

# THORESEN THAI AGENCIES PLC

No. 164/2020  
14 October 2020

## CORPORATES

<b>Company Rating:</b>	BBB
<b>Issue Ratings:</b>	
Senior unsecured	BBB
<b>Outlook:</b>	Negative

**Last Review Date:** 25/12/19

### Company Rating History:

Date	Rating	Outlook/Alert
29/12/16	BBB	Stable
02/12/14	BBB+	Stable

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## RATIONALE

TRIS Rating affirms the company rating on Thoresen Thai Agencies PLC (TTA) and the ratings on its outstanding senior unsecured debentures at “BBB”. At the same time, TRIS Rating assigns a rating of “BBB” to TTA’s proposed issue of up to THB1,695 million in senior unsecured debentures. The proceeds from the new debentures will be used to refinance debt coming due.

However, TRIS Rating revises the rating outlook on TTA to “negative” from “stable”. The “negative” outlook reflects the company’s weaker-than-expected operating performance, largely owing to the impact from the Coronavirus Disease 2019 (COVID-19) pandemic. We believe that the performance of the company’s offshore services business will continue to be under pressure due to the volatile condition of the industry, while the company’s diversification into new businesses and service areas has not yet materialized. We anticipate a gradual improvement in TTA’s dry-bulk shipping business. Stimulus measures in China are a key factor in driving dry-bulk demand. However, a recovery in freight rates is still being pressured by the grim global economic outlook.

TTA’s ratings are supported by its sound balance sheet with sizable cash reserves. However, the ratings continue to reflect TTA’s high business risk brought on by the high level of uncertainty and volatility in its core dry-bulk shipping and offshore services businesses.

## KEY RATING CONSIDERATIONS

### Susceptibility to business volatility

TTA’s business risk largely stems from the highly volatile and cyclical nature of its two core businesses, dry-bulk shipping and offshore services. On average, the two businesses contribute 70%-80% of total earnings before interest, taxes, depreciation, and amortization (EBITDA).

In the dry-bulk shipping industry, a major factor contributing to the volatility is the highly fragmented and competitive nature of the industry. A lack of supply discipline leads to a series of oversupply situations and depressed freight rates.

In the offshore services business, the company’s operations are tied to the highly cyclical and volatile oil & gas inspection repair and maintenance (IRM) industry. The unpredictability of crude oil prices gets worsen by the impact of COVID-19 which we expect to continue weighing on IRM activities in the short to medium term. The company’s lack of a broadly diversified customer base has limited its negotiating power on services contracts. Its operating performance has been dependent on contract renewals from a few large customers, mainly the Middle East national oil companies.

### Freight rates recovery anticipated after severe disruption from COVID-19

The COVID-19 pandemic caused severe disruption in the dry-bulk shipping industry in the first half of 2020. The Baltic Dry Index (BDI) declined 23% year-on-year (y-o-y) to 685 in the first half of 2020. However, freight rates are recovering as the disruption caused by the pandemic eases and activities resume. Improvement of the demand-supply fundamental is expected to support dry-bulk freight rates in the next 12-18 months. Stimulus measures in China are a key factor in driving dry-bulk demand. However, we view that

the demand growth momentum is vulnerable considering the weak global economic outlook and the threat of a second wave of the COVID-19 pandemic. On the supply side, a delay in new fleet delivery, low orderbook, and environmental regulations are expected to keep supply growth restricted in the next 12-18 months.

For the first half of 2020, TTA reported an average time charter equivalent (TCE) of USD7,622 per ship per day, a decline of 17% y-o-y. However, the TCE was above operating cash cost of USD5,341 per ship per day, and brought a positive EBITDA. Our base-case scenario projects the TCE to rise to USD8,000-USD8,500 for 2020, in line with our view on the recovery of freight rates in the second half of 2020. We project the TCE rate to reach USD9,000-USD9,500 in 2021-2022, down from our previous projection of USD9,800-USD10,200 per ship per day. We expect TTA to remain cost efficient with operating cash cost projected at USD5,300-USD5,500 per ship per day during 2020-2022. TTA's revenue from the dry-bulk shipping business is projected to around THB5 billion in 2020 and in the THB6-THB6.2 billion per annum range during 2021-2022. EBITDA margin is expected to hover in the 14%-17% range during 2020-2022.

