TRIS RATING
A strategic partner of S&P Global

CreditNews ข่าวเครดิต

TRUE CORPORATION PLC

No. 88/2017 27 July 2017

Company Rating:	BBB+
Issue Ratings:	
Senior unsecured	BBB+
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

Monthain Chantarklam
monthian@trisrating.com

WWW.TRISRATING.COM

Rating Rationale

TRIS Rating affirms the company rating of True Corporation PLC (TRUE) and the ratings of TRUE's senior unsecured debentures at "BBB+", and also affirms the rating of TRUE's senior partially guaranteed debentures at "A-". The ratings reflect the company's leading position as an integrated telecom operator with an established market presence in broadband internet and mobile services. The ratings also incorporate the expectation of ongoing support from its major shareholders. These strengths are partially tempered by the intense competition in TRUE's core business segments and heightened financial risk profile from extensive investments and high financial leverage.

TRUE was incorporated in 1990. The company has three business segments: TrueOnline, providing broadband internet and fixed-line phone; True Mobile, providing mobile services; and TrueVisions, offering pay television (TV) services and two digital TV channels. In 2016, TRUE's revenue rose to a record Bt124.7 billion. The revenue contributions from the three lines of business were 18%, 74%, and 8%, respectively.

The ratings are reflective of TRUE's strong business risk profile, which is underpinned by its leading position as an integrated telecom service provider. TrueOnline held a 40% revenue share in broadband internet nationwide. TrueVisions is the leading pay-TV operator, with about 4.1 million subscribers as of the end of March 2017. Meanwhile, True Mobile has become the second largest mobile phone operator in Thailand, with 25.8% service revenue market share in the first quarter of 2017.

TRUE's credit ratings are partly strengthened by the support from its two major shareholders. CP Group, one of Thailand's leading conglomerates, holds 50% of TRUE, followed by China Mobile International Holdings Ltd. (China Mobile) with an 18% ownership stake. China Mobile is the world's largest mobile operator by number of subscribers.

TRIS Rating is of the view that TRUE's business risk profile hinges largely on the performance of its mainstay segments, mobile and broadband internet. For the mobile segment, TRUE has to monetize the hefty costs of mobile spectrum licenses and huge investments in much-needed network expansion. TRUE has pledged to pay a total of Bt116 billion in exchange for 1800-megahertz (MHz) and 900-MHz spectrum licenses. Albeit the widest spectrums in its possession, TRUE has placed network quality at the forefront in a bid to entice new customers and ward off customer churn. In recognition of this, TRUE has spent heavily on network expansion, with a series of extensive outlays in recent years. The massive investments have started to pay off as TRUE's mobile service revenue growth has outpaced its peers, placing the company as the second-largest earner in the market. While the fast-growing demand for mobile data will continue driving the industry prospect, the market will remain highly competitive. TRUE targets a 33% share of service revenue in the mobile industry by the end of 2018. The ambitious growth target will run up against stiff competition in the industry, as all operators have to defend market position as well as monetize their investments.

In the broadband internet segment, the number of TRUE's broadband internet subscribers has experienced mid-teens digit growth since 2010, as TRUE has continued to expand its service coverage nationwide. The number of subscribers reached 2.9 million at the end of March 2017. Like the mobile sector, the broadband internet market is dominated by only a few players. However, competition increases as Advanced Info Services PLC (AIS) entered the market with the same convergence strategy. TRUE's broadband internet average revenue per user (ARPU) declined from Bt668 in 2015 to Bt600 in the first quarter of 2017. Despite a confident outlook for in-country internet usage, TRIS Rating holds the view that the competition will continue pressuring ARPU in the short to medium term. TRUE's strategy is to increase its subscriber base by expanding coverage areas selectively which requires another batch of investment in the broadband segment.

