%	80-90%	100%
Raised floor	12"	18"	30"-36"	30"-36"
Floor load-bearing capacity	85lbs/sq ft	100lbs/sq ft	100-150lbs/sq ft	150lbs/sq ft
Operating voltage	208,480V	208,480V	12-15kV	12-15kV
Downtime per year	28.8 hours	22.0 hours	1.6 hours	0.4 hours
Site availability	99.67%	99.75%	99.98%	100.00%

Sources: Uptime Institute standards, a data centre certification company from the United States

In March 2022, ITEL acquired a 51% stake in BS, which has a strong competitive edge in IT hardware and system integration (SI) projects for customers in the public and private sectors. ITEL has consolidated BS's performance since 1Q22.

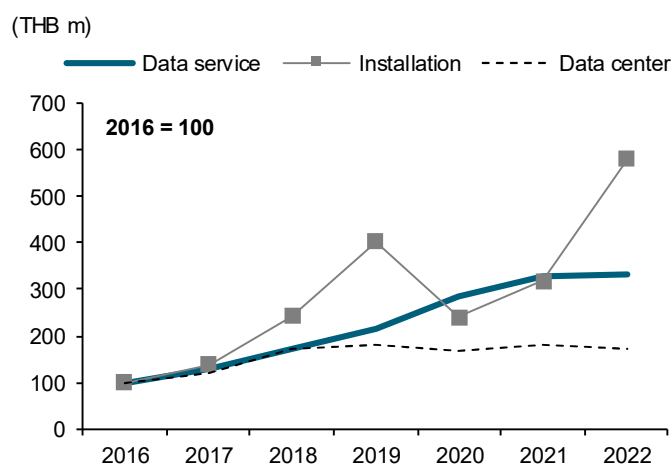
Data service and data centre units offer recurring revenue with medium- to long-term contracts. Both business units contributed 50% of total service revenue and grew consistently even during the pandemic. The proportion of revenue from network installations ranged from 41% to 60% of total service revenue as it is project-based revenue that depends on bidding. Revenue from ITEL's data centre business, excluding the JV with ETIX, should remain stable at THB80m-100m per year as its occupancy rate has already reached 96%.

**Exhibit 2: Revenue structure by business unit**



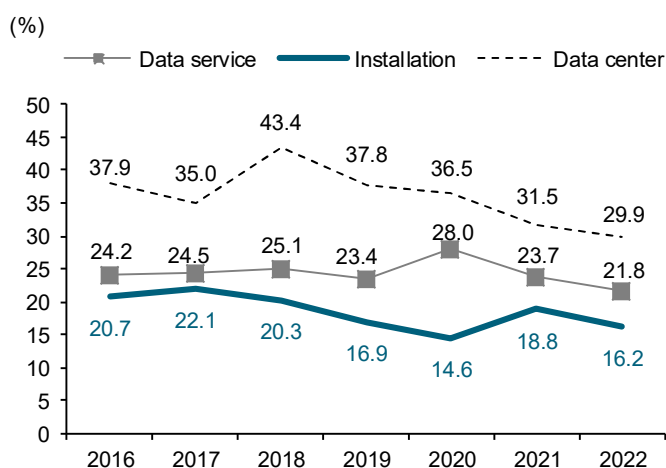
Source: ITEL

**Exhibit 3: Revenue growth by business unit**



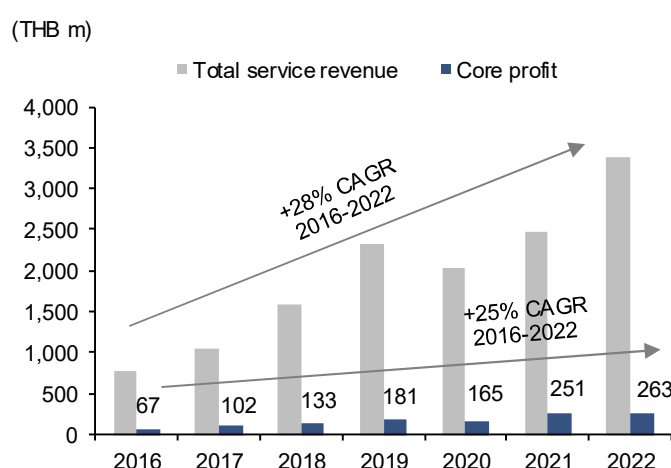
Sources: ITEL, FSSIA's compilation

**Exhibit 4: Gross margin by business unit**



Source: ITEL

**Exhibit 5: Service revenue and core profit**



Source: ITEL

ITEL's total service revenue has grown every year since 2016 but slid during the pandemic in 2020-2021 when the labor shortage affected its network installation business. The total service revenue rose at a 28% CAGR during 2016-2022 driven by network installation (+34% CAGR) and data service (+22% CAGR) revenues. In 2022, ITEL posted an 82% jump in installation revenue caused by the revenue contribution from BS, its subsidiary, which amounted to THB506m or 39% of the network installation unit's revenue. Given its effective cost control, ITEL's core profit kept achieving new highs from THB67m in 2016 to THB263m in 2022, representing a CAGR of 25% during 2016-2022.

## Industry is growing

Telecommunications operators in Thailand are required to obtain a license from the NBTC according to the Telecommunications Business Act, B.E. 2001. ITEL has obtained a Type 3 license for its telecommunications business, which is the type granted to Thai operators who possess telecommunication networks and offer services including public switched telecommunications services, integrated digital network services, public cellular mobile telephone networks, and international private leased circuits (IPLC), to name a few.

Although there were 95 Type 3 licenses issued to telecommunications businesses as of February 2022, the competition in providing high-speed communication services is not severe because there are differences in the details of the services under license such as network services, landline services, and international call services. Providing network services such as ITEL's requires a high level of investment, experience, engineering expertise, and strong financial status. In addition, price is not the top priority as most customers are medium to large organisations that are focused on the consistency and reliability of the system. For these reasons, we believe that the company will remain competitive in the fiber-optic communication services market.

