

# TRUE CORPORATION PLC

No. 66/2020  
5 May 2020

## CORPORATES

<b>Company Rating:</b>	BBB+
<b>Issue Ratings:</b>	
Senior unsecured	BBB+
Partially guaranteed	A-
<b>Outlook:</b>	Stable

**Last Review Date:** 31/01/20

### Company Rating History:

Date	Rating	Outlook/Alert
03/10/14	BBB+	Stable
11/06/14	BBB	Alert Positive
11/03/14	BBB	Negative
19/02/14	BBB	Stable
01/10/12	BBB	Negative
21/10/11	BBB	Stable
22/10/10	BBB	Negative
11/04/07	BBB	Stable
25/05/06	BBB	Positive
12/07/04	BBB	Stable
29/08/01	BBB	

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## RATIONALE

TRIS Rating affirms the company rating on True Corporation PLC (TRUE) and the ratings on TRUE's senior unsecured debentures at "BBB+", and also affirms the rating on TRUE's partially guaranteed debentures at "A-", with a "stable" outlook. The ratings reflect TRUE's strong business profile as a leading integrated telecom company in Thailand, as well as solid market positions across its core lines of business, and satisfactory operating results. The ratings also take into account the ongoing support it receives from the CP Group, its major shareholders, and China Mobile International Holdings Ltd. (China Mobile) as a strategic partner.

However, the ratings are weighed down by the company's high level of financial leverage and the intense competition in its core businesses. The ratings take into consideration the large capital expenditures required to roll out next-generation networks and make spectrum license payments.

## KEY RATING CONSIDERATIONS

### Leading integrated telecom services provider

TRUE has a strong business profile as a leading integrated telecom company in Thailand. The company is engaged in a triple-play business platform, which includes wireless communication service, broadband internet, and television (TV) networks. TRUE's total operating revenue in 2019 was Bt140.1 billion, out of which Bt105 billion was service revenue. Service revenue grew at an average annual growth rate of 6% during 2017 through 2019. TRIS Rating expects TRUE's large scale, robust infrastructure and technological platform, as well as wide coverage will keep its market position strong.

### Strong growth outpaces peers in the mobile service segment

True Move H Universal Communication Co., Ltd. or TUC, TRUE's major subsidiary in the mobile service business, has a strong competitive position, ranked second in the Thai wireless communications industry. It is well-known among Thai people under the "TrueMoveH" brand.

As of December 2019, TrueMoveH had 30.6 million subscribers, holding a 32.8% subscribers market share in Thailand. TrueMoveH has been able to add new subscribers in both the prepaid and postpaid segments, totaling around 1.44 million subscribers in 2019, compared with peers who could not have new customers in the prepaid segment.

TrueMoveH's service revenue in 2019, excluding interconnection charges (IC), was Bt77.7 billion, growing by 6.7% from 2018. Its service revenue growth rate is outpacing the industry average growth rate. The total value of the Thai wireless communications market in 2019 was about Bt269.7 billion, up 3.5% from 2018. The market grew at an average annual rate of 3.7% over the last three years. TrueMoveH's service revenue during the last three years rose at an average growth rate of 10.5% per annum, well above that of the whole industry.

In terms of service revenue, excluding the IC, TrueMoveH had a 28.8% market share. Revenue market share has been expanding over the last three years, rising from 27.9% in 2018 and 26.6% in 2017. However, revenue market share is lower than subscriber share because the average revenue per user (ARPU) from TrueMoveH's subscribers is lower than those of its peers. However, we expect the increase in high data usage subscribers plus the migration of

prepaid subscribers to postpaid plans which carry higher ARPU to improve its overall blended ARPU.

Over the next three years, TRIS Rating assumes service revenue in the mobile service business to grow at low-single-digit percentage rates. We believe that growing data service demand will continue to be the industry revenue driver. However, we expect competition in the industry to remain intense, which may hinder revenue growth. We expect the company to continue maintaining the momentum in enlarging its subscriber base, backed by its abundant spectrum, quality network, acceptable brand, and wide market distribution channels through its related companies.

