# Press Release

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**TRIS Rating Affirms Company Rating and Outlook of "SAMART" at "BBB+/Stable"**

TRIS Rating has affirmed the company rating of Samart Corporation PLC (SAMART) at "BBB+" with "stable" outlook. The rating reflects SAMART's diverse range of businesses and solid relationships with its clients and suppliers. The rating takes into consideration the company's strong competitive position in the information technology (IT) segment and the stable cash flows from air traffic control service business in Cambodia. The rating is partly offset by intense competition in the mobile handset distribution industry, fluctuations in the IT trading/turnkey business segment, and a potential rise in leverage as the company expands.

The "stable" outlook reflects the expectation that SAMART will maintain its competitive strengths in the IT segment and continue to benefit from its diverse range of businesses and sources of income.

SAMART's potential rating upgrade is limited over the medium term, given concerns over the quality of accounts receivable at SIM. Any downside pressure on the rating would stem from a weaker-than-expected operating performance. The significantly deteriorated financial profile on a sustained period will also negatively impact its credit profile.

SAMART was founded by the Vilailuck family in 1950 and was listed on the Stock Exchange of Thailand (SET) in 1993. At the end of 2016, the Vilailuck family owned about 45% of SAMART's outstanding shares. The business profile of SAMART is underpinned by its diverse sources of revenue from five major lines of business: IT solutions, mobile multimedia, contact center services, technology-related businesses, and utilities and transportation services. The IT solutions segment is operated by Samart Telcoms PLC (SAMTEL). The mobile multimedia segment is operated by Samart I-Mobile PLC (SIM). Contact center services are the responsibility of One To One Contacts PLC (OTO). The remaining lines of business are operated by SAMART and SAMART's unlisted subsidiaries. As of December 2016, SAMART held about 70% of SAMTEL, 71% of SIM, and 68% of OTO. The major revenue generator is the IT solutions segment, contributing 42% of total revenue, followed by mobile multimedia segment (25%).

SAMART's business profile is supported by its strong competitive position in the IT segment. The company has a proven record of undertaking a broad range of IT projects for a number of government departments and earning recurring income from service contracts. Its strong competitive position is backed by long standing relationships with clients in the government sector and state-owned enterprises, and the good relationships SAMART has with its suppliers. Moreover, the cash flows from providing air traffic control service in Cambodia are stable and sustainable, secured by a long-term concession. SAMART's risk profile takes into account the lumpy nature of turnkey projects, plus intensified competition in the mobile handset market. Sales of mobile devices at SIM have fallen due to the intense competition and the availability of subsidized handsets from wireless telecom operators during the last two years.

SAMART's revenue in 2016 was Bt13,676 million, slipping by 26% from 2015, due mainly to declines in the mobile handset sales, plus delays in the bidding for some government projects. SAMART's operating margin (operating income before depreciation and amortization as a percentage of sales) dropped from 16.5% in 2015 to 15.4% in 2016, impacted from an operating loss of the mobile multimedia segment, although SAMTEL, OTO, and SAMART's unlisted subsidiaries could maintain their profit margins. As a result, SAMART's funds from operations (FFO) in 2016 was Bt1,920 million, dropping from Bt2,526 million in 2015.

SIM is transforming from the mobile handset distributor to a provider of digital services and solutions. SIM is now in talks with CAT Telecom PLC (CAT) to provide trunked digital radio network nationwide. The handset distribution segment is expected to scale down, while the non-mobile segments such as the content service and television (TV) segments are expected to keep growing. However, TRIS Rating concerns over a high level of accounts receivable SIM carries. The year-end unrelated-party trade accounts receivable aged over six months past due~~,~~ rose from Bt180 million in 2015 to Bt3,915.8 million in 2016. A high level of accounts receivable could affect SIM's cash flow position if it is not collectible. TRIS Rating expects the company to well manage high accounts receivable at SIM, not jeopardizing the overall financial position.

(Continue on page 2)

During 2017-2019, TRIS Rating expects SAMART's revenue will keep fluctuating. Revenue from handset distribution will decline as the company plans to scale down this business. SIM will provide digital content and solutions, as well as telecom network. Revenue from the non-mobile segment will take more time to ramp up, growing during the next three years to offset the decline in revenue from mobile handsets.

The growth driver for SAMART is expected to come from large projects in pipelines at SAMTEL, worth about Bt9,300 million at the end of 2016, plus new projects in the IT solution segment. Other drivers will be growth in contact center services, higher revenue from the air traffic control service business in Cambodia, plus new contracts for electricity substations. During 2017-2019, the operating margin may stay under pressure due to the poor performance of the mobile multimedia segment and the ramp-ups of new businesses. FFO is expected to range up to Bt3,500 million per annum within 2019. SAMART has long-term debt obligations of about Bt700 million due in 2017 and about Bt1,750 million in 2018. The liquidity profile is expected to remain acceptable. The FFO to total debt ratio will range from 10%-25%.

SAMART had Bt13,241 million in outstanding debt at the end of 2016, down from Bt14,555 million at the end of 2015. The loans are mainly to fund SAMTEL's new projects and to meet SIM's working capital needs. The debt to capitalization ratio stood at 62.6% in 2016, compared with 63.6% in 2015. TRIS Rating expects SAMART to make capital expenditures of about Bt12,000 million in total during 2017-2019. The funds will support SAMTEL's service projects, SIM's new projects, and SAMART's energy projects. The debt to capitalization ratio will stay at about 68% during 2017-2019.

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| **Samart Corporation PLC (SAMART)** | |
| **Company Rating:** | BBB+ |
| **Rating Outlook:** | Stable |

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