

SAMART TELCOMS PLC

No. 27/2018

21 March 2018

CORPORATES

Company Rating: BBB+
Outlook: Negative

Company Rating History:

Date	Rating	Outlook/Alert
01/04/11	BBB+	Stable

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RATIONALE

TRIS Rating affirms the company rating of Samart Telcoms PLC (SAMTEL) at “BBB+”. The rating continues to reflect SAMTEL’s strong competitive position in the information technology (IT) network and outsourcing services, proven track record of undertaking public sector projects, moderate level of recurring income, and moderate financial risk profile. The rating also takes into consideration the fluctuations in undertaking trading/turnkey projects which rely heavily on government sector's IT budgets.

At the same time, TRIS Rating revises the rating outlook of SAMTEL to “negative” from “stable”. The outlook revision follows the rating action on SAMTEL’s parent company, Samart Corporation PLC (SAMART). Although SAMTEL’s operation remains strong, the outlook revision reflects the view held by TRIS Rating that SAMTEL is a core member of the SAMART Group, and the ratings of SAMTEL and SAMART are linked.

KEY RATING CONSIDERATIONS

Credit profile is linked to SAMART’s

SAMTEL’s credit rating is linked to the quality of SAMART’s credit profile. SAMART owns 71% of SAMTEL, and SAMTEL is the main contributor of revenue in the SAMART Group. In addition, the management and group strategy are highly integrated. SAMTEL’s rating takes into consideration the high degree of interdependence between SAMART and SAMTEL. TRIS Rating considers SAMTEL to be a core member of the Group according to our Group Rating Methodology published in July 2015. As a result, the rating assigned to SAMTEL is the same level as the rating of SAMART.

Strong business profile

SAMTEL’s strong business profile reflects its leading position and proven track record of undertaking a broad range of IT projects, especially public sector 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 2017, SAMTEL reported revenue of Bt6,949 million, half of which was revenue from service contracts. TRIS Rating forecasts service contracts will provide at least Bt3,000 million per annum in revenue during 2018-2020. Higher recurring revenue will further strengthen SAMTEL’s business risk profile.

Fluctuations in size and continuity of trading/turnkey projects

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 will not face material downside risk considering the number of projects in the pipeline and Thailand's need to develop its IT infrastructure.

Backlog secures revenue base

The value of SAMTEL’s project backlog as at the end of 2017 was Bt8,348 million. The backlog will translate into around Bt3,200 million of revenue in 2018, Bt1,800 million in 2019, and Bt1,000 million in 2020. Many service contracts, which will be ending over the next one to three years, are expected

to be extended.

Under TRIS Rating's base case scenario, revenue is forecast at Bt7,000-Bt9,000 million per annum during 2018-2020, 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.

High profitability

The company's profitability is high. SAMTEL's profitability, as measured by operating income before depreciation and amortization as a percentage of revenue, has stayed over 24% during the past five years. This level is higher than that of SET-listed peers. However, TRIS Rating is of the view that SAMTEL's profitability will be pressured by competition and delays in projects. We forecast SAMTEL's operating margin to stay between 22%-25% from 2018-2020. TRIS Rating's base case assumes funds from operations (FFO) will be Bt1,300-Bt1,600 million per annum during 2018-2020.

Acceptable financial profile

SAMTEL's cash flow protection and leverage are fair. In 2017, the FFO to total debt ratio stayed at 36.95% while the EBITDA (earnings before interest, taxes, depreciation, and amortization) interest coverage ratio stayed at 9.5 times. The total debt to capitalization ratio, a measure of leverage, was 54.17% at the end of 2017. Most of SAMTEL's debts to fund its projects are short-term. As most of SAMTEL's projects are from public sector, reliable cash receipts help facilitate the project financing process and secure favorable credit terms with its lenders.

TRIS Rating forecasts the company's debt to capitalization ratio will range from 50%-56% over 2018-2020, taking into account capital investments totaling around Bt4,000 million during 2018-2020. The FFO to total debt ratio will average more than 30%, during 2018-2020.

Adequate liquidity

Over the next 12 months, SAMTEL is expected to have sufficient liquidity to cover the uses of cash. Sources of funds are expected FFO of Bt1,500 million, cash and cash equivalents of Bt480 million on hand at the end of 2017, and undrawn credit facilities of approximately Bt6,000 million. The uses of funds are capital expenditures of Bt1,400 million and financial obligations of Bt4,000 million coming due over the next 12 months.

RATING OUTLOOK

The "negative" outlook reflects a deterioration in the credit quality of SAMART and the credit linkage between the two entities, SAMTEL and SAMART.

