

TRUE MOVE H UNIVERSAL COMMUNICATION CO., LTD.

No. 74/2021
11 May 2021

CORPORATES

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

Last Review Date: 06/10/20

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+" with a "stable" outlook. The ratings primarily reflect the company's status as a core subsidiary of TRUE Corporation PLC (TRUE). The company rating on TUC is equivalent to the company rating on TRUE ("BBB+/Stable" rated by TRIS Rating).

KEY RATING CONSIDERATIONS

A core subsidiary of TRUE

TRIS Rating assesses TUC as a core subsidiary of TRUE, for its role as the core entity through which TRUE conducts its mobile service business. The company was founded to operate license-based mobile phone services for TRUE. We believe TUC will remain the core part of TRUE's integrated telecom service strategy in the long term.

In terms of financial performance, the company has delivered satisfactory operating results and continued its dominant revenue contribution for TRUE. In 2020, TUC generated about 76% of TRUE's total revenue and around 58% of earnings before interest, taxes, depreciation, and amortization (EBITDA).

As a wholly owned subsidiary of TRUE, the company is highly integrated with TRUE in terms of business operation and financial strategy. The business integration is underpinned by the fact that TRUE's operating assets for its mobile phone business, including spectrum licenses, are held by TUC. The financial support is evidenced by TRUE's capital injections to TUC in times of need.

Based on its status as a core subsidiary of TRUE, the company rating assigned to TUC is equal to that assigned to TRUE in accordance to our "Group Rating Methodology".

Increasing high data usage subscribers boost ARPU

As of December 2020, TUC had 30.63 million subscribers, rather flat from the end of 2019. The expansion of the subscriber base, particularly in the prepaid segment, has been held back by the unfavorable economic condition and the absence of foreign tourists induced by the lingering Coronavirus Disease 2019 (COVID-19) pandemic. However, TUC's subscribers in the postpaid segment rose to 9.71 million as of end of 2020, from 8.30 million at the end of 2019.

TUC's competitive edges are hinged on the wide coverage and quality of its cellular phone network, its robust spectrum portfolio covering low, mid, to high bandwidths, and strong brand awareness. These strengths have helped it attain a significant increase in the number of high-data package postpaid subscribers in recent years. As of December 2020, postpaid subscribers represented 32% of TUC's total subscribers, up from 27% at the end of 2019.

TUC has an extensive 4G (fourth generation) network coverage nationwide. The company has also expanded 5G (fifth generation) footprint to cover key areas of all 77 provinces. The 4G and 5G subscribers generate high-data traffic and higher average revenue per user (ARPU). The ARPU of postpaid subscribers is about 4-5 times that of prepaid subscribers. TUC's ARPU in the postpaid segment rose to THB471 per month in the fourth quarter of 2020 from THB468 per month in the last quarter of 2019. This uplifted its overall

ARPU to THB215 in 2020, up from THB209 in the previous year. However, the ARPU of TUC's subscribers remains lower than its peers.

4G services remain dominant for now

Looking ahead, we expect competition in the industry to remain intense as the market is saturated and price-based competition may arise in the untapped segment to capture new subscribers. The Thai mobile phone service industry is expected to continue to be dominated by 4G services with enhanced mobile broadband in some areas. The 5G technology will need time to develop, both in terms of related-industry technology and the availability of 5G devices. We expect 5G devices and mobile handsets will be more widely available over the next few years, and thus the number of 5G subscribers industrywide to gradually increase. 5G specific solutions and the "Internet of Things" (IoT), using the 26 gigahertz (GHz) high-band spectrum for high-speed applications, such as vertical industries and enterprise partnerships, will be gradually developed, customized, and commercialized.

Rising service revenue despite COVID-19 pandemic

TUC maintains its strong market position as the second largest wireless telecommunications service provider in Thailand, holding a service revenue market share of about 31% in 2020. The market share rose from 28.8% in 2019. Despite part of its business having been impacted by the COVID-19 fallout, TUC's service revenue, excluding interconnection charges (IC), in 2020 was THB80.1 billion, up by 3.1% from 2019. TUC's revenue growth outpaced the industrywide service revenue which contracted by 3.3% from 2019.