#### **Weakness in offshore services business**

We expect TTA's offshore services business to continue to be under pressure considering the gloom prospects of the oil & gas industry, while TTA's efforts to diversify into new businesses and service areas such as decommissioning activities in the Gulf of Thailand have yet to deliver results.

The company's subsea fleet remains underutilized. Revenue has been generated by the intensive utilization of three vessels, while the company's remaining three owned vessels have been cold-stacked. At the end of June 2020, the company's orderbook totaled USD176 million, which will translate into revenues of USD55 million in the second half of 2020, USD66 million in 2021, and USD54 million in 2022. As oil & gas companies are cautious in their activities and capital spending, coupled with the oversupply of offshore engineering services, contract renewals are uncertain or likely to come under pricing pressure.

In September 2020, TTA disposed of all of its shares in Asia Offshore Drilling Co., Ltd. (AOD) for USD31 million. Previously, we expected TTA to receive a total of USD2-USD3 million per year in equity income from AOD. The divestment was undertaken based on the company's view regarding the unfavorable prospects of the drilling business. This transaction is expected to incur non-cash losses to TTA's book considering the book value of AOD prior to the divestment.

Our base-case scenario forecasts revenue from TTA's offshore services business of USD90-USD120 million per year during 2020-2022. The revenue assumption incorporates the revenue backlog and additional offshore engineering works. With the underutilized fleet and pricing pressure, we expect the offshore services business to continue incurring operating losses over the forecast period. The continuous losses from this business are a drain on TTA's overall financial strength.

#### **Marginal contributions from other businesses and investments**

TRIS Rating has factored in TTA's efforts to improve business diversity in a bid to counterbalance the volatility in its two core businesses. The company has invested in other non-cyclical businesses, including agrochemicals, food & beverage, water management, and logistics. Agrochemical business has been showing positive results, and growth in Pizza Hut business is encouraging, while other businesses still have no material effect on the group's performance.

During 2020-2022, our base-case assumption projects revenue from the agrochemical business of THB2.5-THB2.6 billion per annum with EBITDA margin in the mid-single digit percentage range. In the food & beverage business, the main contribution is from Pizza Hut restaurants, which have started benefitting from increased scale and a greater number of outlets. The company operated 154 Pizza Hut outlets as of the end of June 2020. The company plans to open 15-20 outlets per year during 2020-2022. We expect revenue from Pizza Hut to be in the range of THB2-THB2.4 billion per annum during 2020-2022 with an EBITDA margin of 9%-10%.

#### **Sharp decline in 2020 operating results, but recovery in 2021-2022 expected**

We expect a material deterioration in TTA's earnings in 2020, followed by a recovery during 2021-2022 driven mainly by the sound performance of its dry-bulk shipping business.

For the first half of 2020, TTA reported THB6.3 billion in revenue, THB150 million in EBITDA and a negative of THB37 million in funds from operations (FFO). The lower earnings were due mainly to operational disruptions caused by the COVID-19 pandemic and the scheduled drydocking of two subsea vessels. We expect operating performance to improve in the second half of the year following the freight rate recovery in the shipping business and resumption of the two subsea vessels' normal operations since August 2020.

Under our base-case assumptions, we expect TTA to post revenues of THB13-THB15.5 billion per annum during 2020-2022. We expect TTA's EBITDA to be around THB600 million in 2020 with FFO of THB180-THB200 million. We expect earnings to improve in 2021-2022. EBITDA margin is projected to be 8%-10%, which translates into EBITDA of THB1.2-THB1.3 billion per

annum during the forecast period. FFO is forecast to reach THB600-THB700 million per annum during 2021-2022. Earnings downside risk could be an interruption in freight rate recovery and/or weaker-than-expected performance of the offshore services business.

### Sizable cash reserves support ratings

TTA's sizable cash on hand is the key factor cushioning the impacts of its volatile performance and supports the ratings assigned to the company. The impact of depressed earnings in 2020 on cash flow protection is partly alleviated by the cash received from the AOD divestment.

During 2020-2022, our base-case scenario projects TTA's adjusted debt to capitalization ratio to remain below 15%. The adjusted ratio of FFO to debt is projected to stay below 10% in 2020 before improving to 20%-30% in 2021-2022. Our base-case assumption takes into account estimated capital expenditure of about THB1.0-THB1.4 billion annually in 2020-2021, mainly to acquire two second-hand dry-bulk shipping vessels, 50% of which is expected to be funded by bank loans. We project capital expenditure of THB400-THB500 million in 2022.

