

TOTAL ACCESS COMMUNICATION PLC

No. 64/2021
27 April 2021

CORPORATES

Company Rating: AA
Outlook: Stable

Last Review Date: 15/04/20

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 affirms the company rating on Total Access Communication PLC (DTAC) at “AA” with a “stable” outlook. The rating reflects DTAC’s position as the third largest wireless communication service provider in Thailand with sufficient spectrum portfolio. The rating also takes into consideration DTAC’s strong cash flow generation and liquidity position. In addition, the rating incorporates our expectation of strong parent support, given DTAC’s status as a strategically important subsidiary of Telenor ASA (Telenor).

These strengths are, however, weighed down by the fiercely competitive telecommunication industry and hefty investments required for spectrum licenses and cellular network rollout. The rating also recognizes the fragile economic recovery amid lingering impacts from the Coronavirus Disease 2019 (COVID-19) pandemic.

KEY RATING CONSIDERATIONS

Sufficient spectrum for full range of mobile phone services

DTAC has sufficient spectrum and bandwidth to provide satisfactory mobile phone user experience. Currently, DTAC, through its 100% owned subsidiary, dtac TriNet Co., Ltd. (DTN), has the licenses to use a complete range of radio frequency spectrum for its mobile phone network services, which include low frequencies: 700 megahertz (MHz) and 900 MHz (currently operating on 850 MHz and scheduling to switch to 900 MHz no later than 31 December 2021); mid-range frequencies: 1800 MHz, 2100 MHz, and 2300 MHz (partnership with TOT PCL (TOT)), and high frequencies: 26 gigahertz (GHz).

We expect the spectrum licenses recently obtained will significantly strengthen its network capability and serviceability. DTAC has a strategy to expand its 4G and 5G (fourth and fifth generation) network to the rural areas and big cities in many regions via the 700-MHz frequency and 5G network with many industry partners for Internet of Things (IOT) application via the 26-GHz frequency. The 700-MHz frequency can cover indoor and remote areas across all regions and enables 5G service offering at the same time using Dynamic Spectrum Sharing technology without bandwidth sharing and at optimal efficiency, while the 26-GHz frequency provides the lowest latencies and ultra-high capacity for a wide range of 5G service applications that require most instantaneous delivery of large amount of data, such as critical machine communication, smart logistics, smart cities, and remote health services. The 26-GHz spectrum has been rolled out for a number of 5G use cases, but not offered in commercial services.

A strategically important subsidiary of Telenor

Telenor maintains its direct 42.6% equity interest in DTAC. DTAC receives ongoing support from Telenor in terms of managerial assistance, technological know-how and sourcing, a shared brand, and other necessary supports. Telenor is closely involved in DTAC's operations, including the sourcing of managerial talent.

We view DTAC as a strategically important subsidiary of Telenor for a range of reasons, including DTAC’s meaningful revenue and earnings contribution to the Telenor Group, its sound operating performance, and close linkage to the Group’s reputation. We expect that Telenor will provide financial support to DTAC in times of need. The rating on DTAC is enhanced from its stand-alone credit profile, reflecting our expectation of strong parent support from

Telenor.

4G services remain dominant for now

We hold our view that the competitions among mobile phone operators will remain intense for the foreseeable future as the market is saturated. We assess that the mobile phone service industry in Thailand will need some time for the commercial development of 5G services. We expect the 4G services will continue to be the predominantly available services, with enhanced broadband services in some areas. The 5G services may need time to develop, both in the parts of related-industry technology and the availability of 5G devices. DTAC continues to increase its capacity of its 4G network through the 2300-MHz band and massive MIMO deployment. As of 31 December 2020, the base stations for the 2300-MHz network were expanded to approximately 20,400 sites.

Continued decline in subscribers

DTAC remains the third rank in the Thai mobile service industry, with a market share of about 21% of all subscribers in Thailand as of December 2020. DTAC's service revenue, excluding interconnection charges (IC), in the meantime represented 23% of industry-wide revenue.

