PRECIOUS SHIPPING PLC

No. 181/2024
10 October 2024

CORPORATES

Company Rating:	BBB
Issue Rating:	
Guaranteed	AAA
Outlook:	Stable

Last Review Date: 28/08/24

Company Rating History:

Date	Rating	Outlook/Alert
25/10/22	BBB	Stable
13/12/21	BBB-	Stable
29/12/20	BB+	Stable
19/08/20	BB+	Negative
24/04/20	BB+	Alert Negative
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 proposed issue of up to THB1,440 million guaranteed debentures, guaranteed by Credit Guarantee and Investment Facility (CGIF), at "AAA", with a "stable" outlook.

The company rating reflects the high business risk inherent in the volatile and cyclical shipping industry. The rating also factors in a period of rising and elevated financial leverage resulting from the company's fleet renewal program. We expect favorable supply conditions, stemming from limited new ship orders and stringent environmental regulations, to continue supporting dry-bulk freight rates and the company's cash flow during the period of large capital outlays over the next few years. However, any material deterioration in industry dynamics that affects our view on future freight rates could lead us to reassess the company's financial profile. Meanwhile, the rating on PSL's guaranteed debentures reflects our rating on CGIF (rated "AAA/Stable") as the guarantor.

KEY RATING CONSIDERATIONS

Supply dynamics remain supportive of freight rates

We believe that limited supply growth will remain a key driver supporting dry-bulk shipping freight rates in the coming quarters. We anticipate net supply growth of 3%-5% per annum during 2024-2026. Uncertainty regarding the design and technology needed to comply with increasingly strict decarbonization regulations, along with the limited capacity of shipyards, continues to deter new ship orders. As of July 2024, new orderbook accounted for 9% of total fleet. Additionally, the enforcement of greenhouse gas emission rules leads to reduced ship speeds and could accelerate scrapping rates for older, less efficient vessels. In July 2024, vessels over 20 years old accounted for approximately 9% of the total dry-bulk fleet capacity, a figure expected to rise to 16% by 2027.

Demand in the dry-bulk shipping industry relies largely on world economic conditions. The International Monetary Fund (IMF) forecasts global gross domestic product (GDP) growth of 3.2% in 2024 and 3.3% in 2025. Dry-bulk demand growth is expected to be strong in 2024 at 4.0%-4.5%, partly driven by the ongoing conflict in the Red Sea, which has resulted in increased ton-mile demand. Demand growth in 2025 might not be as strong, potentially influenced by factors such as high importer inventories and improved conditions in the Panama Canal.

High business risk assessment constrains ratings

The dry-bulk shipping industry is considered highly volatile and cyclical. These characteristics have been the constraining factor of our assessment of PSL's business risk profile, despite favorable near-term supply and demand conditions. The industry's fragmented nature frequently results in supply-demand imbalances and a history of oversupply. Its capital-intensive nature and lack of significant service differentiation often lead to intense price competition, squeezing the profitability of industry participants. Moreover, the high degree of operating leverage, characterized by relatively high and inflexible fixed costs, tends to amplify both profits in favorable times and losses in unfavorable times.

Charter rates projected to normalize in 2026

We project PSL's average time charter (TC) rate to remain strong at USD13,000 per ship per day in 2024. We expect TC rates to normalize, declining to USD11,500 per ship per day during 2025, and USD10,800 in 2026, assuming ongoing geopolitical tensions ease and related disruptions subside. We project average operating cost (OPEX), including dry dock and special survey expenses at around USD5,250-USD5,450 per ship per day during the forecast period.

PSL's revenue is expected to reach around USD170 million in 2024 and USD160-USD170 million per annum during 2025-2026, incorporating an increase in the number of vessels from 40 ships in 2024 to 44 ships in 2026. EBITDA is projected to be around USD85 million in 2024 and USD70-USD75 million per annum during 2025-2026.

Rising debt to fund new fleet

PSL's leverage is expected to rise mainly due to its fleet renewal program. The company's fleet adjustment plan includes selling three vessels in 2024, acquiring a total of six secondhand vessels during 2024-2025, and ordering four new buildings, to be delivered in 2026-2027. This will incur a total capital expenditure of around USD225 million, net of proceeds from vessel disposals, during the period.

We project the adjusted debt to EBITDA ratio to peak at around 3 times in 2026, from 1.6 times (annualized from the trailing 12 months) as of June 2024. We anticipate that leverage will decline quickly once the capital outlays are completed, provided there are no adverse operating conditions in the dry-bulk shipping industry that could materially affect the company's earnings.

The main financial covenants on PSL's loans require the company's debt to equity ratio to remain below 2 times. As of December 2023, the ratio was 0.5 times. We believe PSL should be able to comply with the financial covenants over the forecast period.

Adequate liquidity

We assess PSL's liquidity to be adequate over the next 12 months from June 2024. Funding uses primarily comprise scheduled debt repayments of USD32 million, capital expenditures, including vessel acquisitions, of around USD110-USD120 million, and dividend payments estimated at around USD15-USD20 million. Sources of funds are cash and cash equivalents of USD82 million at the end of June 2024 and funds from operations estimated at around USD60 million. PSL has undrawn credit facilities totaling USD132 million as of 30 June 2024 and is in the process of issuing guaranteed debentures of up to THB1,440 million (up to USD40 million equivalent).

Debt structure

At the end of June 2024, PSL's total interest-bearing debt was USD203 million. As all the debt is secured debt, we view PSL's prospective unsecured creditors as being significantly disadvantaged with respect to the priority of claims against the company's operating assets in the event of insolvency.

BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumptions for PSL's operations in 2024-2026 are as follows:

- Average TC rate of USD13,000 per ship per day in 2024, USD11,500 per ship per day in 2025, and USD10,800 per ship per day in 2026.
- OPEX of around USD5,250-USD5,450 per ship per day.
- EBITDA of around USD85 million in 2024 and USD70-USD75 million per annum during 2025-2026.
- Capital expenditures per fleet renewal program totaling USD225 million.

RATING OUTLOOK

The "stable" outlook of the company rating on PSL reflects our expectation that conditions in the dry-bulk shipping industry will remain favorable, enabling PSL to generate sound operating cash flow. We also expect PSL to be prudent in its capital expenditures and dividend payments to safeguard its financial metrics, providing an adequate buffer against adverse operating circumstances.

The rating and outlook on PSL's guaranteed bonds solely reflect the credit condition of its guarantor, CGIF.

RATING SENSITIVITIES

A rating upgrade is unlikely in the near term. The rating/outlook could be revised downward if PSL's operating performance and financial metrics are significantly weaker than projected, or if industry conditions change unfavorably during the period of PSL's heightened financial leverage.

The rating on PSL's guaranteed bonds may change if the rating on its guarantor, CGIF, changes.

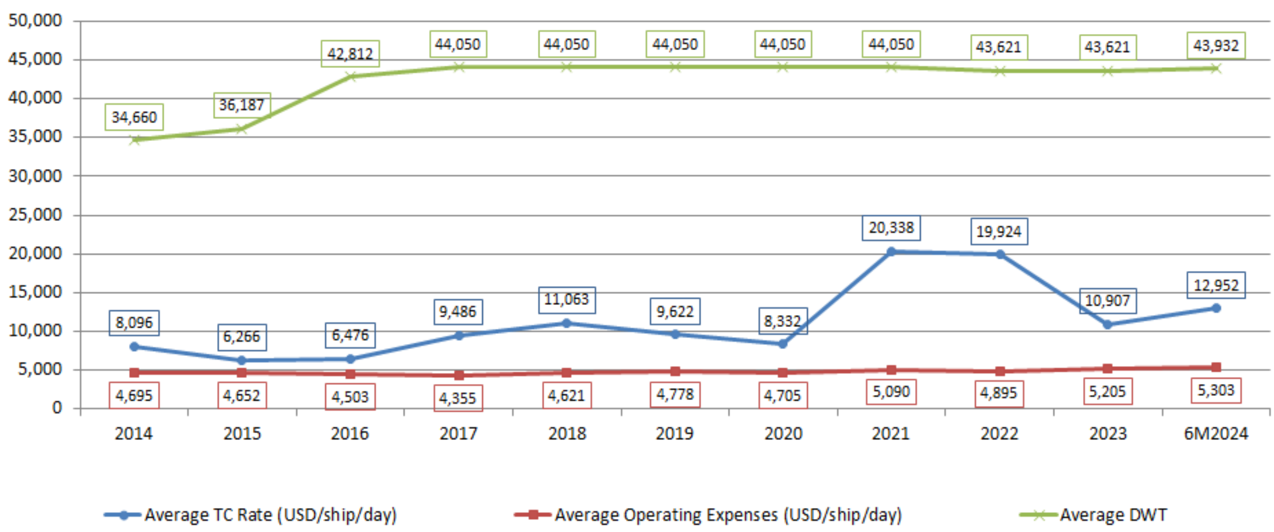
COMPANY OVERVIEW

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 July 2024, PSL's major shareholders comprised the group of companies under the Shah family, holding 44.5% of PSL's shares, followed by Mr. Khalid Moinuddin Hashim, holding 7.8%.

As of 10 October 2024, PSL had 38 vessels with a total of 1.66 million deadweight tonnage (DWT) in its fleet, comprising 18 handysize vessels, four cement carriers, eight supramax vessels, and eight ultramax vessels. The average age of the fleet is 12 years.

KEY OPERATING PERFORMANCE

Chart 1: Average TC Rate and Operating Expenses during 2014 to Jan-Jun 2024



Source: PSL

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. USD

		------------ Year Ended 31 December ---------			
	Jan-Jun 2024	2023	2022	2021	2020
Total operating revenues	85	147	260	266	119
Earnings before interest and taxes (EBIT)	28	33	145	153	6
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	45	66	176	184	36
Funds from operations (FFO)	37	52	165	171	17
Adjusted interest expense	7	14	11	13	19
Capital expenditures	29	3	57	2	1
Total assets	711	711	703	704	712
Adjusted debt	125	146	165	174	303
Adjusted equity	492	475	476	430	337
Adjusted Ratios					
EBITDA margin (%)	52.5	44.8	67.8	69.2	30.5
Pretax return on permanent capital (%)	6.9 *	4.8	21.4	22.6	0.8
EBITDA interest coverage (times)	6.1	4.8	15.9	14.1	1.9
Debt to EBITDA (times)	1.6 *	2.2	0.9	0.9	8.3
FFO to debt (%)	51.8	35.5	100.0	98.0	5.7
Debt to capitalization (%)	20.2 *	23.5	25.7	28.8	47.3

* *Annualized from the trailing 12 months*

RELATED CRITERIA

- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021

Precious Shipping PLC (PSL)

Company Rating:	BBB
Issue Rating:	
Up to THB1,440 million guaranteed debentures due within 10 years	AAA
Rating Outlook:	Stable

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