

TRUE CORPORATION PLC

No. 73/2021
11 May 2021

CORPORATES

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

Last Review Date: 08/04/21

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:

Sarinthorn Sosukpaibul
sarinthorn@trisrating.com

Suchana Chantadisai
suchana@trisrating.com

Wajee Pitakpaibulkij
wajee@trisrating.com

Monthian Chantarklam
monthian@trisrating.com



WWW.TRISRATING.COM

RATIONALE

TRIS Rating affirms the company rating on True Corporation PLC (TRUE) and the ratings on TRUE's senior unsecured debentures at "BBB+", with a "stable" outlook. At the same time, TRIS Rating also affirms the rating on TRUE's partially guaranteed debentures at "A-", based on the credit profiles of both the issuer (TRUE) and the guarantor, Kasikornbank PLC (KBANK) (rated "AA+/Stable" by TRIS Rating*). KBANK's partial guarantee covers 45% of the debentures' outstanding principal and accrued interest.

The ratings mirror TRUE's strong business profile as a leading integrated telecom company in Thailand, its strong competitive position in both wireless communications and broadband internet services, as well as its satisfactory operating results. The ratings also embed our expectation of the ongoing support TRUE receives from the CP Group, its major shareholder, and China Mobile International Holdings Ltd. (China Mobile) as a strategic partner.

However, these strengths are held back by TRUE's huge debt burden stemmed from the required capital expenditures for network expansion and scheduled payments of spectrum licenses. The ratings also take into consideration the fiercely competitive marketplace and the lingering effects of the Coronavirus Disease 2019 (COVID-19) pandemic.

KEY RATING CONSIDERATIONS

A leading integrated telecom service provider

TRUE has a strong business profile as a leading integrated telecom company in Thailand. The company is engaged in multiple business platforms, which includes wireless communication service, broadband internet, television (TV) networks, and digital platform and services. In 2020, TRUE arrived at THB138.2 billion in total operating revenue, of which THB107.2 billion was service revenues (excluding interconnection charges – IC). Service revenues, excluding IC, grew by around 1.4% year-on-year (y-o-y), driven mainly by solid performance in wireless communications service and broadband internet service businesses. On the strengths of its extensive infrastructure and technological platform, we expect TRUE will be able to maintain its strong market position.

Second-largest mobile phone service operator

TRUE's mobile phone service business is operated by its wholly-owned subsidiary, True Move H Universal Communication Co., Ltd. (TUC). TRUE has a strong competitive position, aided by its large-scale mobile network, robust spectrum portfolio, and quality of network. Across the Thai wireless communications industry, TRUE ranks second in view of the number of subscribers and service revenue. Its "TrueMoveH" brand has been firmly established in the market. TrueMoveH held a service revenue market share of about 31% in 2020, rising from 28.8% in 2019 and 27.9% in 2018.

As of December 2020, TrueMoveH had 30.63 million subscribers, holding a 32.2% subscriber market share in Thailand. The expansion of its subscriber base, particularly in the prepaid segment, has been hindered by the fragile domestic economy, softened consumer spending, and the absence of foreign tourists.

* The rating assigned to KBANK is based on public information which TRIS Rating believes provides a sufficient basis for the assessment of credit profile of KBANK. The rating is assigned without participation from KBANK.

Mobile phone service revenue growth outperformed market

Despite the impact of COVID-19, TrueMoveH's service revenue in 2020, excluding IC, grew by 3.1% from 2019 to THB80.1 billion. At the same time, the total value of the Thai wireless communications market was about THB256.6 billion, a 3.3% contraction from the previous year. The growth of TrueMoveH's service revenue was attributed mainly to the increased usage of data services as a result of the work-from-home phenomenon and a larger base of postpaid subscribers with a higher average revenue per user (ARPU).

