

RAJA FERRY PORT PLC

No. 17/2023
24 February 2023

CORPORATES

Company Rating: BB
Outlook: Stable

Last Review Date: 21/02/22

Company Rating History:

| Date | Rating | Outlook/Alert |
|----------|--------|---------------|
| 21/02/22 | BB | Negative |
| 10/02/21 | BB+ | Negative |
| 24/03/17 | BB+ | Stable |

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RATIONALE

TRIS Rating affirms the company rating on Raja Ferry Port PLC (RP) at “BB” and revises the rating outlook to “stable” from “negative”. The outlook revision reflects our expectation of a gradual recovery in RP’s operating performance and financial position, with higher fare rates approved by the provincial government of Surat Thani, and a better prospect of traffic-volume recovery in the coming years. The rating continues to reflect RP’s established position in ferry operations in Surat Thani Province and its still high but trending-down financial leverage. The rating is constrained by the company’s tight liquidity position, small business scale, and geographical concentration.

KEY RATING CONSIDERATIONS

Traffic recovery to continue

RP’s passenger and vehicle traffic volume started to recover in 2022 as the COVID-19 situation improved and the government gradually eased travel restrictions in the first half of 2022, resulting in a rebound in tourist arrivals to 11 million in 2022 from 0.4 million in 2021. RP’s passenger traffic increased by 68% year-on-year (y-o-y) to around 490,000 people in the first nine months of 2022, approximately 55% of pre-COVID levels, while vehicular traffic increased by 12% y-o-y to around 340,000 vehicles, or around 67% of pre-COVID levels. RP’s revenue in the first nine months of 2022 increased by 44% y-o-y to THB390 million, around 71% of the 2019 level.

TRIS Rating expects RP’s traffic volume to continue to recover in 2023 before reaching close to the pre-COVID level in 2024. The recovery is in line with increased tourism and economic activity on Koh Samui and Koh Phangan, and supported by an expected rise in the number of tourist arrivals and China’s reopening in early 2023. Under our base-case forecast, we expect passenger numbers to grow by 36% in 2023, 28% in 2024, and 5% in 2025, with vehicular traffic increasing by 12% in 2023, 25% in 2024, and 5% in 2025. RP’s revenue is projected to range from THB530–THB900 million per annum during 2022–2025.

Profitability to improve thanks to higher fares

RP’s profitability in the first nine months of 2022 improved y-o-y but remained weak due to a significant rise in fuel costs despite recovering passenger and vehicular traffic. RP’s earnings before interest, taxes, depreciation, and amortization (EBITDA) margin increased to 7% in the first nine months of 2022, from 3% in 2021, but remained low compared with the 17%–20% levels pre-pandemic. The fare adjustment, which is linked to the retail price of diesel in Don Sak District, Surat Thani, allows the company to pass on fuel costs to customers to some extent. However, the diesel price in 2022 surged beyond the highest fare bracket for the Don Sak–Samui route of the old fare tables, limiting RP’s ability to pass on rising fuel costs to customers.

TRIS Rating expects RP’s profitability to improve thanks to higher ferry fares, effective January 2023. In mid-2022, the provincial government of Surat Thani approved fare rates that are on average 15%–25% higher than the previous rates that had been in use since 2008. A fare adjustment mechanism linked to the diesel price remains in place for the new fare tables. Moreover, the new tables prescribe fare brackets that accommodate a higher diesel price than the previous tables. Under our base-case forecast, we expect RP’s EBITDA margin

to recover to around 19%–20% in 2023–2025, thanks to the higher fares and continued recovery of traffic volume. EBITDA is forecast to rise to THB150–THB180 million per annum during 2023–2025.

Established market position in ferry business in Surat Thani

RP is the largest ferry operator in Surat Thani Province. The local ferry service market is based on 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 price 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 large fleet and complete control over embarkation and debarkation points gives the company a competitive advantage in terms of operational flexibility and frequency of service 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. The construction of a port on Koh Pha Luay is close to completion and is slated for operation in 2023.

Small business scale with geographical concentration

RP’s business scale is small, characterized by limited cash generation and a relatively small debt-absorbing capacity. Prior to the pandemic, RP’s annual revenue was around THB700–THB750 million, with an EBITDA of around THB130–THB140 million. 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. The company has been working to diversify its sources of revenue by adding the new service route to Koh Pha Luay and providing logistics services between the mainland and Koh Samui. These efforts, if successful, could help diversify and grow its revenues. The company is also susceptible to the threat of the emergence of more time- and cost-efficient substitutes of transports to Koh Samui, which could significantly impair RP’s performance as the company derives around 60% of its total revenue from the Don Sak–Koh Samui route.

