TRIS RATING
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SAMART CORPORATION PLC

No. 56/2024
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CORPORATES

Company Rating:	BBB
Outlook:	Positive

Last Review Date: 16/05/23

Company Rating History:

Date	Rating	Outlook/Alert
28/04/22	BBB	Stable
24/03/20	BBB+	Stable
21/03/18	BBB+	Negative
20/04/15	BBB+	Stable

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RATIONALE

TRIS Rating affirms the company rating on Samart Corporation PLC (SAMART) at “BBB” and revises the rating outlook to “positive” from “stable”. The outlook revision reflects SAMART’s strengthened capital structure as indicated by a significant decline in its financial leverage ratio and its improving operating performance.

The rating continues to reflect SAMART’s standing as one of the market leaders in the information communication technology (ICT) business, its proven track record of executing public sector projects, and the rising recurring income from utility and transportation business segment. Conversely, the rating is constrained by the intense competition in the industry, the inherently uncertain and volatile nature of the turnkey project business, and weak operational performance in its digital communications business.

KEY RATING CONSIDERATIONS

Improving operating performance

In 2023, SAMART’s total revenue grew by 12% year-on-year (y-o-y), reaching THB10.3 billion. The rise was mainly fueled by the recovery of air traffic services, increased revenue in the power system and substation design and installation business, as well as a substantial volume of device sales in the digital communications business. SAMART’s earnings before interest, taxes, depreciation, and amortization (EBITDA) came in at THB1.5 billion in 2023, up from THB640 million-THB1.25 billion observed during 2021-2022. The improvement in EBITDA was attributed to a greater proportion of high-margin services in the revenue mix.

Looking ahead, SAMART is poised to continue delivering satisfactory performance, driven by the continual growth of recurring income from the air traffic management business, a substantial backlog in the power substation sector, and stable income from the Direct Coding Project, coupled with consistent airtime fees in the trunked radio business. Also, we expect a rebound in revenue of the ICT business in the coming years, following resumption of the government budget allocations. Our base-line projection forecasts SAMART’s total revenue to reach THB10.5-THB12.0 billion annually over the next three years.

Over the next three years, we expect SAMART’s profitability to improve on the back of growth in recurring income with high margins and the company’s ongoing cost control initiatives. We project EBITDA to increase steadily, reaching THB2.1 billion annually by 2026. In addition, we expect SAMART to enhance its profitability with an EBITDA margin in the 16%-18% range during 2024-2026.

Favorable demand driving Cambodian air traffic recovery

Passenger traffic and international air travel demand remain strong post-pandemic. We anticipate a strong rebound in international flights and overflights, accompanied by a rise in international passenger numbers over the forecast period of 2024-2026. Also, the Cambodian government's initiatives, including promoting tourism, as well as the opening of a new international airport in 2023 and plans to unveil two additional international airports in 2024 and 2025 are expected to further bolster this momentum. However, the recovery of domestic flights may take longer to fully materialize. We project

SAMART’s revenue from air traffic management services in Cambodia to reach about THB1.9 billion or 95% of pre-pandemic levels in 2024 and exceed pre-pandemic levels by 2025.

In 2023, air traffic in Cambodia improved strongly, reaching 89,000 flights, or nearly 70% of pre-pandemic levels. SAMART’s revenue from air traffic management business rose notably 31% y-o-y, reaching THB1.6 billion in 2023, though below THB2 billion in 2019.

ICT business to rebound after budget allocation delays

The delayed new government formation last year which resulted in the delays of government budgeting process has affected several ICT companies across the industry, particularly those with clients in the public sector. Several government projects and bidding activities have been suspended. Consequently, projects dependent on government funding are disrupted, leading to a decline in the works and revenue of many companies in the ICT sector and other businesses.

In 2023, revenue in the ICT business, managed by SAMART Telecoms PLC (SAMTEL), dropped by 10% y-o-y to THB4.5 billion. The value of SAMTEL’s new contracts signed in 2023 was relatively low at about THB2.4 billion, compared with its backlog at the end of 2023 of around THB4.6 billion.

