

INTERLINK TELECOM PLC

No. 69/2024
29 April 2024

CORPORATES

Company Rating: BBB
Outlook: Stable

Last Review Date: 30/03/23

| Company Rating History: | | |
|-------------------------|--------|---------------|
| Date | Rating | Outlook/Alert |
| 25/03/22 | BBB | Stable |

Contacts:

Sarinthorn Sosukpaibul
sarinthorn@trisrating.com

Chanaporn Pinphithak
chanaporn@trisrating.com

Wajee Pitakpaibulkij
wajee@trisrating.com

Pramuansap Phonprasert
pramuansap@trisrating.com



WWW.TRISRATING.COM

RATIONALE

TRIS Rating affirms the company rating on Interlink Telecom PLC (ITEL) at “BBB”, with a “stable” rating outlook. The rating incorporates its stand-alone credit profile (SACP) of “bbb” and its status as a “core subsidiary” of Interlink Communication PLC (ILINK), its parent company, as per our “Group Rating Methodology”. The company rating on ITEL reflects its market position and its competitive advantages in fiber-optic data services, its proven track record of executing public sector projects, as well as its satisfactory operating results with moderate financial leverage. However, the rating is constrained by the intense competition in the telecommunication industry as well as the inherently uncertain and volatile nature of the turnkey project business.

KEY RATING CONSIDERATIONS

Modest growth in data services business and data center business

The fiber-optic data services business and data center business serve as the primary sources of recurring income for the company. Data services business generates about half of the company’s total revenue while the data center business contributes about 4%. In our view, the revenue from these two businesses, coupled with additional sources of recurring income have significantly enhanced the company’s revenue stability.

Over the next three years, we expect modest revenue growth for the data services business. This translates to expected revenues of THB1.5-THB1.6 billion per annum. As of December 2023, the company had a backlog of THB1.4 billion in data services business, with nearly 60% expected to be recognized in 2024. Furthermore, we expect the company to successfully renew most of its expiring service contracts within the next three years and continue to expand its customer base. ITEL is also seeking growth opportunities in high-speed internet-related projects, such as a telemedicine scheme for people in rural areas. However, heightened competition may lead to pricing pressure, which could decelerate revenue growth. For the data center business, we expect revenues to remain stable at about THB95-THB97 million per annum during the next three years.

In our view, ITEL’s strength lies in its wide fiber-optic network coverage, particularly its strong network infrastructure along railways and highways nationwide. Also, the company has been able to maintain quality of services and long-term relationships with its customers. These strengths are likely to continue and help sustain its competitive edge and industry position.

In 2023, ITEL’s data services business grew by 12% from 2022, reaching THB1.47 billion in revenue. The growth was mainly propelled by new data service projects, i.e., online courses for people in rural areas, as well as expansion of the customer base. Meanwhile, data center revenue reached THB93 million in 2023, up by 6% from 2022.

Revenue from turnkey projects to rebound

The delayed formation of the new government last year, which caused delays in government budgeting process, has resulted in fewer opportunities for turnkey projects in the public sector. This has impacted the revenues of various information and communication technology (ICT) companies, including ITEL’s installation business.

In 2023, ITEL's revenue from the installation business was around THB1.2 billion, down 42% year-on-year (y-o-y) from 2022, and accounted for about 43% of total revenue. This decrease was due to the volatility inherent in project-based revenue linked to state enterprise information technology (IT) budgets and bidding processes. Revenue from the installation business tends to be more volatile compared with revenue from the data services business and data center business.

Looking ahead, we expect revenue streams from the installation business to rebound, ranging from THB1.4-THB1.7 billion annually during 2024-2026. As of December 2023, the outstanding backlog of the installation business amounted to nearly THB1.2 billion. The backlog is expected to turn into THB873 million of revenue in 2024, and about THB290 million during 2025-2026. We also expect ITEL to secure more new projects for its turnkey project business, supported by the normalization of government budget, a number of ICT projects in the pipeline, and healthy prospects for Thailand's IT infrastructure development.

Venturing into the health-tech business

Recently, ITEL announced a strategic move to expand into medical-related IT solutions by acquiring Global Lithotripsy Services Co., Ltd. (GLS). The total investment cost for the acquisition of 100% of GLS's paid-up shares was about THB40 million.

