

TRUE CORPORATION PLC

No. 80/2022
24 May 2022

CORPORATES

Company Rating:	BBB+
Issue Ratings:	
Senior unsecured	BBB+
Partially guaranteed	A-
CreditAlert:	Positive

Last Review Date: 11/02/22

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	-

Sarinthorn Sosukpaibul
sarinthorn@trisrating.com

Suchana Chantadisai
suchana@trisrating.com

Wajee Pitakpaibulkij
wajee@trisrating.com

Monthian Chantarklam
monthian@trisrating.com



WWW.TRISRATING.COM

RATIONALE

TRIS Rating places the company rating on True Corporation PLC (TRUE) and the ratings on its senior unsecured debentures of “BBB+” on CreditAlert with a “positive” implication. TRIS Rating also places the “A-” rating on TRUE’s partially guaranteed debentures on CreditAlert with a “positive” implication.

The CreditAlert follows the progress of planned merger between TRUE and Total Access Communication PLC (DTAC), as well as potential benefits of stronger business and financial profile of the combined entity (NEWCO). Both companies have recently obtained approvals from their respective shareholders for the proposed merger. The merger is now pending relevant to regulatory approvals and other customary closing conditions. Upon merger completion, all debts of TRUE, including the debentures rated by TRIS Rating, will be transferred to NEWCO.

We view the combined entity will have a stronger credit profile relative to TRUE. We expect the merger 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 a 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 TRUE’s creditworthiness has been thoroughly analyzed. Both parties expect the merger to close in the fourth quarter of 2022. We will closely monitor the merger development and take appropriate rating actions accordingly.

The ratings on TRUE and its debt issues continue 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 ratings also incorporate 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 ratings are tempered by its high financial leverage and intense competition in the telecommunication industry.

KEY RATING CONSIDERATIONS

Satisfactory performance amidst prolonged COVID-19

The ratings are reflective of TRUE’s sound business profile as a leading integrated telecom company in Thailand. The company is engaged in multiple business platforms, which include wireless communication service, broadband internet, television (TV) networks, and digital platform and services.

TRUE continued to deliver satisfactory operating performance despite the prolonged repercussions of the Coronavirus Disease 2019 (COVID-19). In 2021, its total operating revenue grew by 5% year-over-year (y-o-y) to THB147.2

billion and rose by 1.3% y-o-y to THB36.2 billion for the first three months of 2022, aided by strong growth in the broadband internet business. However, its service revenues (excluding interconnection charges – IC) in 2021 decreased by 0.9% y-o-y to THB106.3 billion, owing to depressed consumer sentiments which weighed on the prepaid mobile phone services and the pay TV business. In the first quarter of 2022, the service revenue dropped by 3.6% y-o-y.

Second largest wireless communications service provider

In the mobile phone business, TRUE has maintained its solid market position as the second-largest service provider, as measured by both service revenue and numbers of subscribers. As of March 2022, TRUE had 32.6 million subscribers, or about 33.6% of total market subscribers. TRUE's mobile service revenue (excluding 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.

TRUE 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. Looking forward, we expect the service revenues to gradually rebound, driven by rising demand for data services, as well as the migration from the prepaid segment to the postpaid segment. The average revenue per user (ARPU) of mobile services should improve over the next few years, following the reopening of the country to foreign visitors and the recovery of economic activities.

Fiercely competitive mobile market

The Thai wireless communications industry has endured successive fallouts from COVID-19 over the past two years. The prolonged pandemic has resulted in lower consumer spending and intensifying competition, especially in the prepaid segment. Mobile phone operators keep offering new services and competitive promotions to poach customers from rivals. Although the overall number of subscribers recovered in 2021, the ARPU continued to decline since the outset of COVID-19. 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% y-o-y.

Broadband market leader

In the fixed line broadband business, TRUE maintained its top position, with a 35.6% market share at the end of September 2021. During the pandemic induced lockdown, the broadband service business continued to grow, reinforced by increasing demand for internet access at home as more people work from home, learn through online channels, and watch entertainment contents at home. However, ARPU has been pressured by rivals' marketing promotions in some highly competitive areas. In 2021, revenue from this business totaled THB25.2 billion, up by 3% from 2020. Despite the negative pressure on ARPU, we expect TRUE to maintain its growth momentum in the broadband business over 2022-2024.

Pay TV facing challenges

We expect TRUE's pay TV business will continue facing challenges from softening subscriptions as well as the shift toward "over-the-top" (OTT) distribution. In 2021, TRUE's service revenue from pay TV business, after inter-segment eliminations, plummeted by 11% to THB7.35 billion. During 2022-2024, we expect the pay TV business to be on a recovery path. We project entertainment and advertising revenues to gradually rebound, along with the post-COVID-19 economic recovery. However, overall pay TV service revenue will likely remain below pre-COVID-19 levels due to the ongoing changes in viewing behaviors.