DTAC has lost more than five million subscribers over the past five years, due to the market sensitivity on its spectrum inferiority and pandemic impact in late 2019. As of 31 December 2020, DTAC had total subscribers of 18.9 million, decreasing by 8.6% from 20.6 million subscribers in 2019. Postpaid subscribers accounted for 32% of its total subscribers, while the rest were prepaid subscribers. Despite the sign of a revival in subscribers in the fourth quarter of 2020 and more spectrums in hand, we view DTAC's efforts to regain market shares will be very challenging.

Lingering pressure from COVID-19

The COVID-19 fallout has had significant impact on DTAC's revenue. Although the pandemic has changed the consumer's behaviors and helped boost the monthly data usage per subscriber, DTAC was hurt by the decline in mobile usage by tourists and the migrant worker segment, due to international travel restrictions. As a result, DTAC's service revenue excluding the IC declined by 5% to THB58.4 billion in 2020 from THB61.2 billion in 2019.

We expect DTAC's earnings will remain under pressure, given the fragile economic recovery amid new waves of COVID-19 infections. In our base-case forecast, we project DTAC's service revenue excluding the IC in 2021 to continue to drop by 2% from the previous year. We expect the revenue will gradually revive from 2022 onwards, in anticipation of a post-pandemic recovery as well as DTAC's service improvement measures and network expansions to major provinces outside Bangkok.

Strong cash generation

The rating affirmation is largely built on DTAC's strong cash generation. Despite the persistent decline in subscribers, DTAC's earnings before interest, taxes, depreciation, and amortization (EBITDA) has remained sound over the past five years, in the range of THB28-THB30 billion per annum. The EBITDA margin was 34%-40% during the same period. The strong profitability was led by lower regulatory costs and effective cost control.

In our base-case forecast for 2021-2023, we expect DTAC will continue deliver strong EBITDA at a level of THB29-THB31 billion per annum. We forecast the EBITDA margin to be in the 38%-39% range. Given the expected lower revenue in 2021 and uncertain economic outlook, we expect DTAC to manage its costs effectively. Regulatory costs and network expenses are projected to decline throughout the forecast period, due in large part to lower infrastructure and rental cost paid to CAT Telecom PLC (CAT). However, roaming cost of the 2300-MHz network payable to TOT will remain high. We also expect the company will continue to control selling and marketing expenses well. In our forecast, DTAC will arrive at funds from operations (FFO) of THB26-THB28 billion per annum during 2021-2023.

Leverage expected to decline

Our forecast assumes that DTAC's capital expenditure for network rollout will be around THB13 billion per annum plus scheduled license fee payments of about THB20 billion totally during 2021-2023. Despite much-needed spending to enhance serviceability, we expect DTAC's leverage will gradually decline after it monetizes the newly acquired spectrum. We forecast the adjusted net debt (including the obligation and financial lease) to EBITDA ratio to be 3.4 times in 2021, and drop to 2.5-3 times in the following years. The FFO to adjusted net debt ratio is projected to be 25%-37% over the forecast period.

Ample liquidity

We assess DTAC to have adequate liquidity for the next 12 months. We forecast DTAC's capital spending will total THB22 billion in 2021 to support network expansion and payment of license fee. At the same time, DTAC has THB6.5 billion in debt coming due in 2021, comprising bank loans and debentures. The company also had current portion of lease obligation for THB4.6 billion. We expect the company to have adequate sources of funds to meet its obligations, including cash on hand of THB6.6 billion as of the end of December 2020, and expected FFO of THB26 billion. In addition, the company also has undrawn bank facilities of about THB22 billion. We also expect DTAC to maintain a liquidity cushion by optimizing the dividend payout, so that it has enough cash to fund the network rollout and pay the licensing costs.

BASE-CASE ASSUMPTIONS

- Service revenues, excluding the IC, to slightly drop by 2% in 2021 and then grow by 2%-3% in 2022-2023.
- The EBITDA margin is forecast to stay at 38%-39% during the next three years.
- Total capital spending to be THB18-THB22 billion per annum.
- No additional spectrum to be acquired.
- Dividend payout ratio of 50%.

