

# TMT STEEL PLC

No. 185/2019  
6 November 2019

## CORPORATES

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

**Last Review Date:** 22/11/18

### Company Rating History:

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

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## RATIONALE

TRIS Rating affirms the company rating on TMT Steel PLC (TMT) at “BBB” with a “stable” outlook. The rating reflects TMT’s competitive advantages over downstream steel companies, broad product offerings, diverse customer base, and stronger profitability than peers. However, the rating is constrained by the cyclical nature of the steel industry, volatile prices of raw materials, and pressure from intense competition.

## KEY RATING CONSIDERATIONS

### Advantages over downstream steel companies

TMT’s rating continues to reflect its market position as a leading steel solution provider in Thailand. TMT is the largest company, by revenue, among listed peers in the downstream steel industry. The company differentiates itself from other steel traders by offering technical and consultation services that help customers achieve better operational efficiency.

TMT’s large scale of business and its good management through the supply chain also results in better services than peers in terms of supply stability, flexible delivery, as well as cost competitiveness. TMT has successively expanded its capacity over the past few years, aiming at widening its customer base and diversifying its product line-up. The expansion includes a new factory for steel pipe production as well as enlarged warehouse space.

Given these edges, TMT can still grow its sales volume despite sluggish demand in the domestic market. The company’s sales volume rose to a new record of 0.76 million tonnes in 2018, or increased by 11% per year on average over the last five years.

### Broad product offerings and diverse customer base

TMT’s credit rating takes into consideration the company’s diverse range of products, covering both flat and long steel products as well as tailor-made products. The broad product offerings enable the company to serve as a one-stop steel supplier, able to capture demand in a variety of industries.

We believe that the company’s broad exposure across multiple markets will reduce volatility of steel demand. TMT’s customers include wholesalers, construction contractors, steel fabricators, automotive and industrial-part manufacturers. About 43% of total revenue comes from wholesalers and dealers, while 32% is from construction-related industries and 23% is from the automotive sector and industrial-part makers. The rating also takes into consideration the good quality of TMT’s accounts receivable.

### Above-peer profitability

TMT’s profitability continues to outpace most of its peers, as evidenced by its streak of profits over several years. The company has been able to deliver satisfactory profit despite a downshift in the market, whereas many of its peers listed on the stock market have experienced losses and seen greater swings in earnings.

The stronger profitability is substantiated by the added value TMT gains from consulting services and its ability to lessen the effects of price fluctuations of hot rolled coil (HRC), a key raw material. TMT has also placed emphasis on efficient cost management and fast inventory turnover in efforts to stabilize its

profit margin. TMT reported an EBITDA margin (earnings before interest, taxes, depreciation, and amortization as a percentage of operating revenues) of 4%-7% over the past two years, which is relatively higher than most companies with similar product offerings.

#### **Exposure to a highly cyclical industry and raw material price fluctuations**

TMT's rating is weighed down by industry cyclical nature as steel demand is closely linked to the construction and manufacturing industries, which are in turn sensitive to changes in economic conditions. During 2014-2018, the growth rate of domestic steel consumption experienced major swings, ranging between -14% to 15%. On average, growth in consumption was flat.

TMT is also susceptible to steel price risk although its operational record has proven less vulnerable to HRC price risk than other companies. Sharp increases or drops in price would significantly impact the company's earnings. During 2014-2018, TMT's EBITDA was volatile, rising from Bt0.65 billion in 2014 to a peak of Bt1.35 billion in 2016, before dropping to Bt0.76 billion in 2018. TMT also faces supplier risk as there are only three main suppliers of HRC in the steel industry. However, the company can partially mitigate this risk by importing HRC from overseas suppliers.

#### **Intense competition**

Currently, the steel market is under pressure from softened demand and oversupply. Domestic steel producers and traders have also encountered threats from cheap imported steels and intensifying price competition. Given the fiercely competitive market, the company's EBITDA margin fell to its lowest level of 4.3% in the first half of 2019, below its average EBITDA margin of 6.6% for the past 10 years.

Given the recent expansions of its capacity, TRIS Rating believes that TMT's plan to expand its sales volume, with a target of one million tonne per year, could intensify price competition, and thus impede its margin recovery. In our base-case scenario, we trim volume growth to 3%-5% per year during 2019-2022, down from our previous forecast. EBITDA margin is expected to range between 4.0%-5.0% over the same period.

#### **Financial profile to gradually improve**

We hold the view that TMT's financial profile to continue to improve, but at a slower pace than our previous forecast. The company's EBITDA is expected to increase gradually, driven by a larger sales volume. Meanwhile, outstanding debt is unlikely to rise significantly after the completion of its factory expansion in 2019. The planned capital expenditure (CAPEX) over the next three years is materially reduced to about Bt100-Bt150 million per annum.

In our base-case scenario, during 2019-2022, the debt to EBITDA ratio is forecast to decline to 5-5.5 times and the ratio of funds from operations (FFO) to total debt to increase to 13%-16%. Downside risk would occur from a downtrend of the steel price or more severe price competition that would pull the profit margin down to a level lower than our forecast.

#### **Adequate liquidity**

We assess TMT's liquidity to be adequate over the next 12 months. All liquidity needs come from short-term debts, which can be covered by the company's accounts receivable, inventory, and unused credit lines. TMT continues to comply with its financial covenant of bond. Its net interest-bearing debt (IBD) to equity ratio is about 1.64 times in June 2019, lower than the covenant of below 2 times.

