

THORESEN THAI AGENCIES PLC

No. 34/2015

10 June 2015

Company Rating:	BBB+
Issue Ratings:	
Senior unsecured	BBB
Outlook:	Stable

Company Rating History:

Date	Rating	Outlook/Alert
02/12/14	BBB+	Stable

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Rating Rationale

TRIS Rating affirms the company rating of Thoresen Thai Agencies PLC (TTA) at “BBB+” and the ratings of TTA’s existing senior unsecured debentures at “BBB”. At the same time, TRIS Rating assigns a rating of “BBB” to TTA’s proposed issue of up to Bt2,000 million in senior unsecured debentures. The proceeds from the new debentures are for debt refinancing a TTA’s bond which will be matured in July 2015. 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. Despite TTA’s capital increase in March 2015, the issue ratings are one notch below the company’s rating since the ratio of secured debts to total assets is expected to be higher than 20% due to sizable capital expenditures during 2015-2016.

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 March 2015, 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 March 2015, TTA operated approximately 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 March 2015, MMPLC was 57.8% owned by TTA. MMPLC owns 12 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

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business diversification, which should help reduce cash flow fluctuations.

TTA's operating performance was weaker than expected in the first three months of 2015. The deterioration in performance was due to a slump in dry bulk shipping rates, the low season for subsea engineering services, and TTA's three largest subsea vessels were dry-docked. TTA's revenue declined to Bt4.6 billion in the first three months of 2015, approximately a 7% year-on-year (y-o-y) drop. TTA recorded an operating loss in the first three months of 2015. Its operating margin (operating income before depreciation and amortization as percentage of revenue) fell to -7.9%, compared with an operating margin of 12.9% in the first three months of 2014. The company's operating performance is expected to improve in the second quarter of 2015 since the three subsea vessels will be back in operation. However, the prolonged weakness in the global economy may keep dry bulk shipping rate low throughout the year. As a result TTA may see ongoing losses in dry bulk shipping segment. In addition, the low price of oil may reduce the demand for subsea engineering and drilling activities that TTA performs for petroleum exploration and production (E&P) companies. These two factors could affect TTA's operating performance and potentially have a negative effect on TTA's credit rating.

In March 2015, TTA issued new shares through right offering, leading to increased Bt7.3 billion in the capital. The rising capital also strengthened TTA's leverage profile as seen in the debt to capitalization ratio reducing to 27.2% as of March 2015 from 31.2% at the end of December 2014. However, the new capital is expected to be used for acquisitions or new investments, which will raise the ratio in the future.

TTA's capital expenditures are expected at Bt24 billion in totals 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%.

Rating Outlook

The "stable" outlook reflects the expectation that TTA's dry-bulk shipping and offshore services will continue to weather industry's cyclicity 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. TTA's ratings or outlook could be revised downward if TTA's operations are weaker than expectation for a long period. The rating upgrade is limited at this period due to weak market outlook.

Thoresen Thai Agencies PLC (TTA)

Company Rating:	BBB+
Issue Ratings:	
TTA157A: Bt2,000 million senior unsecured debentures due 2015	BBB
TTA176A: Bt2,000 million senior unsecured debentures due 2017	BBB
Up to Bt2,000 million senior unsecured debentures due within 2018	BBB
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

	----- Year Ended 30 September -----					
	Jan-Mar 2015	Oct-Dec 2014	2014	2013	2012	2011
Revenues	4,576	6,207	21,431	18,463	16,347	17,565
Finance costs	127	128	492	510	754	670
Net income from operations	(342)	76	853	(385)	(288)	(457)
Funds from operations (FFO)	(325)	507	2,178	1,708	1,442	2,413
Capital expenditures	481	288	6,958	2,412	1,689	4,426
Total assets	57,223	51,622	49,331	43,298	40,797	48,032
Total debts	14,318	14,694	13,731	14,098	13,989	14,381
Total liabilities	18,824	19,148	17,731	17,856	16,904	17,216
Shareholders' equity	38,398	32,474	31,599	25,442	23,893	30,816
Depreciation & amortization	449	518	1,863	1,869	1,824	2,569
Dividends	417	0	159	9	357	732
Operating income before depreciation and amortization as % of sales	(7.9)	8.5	13.0	11.1	13.0	13.8
Pretax return on permanent capital (%)	(0.8) **	0.8 **	5.3	1.4	1.6	1.1
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	0.2	6.8	8.4	4.8	3.3	4.6
FFO/total debt (%)	(2.3) **	3.5 **	15.9	12.1	10.3	16.8
Total debt/capitalization (%)	27.2	31.2	30.3	35.7	36.9	31.8

* Consolidated financial statements

** Non-annualized with trailing 12 months

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