

# SAMART TELCOMS PLC

No. 33/2020  
24 March 2020

## CORPORATES

**Company Rating:** BBB+  
**Outlook:** Stable

**Last Review Date:** 03/04/19

### Company Rating History:

Date	Rating	Outlook/Alert
21/03/18	BBB+	Negative
01/04/11	BBB+	Stable

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## RATIONALE

TRIS Rating affirms the company rating on Samart Telcoms PLC (SAMTEL) at “BBB+” and revises the outlook to “stable” from “negative”. The revision reflects the change in rating outlook on Samart Corporation PLC (SAMART), SAMTEL’s parent company. TRIS Rating is of the view that SAMTEL is a core member of the SAMART Group and the ratings on SAMTEL and SAMART are interrelated.

The rating continues to reflect SAMTEL’s strong competitive position in 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 account the fluctuating business volume in undertaking trading/turnkey projects which rely heavily on government sector’s IT budgets.

## 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 to the SAMART Group. In addition, their management and group strategies 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 on 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 recurring income from service contracts, which adds a measure of stability to the company’s overall performance.

For 2019, SAMTEL reported revenue of Bt9 billion, nearly 40% of which was revenue from service contracts. TRIS Rating forecasts service contracts will provide at least Bt3.2-Bt3.5 billion per annum in revenue during 2020-2022. Higher recurring revenue will further strengthen SAMTEL’s business risk profile.

### Exposure to fluctuations in size and timing 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 the uncertainty and sometimes a lack of continuity in 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.

### Strong backlog secures revenue in 2020

In 2019, SAMTEL reported Bt10.1 billion in the value of new projects signed, a record high since 2011. SAMTEL’s project backlog at the end of 2019 was Bt9.5 billion. The backlog will translate into around Bt4.1 billion of revenue in 2020, Bt1.7 billion in 2021, and about Bt0.8-Bt1 billion per year during 2022-2024. Many service contracts which will be ending over the next one to three

years are expected to be extended, considering SAMTEL's proven competency in project execution.

During 2020-2022, TRIS Rating's base case scenario forecasts SAMTEL's revenue to be Bt8-Bt9 billion per annum. The revenue projection takes into account the impact from the Covid-19 outbreak which affects SAMTEL's service revenue in some projects that relate to the number of passengers at the airports operated by Airports of Thailand PLC (AOT), e.g., the Advance Passenger Processing System (APPS) project and some Common Use Terminal Equipment (CUTE) projects. In addition, as the majority of SAMTEL's customers are government agencies, a revenue downside could arise from delays in the government budget for fiscal year 2020. However, TRIS Rating is of the view that the downside risk is limited taking into account the IT development needed to improve the efficiency of both public and private agencies.

### Sound profitability

TRIS Rating expects SAMTEL's profitability and cash flow generation to remain sound. SAMTEL's profitability has been under pressure in recent years due in part to a higher portion of lower-margin trading/turnkey projects, competition, as well as delays in projects. However, SAMTEL continues to demonstrate higher profitability than that of peers listed on the Stock Exchange of Thailand (SET).

During 2020-2022, our base case scenario projects SAMTEL's earnings before interest, tax, depreciation and amortization (EBITDA) margin to stay between 18%-20%, compared with 19.1% in 2019. The profit margin is expected to translate into EBITDA of Bt1.5-Bt1.7 billion per annum.

### Leverage to rise

TRIS Rating expects SAMTEL's leverage to rise due to capital investments in new projects. The company's capital expenditures are estimated at Bt3.9 billion in 2020, mainly to invest in the APPS service contract and the CBS Phase 2 project for the Provincial Electricity Authority (PEA). Our base-case forecast assumes capital expenditures of approximately Bt500 million per year during 2021-2022. The adjusted debt to EBITDA is expected to rise to stay in a range of 2.5-3.2 times during 2020-2022 from 1.9 times in 2019. The company's adjusted total debt to capitalization ratio is expected to be in a range of 49%-58% during the forecast period, compared with 46.3% at the end of 2019.

### Adequate liquidity

Over the next 12 months, we expect SAMTEL to have sufficient liquidity to cover its uses of cash. Sources of funds include EBITDA of Bt1.6-Bt1.7 billion, cash and cash equivalents of Bt0.4 billion on hand at the end of 2019, and undrawn credit facilities of approximately Bt6 billion. The uses of funds will be capital expenditures of about Bt4 billion, financial obligations of Bt3.4 billion coming due over the next 12 months, and dividend payouts expected at around Bt300-400 million.

Most of SAMTEL's debts to fund its projects are short-term and project-based. As most of SAMTEL's projects are from the public sector or government related agencies, reliable cash receipts help facilitate the project financing process and secure favorable credit terms with lenders.

### BASE-CASE ASSUMPTIONS

- SAMTEL's revenues to range between Bt8-Bt9 billion per annum during 2020-2022.
- EBITDA margin to stay around 18%-20%.
- Capital spending to be Bt3.9 billion in 2020 and Bt500 million per year during 2021-2022.

### RATING OUTLOOK

The "stable" outlook reflects the rating outlook revision on SAMART, SAMTEL's parent company. Based on our "Group Rating Methodology", any change in SAMART's credit ratings will affect SAMTEL's ratings.

