

SAMART TELCOMS PLC

No. 66/2022
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
01/04/11	BBB+	Stable

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RATIONALE

TRIS Rating downgrades the company rating on Samart Telcoms PLC (SAMTEL) to “BBB” from “BBB+” with a “stable” outlook. The rating action follows the rating downgrade on Samart Corporation PLC (SAMART) to “BBB” from “BBB+”. The rating on SAMTEL primarily reflects the company’s status as a core subsidiary of SAMART Group. 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. It 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 over 60% of the group’s revenue and earnings before interest, taxes, depreciation, and amortization (EBITDA) during 2019-2021.

As of March 2022, SAMART owns a 70% equity interest in SAMTEL. The management and group strategies of the two companies are highly integrated and interdependent.

Strong 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 of experience. Its expertise and track record of undertaking public sector projects will continue to be important to the group in securing future businesses in this segment.

Performance expected to gradually recover

SAMTEL’s performance has been hard hit in the last two years. Its revenue declined sharply in 2020 and continued to fall in 2021 to THB4.6 billion, compared to THB9.1 billion in 2019. The pandemic has caused delays and reallocations in the IT spending budgets of the public sector, resulting in few new projects signed for two consecutive years. The projects signed totaled THB2.6 billion in 2020 and THB4.5 billion in 2021, compared to THB7.7 billion in 2018 and THB10.1 billion in 2019. In addition, SAMTEL could not get to renew several airport-related service contracts that expired during the past two years.

We expect SAMTEL’s revenue to gradually recover. SAMTEL’s project backlog valued at THB6 billion at the end of 2021 will translate into around THB1.8 billion of revenue in 2022 and THB1.3 billion per year during 2023-2024. For the first quarter of 2022, SAMTEL already signed new projects worth THB3 billion, showing improving sign of recovery. We assess SAMTEL’s profitability to be lower than the pre-pandemic level, due mainly to the discontinuation of high profit margin airport-related services.

Liquidity to remain acceptable

We expect SAMTEL's liquidity to be manageable over the next 12 months. Sources of funds include funds from operations (FFO) of around THB420 million, cash and cash equivalents of THB505 million on hand at the end of 2021, and undrawn credit facilities of approximately THB1.7 billion. The uses of funds will be financial obligations coming due of THB1.8 billion and capital expenditures of about THB550 million.

As most of SAMTEL's debts are short-term and project-based, the cash receipts are 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" outlook is based on the outlook assigned to our rating on 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 SAMART Group has materially changed.

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 2022, 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

	-----Year Ended 31 December -----				
	2021	2020	2019	2018	2017
Total operating revenues	4,604	5,459	9,085	7,689	6,968
Earnings before interest and taxes (EBIT)	114	(147)	477	485	353
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	500	860	1,739	1,688	1,731
Funds from operations (FFO)	447	781	1,531	1,529	1,540
Adjusted interest expense	51	77	142	112	154
Capital expenditures	613	557	440	598	320
Total assets	7,144	6,972	9,454	8,901	9,284
Adjusted debt	1,595	1,198	3,260	2,782	3,712
Adjusted equity	3,371	3,304	3,786	3,678	3,533
Adjusted Ratios					
EBITDA margin (%)	10.85	15.76	19.14	21.96	24.84
Pretax return on permanent capital (%)	2.15	(2.34)	6.69	6.61	4.38
EBITDA interest coverage (times)	9.82	11.24	12.24	15.02	11.21
Debt to EBITDA (times)	3.19	1.39	1.87	1.65	2.14
FFO to debt (%)	28.03	65.20	46.97	54.95	41.48
Debt to capitalization (%)	32.12	26.62	46.27	43.07	51.24

RELATED CRITERIA

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

Samart Telcoms PLC (SAMTEL)

Company Rating:	BBB
Rating Outlook:	Stable

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