

TRUE MOVE H UNIVERSAL COMMUNICATION CO., LTD.

No. 67/2020

5 May 2020

CORPORATES

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

Last Review Date: 05/11/19

Company Rating History:

Date	Rating	Outlook/Alert
15/06/15	BBB+	Stable

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RATIONALE

TRIS Rating affirms the company rating on True Move H Universal Communication Co., Ltd. (TUC) and the ratings on TUC's outstanding senior unsecured debentures at "BBB+" with a "stable" outlook. At the same time, TRIS Rating also assigns the rating of "BBB+" to TUC's proposed issue of up to Bt9.8 billion in senior unsecured debentures. The company will use the proceeds from the new debenture issuance to refinance existing debts.

The ratings reflect TUC's status as a core business unit of TRUE Corporation PLC (TRUE; rated "BBB+/Stable" by TRIS Rating). The ratings also take into consideration TUC's strong competitive position in the Thai wireless communications industry. However, the ratings are constrained by its high leverage, the intense competition in the industry, the hefty payments due for license fees, and the large capital expenditures needed to roll out the next generation network.

KEY RATING CONSIDERATIONS

A core subsidiary of TRUE

TRIS Rating considers TUC as a core member of TRUE or TRUE Group, based on TUC's status as the Group's important and reputable arm in the mobile service business. TUC has consistently achieved satisfactory operating results, generating a predominant contribution to TRUE's revenue and profit, at about 76% of revenue and nearly 60% of earnings before interest, taxes, depreciation, and amortization (EBITDA) in 2019.

As a wholly-owned subsidiary of TRUE, TUC has been receiving both business and financial supports from TRUE. The business support from TRUE includes managerial assistance, a shared brand, and other supports. The financial support is evidenced by TRUE's capital injections to TUC in times of need.

The strong links between TUC and TRUE mean the company rating on TUC is equal to and moves in tandem with that on TRUE. TRIS Rating believes TUC will continue to receive full support from TRUE in the foreseeable future.

Rising number of subscribers and strong growth outpaces peers

TUC has a strong competitive position, ranked second in the Thai wireless communications industry, both in terms of number of subscribers and service revenue.

As of December 2019, TUC had 30.6 million subscribers, holding a 32.8% subscriber market share in Thailand. TUC has been able to add new subscribers in both the prepaid and postpaid segments, totaling around 1.44 million subscribers in 2019, compared with its peers that could not gain additional subscribers in the prepaid segment.

TUC's service revenue in 2019, excluding interconnection charges (IC), was Bt77.7 billion, growing by 6.7% from 2018. TUC's 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. TUC'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, TUC 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 TUC'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.

Growing demand for data services and larger subscriber base to drive growth

Over the next three years, TRIS Rating projects TUC's service revenue to grow at low single-digit percentage rates. We believe 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 TUC to continue to maintain 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.

In 2020, we expect the travel bans and social movement restrictions in place to contain the spread of the novel coronavirus (COVID-19) will cause a decline in TUC'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 total service revenue in 2019.

On the other hand, we expect data revenues to soar due to higher data usage resulting from the work-from-home measures. 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.

Abundant spectrum resources

TUC has an abundant spectrum portfolio to serve its subscribers' growing demand for data services. TUC 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, TUC was allocated a 10-MHz of 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 a 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 International Holdings Ltd. (China Mobile), TRUE's strategic partner, will help support TUC in terms of 5G technological know-how and devices.

Earnings improvement to support financial profile

During 2020-2022, TRIS Rating expects TUC's 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 of enlarged network and new licenses. We expect TUC to control expenses and put more cost efficiency efforts in order to enlarge its operating cash flow. Its earnings upside is dependent on its ability to rationalize costs. Adjusted EBITDA margin is forecast to range 24%-26% during the next three years. Funds from operations (FFO) should be in a range of Bt16-Bt18 billion per annum. We expect TUC's ability to generate cash flow will gradually increase over the next three years after TUC generate revenue from the new spectrum bandwidth it licensed. Larger operating cash flow will help alleviate the risk of its huge leverage.

Expected rise in leverage

TUC's credit ratings have been constrained by its aggressive financial risk profile. Its financial leverage is high. Adjusted net debt was Bt203.8 billion in 2019, taking into account obligations to pay the new license costs, as well as the large capital expenditures for network rollout. The net adjusted debt to EBITDA ratio was 8.3 times at the end of 2019.

During the next three years, TRIS Rating expects TUC's leverage to rise, considering the large capital expenditures required for network investment and scheduled license fee payments. We forecast TUC to make capital investment of around Bt60 billion in total 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, both from the 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.

