

TOTAL ACCESS COMMUNICATION PLC

No. 82/2022
24 May 2022

CORPORATES

Company Rating: AA
CreditAlert: Negative

Last Review Date: 27/04/21

Company Rating History:

Date	Rating	Outlook/Alert
23/01/19	AA	Stable
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:

Suchana Chantadisai
suchana@trisrating.com

Sarinthorn Sosukpaibul
sarinthorn@trisrating.com

Wajee Pitakpaibulkij
wajee@trisrating.com

Monthian Chantarklam
monthian@trisrating.com



WWW.TRISRATING.COM

RATIONALE

TRIS Rating places the company rating of “AA” on Total Access Communication PLC (DTAC) on CreditAlert with a “negative” implication, as the planned merger between DTAC and True Corporation PLC (TRUE) makes significant progress.

The “negative” implication reflects our expectation that the financial profile of the combined entity (NEWCO) could be at a weaker level relative to that of DTAC. Moreover, the one-notch rating uplift to DTAC’s standalone credit profile (SACP) of “aa-”, would not be applicable for NEWCO. The uplift is based on our view of DTAC as a strategically important subsidiary of Telenor. Given Telenor’s expected equity interest of approximately 27% in NEWCO which implies lack of majority control, NEWCO would not be viewed as a strategically important subsidiary of Telenor.

DTAC and TRUE have recently obtained approvals from their respective shareholders. The merger is now pending relevant regulatory approvals and other customary closing conditions. We view the combined entity will have a stronger business profile, relative to the separate business profile of DTAC or TRUE. We expect the merger to bring in synergies, significantly increase business scale, enhance competitiveness, and improve cost efficiency. Numerically, the merger would make NEWCO commanding the largest market share in mobile phone service revenue, combining TRUE’s 32% share and DTAC’s 22% share as of March 2022.

Despite the comparative strength in business profile, we expect NEWCO to have a weaker financial profile relative to that of DTAC. We estimate the ratio of net debt to EBITDA (earnings before interest, taxes, depreciation, and amortization) of NEWCO to be 5-5.5 times post-merger, significantly higher than that of DTAC at 3.8 times as of March 2022.

We hold our view on the challenges of obtaining the required regulatory approval from the National Broadcasting and Telecommunications Commission (NBTC), as a significant risk to the prospective merger. The extension in timelines for completion of merger remains a possibility. TRIS Rating will remove the CreditAlert once the merger is completed and the impact of the merger on DTAC’s creditworthiness has been thoroughly analyzed. Both parties expect the merger to close in the fourth quarter of 2022. We will closely monitor developments related to the merger and take appropriate rating actions accordingly.

The rating continues to reflect DTAC’s position as the third largest wireless telecommunications service provider in Thailand and its adequate spectrum portfolio. The rating also takes into consideration DTAC’s sound cash generation and liquidity position. Moreover, the rating incorporates strong parental support from Telenor. To the contrary, the rating is held back by the stiff competition and the hefty investments required for spectrum licenses and network rollouts.

KEY RATING CONSIDERATIONS

Third largest mobile phone service provider

DTAC remains the third largest wireless telecommunications service provider in Thailand. The company, through its wholly owned subsidiary, dtac TriNet Co., Ltd. (DTN), holds licenses to use a range of radio frequencies for its mobile phone network services, including low frequencies: 700 megahertz

(MHz) and 900 MHz, mid-range frequencies: 1800 MHz, 2100 MHz, and 2300 MHz (in partnership with National Telecom PLC (NT)), and high frequencies: 26 gigahertz (GHz).

We view the current pool of spectrum licenses is adequate for DTAC to broaden its customer base. The 700-MHz frequency can cover indoor and remote areas across all regions while the 26-GHz frequency provides a wide range of 5G service applications that require most instantaneous delivery of large amount of data. DTAC has managed to increase level of customer's confidence by accelerating low-frequency network rollouts (700 MHz for 4G/5G and 900 MHz for 2G/3G). In addition, DTAC has recently started to offer services that meet the needs of consumers, including non-DTAC users, such as cybersecurity, gaming SIM cards and payments. This strategy is to be proven in the longer term.

