

TMT STEEL PLC

No. 173/2022
10 October 2022

CORPORATES

Company Rating: BBB
Outlook: Stable

Last Review Date: 12/10/21

Company Rating History:

Date	Rating	Outlook/Alert
15/02/18	BBB	Stable

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RATIONALE

TRIS Rating affirms the company rating on TMT Steel PLC (TMT) at “BBB” with a “stable” rating outlook. The rating reflects TMT’s robust market position in the downstream steel industry, a broad range of product offerings, and a diverse customer base. The rating also factors in TMT’s high profitability relative to industry peers. Conversely, the rating is heavily weighed down by the steel industry’s cyclical nature, tough price competition, and volatile profit margins.

KEY RATING CONSIDERATIONS

Solid market presence

TMT has a strong market position as a leading steel solution provider in Thailand. By revenue, TMT is the largest company among listed peers in the downstream steel industry with total revenue of THB21.6 billion in 2021.

TMT’s competitive advantages are supported by its technical expertise and effective supply-chain management. The company leverages these strengths in offering value-added consultation and business solution services, differentiating itself from conventional steel distributors. The services provide benefits to customers in terms of operational efficiency improvements while minimizing associated costs to inventory and warehousing management. The company’s cost competitiveness further benefits from its larger scale of operations than peers.

TMT’s ongoing expansion in production capacity will support its sales volumes growth over the next few years. In 2021, total production capacity stood at 806,000 tonnes per annum, with annual growth of 9.2% over the last five years. TMT continues to expand steel pipe and slitting production, as well as enlarge its warehouse space. The company has also added the production capacity of a special flatness sheet called “STAY FLAT” to increase its product premium.

Broad product offerings, diverse customer base

TMT maintains its strategy as a one-stop steel supplier, covering demand in various market segments. TMT’s broad range of product offerings, covering flat and long steel products as well as tailor-made products, enables the company to arrive at diverse customer bases, which meaningfully mitigate the effects of volatility in steel demand.

In the first half of 2022, about 50% of total revenue came from wholesalers and dealers, with 24% from construction-related industries. The balance covers the automotive industry, industrial parts manufacturing, and others. However, we note that TMT’s revenue is increasingly linked with construction-related segments, as indicated by the rapid growth in structural steel tubes sales volume, and its tube production plan.

Better-than-peers profitability

We assess that TMT’s has delivered higher profit margins with less earnings volatility compared to most competitors listed on the Stock Exchange of Thailand (SET). TMT has demonstrated resiliency in maintaining its profit-making operation through several previous industry cycles. In contrast, some competitors have endured losses and greater earnings volatility. TMT’s sound profitability has mainly stemmed from its add-on consulting services and its

ability to manage price fluctuation impacts of hot-rolled coil (HRC), an essential raw material. TMT has placed efficient cost management and fast inventory turnover at the forefront of its business strategy.

Susceptibility to high industry risk

TMT is subject to the cyclical risk of commodity products, intense price competition, and threats of imported steel from China. The high cyclical and commodity nature of steel products continues to constrain TMT's credit profile. TMT's sales volume hinges on domestic steel demand, which can change rapidly in tandem with construction and manufacturing industries and is highly susceptible to changes in economic conditions. During 2017-2021, the growth rate of domestic steel consumption varied in the range of -14% to 14% per year.

Conversely, steel prices are driven by the global market, which is largely propelled by China, the world's dominating steelmaker and largest consumer. Global steel prices rose sharply in 2021, spurred by the post-pandemic revival of economic activity. However, steel prices have declined significantly since April 2022. Steel demand from China has softened considerably due to the country's COVID-19 lockdowns and property slump. Meanwhile, economic slowdown in developed countries due to inflationary pressures has contributed to the drop in global steel demand. However, steel prices can be supported by curtailed production.