RATING OUTLOOK

The "stable" outlook embeds our expectation that DTAC will sustain its solid cash generation and monetize the licensed spectrum. We expect DTAC's financial leverage and cash flow against debt obligations to be at the levels in line with our forecast. Moreover, we expect DTAC to adopt a conservative financial policy to manage the heavy capital expenditures required for its network expansion and licensing costs, the dividend payment, and debt repayment, without causing liquidity constraints.

RATING SENSITIVITIES

A rating upgrade is unlikely over the next 12-18 months. However, a credit upside could develop if DTAC improves its market position, and its cash flow is significantly enhanced that results in a material reduction in its financial leverage. Conversely, a downward revision to DTAC's rating and/or outlook could emerge if operating performance is significantly worse than our expectations or its financial profile deteriorates considerably.

According to TRIS Rating's "Group Rating Methodology", any change in our view regarding the degree of support DTAC receives from Telenor or Telenor's credit rating will affect DTAC's credit rating accordingly.

COMPANY OVERVIEW

DTAC was incorporated in 1989 and listed on the Stock Exchange of Thailand (SET) in 2007. Telenor, a leading Norwegian telecommunication company, directly held 42.6% of DTAC's shares as of February 2020.

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.

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 the National Broadcasting and Telecommunications Commission (NBTC) in October 2012. In 2018, DTAC entered into an agreement with TOT 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.

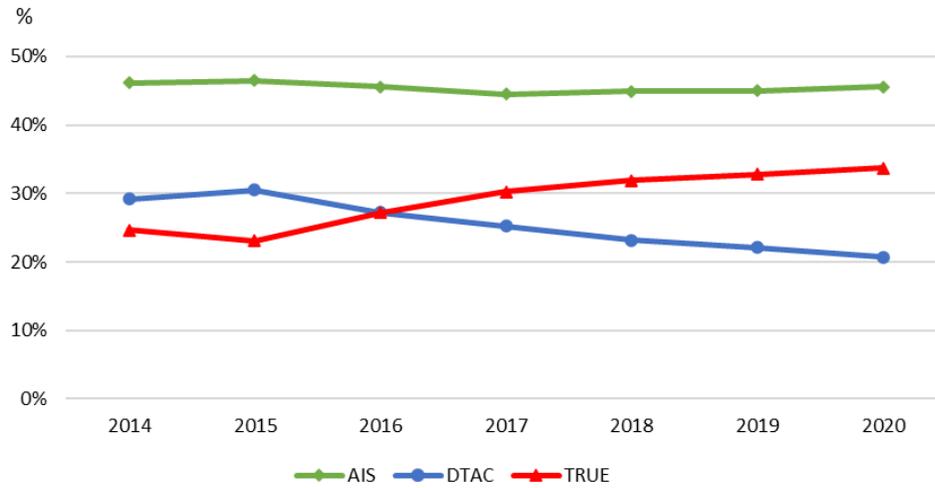
In September 2018, the concession with CAT expired. In August and October 2018, DTN won two new licenses for the 900-MHz and 1800-MHz spectrum bands, granted by the NBTC. In June 2019, DTN was allocated a 700-MHz license.

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 but is currently operating on 850 MHz per NBTC approval. DTAC schedules to switch to operate on 900 MHz as soon as the filter installation is completed or no later than 31 December 2021.

At the end of 2020, DTAC had 18.9 million subscribers, with a service revenue market share of 23%.