#### **Abundant spectrum resources**

TRUE has an abundant spectrum portfolio to serve its subscribers' growing demand for data services. TRUE has a wide range of frequency bandwidths in hand, covering low- to mid- and high-spectrum bandwidths. Abundant spectrum resources mean higher transmission capacity. In June 2019, after the National Broadcasting and Telecommunications Commission's (NBTC) allocation of 700-megahertz (MHz) licenses, TRUE, via TUC, was allocated a 10-MHz spectrum, at a price of Bt17.58 billion. According to the NBTC's announcement, the licensing will be issued in October 2020. In February 2020, TUC was also the auction winner of a 26-gigahertz (GHz) frequency band, totaling 800 MHz. The final bid price was Bt3.6 billion.

In February 2020, TUC won 2600-MHz frequency band auction, totaling 90 MHz. The final bid price was Bt17.9 billion. The 2600-MHz band is a key band for 5G (fifth generation) adoption among Chinese mobile service providers, with a variety of devices from China. China is leading early adoption in 5G and has expanded 5G base stations. We expect China Mobile, TRUE's strategic partner, will help support TUC in terms of 5G technological know-how and devices.

#### **Strong network infrastructure and wide coverage support competitive strength in broadband segment**

TrueOnline, TRUE's broadband internet business, is the market leader in the broadband internet segment in Thailand, holding around 37.5% market share at the end of September 2019. Despite heightened competition, TrueOnline could maintain its first-ranked position, with market share at about 38% over the past five years. Its strong market position is attributed to its wide infrastructure network. Its competitive edge is largely built on its broad coverage of fiber-to-the-home (FTTH) network. Its FTTH network covers about 15 million households, out of the total 22 million households nationwide.

As of December 2019, TrueOnline had 3.81 million broadband internet subscribers, up 0.32 million subscribers from the end of 2018. Broadband service revenue, excluding the impact of an asset sale to Digital Telecommunications Infrastructure Fund (DIF), was about Bt23.5 billion in 2019, growing slightly from the previous year. TRIS Rating expects TrueOnline to maintain growth momentum in the broadband internet segment due to its strong network infrastructure and wide coverage. We expect price-based competition in some highly competitive areas in order to retain subscribers. TRIS Rating forecasts TrueOnline's service revenue to grow by low- to mid-single digits per annum during 2020-2022.

#### **TrueVisions as a key component in Group's convergence**

In our view, TrueVisions is primarily positioned to serve TRUE's convergence strategy in the medium term. TrueVisions will play a role as one of the three major components bundled in TRUE's convergence plans. As technology disruptions cause a shift in audience viewing habits in the TV network industry, viewers increasingly watch TV programs on over-the-top (OTT) platforms rather than traditional TV broadcasting. Amid a change in industry environment, TRUE is attempting to capture new viewers by developing its own OTT platforms. TRUE is also developing TrueID TV box (to stream content on android TV or OTT) and other tools to catch new subscribers.

As of December 2019, TrueVisions had about 4 million subscribers, relatively flat from the previous year. TrueVision's revenue was about Bt9.7 billion in 2019. During the next three years, TRIS Rating expects TrueVisions's revenue to range Bt8-Bt9 billion per annum.

#### **Neutral impact from COVID-19**

In 2020, we expect the travel bans and social movement restrictions to contain the spread of the novel coronavirus (COVID-19) will cause a decline in TrueMoveH's revenue from travel SIM and international roaming (IR) services as well as international direct dialing during the country's lockdown. Revenue related to international travel contributed about 3%-4% of service revenue in the wireless communications service business in 2019. For revenue from cable TV services, we expect the closure of hotels could impact TrueVisions's revenue to some degree as many hotels who subscribed TrueVisions's cable TV network services are temporarily closed during the lockdown.

On the other hand, we expect data revenues to soar due to higher data usage on mobile platforms, resulting from the work-from-home measures. We also expect TRUE will gain new subscribers in the broadband internet segment during the period. A large number of people have been forced to work or learn from home during the COVID-19 lockdown period, and

consequently need more access to the internet. This will cause a surge in internet data traffic during this period.

### Expected cash flow to improve

During 2020-2022, TRIS Rating expects TRUE's total revenue to be in the range of Bt135-Bt140 billion per annum. We expect profitability to be under pressure. The profit margin will likely continue to be pressured by the large network operating costs and huge depreciation and amortization charges from enlarged network and new licenses. We expect TRUE to control expenses and put more cost efficiency efforts in order to increase its operating cash flow. The earnings before interest, tax, depreciation and amortization (EBITDA) margin are forecast to range 31%-33% during 2020-2022. Funds from operations (FFO) should be in a range of Bt26-Bt29 billion annually.