GLS specializes in providing a range of radiology and imaging services utilizing advanced medical equipment including X-Ray, and extracorporeal shock wave lithotripsy (ESWL). The company intends to expand its services to include computerized tomography (CT) scans and magnetic resonance imaging (MRI). ITEL expects to leverage this new company to propel its expansion into the health technology sector, aiming to increase growth and enhance service income with potentially higher profit margins. In 2023, GSL achieved revenues of THB93 million and net profit of THB22 million.

Satisfactory profitability

Despite experiencing a decline in revenue in 2023, ITEL maintained satisfactory profitability. The company generated THB1.1 billion in earnings before interest, taxes, depreciation, and amortization (EBITDA) in 2023, relatively stable from the previous year. Additionally, its EBITDA margin rose to 40% in 2023, driven by strong recurring income and a mix of higher margin projects in the installation business.

Looking ahead, we project its annual EBITDA of about THB1.0-THB1.1 billion during the next three years, attributing to an increase in recurring revenue and a rebound in revenue from the installation business. Given that the installation business typically operates with lower margins, the anticipated strong recovery in the installation sector could soften the overall margin level slightly despite the expected growth of revenue. We expect the company's EBITDA margin to be 29%-34%. Moreover, we expect the integration of new company operations will progress smoothly without significant increases in costs.

Moderate leverage ratio

As of December 2023, ITEL's adjusted debt was THB3.9 billion, up from THB3.4 billion a year earlier. The debt to EBITDA ratio was 3.7 times while the ratio of funds from operations (FFO) to debt was 19.4%. The debt to capitalization ratio was 51%.

We project ITEL's leverage to remain at a moderate level over the next three years. We estimate its investments will amount to THB500 million annually for the period 2024-2026, mainly for the investment in last-mile internet connectivity to reach end-users. We expect ITEL to partly finance its capital expenditures with internally generated cash. Our forecast projects the debt to EBITDA ratio to be 3.7-3.8 times during 2024-2026. The FFO to debt ratio is projected to be in the 19%-20% range and the debt to capitalization ratio to be 46%-49% during the same period.

Adequate liquidity

We assess ITEL to have adequate liquidity over the next 12 months. As of December 2023, the company's sources of funds included cash and cash equivalents totaling THB183 million, with an undrawn bank facility of THB5.3 billion. FFO for the next 12 months are estimated at about THB800 million.

The funds will be allocated towards capital expenditures and scheduled debt repayments. As of December 2023, ITEL's outstanding short-term obligations amounted to about THB2 billion, of which 55% were project financing loans. These short-term project loans are expected to be repaid upon project completion. Given ITEL's proven track record in project execution and the creditworthiness of the project owners, we expect the company to be able to roll over its short-term debts. Additionally, around THB462 million in long-term debt will mature in 2024. The company's investment budget for 2024 is around THB500 million.

Also, ITEL plans to spin off its subsidiary, Blue Solution PLC (BS), and list the company on Market for Alternative Investment (MAI). BS provides a full range of integrated IT project designs, installations, services, and IT solutions, catering to both

private firms and state enterprises. The company aims to utilize the proceeds from the initial public offering (IPO) to support working capital needs and for further investments.

Debt structure

ITEL's consolidated debt, excluding lease liabilities, was THB3 billion as of December 2023. The company's priority debt consisted of about THB1.3 billion secured loans and debts owned by its subsidiary. The priority debt to total debt ratio was nearly 40% at the end of December 2023.

BASE-CASE ASSUMPTIONS

- Revenues to range from THB3.1-THB3.6 billion per annum over the next three years.
- EBITDA margin at 29%-34%.
- Total investments of THB500 million per year during the next three years.

RATING OUTLOOK

The "stable" outlook reflects our expectation that ITEL will maintain its competitive position in the data service business and continue to secure new projects for its turnkey project business.

RATING SENSITIVITIES

A rating upgrade could occur if the operating performance and cash flow of ITEL and the ILINK Group improve substantially, while keeping financial leverage at moderate levels. Conversely, a downward rating action could be triggered if ITEL's and the group's financial profiles deteriorate materially. Any significant change in ITEL's status to the group could also lead to a rating change.

COMPANY OVERVIEW

ITEL was established on 3 January 2007. The company was listed on the MAI in 2015 and was moved to the Stock Exchange of Thailand (SET) in November 2021. As of March 2024, ILINK, the major cable and IT equipment distributor in Thailand, was ITEL's major shareholder, holding directly around 50% of ITEL's paid-up shares.

ITEL has provided data communication services and internet connectivity (data services) under a 15-year license granted by the National Broadcasting and Telecommunication Commission (NBTC) since 2012. In the same year, the company was awarded a 30-year license by the State Railway of Thailand (SRT) to install fiber-optic networks along railways throughout the country. In 2014, the company expanded its business to offer data server rental and disaster recovery for organizations, operated under Interlink Data Center. ITEL undertakes installations of fiber-optic cables and other telecommunication projects under the installation business. In 2022, ITEL acquired a 51% stake in BS, a company that provides integrated IT products, services, and systems.

ITEL has established a partnership with the Australia-based Global Data Centre Group to operate the "ETIX ITEL BANGKOK" data center (formerly known as "Genesis Data Center"). ITEL holds a 33% interest in ETIX ITEL BANGKOK, while the Global Data Centre Group, a leading investment company in the data center business worldwide, owns a 67% interest.

ITEL's total consolidated revenue was THB2.76 billion in 2023. The data services business accounted for 54% of its total revenue, followed by the installation business (43%), and the data center business (3%).

KEY OPERATING PERFORMANCE

Table 1: Revenue Contribution by Segment

| Business Line | 2020 | | 2021 | | 2022 | | 2023 | |
|---------------|--------------|------------|--------------|------------|--------------|------------|--------------|------------|
| | Mil. THB | % |
| Data service | 1,111 | 55 | 1,281 | 52 | 1,311 | 38 | 1,466 | 54 |
| Data center | 85 | 4 | 92 | 4 | 87 | 3 | 93 | 3 |
| Installation | 824 | 41 | 1,093 | 44 | 1,995 | 59 | 1,155 | 43 |
| Total | 2,021 | 100 | 2,466 | 100 | 3,393 | 100 | 2,714 | 100 |

Source: ITEL

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

| | -----Year Ended 31 December ----- | | | | |
|--|-----------------------------------|-------|-------|-------|-------|
| | 2023 | 2022 | 2021 | 2020 | 2019 |
| Total operating revenues | 2,760 | 3,438 | 2,509 | 2,040 | 2,347 |
| Earnings before interest and taxes (EBIT) | 583 | 552 | 513 | 416 | 397 |
| Earnings before interest, taxes, depreciation, and amortization (EBITDA) | 1,103 | 1,110 | 1,028 | 941 | 733 |
| Funds from operations (FFO) | 800 | 668 | 766 | 690 | 518 |
| Adjusted interest expense | 232 | 229 | 214 | 215 | 183 |
| Capital expenditures | 492 | 350 | 332 | 341 | 624 |
| Total assets | 8,931 | 8,396 | 8,084 | 7,079 | 6,622 |
| Adjusted debt | 4,113 | 3,531 | 4,712 | 4,879 | 4,510 |
| Adjusted equity | 4,009 | 3,691 | 2,909 | 1,893 | 1,712 |
| Adjusted Ratios | | | | | |
| EBITDA margin (%) | 40.0 | 32.3 | 41.0 | 46.1 | 31.2 |
| Pretax return on permanent capital (%) | 7.4 | 7.2 | 6.9 | 6.2 | 7.1 |
| EBITDA interest coverage (times) | 4.7 | 4.8 | 4.8 | 4.4 | 4.0 |
| Debt to EBITDA (times) | 3.7 | 3.2 | 4.6 | 5.2 | 6.2 |
| FFO to debt (%) | 19.4 | 18.9 | 16.3 | 14.1 | 11.5 |
| Debt to capitalization (%) | 50.6 | 48.9 | 61.8 | 72.0 | 72.5 |

* Consolidated financial statements

RELATED CRITERIA

- Group Rating Methodology, 7 September 2022
- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021

Interlink Telecom PLC (ITEL)

| | |
|------------------------|--------|
| Company Rating: | BBB |
| Rating Outlook: | Stable |

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: +66 2 098 3000

© Copyright 2024, 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