

THAI METAL TRADE PLC

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CORPORATES

Company Rating: BBB
Outlook: Stable

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RATIONALE

TRIS Rating assigns the company rating of Thai Metal Trade PLC (TMT) at “BBB”. The rating reflects TMT’s strong and well-established market position among downstream steel companies, broad product offerings, solid customer base, and stronger profitability than peers. However, the rating is constrained by its exposure to a cyclical nature of the steel industry and volatile prices of raw materials, significant supplier concentration risk, and potential increases in operational and financial risk as the business grows.

KEY RATING CONSIDERATIONS

Well positioned as a steel solution provider

TMT’s business profile reflects its position as a leading steel solution provider. TMT is the second-largest company, by revenue, among listed peers in the downstream steel producer industry. Apart from supplying steel products, the company provides value-added services through consultation and solutions to help customers achieve better operational efficiency. The company’s business strengths include management’s good understanding of its customer’s needs and efficient management in terms of supply stability, flexible and on-time deliveries, and competitive product cost. The company’s marketing strategy, focused on customer needs, builds lasting customer relationships which provide steady growth in sales. Over the past five years, the company’s sales volume continuously grew from about 287,000 tons in 2011 to 649,000 tons in 2016, a compound annual growth rate of 17.7%.

Wide product offerings and solid customer base

The rating also factors in TMT’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. TMT’s customers mainly include construction contractors, steel fabricators, and automotive manufacturers. The company also sells to wholesalers which distribute the products nationwide. About 42% of total revenue comes from wholesalers and dealers, while 30% is from construction-related industries and 9% is from the automotive industry. The rating also takes into consideration the good quality of TMT’s accounts receivable.

Above-peer profitability

TMT’s profitability is higher and more stable than its peers. The stronger profitability reflects the added value TMT earns from services and its ability to lessen the effect of price fluctuation of hot rolled coil (HRC), a key raw material. To stabilize profit margin, TMT’s strategy places a priority on the efficient cost management, fast inventory turnover, and a policy to avoid speculating on the movement of the HRC price. Over the last 10 years, TMT’s gross margin has held at 8%-9%, with a peak of 13.7% and the low of 7.1%.

Exposure to a highly cyclical industry and fluctuation of raw material prices

TMT’s assigned rating is weighed down by the cyclical industry as steel demand is closely linked to the construction and manufacturing industries which are sensitive to changes in economic conditions. Although, TMT is proven less sensitive to HRC price risk than other companies, TMT remains susceptible to an abrupt falloff in steel prices. TMT also faces supplier risk as there are only

three main suppliers of HRC in Thailand.

Potential rise in operational and financial risk during expansion phase

TMT has plans to increase production capacity from 795,400 tons per annum to 1 million tons per annum by 2020. The expansion will cost about Bt0.82 billion. Capital expenditures are expected to be partially funded with new debt. TMT's financial profile, as a result, will weaken while the capacity expansion is underway. TRIS Rating holds the view that a successful expansion will significantly strengthen TMT's business profile and market position. However, TRIS Rating foresees higher operational and financial risk during the expansion phase. The company is expected to face challenges since the company needs to prepare necessary facilities such as adequate human resources, larger warehouses, and additional working capital.

Adequate liquidity

All of TMT's outstanding debts are short-term bank loans. Total debt, as of September 2017, was Bt3.8 billion. Repayment risks over the next 12 months are low as the company had accounts receivable and inventory totaling Bt4.1 billion, plus unused credit facility of about Bt5.4 billion. The funds from operations (FFO) to total debt dropped from 39.5% in 2016 to 23.5% in the first nine months of 2017; however, the ratio remains at a satisfactory level. The drop reflected an increase in the company's short-term debt, given a continual rise in steel prices and sales volumes in 2017.

RATING OUTLOOK

The "stable" outlook reflects TRIS Rating's expectation that TMT can 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. During 2018-2020, TRIS Rating's base case assumes that sales volume will grow by 5%-7% per annum. TMT's average operating income before depreciation and amortization as a percentage of sales will stay in a range of 6%-7%. Earnings before interest, tax, depreciation, and amortization (EBITDA) will amount to about Bt1 billion per annum on average. FFO will average Bt0.8 billion annually. During the period of capacity expansion, the liquidity profile is likely to weaken; however, the FFO to total debt ratio is expected to stay above 18%.

