

TRUE CORPORATION PLC

No. 77/2012

1 October 2012

Company Rating: BBB

Outlook: Negative

New Issue Rating: -

Rating History:

Date	Company	Issue (Secured/ Unsecured)
21/10/11	BBB/Sta	BBB/BBB-
22/10/10	BBB/Neg	BBB/BBB-
11/04/07	BBB/Sta	A, BBB/-
25/05/06	BBB/Pos	A, BBB/-
12/07/04	BBB/Sta	A, BBB/-
23/08/02	BBB	A, BBB/-
29/08/01	BBB	-

Rating Rationale

TRIS Rating affirms the company and senior secured debenture ratings of True Corporation PLC (TRUE) at “BBB” and affirms the ratings of TRUE’s existing senior debentures at “BBB-”. At the same time, TRIS Rating affirms the rating of “BBB-” to TRUE’s proposed issue of up to Bt6 billion in senior debentures previously announced in 21 May 2012. In addition, TRIS Rating revises the outlook of TRUE to “negative” from “stable”. The revision in outlook reflects TRUE’s weakened operating margins due to higher-than-expected network operating and subscriber acquisition costs in mobile segment. The revision also reflects heightened risks facing the mobile segment with regard to uncertain changes in cost structure owing to an expiring mobile concession and the company’s ability to turnaround the segment’s operating performance over the next 1-2 years.

TRUE’s credit ratings reflect the leading position of TRUE as the integrated telecom company; strong market positions in fixed-line broadband Internet and pay-television (pay-TV) segments; and established infrastructure in various technological platform. These strengths are offset by intense competition in core businesses, uncertainties in telecom regulations and on-going litigation concerns, downside risks from mobile segment’s aggressive investments, and the company’s high financial leverage.

TRUE is Thailand’s leading integrated telecom service provider. The company’s three businesses comprise wireline which is operated by TrueOnline, wireless by True Mobile (including TrueMove and TrueMove H brands), and pay-TV by TrueVisions. In the first half of 2012, the three businesses contributed 27%, 62%, and 11% in terms of revenue.

TRUE holds a strong position in the broadband Internet market, reflecting its extensive fixed line network coverage in Greater Bangkok. The company is also the largest pay-TV operator and the third rank mobile phone operator in Thailand. TRUE’s credit ratings take into account an expected continuing support from the CP Group, the company’s largest shareholder.

Since 2011, TRUE has invested heavily in third generation (3G) network rollout. TrueMove H had been able to acquire around two million subscribers by the end of June 2012. TRUE’s mobile segment’s service revenue (excluding interconnection charge or IC) in the first half of 2012 grew by 13% from the same period a year ago. Thanks to TRUE’s first mover advantage in 3G services, non-voice revenue in the mobile segment grew by 71%. However, TRIS Rating views that the segment’s network operating and subscriber acquisition costs have markedly exceeded our previous estimate. This exposes TRUE to a significant downside risk in the medium term should the company has not been able to attract subscribers as expected.

TRUE’s service revenue growth is expected to be in mid single digits for the next three years. Growth drivers are fixed-line broadband Internet and wireless non-voice services. TRUE’s ratio of operating margins before depreciation and amortization (operating margin) has dropped markedly since 2011. TRIS Rating

Contacts:

Yingyong Chiaravutthi, CFA
yingyong@trising.com

Sarinthorn Sosukpaibul
sarinthorn@trising.com

Rungtip Charoenvisuthiwong
rungtip@trising.com

WWW.TRISING.COM

expects TRUE's operating margin to improve from 2014. However, the downside risks are rather material. This is because TrueMove's 2G concession under CAT PLC (CAT) will expire in September 2013. It remains uncertain that the costs for TRUE to continue providing services on the 2G network after 2013 will be competitive. In addition, it remains highly uncertain how fast TRUE's mobile segment could migrate TrueMove's subscribers to a more cost-effective network, as well as scale down costs in the under-utilized 2G network.

TRIS Rating expects TRUE's debt-to-capitalization ratio to peak in 2013 at around 85%, as debt financing is still required mainly to support mobile and broadband-cable network expansions. TRUE is expected to generate funds from operations (FFOs) in a range of Bt13-Bt16 billion per annum during 2013-2015. In the coming months, TRUE may need additional debt financing for 3G 2.1GHz license. TRIS Rating expects TRUE to raise new debts with an appropriate level of new equity injections, so as to prevent its capital structure and cash flow protections from weakening further.

Rating Outlook

The outlook is revised to "negative" from "stable" due to TRUE's weakened operating margins and heightened risks facing the mobile segment with regard to uncertain changes in cost structure. TRUE's ratings could be downgraded if the company's performance is expected to remain weak for an extended period, or its cost structure becomes uncompetitive. However, the outlook could be revised back to "stable" if the mobile segment's investments are expected to pay off meaningfully and TRUE's capital structure is expected to be improving.

True Corporation PLC (TRUE)

Company Rating:	BBB
Issue Ratings:	
TRUE13NA: Bt1,100 million senior debentures due 2013	BBB-
TRUE144A: Bt6,183 million senior secured debentures due 2014	BBB
TRUE144B: Bt1,800 million senior debentures due 2014	BBB-
TRUE151A: Bt7,000 million senior secured debentures due 2015	BBB
Up to Bt6,000 million senior debentures due within 2016	BBB-
Rating Outlook:	Negative

Financial Statistics and Key Financial Ratios*

Unit: Bt million

	----- Year Ended 31 December -----					
	Jan-Jun 2012	2011	2010	2009	2008	2007
Sales and service revenues	42,752	71,938	62,378	62,474	61,265	61,641
Finance cost	3,359	8,084	7,393	6,880	6,953	6,970
Net income from operations	(2,697)	(7,884)	258	(484)	252	(722)
Funds from operations (FFOs)	5,550	6,626	11,172	12,046	11,611	12,500
Capital expenditures	9,574	10,376	7,154	5,078	6,779	7,055
Total assets	160,225	151,518	115,022	116,421	116,951	124,718
Total debt	88,452	85,238	72,472	75,429	82,647	83,237
Total liabilities	141,384	130,049	102,552	105,779	110,331	112,762
Shareholders' equity	18,841	21,469	12,470	10,642	6,620	11,956
Depreciation & amortization	7,161	13,030	11,252	11,165	11,510	12,023
Dividends	0	0	0	0	0	0
Operating income before depreciation and amortization as % of sales	19.36	23.78	29.48	31.88	30.77	31.52
Pretax return on permanent capital (%)	1.27 **	3.77	8.62	9.48	7.76	7.56
Earnings before interest, tax, depreciation and amortization (EBITDA) interest coverage (times)	2.54	2.06	2.52	2.83	2.68	2.77
FFOs/total debt (%)	6.27 **	7.77	15.42	15.97	14.05	14.65
Total debt/capitalization (%)	82.44	79.88	85.32	87.64	92.58	87.71

* Consolidated financial statements

** Non-annualized

TRIS Rating Co., Ltd.

Tel: 0-2231-3011 ext 500 / Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand www.trisrating.com

© Copyright 2012, 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. 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 http://www.trisrating.com/en/rating_information/rating_criteria.html.