

RAJA FERRY PORT PLC

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CORPORATES

Company Rating: BB+
Outlook: Stable

Last Review Date: 16/02/18

Company Rating History:

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

Contacts:

Pravit Chaichamnapai, CFA
pravit@trisrating.com

Pramuansap Phonprasert
pramuansap@trisrating.com

Parat Mahuttano
parat@trisrating.com

Sauwarot Jirachaipithak
sauwarot@trisrating.com



WWW.TRISRATING.COM

RATIONALE

TRIS Rating affirms the company rating on Raja Ferry Port PLC (RP) at “BB+”. The rating reflects RP’s established business position in ferry operations in Surat Thani province, from the Don Sak pier to Koh Samui and to Koh Phangan, and expected low financial leverage. However, the rating is constrained by the small scale of RP’s business, geographical concentration, and expected rising cost of maintaining an aging fleet of ferries.

KEY RATING CONSIDERATIONS

Established business position

RP’s business is stable, characterized by low cyclical and oligopolistic competition. There are only two ferry service companies operating in Don Sak pier. Barriers to entry are high due to the need of official permissions and the prohibitively high prices of land, particularly land on Koh Samui, to construct new port. The threat of substitutes for ferry services is minimal as the ferry is the only transportation which can transfer vehicles to and from Koh Samui and Koh Phangan.

RP is the largest ferry operator in Surat Thani province. The company continues to enhance its services by acquiring three used ferries during the last three years, bringing the total number of ferries to 15 as of December 2018. A sizeable fleet gives the company better operational flexibility and more frequent service than the competitor. For example, the company can increase the frequency of ferry trips during peak periods or maintain scheduled operations even if some ferries are out of service.

RP also owns two international ports, the Port of Donsak and the Port of Koh Samui. As a result, the company has full control of embarkation and debarkation, ferry operations, and customer service.

Small scale and geographical concentration risk

The small business of RP indicates its limited cash flow generation and relatively small debt-loading capacity. RP’s revenues depend heavily on the economy of the Surat Thani-Samui area. TRIS Rating holds the view that the limited size of the market and the lack of diversified sources of revenue are the constraints on the company’s long-term growth potential and make it vulnerable to adverse changes in its service area.

Aging fleet pushes up maintenance cost

RP’s procurement policy with targets on second-hand ferries partly explains the relatively old age of its ferry fleet. The average age of RP’s ferries is 35 years. The old age is likely to weigh down profitability in the long run, as seen from ongoing increases in maintenance costs and need for lengthy off-service repairs and maintenance periods for some ferries.

Moderate growth ahead

The popularity of Koh Samui and Koh Pha Ngan continues to support RP’s revenue growth. The incomes from transporting vehicles made up nearly two-third of RP’s annual revenue over the past five years. The revenue from passengers made up around 25%-30%. The balance comes from other sources, including sales of groceries and van services.

Between 2014 and 2018, vehicle traffic rose by an average of 6.8% per annum. In 2018, RP transported to 639,000 vehicles approximately, an 8.6% year-on-year rise, after a 1.6% drop in 2017. In contrast, the number of passengers is more volatile and sensitive to tourism industry. Over the last five years, the number of passengers grew by just 0.7% per annum. The number increased slightly by 0.9% in 2018 to 1.18 million persons.

RP's ferries still have plenty of loading capacity for passengers. The number of passengers RP carried in 2018 was about 16% of its maximum capacity, meanwhile the number of vehicles RP carried was about 73% of maximum capacity. Since there are large remaining seats for travelers, the company attempted to boost the number of passengers in several ways, by setting up a ticket shop in Bangkok, hiring of bus service companies to transfer tourists from Bangkok directly to Donsak pier, and planning to open a new route to Koh Pha Luay, an island close to Koh Samui.

Rising fuel price and maintenance costs squeeze profits

RP's operating result in 2018 was weaker than our forecast. The operating margin (before depreciation and amortization) dropped to 17.1% in 2018 from 18.6% in 2017 due to the rising cost of fuel as the average selling price of diesel oil increased by 9.8% to Bt28.2 per liter in 2018 from Bt25.7 per liter in 2017. Additionally, the company's operating costs increased due to scheduled major maintenances for several ferries and safety improvement programs to raise its ferry safety standard. Safety regulations became stricter after an accident sank a tourist boat near Koh Phuket last year.

