

THORESEN THAI AGENCIES PLC

No. 183/2023
27 September 2023

CORPORATES

Company Rating:	BBB+
Issue Ratings:	
Senior unsecured	BBB+
Outlook:	Stable

Last Review Date: 25/11/22

Company Rating History:

Date	Rating	Outlook/Alert
08/09/22	BBB+	Stable
23/08/21	BBB	Stable
14/10/20	BBB	Negative
29/12/16	BBB	Stable
02/12/14	BBB+	Stable

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RATIONALE

TRIS Rating affirms the company rating on Thoresen Thai Agencies PLC (TTA) and the ratings on its outstanding senior unsecured debentures at “BBB+”, with a “stable” outlook. The ratings reflect TTA’s strength in its two core businesses, dry-bulk shipping and offshore services, and our expectation that the company will continue to deliver sound operating performances over the next few years. Modest supply growth in the dry-bulk shipping industry should continue to keep freight rates high, though not as high as the levels seen in the last two years. A strong orderbook and growing scale of operations should sustain the turnaround in the company’s offshore services business. However, the inherent high business risk associated with the volatile and cyclical nature of the two businesses continues to weigh on the ratings.

The ratings also take into consideration TTA’s low but rising financial leverage. TTA has been actively pursuing investment opportunities with the objective to diversify and sustain its earnings growth. It remains to be seen how successful these investments will be. In the near term, we consider venturing into new, unfamiliar businesses to be a risk, which also weighs on the ratings.

KEY RATING CONSIDERATIONS

Modest supply growth supports freight rates

The dry-bulk shipping market conditions began to normalize in late 2022, following an abnormal surge in freight rates caused by inefficiencies stemming from the COVID-19 pandemic. Looking ahead, while macroeconomic uncertainties and a slowdown in China raise concerns over dry-bulk demand, we expect modest supply growth to remain a pivotal factor upholding freight rates in the next couple of years.

The low orderbook for new dry-bulk carriers is a result of uncertainties surrounding the design and technology required to meet increasingly stringent decarbonization regulations, as well as the limited capacity of shipyards. These factors are expected to keep supply growth modest over the next few years. Furthermore, the implementation of rules governing greenhouse gas emissions may result in reduced ship speeds and an accelerated scrapping rate for older, less economical vessels. This favorable supply development is likely to provide support for dry-bulk freight rates in the upcoming quarters, even amidst uncertainties in the outlook for dry-bulk demand. Global economic challenges, particularly the slowdown in China, could continue to impact demand. We believe that a boost in dry-bulk shipping freight rates will depend on stimulus policies from major economies, particularly China, a dominant player in global maritime trade.

With the industry correction and our view on demand and supply dynamics, our base-case scenario for TTA forecasts an average time charter equivalent (TCE) of USD11,000-USD12,000 per ship per day during 2023-2025, compared with USD25,036 per ship per day in 2022. We forecast operating cash expenses of USD5,800-USD6,100 per ship per day. This translates into forecast revenue from the dry-bulk shipping business of around THB7.8-THB9.5 billion per annum while the earnings before interest, taxes, depreciation, and amortization (EBITDA) margin is expected to be in the 16%-23% range during the forecast period.

Positive developments in offshore services

We anticipate that TTA's offshore services business, operated through Mermaid Maritime PLC (MML), in which TTA holds a 58.2% ownership stake, will continue to generate positive EBITDA in the next three years. This positive outlook is underpinned by a robust orderbook in the subsea inspection, repair, and maintenance (IRM) segment and growth potential in the transportation and installation (T&I) and decommissioning service sectors.

In recent years, the company has expanded its service portfolio and geographical reach. This expansion includes the provision of IRM services in West Africa and Southeast Asia, engagement in cable-laying operations in the Middle East, and involvement in T&I and decommissioning activities in the Gulf of Thailand and the North Sea. This broader scope of operations enhances MML's business profile, reducing its dependence on the IRM business in the Middle East. It also allows for more efficient resource utilization and contributes to the improvement of overall operating performance.

During 2023-2025, we forecast revenue from offshore services of USD240-USD430 million per annum. The forecast factors in the outstanding orderbook and potential project awards in T&I and decommissioning after MML successfully reinstated its business in the Gulf of Thailand. At the end of June 2023, MML's orderbook stood at USD337 million, of which 73% was from the subsea IRM business, 7% the cable laying business, and the remaining 20% the T&I and decommissioning business. The orderbook will translate into revenues of USD131 million in the second half of 2023, USD148 million in 2024, and USD58 million in 2025. EBITDA margin is projected to be in the 9%-12% range throughout the forecast period. The assumption is based on our expectation of improved operating leverage and alleviated pressure in pricing negotiations and budget, especially from major clients due to improved oil and gas prices.

