

TOTAL ACCESS COMMUNICATION PLC

No. 50/2020
15 April 2020

CORPORATES

Company Rating: AA
Outlook: Stable

Last Review Date: 05/04/19

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” with a “stable” outlook. The rating reflects DTAC’s position as one of the major mobile phone service providers in Thailand. The rating also takes into consideration DTAC’s strength in generating cash flow, adequate liquidity position, and effective cost control. 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 inherent in the wireless telecommunication services industry. DTAC faces challenges in creating service revenue growth, regaining subscriber base, and restoring market share. We also take into consideration the large capital expenditures required to roll out next-generation networks and for spectrum license payments.

KEY RATING CONSIDERATIONS

Growing demand for data services to drive revenue growth

In TRIS Rating’s view, DTAC faces a number of challenges in creating service revenue growth. DTAC’s revenue growth could be driven mainly by expanding data usage and the migration of prepaid subscribers to postpaid plans which carry higher average revenue per user (ARPU). The growing service revenue from the postpaid segment is expected to enlarge the revenue base.

However, we expect competition in the industry to remain intense, which may hinder revenue growth. DTAC faces challenges in restoring its prepaid subscriber base and regaining market share. Amid the fierce competition, DTAC has stepped up efforts to stabilize subscriber losses. This strategic goal, if successful, will likely reverse the net loss of subscribers, and enable the company to regain market share.

During the last few years, DTAC has focused on the quality of subscribers. The company aims to convert its prepaid subscriber base to postpaid contracts. The ARPU of postpaid plans is three times higher than prepaid. DTAC’s ARPU in the postpaid plans rose to Bt559 per month in the fourth quarter of 2019 (Q4/2019) from Bt535 per month in Q1/2019, uplifting its overall blended ARPU. Ramping-up ARPU could help stabilize revenue.

Meanwhile, the rise in data usage subscriber also boosted revenue. DTAC’s average subscriber data usage in 2019 was about 11 gigabytes (GB) per subscriber per month, up from 8.3 GB per subscriber per month in 2018. As a result, DTAC’s revenue from voice and data services in 2019 gradually improved during the last four quarters to Bt15 billion in Q4/2019 from Bt14 billion in Q1/2019.

Low impact from COVID-19

We expect the travel bans and movement restrictions in order to contain the spread of the novel coronavirus (COVID-19) will cause a decline in DTAC’s revenue from travel SIM and international roaming (IR) services as well as international direct dialing during the country’s lockdown.

On the other hand, we expect data revenues to soar due to higher data usage resulting from the work-from-home measures. Many people have been obliged to work and learn from home during the COVID-19 peril, and consequently need more access to the internet. Increased usage of online services and activities will also cause a surge in internet data traffic during

this period.

Sufficient spectrum bandwidth to serve service demand

TRIS Rating considers DTAC's spectrum portfolio, including recently awarded spectrum bandwidths, is sufficient to serve its subscribers' growing demand for data services. In addition, in our view, the license fee for this year biddings are much more reasonable, compared with aggressively-high-price auctions in 2015.

In June 2019, after the allocation of 700-megahertz (MHz) licenses, dtac TriNet Co., Ltd. (DTN), DTAC's wholly-owned subsidiary, was allocated a 10 MHz of spectrum, at a price of Bt17.58 billion. According to the announcement of the National Broadcasting and Telecommunications Commission (NBTC), the licensing will be issued in October 2020. The 700-MHz range is a low-band spectrum, which can be used to cover mobile signals.

In February 2020, DTAC, through DTN, was the auction winner for a 26-gigahertz (GHz) frequency band, totaling two slots or 200 MHz. The final bid price was Bt910.4 million. The 26-GHz spectrum is a high-band spectrum capable of delivering extremely high data speeds and capacity. However, this spectrum is characterized by a high propagation loss and directivity, as well as a significant sensitivity to blockage.

We understand that DTN did not participate in the 2600-MHz spectrum auction as it is in partnership with TOT PLC (TOT) to provide wireless services on the 2300-MHz band. The 2600-MHz and 2300-MHz bands are both in the mid-band range. In addition, DTN has installed 17,376 base stations on the TOT 2300-MHz network, to support high-speed data usage.

DTAC's ratio of the low- to mid-frequency bandwidth to actual subscribers is about 6.3 MHz for every one million subscribers, compared with industry peers: Advanced Info Service PLC (AIS) with 6.0 MHz for one million subscribers and TRUE Corporation PLC (TRUE) with 7.2 MHz for one million subscribers. Thus, DTAC's ability to provide services to subscribers using its current spectrum portfolio is considered to be in line with the industry.

