

# THAICOM PLC

No. 81/2018  
22 June 2018

## CORPORATES

<b>Company Rating:</b>	A-
<b>Issue Ratings:</b>	
Senior unsecured	A-
<b>Outlook:</b>	Negative

### Company Rating History:

Date	Rating	Outlook/Alert
06/06/14	A-	Stable
26/06/13	BBB+	Positive
29/09/09	BBB+	Stable

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## RATIONALE

TRIS Rating affirms the company rating of Thaicom PLC (THCOM) and the ratings of THCOM's senior unsecured debentures at "A-", but revises the outlook to "negative" from "stable". The "negative" outlook reflects THCOM's weak operating performance over the past two years due to the losses of major customers, unfavorable market position in the key markets, as well as price-based competition. THCOM faces challenges to ramp up revenue from new customers and has a pressure to reverse the declining profitability.

The ratings reflect its unique business position as the sole provider of satellite communications services in Thailand. The ratings are also supported by THCOM's ample liquidity and modest level of debt. However, these strengths are partially offset by several issues, including the competition from alternative land-based transmission networks and rising regulatory risk.

## KEY RATING CONSIDERATIONS

### Declining revenue with a sharp drop in the utilization of broadband satellite, IPSTAR

The utilization of THCOM's broadband satellite (IPSTAR) significantly shrank from 55% in 2016 to 26% in 2017 after the termination of contracts from wholesale customers in Australia (National Broadband Network (NBN) project), Thailand (TOT PLC), and China (Synertone Communication Corporation), which reduces IPSTAR's revenues by 31% year-on-year (y-o-y) in 2017. Whereas the utilization of its conventional satellites (Thaicom 5-8) was relatively flat during 2016 and 2017. Despite the acquisition of new clients in the CLMV countries (Cambodia, Laos, Myanmar, and Vietnam), which are new markets, it was offset the lower utilization in Thailand, its core market. Overall, satellite revenue dropped by 23% y-o-y to Bt6,475 million in 2017. In the first quarter of 2018, the utilization of both broadband and broadcasting satellites showed no sign of improving trend.

TRIS Rating views that in the medium term, THCOM would face challenges in seeking new customers for IPSTAR to offset the customers it lost and would have a slow take up rate for broadcasting satellites (Thaicom 5-8). Simultaneously, price-based competition is expected to remain fierce due to the weak market condition of satellite industry following the drop in demand for transponder services. THCOM also faces potential substitution risks from alternative transmission networks and from other satellite service providers. Thus, satellite revenue will likely continue to decline.

### New technology to extend the life of a satellite

A recent technological innovation gives rise to the prospect of extending the life of a satellite at a much lower cost than that of launching a new satellite. A newly innovated space drone can be launched to dock with a satellite that is low on fuel to maintain the satellite in proper orbital position for many years after its original expected useful life. The lives of the Thaicom4 and Thaicom5 satellites will expire at the period close to the end of the concession period. With the new technology, THCOM can maximize the lifespan of the satellites, by extending the useful life of the satellites for another 5-10 years, and as a result, has the flexibility to delay launches of new satellites. This will help reduce customer churns. However, the company has to wait for government approval to apply the new technology. In the meantime, THCOM is seeking

growth opportunities in the maritime services. This business segment is small, but THCOM plans to provide services to 70-100 ships within 2018, compared with 20 ships in 2017.

### **Weakened operating performance**

As a result of the losses of key customers, THCOM's revenues in 2017 fell by 23% from the previous year, to Bt6,689 million. The earnings before interest, tax, depreciation, and amortization (EBITDA) in 2017 declined to approximately Bt2,600 million (compared with approximately Bt4,300 million in 2016). The drop was due to a surge of selling general and administrative (SG&A) expenses, fixed operating costs, and lower revenues.

In the first quarter of 2018, revenue dropped by 25% y-o-y to Bt1,504 million. THCOM sold a 42% stake in CS Loxinfo PLC (CSL) and netted a gain from the disposal of this investment at Bt1,950 million. Excluding the one-time gain from the divestment, THCOM reported a Bt20 million operating loss.

TRIS Rating expects the revenue of THCOM during 2018-2020 will be pressured from the uncertainty surrounding the fill-up of new customers. The operating profit in 2018 will be under pressure because of high SG&A expenses and weak performance of IPSTAR. Going forward, revenue and the operating profit will be hinged largely on the success in rebuilding utilization of the conventional satellites as well as the ramp-up of IPSTAR's new contracts and the retail Internet project.

### **Modest financial leverage**

THCOM has a modest level of financial leverage. Outstanding debt was Bt7,446 million at the end of 2017, down from Bt10,225 million at the end of 2016. THCOM has been paying down outstanding debts and made no significant capital expenditures. The total debt to capitalization ratio as of 2017 was 32.8%, down from about 35.1% at the end of December 2016. Without any new satellite projects, THCOM's leverage level is forecast to continue declining. However, if new investments are needed to support future growth plans, THCOM's recurrent cash flows and financial flexibility will be able to substantially support the financing needs of large investments. TRIS Rating forecasts the debt to capitalization ratio will stay below 50.0%.

