

TMT STEEL PLC

No. 136/2024
6 August 2024

CORPORATES

Company Rating: BBB
Outlook: Stable

Last Review Date: 19/10/23

Company Rating History:

Date	Rating	Outlook/Alert
15/02/18	BBB	Stable

Contacts:

Supasith Tiensuksai, CFA
supasith@trisrating.com

Pravit Chaichamnapai, CFA
pravit@trisrating.com

Parat Mahuttano
parat@trisrating.com

Suchada Pantu, Ph.D.
suchada@trisrating.com



WWW.TRISRATING.COM

RATIONALE

TRIS Rating affirms the company rating on TMT Steel PLC (TMT) at “BBB” with a “stable” rating outlook. The rating reflects TMT’s efficient working capital management and leading domestic market position in the steel processing and trading businesses. However, the rating is constrained by the company’s high leverage, the cyclical nature of the steel industry, and the moderate business scale.

KEY RATING CONSIDERATIONS

Efficient working capital management

TMT’s efficient working capital management is a key credit strength. The company maintains inventory turnover within the 40-52 days range. This efficient turnover mitigates losses during periods of declining steel prices, alleviating the volatility in EBITDA throughout economic cycles.

However, TMT’s profitability remains sensitive to volatile Hot Rolled Coil (HRC) prices. A surge in steel prices in 2021 increased EBITDA from THB994 million in 2020 to THB2.28 billion in 2021, followed by a drop to THB714 million in 2022 due to falling prices. As of mid-2023, steel prices stabilized, leading to a 24% EBITDA recovery to THB887 million.

Looking forward, TMT’s earnings are expected to improve slightly, supported by a recovery in sales volume in steel processing and cold forming operations. Under TRIS Rating’s base case, we expect TMT’s annual EBITDA to be in the THB0.8-THB1 billion range during 2024-2026. The EBITDA margin is expected to range around 4%-5%.

Stability in sales volume despite market challenges

Despite challenges from a slowdown in domestic demand and intense competition from imported steel, TMT has maintained its annual sales volumes around 0.7-0.8 million tonnes over the past five years. TMT’s sales volume only dropped by 1.8% year-on-year (y-o-y) in the first quarter of 2024 to 0.19 million tonnes, outperforming the overall 7% decline in total domestic finished steel consumption.

This stability reflects TMT’s strong customer base and effective market positioning. TMT’s diverse product offerings and extensive customer base partly help mitigate the impact of market volatility. Over 85% of sales volume comes from the steel processing and cold forming segments, with the remainder from the steel trading business. The company distributes its products through various channels including wholesalers, dealers, and project owners.

Moderate business scale

TMT’s business scale is moderate compared to higher-rated companies. Despite being a leading domestic steel processor and trader, TMT has to compete with cheaper imported steel products, mainly from China. Thus, TMT’s annual sales volume of around 0.7-0.8 million tonnes represent only 4%-4.5% of total finished steel consumption in Thailand. Also, its end-users are mainly in the construction-related business, which is sensitive to economic cycles.

Due to the delays in the government budget disbursement since mid-2023 until the first half of 2024, we project TMT’s sale volume in 2024 to increase

slightly by only 1% this year, below our previous target of 3%. Looking forward, we project its sales volume to recover and grow by 3%-3.5% per annum during 2025 and 2026, aligned with the expected expansion of its production capacity from 806,000 tonnes to 877,000 tonnes per annum.

High financial leverage

TMT's financial leverage is considered high, with a debt-to-capitalization ratio of around 60% over the past three years. In addition, its debt to EBITDA and funds from operations (FFO) to debt ratios have fluctuated considerably amid volatile steel prices. TMT's debt to EBITDA ratio jumped from 2.5 times in 2021 to around 6-7 times in 2022-2023, while its FFO to debt ratio dropped from 32% in 2021 to around 10%-12% in 2022-2023.

Looking forward, we expect TMT's debt levels to remain elevated in 2024, but they should gradually decline over the following years. Our base case forecasts the debt to EBITDA ratio to increase to 6.4 times in 2024, followed by a gradual decrease to around 4.8-5.5 times in 2025-2026. The ratio of FFO to debt is expected to decrease to 10.9% in 2024 and this should improve to around 13%-16% in 2025-2026. The debt to capitalization ratio should stay between 57% and 60%. Our base case assumes that TMT will not have any major capital expenditures within the next two to three years. The annual capital expenditure is expected to range from about THB200-300 million during 2024-2026.

Manageable liquidity

At the end of Mar 2024, TMT's debt due in the next 12 months included THB3.3 billion in short-term loans and THB0.7 billion long-term debt. Sources of funds, including an estimated FFO of THB0.6 billion, cash of THB160 million, and undrawn credit facilities of THB6.7 billion, should be sufficient to cover its obligations over the next 12 months.

Debt structure

As of Mar 2024, TMT's total debt was THB5.1 billion, comprising THB3.3 billion in short-term loans and THB1.8 billion in long-term loans. Priority debt, mainly trust receipts, amounted to THB1.4 billion, translating to a priority debt to total debt ratio of 27%.

BASE-CASE ASSUMPTIONS

- Sales volume to increase by 0.9% in 2024 and 3%-3.5% per year during 2025-2026.
- EBITDA margin of 4%-5% during 2024-2026.
- Capital expenditures around THB200-THB300 million per annum during 2024-2026.
- Dividend payout ratio of 85% in 2024-2025 and 90% in 2026.

RATING OUTLOOK

The "stable" outlook reflects our expectation that TMT will maintain its market position, cash generation, and leverage in line with forecasts. We also expect TMT will maintain its prudent working capital management and continue its disciplined approach in pricing its products.

