

RAJA FERRY PORT PLC

No. 19/2020

24 February 2020

CORPORATES

Company Rating: BB+
Outlook: Stable

Last Review Date: 28/02/19

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+” with a “stable” outlook. The rating reflects RP’s established business position in ferry operations in Surat Thani province, with routes from Don Sak pier to Koh Samui and Koh Phangan. The rating also takes into account RP’s small business scale with geographical concentration, and expected rising leverage from its fleet maintenance and renewal plan.

KEY RATING CONSIDERATIONS

Established business position

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 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 the only mode of transportation which can transfer vehicles to and from Koh Samui and Koh Phangan.

Currently, RP has a total of 15 ferries and owns two ports, the Port of Donsak and the Port of Koh Samui. A sizeable fleet and full control of embarkation and debarkation give the company better operational flexibility and more frequent services than its competitor.

Small revenue base with geographical concentration

RP’s small business scale is characterized by limited cash flow generation and relatively small debt-loading capacity. In 2018, RP reported Bt750 million in revenue and Bt129 million in earnings before interest, taxes, depreciation, and amortization (EBITDA). 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 constitute the primary constraints on the company’s long-term growth potential and make it vulnerable to adverse changes in its service area.

Moderate revenue growth

TRIS Rating expects RP’s revenue to grow moderately over the next 2-3 years. RP’s revenue growth relies largely on the economic activities of Koh Samui and Koh Phangan, which are driven mainly by tourism. The global economic slowdown coupled with the impact from the coronavirus outbreak could hamper the company’s growth.

Under TRIS Rating’s base-case scenario, RP’s revenue is projected to remain flat in 2019, then grow by 2%-4% per year during 2020-2021, which translates into revenues of Bt740-Bt790 million per year during 2019-2021. The revenue projection is supported mainly by an expected moderate growth in revenue from transporting vehicles. Between 2014 and 2018, transport of vehicles made up nearly two-thirds of RP’s annual revenue. Vehicle traffic rose by an average of 6.8% per annum during the period. For the first nine months of 2019, RP transported 505,539 vehicles, a 3.6% year-on-year (y-o-y) rise.

Revenue from passengers, which makes up around 25%-30% of total revenue, is more volatile and sensitive to fluctuations in the tourism industry. The number of passengers grew by just 0.7% per annum during 2014-2018. For

the first nine months of 2019, the number of passengers dropped by 9.7% y-o-y to 837,371 people. Our base case projects revenue from passengers to decline by 5%-10% in 2019-2020, due mainly to the drop in Chinese tourists, and then moderately recover in 2021.

RP's revenue upside could be driven by higher numbers of passengers as its ferries still have plenty of loading capacity for passengers. The number of passengers RP carried during the last five years was less than 20% of its maximum capacity, while the number of vehicles carried was 70%-80% of maximum capacity. The company has attempted to boost passenger numbers in several ways, by developing its booking platform, setting up a ticket outlet in Bangkok, and hiring bus service companies to transfer tourists from Bangkok directly to Donsak pier. The company is also planning to open a new route to Koh Pha Luay, an island close to Koh Samui.

Expected EBITDA margin of 18%-21%

For the first nine months of 2019, RP's operating performance was in line with TRIS Rating's expectations. RP reported EBITDA of Bt121 million with an EBITDA margin of 21.7%. Under our base-case assumption, RP's EBITDA margin is forecast at 18%-21% during 2019-2021, which translates into EBITDA of Bt135-Bt155 million per annum. The company's profitability could be pressured by rising fuel costs and the aged fleet. The average age of RP's ferries is 35 years. The age of the fleet is likely to weigh down profitability in the long run, as seen from ongoing increases in maintenance costs and the need for lengthy off-service repairs and maintenance periods for some ferries.

Rising leverage from fleet improvement and renewal

RP's leverage is low. In the first nine months of 2019, the adjusted debt to EBITDA ratio was 0.6 times, annualized from the trailing 12 months. However, leverage is expected to rise, mainly from the investment in its fleet improvement and renewal program. RP plans to spend a total of Bt600-Bt700 million for capital expenditure during 2020-2021. Of this amount, about Bt300 million will be used to acquire a new ferry and about Bt320 million will be used for ferry maintenance and port expansion. With the sizable capital spending plan, leverage will rise accordingly. Under our base case, we project the adjusted ratio of debt to EBITDA will be in the range of 2-3 times during 2020-2021.

Manageable liquidity

RP's liquidity is expected to be manageable over the next 12 months. Sources of funds comprise funds from operations (FFO) of about Bt120 million and cash and cash equivalents on hand of Bt115 million, as of September 2019. Primary uses of funds are capital expenditures of about Bt300 million and debt repayments of around Bt78 million. RP needs new borrowings to fund its capital expenditures, particularly for the new ferry acquisition.

BASE-CASE ASSUMPTIONS

- Revenues flat in 2019, growing by 2%-4% per year during 2020-2021
- EBITDA margin projected at 18%-21%
- Capital expenditures forecast at Bt600-Bt700 million in total during 2020-2021.

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 Phangan will remain the 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 revenue. This could happen as a result of 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 significantly and/or there are material adverse changes in its business operations or business structure. If 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 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 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 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. The proportion of revenues from passenger transport and vehicle transport was typically 30:70.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Bt million

	Jan-Sep 2019	-----Year Ended 31 December -----			
		2018	2017	2016	2015
Total operating revenues	557	750	701	693	638
Earnings before interest and taxes (EBIT)	30	33	42	80	104
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	121	129	130	148	163
Funds from operations (FFO)	107	118	121	136	137
Adjusted interest expense	8	8	4	9	14
Capital expenditures	107	195	197	238	51
Total assets	1,188	1,184	1,073	1,043	1,162
Adjusted debt	86	99	0	0	0
Adjusted equity	893	887	860	881	953
Adjusted Ratios					
EBITDA margin (%)	21.66	17.14	18.56	21.43	25.55
Pretax return on permanent capital (%)	3.00	3.16	4.32	7.73	11.92
EBITDA interest coverage (times)	14.28	16.09	29.54	16.29	11.38
Debt to EBITDA (times)	0.58	0.77	0.00	0.00	0.00
FFO to debt (%)	153.98	119.28	n.m.	n.m.	n.m.
Debt to capitalization (%)	8.76	10.01	0.00	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:	Stable

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