

# INTERLINK TELECOM PLC

No. 41/2022  
25 March 2022

## CORPORATES

**Company Rating:** BBB  
**Outlook:** Stable

### Contacts:

Sarinthorn Sosukpaibul  
sarinthorn@trisrating.com

Suchana Chantadisai  
suchana@trisrating.com

Wajee Pitakpaibulkij  
wajee@trisrating.com

Pramuansap Phonprasert  
pramuansap@trisrating.com

[WWW.TRISRATING.COM](http://www.trisrating.com)

## RATIONALE

TRIS Rating assigns the company rating of “BBB” with a “stable” rating outlook to Interlink Telecom PLC (ITEL). The rating incorporates its stand-alone credit profile (SACP) of “bbb” and its status as a “core” subsidiary of Interlink Communication PLC (ILINK), its parent company, as per our “Group Rating Methodology”. The company rating on ITEL reflects its competitive strengths in fiber-optic data communications service, its satisfactory operating results, and increasing recurring income base. However, the rating is partly constrained by the uncertainty and volatility of turnkey project business and the intense competition in the telecommunication industry.

## KEY RATING CONSIDERATIONS

### Competitive strengths in fiber-optic-related services

ITEL is one of the major fiber-optic data communications and connectivity service providers in Thailand. ITEL’s competitive edge stems from its extensive fiber-optic network coverage, the quality of its network and services, its experienced management and engineering teams, as well as good relationships with customers. ITEL has installed its core fiber-optic cable infrastructure along railways and highways throughout Thailand and provides high-quality connectivity services to customers. These strengths have enabled the company to expand its customer base and gain experience from participating in various fiber-optic public telecommunication projects.

### Expanding recurring income base

Revenues from the data service and data center businesses are ITEL’s major sources of recurring income. In 2021, these combined revenues accounted for 55% of its total revenue. ITEL’s recurring income doubled to THB1.4 billion in 2021, from THB0.6 billion in 2017. The company’s recurring income is expected to expand as its wide fiber-optic network coverage and high service quality continue to be key strengths, enabling the company to acquire more customers and win new projects.

ITEL has recorded sound operating performance and maintains a competitive position in the fiber-optic infrastructure market. Revenue from data services grew at a compound annual growth rate (CAGR) of about 27% during 2016-2021. The Coronavirus Disease 2019 (COVID-19) pandemic has shifted the focus of private companies and government agencies toward technology adoption and network connectivity to improve efficiency of their communication systems and workflows. Consequently, demand for data transmission services has increased significantly. In 2021, ITEL’s revenues from data services reached THB1.3 billion, up 15% from 2020, driven by a larger customer base and rising revenue from remote area high-speed internet projects.

For the data center business, revenues were relatively stable at THB85-THB95 million per annum during the last three years, as customer contracts are generally long term in nature.

### Project-based revenue from turnkey projects

To leverage its expertise in data service and the fiber-optic cable installation and maintenance, ITEL has sizable operations in the fiber-optic cable installation business. The company’s installation business covers fiber-optic cable installation, maintenance services, and related information technology

(IT) projects. Since ITEL's installation business predominantly derives from project-based revenue, the revenue from the installation business is more volatile than its data service and data center incomes. In 2021, ITEL's revenue in the installation business arrived at THB1.1 billion, up from THB0.8 billion in 2020, which contributed around 44% of its total revenue.

The installation business relies on public projects that are tied to state enterprise IT budgets and bidding. These IT projects are prone to implementation delays due to a variety of reasons and issues. Operations often face issues such as delays in construction or payment process, and sometimes a lack of continuity in public IT budgets. However, we expect the Thai government will continue its efforts to upgrade the country's IT infrastructure. Recently, ITEL expanded into new growth areas such as unmanned aerial vehicles (UAV) or drone and anti-drone projects, security-related projects such as closed-circuit television (CCTV) installation, and artificial intelligence (AI) and big data-related projects. Given the number of projects in the pipeline and expansion to other types of projects, we expect ITEL to be able to smooth out its revenue streams in the installation business.

