

# SAMART CORPORATION PLC

No. 53/2021  
9 April 2021

## CORPORATES

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

**Last Review Date:** 24/03/20

### Company Rating History:

Date	Rating	Outlook/Alert
24/03/20	BBB+	Stable
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+”, with a “stable” outlook. The rating reflects SAMART’s diverse lines of business and sources of income, as well as its acceptable competitive position in the information technology (IT) segment.

The rating is partly offset by a slower-than-expected rise in revenue and profit in the digital trunk radio business, fluctuations in the IT trading/turnkey business segment, as well as a decrease in recurring revenue from air traffic control services in Cambodia that were affected by the Coronavirus Disease 2019 (COVID-19) pandemic.

## KEY RATING CONSIDERATIONS

### Revenue and profitability hurt by COVID-19

The COVID-19 pandemic has had severe impacts on SAMART’s businesses, particularly those related to airport and air traffic services. In 2020, SAMART generated THB9.3 billion in total operating revenue, down by 35% from 2019. The company’s earnings before interest, tax, depreciation, and amortization (EBITDA) in 2020 declined by 55% to THB1.4 billion.

The information communication technology (ICT) solutions business is the largest business in the SAMART group, contributing around 60% of total revenue. In 2020, revenue in the ICT solutions segment, operated by Samart Telcoms PLC (SAMTEL), plunged by 40% from 2019 to THB5.5 billion. The sharp decline in SAMTEL’s service revenue was attributed mainly to the absence of revenues from two airport related services - the Advance Passenger Processing System (APPS) and Common Use Terminal Equipment (CUTE). Both services contracts were not renewed.

Moreover, there was a sharp drop in revenue from Cambodia Air Traffic Services Co., Ltd., SAMART’s subsidiary providing air traffic control service in Cambodia which reported revenue of THB714 million in 2020, compared to THB2 billion in 2019.

Revenue from sport broadcasting services in its digital business also dropped by about 60% year-on-year (y-o-y) to THB120 million in 2020, from about THB350 million in 2019 due to the absence of live-sports events during the period of national lockdown.

### Recognizing revenue from new and resumed projects

In March 2020, SAMART secured a new 7-year ICT contract with the Excise Tax Department worth about THB8.03 billion. The contract involves direct coding on the liquor containers of domestic beer for excise tax management. The project is estimated to go live within the third quarter of 2021.

Additionally, revenue from the trunk radio project with Ministry of Interior is expected to resume after government budget approval. We expect revenue from the aforementioned project to gradually rise during the next three years.

### Operating performance to gradually recover

We expect SAMART’s operating performance to gradually recover. SAMART’s revenue is projected to be in the range of THB10-TH13 billion per annum during 2021-2023.

At the end of 2020, the company had backlog contracts of nearly THB10 billion, of which around 70% came from the ICT solutions business and the remainder from the substation installation and transmission line business.

We project SAMTEL's revenue to stay in the THB5.5-THB6.5 billion per annum range during 2021-2023. We assume several new ICT turnkey project biddings to be delayed due to COVID-19 will gradually begin in 2021, backed by the number of projects in the pipeline and Thailand's need to develop its IT infrastructure.

For the air traffic control service business in Cambodia, we expect revenue and profit in 2021 to remain largely affected by the lingering impacts of COVID-19. We expect to see a gradual rebound in flight travel numbers in the last quarter of 2021. It may take at least 24 months for the number of flights and airport passengers to recover to pre-COVID-19 levels.

We project SMART's EBITDA margin to be in the range of 11%-19% during the next three years, with the profit in the trunk radio business to gradually increase, while profitability in the ICT solutions business to come under pressure due to the discontinuation of high profit margin airport-related services projects.

### Leverage to rise

SAMART's total reported debt was THB9.9 billion as of December 2020, down from THB11.4 billion at the end of 2019. The debt to capitalization ratio was nearly 70% as of 2020.

SAMART plans to spend around THB5 billion in aggregated capital expenditures during 2021-2023. The debt to capitalization ratio is forecast to stay about 70%-75%. The debt to EBITDA ratio is forecast to jump temporarily in 2021, due to higher financial leverage and the relatively smaller EBITDA. The ratio is forecast to decline to below 6 times for the following two years, after the rebound of profitability.

