TRIS RATING
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CreditNews ข่าวเครดิต

TRUE MOVE H UNIVERSAL COMMUNICATION CO., LTD.

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CORPORATES

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

Last Review Date: 20/03/19

Company Rating History:

Date	Rating	Outlook/Alert
15/06/15	BBB+	Stable

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RATIONALE

TRIS Rating affirms the company rating on True Move H Universal Communication Co., Ltd. (TUC) and the ratings on TUC's senior unsecured debentures at "BBB+". The ratings reflect TUC's status as a core business unit of TRUE Corporation PLC (TRUE; rated "BBB+/Stable" by TRIS Rating). The ratings also take into consideration TUC's sound competitive position in the mobile services industry. However, the ratings are constrained by its high leverage. In addition, intense competition in the industry may slow TUC's ability to monetize its hefty investment in spectrum portfolio, network capacity, and coverage.

KEY RATING CONSIDERATIONS

Core subsidiary of TRUE

The ratings reflect TUC's status as a core subsidiary of TRUE, in consideration of its strategic importance and significant contribution to the TRUE Group. TUC contributed about 73% of TRUE's revenues in 2018.

TRUE and TUC's operations are fully integrated. During 2011-2014, TRUE provided financial support to TUC in the form of capital injections, worth about Bt85 billion. In June 2016, TRUE injected Bt60 billion into TUC to support the acquisitions of the 1.8-gigahertz (GHz) and 900-megahertz (MHz) spectrum licenses.

TUC's business strength is further supported by the utilization of the TRUE brand, which TUC offers mobile services under the "TrueMove H" brand. Moreover, TRUE stores and outlets bundle all the services of TRUE, including "TrueOnline" and "TrueVisions". The support from TRUE enhances TUC's competitive position and is considered as a positive factor in TUC's ratings. As a result, TUC's credit quality is closely tied with TRUE's credit profile.

Solid business position

TUC's business position has improved steadily in the past few years. The improvement is the end result of extensive investments in spectrum portfolio, network capacity, and coverage, as well as active marketing campaigns. The investment led to a jump in market share.

TUC is now the second-largest mobile phone service provider in Thailand, as measured by service revenue and number of subscribers. In 2018, TUC had 29.2 million subscribers, or 32% of subscriber market share. TUC trails Advanced Info Service PLC (AIS), with 45% market share, but leads third-ranked Total Access Communication PLC (DTAC; 23%).

TUC's service revenue (excluding interconnection charges -- IC) rose faster than the industry average for many years running. During 2014-2018, service revenue grew by an average of 16% per annum, compared with 3.2% per annum for the industry. In 2018, TUC's service revenue came in at Bt73 billion, representing 28% of service revenue market share. AIS had the largest market share of 47.8%, while DTAC held 24.2%.

Competitive pressure slowing revenue growth

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

Firstly, TUC has gained quite a substantial number of subscribers from competitors during the past two years. The focus on customer acquisition is in line with TUC's strategy to boost the utilization of its network and enjoy the benefits of greater operating leverage. However, quite a substantial number of the new subscribers are prepaid customers, which are generally receiving handset subsidies. With the adoption of IFRS 15 in 2019, TUC has to expense the handset subsidy. As a result, TUC will be more selective in acquiring new subscribers, particularly in the prepaid segment. To keep revenue growing, TUC 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. The highly competitive operating environment limits all operators 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 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 revenue growth in order to monetize their massive investment in spectrums and networks.

TRIS Rating's base case assumes TUC'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, TUC's service revenue (excluding IC) grew by 7.6% y-o-y to Bt72.8 billion, slightly below TRIS Rating's previous forecast, due mainly to the competitive pressure.

Dispute settlement with CAT removes certain litigation risks

In November 2018, the company settled several disputes with CAT Telecom PLC (CAT). According to TUC's financial reports, the company agreed to transfer to the disputes cell towers CAT and pay CAT Bt15.7 billion. In exchange, TUC has the rights to use the towers for 30 years. TUC 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 TUC's financial profile.

Earnings improvement through cost control

A larger subscriber base enables TUC to leverage its massive outlays in spectrum rights and network, leading to higher profitability. However, TUC's effort to improve its earnings performance could be barred by the competitive market environment. TRIS Rating views that TUC's earnings improvement will be driven mainly by cost rationalizing efforts while a more rational competition will be its earnings upside.

During 2019-2021, TRIS Rating's base case expects TUC's total revenue to be in a range of Bt108-Bt118 billion per annum. Operating margin (operating income before depreciation and amortization as a percentage of revenue) is expected to range between 23%-27%. Funds from operations (FFO) would be in a range of Bt15-Bt20 billion annually.