Profit margins volatility

TMT's credit profile is weighed down by the company's low earning stability, underpinned by its vulnerability to volatile raw material prices. TMT's earnings volatility is reflected by the swing in its annual earnings before interest, taxes, depreciation, and amortization (EBITDA) from THB0.6 billion to THB2.28 billion during 2017-2021. Over the same period, its EBITDA margin fluctuated widely between 3.6%-10.5%. However, compared to peers in the same metal downstream industry, the company's profit margin has demonstrated less fluctuation.

Expected cash generation rebound in 2023

We expect TMT's operating result to weaken in 2022, affected by the downward trend of HRC prices as well as subdued steel demand in Thailand. TMT's sales volume fell by 5.6% year-on-year (y-o-y) to 0.355 million tonnes in the first half of 2022. Over the same period, TMT reported squeezed EBITDA of THB0.56 billion, marking an acute contraction of 62% y-o-y. Also, the EBITDA margin plunged to 4.7% from 14.1% in the same period of 2021.

We project steel consumption in Thailand to pick up in 2023, based on the revival of economic and construction activities. We expect TMT's sales volume will flatten in 2022 before escalating by 6%-8% per year during 2023-2024. Steel prices are likely to normalize in 2023-2024 on the back of global demand-supply rebalance. However, we view the upside of HRC prices as likely to be limited over the near term, given the property slump and economic slowdown in China.

In our base-case forecast, we project TMT's EBITDA to contract to THB0.8 billion in 2022 before rebounding to above THB1.1 billion per year during 2023-2024. Following a similar trend, funds from operations (FFO) will revive from around THB0.6 billion in 2022 to at least THB0.9 billion per year over the next 2 years.

Expected leverage improvement

We forecast TMT's outstanding debt to fall with the backdrop of the decreasing need for working capital as we expect declining HRC prices. Meanwhile, we view TMT's capital expenditures as moderate, averaging about THB400 million per annum over the next three years. We expect the ratio of debt to EBITDA to rise to 6.0 times in 2022 before reducing to between 4-4.5 times in 2023-2024. The debt to capitalization ratio should stay between 58%-60%, and the ratio of FFO to debt should range 12%-20% over the forecast period.

Adequate liquidity

At the end of June 2022, TMT had long-term debt coming due in the next 12 months of about THB0.64 billion and short-term loans totaling THB4.6 billion. The company's sources of funds, including an estimated FFO of THB0.7-0.8 billion over the next 12 months, cash of THB0.16 billion as of June 2022, and undrawn credit facilities of THB5.6 billion, should be sufficient to meet near-term debt obligations.

Capital Structure

At the end of June 2022, TMT had THB6.7 billion in debt, including THB4.6 billion of short-term loans and THB2.1 billion of long-term loans. The loans were extended by several commercial banks. The priority debt ratio was 23.7% as of June 2022.

BASE-CASE ASSUMPTIONS

- Flat volume growth in 2022 before increasing by 6%-8% per year during 2023-2024
- EBITDA margin 4% in 2022 before returning to the average of 6% during 2023-2024
- Averaged capital expenditures of about THB400 million per year during 2022-2024
- Dividend payout ratio of 80%

RATING OUTLOOK

The “stable” outlook reflects our expectation that TMT will maintain its market position and better-than-peers profitability, with cash generation and leverage in line with our forecast. We also expect TMT will maintain its prudent working capital management and continue its disciplined approach in pricing its products.

RATING SENSITIVITIES

A rating upgrade could develop if TMT materially enlarges its cash generation against debt obligations, enabling the company to maintain the ratio of net debt to EBITDA below 3.5 times or its FFO to debt ratio to stay at 20% or above on a sustained basis.

Conversely, a downward revision to the rating could occur if TMT’s operating performance falls short of estimates, considerably heightening the debt to EBITDA ratio. Also, downward rating pressure could be triggered by persistently sluggish domestic demand for steel over a long period.

