

SAMART TELCOMS PLC

No. 54/2021
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
01/04/11	BBB+	Stable

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RATIONALE

TRIS Rating affirms the company rating on Samart Telcoms PLC (SAMTEL) at “BBB+” with a “stable” outlook. The rating reflects SAMTEL’s status as a core subsidiary of Samart Corporation PLC (SAMART). SAMTEL’s stand-alone credit profile (SACP) reflects its standing as one of the market leaders in information technology (IT) solutions and outsourcing services, proven track record of undertaking public sector projects, and its acceptable financial risk profile. SAMTEL’s SACP also takes into account its exposure to highly fluctuating operating performance due to the company’s lower recurring income and the volatile nature of undertaking trading/turnkey projects which rely heavily on the government’s IT budgets.

KEY RATING CONSIDERATIONS

A core subsidiary of SAMART

The rating on SAMTEL is linked to SAMART’s credit profile. We view SAMTEL as a core subsidiary of SAMART. SAMART owns 71% equity interest in SAMTEL, and SAMTEL is the main contributor of revenue to SAMART. The management and group strategies of the two companies are highly integrated. We also take into account a high degree of interdependence between the two companies. According to our “Group Rating Methodology”, the rating assigned to SAMTEL is the same as the rating on SAMART.

Performance hit hard by COVID-19

SAMTEL’s operating performance was hard hit by the fallout from the Coronavirus Disease 2019 (COVID-19) pandemic. In 2020, SAMTEL reported a 40% year-on-year (y-o-y) drop in revenue to THB5.5 billion, compared with THB9.1 billion in 2019. Travel restrictions imposed on international travel materially affect SAMTEL’s service revenue particularly from the provision of services linked directly to the number of passengers at the airports operated by Airports of Thailand PLC (AOT), namely the Advance Passenger Processing System (APPS) and some Common Use Terminal Equipment (CUTE).

SAMTEL’s revenue relating to airport services dropped by 67% y-o-y to THB0.6 billion, compared with THB1.7 billion in 2019. Additionally, the COVID-19 has created uncertainties and delays in several project biddings resulting in the lowest value of new projects signed since 2009. In 2020, the figure was only THB2.5 billion, compared with THB10.1 billion in 2019 and THB7.7 billion in 2018.

Higher exposure to performance volatility from lower recurring income

During the past several years, SAMTEL’s recurring income of THB3-THB3.5 billion per year from service contracts helped provide stability for its operating performance. However, SAMTEL’s recurring income is projected to decline to around THB1.9-THB2.2 billion per annum during 2021-2023. Lower service revenue was due mainly to the absence of airport-related service contracts which were not renewed, including APPS and CUTE projects.

With lower recurring income, we view that SAMTEL’s performance could be more volatile. Fluctuations in trading/turnkey revenues reflect the nature of project-based business. The size of a project varies widely and project durations are quite short, ranging from 6-18 months, posing challenges for SAMTEL to continuously secure new projects. In addition, its performance is

also exposed to uncertainty and sometimes a lack of continuation of IT spending budgets of the public sector.

Our base-case assumption projects SAMTEL's revenue to be THB5.5-THB6.5 billion annually during 2021-2023. The revenue forecast incorporates SAMTEL's project backlog valued THB6.5 billion at the end of 2020. The backlog will translate into around THB2.4 billion of revenue in 2021, THB1.2 billion in 2022, and about THB0.9 billion in 2023.

Weakened profitability

SAMTEL's profitability was affected by a drastic drop in revenue in 2020. Its earnings before interest, taxes, depreciation, and amortization (EBITDA) margin was 15.8% in 2020, compared with 19.1% in 2019. EBITDA declined by 51% y-o-y to THB860 million in 2020, from THB1.7 billion in 2019. We expect SAMTEL's profitability and cash generation to weaken significantly due mainly to the discontinuation of high profit margin airport-related services. Our base case scenario projects SAMTEL's EBITDA margin to be in a high-single digit percentage in 2021 before improving to a low-teens percentage during 2022-2023. The profit margin is expected to translate into EBITDA of THB450-THB500 million in 2021 and THB650-THB700 million per annum in 2022-2023. Earnings upside for SAMTEL relies on its ability to secure more projects, especially, service-contract projects which generally yield higher profit margin compared with trading/turnkey projects.

Leverage and liquidity remain at acceptable levels

SAMTEL's leverage remained at an acceptable level in 2020 with adjusted debt to EBITDA of 1.4 times. However, we expect the company's leverage to rise due to capital investments in new projects. The company's capital expenditures are estimated at THB1.6 billion in 2021, THB650 million in 2022, and THB300-THB400 million in 2023. We project the adjusted debt to EBITDA to rise to around 4.5 times in 2021 before improving to around 4 times during 2022-2023.