High but improving financial leverage expected

RP’s financial leverage rose significantly during the COVID-19 pandemic due to weak cash generation. RP’s adjusted debt rose to THB420 million as of September 2022, from around THB110 million in 2019, and its debt to EBITDA ratio remained high at around 14 times as of September 2022.

We expect RP’s financial leverage to improve in 2023–2025 as RP’s operating cash flow improves. Our base-case forecast incorporates capital expenditures of around THB340 million during 2023–2025, which will be used for ferry maintenance, the construction of the port on Koh Pha Luay, and the acquisition of a second-hand ferry for the Don Sak–Koh Pha Luay route. RP’s adjusted debt is expected to remain around THB400–THB500 million in 2023–2025. The debt to EBITDA ratio is forecast to trend downward to around 3–4 times during 2023–2025.

As of September 2022, RP had consolidated debt of THB384 million. Most of the debt was secured debt, translating into a priority debt to total debt ratio of 96%. As its priority debt ratio exceeds 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 to be tight over the next 12 months. As of September 2022, RP’s sources of funds included cash and cash equivalents of THB44 million, expected funds from operations of THB120 million in 2023, and an undrawn long-term loan facility from a financial institution of around THB59 million. Primary uses of funds comprise debts coming due of around THB90 million and capital expenditures of about THB170 million in 2023. We assess that RP will need to secure new borrowings or inject fresh capital to support its liquidity needs and planned investments. The company’s shareholders approved the new share issuance last year to support its investments.

BASE-CASE ASSUMPTIONS

- Revenue of THB530 million in 2022, THB760 million in 2023, and THB860–THB900 million per annum in 2024–2025.
- EBITDA margin of 8% in 2022 and 19%–20% in 2023–2025.
- Capital expenditures totaling THB340 million during 2023–2025.

RATING OUTLOOK

The “stable” outlook reflects our expectation that RP’s operating performance and financial profile will improve in line with the recovery of tourism and economic activity in Koh Samui and Koh Phangan. We also expect RP to maintain its competitive strengths and market position in the ferry business in Surat Thani Province.

RATING SENSITIVITIES

The rating could be revised downward if RP's operating performance and financial profile continuously deteriorate and/or its debt to EBITDA ratio stays above 5 times for a prolonged period. Negative rating pressure could also emerge if there is evidence of a materially deterioration in liquidity position. A rating upgrade could materialize if RP delivers strong operating performance and significantly enlarges its cash generation while maintaining its debt to EBITDA ratio below 2 times on a sustained basis.

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 2022 | -----Year Ended 31 December ----- | | | |
|--|-----------------|-----------------------------------|--------|--------|--------|
| | | 2021 | 2020 | 2019 | 2018 |
| Total operating revenues | 393 | 373 | 504 | 722 | 745 |
| Earnings before interest and taxes (EBIT) | (58) | (125) | (70) | 21 | 33 |
| Earnings before interest, taxes, depreciation, and amortization (EBITDA) | 26 | 11 | 70 | 145 | 129 |
| Funds from operations (FFO) | 12 | (4) | 55 | 130 | 118 |
| Adjusted interest expense | 13 | 15 | 15 | 11 | 8 |
| Capital expenditures | 76 | 80 | 98 | 149 | 195 |
| Total assets | 1,156 | 1,193 | 1,235 | 1,206 | 1,184 |
| Adjusted debt | 419 | 360 | 278 | 109 | 99 |
| Adjusted equity | 637 | 708 | 804 | 884 | 887 |
| Adjusted Ratios | | | | | |
| EBITDA margin (%) | 6.67 | 2.83 | 13.85 | 20.02 | 17.26 |
| Pretax return on permanent capital (%) | (7.90) | (10.65) | (6.05) | 1.85 | 3.16 |
| EBITDA interest coverage (times) | 2.01 | 0.72 | 4.66 | 12.79 | 16.09 |
| Debt to EBITDA (times) | 13.88 | 34.18 | 3.99 | 0.75 | 0.77 |
| FFO to debt (%) | 2.93 | (1.20) | 19.64 | 119.74 | 119.70 |
| Debt to capitalization (%) | 39.68 | 33.73 | 25.69 | 10.96 | 10.01 |

RELATED CRITERIA

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

Raja Ferry Port PLC (RP)

| | |
|------------------------|--------|
| Company Rating: | BB |
| Rating Outlook: | Stable |

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