### **Ample liquidity**

THCOM's liquidity is ample. During the next 12-24 months, sources of funds should be sufficient to meet the upcoming commitments. Sources of funds comprised cash on hand of Bt2,469 million plus marketable securities of Bt4,886 million at the end of March 2018. Funds from operations (FFO) are forecast at Bt1,700-Bt2,300 million per annum. Uses of funds are planned maintenance capital expenditures of Bt200-Bt300 million per annum and debt repayments of around Bt3,500 million in long-term loans, including debentures.

A key financial covenant for the bonds and bank loans is a debt to equity ratio below 2 times. The debt to equity ratio at the end of 2017 was 0.7 times. Based on its conservative financial policy, TRIS Rating believes that the company will continue to be in compliance with the key financial covenant.

### **RATING OUTLOOK**

The "negative" outlook reflects THCOM's weakened operating performance due to the losses of key customers and the challenges to restore robust revenue and profitability.

### **RATING SENSITIVITIES**

Persistently deteriorated operating performance over a sustained period will likely lead to a rating downgrade. The outlook could be revised to "stable" if THCOM could deliver significantly improved operating results on a sustained basis, while maintaining its strong financial profile.

### **COMPANY OVERVIEW**

THCOM, established in 1991 and listed on the Stock Exchange of Thailand (SET) in 1994, is the sole provider of satellite services in Thailand. As of April 2018, Intouch Holdings PLC was THCOM's major shareholder, holding 41.1% of THCOM's shares.

THCOM currently operates five geosynchronous satellites. THCOM's initial satellite service operations are under a 30-year build-transfer-operate (BTO) concession, granted in 1991 by the Ministry of Transport and Communications. The concession has been transferred to the Ministry of Information and Communication and Technology, currently named Ministry of Digital Economy and Society (MDES). Three satellites, Thaicom4 or IPSTAR, Thaicom5, and Thaicom6, are operated under a concession-based scheme. The concession-based satellite operations are subject to step-up revenue sharing with the government. The revenue sharing rate reached the maximum level of 22.5% starting from September 2016. Two satellites, Thaicom7 and Thaicom8, are under a 20-year satellite network operator license awarded by the

National Broadcasting and Telecommunications Commission (NBTC). The license will expire in 2032. The license-based satellites impose a fee paid to the government of around 4% of the revenue.

In addition, THCOM holds a 51% interest in Shenington Investments Pte Ltd. (Shenington), a telecom holding company incorporated in Singapore. Shenington owns a 49% stake in Lao Telecommunications Co., Ltd. (LTC), the largest cellular carrier in Laos People's Democratic Republic. Aside from the telecom business, THCOM invests in DTV Service Co., Ltd. (DTV), a distributor of satellite dishes and equipment.

Based on consolidated revenue in the first quarter of 2018, satellite and related services remained THCOM's key revenue drivers, contributing 96%.

#### FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\*

Unit: Bt million

	Jan-Mar 2018	----- Year Ended 31 December -----			
		2017	2016	2015	2014
Revenue	1,504	6,689	8,642	12,453	11,893
Gross interest expense	80	382	338	306	384
Net income from operations	(62)	507	1,460	2,717	2,079
Funds from operations (FFO)	513	3,163	4,258	5,111	4,778
Total capital expenditures	7	304	1,075	1,247	6,344
Total assets	25,687	25,939	32,840	33,592	31,888
Total debts	7,153	7,446	10,225	11,750	11,101
Shareholders' equity	14,782	15,280	18,921	18,111	17,285
Operating income before depreciation and amortization as % of sales	30.5	41.5	51.9	46.4	43.1
Pretax return on permanent capital (%)	0.2 **	1.1	6.6	12.6	11.0
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	6.7	8.8	14.4	21.1	14.2
FFO/total debt (%)	38.1 **	42.5	41.6	43.5	43.5
Total debt/capitalization (%)	32.6	32.8	35.1	39.3	39.1

\* Consolidated financial statements

\*\* Annualized with trailing 12 months

**Thaicom PLC (THCOM)**

<b>Company Rating:</b>	A-
<b>Issue Ratings:</b>	
THCOM190A: Bt500 million senior unsecured debentures due 2019	A-
THCOM190B: Bt1,775 million senior unsecured debentures due 2019	A-
THCOM210A: Bt500 million senior unsecured debentures due 2021	A-
THCOM210B: Bt1,775 million senior unsecured debentures due 2021	A-
<b>Rating Outlook:</b>	Negative

**TRIS Rating Co., Ltd.**

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