TRIS RATING
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CreditNews ข่าวเครดิต

TRUE CORPORATION PLC

No. 65/2019
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CORPORATES

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

Last Review Date: 15/02/19

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	

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RATIONALE

TRIS Rating affirms the company rating on True Corporation PLC (TRUE) and the ratings on TRUE's existing senior unsecured debentures at "BBB+", and also affirms the rating on TRUE's partially guaranteed debentures at "A-". At the same time, TRIS Rating assigns a rating of "BBB+" on TRUE's proposed issue of up to Bt25,000 million in senior unsecured debentures. The company will use the proceeds from the new debentures to refinance its debts coming due and to fund its working capital.

The ratings reflect TRUE's satisfactory business risk profile, underpinned by its competitive strength as an integrated telecom operator with an established market position and extensive network coverage in mobile and broadband internet services. The ratings also take into account the expectation of continued support from its major shareholders, the CP Group and China Mobile International Holdings Ltd. (China Mobile). The ratings are weighed down by the company's high level of leverage and the immense competitive pressures in its core business segments.

KEY RATING CONSIDERATIONS

Competitive pressure slowing revenue growth in the mobile services segment

TRUE's impressive growth in mobile services revenue during the past few years was driven by a sizable increase in subscribers and robust growth in data services. However, TRIS Rating expects that service revenue will grow at a slower pace going forward, due in large part to two factors.

Firstly, TRUE has gained quite a substantial number of subscribers from competitors during the past three years. The focus on customer acquisition is in line with TRUE's strategy to boost the utilization of its network and enjoy the benefits of greater operating leverage. However, quite substantial amount of the new subscribers are prepaid customers, who are generally receiving handset subsidies. With the adoption of IFRS 15 in 2019, TRUE has to expense the handset subsidy (previously capitalized as assets and amortized through selling, general, and administrative expense -- SG&A). As a result, TRUE will be more selective in acquiring new subscribers particularly in the prepaid segment. To keep revenue growing, TRUE has to retain its existing subscribers and convert its prepaid subscribers to postpaid, which is generally stickier and yields higher earnings per subscriber.

Another factor pushing revenue growth is demand for data services. However, the highly competitive operating environment limits all operators' ability to monetize the fast-growing demand for data usage. The Thai mobile services industry revenue growth showed signs of slowing down in 2018. Owing to the stiff competition, operators started offering unlimited data packages, slowing their revenue growth. The industry service revenue (excluding interconnection charge -- IC) grew by 1.9% year-on-year (y-o-y) in 2018 to Bt261 billion. This growth rate is notably lower than the average rise of 5.5% per annum during 2016 and 2017.

Going forward, data usage will continue to be the industry revenue driver. Competition is expected to remain hefty. Discipline in competition is the key for operators to maximize the benefit of the hike in data demand and drive their revenue growth in order to monetize their massive investment in spectrums and networks.

TRIS Rating's base case assumes TRUE's service revenue to grow at a mid-to-high single-digit percentage rate during 2019-2021. The growth assumption is backed by the company's strong market position and its network quality. The assumption also takes into account a more rational competition as operators started withdrawing the unlimited data package offering.

In 2018, TRUE's service revenue (excluding IC) grew by 7.6% y-o-y to Bt72.8 billion, slightly below TRIS Rating's previous forecast due to the competitive pressure.

Dispute settlement with CAT removes certain litigation risks

In November 2018, TRUE settled several disputes with CAT Telecom PLC (CAT). According to TRUE's financial reports, the company agreed to transfer the disputed cell towers to CAT and pay CAT Bt15.7 billion. In exchange, TRUE has the rights to use the towers for 30 years. TRUE incurred an additional charge of Bt1.1 billion related to the transaction. The settlement removes litigation risks on several disputes between the company and CAT totaling Bt75 billion.

However, several legal uncertainties, such as access charges or excise tax issues, continue to persist and will take time to be resolved. The ratings could be under downward pressure if the legal outcomes significantly affect TRUE's financial profile.

Remain competitive in broadband segment

TrueOnline remains the market leader in the broadband internet segment with about 38% market share in the past three years, albeit with heightened 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 3.48 million at the end of 2018. Broadband service revenue grew by 13% year-on-year (y-o-y) in 2018, to Bt21.9 billion.