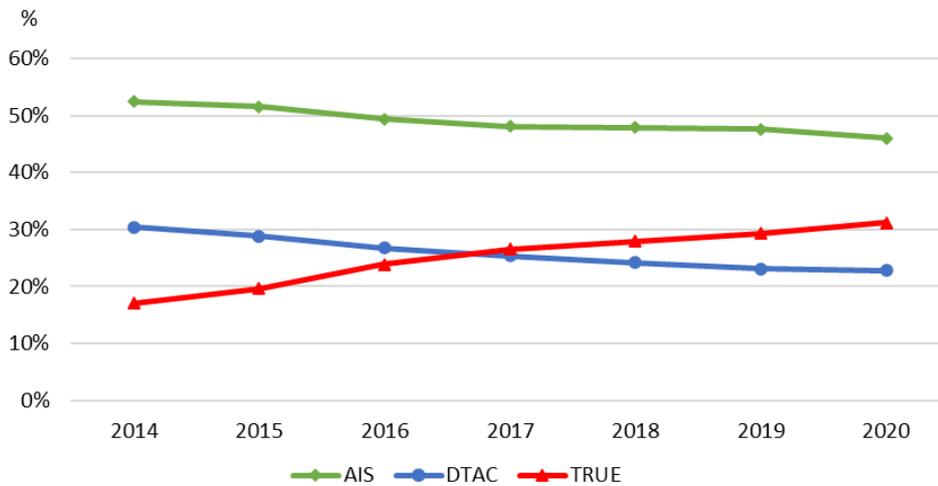
KEY OPERATING PERFORMANCE

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

Table 1: Spectrum Bandwidth of Each Operator

Unit: MHz

Frequency	Frequency	AIS (Bandwidth/ Until Year)	TRUE (Bandwidth/ Until Year)	DTAC (Bandwidth/ Until Year)
Low-band	700-MHz	2 x 10 MHz 2036 2 x 5 MHz 2036	2 x 10 MHz 2035	2 x 10 MHz 2035
	850-MHz		2 x 15 MHz 2025**	
	900-MHz	2 x 10 MHz 2031	2 x 10 MHz 2031	2 x 5 MHz 2033
Mid-band	1800-MHz	2 x 20 MHz 2033	2 x 15 MHz 2033	2 x 5 MHz 2033
	2100-MHz	2 x 15 MHz 2027 2 x 15 MHz 2025*	2 x 15 MHz 2027	2 x 15 MHz 2027
	2300-MHz			60 MHz 2025*
	2600-MHz	100 MHz 2035	90 MHz 2035	
High-band	26-GHz	1,200 MHz 2036	800 MHz 2036	200 MHz 2035

* Partnership with TOT PLC (TOT), currently National Telecom PLC (NT)

** Wholesale agreement with CAT Telecom PLC (CAT), currently National Telecom PLC (NT)

Sources: AIS, DTAC, TRUE, and National Broadcasting and Telecommunications Commission (NBTC)

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	-----Year Ended 31 December-----				
	2020	2019*	2018	2017	2016
Total operating revenues	78,818	81,167	75,290	78,275	82,478
Earnings before interest and taxes (EBIT)	8,533	9,745	3,599	4,120	4,410
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	29,519	29,799	29,540	31,466	28,219
Funds from operations (FFO)	25,794	25,544	29,417	29,505	25,948
Adjusted interest expense	2,872	3,286	1,554	1,742	1,766
Capital expenditures	20,811	17,809	25,510	19,992	18,887
Total assets	174,280	167,258	150,958	114,501	115,379
Adjusted debt	114,214	105,086	74,307	28,579	36,201
Adjusted equity	24,315	24,966	21,930	29,235	27,145
Adjusted Ratios					
EBITDA margin (%)	37.45	36.71	39.24	40.20	34.21
Pretax return on permanent capital (%)	6.01	7.83	3.73	5.07	5.57
EBITDA interest coverage (times)	10.28	9.07	19.01	18.06	15.98
Debt to EBITDA (times)	3.87	3.53	2.52	0.91	1.28
FFO to debt (%)	22.58	24.31	39.59	103.24	71.68
Debt to capitalization (%)	82.45	80.80	77.21	49.43	57.15

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

RELATED CRITERIA

- Group Rating Methodology, 13 January 2021
- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

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: 02-098-3000

© Copyright 2021, 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