

# THORESEN THAI AGENCIES PLC

No. 112/2014

2 December 2014

<b>Company Rating:</b>	BBB+
<b>Issue Rating:</b>	
Senior unsecured	BBB
<b>Outlook:</b>	Stable

## Rating Rationale

TRIS Rating assigns the company rating of Thoresen Thai Agencies PLC (TTA) at “BBB+” and also assigns the ratings for TTA’s senior unsecured debentures, with combined value of Bt4,000 million, at “BBB”. The ratings reflect moderate growth expectations in dry-bulk shipping and offshore oil and gas services industries, adequate competitive positions in dry-bulk shipping and offshore service segments, and business diversification. The ratings are partially offset by exposures to the cyclical nature of shipping and offshore industries, inherent risks and limited records in executing acquisition strategies, and expected rise in financial leverage. The issue ratings are one notch below the company’s rating since the ratio of secured debts to total assets is higher than 20%.

TTA is an investment holding company with four key business segments: dry-bulk shipping services, subsea engineering and drilling services in the offshore oil and gas industry, production and sales of fertilizers in Vietnam, and coal trading. TTA’s revenue for the fiscal year (FY) ended September 2014 was Bt21.4 billion and funds from operations (FFO) were Bt2.2 billion. Offshore services contributed about 60% of the EBITDA (earnings before interest, taxes, depreciation, and amortization), while shipping contributed about 28%. TTA was founded in 1982 and was listed on the Stock Exchange of Thailand (SET) in 1995. At the end of September 2014, the Mahagitsiri family owned approximately 28% of the company’s total shares.

TTA’s strong business profile reflects the company’s established operations in dry-bulk shipping and offshore services. As of September 2014, TTA operated 42 dry-bulk vessels, 24 of which were owned and 18 were chartered-in. TTA’s shipping EBITDA margins over the past five years were quite fluctuated, owing largely to the volatile freight rates. However, disequilibrium in cargo demand and vessel supply has improved since 2013. Total cash operating cost per day of TTA’s shipping business had been lowered since 2012, mainly due to improved vessel standardization, the inclusions of newer vessels, and on-board maintenance policy.

TTA’s offshore business profile considers Mermaid Maritime PLC’s (MMPLC) track records and its improving performance in recent years. As of September 2014, MMPLC was 57.1% owned by TTA. MMPLC owns seven subsea vessels and two tender drilling rigs. In addition, MMPLC’s associate owns three jack-up rigs. MMPLC’s operating margins had been under pressure in recent years due to fixed-costs from a few underutilized fleets. MMPLC is in the process of upgrading its fleet capability. The new fleets are expected to enhance the utilization rates and day rates, thus improving MMPLC’s operating margins and cash flows.

TTA’s business profile considers the limited track records of the company’s major shareholder group and certain key management positions in formulating and executing acquisitive strategies. However, the profile considers benefits from business diversification, which should help reduce cash flow fluctuations.

During 2015-2017, TRIS Rating’s base-case expects TTA’s revenue to grow at least by 10%-15% per annum. The growth is expected to be driven by gradual recovery in the global economy and TTA’s larger and improving fleet capability for both shipping and offshore services.

TTA’s operating margins (operating income before depreciation and amortization as percentage of revenue) is expected to stay above 13% on average.

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TTA is expected to generate FFO at least Bt2.5 billion per annum. The downside risks are moderate due to the cyclicality in the shipping and offshore services. However, the risks are partially offset by the secured income from Saudi Aramco's contracts.

TTA's capital expenditures are expected at Bt24 billion in total for 2015-2017, about two-thirds of which will be spent in 2016. TTA's financial profile also incorporates potential debt-financed acquisitions in the future. TTA's debt to capitalization is expected to rise and peak in 2016-2017, but the ratio is not expected to rise above 50%. The debt to EBITDA ratio is not expected to rise above 4 times. The EBITDA interest coverage ratio is expected to stay above 4 times. The FFO to total debt ratio is expected to stay above 10% on average.

#### Rating Outlook

The "stable" outlook reflects the expectation that TTA's dry-bulk shipping and offshore services will continue to weather industry's cyclicality in the medium term. TTA is expected to maintain its business risk profile in pursuing new business opportunities, as well as maintain debt to capitalization ratio below 50% and debt to EBITDA ratio below 4 times in the medium term.

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### Thoresen Thai Agencies PLC (TTA)

<b>Company Rating:</b>	BBB+
<b>Issue Ratings:</b>	
TTA157A: Bt2,000 million senior unsecured debentures due 2015	BBB
TTA176A: Bt2,000 million senior unsecured debentures due 2017	BBB
<b>Rating Outlook:</b>	Stable

### Financial Statistics and Key Financial Ratios\*

Unit: Bt million

	----- Year Ended 30 September -----				
	2014	2013	2012	2011	2010
Revenues	21,431	18,463	16,347	17,565	17,919
Finance costs	492	510	754	670	602
Net income from operations	853	(385)	(288)	(457)	(49)
Funds from operations (FFO)	2,178	1,708	1,442	2,413	2,388
Capital expenditures	6,958	2,412	1,689	4,426	8,611
Total assets	49,331	43,298	40,797	48,032	48,874
Total debts	13,731	14,098	13,989	14,381	14,238
Total liabilities	17,731	17,856	16,904	17,216	17,341
Shareholders' equity	31,599	25,442	23,893	30,816	31,532
Depreciation & amortization	1,863	1,869	1,824	2,569	2,575
Dividends	159	9	357	732	379
Operating income before depreciation and amortization as % of sales	13.0	11.1	13.0	13.8	16.2
Pretax return on permanent capital (%)	5.3	1.4	1.6	1.1	1.6
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	8.4	4.8	3.3	4.6	5.4
FFO/total debt (%)	15.9	12.1	10.3	16.8	16.8
Total debt/capitalization (%)	30.3	35.7	36.9	31.8	31.1

\* Consolidated financial statements

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