Going forward, we forecast that the company's operating margin will range between 18%-20%. Moderate growth in the number of vehicles will result in a better utilization rate for the ferry fleet, and thus restoring the profitability. However, TRIS Rating foresees that RP's expenditures for maintenance and safety improvements will continue in 2019 and may put pressure on earnings and the profit margin, given the age of the fleet. Other downside risks will stem from volatile price of diesel oil and unexpected floods or storms in the southern part of Thailand.

Leverage will remain low

TRIS Rating expects RP's leverage will stay low over the next three years. The company decided to delay its plan to acquire more second-hand ferries. The estimated capital expenditures will fall, and then slowing the pace of leveraging. We estimate that the capital expenditures, mainly including major maintenance spending, and port improvements, will come to about Bt190 million in 2019 and Bt130 million 2020. As a result, the debt to capitalization ratio will rise but not exceed 30%.

RP's adequate liquidity status is supported by its cash on hand and reliable funds from operations (FFO). The main sources of funds over the next 12 months will include FFO of Bt130 million and cash on hand of Bt128 million. Debt repayments over the next 12 months will be around Bt38 million, while dividend payments are forecast at Bt25 million per year.

BASE-CASE ASSUMPTIONS

- RP's revenues will grow by 4%-5% per annum over the next two to three years.
- We expect RP's operating margin will gradually rise to around 18%-20%.
- RP's annual earnings before interest, taxes, depreciation, and amortization (EBITDA) will be about Bt150 million.

RATING OUTLOOK

The "stable" outlook reflects TRIS Rating's expectation that RP will maintain its competitive strengths and market position, as well as its sound financial profile. The ferry routes to Koh Samui and Koh Pha Ngan will remain key drivers of revenue and growth.

RATING SENSITIVITIES

A potential upgrade could occur if RP enlarges its cash flow base and achieves more diversified sources of revenues. This could happen from successful expansion in new ferry routes outside Koh Samui area or new lines of business.

The rating could be downgraded if the company's financial profile deteriorates significantly and/or there are material adverse changes in its business operation or business structure. If the liquidity tightens perhaps as a result of a substantial increase in debt, TRIS Rating may downgrade the rating.

COMPANY OVERVIEW

RP is a ferry service operator 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 transporting 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 between Koh Samui to Koh Phangan.

Since 2013, RP's ferry services have contributed approximately 90% of its total revenue. The remainder was derived from sales of groceries, restaurant businesses, and van services. The main route between Don Sak pier and Koh Samui has generated approximately two-thirds of RP's ferry service revenue; meanwhile, the route between Don Sak pier and Koh Phangan contributes the rest. The proportion of revenues from passenger transport and vehicle transport was typically 30:70.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Bt million

	-----Year Ended 31 December -----				
	2018	2017	2016	2015	2014
Total operating revenues	750	701	693	638	676
Operating income	129	130	148	163	160
Earnings before interest and taxes (EBIT)	33	42	80	104	112
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	129	130	148	163	160
Funds from operations (FFO)	118	121	136	137	133
Adjusted interest expense	8	4	9	14	18
Capital expenditures	195	197	238	51	53
Total assets	1,184	1,073	1,043	1,162	733
Adjusted debt	99	0	0	0	167
Adjusted equity	887	860	881	953	431
Adjusted Ratios					
Operating income as % of total operating revenues (%)	17.1	18.6	21.4	25.5	23.6
Pretax return on permanent capital (%)	3.2	4.3	7.7	11.9	17.3
EBITDA interest coverage (times)	16.1	29.5	16.3	11.4	9.1
Debt to EBITDA (times)	0.8	0.0	0.0	0.0	1.0
FFO to debt (%)	119.3	n.m.	n.m.	n.m.	79.5
Debt to capitalization (%)	10.0	0.0	0.0	0.0	28.0

RELATED CRITERIA

- Key Financial Ratios and Adjustments, 5 September 2018
- Rating Methodology – Corporate, 31 October 2007

Raja Ferry Port PLC (RP)

Company Rating:	BB+
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 0-2098-3000

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