As of March 2021, DTAC held a market share of about 20% of all subscribers in Thailand. DTAC's service revenue, excluding interconnection charges (IC), represented about 22% of industry-wide revenue.

Regaining subscribers remains a tough challenge

DTAC's subscribers have fallen below 20 million. However, we see a recent pick-up in numbers of subscribers. We view the government's relaxation on border-crossing restrictive measures, as a potential boost for DTAC's subscriber numbers since tourists and migrant workers customarily constitute a significant part of the company's customer base. That said, we hold our view that DTAC's efforts to regain market shares remain extremely challenging, given the fierce market competition.

Fiercely competitive mobile phone services

The Thai wireless communications industry has endured fallouts from successive waves of the Coronavirus Disease 2019 (COVID-19) pandemic over the past two years. The prolonged pandemic has resulted in lower consumer spending, and intensifying competition especially in the prepaid segment. Mobile phone operators keep rolling out new services and competitive promotions to poach customers from rivals. Although the total number of subscribers recovered in 2021, the average revenue per user (ARPU) continued to decline since the beginning of the pandemic. As a result, total market value declined by 1.3% to THB253 billion, compared with the average growth of 2% per annum during 2018-2019. For the first quarter of 2022, market value continued to contract by 1.8% year-on-year (y-o-y).

Sound cash generation

The rating is largely supported by DTAC's sound cash generation. DTAC's EBITDA has remained robust over the past five years, in the range of THB29-THB31 billion per annum. Thanks to the company's cost efficiency, DTAC has been able to lower some expenses during periods of declining service revenues (voice and data).

In our base-case forecast, we put aside the planned merger and merely consider DTAC's business as usual. In anticipation of the post-COVID economic recovery, we expect DTAC's operating revenue to increase by around 1%-2% per year, resulting in EBITDA of THB30-THB32 billion per year over the next three years.

Support from Telenor

Telenor has been the major shareholder of DTAC since 2011. As of March 2022, Telenor held a 46.7% stake in DTAC. Telenor supports DTAC in overall management, technical know-how and supplier negotiation. DTAC's cost optimization during the past three years has been partly supported by Telenor.

In 2021, DTAC contributed approximately 20% and 16% of Telenor's revenue and EBITDA, respectively. DTAC ranked no. 2 in contribution to Telenor's revenue and EBITDA among eight markets for the past five years. Based on the assessment on DTAC's importance to Telenor, we view DTAC as a strategically important subsidiary of Telenor and incorporate a one-notch rating uplift from DTAC's SACP. The rating uplift reflects potential extraordinary support from Telenor in times of stress. Until the completion of the prospective merger, we expect the degree of support from Telenor will remain unchanged.

Lower leverage anticipated

We expect DTAC's leverage to improve during the forecast period. The company's adjusted debt to EBITDA ratio is projected to gradually improve to around 3 times in 2022-2024 from around 4 times during 2020-2021. Cash flow from operations should be sufficient to cover capital expenditures for network rollouts and license fee payments totaling THB20 billion a year and debt repayments. As a result, net interest-bearing debt is expected to decline from THB110 billion as of March 2022 to THB81 billion in 2024.

Ample liquidity

We assess DTAC to have ample liquidity. As of March 2022, its sources of funds comprised cash on hand of THB5.6 billion and undrawn committed credit facilities of THB18.5 billion. Funds from operations over the next 12 months are expected

to be around THB27 billion. These sources of funds should be sufficient to cover long-term debt repayment obligations, license fee payments, and investment needs over the next 12 months.

BASE-CASE ASSUMPTIONS

- Service revenues, excluding the IC, to gradually grow by 1%-2% in 2022-2024.
- EBITDA margin to stay at around 38% during the next three years.
- Total capital spending to be approximately THB18-THB20 billion per annum.
- No additional spectrum to be acquired.
- Dividend payout ratio of 100%.