RATING SENSITIVITIES

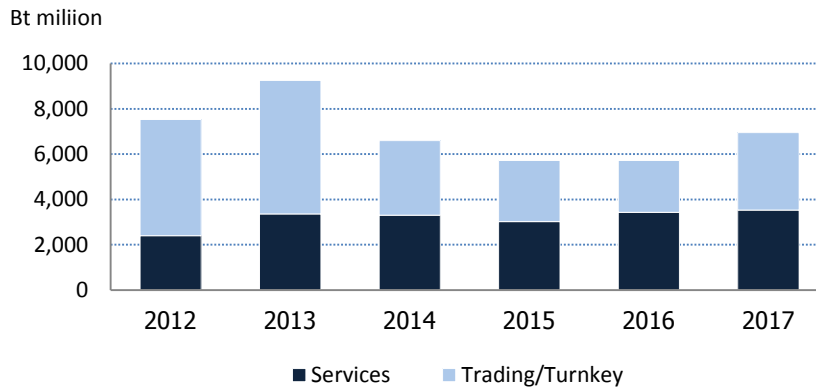
Any change in SAMTEL's rating is dependent on the rating of SAMART based on TRIS Rating's Group Rating Methodology.

COMPANY OVERVIEW

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 2017, the company was 71% owned by SAMART, a holding company which has invested in telecommunication and communication networks and provides engineering services.

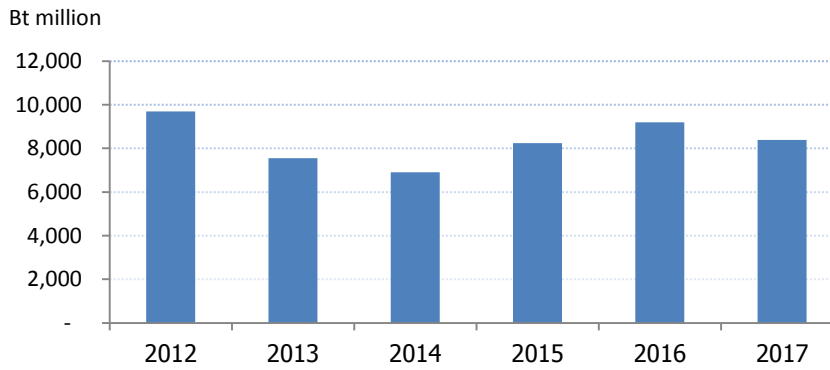
KEY OPERING PERFORMANCE

Chart 1: Revenue Breakdown by Segment



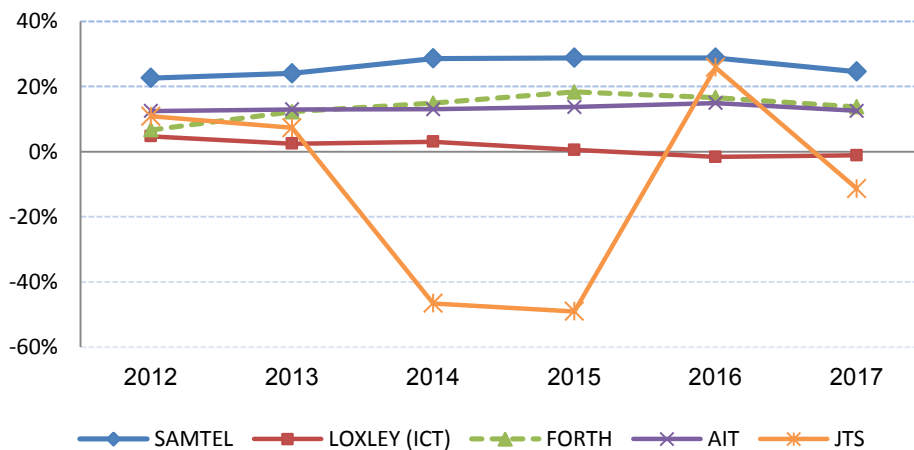
Source: SAMTEL

Chart 2: Year-end Backlog



Source: SAMTEL

Chart 3: IT Operators' Ratios of Operating Margins before Depreciation and Amortization



Sources: Companies' financial statements

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	----- Year Ended 31 December -----				
	2017	2016	2015	2014	2013
Revenue	6,949	5,721	5,716	6,598	9,251
Gross interest expense	149	173	167	215	368
Net income from operations	215	177	370	606	775
Funds from operations (FFO)	1,542	1,611	1,596	1,475	1,552
Capital expenditures	320	1,571	2,072	831	643
Total assets	9,284	10,019	10,040	8,938	12,473
Total debts	4,175	4,638	5,244	3,780	5,863
Shareholders' equity	3,533	3,476	3,459	3,479	3,175
Operating income before depreciation and amortization as % of sales	24.59	28.89	28.79	28.59	24.02
Pretax return on permanent capital (%)	4.34	4.36	6.66	10.37	14.26
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	11.58	9.51	9.55	8.80	6.04
FFO/total debt (%)	36.95	34.74	30.44	39.02	26.48
Total debt/capitalization (%)	54.17	57.16	60.26	52.07	64.87

* Consolidated financial statements

Samart Telcoms PLC (SAMTEL)

Company Rating:	BBB+
Rating Outlook:	Negative

TRIS Rating Co., Ltd.

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