The telecommunication network installation market should grow in line with demand for high-speed internet and data usage which is increasing in all areas nationwide. Furthermore, investment in network expansion to support 5G technology will be ongoing for the next 2-3 years.

## High backlog with potential from solar cell base station expansion

ITEL had a high backlog of THB3.1b as of 31 December 2022, around 55% of which or THB1.7b will be recognised in 2023, 30% in 2024 and the rest in 2025 onwards. Note that the USO 1 project has been taken out from the company's backlog until the negotiations are completed.

### Exhibit 6: Contracts on hand as of 31 December 2022

	2023	2024	2025	2026 Onward	Total
<b>Bandwidth, DFI, IPLC</b>	488	182	61	55	786
<b>USO1-DSV</b>	-	-	-	-	-
<b>USO2-DSV</b>	349	349	257	-	955
<b>DATA SERVICE</b>	837	531	318	55	1,741
<b>DATA CENTER</b>	44	39	27	8	118
<b>INSTALLATION (Est. Timeline)</b>	803	360	62	-	1,225
<b>TOTAL CONTRACTS IN HAND</b>	1,684	930	407	63	3,084

### LEADING in Solutions Integration

Solutions Provided :



Cyber Security



CCTV & Security Solutions



Network and WIFI Solutions



Server, Blade Server, Storage



Enterprise Software Development



Business Consultant

**2022 Revenue** : THB 664 million (consolidated for 10-month = 506 MB)

**2022 Net Profit** : THB 54 million (consolidated for 10-month at 51% = 28 MB)

**Contracts on Hand** : 445 MB

#### Information as of Q4 2022

	2023	2024	2025	2026 Onward	Total
<b>INSTALLATION (Est. Timeline)</b>	316	60	30	39	445

Source: ITEL

The company targets the addition of another THB3b to its backlog this year. In January 2023, it won and signed a contract for a data service and data centre project valued at THB183m. Another fiber optic installation project worth THB249m was submitted and is awaiting announcement of the winning bid. Solar cell base station construction is another potential growth area with high demand from mobile operators, who have more than 20,000 base station towers nationwide. As ITEL is one of only a few companies with well-trained workers capable of installing solar cells in a small area, this represents an opportunity for ITEL's installation business. The company has already submitted bids on solar cell base station projects worth THB296m and is now awaiting the announcement of the winners.

### Exhibit 7: Upcoming contracts

Target	3,000	Recurring		Non-recurring	
<b>Total</b>	<b>1,665</b>	<b>842</b>		<b>823</b>	
<b>Data Service &amp; Data Center</b>	<b>183</b>	Winning January 2023	✓		
<b>Network Install - South</b>	<b>249</b>	Winning January 2023			✓
<b>Solar Cell Base Station</b>	<b>296</b>	Waiting for Award Announcement			✓
Course Online	305	Proposal Submit on 3/8/2022	Bidding	✓	
USO - TOT	632	Waiting bidding	✓ 56%	✓ 44%	

Source: ITEL

### Recurring income to drive earnings growth

Given ITEL's THB1.7b backlog that is expected to be realised this year, with approximately THB316m from BS and potentially more from bids on future projects, we expect total service revenue to reach THB3.6b in 2023, +6% y-y, driven by its data service (+22% y-y) which is expected to contribute 45% of total revenue. Network installation revenue, representing 53% of total revenue, is expected to post THB1.9b, flat from the high base in 2022.

Gross margin should gradually improve due to the lower electricity price and effective cost control. In 2024-2025, we conservatively expect revenue growth of 4% y-y and 1% y-y, respectively, and at a 3% CAGR during 2023-2025. We estimate core profit to rise 20%/13%/6% to THB316m, THB354m, and THB375m in 2023-2025, respectively, or at a 9% CAGR, mainly due to improved gross margins, efficient cost control, and a decreasing interest expense. This indicates a core profit margin of 8.8%/9.5%/9.9% in 2023-2025, respectively.

ITEL's management targets total annual revenue of THB3.7b in 2023 and THB5b in the long term with a double-digit net profit margin. One of the main tasks for management this year, therefore, will be cost management.

### Exhibit 8: Key assumptions

	2022	2023E	2024E	2025E
	(THB m)	(THB m)	(THB m)	(THB m)
Data service revenue	1,311	1,599	1,791	1,916
Gross margin (%)	21.8	22.2	22.5	23.0
Installation revenue	1,995	1,904	1,856	1,782
Gross margin (%)	16.2	17.8	17.9	18.0
Data center revenue	87.3	90.0	92.7	92.7
Gross margin (%)	29.9	31.1	32.0	32.0
<b>Total service revenue</b>	<b>3,393</b>	<b>3,593</b>	<b>3,740</b>	<b>3,791</b>
Growth (%)	37.6	5.9	4.1	1.4
Blended gross margin (%)	18.8	20.1	20.4	20.8
SG&A to sales (%)	4.8	5.0	5.0	5.1
<b>Core profit</b>	<b>263</b>	<b>315</b>	<b>354</b>	<b>375</b>
Growth (%)	4.7	19.9	12.6	5.9
Core profit margin (%)	7.7	8.8	9.5	9.9

Source: FSSIA estimates



## Soft start in 1Q23E

We project ITEL to deliver a THB41m core profit in 1Q23, down 47% q-q and 25% y-y caused by an expected decline in total service revenue of 54% q-q and 5% y-y. Our assumptions for its three business units are as follows:

- Data service.** We expect recurring revenue from its data service unit, which generates 55% of total service income, at THB303m, flat q-q and down 10% y-y. The unusual y-y fall in revenue growth is due to a change in the Universal Service Obligation (USO) 1 contract. The company has negotiated with the NBTC, one of its key clients, to pay off its long outstanding debt from the USO 1 project. The negotiations may be completed and revenue from the USO 1 project will be recovered in 2H23.
- Network installation services.** We estimate the revenue from network installation at THB228m, down 74% q-q due to the low season, but up slightly by 1% y-y, partially helped by the consolidation of BS, which became an ITEL subsidiary in March 2022.
- Data centre.** ITEL's data centre is another business unit that generates recurring income. We expect data centre service revenue to continue growing by 12% y-y, but remain flat q-q at THB24m, and contribute 4% of total service income.