### Rising leverage

TRUE's credit ratings have been constrained by its aggressive financial risk profile. TRUE's level of leverage is high. Adjusted net debt was Bt319 billion in 2019. The net adjusted debt to EBITDA ratio was 8.1 times at the end of 2019.

During the next three years, TRIS Rating expects TRUE's leverage to rise, taking into account the large capital expenditures required for network investments and scheduled license fee payments. We forecast TRUE to make capital investments of around Bt30 billion per annum during 2020-2022. The company also has to make scheduled license fee payments of Bt9.4-Bt29.3 billion per annum during the same period. The net adjusted debt to EBITDA ratio is forecast to range 8-9 times.

We foresee the Thai mobile service industry will need some time for the commercial development of 5G mobile services. The 5G technology may need time to develop, from vertical-industry technology, the availability of 5G devices, and the number of 5G smartphone subscriptions. We expect Thai mobile services will continue to be dominated by 4G technology in providing sufficient speeds to cater to data demand during the next few years.

### Manageable liquidity

We assess TRUE's liquidity to be manageable for the next 12-24 months. At the end of December 2019, sources of funds comprised cash and cash equivalents of Bt49.5 billion. FFO is forecast at around Bt26-Bt29 billion per annum during 2020-2022. Use of funds will be for planned capital expenditures of about Bt30 billion per annum and scheduled license payments of Bt9.4-Bt29.3 billion per annum during the next three years. About Bt32.8 billion in debentures will come due in 2020, and Bt54.6 billion will come due in 2021. A large part of the total debt coming due in the next 12-24 months is expected to be refinanced. TRUE has an alternative funding source through additional sale and leaseback transactions with the DIF and/or sales of its DIF linked units if needed.

### BASE-CASE ASSUMPTIONS

- Service revenues in mobile service and broadband internet to grow by low- to mid-single digits during 2020-2022.
- The EBITDA margin to stay at 31%-32% during the next three years.
- Total capital spending of about Bt30 billion per annum to roll out the network during the next three years.
- Scheduled license fee payments of Bt9.4-Bt29.3 billion per annum during 2020-2022.

### RATING OUTLOOK

The "stable" outlook is based on TRIS Rating's expectation that TRUE will sustain its strong market position and continue to deliver sound operating results in the mobile services and broadband internet segments. TRIS Rating also expects TRUE to receive ongoing support from the CP Group and China Mobile. This support strengthens TRUE's credit profile.

### RATING SENSITIVITIES

Any rating upside is unlikely in the next 12-18 months, taking into account TRUE's debt-heavy capital structure. However, an upgrade could occur if TRUE's profitability improves significantly, meanwhile lowering its financial leverage. The ratings could be downgraded if TRUE's operating performance deteriorates materially, pushing the adjusted ratio of FFO to debt below 5% on a sustained basis.

Several legal uncertainties, such as access charges or excise tax issues, continue to persist and will take time to be resolved. The ratings could be under downward pressure if the legal outcomes significantly affect TRUE's financial profile.

### COMPANY OVERVIEW

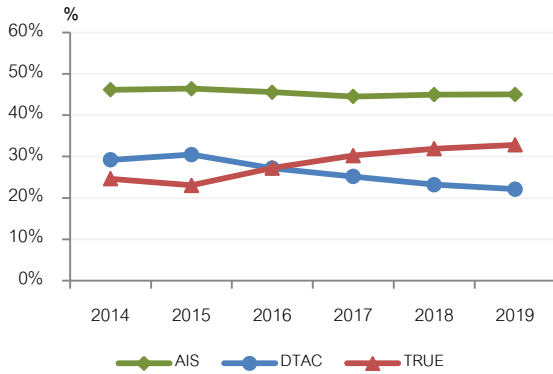
TRUE was incorporated in 1990. The company has three business segments: True Mobile, providing mobile services; TrueOnline, providing broadband internet; and TrueVisions, offering pay TV-services and two digital TV channels. In 2019, the three lines of business contributed 76%, 17%, and 7% of its revenue, respectively.

TRUE's credit ratings are strengthened by support from its two major shareholders. CP Group, one of Thailand's leading conglomerates, holds 50% of TRUE, followed by China Mobile with an 18% ownership stake. China Mobile is the world's largest mobile operator by number of subscribers.

