

TMT STEEL PLC

No. 202/2023
19 October 2023

CORPORATES

Company Rating: BBB
Outlook: Stable

Last Review Date: 10/10/22

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 leading market position in the steel processing and cold forming businesses, the diversity of its products and customer base, and its efficient working capital management. However, the rating is weighed down by the company’s relatively high financial leverage and volatile earnings given the cyclical nature of the steel industry.

KEY RATING CONSIDERATIONS

Leading market position in the steel processing and cold forming businesses

TMT is a leading steel processor and distributor in Thailand. Its total sales volume has ranged from approximately 0.71-0.78 million tons per year in the past five years, with an average market share of 13.4%-21.8% of total hot rolled coil (HRC) domestic consumption (excluding imported Japanese HRC-carbon steel & alloy). In our view, TMT’s long-established relationships with both suppliers and customers help sustain its sales volume, even during domestic economic slowdowns. In addition, the company’s large scale of operations helps enhance its cost competitiveness compared with smaller players in the market.

TMT’s competitive advantages are also 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 while minimizing associated costs of inventory and warehousing management. Besides, TMT has set up a subsidiary, Red Rocco Digital Co., Ltd., to support its e-commerce business. In our view, the online platform should help facilitate its customers and potential partners in the long-term.

Diverse products serve various end-user segments

TMT maintains a 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, has enabled the company to build a broad and diverse customer base, mitigating the effects of volatility in steel demand. In the first half of 2023, around 85% of TMT’s sales volume came from the steel processing and cold forming segments, with the remainder from the steel trading business. By distribution channel, demand from dealers and wholesalers remains solid while demand from mega projects and fabricators is currently weak.

TMT’s sales volume in the first half of 2023 increased 5.2% year-on-year (y-o-y) to 0.374 million tons, driven mainly by growth in the cold forming segment. Sales volume of cold forming products in the first half of 2023 accounted for 44% of total sales volume, up from 30% in 2018. The contribution from the processing business has been rather flat at around 41%-42% over the last five years while the contribution from the trading business has declined steadily, slipping to 15% in the first half of 2023 from almost 30% in 2018. TMT has also been expanding its steel tube production capacity as well as enlarging its warehouse space to support its growth in the next few years.

Looking ahead, we expect demand from construction-related industries to recover in the medium-term driven by the continued disbursements for

ongoing public investment projects. We expect TMT's sales volume to increase by 5.8% in 2023 and around 3%-4% per annum during 2024-2025.

Rating constrained by volatile earnings

TMT's credit profile is weighed down by the company's rather volatile earnings. TMT's earnings and profit margins are exposed to volatility of HRC prices, especially during a declining price environment. HRC prices are largely driven by steel demand and supply in China, the world major consumer and producer. However, the company's fast inventory turnover helps mitigate losses during a declining steel price environment.

TMT's earnings before interest, taxes, depreciation, and amortization (EBITDA) have swung sharply over the past few years. Its EBITDA peaked at THB2.28 billion in 2021, following a sharp rise in steel prices after the reopening of China. However, global steel prices declined sharply from April 2022 to the end of that year as global demand softened due to a weak Chinese property sector and inflationary pressures in the developed countries' economy. This caused TMT's EBITDA to drop to THB714 million.

Looking ahead, we project TMT's annual EBITDA to recover to the THB1-THB1.1 billion range during 2023-2025. The EBITDA margin is expected to recover to around 5%-6% from 1.5% in the second half of 2022. TMT's earnings are expected to be supported by increased sales volume in the processing and cold forming businesses as well as more stable HRC prices given an improving balance of supply and demand.

Relatively high financial leverage

We consider TMT's financial leverage to be relatively high. TMT's debt to capitalization ratio has hovered around 60% in the last three years, increasing from around 57% in 2019. In addition, its debt to EBITDA and funds from operations (FFO) to debt ratios have fluctuated considerably amid the volatile steel prices. TMT's debt to EBITDA ratio jumped to more than 7 times in 2022, from 2.5 times in 2021 and around 4-6 times during 2018-2020, while its FFO to debt ratio dropped to around 10% in 2022, from 32% in 2021 and 12%-19% during 2018-2020.

TRIS Rating expects TMT's financial leverage to improve over the next 2-3 years as its outstanding debt is likely to fall with improving FFO and decreasing need for working capital due to lower steel prices. The company's capital expenditures are expected to be moderate, totaling about THB1.24 billion during 2023-2025. Our base case forecasts the debt to EBITDA ratio to decrease to around 4-5 times in 2023-2025. The ratio of FFO to debt should improve to around 15%-18% over the forecast period and the debt to capitalization ratio should stay between 56% and 59%.

At the end of June 2023, TMT had THB4.9 billion in debt, including THB2.9 billion of short-term loans and THB2.0 billion of long-term loans. Priority debt, mainly secured debt at the company level (trust receipt), was THB1 billion. This translates to a priority debt to total debt ratio of 21%.

Adequate liquidity

At the end of June 2023, TMT had long-term debt coming due in the next 12 months of about THB0.64 billion and short-term loans totaling THB2.9 billion. The company's sources of funds, including estimated FFO of THB0.8 billion over the next 12 months, cash of THB176 million as of June 2023, and undrawn credit facilities of THB6.5 billion, should be sufficient to meet near-term debt obligations.

BASE-CASE ASSUMPTIONS

- Sales volume to increase by 5.8% in 2023 and around 3%-4% per year during 2024-2025.
- EBITDA margin of 5%-6% during 2023-2025.
- Capital expenditures totaling THB1.24 billion during 2023-2025.
- Dividend payout ratio of 70%.