TRUE's aggressive financial risk profile is a result of its burdensome debts financing the hefty costs of mobile spectrum licenses and front-loaded network investments. TRUE is still forging ahead with plans to expand its network throughout 2017. Aggregate capital expenditures are set at approximately Bt48 billion. The planned surge in capital expenditures stands to depress TRUE's generation of free cash flow. TRUE's strengthened business position is at the expense of a debt-heavy balance sheet. TRUE's revenues grew by 5% year-on-year (y-o-y) in 2016 to Bt124.7 billion and 11.9% y-o-y for the first quarter of 2017 to Bt32.5 billion, driven mainly by a double-digit growth in the mobile service revenue. Operating margin (operating income before depreciation and amortization as a percentage of revenue) improved to 25.8% in the first quarter of 2017 as TRUE started benefitting from the scale of a larger subscriber base and service revenue share. The total debt to capitalization ratio remained high at 67.6% at the end of March 2017. However, leverage will be lower if taking into account cash and cash equivalents on hand of Bt56 billion. Adjusted net debt to earnings before interest, tax, depreciation, and amortization (EBITDA) was at 6.9 times (annualized from the trailing 12 months) in the first quarter of 2017, a number that has increased from 5 times since 2016 as the growth of debt ostensibly outpaced cash flow generated. The ratio of adjusted funds from operations (FFO) to total net debt was at 11.1% (annualized from the trailing 12 months).

During 2017-2019, TRIS Rating's base-case expects TRUE's revenue to grow at least 3% on average annually, bolstered by the strong momentum of the mobile data traffic and steady growth in broadband internet. The termination of fixed-line concessions in October 2017 is also built into the forecast. TRUE's profitability will remain under pressure from stiff competition in the mobile segment and higher competitive pressure in the broadband internet segment. However, TRIS Rating holds the view that all mobile service operators will be more disciplined with pricing strategies and marketing activities in order to benefit from industry growth. TRIS Rating expects TRUE's operating margin to stay between 25%-30% during 2017-2019 while FFO are expected to be in a range of Bt21-Bt30 billion. We also expect TRUE's leverage to improve from its current level on the back of earnings growth with more operating efficiency plus lower capital spending.

TRUE's liquidity is tight and somewhat at risk of debt refinancing. During the next 12 months, from 31 March 2017, the company's sources of funds are expected FFO of at least Bt21 billion and cash and cash equivalents on hand of Bt56 billion at the end of March 2017. Uses of funds are scheduled debt repayments of Bt23.5 billion and estimated capital expenditures of Bt50-Bt57 billion, including scheduled license payments. Selling assets to the Digital Telecommunications Infrastructure Fund (DIF) is another option for TRUE to support its financial flexibility. Higher-than-expected capital expenditures would add further concerns. TRIS Rating expects TRUE to continue strengthening its business position without further exacerbating financial risk profile.

Rating Outlook

The "stable" outlook reflects the expectation that TRUE will sustain its strong market positions in its key segments. A rating upside is unlikely in the next 12-18 months, taking into account TRUE's current financial profile and the company's tendency to invest extensively. However, it could occur if TRUE considerably strengthens its profitability, which would result in enlarged cash flow protection against 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 sustained basis.

True Corporation PLC (TRUE)

Company Rating:	BBB+
Issue Ratings:	
TRUE183A: Bt4,000 million senior unsecured debentures due 2018	BBB+
TRUE22NA: Bt8,330 million partially guaranteed debenture due 2022	A-
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

		------------------------ Year Ended 31 December -----------------------				
	Jan-Mar 2017	2016	2015	2014	2013	2012
Sales and service revenues	32,457	124,719	118,781	109,216	96,214	89,382
Finance cost	2,069	6,201	3,234	6,726	8,764	6,876
Net income from operations	(4,826)	(6,935)	3,170	(5,285)	(15,608)	(8,149)
Funds from operations (FFO)	6,017	22,254	21,247	14,442	7,303	11,131
Capital expenditures	9,028	46,985	52,658	27,460	25,875	27,126
Total assets	465,117	448,960	283,525	234,103	205,532	180,363
Total debt**	272,350	253,398	168,194	100,679	89,898	101,423
Shareholders' equity	130,638	131,728	75,207	70,726	4,649	14,004
Operating income before depreciation and amortization as % of sales	25.85	25.17	23.56	23.45	18.81	18.73
Pretax return on permanent capital (%)	(0.34) ***	0.94	4.85	1.75	(3.86)	0.28
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	2.01	3.38	4.54	2.62	1.79	2.25
FFO/total debt (%)	8.83 ***	10.03	14.12	16.42	8.12	10.98
Total debt/capitalization (%)	67.58	65.80	69.10	58.74	95.08	87.87

* *Consolidated financial statements*
** *Total debt has included operating lease obligations and accrued license fees since 2014.*
*** *Annualized with trailing 12 months*
Note: All ratios have been adjusted with operating lease since 2014.

TRIS Rating Co., Ltd.
Tel: 0-2231-3011 ext 500 / Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand www.trisrating.com