RATING SENSITIVITIES

The rating or outlook may be revised upward if the company's operating performance beats estimates on a sustained basis. This may occur if the company can deliver stronger-than-expected profitability or if the company's market position improves significantly following the capacity expansion. The rating or outlook could be revised downward if operating performance falls short of estimates and materially affects the FFO to total debt ratio. Downward pressure on the rating could occur from heavy debt-funded investments or slack domestic demand over a long period.

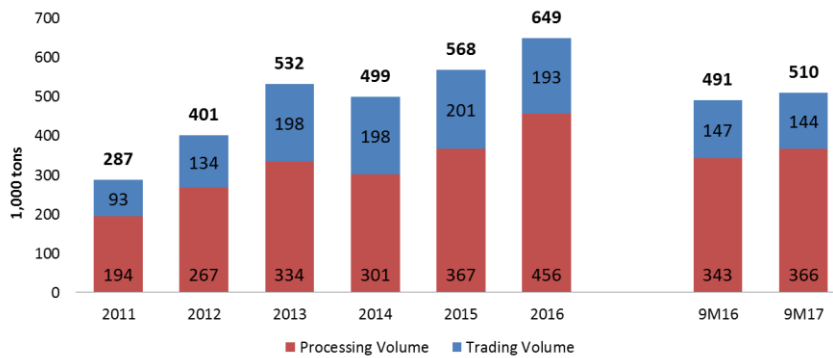
COMPANY OVERVIEW

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 in 2005. The Tarasansombat family, the founding shareholder, owns a majority stake of 74.3% as of July 2017. The main factory and warehouse are located in Ayudhya province and the company also has a distribution center in Bangkok. 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. The company's capacity to process HRC and produce cold formed steel (such as round tube and rectangular tube) has increased continuously, reaching 795,400 tons per annum at the end of September 2017.

Sales volume was 649,000 tons in 2016. The proportion of steel processing and steel trading was about 72:28. TMT's annual revenue hovered between Bt10-Bt13 billion over the past five years after the company implemented customer-centric strategies which have been resonating with customers. EBITDA generally ranged between Bt600-800 million over the same period.

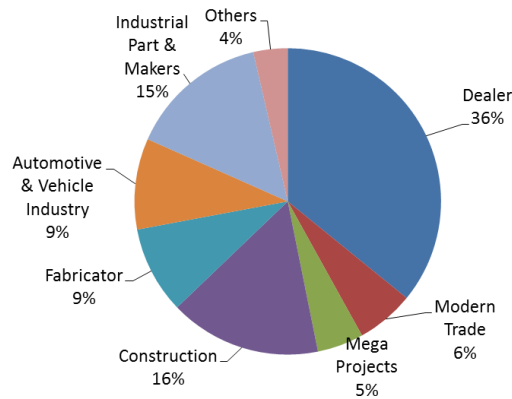
KEY OPERATING PERFORMANCE

Sale volumes



Source: TMT

Sale volumes breakdown by customers*



Source: TMT

* 9 months in 2017

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	Jan-Sep 2017	----- Year Ended 31 December -----			
		2016	2015	2014	2013
Revenues	10,609	12,465	11,569	12,251	13,055
Finance costs	47	48	60	79	99
Net income from operations	498	912	321	334	440
Funds from operations (FFO)	594	1,125	504	478	535
Capital expenditures	368	579	192	169	260
Total assets	6,884	6,079	4,620	5,245	5,979
Total debts	3,796	2,848	2,131	2,750	3,240
Total liabilities	4,206	3,246	2,413	3,076	3,795
Shareholders' equity	2,678	2,833	2,207	2,169	2,183
Depreciation & amortization	120	165	150	142	120
Dividends	653	283	283	348	343
Operating income before depreciation and amortization as % of sales	6.9	10.4	4.7	4.9	5.6
Pretax return on permanent capital (%)	15.3**	23.6	10.0	9.6	12.9
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	16.7	27.9	10.3	8.1	7.8
FFO/total debt (%)	23.5**	39.5	23.7	17.4	16.5
Total debt/capitalization (%)	58.6	50.1	49.1	55.9	59.7

* Consolidated financial statements

** Annualized with trailing 12 months

Thai Metal Trade PLC (TMT)

Company Rating:	BBB
Rating Outlook:	Stable

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