

Press Release

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TRIS Rating Assigns "AA+/Negative" Rating to Senior Unsecured Debt Worth Up to Bt5,500 Million of "DTN"

TRIS Rating has assigned the rating of "AA+" to the proposed issue of up to Bt5,500 million in senior unsecured debentures of dtac TriNet Co., Ltd. (DTN). At the same time, TRIS Rating has affirmed the company and outstanding senior unsecured debenture ratings of DTN at "AA+", with "negative" outlook. The new issue rating replaces the issue rating previously assigned on 29 March 2017 to a bond issue of up to Bt5,000 million, following DTN's request to increase the issue size to up to Bt5,500 million. The proceeds from the new debentures will be used for debt repayment, investment, and working capital. The ratings reflect DTN's strategic importance as a core subsidiary of Total Access Communication PLC (DTAC; "AA+/Negative"), the second-largest cellular phone service provider in Thailand in terms of revenue. The ratings also take into consideration the wide coverage of its network and the growth prospects for data services. The ratings are partly enhanced by the support from Telenor ASA (Telenor), DTAC's major shareholder. However, these strengths are partially offset by highly competitive market, DTAC's weaker operating performance, and the large capital expenditures needed to expand the network nationwide.

The "negative" outlook reflects the change in outlook of DTAC. Over the medium term, TRIS Rating expects the competition in the wireless telecommunications market will remain intense which will weigh negatively on DTAC's financial profile. DTAC's financial profile is likely to weaken as a result of the lingering, competitive market and an expected rise in leverage as DTAC needs to acquire new spectrum and expand network coverage. Any change in DTAC's credit rating will affect DTN's credit profile accordingly.

DTN, a wholly-owned subsidiary of DTAC, was established in 2006. Initially, DTN provided international direct dialing (IDD) services. In December 2012, DTN was awarded a 15-year license for the 2.1-gigahertz (GHz) spectrum. DTN provides wireless communications services using 3G (third generation) and 4G LTE (long term evolution) technologies, launched in July 2013 and May 2014, respectively.

The ratings reflect DTN's status as a core subsidiary of DTAC in consideration of the earnings it contributes to its parent company, large subscriber base, and its role in generating revenue on the license-based network. In 2016, DTN's total revenue was Bt66.1 billion, rising by 2% from 2015. DTN contributed about 80% of DTAC's total revenues. DTN's service revenues (excluding the interconnection charges or IC) were Bt58.7 billion, or about 91% of DTAC's service revenues excluding the IC. DTN generated about 50% of DTAC's EBITDA (earnings before interest, taxes, depreciation, and amortization). DTAC has a full control over DTN's operations through the appointment of its top management and the board of directors. DTAC and DTN share resources and network facilities to provide services to their subscribers. At the end of 2016, DTN had 23.3 million subscribers or about 95% of DTAC's total subscribers. DTN is considered DTAC's key subsidiary, responsible for operating and developing the wireless communications network. DTAC's 2G concession will expire in 2018 and all of DTAC's subscribers and operations will be migrated to DTN's network. Given DTN's strong relationship with DTAC, TRIS Rating believes that DTN would receive the support from DTAC, including financial assistance in the event of distress.

The ratings also recognize DTN's market position and wide network coverage. DTN's subscribers account for about 26% of all 3G and 4G subscribers across the industry. DTAC has looked for growth by diversifying away from the saturated voice service segment. In common with its competitors, DTAC has placed a greater emphasis on data services. The ratings also incorporate heightened demand for cellular data services, which is largely caused by technological changes that impact consumer behavior, and more affordable handsets. These factors mean all mobile service providers earn a higher proportion of their revenue from non-voice services.

DTN's credit ratings are strengthened by the support DTAC receives from Telenor, in the areas of managerial assistance, technological know-how, and support. DTAC is considered significant to Telenor in light of its earnings contribution. DTAC is the top earner of the Telenor Group outside Norway. In recognition of this, TRIS Rating expects that Telenor will support DTAC financially in a time of need.

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Conversely, the ratings are partially offset by the fierce competition in the Thai wireless telecommunications services market. Given a saturated and price-sensitive market, all cellular phone service providers are using marketing activities, price packages, and handset subsidies in an effort to maintain their subscriber bases and defend their market shares. Further, the ratings are constrained by the large capital expenditures required to expand the network. Each cellular phone service provider needs to make huge capital expenditures to expand the coverage of their 4G networks.

With the strong linkage between DTN and DTAC, the rating of DTN is equal to and moves correspondingly with that of DTAC. TRIS Rating affirms the company rating of DTAC at "AA+" but revises the outlook to "negative" from "stable". With the concession of 850-megahertz (MHz) and 1800-MHz spectrum coming to end in September 2018, DTAC is forced to participate in the forthcoming auction to ensure ample spectrum to provide service quality. DTAC's financial profile is likely to weaken as it needs to acquire new spectrum while the license cost is expected to be high.

DTN's service revenues, excluding the IC, were Bt58.7 billion in 2016, rising by 2.4% from the previous year. DTN's operating margin (operating income before depreciation and amortization as a percentage of sales) rose from 17.5% in 2015 to 19% in 2016. The margin improved but remains under pressure from the cost to operate the network under a license and the roaming cost DTN must pay to DTAC for the network covered by a concession agreement, depreciation and amortization charges, and high marketing expenses. Funds from operations (FFO) in 2016 totaled Bt10.4 billion, down slightly from Bt10.7 billion in 2015. DTN reported the total debt of Bt64.5 billion at the end of 2016 to support the network rollout. The outstanding debt included the Bt15.5 billion on-call shareholder loan.

DTAC is expected to bid for new spectrum under the name of DTN. A high acquisition cost of a new spectrum is, therefore, built into TRIS Rating's base case, which is expected to push the leverage ratio of DTN and DTAC's consolidated debt to rise over the medium term. However, the actual investment cost for new spectrum is uncertain, subject to several factors, including the number of spectrum to offer to the market, the degree of bidding competition, and the regulatory spectrum allocation plan. During 2017-2019, TRIS Rating expects DTN's revenue will be driven by the strong growth prospects for data services but remain under pressure from heightened competition. The operating margin is expected to continue improving, reflecting lower regulatory costs and lower costs for domestic roaming, arising from subscriber migration to DTN's network. DTN's financial profile will gradually improve and come closer to DTAC's level over the medium term. TRIS Rating expects DTN to spend about Bt55 billion in capital expenditures, excluding the new license costs, during 2017-2019. The debt to capitalization ratio would considerably rise, following a high-priced spectrum. Cash flow protection would decline accordingly.

dtac TriNet Co., Ltd. (DTN)

Company Rating:

AA+

Issue Ratings:

DTN187A: Bt2,000 million senior unsecured debentures due 2018	AA+
DTN207A: Bt4,000 million senior unsecured debentures due 2020	AA+
DTN227A: Bt3,000 million senior unsecured debentures due 2022	AA+
DTN257A: Bt6,000 million senior unsecured debentures due 2025	AA+
DTN197A: Bt1,500 million senior unsecured debentures due 2019	AA+
DTN217A: Bt1,000 million senior unsecured debentures due 2021	AA+
DTN237A: Bt1,500 million senior unsecured debentures due 2023	AA+
DTN267A: Bt1,000 million senior unsecured debentures due 2026	AA+
Up to Bt5,500 million senior unsecured debentures due within 10 years	AA+

Rating Outlook:

Negative

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