

# DTAC TRINET CO., LTD.

No. 9/2019

23 January 2019

## CORPORATES

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

**Last Review Date:** 04/05/18

### Company Rating History:

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

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## RATIONALE

TRIS Rating downgrades the company rating on dtacTriNet Co., Ltd. (DTN) and the ratings on DTN's outstanding senior unsecured debentures to "AA" from "AA+", with a "stable" outlook. The rating revisions follow the downgrade of the company rating on Total Access Communication PLC (DTAC) ("AA/Stable", by TRIS Rating), the parent company of DTN. Based on TRIS Rating's Group Rating Methodology, DTN is a core subsidiary of DTAC. Therefore, the credit rating on DTN is equal to and moves in tandem with the rating on DTAC.

The ratings also take into consideration DTN's market position as one of major mobile phone service providers in Thailand. However, this strength is partly offset by the intense competition in the industry and the hefty capital expenditures needed to roll out the next generation network.

The ratings reflect DTN's status as a core subsidiary of DTAC in consideration of the earnings DTN makes up to its parent company, and its large subscriber base. DTAC has full control over DTN's operations through the appointment of the top management and board of directors. DTAC and DTN share resources and network facilities to provide services. DTAC's 2G (second generation) concession expired in September 2018. All of DTAC's subscribers and operations will be migrated to DTN's network.

TRIS Rating believes DTN will continue to receive full support from DTAC, including financial assistance in the event of distress because of the critical role DTN plays. The strong links between DTN and DTAC mean the company rating of DTN is equal to and moves with that of DTAC.

DTN's ratings are also strengthened by the support DTAC receives from Telenor ASA (Telenor) in the areas of managerial assistance, technological know-how, and more. DTAC is considered significant to Telenor in light of its earnings contribution. DTAC is one of top earners of the Telenor Group outside Norway. In recognition of this, TRIS Rating expects Telenor will provide financial support to DTAC in time of need.

On 23 January, 2019, TRIS Rating downgraded the company rating on 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). DTAC must also pay for the new spectrum licenses it acquired last year. These two considerable obligations have deteriorated DTAC's financial profile, making it no longer commensurate with the previous rating.

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

In the second half of 2018, DTAC, through DTN, bid for and won licenses for the

1800-megahertz (MHz) and 900-MHz spectrums. Licenses of two additional spectrums revamp its spectrum portfolio and help fortify customer confidence. On the downside, the two new licenses will cost more than Bt50 billion, a huge investment that will weigh on the company's balance sheet.

TRIS Rating expects that DTAC will be more aggressive in its marketing campaigns and expansion efforts in an attempt to restore its market position. In our base case scenario, TRIS Rating forecasts DTAC will spend Bt17-Bt20 billion a year in capital expenditures during 2019-2020. As a result, the dispute settlement, together with the high-priced licenses and sizable capital expenditures, will weigh on DTAC's financial profile.

As of September 2018, DTN had 21.04 million subscribers, down from 22.1 million at the end of 2017. DTN had 23.2% subscriber market share at the end of September 2018, down from 24.6% at the end of 2017. Looking ahead, DTN's leverage will likely remain high on account of the high-priced spectrum licenses and hefty capital expenditures. However, TRIS Rating views that DTN will have sufficient liquidity to meet its obligations, considering DTAC's solid financial profile and the full support DTN receives from DTAC.

## **RATING OUTLOOK**

The "stable" outlook reflects TRIS Rating's expectation that DTN will be able to restore its market position and deliver improving operating results. 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, any change in DTAC's rating and/or outlook will affect DTN's credit profile accordingly.

## **COMPANY OVERVIEW**

DTN, a wholly-owned subsidiary of DTAC, was established in 2006. Initially, DTN provided international direct dialing (IDD) services. In December 2012, DTN was awarded a 15-year license for the 2.1-gigahertz (GHz) spectrum granted by the National Broadcasting and Telecommunications Commission (NBTC).

DTN provides wireless communication services using 3G and 4G LTE (long-term evolution) technologies, launched in July 2013 and May 2014, respectively. In addition, DTN has recently entered into an agreement with TOT PLC (TOT) to provide 4G services on 2.3-GHz spectrum. Under the agreement, DTN uses up to 60% of the total network capacity of the 60-MHz bandwidth.

In the second half of 2018, DTN won two new spectrum licenses for the 900-MHz and 1800-MHz spectrum bands, granted by the NBTC.

## **RELATED CRITERIA**

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

dtacTriNet 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
<b>Rating Outlook:</b>	Stable

**TRIS Rating Co., Ltd.**

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