TRUE MOVE H UNIVERSAL COMMUNICATION CO., LTD.

No. 89/2017 27 July 2017

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

Company Rating History:

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

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Rating Rationale

TRIS Rating affirms the company rating of True Move H Universal Communication Co., Ltd. (TUC) and the ratings of TUC's senior unsecured debentures at "BBB+". The ratings reflect TUC's improving market position to the second-largest mobile phone service provider in Thailand. The ratings also take into consideration TUC's status as a core business unit under TRUE Corporation PLC (TRUE; rated "BBB+/Stable") with ongoing operational and financial support from TRUE. However, these strengths are partially offset by intensified competition in the mobile phone industry and the company's high leverage.

Incorporated in 2010, TUC is wholly owned by TRUE, an integrated telecom company in Thailand which offers fixed-line broadband internet, mobile phone, and pay-TV services. TUC's credit quality is closely tied with TRUE's credit profile, considering its strategic importance and significant contribution to the TRUE Group. In 2016, TUC contributed about 74% of TRUE's revenues and 81% of earnings before interest, taxes, depreciation, and amortization (EBITDA). TRUE is fully involved in TUC's operations, including nominating directors to the board and designating top management. TRUE has provided financial support to TUC in the form of capital injections, worth about Bt85 billion during 2011-2014. In June 2016, TRUE injected Bt60 billion into TUC to support the acquisitions of the 1800-megahertz (MHz) and 900-MHz spectrums. The support from TRUE enhances TUC's competitive position and is considered a positive credit factor for TUC's ratings.

TUC provides wireless telecommunication services in the 850-MHz spectrum under a wholesale-resale agreement with CAT Telecom PLC (CAT) and three spectrums under licenses from the National Broadcasting and Telecommunications Commission (NBTC), including the 2.1 gigahertz (GHz) spectrum. In concerted efforts to shore up its competitiveness and market share, TUC acquired the 1800-MHz spectrum under an 18-year license, and the 900-MHz spectrum under a 15-year license. With the widest viable spectrums in its possession, TUC can use the broad range of spectrums to serve the soaring demand for data services.

TUC's business risk profile relies heavily on its ability to gain higher revenue market share in order to monetize its hefty investment. TUC has placed the network quality at the forefront, in a bid to entice new customers and ward off customer churn. In recognition of this, TUC has spent heavily on network expansion, with a series of extensive outlays in recent years. The massive investments have started to pay off. TUC's competitive position has been improving over time, supported by its strategy as a first mover for 3G (third generation) and 4G LTE (long term evolution) services. During 2012-2016, TUC's service revenue (excluding interconnection charges or IC) has grown by an average of 16.4% per annum, compared with industry growth averaging 5.9% per annum. In the first quarter of 2017, TUC ranked second among mobile operators, with a

25.8% service revenue market share. TUC targets a 33% service revenue market share by the end of 2018.

TUC's growth ambitions will run up against intense competition in the Thai mobile phone industry, which is dominated by a few big players. As the mobile penetration rate is saturated, the mobile phone service providers need to acquire customers from its rivals. In retaining and drawing customers, all operators have spent substantially on network rollouts and marketing campaigns. The soaring demand for mobile data has pushed operators to shift away from the voice segment to place a greater emphasis on data services. The intense competition is somewhat tempered by a confident outlook toward mobile data usage.

TUC's aggressive financial risk profile is a result of the heavy debt burden from the high cost of spectrums and massive investment needed to roll out networks while profitability remains under pressure from the intense competition. TUC's revenue grew by 13.6% year-on-year (y-o-y) to Bt93.9 billion in 2016 and 18.5% y-o-y to Bt25 billion in the first quarter of 2017. The operating margin (operating income before depreciation and amortization as a percentage of sales) improved to 23.8% in the first quarter of 2017 as TUC benefited from a larger subscriber base and revenue share. The ratio of adjusted net debt to EBITDA was at 7.9 times (annualized from the trailing 12 months) in the first quarter of 2017. The ratio of adjusted funds from operations (FFO) to total net debt stood at 11.3% (annualized from the trailing 12 months) in the same period. TUC is still forging ahead with plans to expand its network throughout 2017, with total capital expenditures of approximately Bt30 billion. The planned surge in capital expenditures stands to depress TUC's generation of free cash flow. Given the company's tendency to further invest in networks, we do not expect TUC's debt to lessen significantly over the next few years.

