

RAJA FERRY PORT PLC

No. 11/2021
10 February 2021

CORPORATES

Company Rating: BB+
Outlook: Negative

Last Review Date: 24/02/20

Company Rating History:

Date	Rating	Outlook/Alert
24/03/17	BB+	Stable

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RATIONALE

TRIS Rating affirms the company rating on Raja Ferry Port PLC (RP) at “BB+”. At the same time, TRIS Rating revises the rating outlook to “negative”, from “stable”. The outlook revision reflects our expectation that RP’s operating performance and financial strength will deteriorate materially from the impact of the Coronavirus Disease 2019 (COVID-19) on tourism and economic activities in Koh Samui and Koh Phangan. In addition, we expect RP’s leverage to rise significantly as a result of its fleet maintenance and renewal plan.

The rating continues to reflect RP’s established business position in ferry operations in Surat Thani province, with the operating routes from Don Sak pier to Koh Samui and Koh Phangan. The company is also working on opening new ferry routes to Koh Pha Luay and Koh Tao, emphasizing its “Island Gateway” strategy. However, the rating is constrained by the company’s small business scale and geographical concentration.

KEY RATING CONSIDERATIONS

Established market position but small revenue base with geographical concentration

RP’s established business position is supported by its status as the largest ferry operator in Surat Thani province in combination with the oligopolistic structure of the local ferry services market. There are only two ferry service companies operating from Don Sak pier. Barriers to entry are high due to the need for official permission and the prohibitively high prices of land, particularly land on Koh Samui, for the construction of new ports. The threat of substitutes for ferry services is minimal in the near-to-medium term as the ferry is currently the only mode of transportation for vehicles travelling to and from Koh Samui and Koh Phangan. Currently, RP has a total of 14 ferries and owns two ports, the Port of Donsak and the Port of Koh Samui. The combination of a sizeable fleet and full control of embarkation and debarkation gives the company the competitive edge of better operational flexibility and more frequent services over its competitor.

However, RP’s business scale is small, characterized by limited cash flow generation and a relatively small debt absorbing capacity. During 2017-2019, RP’s revenue ranged from THB700-THB745 million per annum with earnings before interest, taxes, depreciation, and amortization (EBITDA) of THB129-THB145 million per year. RP’s revenues depend heavily on the economy of the Surat Thani-Samui area. The small size of the market and the lack of diversified sources of revenue make it vulnerable to adverse changes in the economy of its service area and constrain the company’s long-term growth potential.

COVID-19 induced weak operating performance

The slump in tourism activities in Koh Samui and Koh Phangan caused by COVID-19 has had a significant impact on RP’s operating performance. We expect RP’s revenue and earnings to weaken in 2020-2021 and anticipate it will take another 18-24 months for its business to recover close to the pre-COVID-19 level.

For the first nine months of 2020, RP’s passenger numbers dropped by 35% year-on-year (y-o-y) to 544,599 people. Thanks to the construction work being carried out on the islands, vehicle traffic dropped to a lesser degree, by

15% y-o-y to 428,238 vehicles. Our base-case scenario projects this trend to continue throughout 2020-2021 considering the impact from the second wave of COVID-19 infections in Thailand and the uncertainty surrounding vaccine distribution, which will continue to hinder tourism demand. We expect tourism and economic activities in the islands to gradually recover in 2022. Our base-case forecast projects passenger numbers to grow by 10%-15% in 2022, with vehicle traffic increasing by 5%-10% over the same period. Based on these recovery rates, RP's revenue is projected to reach THB500-THB520 million per year during 2020-2021, rising to THB600-THB650 million in 2022. RP is currently working on opening new ferry routes to Koh Pha Luay and Koh Tao. The new destinations should help the recovery of RP's revenue in the medium to long term.

Profitability pressured by lower traffic and aging fleet

We expect RP's profitability to weaken as a result of lower utilization rates and the aging of its fleet. For the first nine months of 2020, RP reported an EBITDA margin of 17.5%, compared with 21.7% during the same period last year. To respond to the lower traffic demand and to control costs, RP has optimized its fleet schedule and cut operating expenses. However, its aged fleet still requires high maintenance costs as well as lengthy periods of off-service repair and maintenance.

Under our base-case scenario, RP's EBITDA margin is forecast to be 15%-17% during 2020-2021, and 18%-20% in 2022, which translates into EBITDA of THB80-THB90 million per annum in 2020-2021 and around THB110-THB120 million in 2022. Another downside risk to RP's profitability is a potential rise in fuel costs, which is one of the company's main cost components.

