

# TOTAL ACCESS COMMUNICATION PLC

No. 45/2019  
5 April 2019

## CORPORATES

**Company Rating:** AA  
**Outlook:** Stable

**Last Review Date:** 23/01/19

### Company Rating History:

Date	Rating	Outlook/Alert
23/01/19	AA	Stable
29/03/17	AA+	Negative
05/06/15	AA+	Stable
03/04/14	AA	Stable
15/10/10	AA-	Stable
30/09/08	A+	Stable
07/07/06	A	Stable
03/12/04	A-	Positive
12/07/04	A-	Stable
01/02/02	A-	-

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## RATIONALE

TRIS Rating affirms the company rating on Total Access Communication PLC (DTAC) at “AA”. The rating reflects DTAC’s position as one of the major mobile phone service providers in Thailand. The credit rating also takes into consideration DTAC’s sufficient liquidity position and strong ability to generate cash flow. The rating is partly enhanced by the support DTAC receives from Telenor ASA (Telenor), its major shareholder. However, these strengths are partially offset by the intense competition in wireless telecommunication services industry and the large capital expenditures required to roll out the next generation network.

## KEY RATING CONSIDERATIONS

### Spectrum-related risk fades away

The concession for the 1800 megahertz (MHz) and 850 MHz spectrum bands expired in September 2018. In August and October 2018, dtac TriNet Co., Ltd. (DTN), a wholly-owned subsidiary of DTAC, bid and won licenses for the 1800 MHz and 900 MHz spectrums. The two new spectrum bands will fit with the license DTN already has for the 2100 MHz band. In addition, DTN has a partnership with TOT PLC (TOT) to provide fourth generation (4G) wireless service on the 2300 MHz band.

The company now has more than 60 MHz of spectrum bandwidth, which is sufficient to cater the fast-growing data segment. DTAC is putting additional effort into improving the user experience and giving its customers more confidence in its services and network improvement. TRIS Rating expects DTAC’s competitive position will gradually improve, supported by the new spectrum bandwidths and improving network quality.

### Intense competition cut into market share

During the past three years, DTAC’s subscriber base and operations suffered from the intense competition in the industry. The prepaid mobile phone segment in particular was affected. The uncertainty surrounding the expiration of two concessions was also a drag on revenue.

DTAC’s operating performance declined in 2018 and remains weaker than peers. Total revenues declined by 4.2% from 2017, to Bt75 billion. Service revenue, excluding the interconnection charges (IC), fell by 2.8%, to Bt63 billion. As of December 2018, DTAC had 21.2 million subscribers, down from 22.7 million at the end of 2017. Subscriber losses were mainly from the prepaid segment.

The total value of the Thai wireless communications market in 2018 was about Bt260 billion, up 2% from the previous year. The market grew at an average annual rate of 4.3% over the last three years. Conversely, DTAC’s market share by revenue has been shrinking over the last three years. Service revenue dropped by an average of 1.6% per annum over the same period. DTAC’s revenue market share slipped to 24.2% in 2018, down from 25.4% in 2017 and 26.7% in 2016.

### Growth means overcoming challenges

DTAC is focusing on postpaid subscribers, aiming to convert prepaid subscribers to postpaid contracts. Postpaid packages carry a higher value or higher average revenue per user (ARPU).

The new bandwidth plus plans to invest in a 4G network will enlarge the subscriber base. We expect DTAC's subscriber base to grow gradually, especially the postpaid segment. Data services are expected to improve and gradually boost revenue from the postpaid segment. Going forward, we forecast a gradual rebound in DTAC's market position and operating results.

### **Strong cash flow**

DTAC's operating income, as a percentage of revenue, exceeded 38% during 2017 and 2018, compared with the level of about 33% in 2015 and 2016. The rise was driven by lower regulatory costs, a continued drop in handset subsidies, and more careful control of marketing expenditures.

The concession expiration in September 2018 shifted the subscriber base and network to licensing regime. This shift will bring significant cost saving. The license fee is around 4% of service revenue per annum, versus revenue-sharing fees of 20%-30% of revenue under concession schemes.

DTAC pared down marketing expenses, including a handset subsidy and promotional campaigns. As a result, selling and marketing expenses dropped by 32% in 2017 to B4.9 billion, compared with Bt7.2 billion in 2016. Selling and marketing expenses fell by another 2% in 2018.

Cash flow remains strong, despite the drops in the number of subscribers and service revenue. EBITDA (earnings before interest, taxes, depreciation, and amortization) stood at around Bt29.5 billion per annum in 2018. Funds from operations (FFO) were about Bt29.5 billion per year in 2017 and 2018, rising by about 13.5% from Bt25.9 billion in 2016.

Looking ahead, DTAC will benefit from lower regulatory costs and a larger postpaid subscriber base with a high ARPU. However, the drop in regulatory costs may be partly offset by higher network operating expenses in an effort to rebuild market share. Network operating expenses will remain high. DTAC will continue to densify its network, and pay annual fee to TOT. DTAC has to pay rent to CAT Telecom PLC (CAT) for telecom infrastructure and equipment. During 2019-2021, we forecast FFO of Bt23-Bt24 billion per annum.

