

THAICOM PLC

No. 45/2014

29 July 2014

Company Rating:	A-
Issue Rating:	
Senior unsecured	A-
Outlook:	Stable

Company Rating History:

Date	Rating	Outlook/Alert
06/06/14	A-	Stable
26/06/13	BBB+	Positive
29/09/09	BBB+	Stable

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Rating Rationale

TRIS Rating affirms the company and current senior unsecured debenture ratings of Thaicom PLC (THCOM) at “A-”. At the same time, TRIS Rating assigns a rating of “A-” to THCOM’s proposed issue of up to Bt5,000 million in senior debentures. The new issue rating replaces the issue rating assigned on 6 June 2014 to a bond issue of up to Bt4,000 million, following THCOM’s request to increase the issue size to up to Bt5,000 million. The proceeds from the new debentures will be used for the investment in Thaicom7 and debt refinancing. The ratings reflect THCOM’s strong market position as the sole satellite communications service provider in Thailand, increase in transponder capacity from its new satellites, improving performance, and the potential demand for satellite communication services in Thailand and neighboring countries. However, these strengths are partially constrained by competition in overseas markets, the complicated regulatory regimes inherent in the satellite industry, and the large capital expenditures needed to launch new satellites.

THCOM was established in 1991 and was listed on the Stock Exchange of Thailand (SET) in 1994. Intouch Holdings PLC (INTUCH) was THCOM’s major shareholder with a 41% stake as of April 2014. THCOM operates three geosynchronous satellites: two conventional satellites (Thaicom5 and Thaicom6) and a broadband satellite (Thaicom4, or IPSTAR). THCOM also invests in telecommunication business in Lao People’s Democratic Republic (Lao PDR), and media services. THCOM’s revenue was Bt7,896 million in 2013, rising by 9% from 2012, and stood at Bt2,374 million (excluding construction revenue under operating agreement) for the first three months of 2014. The conventional satellite segment contributed 43% of total revenue in 2013. Revenue from the IPSTAR contributed about 45%. Customers of THCOM’s conventional satellite services are primarily located in Thailand and neighboring countries. IPSTAR’s customers are mainly in Thailand, Australia, Japan, India, Malaysia, and China.

THCOM’s strong business profile is supported by the high barriers to entry of satellite industry, such as a limited number of orbital slots, large capital investments, and complicated regulatory processes. Revenue of the satellite segment is secured mostly by the contracts of three to 10 years. Growth prospects hinge on the opportunities such as broadcasting and broadband businesses.

After Thaicom6 was launched in January 2014, the number of TV channels using THCOM’s conventional satellites rose markedly to 667 channels at the end of March 2014, compared with 465 in 2012 and 427 channels in 2011. Demand for satellite transponders for broadcasting in Thailand is expected to remain strong, driven by the “Must Carry” rule and high-definition (HD) channels. As of March 2014, THCOM had backlog (future revenue according to existing contracts) of conventional satellites worth US\$632 million or about Bt20 billion. THCOM plans to launch a new conventional satellite, Thaicom7, in mid-2014. As of March of 2014, THCOM had pre-sold about 40% of the capacity of Thaicom7. This satellite will mainly provide communication services in Thailand and neighboring countries. THCOM also expects to launch Thaicom8 in the first half of 2016.

THCOM is the only broadband satellite service providers in the Asia-Pacific region. The company has focused on selling IPSTAR’s bandwidth to telecom

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companies, business enterprises, and government projects. IPSTAR’s bandwidth utilization rate rose from 25.2% at the end of 2012 to 53.4% at the end of 2013. The rise in utilization was mainly due to increased deployment in China, Thailand, and India. In late 2013, THCOM sold all of IPSTAR’s bandwidth allocated to China, or equal to 24% of total capacity, in exchange for minimum fee and revenue sharing. IPSTAR’s revenue for the first three months of 2014 was Bt1,043 million, compared with Bt808 million from the same period last year.

The financial profile of THCOM has improved during the last few years, underpinned by stronger ability to generate cash flows and satisfactory level of financial leverage. During 2014-2016, TRIS Rating’s base-case expects THCOM to generate revenue in a range of Bt10-Bt12 billion per annum. The growth drivers are higher utilization in Thaicom6 and the launches of Thaicom7 and Thaicom8. The operating margin (or operating income before depreciation and amortization as a percentage of sales) ranged from 47%-53% during 2011 through 2013. The operating margin was boosted by more services on the IPSTAR satellite. However, the operating margin dropped to 45% for the first three months of 2014 due mainly to the rental expenses for the interim Thaicom6 satellite. During 2014-2016, the operating margins are expected to stay at 45%-48%, on the back of larger revenue base. Funds from operations (FFO) in 2013 increased to Bt3,398 million per annum, compared with Bt2,800 million in 2012. During 2014-2016, TRIS Rating’s base case expects FFO will range from Bt4,000-Bt5,000 million per annum. The FFO to total debt ratio is expected to stay above 40% during the same period.

THCOM’s capital structure has improved during the last two years. The debt to capitalization ratio was about 35% during 2012 and 2013, compared with 42% in 2011. TRIS Rating expects THCOM to spend about Bt10,000 million in total of capital expenditures during 2014-2016, to mainly fund the investment in Thaicom7 and Thaicom8 satellites. TRIS Rating views that THCOM’s leverage will rise during 2014-2016, to support its growth plan. However, with healthier operating performance, THCOM is expected to partly fund its capital expenditures by its internal cash flows. As a result, the debt to capitalization ratio is expected to stay below 45% during 2014-2016.

Rating Outlook

The “stable” outlook is based on the expectation that THCOM will continue to maintain its strong market position and deliver solid operating performance. The ratings could be under downward pressure if THCOM’s debt to capitalization ratio rises above 50%.

Thaicom PLC (THCOM)

Company Rating:	A-
Issue Ratings:	
THCOM14NA: Bt3,700 million senior unsecured debentures due 2014	A-
Up to Bt5,000 million senior unsecured debentures due within 2021	A-
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

	----- Year Ended 31 December -----					
	Jan-Mar 2014	2013	2012	2011	2010	2009
Revenues	2,374 ***	7,896	7,266	6,624	6,700	7,189
Gross interest expense	87	265	420	452	496	1,087
Net income from operations	345	1,449	663	62	(716)	(936)
Funds from operations (FFO)	939	3,398	2,796	2,298	1,479	2,004
Capital expenditures	263	3,014	1,928	2,391	698	1,106
Total assets	27,216	27,374	25,758	27,216	25,868	27,403
Total debt	8,171	8,515	7,294	10,357	8,398	9,550
Shareholders' equity	15,435	15,581	14,239	14,176	14,543	15,626
Operating income before depreciation and amortization as % of sales	44.9 ***	47.5	53.6	50.1	29.3	36.9
Pretax return on permanent capital (%)	9.6 **	9.0	6.2	4.2	(1.4)	0.2
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	13.2	15.6	9.5	8.0	4.5	2.6
FFO/total debt (%)	44.1 **	39.9	38.3	22.2	17.6	21.0
Total debt/capitalization (%)	34.6	35.3	33.9	42.2	36.6	37.9

* Consolidated financial statements

** Annualized with trailing 12 months

*** Excluding construction revenue (and/or cost) under operating agreement

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