

RAJA FERRY PORT PLC

No. 12/2022
21 February 2022

CORPORATES

Company Rating: BB
Outlook: Negative

Last Review Date: 10/02/21

Company Rating History:

Date	Rating	Outlook/Alert
10/02/21	BB+	Negative
24/03/17	BB+	Stable

Contacts:

Tulyawat Chatkam
tulyawatc@trisrating.com

Chanaporn Pinphithak
chanaporn@trisrating.com

Parat Mahuttano
parat@trisrating.com

Pramuansap Phonprasert
pramuansap@trisrating.com



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RATIONALE

TRIS Rating downgrades the company rating on Raja Ferry Port PLC (RP) to “BB” from “BB+” with a “negative” outlook. The downgrade reflects the company’s weaker-than-expected operating performance resulting from the prolonged impact of the Coronavirus Disease 2019 (COVID-19) on tourism and economic activity in Koh Samui and Koh Phangan, heightened financial leverage, and tightened liquidity position. The rating also takes into consideration the uncertainty of the COVID-19 situation which could continue to impede recovery of the tourism industry and the company’s operating performance. However, there is a sign of improvement in the company business in correlation with the improving tourism atmosphere.

The rating continues to reflect RP’s established business position in ferry operations in Surat Thani province, with operating routes from Don Sak pier to Koh Samui and Koh Phangan. However, the rating is constrained by the company’s small business scale and geographical concentration.

KEY RATING CONSIDERATIONS

Weak operating performance but improvement expected

RP’s operating performance has been hit harder than we previously expected as successive waves of COVID-19 infections impeded tourism and economic recovery in 2021. In the first nine months of 2021, RP’s passenger numbers dropped by 50% year-on-year (y-o-y) or 67% compared with the 2019 level to around 274,000 people. Vehicle traffic dropped by 29% y-o-y or 40% compared with the same period in 2019 to around 304,000 vehicles, a smaller decrease thanks to the construction work being carried out on the islands and the shipping of goods to support local demand. As a result, RP’s revenue in the first nine month of 2021 declined by 31% y-o-y to around THB270 million, 51% below the 2019 level. The company’s earnings before interest, taxes, depreciation, and amortization (EBITDA) also substantially dropped to THB7 million in the first nine months of 2021, compared with THB70 million in 2020.

In the fourth quarter of 2021, the company started to see signs of recovery after the government adopted policies of returning to normalcy and living with COVID-19, and gradually eased travel restrictions in October 2021. However, the emergence of the Omicron variant prompted the government to impose restrictions once again in late 2021. As Omicron worries eased from the lower rates of severe illness and death, the government relaxed entry restrictions again in February 2022. TRIS Rating expects the recovery trend to continue in 2022 as Thailand and many parts of the world have achieved high vaccination rates and vaccines have proven effective at preventing severe illness and death.

We expect RP’s revenue and earnings to gradually recover from 2022 onwards, until reaching close to the pre-pandemic level in 2024. Our base-case forecast projects passenger numbers to grow by 40% in 2022, 50% in 2023, and 20% in 2024, with vehicle traffic increasing by 15% in 2022, 28% in 2023, and 12% in 2024. Based on these recovery rates, RP’s revenue is projected to range upward from THB480-THB700 million per annum during 2022-2024, from around THB380 million in 2021.

However, some uncertainty over the improvement of RP’s performance remains with the possibility of a severe outbreak of the Omicron variant or the emergence of new dangerous variants which could heighten health concerns and hamper travel demand.

Established market position in ferry business in Surat Thani

RP's established business position is supported by its status as the largest ferry operator in Surat Thani province. The local ferry service market is based upon an oligopolistic structure with only two companies operating from Don Sak pier. Barriers to entry are high due to the need for official permission and the prohibitively high prices of land for the construction of new ports. Currently, RP has a total of 14 ferries and owns two ports, the Port of Don Sak and the Port of Koh Samui. The combination of a sizeable fleet and full control of embarkation and debarkation points gives the company the competitive edge of better operational flexibility and more frequent services over its competitor. The company is working on opening a new ferry route from Don Sak pier to Koh Pha Luay, an island close to Koh Samui, as part of its "Island Gateway" strategy. RP is currently constructing a port on Koh Pha Luay which is slated for completion in late 2022.

Small business scale with geographical concentration

RP's business scale is small, characterized by limited cash flow generation and a relatively small debt absorbing capacity. RP's revenue pre-pandemic was around THB700-THB750 million per annum with EBITDA of around THB130-THB140 million per year. RP's revenues also depend heavily on the economy of the Surat Thani-Samui area. The small size of the market and the lack of diversified sources of revenue make the company vulnerable to adverse changes in the economy of its service area and constrain its long-term growth potential.

Profitability pressured by lower traffic

RP's profitability deteriorated materially as a result of lower traffic volume in the past year. The company optimized its fleet schedule and cut some operating expenses in response to the lower traffic demand. However, the cost reductions were not sufficient to offset the drastic decline in revenue. Hence, RP's EBITDA margin dropped significantly to 2% in the first nine months of 2021, from 17%-20% before the pandemic. In addition, fuel prices, one of the company's major cost components, rose significantly in 2021. However, the company is able to pass on this cost to customers to some extent through fare adjustments which are linked to the retail price of diesel in Don Sak District, Surat Thani.

