

TOTAL ACCESS COMMUNICATION PLC

No. 8/2019
23 January 2019

CORPORATES

Company Rating: AA
Outlook: Stable

Last Review Date: 04/05/18

Company Rating History:

Date	Rating	Outlook/Alert
29/03/17	AA+	Negative
05/06/15	AA+	Stable
03/04/14	AA	Stable
15/10/10	AA-	Stable
30/09/08	A+	Stable
07/07/06	A	Stable
03/12/04	A-	Positive
12/07/04	A-	Stable
01/02/02	A-	-

Contacts:

Sarinthorn Sosukpaibul
sarinthorn@trisrating.com

Chanaporn Pinphithak
chanaporn@trisrating.com

Wajee Pitakpaibulkij
wajee@trisrating.com

Monthian Chantarklam
monthian@trisrating.com



WWW.TRISRATING.COM

RATIONALE

TRIS Rating downgrades the company rating on Total Access Communication PLC (DTAC) to "AA" from "AA+", with a "stable" outlook. The downgrade reflects DTAC's worsening financial profile, following the impending substantial settlement payment of Bt9.5 billion to resolve legal disputes with CAT Telecom PLC (CAT), and huge payment for the two new spectrum licenses it acquired last year. These two considerable obligations will cause DTAC's financial profile to deteriorate, making it no longer be commensurate with the previous rating.

The rating continues to reflect DTAC's market position as a major mobile phone service provider in Thailand, strong cash flow, and sufficient liquidity. The rating is partly enhanced by the support DTAC receives from Telenor ASA (Telenor), its major shareholder. However, the rating is tempered by the intense competition in the industry and hefty capital expenditures needed to roll out the next generation network.

On 10 January 2019, DTAC announced it would resolve some long-standing legal disputes with the state-owned CAT, which occurred during the 27-year concession. Both parties agreed to settle several legal cases, which chiefly resulted from different interpretations of the concession agreement. The settlement covers disputes in connection with additional revenue sharing and a claim concerning DTAC's failure to comply with some provisions stipulated in the concession agreement. However, the settlement does not cover other ongoing disputes over excise tax and revenue sharing for interconnection charges (IC).

The settlement is subject to the approval from DTAC's shareholders, which is expected to come at an upcoming annual general meeting. TRIS Rating expects DTAC will make the first payment of Bt6.8 billion once the shareholders approve the settlement. The remainder will be paid in installments after the respective court cases are withdrawn.

TRIS Rating holds the view that the settlement eases concerns over the lingering contingencies arising from the concession agreement. Further, TRIS Rating opines that DTAC has more than enough liquidity to make the payments. The company had Bt26 billion in cash on hand as of September 2018.

In the second half of 2018, DTAC bid for and won licenses for the 1800-megahertz (MHz) and 900-MHz spectrums. Licenses for two additional spectrums revamp DTAC's spectrum portfolio and fortify customer confidence. On the downside, the two new licenses cost considerably more than Bt50 billion. Added to that, TRIS Rating expects that DTAC will be more aggressive in its marketing campaigns and network expansion efforts in an attempt to restore its market position. In the base case scenario, TRIS Rating forecasts DTAC will spend approximately Bt17-Bt20 billion a year in capital expenditures during 2019 and 2020.

The dispute settlement, together with the high-priced licenses and sizable capital expenditures, will weigh on DTAC's financial profile. With respect to the payment to CAT, TRIS Rating assumes DTAC will set aside provisions for Bt9.5 billion in 2019. As a result, the debt to capitalization ratio would surpass 70%, compared with around 60% in our previous forecast. The debt to EBITDA (earnings before interest, tax, depreciation, and amortization) ratio is forecast

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.

Credit Updates 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.

to rise to 2.4 times in 2019 and 2020, up from 1 times as of September 2018. The ratio of funds from operations (FFO) to debt is forecast to decline to about 35%-40% during 2019 and 2020, compared with over 70% from 2016 through the first nine months of 2018. These leverage and cash flow protection levels are not commensurate with the previous rating.

