

TRUE MOVE H UNIVERSAL COMMUNICATION CO., LTD.

No. 81/2022
24 May 2022

CORPORATES

Company Rating:	BBB+
Issue Ratings:	
Senior unsecured	BBB+
CreditAlert:	Positive

Last Review Date: 30/03/22

Company Rating History:

Date	Rating	Outlook/Alert
15/06/15	BBB+	Stable

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RATIONALE

TRIS Rating places the company rating on True Move H Universal Communication Co., Ltd. (TUC) and the ratings on its senior unsecured debentures of “BBB+” on CreditAlert with a “positive” implication. The ratings reflect TUC’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+” with a “positive” CreditAlert, rated by TRIS Rating).

The CreditAlert follows the progress of planned merger between TRUE and Total Access Communication PLC (DTAC). Both companies have recently obtained approvals from their respective shareholders for the proposed merger. The merger is now pending relevant regulatory approvals and other customary closing conditions.

Upon merger completion, we expect TUC to become a core subsidiary of the combined entity (NEWCO). Thus, the rating on TUC would be equal to that assigned to NEWCO.

The “positive” implications reflect our view that NEWCO would have a stronger credit profile relative to TRUE. We expect the amalgamation would bring in synergies, significantly enlarge business scale, enhance competitiveness, and improve cost efficiency.

Numerically, the merger would make NEWCO commanding the largest market share in mobile phone service revenue. The financial profile of NEWCO could be significantly stronger than TRUE’s existing financial position. We estimate the ratio of net debt to earnings before interest, taxes, depreciation, and amortization (EBITDA) of NEWCO to be 5-5.5 times after the merger, significantly lower than that of TRUE at about 7 times.

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

KEY RATING CONSIDERATIONS

Core subsidiary of TRUE

We assess TUC as the core subsidiary of TRUE, which directly influences TUC’s strategic and financial decisions. TUC is wholly owned by TRUE. TUC was established to operate license-based wireless communications services and is the flagship company of the group providing large-scale wireless communication services.

TUC is highly integrated with TRUE in terms of business operation and financial strategy. TUC holds major operating assets such as wireless communication base stations and equipment for TRUE. The management and group strategies of the two companies are highly integrated and interdependent. In the past, TRUE supported TUC in terms of capital injection and shareholder loans in times of need. In 2021, TUC contributed 77% of TRUE’s total revenue and nearly 60% of TRUE’s EBITDA. In recognition of this, we believe that TUC will

continue to be a key part of TRUE's integrated telecommunication service strategy over the long term.

Solid market position

TUC continues to maintain its solid market position as the second-largest mobile phone service provider in Thailand, as measured by service revenue and numbers of subscribers. Its strong competitive advantage stems from the wide coverage and quality of its cellular phone network, a wide range of spectrum portfolio, and well-known brand.

These strengths have helped TUC increase the number of subscribers both in the prepaid and postpaid segments. As of March 2022, TUC had 32.6 million subscribers, or about 33.6% of total market subscribers. TUC's service revenue, excluding the interconnection charge (IC) in 2021 came in at THB79.8 billion and was THB19.7 billion for the first three months of 2022, representing about 32% market share in terms of service revenue.

Lower ARPU pressuring revenue

Service revenues of the Thai wireless communications industry declined in the last two years, due to the lingering impact of the Coronavirus Disease 2019 (COVID-19) pandemic. In 2021, the industry's market value totaled THB253 billion, down by 1.3% year-on-year (y-o-y), compared with the average 2% annual growth during 2018-2019. Despite the rising number of new subscribers, average revenue per user (ARPU) across the industry in 2021 was weighed by a weak economic recovery, the government's reintroduction of lockdown measures, and intensifying competition. Market value continued to contract by 1.8% y-o-y in the first quarter of 2022.

TUC's service revenue (excluding the IC) in 2021 was THB79.8 billion, a slight decrease of 0.5% from 2020. In the first quarter of 2022, the company's service revenue continued to decline by 1.3% y-o-y. Competition, particularly price-based competition in the prepaid segment, remained intense. However, TUC has continued to expand its 5G and 4G (fifth and fourth generation) networks, along with offering digital content and exclusive digital experiences to customers, to improve its customer retention and strengthen its market position. The company recorded a net add of 1.94 million subscribers over the period of 2021 through March 2022, bringing the total number to 32.6 million subscribers at the end of March 2022. Currently, there are 2.6 million 5G subscribers (high data users) on TUC's network.

