

DTAC TRINET CO., LTD.

No. 46/2019
5 April 2019

CORPORATES

Company Rating:	AA
Issue Ratings:	
Senior unsecured	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
17/06/15	AA+	Stable

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RATIONALE

TRIS Rating affirms the company rating on dtac TriNet Co., Ltd. (DTN) and the ratings on its senior unsecured debentures at “AA”. The ratings reflect DTN’s strategic importance as a core subsidiary of Total Access Communication PLC (DTAC; rated “AA/Stable” by TRIS Rating), the third-largest mobile phone service provider in Thailand. Based on TRIS Rating’s Group Rating Methodology, the rating on DTN, as a core subsidiary of DTAC, is equal to and moves in tandem with the rating on DTAC.

The ratings also take into consideration DTN’s market position as one of major mobile phone service providers in Thailand. The ratings are enhanced by the support DTAC receives from Telenor ASA (Telenor), DTAC’s major shareholder. However, this strength is partly offset by the intense competition in the industry, and the hefty capital expenditures needed to pay licenses fee and to roll out the next generation network.

KEY RATING CONSIDERATIONS

Core subsidiary of DTAC

The ratings reflect DTN’s status as a core subsidiary of DTAC in consideration of its large subscriber base and the earnings DTN contributes to its parent company.

As of December 2018, DTN had 21.2 million subscribers, or all of DTAC’s subscribers. DTAC’s concession ended in September 2018. As a result, all of DTAC’s subscribers migrated to DTN’s network.

In 2018, DTN’s total revenue came in at Bt70.0 billion, representing about 93% of DTAC’s total revenue. DTN’s service revenue (excluding interconnection charges or IC) was Bt58.3 billion, or about 93% of DTAC’s service revenue, excluding the IC. DTN generated nearly 60% of DTAC’s EBITDA (earnings before interest, taxes, depreciation, and amortization).

DTAC has full control over DTN’s operations through the appointment of the top management and board of directors. DTAC and DTN share resources and network facilities to provide services. TRIS Rating believes DTN will continue to receive the full support from DTAC, including financial assistance in the event of distress because of the essential role DTN plays in DTAC’s overall operations.

The strong links between DTN and DTAC mean the company rating of DTN is equal to and moves in tandem with that of DTAC.

Support from Telenor

DTN’s ratings are also strengthened by the support DTAC receives from Telenor. The support comes in a number of ways, such as managerial assistance, technological know-how, and other supports. DTAC is considered significant to Telenor in light of its earnings contribution. DTAC is one of the top earners of Telenor outside Norway. In recognition of this, TRIS Rating expects Telenor will provide financial support to DTAC in time of need.

Spectrum-related risk fades away

In August and October 2018, DTAC, via DTN, bid for and won licenses for the 1800 megahertz (MHz) and 900 MHz spectrum bands. 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.

DTAC 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 cuts into subscriber base

During the past two years, DTN's subscriber base and service revenue were affected by the intense competition in the industry. The prepaid mobile phone segment in particular was affected. The uncertainty surrounding the expiration of DTAC's two concessions was also a drag on revenue.

As of December 2018, DTN had 21.2 million subscribers, down from 22.1 million at the end of 2017, and 23.2 million in 2016. Subscriber losses were mainly come from the prepaid subscriber segment. Service revenue, excluding the IC, fell in 2018, dropping by 2.8% from the previous year.

Going forward, the new spectrum bandwidths, plus plans to invest in a 4G network, are expected to enlarge the subscriber base. We expect the subscriber base, especially the postpaid segment, to grow gradually. The use of data services are expected to increase and boost revenue in the postpaid segment. We forecast a gradual rebound in the market position and operating results.

Cash flow to increase

DTN's funds from operations (FFO) were about Bt14.2 billion in 2018, nearly the same (Bt14.1 billion) in 2017. The liquidity profile remained acceptable. In 2018, the EBITDA interest coverage ratio was 9 times. The FFO to total debt ratio was about 15%.

