

DTAC TRINET CO., LTD.

No. 83/2022
24 May 2022

CORPORATES

Company Rating:	AA
Issue Ratings:	
Senior unsecured	AA
CreditAlert:	Negative

Last Review Date: 20/05/21

Company Rating History:

Date	Rating	Outlook/Alert
23/01/19	AA	Stable
29/03/17	AA+	Negative
17/06/15	AA+	Stable

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RATIONALE

TRIS Rating places the company rating on dtac TriNet Co., Ltd. (DTN) and the ratings on its senior unsecured debentures of “AA” on CreditAlert with a “negative” implication. The ratings reflect DTN’s status as a core subsidiary of Total Access Communication PLC (DTAC; rated “AA/Alert Negative” by TRIS Rating).

We place the CreditAlert as the planned merger between DTAC and TRUE Corporation PLC (TRUE) has made significant progress. Both companies have recently obtained approvals from their respective shareholders. The merger is now pending relevant regulatory approvals and other customary closing conditions.

On the completion of the merger, we expect DTN to become a core subsidiary of the combined entity (NEWCO). Thus, DTN’s ratings would be equal to that of NEWCO. The “negative” implication reflects our view that NEWCO would have a weaker credit profile relative to that of DTAC.

We view the combined entity will have a stronger business profile relative to the separate business profile of DTAC or TRUE. We expect the merger would bring in synergies, significantly increase business scale, enhance competitiveness, and improve cost efficiency. Numerically, the merger would make NEWCO commanding the largest market share in mobile phone service revenues combining TRUE’s 32% share and DTAC’s 22% share as of March 2022.

Despite a comparative strength in business profile, we expect NEWCO to have a weaker financial profile relative to that of DTAC. We estimate the ratio of net debt to EBITDA (earnings before interest, taxes, depreciation, and amortization) of NEWCO to be 5-5.5 times, significantly higher than that of DTAC at 3.8 times as of March 2022.

Moreover, the one-notch rating uplift to DTAC’s standalone credit profile (SACP) of “aa-”, would not be applicable for NEWCO. The uplift is based on our view of DTAC as a strategically important subsidiary of Telenor ASA (Telenor). Given Telenor’s expected equity interest of approximately 27% in NEWCO which implies lack of majority control, NEWCO would not be viewed as a strategically important subsidiary of Telenor.

We hold our view on the challenges of obtaining the required regulatory approval from the National Broadcasting and Telecommunications Commission (NBTC), as a significant risk to the prospective merger. The extension in timelines for completion of merger remains a possibility. TRIS Rating will remove the CreditAlert once the merger closes and the impact of merger on DTN’s creditworthiness has been thoroughly analyzed. DTAC and TRUE expect the merger to close in the fourth quarter of 2022. We will closely monitor developments related to the merger and take appropriate rating actions accordingly.

KEY RATING CONSIDERATIONS

Core subsidiary of DTAC

DTN was founded to operate license-based mobile phone services for DTAC. As of March 2022, DTN is a wholly owned subsidiary of DTAC. The management team is the same for both DTAC and DTN, showing the integral of their operation and strategy. The network structures are under DTN’s

operation.

DTAC and DTN provide services to the same subscribers. As of March 2022, DTN had 19.9 million subscribers. DTN contributes dominant earnings to DTAC; 91% of DTAC's revenue and 73% of DTAC's EBITDA in 2021.

We consider DTN as a core subsidiary of DTAC based on TRIS Rating's "Group Rating Methodology". The rating of DTN is equal to the company rating assigned to DTAC.

DTAC remains the third largest mobile phone service provider

DTAC remains the third largest wireless telecommunications service provider in Thailand. As of March 2022, DTAC held a market share of about 20% of all subscribers in Thailand. DTAC's service revenue, excluding interconnection charges (IC), represented about 22% of industry-wide revenue.

The company, through DTN, holds licenses to use a range of radio frequencies for its mobile phone network services, including low frequencies: 700 megahertz (MHz) and 900 MHz, mid-range frequencies: 1800 MHz, 2100 MHz, and 2300 MHz (in partnership with National Telecom PLC (NT)), and high frequencies: 26 gigahertz (GHz).

