CreditNews ข่าวเครดิต

TRUE MOVE H UNIVERSAL COMMUNICATION CO., LTD.

No. 85/2018
26 June 2018

CORPORATES

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

Company Rating History:

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

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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+". At the same time, TRIS Rating assigns a rating of "BBB+" to TUC's proposed issue of up to Bt20,000 million in senior unsecured debentures. The proceeds from the new debentures will be used to refinance debts coming due.

The ratings reflect TUC's status as a core business unit of TRUE Corporation PLC (TRUE; rated "BBB+/Stable" by TRIS Rating), improved operating performance, and strong competitive position. TUC's competitive position is enhanced by its strong spectrum portfolio and extensive network coverage. However, the ratings are constrained by the highly competitive nature of the wireless communications industry and TUC's high leverage.

KEY RATING CONSIDERATIONS

Core subsidiary of TRUE

The ratings reflect TUC's status as a core subsidiary of TRUE in consideration of its strategic importance and significant contribution to the TRUE Group. TUC contributed about 75% of TRUE's revenues in 2017.

TRUE and TUC's operations are fully integrated. During 2011-2014, TRUE provided financial support to TUC in the forms of capital injections, worth about Bt85 billion. In June 2016, TRUE injected Bt60 billion into TUC to support the acquisitions of the 1.8-gigahertz (GHz) and 900-megahertz (MHz) spectrum licenses.

TUC's business strength is further supported by the utilization of the TRUE brand, which TUC offers mobile services under the "TrueMove H" brand. Moreover, TRUE stores and outlets bundle all the services of TRUE, including "TrueOnline" and "TrueVisions". The support from TRUE enhances TUC's competitive position and is considered as a positive factor for TUC's ratings. As a result, TUC's credit quality is closely tied with TRUE's credit profile.

Improved business position

TUC's business position has improved steadily. The improvement is the end result of extensive investments in spectrum portfolio, network capacity, and coverage, as well as active marketing campaign. The investment led to a jump in market share.

TUC is now the second-largest mobile phone service provider in Thailand, as measured by service revenue and number of subscribers. In the first quarter of 2018, TUC had 27.6 million subscribers, or 31% of subscriber market share. TUC trails Advanced Info Service PLC (AIS), with 45% market share, but leads third-ranked Total Access Communication PLC (DTAC; 24%)

TUC's service revenue (excluding interconnection charges or IC) rose faster than the industry average for years running. During 2013-2017, service revenue grew by an average of 17% per annum, compared with 4.3% for the industry. In the first quarter of 2018, TUC's service revenue came in at Bt18 billion, representing 27.6% service revenue market share. AIS had the largest market share of 47.8% while DTAC held 24.6%.

Room on improvement on revenue per user

TUC has a big gap to close on average revenue per user (ARPU). TUC's ARPU is consistently below peers in both the prepaid and postpaid subscriber segments. TRIS Rating holds the view that improvement in ARPU will have a significant effect on TUC's financial profile. TUC has invested billions in front-loaded spectrum acquisitions and network expansions, which are fixed charges that should be matched by an uplift in future revenue streams.

Although TUC could curtail its operating expenses from several of cost-cutting measures, its profitability is below peers. The company is bent on adding subscribers further; however, improving profitability remains the company's ongoing challenge.

Service revenue to grow at high single digit

TUC's tremendous growth in service revenue was driven by sizable increase in subscribers and robust growth in data services. Looking ahead, TRIS Rating expects that service revenue will continue to grow but at a slower pace, due in large part to two factors. Firstly, TUC has gained quite a substantial number of subscribers from competitors during the past two years. The focus on customer acquisition is in line with TUC's strategy to boost the utilization of its network and enjoy the benefits of greater operating leverage. However, quite substantial amount of the new subscribers are prepaid customers, which are generally more cost-conscious than postpaid customers.

The economics of TUC's operations are changing as it adds new customers and achieves greater utilization of its network. Profitability will come into greater focus rather than the push to add subscribers. TUC is expected to be more selective in acquiring new subscribers, particularly in the prepaid segment. All mobile operators are focused on high-value postpaid customers. As a result, it will be more of a challenge to gain market share in the postpaid segment. To keep revenue growing, TUC has to retain its existing subscribers and convert its prepaid subscribers to postpaid. Postpaid subscribers generally have a lower churn rate and yield higher earnings per subscriber.

Another factor pushing revenue growth is demand for data services. The growth rate in the data services segment has jumped considerably during the past few years now that smart phones are ubiquitous and all mobile operators have extensive 3G (third generation) and 4G network coverage. Going forward, demand for data services is expected to continue growing but at a slower pace.

