

TRUE CORPORATION PLC

No. 26/2023
1 March 2023

CORPORATES

| | |
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| Company Rating: | A+ |
| Issue Ratings: | |
| Senior unsecured | A+ |
| Outlook: | Stable |

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RATIONALE

TRIS Rating assigns a company rating of “A+” to True Corporation PLC (TRUE) and assigns an “A+” rating to TRUE’s senior unsecured debentures, with a “stable” rating outlook.

The ratings reflect the credit profile of TRUE as the newly formed entity as the result of the amalgamation between the former TRUE Corporation PLC (TRUEE) and Total Access Communication PLC (DTAC).

The ratings also reflect the merged entity’s leading market position in the wireless telecommunication services and internet broadband markets in Thailand, the strength of its nationwide cellular networks, its diverse frequency spectrums, and strong brands recognition among consumers. We take into consideration the expected post-merger synergies and the potential improvements in its operating efficiencies. The ratings are however weighed by the fierce competition in the telecommunication industry, the company’s high financial leverage, and integration risks.

KEY RATING CONSIDERATIONS

A formidable player in the Thai telecommunication industry

As the merged entity, TRUE combines the assets and operations of the two former major operators, TRUEE and DTAC, taking effect on 1 March 2023. The merger has resulted in a formidable operator in Thailand’s telecommunication and digital service markets, with multiple business platforms. Its services cover wireless communication, fixed broadband internet, pay television (TV), digital TV and content distribution, as well as digital service offerings.

TRUE’s combined assets total about THB800 billion, encompassing two nationwide license-based cellular networks as well as a broad range of frequency spectrums. The merged entity has earnings before interest, taxes, depreciation, and amortization (EBITDA) of over THB80 billion. In our view, the combined business operations will provide significant competitive edge particularly in the wireless communication business, with a broad market coverage and customer base, extensive operating networks, and a wide range of frequency spectrums. We view business scale as a key competitive advantage for telecommunication operators, enabling the viability of required continuing investments in networks, frequency spectrums, and digitization.

With the combined customer base and operating assets of the two former major operators, we expect the company to benefit hugely from economies of scale and synergies within the group.

The market leader in mobile phone service industry

As the merged entity, TRUE commands a market position as the largest service provider in the Thai wireless telecommunication industry. The merger leaves the market with merely two major mobile telecom operators, TRUE and Advanced Info Service PLC (AIS).

TRUE’s subscriber base of 55 million, combining the former TRUEE’s 34 million and DTAC’s 21 million, means the company has emerged as the market leader with a 54%¹ market share, ahead of AIS’s 46%.

¹ Based on TRUEE and DTAC’s public information. The total market share excludes National Telecom PLC (NT)’s numbers.

In terms of mobile phone service revenues, excluding interconnection charges (IC), TRUE has a market share of 53.6%, versus AIS's 46.4%.

We expect TRUE to maintain its leading market position in wireless communication services. We view the frequency spectrum position of TRUE as a strategic competitive advantage, supporting the company's competitiveness in providing high-speed data services to its customers. The company will continue to use both "TRUE" and "DTAC" brands at least for the next three years. These two brands have strong brand recognition among consumers and are expected to help strengthen the company's engagement with its customers.

We view TRUE has strong major shareholders, Charoen Pokphand Group (CP Group), and Telenor ASA (Telenor) coupled with its related companies, which each holding about one-third of TRUE's shares. China Mobile International Holdings Ltd. (China Mobile), a strategic partner, holds a 10% stake. We expect TRUE's operations will benefit from CP Group's ecosystem and Telenor's expertise in the telecom and wireless communication business.

Fierce competition but likely to become more rational

The mobile phone service market, particularly the prepaid segment, has faced challenges of a fragile economic recovery, inflationary pressures, and fierce competition. These challenges resulted in a drop in average revenue per user (ARPU) across the industry in 2022.

Despite Thailand's reopening to foreign travelers, the market in 2023 will likely be impacted by consumers' softening purchasing power from soaring inflation and increased interest rates. We expect competition in the market to remain intense but should become more rational over the next few years as the merger will leave the market with merely two major mobile telecom operators. We also expect increased demand for data services with more affordable 5G (the fifth-generation mobile communications technologies) devices and the economic recovery to support ARPU during the same period.

Competitive challenges in broadband market and pay-TV

TRUE is the market leader in the fixed broadband internet business, with an approximately 37.5% market share. TRUE held a large fiber subscriber base of about five million in 2022. The increase in subscribers has been fueled by rising demand for home internet access and entertainment content viewing. However, ARPU across the broadband internet market has been declining as operators turn to service fee discounts as a tool to attract and retain customers. Price competition has been very intense, particularly in newly extended service areas.

