

Press Release

No. 316/2021
26 November 2021

TRIS Rating Is Assessing the Potential Impact of the Proposed Merger between DTAC and TRUE on the Assigned Ratings

TRIS Rating is assessing the potential impact of the proposed merger between Total Access Communication PLC (DTAC) and True Corporation PLC (TRUE) on the company and issue ratings assigned to DTAC, dtac TriNet Co., Ltd (DTN), TRUE, and True Move H Universal Communication Co., Ltd. (TUC). The assessment is pending on detailed information on the merger, particularly the would-be corporate structure of the combined businesses, and business direction post-merger. As the merger is still in an early stage of negotiation, and is subject to regulatory approvals, we expect more concrete merger-details and business direction may not be available until the first quarter of 2022.

On 22 November 2021, DTAC and TRUE announced their intention on a potential merger. Both companies entered into a non-binding memorandum of understanding (MOU) for an equal partnership to combine into a new business entity (merged entity: NEWCO). The intended merger structure will involve Telenor ASA PTE LTD (Telenor) and the Charoen Pokphand Group (CP Group) each expected to own about one-third of the merged entity, subjected to voluntary tender offer (VTO) result. The merger is expected to be completed by the third quarter of 2022.

Hypothetically, NEWCO would be the market leader in the wireless telecommunication service in Thailand, with much larger revenue market share. We view the merger should strengthen the market position, enlarge revenue base and customer base, and enhance operational efficiencies of the merged operations. We also see NEWCO to benefit from the synergy on network capacity sharing, combined spectrums, reduction on operating costs, as well as reduced investment outlays. Over the long term, NEWCO could become a regional telecom-tech company, offering wide-ranging technology-related services.

However, the merger could have significant implication on the stand-alone credit profiles of the operating entities of the existing mobile phone networks, pending on the eventual merger structure. We estimate the ratio of net debt to EBITDA (earnings before interest, taxes, depreciation, and amortization) of the merged entity to be around 5.5 times. Comparatively, the financial profile of the merged entity could be significantly weaker than the existing financial profile of DTAC, which suggests a potential negative effect on the rating on DTAC. The merger could also delink DTAC's credit profile from Telenor which would affect the existing rating uplift that reflects potential group support from Telenor. Conversely, we see the merger could have potential positive effect on the ratings on TRUE, given the stronger business and financial profile of the merged entity.

We note that the merger is subject to a number of hurdles, including approvals of the respective shareholders, consent from creditors, and regulatory approvals - particularly approval of the National Broadcasting and Telecommunications Commission (NBTC).

DTAC and DTN are rated "AA" by TRIS Rating. DTN's senior unsecured debentures is rated "AA". The outlook is "stable".

TRUE and TUC are rated "BBB+" by TRIS Rating. The senior unsecured debentures of both companies are rated "BBB+". TRUE's partially guaranteed debentures is rated "A-". The outlook is "stable".

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