TRIS RATING
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THAICOM PLC

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CORPORATES

Company Rating:	BBB+
Issue Ratings:	
Senior unsecured	BBB+
Outlook:	Stable

Last Review Date: 25/06/20

Company Rating History:

Date	Rating	Outlook/Alert
25/06/20	BBB+	Stable
22/06/18	A-	Negative
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 on Thaicom PLC (THCOM) and the ratings on THCOM's senior unsecured debentures at "BBB+", with a "stable" outlook. The ratings reflect THCOM's unique market position as the sole satellite service provider in Thailand as well as its expertise and know-how in the satellite market. The ratings continue to reflect the company's modest level of financial leverage and ample liquidity, enabling it to meet its debt obligations and make investments, if needed. The ratings also take into consideration the opportunity to bid for the right to use satellite orbital slots.

However, these strengths are tempered by THCOM's weakening performance due to declining capacity in broadcasting satellites and a drop in utilization of its broadband satellite. The ratings are also weighed down by the intensely competitive satellite service industry as well as the imminent expiration of the company's operating concession.

KEY RATING CONSIDERATIONS

Declining satellite capacity pressures revenue

Revenue from the conventional satellite segment was THB2.1 billion in 2020 and about THB500 million for the first quarter of 2021. Revenue fell by 16% in 2020, and further dropped by 15% year-on-year (y-o-y) in the first three months of 2021 as a result of the deorbiting of the Thaicom5 satellite, a decline in related services, and intense price-based competition.

The Thaicom5 satellite was deorbited in February 2020, reducing THCOM's total conventional satellite capacity to 71 transponders from 111 transponders. As a result, some customers that were unable to migrate their operations to THCOM's other satellites terminated their service contracts. In addition, the total number of television (TV) channels using THCOM's conventional satellites slipped to 394 channels at the end of December 2020 from 972 channels in 2019.

The utilization rate of THCOM's conventional satellites in 2020 through the first three months of 2021 stood at nearly 64%, up from 55.5% in 2019. As total capacity falling to 71 transponders with committed utilization contracts, utilization rates for the remaining conventional satellites increased. Increased utilization of the Thaicom7 satellite by customers in Myanmar and Vietnam also contributed to the rise.

Going forward, revenues from conventional satellites will largely hinge on optimizing utilization of the Thaicom7 and Thaicom8 satellites. The company aims to increase utilization in Southeast and South Asia. THCOM also provides maritime services in the regions. The company plans to expand coverage of this business to waters off East China as well as other countries in Southeast Asia, and boost revenue from value-added services.

IPSTAR utilization continues to drop

Although the demand for broadband satellite internet remains sound, particularly from the broadband internet and mobile backhaul segments, THCOM has faced difficulty acquiring new customers since its concession is due to expire in 2021.

IPSTAR's bandwidth utilization rate in the first quarter of 2021 stood at 18%, down from 18.5% in 2020, and 22.5% in 2019. The drop was due mainly to declining deployment in Japan and India. Revenue from the IPSTAR segment in 2020 dropped by 31% y-o-y to THB1.4 billion, and further declined by 23% y-o-y in the first three months of 2021.

The company has attempted to increase utilization in Southeast Asia and continues to provide managed satellite services in the region. THCOM is also exploring opportunities for new broadband satellites and is currently in talks with its business partners concerning a consortium of satellite services as well as low earth orbit (LEO) satellite-related businesses.

Concession to expire and open discussion with NT to facilitate the transfer of satellite operation

THCOM currently operates four geosynchronous satellites. Thaicom4 or IPSTAR and Thaicom6 are the two satellites operating under a concession-based scheme. The 30-year concession will end in September 2021. After the concession ends, THCOM will have only two satellites, Thaicom7 and Thaicom8, operating under a 20-year licensing scheme which will end in 2032.

Upon the expiry of concession in September 2021, assets related to the Thaicom4 and Thaicom6 satellites will be returned to the Ministry of Digital Economy and Society (MDES). Recently, the National Space Policy Committee (NSPC) assigned National Telecom PLC (NT), formerly CAT Telecom PLC (CAT), a state-owned enterprise, to handle operation of the satellites following the end of concession. THCOM has opened discussion with NT to facilitate the transfer of satellite operation. If NT needs a strategic partner to operate the satellites, THCOM could be the most competitive choice, considering its capabilities and extensive experience in satellite operation, with insight of customers served by the two satellites. However, NT's business model for satellite operation is yet to be finalized.

