

DTAC TRINET CO., LTD.

No. 51/2020
15 April 2020

CORPORATES

Company Rating:	AA
Issue Ratings:	
Senior unsecured	AA
Outlook:	Stable

Last Review Date: 07/06/19

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” with a “stable” outlook. 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 wireless telecommunication services industry and the large capital expenditures required to rollout the next generation network and for spectrum license payment. DTN faces challenges in creating service revenue growth, regaining subscriber base, and restoring market share.

KEY RATING CONSIDERATIONS

Core subsidiary of DTAC

DTN’s credit rating is linked to the quality of DTAC’s credit profile. TRIS Rating considers DTN as a core subsidiary of DTAC, based on TRIS Rating’s “Group Rating Methodology”. DTN is a wholly-owned DTAC’s subsidiary. DTAC has full control over DTN’s operations through the appointment of the top management and board of directors. The strong links between DTN and DTAC mean the company rating on DTN is equal to and moves in tandem with that on DTAC.

DTN has a large subscriber base and is the predominant contributor of earnings to DTAC. As of December 2019, DTN had 20.6 million subscribers, or all of DTAC’s subscribers. In 2019, DTN’s total revenue was Bt75.4 billion, representing about 93% of DTAC’s total revenue.

TRIS Rating believes DTN will continue to receive the full support from DTAC, including financial assistance in the event of distress because of the critical role DTN plays in DTAC’s overall operations.

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, a shared brand. DTAC is one of the top earners of Telenor outside Norway. On that basis, TRIS Rating expects Telenor will provide financial support to DTAC in times of need.

Growing data usage to drive growth

TRIS Rating holds the view that DTN faces a number of challenges in creating service revenue growth. DTN’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. DTN faces challenges in restoring its prepaid

subscriber base and regaining market share. Amid the fierce competition, the company 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.

The company has focused its efforts into stabilizing prepaid subscriber losses. DTN is enhancing its customer network experience by increasing capacity and upgrading network quality. The company 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, DTN was able to reverse subscriber losses, gaining around 45,000 new prepaid subscribers, after continued losses for several years. Although it may take time to restore market share, we expect DTN to maintain momentum in enlarging its subscriber base.

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 the 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 demand of services

TRIS Rating considers DTN's spectrum portfolio, including recently awarded spectrum bandwidths, is sufficient to serve its subscribers' growing demand for data services. We expect that the Thai mobile service industry will need some time for the commercial development of 5G (Fifth generation) mobile services.

In June 2019, after the allocation of 700-megahertz (MHz) licenses, DTN was allocated 10MHz 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, 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.

Growing cash flow

DTN's earnings before interest, taxes, depreciation, and amortization (EBITDA) have improved over the last five years. EBITDA rose to B22.1 billion in 2019, up from Bt11.4 billion in 2015. The EBITDA margin was 29.4% in 2019, compared with 17.6% in 2015. The improvement in profitability was driven by higher service revenue, as well as lower selling, general, and administrative expense (SG&A). DTN's funds from operations (FFO) were about Bt19.3 billion in 2019, up from Bt14.2 billion in 2018.

Over the next three years, TRIS Rating expects DTN's EBITDA margin to be in the 29%-30% range. We expect a high network operating expenses and larger depreciation and amortization charges for new base stations and newly awarded licenses. In addition, we expect annual fees and roaming costs for the TOT 2300-MHz network to remain high. However, we expect the company to establish more stringent control of marketing expenditures.

High leverage

DTN's level of leverage is high. Adjusted net debt was Bt119.1 billion in 2019, taking into account obligation to pay the new licenses cost, plus the large capital expenditures for network rollout, as well as financial lease. The adjusted net debt to EBITDA was 5.4 times.

During the next three years, TRIS Rating expects DTN to invest about Bt45 billion to expand its network. The company also has to make scheduled license fee payments of Bt5.6-Bt13.2 billion per annum during the same period. The net adjusted debt to EBITDA ratio is forecast to range 5.5-6.5 times. DTN's ability to raise fund will rely on the cash flow generation. We expect DTN's ability to generate cash flow will gradually improve over the next three years after DTN monetizes the new spectrum bandwidth it licensed.

Acceptable liquidity

We expect DTN will have sufficient liquidity to meet its obligations over the next 12-24 months, considering DTAC's solid financial profile and the full support DTN receives from DTAC. The company's FFO to total debt ratio is expected to range 13%-15% during 2020-2022. Sources of funds comprised cash on hand and cash equivalents of Bt3.3 billion at the end of 2019. FFO will range from Bt17-Bt19 billion per year over the next three years. In addition, the company has undrawn bank facilities of about Bt26 billion. Uses of funds will be for the planned capital expenditures of about Bt15 billion per annum and scheduled license payment 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.

BASE CASE ASSUMPTIONS

- Service revenues should remain flat or grow slightly during 2020-2022.
- The EBITDA margin to stay around 29%-30% 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 billion per annum during 2020-2022.

RATING OUTLOOK

The "stable" outlook reflects TRIS Rating's expectation that DTN will deliver improving operating results. We also expect our view on DTN's status as a core subsidiary of DTAC to remain unchanged.

