TRIS RATING
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SAMART CORPORATION PLC

No. 39/2019
3 April 2019

CORPORATES

Company Rating:	BBB+
Outlook:	Negative

Last Review Date: 21/03/18

Company Rating History:

Date	Rating	Outlook/Alert
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+" with a "negative" outlook. The rating reflects SAMART's diverse range of businesses and strong competitive position in the information communication technology (ICT) segment. We also take into consideration the stable cash flow the company earns from providing air traffic control services in Cambodia.

The rating is partly offset by a slower-than-expected rise in revenue and profit in the digital trunk radio business, concern over substantial amounts of overdue receivables, and fluctuations in the IT trading/turnkey business segment.

KEY RATING CONSIDERATIONS

Diverse business lines and strong competitive position

SAMART's business portfolio covers five key segments: ICT solutions and services, digital services, contact center services, technology-related businesses, plus utility and transportation services. The broad product lines and the fact that SAMART serves many different types of customers yield diverse sources of income and mitigate some of the effects from the economic downturns. The business profile is enhanced as a result.

SAMART has a strong competitive position in the ICT solutions and services segment. The company has a proven record of undertaking a broad range of ICT projects for a number of government agencies. TRIS Rating expects SAMART's track record in the ICT segment and the strong relationships with suppliers and customers will reinforce its competitive strengths.

Revenue falls but EBITDA rises

During the last two years, SAMART's operating results dropped due to performance of Samart Digital PLC (SDC), a major subsidiary responsible for the digital segment. SDC is transforming from the mobile handset distributor to a provider of digital services.

SAMART's total operating revenue fell by 6% to Bt12,249 million in 2018 but EBITDA (earnings before interest, taxes, depreciation, and amortization) rose. EBITDA rose to Bt1,517 million in 2018, up 166% from 2017. Profits were higher in the ICT solutions and services segment and the air traffic control services segment. Going forward, these two segments are expected to continue to be the growth drivers.

Concerns over large amount of overdue receivables

As of 2018, SAMART carried on its books of Bt4,665 million in trade accounts receivable of more than 12 months past due. Most of the past due receivables were from the mobile handset distribution business. Of the amount past due, about 50% has been set aside as a provision.

In 2018, SDC and its subsidiaries collected approximately Bt756 million in overdue receivables. SDC expects to keep collecting the payments, given its track record and efforts to collect overdue amounts.

However, TRIS Rating is concerned about a high level of remaining accounts receivables. There is uncertainty surrounding the collection of substantial amount of receivables. A high level of accounts receivables, if uncollected, will affect the company's cash flow and equity base. The eroding capital base may push the company's debt to equity ratio above 70%.

New ventures will boost revenue in the digital segment

SDC has entered the digital trunk radio market since late 2017, by collaborating with CAT Telecom PLC (CAT), a state-owned telecommunications company, in providing digital trunk radio system (DTRS) services nationwide. However, there was a delay in the project last year. As a result, revenue from the DTRS project in 2018 was lower than our expectation.

TRIS Rating expects the revenue to improve in 2019 due to the launch of the DTRS service under the Ministry of Interior's (MOI) major project. In the beginning of 2019, MOI signed memorandums of understanding (MOU) with other ministries in Thailand, for the DTRS project. One of the project objectives is to communicate government information to a large number of people in rural area. Under the DTRS project with the MOI, more than 70,000 DTRS users are expected by 2020.

Revenue from the DTRS project consists of the service revenue from airtime and the sale of trunked radio handsets. Air time service revenue is a source of recurring income, smoothing the revenue stream over a long period. Handset sales are expected to gradually rise in 2019 and 2020, following a large base of users from the project of the MOI. Besides the MOI's project, additional number of users will rely on the disaster recovery projects and/or security projects that need the group calls on the trunk radio system.

Revenue base is secured by recurring service income and a sizable backlog

SAMART has a secured revenue base, thanks to recurring service income. The services segment of the ICT solutions, contact center, and the air traffic control service business provide SAMART with the steady sources of income.

Recurring income amounted nearly Bt6,000 million in revenue in 2018, or about 49% of total revenue. Recurring income services are forecast to increase from Bt6,500 million in 2019 to Bt7,500 million in 2021. These stable sources of revenue partly reduce the volatility of SAMART's operating performance.

SAMART has a sizable backlog of unfinished projects. At the end of 2018, the backlog was over Bt12,000 million, of which 64% came from the ICT solutions segment. The backlog will turn into revenue over the next one to three years.

During 2019-2021, we assume SAMART's revenue will range between Bt15,000-Bt20,000 million per annum. The forecast takes into account the sizable backlog, new ICT projects, higher revenue in the DTRS segment, plus steady growth in the air traffic control services segment. We expect the company to secure new ICT projects and new opportunities such as electrical substations and other projects because SAMART has strong competitive edge in these areas.

Acceptable level of leverage

SAMART's total reported debt was Bt11,557 million as of December 2018, down from Bt12,474 million at the end of 2017. The debt to capitalization ratio was 64.7% in 2018, up from 62.5% in 2017. The ratio rose because of operating losses at SDC resulted in eroding equity base. However, the level of leverage and the leverage ratio were lower than our previous expectations (exceed 70%) because profitability improved.