Tight liquidity but manageable

We assess TUC'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 Bt46.7 billion. FFO is forecast at around Bt16-Bt18 billion per annum during 2020-2022. Use of funds will be for the planned capital expenditures of about Bt60 billion in aggregate and scheduled license payments of Bt9.4-Bt29.3 billion per annum during the next three years. About Bt20.6 billion in debentures will come due in 2020 and Bt25.7 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 source through additional sale and leaseback transactions with the Digital Telecommunications Infrastructure Fund (DIF), and/or sales of DIF linked units, to meet its funding need.

BASE-CASE ASSUMPTIONS

- Service revenues to grow by low-single digits during 2020-2022.
- The EBITDA margin to stay at 24%-26% during the next three years.
- Total capital spending of about Bt60 billion in aggregate to roll out the network during the next three years.
- Scheduled license fee payments of Bt9-Bt29 billion per annum during 2020-2022.

RATING OUTLOOK

The "stable" outlook is based on our expectation that TUC will maintain its strong market position and continue to deliver improving operating performance. We also expect TUC's status as a core subsidiary of TRUE to remain unchanged.

RATING SENSITIVITIES

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

Several legacy legal uncertainties, such as access charges or excise tax issues, are unlikely to be resolved any time soon. The ratings could be under downward pressure if the legal outcomes significantly affect TUC's financial profile.

COMPANY OVERVIEW

Incorporated in 2010, TUC is wholly owned by TRUE, an integrated telecom company in Thailand offering fixed-line broadband internet, mobile phone service, and pay-television (TV) services.

TUC provides wireless telecommunication services in the 850-MHz spectrum under a 15-year wholesale-resale agreement with CAT Telecom PLC which will expire in 2025. TUC also provides services under three spectrum licenses from the NBTC covering the 2100-MHz spectrum under a 15-year license valid until 2027, the 1800-MHz spectrum under an 18-year license valid until 2033, and the 900-MHz spectrum under a 15-year license valid until 2031. In June 2019, TUC was allocated a 700-MHz license. TUC was awarded the 2600-MHz and 26-GHz spectrums, in preparation for 5G, in February 2020. At the end of 2019, TUC had 30.6 million subscribers, with a service revenue market share of 28.8%.

KEY OPERATING PERFORMANCE

Chart 1: Market Share by Subscribers

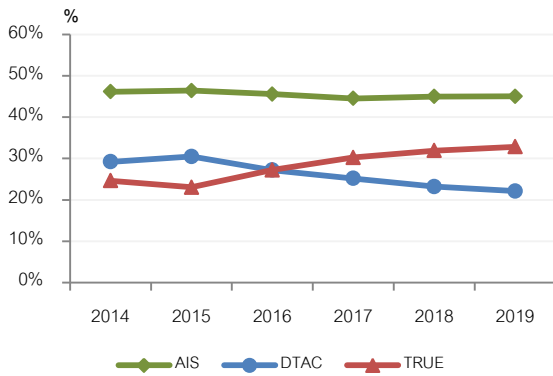
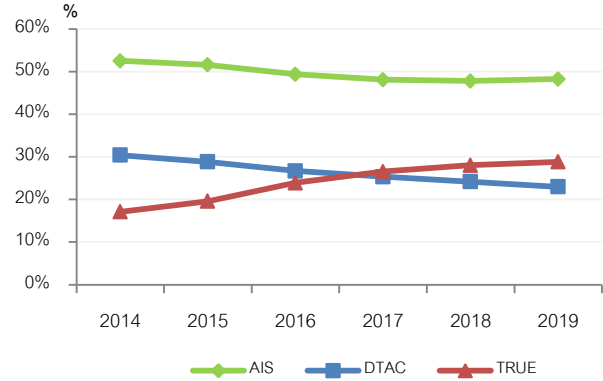