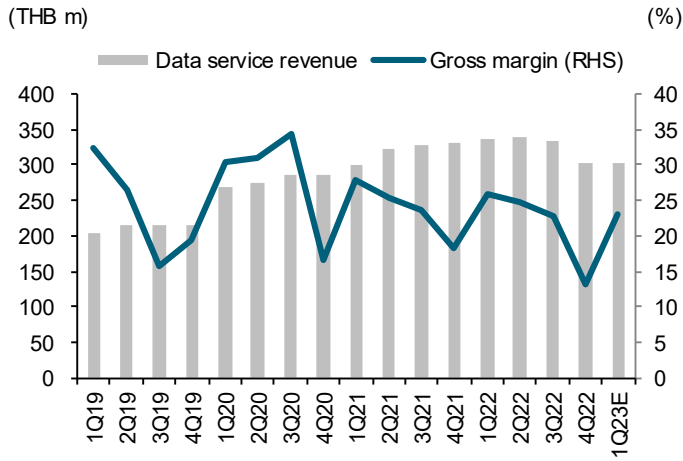
The blended gross margin should improve to 21.5% from 17.3% in 4Q22 owing to lower contributions from its low-margin network installation unit. However, this will still be lower than the 22.1% reported in 1Q22 due to a lower proportion of high-margin data service revenue. SG&A expenses and other costs should be well-controlled, in our view.

### Exhibit 9: 1Q23 earnings preview

Year to Dec 31	1Q22	2Q22	3Q22	4Q22	1Q23E	-----Change-----	
	(THB m)	(THB m)	(THB m)	(THB m)	(THB m)	(q-q %)	(y-y %)
Sales	584	843	756	1,210	555	(54.1)	(4.9)
Cost of sales	(454)	(682)	(621)	(1,000)	(435)	(56.5)	(4.2)
Gross profit	129	161	136	210	119	(43.1)	(7.7)
Operating costs	(30)	(35)	(39)	(59)	(28)	(52.9)	(6.5)
Operating profit	100	125	96	151	92	(39.2)	(8.0)
Operating EBITDA	181	208	184	240	181	(24.7)	(0.2)
Other income	10	12	16	8	9	3.0	(9.4)
Interest expense	(33)	(43)	(46)	(46)	(43)	(6.7)	29.4
Associates	(2)	(2)	2	(2)	(2)	(11.1)	(17.8)
Reported net profit	55	66	54	77	41	(46.6)	(24.8)
<b>Core profit</b>	<b>55</b>	<b>66</b>	<b>54</b>	<b>77</b>	<b>41</b>	<b>(46.6)</b>	<b>(24.8)</b>
Reported EPS (THB)	0.04	0.05	0.04	0.04	0.03	(24.8)	(30.0)
Core EPS (THB)	0.04	0.05	0.04	0.06	0.03	(48.6)	(29.5)
<b>Key Ratios (%)</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>	<b>(ppt)</b>	<b>(ppt)</b>
Gross margin	22.1	19.1	17.9	17.3	21.5	4.2	(0.6)
Operating margin	17.1	14.9	12.7	12.5	16.5	4.1	(0.6)
EBITDA margin	31.0	24.7	24.4	19.8	32.6	12.7	1.5
Core profit margin	9.4	7.9	7.1	6.4	7.4	1.0	(2.0)
SG&A / Sales	(5.1)	(4.2)	(5.2)	(4.9)	(5.0)	(0.1)	0.1
<b>Revenue breakdown</b>	<b>(THB m)</b>	<b>(THB m)</b>	<b>(THB m)</b>	<b>(THB m)</b>	<b>(THB m)</b>	<b>(q-q %)</b>	<b>(y-y %)</b>
Data service	337	338	333	302	303	0.2	(10.2)
Installation	225	484	401	884	228	(74.2)	1.2
Data center	21	20	22	24	24	0.0	12.3
<b>Gross margin by business</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>	<b>(ppt)</b>	<b>(ppt)</b>
Data service	25.8	24.7	22.7	13.1	23.2	10.1	(2.6)
Installation	16.1	14.7	13.4	18.4	18.2	(0.2)	2.1
Data center	28.9	30.0	29.4	31.1	31.7	0.6	2.8