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. However, the revenue growth may slow somewhat due to heightened competition, making the company unable to raise the average revenue per user (ARPU) or even reduce ARPU in some highly competitive areas in order to retain its subscribers. In addition, the newly acquired subscribers will be mainly in the mid-to-low market segment, limiting its ability to demand a high ARPU.

TRIS Rating's base case forecasts TrueOnline's service revenue growth to be in the mid-to-high single digits per annum during 2019-2021, driven mainly by the broadband market segment.

In 2018, TrueOnline's revenue, excluding the impact of an asset sale to Digital Telecommunications Infrastructure Fund (DIF), was Bt23 billion, relatively flat y-o-y, as the growth in broadband service revenue was offset by the absence of fixed-line services revenue as the concession ended in October 2017.

Challenging operating environment for TrueVisions

TrueVisions will continue to face increasing operational challenges due mainly to digital disruption. Internet-based delivering of content known as over-the-top (OTT) platforms and direct-to-consumer (DTC) service platforms, such as Netflix, give viewers much more entertainment choices and flexibility, causing a secular shift in audience viewing habits. Viewers increasingly watch television (TV) programs on the OTT or DTC platforms rather than traditional TV broadcasting. Competition within and across broadcasting platforms will be even more intense for sourcing content and sharing revenue, both subscription and advertising revenues. To capture the fast changing trend, TRUE is developing its own OTT platform, TrueID, however, it will take time to monetize this new digital platform.

TRIS Rating expects TrueVisions's revenue to range around Bt9-Bt10 billion annually during 2019-2021. TRIS Rating is of the view that TrueVisions is primarily positioned to serve TRUE's convergence strategy in the short to medium term. After that, TRUE may need to formulate new strategies as traditional pay TV and TV business may no longer be viable.

Earnings improvement to support financial profile

TRIS Rating expects TRUE to better leverage its operations, especially in the mobile segment, and to continue its cost optimizing efforts in order to expand its operating cash flow. Larger operating cash flow will help support its financial metrics in the expectation of rising leverage.

During 2019-2021, TRIS Rating's base line scenario expects TRUE's total revenue to be in the range of Bt138-Bt150 billion per annum. Profitability is expected to remain under tight competitive pressure, especially in the mobile and broadband internet segments. TRIS Rating views that TRUE's earnings upside is dependent on its ability to rationalize its costs. Operating margin (operating income before depreciation and amortization as a percentage of revenue) is expected to range between 30%-34% during 2019-2021. Funds from operations (FFO) would be in a range of Bt30-Bt38 billion annually.

In 2018, excluding revenue from the asset divestment to the DIF and extra one-time items, TRUE's total operating revenue was Bt138 billion, a 3% rise y-o-y. Operating margin was 29.5% and FFO was Bt24.8billion.

Extension of 900 MHz license payment eases cash flow pressure

On 11 April 2019, the National Council for Peace and Order (NCPO) announced an extension of 900-megahertz (MHz) spectrum license payment terms for mobile operators on the condition that the operators participate in 700-MHz spectrum allocation. TRIS Rating's base case assumes that TRUE will accept the 900-MHz payment extension terms and get 700-MHz license allocated.

The original payment schedule of 900-MHz spectrum requires TRUE to pay Bt4 billion in 2019 and Bt60 billion in 2020 for the license. The new schedule will drop the payment burden to Bt4 billion in 2019, Bt22 billion in 2020, and Bt7.6 billion annually during 2021-2025. The new payment scheme helps ease concerns over cash flow strain, especially in 2020.

However, TRUE has to accept the 700-MHz spectrum license allocation in exchange for the 900 MHz payment extension, adding its debt burden and weakening its leverage profile. TRIS Rating assumes that the license cost for 700 MHz is Bt25 billion for 15 MHz. The payment term for the license is split equally into 10 installments starting at the end of 2020. As TRIS Rating treats the license payment obligation as debt, TRUE will incur additional debt of Bt25 billion once it gets the license, expected in mid-2019.