In our base-case forecast for 2021-2023, we expect the service revenue, excluding the IC, in the wireless communications service business will grow by low single-digits. We believe the rising demand in data services will continue to be the revenue driver. We expect the migration of prepaid subscribers to the postpaid segment and an increasing number of high-data service users will continue to help uplift the overall ARPU. However, competition in the industry will likely remain intense as the market is saturated, with continued price-based competition to capture new subscribers. In addition, we expect the foreign tourist-related revenue such as travel subscriber identity module (SIM) and international roaming (IR) services industrywide will take time to recover to pre-COVID levels.

Broadband business growth driven by new normal behaviors

We anticipate TRUE will continue to maintain its market leader position in the broadband internet market, backed by the wide coverage of its fiber infrastructure network and hi-speed internet quality. "TrueOnline", TRUE's broadband internet business, ranked first in the broadband internet segment in Thailand, with an approximately 36.5% market share at the end of September 2020.

The COVID-19 pandemic has shifted Thailand's mainstream population's behavior toward remote working and learning as well as entertainment at home. Consequently, the demand for home access to the internet has increased significantly. As of December 2020, TrueOnline's broadband internet subscribers reached 4.2 million, up 0.4 million subscribers from 2019, despite intense competition in the market. Revenue from TRUE's broadband service in 2020 totaled THB24.5 billion, up by 3.6% from the previous year. The sound performance was driven by a larger subscriber base, increasing demand for broadband internet services, and the bundling of broadband internet service with mobile phone service in convergence package offers to users.

In our base-case forecast for 2021-2023, we expect TrueOnline's service revenue to grow by low single-digits, driven by a continued rise in demand for home-internet usages and the convergence package offers. However, we assume ARPU will remain under immense pressure from the competition in some highly competitive areas.

Cable TV business hurt by COVID-19

In 2020, service revenue from cable TV services, after inter-segment eliminations, fell by 14% y-o-y to THB8.3 billion, due to lower consumer spending in the hotel segment as well as the absence of entertainment and live-sport events during the period of worldwide lockdowns. However, there were signs of recovery in the revenue in the second half of 2020. In response to the cable TV revenue drop, the company has tried to control the content costs.

During the next three years, we expect the lingering COVID-19 fallout and changing behaviors of viewers will continue to impact the revenue of "TrueVisions". Viewers increasingly shift away from watching traditional TV broadcasting toward over-the-top (OTT) platforms. In response to the changing environment, TRUE has developed its own OTT platform, via TrueID application and TrueID TV box, and distributed the content on all platforms, including browsers, video streaming, applications, and TV boxes. The new content distribution platforms help boost its brand awareness and increase the chance to poach customers. Despite the tough business environment, we expect TrueVisions will continue its important role in TRUE's convergence strategy to offer consumers with bundled mobile phone, broadband internet, and entertainment services in one package.

Cash flow expected to improve

During 2021-2023, we forecast TRUE's total revenue to be in the range of THB139-THB145 billion per annum. We project its earnings before interest, taxes, depreciation and amortization (EBITDA) to be THB58-THB62 billion a year, with an EBITDA margin of 41%-43% led by low regulatory cost. TRUE's profitability has been held back by its high operating costs and selling general and administrative expenses. TRUE has made a concerted commitment to productivity improvement, marketing strategies for niche-target customers, content cost reduction, and more online promotion campaigns. In all, we view TRUE's earnings enhancement will largely hinge on effectiveness of its cost-cutting measures. The enlarged operating cash flow will help mitigate the impact of the company's high financial burden. In our forecast, we project the company's funds from operations (FFO) to be in the range of THB39-THB42 billion annually.

Financial leverage to stay high

The ratings on TRUE have been constrained by its highly leveraged financial risk profile. As of December 2020, its interest-bearing debt stood at about THB223 billion and adjusted net debt was around THB401 billion. The ratio of adjusted net debt to EBITDA was about 7 times. The FFO to adjusted net debt ratio stood at 9.6%.

