

SAMART CORPORATION PLC

No. 65/2022
28 April 2022

CORPORATES

Company Rating: BBB
Outlook: Stable

Last Review Date: 09/04/21

Company Rating History:

Date	Rating	Outlook/Alert
24/03/20	BBB+	Stable
21/03/18	BBB+	Negative
20/04/15	BBB+	Stable

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RATIONALE

TRIS Rating downgrades the company rating on Samart Corporation PLC (SAMART) to “BBB” from “BBB+”, with a “stable” rating outlook. The downgrade reflects a material deterioration in SAMART’s financial profile following its weakening operating results. We expect SAMART’s earnings to gradually recover over the next few years but to remain weaker than the levels commensurate with the previously assigned rating.

The rating continues to reflect 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. Nonetheless, the rating is weighed down by intense competition as well as the uncertainty and volatility in operating performance stemming from its reliance on the government information technology (IT) budgets.

KEY RATING CONSIDERATIONS

Deteriorated financial profile

SAMART’s operating performance has weakened over the past two years due to persistent declines in revenue in almost all core businesses. Total revenue in 2021 was lower than we expected, falling to THB7 billion from THB9.3 billion in 2020 and THB14 billion in 2019.

The company’s earnings before interest, taxes, depreciation, and amortization (EBITDA) in 2021 dropped sharply to THB641 million from THB1.3 billion in 2020 and THB3.2 billion in 2019. The debt to EBITDA ratio jumped to 13.3 times in 2021, from 2.9 times in 2019. The ratio of funds from operations (FFO) to debt slipped to 2.6%, compared with 25% in 2019.

During the next three years, we expect SAMART’s debt to rise due to its capital investments in new and resumed projects. Our base-case forecast projects its debt to EBITDA ratio to stay high at around 9 times in 2022, before improving to around 5-6.5 times during 2023-2024, after a rebound in profitability. The FFO to debt ratio will likely be 7%-13% during 2022-2024.

Smaller service income base may lead to more volatile future earnings

Samart Telcoms PLC (SAMTEL), one of SAMART’s key subsidiaries, has suffered strong setbacks in earnings during the past two years. It used to make a relatively stable EBITDA of THB1.6-THB1.7 billion each year for the group in 2015-2019, but the figure fell to only THB500 million in 2021.

One of the main reasons for the earnings decline was that SAMTEL could not get to renew several airport-related service contracts that expired during the past two years. Revenues from these service contracts, if retained, would provide a relatively predictable stream of cash flow because the contract period is typically longer compared with its trading and turnkey project business. The profit margins from these service contracts are also typically higher.

Revenue from trading and turnkey projects tend to be volatile. The size of a project varies widely, and project durations are typically short for 6-18 months, posing challenges for SAMTEL to continuously secure new projects.

Recovery expected, with abating pandemic impacts and progress of delayed projects

The company's performance of air traffic control service business in Cambodia is likely to have bottomed out in 2021 and to be on a recovery path in 2022 as many countries are reopening to foreign arrivals. However, it may take 24-36 months for the number of flights and airport passengers to recover to pre-Coronavirus Disease 2019 (COVID-19) levels. This business has been directly hit by COVID-19. In 2021, revenues declined to THB456 million, compared with THB2 billion in 2019.

The revenue from Samart Digital PLC (SDC) will likely rise as the trunked radio project with the Ministry of Interior (MOI) has resumed after years of delay. The company finally secured about 76,000 subscribers under the project with the MOI and currently is in the process of handset delivery. The device sales to the MOI subscribers will bring in about THB2 billion in revenue, which will drive SDC's total revenue to increase significantly in 2022. The company also acquired another 9,400 new users under a project with Provincial Electricity Authority (PEA). We expect the company to gradually recognize airtime revenues from the increasing number of subscribers during the next three years.

The new direct coding project, suffered from pandemic-related delay, will start to generate about THB1 billion per annum of revenue this year. The company secured a 7-year contract with the Excise Department worth THB8.03 billion to print two-dimensional (2D) data matrix with security ink on the bottoms of beer cans and the caps of beer bottles, to improve efficiency of tax collection. The project is scheduled to go live in May 2022, delaying from original schedule in 2021.

Overall, the company had a backlog of contracts worth around THB21 billion as of December 2021. Of this, nearly 40% came from the direct coding project, 30% from the ICT solutions business, and about 30% from the power substation installation business and the trunked radio business. Most of the backlog will turn into revenue over the next one to three years.

Profit margin compression but gradual rebound expected

SAMART's operating profit margin narrowed noticeably, due to lower service income and the fallout of COVID-19. Its EBITDA margin in 2021 shrank to around 9%, compared with 14%-22% during 2019-2020.

