

THORESEN THAI AGENCIES PLC

No. 165/2024
25 September 2024

CORPORATES

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

Last Review Date: 23/11/23

Company Rating History:

Date	Rating	Outlook/Alert
08/09/22	BBB+	Stable
23/08/21	BBB	Stable
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+”, with a “stable” outlook. The ratings reflect TTA’s strong balance sheet and our expectation that its two core businesses, dry-bulk shipping and offshore services, will continue to generate solid operating results in the coming years. Limited supply growth in the dry-bulk shipping segment is likely to sustain favorable freight rates, while a record-high order book in the offshore services segment provides earnings visibility. However, the inherent high business risk associated with the volatile and cyclical nature of the two businesses continues to weigh on the ratings.

The ratings also take into account TTA’s rising leverage from investments. TTA has been actively pursuing investment opportunities, while the success of these endeavors remains to be seen. In our view, ventures into new, unfamiliar businesses are likely to increase the company’s overall risk exposure, which may put downward pressure on the ratings.

KEY RATING CONSIDERATIONS

Constrained supply growth supports outlook for dry-bulk freight rates and profitability

Despite global economic headwinds, particularly the slowdown in China, dry-bulk freight rates remain supported by limited supply growth. The low orderbook for new dry-bulk carriers stems from design uncertainties and the limited capacity of shipyards. Additionally, stricter environmental regulations have resulted in reduced vessel speeds and accelerated scrapping of older, less efficient ships.

We project TTA’s average time charter equivalent (TCE) to remain strong at USD15,350 per ship per day in 2024. This is partly driven by the ongoing conflict in the Red Sea and the conditions at the Panama Canal, both of which have contributed to increased ton-mile demand. We project TCE to normalize, declining to USD13,000 per ship per day in 2025 and to USD11,000 in 2026.

We project revenue from the dry-bulk shipping business, including voyage charter related income, of THB7-THB10 billion annually during 2024-2026. With operating cash expenses projected to be USD5,900-USD6,300 per ship per day, EBITDA margin is expected to be around 38% in 2024, before normalizing to 22% in 2025 and 15% in 2026.

Record high order book in offshore services

TTA’s offshore services business is operated through Mermaid Maritime PLC (MML), in which TTA holds a 58.2% ownership stake. MML’s broadening of its service offerings and geographical coverage in recent years have strengthened its business potential and improved earnings visibility.

Currently, the company provides subsea inspection, repair, and maintenance (IRM) services in the Middle East, West Africa, and Southeast Asia, conducts cable-laying operations in the Middle East, and engages in transportation and installation (T&I), as well as decommissioning activities in the Gulf of Thailand and the North Sea. In the past, MML’s performance was closely tied to volatile oil prices, and the company faced customer concentration risk, relying heavily on contract renewals from a small number of key clients in the Middle East.

The broader scope of operations at present is expected to reduce fluctuations in performance and facilitate more efficient resource utilization.

At the end of June 2024, MML achieved a record-high orderbook of USD976 million, with 43% from the T&I and decommissioning business, 40% from the subsea IRM business, and the remaining 17% from cable-laying services. This orderbook is expected to generate revenues of USD310 million in the second half of 2024, USD411 million in 2025, and USD255 million in 2026. Factoring in the orderbook and potential new projects, our baseline forecast anticipates MML's annual revenue to range from USD390-USD555 million during 2024-2026. EBITDA margin is projected conservatively at around 10% throughout this period, as there could be some downside risk to the estimated profitability in the T&I and decommissioning projects recently awarded to TTA in the Gulf of Thailand due to potential factors such as cost overruns or unexpected delays. However, successful completion of these projects would help strengthen MML's track record and prospects for future works in the region.

Near-term uncertainty from business expansion efforts

TTA is expanding into new businesses including property development and airlines. For property development, a joint venture in which TTA holds an interest of around 60% will develop "The 125 Sathorn" condominium, a high-rise condominium project in Bangkok's central business district. However, the project is expected to be delayed for 1-2 years due to a legal issue related to the interpretation of certain regulatory guidelines, which is under review by the Supreme Administrative Court. For the airline business, TTA, through its subsidiary, P80 Air Ltd. (P80 Air), plans to provide scheduled chartered flights using leased aircrafts. P80 Air is expected to commence operations in 2025.

TTA has expanded into several other businesses, including agrochemicals, food & beverage (F&B), water management, and logistics. However, these businesses have so far had only a minimal impact on the group's overall performance. More than 80% of the company's total earnings continue to come from its dry-bulk shipping and offshore services businesses.

For the agrochemical business, we forecast revenue of THB3.3-THB3.7 billion per annum during 2024-2026. EBITDA margin is projected to be in the mid-single-digit percentage range, reflecting easing pressure on raw material prices. In the F&B business, TTA operates the "Pizza Hut" and "Taco Bell" quick service restaurant (QSR) brands. The company had 186 Pizza Hut outlets and 29 Taco Bell outlets as of the end of June 2024. We project a net annual increase of 10-15 outlets combined for both brands during 2024-2026. However, weak consumer sentiment and the highly competitive nature of the QSR industry are likely to continue to pressure TTA's F&B performance. We forecast revenue from this segment of THB2.2-THB2.5 billion per annum during 2024-2026 with an EBITDA margin of around 10%.