During 2019-2021, TRIS Rating expects SAMART to make about Bt10,000 million in capital expenditures. The funds are mainly needed for new ICT service projects and to fund the trunk radio project. SAMART's capital base is expected to increase steadily if provisions for doubtful debt will not be overly cumbersome. The debt to capitalization ratio is forecast to stay below 70%. On the other hand, SAMART's credit quality will suffer if the company could not collect payment of overdue receivables.

Tightened liquidity

During the last two years, SAMART's cash flow protection ratio tightened, as evidenced by a low ratio of funds from operations (FFO) to total debt. The FFO to total debt ratio was 5.5% in 2018 and 4.2% in 2017, down from 15.7% in 2016. The EBITDA interest coverage ratio was 2.7 times in 2018 and 1.1 times in 2017, compared with 4-6 times during 2015-2016.

During the next three years, we forecast FFO will range from Bt2,000-Bt3,000 million per annum. Other sources of fund include cash on hand and cash equivalents amounting to Bt2,983 million at the end of 2018. Uses of funds are planned for capital expenditures of about Bt10,000 million in total. SAMART has long-term debt payment obligations of about Bt850 million due in 2019 and about Bt1,900 million due in 2020. Liquidity profile is expected to gradually improve. The FFO to total debt ratio will stay over 15%. The EBITDA interest coverage ratio will range from 4-6 times.

BASE CASE ASSUMPTIONS

- Revenue will range from Bt15,000-Bt20,000 million per annum during 2019-2021.
- The operating margin will range around 17%-22% during 2019-2021. EBITDA will increase substantially to Bt3,000-Bt4,000 million per year.
- Capital spending will total Bt10,000 million during 2019-2021.

RATING OUTLOOK

The "negative" outlook reflects our concerns over substantial amount of the remaining overdue account receivables. A high level of overdue receivables, if uncollectable, will erode equity base, and push the debt to capitalization ratio to deteriorate.

RATING SENSITIVITIES

The rating of SAMART could be under downward pressure if operating results or financial profile shows a sustained deterioration. The downside case would also be triggered if the capital structure deteriorates due to large provisions of doubtful debt, pushing the debt to capitalization ratio above 70% on a sustained basis. The outlook could be revised to "stable" if the operating performance and financial profile improve significantly.

COMPANY OVERVIEW

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 2018, the Vilailuck family owned about 45% of SAMART's outstanding shares.

SAMART's core business comprises five lines of business. Subsidiaries take care of the different lines of business. For example, Samart Telcoms PLC (SAMTEL) oversees the ICT solutions segment. The digital services segment is operated by SDC. Contact center services are the responsibility of One to One Contacts PLC (OTO). The technology-related businesses and utility and transportation services are operated by SAMART and SAMART's unlisted subsidiaries.

As of December 2018, SAMART held about 70% of SAMTEL, 82.7% of SDC, and 68% of OTO. The major revenue generator is the ICT solutions segment, contributing 63% of total revenue, followed by utility and transportation services (28%), the digital segment (6%), and the contact center services segment (6%).

KEY OPERTING PERFORMANCE

Table 1: Revenue Contribution by Segment

Business	2016		2017		2018	
Line	Bt Mil.	%	Bt Mil.	%	Bt Mil.	%
ICT solutions and services (SAMTEL)	5,721	42	6,949	53	7,679	63
Digital services/mobile multimedia (SDC)	3,366	25	1,334	10	744	6
Contact center services (OTO)	962	7	818	6	711	6
Utilities and transportation	3,350	24	3,502	27	3,384	28
Technology-related	684	5	888	7	322	3
Eliminations	(407)	(3)	(468)	(4)	(655)	(5)
Total	**13,676**	**100**	**13,023**	**100**	**12,185**	**100**

Source: SAMART

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	------------------------Year Ended 31 December -----------------				
	2018	2017	2016	2015	2014
Total operating revenues	12,249	13,070	13,780	18,481	24,016
Operating income	1,713	635	2,319	3,261	4,180
Earnings before interest and taxes (EBIT)	(212)	(1,302)	464	1,598	2,683
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,517	569	2,349	3,290	4,259
Funds from operations (FFO)	497	428	1,768	2,622	3,487
Adjusted interest expense	570	507	522	561	467
Capital expenditures	2,200	1,072	2,090	2,325	1,209
Total assets	21,468	22,210	25,216	27,317	26,136
Adjusted debt	9,038	10,244	11,295	12,808	11,686
Adjusted equity	4,941	6,150	7,907	8,318	8,262
Adjusted Ratios					
Operating income as % of total operating revenues (%)	13.99	4.86	16.83	17.64	17.41
Pretax return on permanent capital (%)	(1.18)	(6.40)	2.07	7.05	13.30
EBITDA interest coverage (times)	2.66	1.12	4.50	5.86	9.11
Debt to EBITDA (times)	5.96	18.00	4.81	3.89	2.74
FFO to debt (%)	5.49	4.18	15.65	20.47	29.84
Debt to capitalization (%)	64.65	62.49	58.82	60.63	58.58

* *Consolidated financial statements*

RELATED CRITERIA

- Key Financial Ratios and Adjustments, 5 September 2018
- Group Rating Methodology, 10 July 2015
- Rating Methodology – Corporate, 31 October 2007

Samart Corporation PLC (SAMART)

Company Rating:	BBB+
Rating Outlook:	Negative

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