The rise in service revenue was driven by the increased usage of data services as a result of the work-from-home phenomenon and a larger base of high-data usage subscribers. TUC's revenue from voice and data services grew by nearly 4% year-on-year (y-o-y). On the other hand, revenue from international roaming (IR) services and travel subscriber identity module (SIM) and others, which contributed about 5% of total service revenue, declined by 8.6% y-o-y due to a plunge in the number of foreign tourists. TUC's EBITDA came in at THB33.6 billion in 2020 while funds from operations (FFO) were THB22.7 billion.

Significant earnings contribution to the Group

Its revenue and earnings generating capability is an important factor supporting TUC's status as a core subsidiary of TRUE. TUC's revenue represented about 65%-76% of TRUE's consolidated revenue over the past five years, while its EBITDA represented about 50%-58% of TRUE's consolidated EBITDA during the same period.

Going forward, we expect TUC's service revenue, excluding the IC, will continue to grow and its total revenue will represent a dominant contribution for about 75%-77% of TRUE's consolidated revenue. The key supporting factors are the rising demand for data services, as well as the migration of prepaid subscribers to the postpaid segment which leads to higher ARPU. We expect TRUE's comprehensive ecosystem with its wide market distribution channels through its related companies, customized services and marketing campaigns, as well as its convergence service package will help create a wide base of customers and improve customer service satisfaction. However, we expect the revenue from travel SIM and IR services will take time to recover to pre-COVID levels.

We expect TUC's earnings to gradually increase, given the rise in operating revenue, low regulatory costs, and its cost control efforts. However, its profitability is held back by the high fixed operation costs, depreciation and amortization charges for the enlarged network and new licenses, as well as high selling and marketing expenses. TUC has focused more on productivity, quality of subscribers' acquisition and handset subsidies, and online promotion platforms. We expect TUC's cash flow generation to continue its significant growth over the next three years after TUC monetizes new spectrum bandwidth it licensed. We expect TUC's EBITDA to range THB32-THB34 billion per year during 2021-2023 and its FFO to be THB20 billion a year.

High debt burden

TUC has high leverage. Adjusted net debt was THB270.9 billion in 2020, including obligations of license fee payments as well as the ongoing capital expenditures required for network investments. TUC's earnings are also dragged down by huge interest expenses. The adjusted net debt to EBITDA ratio was about 8 times at the end of 2020. The ratio of FFO to adjusted net debt stood at 8.4%.

We expect TUC's leverage to remain high during the next three years, considering the capital expenditures required for network rollouts, scheduled license fee payments, and huge financial costs. We estimate the company to make capital investments of around THB23-THB27 billion per annum during 2021-2023. Moreover, TUC is obliged to pay license fees of THB9-THB13 billion per annum during the same period. As a result, we expect the adjusted net debt to EBITDA ratio to stay around 9 times while the FFO to adjusted net debt ratio to be about 7%.

Refinancing needs

At the end of December 2020, sources of TUC's funds comprised cash and cash equivalents of THB9.6 billion. FFO is expected at around THB20 billion during the next 12 months. We expect the capital spending will total about THB40 billion in 2021 for wireless communications network expansion and scheduled license fee payments. About THB31.7 billion debentures will come due in 2021. The company also had current portion of lease obligations of THB7.6 billion. Hence, TUC will need to refinance a large part of its existing debts due over the near term.

TRUE's credit profile

The company rating on TRUE at "BBB+" reflects a leading integrated telecom company in Thailand. The company is engaged in multiple business platforms, which includes wireless communications service, broadband internet, television (TV) networks, and digital platform and services. We take into consideration TRUE's satisfactory operating results and strong competitive position in both the wireless communications and broadband internet services. The rating also recognizes the ongoing support it receives from the CP Group, its major shareholder, and China Mobile International Holdings Ltd. as a strategic partner. TRUE's company rating is weighed down by its huge debt burden stemmed from the ongoing capital expenditures and the scheduled payments for spectrum license fee, a fiercely competitive marketplace, and the lingering effects of the COVID-19 pandemic.