Cost optimization to yield profitability

TRUE has adopted cost optimization and productivity improvement, which have yielded positive results in its profitability. In 2021, its EBITDA rose to THB62.3 billion, from THB56.8 billion in 2020. The EBITDA margin increased to 42.3%, from 40.6%. EBITDA in the first quarter of 2022 continued to increase by 3.6% y-o-y to THB15.3 billion.

We expect TRUE to maintain the growth momentum in its core businesses. In our base-case forecast, we put aside the planned merger and merely consider TRUE's business as usual. TRUE's total operating revenue should range from THB148 - THB152 billion per year during 2022-2024. TRUE will place great emphasis on operating efficiency improvement, digital marketing campaigns, and ongoing cost control measures. We expect the company's EBITDA to be THB61-THB65 billion per annum, with an EBITDA margin of 41%-43%. Funds from operations (FFO) is forecast to range between THB42-THB43 billion annually.

Debt-heavy balance sheet

The ratings on TRUE are largely tempered by its debt-heavy financial profile. As of March 2022, its debt totaled around THB410 billion. As its EBITDA strengthened over recent years, the net debt to EBITDA ratio fell to 6.5 times as of March 2022, from 7-8 times during 2019-2020. The FFO to adjusted net debt ratio was 10.4%. The adjusted net debt to net capitalization ratio was 83.6%.

Looking ahead, we expect TRUE's leverage to remain high, incorporating the capital expenditures required for network investments and scheduled license fee payments. TRUE's capital expenditures during 2022-2024 are forecast to be THB38-THB40 billion per year. Additionally, TRUE is obliged to pay license fees of about THB9.4 billion per annum over the same period. In effect, we forecast the net adjusted debt to EBITDA ratio to remain at 6.5-7 times, and the FFO to adjusted net debt ratio to stay at about 10%.

As of March 2022, TRUE had a priority debt to total debt ratio of about 40%.

Refinancing needs

We assess TRUE's liquidity to remain tight but should be manageable. As of March 2022, TRUE had cash and cash equivalents of THB26.3 billion while it had about THB59.8 billion in debentures and bank loans coming due in the next 12 months. The company also had current portion of lease obligation at THB12 billion. Considering the estimated capital spending and FFO, we expect a large part of the debt coming due to be refinanced. Given TRUE's strengthening market position and satisfactory performance, we view the refinancing risk is manageable.

Guarantor's credit profile

TRUE's partially guaranteed debenture rating is 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.

KBANK is rated "AA+" with a "stable" outlook by TRIS Rating. The rating assigned to KBANK is based on public information which TRIS Rating believes provides a sufficient basis for the assessment of KBANK's credit profile. The rating is assigned without participation from KBANK. The rating reflects the bank's competitive position as the second-largest commercial banks 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 profiles. 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.

BASE-CASE ASSUMPTIONS

- Service revenues in mobile service and broadband internet to grow by low-single digits during 2022-2024, with pay TV service revenue to remain under pressure from changes in consumer behaviors.
- The EBITDA margin to stay at 41%-43% during the next three years.
- Total capital spending of about THB38-TH40 billion per annum to roll out the network during the next three years.
- Scheduled license fee payments of about THB9.4 billion per annum during 2022-2024.

COMPANY OVERVIEW

TRUE was incorporated in 1990. The company has three business segments: TrueMoveH, providing mobile services; TrueOnline, providing broadband internet; and TrueVisions, offering pay TV services and two digital TV channels.

TRUE's credit ratings are strengthened by support from its two major shareholders. CP Group, one of Thailand's leading conglomerates, holds about 50% of TRUE, followed by China Mobile with an 18% ownership stake. China Mobile is the world's largest mobile operator by number of subscribers.

Based on consolidated revenue in 2021, mobile service business remained TRUE's key source of revenue, generating about 77% of total revenue, followed by broadband internet business (18%), and pay TV (5%).