### RATING SENSITIVITIES

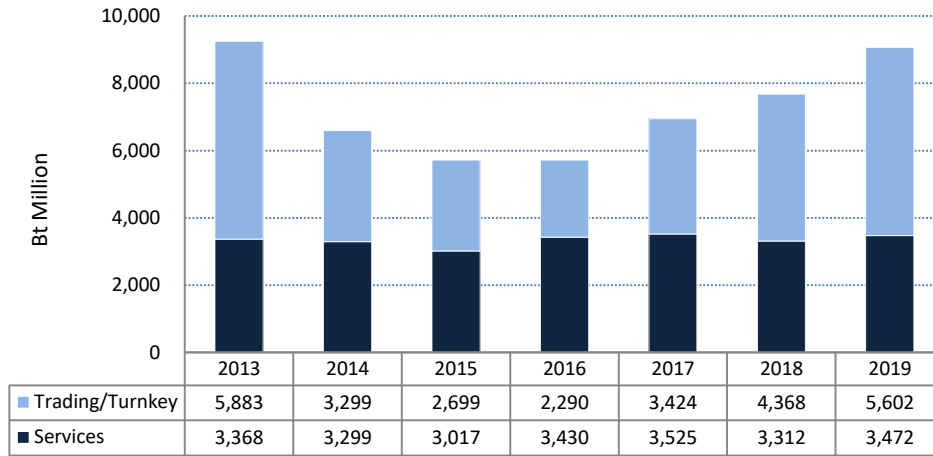
A rating upside could arise if SAMTEL's performance improves and materially helps strengthen the financial profile of the Group. Conversely, a rating downside could occur if SAMTEL's financial profile significantly deteriorates or SAMART's rating is under downward pressure.

### COMPANY OVERVIEW

SAMTEL was founded by the Vilailuck family in 1986. The company operates an integrated telecommunications network and an IT services business. At the end of August 2019, the company was 71% owned by SAMART, a holding company which has invested in telecommunication and communication networks and provides engineering services.

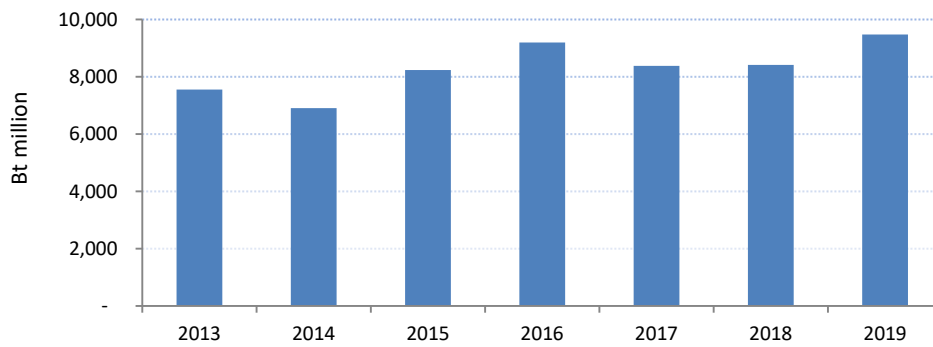
**KEY OPERATING PERFORMANCE**

**Chart 1: Revenue Breakdown by Segment**



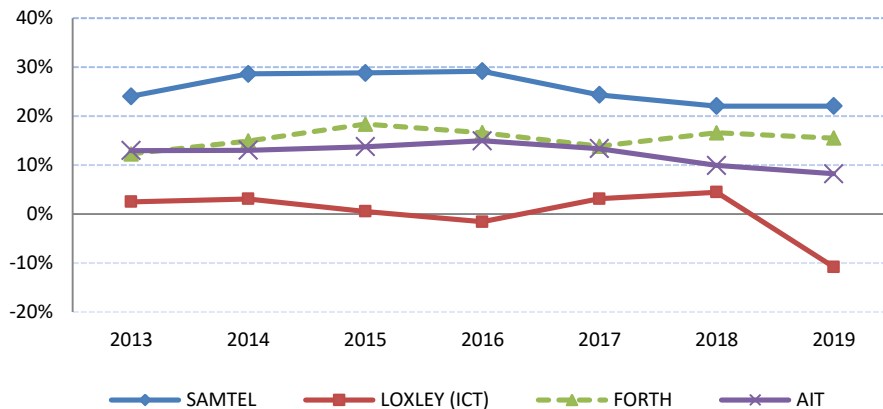
Source: SAMTEL

**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 -----				
	2019	2018	2017	2016	2015
Total operating revenues	9,085	7,689	6,968	5,739	5,758
Earnings before interest and taxes (EBIT)	477	485	353	378	556
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,739	1,688	1,731	1,689	1,649
Funds from operations (FFO)	1,713	1,552	1,591	1,482	1,475
Adjusted interest expense	142	112	154	178	172
Capital expenditures	440	598	320	1,571	2,072
Total assets	9,454	8,944	9,284	10,019	10,040
Adjusted debt	3,260	2,782	3,712	4,133	4,614
Adjusted equity	3,786	3,678	3,533	3,476	3,459
<b>Adjusted Ratios</b>					
EBITDA margin (%)	19.14	21.96	24.84	29.42	28.63
Pretax return on permanent capital (%)	6.69	6.61	4.38	4.43	6.87
EBITDA interest coverage (times)	12.24	15.02	11.21	9.47	9.60
Debt to EBITDA (times)	1.87	1.65	2.14	2.45	2.80
FFO to debt (%)	52.53	55.77	42.86	35.86	31.98
Debt to capitalization (%)	46.27	43.07	51.24	54.32	57.15

## RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018
- Group Rating Methodology, 10 July 2015

## Samart Telcoms PLC (SAMTEL)

<b>Company Rating:</b>	BBB+
<b>Rating Outlook:</b>	Stable

## TRIS Rating Co., Ltd.

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