### Adequate liquidity

TTA's liquidity is assessed to be sufficient to cover its needs for the next 12-18 months. The primary liquidity sources are cash on hand of around THB5.2 billion at the end of June 2020, additional proceeds from the AOD divestment of THB0.9 billion, and expected FFO of about THB180-THB200 million in 2020 and THB600-THB700 million in 2021.

The primary uses of funds through the remainder of 2020 are scheduled repayments of maturing debts of around THB730 million, and capital spending of THB300-THB400 million. In 2021, primary uses of funds will include debt repayments totaling THB2.9 billion and capital expenditure of THB1 billion.

### BASE-CASE ASSUMPTIONS

- Average TCE rate of USD8,000-USD8,500 in 2020 and USD9,000-USD9,500 in 2021-2022
- Offshore services revenue of USD90-USD120 million per year during 2020-2022.
- Revenue of THB13- THB15.5 billion per annum during 2020-2022.
- EBITDA of THB600 million in 2020 and THB1.2-THB1.3 billion per annum during 2021-2022
- FFO of THB180-THB200 million in 2020 and THB600-THB700 million annually in 2021-2022.
- Estimated capital expenditure of about THB1-THB1.4 billion annually in 2020-2021, and THB400-THB500 million in 2022.

### RATING OUTLOOK

The "negative" outlook reflects TTA's weaker-than-expected operating performance, largely owing to the impact of the COVID-19 pandemic. In addition, there is still uncertainty concerning the performance improvement of the offshore services business.

### RATING SENSITIVITIES

The outlook could be revised to "stable" if the company delivers stronger-than-expected performance and performance of the offshore services business continues on a clear recovery path. A rating downgrade could occur from a persistent deterioration in operating results or any sizable debt-funded investments.

### COMPANY OVERVIEW

TTA is an investment holding company, established in 1983 and listed on the Stock Exchange of Thailand (SET) in 1995. The Mahagitsiri family is a major shareholder with a 27.4% stake as of August 2020. The company classifies its businesses into four areas: dry-bulk shipping, offshore services, agrochemicals (production & distribution of fertilizers in Vietnam), and investment.

TTA's market position in the dry-bulk shipping market is backed by its established operations and competitive fleet capacity. TTA owns 22 vessels with an average size of 55,436 dead weight tons (DWT), while the average age is around 13 years. The company's offshore services segment owns six subsea vessels.

For the first six months of 2020, TTA's total revenues were THB6.2 billion. Dry-bulk shipping contributed 38%, followed by the offshore services segment with 23%, agrochemical business 21%, and investment segment 18%.

## FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	Jan-Jun 2020	-----Year Ended 31 December -----			
		2019	2018	2017	2016
Total operating revenues	6,286	15,501	13,990	13,492	13,745
Earnings before interest and taxes (EBIT)	(474)	36	377	1,170	657
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	150	1,290	1,459	2,530	2,066
Funds from operations (FFO)	(37)	646	826	1,973	1,511
Adjusted interest expense	215	499	499	460	585
Capital expenditures	895	646	1,657	2,088	2,170
Total assets	33,054	33,473	37,112	35,585	41,620
Adjusted debt	3,398	2,470	3,769	3,189	2,663
Adjusted equity	21,980	22,599	24,587	25,054	26,495
<b>Adjusted Ratios</b>					
EBITDA margin (%)	2.39	8.32	10.43	18.76	15.03
Pretax return on permanent capital (%)	(0.84)	0.11	1.09	3.18	1.60
EBITDA interest coverage (X)	0.70	2.59	2.92	5.50	3.53
Debt to EBITDA (X)	3.55	1.91	2.58	1.26	1.29
FFO to debt (%)	11.26	26.15	21.92	61.85	56.74
Debt to capitalization (%)	13.39	9.85	13.29	11.29	9.13

## RELATED CRITERIA

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

## Thoresen Thai Agencies PLC (TTA)

<b>Company Rating:</b>	BBB
<b>Issue Ratings:</b>	
TTA213A: THB1,805.2 million senior unsecured debentures due 2021	BBB
TTA221A: THB1,500 million senior unsecured debentures due 2022	BBB
Up to THB1,695 million senior unsecured debentures due in 4 years	BBB
<b>Rating Outlook:</b>	Negative

## TRIS Rating Co., Ltd.

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