COMPANY OVERVIEW

DTAC was incorporated in 1989 and listed on the Stock Exchange of Thailand (SET) in 2007. Telenor, a leading Norwegian telecommunications company, directly held 46.7% of DTAC's shares as of March 2022.

In 1989, DTAC started to provide wireless telecommunications services in the 850-MHz and 1800-MHz frequency bands under a 27-year BTO (Build-Transfer-Operate) concession.

DTAC, through DTN, its wholly-owned subsidiary, launched 3G services in July 2013. The company's 3G and 4G services are operated under a 15-year 2.1-GHz spectrum license granted by NBTC in October 2012. In 2018, DTAC entered into an agreement with NT to provide wireless broadband 4G services on the 2.3-GHz spectrum. Under the agreement, DTAC can use up to 60% of the total network capacity.

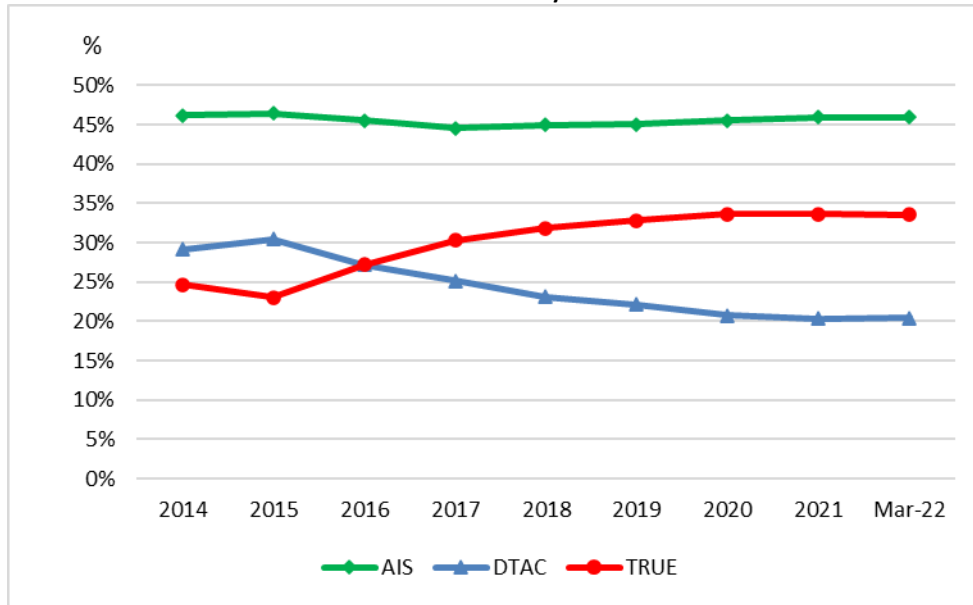
In September 2018, the concessions expired. In August and October 2018, DTN won two new licenses for the 900-MHz and 1800-MHz spectrum bands, granted by NBTC. In June 2019, DTN was allocated a 700-MHz license.

DTN was awarded the 26-GHz spectrum, in preparation for 5G, in February 2020 and has started to operate the frequency band of 700 MHz since December 2020. For 900 MHz, DTAC secured the licenses since 2018. DTAC switched to operate on 900 MHz from 850 MHz in 2021.

Given the COVID-hit market and intense competition, DTAC's services revenue (voice and data) successively declined by 3%-5% per year over the past two years. DTAC's overall ARPU declined from approximately THB260 per month in the fourth quarter of 2019 to THB230 per month in the first quarter of 2022. As of 31 March 2022, DTAC had 19.9 million subscribers.

