THAICOM PLC

No. 68/2015 29 July 2015

Company Rating: A-

Issue Ratings: A-
Senior unsecured

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 senior unsecured debenture ratings of Thaicom PLC (THCOM) at "A-". The ratings reflect THCOM's strong market position as the sole satellite communications service provider in Thailand and the company's growth prospect as broadcasting demand for satellite services in Thailand and neighboring countries continues to rise. The ratings also take into consideration its cash flow stability and strong performance in the conventional satellite segment, driven by an increase in transponder capacity from new satellites. 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 construct 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 2015. THCOM currently operates four geosynchronous satellites: three conventional satellites (Thaicom5, Thaicom6, and Thaicom7) and a broadband satellite (Thaicom4, or IPSTAR). THCOM has invested in telecommunications services business in the Lao People's Democratic Republic (Lao PDR), and in the Internet and media services. THCOM's revenue from sales and services was Bt10,004 million in 2014 and Bt3,074 million for the first three months of 2015. The revenue from satellite business contributed 75% of THCOM's total revenue in the first quarter of 2015. The conventional satellite and the IPSTAR contributed 55% and 45% of the satellite business revenue, respectively. 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 its "Hot Bird" position for conventional satellites, the high barriers to entry in satellite industry such as a limited number of orbital slots, large capital investments, and know-how and expertise in space technology. THCOM's satellite segment generates recurring cash flows from the medium- to long-term contracts. At the end of June 2015, the utilization rate of the company's conventional satellites was 78% of total capacity, while broadband satellite had 57% bandwidth deployment. THCOM's business risk profile is the competition against other satellite service providers with same footprints covering the region. THCOM's broadband satellite is one of technological alternatives for broadband Internet transmission available to end users. However, THCOM positions itself not to compete with other technologies but to provide complimentary solutions. THCOM is facing challenges in complex competitive environment while it has to comply with complicated international regulatory structures as well as regional satellite regulation.

THCOM launched two new satellites last year: Thaicom6 in January and Thaicom7 in September. These two new satellites have added 47 transponder equivalents (TPE) capacity, and help ensure THCOM's future growth. Thaicom6, holding 33TPE capacity, is served mainly for broadcasting services in Indo-China and Africa. After the launch of Thaicom6, the total number of broadcast television (TV) channels using THCOM's conventional satellites has soared, rising from 641 channels in 2013 to 766 channels at the end of June 2015. The number of high-definition (HD) channels rose to 112 channels, compared with 74 channels in 2013. The popularity of HDTV and ultra HDTV channels yield a good growth prospects for

THCOM. In addition, the “Must Carry” rule and multiplexers (MUX) for digital terrestrial television (DTT), as well as mobility services, also drive growth. The growth momentum is expected to remain encouraging. At the end of June 2015, the utilization rate for Thaicom6 was 65%, rising from 59% as of March 2014. THCOM is facing a challenge to sell the remaining capacity in Africa. Thaicom7, holding 14TPE, mainly provides communication services. The utilization of Thaicom7 is expected to increase from 58% in June 2015 to full capacity by the end of the year, as all transponders are sold. THCOM plans to launch Thaicom8 in the first half of 2016. Thaicom8 satellite has 24 Ku-band TPE, aiming to serve growing broadcasting business.

THCOM is the only broadband satellite service provider in the Asia-Pacific region. The company has focused on selling IPSTAR’s bandwidth to telecom companies, business enterprises, and government projects. IPSTAR’s bandwidth utilization rate rose from 53.4% in 2013 to 57% at the end of June 2015, driven by increases in deployment in Malaysia, Australia, Myanmar, and India. During the next three years, Southeast Asia and India are the areas with potential for deployment. However, bandwidth deployment by Australia's National Broadband Network (NBN) project will expire in September 2017, and the Australian government will launch its own broadband satellites in late-2015. THCOM plans to expand into the corporate markets to replace the NBN project. In addition, IPSTAR's remaining bandwidths are facing a time constraint because IPSTAR has six years remaining life time. THCOM is exploring business opportunities in new broadband and conventional satellites, to support the growth continuity.