We expect consolidation in the broadband internet market as the two major players, AIS and Triple T Broadband PLC (3BB), are in a merging process to become the market leader, with AIS holding a 13% market share and 3BB 28%. TRUE aims to maintain its market share by enhancing service quality and customer experience, offering innovative products, providing value-added content, and offering convergence services.

The outlook of pay-TV business remains dim, amid fast changes in consumer behavior. We expect the revenue from pay-TV will take time to recover, despite the positive momentum from the hotel customer group. However, we view pay-TV will continue to be a key service bundled with TRUE's wireless and internet broadband services in its strategy to offer comprehensive convergence packages.

Anticipated synergies to take time to materialize

The large customer base and geographic diversification should help TRUE expand its revenue base and improve profitability. TRUE has a wide range of services and products which could create cross-sales and up-sales among various groups of customers. However, TRUE's ARPU, particularly in 2023, is likely to come under pressure from the Office of The National Broadcasting and Telecommunications Commission's (NBTC) remedy measures. During the next three years, we project TRUE's total operating revenue to range between THB196-THB201 billion per year.

We anticipate TRUE to benefit from synergies and cost savings, with economies of scale and improved utilization of shared assets and services within TRUE group. We believe the anticipated synergies will enhance profitability and operating margin, if network integration and optimization with good quality of services runs smoothly. Capital expenditures will likely be the first area to see reductions since the company already has an extensive operating network.

We also expect a gradual reduction in TRUE's operating expenses. The optimization of the original two networks using technologies, techniques, and tools are expected to maximize performance across all networks, create more efficiency, and bring in cost savings. Moreover, service shops and selling channels can be combined, which could significantly reduce new shop opening costs. Other cost synergies are expected in terms of procurement pooling which will bring stronger bargaining power, and improved human resource management.

That being said, we view that the anticipated synergies and cost savings will take time to materialize. TRUE will also carry and need to manage integration risks in the near term, including duplicated resources, integration of work processes,

unexpected costs, customer engagement, organization and management cultures, information technology (IT) system and back-office integration. The company will need time to fine-tune its networks and services in the initial stage of integration which we expect this to take a few years.

Going forward, the group's profitability will hinge on its ability to control costs, improve asset utilization, and synergies realization. In our base-case projections covering 2023-2025, we forecast TRUE's EBITDA to be THB82-THB98 billion per annum, with an EBITDA margin of 42%-49%. We expect TRUE's post-merger cash flow to improve in the next few years. Funds from operations (FFO) are forecast to range between THB58-THB72 billion annually.

Acceptable cash flow protection

As a result of the merger, all assets, and outstanding debts of TRUEE and DTAC have been assumed by TRUE. During the next three years, we expect TRUE's leverage to remain high incorporating the capital expenditures required for network investments and scheduled license fee payments. We expect the capital expenditures to gradually decline over the next three years, ranging THB34-THB43 billion per year. Additionally, TRUE is obliged to pay license fees of about THB15-THB23 billion per annum over the same period. We project the debt to capitalization ratio to remain over 85% during 2023-2025.

Cashflow protection should improve significantly, following EBITDA enhancement from the anticipated cost savings. We forecast the debt to EBITDA ratio of TRUE to be about 6.4 times in 2023 and then declining to about 5.3 times in two years thereafter. The FFO to debt ratio is expected to range from 11%-14% over the same period.

Debt structure

We estimate TRUE to have priority debt of 47%. As the ratio is under the 50% priority debt threshold, we rate TRUE's senior unsecured debentures at the same level as the assigned company rating.

BASE-CASE ASSUMPTIONS

These are the key assumptions in TRIS Rating's base-case forecast for TRUE's operations during 2023-2025:

- Service revenues in mobile service and broadband internet to grow by low-single digits during the next few years, with pay-TV service revenue likely to come under pressure from changes in consumer behaviors.
- EBITDA margins to remain at 42%-49%.
- Total capital spending of about THB34-TH43 billion per annum to roll out the network.
- Scheduled license fee payments of about THB15-THB23 billion per annum.

RATING OUTLOOK

The "stable" outlook embeds our expectation that TRUE will maintain its market-leading position. TRIS Rating expect the integration of operations within the group to proceed well, without pushing costs or capital expenditures higher than the expected levels. We also expect TRUE's financial profile will consistently improve over the next few years, with its EBITDA and financial leverage levels to be in line with our forecast.

RATING SENSITIVITIES

A rating upgrade is unlikely in the near term due to the integration risk. However, we could raise the ratings on TRUE upon the company's demonstration of successful integration, which results in forecast-beating EBITDA, lower-than-expected leverage, or a significantly stronger market position. A downward rating action could be triggered if TRUE's operating performance and financial status deteriorate significantly, pushing the FFO to debt ratio below 10% on a sustained basis.

