

5G auction impact for telcos

Bidding for new spectrum will raise stakes and leverage, says Fitch Ratings

The 5G auction scheduled for Sunday is likely to stretch the financial profiles of successful bidders in the local telecommunications sector, according to Fitch Ratings.

The winners of the bidding contest will have to increase their investments, which will leave them with less flexibility to weather the capital expenditure up-cycle.

The country's three largest telcos plus two state operators have submitted bid documents. The National Broadcasting and Telecommunication Commission (NBTC) is scheduled to announce the qualified bidders today.

The regulator plans to auction low-band 700 megahertz (2x15MHz), mid-band, notably 1.8GHz (2x35MHz) and 2.6GHz (190MHz), and high-band 26GHz spectrum (2700MHz).

The five bidders are Advanced Info Service Plc (AIS), the True Corp affiliate True Move H Universal Communication Co Ltd, Total Access Communication Plc (DTAC), and state-owned CAT Telecom and TOT Plc.

Fitch expects the telcos to focus on the highly coveted 2.6GHz spectrum for its coverage and capacity benefits. According to the GSM Association, each 5G network will require at least 80 to 100MHz of contiguous spectrum in the mid-bands to provide a true

5G experience.

The 190MHz of mid-band 2.6GHz spectrum up for auction in Thailand might not be sufficient for all bidding participants.

Another mid-band spectrum, 3.5GHz, could be allocated in the future, although it is uncertain when this band will become available as it is currently used by satellite broadcasting services.

Fitch expects market-leading AIS to have a sufficient capital buffer to support 5G spectrum investment and a progressive network roll-out.

In addition, the spread of payment instalments over 10 years should ease immediate pressure on the company's cash flow.

AIS (BBB+/AA+(tha)/stable) has moderate rating headroom with funds from operations adjusted net leverage

at the end of 2019 of 1.4 times, which is below the threshold of 2 times, above which Fitch could consider negative rating action.

In comparison, third-ranked DTAC (BBB/AA(tha)/negative) could see a delay in deleveraging if it secures additional 5G spectrum and needs to make spectrum payments and additional investments.

DTAC's financial profile is already stretched, underpinning the negative outlook.

As of the end of 2019, the company's net leverage of 2.8 times was higher than the threshold of 2.5 times, above which Fitch could consider negative rating action, although we expect it to reduce to below 2.5 times over the next two years given the anticipated recovery in earnings.



DTAC could see a delay in deleveraging if it secures additional 5G spectrum and needs to make spectrum payments and additional network investments.