TRIS RATING
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PRECIOUS SHIPPING PLC

No. 218/2020
29 December 2020

CORPORATES

Company Rating:	BB+
Issue Rating:	
Senior unsecured	BB
Outlook:	Stable

Last Review Date: 19/08/20

Company Rating History:

Date	Rating	Outlook/Alert
19/08/20	BB+	Negative
24/04/20	BB+	Alert Negative
31/08/17	BBB-	Stable
26/08/16	BBB-	Negative
13/11/15	BBB	Stable

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RATIONALE

TRIS Rating affirms the company rating on Precious Shipping PLC (PSL) at "BB+" and affirms the rating on PSL's senior unsecured debentures at "BB". At the same time, TRIS Rating revises PSL's rating outlook to "stable", from "negative". The outlook revision reflects our view on PSL's improving operating conditions and charter rates after the huge pressure induced by the Coronavirus Disease 2019 (COVID-19) pandemic during the first half of 2020. Additionally, PSL's liquidity status has improved as a consequence of a stronger freight rate environment, the extension of debenture maturity dates, cash received from a settlement with a shipyard, cash received from 1-year advanced charter-hire on five vessels, as well as from the company's loan refinancing attempts to extend its debt maturity profile.

The ratings continue to reflect the company's high business risk profile, inherent in the highly volatile shipping industry, and high level of leverage. The ratings also take into account improving industry fundamentals with expected demand recovery and modest supply growth.

KEY RATING CONSIDERATIONS

Demand slump from COVID-19 but recovery anticipated

The COVID-19 pandemic, particularly in the first half of 2020, caused major disruptions in economic activities and brought about a slump in demand for dry-bulk shipping. However, the demand is gradually recovering, led by the revival of economic activities in China after the country successfully contained the virus outbreak. Economic stimulus measures implemented by governments globally are another key factor supporting the recovery in demand. The demand for overall dry-bulk shipping is expected to contract by 3%-4% in 2020 but to grow by 5%-6% in 2021. Minor bulk demand is expected to decline by 5%-6% in 2020 but to recover by 7% in 2021. However, vulnerable global economic conditions and the evolving COVID-19 situation remain key threats to the recovery.

Modest supply growth drives industry prospects

PSL's high business risk profile is characterized by the highly volatile dry-bulk shipping industry. One major factor driving the volatility is the frequent recurring of oversupply situations due to a lack of supply discipline, as the industry is highly fragmented and competitive. However, supply correction has been ongoing over the past few years, leading to more favorable market conditions for dry-bulk shipping operators.

Dry-bulk shipping capacity growth is expected to remain modest in the next 12-24 months. Order books for new vessels have been low during the past few years mainly because the downcycle in the dry-bulk shipping sector has not allowed ship-owners to generate enough cash to replenish their fleets. In addition, the International Maritime Organization (IMO) requires shipping companies to make sizeable carbon emission cuts, which are not possible to achieve with most of the new vessel designs offered by shipyards. The implementation of a sulphur emission cap (IMO 2020), which came into effect on 1 January 2020, is an additional positive factor for vessel supply. To comply with the regulation, ship owners need to retrofit scrubbers or use 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 speed. IMO 2020 will also accelerate the scrapping rates of aged and uneconomical vessels. The net increase of dry-bulk shipping capacity is expected to be in the 1%-3% per annum range during 2020-2021.

Freight rate to rebound

PSL's freight rate has been pressured by the adverse impacts of the COVID-19 in 2020. For the first nine months of 2020, PSL's average time charter (TC) rate dropped by 16% to USD7,765 per ship per day, compared with USD9,283 per ship per day in the same period of the previous year. Our base-case assumption expects the TC rate to average USD8,100-USD8,300 per ship per day in 2020. With the expectation that demand growth will outpace net capacity growth, the TC rate is forecast to improve to the level of USD9,500-USD10,000 per ship per day during 2021-2022. We expect PSL to continue keeping its operating costs under control. The average operating cost (OPEX) is forecast to range from USD4,600-USD4,700 per ship per day during 2020-2022.