We view the current pool of spectrum licenses is adequate for DTAC to broaden its customer base. The 700-MHz frequency can cover indoor and remote areas across all regions while the 26-GHz frequency provides a wide range of 5G service applications that require most instantaneous delivery of large amount of data. DTAC has managed to increase level of customer's confidence by accelerating low-frequency network rollouts (700 MHz for 4G/5G and 900 MHz for 2G/3G). In addition, DTAC has recently started to offer services that meet the needs of consumers, including non-DTAC users, such as cybersecurity, gaming SIM cards, and payments. This strategy is to be proven in the longer term.

Regaining subscribers remains a tough challenge

DTAC's subscribers have fallen below 20 million. However, we see a recent pick-up in numbers of subscribers. We view the government's relaxation on border-crossing restrictive measures, as a potential boost for DTAC's subscriber numbers since tourists and migrant workers customarily constitute a significant part of DTAC's customer base. That said, we hold our view that DTAC's efforts to regain market shares remain extremely challenging, given the fierce market competition.

Fiercely competitive mobile phone services

The Thai wireless communications industry has endured fallouts from successive waves of the Coronavirus Disease 2019 (COVID-19) pandemic over the past two years. The prolonged pandemic has resulted in lower consumer spending, and intensifying competition, especially in the prepaid segment. Mobile operators keep rolling out new services and competitive promotions to poach customers from rivals. Although the total number of industry subscribers recovered in 2021, the average revenue per user (ARPU) continued to decline since the beginning of the pandemic. As a result, total market value declined by 1.3% to THB253 billion, compared with the average growth of 2% per annum during 2018-2019. For the first quarter of 2022, market value continued to contract by 1.8% year-on-year (y-o-y).

Lower leverage expected

In our base-case forecast, we put aside the planned merger and merely consider DTN's business as usual. In anticipation of the post-COVID economic recovery, we expect DTN's operating revenue to increase by around 1% per year, resulting in THB22-THB23 billion in EBITDA per year over the next three years. EBITDA margin is projected to be around 30%, and funds from operations (FFO) to be THB19-THB20 billion per year over the forecast period.

As of 31 December 2021, DTN's annualized adjusted net debt to EBITDA ratio was 6 times. DTN's debt obligations will likely gradually decline after network rollouts and spectrum licenses are monetized. DTN is responsible for managing network rollouts investment of approximately THB13 billion per annum and scheduled license fee payments of THB5.6 billion per annum during 2022-2024. The current spectrum should be sufficient; therefore, we expect no additional license acquired during the forecast year. We forecast the ratio of adjusted net debt to EBITDA will steadily decline towards 5 times by 2024.

Adequate liquidity

We view that DTN's liquidity position is backed by the full support the company receives from DTAC. We also assess DTN has adequate liquidity. As of 2021, DTN's sources of funds comprised cash on hand of THB1.9 billion and undrawn committed credit facilities of THB13 billion. FFO over the next 12 months are expected to be around THB19-THB20 billion. These sources of funds should be sufficient to cover long-term debt repayment obligations, license fee payments and investment needs over the next 12 months. We assume no dividend payout.

Support from Telenor

We view DTAC as a strategically important subsidiary of Telenor, considering the degree of integration and DTAC's significant earnings contribution to Telenor. Hence, the company rating on DTAC incorporates our expectation of potential extraordinary support from Telenor in times of distress. We view the degree of support from Telenor to DTN should be the same as that to DTAC. This is because DTAC's core operations and assets, including spectrum licenses, are undertaken and held by DTN.

We place the company rating on DTAC on CreditAlert with a "negative" implication to reflect our view on the potential rating impact of the prospective merger between DTAC and TRUE as discussed above. However, we expect the degree of support from Telenor to DTAC and DTN will remain unchanged until the completion of the merger.