Aggressive investment strategy

TTA's aggressive investment strategy is reflected in its increasing involvement in digital assets and fintech-related ventures. As of 30 June 2024, TTA had invested THB3.4 billion in digital assets, primarily bitcoin, up from THB2.4 billion in June 2023. According to TTA's management, the increased investment in bitcoin was driven by anticipated price gains following the bitcoin halving. The management has indicated that no large investments are planned in the near future, and the company intends to liquidate some of its digital assets to fund capital expenditures and other investments, as needed. Increasing holdings in these volatile investments would amplify the company's risk exposure and weigh on its credit profile.

Rising leverage

During 2024-2026, our baseline forecast projects TTA's revenue at around THB33-THB35 billion per annum. The EBITDA margin is projected to be in the 10%-15% range, translating into EBITDA of THB3.2-THB5.2 billion annually. TTA's capital expenditures and investments are projected at around THB2-THB3 billion per annum, primarily for renewing dry-bulk vessels and upgrading offshore service equipment. TTA plans to acquire two second-hand vessels in 2025 and replace one old vessel with another second-hand vessel in 2026. Overall, we expect the company's leverage, as measured by the adjusted debt to EBITDA ratio, to increase from 1 times (annualized from the trailing 12 months) as of June 2024 to around 1.5 times during the forecast period. This projection assumes that the company will liquidate some of its digital assets to finance a portion of its capital expenditures.

Adequate liquidity

TTA's liquidity is assessed to be adequate to cover its needs over the next 12 months. Sources of funds include cash and cash equivalents on hand of around THB8.5 billion at the end of June 2024, plus projected funds from operations (FFO) of THB4 billion. The primary uses of funds are financial obligations of around THB3 billion and capital spending of THB2-THB3 billion.

The main financial covenants on TTA's debentures require the company's net interest-bearing debt to equity ratio to remain below 2 times. We believe that the company should have no problems remaining in compliance with the financial covenants over the forecast period.

Debt structure

As of June 2024, TTA's total interest-bearing debt was THB11.9 billion. Priority debt was THB2.7 billion, translating to a priority debt ratio of 23%.

BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumptions for TTA's operations in 2024-2026 are as follows:

- Average TCE rate of USD15,350 per ship per day in 2024 and USD11,000-USD13,000 per ship per day in 2025-2026.
- Offshore services revenue of USD390-USD555 million per annum.
- Total revenue of THB33-THB35 billion per annum.
- EBITDA margin of 10%-15%.
- Estimated capital expenditures and investment of around THB2-THB3 billion per annum.

RATING OUTLOOK

The "stable" outlook is based on our expectation that TTA's dry-bulk shipping and offshore service business will continue delivering sound operating results. We also expect the company to be prudent in its investment decisions and will keep its adjusted net debt to EBITDA ratio below 1.5 times.

RATING SENSITIVITIES

A rating upgrade is unlikely in the near term. However, 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 aggressive 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 37% stake as of July 2024. The company classifies its businesses into five areas: dry-bulk shipping, offshore services, agrochemicals (production & distribution of fertilizers in Vietnam), food & beverage, and other investments.

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 16 years. The company's offshore services segment owns six subsea vessels. For the first six months of 2024, TTA's total revenues were THB16.1 billion. Dry-bulk shipping contributed 22%, offshore services 56%, agrochemical business 11%, food & beverage 7%, and other investments 4%.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	Jan-Jun 2024	-----Year Ended 31 December -----			
		2023	2022	2021	2020
Total operating revenues	16,118	24,106	29,383	22,183	12,880
Earnings before interest and taxes (EBIT)	1,569	1,980	5,099	4,121	(592)
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	2,603	3,726	6,631	5,375	696
Funds from operations (FFO)	2,051	2,936	6,019	4,879	241
Adjusted interest expense	375	703	513	420	415
Capital expenditures	1,103	2,362	1,320	1,825	1,763
Total assets	50,665	42,973	41,593	38,947	31,029
Adjusted debt	4,669	2,296	793	618	3,261
Adjusted equity	30,991	28,290	27,726	24,400	19,191
Adjusted Ratios					
EBITDA margin (%)	16.2	15.5	22.6	24.2	5.4
Pretax return on permanent capital (%)	6.9 *	5.2	14.0	12.8	(2.0)
EBITDA interest coverage (times)	6.9	5.3	12.9	12.8	1.7
Debt to EBITDA (times)	1.0 *	0.6	0.1	0.1	4.7
FFO to debt (%)	82.0 *	127.9	758.6	788.9	7.4
Debt to capitalization (%)	13.1	7.5	2.8	2.5	14.5

* Annualized from the trailing 12 months

RELATED CRITERIA

- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021

Thoresen Thai Agencies PLC (TTA)

Company Rating:	BBB+
Issue Ratings:	
TTA252A: THB800.0 million senior unsecured debentures due 2025	BBB+
TTA262A: THB1,076.3 million senior unsecured debentures due 2026	BBB+
TTA265A: THB1,200.0 million senior unsecured debentures due 2026	BBB+
TTA260A: THB1,698.1 million senior unsecured debentures due 2026	BBB+
TTA278A: THB2,423.7 million senior unsecured debentures due 2027	BBB+
TTA281A: THB2,074.4 million senior unsecured debentures due 2028	BBB+
Rating Outlook:	Stable

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