We expect that the Thai mobile service industry will need some time for the commercial development of 5G (the fifth generation) mobile services. We expect the Thai mobile services will continue to be dominated by 4G services, and enhanced mobile broadband in some area. The 5G technology may need time to develop, both from the related-industry technology and the availability of 5G devices. The 3500-MHz band is recognized as a key band for 5G adoption among mobile service providers around the world, compatible with a variety of networks and devices. Thailand's 3500-MHz auction is expected to launch next year, although the time line is yet to be announced.

Sign of improvement in regaining subscribers

DTAC ranked the third in the Thai mobile service industry, with a market share of about 20.5% of all subscribers in Thailand as of December 2019. DTAC generated service revenue, excluding interconnection charges (IC), of Bt62 billion in 2019, representing 23% of total service revenue.

DTAC's subscriber base has suffered from the intense competition in the industry. As of December 2019, DTAC had 20.6 million subscribers, down from 21.2 million at the end of 2018. Subscriber losses were mainly from the prepaid segment. The number of subscribers under postpaid plans continued to grow, but not enough to offset the losses in prepaid.

The company has focused its efforts on stabilizing prepaid subscriber losses. DTAC is enhancing its customer network experience by increasing capacity and upgrading network quality. DTAC is also attempting to strengthen relationships with retail partners and launching marketing campaigns to draw subscribers. As a result, in the last quarter of 2019, DTAC was able to reverse subscriber losses, gaining around 45,000 new prepaid subscribers, after continued losses for several years. It may take time to restore market share, but we expect DTAC to be able to maintain momentum in enlarging its subscriber base.

Support from Telenor

Telenor is the major shareholder, holding a 42.6% stake in DTAC as of February 2020. DTAC receives support from Telenor in terms of managerial assistance, technological know-how, a shared brand, and other supports. Telenor is closely involved in DTAC's operations, including managerial talent.

We view DTAC as a strategically important subsidiary to Telenor in light of its earnings contribution to Telenor. DTAC has been one of the top revenue contributors for Telenor outside Norway. On that basis, we expect that Telenor will provide financial support to DTAC in times of need.

Sustainable EBITDA

DTAC's earnings before interest, taxes, depreciation, and amortization (EBITDA) have been strong over the last five years, ranging from Bt28-Bt31 billion per annum. The EBITDA margin was 32%-40% during the same period. The strong

profitability was driven by lower regulatory cost, larger postpaid subscriber base, and effective cost control.

Over the next three years, TRIS Rating expects DTAC to generate sustainable and strong EBITDA at a level of Bt29-Bt31 billion per annum. EBITDA margin is predicted to be in the 37%-38% range. The key supporting factors are the quality of subscribers, larger base of postpaid subscribers with a higher ARPU, and more stringent control of marketing expenditure. However, the margin may be pressured from fixed operation cost, depreciation and amortization charges for enlarged network and new licenses, and roaming costs for the TOT 2300-MHz network. We expect network operating expenses and some fixed costs to remain high. These costs include CAT Telecom PLC's (CAT) infrastructure and equipment rental costs, plus annual fees to TOT.

Expected rise in leverage

During 2020-2022, we forecast DTAC's adjusted net debt to remain moderately high. Our forecast assumes capital expenditure for network expansion of around Bt15 billion per annum. DTAC also has to make scheduled license fee payments of Bt5.6-Bt13.2 billion per annum during the same period.

The ratio of funds from operations (FFO) to total debt is expected to range from 22%-28% in the next three years. The adjusted net debt to EBITDA (including the obligation and financial lease) is forecast to stay below 4 times. We expect these ratios to gradually improve after DTAC monetizes the new spectrum bandwidth it licensed.

Sufficient liquidity

We assess DTAC's liquidity to be sufficient for the next 12-24 months. At the end of December 2019, sources of funds comprised cash and cash equivalents of Bt8.5 billion. FFO is forecast to reach Bt25-Bt27 billion per annum during 2020-2022. The company also has undrawn bank facilities of about Bt26 billion. Uses of funds include planned capital expenditures, license costs, and scheduled long-term debt repayments. We forecast planned capital expenditures of around Bt15 billion per annum and license costs of Bt5.6-Bt13 billion per annum during the next three years. About Bt6 billion in revolving bank loans and about Bt10 billion in long-term debts and debentures will come due in 2020. Debenture repayments totaling Bt2.5 billion will come due in 2021. We expect DTAC to maintain a liquidity cushion by optimizing the dividend payout, so that it has enough cash to fund the network rollout and pay the licensing costs.

