

# DTAC TRINET CO., LTD.

No. 37/2019  
7 June 2019

## CORPORATES

<b>Company Rating:</b>	AA
<b>Issue Ratings:</b>	
Senior unsecured	AA
<b>Outlook:</b>	Stable

**Last Review Date:** 05/04/19

### Company Rating History:

Date	Rating	Outlook/Alert
23/01/19	AA	Stable
29/03/17	AA+	Negative
17/06/15	AA+	Stable

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## RATIONALE

TRIS Rating affirms the company rating on dtac TriNet Co., Ltd. (DTN) and the ratings on DTN's outstanding senior unsecured debentures at "AA". At the same time, TRIS Rating also assigns the rating of "AA" to DTN's proposed issue of up to Bt5,000 million in senior unsecured debentures. The company will use the proceeds from the debenture issuance to refinance existing debts, make investments, and/or fund its working capital needs.

The ratings reflect DTN's strategic importance as a core subsidiary of Total Access Communication PLC (DTAC; rated "AA/Stable" by TRIS Rating), the third-largest mobile phone service provider in Thailand. Based on TRIS Rating's Group Rating Methodology, the company rating on DTN, as a core subsidiary of DTAC, is equal to and moves in tandem with the company rating on DTAC. The ratings are partly enhanced by the support from Telenor ASA (Telenor), DTAC's major shareholder. However, these strengths are partially offset by the intense competition in the industry, the hefty payments due for license fee, and the large capital expenditures needed to roll out the next generation network.

The ratings reflect DTN's status as a core subsidiary of DTAC. DTN has a large subscriber base and its revenue stream makes up a significant portion of the revenues of the parent company. DTAC's concession ended in September 2018. After the concession expired, all of DTAC's subscribers were migrated to DTN's network. DTN's service revenue for the first three months of 2019 represented about 93% of DTAC's service revenue.

The operating results for both DTN and DTAC in the first three months of 2019 were slightly below TRIS Rating's forecast. The number of subscribers and service revenue in 2019 remain under pressure from intense competition. For the first quarter of 2019, DTAC's service revenue, excluding the interconnection charges (IC), was Bt14.9 billion. Service revenue dropped by 7.1% year-on-year (y-o-y), due to the loss of prepaid subscribers and price-based competition. As of March 2019, the company had 20.7 million subscribers, down from 21.2 million at the end of 2018.

DTAC is expanding its network nationwide and improving the quality of the network. The company is striving to give customers improved experiences, leading more confidence in its network. However, TRIS Rating holds the view that it may take time to restore customer confidence. We expect DTAC's service revenues to improve only slightly over the next two to three years.

DTAC's financial status is characterized by strong cash flow and sufficient liquidity. For the first three months 2019, DTAC generated about Bt6.4 billion in EBITDA (earnings before interest, taxes, depreciation, and amortization). Funds from operations (FFO) were about Bt5.5 billion. During 2019-2021, we forecast FFO of Bt23-Bt24 billion per annum.

On 11 April 2019, the National Council for Peace and Order (NCPO) announced the solution for the television and telecommunication industries. The government will permit license holders to divide payments for the 900-megahertz (MHz) spectrum into 10 installments. The announcement set the condition that mobile service providers who intend to participate in the 700-MHz spectrum allocation shall be entitled to divide payments for a 900-MHz spectrum license into 10 installments. DTAC, via DTN, has submitted a request

to spread out the payments for the 900-MHz spectrum license.

The original payment schedule of the 900-MHz spectrum requires the company to pay Bt2.2 billion per annum in 2020 and 2021, and make a balloon payment of Bt32.1 billion in 2022. The new schedule will smooth the payment burden. The company will pay Bt7.9 billion in 2020 and Bt4.1 billion annually during 2021-2027.

Based on its current financial status, DTAC has adequate liquidity to make the license payments. The new payment scheme will help smooth cash outflow and ease liquidity constraints, especially in 2022. However, DTAC has to accept the 700-MHz spectrum license allocation in exchange for the division of the 900-MHz bandwidth license payment. This condition will increase the debt burden for the 700-MHz spectrum license. TRIS Rating estimates the cost of a 700-MHz spectrum bandwidth license is about Bt17.6 billion for 10 MHz. Following TRIS Rating's credit rating methodology, the license payment obligation will be treated as debt. As a result, outstanding debt will rise by Bt17.6 billion once the license is awarded.

Total interest-bearing debt, plus the license obligation will increase from our previous projection. DTAC's debt to capitalization ratio is forecast to range around 66%-75% during 2019 and 2020, up from our previous forecast of 60%-75%. The debt to capitalization ratio is expected to gradually decline after DTAC monetizes the new spectrum bandwidth it licensed. The FFO to total debt ratio is projected to range around 30%-35% during 2019-2021, down from 30%-45% in the previous forecast.

DTN's credit profile still hinges on DTAC's strong credit quality. TRIS Rating holds the view that DTN will have sufficient liquidity to meet its obligations, considering DTAC's strong financial status and the full support DTN receives from DTAC.

#### **RATING OUTLOOK**

The "stable" outlook reflects TRIS Rating's expectation the company will be able to restore its market position and improve operating results gradually. The company is also expected to keep ample liquidity. Our view on DTN's status as a core subsidiary of DTAC is expected to remain unchanged.

#### **RATING SENSITIVITIES**

Based on TRIS Rating's Group Rating Methodology, DTN's ratings will move in tandem with the rating of DTAC. Any change in DTAC's rating and/or outlook will affect DTN's credit profile accordingly.

#### **RELATED CRITERIA**

- Key Financial Ratios and Adjustments, 5 September 2018
- Group Rating Methodology, 10 July 2015
- Rating Methodology – Corporate, 31 October 2007

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

<b>Company Rating:</b>	AA
<b>Issue Ratings:</b>	
DTN197A: Bt1,500 million senior unsecured debentures due 2019	AA
DTN207A: Bt4,000 million senior unsecured debentures due 2020	AA
DTN213A: Bt1,500 million senior unsecured debentures due 2021	AA
DTN217A: Bt1,000 million senior unsecured debentures due 2021	AA
DTN227A: Bt3,000 million senior unsecured debentures due 2022	AA
DTN237A: Bt1,500 million senior unsecured debentures due 2023	AA
DTN244A: Bt500 million senior unsecured debentures due 2024	AA
DTN257A: Bt6,000 million senior unsecured debentures due 2025	AA
DTN267A: Bt1,000 million senior unsecured debentures due 2026	AA
DTN274A: Bt5,000 million senior unsecured debentures due 2027	AA
DTN279A: Bt2,000 million senior unsecured debentures due 2027	AA
DTN299A: Bt2,500 million senior unsecured debentures due 2029	AA
Up to Bt5,000 million senior unsecured debentures due within 10 years	AA
<b>Rating Outlook:</b>	Stable

**TRIS Rating Co., Ltd.**

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