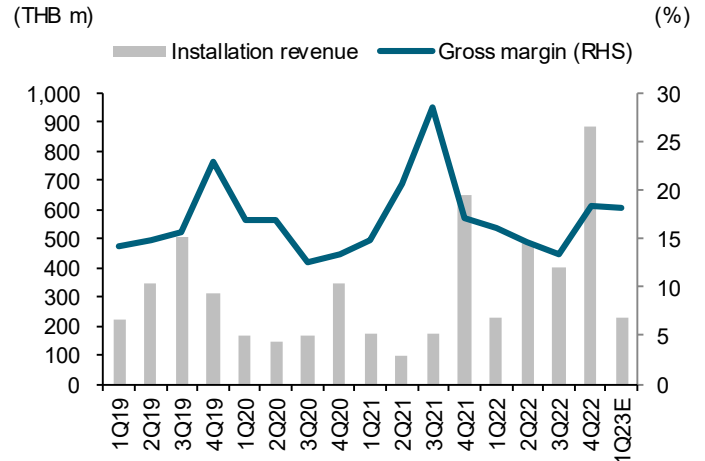
Sources: ITEL; FSSIA estimates

**Exhibit 10: Data service revenue and gross margin**



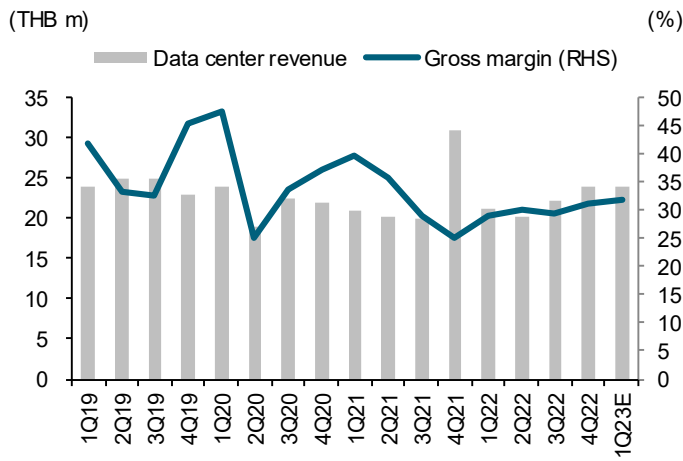
Sources: ITEL, FSSIA estimates

**Exhibit 11: Network installation revenue and gross margin**



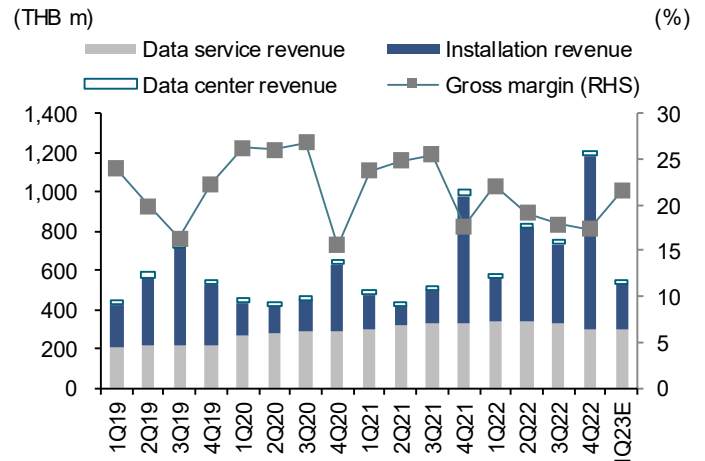
Sources: ITEL, FSSIA estimates

**Exhibit 12: Data centre revenue and gross margin**



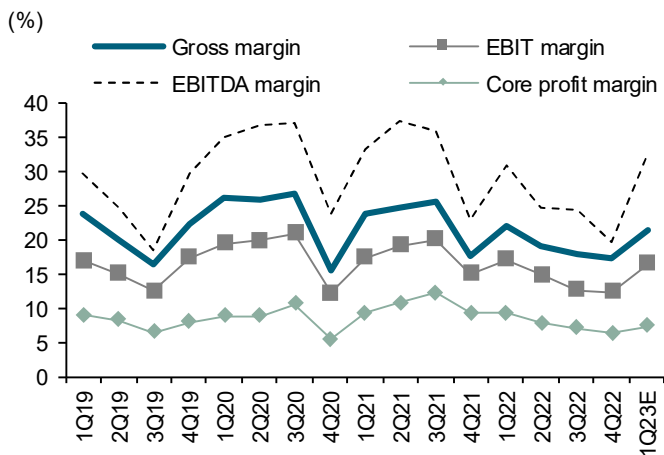
Sources: ITEL, FSSIA estimates

**Exhibit 13: Total service revenue and gross margin**



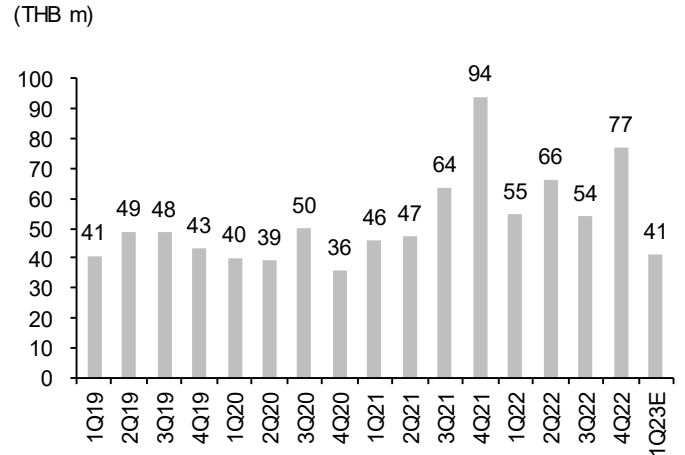
Sources: ITEL, FSSIA estimates

**Exhibit 14: Margins**



Sources: ITEL, FSSIA estimates

**Exhibit 15: Core profit**



Sources: ITEL, FSSIA estimates

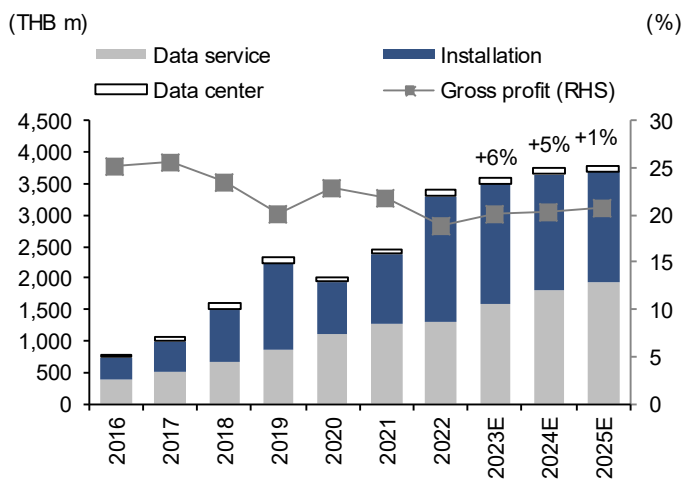


### Recommend BUY with a TP of THB4.50

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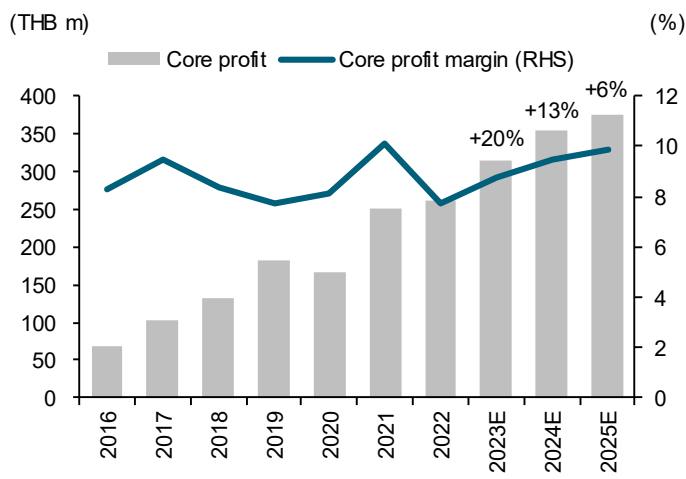
Note that ITEL has one set of warrants left, ITEL-W4, which has an exercise price of THB11.50 per ordinary share. We assume no warrants will be exercised as the warrant is far out of the money.

**Exhibit 16: Revenue and gross profit**



Sources: ITEL, FSSIA estimates

**Exhibit 17: Core profit and core profit margin**



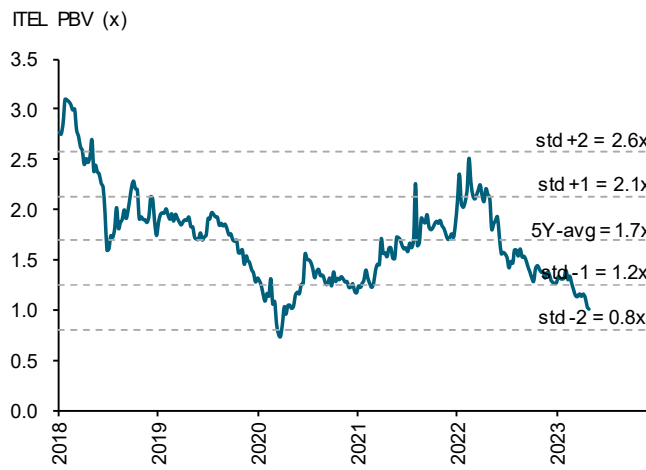
Sources: ITEL, FSSIA estimates

**Exhibit 18: Historical P/E band**



Sources: ITEL, FSSIA estimates

**Exhibit 19: Historical P/BV band**



Sources: ITEL, FSSIA estimates

## Financial Statements

### Interlink Telecom

Profit and Loss (THB m) Year Ending Dec	2021	2022	2023E	2024E	2025E
Revenue	2,466	3,393	3,593	3,740	3,791
Cost of goods sold	(1,606)	(2,414)	(2,512)	(2,605)	(2,625)
<b>Gross profit</b>	<b>859</b>	<b>979</b>	<b>1,081</b>	<b>1,135</b>	<b>1,166</b>
Other operating income	43	45	40	39	38
Operating costs	(112)	(164)	(178)	(185)	(193)
<b>Operating EBITDA</b>	<b>790</b>	<b>860</b>	<b>943</b>	<b>989</b>	<b>1,011</b>
Depreciation	(321)	(341)	(359)	(371)	(376)
Goodwill amortisation	0	0	0	0	0
<b>Operating EBIT</b>	<b>469</b>	<b>519</b>	<b>584</b>	<b>618</b>	<b>635</b>