Looking ahead, DTN's profitability is expected to improve, reflecting a drop in regulatory costs and lower costs for domestic roaming on DTAC's network. FFO is forecast to increase from Bt15 billion in 2019 to Bt17 billion in 2021.

DTN's liquidity is acceptable over the next 12-24 months. Sources of funds comprise cash on hand and cash equivalents of Bt4.3 billion at the end of 2018. FFO will range from Bt15-Bt17 billion per year over the next 24 months. Uses of funds will be the planned capital expenditures of about Bt15 billion per annum. DTN has Bt9.4 billion in debts maturing in 2019 and about Bt11.9 billion maturing in 2020. The FFO to total debt ratio is expected to range at 17%-22% during 2019-2021. TRIS Rating holds the view that DTN will have sufficient liquidity to meet its obligations, considering DTAC's solid financial profile and the full support DTN receives from DTAC.

High leverage

DTN's level of leverage is high. Adjusted net debt was Bt92.4 billion in 2018, taking into account obligation to pay the new licenses cost, plus the large capital expenditures for network rollout. The debt to capitalization ratio remained high at over 90% in 2018.

During 2019-2021, TRIS Rating expects DTN to invest about Bt45 billion to expand its 4G network. The debt to capitalization ratio is forecast to stay over 80%. As DTN's equity base is small, the ability to raise fund will rely on the cash flow generation. DTN's credit profile will hinge on DTAC's strong credit quality. However, we expect DTN's ability to generate cash flow will strengthen over the next three years.

BASE CASE ASSUMPTIONS

- DTN's service revenues will improve slightly over the next two to three years.
- The EBITDA margin will stay around 25%-29% during 2019-2021.
- Total capital spending will be around Bt15 billion per annum during 2019-2021.

RATING OUTLOOK

The "stable" outlook reflects TRIS Rating's expectation that DTN will be able to restore its market position and deliver improved operating results. Our view on DTN's status as a core subsidiary of DTAC is expected to remain unchanged.

RATING SENSITIVITIES

Based on TRIS Rating's Group Rating Methodology, DTN's ratings will move in tandem with the rating of DTAC. Any change in DTAC's rating and/or outlook will affect DTN's credit profile accordingly.

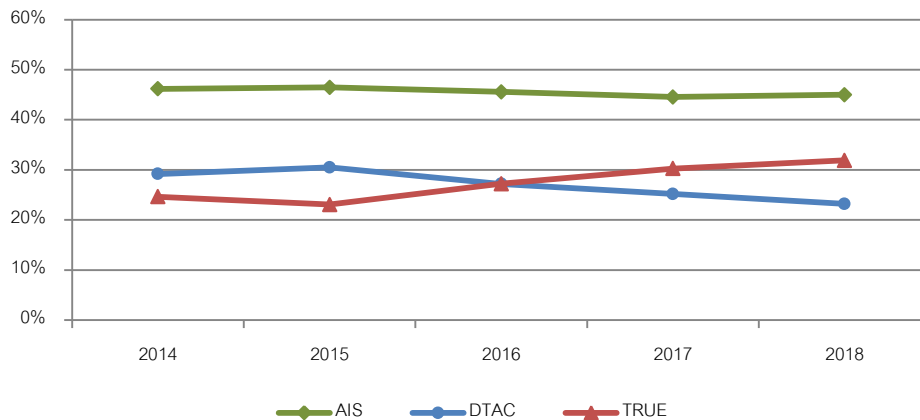
COMPANY OVERVIEW

DTN, a wholly-owned subsidiary of DTAC, was established in 2006. Initially, DTN provided international direct dialing (IDD) services. In December 2012, DTN was awarded a 15-year license for the 2100 MHz spectrum, granted by the National Broadcasting and Telecommunications Commission (NBTC). DTN is currently providing wireless communication services using 3G and 4G technologies. In 2018, DTN entered into an agreement with TOT to provide 4G wireless broadband services on TOT’s 2300 MHz spectrum. Under the agreement, DTN will use up to 60% of the total network capacity of 60 MHz bandwidth.