Dominant contribution to the group

TUC is the flagship company of the group, contributing a dominant portion of TRUE's earnings. The company has generated THB111-THB117 billion in yearly revenue over the past three years, or about 75%-77% of TRUE's total revenue, while its EBITDA represented about 53%-59% of TRUE's consolidated EBITDA during the same period.

Amid fierce competition, we expect TUC to continue gaining new subscriptions, supported by TRUE group's comprehensive business integration and synergy with online channels. During the next three years, we project TUC's revenue will gradually rebound, ranging between THB117-THB120 billion per annum. Its total revenue will likely continue to represent a dominant contribution of about 75% of TRUE's consolidated revenue. Performance will be driven by the rising demand for data services, migration from the prepaid to the postpaid segment, and the gradual economic recovery.

TUC's profitability has continued to increase over the last five years, aided by several cost control measures. Its EBITDA rose 9.5% y-o-y to TH36.8 billion in 2021. TUC's EBITDA margin rose to 31.6% in 2021, up from 30% in 2020. TUC has adopted productivity improvement and tightened expense controls, including a reduction in selling expenses as well as leveraging personalized online marketing. During the next three years, we project TUC's earnings to gradually increase, following the revenue rebound and its cost control efforts. The cost-cutting measures are expected to yield positive results in the profit margin. In effect, we forecast TUC's EBITDA to range between THB36-THB37 billion per year during 2022-2024 and its funds from operations (FFO) to be THB22-THB23 billion per annum. We expect TUC to continue its dominant profit contribution to the TRUE Group, with its EBITDA representing nearly 60% of TRUE's consolidated EBITDA.

Debt-heavy financial profile

TUC has a debt-heavy balance sheet. As of March 2022, its adjusted debt totaled THB276.4 billion. As its EBITDA rose, the net debt to EBITDA ratio improved to 7.4 times as of March 2022, from 8 times during 2019-2020. The FFO to adjusted net debt ratio was 8.7%. The adjusted net debt to net capitalization ratio was about 81%

Looking ahead, we expect TUC's debt to remain high over the next few years, considering the capital expenditures, scheduled license fee payments, and huge financial costs. We estimate the company to make capital investments of around THB23-THB25 billion per annum during 2022-2024. TUC is obliged to pay license fees of around THB9.4 billion per annum during the same period. As a result, we project the adjusted net debt to EBITDA ratio to stay at around 8 times during the next three years, with the FFO to adjusted net debt ratio at about 8%.

Refinancing needs

We assess TUC's liquidity to remain tight but should be manageable. As of March 2022, TUC had cash and cash equivalents of THB9.9 billion while it had about THB23.8 billion in debentures coming due in the next 12 months. The company also had current portion of lease obligation at THB7.4 billion. Considering the estimated capital spending and FFO, we expect a large part of the debt coming due to be refinanced.

TRUE's credit profile

TRIS Rating currently places a CreditAlert with a "positive" implication for the "BBB+" company rating on TRUE, following the development of the planned merger with DTAC. The company rating continues to reflect TRUE's strong business profile as a leading integrated telecom company in Thailand, with sound market position in both wireless communications and broadband internet services. The rating also considers TRUE's satisfactory operating results and our expectation of the ongoing support TRUE receives from its major shareholder -- the Charoen Pokphand Group (CP Group), and its strategic partner China Mobile International Holdings Ltd. (China Mobile). Conversely, the rating is tempered by its high financial leverage and intense competition in the telecommunication industry.

BASE-CASE ASSUMPTIONS

- TRIS Rating's base-case assumption is that TUC will remain a core subsidiary of TRUE until the completion of the merger.
- On completion of the merger, we expect TUC to be a core subsidiary of NEWCO.

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 National Telecom PLC (previously known as CAT Telecom PLC), which will expire in 2025. TUC also provides services under three spectrum licenses from the 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. TUC won the 2600-MHz and 26-GHz spectrums license auctions, in preparation for 5G service, in February 2020. In December 2020, TUC was granted a 700 MHz license which is valid until 2035.

At the end of March 2022, TUC had 32.6 million subscribers, generating THB19.7 billion in service revenue, excluding the IC, with a market share of about 32%.

