

## 2.1GHZ-3G AUCTION

# OUTLAY WON'T HIT FIRMS' RATINGS

### AIS, DTAC can absorb impact: Fitch

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**T**he upcoming auction for the 2.1-gigahertz spectrum and the subsequent capital expenditure to establish a third-generation cellular network are unlikely to affect the credit ratings of Advanced Info Service (AIS; "BBB+"/stable) and Total Access Communication (DTAC; "BBB-"/stable), according to Fitch Ratings' report on "Thai Telecoms - 3G Spectrum Auction".

While the financial leverage for the sector will rise, Fitch believes that the Kingdom's two largest operators have sufficient ratings headroom to absorb the impact of significant negative free cash flow.

The National Broadcasting and Telecommunications Commission (NBTC) will consider the revised final draft of the 3G licensing terms and conditions today. The majority of the 11 members are expected to vote to approve the draft, which will see the auction of nine slots of 5 megahertz bandwidth of the 2.1GHz spectrum.

Each slot features a reserve price of Bt4.5 billion. Each bidder can bid for a maximum 15MHz, down from 20MHz in the original draft. The

NBTC is set to auction the spectrum by mid-October. There are expected to be only three bidders - AIS, DTAC and True Corp.

Fitch expects intense competition among the bid winners to woo existing and new subscribers to the 3G regime quickly. Their marketing expenses are likely to increase because of promotional activity, while operating costs could rise in line with an increase in network capital expenditure. But they could benefit from lower regulatory costs under the NBTC licence regime in the long run after the large subscriber base migrates to the 3G network.

The rating agency noted that the high licence fee and the additional investment costs for the 3G network would lead to an increase in net debt and financial leverage for the major telecom operators over the next three years, but that this was manageable for AIS and DTAC thanks to their solid operating cash flow. Their fund flows from operations-adjusted net leverage ratio are now below 1.5 times and 2.5 times respectively.

AIS reportedly plans to invest about Bt50 billion in its network from 2013-2015 or about Bt16.7 billion per annum, while Fitch estimates DTAC will invest about Bt30 billion or Bt10 billion per annum. This is signifi-

cantly higher than the average capex over the past three years of Bt6.9 billion for AIS and Bt5.2 billion for DTAC.

AIS, DTAC and True Group launched 3G service many years ago on their existing spectra - 900MHz for AIS and 850MHz for DTAC - with about 4 million customers combined.

The number of 3G subscribers is expected to grow by 35 per cent on a compound annual growth rate (CAGR) basis in the next five years to 19 million, according to PricewaterhouseCoopers' new telecom publication series on the Southeast Asia region.

Nattaporn Phan-Udom, partner and leader of PwC's technology, infocomm and entertainment and media (TICE) practice in Thailand, said yesterday that this included the 3G customer numbers in any spectra here.

She added that the 2.1GHz-3G bid winners would quickly seek partners from other sectors to provide content and applications jointly. Many Thai consumers are already 3G-literate and there is high demand for the service.

The country's economy will be another key driver of 3G business growth. She added that one challenge for the NBTC was to regulate the 3G market strictly to ensure fair service fees for consumers.