PSL's operating cash flows are volatile, driven by freight rate fluctuations. Our base-case forecast projects PSL's earnings before interest, taxes, depreciation, and amortization (EBITDA) to be USD35-USD40 million in 2020 and USD50-USD60 million per annum during 2021-2022. Funds from operations (FFO) are expected to be USD15-USD20 million in 2020 and USD30-USD40 million per annum during 2021-2022.

Leverage remains high, but improving

PSL's leverage is high as most of its vessels are debt funded. At the end of September 2020, PSL's adjusted debt was USD311 million. The adjusted ratio of debt to EBITDA was 8.5 times and the adjusted FFO to total debt ratio was 5.3% (annualized, from the trailing 12 months) for the first nine months of 2020. We expect the leverage ratios to be about this level for 2020 as a whole. The leverage ratios are expected to improve with better earnings prospects and assuming no major capital expenditures. Capital spending is forecast at around USD3-USD4 million in total during 2020-2022. The adjusted debt to EBITDA ratio is expected to stay around 5-6 times and the adjusted FFO to total debt ratio to be 10%-15% during 2021-2022.

Easing of near-term liquidity risk

PSL's short-term liquidity risk has eased somewhat as the company has been able to extend the maturity dates for its two debenture issues plus it received cash from a dispute settlement with a shipyard of USD40.5 million in the third quarter of 2020. PSL also received advance one-year charter of five ships for USD25.23 million in October 2020. Together with its loan refinancing efforts, we expect that PSL's liquidity status will be manageable through 2021.

For the remainder of 2020 through 2021, PSL's primary sources of funds are cash and cash equivalents of USD55 million at the end of September 2020, new loan facilities totaling USD16 million received in the fourth quarter of 2020, advance one-year charter of five ships for USD25.23 million received in October 2020, and cash FFO of around USD15 million in total.

During the last quarter of 2020, PSL partially redeemed a total of THB627million (or approximately USD21 million) in PSL206A and partially redeemed a total of THB718 million (or approximately USD20 million based on a swap agreement) in PSL211A. Funding needs from the fourth quarter of 2020 through 2021 also include scheduled debt repayments of approximately USD70 million, the outstanding balance of PSL206A of THB941 million (or approximately USD31 million), and capital spending of USD1-USD2 million. PSL is currently working on refinancing some of its loans as well as securing new financing for its unencumbered vessels to meet the obligations. The ratings could come under pressure if PSL fails to secure refinancing and is unable to spread out its debt repayment profile, leading to heightened liquidity risk.

BASE-CASE ASSUMPTIONS

- Average TC rate to be at USD8,100-USD8,300 per ship per day in 2020 and USD9,500-USD10,000 per ship per day during 2021-2022.
- OPEX is forecast to range from USD4,600-USD4,700 per ship per day during 2020-2022.
- EBITDA to be at USD35-USD40 million in 2020 and USD50-USD60 million per annum during 2021-2022.
- Capital spending is forecast at around USD3-USD4 million in total during 2020-2022.

RATING OUTLOOK

The "stable" outlook reflects our expectation that PSL's operating performance will improve along with more favourable market conditions. Additionally, we expect PSL to cautiously manage its liquidity with sufficient headroom to cushion against adverse changes in market conditions.

RATING SENSITIVITIES

PSL's ratings could be downgraded if unfavourable operating conditions persist for an extended period, leading to weaker-than-expected financial metrics and/or material deterioration in its liquidity position. A rating upgrade could occur if PSL steadily delivers stronger-than-expected operating results, leading to its adjusted FFO to debt ratio staying over 15% on a sustained basis and absence of heightened liquidity risk.