TRIS Rating's base case assumes TUC's service revenue to grow in a high single digit on average, at around 8%-9% during 2018-2020. Service revenue is expected to be in the range of Bt74-Bt88 billion annually.

Improving profitability

A larger subscriber base enables TUC to leverage its massive outlays in spectrum rights and network, leading to higher profitability. Excluding the impact from selling assets to the Digital Telecommunications Infrastructure Fund (DIF), the operating margin (operating income before depreciation and amortization as a percentage of sales), improved from 15.9% in 2015 to 22.5% in the first quarter of 2018. The profit margin is higher because TUC has a larger scale of operations and implemented a number of cost-saving efforts. TRIS Rating expects TUC's operating margin to range between 19%-22% during 2018-2020.

Competitive pressure hindering performance improvement

TUC's effort to further improve its performance could be hamstrung by the competitive market environment. That said, the price-base competition has abated somewhat. All operators now focus more on profitability, placing a greater emphasis on more cost-efficient strategies. In response to fast-growing demand for data, mobile operators are improving the quality of data services and trying to convert prepaid customers to postpaid.

The telecom regulator has pledged to conduct the auctions of 1800-megahertz (MHz) and 900-MHz spectrum licenses in August 2018, though; there is still a question whether the timeline can be met. However, if the auctions take place and the licenses are granted to winners, the level of competition is expected to escalate and will pressure TRUE's operating performance.

Evolving technological changes also pose a significant downside risk in the medium term as the industry is moving toward 5G (fifth generation) technology, which will call for another round of massive investments.

DIF transactions to ease cash strain

TRUE and TUC completed a third asset and revenue sale and leaseback transactions with DIF. On a consolidated basis, TRUE received Bt50.6 billion in net proceeds from these transactions, part of which is expected to be reserved to pay for spectrum licenses. TUC has license payment due of Bt14 billion in 2018, Bt4 billion in 2019, and Bt60 billion in 2020. The proceeds from asset sales to DIF have somewhat eased the concern over license payments, especially the last installment for the 900-MHz spectrum license fee due in 2020.

Leverage to remain high

TUC's leverage is expected to remain elevated in the wake of high capital expenditures, mobile spectrum license payments, and operating lease obligations. TUC has made massive investments on its 4G network coverage and capacity since 2016. TUC was granted credit from its suppliers for a major portion of the investments. The supplier credits feature five-year installments with a two-year grace period. Payments begin in 2018, making capital expenditures to remain high. TUC's capital expenditure is expected to be at Bt23-Bt28 billion per annum during 2018-2020.

Operating lease obligations, in present value terms, range from Bt33-Bt39 billion during the same period. As a result, the total debt to capitalization ratio is expected to remain high at 64%-73% while the ratio of adjusted net debt to earnings before interest, tax, depreciation, and amortization (EBITDA) is expected to stay over 8 times during 2018-2020.

Manageable liquidity

Over the next 12 months, TRIS Rating projects TUC's liquidity position to be tight but manageable. The funding needs are scheduled debt repayments of Bt20 billion which will be funded by a new issue of debentures. Capital expenditures are forecast at Bt37-Bt42 billion, including license fee payment. Sources of funds are expected funds from operations (FFO) of at least Bt12 billion and cash and cash equivalents on hand at the end of March 2018 of Bt7.2 billion. TUC needs additional borrowings to support its funding needs. The proceeds from assets sold to DIF, part of which are likely to be put aside for the license fee payment due in 2020, could be drawn upon as liquidity back-stop if needed.

RATING OUTLOOK

The "stable" outlook is based on the expectation that TUC will maintain its leading market position and effectively monetize its investment without significantly hurting its financial profile. TUC's status as a core subsidiary of TRUE is expected to remain unchanged. Any change in TRUE's credit ratings will impact TUC's ratings accordingly.

RATING SENSITIVITIES

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's operating performance is notably weaker than TRIS Rating's expectation.

Several past legal uncertainties, such as the access charges or excise tax issues, will persist and will not be resolved any time soon. However, the probability of seeing any material adverse legal consequences in the near term is believed to have subsided to some extent. 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 which offers fixed-line broadband internet, mobile phone, 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 (CAT), which will expire in 2025. TUC also provides services under three spectrum licenses from the National Broadcasting and Telecommunication Commission (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.