New opportunity in orbital slot auction

In May 2021, the National Broadcasting and Telecommunications Commission (NBTC) announced its plan to replace concessions for satellite businesses with a licensing regime to promote liberalization of the satellite industry. This first-time orbital slot auction in Thailand, for a package of four satellite orbital slots, will be held on 24 July 2021. The licenses for usage of satellite orbital slots will be for a period of 20 years.

Under the new licensing regime, the licensed satellite service providers are required to pay an annual fee to the NBTC equal to 4.25% of revenue. In comparison, the existing concession requires revenue sharing of 22.5%. The lower regulatory costs are expected to benefit service providers under the licensing scheme. However, the actual benefits accruing will depend on how fast operators can expand their footprint and tap customers. We expect price-based competition, looming LEO satellite technology competition, and increased marketing expenses may overshadow the benefits gained from regulatory cost saving in the early stages.

We envision participants in the auction to comprise only a few bidders involved in telecom and satellite-related businesses, as bidders are required to have experience in satellite-related operations as well as sound financial standing. With its competitive advantage in the expertise and experiences in satellite operation, we expect THCOM to be a key contender in the bidding. If successful in the bidding, the new licensing scheme will present new long-term prospects for growth and profitability for THCOM.

Declining operating performance

THCOM's operating performance in 2020 and the first quarter of 2021 continued to decline. Total revenue in 2020 was about THB3.6 billion, down from THB4.7 billion in 2019 due to the drop in IPSTAR utilization, deorbiting of Thaicom5 satellite, and intense competition. Revenue dropped further in the first quarter of 2021, declining by 18% y-o-y to about THB790 million. THCOM's revenue has been relatively unscathed by the Coronavirus Disease 2019 (COVID-19) pandemic thanks to its satellite service infrastructure involving the wholesale provision of satellite transponders. However, the lingering pandemic continues to hinder the advertising segment, potentially affecting some of its broadcasting customers.

THCOM generated earnings before interest, taxes, depreciation, and amortization (EBITDA) in 2020 of about THB1.4 billion, down from about THB1.8 billion in 2019. EBITDA for the first quarter of 2021 was about THB270 million, slightly down from THB312 million in the same period of the previous year. THCOM introduced measures to reduce costs and personnel expenses corresponding to its smaller revenue base. The EBITDA margin was about 34.6% in the first quarter of 2021, slightly rose from 32.3% for the same period in the previous year.

During 2021-2023, we expect THCOM's revenue and profits will continue to be under pressure following the end of concession for the two satellites in 2021. Our base-case scenario projects revenue to be in the range of THB1.3-THB2.7 billion per annum, with no operating revenue from the Thaicom4 and Thaicom6 satellites once concession expires. We project THCOM's EBITDA margin to be in the 36%-38% range, taking into account the inherently high fixed operating costs of the satellite business and the expected decline in revenue. However, business continuity from the new satellite project and other emerging business should help bolster the company's revenue base and smooth out its operating cash flow.

Modest financial leverage

Since THCOM has had no major capital expenditures and has been paying down its maturing debentures and scheduled bank loans, its outstanding debt has gradually declined during the past three years. THCOM's outstanding debt stood at THB3.8 billion as of March 2021, down from THB4.1 billion in 2019. The company is in a net cash position. As of March 2021, its cash on hand plus other deposits amounted to nearly THB6.9 billion. This amount is sufficient to cover scheduled debt repayments and fund a large investment, if needed.

We forecast THCOM's maintenance capital spending and other expenditures will amount to nearly THB100 million annually for the next three years. Without any new satellite projects, THCOM's leverage will continue to decline. However, if new investments are needed to support future growth plans, THCOM's high cash balance and other deposits will give it the financial flexibility it needs. In this scenario, the leverage is expected to elevate during the investment period, incorporating any necessary capital expenditures for new satellite project. In effect, we expect the net adjusted debt to EBITDA ratio to gradually rise to 4-5.5 times, and the FFO to adjusted net debt ratio to remain in the range of 12%-18% during the next two years. The total debt to capitalization ratio is expected to stay below 35%.

Ample liquidity

We assess THCOM to have adequate liquidity over the next 12 to 18 months. As of March 2021, its sources of funds comprised cash on hand and cash equivalents of THB2.2 billion, plus short-term investments and other deposits worth THB4.7 billion. We forecast funds from operations (FFO) to be nearly THB1 billion over the next 12 months. Sources of funds should be sufficient to meet the upcoming commitments. Uses of funds include capital expenditures of nearly THB100 million in 2021. About THB2.6 billion in debentures and long-term bank loans come due in 2021 while about THB350 million in long-term bank loans will mature in 2022. The company also has current portion of lease obligation at THB80 million.