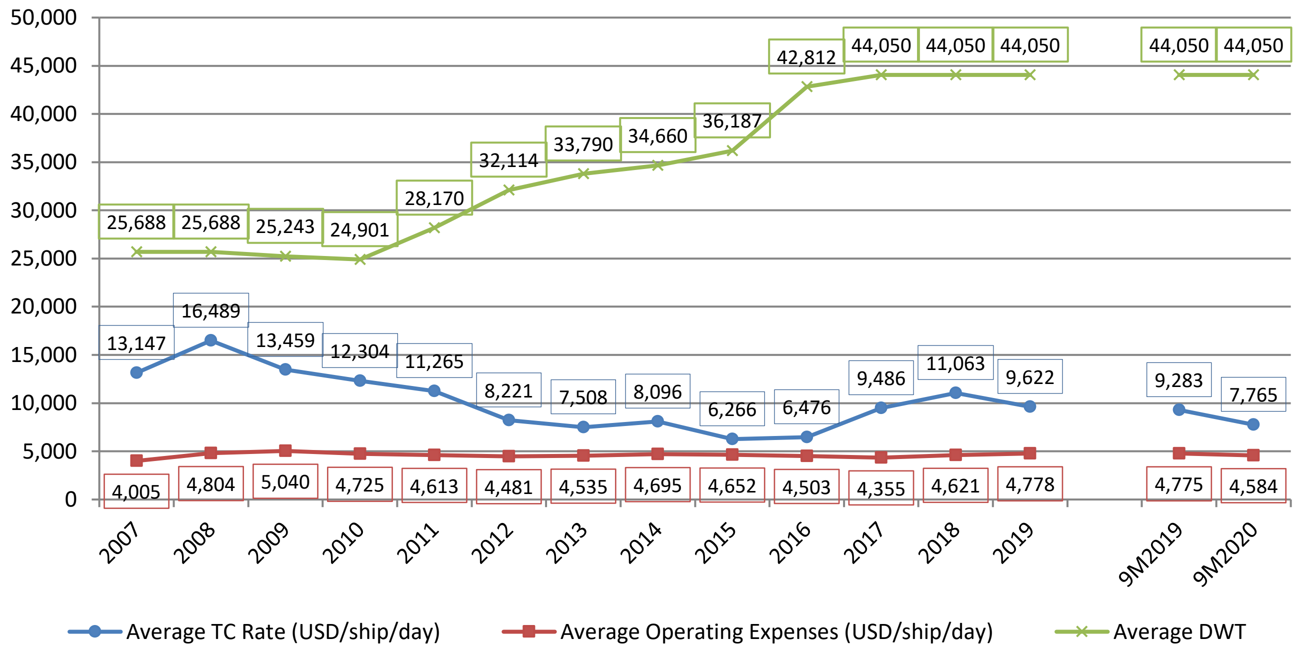
COMPANY OVERVIEW

PSL was established in 1989 and listed on the Stock Exchange of Thailand (SET) in 1993. PSL is a shipping company, owning and operating dry-bulk ships as a tramp shipper. As of May 2020, PSL's major shareholders comprised Ms. Nishita Shah and group, holding 44.4% of PSL's shares, followed by Mr. Khalid Moinuddin Hashim, holding 8.4%.

As of December 2020, PSL had 36 vessels with a total of 1.59 million deadweight tonnage (DWT) in its fleet, comprising 15 handy size vessels, four cement carriers, nine supramax vessels, and eight ultramax vessels. The average age of the fleet is nine years.

KEY OPERATING PERFORMANCE

Chart 1: Average TC Rate and Operating Expenses during 2007 to Jan-Sep 2020



Source: PSL

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. USD

		-----------Year Ended 31 December -----------			
	Jan-Sep 2020	2019	2018	2017	2016
Total operating revenues	85	134	152	128	105
Earnings before interest and taxes (EBIT)	1	14	40	19	(9)
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	24	45	70	49	23
Funds from operations (FFO)	9	22	44	24	(4)
Adjusted interest expense	15	23	26	25	28
Capital expenditures	6	14	9	30	76
Total assets	735	831	858	882	902
Adjusted debt	311	355	377	413	398
Adjusted equity	337	383	391	377	381
Adjusted Ratios					
EBITDA margin (%)	28.28	33.29	45.98	38.27	22.19
Pretax return on permanent capital (%)	0.85	1.81	4.78	2.16	(1.07)
EBITDA interest coverage (times)	1.60	1.97	2.74	1.96	0.84
Debt to EBITDA (times)	8.51	7.93	5.38	8.41	17.09
FFO to debt (%)	5.34	6.21	11.79	5.81	(1.13)
Debt to capitalization (%)	48.01	48.06	49.09	52.26	51.06

RELATED CRITERIA

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

Precious Shipping PLC (PSL)

Company Rating:	BB+
Issue Rating:	
PSL211A$_{RS}$: THB2,872 million senior unsecured debentures due 2022	BB
Rating Outlook:	Stable

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