Rising leverage

TRUE's credit ratings have been constrained by its aggressive financial risk profile, a result of its debt burden from bearing the hefty costs of mobile spectrum licenses and front-loaded network investments. TRIS Rating expects its financial position to be further weakened as leverage is rising.

Leverage of TRUE will rise due to high capital expenditures, mobile spectrum license payments, operating lease obligations, and additional debt from the 700-MHz license. TRUE has made extensive investments in the 4G (fourth generation) network and the FTTH network in 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 began in 2018, keeping cash capital expenditures high. TRIS Rating expects the cash capital expenditures to be Bt40 billion per annum during 2019-2020 and about Bt36-Bt37 billion in 2021. Operating lease obligations, in present value terms, will be Bt65-Bt78 billion per annum over 2019-2021.

As a result, TRIS Rating expects TRUE's adjusted debt to earnings before interest, tax, depreciation, and amortization (EBITDA) ratio will be over 7 times in 2019 and will be 6-7 times in 2020-2021, compared with 6.8 times in 2018. TRUE has continued to report EBITDA improvement in recent years. The ratings, however, could be downgraded if its adjusted debt to EBITDA stays over 7 times on a sustained basis.

TRIS Rating does not expect a huge investment in 5G (fifth generation) technology in the near term as it is still in an early development stage. However, evolving technological changes, if they come earlier than expected, will pose a significant downside risk as it will call for another round of massive investments.

Deteriorating capital structure

TRUE's capital structure weakened in 2018 due mainly to impact from extra, non-operating items. The company recorded Bt13.1 billion in one-time expenses for asset impairment and expenses related to the termination of a fixed-line concession, plus Bt1.2 billion extra expense related to CAT settlement transaction. The adjusted debt to capitalization ratio was 69% in 2018, compared with 65% in 2017.

The capital structure of TRUE will deteriorate further in 2019, mainly due to the impact from adoption of the new accounting standard (IFRS 15), which requires the company to write off the accumulated subscriber acquisition cost of approximately Bt10 billion through its retained earnings. As a result, TRIS Rating expects the company's adjusted debt to capitalization ratio to stay at 74%-76% during 2019-2021.

Liquidity manageable

During the next 12 months, TRUE's liquidity is expected to be tight but manageable. On a consolidated basis, primary sources of liquidity are FFO of at least Bt30 billion and cash and cash equivalents on hand of Bt20.7 billion as at the end of 2018. Primary uses of liquidity are cash capital expenditures of Bt40 billion, scheduled license payments of Bt4 billion, dividend payouts of Bt3 billion, plus debt maturities of Bt87.3 billion. Almost all of the debts are short-term debentures which need to be refinanced. The new issuing of Bt25 billion in debentures will be partly used for debt refinancing. TRUE needs additional borrowings to support its funding needs. TRUE has flexibility to make additional sale and leaseback transactions with DIF to meet its need for cash.

BASE-CASE ASSUMPTIONS

- Under TRIS Rating's base case scenario, we assume TRUE's mobile and broadband services revenues to grow in mid-to-high single digits during 2019-2021.
- Operating profit margins will stay at around 30%-34%.
- Cash capital spending will be Bt40 billion per annum during 2019-2020 and about Bt37 billion in 2021.
- TRUE will accept the 900-MHz payment extension terms and get 700-MHz license allocated at Bt25 billion.
- Total spectrum licenses payment will be Bt4 billion in 2019, Bt24.5 billion in 2020, and Bt10 billion in 2021.

RATING OUTLOOK

The "stable" outlook is based on TRIS Rating's expectation that TRUE will sustain its strong market position and continue to deliver solid operating results in the mobile services and broadband internet segments. TRIS Rating also expects TRUE to receive ongoing support from its major shareholders, the CP Group and 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's profitability improves significantly. Cash flow protection would rise as a result, reducing the risk from the heavy financial burden. The ratings could be downgraded if TRUE's operating performance deteriorates, pushing the adjusted ratio of debt to EBITDA above 7 times on a sustained basis.

Several legal uncertainties, such as access charges or excise tax issues, continue to persist and will take time to be resolved. The ratings could be under downward pressure if the legal outcomes significantly affect TRUE's financial profile.

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 TV-services and two digital TV channels. In 2018, the three lines of business contributed 72%, 20%, and 8% of its revenue, respectively.

TRUE's credit ratings are strengthened by support from its two major shareholders. CP Group, one of Thailand's leading conglomerates, holds 50% 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

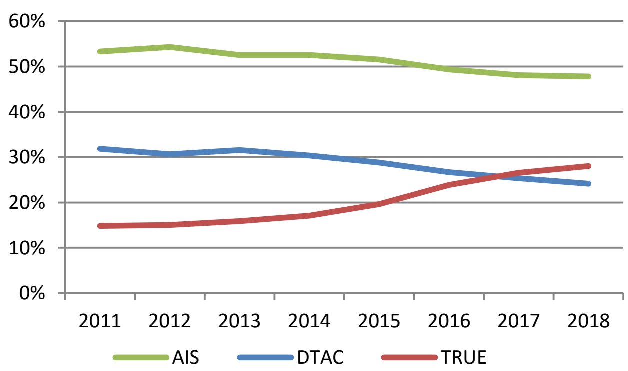


Chart 2: Service Revenue Market Share

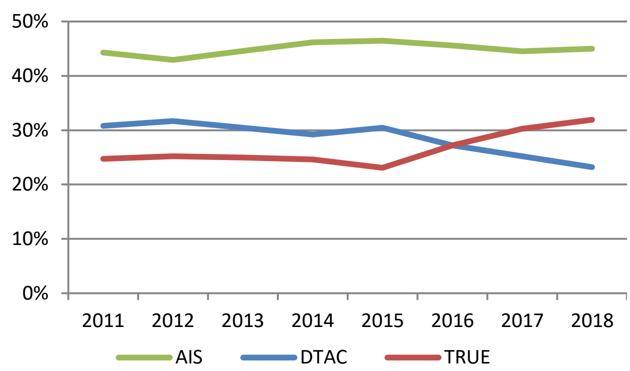


Chart 3: Postpaid ARPU

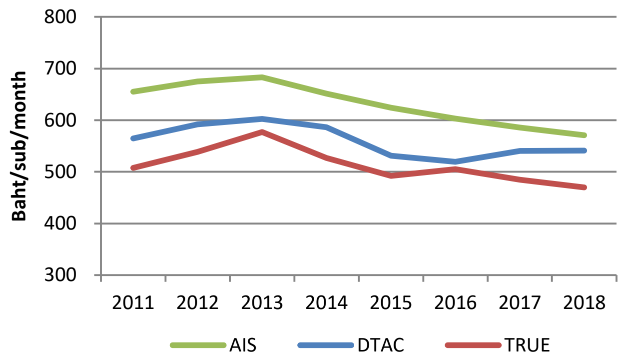
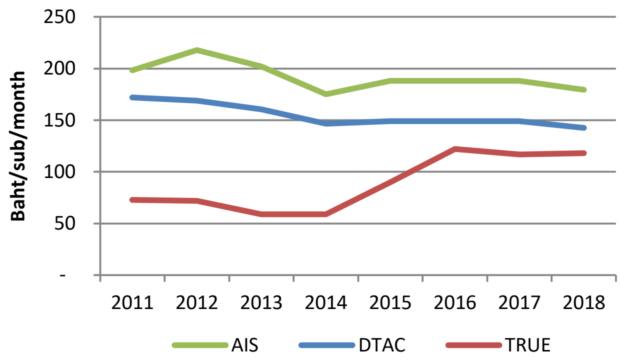
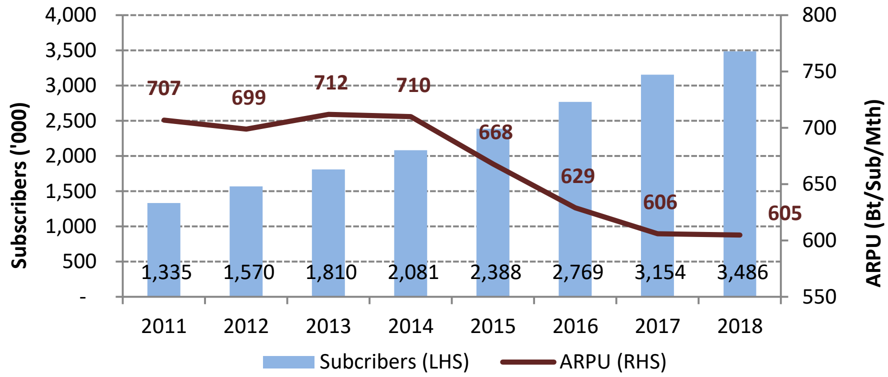