During the next three years, we forecast its EBITDA margin to gradually improve to 11%-20%, taking into consideration the expected recovery of the core incomes, new project launches, and the effectiveness of cost-cutting measures. SAMART has tightened expense controls, including reduction of selling expenses and improvement of payroll management, to alleviate the impact of depressed revenue. In our forecast, we project the company's EBITDA to rebound to THB1-THB2 billion per annum over the forecast period.

Liquidity remains tight but expected to be manageable

We assess SAMART's liquidity to remain tight but should be manageable over the next 12-18 months. Funds will be used for the capital expenditures of THB1.1-1.9 billion per annum and scheduled debt repayments. As of December 2021, SAMART's total debt was THB9.7 billion. Nearly THB3 billion were short-term project loans which will be repaid to the lenders when the projects are completed. SAMART has about THB3 billion long-term debt payment obligations maturing in 2022. A large part of the debt coming due in the next 12 months will likely be refinanced.

As of December 2021, the company had sources of funds from cash and cash equivalents totaled THB1.7 billion and undrawn loan facilities of about THB2.7 billion. FFO are forecast to be about THB700 million during the next 12 months.

Debt structure

As of December 2021, around 72% of SAMART's debts are priority debts which included debts at subsidiary level and secured project financing loans. As its priority debt ratio exceeded the 50% threshold according to TRIS Rating's "Issue Rating Criteria", we view that SAMART's unsecured creditors are significantly disadvantaged to priority debt holders with respect to claims against the company's assets.

BASE CASE ASSUMPTIONS

- Revenue to range between THB9.9-THB11 billion per annum during 2022-2024.
- EBITDA margin to range between 11%-20%.
- Capital spending to total about THB4.2 billion for 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 major ICT solutions companies in Thailand and will be able to gradually revive its business.

RATING SENSITIVITIES

A rating upgrade scenario could develop if the company's operating performance and financial status improve substantially above our projection. A downward revision on the rating could be triggered by a material further deterioration in SAMART's financial profile, or its operating performance turns out to be substantially lower than expected.

COMPANY OVERVIEW

SAMART was founded by the Vilailuck family in 1950 and listed on the Stock Exchange of Thailand (SET) in 1993. At the end of 2021, the Vilailuck family owned about 42% of SAMART's outstanding shares.

SAMART's core business comprises four 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 SDC. The technology-related businesses and utility and transportation services 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.

As of March 2022, SAMART directly held a stake of about 70% in SAMTEL, and 69% of SDC. In 2021, the major revenue generator was the ICT solutions segment, contributing 66% of total revenue, followed by utility and transportation services (36%), and the digital segment (6%).

KEY OPERATING PERFORMANCE

Table 1: Revenue Contribution by Segment

Business Line	2019		2020		2021	
	Mil. THB	%	Mil. THB	%	Mil. THB	%
ICT solutions and services (SAMTEL)	9,073	64	5,431	60	4,581	66
Digital business (SDC)	999	7	636	7	394	6
Contact center services (OTO)	756	5	645	7	-	-
Utilities and transportation	3,282	23	2,113	23	1,968	28
Technology-related	406	3	469	5	578	8
Eliminations	(382)	(3)	(188)	(2)	(566)	(8)
Total	14,134	100	9,106	100	6,955	100

Source: SAMART

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	-----Year Ended 31 December -----				
	2021	2020	2019	2018	2017
Total operating revenues	7,078	9,253	14,207	12,249	13,070
Earnings before interest and taxes (EBIT)	1	(28)	1,396	(212)	(1,302)
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	641	1,332	3,173	1,517	569
Funds from operations (FFO)	219	849	2,361	745	(68)
Adjusted interest expense	392	414	577	570	507
Capital expenditures	1,023	2,254	1,316	2,200	1,072
Total assets	18,149	18,031	21,225	21,424	22,210
Adjusted debt	8,534	8,339	9,161	9,038	10,244
Adjusted equity	4,725	4,234	5,331	4,941	6,150
Adjusted Ratios					
EBITDA margin (%)	9.06	14.39	22.33	12.39	4.35
Pretax return on permanent capital (%)	0.00	(0.18)	8.20	(1.18)	(6.40)
EBITDA interest coverage (times)	1.64	3.22	5.50	2.66	1.12
Debt to EBITDA (times)	13.31	6.26	2.89	5.96	18.00
FFO to debt (%)	2.57	10.18	25.77	8.24	(0.67)
Debt to capitalization (%)	64.36	66.32	63.21	64.65	62.49

* Consolidated financial statements

RELATED CRITERIA

- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021
- Group Rating Methodology, 13 January 2021
- Rating Methodology – Corporate, 26 July 2019

Samart Corporation PLC (SAMART)

Company Rating:	BBB
Rating Outlook:	Stable

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