TRIS Rating expects TUC to effectively monetize its investment without significantly hurting its financial profile. Under TRIS Rating's base-case scenario, TUC's service revenue is forecast to grow by 10%-20% annually during 2017-2019. Top line revenue is expected to be in the range of Bt100-Bt108 billion annually during the same period. We expect the operating margin to range between 20%-25% per annum. Funds from operations (FFO) will range between Bt13-Bt19 billion annually. We expect TUC to be more prudent on marketing spending in order to improve its cash generation. We expect TUC's adjusted net debt to EBITDA to stay at 5-8 times during 2017-2019. The ratio of adjusted FFO to total net debt will be at 9%-14% during the same period.

Over the next 12 months, from 31 March 2017, TRIS Rating views that TUC's liquidity position relies on debt refinancing. The funding needs are for scheduled debt repayment of Bt7.5 billion, spectrum licenses payment of Bt9.9 billion, and capital expenditures of approximately Bt29-Bt31 billion. Sources of funds are expected FFO of at least Bt13 billion, and cash and cash equivalents on hand at the end of March 2017 of Bt30 billion. Thus, TUC needs to refinance to accommodate its funding needs. TUC may sell assets to the Digital Telecommunications Infrastructure Fund (DIF) to support its financial flexibility.

Rating Outlook

The "stable" outlook is based on the expectation that TUC will maintain its leading market position in the data service segment and deliver improved operating performance despite aggressive competition. TUC's status as a core business within the TRUE Group is expected to remain unchanged. Any change to TRUE's credit ratings will impact TUC's ratings accordingly. TUC's rating upside is limited over the next 12-18 months, considering its current financial position. TUC's ratings could be downgraded if the company is unable to monetize its new investment such that operating performance is notably weaker than TRIS Rating's expectation.

Several past legal uncertainties, such as access charges or excise tax issues, will persist and will not be resolved any time soon. However, the probability of seeing material adverse legal consequences in the near term is believed to be subsided to some extent. The ratings could be under downward pressure if the legal outcomes significantly affect TUC's financial profile.

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

Company Rating:	BBB+
Issue Ratings:	
TUC187A: Bt8,400 million senior unsecured debentures due 2018	BBB+
TUC187B: Bt1,600 million senior unsecured debentures due 2018	BBB+
TUC187C: Bt10,000 million senior unsecured debentures due 2018	BBB+

TUC21DA: Bt10,974.70 million senior unsecured debentures due 2021	BBB+
TUC225A: Bt6,258.30 million senior unsecured debentures due 2022	BBB+
TUC23DA: Bt4,545.10 million senior unsecured debentures due 2023	BBB+
TUC245A: Bt2,789.50 million senior unsecured debentures due 2024	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+
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

		------------------------- Year Ended 31 December ------------------------				
	Jan-Mar 2017	2016	2015	2014	2013	2012
Sales and service revenues	24,995	93,876	82,671	74,158	64,116	57,337
Finance cost	1,378	3,759	1,175	3,151	5,118	3,831
Net income from operations	(4,123)	(6,153)	(59)	(6,725)	(13,547)	(8,786)
Funds from operations (FFO)	4,565	12,578	9,237	6,137	359	2,273
Capital expenditures	6,396	34,598	38,697	16,840	11,586	15,954
Total assets	330,169	332,962	183,050	143,260	115,004	108,225
Total debt**	175,611	172,859	101,258	33,911	29,918	50,430
Shareholders' equity	100,067	101,869	46,908	45,826	12,970	7,298
Operating income before depreciation and amortization as % of sales	23.80	19.70	15.94	15.44	3.25	5.02
Pretax return on permanent capital (%)	(1.32) ***	(0.40)	2.39	(6.65)	(17.94)	(8.12)
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	2.11	3.32	4.86	2.44	0.61	0.88
FFO/total debt (%)	9.36 ***	8.16	10.55	22.45	1.20	4.51
Total debt/capitalization (%)	63.70	62.92	68.34	42.53	69.76	87.36

* *Consolidated financial statements*
** *Total debt has included operating lease obligations and accrued license fees since 2014.*
*** *Annualized with trailing 12 months*
Note: *All ratios have been adjusted with operating lease since 2014.*

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