

INTERLINK TELECOM PLC

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CORPORATES

Company Rating: BBB
Outlook: Stable

Last Review Date: 25/03/22

Company Rating History:		
Date	Rating	Outlook/Alert
25/03/22	BBB	Stable

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RATIONALE

TRIS Rating affirms the company rating on Interlink Telecom PLC (ITEL) at “BBB”, with a “stable” rating outlook. The rating incorporates its stand-alone credit profile (SACP) of “bbb” and its status as a “core” subsidiary of Interlink Communication PLC (ILINK), its parent company, as per our “Group Rating Methodology”. The company rating on ITEL reflects its competitive strengths in fiber-optic data communications services, its satisfactory operating results, and moderate financial leverage. However, the rating is partly constrained by the uncertainty and volatility of the turnkey project business and the intense competition in the telecommunication industry.

KEY RATING CONSIDERATIONS

Competitive edge in fiber-optic-related services

We expect ITEL to remain competitive in the fiber-optic data communications service market. The company has installed its core fiber-optic cable infrastructure along railways and highways throughout Thailand as one of the major service providers in the country, providing high-quality connectivity services.

We view its wide network coverage, network quality, and experienced engineering teams to be key competitive advantage in providing data services to its customers. The consistent and reliable quality of service and good customer relationship have helped strengthen the company’s customer engagement. ITEL’s competitive edges have also enabled the company to expand its customer base and gain experience from participating in various fiber-optic public telecommunication projects.

Recurring income base expected to rise

Revenues from the data service and data center businesses are ITEL’s major sources of recurring income, accounting for approximately 40%-55% of total revenue during the last three years. We view recurring revenue as a more predictable and stable revenue stream that provides a strong income base for the company.

ITEL’s total revenues from data services in 2022 were THB1.31 billion, up from THB1.28 billion in 2021, despite the decline in revenue from remote area high-speed internet projects due to the termination of the contract with the National Broadcasting and Telecommunications Commission (NBTC) in the last quarter of 2022. The rise in revenue was driven by a larger customer base, with the company’s customers under its fiber-network data service business increasing to 880 customers as of December 2022, up from 807 in 2021. Revenue from general corporate customers and government agencies, which accounted for about 70% of total data service revenue, grew by 5% year-on-year (y-o-y) in 2022.

Going forward, we project the company’s recurring income to rise, backed by growing demand for data service connectivity and technology adoption, more value-added services, and new projects. The company is also looking for growth opportunities in high-speed internet-related projects, such as online courses and telemedicine projects for people in rural areas. Overall, we forecast revenue from data services to be in the range of THB1.4-THB1.6 billion per annum during the next three years. As of 31 December 2022, the backlog of the data services business was THB1.7 billion, half of which will be

recognized in 2023. Furthermore, the company anticipates the extension of almost all service contracts set to expire within the next three years.

For the data center business, we expect revenues to remain stable at about THB85-THB90 million per annum during the next three years, as customer contracts are generally long-term in nature.

Larger revenue base from turnkey projects, driven by both organic growth and consolidation of a new subsidiary

To leverage its expertise in data services and the fiber-optic cable installation and maintenance, ITEL has sizable operations in the fiber-optic cable installation business. The company's installation business covers fiber-optic cable installation, maintenance services, and related information technology (IT) projects.

In 2022, ITEL's revenue from the installation business reached nearly THB2 billion, up 83% y-o-y from THB1.1 billion in 2021. The increase resulted from the expansion of its existing business revenue and the consolidation of a new subsidiary, Blue Solutions Co., Ltd. (BS), in March 2022. BS has a strong competitive edge in IT hardware and system integration projects for government agencies. ITEL is also expanding into new growth areas and secured contracts for e-budgeting, solar cell base stations, and security-related projects such as closed-circuit television (CCTV) installation projects in 2022. As a result, ITEL's installation business contributed nearly 60% of total revenue in 2022, up from 44% in 2021.

Over the forecast period, we expect ITEL to smooth out its revenue streams in the installation business, ranging from THB1.9-THB2.2 billion per year. Revenue from the installation business should be supported by a number of projects in the pipeline and the company's expansion into new growth areas, boosted by the prospect of Thailand's IT infrastructure development. As of December 2022, its outstanding backlog for the installation business totaled THB1.7 billion.

In our view, revenue from the installation business is more volatile than revenue from data services and data centers as it is predominantly derived from the project-based revenue tied to state enterprise IT budgets and bidding. The profit margin of the installation business is also lower than those of data services and data center businesses. Operating issues, such as delays in construction or payment processes, and lack of continuity in public IT budgets, are typical in the installation business.

Profit margin compressed but gradual rebound expected

In 2022, ITEL generated THB1.1 billion of adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA), up from THB1 billion in 2021. Its EBITDA margin weakened to 32.30%, from 40.97% a year earlier due to the higher contribution of the installation business, which had lower profit margins, as well as increasing maintenance and repair expenses and higher utility costs.

Going forward, ITEL's profitability enhancement will hinge on its ability to increase recurring revenues, improve asset utilization, and cost control. In our base-case projections covering 2023-2025, we forecast the company's EBITDA to be THB1.2-THB1.3 billion per annum, with an EBITDA margin of 32.5%-33.5%, and funds from operations (FFO) to be THB0.89-THB0.95 billion annually.

Strengthening balance sheet

ITEL's adjusted debt dropped to THB3.5 billion as of December 2022, from THB4.7 billion a year earlier. The company repaid half of its short-term project loans as the projects were completed. As of December 2022, the debt to EBITDA ratio declined to about 3.2 times, from 4.6 times at the end of 2021. The FFO to debt ratio rose to 21.5%, from 16.3% in the year prior. The debt to capitalization ratio was 49%, compared with 62% in 2021.

