

TELCOTECH Ltd.

Credit Rating

Issuer Credit Rating	khB
Outlook	Negative
Bond Credit Rating	khAAA

Bond Information

Size	USD 20 million
Settlement	Semi-annual frequency for both interest payment and principal repayment
Maturity	5 years (1.5 years grace period for principal repayment)
Type	Unsecured Guaranteed
Coupon Rate	SOFR + 2.5% p.a.
Guarantor	Credit Guarantee & Investment Facility (CGIF)

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Key Rating Rationale

The present rating is based on the bond characteristics as outlined in this report and on the attached guarantee agreement and all other relevant documentation available to us at this time, either in draft or in working copy form. The rating is effective only when the bond is issued and all documentation has been approved by the regulatory authorities. Any material deviation from the guarantee agreement will result in the rating being put under review, suspended, or canceled.

We initiate the credit coverage of Telcotech Ltd's Bond ("the Bond") with a Bond Credit Rating (BCR) of khAAA (National Scale) which indicates in the Cambodian context an "Extremely strong capacity to meet financial commitments". In our methodology the BCR is made of two components: the Issuer Credit Rating (ICR) and the Recovery Scoring (RS).

The Recovery Scoring of the issue is "Very Low Risk". The bond is covered by a 100% on principal and interest amount by Credit Guarantee & Investment Facility ("CGIF"), an entity whose current credit rating is AA (global) by S&P and AAA (national) by RAM Ratings (Malaysia), TRIS (Thailand), Fitch Ratings Indonesia, and Pefindo CRA (Indonesia). Hence, we assign a rating of khAAA on our National Scale to the Bond Credit Rating.

In our view, the attached guarantee agreement justifies a credit substitution from the ICR of Telcotech Ltd. ("the Company or TCT") to the ICR of CGIF. In case of default, bondholders are protected by an irrevocable and unconditional guarantee of timely payment of principal and interest in full (interest and principal) by CGIF.

The Issuer Credit Rating itself has two components: a Stand-Alone Credit Profile (SACP) and an External Support Factor (ESF). The SACP analyses the credit profile of TCT from the perspective of its business risks and financial risks. In its own right, TCT has an "adequate capacity to meet financial commitments but more likely to be affected by adverse changes in circumstances and economic environment". The SACP rating of khB indicates a "Moderate to High Risk" profile.

Outlook

The **negative** outlook and **khB** rating reflect our expectation that this bond issuance ("the Bond") of USD20mn would further elevate TCT's gearing profile to a high level. The Bond's Use of Proceed is to finance the CAPEX related to the upgrading of fiber infrastructure. As such, we would expect the Company's Free Cash Flow to be further strained by this rising capital intensity. This khB rating also leaves little cushion for sizeable debt-financed transactions and execution missteps. Therefore, based on the Company's financial projection, we expect the TCT to deleverage its balance sheet. The deleveraging trajectory will depend on the management's ability to boost revenues from existing and new customers through upgrading its core network.

Outlook (cont.)

In addition, the management's ability to engage in other transactions that can increase the size of the Company's Revenue, EBITDA, and FOCF is also critical. In our view, the Company's culture and management experiences appear attuned to execute the strategy. However, in the short run, TCT will experience heightened pressure from debt repayment obligations. Therefore, RAC expects TCT to start to reduce its debt level from 2025 onwards as the capital intensity will peak in 2024 and decline in 2025.

Rating Sensitivity

On the upside, we would look at the continued profitability and reduction in their leverage position to consider upgrading the ICR of the company. On the downside, less stable profitability, increased leverage position, breach of covenants, may compel us to consider an ICR downgrade. The BCR of the Bond is pegged to CGIF's global rating. Thus, we may consider a BCR downgrade if CGIF's global rating is downgraded.

Issues to Monitor

TCT's leverage position, corporate governance, one-off transactions, and ability to engage in transactions that can improve the size of its Revenue, EBITDA, and FOCF are subjects to be monitored.