DTAC's operating performance in the first nine months of 2018 continued to decline, and remains weaker than peers. Total revenues declined by 3.8% year-on-year (y-o-y). Service revenue, excluding the IC, fell by 2% y-o-y, to Bt47.7 billion. EBIT (earnings before interest, and tax) dropped by 64% y-o-y. Net profit plunged to Bt572 million for the first nine months of 2018, a performance result has been declining over the past years.

The total value of the Thai wireless communications market in the first nine months of 2018 was about Bt195 billion, up 2% y-o-y. The market grew at an average annual rate of 4.4% over the past three years. Conversely, DTAC's service revenue has declined by an average of 3% per annum over the same period. As of September 2018, DTAC had 21.3 million subscribers, down from 22.7 million at the end of 2017. As a result, DTAC's revenue market share has been shrinking over the last three years. For the first nine months of 2018, DTAC had a 24.5% market share based on revenue, down from 25.4% in 2017, and 26.7% in 2016.

Looking ahead, we expect DTAC will need time to restore its market position and gradually revive its operating performance. Cash flow is likely to remain strong, with FFO ranging between Bt25-Bt27 billion a year during 2019 and 2020. However, leverage could rise to a record level and will likely remain high for the next few years.

RATING OUTLOOK

The "stable" outlook reflects TRIS Rating's expectation that DTAC will be able to restore its market position and deliver improving operating results. Despite the expenditures required to expand its network, DTAC's financial profile is expected to stay in line with our expectation. We expect the debt to capitalization ratio to gradually decline after DTAC monetizes the new spectrums while its debt to EBITDA ratio does not edge up above the forecast level.

RATING SENSITIVITIES

DTAC's credit upside is limited over the next 12-18 months. The rating and/or outlook could be revised downward if operating performance undershoots our expectation and/or cash flow protection falls sharply. Any change in our view with regard to the degree of support DTAC receives from Telenor will also trigger a rating action.

COMPANY OVERVIEW

DTAC was incorporated in 1989 and was listed on the Stock Exchange of Thailand (SET) in 2007. Telenor, a leading Norwegian telecommunications company, directly held 42.6% of DTAC's shares as of November 2018.

In 1989, DTAC started to provide wireless telecommunication services in the 850 MHz and 1800 MHz frequency bands under a 27-year BTO (Build-Transfer-Operate) concession granted by CAT. The concession is subject to a step-up revenue sharing scheme, and was set to expire in September 2018. The step-up revenue sharing scheme meant to CAT was entitled to growing share of revenue from mobile services, ranging from 5%-30% of mobile phone service revenues over the life of the concession.

DTAC, through dtac Trinet Co., Ltd. (DTN), its wholly-owned subsidiary, launched 3G (third generation) in July 2013. The 3G and 4G services are operated under a 2.1-gigahertz (GHz) spectrum license granted by the National Broadcasting and Telecommunications Commission (NBTC) in October 2012. The license term is 15 years and carries a fee of around 4% of service revenues. In addition, DTAC entered into an agreement with TOT PLC (TOT) to provide wireless broadband 4G services on 2.3-GHz spectrum. Under the agreement, DTAC will use up to 60% of the total network capacity of 60-MHz bandwidth.

In 2018, the concession with CAT expired. DTN won two new licenses for the 900-MHz and 1800-MHz spectrum bands, granted by the NBTC. At the end of September 2018, DTAC had 21.3 million subscribers, with a service revenue market share of 24.5%.

DTAC is considered significant to Telenor in light of its earnings contribution. DTAC is recognized as a top earner in the Telenor Group outside Norway. In recognition of this, TRIS Rating expects that Telenor will support DTAC financially in time of need.

RELATED CRITERIA

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

Total Access Communication PLC (DTAC)

Company Rating:

AA

Rating Outlook:Stable

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 0-2098-3000

© Copyright 2019, 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
