PRECIOUS SHIPPING PLC

No. 109/2017 31 August 2017

Company Rating: BBB-

Issue Ratings:
Senior unsecured BB+

Outlook: Stable

Company Rating History:

Date	Rating	Outlook/Alert
26/08/16	BBB-	Negative
13/11/15	BBB	Stable

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Rating Rationale

TRIS Rating affirms the company rating of Precious Shipping PLC (PSL) at "BBB-" and affirms the rating of PSL's senior unsecured debentures at "BB+". The ratings reflect the high volatility of the dry-bulk shipping industry, PSL's track record in the dry-bulk shipping business, and its ability to manage through severe industry cycles. At the same time, TRIS Rating revises PSL's rating outlook to "stable" from "negative". The outlook revision reflects the improvement of dry-bulk shipping market conditions driven by both stronger demand and improved supply situation.

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 June 2017, PSL's major shareholders comprised Ms. Nishita Shah and group, holding 44.41% of PSL's shares, followed by Mr. Khalid Moinuddin Hashim, holding 8.43%.

As of 25 August 2017, 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 5.28 years.

PSL's business risk profile is underpinned by the high volatility of the dry-bulk shipping industry. The industry is going through a prolonged severe down turn which has gone on for more than five years. The Baltic Dry Index (BDI), widely used as a reference for the time charter (TC) rate, was at a record low at an average of 673 points in 2016. However, market situations have gradually improved since late 2016, supported by both stronger demand and improved supply conditions. The BDI averaged at 975 points in the first half of 2017.

TRIS Rating expects the market conditions in the dry-bulk shipping segment to be on a recovery path over the next two to three years, supported mainly by lower pressure from the supply side. The current oversupply situation is easing due to the high scrapping rate of ships during the downturn and slippage in delivery of new buildings. In addition, new environmental regulatory requirements relating to ballast water management and low sulphur fuel oil, becoming effective in 2019-2020, will accelerate the scrapping rates of aged and uneconomical vessels as well as decelerate the new order book as a result of design uncertainty relating to the new regulations.

The company's performance improved significantly in the first half of 2017, as industry condition improved. PSL's average TC rate rose by 37.4% from US$6,476 per ship per day in 2016 to US$8,899 per ship per day in the first six months of 2017. The average operating cost (opex) further declined by 5.5% from US$4,503 per ship per day in 2016 to US$4,265 per ship per day in the first six months of 2017, a result of the company's ability to control costs and the selling of old and uneconomical ships. With an improvement in the TC rate and efficient cost control, PSL's operating margin (operating income before depreciation and amortization as percentage of revenue) improved from 23.1% in 2016 to 42.2% for the first half of 2017. Funds from operations were US$11.6 million for the first six months of 2017. Leverage rose significantly during the past two years as a result of new fleet acquiring, weaker earnings, and new bond issuances to boost liquidity during the depressed market conditions. At the end of June 2017, total debts peaked at US$523.6 million and the ratio of debt to capitalization climbed 57.98%.

Going forward, TRIS Rating's base-case scenario projects PSL's average TC rate to stay between US$8,500-US$9,500 per ship per day during 2017-2019, based on the assumption that the dry-bulk shipping market conditions will stay on a recovery path. The operating margin is projected to stay over 38% during the same period, reflecting cost saving and greater efficiency through a younger fleet. Our base-case forecast also assumes no major capital expenditures during the forecast period, especially the acquisition of new vessels. The industry is still in the early stage of a recovery. As a result, we expect the company to maintain ample liquidity to cushion against any surprise reversal of the recovery.

Over the next 12-18 months, TRIS Rating holds the view that PSL will have sufficient liquidity to meet its obligations. PSL's funding needs are primarily scheduled debt repayments of US$40 million and capital spending of approximately US$13 million. Sources of funds are FFO expected at US$15 million per annum and cash and cash equivalents of US$89 million on hands at the end of June 2017.

Rating Outlook

The “stable” outlook reflects the improvement in the dry-bulk shipping market conditions and the expectation that PSL's prudent financial management will continue. PSL is expected to maintain sufficient liquidity to serve as a cushion against material adverse changes in market conditions. PSL's ratings could be downgraded if the dry-bulk shipping market slumps or if PSL’s financial profile significantly weakens either from a deterioration in financial performance or higher financial leverage. The rating upside case will be driven by favorable market conditions, coupled with PSL's stronger-than-expected operating results over a sustained period of time while maintaining low debt to cash generation ratio.

Precious Shipping PLC (PSL)

Company Rating:	BBB-
Issue Rating:	
PSL211A: Bt3,590 million senior unsecured debentures due 2021	BB+
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios*

Unit: US$ million

	Jan-Jun 2017	----------------------- Year Ended 31 December ------------------- 2016	2015	2014	2013	2012
Total sales	61.6	104.6	123.4	141.0	125.1	112.7
Gross interest expense	12.4	27.7	16.4	15.4	14.9	13.9
Net income (loss) from operations	(2.7)	(41.4)	(37.5)	(4.7)	(13.8)	(5.1)
Funds from operations (FFO)	11.6	1.0	(6.3)	27.4	17.6	(6.0)
Capital expenditures	23.0	76.3	129.5	216.5	101.6	203.4
Total assets	922.2	901.9	899.4	846.7	777.4	784.5
Total debt	523.6	503.3	418.4	361.4	282.6	296.0
Shareholders' equity including minority interest	379.4	381.2	456.8	463.7	476.4	472.9
Operating income before depreciation and amortization as % of sales	42.24	23.10	18.27	34.98	29.89	34.04
Pretax return on permanent capital (%)	(2.63) **	(1.55)	(2.48)	1.34	0.22	1.22
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	2.14	0.90	1.38	3.23	2.60	2.77
FFO/total debt (%)	2.37 **	0.21	(1.50)	7.58	6.21	(2.03)
Total debt/capitalization (%)	57.98	56.90	47.80	43.80	37.23	38.50

* *Consolidated financial statements*
** *Annualized with trailing 12 months*

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