KEY OPERTING PERFORMANCE

Chart 1: Market Share by Subscribers

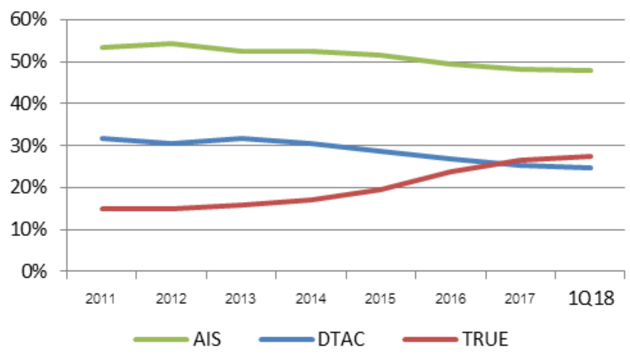


Chart 2: Service Revenue Market Share

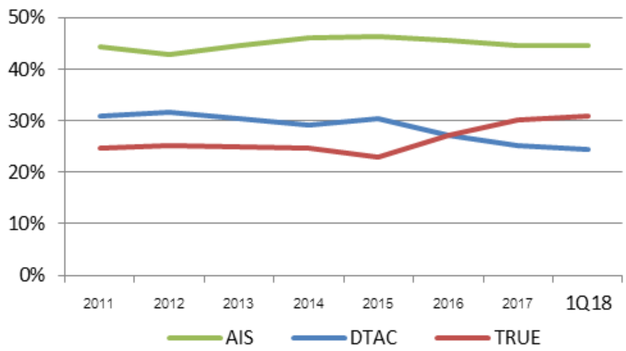


Chart 3: Postpaid ARPU

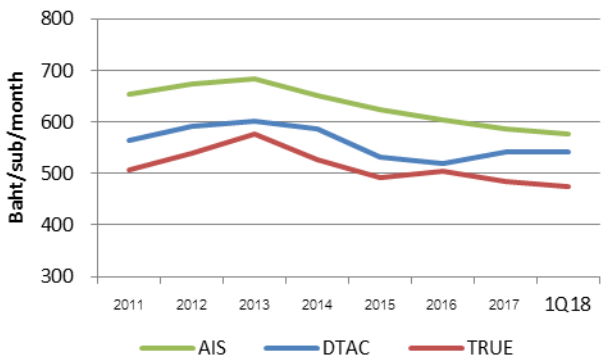
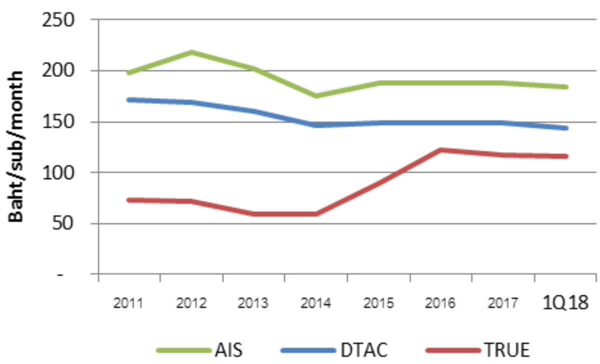


Chart 4: Prepaid ARPU



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

	Jan-Mar 2018	2017	2016	2015	2014
		---------------- Year Ended 31 December			--------------
Sales and service revenues**	26,116	112,587	93,876	82,671	74,158
Gross interest expense	1,424	6,068	3,759	1,175	3,151
Net income from operations**	(2,140)	(10,649)	(6,153)	(59)	(6,725)
Funds from operations (FFO)**	4,556	17,882	12,578	9,237	6,137
Capital expenditures	17,303	34,676	34,598	38,697	16,840
Total assets	344,184	342,737	332,962	183,050	143,260
Total debts***	182,783	170,313	172,859	101,258	33,911
Shareholders' equity	99,490	101,654	101,869	46,908	45,826
Operating income before depreciation and amortization as % of sales	22.48	21.93	19.64	15.93	14.12
Pretax return on permanent capital (%)	(0.78) ****	(0.97)	(0.40)	2.39	(6.65)
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	2.58	2.98	3.31	4.86	2.24
FFO/total debt (%)	9.78 ****	11.39	8.16	10.55	22.45
Total debt/capitalization (%)	64.75	62.62	62.92	68.34	42.53

Note: *All ratios have been adjusted by operating leases since 2014.*
* *Consolidated financial statements*
** *Excluding impact of asset divestment to DIF*
*** *Total debt has included operating lease obligations and accrued license fees since 2014.*
**** *Annualized with trailing 12 months*

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+
Up to Bt20,000 million senior unsecured debentures due within 5 years	BBB+
Rating Outlook:	Stable

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