KEY OPERATING PERFORMANCE

TrueMoveH:

Chart 1: Market Share by Subscribers

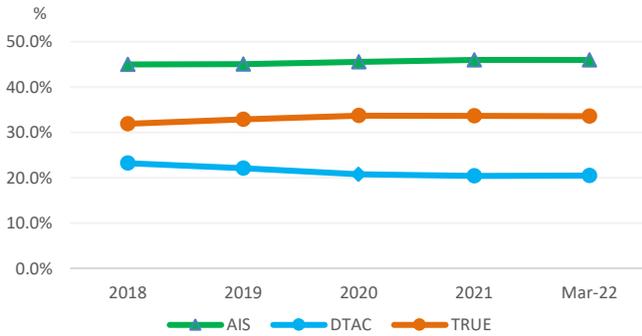
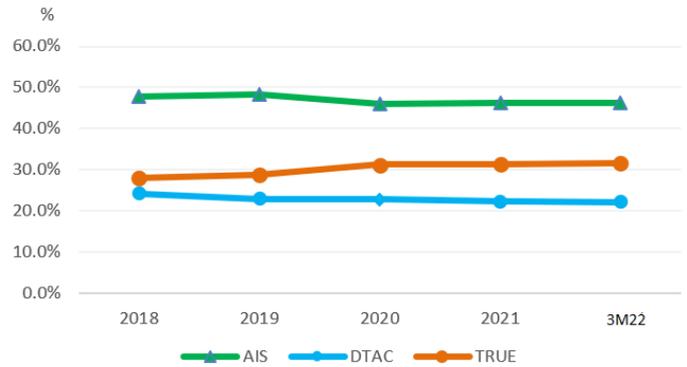


Chart 2: Service Revenue Market Share



Note: Excluding IC

Chart 3: Postpaid ARPU

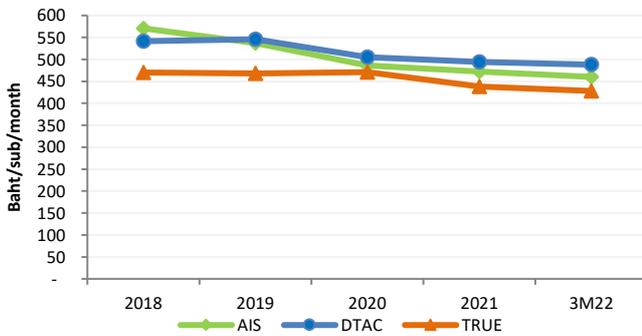
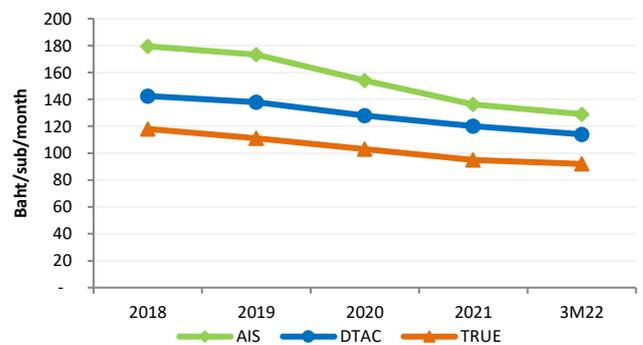
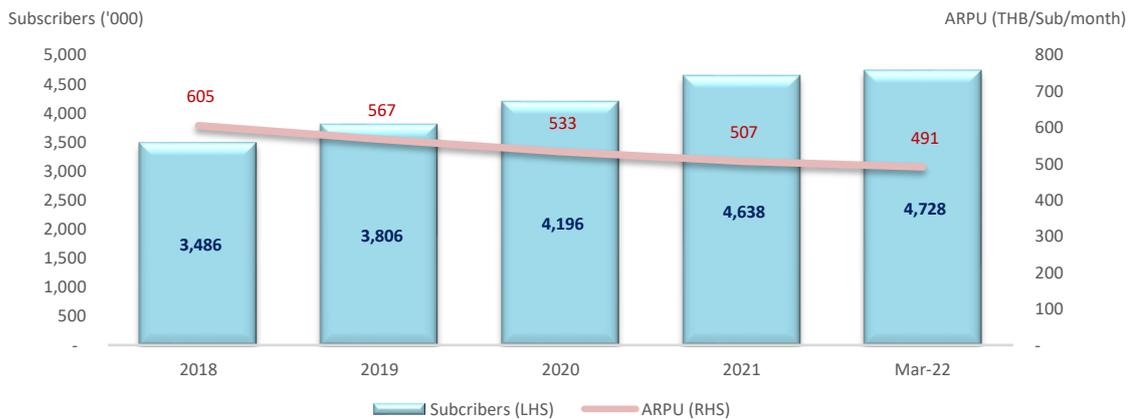