Net financing costs	(146)	(169)	(160)	(146)	(139)
Associates	(6)	(5)	(4)	(4)	(4)
Recurring non-operating income	(6)	(5)	(4)	(4)	(4)
Non-recurring items	0	0	0	0	0
<b>Profit before tax</b>	<b>317</b>	<b>346</b>	<b>419</b>	<b>468</b>	<b>492</b>
Tax	(66)	(65)	(82)	(93)	(98)
<b>Profit after tax</b>	<b>251</b>	<b>280</b>	<b>337</b>	<b>375</b>	<b>394</b>
Minority interests	0	(27)	(23)	(21)	(19)
Preferred dividends	-	-	-	-	-
Other items	-	-	-	-	-
<b>Reported net profit</b>	<b>251</b>	<b>254</b>	<b>315</b>	<b>354</b>	<b>375</b>
<b>Non-recurring items &amp; goodwill (net)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Recurring net profit</b>	<b>251</b>	<b>254</b>	<b>315</b>	<b>354</b>	<b>375</b>
<b>Per share (THB)</b>					
Recurring EPS *	0.20	0.19	0.23	0.26	0.27
Reported EPS	0.20	0.19	0.23	0.26	0.27
DPS	0.00	0.06	0.07	0.08	0.08
Diluted shares (used to calculate per share data)	1,247	1,315	1,389	1,389	1,389
<b>Growth</b>					
Revenue (%)	22.0	37.6	5.9	4.1	1.4
Operating EBITDA (%)	17.2	8.9	9.6	4.8	2.2
Operating EBIT (%)	25.3	10.6	12.5	5.8	2.8
Recurring EPS (%)	21.8	(4.1)	17.5	12.6	5.9
Reported EPS (%)	9.4	(4.1)	17.5	12.6	5.9
<b>Operating performance</b>					
Gross margin inc. depreciation (%)	21.8	18.8	20.1	20.4	20.8
Gross margin of key business (%)	21.8	18.8	20.1	20.4	20.8
Operating EBITDA margin (%)	32.0	25.4	26.2	26.4	26.7
Operating EBIT margin (%)	19.0	15.3	16.3	16.5	16.7
Net margin (%)	10.2	7.5	8.8	9.5	9.9
Effective tax rate (%)	20.9	18.9	19.6	19.8	19.9
Dividend payout on recurring profit (%)	-	32.9	30.0	30.0	30.0
Interest cover (X)	3.2	3.0	3.6	4.2	4.5
Inventory days	-	-	-	-	-
Debtor days	82.6	69.8	78.3	71.6	71.1
Creditor days	183.6	155.0	152.9	119.7	115.4
Operating ROIC (%)	6.8	7.4	8.2	8.4	8.6
ROIC (%)	5.5	5.8	6.5	6.6	6.9
ROE (%)	10.4	7.8	8.4	8.7	8.7
ROA (%)	4.8	5.0	5.5	5.8	5.8
* Pre-exceptional, pre-goodwill and fully diluted					
<b>Revenue by Division (THB m)</b>					
Data service	1,281	1,311	1,599	1,791	1,916
Installation	1,093	1,995	1,904	1,856	1,782
Data center	92	87	90	93	93