During the next three years, we expect TRUE's leverage to remain high, taking into account the large capital expenditures required for network investments and scheduled license fee payments. The company's earnings are also weighed down by huge interest expenses. We forecast TRUE will spend THB39-THB43 billion a year in capital investments during 2021-2023. Additionally, TRUE is obliged to pay license fees of THB9-THB13 billion per annum over the same period. In effect, we forecast the net adjusted debt to EBITDA ratio to remain high at around 7 times, and the FFO to adjusted net debt ratio to stay about 10%.

As of December 2020, about half of TRUE's consolidated debt was at the subsidiary level. TRUE gradually reduces the proportion of subsidiaries' debts to its consolidated debt, a bid to avert the structural subordination of TRUE's senior unsecured obligations. To achieve that, the external borrowings by its subsidiaries will be partially replaced by inter-company loans from TRUE. In effect, we maintain the ratings on TRUE's senior unsecured debentures at the same level as the company rating assigned to TRUE.

Tight but manageable liquidity

We assess TRUE's liquidity to be tight but manageable. A large part of the debt coming due in the next 12 months is expected to be refinanced. About THB64.5 billion in debentures and bank loans will come due in 2021 while we forecast TRUE's capital spending will total about THB56 billion to support network expansion and scheduled license fee payments. The company also had current portion of lease obligation at THB12.7 billion. Meanwhile, sources of funds comprised cash and cash equivalents of THB24.5 billion as of December 2020 and expected FFO of around THB40 billion in 2021. Given TRUE's strengthening market position and satisfactory performance, we view the refinancing risk is manageable.

Guarantor's credit profile

The rating on KBANK stands at "AA+" with a "stable" outlook. The rating reflects the bank's competitive position as the second-largest commercial banks in Thailand by assets as well as its well-diversified portfolio, strong capital position, and above-average profitability. The rating also takes into consideration its superior funding and liquidity profile. However, the rating is constrained by its relatively high exposure to the small and medium enterprise (SME) segment, which poses a relatively high asset quality risk compared with other loan segments during the economic downturn.

BASE-CASE ASSUMPTIONS

- Service revenues in mobile service and broadband internet to grow by low-single digits during 2021-2023, while the cable TV service revenue to remain under pressure from the COVID-19 fallout and changes in consumer behaviors.
- The EBITDA margin to stay at 41%-43% during the next three years.
- Total capital spending of about THB39-THB43 billion per annum to roll out the network during the next three years.
- Scheduled license fee payments of THB9-THB13 billion per annum during 2021-2023.
- No additional mobile spectrum to be acquired.

RATING OUTLOOK

The "stable" outlook embeds our expectation that TRUE will sustain its strong market position and continue to deliver sound operating results in its wireless communications and broadband internet businesses. We also expect TRUE to receive ongoing support from the CP Group and China Mobile. This support strengthens TRUE's credit profile.

RATING SENSITIVITIES

The ratings are unlikely to be upgraded in the next 12-18 months, taking into account TRUE's debt-heavy capital structure. However, a rating upgrade scenario could develop from a significant improvement in TRUE's operating cash flow and substantial reduction in its financial leverage. Contrarily, downward pressure on the ratings could emerge if TRUE's operating performance deteriorates materially, pushing the adjusted ratio of FFO to debt below 5% on a sustained basis.

Despite the settlement of several major disputes and litigations such as access charges and IC in connection to TRUE's wireless communications services, there are still a number of ongoing litigations that will likely take time to resolve. A downward revision to the ratings could occur if there are new developments on these pending legal issues that suggest potential material adverse effects on TRUE's financial profile.

