

DTAC TRINET CO., LTD.

No. 65/2021
27 April 2021

CORPORATES

Company Rating:	AA
Issue Ratings:	
Senior unsecured	AA
Outlook:	Stable

Last Review Date: 21/08/20

Company Rating History:

Date	Rating	Outlook/Alert
23/01/19	AA	Stable
29/03/17	AA+	Negative
17/06/15	AA+	Stable

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RATIONALE

TRIS Rating affirms the company rating on dtac TriNet Co., Ltd. (DTN) and the ratings on its senior unsecured debentures at “AA” with a “stable” outlook. The ratings reflect DTN’s status as a core subsidiary of Total Access Communication PLC (DTAC; rated “AA/Stable” by TRIS Rating), the third-largest wireless communication service provider in Thailand.

The ratings also take into consideration DTN’s market position as a major mobile phone service provider in Thailand and its sufficient radio frequency spectrum to support its competitiveness. The ratings have incorporated a rating enhancement from the support of Telenor ASA (Telenor), DTAC’s major shareholder. However, these strengths are weighed down by the intense competition in the industry, as well as the requirements of hefty capital expenditures for network rollout and spectrum license payment. The ratings also take into consideration the fragile economic recovery amid lingering impacts of the Coronavirus Disease 2019 (COVID-19) pandemic.

KEY RATING CONSIDERATIONS

Core subsidiary of DTAC

DTN is wholly owned by DTAC. The company was founded to operate license-based mobile phone services for DTAC. As such, DTN is highly integrated with DTAC in terms of business and financial strategy. DTAC fully controls DTN’s operations through its representatives in DTN’s top management and board of directors.

DTN and DTAC serve the same subscribers. As of December 2020, DTN had 18.9 million subscribers. DTN contributed to DTAC’s consolidated revenue almost entirely. TRIS Rating believes DTN will continue to receive the full support from DTAC, including financial assistance in times of stress because of the critical role DTN plays in DTAC’s overall operations.

According to TRIS Rating’s “Group Rating Methodology”, the company rating on DTN as the core subsidiary of DTAC, is equal to the company rating assigned to DTAC.

DTAC is the third largest mobile service provider

DTAC remains the third largest operator in the Thai mobile phone 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 about 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.

Support from Telenor

The ratings on DTN incorporate the ongoing support DTAC receives from Telenor. We consider 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 Telenor will provide financial support to DTAC in times of need. As DTAC's core operations and assets, including spectrum licenses, are undertaken and held by DTN, we believe DTN will also receive similar support from Telenor in times of need.

Sufficient spectrum

DTN has sufficient spectrum and bandwidth to provide satisfactory mobile phone user experience. DTN has a complete range of spectrum for its mobile phone services; 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. DTN 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.

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 Thai mobile phone service industry 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 technology may need time to develop, both from the related-industry technology and the availability of 5G devices. DTN 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.

Lingering impact from COVID-19

The COVID-19 fallout has had significant impact on DTN's revenue. Although the pandemic has changed the consumer's behaviors and helped boost the monthly data usage per subscriber, DTN was hurt by the decline in mobile usage by tourists and the migrant worker segment, due to international travel restrictions. As a result, DTN's service revenue excluding the IC declined by 5% to THB54 billion in 2020 from THB57 billion in 2019.

We expect DTN's revenue will remain under pressure, given the fragile economic recovery amid new waves of the COVID-19 infections. In our base-case forecast, we project DTN'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 plus the company's service improvement measures and network expansions to major provinces outside Bangkok.

Earnings to remain strong

We forecast DTN's earnings before interest, taxes, depreciation, and amortization (EBITDA) to remain strong over the next three years. Despite the expected lower revenue in 2021 and uncertain economic revival, we expect DTN 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 base-case forecast for 2021-2023, we expect DTN will arrive at THB22-THB23 billion in EBITDA per year. EBITDA margin is projected to be in the 31%-32% range, and funds from operations (FFO) to be THB19-THB20 billion per year over the forecast period.

Leverage expected to decline

We project DTN's capital expenditures for network rollout to be around THB13 billion per annum plus scheduled license fee payments of about THB20 billion during 2021-2023. Despite the heavy investments, we expect DTN's leverage to gradually decline after the company monetizes the newly acquired spectrum. We expect the adjusted net debt (including the obligation and financial lease) to EBITDA ratio to stay at 5-6 times, and the FFO to adjusted net debt ratio to be 15%-

17% during the forecast period.