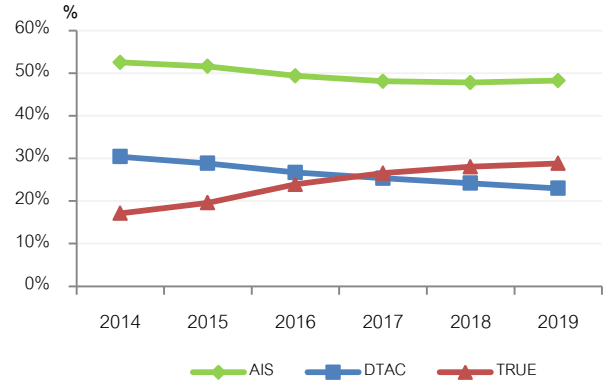
**KEY OPERATING PERFORMANCE**

**TrueMoveH**

**Chart 1: Market Share by Subscribers**

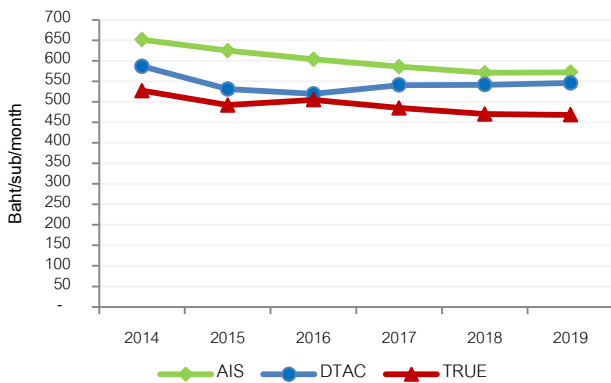


**Chart 2: Service Revenue Market Share**

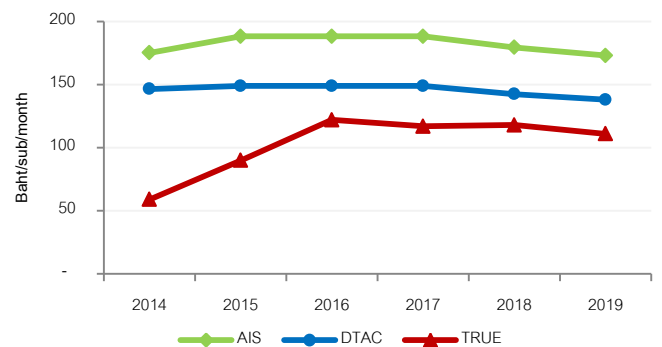


Note: Excluding IC

**Chart 3: Postpaid ARPU**

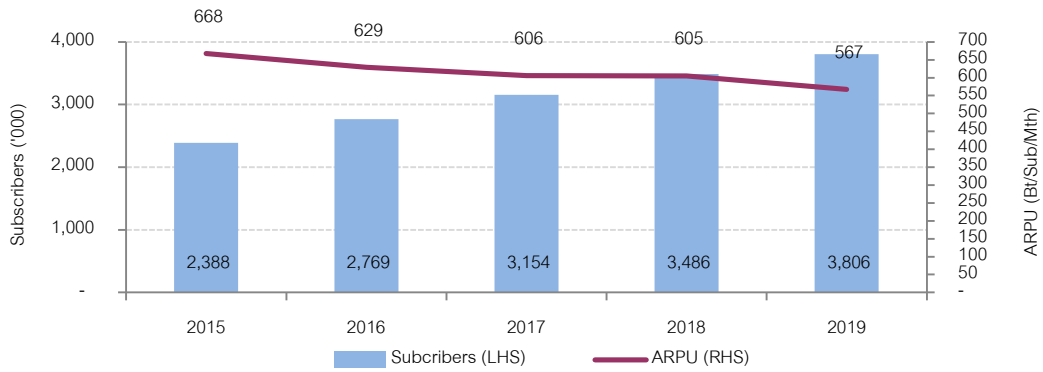


**Chart 4: Prepaid ARPU**



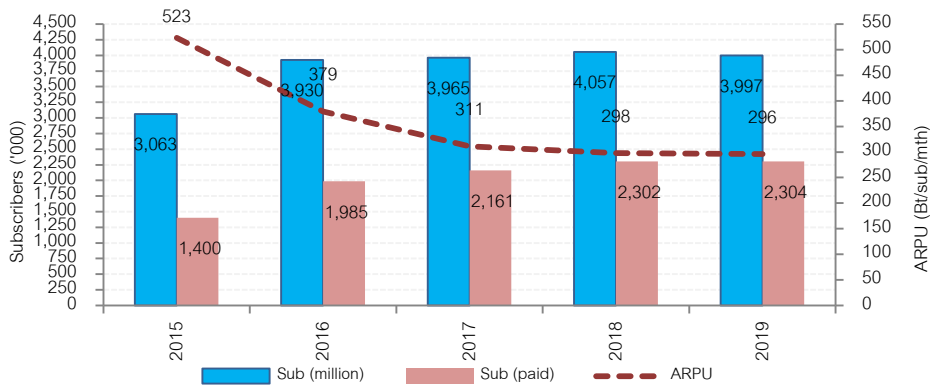
**TrueOnline**

**Chart 5: Broadband Internet Subscribers and ARPU**



**TrueVisions**

**Chart 6: Pay-TV Subscribers and ARPU**



Sources of all charts: 1) TRUE  
2) Advanced Info Service PLC (AIS)  
3) Total Access Communication PLC (DTAC)

## FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Bt million

	-----Year Ended 31 December -----				
	2019	2018	2017	2016	2015
Total operating revenues	140,121	138,245	134,002	125,363	114,149
Earnings before interest and taxes (EBIT)	14,213	5,460	1,552	3,005	6,458
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	39,375	43,031	38,106	31,672	26,868
Funds from operations (FFO)	22,205	24,782	25,072	21,774	19,975
Adjusted interest expense	14,997	12,239	11,718	9,409	6,641
Capital expenditures	47,352	69,891	47,581	46,985	52,658
Total assets	523,993	495,569	459,182	448,960	283,525
Adjusted debt	319,019	294,671	241,500	203,628	157,344
Adjusted equity	126,019	133,884	128,184	131,728	75,207
<b>Adjusted Ratios</b>					
EBITDA margin (%)	28.10	31.13	28.44	25.26	23.54
Pretax return on permanent capital (%)	3.01	1.30	0.40	0.95	3.10
EBITDA interest coverage (times)	2.63	3.52	3.25	3.37	4.05
Debt to EBITDA (times)	8.10	6.85	6.34	6.43	5.86
FFO to debt (%)	6.96	8.41	10.38	10.69	12.70
Debt to capitalization (%)	71.68	68.76	65.33	60.72	67.66

## RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018
- Group Rating Methodology, 10 July 2015

**True Corporation PLC (TRUE)**

<b>Company Rating:</b>	BBB+
<b>Issue Ratings</b>	
TRUE205A: Bt3,121.30 million senior unsecured debentures due 2020	BBB+
TRUE207A: Bt5,100 million senior unsecured debentures due 2020	BBB+
TRUE208A: Bt1,835 million senior unsecured debentures due 2020	BBB+
TRUE200A: Bt2,175 million senior unsecured debentures due 2020	BBB+
TRUE211A: Bt2,640 million senior unsecured debentures due 2021	BBB+
TRUE212A: Bt5,337.30 million senior unsecured debentures due 2021	BBB+
TRUE215A: Bt5,224.30 million senior unsecured debentures due 2021	BBB+
TRUE215B: Bt500 million senior unsecured debentures due 2021	BBB+
TRUE217A: Bt1,625 million senior unsecured debentures due 2021	BBB+
TRUE217B: Bt9,000 million senior unsecured debentures due 2021	BBB+
TRUE210A: Bt3,360 million senior unsecured debentures due 2021	BBB+
TRUE221A: Bt12,246 million senior unsecured debentures due 2022	BBB+
TRUE221B: Bt100 million senior unsecured debentures due 2022	BBB+
TRUE225A: Bt300 million senior unsecured debentures due 2022	BBB+
TRUE227A: Bt945 million senior unsecured debentures due 2022	BBB+
TRUE228A: Bt5,799.10 million senior unsecured debentures due 2022	BBB+
TRUE228B: Bt830 million senior unsecured debentures due 2022	BBB+
TRUE232A: Bt4,330 million senior unsecured debentures due 2023	BBB+
TRUE248A: Bt11,841.60 million senior unsecured debentures due 2024	BBB+
TRUE240A: Bt1,325 million senior unsecured debentures due 2024	BBB+
TRUE258A: Bt650 million senior unsecured debentures due 2025	BBB+
TRUE22NA: Bt8,330 million partially guaranteed debentures due 2022	A-
<b>Rating Outlook:</b>	Stable

**TRIS Rating Co., Ltd.**

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