

SAMART TELCOMS PLC

No. 57/2024
17 April 2024

CORPORATES

Company Rating: BBB
Outlook: Positive

Last Review Date: 16/05/23

Company Rating History:

| Date | Rating | Outlook/Alert |
|----------|--------|---------------|
| 28/04/22 | BBB | Stable |
| 24/03/20 | BBB+ | Stable |
| 21/03/18 | BBB+ | Negative |
| 01/04/11 | BBB+ | Stable |

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RATIONALE

TRIS Rating affirms the company rating on Samart Telcoms PLC (SAMTEL) at “BBB”. At the same time, we revise SAMTEL’s rating outlook to “positive”, from “stable”. The outlook revision reflects the change in the rating outlook of Samart Corporation PLC (SAMART).

The rating on SAMTEL derives from the company’s group status as a “core subsidiary” of SAMART, rated at “BBB/Positive”. According to our “Group Rating Methodology”, a core subsidiary is rated at the same level as the group credit profile.

KEY RATING CONSIDERATIONS

Core subsidiary of SAMART

We assess SAMTEL as a “core subsidiary” of SAMART. As of March 2024, SAMART owned a 70% equity interest in SAMTEL. The management and group strategies of the two companies are highly integrated and interdependent. SAMTEL is the group’s flagship company specializing in providing a comprehensive range of information and communication technology (ICT) solutions as well as digital innovations to customers primarily in government sectors. Its operation is a significant part of the group, contributing around 60% on average of the group’s revenue and earnings before interest, taxes, depreciation, and amortization (EBITDA) during 2019-2022. In 2023, SAMTEL’s contribution to the group was around 40%. This lower contribution was due to strong growth in SAMART’s utilities and transportations businesses. Also, SAMTEL’s performance was affected by the delay in the government budget allocation and disbursement last year.

Continuing key revenue contributor to “SAMART Group”

SAMTEL is one of the market leaders in information technology (IT) solutions and outsourcing services. It has fostered strong relationships with various business partners and key clients over its long history and experience. Its expertise and track record of undertaking public sector projects will continue to be important to the group in securing future business in this segment.

With a strong market position and proven record, we expect SAMTEL to remain competitive in its respective market and remain the key revenue contributor to “SAMART Group”. At the end of 2023, SAMTEL’s project backlog was valued at THB4.6 billion which will translate to around THB2.8 billion of revenue in 2024, THB0.9 billion in 2025, and around THB0.4 billion in 2026.

Exposed to revenue volatility

SAMTEL’s operating performance can be volatile given the nature of its project-based business. This poses challenges to the company in continuously securing new projects. The growing recurring income base from service-based contracts could help mitigate earnings fluctuation and strengthen SAMTEL’s earnings profile. In 2023, SAMTEL’s recurring income from service contracts was around THB2 billion, compared with THB3.5 billion pre-pandemic.

Manageable liquidity

We expect SAMTEL’s liquidity to be manageable over the next 12 months. Sources of funds include expected funds from operations (FFO) of around THB500 million, as well as cash and cash equivalents of THB954 million on hand

at the end of December 2023, and available credit facilities of around THB1.7 billion. The uses of funds will be for financial obligations coming due of THB1.5 billion.

As most of SAMTEL's debts are short-term and project-based, its cash receipts from undertaken projects are largely conditionally assigned to project lenders. Thus, we view that SAMTEL's unsecured creditors could be significantly disadvantaged to the company's secured project lenders with respect to claims against the company's assets.

RATING OUTLOOK

The "positive" rating outlook on SAMTEL is based on the rating outlook we assigned to SAMART.

RATING SENSITIVITIES

The rating on SAMTEL could be revised upward or downward in accordance to changes in the rating on SAMART. The rating could also be revised if in our view SAMTEL's status in the SAMART Group changes.

COMPANY OVERVIEW

SAMTEL was founded by the Vilailuck Family in 1986. The company operates an integrated telecommunication network and an IT service business. As of March 2024, the company was 70% owned by SAMART, a holding company investing in telecommunication and communication networks and providing engineering services.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

| | -----Year Ended 31 December----- | | | | |
|--|----------------------------------|-------|-------|-------|-------|
| | 2023 | 2022 | 2021 | 2020 | 2019 |
| Total operating revenues | 4,514 | 5,006 | 4,604 | 5,459 | 9,085 |
| Earnings before interest and taxes (EBIT) | 95 | 177 | 114 | (147) | 477 |
| Earnings before interest, taxes, depreciation, and amortization (EBITDA) | 556 | 594 | 500 | 860 | 1,739 |
| Funds from operations (FFO) | 473 | 521 | 447 | 781 | 1,531 |
| Adjusted interest expense | 74 | 69 | 51 | 77 | 142 |
| Capital expenditures | 311 | 505 | 613 | 557 | 440 |
| Total assets | 7,657 | 7,471 | 7,144 | 6,972 | 9,454 |
| Adjusted debt | 874 | 1,264 | 1,637 | 1,225 | 3,278 |
| Adjusted equity | 3,548 | 3,563 | 3,371 | 3,304 | 3,786 |
| Adjusted Ratios | | | | | |
| EBITDA margin (%) | 12.3 | 11.9 | 10.9 | 15.8 | 19.1 |
| Pretax return on permanent capital (%) | 1.8 | 3.3 | 2.1 | (2.3) | 6.7 |
| EBITDA interest coverage (times) | 7.5 | 8.6 | 9.8 | 11.2 | 12.2 |
| Debt to EBITDA (times) | 1.6 | 2.1 | 3.3 | 1.4 | 1.9 |
| FFO to debt (%) | 54.1 | 41.2 | 27.3 | 63.8 | 46.7 |
| Debt to capitalization (%) | 19.8 | 26.2 | 32.7 | 27.0 | 46.4 |

RELATED CRITERIA

- Group Rating Methodology, 7 September 2022
- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022

Samart Telcoms PLC (SAMTEL)

Company Rating:

BBB

Rating Outlook:

Positive

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