Ample liquidity

We view that DTN will have sufficient liquidity to cope with its commitments over the next 12 months. We forecast DTN's capital spending will total THB22 billion in 2021 to support network expansion and payment of license fee. DTN had THB6.5 billion in debt coming due in 2021, comprising bank loans and debentures. The company also had current portion of lease obligation of THB4.3 billion. We expect DTN to have adequate sources of funds to meet its obligations, including cash on hand of THB3.3 billion as of the end of December 2020 and expected FFO of THB19 billion. In addition, the company also has undrawn bank facilities of about THB22 billion. We also view that DTN's liquidity position is backed by the full support the company receives from DTAC.

BASE-CASE ASSUMPTIONS

- Service revenues, excluding the IC, to drop by 2% in 2021 and then grow by 2%-3% in 2022-2023.
- The EBITDA margin to stay at 31%-32% during the next three years.
- Total capital spending to be THB18-THB22 billion per annum.
- No additional spectrum to be acquired.

RATING OUTLOOK

The "stable" outlook reflects our expectation that DTN's operating performance and its cash flow against debt obligations will be in line with our forecast. We also expect our view on DTN's status as a core subsidiary of DTAC to remain unchanged.

RATING SENSITIVITIES

Based on TRIS Rating's Group Rating Methodology, the rating on DTN is equal to and will move in tandem with the rating on DTAC. Any change in the rating on DTAC and/or outlook will result in the same change to the rating and/or outlook on DTN.

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 2100-MHz spectrum, granted by the National Broadcasting and Telecommunications Commission (NBTC). DTN is currently providing wireless communication services using 3G and 4G technologies. In 2018, DTN entered into an agreement with TOT to provide 4G wireless broadband services on TOT's 2300-MHz spectrum. Under the agreement, DTN will use up to 60% of the total network capacity of 60-MHz bandwidth.

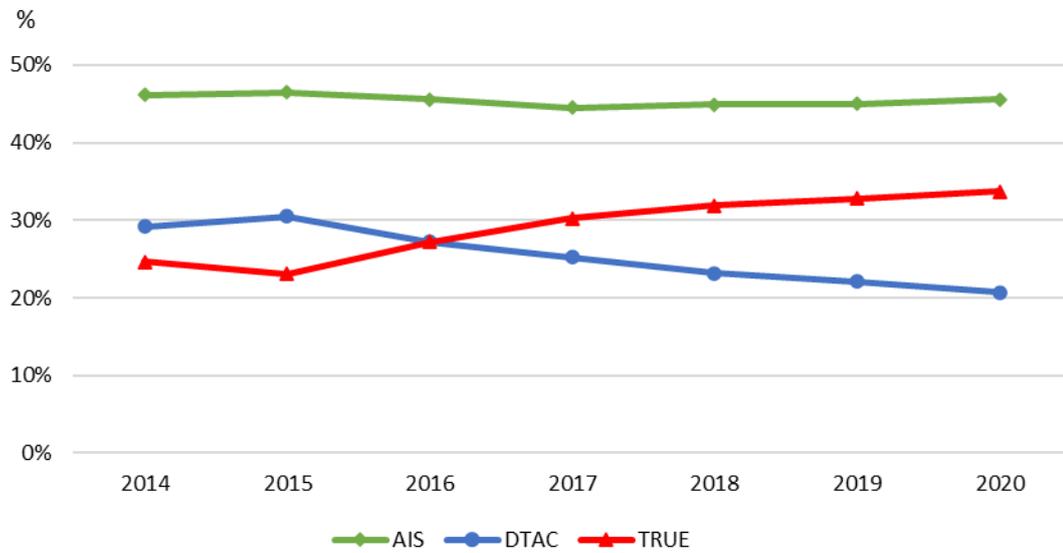
In September 2018, the concession with CAT expired. In August and October 2018, DTN won two new licenses for the 900-MHz and 1800-MHz spectrum bands, granted by the NBTC. In June 2019, DTN was allocated a 700-MHz license.

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, DTN secured the licenses since 2018 but is currently operating on 850 MHz per NBTC approval. DTN 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 21%.