COMPANY OVERVIEW

TRUE was established on 1 March 2023 following the merger of TRUEE, a leading integrated telecom company in Thailand, and DTAC, the third-largest wireless communication service company. CP Group and Telenor coupled with its related companies, hold about one-third of TRUE's shares. China Mobile, a long-strategic partner, hold a 10% ownership.

The company is engaged in multiple business platforms, including mobile service business, broadband internet, as well as pay TV services, digital TV channels, content providing, and digital services.

KEY OPERATING PERFORMANCE

Mobile Business:

Chart 1: Market Share by Subscribers

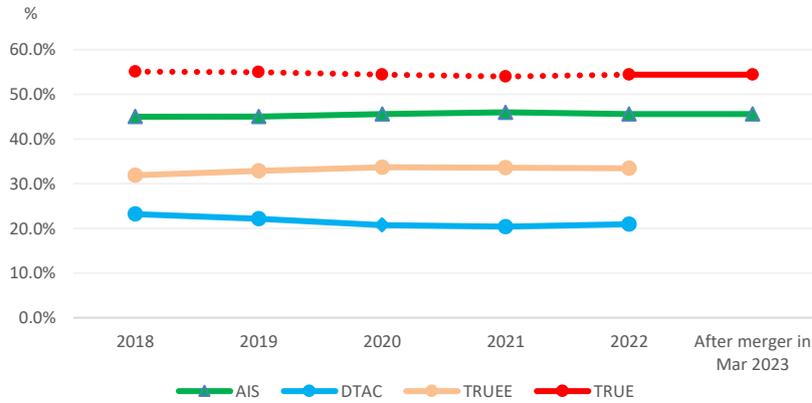
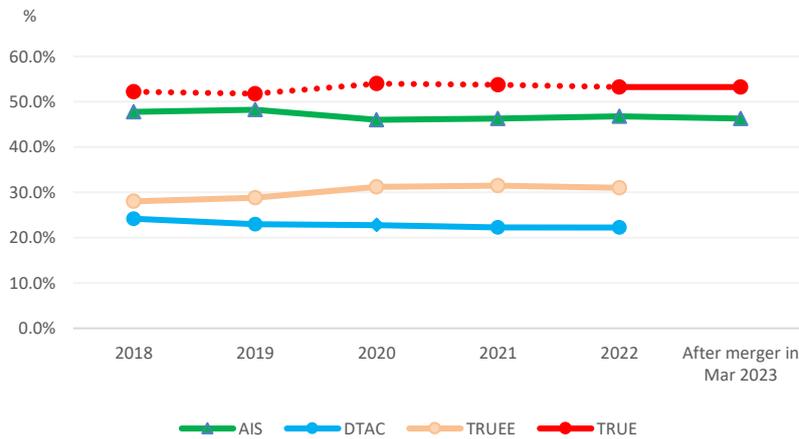


Chart 2: Service Revenue Market Share, Excluding IC



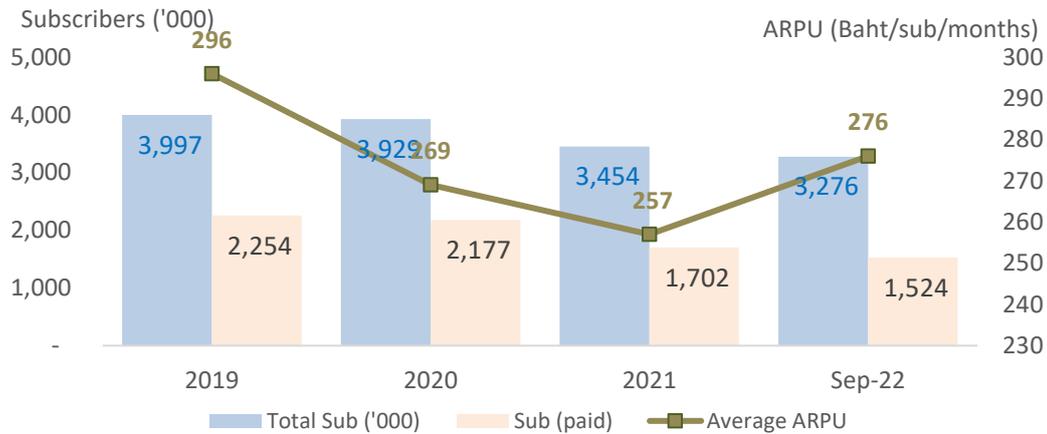
Broadband Internet Business:

Chart 3: Broadband Internet Subscribers and ARPU



Pay-TV Business:

