

THAICOM PLC

No. 90/2020
25 June 2020

CORPORATES

Company Rating:	BBB+
Issue Ratings:	
Senior unsecured	BBB+
Outlook:	Stable

Last Review Date: 24/06/19

Company Rating History:

Date	Rating	Outlook/Alert
22/06/18	A-	Negative
06/06/14	A-	Stable
26/06/13	BBB+	Positive
29/09/09	BBB+	Stable

Contacts:

Sarinthorn Sosukpaibul
sarinthorn@trisrating.com

Chanaporn Pinphithak
chanaporn@trisrating.com

Wajee Pitakpaibulkij
wajee@trisrating.com

Sauwarot Jirachaipithak
sauwarot@trisrating.com



WWW.TRISRATING.COM

RATIONALE

TRIS Rating downgrades the company rating on Thaicom PLC (THCOM) and the ratings on THCOM's senior unsecured debentures to "BBB+" from "A-", and revises the outlook to "stable" from "negative". The downgrade reflects THCOM's deteriorating and lower-than-expected operating performance, following the drop in transponder utilization due to intense competition, loss of customers, and unfavorable market conditions. The downgrade also takes into account the company's weakening business profile with the imminent end of its operating concession and the difficulty in acquiring new customers to sustain revenue streams.

Nonetheless, the ratings also take into consideration THCOM's unique market position as the sole satellite service provider in Thailand and its expertise and know-how in the satellite services market. The ratings continue to reflect the company's modest level of financial leverage and ample liquidity, enabling it to meet its debt obligations despite the unfavorable operating environment.

KEY RATING CONSIDERATIONS

Continued slide in revenue and earnings

Over the past three years, THCOM's operating performance has continued to deteriorate due to lower satellite utilization rates, following the loss of customers, intense competition, and an unfavorable market environment. Total revenue in 2019 was Bt4.7 billion, down from Bt6 billion in 2018 and Bt6.9 billion in 2017. Revenue dropped further in the first quarter of 2020, declining by 26% year-on-year (y-o-y) to Bt0.97 billion, due mainly to the deorbit of the Thaicom5 satellite and the drop in the broadband satellite's utilization. The company has tried to replenish revenue from new businesses, but it has so far been unable to compensate for the revenue loss from the satellite business.

THCOM reported earnings before interest, tax, depreciation, and amortization (EBITDA) in 2019 of about Bt1.8 billion, down from about Bt2.2 billion in 2018. EBITDA for the first quarter of 2020 further declined to Bt0.3 billion, compared with Bt0.6 billion in the same quarter of the previous year. The EBITDA margin dropped to about 32% in the first quarter of 2020 from 38% in 2019, due to lower revenues and high fixed operating costs.

During 2020-2022, we expect THCOM's revenue and profits will continue to be under pressure as the concession will lapse in 2021. Our base-case scenario assumes revenue without THCOM's operating Thaicom4 and Thaicom6 satellites after concession to range Bt1.5-Bt3.5 billion per annum. With the expected decline in revenue, and the nature of satellite business that has high fixed operating costs, we expect profits to continue sliding over the next three years. We project THCOM's EBITDA margin to contract to the range of 26%-29%.

We do not expect THCOM's revenue to be significantly affected by the coronavirus (COVID-19) pandemic in 2020 as it is a satellite service infrastructure company involving the wholesale provision of satellite transponders. However, if the economic fallout from the pandemic lingers on for a protracted period, the impact on the advertising incomes of its broadcasting customers could potentially affect THCOM's revenue to some extent.

Imminent end of operating concession

THCOM currently operates four geosynchronous satellites. Thaicom4 or IPSTAR and Thaicom6 are the two satellites that operate under a concession-based scheme. The 30-year concession will end in 2021. Another two satellites, Thaicom7 and Thaicom8, are under a 20-year satellite network operator license awarded by the National Broadcasting and Telecommunications Commission (NBTC). The license will end in 2032.

Recently, the Ministry of Digital Economy and Society (MDES) granted CAT Telecom PLC (CAT), a state owned enterprise, the rights to operate the Thaicom4 and Thaicom6 satellites, after the end of concession in September 2021. However, the business model for the satellite management after the concession is yet to be finalized.

With the concession expiring in 2021, THCOM is facing a number of challenges. The company has found it difficult in acquiring new customers, while some of its existing customers are terminating their contracts. THCOM also faces complex regulatory structures. After the concession ends, THCOM has only two satellites to operate under the licensing scheme. In addition, new businesses such as maritime services, managed satellite services, and artificial intelligence (AI)-related businesses have yet yielded sufficient revenues to compensate the loss of revenue from satellite services.

