

THORESEN THAI AGENCIES PLC

No. 176/2017

27 December 2017

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

Company Rating History:

Date	Rating	Outlook/Alert
29/12/16	BBB	Stable
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 upgrades the rating of its existing senior unsecured debenture worth Bt2 billion to “BBB” from “BBB-”. The upgrade of the issued rating reflects TRIS Rating’s forecast that the ratio of TTA’s secured debts to total assets is likely to stay below 20% as the acquisition of the second-hand dry-bulk vessels was partially paid by cash to maintain the level of debt. Moreover, the company has no plan for any large investments or acquisitions that will significantly effect on the amount of secured debts over the short term.

The ratings reflect TTA’s adequate competitive position in both the dry-bulk shipping and offshore service segments, continuing business diversification, and solid balance sheet. The ratings are constrained by the uncertainties inherent in the cyclical nature of dry-bulk shipping, the lower vessel utilization rate and reduction in day rates of the offshore service, as well as the limited track record in executing acquisition strategies.

TTA is an investment holding company, established in 1983 and listed on the Stock Exchange of Thailand (SET) in 1995. The company reclassified its businesses into four areas: dry-bulk shipping, offshore services, agrochemical (sale of fertilizers in Vietnam), and investment. For the first nine months of 2017, TTA’s total revenues was approximately Bt9.8 billion and its earnings before interest, tax, depreciation, and amortization (EBITDA) were approximately Bt1.4 billion. Over the last five years, dry-bulk shipping and offshore service remained the key EBITDA drivers, contributing 25%-40% and 50%-70% of overall EBITDA, respectively. The agrochemical contributed 10%-19%.

TTA’s dry-bulk shipping business has recovered remarkably and returned to make profit since the first quarter of 2017 due to an improved freight rate. TTA’s time charter equivalent (TCE) rate rose by 51.4% year-on-year (y-o-y), from US\$5,473 per day in the third quarter of 2016 to US\$8,288 per day in the third quarter of this year. The average of operating cash cost remained flat at US\$5,077 per day. Fleet capacity has improved, as the company acquired three younger and larger second-hand vessels in 2017. As of November 2017, TTA owned 21 vessels with an average size of 53,491 dead weight tonnage and an average age of around 12 years.

On the other hand, TTA’s offshore service business faced a reduction in vessel utilization rate and in a share of profit from an associate, Asia Offshore Drilling Co., Ltd. (AOD), who owns three jack-up rigs which operate under contracts with Saudi Arabian Oil Company (Saudi Aramco). The share of the profit from AOD reduced to around US\$4.5-US\$5 million per annum from about US\$12 million per annum in 2016. The AOD’s contract will be expired in 2019, however, the contract may be renewed as in the past.

With the objective of a balance between cyclical and non-cyclical business, TTA has made investments in food & beverage (F&B), water management, and logistics. However, they still have non-material effects to consolidated net profit. In June 2017, PH Capital Co., Ltd. (PHC), TTA’s 70% owned subsidiary, successfully acquired “Pizza Hut” which had 100 branches in Thailand. The PHC’s EBITDA is positive and relatively thin at this moment.

TTA's capital structure continues to support its credit quality and ratings. Its liquidity buffer is ample, underpinned by large cash and cash equivalents totalling Bt7 billion and a continually decreasing amount of outstanding debt. The total debt to capitalization ratio dropped from 31.4% in 2016 to 24.4% as of September 2017. The funds from operations (FFO) to total debt ratio rose from 10.2% in 2016 to 12.4% in the first nine months of 2017.

Under TRIS Rating's base-case, from 2018-2020, TTA's performance is expected to improve, driven by the recovery of the dry-bulk shipping market and the company's improved fleet capacity. For the offshore service, TRIS Rating assumes the utilization rate is likely to pick up gradually, based on a rise in oil prices and an increase in drilling activities of oil and gas upstream companies. However, the competition in the market is expected to continue and will put pressure on the day rate. TTA is expected to generate FFO of at least Bt1.4 billion per annum. Capital expenditure is expected at Bt1.2 billion in 2018 and Bt0.6 billion per annum in 2019-2020. The company may issue new bonds worth up to Bt5 billion in 2018 in order to refinance the existing bond of Bt2 billion, which will mature in July 2018, and the remaining for working capital purposes. As a result, the total debt to capitalization ratio may rise but the ratio should stay below 30%. The EBITDA interest coverage ratio is expected to stay above 5 times. The FFO to total debt ratio is expected to stay above 15% on average.

Rating Outlook

The "stable" outlook anticipates that both dry-bulk shipping and offshore service segments will remain TTA's key revenue and EBITDA drivers. TRIS Rating also believes that the company will sustain a good liquidity profile and satisfactory debt service capability over the next year.

The potential for a rating upgrade is unlikely in the near term, given uncertainty in the performance of TTA's dry-bulk shipping and offshore service segments. However, the ratings could be upgraded if the company's financial performance exceeds TRIS Rating's base-case projection over a sustained period. This may occur from a successfully diversified portfolio investment, leading to more stable cash flows while maintaining a healthy balance sheet.

The ratings or outlook could be revised downward if the company's operating performance or cash flow deteriorates significantly from the current projection. This could arise from a weakening in the shipping and offshore service markets, and also large loss contribution from its investments.

Thoresen Thai Agencies PLC (TTA)

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

Financial Statistics and Key Financial Ratios*

Unit: Bt million

	Jan-Sep 2017	Jan-Dec 2016	Jan-Dec 2015	Oct-Sep 2014
Revenues	9,845	13,662	21,426	21,431
Finance costs	305	530	570	492
Net income from operations	207	(110)	(1,183)	853
Funds from operations (FFO)**	390	1,236	1,515	1,849
Capital expenditures	1,352	579	1,333	6,958
Total assets	35,927	41,620	45,346	49,331
Total debts	8,181	12,154	14,401	13,731
Total liabilities	10,595	15,125	18,358	17,731
Shareholders' equity	25,332	26,495	26,988	31,599
Depreciation & amortization***	827	1,165	1,779	1,534
Dividends	128	128	539	159
Operating income before depreciation and amortization as % of sales***	9.9	6.5	1.3	11.5
Pretax return on permanent capital (%)	2.6 **	1.8	(1.5)	5.3
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)***	4.7	3.5	1.9	7.7
FFO/total debt (%)***	12.4 **	10.2	10.5	13.5
Total debt/capitalization (%)	24.4	31.4	34.8	30.3

* Consolidated financial statements: TTA has changed the accounting period starting from 1 October to 30 September of next year to the period starting from 1 January to 31 December of every year since September 2014

** Annualized with trailing 12 months

*** Adjusted by excluding dry-docking expenses

Note: TRIS Rating excludes TTA's dry-docking expenses from depreciation and amortization (non-cash expense). The dry-docking is treated as part of cash cost. The new calculation reflects a more conservative assessment of TTA's financial profile. Consequently, the revision results in a decrease in FFO, EBITDA, and other related financial ratios.

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