Chart 4: Pay-TV Subscribers and ARPU



Sources of charts: 1) TRUÉE
2) AIS
3) DTAC

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

| | -----Year Ended 31 December ----- | |
|--|-----------------------------------|---------|
| | 2021 | 2020 |
| Total operating revenues | 227,782 | 221,868 |
| Earnings before interest and taxes (EBIT) | 30,056 | 33,540 |
| Earnings before interest, taxes, depreciation, and amortization (EBITDA) | 99,655 | 99,094 |
| Funds from operations (FFO) | 76,585 | 76,739 |
| Adjusted interest expense | 22,173 | 21,335 |
| Capital expenditures | 81,032 | 95,897 |
| Total assets | 809,207 | 805,535 |
| Adjusted debt | 505,476 | 488,529 |
| Adjusted equity | 118,753 | 121,548 |
| Adjusted Ratios | | |
| EBITDA margin (%) | 43.75 | 44.66 |
| Pretax return on permanent capital (%) | 4.65 | 5.64 |
| EBITDA interest coverage (times) | 4.49 | 4.64 |
| Debt to EBITDA (times) | 5.07 | 4.93 |
| FFO to debt (%) | 15.15 | 15.71 |
| Debt to capitalization (%) | 80.98 | 80.08 |

* Pro forma consolidated financial statements

RELATED CRITERIA

- Group Rating Methodology, 7 September 2022
- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021

True Corporation PLC (TRUE)

| | |
|---|--------|
| Company Rating: | A+ |
| Issue Ratings: | |
| TRUE237A: THB6,394.60 million senior unsecured debentures due 2023 | A+ |
| TRUE238A: THB3,747.70 million senior unsecured debentures due 2023 | A+ |
| TRUE239A: THB4,800 million senior unsecured debentures due 2023 | A+ |
| TRUE23NA: THB7,438.90 million senior unsecured debentures due 2023 | A+ |
| TRUE245A: THB4,415.50 million senior unsecured debentures due 2024 | A+ |
| TRUE248A: THB11,841.60 million senior unsecured debentures due 2024 | A+ |
| TRUE248B: THB605.4 million senior unsecured debentures due 2024 | A+ |
| TRUE240A: THB1,325 million senior unsecured debentures due 2024 | A+ |
| TRUE240B: THB6,212.40 million senior unsecured debentures due 2024 | A+ |
| TRUE24NA: THB4,268.70 million senior unsecured debentures due 2024 | A+ |
| TRUE24NB: THB4,240.80 million senior unsecured debentures due 2024 | A+ |
| TRUE251A: THB3,994.20 million senior unsecured debentures due 2025 | A+ |
| TRUE251B: THB4,971.30 million senior unsecured debentures due 2025 | A+ |
| TRUE252A: THB4,207.20 million senior unsecured debentures due 2025 | A+ |
| TRUE253A: THB5,575.40 million senior unsecured debentures due 2025 | A+ |
| TRUE258A: THB650 million senior unsecured debentures due 2025 | A+ |
| TRUE250A: THB4,247.90 million senior unsecured debentures due 2025 | A+ |
| TRUE25NA: THB2,486.60 million senior unsecured debentures due 2025 | A+ |
| TRUE25NB: THB3,998.90 million senior unsecured debentures due 2025 | A+ |
| TRUE261A: THB7,130.30 million senior unsecured debentures due 2026 | A+ |
| TRUE261B: THB2,912.10 million senior unsecured debentures due 2026 | A+ |
| TRUE262A: THB3,864.90 million senior unsecured debentures due 2026 | A+ |
| TRUE263A: THB2,412.10 million senior unsecured debentures due 2026 | A+ |
| TRUE268A: THB1,689.40 million senior unsecured debentures due 2026 | A+ |
| TRUE260A: THB4,854.70 million senior unsecured debentures due 2026 | A+ |
| TRUE26NA: THB5,805.80 million senior unsecured debentures due 2026 | A+ |
| TRUE26NB: THB2,142.50 million senior unsecured debentures due 2026 | A+ |
| TRUE272A: THB6,636.60 million senior unsecured debentures due 2027 | A+ |
| TRUE273A: THB3,656.90 million senior unsecured debentures due 2027 | A+ |
| TRUE278A: THB6,958.60 million senior unsecured debentures due 2027 | A+ |
| TRUE270A: THB5,116.60 million senior unsecured debentures due 2027 | A+ |
| TRUE27NA: THB3,062.80 million senior unsecured debentures due 2027 | A+ |
| TRUE27DA: THB5,855.10 million senior unsecured debentures due 2027 | A+ |
| TRUE288A: THB6,459.10 million senior unsecured debentures due 2028 | A+ |
| TRUE280A: THB7,184.50 million senior unsecured debentures due 2028 | A+ |
| Outlook: | Stable |

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