Going forward, we expect RP to manage costs more efficiently moving out of the COVID-19 era. However, aging of the company's fleet which could lead to higher maintenance costs and further rises in fuel costs could contribute downside risk to RP's profitability. Under our base-case forecast, RP's EBITDA margin is expected to be very thin at around 3% in 2021, improving to 13% in 2022, and 20%-22% in 2023-2024. EBITDA is forecast to rebound to around THB60 million in 2022 and THB130-150 million per annum during 2023-2024.

Leverage to remain elevated in 2022

We expect RP's financial leverage to remain elevated in 2022 due to soft cash flow generation and the company's capital spending plan, before improving in 2023-2024. RP's financial leverage measured by the debt to EBITDA ratio rose to a very high level in the first nine months of 2021, from below 1 times in 2019 and 4 times in 2020, due to depressed earnings and continued investment in the Don Sak Pier 4-5 expansion. In our base-case scenario, we expect the debt to EBITDA ratio to stay elevated at over 7 times in 2022, before trending downward to around 3 times in 2023-2024. Our assumption incorporates the company's planned capital expenditures for ferry maintenance, the construction of a port on Koh Pha Luay, and the acquisition of a second-hand ferry for the Don Sak-Koh Pha Luay route. A total of THB260 million in capital spending is expected during 2022-2024.

As of September 2021, RP had consolidated debt of THB303 million. Most of the debt was secured debt, translating into a priority debt to total debt ratio of 95%. As its priority debt ratio is more than the threshold of 50%, we view that RP's unsecured creditors are significantly disadvantaged to its priority debt holders with respect to claims against the company's assets.

Tight liquidity

We assess RP's liquidity as tight. As of September 2021, RP's sources of funds included cash and cash equivalents of THB57 million and expected funds from operations of THB40 million in 2022. In the fourth quarter of 2021, the company secured a long-term loan of THB110 million from a financial institution to support its investment project and working capital needs. Primary uses of funds comprise debts coming due of around THB100 million and capital expenditures of about THB160 million in 2022. We assess that RP will need refinancing or new borrowings to support its liquidity needs and planned investments. RP is currently in talks with a bank to adjust its repayment schedule for the loan coming due in 2022 to preserve liquidity.

BASE-CASE ASSUMPTIONS

- Revenue of THB380 million in 2021, THB480 million in 2022, and THB600-THB700 million per annum in 2023-2024.
- EBITDA margin of 3% in 2021, 13% in 2022, and 20%-22% in 2023-2024.
- Capital expenditures totaling THB260 million during 2022-2024.

RATING OUTLOOK

The “negative” outlook reflects the uncertainty surrounding the COVID-19 situation which could continue to hinder the recovery of tourism and economic activity in Koh Samui and Koh Phangan and RP’s operating performance, coupled with our concerns over the company’s tightened liquidity position.

RATING SENSITIVITIES

The outlook could be revised to “stable” if RP delivers stronger-than-expected business and financial performance which could happen from a strong recovery of economic activity in Koh Samui and Koh Phangan. A rating downgrade could materialize if the company’s financial profile and/or liquidity deteriorate materially worse than our forecast.

COMPANY OVERVIEW

RP is a ferry service operator based in Surat Thani province. The company was founded in 1981 and listed on the Market for Alternative Investment (MAI) in November 2015. The Chayopas family is the major shareholder and has management control. The company offers ferry services for passengers and vehicles (passenger cars, motorcycles, 4- to 10-wheel trucks, and trailers) on three routes; Don Sak pier to Koh Samui, Don Sak pier to Koh Phangan, and Koh Samui to Koh Phangan.

Since 2013, RP’s ferry services have contributed approximately 90% of its total revenue. The remainder has come from sales of groceries, restaurant business, and van services. The main route between Don Sak pier and Koh Samui generates approximately two-thirds of RP’s ferry service revenue. The proportion of revenues from passenger transport and vehicle transport is around 25:75.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	Jan-Sep 2021	-----Year Ended 31 December -----			
		2020	2019	2018	2017
Total operating revenues	273	504	722	745	701
Earnings before interest and taxes (EBIT)	(96)	(70)	21	33	42
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	7	70	145	129	130
Funds from operations (FFO)	(4)	55	130	118	121
Adjusted interest expense	11	15	11	8	4
Capital expenditures	56	98	149	195	197
Total assets	1,126	1,235	1,206	1,184	1,073
Adjusted debt	331	278	109	99	0
Adjusted equity	698	804	884	887	860
Adjusted Ratios					
EBITDA margin (%)	2.42	13.85	20.02	17.26	18.56
Pretax return on permanent capital (%)	(11.40)	(6.05)	1.85	3.16	4.32
EBITDA interest coverage (times)	0.62	4.66	12.79	16.09	29.54
Debt to EBITDA (times)	47.69	3.99	0.75	0.77	0.00
FFO to debt (%)	(2.44)	19.64	119.74	119.70	Na.
Debt to capitalization (%)	32.17	25.69	10.96	10.01	0.00

RELATED CRITERIA

- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022
- Rating Methodology – Corporate, 26 July 2019

Raja Ferry Port PLC (RP)

Company Rating:	BB
Rating Outlook:	Negative

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: +66 2 098 3000

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