THCOM's financial profile has improved during the last three years, underpinned by growing sales, improving cash flow, ample liquidity, and a satisfactory level of financial leverage. Revenue in 2014 rose by 27% from 2013, and grew further by 8% year-on-year (y-o-y) for the first three months of 2015. During 2015-2017, TRIS Rating expects THCOM's revenue will continue to grow and range from Bt12,000-Bt14,000 million per annum. The growth drivers are the higher utilization rates for the conventional satellites and the launch of Thaicom8. The operating margin (or operating income before depreciation and amortization as a percentage of sales) is expected to stay strong at over 40%, taken into account high operating costs needed for new satellites. Funds from operations (FFO) in 2014 improved to Bt4,573 million per annum, compared with Bt3,388 million in 2013. TRIS Rating expects FFO will grow over Bt5,000 million per annum, onward. The FFO to total debt ratio is expected to stay above 40% during 2015-2017.

THCOM’s total debt rose to Bt10,497 million as of March 2015, climbing from Bt8,515 million in 2013 because THCOM invested in the Thaicom7 and Thaicom8 satellites. THCOM planned to make capital expenditures of about Bt4,000 million in total during 2015-2017, mainly to fund the Thaicom8 satellite. THCOM is expected to fund part of its capital expenditures with its operating cash flows. As a result, the debt to capitalization ratio will stay below 40%. In case that THCOM invests in more new satellites, the financial profile is expected to soften.

Rating Outlook

The “stable” outlook is based on the expectation that THCOM will continue to maintain its strong market position and deliver sound operating performance.

A rating upgrade for THCOM is possible if the company successfully executes its growth plans and improves financial profile. The rating downside may arise if THCOM aggressively utilizes debt for investment or the launch and/or in-orbit satellite failures occur which will harm THCOM’s credit profile.

Thaicom PLC (THCOM)

Company Rating:	A-
Issue Ratings:	
THCOM19OA: Bt500 million senior unsecured debentures due 2019	A-
THCOM19OB: Bt1,775 million senior unsecured debentures due 2019	A-
THCOM21OA: Bt500 million senior unsecured debentures due 2021	A-
THCOM21OB: Bt1,775 million senior unsecured debentures due 2021	A-
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

	Jan-Mar 2015 ***	2014 ***	2013	2012	2011	2010
		------------------------- Year Ended 31 December -------------------------				
Revenue from sales and services	3,074	10,004	7,896	7,266	6,624	6,700
Gross interest expense	82	381	265	420	452	496
Net income from operations	466	1,542	1,449	663	62	(716)
Funds from operations (FFO)	1,300	4,573	3,388	2,796	2,298	1,479
Capital expenditures	75	6,477	3,014	1,928	2,391	698
Total assets	31,256	31,888	27,374	25,758	27,216	25,868
Total debt	10,497	11,101	8,515	7,294	10,357	8,398
Shareholders' equity	16,804	17,285	15,581	14,239	14,176	14,543
Operating income before depreciation and amortization as % of sales	44.0	49.7	47.5	53.6	50.1	29.3
Pretax return on permanent capital (%)	9.8 **	9.0	9.0	6.2	4.2	(1.4)
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	17.5	13.2	15.6	9.5	8.0	4.5
FFO/total debt (%)	46.1 **	41.2	39.8	38.3	22.2	17.6
Total debt/capitalization (%)	38.4	39.1	35.3	33.9	42.2	36.6

* *Consolidated financial statements*

** *Annualized with trailing 12 months*

*** *From 1 January 2015, THCOM has adopted new accounting standard which has resulted in changes in the control conclusion for CS Loxinfo PLC (CSL) for consolidation and investment in Shenington Investment Pte Limited (Shenington) from proportionate consolidation to the equity method. The operating performance of THCOM in 2014 was under old accounting standard while the balance sheets as of December 2014 were restated under new accounting standard.*

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