

THAICOM PLC

No. 93/2019
24 June 2019

CORPORATES

Company Rating:	A-
Issue Ratings:	
Senior unsecured	A-
Outlook:	Negative

Last Review Date: 22/06/18

Company Rating History:

Date	Rating	Outlook/Alert
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 "A-", with "negative" outlook. The ratings reflect THCOM's 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, the ratings take into consideration the intense competition in the satellite services industry, competition from alternative land-based transmission networks, and regulatory risk as well.

KEY RATING CONSIDERATIONS

Concession soon to expire

THCOM's business profile is underpinned by its position as the sole satellite communications service provider in Thailand. THCOM currently operates five geosynchronous satellites. Three satellites, Thaicom4 or IPSTAR, Thaicom5, and Thaicom6, are operated under a concession-based scheme. The 30-year concession will end in 2021. Another 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 service lifetime of the Thaicom5 satellite will end in 2020. In the beginning of 2019, the Thai government approved a one-year service extension of the Thaicom5 satellite. The company will use a space drone, a new technology, to dock with low-fuel Thaicom5 satellite. Once docked, the satellite can maintain the proper orbital position, for another year.

THCOM also faces other challenges because its concession will expire in 2021. After the concession ends, the Thai government will use the Public-Private Partnership (PPP) Act as the model for business arrangements between government entities and private companies. Under the PPP Act, the Thai government will find a suitable private company for the satellite service projects. The PPP selection process is expected to be finished before the concession expires.

TRIS Rating envisions participants in the PPP project selection process will be a few groups of local telecom companies or joint ventures with multinational owners of satellite technology from abroad. With its expertise in the satellite service segment, THCOM intends to participate in the PPP selection process. THCOM is expected to be competitive. If the company is selected, it will create continuity in THCOM's operation and build customer confidence. Otherwise, the THCOM's business profile will deteriorate, leading to a negative impact on the credit quality, if the company cannot build a sizable new business to compensate the revenue loss.

Broadband satellite bandwidth utilization increases

Prospects for broadband internet services remain high as data traffic volumes are increasing. In addition, the collaboration between broadband satellite technology and the next generation of mobile data service (the fifth generation or 5G) will drive broadband satellite bandwidth utilization in the future.

IPSTAR's bandwidth utilization rate at the end of March 2019 rose to 30.5%, up from 29.9% in 2018 and 25.6% in 2017. The rise was due mainly to increased

deployment in India, Indonesia, and the Philippines. Revenue from the IPSTAR segment was Bt2,284 million in 2018 and Bt629 million for the first quarter of 2019. Revenue for the first three months of 2019 rose by 9% year-on-year (y-o-y), driven by a higher utilization rate and a rise in user terminal (UT) sales in Japan.

At the end of March 2019, India was IPSTAR's largest market in terms of bandwidth deployment, using of around 7.3% of total IPSTAR's capacity. Satellite broadband services have good prospects in India because the Indian government set a "Digital India" initiative to expand broadband access throughout the country. In the meantime, the company is in talks with its partner to revamp the deployment of IPSTAR's bandwidth allocated in China. THCOM is also seeking growth opportunities in the maritime services, retail satellite internet, and satellite consultant services.

THCOM is now exploring opportunities for new broadband satellites, since the concession will expire in 2021. The new satellite project is expected to be finalized within 2020. Without any new broadband satellite project, revenue from the IPSTAR segment will fall.

Intense competition cuts into revenues

Intense competition, particularly price-based competition, cuts into THCOM's revenue from the satellite segment. Total revenue in 2018 was Bt6,008 million, down 10% from 2017. Revenue dropped further in the first quarter of 2019, declining by 13% y-o-y. The drop in revenue in the first three months of 2019 was mainly due to decreased utilization in conventional satellites and lower prices. The utilization rate of THCOM's conventional satellites shrank to 52.9% in the first quarter of 2019, down from 57.3% in 2018 and 58.1% in 2017. The drop was mainly due to the decline in utilization of the Thaicom5 satellite.

Going forward in the medium term, TRIS Rating views that boosting the utilization rate of the Thaicom7 and Thaicom8 satellites is crucial for the company's future performance. Since the broadcasting industry in Thailand has reached a stage of market saturation, THCOM makes an effort to expand the satellite service footprint into countries neighboring Thailand and other countries in South Asia. TRIS Rating expects price-based competition in the conventional satellite service segment will remain fierce, and may push a pressure on the revenue. TRIS Rating forecasts revenue of THCOM will fluctuate during 2019-2021, ranging around Bt3,500-Bt4,800 million. If the company is selected in the PPP projects, it will build customer confidence and create continuity, thus will help boost revenue streams in the long term.

THCOM reported earnings before interest, tax, depreciation, and amortization (EBITDA) in 2018 of about Bt2,200 million, down from about Bt2,600 million in 2017. However, EBITDA for the first quarter of 2019 rose to approximately Bt590 million, compared with approximately Bt485 million in the same quarter of the previous year. The rise was reflected by better IPSTAR's operating results, cost control efforts, and a drop in selling general and administrative (SG&A) expenses. Over the next three years, we expect the company to continue its cost control efforts. However, because the satellite business has high fixed operating costs, a drop in revenue will squeeze the operating margin. Our forecast assumes the operating margin of THCOM will hold at 36%-40% during 2019-2021.