Settlement of legal disputes

TRUE Group has resolved some of its long-standing legal disputes with the state-owned CAT Telecom PLC (CAT), currently National Telecom PLC (NT). The settlement covers disputes in connection with IC expenses from the previous revenue sharing scheme, a numbering fee, universal service obligation (USO) fee, rental fee, and other claims concerning the Group's failure to comply with specific provisions stipulated in the concession agreement. The settlement has eased the concerns over the lingering contingencies arising from the concession agreement. However, a number of ongoing litigations remain and will likely take time to resolve. We view that unpredictable regulatory developments could eventually lead to downside implications.

BASE-CASE ASSUMPTIONS

- TRIS Rating's base-case assumption is that TUC will remain a core subsidiary of TRUE.

RATING OUTLOOK

The "stable" outlook is based on our expectation that TUC will maintain its status as a core subsidiary of TRUE and continue to receive strong supports from its parent company.

RATING SENSITIVITIES

Based on TRIS Rating's "Group Rating Methodology", the rating on TUC as a core subsidiary of TRUE, is equal to the rating assigned to TRUE. The rating and/or outlook on TUC could be revised in accordance to any changes in the rating on TRUE. Any change in our view with regard to the degree of support TUC receives from TRUE or any changes in TUC's status relative to other subsidiaries or affiliates of TRUE would also trigger a negative rating action.

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-TV services.

TUC provides wireless telecommunications services in the 850-megahertz (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. In December 2020, TUC was granted a 700 MHz license and valid until 2035. TUC won the 2600-MHz and 26-GHz spectrums license auctions, in preparation for 5G service, in February 2020. At the end of 2020, TUC had 30.63 million subscribers, with a service revenue market share of 31%.

TUC has extensive 4G network coverage nationwide. The company has expanded 5G network footprint, harmonizing with its existing frequencies at the base stations, in the key areas covering 77 provinces nationwide. TUC has also installed the 5G stand-alone (SA) base stations in approximately 10,000 sites. The mid-band 2600 MHz, the main spectrum for 5G, provides service for speed and capacity, together with a pool of low bands (700 MHz, 850 MHz, and 900 MHz) for the wider coverage and penetration, enabling the company to accommodate better 4G and 5G services. TUC's number of 5G

subscribers stands at about 250,000.

KEY OPERATING PERFORMANCE

Chart 1: Market Share by Subscribers

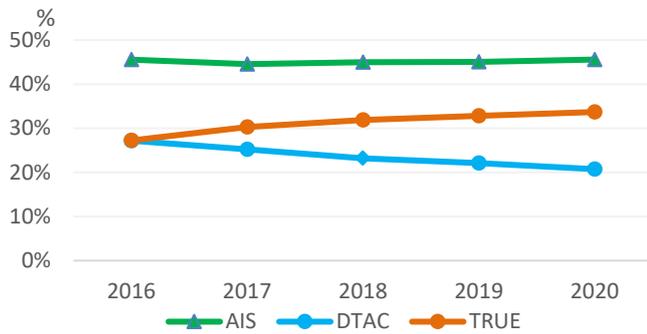
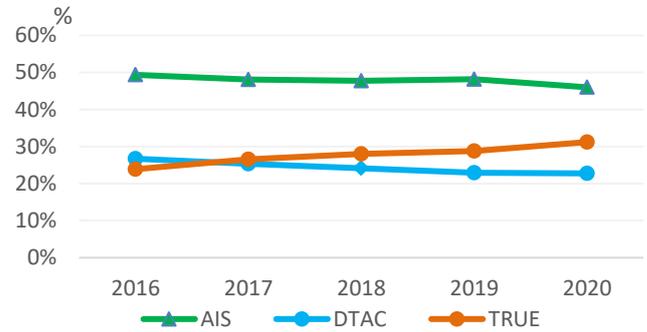