RATING SENSITIVITIES

A rating upgrade could occur if TMT materially enlarges its cash generation relative to debt obligations, while maintaining a net debt to EBITDA ratio below 3.5 times or an FFO to debt ratio above 20% on a sustained basis.

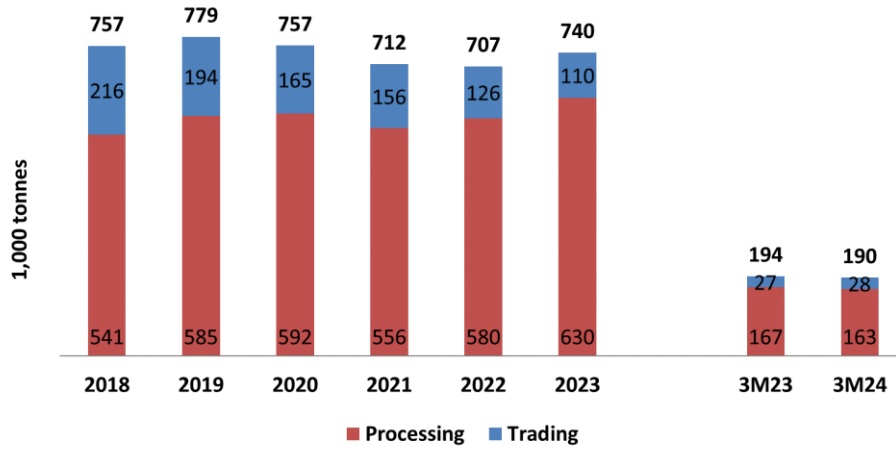
Conversely, a downgrade could occur if TMT's operating performance falls short of estimates, causing its FFO to debt ratio to drop below 10% for an extended period. Downward rating pressure could be triggered by persistently sluggish domestic demand for steel over a long period or by a significant rise in the company's debt level.

COMPANY OVERVIEW

TMT is a steel solution provider in Thailand. The company's business engages in steel trading, processing, and consulting services. The company was established in 1992 and listed on the Stock Exchange of Thailand (SET) in 2005. The Tarasombat family, the founding shareholder, owned the majority of TMT's stake at about 69% as of April 2024. The main factory and warehouse are in Ayutthaya Province and the company also has a distribution center in Bangkok. TMT's production capacity has gradually expanded to 829,000 tonnes per annum as of Mar 2024, from 390,000 tonnes per annum in 2013. TMT primarily offers steel products processed from HRC, such as hot rolled sheets, round tubes, and rectangular tubes. The company also sources structural steel products such as H-beams and I-beams for customers. In 2023, TMT established Red Rocco Digital company limited as the TMT's first subsidiary (70% holding) and launched an online business-to-business selling platform to connect with customers and partners.

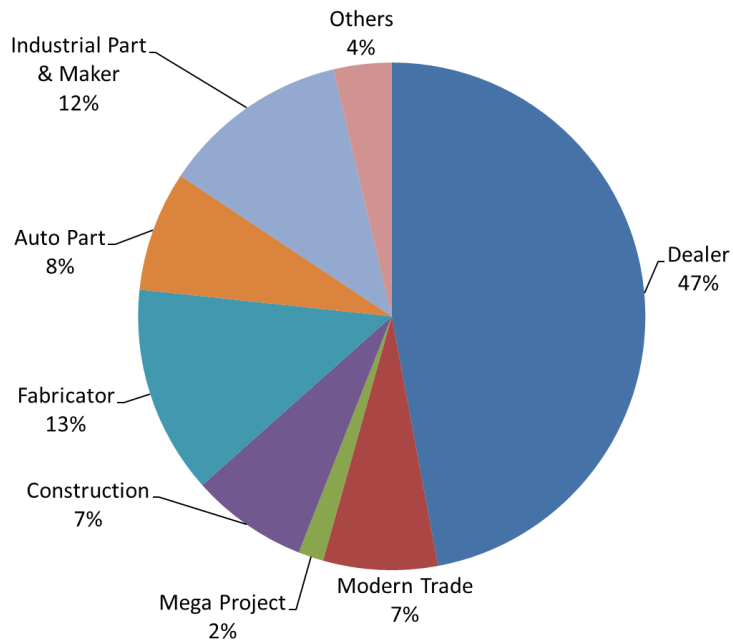
KEY OPERATING PERFORMANCE

Chart 1: TMT's Sales Volumes



Source: TMT

Chart 2: 2023 Sales Volume Breakdown by Customers



Source: TMT

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Mar 2024	-----Year Ended 31 December -----			
		2023	2022	2021	2020
Total operating revenues	5,024	20,064	22,260	21,616	14,626
Earnings before interest and taxes (EBIT)	144	586	421	2,006	736
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	219	887	714	2,276	994
Funds from operations (FFO)	158	644	526	1,791	783
Adjusted interest expense	45	173	121	104	83
Capital expenditures	25	478	376	408	193
Total assets	9,021	8,941	9,062	10,067	8,841
Adjusted debt	5,062	5,256	5,103	5,636	4,124
Adjusted equity	3,409	3,326	3,250	3,754	3,182
Adjusted Ratios					
EBITDA margin (%)	4.4	4.4	3.2	10.5	6.8
Pretax return on permanent capital (%)	5.0 **	6.8	4.7	22.3	9.6
EBITDA interest coverage (times)	4.9	5.1	5.9	21.9	11.9
Debt to EBITDA (times)	6.8 **	5.9	7.2	2.5	4.1
FFO to debt (%)	10.3 **	12.3	10.3	31.8	19.0
Debt to capitalization (%)	59.8	61.2	61.1	60.0	56.4

* Consolidated financial statements

** Annualized from trailing 12 months

RELATED CRITERIA

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

TMT STEEL PLC (TMT)

Company Rating:	BBB
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: +66 2 098 3000

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