### **Strong backlog supports earnings**

At the end of 2021, ITEL had backlog contracts worth nearly THB3.5 billion, of which around 70% came from the data service and data center businesses, and the remainder from fiber-optic installation and other telecommunication projects. The backlog worth around THB2 billion is expected to be recognized as revenue in 2022, and approximately THB1.5 billion during 2023-2025. We expect many service contracts scheduled to end over the next one to three years to be extended. Moreover, the company aims to acquire more public projects which should help enlarge its backlog and support revenue in the future.

Under our base-case scenario, ITEL's revenue is forecast to be THB2.9-THB3.2 billion per annum during 2022-2024, taking into account growing demand for internet access, a larger customer base, the public- and private-sector IT development projects in the pipeline, and the prospect of future business opportunities.

### **Expansion into IT solutions business**

Recently, ITEL announced its plan to expand into the IT solutions business through the acquisition of Weatheria E Co., Ltd., which owns a 51% stake in Blue Solutions Co., Ltd. (BS). The total investment value of THB153 million will be paid by ITEL's issuance of new ordinary shares.

BS provides a full range of integrated IT products, services, and systems, including tools and equipment for private firms and state enterprises. BS generated revenues of THB181 million in 2020. We expect the merger to create synergies from cost saving and revenue upside once ITEL completes and succeeds in the post-merger integration of BS.

### **Healthy profitability**

The company's healthy profitability is derived from its increasing recurring income and prudent cost control. Since its operating costs are largely fixed, the increase in revenue will improve its profit margin accordingly. ITEL's earnings before interest, taxes, depreciation, and amortization (EBITDA) margin rose to about 40%-46% during 2020-2021, from the past level of 31%-37%.

ITEL generates sound profit margins in its major lines of business. ITEL's EBITDA margin in the data service business was 50%-60% during the past three years, while it was about 50%-55% in the data center business. For the project installation business, the company maintains a profit margin of about 15%-20%.

Over the next three years, we expect a rise in recurring revenue together with the company's efforts to enhance asset utilization should cover high fixed operating costs and help stabilize profit margin. We expect ITEL to carefully manage the cost of the new business without affecting overall profitability. During 2022-2024, our forecast assumes ITEL's EBITDA margin to hold at 35%-40%. We also expect the profit margin of new turnkey projects to stay at about 15%-20% during the same period.

### **Leverage to gradually decline**

In our view, ITEL's cash flow protection and leverage are at acceptable levels. In 2021, ITEL's net debt to EBITDA ratio was 4.6 times. The ratio of funds from operations (FFO) to adjusted net debt stood at 16.3%. The debt to capitalization ratio was 62%.

During the next three years, we expect ITEL's financial leverage to gradually decline. As the company's backbone network has already been set up throughout the country, most of its future capital expenditures will be mainly for last-mile internet connectivity to reach end-users. We estimate its capital expenditures to be about THB1 billion in aggregate for the period 2022-2024. With its growing cash flow, we expect ITEL to partly finance its capital expenditures from operating cash flow. We project the company's EBITDA to range from THB1 billion to THB1.2 billion per year over the next three years. Under our base-case scenario, we forecast the adjusted net debt to EBITDA ratio to be about 4.2 times in 2022, and then decline to about 3.5 times during 2023-2024. The FFO to total debt ratio is projected to be in the 17%-23% range during 2022-2024.

In addition, the company has issued new warrants (ITEL-W3) and reserved new shares for the warrant exercises. The ITEL-W3 warrants will mature in April 2023. If the warrant holders exercise their rights, this will help strengthen the company's capital base. The company aims to use the proceeds to repay existing debts and to support the company's operations.

As of December 2021, ITEL had total debts of THB4 billion, of which approximately THB1.75 billion are project loans and secured loans. As its priority debt ratio is 44%, below the threshold of 50% according to TRIS Rating's "Issue Rating Criteria", we view that ITEL's unsecured creditors are not significantly disadvantaged with respect to claims against the company's assets.

### Manageable liquidity

We assess ITEL to have adequate liquidity over the next 12 months. Sources of funds comprised cash and cash equivalents of THB275 million as of December 2021, with nearly THB1 billion in undrawn bank loan facilities. FFO are forecast to be THB750-THB800 million over the next 12 months. The company expects to receive about THB750 million in cash from the plan to sell its data center business to a real estate investment trust (REIT) in the first half of 2022.

