

DTAC TRINET CO., LTD.

No. 58/2018
4 May 2018

CORPORATES

Company Rating:	AA+
Issue Ratings:	
Senior unsecured	AA+
Outlook:	Negative

Company Rating History:

Date	Rating	Outlook/Alert
29/03/17	AA+	Negative
17/06/15	AA+	Stable

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 dtacTriNet Co., Ltd. (DTN) and the ratings of DTN’s senior unsecured debentures at “AA+” with a “negative” outlook. The ratings reflect DTN’s strategic importance as a core subsidiary of Total Access Communication PLC (DTAC; rated “AA+/Negative” by TRIS Rating), a leading mobile phone service provider in Thailand. The ratings are partly enhanced by the support from Telenor ASA (Telenor), DTAC’s major shareholder.

The ratings take into consideration DTN’s market position as a leading mobile phone service provider and the growth prospects for data services. The ratings also recognize the intense competition in the industry and the large capital expenditures required to strengthen its spectrum bandwidth capacity and improve network coverage and quality.

KEY RATING CONSIDERATIONS

Core subsidiary of DTAC

The ratings reflect DTN’s status as a core subsidiary of DTAC in consideration of the earnings it contributes to its parent company, large subscriber base, and its role in generating revenue on the license-based network. In 2017, DTN’s total revenue came in at Bt65.3 billion, representing about 83% of DTAC’s total revenue. DTN’s service revenue (excluding interconnection charges or IC) were Bt60 billion, or about 93% of DTAC’s service revenue, excluding the IC. DTN generated about 54% of DTAC’s EBITDA (earnings before interest, taxes, depreciation, and amortization). DTN’s contribution to DTAC will be even closer to DTAC’s revenue as DTAC’s concessions are expiring and the company’s subscribers will be under DTN.

DTAC has full control over DTN’s operations through the appointment of its top management and board of directors. DTAC and DTN share resources and network facilities to provide services. DTAC’s 2G (second generation) concession will expire in September 2018 and all of DTAC’s subscribers and operations will be migrated to DTN’s network. Given DTN’s essential role and prodigious contributions to DTAC, TRIS Rating believes DTN will receive full support from DTAC, including financial assistance in the event of distress.

DTN’s credit ratings are also strengthened by the support DTAC receives from Telenor in the areas of managerial assistance, technological know-how, and support. DTAC is considered significant to Telenor in light of its earnings contribution. DTAC is the top earner of the Telenor Group outside Norway. In recognition of this, TRIS Rating expects Telenor will support DTAC financially in time of need.

With the strong linkage between DTN and DTAC, the company rating of DTN is equal to and moves correspondingly with that of DTAC.

Easing pressure on spectrum constraint

DTN signed a partnership agreement with TOT PLC (TOT), a state-owned telecommunications company to provide 4G LTE-TDD (Long Term Evolution-Time Division Duplex) services on TOT’s 2.3-gigahertz (GHz) spectrum of 60-megahertz (MHz) bandwidth. DTN will pay Bt4.51 billion annually to use up to 60% of the total network capacity.

The deal materially eases concerns on DTAC’s spectrum constraint, as a total of

35 MHz of its spectrum in use under the concession agreements for the 850-MHz and 1.8-GHz frequency bands will expire in September 2018. DTAC's spectrum portfolio is now strengthened with sufficient spectrum bandwidth to cater to fast-growing data and bandwidth demands.

The telecom regulator has pledged to conduct an auction for the 1.8-GHz spectrum prior to DTAC's concession expiry; however, whether they will carry it out is still in question. TRIS Rating expects that DTAC will participate in the forthcoming 1.8-GHz bandwidth auctions to remain competitive with its spectrum holdings. However, the coveted 2.3-GHz spectrum helps slash DTAC's pressure to outbid its rivals in the next auctions.

Prospects from data services

In 2017, DTN's service revenue, excluding the IC, grew by 2.2% from a year earlier to Bt60 billion. The revenue is driven mainly by robust growth in data usage. DTN's data service revenue has grown at an average of 25% per year over the past three years. In 2017, data service comprised 66% of DTN's total service revenues, excluding the IC. The explosive growth in data service revenues outstrips the company's depleted prepaid subscriber base and tapering voice service revenues.

Strong demands for data and bandwidth are expected to continue driving the industry in the medium term, taking into account the ongoing surge in demand for data consumption, increasing smart phone penetration, plus high coverage of the 3G and 4G networks. TRIS Rating expects DTN's growth momentum in data service to linger on. In addition, with a strengthened spectrum portfolio, DTN is expected to be more active in acquiring subscribers and regain its service revenue market share in data services. However, the intense competition in the market could potentially crimp revenue growth.

During 2018-2020, TRIS Rating's base case assumes DTN's revenue from data service will grow by double-digits. Such growth in data driven revenue will offset the secular drop in traditional voice revenue and help maintain DTN's total service revenue, excluding the IC, at an average of a 2% growth per annum.