BASE-CASE ASSUMPTIONS

- DTN will remain a core subsidiary of DTAC until the completion of the merger.
- Upon completion of the merger, we expect DTN will become a core subsidiary of NEWCO

COMPANY OVERVIEW

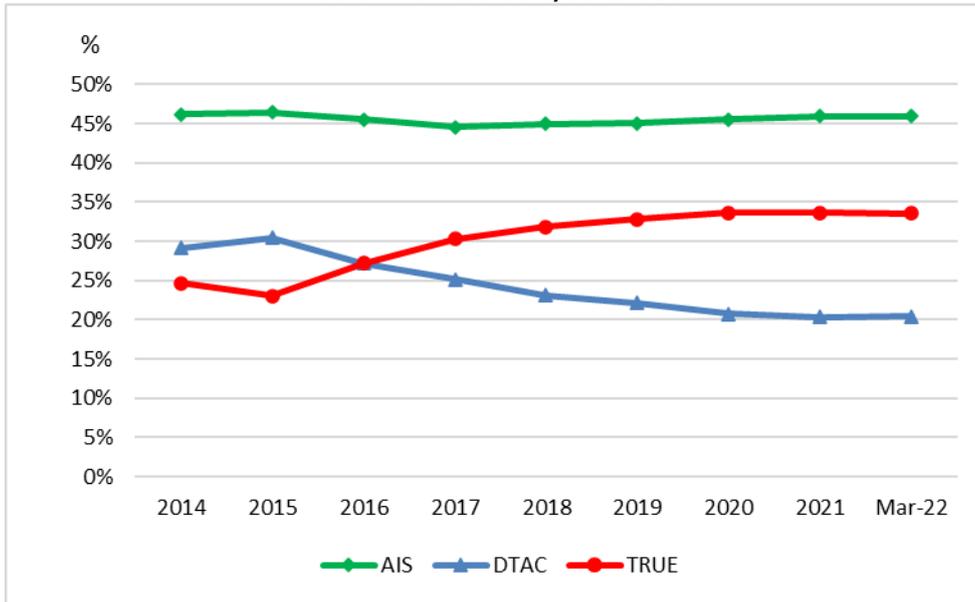
DTN, a wholly-owned subsidiary of DTAC, was established in 2006. Initially, DTN provided international direct dialing (IDD) services. In December 2012, DTN was awarded a 15-year license for the 2100-MHz spectrum, granted by NBTC. DTN is currently providing wireless communication services using 3G and 4G technologies. In 2018, DTN entered into an agreement with NT to provide 4G wireless broadband services on NT's 2300-MHz spectrum. Under the agreement, DTN will use up to 60% of the total network capacity of 60-MHz bandwidth.

In August and October 2018, DTN won two new licenses for the 900-MHz and 1800-MHz spectrum bands, granted by the NBTC. In June 2019, DTN was allocated a 700-MHz license.

DTN was awarded the 26-GHz spectrum, in preparation for 5G, in February 2020 and has started to operate the frequency band of 700 MHz since December 2020.

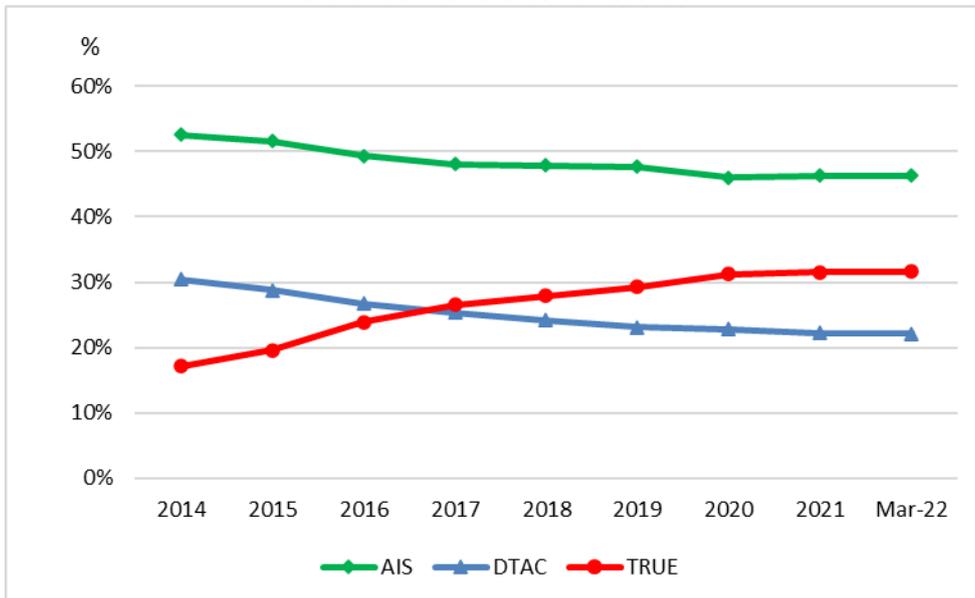
KEY OPERATING PERFORMANCE

Chart 1: Market Share by Subscribers



Sources: 1) DTAC
2) Advanced Info Service PLC (AIS)
3) True Corporation PLC (TRUE)