Sources: Interlink Telecom; FSSIA estimates

## Financial Statements

### Interlink Telecom

Cash Flow (THB m) Year Ending Dec	2021	2022	2023E	2024E	2025E
Recurring net profit	251	254	315	354	375
Depreciation	321	341	359	371	376
Associates & minorities	6	5	4	4	4
Other non-cash items	249	278	82	93	98
Change in working capital	(857)	491	(354)	(31)	127
<b>Cash flow from operations</b>	<b>(31)</b>	<b>1,368</b>	<b>406</b>	<b>791</b>	<b>979</b>
Capex - maintenance	-	-	-	-	-
Capex - new investment	(332)	(346)	(252)	(522)	(326)
Net acquisitions & disposals	0	(69)	0	0	0
Other investments (net)	(10)	(49)	(5)	10	32
<b>Cash flow from investing</b>	<b>(342)</b>	<b>(464)</b>	<b>(257)</b>	<b>(512)</b>	<b>(294)</b>
Dividends paid	(136)	(160)	(177)	(199)	(211)
Equity finance	765	282	283	2	2
Debt finance	(96)	(1,042)	4	(17)	(157)
Other financing cash flows	0	0	(170)	0	0
<b>Cash flow from financing</b>	<b>533</b>	<b>(920)</b>	<b>(59)</b>	<b>(214)</b>	<b>(366)</b>
Non-recurring cash flows	-	-	-	-	-
Other adjustments	0	20	0	0	0
<b>Net other adjustments</b>	<b>(6)</b>	<b>20</b>	<b>(4)</b>	<b>(4)</b>	<b>(4)</b>
<b>Movement in cash</b>	<b>154</b>	<b>4</b>	<b>86</b>	<b>62</b>	<b>316</b>
Free cash flow to firm (FCFF)	(226.34)	1,072.70	309.46	425.39	824.34
Free cash flow to equity (FCFE)	(474.72)	(118.13)	(20.31)	258.64	524.39

#### Per share (THB)

FCFF per share	(0.17)	0.79	0.23	0.31	0.60
FCFE per share	(0.35)	(0.09)	(0.01)	0.19	0.38
Recurring cash flow per share	0.66	0.67	0.55	0.59	0.61

Balance Sheet (THB m) Year Ending Dec	2021	2022	2023E	2024E	2025E
Tangible fixed assets (gross)	5,182	5,467	5,986	6,507	6,833
Less: Accumulated depreciation	(1,305)	(1,516)	(2,142)	(2,513)	(2,889)
<b>Tangible fixed assets (net)</b>	<b>3,877</b>	<b>3,951</b>	<b>3,844</b>	<b>3,994</b>	<b>3,944</b>
<b>Intangible fixed assets (net)</b>	<b>23</b>	<b>112</b>	<b>113</b>	<b>114</b>	<b>115</b>
Long-term financial assets	-	-	-	-	-
Invest. in associates & subsidiaries	25	20	20	20	20
Cash & equivalents	225	229	315	376	692
A/C receivable	2,192	2,466	2,443	2,468	2,359
Inventories	0	0	0	0	0
Other current assets	407	283	303	277	243
<b>Current assets</b>	<b>2,824</b>	<b>2,978</b>	<b>3,061</b>	<b>3,122</b>	<b>3,294</b>
Other assets	1,336	1,335	1,339	1,328	1,295
<b>Total assets</b>	<b>8,084</b>	<b>8,396</b>	<b>8,377</b>	<b>8,578</b>	<b>8,669</b>
Common equity	2,909	3,603	3,935	4,183	4,445
Minorities etc.	0	88	90	92	94
<b>Total shareholders' equity</b>	<b>2,909</b>	<b>3,691</b>	<b>4,025</b>	<b>4,275</b>	<b>4,540</b>
Long term debt	1,405	1,842	1,520	1,518	1,489
Other long-term liabilities	56	51	57	58	57
<b>Long-term liabilities</b>	<b>1,461</b>	<b>1,893</b>	<b>1,577</b>	<b>1,576</b>	<b>1,546</b>
A/C payable	816	1,234	870	838	822
Short term debt	2,845	1,553	1,886	1,870	1,742
Other current liabilities	54	25	19	19	20
<b>Current liabilities</b>	<b>3,715</b>	<b>2,812</b>	<b>2,774</b>	<b>2,727</b>	<b>2,583</b>
<b>Total liabilities and shareholders' equity</b>	<b>8,084</b>	<b>8,396</b>	<b>8,377</b>	<b>8,578</b>	<b>8,669</b>
Net working capital	1,729	1,490	1,857	1,888	1,761
Invested capital	6,990	6,908	7,173	7,345	7,135

\* Includes convertibles and preferred stock which is being treated as debt

#### Per share (THB)

Book value per share	2.33	2.74	2.83	3.01	3.20
Tangible book value per share	2.31	2.65	2.75	2.93	3.12

