TRIS RATING
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PRECIOUS SHIPPING PLC

No. 203/2023
19 October 2023

CORPORATES

Company Rating: BBB
Outlook: Stable

Last Review Date: 25/10/22

Company Rating History:

Date	Rating	Outlook/Alert
25/10/22	BBB	Stable
13/12/21	BBB-	Stable
29/12/20	BB+	Stable
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 "BBB" with a "stable" rating outlook. The rating reflects PSL's high business risk inherent in the volatile and cyclical shipping industry. The rating also reflects the company's modest level of financial leverage, which could rise depending on upcoming investment opportunities. We expect supply growth in the dry-bulk industry to continue to be modest, constrained by uncertainty over the design and technological requirement needed to meet future environmental regulations as well as limited shipyard capacity, which should help maintain acceptable freight rates and profitability in the coming years.

KEY RATING CONSIDERATIONS

Downside risk to demand growth

The dry-bulk shipping industry relies heavily on world economic conditions. The activity level in the industry is a function of demand for commodities, global economic growth, and trade flows. The International Monetary Fund (IMF) forecasts a slowdown in global gross domestic product (GDP) growth to 3% in 2023 and 2.9% in 2024, from 3.5% in 2022. Meanwhile, dry-bulk demand growth in terms of tonne-miles is expected to expand by around 2%-3% in 2023 and 1%-2% in 2024.

The prevailing global economic challenges with persistently high inflation and interest rates are already having a negative impact on overall sentiment and hindering global GDP growth. The protracted economic slowdown in China, a pivotal player in global maritime trade, could impact trade demand. Additionally, escalating geopolitical risks could introduce further uncertainty to demand growth.

Modest supply growth supports freight rates

The expected annual growth in net supply for dry-bulk shipping is around 2%-4%. Such constrained supply expansion will be a key factor upholding freight rates in the next couple of years, even in the midst of uncertainties regarding the outlook for dry-bulk demand.

The low orderbook for new dry-bulk carriers is a result of uncertainties surrounding the design and technology required to meet increasingly stringent decarbonization regulations, as well as the limited capacity of shipyards. These factors are expected to suppress supply growth over the next few years. Furthermore, the implementation of rules governing greenhouse gas emissions may result in reduced ship speeds and an accelerated scrapping rate for older, less economical vessels.

High business risk

We continue to consider the industry risk of dry-bulk shipping as high, constraining our assessment of PSL's business risk profile despite favorable near-term supply and demand developments. The industry is highly fragmented, leading to frequent supply-demand imbalances and a history of oversupply situations. The capital intensity and inability to meaningfully differentiate services often lead to intense competition based on price, squeezing the profitability of industry players.

Normalized freight rates

The dry-bulk shipping market began to normalize in late 2022, following an abnormal surge in freight rates caused by inefficiencies stemming from the COVID-19 pandemic. Considering our view on demand and supply dynamics, our base-case projection assumes PSL's average time charter (TC) rate will normalize at around USD10,000-USD11,000 per ship per day during 2023-2026, compared with USD19,924 per ship per day in 2022. Despite a track record of cost efficiency, we expect inflationary pressure to continue affecting the company's operating costs. We project average operating cost (OPEX), including dry dock and special survey expenses, to rise to USD5,200-USD5,600 per ship per day during the forecast period from USD4,895 per ship per day in 2022.

Potential rise in leverage from investments

During 2023-2026, we forecast PSL's revenue to reach around USD140-USD150 million per annum. The forecast incorporates our assumption that the company will acquire four second-hand vessels during 2024-2025 at a total cost of USD110-USD115 million. Earnings before interest, taxes, depreciation, and amortization (EBITDA) are projected to be around USD50-USD65 million per annum while funds from operations (FFO) are forecast to be USD40-USD50 million per annum during 2023-2026. As a result, PSL's leverage ratio, measured by adjusted debt to EBITDA ratio, is forecast to spike to around 3-3.5 times during 2024-2025 from 1.6 times (annualized from the trailing 12 months) in the first six months of 2023, before falling below 2.5 times in 2026.

We assess PSL's liquidity to be adequate over the next 12 months from June 2023. Funding uses primarily comprise scheduled debt repayments of USD34 million and capital expenditure, excluding vessel acquisitions, of around USD1-USD2 million. Sources of funds are cash and cash equivalents of USD39 million at the end of June 2023 and FFO estimated at around USD45 million.

At the end of June 2023, PSL's total interest-bearing debt was USD197 million. As all the debt is secured debt, we view PSL's prospective unsecured creditors as being significantly disadvantaged with respect to the priority of claims against the company's operating assets in the event of insolvency.

The main financial covenants on PSL's loans require the company's debt to equity ratio to remain below 2 times. As of June 2023, the ratio was 0.42 times. We believe that PSL should be able to comply with the financial covenants over the forecast period.

BASE-CASE ASSUMPTIONS

- Average TC rate to be USD10,000-USD11,000 per ship per day during 2023-2026.
- OPEX to be around USD5,200-USD5,600 per ship per day during 2023-2026.
- EBITDA to be USD50-USD65 million per annum during 2023-2026.
- Vessel acquisitions totaling USD110-USD115 million during 2024-2025.

