

Bulletin:

Far EasTone And Asia Pacific Telecom Merger Could Improve Market Discipline

March 1, 2022

Taiwan Ratings Corp. today said the planned merger of **Far EasTone Telecommunications Co. Ltd.** (twA+/Stable/twA-1) with Asia Pacific Telecom Co. Ltd. could further consolidate and improve discipline in Taiwan's telecommunications market. The proposed transaction comes after a merger agreement between Taiwan Mobile Co. Ltd. and Taiwan Star Telecom Corp. at the end of 2021.

We believe that price competition in Taiwan's telecom market, particularly related to 4G unlimited data plans, could ease significantly if related regulators approve the two pending mergers. Price competition in 5G data plans is also likely to be more benign than that in the 4G era amid better market discipline. As late comers, Taiwan Star Telecom and Asia Pacific Telecom have been offering competitive pricing to gain market share, resulting in significant price erosion for the incumbent players over the past several years. We believe the big three telecom operators--Chunghwa Telecom Co. Ltd., Far EasTone, and Taiwan Mobile--will focus on sustaining a healthy EBITDA margin through service upgrades rather than competing for market share through price competition once the market consolidates.

Far EasTone's proposed merger could marginally enhance the company's competitiveness. It could narrow Far EasTone's market share gap with the market leader, Chunghwa Telecom to about 5%, from the current 12%. It would also help to improve Far EasTone's operating efficiency through more effective spectrum and infrastructure deployment. Nonetheless, Far EasTone's blended average revenue per user (ARPU) could initially decline due to Asia Pacific Telecom's low-price customer base. Far EasTone has a much higher blended ARPU of about new Taiwan dollar (NT\$) 580/month compared with Asia Pacific Telecom's NT\$300/month.

The direct financial impact on Far EasTone from the pending merger is likely to be limited because the deal will be conducted through an equity swap. We estimate Far EasTone's ratio of debt to EBITDA will slightly increase by up to 0.1x after consolidation due to Asia Pacific Telecom's weaker profitability and more leveraged balance sheet. The merger should also have negligible financial impact on Far EasTone's mother group, Far Eastern New Century group, given its small scale, in our view.

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