High business risk

TTA's business risk is evaluated as high due to the inherent volatility and cyclical nature of its dry-bulk shipping and offshore services operations. Over the past several years, these two segments have collectively accounted for more than 80% of the company's total earnings.

The dry-bulk shipping industry is characterized by high fragmentation and intense competition, resulting in frequent episodes of oversupply in the market, leading to prolonged periods of depressed freight rates. In the offshore services sector, demand is closely tied to the level and direction of oil prices, introducing an element of uncertainty. Additionally, the company faces customer concentration risk, which limits its bargaining power in service contract negotiations. TTA's operational performance heavily relies on contract renewals with a limited number of key customers, primarily located in the Middle East.

Limited contributions from other businesses

TTA aims to diversify its business and earnings sources to cushion against the volatility of its two core businesses. The company has invested in other less cyclical businesses, including agrochemicals, food & beverage (F&B), water management, and logistics. However, these businesses have so far had only a limited impact on the group's overall performance.

For 2023-2025, we forecast revenue from TTA's agrochemical business of THB3.2-THB3.4 billion per annum with an EBITDA margin in the mid-single-digit percentage range. We expect performance of the agrochemical business performance to remain under pressure from high raw material prices and competition. In the F&B business, TTA operates the Pizza Hut and Taco Bell QSR (quick service restaurant) brands. The company had 191 Pizza Hut outlets and 16 Taco Bell outlets as of the end of June 2023. The company plans to open 10-20 outlets of the two brands combined per year during 2023-2025. However, we expect weak consumer sentiment and the highly competitive nature of the QSR industry will continue to exert pressure on TTA's F&B performance. We forecast revenue from the F&B business of THB2-THB2.5 billion per annum during 2023-2025 with an EBITDA margin in the mid-single-digit range.

TTA is expanding into new businesses including property development and airlines. For property development, a joint venture in which TTA holds an interest of around 60% will develop a high-rise condominium project in Bangkok's central business district. The total project value is around THB9 billion with construction planned for 2023-2026. For the airline business, TTA through its subsidiary P80 Air Limited (P80 Air), plans to provide scheduled chartered flights using leased aircrafts. P80 Air is expected to commence operations in the second quarter of 2024.

Leverage to rise from capital expenditures and investments

TTA's financial strength is a major factor supporting its credit metrics. However, we expect TTA's leverage to rise, as a result of its planned capital expenditures and investments, and smaller EBITDA as the shipping business normalizes.

We project TTA's revenue at around THB22.5 billion in 2023 and THB29-THB30 billion per annum during 2024-2025. The revenue increase is based on the expectation that MML will be awarded sizable new projects. The EBITDA margin is projected to hover in the 11%-14% range during the forecast period, translating into EBITDA of THB3-THB3.7 billion per annum during 2023-2025.

We assume capital expenditures and investments will total around THB4 billion in 2023 and THB1.5-THB2.5 billion per annum during 2024-2025. Adjusted debt is forecast to rise from THB2.2 billion at the end of June 2023 to around THB6 billion in 2025. As a result, TTA's leverage as measured by the adjusted debt to EBITDA ratio is expected to rise from 0.5 times as of June 2023 (annualized from the trailing 12 months) to around 1.5 times during the forecast period.

More aggressive investment policy than previously anticipated

TTA's aggressive investment strategy is evident in its growing involvement in digital assets and fintech-related ventures. As of June 30, 2023, TTA held THB 2.4 billion worth of digital assets, mainly bitcoin, recorded on its financial statements, accounting for around 5% of total assets. According to TTA's management, the company has set an investment limit on digital assets and there will be no additional large investments in the foreseeable future. For other fintech-related ventures with high volatility, we view that a significant increase in investment size could pressure TTA's overall credit profile.

We expect TTA to be prudent in its future investment decisions and to exercise caution in managing its cash holdings and shareholder returns to ensure an ample cushion against adverse operating conditions in its two core businesses and to prepare its balance sheet for entering a new investment cycle in the shipping business. To remain aligned with the industry's carbon transition, we anticipate that TTA might need to start replacing its dry-bulk fleet in the coming three to five years, once there is greater clarity regarding environmental regulations and the economic viability of new technologies.

