

Press Release

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

TRIS Rating has affirmed the company rating of Samart Telcoms PLC (SAMTEL) at "BBB+" with "stable" outlook. The rating reflects SAMTEL's strong competitive position in information technology (IT) network and outsourcing services, proven track record of undertaking public sector projects, and moderate level of recurring income. These strengths are partially offset by the fluctuations in undertaking trading/turnkey projects which rely heavily on government sector's IT budgets.

The "stable" outlook reflects favorable prospects for the IT industry and the expectation that SAMTEL will remain competitive when bidding for public sector projects. SAMTEL's credit downside could be triggered if the debt to capitalization ratio exceeds 60% for a sustained period. In addition, SAMTEL's credit profile could come under pressure if the credit quality of its parent company, SAMART, deteriorates due to weaker performance or sizable debt-funded investments. The credit upside case for SAMTEL would materialized if recurring service contracts and operating cash flow are higher than expected, and if the company can keep the operating margin in a range of 26%-30% and keep the ratio of FFO to total debt above 40%.

SAMTEL was founded by the Vilailuck family in 1986. The company operates an integrated telecommunication network and an IT service business. At the end of August 2016, the company was 71% owned by Samart Corporation PLC (SAMART), a holding company which has invested in telecommunication and communication networks and provides engineering services.

SAMTEL's strong business profile reflects its leading market position and proven track record of undertaking a broad range of IT projects. The business profile is also supported by the recurring income from service contracts, which adds a measure of stability to the company's overall performance. For 2016, SAMTEL reported revenue at Bt5.7 billion, of which 60% was revenue from service contracts. Recurring income comprised a large portion of the company's revenue because the revenue contribution from trading/turnkey projects was smaller in 2016.

SAMTEL's risk profile takes into account the volatility of its performance, which reflects the nature of trading/turnkey projects. Its operation is also exposed to uncertainty and sometimes a lack of continuity in the public IT budgets. However, TRIS Rating believes that SAMTEL's downside risk is limited considering the number of projects in the pipeline and Thailand's need to develop its IT infrastructure.

The value of SAMTEL's project backlog as at the end of 2016 was Bt9.3 billion. The backlog will secure Bt2.6 billion of revenue in 2017 and Bt2.2 billion per annum during 2018-2019. Many service contracts, which will be ending over the next one to three years, are expected to be extended. As a result, TRIS Rating estimates that service contracts will generate at least Bt3 billion in revenue per annum during 2017-2019. Under TRIS Rating's base case scenario, SAMTEL is expected to generate Bt7-Bt8 billion in revenue per annum during 2017-2019, taking into account the IT development needed to improve the efficiency of both public and private agencies. However, delays in some projects are to be expected.

SAMTEL's profitability, as measured by the operating income before depreciation and amortization as a percentage of revenue, remained strong at 28.9% in 2016, reflecting the high portion of recurring income projects which carry higher operating margins. TRIS Rating expects SAMTEL's operating margin to stay above 27% from 2017-2019. TRIS Rating's base case expects SAMTEL to generate funds from operations (FFO) of approximately Bt1.7-Bt1.9 billion per annum during 2017-2019.

SAMTEL's cash flow protection remained fair despite weaker earnings. In 2016, the FFO to total debt ratio stayed at 33.9% while the EBITDA (earnings before interest, taxes, depreciation, and amortization) interest coverage ratio stayed at 9.6 times.

The company's capital structure was acceptable. The ratio of total debt to capitalization was 57.2% at the end of 2016. SAMTEL plans to obtain more service contracts which require an upfront capital investment. Capital expenditures are forecasted at around Bt2.6 billion in total during 2017-2019. As a result, TRIS Rating expects the debt to capitalization ratio to range from 50%-56% over 2017-2019. In the medium term, TRIS Rating expects the ratio of FFO to total debt to stay above 35%, on average, during 2017-2019.

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Over the next 12 months, SAMTEL's liquidity is expected to cover its uses. Sources of funds are expected FFO of Bt1.7 billion, cash and cash equivalents of Bt532 million, at the end of 2016, and undrawn credit facilities of approximately Bt6 billion. The uses of funds are capital expenditures of Bt0.2 billion and financial obligations of Bt4.5 billion coming due over the next 12 months.

Samart Telcoms PLC (SAMTEL)

Company Rating:

BBB+

Rating Outlook:

Stable

TRIS Rating Co., Ltd./www.trisrating.com

Contact: santaya@trisrating.com, Tel: 0-2231-3011 ext 500/Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand

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