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THORESEN THAI AGENCIES PLC

No. 156/2016 | 29 December 2016

Company Rating: BBB

Issue Ratings: BBB-
Senior unsecured

Outlook: Stable

Company Rating History:

Date	Rating	Outlook/Alert
02/12/2014	BBB+	Stable

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Rating Rationale

TRIS Rating downgrades the company rating of Thoresen Thai Agencies PLC (TTA) to “BBB” from “BBB+” and also lowers the ratings of the company’s senior unsecured debentures to “BBB-” from “BBB”. The issue ratings are one notch below the company rating since the ratio of secured debts to total assets is expected to exceed 20% as a consequence of TTA’s fleet renewal program.

The downgrades reflect the ongoing decline in TTA’s earnings and expectations on prolonged weakness in dry-bulk shipping and offshore service industries. Although overcapacity in the global dry-bulk shipping industry has been addressed by rising cancellation and scarping rate, the supplies of new fleets is still high as some deliveries have been postponed into 2017 and later. In TRIS Rating’s view, the overcapacity situation is expected to persist, keeping time-charter rates low over the short to medium terms.

Meanwhile, weakness in the offshore service industry may continue for longer than initially expected. Due to uncertainty in the oil price and recovery timing, oil and gas companies tend to spend cautiously and continue to seek opportunities to reduce costs. The oversupply situation of subsea vessels and rigs will worsen business environment and make obtaining new contracts more challenging for TTA.

With unfavorable prospects in its two key industries, TTA’s operating performance is expected to remain under pressure. However, TRIS Rating holds the view that TTA’s healthy balance sheet and ample liquidity will be main factors which help the company pass through the current industry downturn.

The ratings continue to factor in TTA’s adequate competitive positions in the dry-bulk shipping and offshore service segments, business diversification, and its strengthened balance sheet after a huge capital rising. The ratings are constrained by the inherent risks and limited track records in executing acquisition strategies.

TTA is a holding company, with investments in four key business segments: dry-bulk shipping services, subsea engineering and drilling services in the offshore oil and gas industry, production and sale of fertilizers in Vietnam, and coal trading. Over the last five years, offshore service segments contributed 50%-70% of earnings before interest, taxes, depreciation, and amortization (EBITDA), with the shipping segment contributing 25%-40%. The balance was from the fertilizer segment and other investments. TTA’s revenue for the first nine months of 2016 was approximately Bt10.1 billion, dropped by 38.5% year-on-year (y-o-y) and EBITDA was Bt1.4 billion, a 31.4% y-o-y drop.

TTA’s shipping business is undergoing a fleet renewal program. After selling four Handymax vessels in 2016, the company is looking for newer and larger vessels as replacements. As of November 2016, TTA’s shipping business operated with the average of 28 dry-bulk vessels, 20 of owned vessels and the average of eight chartered-in vessels. Owing to the ongoing industry overcapacity, TTA’s average time charter equivalent (TCE) was low so far, the average TCE rate in the first nine months of 2016 was US$4,737 per day, compared with a break even cash cost of US$4,966 per day. However, despite weak performance for the first nine months of 2016, the TCE rate has improved quarter by quarter, after hitting a historical low in the first quarter of 2016.

Mermaid Maritime PLC (MMPLC), a subsidiary of TTA, is responsible for the offshore service business. MMPLC was 58.2% owned by TTA as of September 2016. MMPLC operates seven owned subsea vessels and two tender rigs. Three none-core vessels are cold stacked and two tender rigs were unemployed. The day rates of each operating subsea vessels were adjusted downward, as the price of crude oil declined. Asia Offshore Drilling (AOD) Co., Ltd., a MMPLC's associate, owns three jack-up rigs which operate under contracts with Saudi Arabian Oil Company (Saudi Aramco). The contracts for two jack-up rigs were extended for two years and will expire in mid-2019. The contract for the third rig is being negotiated and is expected to be extended. However, the day rates in the new contracts were cut heavily.