Chart 4: Prepaid ARPU



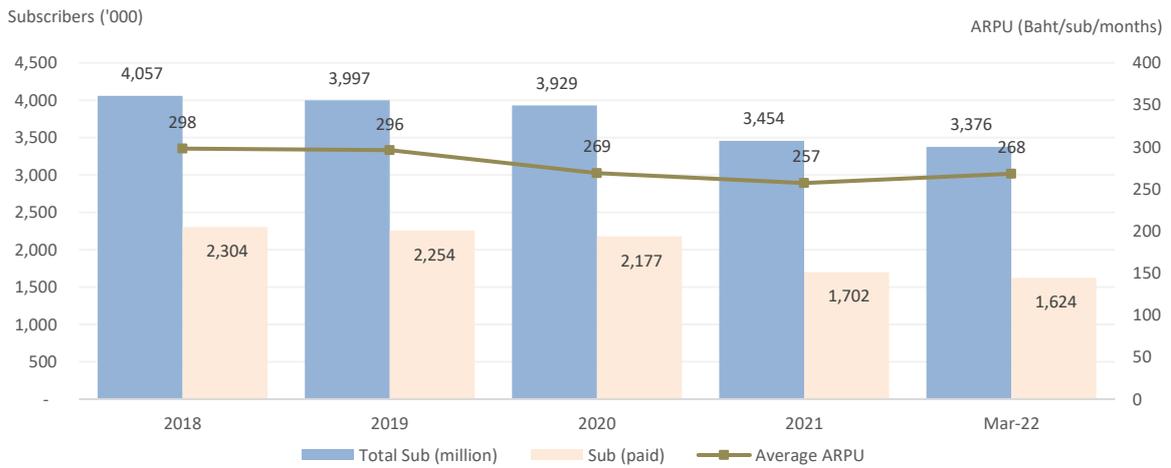
TrueOnline:

Chart 5: Broadband Internet Subscribers and ARPU



TrueVisions:

Chart 6: Pay TV Subscribers and ARPU



Sources of 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	36,214	147,208	139,942	140,121	138,245
Earnings before interest and taxes (EBIT)	3,355	18,047	15,983	14,213	5,460
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	15,303	62,312	56,824	39,375	43,031
Funds from operations (FFO)	10,301	42,261	37,652	26,112	30,507
Adjusted interest expense	4,777	19,414	18,435	12,713	12,239
Capital expenditures	19,563	58,904	75,086	47,352	69,891
Total assets	625,806	624,915	617,548	523,993	495,569
Adjusted debt	410,116	417,893	400,951	319,019	294,671
Adjusted equity	80,163	81,818	85,617	126,019	133,884
Adjusted Ratios					
EBITDA margin (%)	42.26	42.33	40.61	28.10	31.13
Pretax return on permanent capital (%)	3.34 **	3.49	3.18	3.01	1.30
EBITDA interest coverage (times)	3.20	3.21	3.08	3.10	3.52
Debt to EBITDA (times)	6.53 **	6.71	7.06	8.10	6.85
FFO to debt (%)	10.39 **	10.11	9.39	8.19	10.35
Debt to capitalization (%)	83.65	83.63	82.40	71.68	68.76

* 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 Corporation PLC (TRUE)

Company Rating:	BBB+
Issue Ratings:	
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+
TRUE253A: THB5,575.40 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+
TRUE263A: THB2,412.10 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+
TRUE273A: THB3,656.90 million senior unsecured debentures due 2027	BBB+
TRUE270A: THB5,116.60 million senior unsecured debentures due 2027	BBB+
TRUE27DA: THB5,855.60 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-
CreditAlert:	Positive

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: +66 2 098 3000

© Copyright 2022, TRIS Rating Co., Ltd. All rights reserved. Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution or storing for subsequent use for any purpose, in whole or in part, in any form or manner or by any means whatsoever, by any person, of the credit rating reports or information is prohibited, without the prior written permission of TRIS Rating Co., Ltd. The credit rating is not a statement of fact or a recommendation to buy, sell or hold any debt instruments. It is an expression of opinion regarding credit risks for that instrument or particular company. The opinion expressed in the credit rating does not represent investment or other advice and should therefore not be construed as such. Any rating and information contained in any report written or published by TRIS Rating has been prepared without taking into account any recipient's particular financial needs, circumstances, knowledge and objectives. Therefore, a recipient should assess the appropriateness of such information before making an investment decision based on this information. Information used for the rating has been obtained by TRIS Rating from the company and other sources believed to be reliable. Therefore, TRIS Rating does not guarantee the accuracy, adequacy, or completeness of any such information and will accept no liability for any loss or damage arising from any inaccuracy, inadequacy or incompleteness. Also, TRIS Rating is not responsible for any errors or omissions, the result obtained from, or any actions taken in reliance upon such information. All methodologies used can be found at www.trisrating.com/rating-information/rating-criteria