

PRECIOUS SHIPPING PLC

No. 190/2022
25 October 2022

CORPORATES

Company Rating: BBB
Outlook: Stable

Last Review Date: 13/12/21

Company Rating History:

Date	Rating	Outlook/Alert
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 upgrades the company rating on Precious Shipping PLC (PSL) to “BBB” from “BBB-”. The rating outlook remains “stable”. The rating revision reflects PSL’s declining debt level and strong operating results, benefiting from the market upturn and robust freight rates. The upgrade also incorporates our expectation that industry demand and supply dynamics will continue to be favorable over the next few years, allowing the company to further reduce its financial leverage 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. Uncertainty over environmental regulations that deters 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 in the future.

KEY RATING CONSIDERATIONS

Favorable supply and demand conditions

We continue to expect modest supply growth in dry-bulk shipping capacity in the near future, with a record low orderbook. Uncertainties over new vessel design and technology to meet increasingly stringent decarbonization regulations restrain new ship ordering. Another constraining factor is the limited capacity of shipyards, which are predominantly occupied by container, tanker, and gas carrier orders. Additionally, greenhouse gas emission reduction rules, becoming effective in January 2023, could lead to lower speed and accelerate the scrapping rate for old and uneconomical vessels.

On the demand side, the Russia-Ukraine conflict will likely result in changes in trade patterns and could benefit the tonne-mile demand of some commodities such as coal and grain in the near term. Risks of global recession are key threats to the dry-bulk shipping industry. In particular, economic slowdown in China and its property sector crises could result in subdued demand growth. We view demand growth as relying on stimulus measures in the major economies, especially in China.

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

Another exceptional year expected in 2022

With our view on demand and supply dynamics and expectation that the Coronavirus Disease 2019 (COVID-19) induced congestion is gradually improving, easing the periodic disruptive and ineffective supply conditions, we expect freight rates to come down to a more normalized level but remain

satisfactory going forward. Our base-case projection assumes PSL's average time charter (TC) rate to be around USD20,000 per ship per day in 2022, before normalizing at around USD12,000-USD14,000 per ship per day during 2023-2024. We expect PSL to remain cost efficient with average operating cost (OPEX) at around USD4,800-USD5,000 per ship per day during 2022-2024.

We forecast PSL's revenue to be around USD270 million in 2022 and USD170-USD200 million per annum during 2023-2024. Earnings before interest, taxes, depreciation, and amortization (EBITDA) is projected to reach USD180 million in 2022 and USD80-USD110 million per annum during 2023-2024. Funds from operations (FFO) are forecast to reach USD170 million in 2022 and USD70-USD100 million per annum during 2023-2024.

Strengthened financial profile

We expect PSL to prudently manage its excess cash during this market upturn, balancing out debt reduction and its shareholder returns. We project PSL's adjusted debt to decline towards a debt-free position over the next few years. Apart from the two new vessels recently acquired for USD51 million, we assume no major capital expenditures during the forecast period.

We assess PSL's liquidity to be adequate over the next 12 months from June 2022. The funding uses primarily comprise scheduled debt repayments of USD34 million, capital spending of around USD21 million, and a dividend payment estimated at around USD110 million. Sources of funds are cash and cash equivalents of USD57 million at the end of June 2022 and FFO estimated at around USD130 million.

At the end of June 2022, PSL's adjusted debt was USD165 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.

The main financial covenants on PSL's loans require the company's debt to equity ratio to remain below 2 times. As of June 2022, the ratios were 0.53 times. We believe that PSL should be able to comply with the financial covenants over the forecast period.

BASE-CASE ASSUMPTIONS

- Average TC rate to be around USD20,000 per ship per day in 2022 and around USD12,000-USD14,000 per ship per day during 2023-2024.
- OPEX to be around USD4,800-USD5,000 per ship per day during 2022-2024.
- EBITDA to be USD180 million in 2022 and USD80-USD110 million per annum during 2023-2024.
- Capital spending to be USD52 million in 2022 and USD1-USD2 million in total during 2023-2024.