TELCOTECH Ltd. Summary

Overview

TCT was launched in 2007 as a private limited liability company. It is licensed by the Royal Government of Cambodia ("RGC") to operate and provide submarine cable network, fiber optic cable network, and data center. TCT is 100%-owned by Ezecom Co., Ltd. ("Ezecom"), which is itself wholly-owned by Neak Oknha Kith Meng. After restructuring in August 2021, TCT concentrates in wholesale commercial business while Ezecom focuses on retail commercial business. At the end of 2022, the main sources of revenue were International Private Lease Circuit (IPLC) at 38% of total sales, followed by Domestic Lease Line at 26%, and Fiber Optic Wholesale at 18%.

TCT is one of the three leading players in the industry the other two being Telecom Cambodia ("TC"), and Cambodia Fiber Optic Communication Network Co., Ltd. ("CFOCN"). RAC views the existing key players to be partners rather than competitors. For instance, if one zone where one firm is allowed by the Regulator to have its fiber coverage, other firms cannot roll out their fibers in that zone. As such, if those firms wish to provide their fiber cabling services to customers in that zone, they are encouraged by the Regulator to partner and lease fiber from that one firm. Plus, the management confirmed that TC and CFOCN are ones of TCT's suppliers. Despite this, for comparative purposes, RAC treats TC and CFOCN as the closest comparables of TCT, given other players such as Angkor Data Infrastructure Co., Ltd. ("MekongNet") and Micromax Co., Ltd ("Micromax") are still at small-scale.

Performance

As of FY22, TCT's total revenue was around USD22mn. Following the restructuring in 2021, financial statements have been re-presented to separate the impact of discontinued operations. For meaningful historical comparisons we use such statements for the past three years.

TCT benefits from being one of the industry's key players which enabled the Company to generate steady growth in revenue and EBITDA over the last three years. EBITDA grew by 35.1% CAGR from FY20-FY22, indicating a considerable competitive advantage of TCT in the industry. The initial effect of the business restructuring in 2021 to focus more on the wholesale side seems to be favorable with a jump in revenue by 33.0% yoy and EBITDA by 139.0% yoy in FY22. However, this being only one year of meaningful record, we need to continue monitoring to determine the sustainability of this business model. From FY20-FY22, TCT has consistently demonstrated its cost reduction ability with Operating and Administrative Expenses decreasing by 23.2% p.a., of which the majority comes from cutting down Personnel Expenses by 43.8% p.a. Despite this, the Company's Profit from Operations was negative in FY20 and FY21 due to slower top-line growth.

TCT has historically maintained a low liquid balance sheet with Current Ratio (henceforth: CR) below 1x, except in FY21 and FY22 when CR was 1.7x and 1x respectively. This was largely due to the decrease of the Trade and Other Payables and Amounts due to MPTC by 54.0% yoy and 83.5% yoy respectively in FY21. However, these two accounts rose in FY22, making the CR decreased from 1.7x in FY21 to 1x in FY22. The increase in Cash and Bank Balances and Term Deposits in FY21 and FY22 was a result of CGIF requiring TCT to collect all Receivables due from CAMGSM Plc. ("Cellcard") with a total facility of USD15mn that was fully settled in June 2023 - as part of the requirement of the first bond guarantee of USD20mn in 2021. The Company sought funding for its capital expenditure through the first guaranteed bond in 2021. In spite of the CR covenant breach in 2022, the lenders agreed to waive the covenant so Debt Securities continue to be shown as non-current.

However, the Company needs to keep investing in capital expenditure to maintain its competitive position. This has increased the Company's leverage for the last two years (FY21-FY22). After the first bond issuance of USD20mn, the Company's debt/capital ratio rose from 24.1% in FY20 to 49.9% in FY21 and 49.8% in FY22. Lastly, EBITDA and Free Cash Flow (henceforth: FOCF) jumped by 139.0% yoy and 197.9% yoy respectively in FY22. Despite this, the Free Cash Flow of USD 6,953,073 in FY22 is not sizeable enough to support further significant debt financing in respect of TCT's current leverage profile.