Most of SAMART's debt was at the subsidiary level and from the project-based financing loans. As of December 2020, the ratio of priority debt to total debt exceeded 50%. Thus, the issue rating on SAMART's senior unsecured debt might be one notch below the company rating, reflecting the structural subordination risk.

### Refinancing needs

At the end of December 2020, sources of funds comprised cash and cash equivalents of THB1.9 billion. Funds from operations (FFO) are forecast at about THB0.7-THB1.5 billion per annum during the next 12-24 months. Uses of funds are planned capital expenditures and scheduled long-term debt repayments. We forecast the planned capital expenditures to be around THB1-THB2.5 billion per annum during 2021-2023. SAMART has long-term debt payment obligations of about THB1.4 billion due in 2021 and about THB3.3 billion coming due in 2022.

### BASE CASE ASSUMPTIONS

- Revenue to be in the range of THB10-THB13 billion per annum during 2021-2023.
- EBITDA margin to range between 11%-19%.
- Capital spending to total about THB5 billion for three years.

### RATING OUTLOOK

The "stable" outlook reflects our view on SAMART's competitive market position in the IT industry. We expect the operating results in the digital business to improve and new sources of recurring income from the direct coding project to help smooth out revenue in the next few years. We expect SAMART to be prudent in its financial policies for investments and managing liquidity.

### RATING SENSITIVITIES

The rating on SAMART come under pressure if its operating results and/or financial profile shows a sustained deterioration, leading to a debt to EBITDA ratio above 6 times. 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 2020, the Vilailuck family owned about 42% 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, 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.

On 9 December 2020, SMART disposed a 68% stake in OTO. As of December 2020, SMART held about 70% of SAMTEL, and 82.7% of SDC. The major revenue generator is the ICT solutions segment, contributing 60% of total revenue, followed by utility and transportation services (28%), the digital segment (7%), and the contact center service segment (7%).

## KEY OPERATING PERFORMANCE

**Table 1: Revenue Contribution by Segment**

Business Line	2018		2019		2020	
	Mil. THB	%	Mil. THB	%	Mil. THB	%
ICT solutions and services (SAMTEL)	7,679	63	9,073	64	5,431	60
Digital services/mobile multimedia (SDC)	744	6	999	7	636	7
Contact center services (OTO)	711	6	756	5	645	7
Utilities and transportation	3,384	28	3,282	23	2,113	23
Technology-related	322	3	406	3	469	5
Eliminations	(655)	(5)	(382)	(3)	(188)	(2)
<b>Total</b>	<b>12,185</b>	<b>100</b>	<b>14,134</b>	<b>100</b>	<b>9,106</b>	<b>100</b>

Source: SMART

## FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	-----Year Ended 31 December -----				
	2020	2019	2018	2017	2016
Total operating revenues	9,253	14,207	12,249	13,070	13,780
Earnings before interest and taxes (EBIT)	(28)	1,396	(212)	(1,302)	464
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,332	3,173	1,517	569	2,349
Funds from operations (FFO)	802	2,574	497	428	1,768
Adjusted interest expense	414	577	570	507	522
Capital expenditures	2,254	1,316	2,200	1,072	2,090
Total assets	18,031	21,225	21,424	22,210	25,216
Adjusted debt	8,330	9,161	9,038	10,244	11,295
Adjusted equity	4,234	5,331	4,941	6,150	7,907
<b>Adjusted Ratios</b>					
EBITDA margin (%)	14.39	22.33	12.39	4.35	17.04
Pretax return on permanent capital (%)	(0.18)	8.20	(1.18)	(6.40)	2.07
EBITDA interest coverage (times)	3.22	5.50	2.66	1.12	4.50
Debt to EBITDA (times)	6.26	2.89	5.96	18.00	4.81
FFO to debt (%)	9.63	28.10	5.50	4.18	15.65
Debt to capitalization (%)	66.30	63.21	64.65	62.49	58.82

## RELATED CRITERIA

- Group Rating Methodology, 13 January 2021
- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

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**Samart Corporation PLC (SAMART)**

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

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**TRIS Rating Co., Ltd.**

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