### **Higher leverage weakens financial profile**

In January 2019, DTAC announced it would resolve some long-standing legal disputes with the state-owned CAT, by payment of Bt9.5 billion. With respect to the payment to CAT, DTAC set aside provision for this payment at the end of 2018. DTAC also has an obligation to pay more than Bt50 billion for the new licenses. In addition, the company has to spend heavily to roll out an expanded network.

As a result, DTAC's financial profile weakened in 2018. Adjusted net debt rose to Bt74.3 billion in 2018. The ratio of FFO to debt was 39.6% in 2018, down from 103.2% in 2017. The debt to EBITDA ratio was 2.5 times in 2018, up from 0.9 times in 2017.

During 2019-2021, DTAC's adjusted net debt is forecast to remain moderately high. Our forecast assumes capital expenditures for network expansion will be around Bt15 billion a year. The FFO to total debt ratio is expected to range from 30%-45%. The debt to capitalization ratio is expected to stay over 70% in 2019. We expect the debt to capitalization ratio to gradually decline after DTAC monetizes the new spectrum bandwidth it licensed, down to below 60% by 2021. The ratio of net debt to EBITDA is forecast to stay around 2.8 times in 2019 and then decline to around 2.5 times in 2020.

### **Sufficient liquidity**

During the next 12-24 months, sources of funds should be sufficient to meet planned commitments. Sources of funds are FFO of Bt23-Bt24 billion per annum, plus cash and cash equivalents of Bt14 billion on hand at the end of 2018. Uses of funds are planned capital expenditures of about Bt15 billion per annum and debt repayments totaling Bt21.2 billion. We expect DTAC to keep a liquidity cushion by optimizing the dividend payout, so that it has enough cash to fund the network rollout and pay the license costs.

### **Support from Telenor**

DTAC's relationship with Telenor dates back 14 years. Telenor held a 42.6% stake in DTAC as of February 2019, and is the largest shareholder. DTAC receives support from Telenor in terms of managerial assistance, technological know-how, a shared brand, and roaming services on Telenor's network. Telenor is involved in DTAC's operations, including managerial talent.

DTAC is considered significant to Telenor in light of its earnings contribution. DTAC is recognized as one of the top earner for Telenor outside Norway. In recognition of this, TRIS Rating expects that Telenor will support DTAC financially in time of need.

## BASE CASE ASSUMPTIONS

- We assume that DTAC's service revenues will improve slightly during the next two to three years.
- EBITDA margin will stay at around 35%-36% during 2019-2021.
- Total capital spending will be about Bt15 billion per annum to roll out the network, during 2019-2021.

## RATING OUTLOOK

The "stable" outlook reflects TRIS Rating's expectation that DTAC will be able to restore its market position and deliver improved operating results. Despite huge expenditures required to expand its network, DTAC's financial profile is expected to stay in line with our expectation.

## RATING SENSITIVITIES

DTAC's credit upside is limited over the next 12-18 months. The rating and/or outlook could be revised downward if operating performance undershoots our expectation or if cash flow protection falls sharply. Any change in our view with regard to the degree of support DTAC receives from Telenor will also trigger a rating action.

## COMPANY OVERVIEW

DTAC was incorporated in 1989 and listed on the Stock Exchange of Thailand (SET) in 2007. Telenor, a leading Norwegian telecommunications company, directly held 42.6% of DTAC's shares as of February 2019.

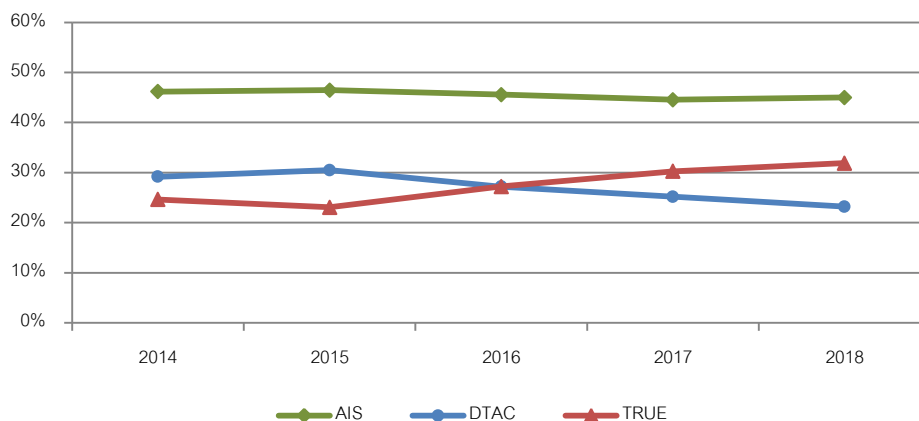
In 1989, DTAC started to provide wireless telecommunication services in the 850 MHz and 1800 MHz frequency bands under a 27-year BTO (Build-Transfer-Operate) concession granted by CAT.