Chart 2: Service Revenue Market Share



Note: Excluding the IC
Sources: DTAC, AIS, and TRUE

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	-----Year Ended 31 December -----				
	2021	2020	2019 *	2018	2017
Total operating revenues	74,193	72,270	75,360	70,178	65,289
Earnings before interest and taxes (EBIT)	589	2,230	2,168	6,582	8,541
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	21,625	21,672	20,930	16,801	17,060
Funds from operations (FFO)	18,725	18,742	17,546	14,157	13,963
Adjusted interest expense	2,900	2,930	3,376	1,832	1,991
Capital expenditures	20,873	19,718	15,183	23,820	16,549
Total assets	156,167	162,113	151,397	127,767	95,900
Adjusted debt	129,215	130,858	119,139	92,586	59,767
Adjusted equity	3,624	5,282	7,095	9,107	8,018
Adjusted Ratios					
EBITDA margin (%)	29.15	29.99	27.77	23.94	26.13
Pretax return on permanent capital (%)	0.43	1.66	1.84	7.28	11.73
EBITDA interest coverage (times)	7.46	7.40	6.20	9.17	8.57
Debt to EBITDA (times)	5.98	6.04	5.69	5.51	3.50
FFO to debt (%)	14.49	14.32	14.73	15.29	23.36
Debt to capitalization (%)	97.27	96.12	94.38	91.04	88.17

* Early adoption of Thai Financial Reporting Standard 16 (TFRS16) for all lease obligations was enforced in the 2019 financial statement.

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

NOTE FOR “CreditAlert”

CreditAlert, as part of TRIS Rating's monitoring process as a public warning when there is insufficient information to fully assess and reconsider a debt instrument's current rating or when significant events have occurred that may affect the company's rating already assigned by TRIS Rating. Credit Alert designations may be "positive" or "negative" or "developing", depending on the likely impact of a particular situation. The existing rating continues unchanged for the present. Monitoring is done until the debt instrument matures, or the company's rating contract expires.

dtac TriNet Co., Ltd. (DTN)

Company Rating:	AA
Issue Ratings:	
DTN227A: THB3,000 million senior unsecured debentures due 2022	AA
DTN237A: THB1,500 million senior unsecured debentures due 2023	AA
DTN239A: THB4,500 million senior unsecured debentures due 2023	AA
DTN244A: THB500 million senior unsecured debentures due 2024	AA
DTN247A: THB1,500 million senior unsecured debentures due 2024	AA
DTN249A: THB1,000 million senior unsecured debentures due 2024	AA
DTN257A: THB6,000 million senior unsecured debentures due 2025	AA
DTN259A: THB2,000 million senior unsecured debentures due 2025	AA
DTN267A: THB1,000 million senior unsecured debentures due 2026	AA
DTN267B: THB500 million senior unsecured debentures due 2026	AA
DTN269A: THB1,500 million senior unsecured debentures due 2026	AA
DTN274A: THB5,000 million senior unsecured debentures due 2027	AA
DTN279A: THB2,000 million senior unsecured debentures due 2027	AA
DTN279B: THB1,000 million senior unsecured debentures due 2027	AA
DTN289A: THB2,000 million senior unsecured debentures due 2028	AA
DTN28DA: THB3,000 million senior unsecured debentures due 2028	AA
DTN299A: THB2,500 million senior unsecured debentures due 2029	AA
DTN309A: THB2,500 million senior unsecured debentures due 2030	AA
DTN319A: THB2,500 million senior unsecured debentures due 2031	AA
CreditAlert:	Negative

TRIS Rating Co., Ltd.

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