The company cancelled an order for a new subsea vessel (Mermaid Ausana) in December 2016 and still has two new-built tender rigs, pending delivery. The deliveries are expected to be postponed or may be cancelled. If MMPLC cancels the orders, the cancellation will have no material impact on TTA's financial performance as the company has already recognized asset impairments for the deposits paid and the associated costs for the rig and subsea vessels it ordered in its 2015 financial statement.

Due to its weak and volatile operating performance, TTA is expected to manage costs prudently and carefully diversify into less cyclical businesses. According to its long-term strategy, TTA targets to have 50% of EBITDA generated from non-cyclical businesses. TTA's strong balance sheet remains a key factor supporting the assigned ratings at "BBB". Cash and short-term investment of about Bt12 billion will help mitigate liquidity risks over the coming 12 months. Funds from operations (FFO) are forecast at about Bt1.5 billion per annum over the next two or three years.

To improve its fleet structure, TTA plans to procure four dry-bulk shipping vessels in 2017-2018. The new vessels and maintenance capital expenditures are estimated to cost about Bt2.5-Bt3 billion in total, excluding any addition expenditures if TTA reverses decision to take delivery of the new tender rigs. The EBITDA interest coverage ratio is expected to stay above 4 times. The FFO to total debt ratio is expected to stay above 10% over the next three years.

Rating Outlook

The "stable" outlook reflects the expectation that TTA's dry-bulk shipping and offshore service segments will weather the respective industry downturn. TTA is expected to maintain adequate liquidity and continues to support its core businesses so they can survive until the next up-cycle arrives.

The potential for a rating upgrade is limited due to a weak outlook for the shipping and offshore service industries. However, the ratings could be upgraded if the company's performance exceeds TRIS Rating's base-case forecast on a sustained period.

The ratings or outlook could be revised downward if the company's operating performance or cash flow deteriorates significantly from the current projections. This could arise from prolonged weakness in the shipping or offshore service industries, such as weaker-than-expected day rates or lower utilization rates. A significant change in a certain contract, such as the contract with Saudi Aramco, may also trigger the negative rating actions.

Thoresen Thai Agencies PLC (TTA)

Company Rating:	BBB
Issue Ratings:	
TTA176A: Bt2,000 million senior unsecured debentures due 2017	BBB-
TTA187A: Bt2,000 million senior unsecured debentures due 2018	BBB-
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

			------------------- Year Ended 30 September ------------			
	Jan-Sep 2016	Jan-Dec 2015	2014	2013	2012	2011
Revenues	10,064	21,426	21,431	18,463	16,347	17,565
Finance costs	374	570	492	510	754	670
Net income from operations	(297)	(1,002)	853	(385)	(288)	(457)
Funds from operations (FFO)	830	1,999	2,178	1,708	1,442	2,413
Capital expenditures	506	1,333	6,958	2,412	1,689	4,426
Total assets	42,076	45,346	49,331	43,298	40,797	48,032
Total debts	12,377	14,401	13,731	14,098	13,989	14,381
Total liabilities	15,631	18,358	17,731	17,856	16,904	17,216
Shareholders' equity	26,445	26,988	31,599	25,442	23,893	30,816
Depreciation & amortization	1,091	2,263	1,863	1,869	1,824	2,569
Dividends	128	539	159	9	357	732
Operating income before depreciation and amortization as % of sales	7.9	3.6	13.0	11.1	13.0	13.8
Pretax return on permanent capital (%)	(2.1) **	(1.0)	5.3	1.4	1.6	1.1
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	3.9	3.2	8.4	4.8	3.3	4.6
FFO/total debt (%)	9.1 **	13.9	15.9	12.1	10.3	16.8
Total debt/capitalization (%)	31.9	34.8	30.3	35.7	36.9	31.8

* *Consolidated financial statements*
** *Annualized with trailing 12 months*

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