Chart 2: Service Revenue Market Share



Note: Excluding IC

Chart 3: Postpaid ARPU

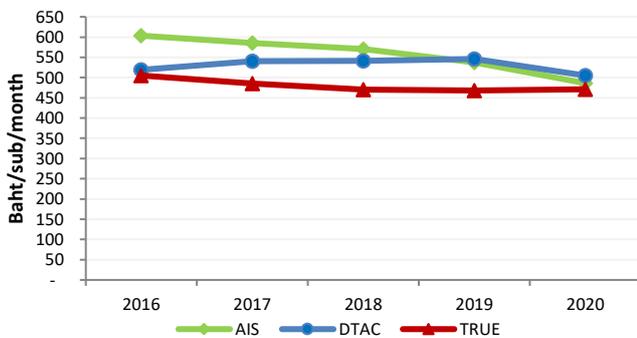
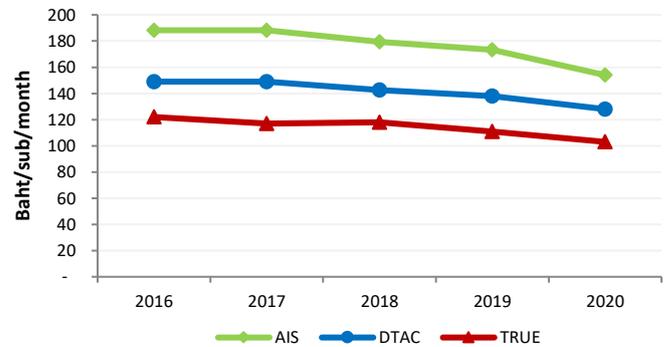


Chart 4: Prepaid ARPU



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	112,604	110,803	106,640	111,288	94,286
Earnings before interest and taxes (EBIT)	2,511	3,038	(6,989)	(4,365)	(681)
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	33,631	24,517	21,034	21,254	17,684
Funds from operations (FFO)	22,753	12,987	11,758	13,341	12,453
Adjusted interest expense	12,434	9,785	8,025	7,711	5,297
Capital expenditures	57,498	35,826	57,249	34,676	34,598
Total assets	450,355	384,566	366,287	336,609	332,962
Adjusted debt	270,914	203,837	193,001	160,936	134,212
Adjusted equity	79,893	93,345	100,734	95,635	101,869
Adjusted Ratios					
EBITDA margin (%)	29.87	22.13	19.72	19.10	18.76
Pretax return on permanent capital (%)	0.71	0.94	(2.44)	(1.60)	(0.32)
EBITDA interest coverage (times)	2.70	2.51	2.62	2.76	3.34
Debt to EBITDA (times)	8.06	8.31	9.18	7.57	7.59
FFO to debt (%)	8.40	6.37	6.09	8.29	9.28
Debt to capitalization (%)	77.23	68.59	65.71	62.73	56.85

RELATED CRITERIA

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

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

Company Rating:	BBB+
Issue Ratings:	
TUC218A: THB11,998.40 million senior unsecured debentures due 2021	BBB+
TUC21NA: THB5,961.80 million senior unsecured debentures due 2021	BBB+
TUC21DA: THB10,974.70 million senior unsecured debentures due 2021	BBB+
TUC225A: THB6,258.30 million senior unsecured debentures due 2022	BBB+
TUC228A: THB1,500 million senior unsecured debentures due 2022	BBB+
TUC22DA: THB6,772.90 million senior unsecured debentures due 2022	BBB+
TUC238A: THB8,001.60 million senior unsecured debentures due 2023	BBB+
TUC23DA: THB4,545.10 million senior unsecured debentures due 2023	BBB+
TUC241A: THB11,190.40 million senior unsecured debentures due 2024	BBB+
TUC243A: THB4,182.90 million senior unsecured debentures due 2024	BBB+
TUC245A: THB2,789.50 million senior unsecured debentures due 2024	BBB+
TUC246A: THB200 million senior unsecured debentures due 2024	BBB+
TUC24NA: THB1,200 million senior unsecured debentures due 2024	BBB+
TUC256A: THB18,544.20 million senior unsecured debentures due 2025	BBB+
TUC25NA: THB3,838.20 million senior unsecured debentures due 2025	BBB+
TUC26DA: THB7,480.20 million senior unsecured debentures due 2026	BBB+
TUC275A: THB1,376.40 million senior unsecured debentures due 2027	BBB+
TUC27NA: THB3,643.50 million senior unsecured debentures due 2027	BBB+
TUC295A: THB2,575.80 million senior unsecured debentures due 2029	BBB+
Rating Outlook:	Stable

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