Weakening financial profile

DTN's financial profile is expected to weaken from the hefty investment needed to strengthen its spectrum portfolio and improve its network quality. During 2018-2020, TRIS Rating's base case assumes DTN's funds from operations (FFO) to be in the range of Bt13-Bt18 billion per annum. Despite its efficient cost control and digitization efforts, TRIS Rating views that DTN will be more aggressive in expanding its postpaid subscriber base and regain its service revenue market share, driving the cost of acquiring subscribers higher than the current level. In addition, cash flow will be weighed down by the higher network operating costs arising from network densification, annual fees for TOT's 2.3-GHz network, as well as rental expenses for CAT Telecom PLC's (CAT) telecom infrastructure and equipment which is currently under discussion.

DTN reported total debt of Bt64.5 billion at the end of 2017. The outstanding debt included a Bt15.5 billion on-call shareholder loan. During 2018-2020, TRIS Rating expects DTN to spend about Bt57-Bt60 billion in capital expenditures, excluding the new license costs. The debt to capitalization ratio would sharply rise if DTN acquires a new spectrum license at a high price. Cash flow protection would decline accordingly. However, TRIS Rating is of the view that DTN's will have sufficient liquidity to meet its obligations, taking into account DTAC's solid financial profile and the full support DTN will receive from DTAC.

RATING OUTLOOK

The "negative" outlook is in line with DTAC's rating outlook. The outlook reflects DTAC's declining market position and the expectation that DTAC will continue to face challenges in restoring its competitive strength amid the intensely competitive landscape. DTAC's financial profile is likely to weaken from the hefty investment needed to ensure spectrum bandwidth capacity and expand network coverage.

RATING SENSITIVITIES

Based on TRIS Rating's Group Rating Methodology, DTN's credit ratings will move in tandem with the rating of DTAC. Any change in DTAC's credit rating and/or outlook will affect DTN's credit profile accordingly.

COMPANY OVERVIEW

DTN, a wholly-owned subsidiary of DTAC, was established in 2006. Initially, DTN provided international direct dialing (IDD) services. In December 2012, DTN was awarded a 15-year license for the 2.1-GHz spectrum. DTN provides wireless communication services using 3G and 4G LTE (long-term evolution) technologies, launched in July 2013 and May 2014, respectively. In addition, DTN has recently entered into an agreement with TOT to provide wireless broadband 4G LTE-TDD services on TOT's 2.3-GHz spectrum. Under the agreement, DTN will use up to 60% of the total network capacity of 60-

MHz bandwidth.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	----- Year Ended 31 December -----				
	2017	2016	2015	2014	2013
Revenue	65,289	66,069	64,680	56,674	11,872
Gross interest expense	1,911	1,810	1,047	855	481
Net income from operations	5,530	4,423	4,728	3,035	(346)
Funds from operations (FFO)	14,346	10,365	10,659	7,208	372
Capital expenditures	15,994	9,628	11,011	12,009	5,324
Total assets	95,900	92,453	71,710	47,686	33,060
Total debts	64,500	64,500	48,500	22,000	13,005
Shareholders' equity	8,018	4,899	3,281	1,814	742
Operating income before depreciation and amortization as % of sales	24.1	19.0	17.5	14.4	8.0
Pretax return on permanent capital (%)	11.9	11.9	18.5	25.0	(0.1)
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	8.7	7.5	10.9	9.6	2.0
FFO/total debt (%)	22.2	16.1	22.0	32.8	2.9
Total debt/capitalization (%)	88.9	92.9	93.7	92.4	94.6

* Consolidated financial statements

dtacTriNet Co., Ltd. (DTN)

Company Rating:	AA+
Issue Ratings:	
DTN187A: Bt2,000 million senior unsecured debentures due 2018	AA+
DTN197A: Bt1,500 million senior unsecured debentures due 2019	AA+
DTN207A: Bt4,000 million senior unsecured debentures due 2020	AA+
DTN213A: Bt1,500 million senior unsecured debentures due 2021	AA+
DTN217A: Bt1,000 million senior unsecured debentures due 2021	AA+
DTN227A: Bt3,000 million senior unsecured debentures due 2022	AA+
DTN237A: Bt1,500 million senior unsecured debentures due 2023	AA+
DTN244A: Bt500 million senior unsecured debentures due 2024	AA+
DTN257A: Bt6,000 million senior unsecured debentures due 2025	AA+
DTN267A: Bt1,000 million senior unsecured debentures due 2026	AA+
DTN274A: Bt5,000 million senior unsecured debentures due 2027	AA+
DTN279A: Bt2,000 million senior unsecured debentures due 2027	AA+
DTN299A: Bt2,500 million senior unsecured debentures due 2029	AA+
Rating Outlook:	Negative

TRIS Rating Co., Ltd.

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

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