

# THORESEN THAI AGENCIES PLC

No. 1/2016

5 January 2016

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

## Company Rating History:

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

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## Rating Rationale

TRIS Rating affirms the company rating of Thoresen Thai Agencies PLC (TTA) at “BBB+” and also affirms the ratings of the company’s senior unsecured debentures at “BBB”. The ratings reflect TTA’s adequate competitive positions in the dry-bulk shipping and offshore service segments, business diversification, and its strengthened balance sheet after a recent capital increase. The ratings are constrained by the company’s exposure to the cyclicity of shipping business, the sharp drop in crude oil prices which directly affects the subsea services and offshore drilling segments, and the inherent risks and limited track records in executing acquisition strategies. The issue ratings are one notch below the company’s rating since the ratio of secured debts to total assets is expected to exceed 20% after TTA takes delivery of new-built subsea vessel and drilling rigs.

TTA was founded in 1982 and was listed on the Stock Exchange of Thailand (SET) in 1995. At the end of September 2015, the Mahagitsiri family owned approximately 28% of the company’s total shares. The company is a holding company, investing in 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 full year ending September 2014, was Bt21.4 billion and funds from operations (FFO) were about Bt2.2 billion. Offshore services contributed about 60% of the EBITDA (earnings before interest, taxes, depreciation, and amortization), with the shipping segment contributing about 30%. The balance was from the fertilizer segment and other investments.

The strength of TTA’s business profile reflects its established operations in dry-bulk shipping and offshore services. As of September 2015, TTA’s shipping business operated 40 dry-bulk vessels, 24 of which were owned and 16 were chartered-in. EBITDA margins of its shipping business over the past five years were quite fluctuated, owing largely to the volatile freight rates. A slowdown in global trade coupled with the oversupply of vessels drove the freight rates down more than expected. TTA’s average time charter equivalent (TCE) rate decreased drastically. In the first nine months of 2015, the rate tumbled by 23% year-on-year (y-o-y) to US\$7,474 per day, whereas the break even cash cost is about US\$5,700 per day. The freight rate is expected to recover gradually in 2017, owing to an expected balance improvement between shipping demand and supply. TTA’s EBITDA margin of the shipping business in the first nine months of 2015 dropped significantly, sliding to about 10% from 16% in the same period of 2014.

TTA’s offshore service business is operated under Mermaid Maritime PLC (MMPLC), a company listed on the Stock Exchange of Singapore (SGX). As of September 2015, MMPLC was 58.2% owned by TTA. MMPLC owns seven subsea vessels and two tender rigs. At the end of November 2015, MMPLC’s backlog for the subsea service business was around US\$256 million. The orders in the backlog will be realized as revenue during 2015-2017. In addition, MMPLC’s associate owns three jack-up rigs. These three rigs also have drilling contracts with Saudi Arabian Oil Company (Saudi Aramco), contributing an equity income of approximately US\$30 million per year to TTA from 2013 to 2016 with extension option. MMPLC is in the process of upgrading its fleet capability. The company ordered two new tender rigs which will be delivered in 2016. However, these rigs are not yet contracted to operate.

Due to the currently low crude prices, several oil & gas companies have started cutting their capital spending on offshore drilling activities and renegotiating with offshore service companies for lower day rates. If oil prices remain low for a prolonged period, MMPLC may struggle to find new contracts for its depleted backlogs or for new coming rigs. Since MMPLC contributes the most of TTA's EBITDA, TTA's credit profile will be negatively affected if MMPLC takes delivery of a subsea vessel or two new rigs without the employment contract.

TTA's strong balance sheet is a positive credit factor against industry down cycles. TTA's capital structure was strengthened after the company raised new equity capital of approximately Bt7.3 billion in early 2015. The company also held total cash and short-term investment of about Bt14 billion, almost equivalent to its outstanding debts of Bt14.6 billion. TTA's capital expenditures are expected at about Bt14-Bt15 billion in 2016, with the funds largely earmarked for a new subsea vessel and two tender rigs. The company plans to fund the fleet acquisitions with new debts.

Going forward, TRIS Rating's base-case forecast assumes that the dry-bulk shipping and offshore service industries will start to recover in 2017. The company's strong financial position should provide adequate cushion to weather the current industry downturn. TTA's operating margin (operating income before depreciation and amortization as percentage of revenue) is expected to be weak in 2016 before improving to 11%-13%, based on a premise that MMPLC will be able to find employment contracts for its subsea vessel and new rigs in 2017. FFO is forecasted at least Bt2 billion per annum on average. After acquiring new drilling rigs, the debt to capitalization ratio will peak at 35%-38% during 2016-2017. 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 weather industry's cyclicity in the medium term. TTA's operating performance will weaken in 2016, but it is expected to improve after the shipping industry recovers and TTA secures new contracts for the subsea vessels and drilling rigs.

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

The ratings or outlook could be revised downward if the company's operating performance or cash flow deteriorated significantly. This could arise from prolonged weakness in shipping and offshore service industries, taking deliveries of underused vessels and rigs, and weaker-than-expected day rates or utilization rates in the offshore service segment.

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### Thoresen Thai Agencies PLC (TTA)

<b>Company Rating:</b>	BBB+
<b>Issue Ratings:</b>	
TTA176A: Bt2,000 million senior unsecured debentures due 2017	BBB
TTA187A: Bt2,000 million senior unsecured debentures due 2018	BBB
<b>Rating Outlook:</b>	Stable

### Financial Statistics and Key Financial Ratios\*

Unit: Bt million

	----- Year Ended 30 September -----					
	Jan-Sep 2015	Oct-Dec 2014	2014	2013	2012	2011
Revenues	16,366	6,207	21,431	18,463	16,347	17,565
Finance costs	498	128	492	510	754	670
Net income from operations	(94)	76	853	(385)	(288)	(457)
Funds from operations (FFO)	1,697	507	2,178	1,708	1,442	2,413
Capital expenditures	1,110	288	6,958	2,412	1,689	4,426
Total assets	62,686	51,622	49,331	43,298	40,797	48,032
Total debts	14,589	14,694	13,731	14,098	13,989	14,381
Total liabilities	19,644	19,148	17,731	17,856	16,904	17,216
Shareholders' equity	43,042	32,474	31,599	25,442	23,893	30,816
Depreciation & amortization	1,589	518	1,863	1,869	1,824	2,569
Dividends	539	0	159	9	357	732
Operating income before depreciation and amortization as % of sales	7.0	8.5	13.0	11.1	13.0	13.8
Pretax return on permanent capital (%)	2.2 **	4.1 **	5.3	1.4	1.6	1.1
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	4.8	6.8	8.4	4.8	3.3	4.6
FFO/total debt (%)	15.1 **	11.7 **	15.9	12.1	10.3	16.8
Total debt/capitalization (%)	25.3	31.2	30.3	35.7	36.9	31.8

\* Consolidated financial statements

\*\* Annualized with trailing 12 months

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