We expect government related projects to resume from mid-2024 onwards, following the ending of the government budget allocation process, with a projected rebound in 2025. With its experience in the ICT industry, we expect the company to continue securing new projects, with several projects in the pipeline and to receive a boost from the prospects of Thailand’s ICT infrastructure development. We forecast revenue of SAMTEL to be THB5-THB6 billion during the next three years.

Airtime service to drive trunked radio business

Revenue from the digital trunked radio system (DTRS) business grew significantly in 2023, with revenue rising to THB1.7 billion from THB437 million in 2022. This remarkable increase is attributed to the substantial handset orders under the project with the Ministry of Interior (MOI). The MOI Project, a flagship initiative of the DTSR business, aims to integrate the communications of 75,000 villages nationwide with a total order of 76,236 handsets. The MOI is an important customer for DTRS business, ensuring consistent airtime revenue in the long term. Also, the company retains customers from the Provincial Electricity Authority’s (PEA) project and existing customers of National Telecom PLC (NT).

Looking ahead, we expect the trunked radio revenue to be driven by airtime fees from the projects with MOI and PEA which will bring in long-term recurring income. The company's strategy going forward includes expanding its customer base by acquiring new customers from public safety, emergency medical, and local government services such as the Subdistrict Administrative Organization and Provincial Administrative Organization sectors, as well as transportation services.

Strengthening capital structure from subsidiary initial public offering (IPO)

In 2023, SAMART’s leverage ratio improved significantly, and its capital base strengthened following the debt repayment with the proceeds from the listing of its subsidiary. SAMART initiated the spin-off of its subsidiary, Samart Aviation Solutions PLC (SAV), and listed the company on the Stock Exchange of Thailand (SET) in September 2023 and divested a portion of its shares in SAV. SAMART primarily used the proceeds of around THB3 billion to repay existing debts and to support working capital needs. As a result, SAMART’s adjusted debt dropped to THB5.0 billion at the end of 2023, compared with THB8.6 billion at the end of 2022. The debt to EBITDA ratio in 2023 declined notably to 3.4 times, compared with 6.9 times in the previous year. The ratio of funds from operations (FFO) to debt improved to 16.1% in 2023 from 7.9% in 2022.

Over the next three years, without any large debt-funded investments, we expect SAMART’s leverage ratios and cash flow protection to continue to improve on the back of improvements in profitability and revenue. We forecast the company’s adjusted net debt to be THB4.5-THB5.0 billion during 2024-2026, factoring in the capital expenditures required for new ICT projects and the air traffic management business, estimated to range between THB500 million-THB1 billion annually. FFO are forecasted to rebound to THB1.2-THB1.6 billion annually over the same period. Our projections forecast the debt to EBITDA ratio to range between 2.5-3.0 times during the next three years, and the FFO to debt ratio in the 25%-35% range.

Debt structure

As of December 2023, around 52% of SAMART’s debts were priority debts, including debts at subsidiary level and secured project financing loans. As the ratio exceeded our 50% priority debt threshold, we view that SAMART’s unsecured creditors are significantly disadvantaged to priority debt holders with respect to claim against the company’s assets.

Manageable liquidity

We assess SAMART’s liquidity to remain manageable over the next 12 months. As of December 2023, SAMART had sources of funds from cash and cash equivalents totaling THB2.6 billion, with undrawn bank facilities of about THB3 billion, as well as FFO of about THB800 million. Funds will be used for the capital expenditures and scheduled debt repayments. SAMART has about THB2.3 billion long-term debt payment obligations maturing in 2024. Also, the company's investment budget for 2024 is around THB500 million.

BASE CASE ASSUMPTIONS

TRIS Rating's base-case assumptions for SAMART's operations in 2024-2026 are as follows:

- Revenue to range between THB10.5-THB12.0 billion per annum.
- EBITDA margin at 16%-18%.
- Capital spending to total about THB3 billion over the next three years.

