TRIS RATING
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SAMART CORPORATION PLC

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CORPORATES

Company Rating:	BBB+
Outlook:	Stable

Last Review Date: 03/04/19

Company Rating History:

Date	Rating	Outlook/Alert
21/03/18	BBB+	Negative
20/04/15	BBB+	Stable

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RATIONALE

TRIS Rating affirms the company rating on Samart Corporation PLC (SAMART) at “BBB+” and revises the outlook to “stable”, from “negative”. The rating reflects SAMART’s diverse range of businesses, strong competitive position in the information communication technology (ICT) segment, and improved operating results. We also take into consideration the stable cash flow the company earns from providing air traffic control services in Cambodia.

The rating is partly offset by a slower-than-expected revenue and profit from the digital trunk radio and co-tower business, as well as fluctuations in the IT trading/turnkey business segment. The outlook revision to “stable” reflects SAMART's improved financial performance and the effective collection of overdue account receivables sheet during the past two years that has improved its balance.

KEY RATING CONSIDERATIONS

Strong backlog to drive revenue

In 2019, SAMART generated Bt14.2 billion in total operating revenue, up 16% from 2018. The growth was driven mainly by strong growth in the ICT solutions business, gradually improved revenue in the digital segment, and a rise in service revenue from both the air traffic control services in Cambodia and the call contact center business.

The ICT solutions business is the largest business in SAMART Group, contributing nearly 65% of total revenue. Revenue in the ICT solutions segment, operated by Samart Telcoms PLC (SAMTEL), grew by 18% year-on-year (y-o-y) in 2019. This growth is attributed to higher revenue both in turnkey projects and the service segment. In addition, revenue from air traffic control services grew by 3% y-o-y in 2019, to about Bt2 billion, supported by a rise in the number of international flights and growth in global air traffic passenger demand.

SAMART has a sizable backlog of on-going projects. At the end of 2019, the backlog was over Bt13 billion, of which around 70% came from the ICT solutions business and the remainder came from the substation installation and transmission line business. The backlog will turn into revenue over the next one to three years. Moreover, SAMART has a stable amount of cash flow from the air traffic control services, creating recurring income.

Looking ahead, TRIS Rating forecasts the revenue of SAMART over the next three years will be driven by a sizable backlog in the ICT solutions business and new ICT projects, but will be weighed down by a slow uptake of revenue from trunked radio and co-tower businesses. We expect SAMART to secure new ICT projects and new opportunities to increase recurring income to stabilize revenue streams over the long period.

However, owing to the widespread outbreak of the new coronavirus (COVID-19) occurring from late 2019 until now, TRIS Rating expects that the virus effect will lower the number of flights and passengers, which will impact revenue from the air traffic service business in Cambodia in 2020.

Less pressure from substantial amount of overdue receivables

As of 2019, SAMART carried Bt3.9 billion of trade account receivables with more than 12 months past due on its books. Most of the past due receivables were from the mobile handset distribution business. Of the amount past due, about 70% has been covered by provisions.

SAMART Digital PLC (SDC), SAMART's digital service company, had a substantial amount of receivables from the mobile device sales business (discontinued operations). SDC continued to collect its overdue receivables over the last two years. SDC and its subsidiaries collected approximately Bt666 million in overdue receivables in 2019 and about Bt756 million in 2018. In addition, SDC received repayments from some debtors which the company already set aside allowance in full. SDC reversed the allowance for doubtful debts amounted to Bt106 million in 2019. There is no bad debt incurred in 2019. SAMART's management expects to keep collecting the payments of remaining receivables, given its track record and efforts to collect overdue amounts.

Delay in new trunk radio project

SDC has transformed into a digital service provider over the last two years. The project for Digital Trunk Radio System (DTRS) services overseen by SDC has had a slow ramp-up of revenue due to government budget delays. The revenue of the major project under the Ministry of Interior's (MOI) project is expected to resume in 2021. Under the DTRS project with the MOI, more than 90,000 DTRS users are expected during the next three years.

