Press Release

No. 46/2017
24 March 2017

TRIS Rating Assigns Company Rating of "RP" at "BB+" with "Stable" Outlook

TRIS Rating has assigned the company rating of Raja Ferry Port PLC (RP) at "BB+" with "stable" outlook. The rating reflects its entrenched business position in ferry operation from the Don Sak pier (Surat Thani province) to Koh Samui and to Koh Phangan, and existing marginally-leveraged capital structure. However, the rating is constrained by its small scale of business, geographical concentration of its business operation, concerns over the old age of its existing ferry fleet, and the possibility of a significant rise in financial leverage from the business expansion plan.

The "stable" outlook reflects the expectation that RP will maintain competitive strengths and business position, as well as sound financial profile.

The rating or outlook could be revised upward if the company is able to successfully implement its business expansion plan and significantly broaden its revenue base on a sustained basis, while maintaining a sound financial profile.

The rating or outlook could be revised downward if the company's financial profile deteriorates significantly and/or there are material adverse changes in its business operation or business structure.

RP is a ferry service operator in Surat Thani province. The company was founded in 1981 and listed on the Market for Alternative Investment (mai) in November 2015. The company offers ferry services transporting passengers and vehicles (passenger cars, trucks, motorcycles) on two main routes, between Don Sak pier and Koh Samui and between Don Sak pier and Koh Phangan. The two islands are major tourist destinations in the gulf of Thailand. During 2011-2016, RP's ferry services contributed approximately 92% of its total revenue. The rest was derived from sales of groceries and restaurant businesses in connection with the ferry services. The main route between Don Sak pier and Koh Samui has generated approximately two-third of RP's ferry service revenue; meanwhile the route between Don Sak pier and Koh Phangan contributes the rest. The proportion of revenues from passenger transport and vehicles transport was 30:70 approximately.

The rating reflects RP's entrenched business position in a relatively stable operating environment characterized by low business volatility and oligopolistic competition. The barrier to entry is high for ferry operation in the Surat Thani – Samui area due to required permissions, logistic constraints regarding building new port facilities, and the prohibitively high prices of land in Koh Samui. The demand for ferry services has grown moderately thanks to the growth of tourism and property development on Koh Samui and Koh Phangan. During 2011-2016, the number of passengers and vehicles using RP's ferry services grew on average of 5.1% and 8.1% per annum, respectively. RP's key competitive strengths are (i) its possession of the largest fleet of ferries in the area, (ii) its own port facilities at Don Sak pier and Koh Samui to ensure full control and operational flexibility, and (iii) its expertise and experience in ferry operation backed by a track record of more than 30 years.

The rating is weighed down by RP's small scale of business operation, and concentration risk as its operation has so far been confined to the Don Sak district–Koh Samui area. Although the company is working to expand its ferry operation to other regions in the medium term, revenue contribution from the planned new locations is likely to build up gradually. The old age of RP's existing operating fleet (35 years on average) causes concerns as it may lead to rising maintenance costs or need for fleet replacement. The cost of fleet replacement is expected to rise significantly in the near future. Traditionally relying on offshore second-hand markets to maintain or expand its ferry fleet, RP is now facing the scarcity of second-hand vessels for sale. As a result, the company will likely have to procure new ferries instead of used ones, and hence bear a higher investment cost.

The rating also takes into consideration the expected rise of debt level to fund the company's business expansion. The company plans to procure two second-hand ferries in 2017 to strengthen services in existing routes and to expand its ferry operation to other regions. The expansion is expected to entail procurement of newly-built ferries from 2018 onward. The funding need for all new investments is expected to be met by internal cash generation and debt financing. As a result, the company's debt is projected to rise significantly over the next few years.

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RP's revenue growth is steady with an average growth rate of 4.8% per annum during 2011-2016. The company's revenue rose continually from Bt535 million in 2011 to Bt665 million in 2014 before dropping to Bt622 million in 2015. The 6.5% drop from 2014 was due mainly to the downward adjustment in ferry fares, tracking the declining price of diesel oil. The operating margin (before depreciation and amortization) has improved continuously, rising from 17.4% in 2011 to 23.6% in 2015. Profitability has also improved due to rising traffics and better utilization rate of ferry fleet.

In 2016, the revenue continued to grow to Bt676 million or 8.6% from 2015. However, the operating margin fell to 19.5% in 2016 due to the flooding impact in the Southern part, an additional maintenance cost for ferries, and increased administration expenses for employee benefits and rebranding consulting fee. Funds from operations (FFO) rose from Bt67 million in 2011 to a peak of Bt141 million in 2015, and slightly dropped to Bt128 million in 2016.

RP's balance sheet was strengthened by fresh equity raised from its initial public offering (IPO) in 2015. Part of the IPO proceeds of Bt436 million was applied for debt repayment, resulting in a significant drop of the company's debt. The debt to capitalization ratio reduced from 33.8% prior to the IPO in 2014, to below 10% in 2016. Liquidity is assessed to be adequate, supported by estimated FFO of Bt140-Bt160 million per annum, notwithstanding the company's cash outflow over the next 12 months which include loan repayments of Bt60 million and expected dividend payment of about Bt50 million.

Over the next three years, TRIS Rating's base-case scenario forecasts RP's revenue to grow around 5%-8% per annum, driven by an ongoing increase in number of passengers and vehicles along with a rise in ferry fares, following an expected increase in diesel oil price. The operating margin is expected to be in a range of 23%-25%. RP's capital expenditures in 2017 are expected to be approximately Bt300 million, mainly including a Bt200 million acquisition plan for two second-hand ferries and Bt65 million for annual maintenance. In the scenario in which the company is successful in expanding its operation to other regions, its capital expenditures mainly involving the acquisition cost of newly-built ferries are projected to rise to Bt400-Bt600 million per year for 2018-2019. With debt-funded acquisitions, the company's financial profile is expected to weaken significantly. The debt to capitalization ratio is projected to climb to between 40%-55% by the ends of 2018 to 2019, and the ratio of debt to earnings before interest, tax, depreciation, and amortization (EBITDA) to rise to between 3-5 times over the same period from 0.57 times in 2016. Notwithstanding the above, TRIS Rating expects the company to balance between debt and equity in order to maintain a sound financial profile in the next two or three years.

Raja Ferry Port PLC (RP)	
Company Rating:	BB+
Rating Outlook:	Stable

TRIS Rating Co., Ltd./www.trisrating.com
Contact: santaya@trisrating.com, Tel: 0-2231-3011 ext 500/Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand