TRIS RATING
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CreditNews ข่าวเครดิต

TRUE CORPORATION PLC

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CORPORATES

Company Rating:	BBB+
Issue Ratings:	
Partially guaranteed	A-
Outlook:	Stable

Company Rating History:

Date	Rating	Outlook/Alert
03/10/14	BBB+	Stable
11/06/14	BBB	Alert Positive
11/03/14	BBB	Negative
19/02/14	BBB	Stable
01/10/12	BBB	Negative
21/10/11	BBB	Stable
22/10/10	BBB	Negative
11/04/07	BBB	Stable
25/05/06	BBB	Positive
12/07/04	BBB	Stable
29/08/01	BBB	

Contacts:

Chanaporn Pinphithak
chanaporn@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 of True Corporation PLC (TRUE) at “BBB+” and the rating of TRUE’s partially guaranteed debentures at “A-”. The ratings reflect the company’s competitive strength as an integrated telecom operator with an established market position, extensive network coverage in broadband internet and mobile services. The ratings also reflect the expectation of continued support from its major shareholders. However, the ratings are weighed down by the immense competitive pressures TRUE faces in its core business segments and a high level of financial risk.

KEY RATING CONSIDERATIONS

Enhanced market position of mobile segment

TRUE’s concerted effort in network and spectrum investment as well as compelling marketing campaigns to improve its competitive strength and performance in mobile segment starts paying off. With its strong spectrum portfolio, True Mobile has steadily poached customers from its rivals, becoming the second-ranked mobile service provider by service revenue in 2017. In the first quarter of 2018, it had 30.9% of subscriber market share and 27.6% of service revenue market share.

True Mobile’s service revenue (excluding interconnection charges or IC) rose faster than the industry average for the last few years. During 2013-2017, service revenue grew by an average of 17% per annum, compared with 4.3% for the industry. The tremendous growth in service revenue was also driven by robust demand for data services. A growing base of subscribers allows the company to better leverage the massive outlays it made in spectrums and network coverage and capacity.

TRIS Rating holds the view that True Mobile’s service revenue will continue to grow, but at a slower pace. The growth will be driven in large part by higher demand for data services. TRIS Rating projects mobile service revenue to grow at a high single-digit percentage rate during 2018-2020.

Room to improve revenue per user

On the flipside, the company has room to improve its average revenue per user (ARPU). True Mobile’s ARPU is consistently below peers in both the prepaid and postpaid subscriber segments. The company gained a host of prepaid subscribers from its competitors in past years. TRUE aims to convert them into postpaid subscribers in an effort to enlarge its service revenue and profit.

In TRIS Rating’s view, TRUE needs to raise its ARPU to have a significant impact on its financial strength. TRUE has spent billions in front-loaded spectrum acquisitions and network expansions, which are fixed charges that have to be matched by an uplift in the future revenue streams.

Although TRUE was able to curtail its operating expenses from a series of cost-cutting measures, its profitability has remained below peers. The company is bent on building up subscribers further; however, improving profitability remains the company’s ongoing challenge.

Competitive pressure hindering performance improvement

TRUE’s effort to improve its performance in the mobile segment is hamstrung by the competitive market environment. However, the pricing competition has abated somewhat. All operators now focus more on profitability, placing a greater emphasis on more cost-efficient strategies. In response to fast-growing demand for data, mobile operators are improving the quality of data services and trying to convert prepaid customers to postpaid.

The telecom regulator has pledged to conduct the auctions of 1800-megahertz (MHz) and 900-MHz spectrum licenses in August 2018, though; there is still a question whether the timeline can be met. However, if the auctions take place and the licenses are granted to winners, the level of competition is expected to escalate and will pressure TRUE's operating performance.

Evolving technological changes also pose a significant downside risk in the medium term as the industry is moving toward 5G (fifth generation) technology, which will call for another round of massive investments.

Competitive in broadband segment

TrueOnline remains the market leader in the broadband segment despite rising competition. Its competitive edge is largely built on its broad coverage of fiber-to-the-home (FTTH) network. Its FTTH network covers more than 13 million households (out of 22 million households nationwide). TrueOnline's broadband internet subscribers reached 3.3 million at the end of March 2018.

TrueOnline's revenue, excluding the impact of an asset sale to Digital Telecommunications Infrastructure Fund (DIF) in late 2017, was Bt23.3 billion in 2017 and Bt5.7 billion for the first quarter of 2018, a 3% drop year-on-year (y-o-y). The drop in the first quarter was due mainly to the end of fixed-line voice concession in October 2017. Broadband internet revenue, which comprises the major portion of TrueOnline's service revenue, grew at double digit rates.

Despite escalating competition in major cities, mainly from Advanced Info Services PLC (AIS), TRIS Rating expects TrueOnline to maintain growth momentum in the broadband internet segment due to its early move in placing network infrastructure and monetize its investment in the FTTH network. In TRIS Rating's base case forecast, TrueOnline's service revenue will grow by 5%-8% per annum during 2018-2020.

TrueVisions serving convergence strategy

TRUE's broadcast and pay television (TV) performances remain under pressure. TrueVisions's performance has languished due to heightened competition from rivals e.g. over-the-top (OTT) platform, AIS playbox, digital TV, etc. The competition comes in forms of sourcing content and sharing revenue both subscription and advertising revenue. TRIS Rating expects TrueVisions's revenue to range Bt9-Bt10 billion annually during 2018-2020. TRIS Rating is of the view that TrueVisions is mainly positioned to serve TRUE's convergence strategy and support TRUE's competitive position.

Improving profitability

Profitability improved over the past two years. TRUE demonstrated that it could better leverage its operations especially in the mobile segment. Revenue, excluding revenue from the asset divestment to DIF, grew by 8% y-o-y in 2017 to Bt135 billion and 3% y-o-y for the first quarter of 2018 to Bt33 billion. The strong performances of the mobile and broadband internet services segments propelled the growth. Operating margin (operating income before depreciation and amortization as a percentage of revenue) improved from 25.1% in 2016 to 29.5% in 2017 and 33.6% in the first quarter of 2018. The surge in the profit margin was the direct result of an increase in the scale of operations in the mobile segment and cost-saving efforts.

In TRIS Rating's base case for 2018-2020, TRUE's revenue, excluding the impact of the transaction with DIF, will grow by 3%-4% annually to arrive at Bt139-Bt154 billion per annum. Operating margin is expected to range 30%-34%. Funds from operations (FFO) would be in a range of Bt23-Bt35 billion annually.

DIF transactions to ease cash strain

TRUE has completed a third asset and revenue sale and leaseback transactions with DIF. TRUE received Bt50.6 billion in net proceeds from these transactions, part of which is expected to be reserved to pay for spectrum licenses. TRUE has license payment due of Bt14 billion in 2018, Bt4 billion in 2019, and Bt60 billion in 2020. The proceeds from asset sales to DIF somewhat ease concerns over license payments, especially the last installment for the 900-MHz spectrum license due in 2020. Over the medium term, TRUE is likely to continue making sale and leaseback transactions to meet its need for cash.

Leverage will remain high

TRUE's credit ratings have been constrained by its weak financial profile. The company has strengthened its business position but not its financial profile. TRUE's high financial risk is a result of its debt burden from bearing the hefty costs of mobile spectrum licenses and front-loaded network investments.

At the end of March 2018, the total debt to capitalization ratio was high at 67%. Adjusted net debt to earnings before interest, tax, depreciation, and amortization (EBITDA) ratio was at 6 times (annualized from the trailing 12 months).

Leverage is expected to remain elevated due to high capital expenditures, mobile spectrum license payment, and operating lease obligations. TRUE has made extensive investments in FTTH network and the 4G network over the past few years. TRUE was granted credit from its suppliers for a major portion of the investments. The supplier credits feature five-year installments with a two-year grace period. Payments begin in 2018, making capital expenditures to remain high. TRIS Rating expects the capital expenditures to be around Bt37-Bt39 billion per annum during 2018-2020.

Operating lease obligations, in present value terms, over the next three years is projected to be Bt71-Bt84 billion. The total debt to capitalization ratio is expected to stay at 60%-63% while adjusted net debt to EBITDA ratio is expected to stay at 5-6 times during 2018-2020.

Liquidity manageable

During the next 12 months, liquidity is expected to be tight but manageable. On a consolidated basis, sources of funds are expected to include FFO of at least Bt23 billion and cash and cash equivalents on hand of Bt8.6 billion at the end of March 2018. Uses of funds are scheduled debt repayments of Bt37.5 billion, and estimated capital expenditures of Bt51-Bt53 billion, including scheduled license payments. Of the total debt coming due, Bt20 billion is owed by True Move H Universal Communication Co., Ltd. (TUC) which will be refinanced by new debenture issues. TRUE needs additional borrowings to support its funding needs. The proceeds from assets sold to DIF, part of which are likely to be put aside for license payment due in 2020, add financial flexibility as a liquidity back-stop.

RATING OUTLOOK

The “stable” outlook is based on the expectation that TRUE will sustain its strong market positions and continue to delivering sound operating performance in mobile services and broadband internet operations. TRIS Rating also expects TRUE to receive ongoing support from its two major shareholders, CP Group and China Mobile International Holdings Ltd. (China Mobile). This support strengthens TRUE’s credit profile.

RATING SENSITIVITIES

Any rating upside is unlikely in the next 12-18 months, taking into account TRUE’s debt-heavy capital structure. However, an upgrade could occur if TRUE considerably strengthens its profitability, which would result in enlarged cash flow protection against the heavy financial burden. The ratings could be downgraded if TRUE's operating performance deteriorates such that the ratio of adjusted net debt to EBITDA stays over 7 times on a sustained basis.

COMPANY OVERVIEW

TRUE was incorporated in 1990. The company has three business segments: True Mobile, providing mobile services; TrueOnline, providing broadband internet; and TrueVisions, offering pay television (TV) services and two digital TV channels. In 2017, the three lines of business contributed 75%, 18%, and 7% of revenue respectively.

TRUE’s credit ratings are strengthened by the support from its two major shareholders. CP Group, one of Thailand’s leading conglomerates, holds 51% of TRUE, followed by China Mobile with an 18% ownership stake. China Mobile is the world's largest mobile operator by number of subscribers.

KEY OPERATING PERFORMANCE

TRUE Mobile

Chart 1: Market Share by Subscribers

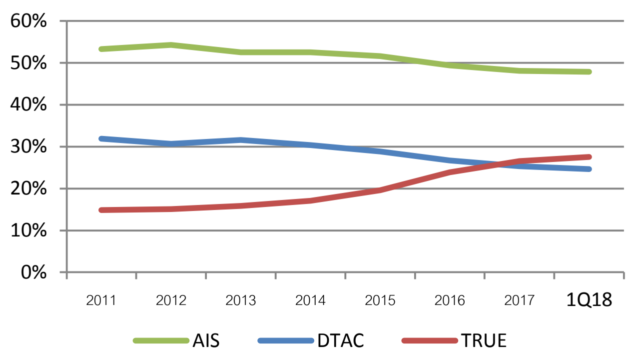


Chart 2: Service Revenue Market Share

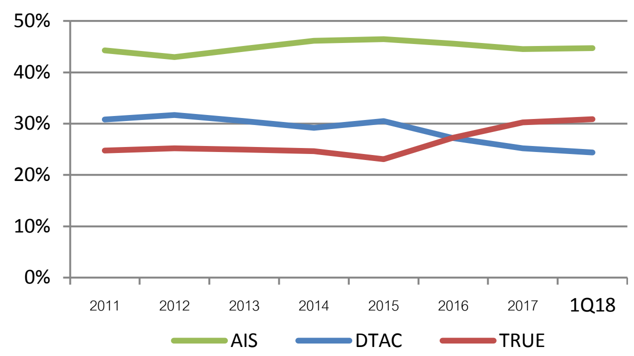


Chart 3: Postpaid ARPU

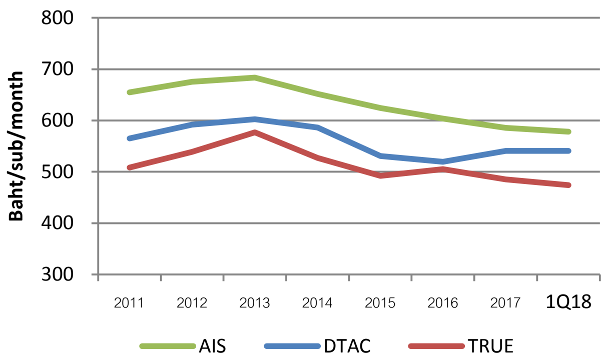
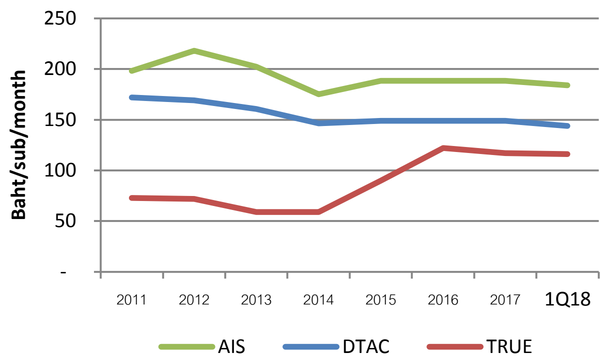
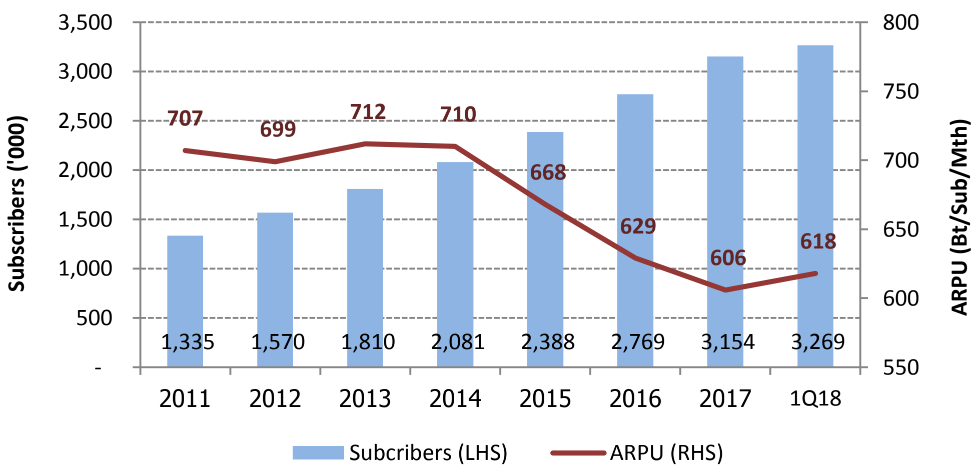


Chart 4: Prepaid ARPU



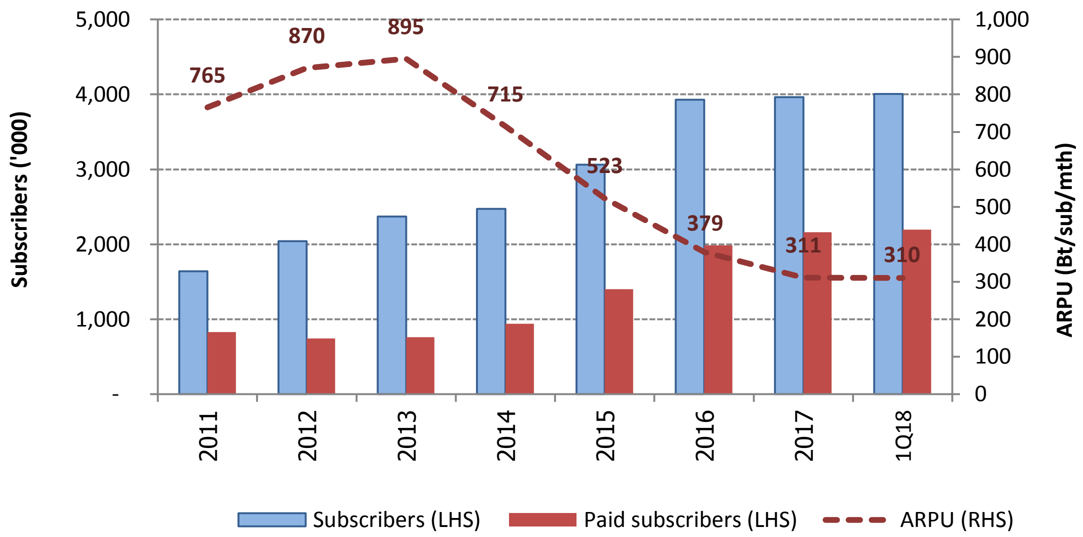
TrueOnline

Chart 5: Broadband Internet Subscribers and ARPU



TrueVisions

Chart 6: Pay-TV Subscribers and ARPU



Sources: 1) TRUE
2) Advanced Info Service PLC (AIS)
3) Total Access Communication PLC (DTAC)

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	Jan-Mar 2018	----------------- Year Ended 31 December ----------- 2017	2016	2015	2014
Sales and service revenues**	33,286	135,020	124,719	112,931	103,434
Gross interest expense	1,866	8,429	6,201	3,234	6,726
Net income from operations**	(932)	(9,839)	(6,935)	(128)	(8,544)
Funds from operations (FFO)**	7,846	29,139	22,254	17,949	11,183
Capital expenditures	18,512	47,581	46,985	52,658	27,460
Total assets	463,218	465,311	448,960	283,525	234,103
Total debts***	271,680	253,603	253,142	167,922	100,400
Shareholders' equity	133,805	134,203	131,728	75,207	70,726
Operating income before depreciation and amortization as % of sales	33.16	29.53	25.14	21.85	21.61
Pretax return on permanent capital (%)	1.18 ****	0.81	0.93	3.24	(0.33)
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	2.93	3.42	3.38	4.05	2.30
FFO/total debt (%)	11.40 ****	12.77	10.03	12.18	13.24
Total debt/capitalization (%)	67.00	65.39	65.77	69.07	58.67

Note: All ratios have been adjusted by operating leases since 2014
** Consolidated financial statements*
*** Exclude impact of asset divestment to DIF*
**** Total debt has included operating lease obligations and accrued license fees since 2014.*
***** Annualized with trailing 12 months*

True Corporation PLC (TRUE)

Company Rating:	BBB+
Issue Rating:	
TRUE22NA: Bt8,330 million partially guaranteed debenture due 2022	A-
Rating Outlook:	Stable

TRIS Rating Co., Ltd.
Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 0-2098-3000