TRIS RATING
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PRECIOUS SHIPPING PLC

No. 130/2018
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CORPORATES

Company Rating:	BBB-
Issue Rating:	
Senior unsecured	BB+
Outlook:	Stable

Company Rating History:

Date	Rating	Outlook/Alert
31/08/17	BBB-	Stable
26/08/16	BBB-	Negative
13/11/15	BBB	Stable

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RATIONALE

TRIS Rating affirms the company rating on Precious Shipping PLC (PSL) at “BBB-” and affirms the rating on PSL’s senior unsecured debentures at “BB+”. The ratings reflect the recovery in PSL’s performance, thanks to the continuous improvement in supply-demand balancing of the dry-bulk shipping industry that has been supporting charter rate uptrend since 2017.

The ratings also take into account PSL's track record and its ability to withstand severe industry cycles. We believe global trade negotiations have no immediate and material impact on the dry-bulk shipping industry. However, if trade tensions escalate further, it may add uncertainty to freight rate recovery.

KEY RATING CONSIDERATIONS

Modest supply growth helps the industry

TRIS Rating expects the recovery in the dry-bulk shipping industry to continue as supply condition improves. During the past few years, an oversupply situation played a major part in the industry volatilities. However, the supply of ships is now more in balance with demand because of two factors. Firstly, deliveries of new ships will continue to slip past the planned delivery dates. Next, new environmental regulatory requirements relating to ballast water management and low sulphur fuel oil, becoming effective in 2019-2020, will accelerate the scrapping rates of aged and uneconomical vessels as well as slow the new order book as a result of design uncertainty relating to the new regulations. According to PSL, the supply of dry-bulk shipping capacity will rise by 2%-3% per annum during 2018-2019, the lowest growth level in several years.

Demand to outpace supply

We expect demand for dry-bulk shipping to grow faster than the supply of dry-bulk ships in 2018-2019. The dry-bulk shipping industry relies largely on world economic conditions. The activity level in the industry is a function of demand for commodities, world economic growth, and trade flows. Historically, the industry trade volume tends to grow at a pace slightly faster than world gross domestic product (GDP). According to the International Monetary Fund (IMF), world GDP is estimated to grow by 3.9% in 2018-2019. If trade flow follows the pattern, the industry trade volume will grow faster than supply of vessels during the period.

Limited impact of trade tensions

The recent increase in trade tensions and tariff negotiations is viewed by industry veterans as having a limited impact on dry-bulk shipping, at least for the next few quarters. Demand for main bulks in China remains intact, especially for high-quality raw materials such as iron ore and coal following its pollution control measures. Other sectors such as grain, directly affected by the trade tension between the United States (US) and China, will result in trade re-routing. For example, soybean trade between China and the US will be shifted to Brazil which is positive to the industry in terms of increasing tonne miles.

TRIS Rating believes that the positive development in supply fundamental will outweigh the negative effects from the trade protectionism. However, if trade tensions escalate further, it could affect the overall sentiment and hamper the world GDP and trade flows which eventually slow demand growth for dry-bulk shipping.

Recovery in freight rates will continue

TRIS Rating holds the view that freight rates recovery will be sustainable over the next 12-24 months, taking into account the favorable demand and supply conditions. TRIS Rating's base case assumes PSL's average time charter (TC) rate to stay between US$10,600-US$13,000 per ship per day during 2018-2020. However, the geopolitical tensions could add volatility to freight rate recovery.

The realignment in demand and supply has begun showing positive effects since late 2016. The Baltic Dry Index (BDI), widely used as a reference for the TC rate, rose to an average of 1,217 points in the first half of 2018 from a historical low at an average of 673 points in 2016. PSL's TC rates improved along with the rise in the BDI. PSL's average TC rate jumped to US$10,866 per ship per day in the first six months of 2018 from US$6,476 per ship per day in 2016.

Financials to improve further

We expect PSL's operating performance to continue to improve as TC rates rise and cost stays under control. During 2018-2020, TRIS Rating's base case scenario projects PSL's funds from operations (FFO) to range between US$40-US$51 million per annum, reflecting the favorable market conditions. We also project that the adjusted FFO to total debt ratio will range between 10%-31% while the ratio of adjusted debt to capitalization will decline from 51% in 2018 to 29% in 2020.

Leverage will fall as PSL makes the scheduled debt repayments. We assume PSL will have cash on hands at US$68-US$190 million during the period, based on assumption that, in 2019, PSL will receive proceeds from selling six ships and receive refund from advance installments of new buildings after an arbitration settlement altogether worth US$130-US$140 million. Our base-case forecast also assumes no major capital expenditures, such as the acquisition of new vessels during the forecast period.

For the first six months of 2018, the adjusted FFO to total debt ratio was 8.5% (annualized, from the trailing 12 months). The ratio of adjusted debt to capitalization was 51.4%.

Adequate liquidity

We expect PSL to have sufficient liquidity to meet its obligations over the next 12-18 months. The funding needs are primarily scheduled debt repayments of US$45 million and capital spending of US$12-US$15 million. Sources of funds are FFO, forecast at US$40-US$48 million per annum, and cash and cash equivalents of US$63 million on hand at the end of June 2018. Our base case scenario also includes US$130-US$140 million from vessel disposals and a refund of advanced payment for vessels, both received in 2019.