The company is continuing to enlarge the DTRS network, in order to serve a large subscriber base in 2021. In addition to the MOI's project subscribers, the company also targets customers from disaster recovery projects and/or security projects. Revenue from the DTRS project consists of service revenue from airtime and sales of trunked radio handsets. Air time service revenue is a source of recurring income, smoothing the revenue stream over a long period.

COVID-19 affects numbers of passengers and international flights

Cambodia Air Traffic Services Co., Ltd. (CATS), SAMART's subsidiary providing air traffic control service in Cambodia, has generated 10%-14% in terms of revenue to SAMART during the past five years. CATS's revenue rose over the years, driven by increasing air traffic in Cambodia and increasing global air traffic passenger demand. The number of flights landing and take off in Cambodia, and flying over Cambodia has grown at an average growth rate of 11% over the past five years.

However, travel restrictions amid the COVID-19 outbreak are affecting Cambodia's tourism and transportation businesses. The number of flights scheduled to operate internationally and the number of flights landing and take off in Cambodia, particularly flights from/to China, is likely to be greatly impacted in the first quarter of 2020. Thus, CATS's revenue and profit in 2020 are expected to be significantly affected by the COVID-19. The magnitude of impact will depend on the depth and length of the pandemic.

SAMART plans to list its subsidiary, Samart Aviation Solutions PLC (SAV), in the stock exchange of Thailand (SET). SAV is a holding company of CATS. The company plans to list SAV this April. SAV's initial public offering (IPO) timeline may be postponed depending on the status of the COVID-19 outbreak.

Improved profitability

SAMART's profit improved. The company generated Bt3.2 billion in earnings before interest, tax, depreciation, and amortization (EBITDA) in 2019, up from Bt1.5 billion in 2018. The EBITDA margin rose to 22.3% in 2019. The higher profit was from improved profits across all of SAMART's lines of business and lower selling general and administrative expenses (SG&A). In 2019, SAMART spent Bt1.5 billion in SG&A expenses, down from Bt2.5 billion in 2018, as a result of no huge bad debts.

Over the next three years, TRIS Rating expects SAMART's profitability and cash flow generation to remain at acceptable levels. TRIS Rating forecasts SAMART's EBITDA margin to range 17%-22%. The profitability is forecast to remain driven by the ICT solutions segment. However, the profit in the air traffic control service segment in 2020 is likely to fall, owing to a combination of the drop in numbers of passengers and international flights as well as uncertainties surrounding the current pandemic.

Acceptable level of leverage

SAMART's total reported debt was Bt11.4 billion as of December 2019, slightly down from Bt11.6 billion at the end of 2019. The debt to capitalization ratio was 63% as of 2019. The debt to EBITDA ratio in 2019 was 2.9 times, down from 6 times in 2018. The improved ratio was driven by the higher profitability.

TRIS Rating expects SAMART to incur about Bt9 billion in capital expenditures in aggregate during 2020-2022. The funds are mainly for capital expenditures for new ICT service projects and for the trunk radio and co-tower infrastructure projects. The debt to capitalization ratio is forecast to stay about 70%. The debt to EBITDA ratio is forecast to stay below 6 times over the next three years.

Sufficient liquidity

We assess SAMART's liquidity to be sufficient for the next 12-24 months. At the end of December 2019, sources of funds comprised cash and cash equivalents of Bt2.7 billion. Funds from operations (FFO) are forecast at around Bt1.5-Bt2.3 billion per annum during 2020-2022. Uses of funds are planned capital expenditures and scheduled long-term debt repayments. We forecast the planned capital expenditures to be around Bt1.7-Bt6.4 billion per annum during 2020-2021 and around Bt1 billion per annum in 2022. SAMART has long-term debt payment obligations of about Bt1.7 billion due in 2020 and about Bt0.5 billion coming due in 2021. The FFO to total debt ratio is expected to stay over 13%. The debt to EBITDA ratio is forecast to stay below 6 times.

