

THORESEN THAI AGENCIES PLC

No. 202/2018
26 December 2018

CORPORATES

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

Last Review Date: 24/09/18

Company Rating History:

Date	Rating	Outlook/Alert
29/12/16	BBB	Stable
02/12/14	BBB+	Stable

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RATIONALE

TRIS Rating affirms the company rating on Thoresen Thai Agencies PLC (TTA) at “BBB”. At the same time, we also affirm the ratings on TTA’s outstanding senior unsecured debentures at “BBB”. The ratings still reflect TTA’s moderately competitive position in the dry-bulk shipping and offshore service segments, continuing business diversification, and strong balance sheet. The ratings are constrained by the uncertainties inherent in the cyclical nature of dry-bulk shipping and offshore business and continuously weakening performance in the offshore service segment. Successful execution of new business acquisitions remain to be proven.

KEY RATING CONSIDERATIONS

Moderate business profile

TTA’s credit strength is driven by two volatile businesses, dry-bulk shipping and offshore services. On average, the two businesses contribute about 70%-80% of total earnings before interest, taxes, depreciation, and amortization (EBITDA).

TTA’s adequate market position in the dry-bulk shipping market is backed by an established operation and competitive fleet capacity. TTA owns 21 vessels. Due to fleet renewal program, the average size of its vessels has continued to rise to 55,528 dead weight tonnage (DWT), while the average age hovers at around 11.5 years. The EBITDA margin were fluctuated, due largely to volatile freight rate.

TTA’s offshore business profile is considered by its track operating record and serviceability. The company’s offshore service segment owns seven vessels. The company also has three jack-up rigs under the operation of Asia Offshore Drilling Co., Ltd. (AOD), its associate. The operation of the offshore service segment has weakened continuously over last three years due to declining demands for offshore drillings from oil and gas exploration and production (E&P) companies.

Continued business diversification

TRIS Rating factors in TTA’s efforts to improve business diversity in a bid to counterbalance the fluctuation in its two core businesses. The company invests in other non-cyclical businesses, including food & beverage, water management, and logistics. However, its track record of successful execution in the investments is still to be proven. The investments or acquired businesses still have no material effect to the group.

The recovery of dry-bulk operation supports overall performance

The ongoing improvement of freight rate in dry-bulk shipping industry since 2016 has helped recover TTA’s overall performance. TTA’s average time charter equivalent (TCE) rate rose by 41.5% to US\$11,275 per day in the first nine month of 2018 from US\$7,966 per day in the same period of 2017. Thanks to the fleet rejuvenation program, the operating cash cost increased slightly by 6% to US\$5,273 per day from about US\$5,000 per day over the same period.

In the first nine-month of 2018, revenue from the dry bulk shipping segment improved largely by 40.1% year-on-year (y-o-y). The revenue contribution from the dry-bulk segment rose to 40% from about 29% in the same period last year.

Renewal of offshore contracts remains uncertain

TRIS Rating assesses that the subsea engineering market remains challenging. Even though the average crude oil price continues to rally and benefit E&P companies, they are still exhibiting caution in operating expenditures, leading drilling activities to recover slower than expected.

TTA's offshore service operation continued to suffer from underutilized fleets. The company has seven vessels, of which only three remain under contract. Given its limited market demand, the company plans to dispose of the four remaining vessels so as to reduce fixed costs.

The depletion of on-hand contract value also posts a challenging outlook for future performance. As of September 2018, the contract value dropped to US\$129 million with 1-year of life remaining. At the same time, the contracts for three jack-up rigs operating under AOD will expire within 2019 as well. TRIS Rating foresees that TTA's offshore service is likely to operate under more pressure beyond 2019 if the contracts have not been renewed by then.

EBITDA is expected at Bt1.8-Bt2.0 billion

TRIS Rating forecasts that TTA's improving dry-bulk performance should adequately offset the expected weak performance of the offshore service operation. TTA's dry-bulk shipping segment will generate stronger profit, underpinned by a gradually rising freight rate. In contrast, the outlook for the offshore service operation remains stagnant as the utilization rate of operating subsea vessels may be lower after the existing contracts expire. Under the base-case assumptions, we expect TTA to generate EBITDA between Bt1.8-Bt2.0 billion per annum and funds from operations (FFO) of about Bt1.5 billion per annum during 2019-2021. The FFO to total debt ratio on average is expected to stay above 45%.