BASE CASE ASSUMPTIONS

- Service revenues should remain flat or grow slightly during 2020-2022.
- The EBITDA margin is forecast to stay at 37%-38% during the next three years.
- Total capital spending will be about Bt15 billion per annum to roll out the network during the next three years.
- Scheduled license fee payments of Bt5.6-Bt13.2 billion per annum during 2020-2022.

RATING OUTLOOK

The "stable" outlook reflects TRIS Rating's expectation that DTAC will continue to deliver sound operating results. Despite the heavy expenditures required to expand its network and cover license payments, DTAC's financial profile is expected to stay in line with our expectations. DTAC's competitive position should gradually improve. We expect the company to use conservative financial policies, balancing the dividend payment with the capital expenditures and debt repayments, without causing liquidity constraints.

RATING SENSITIVITIES

DTAC's rating and/or outlook could be revised downward if operating performance undershoots our expectations. Sharp fall in ARPU on a sustained period, combining with subscriber loss, would be the key driver for a downside case. The downside case could also be triggered if the capital structure deteriorates, pushing the ratio of net debt (including financial obligations) to EBITDA stay 4 times or over, on a sustained basis.

DTAC's credit upside is unlikely over the next 12-18 months. However, the credit upside case would materialize if DTAC's ability to generate cash flow improves substantially, meanwhile lowering its debts burden, leading to a significant improvement in the leverage ratio. Any change in our view with regard to the degree of support DTAC receives from Telenor would 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 2020.

In 1989, DTAC started to provide wireless telecommunication services in the 850-MHz and 1800-MHz frequency bands

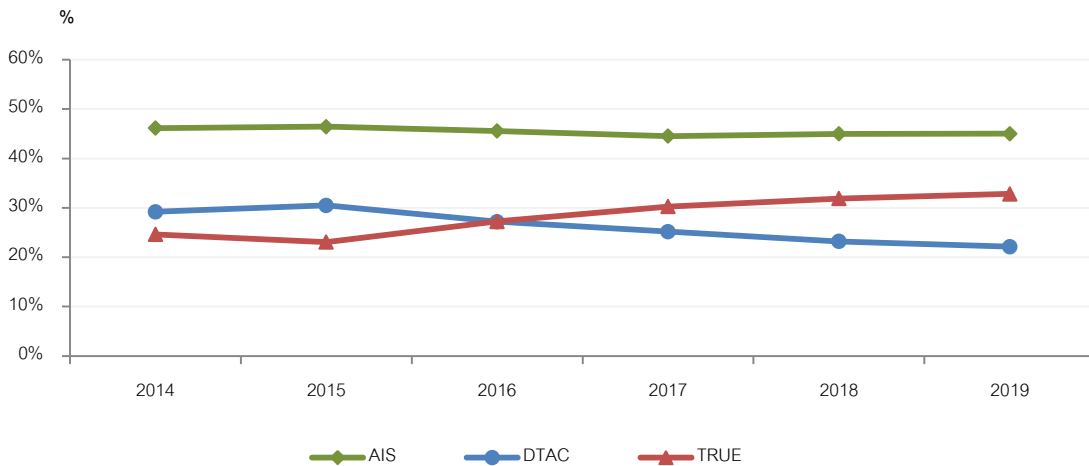
under a 27-year BTO (Build-Transfer-Operate) concession granted by CAT.

DTAC, through DTN, a wholly-owned subsidiary, launched 3G services in July 2013. The company's 3G and 4G services are operated under a 15-year 2.1-GHz spectrum license granted by the 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. In June 2019, DTN was allocated a 700-MHz license. DTN was awarded the 26-GHz spectrum, in preparation for 5G, in February 2020. At the end of 2019, DTAC had 20.6 million subscribers, with a service revenue market share of 23%.