#### Financial strength

Net debt/equity (%)	138.4	85.8	76.8	70.5	55.9
Net debt/total assets (%)	49.8	37.7	36.9	35.1	29.3
Current ratio (x)	0.8	1.1	1.1	1.1	1.3
CF interest cover (x)	0.0	2.4	2.4	6.4	7.1

Valuation	2021	2022	2023E	2024E	2025E
<b>Recurring P/E (x) *</b>	<b>14.5</b>	<b>15.1</b>	<b>12.9</b>	<b>11.4</b>	<b>10.8</b>
<b>Recurring P/E @ target price (x) *</b>	<b>22.4</b>	<b>23.3</b>	<b>19.9</b>	<b>17.6</b>	<b>16.7</b>
Reported P/E (x)	14.5	15.1	12.9	11.4	10.8
Dividend yield (%)	-	2.2	2.3	2.6	2.8
Price/book (x)	1.3	1.1	1.0	1.0	0.9
Price/tangible book (x)	1.3	1.1	1.1	1.0	0.9
EV/EBITDA (x) **	9.7	8.2	7.7	7.2	6.6
EV/EBITDA @ target price (x) **	12.2	10.7	10.0	9.5	8.8
EV/invested capital (x)	1.1	1.0	1.0	1.0	0.9

\* Pre-exceptional, pre-goodwill and fully diluted \*\* EBITDA includes associate income and recurring non-operating income

Sources: Interlink Telecom; FSSIA estimates

## Public disclosures related to sustainable development evaluation of Thai listed companies

[Rating](#) regarding the sustainable development of Thai listed companies, both on the SET and MAI, are publicly available on the website of the Securities and Exchange Commission of Thailand (SEC). Currently, ratings available are 1) "**CG Score**" by the Thai Institute of Directors Association (Thai IOD); 2) "**AGM Checklist**" by the Thai Investors Association (TIA), a "**CAC certified member**" of the Thai Private Sector Collective Action Against Corruption (CAC); and 3) **Sustainability Investment List (THSI)** by the Stock Exchange of Thailand. The ratings are updated on an annual basis. FSS International Investment Advisory Company Limited does not confirm nor certify the accuracy of such ratings.

### CG Score by the Thai Institute of Directors Association (Thai IOD)<sup>1</sup>

The [CG Score](#) indicates corporate governance (CG) strength in the sustainable development of Thai listed companies. Annually, the Thai IOD, with support from the Stock Exchange of Thailand (SET), surveys and assesses the CG practices of companies and publishes the results on the [Thai IOD website](#) in a bid to promote and enhance the CG of Thai listed companies in order to promote compliance with international standards for better investment decisions. The results are from the perspective of a third party, not an evaluation of operations, as of the date appearing in the report, and may be changed after that date.

The [five underlying categories and weighting](#) used for the CG scoring in 2022 include the rights of shareholders and equitable treatment of shareholders (weight 25% combined), the role of stakeholders (25%), disclosure and transparency (15%), and board responsibilities (35%).

The CGR report rates CG in six categories: 5 for Excellent (score range 90-100), 4 for Very Good (score range 80-89), 3 for Good (Score range 70-79), 2 for Fair (score range 60-69), 1 for Pass (score range 60-69), and not rated (score below 50).

### AGM Checklist by the Thai Investors Association (TIA)<sup>2</sup>

The "[AGM Checklist](#)" quantifies the extent to which shareholders' rights and equitable treatment are incorporated into business operations and the extent to which information is sufficiently disclosed and the level of its transparency. All the considered factors form important elements of two out of five the CG components. Annually, the TIA, with support from the SEC, leads the project to evaluate the quality of Annual General Meetings of Shareholders (AGMs) and to rate quality of the meetings.

The [Checklist](#) contains the minimum requirements under law that companies must comply with, or best practices according to international CG guidance. Representatives of the TIA will attend the meetings and perform the evaluation. The assessment criteria cover AGM procedures before the meeting (45%), at the meeting date (45%), and after the meeting (10%). The first assesses 1) advance circulation of sufficient information for voting; and 2) facilitating of how voting rights can be exercised. The second assesses 1) the ease of attending meetings; 2) transparency and verifiability; and 3) openness for Q&A. The third involves the meeting minutes that should contain discussion issues, resolutions and voting results.

The results are classified into four categories: 5 for Excellent (score 100), 4 for Very Good (score 90-99), 3 for Fair (score 80-89), and not rated (score below 79).

### CAC certified member by the Thai Private Sector Collective Action Against Corruption (CAC)<sup>3</sup>

A [CAC certified member](#) is a listed company whose Checklist satisfies the CAC Certification's criteria and is approved by the CAC Council. The core elements of the Checklist include corruption risk assessment, establishment of key controls, and the monitoring and developing of policies. Note that the CAC does not certify the behaviour of the employees nor whether the companies have engaged in bribery, and Certification is good for three years.

Companies deciding to become a CAC certified member [start with](#) by submitting a Declaration of Intent signed by the Chairman of the Board to kick off the 18-month deadline for companies to submit the CAC Checklist for Certification. The 18-month provision is for risk assessment, in place of policy and control, training of managers and employees, establishment of whistleblowing channels, and communication of policies to all stakeholders.

The checklist document will be reviewed by the CAC Certification Committee for adequate information and evidence. It is worth noting that the committee consists of nine professionals in business law, corporate governance, internal audit, financial audit and experienced representatives from certified members.

A passed Checklist will move on to the [CAC Council](#) for granting certification approvals. The CAC Council consists of twelve prominent individuals who are highly respected in professionalism and ethical achievements. Among them are former ministers, a former central bank governor, the former head of the Thai Listed Companies Association, Chairman of Anti-Corruption Organizations (Thailand), Chairman of Thai Institute of Directors, and reputable academic scholars.