Modest financial leverage

THCOM has a modest level of financial leverage. Outstanding debt was Bt6,770 million at the end of March 2019, down from Bt7,023 million at the end of 2018. THCOM has been paying down outstanding debts and made no significant capital expenditures. As of March 2019, cash on hand, plus marketable securities amounted to nearly Bt7,300 million, a significant amount. This amount is sufficient to cover the scheduled debt repayments, and funds a large investment, if needed.

The debt to capitalization ratio as of March 2019 was 3.8%, down from about 8.4% at the end of December 2018. Without any new satellite projects, THCOM's leverage level will keep declining. However, if new investments are needed to support future growth plans, THCOM's high cash balance and marketable securities will give it the financial flexibility it needs to fund the large investments. TRIS Rating forecasts the debt to capitalization ratio of THCOM will stay below 40% over the next three years.

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 comprise cash on hand and cash equivalents of Bt3,839 million, plus marketable securities of Bt3,452 million at the end of March 2019. Funds from operations (FFO) are forecast at Bt1,200-Bt1,800 million per annum. Uses of funds are planned maintenance capital expenditures of Bt50-Bt100 million per annum, plus long-term debt repayments of around Bt3,200 million.

A key financial covenant for the bonds and bank loans is a debt to equity ratio below 2.0 times. THCOM had the debt to equity ratio at the end of 2018 at 0.7 times. TRIS Rating believes that the company will continue to be in compliance with the key financial covenant.

BASE CASE ASSUMPTIONS

- THCOM's revenues will fluctuate and will be under pressure as the concession expires. Revenues will range around Bt3,500-Bt4,800 million during 2019-2021.
- The EBITDA margin will stay at around 36%-40% during 2019-2021.
- Total planned capital spending will be about Bt50-Bt100 million per annum, during 2019-2021.

RATING OUTLOOK

The "negative" outlook reflects the uncertainty surrounding the expiration of the company's satellite concession. Any discontinuity in the business will have a negative impact on the credit ratings.

RATING SENSITIVITIES

The ratings of THCOM could be under downward pressure if the company's business profile deteriorates due to discontinuity of satellite operation. The outlook could be revised to "stable" if THCOM achieves continuity in the satellite segment under acceptable conditions that will not significantly hurt the operations and/or the financial profile, while maintaining a strong liquidity and flexibility 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 2019, 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 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 segment, THCOM holds a stake in Thai Advance Innovation Co., Ltd. (formerly known as DTV Service Co., Ltd. (DTV)), a distributor of satellite dishes and equipment.

Based on consolidated revenue in the first quarter of 2019, satellite and related services remained THCOM's key revenue drivers, making up 98% of total revenue. The conventional satellite segment generated about 50% of total revenue, while the IPSTAR segment contributed about 48%.

KEY OPERATING PERFORMANCE

Table 1: THCOM's Revenue Breakdown

Unit: Bt million

Service	2016	2017	2018	Jan-Mar 2019
Conventional satellite	4,414	3,726	3,565	648
IPSTAR	4,000	2,748	2,284	629
- Sales	269	269	141	76
- Services	3,732	2,480	2,143	554
Internet and media	310	299	229	39
Eliminations	(83)	(85)	(71)	(14)
Total	8,672	6,869	6,008	1,303

Source: THCOM

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS
Unit: Bt million

	Jan-Mar 2019	-----Year Ended 31 December -----			
		2018	2017	2016	2015
Total operating revenues	1,355	6,022	6,914	8,692	12,525
Operating income	605	2,294	3,093	4,650	6,096
Earnings before interest and taxes (EBIT)	128	596	453	2,114	2,754
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	589	2,482	3,404	4,941	5,579
Funds from operations (FFO)	429	2,411	3,469	4,321	4,791
Adjusted interest expense	83	340	390	350	330
Capital expenditures	5	83	332	1,085	1,257
Total assets	21,900	22,202	25,939	32,840	33,592
Adjusted debt	520	1,200	3,150	5,476	7,712
Adjusted equity	13,067	13,137	15,280	18,921	18,111
Adjusted Ratios					
Operating income as % of total operating revenues (%)	44.67	38.09	44.74	53.50	48.67
Pretax return on permanent capital (%)	3.27	2.76	1.72	7.02	9.23
EBITDA interest coverage (times)	7.08	7.29	8.74	14.12	16.91
Debt to EBITDA (times)	0.20	0.48	0.93	1.11	1.38
FFO to debt (%)	477.46	200.96	110.12	78.90	62.12
Debt to capitalization (%)	3.83	8.37	17.09	22.45	29.87

RELATED CRITERIA

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

Thaicom PLC (THCOM)**Company Rating:**

A-

Issue Ratings:

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-

Rating Outlook:

Negative

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