

THORESEN THAI AGENCIES PLC

No. 133/2021
23 August 2021

CORPORATES

Company Rating:	BBB
Issue Ratings:	
Senior unsecured	BBB
Outlook:	Stable

Last Review Date: 28/01/21

Company Rating History:

Date	Rating	Outlook/Alert
14/10/20	BBB	Negative
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”, and revises the rating outlook to “stable” from “negative”. At the same time, TRIS Rating assigns a rating of “BBB” to TTA’s proposed issue of up to THB2 billion in senior unsecured debentures. The proceeds from the new debentures will be used to refinance the company’s maturing debt, and/or for investments, and/or for working capital.

The ratings are supported by TTA’s solid financial metrics with low leverage and sizable cash reserves. The ratings also factor in TTA’s high business risk underpinned by the high level of uncertainty and volatility in its core dry-bulk shipping and offshore service businesses.

The outlook revision reflects a strong improvement in TTA’s dry-bulk shipping business with a favorable outlook on demand and supply fundamentals over the next 12-18 months coupled with positive developments in TTA’s offshore service business performance.

KEY RATING CONSIDERATIONS

Exceptionally strong dry-bulk shipping performance in 2021

TTA’s shipping business performance has improved significantly, driven by a surge in charter rates after the severe disruption caused by the Coronavirus Disease 2019 (COVID-19) pandemic last year. TRIS Rating expects TTA’s shipping business to continue to deliver solid performance in the coming quarters, supported by a favorable outlook for demand and supply fundamentals.

In the first half of 2021, the Baltic Supramax Index (BSI) surged to 1,910 points from 548 points during the same period of last year. TTA’s average time charter equivalent (TCE) doubled to USD14,872 per ship per day, compared with USD7,662 per ship per day in the same period of last year.

We expect freight rates to remain exceptionally high throughout 2021 bolstered by ongoing solid demand recovery, especially in China, and port congestion induced by COVID-19 containment measures, which periodically constrain supply capacity. The dry-bulk shipping industry is likely to continue its normalizing trend with favorable demand and supply developments. We expect stimulus measures, particularly in China, to be a key factor to continue driving dry-bulk demand. On the supply side, a low orderbook, delays in new fleet deliveries, and uncertainties surrounding environmental regulations will continue to keep supply growth moderate over the next 12-18 months.

Our base-case scenario projects TTA’s TCE to average around USD17,000 per ship per day in 2021 before declining to USD11,000-USD13,000 per ship per day in 2022-2023. We expect TTA to remain cost efficient with operating cash expenses projected at around USD5,700 per ship per day during 2021-2023. TTA’s revenue from the dry-bulk shipping business is projected to reach around THB11 billion in 2021 and in the THB8.5-THB9.5 billion per annum range during 2022-2023. EBITDA margin is expected to be about 28% in 2021 and in the 19%-21% range during 2022-2023.

Positive developments in offshore service business

TTA’s offshore service business, operated under Mermaid Maritime PLC (MML), which is 58.2% owned by TTA, has begun to show signs of improving

performance from its business diversification attempts. MML is re-engaging in cable-laying works, with an experienced management team rejoining the company and through the acquisition of a 50% stake in a key specialized vessel. It is also looking for subsea engineering service opportunities in the West Africa region and was recently awarded a survey project in Angola. Additionally, MML is extending its business scope as an EPCI (engineering, procurement, construction, and installation) contractor to provide both offshore and onshore services for platform installation and decommissioning primarily in the Gulf of Thailand and neighboring regions.

At the end of June 2021, the company's orderbook totaled USD286 million, 63% of which was from the subsea inspection, repair & maintenance (IRM) business and the remaining 37% from the cable-laying business. The orderbook will translate into revenues of USD72 million in the second half of 2021, USD139 million in 2022, and USD75 million in 2023. Taking into account revenue from the orderbook, our base-case scenario forecasts revenue from TTA's offshore service business of around USD120 million in 2021, USD160 million in 2022, and USD120 million in 2023. We expect a high utilization rate from two out of three working subsea vessels. We also expect MML's profitability to improve from more diverse revenue sources and more efficient cost management. Our base-case scenario projects MML's EBITDA margin to be in a low-to-mid-single-digit range throughout the forecast period.