Chart 4: Prepaid ARPU



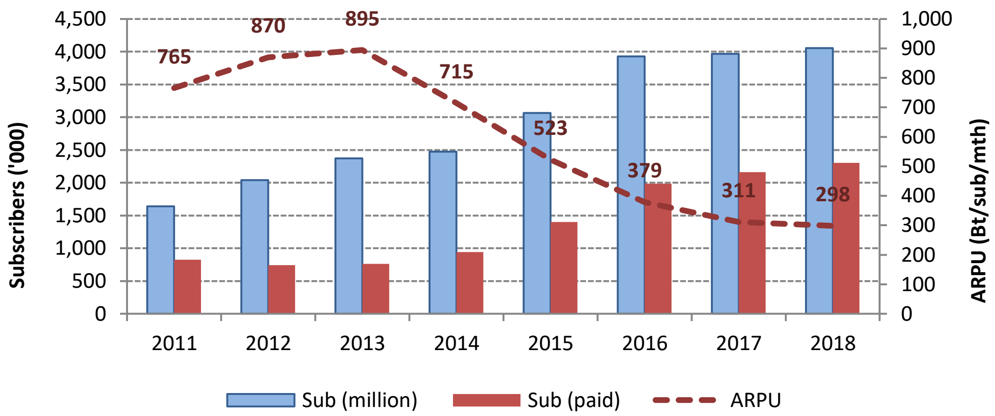
TrueOnline

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

	Year Ended 31 December				
	2018	2017	2016	2015	2014
Total operating revenues	138,245	134,002	125,363	114,149	104,495
Operating income	40,809	36,387	30,081	25,646	22,578
Earnings before interest and taxes (EBIT)	5,460	1,552	3,005	6,458	(51)
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	43,031	38,106	31,672	26,868	24,005
Funds from operations (FFO)	24,782	25,072	21,774	19,975	15,878
Adjusted interest expense	12,239	11,718	9,409	6,641	10,223
Capital expenditures	69,891	47,581	46,985	52,658	27,460
Total assets	495,569	459,182	448,960	283,525	234,103
Adjusted debt	294,671	241,500	203,628	157,344	94,056
Adjusted equity	133,884	128,184	131,728	75,207	70,726
Adjusted Ratios					
Operating income as % of total operating revenues (%)	29.52	27.15	23.99	22.47	21.61
Pretax return on permanent capital (%)	1.30	0.40	0.95	3.10	(0.04)
EBITDA interest coverage (times)	3.52	3.25	3.37	4.05	2.35
Debt to EBITDA (times)	6.85	6.34	6.43	5.86	3.92
FFO to debt (%)	8.41	10.38	10.69	12.70	16.88
Debt to capitalization (%)	68.76	65.33	60.72	67.66	57.08

RELATED CRITERIA

- Key Financial Ratios and Adjustments, 5 September 2018
- Group Rating Methodology, 10 July 2015
- Rating Methodology – Corporate, 31 October 2007

True Corporation PLC (TRUE)

Company Rating:	BBB+
Issue Ratings:	
TRUE205A: Bt3,121.30 million senior unsecured debentures due 2020	BBB+
TRUE212A: Bt5,337.30 million senior unsecured debentures due 2021	BBB+
TRUE221A: Bt12,246 million senior unsecured debentures due 2022	BBB+
TRUE221B: Bt100 million senior unsecured debentures due 2022	BBB+
TRUE22NA: Bt8,330 million partially guaranteed debenture due 2022	A-
Up to Bt25,000 million senior unsecured debentures due within 6 years	BBB+
Rating Outlook:	Stable

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