In September 2018, DTAC’s concession expired. DTN won two new licenses, for the 900 MHz and 1800 MHz spectrum bands, granted by the NBTC. At the end of 2018, DTN had 21.2 million subscribers, with a subscriber market share of 23%.

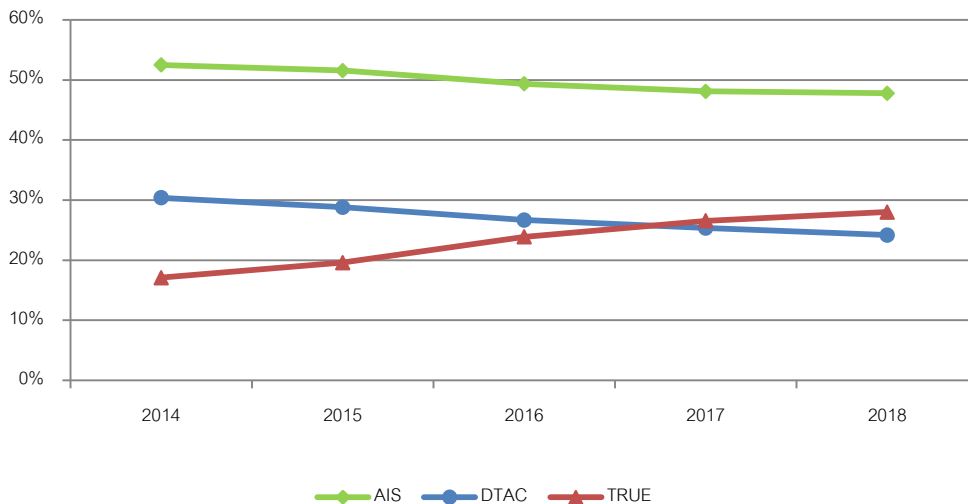
KEY OPERATING PERFORMANCE

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, 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	70,013	65,289	66,069	64,680	56,674
Operating income	16,167	16,180	12,629	11,396	8,150
Earnings before interest and taxes (EBIT)	6,556	8,541	7,207	6,903	4,772
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	16,782	17,060	13,562	11,393	8,261
Funds from operations (FFO)	14,242	14,075	10,736	9,095	6,598
Adjusted interest expense	1,826	1,991	1,864	1,075	865
Capital expenditures	23,820	16,549	10,221	14,720	15,523
Total assets	127,767	95,900	92,453	71,757	47,686
Adjusted debt	92,407	59,767	59,074	45,124	24,621
Adjusted equity	9,107	8,018	4,899	3,281	1,814
Adjusted Ratios					
Operating income as % of total operating revenues (%)	23.09	24.78	19.11	17.62	14.38
Pretax return on permanent capital (%)	7.26	11.73	11.68	17.30	20.12
EBITDA interest coverage (times)	9.19	8.57	7.28	10.60	9.55
Debt to EBITDA (times)	5.51	3.50	4.36	3.96	2.98
FFO to debt (%)	15.41	23.55	18.17	20.16	26.80
Debt to capitalization (%)	91.03	88.17	92.34	93.22	93.14

RELATED CRITERIA

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

dtac TriNet Co., Ltd. (DTN)

Company Rating:	AA
Issue Ratings:	
DTN197A: Bt1,500 million senior unsecured debentures due 2019	AA
DTN207A: Bt4,000 million senior unsecured debentures due 2020	AA
DTN213A: Bt1,500 million senior unsecured debentures due 2021	AA
DTN217A: Bt1,000 million senior unsecured debentures due 2021	AA
DTN227A: Bt3,000 million senior unsecured debentures due 2022	AA
DTN237A: Bt1,500 million senior unsecured debentures due 2023	AA
DTN244A: Bt500 million senior unsecured debentures due 2024	AA
DTN257A: Bt6,000 million senior unsecured debentures due 2025	AA
DTN267A: Bt1,000 million senior unsecured debentures due 2026	AA
DTN274A: Bt5,000 million senior unsecured debentures due 2027	AA
DTN279A: Bt2,000 million senior unsecured debentures due 2027	AA
DTN299A: Bt2,500 million senior unsecured debentures due 2029	AA
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

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