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 net debt to EBITDA ratio below 3.5 times or the FFO to debt ratio at 20% or above on a sustained basis.

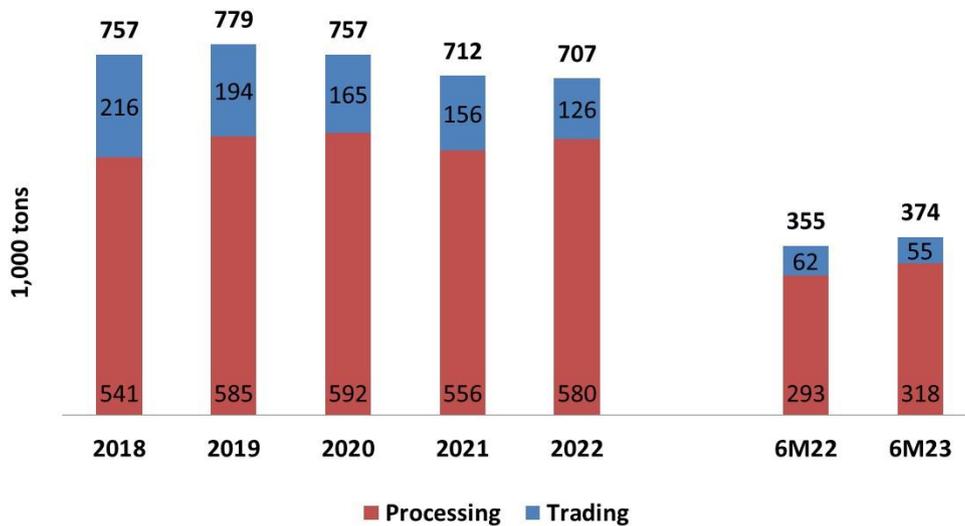
Conversely, a downward revision to the rating could occur if TMT’s operating performance falls short of estimates, causing its FFO to debt ratio to drop below 10% for an extended period. Downward rating pressure could be triggered by persistently sluggish domestic demand for steel over a long period or by a significant rise in the company’s debt used to finance its working capital and investments.

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 Stock Exchange of Thailand (SET) in 2005. The Tarasansombat family, the founding shareholder, owned the majority of TMT’s stake at about 69% as of April 2023. The main factory and warehouse are in Ayutthaya Province and the company also has a distribution center in Bangkok. TMT’s production capacity has gradually expanded to 806,000 tons per annum as of June 2023, from 390,000 tons per annum in 2013. TMT primarily offers steel products processed from HRC, such as hot rolled sheets, round tubes, and rectangular tubes. The company also sources structural steel products such as H-beams and I-beams for customers.

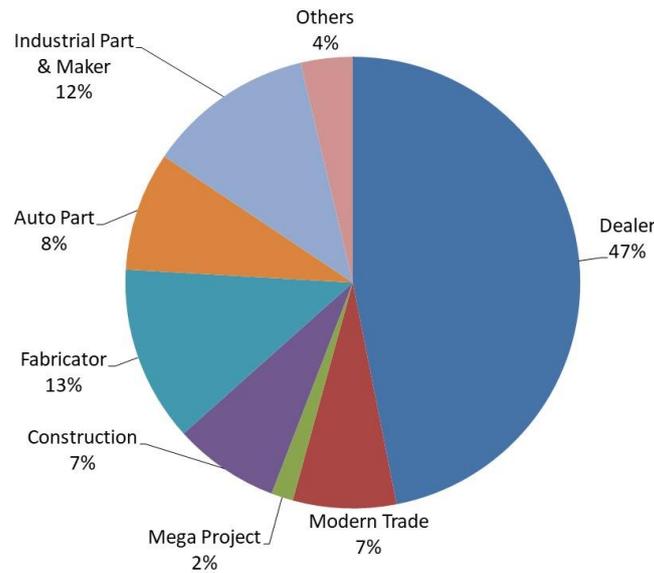
KEY OPERATING PERFORMANCE

Chart 1: TMT’s Sales Volumes



Source: TMT

Chart 2: Sales Volume Breakdown by Customers*



Source: TMT
*For the first six months of 2023

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	-----Year Ended 31 December -----				
	Jan-Jun 2023	2022	2021	2020	2019
Total operating revenues	10,443	22,260	21,616	14,626	16,527
Earnings before interest and taxes (EBIT)	370	421	2,006	736	392
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	521	714	2,276	994	603
Funds from operations (FFO)	390	526	1,791	783	438
Adjusted interest expense	75	121	104	83	119
Capital expenditures	242	376	408	193	350
Total assets	9,099	9,062	10,067	8,841	7,149
Adjusted debt	4,874	5,103	5,636	4,124	3,813
Adjusted equity	3,364	3,250	3,754	3,182	2,905
Adjusted Ratios					
EBITDA margin (%)	4.99	3.21	10.53	6.79	3.65
Pretax return on permanent capital (%)	3.99 **	4.67	22.35	9.56	5.48
EBITDA interest coverage (times)	6.90	5.92	21.85	11.92	5.08
Debt to EBITDA (times)	7.24 **	7.15	2.48	4.15	6.32
FFO to debt (%)	9.88 **	10.31	31.78	18.98	11.48
Debt to capitalization (%)	59.17	61.09	60.02	56.45	56.76

* 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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