

SAMART TELCOMS PLC

No. 85/2023
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
01/04/11	BBB+	Stable

Contacts:

Chanaporn Pinphithak
chanaporn@trisrating.com

Suchana Chantadisai
suchana@trisrating.com

Wajee Pitakpaibulkij
wajee@trisrating.com

Thiti Karoonyanont, Ph.D., CFA
thiti@trisrating.com



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RATIONALE

TRIS Rating affirms the company rating on Samart Telcoms PLC (SAMTEL) at “BBB” with a “stable” outlook. The rating on SAMTEL primarily reflects the company’s status as a “core subsidiary” of Samart Corporation PLC (SAMART), rated at “BBB/stable”. According to our “Group Rating Methodology”, a core subsidiary is generally 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 2023, 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 and digital innovations to customers in both government and private 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.

Track record of undertaking public sector projects

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.

Key revenue contributor to “SAMART Group”

With its strong market position and proven record, we expect SAMTEL to remain competitive in its respective market and remain the key revenue contributor of “SAMART Group”. At the end of 2022, SAMTEL’s project backlog was valued at THB6.4 billion which will translate into around THB2.5 billion of revenue in 2023, THB1.8 billion in 2024, and around THB0.7 billion in 2025.

SAMTEL’s operating performance can be volatile given the nature of project-based business. This poses challenges to the company in continuously securing new projects. SAMTEL aims to mitigate earnings fluctuation by acquiring more service-based contracts. In 2022, SAMTEL’s recurring income from service contracts was around THB1.9 billion. In the short run, we expect revenue from service contracts to be around the 2022 levels and revenues from trading/turnkey projects to continue to dominate SAMTEL’s top line. An enlarged recurring income base will add more stability to its earnings should SAMTEL successfully grow the business as planned.

Given SAMTEL’s clients are mainly in the public sector, the general election in mid-May 2023 could temporarily affect SAMTEL in terms of budget disbursement and new government policies relating to IT integration and solutions. However, we still believe that SAMTEL will not face material downside risk considering the number of projects in the pipeline and Thailand's ongoing needs to develop its IT infrastructure.

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 THB593 million on hand at the end of March 2023, and undrawn credit facilities of around THB1.4 billion. The uses of funds will be for financial obligations coming due of THB1.7 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 "stable" 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 telecommunications network and an IT service business. As of March 2023, 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

	Jan-Mar 2023	-----Year Ended 31 December-----			
		2022	2021	2020	2019
Total operating revenues	937	5,006	4,604	5,459	9,085
Earnings before interest and taxes (EBIT)	43	177	114	(147)	477
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	150	594	500	860	1,739
Funds from operations (FFO)	124	521	447	781	1,531
Adjusted interest expense	16	69	51	77	142
Capital expenditures	70	505	613	557	440
Total assets	7,519	7,471	7,144	6,972	9,454
Adjusted debt	1,404	1,264	1,637	1,225	3,278
Adjusted equity	3,585	3,563	3,371	3,304	3,786
Adjusted Ratios					
EBITDA margin (%)	16.03	11.87	10.85	15.76	19.14
Pretax return on permanent capital (%)	3.18	3.29	2.15	(2.34)	6.69
EBITDA interest coverage (times)	9.67	8.64	9.82	11.24	12.24
Debt to EBITDA (times)	2.29	2.13	3.28	1.42	1.89
FFO to debt (%)	37.70	41.22	27.31	63.81	46.71
Debt to capitalization (%)	28.14	26.19	32.69	27.04	46.41

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:	Stable

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: +66 2 098 3000

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