Strong balance sheet supports ratings

TTA's strong balance sheet is a positive credit factor that helps resist the impact from volatile performance. TTA's net debt to capitalization ratio remained low at 14.9%, backed by large cash and cash equivalents of about Bt5.1 billion as of September 2018. However, the company's cash on hand has steadily declined due to continuous investments and business acquisitions over the past several years.

TRIS Rating estimates the company's capital expenditure to be about Bt1.8 billion in 2019 and Bt500-Bt600 million per annum for 2020-2021. About Bt1.1 billion of spending in 2019 is earmarked for acquisition of two second-hand dry-bulk shipping vessels. The 50% of acquisition costs will be funded by bank loans. We expect TTA's net debt to capitalization ratio to stay at a low level below 20% over the next three years.

Adequate liquidity

TTA's sources of funds will be sufficient to the use of funds over the next 12 months. Its sources of liquidity were comprised cash and cash equivalents of Bt5.1 billion at the end of September 2018, estimated FFO of at least 1.8 billion, plus Bt1.5 billion in proceeds from a recent bond issuance in October 2018. During the same period, the cash outflow over the next 12 months will include loan repayments of Bt1.66 billion, capital expenditures of around Bt1.8 billion, and expected dividend payments of about Bt100 million.

RATING OUTLOOK

The "stable" outlook reflects TRIS Rating's anticipation that both dry-bulk shipping and offshore service segments will remain the key drivers for TTA's revenue and EBITDA. Given the planned capital spending, TTA's strong balance sheet and liquidity profile are likely to continue to play important roles in supporting the ratings over the next 1-2 years.

RATING SENSITIVITIES

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

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

COMPANY OVERVIEW

TTA is an investment holding company, established in 1983 and listed on the Stock Exchange of Thailand (SET) in 1995. The Mahagitsiri family is a major shareholder with a 27.8% stake in TTA's shares. The company reclassified its businesses into four areas: dry-bulk shipping, offshore services, agrochemical (production & distribution of fertilizers in Vietnam), and investment.

For the first nine months of 2018, TTA's total revenues were approximately Bt10.04 billion and its reported EBITDA were approximately Bt1.15 billion. Over the last five years, the dry-bulk shipping and offshore service segments remained the key EBITDA drivers, contributing 25%-40% and 50%-70% of overall EBITDA, respectively. The agrochemical segment contributed 10%-19%.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Bt million

	Jan-Sep 2018	-----Year Ended 31 December -----			
		2017	2016	2015	2014
Total operating revenues	10,080	13,492	13,745	21,495	21,527
Operating income	974	2,137	1,426	681	3,558
Earnings before interest and taxes (EBIT)	412	1,170	657	(2,685)	2,515
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,220	2,530	2,066	1,151	4,034
Funds from operations (FFO)	789	1,973	1,511	515	3,165
Adjusted interest expense	363	460	585	615	555
Capital expenditures	1,362	2,088	2,170	1,333	6,958
Total assets	35,973	35,585	41,620	45,346	49,331
Adjusted debt	4,366	2,548	2,451	2,993	7,019
Adjusted equity	24,879	25,054	26,495	26,988	31,599
Adjusted Ratios					
Operating income as % of total operating revenues (%)	9.7	15.8	10.4	3.2	16.5
Pretax return on permanent capital (%)	2.5 **	3.2	1.6	(6.1)	5.8
EBITDA interest coverage (times)	3.4	5.5	3.5	1.9	7.3
Debt to EBITDA (times)	2.2	1.0	1.2	2.6	1.7
FFO to debt (%)	30.9 **	77.4	61.6	17.2	45.1
Debt to capitalization (%)	14.9	9.2	8.5	10.0	18.2

* 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

RELATED CRITERIA

- Key Financial Ratios and Adjustments, 5 September 2018
- Rating Methodology – Corporate, 31 October 2007

Thoresen Thai Agencies PLC (TTA)

Company Rating:	BBB
Issue Ratings:	
TTA213A: Bt1,805.2 million senior unsecured debentures due 2021	BBB
TTA221A: Bt1,500 million senior unsecured debentures due 2022	BBB
Rating Outlook:	Stable

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