COMPANY OVERVIEW

TRUE was incorporated in 1990. The company has three business segments: TrueMoveH, providing mobile services; TrueOnline, providing broadband internet; and TrueVisions, offering pay TV–services and two digital TV channels. In 2020, the three lines of business contributed 76%, 18%, and 6% 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 about 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

TrueMoveH:

Chart 1: Market Share by Subscribers

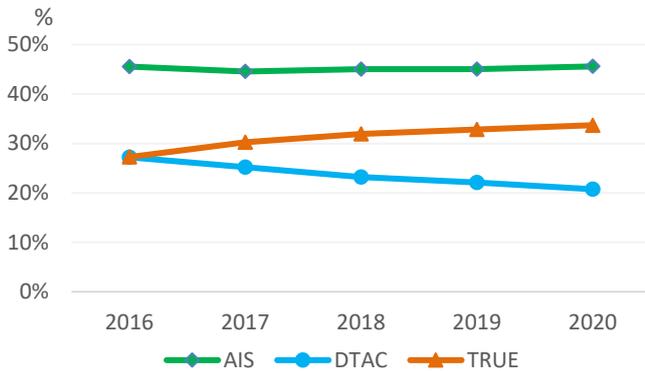
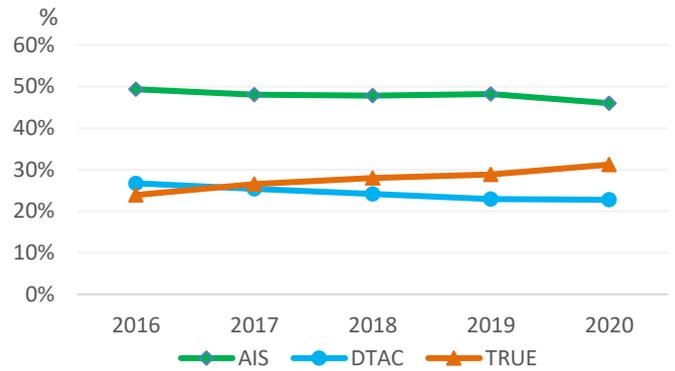


Chart 2: Service Revenue Market Share



Note: Excluding IC

Chart 3: Postpaid ARPU

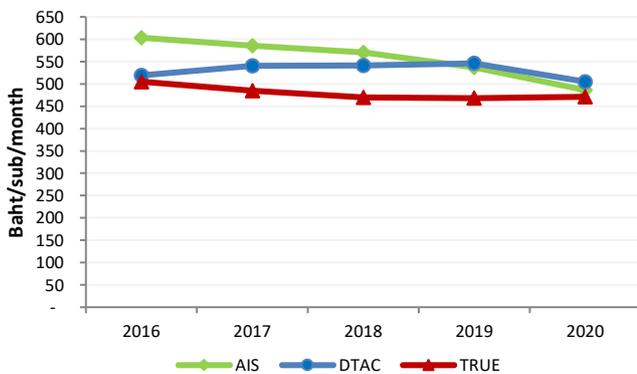
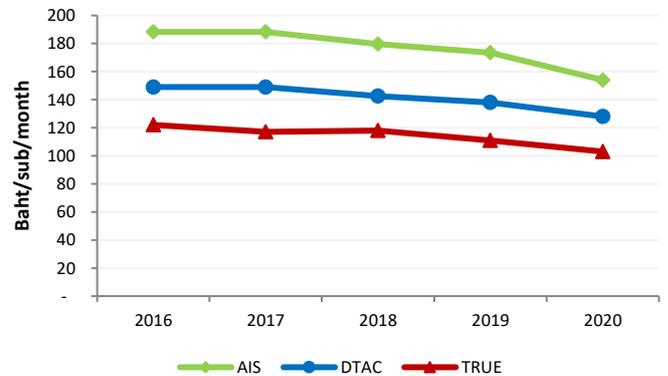
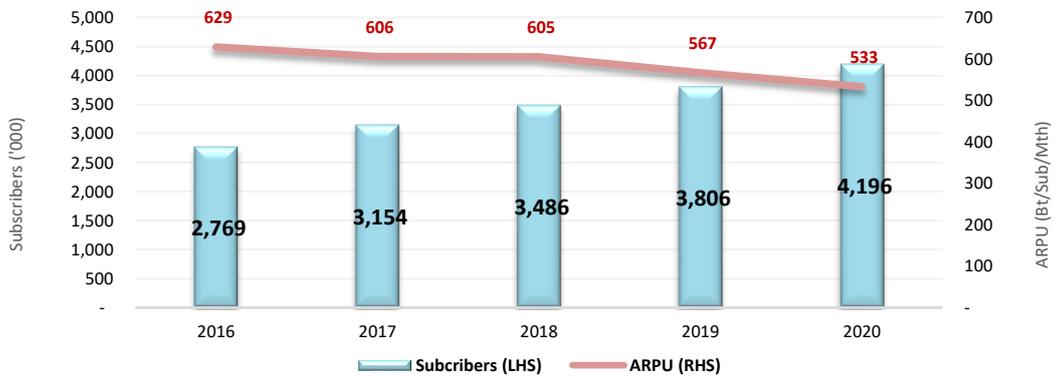


