

# RAJA FERRY PORT PLC

No. 14/2018  
16 February 2018

## CORPORATES

**Company Rating:** BB+  
**Outlook:** Stable

### Company Rating History:

Date	Rating	Outlook/Alert
24/03/17	BB+	Stable

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## RATIONALE

TRIS Rating affirms the company rating of Raja Ferry Port PLC (RP) at “BB+”. The rating reflects RP’s entrenched business position in ferry operations from the Don Sak pier (Surat Thani province) to Koh Samui and to Koh Phangan with a long track record of over 35 years. However, the rating is constrained by RP’s small business scale, geographical concentration, concerns over the old age of its existing ferry fleet, and the possibility of a significant rise in financial leverage from its fleet expansion plan.

## KEY RATING CONSIDERATIONS

### Entrenched business position in ferry service

RP has been in the ferry service since 1981 and is the largest ferry operator in Surat Thani province. The company currently owns and operates 14 ferries and two international ports, the Port of Donsak and the Port of Koh Samui. A sizeable fleet allows the company to command good operational flexibility over its competitors, particularly with respect to trip frequency during periods of peak demand. RP can maintain its scheduled operations even when some ferries are out of service due to technical problems or scheduled maintenance. The 5-year (2012-9M2017) utilization rates of RP’s load capacity for vehicles and passengers were about 70%-80% and below 20%, respectively. RP also benefits from having its own port facilities which provide the company full control of embarkation and debarkation, ferry operations, and customer service.

### Small scale and geographical concentration risk

RP’s business size is small, measured by revenue and cash flow generation. Its smaller size indicates a relatively small debt capacity. RP’s revenues depend heavily on the economy of the Surat Thani-Samui area. TRIS Rating holds the view that the limited size of the market and the lack of diversified sources of revenue are constraints on the company’s long-term growth potential and make it vulnerable to adverse changes in its business area.

### Concerns on aging ferry fleet

RP’s procurement policy with targets on second-hand ferries partly explains the relatively old age of its ferry fleet. The average age of RP’s ferries is 35 years. The old age is likely to weigh down profitability in the long run, as seen from ongoing increases in maintenance costs and need for lengthy off-service repairs and maintenance periods for some ferries.

### Weakening operating performance with a potential rise in leverage from acquisitions of ferries

RP’s operating results in the first nine months of 2017 fell short of TRIS Rating’s expectations. The weak profitability reflected higher fuel costs and operating expenses due to the launch of several new initiatives during 2016-2017 (e.g., rebranding and development of the online marketplace). However, with the expected uptrend of fuel oil price, RP should be able to raise fares this year in response to its increasing fuel costs and thus restore its profit.

RP plans for major improvements at the Don Sak pier and the acquisition of two second-hand ferries from 2018 onwards. The estimated capital expenditures will be Bt350-Bt420 million, with 80%-90% of the purchase of the

second-hand ferries will be funded by bank debt. Given its low leverage, the financial leverage will remain healthy after the investment. The debt to capitalization ratio is expected to rise but not exceed 25%.

RP's liquidity is considered adequate. Presently, the company has no short-term debt. The main sources of funds over the next 12 months will include funds from operations (FFO) of Bt130-Bt150 million and cash on hand of Bt140 million. On the other hand, its debt obligation over the next 12 months will be around Bt30 million.

#### **RATING OUTLOOK**

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The "stable" outlook reflects the expectation that RP will maintain its competitive strengths and business position, as well as its sound financial profile. TRIS Rating's base case scenario assumes RP's revenue will grow by 4%-5% per year. The operating income before depreciation and amortization as % of sales should stay at 18%-20% over the next three years. The FFO to total debt ratio is projected to be above 50% during the investment period.

#### **RATING SENSITIVITIES**

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A potential to upgrade the rating is unlikely in light of today's operating capability. However, the rating upgrade could occur if RP broadens its revenue base materially and restores its profitability while maintaining a sound financial profile.

The rating could be downgraded if RP's FFO-to-total debt ratio fell to less than 20% on a sustained basis. This could occur due to unforeseen weak passenger growth and/or higher-than-expected maintenance costs.

#### **COMPANY OVERVIEW**

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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 Chayopas family is the major shareholder and has management control. The company offers ferry services transporting passengers and vehicles (passenger cars, motorcycles, 4- to 10-wheel trucks, and trailers) on three routes, between Don Sak pier and Koh Samui, between Don Sak pier and Koh Phangan, and between Koh Samui and Koh Phangan. During 2011-2016, RP's ferry services contributed approximately 92% of its total revenue. The rest was derived from sales of groceries, restaurant businesses, and van services. The main route between Don Sak pier and Koh Samui has generated approximately two-thirds 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 vehicle transport was approximately 30:70.

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\***

Unit: Bt million

	Jan-Sep 2017	----- Year Ended 31 December -----			
		2016	2015	2014	2013
Revenue	525	676	622	665	622
Finance cost	4	9	14	18	21
Net income from operations	33	67	78	85	69
Funds from operations (FFO)	106	128	141	133	110
Capital expenditures	46	238	50	53	25
Total assets	983	1,044	1,162	733	719
Total debts	43	84	141	220	272
Total liabilities	120	163	208	301	353
Shareholders' equity	863	881	953	431	366
Depreciation & amortization	68	69	59	48	47
Dividends	51	139	0	21	0
Operating income before depreciation and amortization as % of sales	18.8	19.5	23.6	22.3	19.2
Pretax return on permanent capital (%)	4.0 **	7.7	11.9	17.3	15.0
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	30.7	16.4	11.5	9.1	6.8
FFO/total debt (%)	273.9**	151.8	99.9	60.4	40.4
Total debt/capitalization (%)	4.7	8.7	12.9	33.8	42.6

\* Consolidated financial statements

\*\* Annualized with the trailing 12 months

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**Raja Ferry Port PLC (RP)**

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<b>Company Rating:</b>	BB+
<b>Rating Outlook:</b>	Stable

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