

# THORESEN THAI AGENCIES PLC

No. 69/2018

24 September 2018

## CORPORATES

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

### 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) at “BBB” and affirms the rating on TTA’s existing senior unsecured debentures at “BBB”. At the same time, TRIS Rating assigns the rating of “BBB” to TTA’s issuance of up to Bt1,500 million in senior unsecured debentures. The company will use the proceeds from the new debentures to procure new dry-bulk vessels, and for working capital.

The ratings reflect TTA’s adequate competitive position in the dry-bulk shipping and offshore service segments, ongoing diversification efforts, and strong balance sheet. The ratings are constrained by the uncertainties inherent in the cyclical nature of dry-bulk shipping, TTA’s weakening performance in the offshore service segment, and its limited track record in executing acquisition strategies.

TTA’s dry-bulk shipping segment improved substantially in the first half of 2018 as the time charter (TC) rate increased. The Baltic Dry Index (BDI), a reference of TC rate, rebounded to 1,217 in the first half of 2018 from a low of 673 in 2016. Over the same six months, the TC rate of TTA’s owned fleet also surged to US\$11,134 per day from US\$5,155 per day, much higher than the total cost of operation which averages US\$7,200 per day.

In contrast, TTA’s offshore service segment continued to underperform, seen from a contraction in non-vessel revenue and underutilized vessels. The offshore service segment reported loss in the first half of 2018 as three of the four main vessels went into scheduled dry-dock. The order backlog of US\$165 million as of June 2018 is considered low and short, implying limited predictability for medium-term earnings.

However, an upward movement of oil price during 2017-2018 should help limit downside risk for the offshore service business. The increasing oil price should encourage exploration and drilling activities, and thus boost demand for subsea services. Based on this premise, we expect the company’s offshore service segment is likely to recover and contribute a larger profit to the group.

The strong balance sheet plays an important role to support TTA’s ratings. TTA’s cash and marketable securities at Bt7.4 billion remains large and is adequate to support its liquidity needs, despite a recent drop. The net debt to capitalization ratio stayed at a low level about 14.3% as of June 2018. We forecast the net debt to capitalization ratio will stay below 30% over the next three years. The earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage ratio is forecast to stay above 5 times. The ratio of funds from operations (FFO) to total debt should stay above 15% on average.

## RATING OUTLOOK

The “stable” outlook anticipates that both dry-bulk shipping and offshore service segments will remain the key drivers for TTA’s revenue and EBITDA. TRIS Rating also believes that the company will sustain a good liquidity profile and satisfactory debt service capability over the next year.

## RATING SENSITIVITIES

The potential for a rating upgrade is unlikely in the near term, given the

uncertainty in performance of the dry-bulk shipping and offshore service segments. However, the ratings could be upgraded if the company's financial performance exceeds TRIS Rating's projection over a sustained period. This may occur from a successfully diversified portfolio investment, leading to more stable cash flows while maintaining a healthy balance sheet.

The ratings or outlook could be revised downward if the operating performance or cash flow deteriorates significantly from the current projection. This could arise from a weakening operation in the shipping and offshore service markets, and also large loss contribution from its investments.

### Thoresen Thai Agencies PLC (TTA)

<b>Company Rating:</b>	BBB
<b>Issue Ratings:</b>	
TTA213A: Bt1,805.2 million senior unsecured debentures due 2021	BBB
Up to Bt1,500 million senior unsecured debentures due within 3 years and 3 months	BBB
<b>Rating Outlook:</b>	Stable

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