Chart 4: Prepaid ARPU



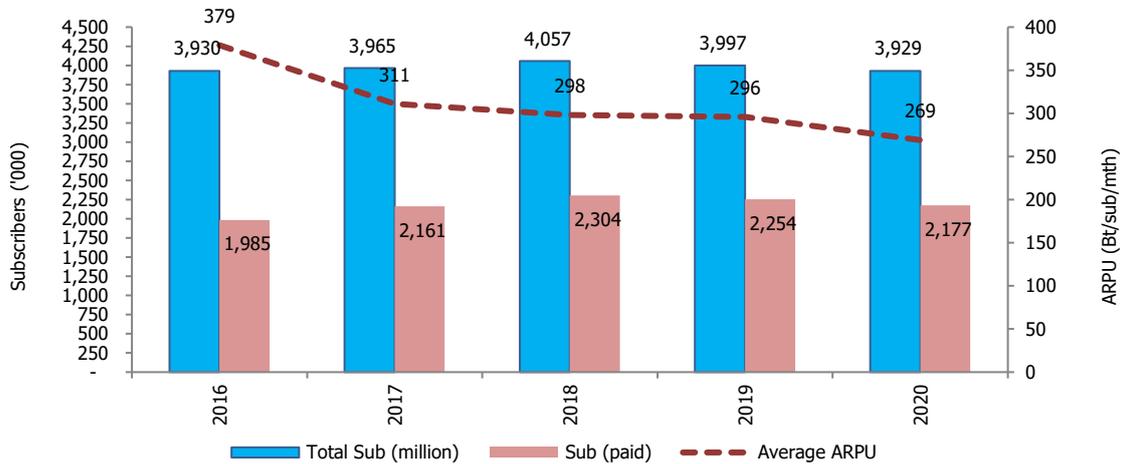
TrueOnline:

Chart 5: Broadband Internet Subscribers and ARPU



TrueVisions:

Chart 6: Pay-TV Subscribers and ARPU



Sources of all charts: 1) TRUE
2) Advanced Info Service PLC (AIS)
3) Total Access Communication PLC (DTAC)

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	-----Year Ended 31 December -----				
	2020	2019	2018	2017	2016
Total operating revenues	139,942	140,121	138,245	134,002	125,363
Earnings before interest and taxes (EBIT)	15,983	14,213	5,460	1,552	3,005
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	56,824	39,375	43,031	38,106	31,672
Funds from operations (FFO)	38,369	24,490	24,782	25,072	21,774
Adjusted interest expense	18,435	12,713	12,239	11,718	9,409
Capital expenditures	75,086	47,352	69,891	47,581	46,985
Total assets	617,548	523,993	495,569	459,182	448,960
Adjusted debt	400,951	319,019	294,671	241,500	203,628
Adjusted equity	85,617	126,019	133,884	128,184	131,728
Adjusted Ratios					
EBITDA margin (%)	40.61	28.10	31.13	28.44	25.26
Pretax return on permanent capital (%)	3.18	3.01	1.30	0.40	0.95
EBITDA interest coverage (times)	3.08	3.10	3.52	3.25	3.37
Debt to EBITDA (times)	7.06	8.10	6.85	6.34	6.43
FFO to debt (%)	9.57	7.68	8.41	10.38	10.69
Debt to capitalization (%)	82.40	71.68	68.76	65.33	60.72

