

SAMART CORPORATION PLC

No. 84/2023
16 May 2023

CORPORATES

Company Rating: BBB
Outlook: Stable

Last Review Date: 28/04/22

Company Rating History:

Date	Rating	Outlook/Alert
28/04/22	BBB	Stable
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” rating outlook. The rating reflects SAMART’s standing as one of the market leaders in the information communication technology (ICT) business and its proven track record of undertaking public sector projects. The rating also incorporates the expected operational recovery post-Coronavirus Disease 2019 (COVID-19) pandemic with rising recurring income from air traffic control services in Cambodia. Contrarily, the rating is weighed down by high competition in the industry, the inherently uncertain and fluctuating nature of the turnkey project business, and weaker-than-expected operational performance in its digital communication business.

KEY RATING CONSIDERATIONS

Recovery in air traffic in Cambodia expected to continue

We anticipate strong revenue recovery in the air traffic management services based on pent-up demand for travel, China’s reopening, and tourism prospects with the Cambodian government’s policy to stimulate economic development and the tourism industry. The Cambodian government also plans to open three new international airports during 2023-2025, increasing airport capacity for growing flights and passenger numbers. Over the forecast period covering 2023-2025, we expect robust rebound in the number of international flights and overflights alongside rising international passenger numbers. We project SAMART’s revenue for air traffic management services in Cambodia in 2023 to reach about 75% of pre-pandemic levels, before surpassing the pre-pandemic levels in 2025.

In the first quarter of 2023, air traffic in Cambodia improved strongly with more than 22,000 flights, or about 70% of pre-pandemic levels. In 2022, SAMART’s revenue from the air traffic management business rose to THB1.2 billion, up from THB456 million a year earlier, compared with THB2 billion in 2019.

Direct Coding Project proceeding as planned

SAMART completed the system installation for the Direct Coding project and started providing services on 1 May 2022. More than 2,600 million codes used as a tax payment label on beer packages were printed, generating about THB0.6 billion of its revenue in 2022. Direct Coding is a 7-year ICT project with the Excise Department worth about THB8.03 billion, to increase efficiency of excise tax collection for beers produced and distributed in Thailand. We expect this new project to generate a stable and reliable income of around THB1 billion per annum for 7-year period.

Trunked radio business ramping up

We expect SAMART’s revenue in the digital trunked radio system (DTRS) business to grow as the project with the Ministry of Interior (MOI) has resumed. The project with MOI for the communication integration of 75,000 villages nationwide with a total order of 76,236 handsets began in 2022. Unfortunately, due to chip shortages for trunked radio devices, the suppliers could not deliver the ordered devices on time, resulting in another year of delay.

Looking ahead, we expect the trunked radio revenue to ramp up from both device sales and airtime fees. The company will deliver the remainder of more than 60,000 handsets for the MOI project during the first nine months of this

year and will begin to realize a significant increase in revenue from airtime services. The company also secured a contract with the Provincial Electricity Authority (PEA), completely delivered about 9,000 handsets, and started recognizing airtime fees in 2022. This will mean the company's main customer base for airtime services in the coming years will be from the PEA project (about 9,000 users) and the MOI project (76,236 users). The company plans to approach more users from disaster recovery projects and/or security projects.

Operating performance to rebound

In our base-line projection covering 2023-2025, SMART's total revenue is forecast to rise to THB11-THB12 billion per annum, incorporating the increase in recurring income from the air traffic management business and Direct Coding project, the turnaround in delayed projects, and project backlogs in the ICT and power substation businesses.

The ICT solutions business has been the largest source of revenue in the SMART Group, contributing around 50%-60% of total revenue. In 2022, revenue from the ICT solutions business, operated by Samart Telcoms PLC (SAMTEL), rose by 7% year-on-year (y-o-y) to THB4.9 billion. As of March 2023, the company's outstanding backlog for the ICT solutions business totaled nearly THB6 billion. During 2023-2025, we project revenue from the ICT solutions business to be THB5-THB5.5 billion per annum, with the service income base of around THB2 billion per year. The major source of service revenue is expected to derive from ICT solutions for bank branches, automatic meter reading (AMR) service projects, and enterprise resource planning (ERP) projects with PEA. The remaining revenue will come from turnkey projects.

Also, in the power systems and substation design and installation business, SMART had a project backlog worth THB2.3 billion at the end of 2022. Around 55% will be realized as revenue in 2023, and about 45% during 2024-2025. Recently, the company won a contract for power substations in Bang Lamung, Chon Buri Province, worth about THB2.4 billion.

With its experience in the ICT industry, we expect the company to continue securing new projects, supported by a number of projects in the pipeline and boosted by the prospect of Thailand's ICT infrastructure development. We expect the bidding for new ICT integrated projects to increase following the general election and formation of the new government in the second half of 2023.

Earnings and profit margins to bounce back

The company's earnings during 2020-2021 were severely hit by the pandemic and project delays. Profits rebounded in 2022, with earnings before interest, taxes, depreciation, and amortization (EBITDA) staying at about THB1.3 billion, up from THB0.64 billion in 2021. EBITDA margin in 2022 rebounded to 13.7% after declining to 9% in 2021.

Going forward, we expect its profitability to gradually improve, given the expected increase in high-margin recurring income. SMART's EBITDA is projected to be THB1.85-THB2.3 billion per annum, with an EBITDA margin of 15.5%-20% during 2023-2025. Funds from operations (FFO) are forecast to rebound to THB1.3-THB1.6 billion annually over the same period.