BASE CASE ASSUMPTIONS

- Revenue to be in the range of Bt13-Bt14 billion per annum during 2020-2022.
- EBITDA margin to range 17%-22% over the next three years.
- Capital spending to total Bt9 billion during 2020-2022.

RATING OUTLOOK

The "stable" outlook reflects our view on SAMART's improved financial performance and its track record of effective collection of overdue receivables in the past two years that has enhanced its balance sheet. The "stable" outlook continues to reflect our expectation that SAMART will maintain its strong market position in the ICT solutions industry. The operating results in the digital segment should continue to improve. We expect SAMART to employ prudent financial policies in investments and managing the accounts receivables.

RATING SENSITIVITIES

The rating on SAMART could be under downward pressure if its operating results and/or financial profile shows a sustained deterioration. The downside case would also be triggered if the capital structure deteriorates pushing the debt to EBITDA ratio above 6 times on a sustained basis. The rating could be upgraded, should the company's operating performance and financial profile significantly improve on a sustained basis.

COMPANY OVERVIEW

SAMART was founded by the Vilailuck family in 1950 and listed on the Stock Exchange of Thailand (SET) in 1993. At the end of 2019, the Vilailuck family owned about 45% of SAMART's outstanding shares.

SAMART's core business comprises five lines of business. Subsidiaries take care of the different lines of business. For example, Samart Telcoms PLC (SAMTEL) oversees the ICT solutions segment. The digital services segment is operated by SDC. Contact center services are the responsibility of One to One Contacts PLC (OTO). The technology-related businesses and utility and transportation services are operated by SAMART and SAMART's unlisted subsidiaries.

As of December 2019, SAMART held about 70% of SAMTEL, 82.7% of SDC, and 68% of OTO. The major revenue generator is the ICT solutions segment, contributing 64% of total revenue, followed by utility and transportation services (26%), the digital segment (7%), and the contact center service segment (5%).

KEY OPERATING PERFORMANCE

Table 1: Revenue Contribution by Segment

Business	2017		2018		2019	
Line	Bt Mil.	%	Bt Mil.	%	Bt Mil.	%
ICT solutions and services (SAMTEL)	6,949	53	7,679	63	9,073	64
Digital services/mobile multimedia (SDC)	1,334	10	744	6	999	7
Contact center services (OTO)	818	6	711	6	756	5
Utilities and transportation	3,502	27	3,384	28	3,282	23
Technology-related	888	7	322	3	406	3
Eliminations	(468)	(4)	(655)	(5)	(382)	(3)
Total	**13,023**	**100**	**12,185**	**100**	**14,134**	**100**

Source: SAMART

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Bt million

	-----Year Ended 31 December -----				
	2019	2018	2017	2016	2015
Total operating revenues	14,207	12,249	13,070	13,780	18,481
Earnings before interest and taxes (EBIT)	1,396	(212)	(1,302)	464	1,598
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	3,173	1,517	569	2,349	3,290
Funds from operations (FFO)	2,574	497	428	1,768	2,622
Adjusted interest expense	577	570	507	522	561
Capital expenditures	1,316	2,200	1,072	2,090	2,325
Total assets	21,225	21,424	22,210	25,216	27,317
Adjusted debt	9,161	9,038	10,244	11,295	12,808
Adjusted equity	5,331	4,941	6,150	7,907	8,318
Adjusted Ratios					
EBITDA margin (%)	22.33	12.39	4.35	17.04	17.80
Pretax return on permanent capital (%)	8.20	(1.18)	(6.40)	2.07	7.05
EBITDA interest coverage (times)	5.50	2.66	1.12	4.50	5.86
Debt to EBITDA (times)	2.89	5.96	18.00	4.81	3.89
FFO to debt (%)	28.10	5.50	4.18	15.65	20.47
Debt to capitalization (%)	63.21	64.65	62.49	58.82	60.63

RELATED CRITERIA

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

Samart Corporation PLC (SAMART)

Company Rating:	BBB+
Rating Outlook:	Stable

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