Press Release

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TRIS Rating Assigns "BBB+/Stable" Rating to Senior Unsecured Debt Worth Up to Bt13,000 Million of "TUC"

TRIS Rating has assigned the rating of "BBB+" to the proposed issue of up to Bt13,000 million in senior unsecured debentures of True Move H Universal Communication Co., Ltd. (TUC). At the same time, TRIS Rating has affirmed the company rating and the ratings of the outstanding senior unsecured debentures of TUC at "BBB+". The outlook remains "stable". The proceeds from the new debentures will be used to repay outstanding debt and to fund planned investments, and for working capital needs.

The ratings reflect TUC's status as the third-largest mobile phone service provider in Thailand with an improving market position. The ratings also take into consideration TUC's status as a core business unit under the TRUE Corporation PLC (TRUE; rated "BBB+/Stable") with ongoing operational and financial support from TRUE. However, these strengths are partially offset by a weakened financial profile amid an intensified competition in the mobile phone industry, the high prices of mobile spectrums acquired, plus the sizable investment needed to roll out its 4G network nationwide.

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 rating will impact TUC's rating accordingly. TUC's rating upside could emerge if TUC considerably gains higher market share and strengthens profitability without hurting the balance sheet. TUC's ratings could be downgraded if the company is unable to monetize its new investment such that operating performance 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.

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 its significant contribution to the TRUE Group. In 2016, TUC contributed about 74% of TRUE's revenues and 81% of EBITDA (earnings before interest, taxes, depreciation, and amortization). TRUE is fully involved in TUC's operations, including nominating directors to the board and designating the 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-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-megahertz (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. Driven by the fast-growing demand for mobile data, 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'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 to serve robust growth in demand for data usage. 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. TUC's market share based on industry-wide service revenue was 23.7% in 2016 and 24.8% in the last quarter of 2016. TUC targets a 33% service revenue market share by the end of 2018. TUC's growth ambitions will run up against the intense competition in the Thai mobile phone industry.

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TUC's financial risk profile is pressured by the heavy debt burden arising from the high costs of spectrums and sizable investment to roll out networks while its profitability remains under pressure from the intense competition. In 2016, TUC's reported a 13.6% y-o-y increase in total revenue to Bt93.9 billion. Service revenue rose by 28.4% y-o-y to Bt57.9 billion. However, the impressive revenue growth traded off with net operating losses of Bt5 billion. The intense competition will continue to depress TUC's profitability in the years ahead.

TUC's capital structure remained acceptable at the current rating. The hefty spectrum costs coupled with investment in network expansion drove TUC's debt from Bt30.6 billion in 2014 to Bt170.2 billion at the end of 2016. Thanks to a Bt60 billion capital injection in 2016, the ratio of adjusted debt to capitalization remained acceptable at 65.21% at the end of 2016. The leverage ratio will be lower if incorporating Bt38.9 billion in cash on hand at the end of 2016.

TRIS Rating expects TUC to effectively monetize its investment without significantly hurting its financial profile. Under TRIS Rating's base-case scenario, TUC service revenue is forecasted to grow by 10%-20% annually during 2017-2018. Top line revenue is expected to be in the range of Bt100.4-Bt106.7 billion annually during the same period. However, the ambitious growth plans are fueled by hefty marketing and promotion expenses which will pressure profits. The operating margin (operating income before depreciation and amortization as a percentage of sales) is expected to range from 14%-18% per annum. The FFO will range between Bt12-Bt17 billion annually during 2017-2018. The ratio of FFO to total debt is expected to range between 11%-16% during 2017-2018.

TUC's financial sources are expected to cover the needs over the next 12 months. The funding needs are for debts coming due of Bt20.6 billion, spectrum licenses payment of Bt9.9 billion, and capital expenditures of approximately Bt30 billion. Sources of funds are expected FFO of at least Bt12.4 billion, cash and cash equivalents at the end of 2016 of Bt38.9 billion, and Bt13 billion from the new debentures issued. However, if funding needs are higher than expected, TUC may need additional borrowings to allow headroom for financial flexibility. If the ratio of debt to capitalization stays over 65% on a sustained basis, the ratings could also be under downward pressure.

True Move H Universal Communication (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+
TUC23DA: Bt4,545.10 million senior unsecured debentures due 2023	BBB+
TUC26DA: Bt7,480.20 million senior unsecured debentures due 2026	BBB+
Up to Bt13,000 million in senior unsecured debentures due within 12 years	BBB+
Rating Outlook:	Stable

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