Funds will be used for the capital expenditures of THB300-THB400 million per annum and for scheduled debt repayments. As of December 2021, the company's outstanding short-term obligations amounted to THB2.25 billion which are mostly project loans. These short-term project loans will be repaid to the lenders when the projects are completed. Given ITEL's capability in project execution and the creditworthiness of project owners, we expect ITEL should be able to rollover its short-term debts. About THB524 million in long-term debts will mature in 2022.

According to ITEL's key financial covenant on its bank loans, the company is obliged to maintain an interest-bearing debt to equity ratio below 2.5 times, and a debt service coverage ratio (DSCR) over 1.2 times. At the end of 2021, the ratios were 1.36 times and 1.53 times, respectively. We believe the company should have no problems in complying with the financial covenants over the forecast period.

### BASE-CASE ASSUMPTIONS

- Revenues to range from THB2.9-THB3.2 billion per annum over the next three years.
- EBITDA margin in the 35%-37% range during 2022-2024.
- Total capital spending of about THB1 billion in aggregate over the next three years.

### RATING OUTLOOK

The "stable" outlook reflects the expectation of TRIS Rating that ITEL will maintain its competitive edge and continue to deliver sound operating results in its data service business as well as secure new projects for its turnkey project business. We also expect its performance and financial leverage to remain in line with our forecast.

### RATING SENSITIVITIES

A rating upgrade could occur if the operating performances, cash flows, and financial status of ITEL and the ILINK Group improve substantially. A downward rating action could be triggered if ITEL's and the group's financial profiles deteriorate materially. Any significant change in ILINK's financial profile or ITEL's status to the group could also lead to a rating change.

### COMPANY OVERVIEW

ITEL was established on 3 January 2007. The company was listed on the Market for Alternative Investment (MAI) in 2015 and was moved to the Stock Exchange of Thailand (SET) in November 2021. As of January 2022, ILINK, the major cable and IT equipment distributor in Thailand, was ITEL's major shareholder, holding directly around 51% of ITEL's paid-up shares.

ITEL has provided data communications services and internet connectivity (Data Service) under a 15-year license permitted by the National Broadcasting and Telecommunications Commission (NBTC) since 2012. In the same year, the company was awarded a 30-year license from the State Railway of Thailand to install fiber-optic networks along the railways. In 2014, the company expanded its business to offer data server rental and disaster recovery for organizations, operated under "Interlink Data Center". ITEL undertakes installations of fiber-optic cables and other telecommunications projects under the "Installation business".

ITEL has established a partnership with Australia-based "Global Data Centre Group" to operate "ETIX ITEL BANGKOK" data center (formerly known as "Genesis Data Center"). ITEL holds a 33% interest in "ETIX ITEL BANGKOK", while Global Data Centre Group, a leading investment company in the data center business worldwide, owns a 67% interest.

Based on consolidated revenue in 2021, data services remained ITEL's key sources of revenue, generating about 52% of total revenue, followed by installation (44%), and data center (4%). The revenue contribution from the private sector and the public sector, each made up about half of total revenue.

**KEY OPERATING PERFORMANCE**

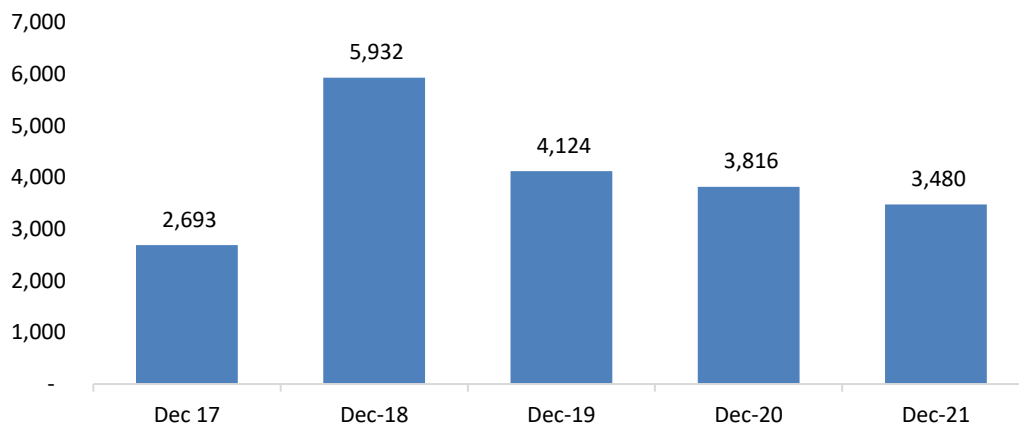
**Table 1: Revenue Contribution by Segment**