RATING SENSITIVITIES

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

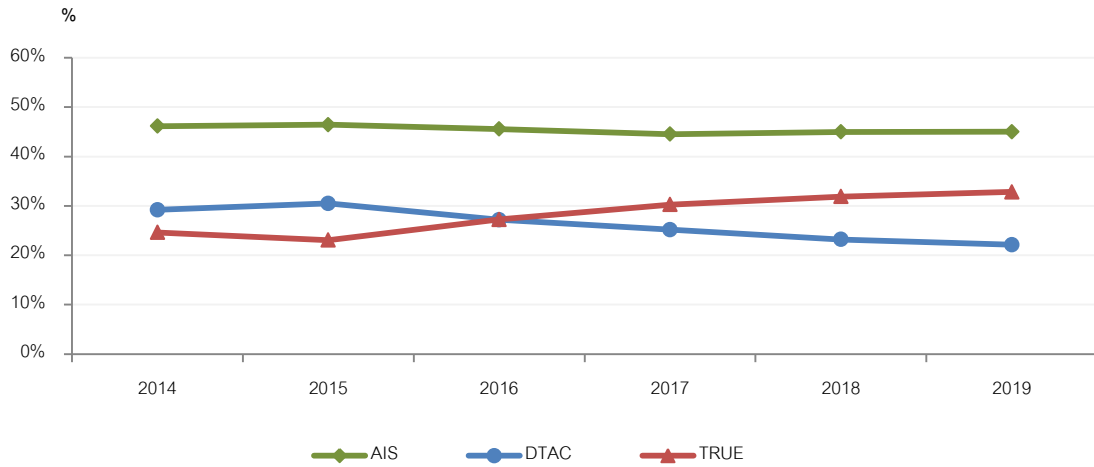
COMPANY OVERVIEW

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 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, 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 services, in February 2020. At the end of 2019, DTAC had 20.6 million subscribers, with a service revenue market share of 23%.

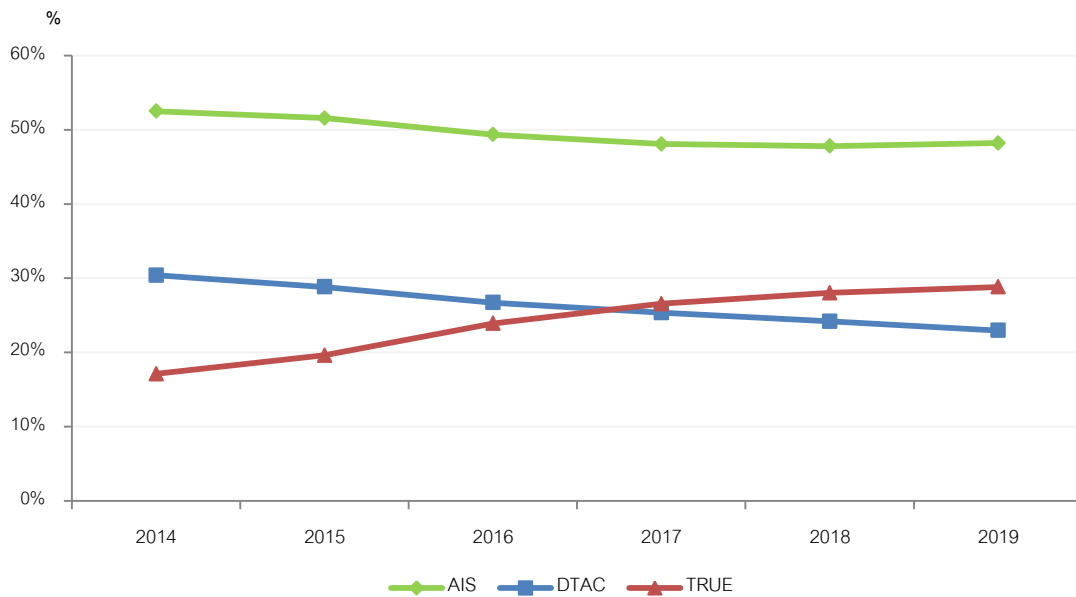
KEY OPERATING PERFORMANCE

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	75,360	70,178	65,289	66,069	64,680
Earnings before interest and taxes (EBIT)	2,252	6,582	8,541	7,207	6,903
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	22,149	16,801	17,060	13,562	11,393
Funds from operations (FFO)	19,282	14,255	14,075	10,736	9,095
Adjusted interest expense	3,460	1,832	1,991	1,864	1,075
Capital expenditures	15,183	23,820	16,549	10,221	14,720
Total assets	151,478	127,767	95,900	92,453	71,757
Adjusted debt	119,139	92,586	59,767	59,074	45,124
Adjusted equity	7,095	9,107	8,018	4,899	3,281
Adjusted Ratios					
EBITDA margin (%)	29.39	23.94	26.13	20.53	17.61
Pretax return on permanent capital (%)	1.91	7.28	11.73	11.68	17.30
EBITDA interest coverage (times)	6.40	9.17	8.57	7.28	10.60
Debt to EBITDA (times)	5.38	5.51	3.50	4.36	3.96
FFO to debt (%)	16.18	15.40	23.55	18.17	20.16
Debt to capitalization (%)	94.38	91.04	88.17	92.34	93.22

* Early adoption of Thai Financial Reporting Standard 16 (TFRS16) for all lease obligations 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

dtac TriNet Co., Ltd. (DTN)

Company Rating:	AA
Issue Ratings:	
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
DTN247A: Bt1,500 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
DTN267B: Bt500 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
DTN28DA: Bt3,000 million senior unsecured debentures due 2028	AA
DTN299A: Bt2,500 million senior unsecured debentures due 2029	AA
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

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