RATING OUTLOOK

The "positive" outlook reflects SAMART's strengthening financial profile, supported by improved operating performance and a less leveraged capital structure. We expect SAMART to maintain its strong position and competitive edges in the ICT industry and to deliver consistently satisfactory financial results.

RATING SENSITIVITIES

The rating could be revised upward if SAMART could improve operating performance and cash flow aligning with our forecast, while also maintaining the debt to EBITDA ratio below 3.5 times. Conversely, a downward revision on the rating could be triggered if its operating performance turns out to be substantially weaker than expected, or if there is material deterioration in financial profile from large debt-funded investments.

COMPANY OVERVIEW

SAMART was founded by the Vilailuck Family in 1950 and listed on the SET in 1993. At the end of March 2024, the Vilailuck Family owned about 42% of SAMART's outstanding shares.

SAMART's core business comprises three lines of business. Subsidiaries take care of the different lines of business. For example, SAMTEL oversees the ICT solution segment. The digital service segment is operated by Samart Digital PLC (SDC). The utility and transportation businesses are operated by SAMART and SAMART's subsidiaries. On 9 December 2020, SAMART disposed of a 68% stake in One To One Contacts PLC (OTO), its contact center service subsidiary.

SAV wholly owns Cambodia Air Traffic Service Co., Ltd. (CATS), which is the sole service provider of air navigation services in Cambodia's airports and airspace. CATS has a 49-year concession (2002-2051) from the government of Cambodia. SAMART spun off SAV and listed the company on the SET in September 2023. The company used the proceeds from the IPO of its subsidiary mainly to repay existing debts and support working capital needs.

As of March 2024, SAMART directly held a stake of about 70% in SAMTEL and 78% of SDC. In 2023, SAMART's major revenue generator was the digital ICT solutions segment, contributing 44% of total revenue, followed by utility and transportation segment (50%), and the digital communications segment (19%).

KEY OPERATING PERFORMANCE

Table 1: Revenue Contribution by Segment

Business	2021		2022		2023	
Line	Mil. THB	%	Mil. THB	%	Mil. THB	%
Digital ICT solutions (SAMTEL)	4,581	66	4,947	55	4,489	44
Digital communications (SDC)	394	6	632	7	1,898	19
Utilities and transportations	2,546	36	4,259	47	5,053	50
Eliminations	(566)	(8)	(818)	(9)	(1,301)	(13)
Total	**6,955**	**100**	**9,020**	**100**	**10,139**	**100**

Source: SAMART

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	--------------------Year Ended 31 December ---------------				
	2023	**2022**	**2021**	**2020**	**2019**
Total operating revenues	10,254	9,151	7,078	9,253	14,207
Earnings before interest and taxes (EBIT)	539	442	1	(28)	1,396
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,486	1,250	641	1,332	3,173
Funds from operations (FFO)	805	684	219	849	2,361
Adjusted interest expense	546	505	392	414	577
Capital expenditures	636	1,241	1,023	2,254	1,316
Total assets	19,109	19,336	18,149	18,031	21,225
Adjusted debt	5,014	8,617	8,517	8,339	9,161
Adjusted equity	6,322	3,853	4,725	4,234	5,331
Adjusted Ratios					
EBITDA margin (%)	14.5	13.7	9.1	14.4	22.3
Pretax return on permanent capital (%)	3.8	3.0	0.0	(0.2)	8.2
EBITDA interest coverage (times)	2.7	2.5	1.6	3.2	5.5
Debt to EBITDA (times)	3.4	6.9	13.3	6.3	2.9
FFO to debt (%)	16.1	7.9	2.6	10.2	25.8
Debt to capitalization (%)	44.2	69.1	64.3	66.3	63.2

* *Consolidated financial statements*

RELATED CRITERIA

- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021

Samart Corporation PLC (SAMART)

Company Rating:	BBB
Rating Outlook:	Positive

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