One downside risk concerns the renewal of the IRM service contract for the "Mermaid Asiana" vessel at the end of 2022. MML needs to re-tender the contract with one major customer in the Middle East. Failure to secure the contract will put downside pressure on its fleet utilization and revenue visibility.

Susceptibility to business volatility

TTA's business risk largely stems from the volatile and cyclical nature of its two core businesses, dry-bulk shipping and offshore services. On average, the two businesses contribute 70%-80% of its 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, which have led to a series of oversupply situations and depressed freight rates in the past. Inherent cyclicity also adds volatility to dry-bulk shipping performance.

In the offshore service business, demand for the company's services depends on the level and direction of oil prices. Uncertainty in crude oil price trends is expected to continue pressuring offshore services in the short to medium term. The company is also exposed to customer concentration risk, which limits its negotiating power in service contracts. Its operating performance has been dependent on contract renewals from a few customers, mainly in the Middle East.

Small contributions from other businesses and investments

TTA also aims to improve business diversity to counterbalance the volatility in its two core businesses. The company has invested in other less cyclical businesses, including agrochemicals, food & beverage, water management, and logistics. While the agrochemical business delivers steady positive operating cash flow and the food & beverage segment is growing, other businesses still have no material effect on the group's performance.

During 2021-2023, our base-case assumption projects TTA's revenue from the agrochemical business to be THB2.8-THB3 billion per annum with an 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 172 Pizza Hut outlets as of the end of June 2021. The company plans to open 15-20 outlets per year during 2021-2023. We expect revenue from Pizza Hut to be in the range of THB1.8-THB2.5 billion per annum during 2021-2023 with an EBITDA margin of 9%-10%.

Solid financial profile

TTA's strong balance sheet with ample cash and cash equivalents on hand is a positive credit factor that helps buffer the impacts of volatile performance. With solid operating performance, we expect TTA's financial metrics to remain sound during the forecast period.

Our base-case assumption projects TTA's revenue of THB18.5-THB20.5 billion per annum during 2021-2023. EBITDA margin is projected to be high at 17% in 2021 following the exceptional dry-bulk shipping conditions, before declining to the 11%-13% range during 2022-2023, which will translate into EBITDA of THB3.4 billion in 2021 and THB2.1-THB2.6 billion per annum during 2022-2023. Funds from operations (FFO) are forecast to be THB2.8 billion in 2021 and THB1.5-THB2 billion per annum during 2022-2023.

We estimate TTA's capital expenditure will total THB1.7 billion in 2021, primarily for the acquisition of a second-hand dry-bulk shipping vessel and a 50% ownership in a cable-laying vessel. The capital expenditure is projected to be around THB2.5 billion per annum during 2022-2023, mainly to acquire a total of three second-hand dry-bulk shipping vessels and

potential investments required for the offshore service business.

We project TTA's leverage to remain modest. Our base-case scenario forecasts the adjusted debt to EBITDA ratio to be lower than 1 times in 2021 and rise close to 2 times in 2023.

The main financial covenants on TTA's debentures require the company's net interest-bearing debt to equity ratio to remain below 2 times. As of June 2021, the ratio was 0.06 times. We believe that TTA should have no problems complying with the financial covenants over the forecast period.

Sufficient liquidity

TTA's liquidity is assessed to be sufficient to cover its needs for the next 18 months. The primary liquidity sources are cash on hand of around THB7.5 billion at the end of June 2021 and FFO projected at THB3.8 billion in total, together with the proceeds from the new debenture issuance of THB2 billion. The primary uses of funds are financial obligations of around THB3.4 billion and capital spending of THB3-THB3.5 billion.