Deorbiting of Thaicom5 satellite hurts conventional satellite revenue

In 2019, THCOM planned to use a space drone to dock with the Thaicom5 satellite to maintain the proper orbital position for another year. Unfortunately, the Thaicom5 satellite experienced technical problems in late 2019 and the company was unable to restore the system. The Thaicom5 satellite was deorbited in February 2020 following the technical incident. THCOM recognized full impairment of the remaining book value of the Thaicom5 satellite of Bt222 million in the financial statements for the year-ended 2019.

Thaicom5 was THCOM's largest conventional satellite. It had 40 transponders and was located in a prime slot for Thailand at 78.5 degree east. The deorbiting of Thaicom5 has reduced the total capacity of THCOM's conventional satellites from 111 transponders to 71 transponders, and has put additional pressure on the company's revenues. The company transferred some of its customers from Thaicom5 to its other satellites while some customers ended their contracts. The total number of television channels using THCOM's conventional satellites has slipped to 564 channels at the end of March 2020 from 972 channels at the end of 2019. Revenue from the conventional satellite segment was Bt2.5 billion in 2019 and Bt0.5 billion for the first quarter of 2020. Revenue dropped by 29% y-o-y in 2019, and further dropped by 17% y-o-y in the first three months of 2020.

Going forward, revenues from conventional satellites will rely on optimizing utilization of the Thaicom7 and Thaicom8 satellites. Since the broadcasting industry in Thailand has reached a stage of market saturation, THCOM is making an effort to expand its satellite service footprint into countries neighboring Thailand as well as other countries in South Asia. However, we expect intense price-based competition to persist. At the same time, the company plans to expand its maritime services in the region and is striving to boost revenues from other new businesses.

Drop in IPSTAR utilization

IPSTAR's bandwidth utilization rate at the end of March 2020 was 21.2%, down from 22.5% in 2019, and 29.9% in 2018. The drop was due mainly to declined deployment in Indonesia, Japan, and Thailand. Revenue from the IPSTAR segment was Bt2.1 billion in 2019 and Bt0.4 billion for the first quarter of 2020. Revenue dropped by 10% y-o-y in 2019, and further dropped by 33% y-o-y in the first three months of 2020.

At the end of March 2020, India was IPSTAR's largest market in terms of bandwidth deployment, using around 6.5% of IPSTAR's total capacity. The company expects to increase utilization in South Asia and Southeast Asia, and is seeking growth opportunities in managed satellite services. THCOM also expects to expand satellite business in the new technology-related projects in Thailand.

In addition, THCOM is now exploring opportunities for new broadband satellites. The new satellite project is expected to commence within a few years. Since the concession will expire in 2021, the company also faces difficulty in negotiating with its existing customers in the broadband satellite segment. Without any new broadband satellite project, revenue drop of the broadband satellite segment will be inevitable.

Modest financial leverage

THCOM has a modest level of financial leverage. Outstanding debt was Bt4.3 billion at end of March 2020, relatively flat from the level at the end of 2019, but down from Bt7 billion at the end of 2018. THCOM has been paying down its maturing debentures and scheduled bank loans. Since THCOM had no major capital expenditures during the past three years, the company is in a net cash position. As of March 2020, cash on hand, plus marketable securities amounted to nearly Bt6 billion. This amount is sufficient to cover the scheduled debt repayments and funds a large investment, if

needed.

THCOM plans for a normal level of maintenance capital expenditures of about Bt0.1 billion over the next three years. Without any new satellite projects, THCOM's leverage will continue to decline. However, if new investments are needed to support future growth plans, THCOM's high cash balance and marketable securities will give it the financial flexibility it needs. The total debt to capitalization ratio is expected to stay below 35%.

Ample liquidity

We assess THCOM to have adequate liquidity over the next 12 to 18 months. As of March 2020, sources of funds comprised cash on hand and cash equivalents of Bt2.5 billion, plus investments worth Bt3.4 billion. We forecast funds from operations (FFO) to be around Bt1 billion over the next 12 months. Sources of funds should be sufficient to meet the upcoming commitments. Uses of funds are planned maintenance capital expenditures of about Bt0.1 billion in total over the next three years and the debt services. About Bt0.2 billion in long-term debts will come due in 2020 while about Bt2.7 billion in debentures and long-term bank loans will be due in 2021.

TRIS Rating believes THCOM will comply with the bond and bank loan covenants over the next 12 to 18 months. A key financial covenant for the bonds and bank loans is a debt to equity ratio below 2.0 times. THCOM's debt to equity ratio at the end of 2019 was 0.7 times.

BASE CASE ASSUMPTIONS

- Revenues to be under pressure, declining to the Bt1.5-Bt3.5 billion per annum range, during 2020-2022.
- EBITDA margin to be in the 26%-29% range during the next three years.
- Total planned capital spending to be about Bt0.1 billion in total, during 2020-2022.

