

THAICOM PLC

No. 86/2016

22 August 2016

Company Rating:	A-
Issue Ratings:	
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 senior unsecured debenture ratings of Thaicom PLC (THCOM) at “A-”. The ratings reflect THCOM’s established market position as the sole satellite communications service provider in Thailand and a market leader for broadband satellite service in the Asia-Pacific region. The ratings also take into consideration its cash flow stability, ample liquidity, and sound financial flexibility. However, these strengths are partially constrained by complicated regulatory challenges in the satellite industry, substitution risks from alternative transmission networks, and the large capital expenditures and risks involved in launching 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 41.1% stake as of April 2016. THCOM currently operates five geosynchronous satellites: four conventional satellites (Thaicom5, 6, 7, and 8) and a broadband satellite (Thaicom4, or IPSTAR). THCOM has also invested in telecommunications service business in the Lao People’s Democratic Republic (Lao PDR) and in the Internet and media services. The revenue from satellite business contributed about 73% of THCOM’s total revenue in the first six months of 2016. 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 business strength is underpinned by its prime satellite position for conventional satellites and its dominant market position in the Asia-Pacific region for its broadband satellite services. The barrier to entry is high in the satellite industry, given the limited number of orbital slots, high switching costs, large capital investments, and know-how and expertise in space technology.

THCOM’s conventional satellites mainly provide transponder rental for broadcasters and telecom service operators in Thailand and neighboring countries. The demand for spectrum satellite services has grown steadily during the last three years. THCOM has expanded its capacity by launching two conventional satellites, Thaicom6 and 7, in 2014, and the latest one, Thaicom8, in May 2016, to accommodate the growing demand. The three new satellites add 71 transponder equivalents (TPE) to THCOM’s total capacity, compared with 40 TPE in 2013. Of the total capacity of 87 TPEs, 64 TPEs of THCOM5, 6, and 7 have been sold (73.5% utilization rate), and 16% of THCOM8’s 24 TPEs have been pre-sold. THCOM8 has been ready to provide services since July 2016 and the overall utilization rate is expected to grow in the coming years.

Recently, THCOM faces challenges from customer churn, because some of its clients such as small satellite television (TV) operators and some pay TV providers suffered from intense competition and the current economic slowdown. For example, two big Thai pay TV broadcasters stopped their broadcasting services due to operating losses, and then terminated the transponder leasing contracts with THCOM. The loss of the contracts with these two broadcasters, plus possible broadcast halts caused by other small broadcasters or cable TV service providers, might impact THCOM’s utilization rate and income in the near term. Fortunately, a large media-service provider in Myanmar signed a contract with THCOM to lease five more transponders, in addition to the three transponders it already uses. This agreement partly offsets the contract cancellation of two big Thai clients and will

boost the utilization of THCOM's conventional satellite transponders. Going forward, THCOM must step up its marketing efforts in order to retain its client base. THCOM plans to expand its presence in neighboring countries in order to fill up the remaining unutilized transponders. THCOM may also face regulatory challenges should regulatory oversight of the satellite broadcasting industry return to the Ministry of Information and Communication Technology (MICT). THCOM is now in talks with the MICT.

For the broadband satellite services, THCOM is a leading provider in the Asia-Pacific region where it has about 98% market share. As of June 2016, IPSTAR's bandwidth utilization rate was at about 57.4%, driven mainly by increasing bandwidth usage in India. However, the competition in overseas markets is tight and there are potential substitution risks from alternative transmission networks. THCOM is facing uncertainty for bandwidth deployment involving Australia and Thailand as the contracts will expire in 2017. THCOM expects to find new customers by looking at telecom carriers or government projects, and serve more for mobility services such as in-flight entertainment and connectivity, to replace the expired clients.

The ratings also incorporate THCOM's financial strength, which is characterized by increasing cash flow, sound financial flexibility, and ample liquidity. Funds from operations (FFO) were Bt5,111 million in 2015, rising from Bt4,692 million in 2014. FFO for the first six months of 2016 grew by 6% year-on-year (y-o-y) to Bt2,717 million. The liquidity profile is ample as measured by the FFO to total debt ratio at over 40% during 2014 through the first six months of 2016. Total debt was Bt11,393 million as of June 2016. The debt to capitalization ratio was about 38%.

During 2016-2018, TRIS Rating expects THCOM's revenue will stay over Bt11,000 million per annum. The driver of revenue could come mainly from the higher utilization rate in the Thaicom8 satellite. The operating margin is expected to be more than 40% during the next three years, despite being pressured by customer churn and the last step-up of concession fee rates. The cash flow protection is expected to remain sound. The FFO to total debt ratio is expected to stay over 40% during 2016-2018. THCOM plans to make capital expenditures of about Bt3,000 million in total during 2016-2018, partly to fund the Thaicom8 satellite. THCOM is expected to fund its capital expenditures with its operating cash flows. The debt to capitalization ratio will stay below 45%. If 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 maintain its established market positions and deliver a sound and resilient operating performance. TRIS Rating also expects THCOM to well manage the pending issues and challenges, without jeopardizing its financial profile.

A rating upgrade for THCOM is possible if the company significantly improves its financial profile through growing cash flow and stronger liquidity. A rating downside may arise if the shift of regulations affects the company's credit strengths substantially or if THCOM's operating performance is significantly weaker than expected, which can result in a deterioration of liquidity profile and capital structure.

Thaicom PLC (THCOM)

Company Rating:	A-
Issue Ratings:	
THCOM190A: Bt500 million senior unsecured debentures due 2019	A-
THCOM190B: Bt1,775 million senior unsecured debentures due 2019	A-
THCOM210A: Bt500 million senior unsecured debentures due 2021	A-
THCOM210B: Bt1,775 million senior unsecured debentures due 2021	A-
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

	----- Year Ended 31 December -----					
	Jan-Jun 2016	2015	2014	2013	2012	2011
Revenue from sales and services	6,112	12,453	11,893	7,896	7,266	6,624
Gross interest expense	142	306	384	265	420	452
Net income from operations	1,173	2,717	2,079	1,449	663	62
Funds from operations (FFO)	2,717	5,111	4,692	3,388	2,796	2,268
Capital expenditures	804	1,247	6,344	3,014	1,928	2,391
Total assets	34,036	33,592	31,888	27,374	25,758	27,216
Total debt	11,393	11,750	11,101	8,515	7,294	10,277
Shareholders' equity	18,644	18,111	17,285	15,581	14,239	14,176
Operating income before depreciation and amortization as % of sales	47.4	46.4	43.1	47.5	53.6	50.1
Pretax return on permanent capital (%)	12.5 **	12.6	11.0	9.0	6.2	4.2
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	21.7	21.1	14.2	15.6	9.5	8.0
FFO/total debt (%)	46.2 **	43.5	42.3	39.8	38.3	22.2
Total debt/capitalization (%)	37.9	39.3	39.1	35.3	33.9	42.0

* Consolidated financial statements

** Annualized with trailing 12 months

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