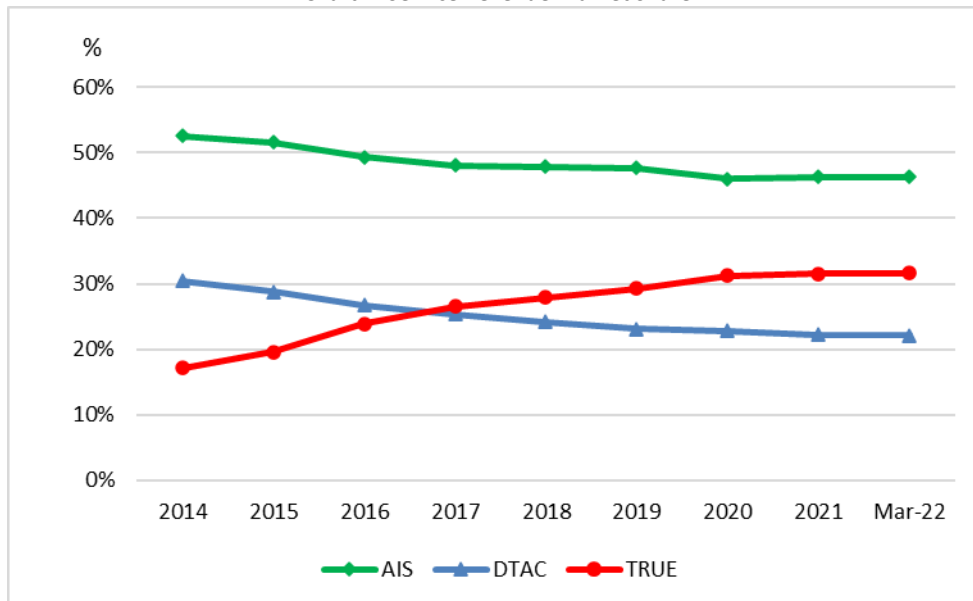
KEY OPERATING PERFORMANCE

Chart 1: Market Share by Subscribers



Sources: 1) DTAC
2) Advanced Info Service PLC (AIS)
3) True Corporation PLC (TRUE)

Chart 2: Service Revenue Market Share



Note: Excluding the IC
Sources: DTAC, AIS, and TRUE

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	Jan-Mar 2022	-----Year Ended 31 December -----			
		2021	2020	2019 *	2018
Total operating revenues	20,131	81,320	78,818	81,167	75,290
Earnings before interest and taxes (EBIT)	1,565	6,937	8,534	9,745	3,599
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	7,086	29,428	29,522	29,799	29,540
Funds from operations (FFO)	6,378	26,419	26,546	26,399	26,360
Adjusted interest expense	663	2,841	2,873	3,286	1,554
Capital expenditures	4,554	22,128	20,811	17,809	25,510
Total assets	164,830	164,315	174,280	167,258	150,958
Adjusted debt	109,677	112,535	114,214	105,086	74,307
Adjusted equity	18,408	20,167	24,315	24,966	21,930
Adjusted Ratios					
EBITDA margin (%)	35.20	36.19	37.46	36.71	39.24
Pretax return on permanent capital (%)	4.80 **	4.93	6.01	7.83	3.73
EBITDA interest coverage (times)	10.68	10.36	10.28	9.07	19.01
Debt to EBITDA (times)	3.76 **	3.82	3.87	3.53	2.52
FFO to debt (%)	23.84 **	23.48	23.24	25.12	35.47
Debt to capitalization (%)	85.63	84.80	82.45	80.80	77.21

* Early adoption of Thai Financial Reporting Standard 16 (TFRS16) for all lease obligations was enforced in the 2019 financial statement.

** Annualized with trailing 12 months

RELATED CRITERIA

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

NOTE FOR “CreditAlert”

CreditAlert, as part of TRIS Rating's monitoring process as a public warning when there is insufficient information to fully assess and reconsider a debt instrument's current rating or when significant events have occurred that may affect the company's rating already assigned by TRIS Rating. Credit Alert designations may be “positive” or “negative” or “developing”, depending on the likely impact of a particular situation. The existing rating continues unchanged for the present. Monitoring is done until the debt instrument matures, or the company's rating contract expires.

Total Access Communication PLC (DTAC)

Company Rating:	AA
CreditAlert:	Negative

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 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