Financial leverage ratios to improve

We expect earnings improvement will enable SMART's cash flow protection and leverage ratios to improve. Our base-case projection forecasts its adjusted net debt to be at THB9.5-THB10.5 billion during 2023-2025, incorporating the capital expenditures required for new ICT projects, the air traffic management business, and trunked network investments. We expect the capital expenditures to range THB1-THB1.6 billion per year, and the debt to EBITDA ratio to be 5.6 times in 2023, before declining to 4-4.5 times during 2024-2025. The FFO to debt ratio is projected to be 12%-17% over the forecast period, and the debt to capitalization ratio to be 65%-72%.

Around 58% of SMART's debts were priority debts, including debts at subsidiary level and secured project financing loans. As the ratio exceeded the 50% priority debt threshold, we view that SMART's unsecured creditors are significantly disadvantaged to priority debt holders with respect to claims against the company's assets.

Liquidity to remain manageable

We assess SMART's liquidity to remain manageable over the next 12 months. Funds will be used for the capital expenditures and scheduled debt repayments. SMART has about THB2.2 billion long-term debt payment obligations maturing in 2023. The company's investment budget for 2023 is around THB1.6 billion. The company had sources of funds from cash and cash equivalents totaled THB1.8 billion and undrawn loan facilities of about THB3.4 billion at the end of March 2023. FFO are forecast to be about THB1.3 billion in 2023.

Also, SMART plans to spin off its subsidiary Samart Aviation Solutions PLC (SAV) and list the company on the Stock Exchange of Thailand (SET). SAV is a holding company, investing in air traffic controlling business with its main source of revenue from air traffic management services in Cambodia. The company aims to use the proceeds from the initial public offering (IPO) mainly to repay existing debts and support working capital needs. The IPO is expected to significantly strengthen SMART's capital base.

BASE CASE ASSUMPTIONS

TRIS Rating's base-case assumptions for SAMART's operations in 2023-2025 are as follows:

- Revenue to range between THB11-THB12 billion per annum.
- EBITDA margin at 15.5%-20%.
- Capital spending to total about THB3.6 billion over the next three years.

RATING OUTLOOK

The "stable" outlook reflects our expectation that SAMART will be able to maintain its position as one of the leading ICT solutions companies in Thailand and will deliver improving business performance.

RATING SENSITIVITIES

A rating upgrade scenario could develop if the company delivers significantly stronger operating results relative to our forecast on a sustained basis, while maintaining the declining trend in the financial leverage as expected. An upward revision of rating/outlook is also possible if there is a significant and sustained shift in capital structure following the planned IPO of SAV. A downward revision on the rating could be triggered if its operating performance turns out to be substantially weaker than expected, or if there is a material deterioration in financial profile from large debt-funded investments.

COMPANY OVERVIEW

SAMART was founded by the Vilailuck family in 1950 and listed on the SET in 1993. At the end of March 2023, the Vilailuck family owned about 42% of SAMART's outstanding shares.

SAMART's core business comprises three 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 Samart Digital PLC (SDC). The utility and transportation businesses are operated by SAMART and SAMART's unlisted subsidiaries. On 9 December 2020, SAMART disposed a 68% stake in One To One Contacts PLC (OTO), its contact center service subsidiary.

In 2023, SAMART plans to spin off SAV and list the company on SET. SAV wholly holds Cambodia Air Traffic Service Co., Ltd. (CATS), which is the sole service provider of air navigation service in Cambodia's airports and airspace. CATS has a 49-year concession (2002-2051) from the government of Cambodia.

As of March 2023, SAMART directly held a stake of about 70% in SAMTEL, and 62% of SDC. In 2022, SAMART's major revenue generator was the ICT solutions segment, contributing 55% of total revenue, followed by utility and transportation services and technology related business (47%), and the digital segment (7%).

KEY OPERATING PERFORMANCE

Table 1: Revenue Contribution by Segment

Business Line	2020		2021		2022		3M2023	
	Mil. THB	%						
ICT solutions and services (SAMTEL)	5,431	60	4,581	66	4,947	55	902	37
Digital business (SDC)	636	7	394	6	632	7	695	28
Contact center services (OTO)	645	7	-	-	-	-	-	-
Utilities and transportations	2,582	28	2,546	36	4,259	47	1,210	49
Eliminations	(188)	(2)	(566)	(8)	(818)	(9)	(351)	(14)
Total	9,106	100	6,955	100	9,020	100	2,456	100

Source: SAMART

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	Jan-Mar 2023	-----Year Ended 31 December -----			
		2022	2021	2020	2019
Total operating revenues	2,511	9,151	7,078	9,253	14,207
Earnings before interest and taxes (EBIT)	129	442	1	(28)	1,396
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	360	1,250	641	1,332	3,173
Funds from operations (FFO)	182	700	219	849	2,361
Adjusted interest expense	139	489	392	414	577
Capital expenditures	291	1,241	1,023	2,254	1,316
Total assets	19,285	19,336	18,149	18,031	21,225
Adjusted debt	8,974	8,622	8,534	8,339	9,161
Adjusted equity	3,932	3,853	4,725	4,234	5,331
Adjusted Ratios					
EBITDA margin (%)	14.33	13.66	9.06	14.39	22.33
Pretax return on permanent capital (%)	3.46	3.01	0.00	(0.18)	8.20
EBITDA interest coverage (times)	2.58	2.56	1.64	3.22	5.50
Debt to EBITDA (times)	6.21	6.90	13.31	6.26	2.89
FFO to debt (%)	9.41	8.12	2.57	10.18	25.77
Debt to capitalization (%)	69.53	69.11	64.36	66.32	63.21

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
- Issue Rating Criteria, 15 June 2021

Samart Corporation PLC (SAMART)

Company Rating:	BBB
Rating Outlook:	Stable

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