RATING OUTLOOK

The "stable" outlook reflects our expectation that THCOM will maintain its unique market position and expertise in the satellite service market. Although taking time, new businesses should gradually ramp up revenues. The new satellite project is expected to revive revenue streams in the long term. In addition, we expect THCOM to continue to maintain ample liquidity to meet its debt obligations in the unfavorable environment.

RATING SENSITIVITIES

A downward rating action could be triggered if the company's operating performance deteriorates further than our expectations. The ratings and/or outlook could be revised upward if operating performance rises above our expectations. The ratings could be upgraded if the company successfully executes its new business plan and/or new business models are able to generate sizable and promising revenues on a sustained basis while maintaining a healthy balance sheet.

COMPANY OVERVIEW

THCOM, established in 1991 and listed on the Stock Exchange of Thailand (SET) in 1994, is the sole provider of satellite services in Thailand. As of April 2020, Intouch Holdings PLC was THCOM's major shareholder, holding 41.1% of THCOM's shares.

THCOM currently operates four geosynchronous satellites. THCOM's initial satellite service operations are under a 30-year build-transfer-operate (BTO) concession, granted in 1991 by the Ministry of Transport and Communications. The concession was subsequently transferred to the Ministry of Information and Communication Technology, currently named the Ministry of Digital Economy and Society (MDES). Two satellites, Thaicom4 or IPSTAR, and Thaicom6, are operated under a concession-based scheme. The concession-based satellite operations are subject to step-up revenue sharing with the government. The revenue sharing rate reached the maximum level of 22.5% starting from September 2016. Two satellites, Thaicom7 and Thaicom8, are operated under a 20-year satellite network operator license awarded by the NBTC. The license will expire in 2032. For the license-based satellites, a fee is paid to the government equivalent to around 4% of revenue.

In addition, THCOM holds a 51% interest in Shenington Investments Pte Ltd. (Shenington), a telecom holding company incorporated in Singapore. Shenington owns a 49% stake in Lao Telecommunications Co., Ltd. (LTC), the largest cellular carrier in Laos People's Democratic Republic (Lao PDR). Aside from the telecom segment, THCOM holds a stake in Thai Advance Innovation Co., Ltd. (formerly known as DTV Service Co., Ltd. (DTV)), a distributor of satellite dishes and equipment.

Based on consolidated revenue in the first quarter of 2020, satellite and related services remained THCOM's key revenue. The conventional satellite segment generated about 56% of total revenue, while the IPSTAR segment contributed 44%.

KEY OPERATING PERFORMANCE

Table 1: THCOM's Revenue Breakdown

Unit: Bt million

Service	2017	2018	2019	Jan-Mar 2020
Conventional satellite	3,726	3,565	2,536	541
IPSTAR	2,748	2,284	2,058	422
- Sales	269	141	185	27
- Services	2,480	2,143	1,873	395
Internet and media	299	229	122	7
Eliminations	(85)	(71)	(53)	(5)
Total	6,869	6,008	4,663	965

Source: THCOM

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Bt million

	Jan-Mar 2020	-----Year Ended 31 December -----			
		2019	2018	2017	2016
Total operating revenues	988	4,681	6,022	6,914	8,692
Earnings before interest and taxes (EBIT)	391	(18)	596	453	2,114
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	719	1,922	2,482	3,404	4,941
Funds from operations (FFO)	618	1,276	2,411	3,469	4,321
Adjusted interest expense	53	302	340	390	350
Capital expenditures	2	226	83	332	1,085
Total assets	17,391	17,011	22,202	25,939	32,840
Adjusted debt	0	0	1,200	3,150	5,476
Adjusted equity	11,002	10,995	13,137	15,280	18,921
Adjusted Ratios					
EBITDA margin (%)	72.73	41.07	41.21	49.23	56.84
Pretax return on permanent capital (%)	1.24	(0.10)	2.76	1.72	7.02
EBITDA interest coverage (times)	13.46	6.36	7.29	8.74	14.12
Debt to EBITDA (times)	0.00	0.00	0.48	0.93	1.11
FFO to debt (%)	n.m.	n.m.	200.96	110.12	78.90
Debt to capitalization (%)	0.00	0.00	8.37	17.09	22.45

n.m. = Not meaningful

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

Thaicom PLC (THCOM)

Company Rating:	BBB+
Issue Ratings:	
THCOM210A: Bt500 million senior unsecured debentures due 2021	BBB+
THCOM210B: Bt1,775 million senior unsecured debentures due 2021	BBB+
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

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

© Copyright 2020, 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