RATING OUTLOOK

The "stable" outlook reflects our expectation that conditions in the dry-bulk shipping industry will remain favorable, allowing PSL to continue generating sound operating cash flow. We also expect PSL to be prudent in its investments and dividend payments to safeguard its financial metrics, providing an adequate buffer against adverse operating circumstances.

RATING SENSITIVITIES

A rating upgrade is unlikely in the near term. The rating/outlook could be revised downward if PSL's operating performance and financial metrics are significantly weaker than projected, either from deteriorating operating results and/or aggressive debt-funded investments such that the adjusted debt will stay above 2.5 times the sustainable level of EBITDA.

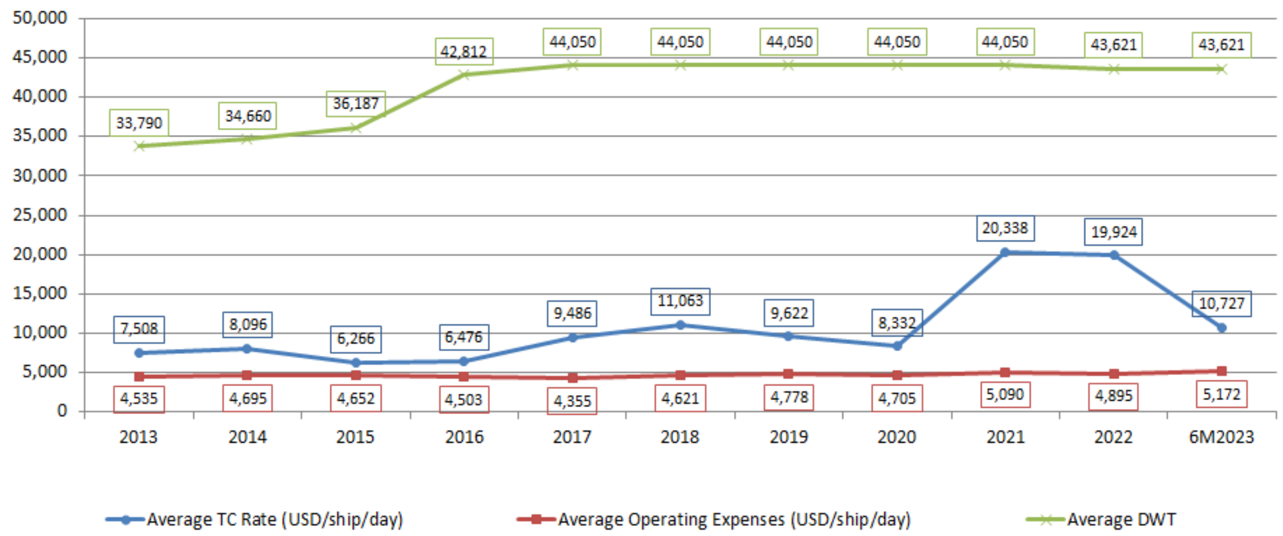
COMPANY OVERVIEW

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 August 2023, PSL's major shareholders comprised Ms. Nishita Shah and group, holding 44.4% of PSL's shares, followed by Mr. Khalid Moinuddin Hashim, holding 7.8%.

As of October 2023, PSL had 38 vessels with a total of 1.66 million deadweight tonnage (DWT) in its fleet, comprising 17 handy size vessels, four cement carriers, nine supramax vessels, and eight ultramax vessels. The average age of the fleet is 11.7 years.

KEY OPERATING PERFORMANCE

Chart 1: Average TC Rate and Operating Expenses during 2013 to Jan-Jun 2023



Source: PSL

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. USD

	Jan-Jun 2023	------------ Year Ended 31 December --------- 2022	2021	2020	2019
Total operating revenues	72	260	266	119	134
Earnings before interest and taxes (EBIT)	14	145	153	6	14
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	30	176	184	36	45
Funds from operations (FFO)	24	165	171	17	22
Adjusted interest expense	6	11	13	19	23
Capital expenditures	2	57	2	8	5
Total assets	692	703	704	712	831
Adjusted debt	162	165	174	303	355
Adjusted equity	472	476	430	337	383
Adjusted Ratios					
EBITDA margin (%)	42.38	67.82	69.17	30.49	33.29
Pretax return on permanent capital (%)	9.97 *	21.36	22.58	0.81	1.81
EBITDA interest coverage (times)	4.90	15.86	14.14	1.91	1.97
Debt to EBITDA (times)	1.61 *	0.93	0.95	8.35	7.93
FFO to debt (%)	54.32 *	99.97	97.98	5.66	6.21
Debt to capitalization (%)	25.54	25.71	28.85	47.34	48.06

* *Annualized from the trailing 12 months*

RELATED CRITERIA

- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021

Precious Shipping PLC (PSL)

Company Rating:	BBB
Rating Outlook:	Stable

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