Subordination risk of rated issues

As of June 2021, TTA had THB8.8 billion debt in total, including THB5 billion of priority debt which was mainly secured debt at the subsidiary level. This means the ratio of priority debt to total debt was 58%. However, according to TTA, the company will lower the priority debt ratio to below 50% by the end of 2021. Additionally, due to TTA's modest level of financial leverage, there is low likelihood that the rated issues would be significantly disadvantageous with respect to its lower priority of claim. Thus, we currently rate TTA's senior unsecured debentures at "BBB", the same level as the company rating.

BASE-CASE ASSUMPTIONS

- Average TCE rate of USD17,000 per ship per day in 2021, declining to USD11,000-USD13,000 per ship per day in 2022-2023.
- Offshore service revenue of USD120 million in 2021, USD160 million in 2022, and USD120 million in 2023.
- Revenue of THB18.5-THB20.5 billion per annum during 2021-2023.
- EBITDA margin of 17% in 2021, declining to the 11%-13% range during 2022-2023.
- Estimated capital expenditure of THB1.7 billion in 2021 and around THB2.5 billion per annum during 2022-2023.

RATING OUTLOOK

The "stable" outlook reflects a strong improvement in the dry-bulk shipping business with a favorable outlook on demand and supply fundamentals over the next 12-18 months, coupled with positive developments in the performance of offshore service business.

RATING SENSITIVITIES

The ratings could be upgraded if the company continues to deliver solid operating performance while maintaining low leverage with the ratio of adjusted debt to EBITDA sustained below 1.5 times. The ratings or outlook could be revised downward if TTA's financial profile is significantly weaker than expected either from a persistent deterioration in operating results or from 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 of the company with a 27.5% stake as of March 2021. The company classifies its businesses into five areas: dry-bulk shipping, offshore services, agrochemicals (production & distribution of fertilizers in Vietnam), food & beverage, and investment.

TTA's standing in the dry-bulk shipping market is backed by its established operations and competitive fleet capacity. TTA owns 24 vessels with an average size of 55,913 deadweight tons (DWT), while the average age is around 13 years. The company's offshore service segment owns five subsea vessels.

For the first six months of 2021, TTA's total revenues were THB8.6 billion. Dry-bulk shipping contributed 51%, followed by the offshore service segment with 15%, agrochemical business 17%, food & beverage 12%, and other investments 5%.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS
Unit: Mil. THB

	Jan-Jun 2021	-----Year Ended 31 December -----			
		2020	2019	2018	2017
Total operating revenues	8,595	12,880	15,501	13,990	13,492
Earnings before interest and taxes (EBIT)	681	(592)	36	377	1,170
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,321	696	1,290	1,459	2,530
Funds from operations (FFO)	1,110	240	646	826	1,973
Adjusted interest expense	203	415	499	499	460
Capital expenditures	806	1,763	646	1,657	2,088
Total assets	32,401	31,029	33,473	37,112	35,585
Adjusted debt	3,072	3,261	2,389	3,651	3,122
Adjusted equity	20,737	19,191	22,599	24,587	25,054
Adjusted Ratios					
EBITDA margin (%)	15.37	5.41	8.32	10.43	18.76
Pretax return on permanent capital (%)	1.86	(1.97)	0.11	1.09	3.18
EBITDA interest coverage (times)	6.50	1.68	2.59	2.92	5.50
Debt to EBITDA (times)	1.65	4.68	1.85	2.50	1.23
FFO to debt (%)	45.15	7.37	27.04	22.63	63.18
Debt to capitalization (%)	12.90	14.52	9.56	12.93	11.08

RELATED CRITERIA

- Issue Rating Criteria, 15 June 2021
- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

Thoresen Thai Agencies PLC (TTA)

Company Rating:	BBB
Issue Ratings:	
TTA221A: THB1,500 million senior unsecured debentures due 2022	BBB
TTA233A: THB716.2 million senior unsecured debentures due 2023	BBB
TTA239A: THB1,500 million senior unsecured debentures due 2023	BBB
Up to THB2,000 million senior unsecured debentures due in 5 years	BBB
Rating Outlook:	Stable

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