Rising leverage

RP's leverage is rising as a result of weaker earnings and its capital expenditure plan. At the end of September 2020, RP reported adjusted debt of THB225 million. Almost all of RP's debts are secured and, as a result, unsecured creditors could be in an inferior position compared with the company's secured creditors. The adjusted debt to EBITDA ratio was 2.4 times, annualized from the trailing 12 months, up from 0.8 times in 2019. Our base-case assumption expects the ratio of adjusted debt to EBITDA to be 3-4 times during 2020-2022. Our assumption incorporates the company's planned fleet improvement and renewal program. RP plans to spend a total of THB400-THB420 million during 2021-2022, primarily for a new ferry acquisition, ferry maintenance, and port expansion.

Tight but manageable liquidity

The deteriorating operating cash flow has weakened RP's liquidity position. The additional expense of THB29 million caused by the accident of the Raja 4 ferry, that sank in August 2020, was a drain on the company's liquidity. Currently, RP is in the process of claiming compensation for the Raja 4 ferry incident from the insurer. The sum insured under the insurance policy is THB16 million; however, the amount which RP is entitled to receive is not clear. We assess RP's liquidity to be tight but should remain manageable through 2021.

From the last quarter of 2020 to 2021, RP's sources of funds comprised funds from operations (FFO) of about THB70-THB80 million and cash and cash equivalents on hand of THB133 million, as of September 2020. Primary uses of funds are capital expenditures of about THB100-THB115 million and debt repayments of around THB160 million. RP needs new borrowings to support its planned new ferry acquisition. In addition, RP is currently in talks with a bank to adjust loan repayment schedules in order to preserve liquidity for its fleet maintenance.

BASE-CASE ASSUMPTIONS

- Revenue of THB500-THB520 million per year during 2020-2021 and THB600-THB650 million in 2022.
- EBITDA margin to be projected at 15%-17% during 2020-2021 and 18%-20% in 2022.
- Capital expenditures to be forecast at THB400-THB420 million in total during 2021-2022.

RATING OUTLOOK

The "negative" outlook reflects TRIS Rating's expectation that RP's operating performance and financial strength will deteriorate materially from the impact of the COVID-19 on tourism and economic activities in Koh Samui and Koh Phangan. We also expect RP's leverage to rise significantly over the next few years from its fleet maintenance and renewal plan.

RATING SENSITIVITIES

The outlook could be revised to "stable" if RP delivers stronger-than-expected business and financial performance. This could happen from a strong recovery of economic activities in Koh Samui and Koh Phangan and/or the company's successful expansions into new ferry routes outside the Koh Samui area or from new lines of business.

The rating could be downgraded if the company's financial profile deteriorates to the extent that its ratio of adjusted debt to EBITDA stays over 3.5 times on a sustained basis and/or if its liquidity is in a significantly deeper deterioration.

COMPANY OVERVIEW

RP is a ferry service operator based in Surat Thani province. The company was founded in 1981 and listed on the Market for Alternative Investment (MAI) in November 2015. The Chayopas family is the major shareholder and has management control. The company offers ferry services for passengers and vehicles (passenger cars, motorcycles, 4- to 10-wheel trucks, and trailers) on three routes; Don Sak pier to Koh Samui, Don Sak pier to Koh Phangan, and Koh Samui to Koh Phangan.

Since 2013, RP's ferry services have contributed approximately 90% of its total revenue. The remainder has come from sales of groceries, restaurant business, and van services. The main route between Don Sak pier and Koh Samui generates approximately two-thirds of RP's ferry service revenue. The proportion of revenues from passenger transport and vehicle transport is around 25:75.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	Jan-Sep 2020	-----Year Ended 31 December -----			
		2019	2018	2017	2016
Total operating revenues	397	722	745	701	693
Earnings before interest and taxes (EBIT)	(37)	21	33	42	80
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	69	145	129	130	148
Funds from operations (FFO)	73	131	118	121	136
Adjusted interest expense	11	11	8	4	9
Capital expenditures	79	149	195	197	238
Total assets	1,246	1,206	1,184	1,073	1,043
Adjusted debt	225	109	99	0	0
Adjusted equity	821	884	887	860	881
Adjusted Ratios					
EBITDA margin (%)	17.50	20.02	17.26	18.56	21.43
Pretax return on permanent capital (%)	(4.01)	1.85	3.16	4.32	7.73
EBITDA interest coverage (times)	6.39	12.79	16.09	29.54	16.29
Debt to EBITDA (times)	2.41	0.75	0.77	0.00	0.00
FFO to debt (%)	42.98	120.55	119.28	n.m.	n.m.
Debt to capitalization (%)	21.53	10.96	10.01	0.00	0.00

n.m. Not meaningful

RELATED CRITERIA

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

Raja Ferry Port PLC (RP)

Company Rating:	BB+
Rating Outlook:	Negative

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