In 2018, excluding revenue from the asset divestment to the Digital Infrastructure Fund (DIF) and extra one-time items, TUC's total operating revenue was 107 billion, a 4% decrease y-o-y due mainly to lower network rental revenue. Operating margin was 20% and FFO was Bt11.6 billion.

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-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 the 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 from 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

TUC's leverage will rise due to high capital expenditures, mobile spectrum license payments, operating lease obligations, and additional debt from the 700-MHz license. TUC has made extensive investments in the 4G (fourth generation) network in the past few years. TUC 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. TUC's capital expenditure is expected to be at Bt26-Bt30 billion per annum during 2019-2021. Operating lease obligations, in present value terms, range around Bt30-Bt36 billion during the same period. As a result, TRIS Rating expects TUC's adjusted debt to earnings before interest, tax, depreciation, and amortization (EBITDA) ratio will be over 9 times in 2019 and will be in the 8-9 times in 2020-2021, compared with 9.3 times in 2018.

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

TUC's capital structure will deteriorate in 2019 due mainly 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 million through its retained earnings. As a result, TRIS Rating expects the adjusted debt to capitalization ratio of the company to stay at 74%-80% during 2019-2021, compared with 66% in 2018.

Liquidity manageable

During the next 12 months, liquidity is expected to be tight but manageable. On a consolidated basis, primary sources of liquidity are FFO of at least Bt15 billion and cash and cash equivalents on hand of Bt8.8 billion at the end of 2018. Primary uses of liquidity are cash capital expenditures of about Bt28-30 billion, scheduled license payments of Bt4 billion, and debt maturities of Bt36.5 billion. Of the total debt coming due, almost all of them are short-term debentures which need to be refinanced. TUC 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's base case scenario, TUC's services revenue will grow in mid-to-high single digits during 2019-2021.
- Operating profit margins will stay at around 23%-27%.
- Cash capital spending will be Bt26-30 billion per annum during 2019-2021.
- TUC will accept the 900-MHz payment extension terms and get a 700-MHz license allocated at Bt25 billion.
- 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 our expectation that TUC will maintain its leading market position and effectively monetize its investment without significantly hurting its financial profile. TUC's status as a core subsidiary of TRUE is expected to remain unchanged. Any change in TRUE's credit ratings will impact TUC's ratings accordingly.

RATING SENSITIVITIES

TUC's rating upside is limited over the next 12-18 months, considering its current financial position. TUC's ratings could be downgraded if the company's operating performance is notably weaker than TRIS Rating's expectation.

Several past legal uncertainties, such as the access charges or excise tax issues, will persist and will not be resolved any time soon. The ratings could be under downward pressure if the legal outcomes significantly affect TUC's financial profile.

COMPANY OVERVIEW

Incorporated in 2010, TUC is wholly owned by TRUE, an integrated telecom company in Thailand offering fixed-line broadband internet, mobile phone, and pay-television (TV) services.

TUC provides wireless telecommunication services in the 850-MHz spectrum under a 15-year wholesale-resale agreement with CAT, which will expire in 2025. TUC also provides services under three spectrum licenses from the National Broadcasting and Telecommunication Commission (NBTC) covering the 2100-MHz spectrum under a 15-year license valid until 2027, the 1800-MHz spectrum under an 18-year license valid until 2033, and the 900-MHz spectrum under a 15-year license valid until 2031.