	31 Dec 2022		31 Dec 2021		31 Dec 2020	
	KHR'000	USD	KHR'000	USD	KHR'000	USD
Statement of Financial Position						
Assets						
Cash and Bank balances	45,071,368	10,947,624	14,487,071	3,555,982	3,176,676	785,334
Current assets	85,318,394	20,723,438	94,740,130	23,254,818	101,768,224	25,159,017
Property and equipment	165,894,828	40,295,076	138,002,016	33,873,838	155,013,655	38,322,288
Non-current assets	186,478,395	45,294,728	156,895,749	38,511,475	155,013,655	38,322,288
Total Assets	271,796,789	66,018,166	251,635,879	61,766,293	256,781,879	63,481,305
Liabilities						
Debt and Borrowings	16,568,319	4,024,367	16,588,098	4,071,698	11,421,531	2,823,617
Total Current liabilities	82,495,610	20,037,797	55,891,793	13,719,144	112,139,795	27,723,064
Debt and Borrowings	47,180,487	11,459,919	62,196,821	15,266,770	18,724,434	4,629,032
Non-current liabilities	61,255,966	14,878,787	77,382,135	18,994,142	25,400,569	6,279,498
Total liabilities	143,751,576	34,916,584	133,273,928	32,713,286	137,540,364	34,002,562
Equities						
Share capital	48,019,586	11,856,688	48,019,586	11,856,688	48,019,586	11,856,688
Retained earnings	78,042,579	19,244,894	69,670,053	17,196,319	71,401,949	17,622,055
Total equity	128,042,213	31,101,582	118,361,951	29,053,007	119,241,515	29,478,743
Total liabilities and equity	271,796,789	66,018,166	251,635,879	61,766,293	256,781,879	63,481,305

	31 Dec 2022		31 Dec 2021		31 Dec 2020	
	KHR'000	USD	KHR'000	USD	KHR'000	USD
Statement of Cash Flow						
Net cash (used in)/generated by operating activities	46,632,728	11,410,014	47,355,610	11,641,006	28,063,980	6,883,488
Net cash (used in)/generated by investing activities	3,191,280	780,837	(62,182,980)	(15,285,885)	(16,787,968)	(4,117,726)
Net cash (used in)/generated by financing activities	(16,712,597)	(4,089,209)	28,735,857	7,063,878	(12,693,087)	(3,113,340)
Net change in cash and cash equivalents	33,111,411	8,101,642	13,908,487	3,418,999	(1,417,075)	(347,578)

	31 Dec 2022		31 Dec 2021		31 Dec 2020	
	KHR'000	USD	KHR'000	USD	KHR'000	USD
Statement of Profit or Loss						
Revenue	89,685,046	21,943,980	67,142,836	16,505,122	66,124,961	16,219,024
Gross profit	18,864,488	4,615,730	5,308,923	1,305,045	3,991,652	979,066
Profit from operations	15,428,098	3,774,920	(1,148,418)	(282,305)	(3,585,439)	(879,431)
Profit before income tax	10,481,169	2,564,514	(7,138,784)	(1,754,863)	(7,727,687)	(1,895,435)
Profit after Tax	8,372,526	2,048,575	(7,339,837)	(1,804,286)	(8,660,570)	(2,124,251)
Total comprehensive income/(loss) for the year	9,683,262	2,048,575	(879,564)	(425,736)	(4,436,206)	(871,618)

Rating Definition

Issuer Credit Rating – National Scale			
National Rating	Definition		
khAAA	Extremely Strong Capacity to meet financial commitments	1	Very low risk
khAA	Very strong capacity to meet financial commitments	2	
khA	Strong capacity to meet financial commitments but somewhat susceptible to adverse changes in circumstances and economic environment	3	Low risk
khBBB	Adequate capacity to meet financial commitments but more susceptible to adverse changes in circumstances and economic environment	4	
khBB	Adequate capacity to meet financial commitment but more vulnerable to adverse changes in circumstances and economic environment	5	Moderate risk
khB	Adequate capacity to meet financial commitments but more likely to be affected by adverse changes in circumstances and economic environment	6	
khCCC	Capacity to meet financial commitments dependent on favorable business, financial and economic conditions	7	High risk
khCC	Weak capacity to meet financial commitments	8	
khC	Unlikely to be able to meet financial commitments	9	Very high risk
khD	In default partially or for all financial commitments	10	

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