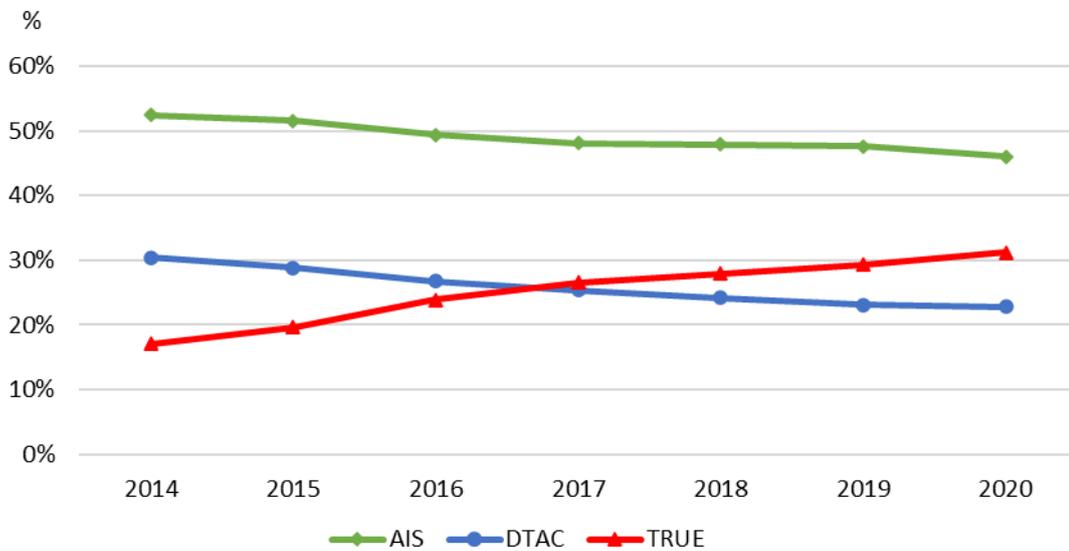
KEY OPERATING PERFORMANCE

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 NBTC

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	-----Year Ended 31 December-----				
	2020	2019*	2018	2017	2016
Total operating revenues	72,270	75,360	70,178	65,289	66,069
Earnings before interest and taxes (EBIT)	2,229	2,168	6,582	8,541	7,207
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	21,964	20,930	16,801	17,060	13,562
Funds from operations (FFO)	19,490	18,147	14,255	14,075	10,736
Adjusted interest expense	2,929	3,376	1,832	1,991	1,864
Capital expenditures	19,718	15,183	23,820	16,549	10,221
Total assets	162,113	151,397	127,767	95,900	92,453
Adjusted debt	130,858	119,139	92,586	59,767	59,074
Adjusted equity	5,282	7,095	9,107	8,018	4,899
Adjusted Ratios					
EBITDA margin (%)	30.39	27.77	23.94	26.13	20.53
Pretax return on permanent capital (%)	1.66	1.84	7.28	11.73	11.68
EBITDA interest coverage (times)	7.50	6.20	9.17	8.57	7.28
Debt to EBITDA (times)	5.96	5.69	5.51	3.50	4.36
FFO to debt (%)	14.89	15.23	15.40	23.55	18.17
Debt to capitalization (%)	96.12	94.38	91.04	88.17	92.34

* 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

dtac TriNet Co., Ltd. (DTN)

Company Rating:	AA
Issue Ratings:	
DTN217A: THB1,000 million senior unsecured debentures due 2021	AA
DTN227A: THB3,000 million senior unsecured debentures due 2022	AA
DTN237A: THB1,500 million senior unsecured debentures due 2023	AA
DTN244A: THB500 million senior unsecured debentures due 2024	AA
DTN247A: THB1,500 million senior unsecured debentures due 2024	AA
DTN257A: THB6,000 million senior unsecured debentures due 2025	AA
DTN267A: THB1,000 million senior unsecured debentures due 2026	AA
DTN267B: THB500 million senior unsecured debentures due 2026	AA
DTN274A: THB5,000 million senior unsecured debentures due 2027	AA
DTN279A: THB2,000 million senior unsecured debentures due 2027	AA
DTN28DA: THB3,000 million senior unsecured debentures due 2028	AA
DTN299A: THB2,500 million senior unsecured debentures due 2029	AA
DTN239A: THB4,500 million senior unsecured debentures due 2023	AA
DTN259A: THB2,000 million senior unsecured debentures due 2025	AA
DTN279B: THB1,000 million senior unsecured debentures due 2027	AA
DTN309A: THB2,500 million senior unsecured debentures due 2030	AA
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

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