TRIS RATING
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PRECIOUS SHIPPING PLC

No. 219/2021
13 December 2021

CORPORATES

Company Rating: BBB-
Outlook: Stable

Last Review Date: 29/12/20

Company Rating History:

Date	Rating	Outlook/Alert
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 upgrades the company rating on Precious Shipping PLC (PSL) to “BBB-” from “BB+” with a “stable” rating outlook. The upgrade reflects PSL’s strengthened operating performance and expected recovery in credit metrics, driven by favorable demand and supply dynamics in the dry-bulk shipping industry. We expect the company to continue strengthening its balance sheet during this period of cyclical recovery, in preparation for future investment cycles or for the next cyclical downturn.

The rating continues to reflect PSL’s high business risk inherent in the volatile and cyclical shipping industry. The uncertainty over environmental regulations that helps deter supply growth of the industry in the near term, also weighs on the rating, as it could lead to an outsized capital expenditure burden for the company to replace some of its older vessels at some point in the future.

KEY RATING CONSIDERATIONS

Strong operating performance in 2021

Along with the industry, PSL’s performance has improved significantly, following a surge in charter rates after the severe disruption caused by COVID-19 last year. We view the exceptionally high freight rates in 2021 to be temporary, underpinned by strong demand recovery post disruption, an increase in commodity demand in China, as well as port congestion due to COVID-19 related protocols, which periodically constrain supply capacity. We expect demand to be more normalized and congestion induced by COVID-19 to gradually ease. We expect freight rates to come down from the 2021 levels but remain favorable in 2022-2023.

Our base-case projection assumes PSL’s average time charter (TC) rate to be around USD18,000 per ship per day in 2021 and around USD11,000-USD15,000 per ship per day during 2022-2023. We expect PSL to remain cost efficient with average operating cost (OPEX) at around USD5,000 per ship per day during 2021-2023.

PSL’s revenue is forecast to reach around USD240 million in 2021 and USD150-200 million per annum during 2022-2023. Earnings before interest, taxes, depreciation, and amortization (EBITDA) are projected to be USD150 million in 2021 and USD60-USD105 million per annum during 2022-2023. Funds from operations (FFO) are forecast to reach USD135 million in 2021 and USD50-USD95 million per annum during 2022-2023.

Favorable supply and demand dynamics

We expect modest supply growth in dry-bulk shipping capacity in the near future, with a record low orderbook. Imminent and increasingly stringent decarbonization regulations coupled with the technological uncertainties involved in meeting these requirements could result in shorter economic lives of vessels ordered during this period. Another constraining factor is the limited capacity of shipyards, which are predominantly occupied by container, tanker, and gas carrier orders.

On the demand side, we expect stimulus measures, particularly in China and the major economies, to be a major factor to continue driving dry-bulk demand. However, key downside risks remain, including the evolving COVID-19 situation and new variants, fragile economic outlook, and geopolitical risk which could hinder demand growth potential.

Despite favorable supply and demand dynamics in the near term, we continue to consider the industry risk of dry-bulk shipping as high, constraining our assessment of PSL's business risk profile. The industry is highly fragmented, leading to frequent supply-demand imbalances and a history of oversupply situations. The capital intensity and the inability to meaningfully differentiate services often lead to intense competition based on price, squeezing the profitability of industry players.

Improved financial metrics

PSL's financial profile has improved remarkably, following the robust market conditions and strong earnings. For the first nine months of 2021, the adjusted ratio of debt to EBITDA improved significantly to 1.6 times (annualized, from the trailing 12 months), from 7.9 times at the end of 2020 and the adjusted FFO to total debt ratio was 55.2% (annualized, from the trailing 12 months) for the first nine months of 2021, compared to 6% at the end of 2020. Our base-case forecast projects PSL's adjusted debt to EBITDA ratio to stay at 1.5-2.5 times during 2021-2023 and the adjusted FFO to total debt ratio to be around 60% in 2021 and 35%-50% during 2022-2023.

The expected low leverage reflects the solid operating cash flows arising from the favorable industry conditions and low capital expenditures during the forecast period. However, when PSL enters a new investment cycle, leverage is expected to surge significantly given the capital-intensive nature of the business. We expect PSL to prudently manage its debt level and shareholder returns to prepare its balance sheet for a new investment cycle and to provide sufficient flexibility to buffer against market downturns.

At the end of September 2021, PSL's adjusted debt was USD210 million. We view that PSL's prospective unsecured creditors would be significantly disadvantaged with respect to the priority of claims against the company's operating assets in the event of insolvency.

The main financial covenants on PSL's loans require the company's debt to equity ratio to remain below 2 times and the debt service coverage ratio over 1.1 times. As of September 2021, the ratios were 0.73 times and 2.71 times, respectively. We believe that PSL should be able to comply with the financial covenants over the forecast period.

Adequate liquidity

At the end of September 2021, we assess PSL's liquidity to be adequate over the next 12 months. The funding uses are primarily scheduled debt repayments of USD52 million, capital spending of around USD3 million, and a dividend payment announced to be around USD25 million. Sources of funds are cash and cash equivalents of USD60 million at the end of September 2021 and FFO estimated at around USD100 million. We expect the company to manage liquidity prudently to cushion against any adverse market conditions.

