

# THORESEN THAI AGENCIES PLC

No. 213/2019  
25 December 2019

## CORPORATES

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

**Last Review Date:** 26/12/18

### 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 and the ratings on TTA's outstanding senior unsecured debentures at "BBB" with a "stable" outlook. The ratings reflect TTA's high business risk underpinned by the high uncertainties and volatilities in its core dry-bulk shipping and offshore service businesses. The ratings also take into consideration TTA's strong balance sheet supported by sizable cash on hand. However, the company's efforts to diversify into other businesses have not yet delivered fruitful results. The ratings also factor in the improving supply-demand balance in the dry-bulk shipping business which is expected to support freight rate recovery.

## KEY RATING CONSIDERATIONS

### Exposure to highly volatile business

TTA's business risk reflects the highly volatile and cyclical nature of its two core 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).

In the dry-bulk shipping industry, a major factor contributing to the volatility is the highly fragmented and competitive nature of the industry. A lack of supply discipline leads to a series of oversupply situations and depressed freight rates.

In the offshore service business, the company's operations are tied to the highly cyclical and volatile oil and gas exploration and production (E&P) industry. Uncertainty in crude oil prices trend is expected to continue pressuring E&P activities in the short to medium term. The company is also exposed to customer concentration risk, which limits its pricing power. Its operating performance has been dependent on contract renewals from a few customers, mainly in the Middle East.

### Favorable outlook for dry-bulk shipping

Improving supply fundamentals are creating a more favorable market outlook. Dry-bulk shipping capacity growth is expected to remain modest in the next 12-18 months, thanks to the implementation of a sulphur emissions cap (IMO 2020), becoming effective on 1 January 2020. To comply with the regulation, ship owners have a choice of retrofitting scrubbers or using low-sulphur oil. Both options result in lower capacity as retrofitting a scrubber requires several weeks of dry docking while burning expensive low-sulphur oil slows down ship speeds. In addition, IMO 2020 will accelerate the scrapping rates of aged and uneconomical vessels. Growth in supply and demand is expected to be better balanced compared with the past several years.

In the first nine months of 2019, TTA's average time charter equivalent (TCE) was US\$10,185 per ship per day, a decline of 10% year-on-year. The fall was mainly due to depressed dry-bulk freight rates in the first half of 2019, pressured by the Vale S.A. incident in Brazil, bad weather conditions in Australia, and African swine fever in China. Operating cash cost rose by 5% to US\$5,533 per ship per day.

During 2019-2022, TRIS Rating's base-case assumption projects TTA's TCE rate to be at US\$9,800-US\$10,200 per ship per day. We expect TTA to remain cost

efficient with operating cash cost projected at US\$5,500-US\$6,000 per ship per day over the same period. TTA's revenue from the dry-bulk shipping segment is anticipated at Bt5.6-Bt6.3 billion per annum with an EBITDA margin in the 17%-20% range.

### **Offshore service business remains challenging**

TRIS Rating expects the performance of the offshore service segment to remain challenging. The company secured US\$210 million of backlog in the third quarter of 2019; however, the crude oil price remains volatile and the E&P companies remain cautious in their activities and capital spending, while the oversupply of offshore engineering services still persists.

At the end of 2019, the company had order books totaling US\$210 million which will translate into revenues of US\$27 million in 2019, US\$75 million in 2020, and a total of US\$108 million during 2021-2022. However, TTA's offshore service operations continue to be pressured by subsea fleet underutilization. The revenue backlog has been generated by the intensive utilization of three vessels, while the company's remaining four owned vessels have been cold-stacked. Although vessel cold-stacking helps reduce operating costs, the company still needs to absorb US\$0.9-US\$1 million in fixed costs annually.

TRIS Rating's base-case scenario forecasts revenue from TTA's offshore service business to be in the US\$100-US\$120million per year range during 2019-2022. Apart from the secured backlog, revenue is expected to come from offshore service engineering and potential decommissioning activities in the Gulf of Thailand. We also expect TTA to receive a total of US\$2-US\$3 million per year in equity income from the contracts for three jack-up rigs operating under Asia Offshore Drilling Co., Ltd. (AOD), its associate. Although TRIS Rating is of the view that TTA's offshore service business has bottomed out, we expect recovery to be slow and the company is likely to continue incurring operating losses over the forecast period. New business potential, such as cable laying, if materialized, should help on earnings.

### **Contributions from other businesses and investments remain small**

TRIS Rating has factored in TTA's efforts to improve business diversity in a bid to counterbalance the fluctuations in its two core businesses. The company has invested in other non-cyclical businesses, including agrochemicals, food & beverage, water management, and logistics. However, the success of these investments is yet to be proven and they still have no material effect on the group's performance in TRIS Rating's view.

During 2019-2022, our base-case projects the agrochemical business to generate Bt2.7-Bt3.2 billion in revenue annually with an EBITDA margin in the mid-single digit percentage range. In the food business, the main contribution is from Pizza Hut restaurants, which have started benefitting from increased scale and a greater number of outlets. The company operated 144 Pizza Hut outlets at the end of September 2019, compared with 108 outlets at the end of 2017. The company plans to open about 40 outlets in total during the next three years. We expect revenue from Pizza Hut to be in the range of Bt1.9-Bt2.5 billion per annum during 2019-2022 with an EBITDA margin in the mid-single digit percentage range.