Business Line	2018		2019		2020		2021	
	Mil. THB	%	Mil. THB	%	Mil. THB	%	Mil. THB	%
Data service	671	42	849	36	1,111	55	1,281	52
Data center	88	6	94	4	85	4	92	4
Installation	831	52	1,388	60	824	41	1,093	44
<b>Total</b>	<b>1,591</b>	<b>100</b>	<b>2,330</b>	<b>100</b>	<b>2,021</b>	<b>100</b>	<b>2,466</b>	<b>100</b>

Source: ITEL

**Chart 1: Backlog Movement**

Unit: Mil. THB



Source: ITEL

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\***

Unit: Mil. THB

	-----Year Ended 31 December -----				
	2021	2020	2019	2018	2017
Total operating revenues	2,509	2,040	2,347	1,611	1,081
Earnings before interest and taxes (EBIT)	513	416	397	285	207
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,028	941	733	546	394
Funds from operations (FFO)	766	690	518	384	279
Adjusted interest expense	214	215	183	125	87
Capital expenditures	332	341	624	755	727
Total assets	8,084	7,079	6,622	5,415	4,294
Adjusted debt	4,712	4,879	4,510	2,872	1,995
Adjusted equity	2,909	1,893	1,712	1,598	1,508
<b>Adjusted Ratios</b>					
EBITDA margin (%)	40.97	46.13	31.22	33.86	36.43
Pretax return on permanent capital (%)	6.94	6.20	7.08	6.84	6.42
EBITDA interest coverage (times)	4.81	4.38	4.01	4.35	4.51
Debt to EBITDA (times)	4.58	5.18	6.16	5.26	5.07
FFO to debt (%)	16.26	14.14	11.49	13.37	14.01
Debt to capitalization (%)	61.83	72.05	72.49	64.24	56.95

\* Consolidated financial statements

**RELATED CRITERIA**

- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021
- Group Rating Methodology, 13 January 2021
- Rating Methodology – Corporate, 26 July 2019

**Interlink Telecom PLC (ITEL)**

<b>Company Rating:</b>	BBB
<b>Rating Outlook:</b>	Stable

**TRIS Rating Co., Ltd.**

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: +66 2 098 3000

© Copyright 2022, TRIS Rating Co., Ltd. All rights reserved. Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution or storing for subsequent use for any purpose, in whole or in part, in any form or manner or by any means whatsoever, by any person, of the credit rating reports or information is prohibited, without the prior written permission of TRIS Rating Co., Ltd. The credit rating is not a statement of fact or a recommendation to buy, sell or hold any debt instruments. It is an expression of opinion regarding credit risks for that instrument or particular company. The opinion expressed in the credit rating does not represent investment or other advice and should therefore not be construed as such. Any rating and information contained in any report written or published by TRIS Rating has been prepared without taking into account any recipient's particular financial needs, circumstances, knowledge and objectives. Therefore, a recipient should assess the appropriateness of such information before making an investment decision based on this information. Information used for the rating has been obtained by TRIS Rating from the company and other sources believed to be reliable. Therefore, TRIS Rating does not guarantee the accuracy, adequacy, or completeness of any such information and will accept no liability for any loss or damage arising from any inaccuracy, inadequacy or incompleteness. Also, TRIS Rating is not responsible for any errors or omissions, the result obtained from, or any actions taken in reliance upon such information. All methodologies used can be found at [www.trisrating.com/rating-information/rating-criteria](http://www.trisrating.com/rating-information/rating-criteria)