BASE-CASE ASSUMPTIONS

- Average TC rate to be around USD18,000 per ship per day in 2021 and around USD11,000-USD15,000 per ship per day during 2022-2023.
- OPEX to be around USD5,000 per ship per day during 2021-2023.
- EBITDA to be USD150 million in 2021 and USD60-USD105 million per annum during 2022-2023.
- Capital spending to be USD3-USD4 million in total during 2021-2023.

RATING OUTLOOK

The "stable" outlook reflects our expectation that PSL will continue to deliver sound operating performance along with the market uptrend. Additionally, we expect PSL to maintain sufficient liquidity to cushion against adverse changes in market conditions.

RATING SENSITIVITIES

A rating upgrade is unlikely in the near term. The rating upside could materialize if PSL steadily delivers stronger-than-expected operating results as well as manages its balance sheet to the level that accommodates a new investment cycle. The rating could be downgraded if PSL's operating performance and financial metrics are persistently weaker than projected and/or there is a material deterioration in its liquidity position.

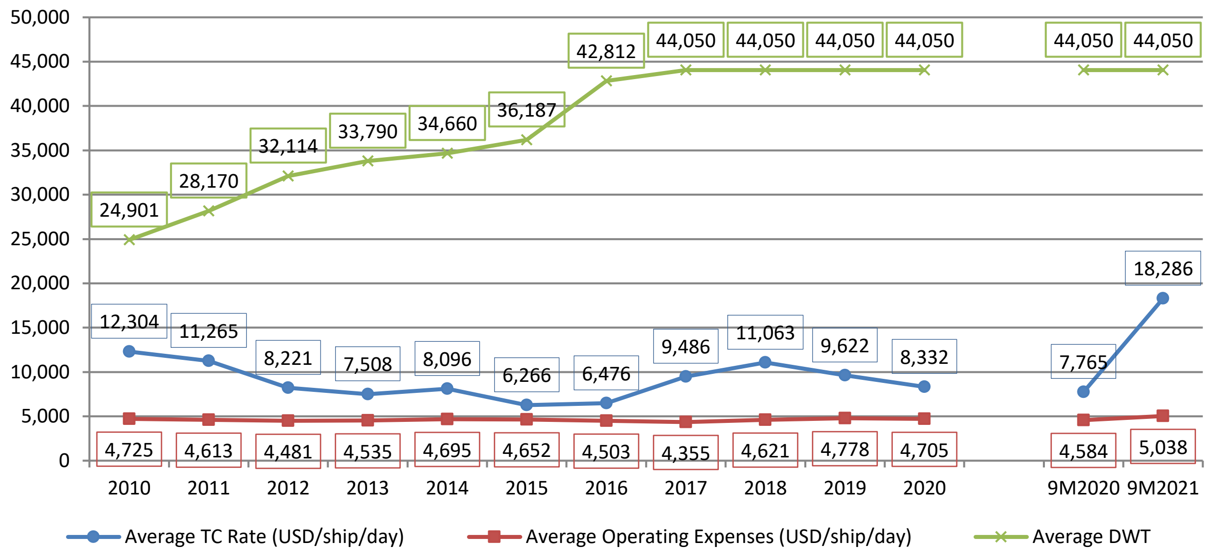
COMPANY OVERVIEW

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 September 2021, PSL's major shareholders comprised Ms. Nishita Shah and group, holding 44.4% of PSL's shares, followed by Mr. Khalid Moinuddin Hashim, holding 7.8%.

As of September 2021, 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 10 years.

KEY OPERATING PERFORMANCE

Chart 1: Average TC Rate and Operating Expenses during 2010 to Jan-Sep 2021



Source: PSL

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. USD

		--------------Year Ended 31 December ----------			
	Jan-Sep 2021	2020	2019	2018	2017
Total operating revenues	182	119	134	152	128
Earnings before interest and taxes (EBIT)	96	6	14	40	19
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	119	36	45	70	49
Funds from operations (FFO)	108	17	22	44	24
Adjusted interest expense	11	19	23	26	25
Capital expenditures	5	9	14	9	30
Total assets	691	712	831	858	882
Adjusted debt	210	286	355	377	413
Adjusted equity	400	337	383	391	377
Adjusted Ratios					
EBITDA margin (%)	65.30	30.49	33.29	45.98	38.27
Pretax return on permanent capital (%)	14.66	0.82	1.81	4.78	2.16
EBITDA interest coverage (times)	11.12	1.91	1.97	2.74	1.96
Debt to EBITDA (times)	1.61	7.86	7.93	5.38	8.41
FFO to debt (%)	55.23	6.02	6.21	11.79	5.81
Debt to capitalization (%)	34.44	45.84	48.06	49.09	52.26

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

Precious Shipping PLC (PSL)

Company Rating:	BBB-
Rating Outlook:	Stable

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