

TRUE CORPORATION PLC

No. 16/2022

11 February 2022

CORPORATES

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

Last Review Date: 03/12/21

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	-

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RATIONALE

TRIS Rating affirms the company rating on True Corporation PLC (TRUE) and the ratings on TRUE's outstanding senior unsecured debentures at "BBB+", with a "stable" outlook. 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.

At the same time, TRIS Rating assigns the rating of "BBB+" to TRUE's proposed issue of up to THB23 billion in senior unsecured debentures. TRUE intends to use the proceeds from the new debenture issuance for debt refinancing and/or spectrum license payment and/or working capital funding.

The ratings mirror TRUE's strong business profile as a leading integrated telecom company in Thailand, with strong market position in both wireless communications and broadband internet services. The ratings also incorporate TRUE's satisfactory operating results and our expectation of the ongoing support TRUE receives from the Charoen Pokphand Group (CP Group), its major shareholder, and China Mobile International Holdings Ltd. (China Mobile), its strategic partner. However, the ratings are held back by TRUE's high-leveraged balance sheet, intense competition in the industry, and the protracted Coronavirus Disease 2019 (COVID-19) pandemic.

TRUE's operating results were in line with our expectation. For the first nine months of 2021, its revenues were driven by strong growth in the broadband internet business, but undermined by slowing economic recovery and the government's reintroduction of lockdown measures which put pressure on the mobile prepaid segment and the pay television (TV) business. TRUE arrived at THB102.2 billion in total revenues, a slight increase of 0.5% year-on-year (y-o-y).

In the mobile service segment, the "TrueMove H" network had 32 million subscribers as of September 2021. Service revenues, excluding the interconnection charges (IC), in the first nine months of 2021 were THB59.9 billion, a slight decline of 0.6% y-o-y. Over the same period, total service revenues of the mobile operators in the industry dropped by 1.7% y-o-y. TrueMove H sustained its strong market position as the second largest wireless telecommunication provider in Thailand, holding a 31.5% service revenue market share.

On the contrary, the revenue from TRUE's broadband internet service rose by 9.7% y-o-y to THB22 billion, aided by the surge in demand for online connectivity and home internet access. As of September 2021, TRUE's total number of broadband internet subscribers was 4.5 million, recording net adds of 0.135 million subscribers in the third quarter of 2021.

In the pay TV segment, total service revenue in the first nine months of 2021 dropped by 6.7% y-o-y to about THB7.4 billion, due to softened subscription, particularly in the hotel segment, as well as the increasing trend toward "over-the-top" (OTT) and online platforms. However, the revenue from advertising, entertainment, and others rebounded by 13% y-o-y.

CreditUpdate, reviews ratings of companies or debt issues that have already been rated by TRIS Rating. The CreditUpdate occurs when new debt instruments are issued or if significant events have taken place that may impact a company's current ratings or when current ratings are cancelled. The CreditUpdate announces whether a rating has been "upgraded," "downgraded," "affirmed" or "cancelled." The update includes information to supplement the previously published ratings.

Credit Updates are part of TRIS Rating's monitoring process. TRIS Rating monitors every rating it assigns until either the debt instrument matures or the rating contract ends. To keep the public informed of changing situations, TRIS Rating periodically issues announcements about the credit ratings it monitors.

TRUE's earnings before interest, taxes, depreciation, and amortization (EBITDA) for the first nine months of 2021 were THB45.6 billion, up by 5% y-o-y. The improved profitability is attributed to the company's cost control efforts, digital transformation, lower selling expenses, and improved operational efficiency. The EBITDA margin rose to 44.2% from 40.6% in 2020. Funds from operations (FFO) elevated to THB31 billion.

The ratings on TRUE have been constrained by its debt-heavy financial risk profile. As of September 2021, its interest-bearing debt totaled THB244.5 billion and adjusted net debt was THB416 billion. The adjusted net debt to EBITDA ratio was 7 times while the FFO to adjusted net debt ratio was 9.5%. The adjusted net debt to net capitalization ratio was 82%. Given the capital expenditures required for network investments, we anticipate TRUE's leverage will remain high over the medium term, with a major portion of the debt maturing in the next 12-18 months to be refinanced.

As of September 2021, 48% of TRUE's consolidated debt was at subsidiary level and unsecured. Its priority debt level is less than the threshold of 50% according to TRIS Rating's "Issue Rating Criteria". We view its unsecured creditors as not being significantly disadvantaged with respect to claim against its assets. In effect, we maintain the ratings on TRUE's senior unsecured debentures at the same level as its company rating.

On 22 November 2021, Total Access Communication PLC (DTAC) and TRUE announced their intentions on a potential merger. TRIS Rating is assessing the potential impact of the proposed merger on the company and issue ratings assigned to TRUE. The assessment is pending on detailed information about the merger, particularly the would-be corporate structure of the combined businesses and business direction post-merger. 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).

RATING OUTLOOK

The "stable" outlook embeds our expectation that TRUE will maintain its strong market position in the core businesses and continue to deliver satisfactory operating performance. We also expect TRUE to receive ongoing support from the CP Group and China Mobile.

RATING SENSITIVITIES

The ratings could be downgraded if TRUE's operating performance deteriorates materially, pushing the adjusted FFO to debt ratio to fall below 5% on a sustained basis. A rating upgrade could occur if TRUE significantly improves its profitability and capital structure.

There is 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.

RELATED CRITERIA

- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021
- Group Rating Methodology, 13 January 2021
- Rating Methodology – Corporate, 26 July 2019

* 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. The rating on KBANK stands at "AA+" with a "stable" outlook. The rating reflects the bank's competitive position as the second-largest commercial bank 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.

True Corporation PLC (TRUE)

Company Rating:	BBB+
Issue Ratings:	
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+
TRUE232B: THB2,875 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+
TRUE245A: THB4,415.50 million senior unsecured debentures due 2024	BBB+
TRUE248A: THB11,841.60 million senior unsecured debentures due 2024	BBB+
TRUE240A: THB1,325 million senior unsecured debentures due 2024	BBB+
TRUE240B: THB6,212.90 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+
TRUE251B: THB4,971.30 million senior unsecured debentures due 2025	BBB+
TRUE252A: THB4,207.70 million senior unsecured debentures due 2025	BBB+
TRUE258A: THB650 million senior unsecured debentures due 2025	BBB+
TRUE250A: THB4,247.90 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+
TRUE261B: THB2,912.10 million senior unsecured debentures due 2026	BBB+
TRUE262A: THB3,865.20 million senior unsecured debentures due 2026	BBB+
TRUE260A: THB4,854.70 million senior unsecured debentures due 2026	BBB+
TRUE26NA: THB5,805.80 million senior unsecured debentures due 2026	BBB+
TRUE272A: THB6,636.60 million senior unsecured debentures due 2027	BBB+
TRUE270A: THB5,116.60 million senior unsecured debentures due 2027	BBB+
TRUE280A: THB7,184.50 million senior unsecured debentures due 2028	BBB+
TRUE22NA: THB8,330 million partially guaranteed debentures due 2022	A-
Up to THB23,000 million senior unsecured debentures due within 6 years	BBB+
Rating Outlook:	Stable

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