KEY OPERATING PERFORMANCE

Chart 1: Market Share by Subscribers

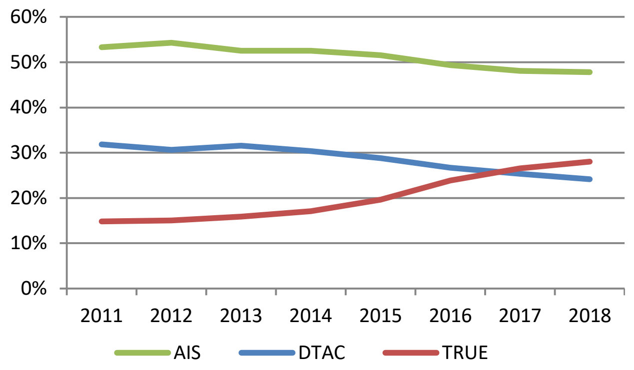


Chart 2: Service Revenue Market Share

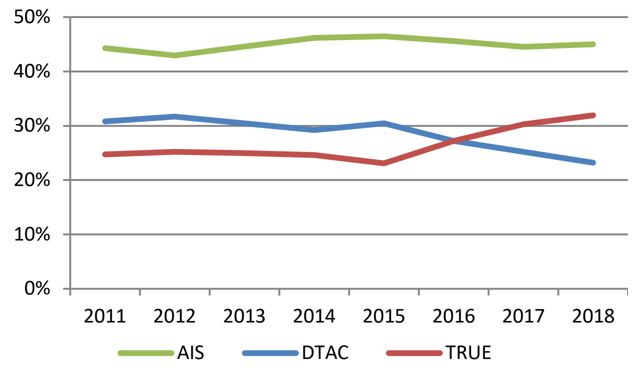


Chart 3: Postpaid ARPU

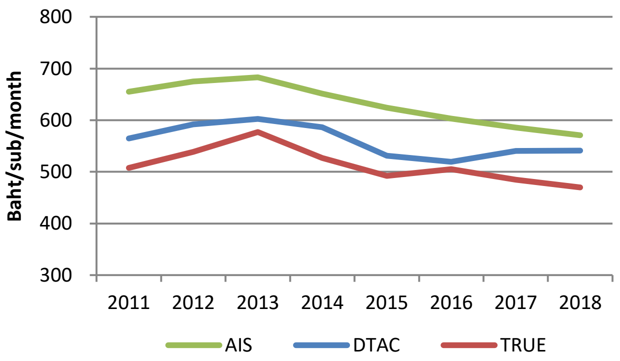
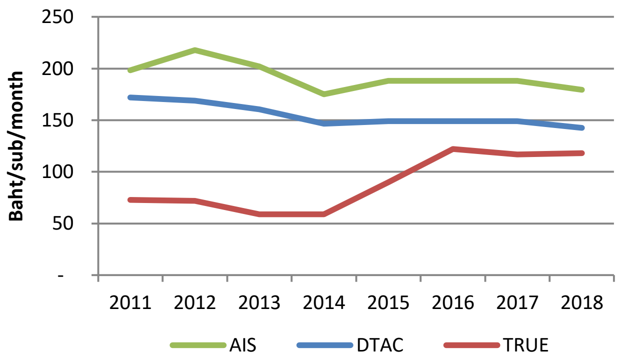


Chart 4: Prepaid ARPU



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	106,640	111,288	94,286	83,328	74,554
Operating income	20,865	22,332	17,740	13,628	11,233
Earnings before interest and taxes (EBIT)	(6,989)	(4,365)	(681)	2,836	(4,405)
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	20,865	21,254	17,684	13,668	11,255
Funds from operations (FFO)	11,588	13,341	12,453	10,846	9,278
Adjusted interest expense	8,025	7,711	5,297	2,811	4,832
Capital expenditures	57,249	34,676	34,598	38,697	16,840
Total assets	366,287	336,609	332,962	183,050	143,260
Adjusted debt	193,001	160,936	134,212	95,653	30,304
Adjusted equity	100,734	95,635	101,869	46,908	45,826
Adjusted Ratios					
Operating income as % of total operating revenues (%)	19.57	20.07	18.82	16.35	15.07
Pretax return on permanent capital (%)	(2.44)	(1.60)	(0.32)	2.49	(6.15)
EBITDA interest coverage (times)	2.60	2.76	3.34	4.86	2.33
Debt to EBITDA (times)	9.25	7.57	7.59	7.00	2.69
FFO to debt (%)	6.00	8.29	9.28	11.34	30.62
Debt to capitalization (%)	65.71	62.73	56.85	67.10	39.81

RELATED CRITERIA

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

True Move H Universal Communication Co., Ltd. (TUC)

Company Rating:	BBB+
Issue Ratings:	
TUC203A: Bt2,800 million senior unsecured debentures due 2020	BBB+
TUC205A: Bt9,000 million senior unsecured debentures due 2020	BBB+
TUC211A: Bt2,809.60 million senior unsecured debentures due 2021	BBB+
TUC218A: Bt11,998.40 million senior unsecured debentures due 2021	BBB+
TUC21DA: Bt10,974.70 million senior unsecured debentures due 2021	BBB+
TUC225A: Bt6,258.30 million senior unsecured debentures due 2022	BBB+
TUC238A: Bt8,001.60 million senior unsecured debentures due 2023	BBB+
TUC23DA: Bt4,545.10 million senior unsecured debentures due 2023	BBB+
TUC241A: Bt11,190.40 million senior unsecured debentures due 2024	BBB+
TUC245A: Bt2,789.50 million senior unsecured debentures due 2024	BBB+
TUC246A: Bt200 million senior unsecured debentures due 2024	BBB+
TUC26DA: Bt7,480.20 million senior unsecured debentures due 2026	BBB+
TUC275A: Bt1,376.40 million senior unsecured debentures due 2027	BBB+
TUC295A: Bt2,575.80 million senior unsecured debentures due 2029	BBB+
Rating Outlook:	Stable

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