RELATED CRITERIA

- Group Rating Methodology, 13 January 2021
- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

True Corporation PLC (TRUE)

Company Rating:	BBB+
Issue Ratings	
TRUE215A: THB5,224.30 million senior unsecured debentures due 2021	BBB+
TRUE215B: THB500 million senior unsecured debentures due 2021	BBB+
TRUE217A: THB1,625 million senior unsecured debentures due 2021	BBB+
TRUE217B: THB9,000 million senior unsecured debentures due 2021	BBB+
TRUE210A: THB3,360 million senior unsecured debentures due 2021	BBB+
TRUE221A: THB12,246 million senior unsecured debentures due 2022	BBB+
TRUE221B: THB100 million senior unsecured debentures due 2022	BBB+
TRUE224A: THB5,922 million senior unsecured debentures due 2022	BBB+
TRUE225A: THB300 million senior unsecured debentures due 2022	BBB+
TRUE227A: THB945 million senior unsecured debentures due 2022	BBB+
TRUE228A: THB5,799.10 million senior unsecured debentures due 2022	BBB+
TRUE228B: THB830 million senior unsecured debentures due 2022	BBB+
TRUE232A: THB4,330 million senior unsecured debentures due 2023	BBB+
TRUE237A: THB6,394.60 million senior unsecured debentures due 2023	BBB+
TRUE239A: THB4,800 million senior unsecured debentures due 2023	BBB+
TRUE23NA: THB7,438.90 million senior unsecured debentures due 2023	BBB+
TRUE248A: THB11,841.60 million senior unsecured debentures due 2024	BBB+
TRUE240A: THB1,325 million senior unsecured debentures due 2024	BBB+
TRUE24NA: THB4,268.70 million senior unsecured debentures due 2024	BBB+
TRUE251A: THB3,994.20 million senior unsecured debentures due 2025	BBB+
TRUE258A: THB650 million senior unsecured debentures due 2025	BBB+
TRUE25NA: THB2,486.60 million senior unsecured debentures due 2025	BBB+
TRUE261A: THB7,130.30 million senior unsecured debentures due 2026	BBB+
TRUE26NA: THB5,805.80 million senior unsecured debentures due 2026	BBB+
TRUE22NA: THB8,330 million partially guaranteed debentures due 2022	A-
Up to THB22,000 million senior unsecured debentures due within 6 years	BBB+
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 02-098-3000

© Copyright 2021, TRIS Rating Co., Ltd. All rights reserved. Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution or storing for subsequent use for any purpose, in whole or in part, in any form or manner or by any means whatsoever, by any person, of the credit rating reports or information is prohibited, without the prior written permission of TRIS Rating Co., Ltd. The credit rating is not a statement of fact or a recommendation to buy, sell or hold any debt instruments. It is an expression of opinion regarding credit risks for that instrument or particular company. The opinion expressed in the credit rating does not represent investment or other advice and should therefore not be construed as such. Any rating and information contained in any report written or published by TRIS Rating has been prepared without taking into account any recipient's particular financial needs, circumstances, knowledge and objectives. Therefore, a recipient should assess the appropriateness of such information before making an investment decision based on this information. Information used for the rating has been obtained by TRIS Rating from the company and other sources believed to be reliable. Therefore, TRIS Rating does not guarantee the accuracy, adequacy, or completeness of any such information and will accept no liability for any loss or damage arising from any inaccuracy, inadequacy or incompleteness. Also, TRIS Rating is not responsible for any errors or omissions, the result obtained from, or any actions taken in reliance upon such information. All methodologies used can be found at www.trisrating.com/rating-information/rating-criteria