DTAC, through DTN, a wholly-owned subsidiary, launched 3G services in July 2013. The 3G and 4G services are operated under 15-year 2.1 gigahertz (GHz) spectrum license granted by the National Broadcasting and Telecommunications Commission (NBTC) in October 2012. In 2018, DTAC entered into an agreement with TOT to provide wireless broadband 4G services on the 2.3 GHz spectrum. Under the agreement, DTAC can use up to 60% of the total network capacity.

In September 2018, the concession with CAT expired. In August and October 2018, DTN won two new licenses for the 900 MHz and 1800 MHz spectrum bands, granted by the NBTC. At the end of 2018, DTAC had 21.2 million subscribers, with a service revenue market share of 24.2%.

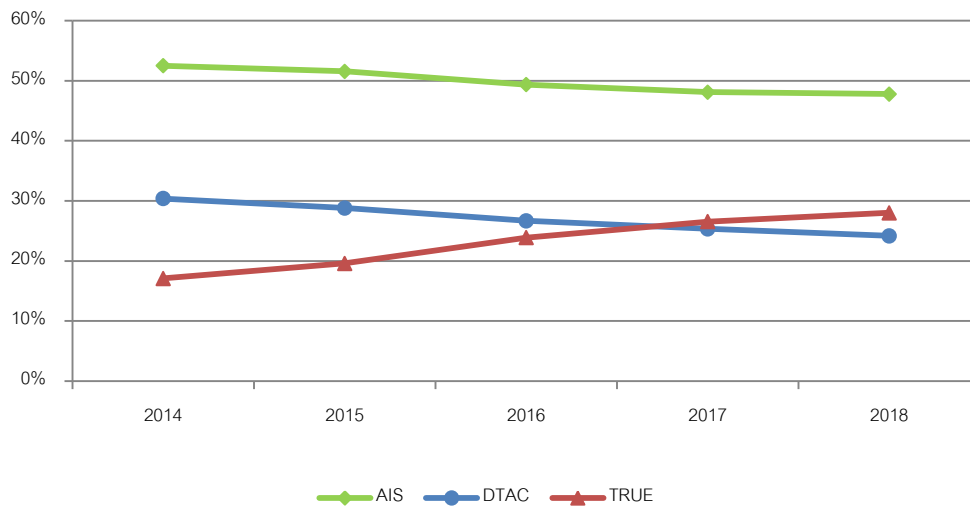
## KEY OPERATING PERFORMANCE

Chart 1: Market Share by Subscribers



Sources: 1) DTAC  
2) Advanced Info Service PLC (AIS)  
3) True Corporation PLC (TRUE)

**Chart 2: Service Revenue Market Share**



Note: Excluding the IC  
Sources: DTAC, AIS, TRUE

**Table 1: Bandwidth and Expiry Year**

Unit: MHz

Frequency	AIS	DTAC	TRUE
850-MHz			15 MHz 2025***
900-MHz*	10 MHz 2031	5 MHz 2033	10 MHz 2031
1800-MHz*	20 MHz 2033	5 MHz 2033	15 MHz 2033
2100-MHz*	15 MHz 2027	15 MHz 2027	15 MHz 2027
2100-MHz**	15 MHz 2025**		
2300-MHz**		60 MHz 2025**	

\* Licenses from National Broadcasting and Telecommunications Commission (NBTC)

\*\* Partnership with TOT PLC (TOT)

DTAC is able to use 60% of 60 MHz capacity in the 2300 MHz band.

\*\*\* Wholesale agreement with CAT Telecom PLC (CAT)

Sources: AIS, DTAC, TRUE, and NBTC

## FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Bt million

	-----Year Ended 31 December -----				
	2018	2017	2016	2015	2014
Total operating revenues	74,980	78,275	82,478	87,753	90,493
Operating income	28,974	30,956	27,849	28,549	31,783
Earnings before interest and taxes (EBIT)	3,600	4,120	4,410	9,044	14,662
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	29,541	31,466	28,219	28,552	31,973
Funds from operations (FFO)	29,417	29,505	25,948	25,387	27,836
Adjusted interest expense	1,554	1,742	1,766	1,609	1,586
Capital expenditures	25,510	19,992	18,887	23,645	19,510
Total assets	150,958	114,501	115,379	111,044	106,426
Adjusted debt	74,307	28,579	36,201	43,076	36,904
Adjusted equity	21,930	29,235	27,145	27,224	32,598
<b>Adjusted Ratios</b>					
Operating income as % of total operating revenues (%)	38.64	39.55	33.77	32.53	35.12
Pretax return on permanent capital (%)	3.73	5.07	5.57	11.92	19.85
EBITDA interest coverage (times)	19.01	18.06	15.98	17.75	20.16
Debt to EBITDA (times)	2.52	0.91	1.28	1.51	1.15
FFO to debt (%)	39.59	103.24	71.68	58.93	75.43
Debt to capitalization (%)	77.21	49.43	57.15	61.28	53.10

## RELATED CRITERIA

- Key Financial Ratios and Adjustments, 5 September 2018
- Group Rating Methodology, 10 July 2015
- Rating Methodology – Corporate, 31 October 2007

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**Total Access Communication PLC (DTAC)**

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<b>Company Rating:</b>	AA
<b>Rating Outlook:</b>	Stable

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