

Bulletin:

Collaboration On 5G Development Should Lessen Far EasTone's Borrowing Needs

September 8, 2020

Taiwan Ratings Corp. today said the announced cooperation between Taiwan-based **Far EasTone Telecommunications Co. Ltd.** (twA+/Stable/twA-1) and Asia Pacific Telecom Co. (APT) on 5G spectrum and network investment could lessen Far EasTone's borrowing needs over the next few years.

We expect Far EasTone to receive a net cash inflow of New Taiwan dollar (NT\$) 4.5 billion after deducting the telecom operator's planned NT\$5 billion capital injection in APT from a promised payment of NT\$9.5 billion by APT for partial usage of Far EasTone's 5G bandwidth. APT will also share in Far EasTone's investment in 5G network infrastructure, which we estimate at NT\$8 billion-NT\$10 billion annually over the next three years. In addition, APT is likely to start sharing Far EasTone's 5G-related operating expenses from 2021 following the local regulator's approval. This could moderately improve Far EasTone's operating margin and EBITDA and help the operator to shorten the time to bring its ratio of debt to EBITDA to below 2x. The ratio weakened to 2.4x for the 12 months ending June 2020 compared with 1.2x in 2019, mainly due to Far EasTone's elevated debt to fund the high 5G spectrum acquisition cost.

This report does not constitute a rating action.

PRIMARY CREDIT ANALYST

Jin Dong, CFA
Taipei
+886-2-8722-5821
jin.dong
@spglobal.com
jin.dong
@taiwanratings.com.tw

SECONDARY CONTACT

David Hsu
Taipei
+886-2-8722-5828
david.hsu
@spglobal.com
david.hsu
@taiwanratings.com.tw

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