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CreditNews ข่าวเครดิต

THAICOM PLC

No. 95/2017 7 August 2017

Company Rating: A-

Issue Ratings:
Senior unsecured A-

Outlook: Stable

Company Rating History:

Date	Rating	Outlook/Alert
06/06/14	A-	Stable
26/06/13	BBB+	Positive
29/09/09	BBB+	Stable

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Rating Rationale

TRIS Rating affirms the company rating of Thaicom PLC (THCOM) and the ratings of THCOM's senior unsecured debentures at "A-". The ratings reflect THCOM's strong market position as the sole provider of satellite communications services in Thailand. The ratings take into consideration THCOM's ample liquidity and a moderate financial leverage. However, these strengths are partially constrained by complicated regulatory challenges in the satellite communications industry, substitution risks from other types of communications transmission networks, as well as large and looming capital expenditures. The losses of key clients, which will constraint the growth in revenue and profits, are also a rating constraint.

THCOM's strong business profile reflects its leading position as a sole satellite services provider in Thailand. THCOM currently operates five geosynchronous satellites: four conventional satellites (Thaicom5, 6, 7, and 8) and a broadband satellite (Thaicom4, or IPSTAR). THCOM's strong competitiveness is underpinned by the prime satellite position for three conventional satellites at 78.5 degree east. There were 875 television (TV) channels using THCOM's conventional satellites as of March 2017. THCOM also holds a strong position in the Asia-Pacific region for its broadband satellite services. Barriers to entry for the satellite services industry are high, given the limited number of orbital slots, large capital investments, and know-how and expertise in space technology.

The ratings are weighed down by complicated regulatory challenges inherent in the satellite communications industry, substitution risks from other transmission networks, and the recent loss of key customers. THCOM also faces complex international regulatory structures. In addition, price-based competition is quite fierce in the markets outside Thailand. Within Thailand, THCOM recently confronted a challenge with respect to regulatory oversight of the satellite communications industry. Unclear regulatory directions might be a negative factor for its growth prospect.

THCOM lost two key satellite TV clients last year. The losses mean revenue and profits have declined. Although the losses of the two clients have been partly offset by new contracts, the utilization rate for THCOM's conventional satellite transponders slipped from 60% at the end of 2016 to 53% as of March 2017. The company has put more efforts into maintaining its client base and expanding its presence in neighboring countries, in order to utilize the remaining capacity of its satellites.

In the broadband satellite segment, the contracts for the clients in Australia and Thailand will expire in 2017. In the Thai market, THCOM is trying to find new customers by approaching telecom carriers or government projects in an effort to replace the expired client. In the Australian market, THCOM has transformed from being a broadband satellite bandwidth wholesaler to a retailer. The transformation was made to capture the end-users of satellite broadband Internet services in Australia. Fortunately, THCOM sold more than 1Gbps (gigabits per second) of IPSTAR's bandwidth allocated to Indonesia in mid-2017. The potential bulk sales to clients in the Philippines are expected to be progress by the end of this year. Revenues from the new customers and new market segments are expected to partly offset the revenue THCOM lost when contracts with clients expire this year.

Because of the loss of the key clients, THCOM's revenue dropped to Bt11,517 million in 2016, down by 8% from the level in 2015. Revenue slipped by 15% year-on-year (y-o-y) for the first three months of 2017. THCOM reported the operating margin at 42.2% in 2016 and 39.5% for the first three months of 2017. The margin was 46.4% in 2015. The drops in 2016 and 2017 were mainly due to depreciation and amortization charges from the newly-launched Thaicom8 satellite and drops in revenue.

The ratings also incorporate THCOM's financial strength, which is characterized by ample liquidity, moderate financial leverage, and conservative financial policies. The satellite segment generates stable cash flow, backed by economies of scale and multi-year contractual periods. Funds from operations (FFO) were sizable in 2016, coming in at Bt4,429 million, but down from Bt5,111 million in 2015. The FFO to total debt ratio remains adequate, staying at over 40% during 2014 through the first three months of 2017. THCOM has moderate financial leverage. Total debt was Bt9,667 million as of March 2017, down from Bt10,225 million at the end of 2016. The debt to capitalization ratio was 34.6% as of March 2017.

TRIS Rating holds the view that THCOM's revenue will remain under pressure during 2017-2018, given the loss of key clients. During 2017-2019, TRIS Ratings expects the operating margin will be pressured from fixed operation cost, depreciation and amortization charges for the Thaicom8 satellite, and a ramp up of revenue and profits from new clients and new business model. The operating margin will stay over 38% during the next three years. The cash flow protection is projected to remain sufficient, as indicated by the ratio of FFO to total debt at over 30% during 2017-2019. The ratings are partly constrained by the large capital expenditures needed to build and launch new satellites. During the next three years, THCOM plans to make capital investments of about Bt2,000 million, in aggregate, for general equipment upgrades and maintenance. The company also plans to invest in two additional satellites. The debt to capitalization ratio will stay below 45%. TRIS Rating expects THCOM's ample financial flexibility and stable cash flow will partly absorb the large capital expenditures.

Rating Outlook

The "stable" outlook is based on the expectation that THCOM will maintain its strong market positions and its operating performance will improve. TRIS Rating also expects THCOM to adequately manage the pending regulatory issues and challenges without jeopardizing its financial profile.

A rating downside may arise if the shift of regulations affects THCOM's credit strengths substantially. The rating downside case would also be triggered if the company's financial profile shows a sustained deterioration due to weaker operating performance and/or a deterioration in capital structure. A rating upgrade is possible if the company significantly improves its financial profile through increased cash flow and stronger liquidity.

Thaicom PLC (THCOM)

Company Rating:	A-
Issue Ratings:	
THCOM19OA: Bt500 million senior unsecured debentures due 2019	A-
THCOM19OB: Bt1,775 million senior unsecured debentures due 2019	A-
THCOM21OA: Bt500 million senior unsecured debentures due 2021	A-
THCOM21OB: Bt1,775 million senior unsecured debentures due 2021	A-
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

		--------------- Year Ended 31 December ------------			
	Jan-Mar 2017	2016	2015	2014	2013
Revenue from sales and services	2,731	11,517	12,453	11,893	7,896
Gross interest expense	106	359	306	384	265
Net income from operations	164	1,450	2,717	2,079	1,449
Funds from operations (FFO)	998	4,429	5,111	4,692	3,388
Capital expenditures	71	1,075	1,247	6,344	3,014
Total assets	32,080	32,840	33,592	31,888	27,374
Total debt	9,667	10,225	11,750	11,101	8,515
Shareholders' equity	18,281	18,921	18,111	17,285	15,581
Operating income before depreciation and amortization as % of sales	39.5	42.2	46.4	43.1	47.5
Pretax return on permanent capital (%)	6.3 **	7.9	12.6	11.0	9.0
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	10.9	14.6	21.1	14.2	15.6
FFO/total debt (%)	39.8 **	43.3	43.5	42.3	39.8
Total debt/capitalization (%)	34.6	35.1	39.3	39.1	35.3

* *Consolidated financial statements*
** *Annualized with trailing 12 months*

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