BASE CASE ASSUMPTIONS

- Revenues to remain under pressure, falling to the THB1.3-THB2.7 billion per annum range, during 2021-2023.
- EBITDA margin to range from 36%-38% over the next three years.
- Total capital spending of about THB100 million per year, during 2021-2023.

RATING OUTLOOK

The "stable" outlook reflects our expectation that THCOM will maintain its competitive edge in the Thai satellite service market. Although taking time, we expect revenue from new businesses or projects to gradually rise, if the company is successful in winning the new satellite orbiting license. In addition, we expect THCOM to continue to maintain ample liquidity to meet its debt obligations and investment needs.

RATING SENSITIVITIES

A downward rating action could be triggered if the company's operating performance deteriorates significantly more than expected. Conversely, the ratings and/or outlook could be revised upward if operating performance rises above our expectations. The ratings could be upgraded if the company successfully executes its new business plan and/or its new satellite projects are able to generate sizable incremental revenues on a sustained basis, while maintaining a healthy balance sheet.

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 2021, Intouch Holdings PLC was THCOM's major shareholder, holding 41.1% of THCOM's shares.

THCOM currently operates four 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 was subsequently transferred to the Ministry of Information and Communication Technology, currently named the Ministry of Digital Economy and Society (MDES). Two satellites, Thaicom4 or IPSTAR, 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 operated under a 20-year satellite network operator license awarded by the NBTC. The license will expire in 2032. For the license-based satellites, a fee is paid to the government equivalent to around 4% of 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 the Laos People's Democratic Republic (Lao PDR). Aside from the telecom segment, THCOM holds a stake in Thai Advance Innovation Co., Ltd. (Thai AI) (formerly known as DTV Service Co., Ltd.), a distributor of set-top-boxes, TV satellite dishes, and related equipment. Thai AI also offers sales and rental services for internet platform such as IPTV channels, video streaming, eSport, and LOOX TV.

Based on consolidated revenue in the first quarter of 2021, satellite and related services remained THCOM's key sources of revenue. The conventional satellite segment generated about 59% of total revenue, while the IPSTAR segment contributed 41%.

KEY OPERATING PERFORMANCE

Table 1: THCOM's Revenue Breakdown

Unit: Mil. THB

Service	2018	2019	2020	Jan-Mar 2021
Conventional satellite	**3,565**	**2,536**	**2,133**	**463**
IPSTAR	**2,284**	**2,058**	**1,415**	**323**
- Sales	141	185	38	9
- Services	2,143	1,873	1,377	315
Internet and media	**229**	**122**	**32**	**8**
Eliminations	**(71)**	**(53)**	**(24)**	**(6)**
Total	**6,008**	**4,663**	**3,557**	**788**

Source: THCOM

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

		--------------Year Ended 31 December			-----------
	Jan-Mar 2021	2020	2019	2018	2017
Total operating revenues	845	3,573	4,681	6,022	6,914
Earnings before interest and taxes (EBIT)	156	154	(20)	596	453
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	512	1,431	1,918	2,482	3,404
Funds from operations (FFO)	466	1,128	1,272	2,411	3,469
Adjusted interest expense	41	189	302	340	390
Capital expenditures	2	78	226	83	332
Total assets	16,695	16,676	16,999	22,202	25,939
Adjusted debt	0	0	0	1,200	3,150
Adjusted equity	11,131	11,247	10,995	13,137	15,280
Adjusted Ratios					
EBITDA margin (%)	60.58	40.05	40.97	41.21	49.23
Pretax return on permanent capital (%)	(0.52)	1.00	(0.11)	2.76	1.72
EBITDA interest coverage (times)	12.53	7.57	6.35	7.29	8.74
Debt to EBITDA (times)	0.00	0.00	0.00	0.48	0.93
FFO to debt (%)	n.m.	n.m.	n.m.	200.96	110.12
Debt to capitalization (%)	0.00	0.00	0.00	8.37	17.09

n.m.= Not meaningful

RELATED CRITERIA

- Issue Rating Criteria, 15 June 2021
- Group Rating Methodology, 13 January 2021
- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

Thaicom PLC (THCOM)

Company Rating:	BBB+
Issue Ratings:	
THCOM21OA: THB500 million senior unsecured debentures due 2021	BBB+
THCOM21OB: THB1,775 million senior unsecured debentures due 2021	BBB+
Rating Outlook:	Stable

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