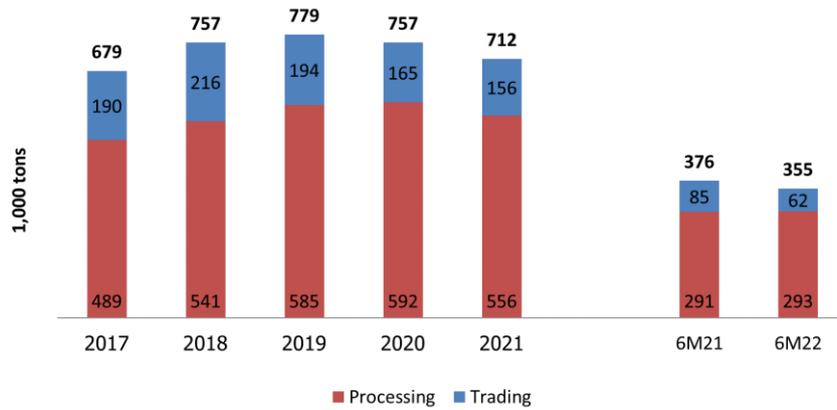
COMPANY OVERVIEW

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 SET in 2005. The Tarasansombat family, the founding shareholder, owned the majority TMT’s stake of about 69% as of April 2022. The main factory and warehouse are in Ayutthaya province and the company also has a distribution center in Bangkok. TMT’s production capacity has expanded continuously to 806,000 tonnes per annum as of June 2022, a gradual increase from 390,000 tonnes per annum in 2013. TMT primarily offers flat steel products processed from HRC, such as hot rolled sheets, round tubes, and rectangular tubes. The company also sources long steel products such as I-beams, H-beams, and steel bars for customers.

TMT’s annual revenue has hovered between THB14-THB21 billion over the past five years, after the company implemented customer-centric strategies, which have resonated with customers. Sales volume was 712,000 tonnes in 2021. The proportion of steel processing to steel trading was about 78:22.

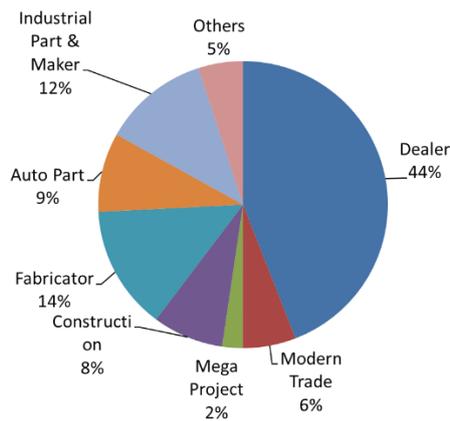
KEY OPERATING PERFORMANCE

Chart 1: TMT's Sale Volumes



Source: TMT

Chart 2: Sale Volumes Breakdown by Customers*



Source: TMT

* For the first six months of 2022

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	Jan-Jun 2022	-----Year Ended 31 December -----			
		2021	2020	2019	2018
Total operating revenues	11,966	21,616	14,626	16,527	17,418
Earnings before interest and taxes (EBIT)	418	2,006	736	392	562
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	561	2,276	994	603	757
Funds from operations (FFO)	435	1,791	783	438	600
Adjusted interest expense	56	104	83	119	105
Capital expenditures	215	408	193	350	701
Total assets	10,747	10,067	8,841	7,149	7,706
Adjusted debt	6,704	5,636	4,124	3,813	4,398
Adjusted equity	3,430	3,754	3,182	2,905	2,704
Adjusted Ratios					
EBITDA margin (%)	4.7	10.5	6.8	3.6	4.3
Pretax return on permanent capital (%)	11.3**	22.3	9.6	5.5	8.1
EBITDA interest coverage (times)	10.1	21.9	11.9	5.1	7.2
Debt to EBITDA (times)	4.9**	2.5	4.1	6.3	5.8
FFO to debt (%)	15.9**	31.8	19.0	11.5	13.6
Debt to capitalization (%)	66.2	60.0	56.4	56.8	61.9

* Consolidated financial statements

** Annualized from trailing 12 months

RELATED CRITERIA

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

TMT STEEL PLC (TMT)

Company Rating:	BBB
Rating Outlook:	Stable

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