#### **BASE-CASE ASSUMPTIONS**

- Sales volume will grow 3%-5% during 2019-2022.
- EBITDA margin will range from 4%-5%.
- CAPEX of about Bt100-Bt150 million per annum during 2019-2022.
- Dividend payout ratio will be 90%.

#### **RATING OUTLOOK**

The "stable" outlook embeds our expectation that TMT will maintain its market position and stronger-than-peer profitability. TRIS Rating also believes TMT will maintain its prudent management of working capital and continue its disciplined approach to pricing the company's products.

#### **RATING SENSITIVITIES**

The rating or outlook may be revised upward if the company's market position improves significantly following the capacity expansion, or if the company's cash flow base materially enlarges from the current level on a sustained basis. The

rating or outlook could be revised downward if operating performance falls short of estimates and materially affects the FFO to debt ratio. Downward pressure on the rating could occur from heavy debt-funded investments or slack domestic demand over a long period.

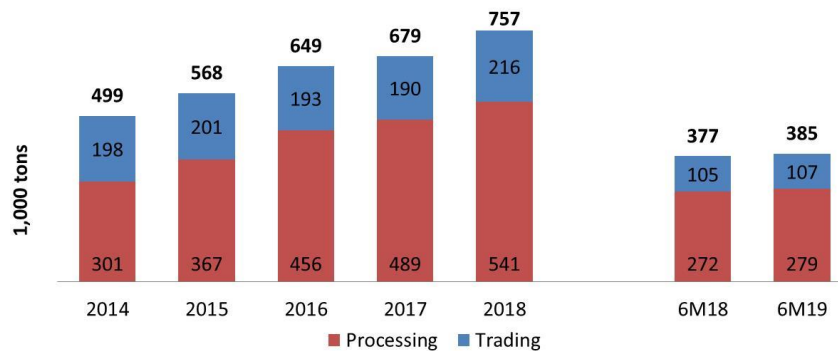
**COMPANY OVERVIEW**

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 Tarasansombat family, the founding shareholder, owns a majority stake of about 74.2% as of March 2019. The main factory and warehouse are located in Ayudhya Province and the company also has a distribution center in Bangkok. TMT’s production capacity has expanded continuously to 767,000 tonne per annum at the present from 390,000 tonnes per annum in 2013. The company primarily offers flat steel products processed from HRC, such as hot rolled sheet, round tube, and rectangular tube. The company also sources long steel products such as I-Beam, H-Beam, and steel bar for customers.

TMT’s annual revenue hovered between Bt11-Bt17 billion over the past five years, after the company implemented customer-centric strategies, which have resonated with customers. Sales volume was 756,767 tonnes in 2018. The proportion of steel processing to steel trading was about 71:29.

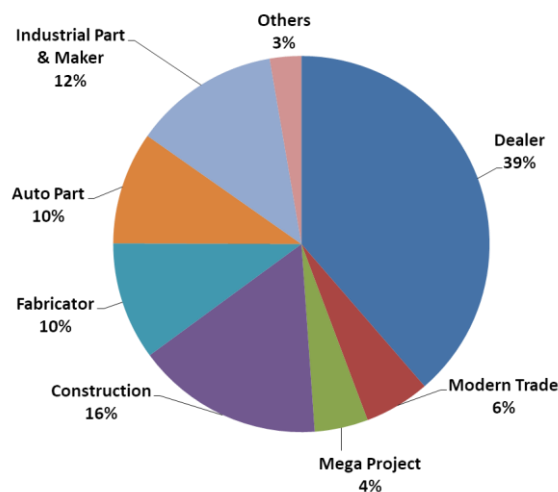
**KEY OPERATING PERFORMANCE**

**Graph 1: TMT’s Sale Volumes**



Source: TMT

**Graph 2: Sale Volumes Breakdown by Customers\***



Source: TMT

\* For the first six months of 2019

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\***

Unit: Bt million

	Jan-Jun 2019	-----Year Ended 31 December -----			
		2018	2017	2016	2015
Total operating revenues	8,617	17,418	14,374	12,519	11,627
Earnings before interest and taxes (EBIT)	272	562	862	1,187	463
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	369	757	1,040	1,358	629
Funds from operations (FFO)	280	601	818	1,083	484
Adjusted interest expense	59	105	67	51	61
Capital expenditures	275	701	473	584	206
Total assets	8,201	7,706	7,065	6,079	4,620
Adjusted debt	4,800	4,398	3,612	2,740	1,799
Adjusted equity	2,858	2,704	2,821	2,833	2,207
<b>Adjusted Ratios</b>					
EBITDA margin (%)	4.3	4.3	7.2	10.8	5.4
Pretax return on permanent capital (%)	6.7 **	8.1	14.0	23.4	9.9
EBITDA interest coverage (times)	6.3	7.2	15.6	26.7	10.3
Debt to EBITDA (times)	6.7 **	5.8	3.5	2.0	2.9
FFO to debt (%)	10.9 **	13.7	22.7	39.5	26.9
Debt to capitalization (%)	62.7	61.9	56.1	49.2	44.9

\* Consolidated financial statements

\*\* Annualized from trailing 12 months

**RELATED CRITERIA**

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

**TMT Steel PLC (TMT)**

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

**TRIS Rating Co., Ltd.**

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