Chart 2: Service Revenue Market Share



Note: Excluding IC

Chart 3: Postpaid ARPU

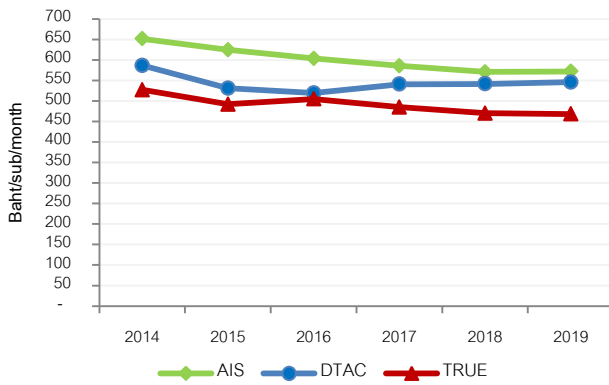


Chart 4: Prepaid ARPU

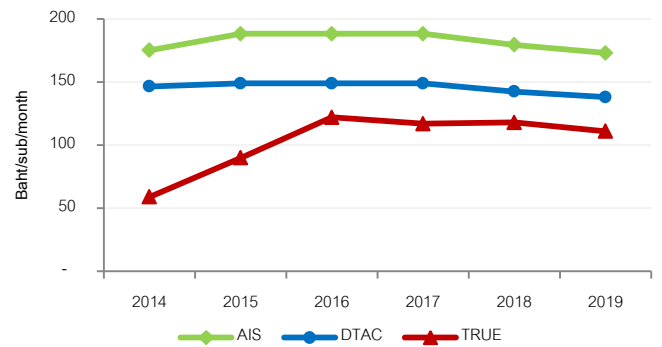


Table 1: Spectrum Bandwidth of Each Operator

Unit: MHz

Frequency	Frequency	AIS (Bandwidth/ Until Year)	TRUE (Bandwidth/ Until Year)	DTAC (Bandwidth/ Until Year)
Low-band	700-MHz	2 x 15 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 of all charts and table:

- 1) TRUE
- 2) Advanced Info Service PLC (AIS)
- 3) Total Access Communication PLC (DTAC)
- 4) National Broadcasting and Telecommunications Commission (NBTC)

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS
Unit: Bt million

	-----Year Ended 31 December -----				
	2019	2018	2017	2016	2015
Total operating revenues	110,803	106,640	111,288	94,286	83,328
Earnings before interest and taxes (EBIT)	3,038	(6,989)	(4,365)	(681)	2,836
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	24,517	21,034	21,254	17,684	13,668
Funds from operations (FFO)	12,987	11,758	13,341	12,453	10,846
Adjusted interest expense	9,785	8,025	7,711	5,297	2,811
Capital expenditures	35,826	57,249	34,676	34,598	38,697
Total assets	384,566	366,287	336,609	332,962	183,050
Adjusted debt	203,837	193,001	160,936	134,212	95,653
Adjusted equity	93,345	100,734	95,635	101,869	46,908
Adjusted Ratios					
EBITDA margin (%)	22.13	19.72	19.10	18.76	16.40
Pretax return on permanent capital (%)	0.94	(2.44)	(1.60)	(0.32)	2.49
EBITDA interest coverage (times)	2.51	2.62	2.76	3.34	4.86
Debt to EBITDA (times)	8.31	9.18	7.57	7.59	7.00
FFO to debt (%)	6.37	6.09	8.29	9.28	11.34
Debt to capitalization (%)	68.59	65.71	62.73	56.85	67.10

RELATED CRITERIA

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

True Move H Universal Communication Co., Ltd. (TUC)

Company Rating:	BBB+
Issue Ratings:	
TUC205A: Bt9,000 million senior unsecured debentures due 2020	BBB+
TUC208A: Bt8,800 million senior unsecured debentures due 2020	BBB+
TUC211A: Bt2,809.60 million senior unsecured debentures due 2021	BBB+
TUC218A: Bt11,998.40 million senior unsecured debentures due 2021	BBB+
TUC21DA: Bt10,974.70 million senior unsecured debentures due 2021	BBB+
TUC225A: Bt6,258.30 million senior unsecured debentures due 2022	BBB+
TUC228A: Bt1,500 million senior unsecured debentures due 2022	BBB+
TUC22DA: Bt6,772.90 million senior unsecured debentures due 2022	BBB+
TUC238A: Bt8,001.60 million senior unsecured debentures due 2023	BBB+
TUC23DA: Bt4,545.10 million senior unsecured debentures due 2023	BBB+
TUC241A: Bt11,190.40 million senior unsecured debentures due 2024	BBB+
TUC243A: Bt4,182.90 million senior unsecured debentures due 2024	BBB+
TUC245A: Bt2,789.50 million senior unsecured debentures due 2024	BBB+
TUC246A: Bt200 million senior unsecured debentures due 2024	BBB+
TUC24NA: Bt1,200 million senior unsecured debentures due 2024	BBB+
TUC256A: Bt18,544.20 million senior unsecured debentures due 2025	BBB+
TUC26DA: Bt7,480.20 million senior unsecured debentures due 2026	BBB+
TUC275A: Bt1,376.40 million senior unsecured debentures due 2027	BBB+
TUC295A: Bt2,575.80 million senior unsecured debentures due 2029	BBB+
Up to Bt9,800 million senior unsecured debentures due within 5 years and 6 months	BBB+
Rating Outlook:	Stable

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