### **Strong balance sheet supports ratings**

TTA's strong balance sheet is a positive credit factor that helps resist the impacts of volatile performance, thanks largely to the company's ample cash and cash equivalents on hand. However, the company's cash on hand has steadily declined due to continuous investments and business acquisitions over the past several years.

Under our base-case assumptions, we expect TTA to generate revenue of Bt13-Bt16 billion per annum during 2019-2022. EBITDA margin is projected to be in the 8%-10% range, which translates into EBITDA of Bt1.1-Bt1.5 billion per annum during the forecast period. Funds from operations (FFO) are forecast to be Bt0.5-Bt1 billion per annum during 2019-2022.

At the end of September 2019, TTA's adjusted debt to capitalization ratio remained low at 13%. However, its cash flow protection deteriorated as a result of the weak operating results. The adjusted ratio of FFO to total debt weakened from 21.9% in 2018 to 8.6%, annualized from the trailing 12 months, for the first nine months of 2019.

During 2019-2022, TRIS Rating's base-case scenario projects the adjusted debt to capitalization ratio to remain below 15%. Following our expectation of improved operating performance, the adjusted ratio of FFO to total debt is projected to stay below 20% in 2019, taking into account the weak operating results in the first nine months. We expect the leverage ratio to improve to 21%-23% during 2020-2022. The forecast leverage level is on the lower end for the company to remain commensurate with the current ratings. The ratings could come under downward pressure if TTA's adjusted FFO to total debt ratio stays below 20% for an extended period.

Our base-case assumption takes into account estimated capital expenditures of about Bt500 million in 2019, Bt2 billion in 2020 mainly to purchase two second-hand dry-bulk shipping vessels, 50% of which will be funded by bank loans, and Bt400-Bt500 million per annum for 2021-2022.

## Adequate liquidity

TTA's liquidity is assessed to be sufficient to cover its needs for the next 12-24 months. Its primary sources of funds are cash and cash equivalents on hand amounting to Bt6.9 billion as of the end of September 2019, and estimated FFO of Bt0.5-Bt1 billion per annum. Its primary uses of funds are capital expenditures totaling Bt2.5 billion, scheduled debt repayments of Bt3.5-Bt4 billion in total, and expected dividend payments of about Bt100 million per annum.

## BASE-CASE ASSUMPTIONS

- Average TCE rate of US\$9,800-US\$10,200 per ship per day and operating cash cost of US\$5,500-US\$6,000 per ship per day during 2019-2022.
- Offshore service revenue in the US\$100-US\$120 million per year during 2019-2022.
- Revenue of Bt13-Bt16 billion per annum during 2019-2022.
- EBITDA margin in the 8%-10% range, with EBITDA of Bt1.1-Bt1.5 billion per annum over the forecast period.
- FFO of Bt0.5-Bt1 billion per annum during 2019-2022.
- Estimated capital expenditures of about Bt500 million in 2019, Bt2 billion in 2020, and Bt400-Bt500 million per annum during 2021-2022.

## RATING OUTLOOK

The "stable" outlook reflects TRIS Rating's expectation that TTA will be able to weather the adverse conditions of the dry-bulk shipping and offshore service industries in the short to medium term. 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 volatile performance of the dry-bulk shipping and offshore service segments. However, the ratings could be upgraded if the company's operating performance significantly improves for an extended period especially in the dry-bulk shipping and offshore service businesses. The ratings could face downward pressure if TTA's adjusted FFO to total debt ratio stays below 20% for an extended period, either as a result of a persistent deterioration in operating results or from any sizable debt-funded 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 27.2% stake. The company classifies its businesses into four areas: dry-bulk shipping, offshore service, agrochemical (production & distribution of fertilizers in Vietnam), and investment.

TTA's market position in the dry-bulk shipping market is backed by its established operations and competitive fleet capacity. TTA owns 21 vessels with an average size of 55,285 dead weight tonnage (DWT), while the average age is around 12.5 years. The company's offshore service segment owns seven subsea vessels. The company also has three jack-up rigs under the operation of AOD, its associate.

For the first nine months of 2019, TTA's total revenues were Bt11.3 billion. Dry-bulk shipping contributed 44%, followed by the offshore service segments with 22%, agrochemical business 18%, and investment segment 16%.

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS**

Unit: Bt million

	Jan-Sep 2019	2018	2017	2016	2015
Total operating revenues	11,340	13,990	13,492	13,745	21,495
Earnings before interest and taxes (EBIT)	(119)	377	1,170	657	(2,685)
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	802	1,459	2,530	2,066	1,151
Funds from operations (FFO)	265	826	1,973	1,511	515
Adjusted interest expense	407	499	460	585	615
Capital expenditures	448	1,657	2,088	2,170	1,333
Total assets	34,846	37,112	35,585	41,620	45,346
Adjusted debt	3,499	3,769	3,189	2,663	3,939
Adjusted equity	23,409	24,587	25,054	26,495	26,988
<b>Adjusted Ratios</b>					
EBITDA margin (%)	7.07	10.43	18.76	15.03	5.35
Pretax return on permanent capital (%)	(0.46)	1.09	3.18	1.60	(6.09)
EBITDA interest coverage (X)	1.97	2.92	5.50	3.53	1.87
Debt to EBITDA (X)	3.36	2.58	1.26	1.29	3.42
FFO to debt (%)	8.63	21.92	61.85	56.74	13.08
Debt to capitalization (%)	13.00	13.29	11.29	9.13	12.74

**RELATED CRITERIA**

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

**Thoresen Thai Agencies PLC (TTA)**

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

**TRIS Rating Co., Ltd.**

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