

Credit Rating Report
No.: 003/23
Oct 20, 2023

CAMGSM PLC.

Credit Rating		Bond Information	
Issuer Credit Rating	khB	Size	USD 20 million
Outlook	Stable	Settlement	Semi-annual frequency
Bond Credit Rating	khAAA	Maturity	10 years (2 years principal moratorium)
		Type	Unsecured Guaranteed
		Coupon Rate	TBD
		Guarantor	GuarantCo Ltd

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Key Rating Rationale

We initiate the credit coverage of CAMGSM Plc's Sustainability 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 issuer is "Very Low Risk". The bond is covered by a 100% irrevocable and unconditional guarantee on principal and interest amount by GuarantCo, an entity that carries a global credit rating of A1 by Moody's and AA- by Fitch: AA ratings denote expectations of very low default risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events". Hence, we assign a rating of khAAA on our National Scale to the Bond Credit Rating.

In our view, the Deed of Guarantee justifies a credit substitution from the ICR of CAMGSM Plc ("Cellcard") to the ICR of GuarantCo. In case of default, bondholders are protected by an irrevocable and unconditional guarantee of timely payment of principal and interest in full by GuarantCo.

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 Cellcard from the perspective of its business risks and financial risks. In its own right, Cellcard 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 Risk" profile. We note both the sizable debt that remains outstanding and the firm's capacity to generate positive profitability year on year.

The External Support Factor can be generated either by a related party such as a parent company (Group Support), or by government-related entities (Country Support). In our view, the ESF is "Moderately Strong", which does not justify an uplift to the ICR of Cellcard. We maintain the rating at "khB".

The rating is contingent on such bond characteristics as outlined in this report with reference to the draft deed of guarantee. The rating is effective only when the bond is issued (guarantee becomes valid only when the bond is issued). Any material deviation from the draft deed of guarantee will result in the rating being suspended, put under review or canceled.

Outlook

As revenue is mainly reliant on the provision of telecom services, it is relatively stable due to the necessary role telecommunications services play in our professional and personal lives. Cellcard is also protected by the regulations that promote fair competition. CAPEX needs will remain sizable annually given the nature of the business. The next foreseeable technology upgrade is the 5G network, for which Cellcard has been preparing. Funding requirements to enter the market has also been considered.

Outlook (cont.)

A portion of this bond issuance will be used to finance 4G network expansion & 5G test transmission. Hence, revenue streams are likely to remain stable and efforts to diversify sources of funding will likely lead to more cost-efficient funding. Despite stable revenues, we expect a reduction in the bottom-line profit as a result of the company's plan to extend the maturity of the loan to the related party on interest-free basis. However, we expect no impact on the cash flows of the company as the result of this decision.

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 on covenants of existing borrowings, and failure to enter the 5G market may compel us to consider an ICR downgrade.

BCR of the Bond is pegged on GuarantCo's global rating. Thus, we may consider a BCR downgrade if GuarantCo's global rating is downgraded.

Issues to Monitor

Cellcard's leverage position, one-off transactions, its actions to rollout 5G technology, and dividend distribution plan are subjects to be monitored.

CAMGSM PLC. Summary

Overview

With more than 26 years of service, Cellcard is the longest serving and only 100% locally owned mobile phone operator. The principal activities of the company are to install and operate all equipment and machinery used in connection with the operation of the GSM mobile cellular telephone network in the entire Kingdom of Cambodia and all products which are ancillary, complementary, or component parts of such equipment as well as market and sell any telecommunications product and/or service. Cellcard is one of the five mobile phone operators in Cambodia, Cellcard is among the top three key players in the industry.

Performance

Cellcard has been performing well financially over the past four years although profitability was negative in 2018. Revenues has been growing at 10.1% per annum (henceforth p.a.) from 2018-2022. Even though Cellcard had negative operating profit and net profit in 2018, it managed to generate positive profits from 2019-2022. Operating profit margin ranged between 17.6% to 27.9%, while net profit margin ranged between 11.0% to 41.6%. Net profit stood at USD41mn as at the end of FY22. Cellcard's revenues demonstrate little correlation with GDP growth, which somewhat indicates resilience to economic changes. However, Cellcard is more susceptible to the capital expenditure (CAPEX) cycle, which is linked to new technology adoption as well as compulsory maintenance to keep the business operational, and financing needs with sizable debts on its balance sheet.

	31 December 2020		31 December 2021		31 December 2022	
	KHR'000	USD	KHR'000	USD	KHR'000	USD
Statement of Profit or Loss						
Revenue	683,415	167,626,967	694,458	170,712,365	781,610	191,242,931
Operating profit	120,353	29,519,999	133,122	32,724,079	217,865	53,306,773
Profit before income tax	96,563	23,684,815	145,077	35,662,958	211,406	51,726,221
Profit for the year	75,157	18,434,350	113,073	27,795,669	165,815	40,571,194
Statement of Cashflow						
Net cash flow from operating activities	276,642	67,854,505	201,230	49,466,339	330,148	80,779,659
Net cash flow from investing activities	(122,117)	(29,952,714)	(54,565)	(13,413,229)	(46,207)	(11,305,961)
Net cash flow from financing activities	(160,643)	(39,402,447)	(142,583)	(35,049,991)	(306,288)	(74,941,994)
Net change in cash and cash equivalent	(6,118)	(1,500,656)	4,082	1,003,119	(22,347)	(5,468,296)

	31 December 2020		31 December 2021		31 December 2022	
	KHR'000	USD	KHR'000	USD	KHR'000	USD
Statement of Financial Position						
Assets						
Cash and cash equivalents	29,643	7,328,364	33,942	8,331,483	11,788	2,863,187
Current assets	68,124	16,841,650	64,887	15,927,316	35,743	8,681,576
Property, plant and equipment	481,092	118,934,945	421,102	103,363,297	375,868	91,296,587
Non-current assets	2,331,994	576,512,701	2,387,052	585,922,977	2,444,396	593,731,141
Total Asstes	2,400,118	593,354,351	2,451,939	601,850,293	2,480,139	602,412,717
Liabilities						
Borrowings	188,550	46,613,077	82,965	20,364,487	63,751	15,484,709
Total Current liabilities	1,181,442	292,074,958	789,012	193,669,755	877,261	213,081,204
Lease liabilities	117,010	28,927,189	142,039	34,864,677	144,799	35,170,945
Borrowings	555,504	137,331,066	635,011	155,869,251	588,202	142,871,389
Non-current liabilities	740,311	183,018,140	1,067,891	262,123,616	834,530	202,703,397
Total liabilities	1,921,753	475,093,098	1,856,903	455,793,371	1,711,791	415,784,601
Equities						
Share capital	20,225	5,000,000	20,370	5,000,000	20,585	5,000,000
Retained earnings	459,640	113,261,253	572,713	141,056,922	738,528	181,628,116
Total equity	478,365	118,261,253	595,036	146,056,922	768,348	186,628,116
Total liabilities and equity	2,400,118	593,354,351	2,451,939	601,850,293	2,480,139	602,412,717

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	

Disclaimer

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