

SAMART TELCOMS PLC

No. 40/2019
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
01/04/11	BBB+	Stable

Contacts:

Chanaporn Pinphithak
chanaporn@trisrating.com

Sarinthorn Sosukpaibul
sarinthorn@trisrating.com

Wajee Pitakpaibulkij
wajee@trisrating.com

Sauwarot Jirachaipithak
sauwarot@trisrating.com



WWW.TRISRATING.COM

RATIONALE

TRIS Rating affirms the company rating on Samart Telcoms PLC (SAMTEL) at “BBB+”. 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 fluctuations in undertaking trading/turnkey projects which rely heavily on government sector IT budgets.

The “negative” outlook reflects the rating outlook on Samart Corporation PLC (SAMART), SAMTEL’s parent company. Although SAMTEL’s operation remains strong, TRIS Rating is of the view that the company 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 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 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 2018, SAMTEL reported revenue of Bt7.7 billion, 43% of which was revenue from service contracts. TRIS Rating forecasts service contracts will provide at least Bt3-Bt3.3 billion per annum in revenue during 2019-2021. 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 at the end of 2018 was Bt7.7 billion. The backlog will translate into around Bt4.4 billion of revenue in 2019, Bt2 billion in 2020, and Bt800 million in 2021. 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, SAMTEL’s revenue is forecast at Bt7-Bt9 billion per annum during 2019-2021, 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 operating margin, operating income before depreciation and amortization as a percentage of revenue, was 22.4% in 2018, down from 24.8% in 2017. The decline in operating margin was due in part to higher portion of trading/turnkey projects which carry lower operating margins. However, SAMTEL's profitability was still higher than that of peers listed on the Stock Exchange of Thailand (SET). TRIS Rating is of the view that SAMTEL's profitability will continue to be pressured by competition and delays in projects. We forecast SAMTEL's operating margin to stay between 20%-23% during 2019-2021. TRIS Rating's base case assumes the company's earnings before interest, taxes, depreciation, and amortization (EBITDA) will be Bt1.5-Bt1.8 billion per annum during 2019-2021.

Sound financial profile

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

TRIS Rating's base case forecasts SAMTEL's capital investments to total around Bt4-Bt4.3 billion during 2019-2021, mainly to invest in the Advance Passenger Processing System (APPS) service contract and the Common Use Terminal Equipment (CUTE) projects for Airports of Thailand PLC (AOT), and the CBS Phase 2 project for the Provincial Electricity Authority (PEA). The company's adjusted debt to capitalization ratio will range from 43%-52% over 2019-2021, while the adjusted debt to EBITDA will range 1.5-2.5 times during the same period.

In 2018, the company's adjusted total debt to capitalization ratio was 43.1% and the adjusted debt to EBITDA was 1.6 times.

Adequate liquidity

Over the next 12 months, SAMTEL is expected to have sufficient liquidity to cover its uses of cash. Sources of funds include EBITDA of Bt1.5-Bt1.6 billion, cash and cash equivalents of Bt358 million on hand at the end of 2018, and undrawn credit facilities of approximately Bt6 billion. The uses of funds will be capital expenditures of Bt1.2 billion and financial obligations of Bt3 billion coming due over the next 12 months.

BASE-CASE ASSUMPTIONS

- Under TRIS Rating's base case scenario, we assume that SAMTEL's revenues will range between Bt7-Bt9 billion per annum during 2019-2021.
- We expect SAMTEL's operating profit margin will stay at around 20%-23% during 2019-2021.
- Total capital spending will be Bt1.2 billion in 2019 and Bt2.9-Bt3.1 billion in total during 2020-2021.

RATING OUTLOOK

The "negative" outlook reflects the rating outlook on SAMART, SAMTEL's parent company, based on our Group Rating Methodology. SAMTEL is a core member of the SAMART Group and the ratings of SAMTEL and SAMART are linked.

RATING SENSITIVITIES

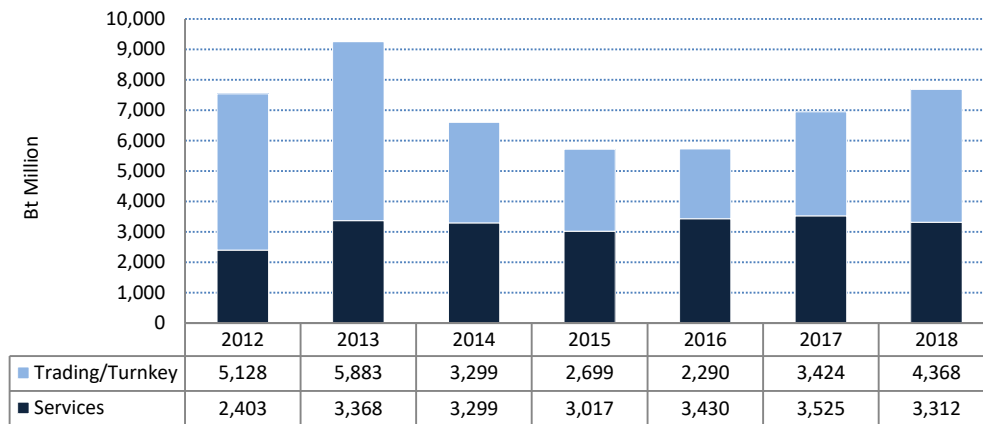
Any change in SAMTEL's rating is dependent on the rating of SAMART based on TRIS Rating's Group Rating Methodology.