KEY OPERATING PERFORMANCE

Chart 1: Market Share by Subscribers

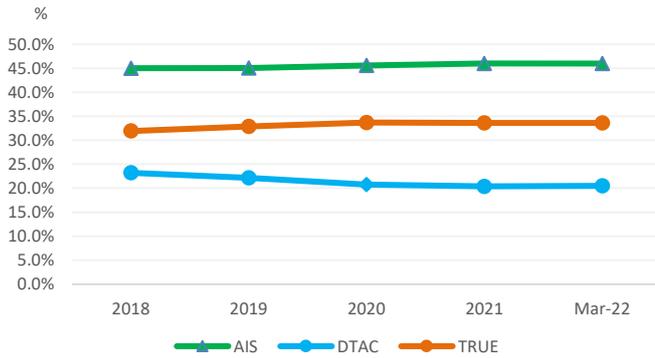
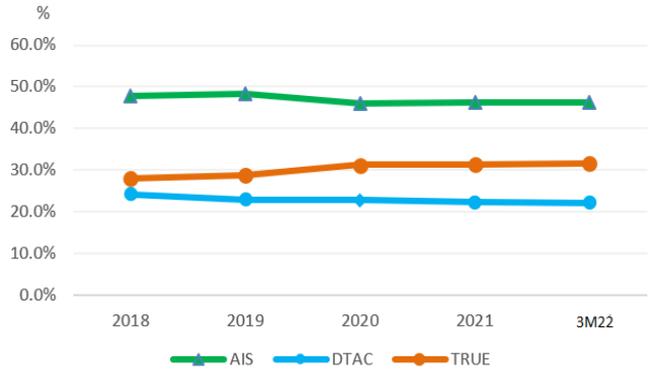


Chart 2: Service Revenue Market Share



Note: Excluding IC

Chart 3: Postpaid ARPU

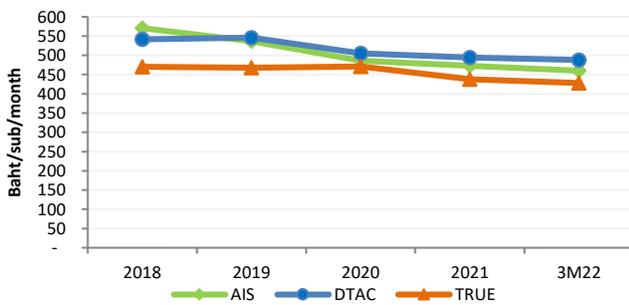
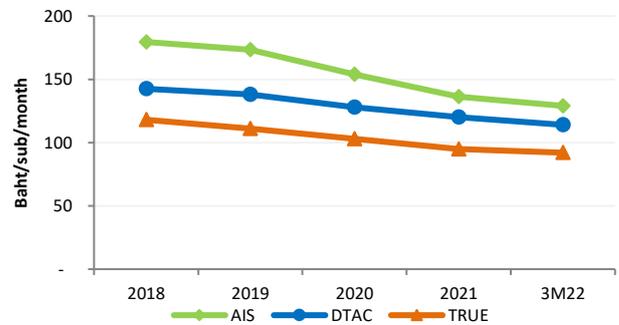


Chart 4: Prepaid ARPU



Sources of all charts: 1) TRUE
2) Advanced Info Service PLC (AIS)
3) DTAC

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Mar 2022	-----Year Ended 31 December -----			
		2021	2020	2019	2018
Total operating revenues	28,474	116,441	112,604	110,803	106,640
Earnings before interest and taxes (EBIT)	(82)	3,027	2,511	3,038	(6,989)
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	9,068	36,824	33,631	24,517	21,034
Funds from operations (FFO)	5,848	23,453	20,991	14,660	12,943
Adjusted interest expense	3,220	13,229	12,434	9,785	8,025
Capital expenditures	15,866	39,502	57,498	35,826	57,249
Total assets	445,327	452,714	450,355	384,566	366,287
Adjusted debt	276,404	274,807	270,914	203,837	193,001
Adjusted equity	66,263	69,532	79,893	93,345	100,734
Adjusted Ratios					
EBITDA margin (%)	31.85	31.62	29.87	22.13	19.72
Pretax return on permanent capital (%)	0.64 **	0.85	0.71	0.94	(2.44)
EBITDA interest coverage (times)	2.82	2.78	2.70	2.51	2.62
Debt to EBITDA (times)	7.41 **	7.46	8.06	8.31	9.18
FFO to debt (%)	8.68 **	8.53	7.75	7.19	6.71
Debt to capitalization (%)	80.66	79.81	77.23	68.59	65.71

* Consolidated financial statements

** Annualized with trailing 12 months

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.

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

Company Rating:	BBB+
Issue Ratings:	
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+
TUC245B: THB2,888.80 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+
TUC255A: THB2,306.10 million senior unsecured debentures due 2025	BBB+
TUC256A: THB18,544.20 million senior unsecured debentures due 2025	BBB+
TUC25NA: THB3,838.20 million senior unsecured debentures due 2025	BBB+
TUC265A: THB2,653.30 million senior unsecured debentures due 2026	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+
CreditAlert:	Positive

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