Sufficient liquidity

TTA's liquidity is assessed to be adequate to cover its needs for the next 12 months. Sources of funds include cash and cash equivalents on hand of around THB10 billion at the end of June 2023 and funds from operation (FFO) projected at THB2-2.5 billion. The primary uses of funds are financial obligations of around THB4 billion and capital spending of THB3 billion.

As of June 2023, TTA's priority debt ratio was 32%, below the 50% threshold according to TRIS Rating's "Issue Rating Criteria". The main financial covenants on TTA's debentures require the company's net interest-bearing debt to equity ratio to remain below 2 times. We believe that TTA should have no problems complying with the financial covenants over the forecast period.

BASE-CASE ASSUMPTIONS

- Average TCE rate of USD11,000-USD12,000 per ship per day in 2023-2025.
- Offshore services revenue of USD240-USD430 million per annum during 2023-2025.
- Revenue of THB22.5 billion in 2023 and THB29-THB30 billion per annum during 2024-2025.
- EBITDA margin of 11%-14% during 2023-2025.
- Estimated capital expenditure of THB4 billion in 2023 and THB1.5-THB2.5 billion per annum during 2024-2025.
- Dividend payment projected at around THB400 million per annum.

RATING OUTLOOK

The "stable" outlook is based on our expectation that TTA will be prudent in its investment decisions and will keep its adjusted net debt to EBITDA below 1.5 times on a sustainable basis.

RATING SENSITIVITIES

A rating upgrade is unlikely in the near term. Conversely, the ratings or outlook could be revised downward if TTA's financial profile is significantly weaker than expected either from a persistent deterioration in operating results or aggressive investments.

COMPANY OVERVIEW

TTA is an investment holding company, established in 1983 and listed on the Stock Exchange of Thailand (SET) in 1995. The "Mahagitsiri" family is a major shareholder of the company with a 37% stake as of July 2023. The company classifies its businesses into five areas: dry-bulk shipping, offshore services, agrochemicals (production & distribution of fertilizers in Vietnam), food & beverage, and investment.

TTA's standing in the dry-bulk shipping market is backed by its established operations and competitive fleet capacity. TTA owns 24 vessels with an average size of 55,913 deadweight tons (DWT), while the average age is around 15 years. The company's offshore service segment owns six subsea vessels. For the first six months of 2023, TTA's total revenues were THB10.8 billion. Dry-bulk shipping contributed 39%, followed by offshore services with 34%, agrochemical business 13%, food & beverage 9%, and other investments 5%.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS
Unit: Mil. THB

	Jan-Jun 2023	-----Year Ended 31 December -----			
		2022	2021	2020	2019
Total operating revenues	10,811	29,383	22,183	12,880	15,501
Earnings before interest and taxes (EBIT)	772	4,985	4,121	-592	36
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,702	6,517	5,375	696	1,290
Funds from operations (FFO)	1,330	5,905	4,879	241	722
Adjusted interest expense	369	513	420	415	499
Capital expenditures	1,386	1,320	1,825	1,763	646
Total assets	44,677	41,593	38,947	31,029	33,473
Adjusted debt	2,197	793	618	3,261	2,389
Adjusted equity	28,523	27,726	24,400	19,191	22,599
Adjusted Ratios					
EBITDA margin (%)	15.74	22.18	24.23	5.41	8.32
Pretax return on permanent capital (%)	7.68 *	13.68	12.83	-1.97	0.11
EBITDA interest coverage (times)	4.62	12.70	12.80	1.68	2.59
Debt to EBITDA (times)	0.46 *	0.12	0.12	4.68	1.85
FFO to debt (%)	183.40 *	744.28	788.92	7.38	30.22
Debt to capitalization (%)	7.15	2.78	2.47	14.52	9.56

* 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

Thoresen Thai Agencies PLC (TTA)

Company Rating:	BBB+
Issue Ratings:	
TTA252A: THB800.0 million senior unsecured debentures due 2025	BBB+
TTA265A: THB1,200.0 million senior unsecured debentures due 2026	BBB+
TTA260A: THB1,698.1 million senior unsecured debentures due 2026	BBB+
TTA281A: THB2,074.4 million senior unsecured debentures due 2028	BBB+
Rating Outlook:	Stable

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