COMPANY OVERVIEW

SAMTEL was founded by the Vilailuck family in 1986. The company operates an integrated telecommunications network and an IT service business. At the end of August 2018, the company was 71% owned by SAMART, a holding company which has invested in telecommunication and communication networks and provides engineering services.

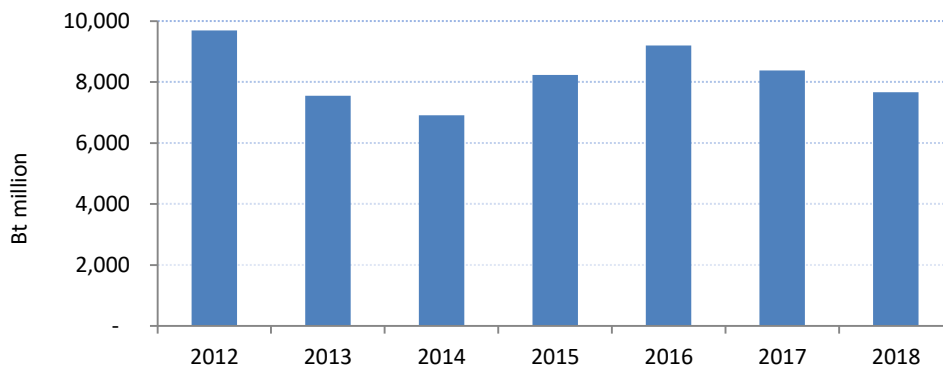
KEY OPERATING PERFORMANCE

Chart 1: Revenue Breakdown by Segment



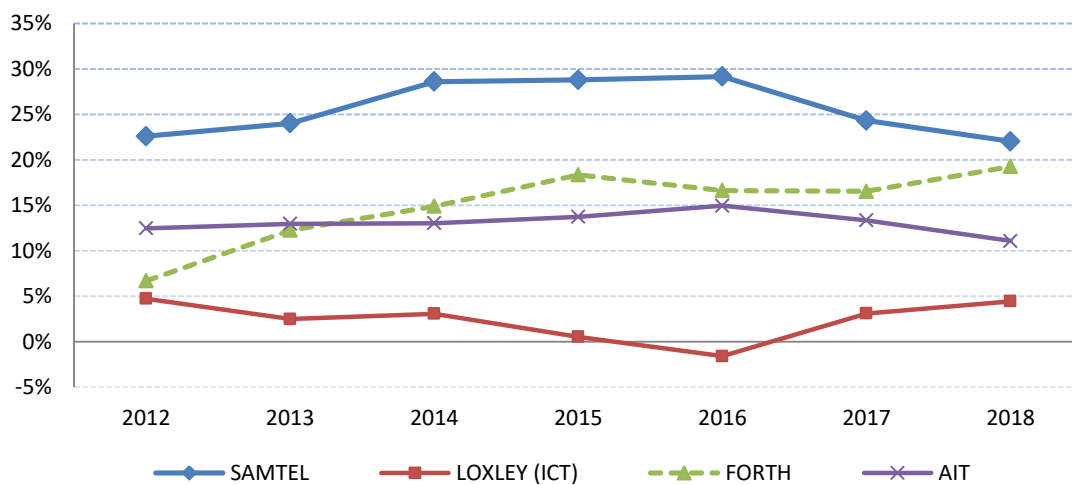
Source: SAMTEL

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 -----				
	2018	2017	2016	2015	2014
Total operating revenues	7,689	6,968	5,739	5,758	6,626
Operating income	1,722	1,730	1,704	1,715	1,943
Earnings before interest and taxes (EBIT)	485	353	378	556	849
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,688	1,731	1,689	1,649	1,920
Funds from operations (FFO)	1,552	1,591	1,482	1,475	1,671
Adjusted interest expense	112	154	178	172	219
Capital expenditures	598	320	1,571	2,072	831
Total assets	8,944	9,284	10,019	10,040	8,938
Adjusted debt	2,782	3,712	4,133	4,614	2,915
Adjusted equity	3,678	3,533	3,476	3,459	3,479
Adjusted Ratios					
Operating income as % of total operating revenues (%)	22.39	24.82	29.69	29.78	29.33
Pretax return on permanent capital (%)	6.61	4.38	4.43	6.87	10.30
EBITDA interest coverage (times)	15.02	11.21	9.47	9.60	8.78
Debt to EBITDA (times)	1.65	2.14	2.45	2.80	1.52
FFO to debt (%)	55.77	42.86	35.86	31.98	57.33
Debt to capitalization (%)	43.07	51.24	54.32	57.15	45.59

RELATED CRITERIA

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

Samart Telcoms PLC (SAMTEL)

Company Rating:	BBB+
Rating Outlook:	Negative

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 0-2098-3000

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