We expect SAMTEL's liquidity to be manageable over the next 12 months. Sources of funds include funds from operations (FFO) of around THB350 million, cash and cash equivalents of THB625 million on hand at the end of 2020, and undrawn credit facilities of approximately THB1.5 billion. The uses of funds will be financial obligations coming due of THB1.5 billion and capital expenditures of about THB1.6 billion. We expect the majority of the capital expenditures will be funded by project loans.

As most of SAMTEL's debts are short-term and project-based, the cash receipts are conditionally assigned to project lenders. Thus, SAMTEL's unsecured creditors could be disadvantaged with respect to claims against the company's assets, or structurally subordinated to the company's secured project lenders.

BASE-CASE ASSUMPTIONS

- Revenue to be THB5.5-THB6.5 billion annually during 2021-2023.
- EBITDA margin to stay in a high-single digit percentage in 2021 before improving to low-teens percentage during 2022-2023.
- Capital expenditures projected to be THB1.6 billion in 2021, THB650 million in 2022, and THB300-THB400 million in 2023.

RATING OUTLOOK

The "stable" outlook reflects our expectation that SAMTEL will remain competitive in providing IT solutions and outsourcing services and in bidding for public sector projects. We also expect SAMTEL to maintain an acceptable level of financial leverage. We further expect that SAMTEL's status as a core subsidiary of SAMART will remain unchanged.

RATING SENSITIVITIES

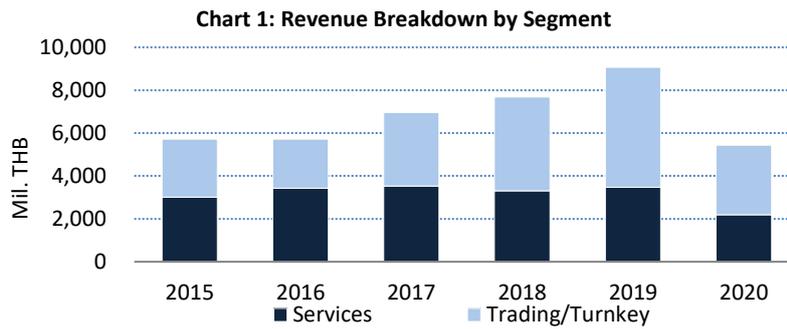
SAMTEL's rating is linked to the rating on SAMART based on TRIS Rating's "Group Rating Methodology". Any change in SAMART's rating or SAMTEL's status to the Group could lead to a rating change.

A rating upside could arise if SAMTEL's performance materially improves and helps strengthen the Group's financial profile significantly. Conversely, a rating downside could occur if SAMTEL's competitive position and financial profile significantly deteriorate and have a prolonged material impact on the Group's performance.

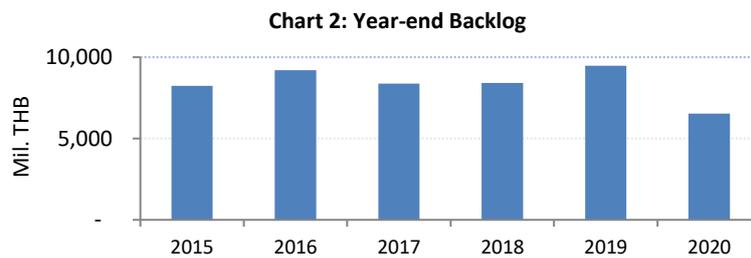
COMPANY OVERVIEW

SAMTEL was founded by the Vilailuck family in 1986. The company operates an integrated telecommunications network and an IT service business. At the end of June 2020, the company was 71% owned by SAMART, a holding company which has invested in telecommunication and communication networks and provides engineering services.

KEY OPERATING PERFORMANCE



Source: SAMTEL



Source: SAMTEL

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	----- Year Ended 31 December -----				
	2020	2019	2018	2017	2016
Total operating revenues	5,459	9,085	7,689	6,968	5,739
Earnings before interest and taxes (EBIT)	(147)	477	485	353	378
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	860	1,739	1,688	1,731	1,689
Funds from operations (FFO)	860	1,713	1,552	1,591	1,482
Adjusted interest expense	77	142	112	154	178
Capital expenditures	557	440	598	320	1,571
Total assets	6,972	9,454	8,901	9,284	10,019
Adjusted debt	1,198	3,260	2,782	3,712	4,133
Adjusted equity	3,304	3,786	3,678	3,533	3,476
Adjusted Ratios					
EBITDA margin (%)	15.76	19.14	21.96	24.84	29.42
Pretax return on permanent capital (%)	(2.34)	6.69	6.61	4.38	4.43
EBITDA interest coverage (times)	11.24	12.24	15.02	11.21	9.47
Debt to EBITDA (times)	1.39	1.87	1.65	2.14	2.45
FFO to debt (%)	71.74	52.53	55.77	42.86	35.86
Debt to capitalization (%)	26.62	46.27	43.07	51.24	54.32

RELATED CRITERIA

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

Samart Telcoms PLC (SAMTEL)

Company Rating:	BBB+
Rating Outlook:	Stable

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