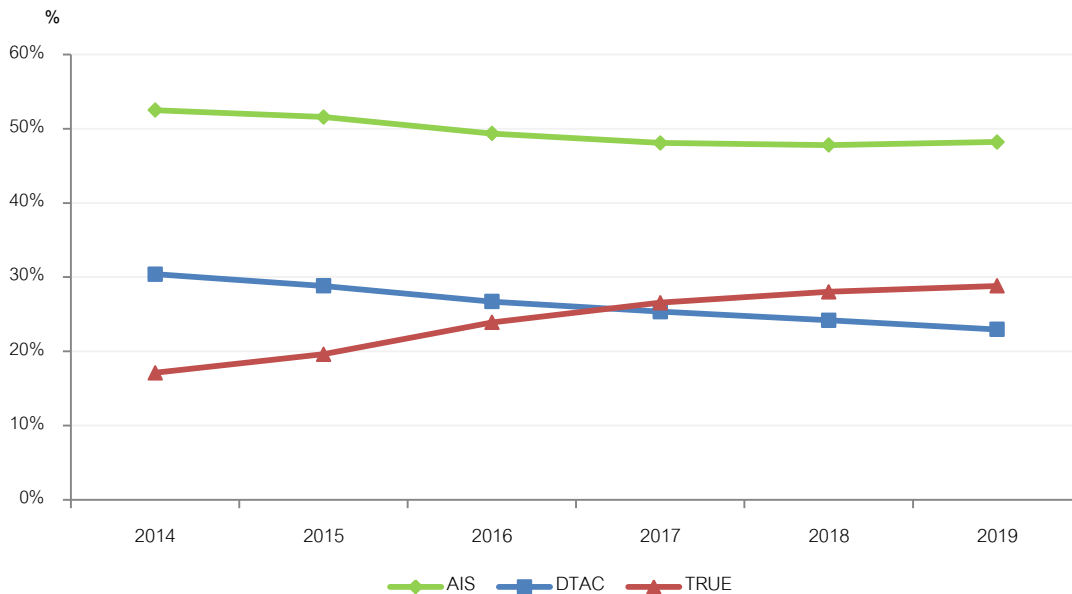
KEY OPERATING PERFORMANCE

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, and TRUE

Table 1: Spectrum Bandwidth of Each Operator

Unit: MHz

Frequency	Frequency	AIS (Bandwidth/ Until Year)	TRUE (Bandwidth/ Until Year)	DTAC (Bandwidth/ Until Year)
Low-band	700-MHz	2 x 10 MHz 2035 2 x 5 MHz 2035	2 x 10 MHz 2035	2 x 10 MHz 2035
	850-MHz		2 x 15 MHz 2025**	
	900-MHz	2 x 10 MHz 2031	2 x 10 MHz 2031	2 x 5 MHz 2033
Mid-band	1800-MHz	2 x 20 MHz 2033	2 x 15 MHz 2033	2 x 5 MHz 2033
	2100-MHz	2 x 15 MHz 2027 2 x 15 MHz 2025*	2 x 15 MHz 2027	2 x 15 MHz 2027
	2300-MHz			60 MHz 2025*
	2600-MHz	100 MHz 2035	90 MHz 2035	
High-band	26-GHz	1,200 MHz 2035	800 MHz 2035	200 MHz 2035

* Partnership with TOT PLC (TOT)

** 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 -----				
	2019 *	2018	2017	2016	2015
Total operating revenues	81,167	75,290	78,275	82,478	87,753
Earnings before interest and taxes (EBIT)	9,851	3,599	4,120	4,410	9,044
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	31,338	29,540	31,466	28,219	28,552
Funds from operations (FFO)	26,978	29,417	29,505	25,948	25,387
Adjusted interest expense	3,392	1,554	1,742	1,766	1,609
Capital expenditures	17,809	25,510	19,992	18,887	23,645
Total assets	167,339	150,958	114,501	115,379	111,044
Adjusted debt	105,086	74,307	28,579	36,201	43,076
Adjusted equity	24,966	21,930	29,235	27,145	27,224
Adjusted Ratios					
EBITDA margin (%)	38.61	39.24	40.20	34.21	32.54
Pretax return on permanent capital (%)	7.92	3.73	5.07	5.57	11.92
EBITDA interest coverage (times)	9.24	19.01	18.06	15.98	17.75
Debt to EBITDA (times)	3.35	2.52	0.91	1.28	1.51
FFO to debt (%)	25.67	39.59	103.24	71.68	58.93
Debt to capitalization (%)	80.80	77.21	49.43	57.15	61.28

* Early adoption of Thai Financial Reporting Standard 16 (TFRS16) for all lease obligations was enforced in the 2019 financial statement.

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018
- Group Rating Methodology, 10 July 2015

Total Access Communication PLC (DTAC)

Company Rating:	AA
Rating Outlook:	Stable

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