PSL currently cannot comply with some financial covenants and is working with its lenders on the issue. We expect the company to maintain ample liquidity if prepayments are needed and to cushion against any unfavorable market conditions.

RATING OUTLOOK

The "stable" outlook reflects the improvement in the dry-bulk shipping market conditions and the expectation of TRIS Rating that PSL's operating performance will improve in line with the market uptrend. We also expect PSL to maintain a prudent liquidity management.

RATING SENSITIVITIES

PSL's ratings could be downgraded if the dry-bulk shipping market slumps or if PSL's financial profile is markedly weaker than our base case expectation, either from a deteriorated operating performance or higher financial leverage. The rating upside will be the case that PSL delivers stronger-than-expected operating results over a sustained period of time while the adjusted ratio of FFO to total debt stays above high-teens percentage on a sustained basis.

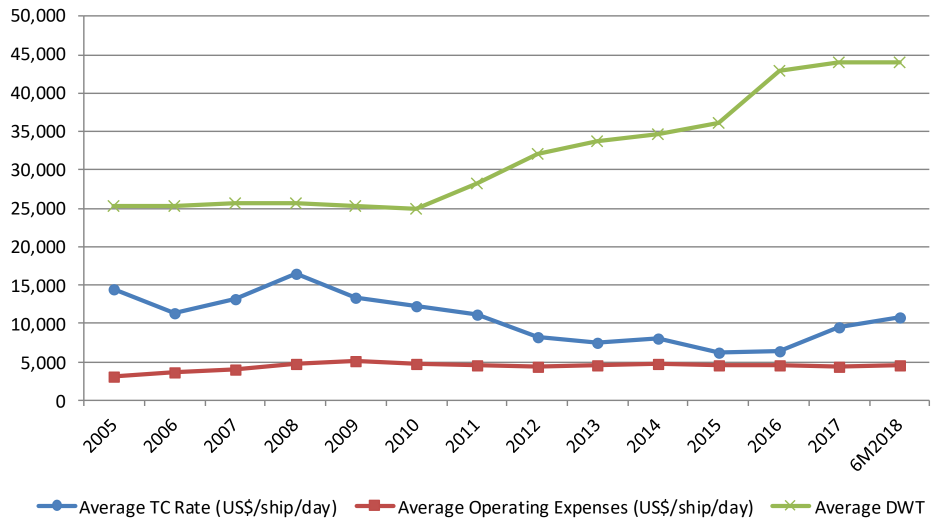
COMPANY OVERVIEW

PSL was established in 1989 and listed on the Stock Exchange of Thailand (SET) in 1993. PSL is a shipping company, owning and operating dry-bulk ships as a tramp shipper. As of February 2018, PSL's major shareholders comprised Ms. Nishita Shah and group, holding 44.4% of PSL's shares, followed by Mr. Khalid Moinuddin Hashim, holding 8.4%.

As of August 2018, PSL had 36 vessels with a total of 1.59 million deadweight tonnage (DWT) in its fleet, comprising 15 handy size vessels, four cement carriers, nine supramax vessels, and eight ultramax vessels. The average age of the fleet is 6.28 years.

KEY OPERTING PERFORMANCE

Chart 1: Average TC Rate and Operating Expenses during 2005 to Jan-Jun 2018



Source: PSL

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: US$ million

		------------- Year Ended 31 December ------------			
	Jan-Jun 2018	2017	2016	2015	2014
Total operating revenues	71.5	128.3	104.6	123.4	141.0
Operating income	36.1	57.6	23.7	22.4	49.2
Earnings before interest and taxes (EBIT)	15.9	14.3	(15.4)	(33.0)	3.5
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	34.1	49.1	23.3	11.0	42.6
Funds from operations (FFO)	21.5	24.0	(4.5)	(5.4)	27.1
Adjusted interest expense	12.6	25.1	27.7	16.4	15.4
Capital expenditures	4.9	29.8	76.3	129.5	216.5
Total assets	872.6	882.3	901.9	899.4	846.7
Adjusted debt	406.5	429.3	397.7	375.2	347.4
Adjusted equity	383.8	377.5	381.2	456.8	463.7
Adjusted Ratios					
Operating income before depreciation and amortization as % of sales	50.5	44.9	22.6	18.1	34.9
Pretax return on permanent capital (%)	2.8 **	1.7	(1.8)	(3.9)	0.4
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	2.7	1.9	0.8	0. 7	2.8
Debt to EBITDA (times)	6.8 **	8.7	17.1	34.0	8.2
FFO/total debt (%)	8.5 **	5.6	(1.1)	(1.4)	7. 8
Total debt/capitalization (%)	51.4	53.2	51.1	45.1	42.8

* *Consolidated financial statements*
** *Annualized with trailing 12 months*

Precious Shipping PLC (PSL)

Company Rating:	BBB-
Issue Rating:	
PSL211A: Bt3,590 million senior unsecured debentures due 2021	BB+
Rating Outlook:	Stable

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