### Sustainability Investment (THSI)<sup>4</sup> by the Stock Exchange of Thailand (SET)

Thailand Sustainability Investment ([THSI](#)) quantifies responsibility in **E**nvironmental, and **S**ocial issues, by managing business with transparency in **G**overnance. The THSI serves as another choice for investors who desire to adopt a responsible investment approach, according to the SET.

Annually, the SET will announce the voluntary participation of the company candidates which pass the preemptive criteria, and whose two key crucial conditions are met, i.e. no irregular trading of the board members and executives and a free float of >150 by the number of shareholders, and combined holding must >15% of paid-up capital. Some key disqualifying criteria include a CG score of below 70%; independent directors and free float violation; executives' wrongdoing related to CG, social and environmental impacts, equity in negative territory, and earnings in the red for more than three years in the last five years. To become eligible for THSI, the candidate must pass three indicators in data declaration: **E**conomic (CG, risk management, customer relation management, supply chain management, and innovation); **E**nvironmental (environmental management, eco-efficiency, and climate risk); **S**ocial (human rights, talent attraction, operational health & safety, community development, and stakeholder engagement); and the incorporation of ESG in business operations.

To be approved for THSI inclusion, verified data must be scored at a 50% minimum for each indicator, unless the company is a part of the Dow Jones Sustainability Indices<sup>5</sup> (DJSI) during the assessment year. The scoring will be fairly weighted against the nature of the relevant industry and materiality.

Note that, from the [THSI list](#), the SET further developed a sustainability [SETTHSI Index](#) in June 2018 from selected THSI companies whose 1) market capitalisation > THB5b (~USD150b); 2) free float >20%; and 3) liquidity >0.5% of paid-up capital for at least 9 out of 12 months. The SETTHSI Index is a market capitalisation-weighted index, cap 5% quarterly weight at maximum, and no cap for number of stocks.

Sources: [SEC](#); [Thai IOD](#); [Thai CAC](#); [SET](#); FSSIA's compilation

#### Disclaimer:

<sup>1</sup> Thai Institute of Directors Association ([Thai IOD](#)) was established in December 1999 and is a membership organisation that strives to promote professionalism in directorship. The Thai IOD offers directors certification and professional development courses, provides a variety of seminars, forums and networking events, and conducts research on board governance issues and practices. Membership comprises board members from companies ranging from large publicly listed companies to small private firms.

<sup>2</sup> Thai Investors Association ([TIA](#)) was established in 1983 with a mission to promote investment knowledge and to protect the investment rights of Thai investors. In 2002, the association was appointed by the Securities and Exchange Commission (SEC) to represent individual shareholders. To obtain information for evaluation, the association recruits volunteer investors to join AGMs and score the meetings. Weightings for each meeting are at a 45:45:10 ratio. They have been applied since 2017 and subject to change.

<sup>3</sup> Thai Private Sector Collective Action against Corruption ([CAC](#)) was founded in 2010 and is 100% privately funded. It is an initiative by the Thai private sector to take part in tackling corruption problems via collective action. The CAC promotes the implementation of effective anti-corruption policies in order to create a transparent business ecosystem by developing a unique certification program for large/medium/small companies to apply for and to control corruption risk systematically and efficiently. The CAC's operations are sponsored by the US-based Center for Private Enterprise (CIPE) and the UK Prosperity Fund.

<sup>4</sup> Sustainability Investment List ([THSI](#)), created by the Stock Exchange of Thailand in 2015, comprises the listed companies that conduct sustainable business operations.

<sup>5</sup> Dow Jones Sustainability Indices – [Wikipedia](#) – Launched in 1999, DJSI evaluates the sustainability performance of companies based on corporate economic, environmental, and social performance.

## GENERAL DISCLAIMER

### ANALYST(S) CERTIFICATION

Jitra Amornthum, FSS International Investment Advisory Securities Co., Ltd

The individual(s) identified above certify(ies) that (i) all views expressed in this report accurately reflect the personal view of the analyst(s) with regard to any and all of the subject securities, companies or issuers mentioned in this report; and (ii) no part of the compensation of the analyst(s) was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed herein.

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Company	Ticker	Price	Rating	Valuation & Risks
Interlink Telecom	ITEL TB	THB 2.92	BUY	Downside risks to our P/E-based TP include 1) uncertainty regarding bidding outcomes; 2) delays in projects; 3) cost overruns; and 4) risks from technological disruptions.

Source: FSSIA estimates

### Additional Disclosures

Target price history, stock price charts, valuation and risk details, and equity rating histories applicable to each company rated in this report is available in our most recently published reports. You can contact the analyst named on the front of this note or your representative at Finansia Syrus Securities Public Company Limited

FSSIA may incorporate the recommendations and target prices of companies currently covered by FSS Research into equity research reports, denoted by an 'FSS' before the recommendation. FSS Research is part of Finansia Syrus Securities Public Company Limited, which is the parent company of FSSIA.

All share prices are as at market close on 2-May-2023 unless otherwise stated.

## RECOMMENDATION STRUCTURE

### Stock ratings

Stock ratings are based on absolute upside or downside, which we define as  $(\text{target price}^* - \text{current price}) / \text{current price}$ .

**BUY (B).** The upside is 10% or more.

**HOLD (H).** The upside or downside is less than 10%.

**REDUCE (R).** The downside is 10% or more.

Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause a temporary mismatch between upside/downside for a stock based on market price and the formal recommendation.

\* In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.

### Industry Recommendations

**Overweight.** The analyst expects the fundamental conditions of the sector to be positive over the next 12 months.

**Neutral.** The analyst expects the fundamental conditions of the sector to be maintained over the next 12 months.

**Underweight.** The analyst expects the fundamental conditions of the sector to be negative over the next 12 months.

### Country (Strategy) Recommendations

**Overweight (O).** Over the next 12 months, the analyst expects the market to score positively on two or more of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

**Neutral (N).** Over the next 12 months, the analyst expects the market to score positively on one of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

**Underweight (U).** Over the next 12 months, the analyst does not expect the market to score positively on any of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.