RATING OUTLOOK

The "stable" outlook reflects our expectation that the dry-bulk shipping industry conditions will remain favorable and PSL will continue to deliver sound operating performance.

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 and/or there is a material deterioration in its liquidity position.

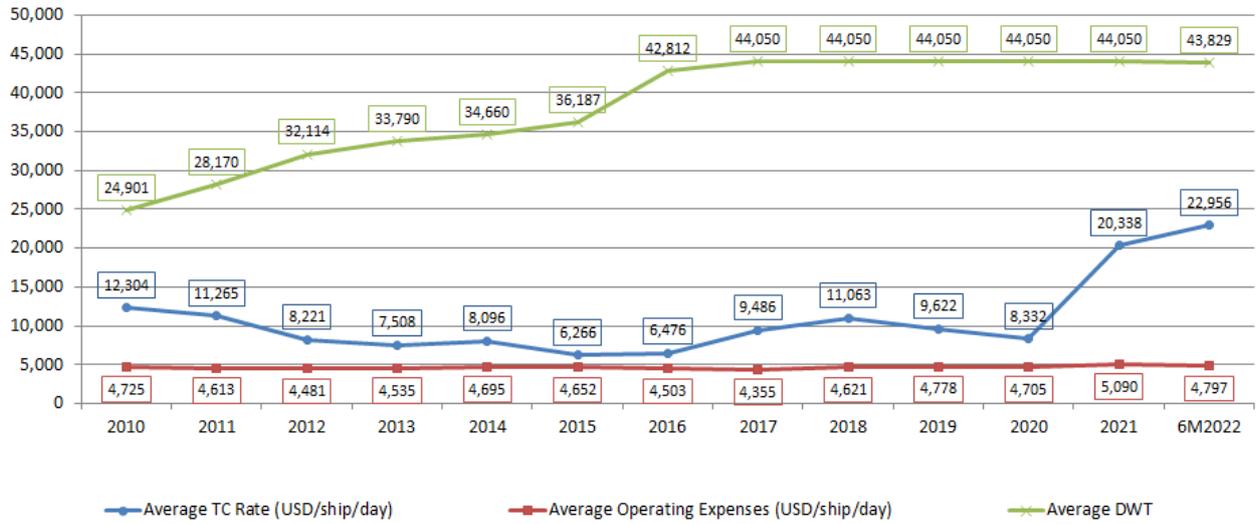
COMPANY OVERVIEW

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 August 2022, 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 October 2022, PSL had 38 vessels with a total of 1.66 million deadweight tonnage (DWT) in its fleet, comprising 17 handy size vessels, four cement carriers, nine supramax vessels, and eight ultramax vessels. The average age of the fleet is 10.7 years.

KEY OPERATING PERFORMANCE

Chart 1: Average TC Rate and Operating Expenses during 2010 to Jan-Jun 2022



Source: PSL

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS
Unit: Mil. USD

	Jan-Jun 2022	-----Year Ended 31 December -----			
		2021	2020	2019	2018
Total operating revenues	144	266	119	134	152
Earnings before interest and taxes (EBIT)	91	153	6	14	40
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	106	184	36	45	70
Funds from operations (FFO)	101	171	17	22	44
Adjusted interest expense	5	13	19	23	26
Capital expenditures	34	8	9	14	9
Total assets	710	704	712	831	858
Adjusted debt	165	174	303	355	377
Adjusted equity	464	430	337	383	391
Adjusted Ratios					
EBITDA margin (%)	73.53	69.17	30.49	33.29	45.98
Pretax return on permanent capital (%)	29.45	22.58	0.81	1.81	4.78
EBITDA interest coverage (times)	20.40	14.14	1.91	1.97	2.74
Debt to EBITDA (times)	0.72	0.95	8.35	7.93	5.38
FFO to debt (%)	131.31	97.98	5.66	6.21	11.79
Debt to capitalization (%)	26.24	28.85	47.34	48.06	49.09

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
Rating Outlook:	Stable

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