We expect ITEL's cash flow protection and leverage to remain at moderate levels over the next three years. We estimate its investments to be THB350-THB400 million per year for the period 2023-2025. Most of its future capital expenditures will be for last-mile internet connectivity to reach end-users. With its growing cash flow, we expect ITEL to partly finance its capital expenditures with internally generated cash flow. Under our base-case scenario, we forecast the debt to EBITDA ratio to be about 3.0-3.2 times during 2023-2025. The FFO to debt ratio is projected to be in the 22%-25% range and the debt to capitalization ratio to be 46%-50% during the same period.

Adequate liquidity

We assess ITEL to have adequate liquidity over the next 12 months. Sources of funds comprised cash and cash equivalents of THB302 million plus an undrawn bank facility of THB6.8 billion as of December 2022. FFO are forecast to be about THB890 million in 2023.

Funds will be used for the capital expenditures and for scheduled debt repayments. As of December 2022, the company's outstanding short-term obligations amounted to nearly THB1 billion, of which half were project loans. These short-term project loans will be repaid when the projects are completed. Given ITEL's track record in project execution and the creditworthiness of the project owners, we expect ITEL to be able to roll over its short-term debts. Nearly THB500 million in long-term debt will mature in 2023. The company's investment budget for 2023 is around THB400 million.

Per the key financial covenant on its bank loans, the company is obliged to maintain an interest-bearing debt to equity ratio below 2.5 times, and a debt service coverage ratio (DSCR) over 1.2 times. At the end of 2022, the ratios were 0.72 times and 1.201 times, respectively. Based on ITEL's improving operating performance, we believe the company should have no problems complying with the financial covenants.

As of December 2022, around 22% of ITEL's debt was priority debt, which included debts at the subsidiary level and secured project financing loans.

BASE-CASE ASSUMPTIONS

- Revenues to range between THB3.6-THB3.9 billion per annum over the next three years.
- EBITDA margin at 32.5%-33.5%.
- Total investments of THB350-THB400 million per year during the next three years.

RATING OUTLOOK

The "stable" outlook embeds our expectation that ITEL will maintain its competitive position in the data services business and will be able to secure new projects for its turnkey project business.

RATING SENSITIVITIES

A rating upgrade could occur if the operating performance and cash flow of ITEL and the ILINK Group improve substantially, while maintaining moderate financial leverage. A downward rating action could be triggered if ITEL's and the group's financial profiles deteriorate materially. Any significant change in ITEL's status to the group could also lead to a rating change.

COMPANY OVERVIEW

ITEL was established on 3 January 2007. The company was listed on the Market for Alternative Investment (MAI) in 2015 and was moved to the Stock Exchange of Thailand (SET) in November 2021. As of March 2023, ILINK, the major cable and IT equipment distributor in Thailand, was ITEL's major shareholder, holding directly around 50% of ITEL's paid-up shares.

ITEL has provided data communications services and internet connectivity (Data Service) under a 15-year license permitted by the NBTC since 2012. In the same year, the company was awarded a 30-year license by the State Railway of Thailand (SRT) to install fiber-optic networks along the railways throughout the country. In 2014, the company expanded its business to offer data server rental and disaster recovery for organizations, operated under Interlink Data Center. ITEL undertakes installations of fiber-optic cables and other telecommunications projects under the installation business.

ITEL has established a partnership with the Australia-based Global Data Centre Group to operate the "ETIX ITEL BANGKOK" data center (formerly known as Genesis Data Center). ITEL holds a 33% interest in ETIX ITEL BANGKOK, while Global Data Centre Group, a leading investment company in the data center business worldwide, owns a 67% interest.

The company's total consolidated revenue was THB3.4 billion in 2022. The installation business accounted for 58.8% of total revenue, followed by the data service business (38.6%), and data center (2.6%).

KEY OPERATING PERFORMANCE

Table 1: Revenue Contribution by Segment

Business Line	2019		2020		2021		2022	
	Mil. THB	%	Mil. THB	%	Mil. THB	%	Mil. THB	%
Data service	849	36	1,111	55	1,281	52	1,311	38
Data center	94	4	85	4	92	4	87	3
Installation	1,388	60	824	41	1,093	44	1,995	59
Total	2,330	100	2,021	100	2,466	100	3,393	100

Source: ITEL

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	-----Year Ended 31 December -----				
	2022	2021	2020	2019	2018
Total operating revenues	3,438	2,509	2,040	2,347	1,611
Earnings before interest and taxes (EBIT)	552	513	416	397	285
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,110	1,028	941	733	546
Funds from operations (FFO)	668	766	690	518	384
Adjusted interest expense	229	214	215	183	125
Capital expenditures	350	332	341	624	755
Total assets	8,396	8,084	7,079	6,622	5,415
Adjusted debt	3,531	4,712	4,879	4,510	2,872
Adjusted equity	3,691	2,909	1,893	1,712	1,598
Adjusted Ratios					
EBITDA margin (%)	32.30	40.97	46.13	31.22	33.86
Pretax return on permanent capital (%)	7.17	6.94	6.20	7.08	6.84
EBITDA interest coverage (times)	4.84	4.81	4.38	4.01	4.35
Debt to EBITDA (times)	3.18	4.58	5.18	6.16	5.26
FFO to debt (%)	18.92	16.26	14.14	11.49	13.37
Debt to capitalization (%)	48.89	61.83	72.05	72.49	64.24

* Consolidated financial statements

RELATED CRITERIA

- Group Rating Methodology, 7 September 2022
- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021

Interlink Telecom PLC (ITEL)

Company Rating:	BBB
Rating Outlook:	Stable

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