

# DTAC TRINET CO., LTD.

No. 56/2017

24 August 2017

<b>Company Rating:</b>	AA+
<b>Issue Rating:</b>	
Senior unsecured	AA+
<b>Outlook:</b>	Negative

#### Company Rating History:

Date	Rating	Outlook/Alert
29/03/17	AA+	Negative
17/06/15	AA+	Stable

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#### Rating Rationale

TRIS Rating affirms the company rating of dtac TriNet Co., Ltd. (DTN) and the ratings of DTN's outstanding senior unsecured debentures at "AA+", with "negative" outlook. At the same time, TRIS Rating assigns the rating of "AA+" to DTN's proposed issue of up to Bt6,000 million in senior unsecured debentures. 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; rated "AA+/Negative"), one of three major cellular phone service providers in Thailand. The ratings also take into consideration 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 softer operating performance, and the large capital expenditures needed to expand the network nationwide.

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. DTN, a wholly-owned subsidiary of DTAC, was established in 2006. 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. DTAC has the strong linkage with DTN. 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.

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).

The ratings also recognize DTN's market position and wide network coverage. As of June 2017, DTN had 22.7 million subscribers or about 96% of DTAC's total subscribers. DTN's subscribers account for about 25% of all 3G and 4G subscribers across the industry. DTN continues expanding its wireless communications network nationwide. As DTAC's 2G concession will expire in 2018, 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.

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.

The ratings also incorporate strong 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.

*CreditUpdate reviews ratings of companies or debt issues that have already been rated by TRIS Rating. The CreditUpdate occurs when new debt instruments are issued or if significant events have taken place that may impact a company's current ratings or when current ratings are cancelled. The CreditUpdate announces whether a rating has been "upgraded," "downgraded," "affirmed" or "cancelled." The update includes information to supplement the previously published ratings.*

*CreditUpdates are part of TRIS Rating's monitoring process. TRIS Rating monitors every rating it assigns until either the debt instrument matures or the rating contract ends. To keep the public informed of changing situations, TRIS Rating periodically issues announcements about the credit ratings it monitors.*

Conversely, the ratings are partially offset by the fierce competition in the Thai wireless telecommunications service 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 company rating of DTN is equal to and moves correspondingly with that of DTAC. The company rating of DTAC is affirmed at "AA+" with "negative" outlook. As the concession of the 850-megahertz (MHz) and 1800-MHz spectrums 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.

DTAC is expected to bid for new spectrums 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 a 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.

#### Rating Outlook

The "negative" outlook reflects the rating 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 spectrums and expand network coverage. Any change in DTAC's credit rating will affect DTN's credit profile accordingly.

#### dtac TriNet Co., Ltd. (DTN)

<b>Company Rating:</b>	AA+
<b>Issue Ratings:</b>	
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+
DTN244A: Bt500 million senior unsecured debentures due 2024	AA+
DTN274A: Bt5,000 million senior unsecured debentures due 2027	AA+
Up to Bt6,000 million senior unsecured debentures due within 12 years	AA+
<b>Rating Outlook:</b>	Negative

**Financial Statistics and Key Financial Ratios\***  
dtac TriNet Co., Ltd. (DTN)

Unit: Bt million

	----- Year Ended 31 December -----				
	2016	2015	2014	2013	2012
Sales and service revenues	66,069	64,680	56,674	11,872	2,509
Gross interest expense	1,810	1,047	855	481	75
Net income from operations	4,423	4,728	3,035	(346)	643
Funds from operations (FFO)	10,365	10,659	7,208	372	597
Total capital expenditures	9,628	11,011	12,009	5,324	120
Total assets	92,453	71,710	47,686	33,060	14,480
Total debt	64,500	48,500	22,000	13,005	6,424
Shareholders' equity	4,899	3,281	1,814	742	1,327
Depreciation & amortization	6,328	4,444	3,490	958	35
Dividends	2,830	3,138	1,392	0	1,450
Operating income before depreciation, and amortization as % of sales	19.0	17.5	14.4	8.0	37.1
Pretax return on permanent capital (%)	11.9	18.5	25.0	(0.1)	21.0
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	7.5	10.9	9.6	2.0	12.7
FFO/total debt (%)	16.1	22.0	32.8	2.9	9.3
Total debt/capitalization (%)	92.9	93.7	92.4	94.6	82.9

\* Consolidated financial statements

**Financial Statistics and Key Financial Ratios\***  
**Total Access Communication PLC (DTAC)**

Unit: Bt million

	Jan-Jun 2017	----- Year Ended 31 December -----			
		2016	2015	2014	2013
Sales and service revenues	39,191	82,478	87,753	90,493	94,617
Gross interest expense	785	1,567	1,384	1,337	1,270
Net income from operations	952	2,002	6,188	10,735	11,719
Funds from operations (FFO)	14,508	23,543	24,790	26,328	25,682
Total capital expenditures	9,599	18,301	19,903	15,581	10,931
Total assets	113,963	115,369	110,965	106,426	105,054
Total debt	49,165	49,165	48,000	33,664	31,460
Shareholders' equity	28,144	27,146	27,224	32,598	32,720
Depreciation & amortization	12,883	23,202	18,796	16,624	13,695
Dividends	0	2,226	11,242	10,800	12,687
Operating income before depreciation, and amortization as % of sales	37.7	32.8	31.5	34.1	31.3
Pretax return on permanent capital (%)	4.6 **	5.4	12.9	22.4	25.2
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	19.0	17.4	20.2	23.4	23.6
FFO/total debt (%)	53.8 **	47.9	51.6	78.2	81.6
Total debt/capitalization (%)	63.6	64.4	63.8	50.8	49.0

\* Consolidated financial statements

\*\* Annualized with trailing 12 months

**TRIS Rating Co., Ltd.**

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