

THORESEN THAI AGENCIES PLC

No. 155/2022
8 September 2022

CORPORATES

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

Last Review Date: 23/08/21

Company Rating History:

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

Contacts:

Chanaporn Pinphithak
chanaporn@trisrating.com

Tulyawat Chatkam
tulyawatc@trisrating.com

Parat Mahuttano
parat@trisrating.com

Thiti Karoonyanont, Ph.D., CFA
thiti@trisrating.com



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RATIONALE

TRIS Rating upgrades the company rating on Thoresen Thai Agencies PLC (TTA) and the ratings on its outstanding senior unsecured debentures to “BBB+”, from “BBB” with a “stable” outlook. The ratings revision reflects TTA’s strengthened balance sheet supported by strong cash flow from operations and conservative dividend payment. We expect TTA’s dry-bulk shipping business to continue delivering sound operating performance in the near term with favorable supply and demand dynamics, and its offshore service business to turnaround with a strong orderbook and growing scale of operations.

The ratings continue to reflect the high business risk inherent in the volatile and cyclical nature of TTA’s two main businesses of dry-bulk shipping and offshore services, from which it derives its core earnings. TTA’s efforts to expand into new unrelated businesses, despite the potential long-term diversification benefits if executed successfully, could introduce near-term downside risks and also weigh on the ratings.

KEY RATING CONSIDERATIONS

Solid dry-bulk shipping performance

We view favorable demand and supply conditions will continue to drive TTA’s satisfactory shipping business performance over coming quarters. TTA benefited from the exceptionally high freight rate in 2021 through the first half of 2022. TTA’s average time charter equivalent (TCE) was USD22,575 per ship per day in 2021 and USD27,977 per ship per day in the first six months of 2022, compared to USD10,268 per ship per day in 2019. We view such high freight rates likely be temporary, mainly driven by COVID-related supply inefficiency.

We expect freight rates to be more normalized but remain satisfactory over the coming quarters. The Russia-Ukraine conflict will likely result in changes in trade patterns and could benefit tonne-mile demand of some commodities such as coal and grain. We view economic headwinds, especially a slowdown in China, as threats to dry-bulk demand growth. However, modest supply growth due to low orderbook and stringent environmental regulations should help keep industry demand and supply relatively balanced.

Our base-case scenario projects TTA’s average TCE to be around USD21,500 per ship per day in 2022 before normalizing at USD12,000-USD14,000 per ship per day in 2023-2024. We expect TTA to remain cost efficient with operating cash expenses projected at USD5,900-USD6,100 per ship per day during 2022-2024. This translates into revenue forecast from the dry-bulk shipping business of around THB12 billion in 2022 and THB9.5-THB11 billion per annum during 2023-2024. Earnings before interest, taxes, depreciation, and amortization (EBITDA) margin is expected to be high due to the exceptionally high TCE at 38% in 2022 and in the 17%-21% range during 2023-2024.

Offshore service business starting to turn around

TTA’s offshore service business showed material improvement in the first half of 2022 with its first positive EBITDA since 2018. Operated under Mermaid Maritime PLC (MML), which is 58.2% owned by TTA, the company has been expanding its range of services and geographic coverage. Previously relying mainly on subsea inspection, repair & maintenance (IRM) in the Middle East, MML is now also providing IRM services in West Africa and Southeast Asia, cable laying business in the Middle East, and transportation and installation

(T&I) and decommissioning in the Gulf of Thailand and the North Sea. The larger scale of operations allows it to better utilize its resources and recover some overhead costs.

At the end of June 2022, thanks to a 3-year IRM contract renewal awarded by a major client in the Middle East, MML reported a historically high orderbook for the past seven years at USD358 million. Of this, 75% was from the subsea IRM business, 18% the cable laying business, and the remaining 7% the T&I and decommissioning business. The orderbook will translate into revenues of USD117 million in the second half of 2022, USD125 million in 2023, and USD58 million per year during 2024-2025.

Our baseline forecast projects offshore service business revenue at USD190-USD210 million per annum during 2022-2024. EBITDA margin is projected to be in the low-to-mid-single-digit range throughout the forecast period. The assumption incorporates the orderbook and our expectation of continued diversified earnings sources allowing better utilization rate of its working subsea vessels and improved operating leverage. Additionally, improved oil and gas prices should alleviate pressure on pricing negotiation and budget especially from major clients.

High business risk in core businesses

TTA's business risk largely stems from the volatile and cyclical nature of the dry-bulk shipping and offshore services. On average, the two businesses have contributed over 80% of its total earnings over the past several years. Dry-bulk shipping industry is highly fragmented and competitive, leading to frequent oversupply market conditions with extended periods of depressed freight rates. In the offshore services business, the demand depends on the level and direction of oil prices. The company is also exposed to customer concentration risk, which limits its negotiating power in service contracts. Its operating performance depends largely on contract renewals from a few customers, mainly in the Middle East.

Contributions from other businesses and investments remain modest

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. While the agrochemical business delivers steady positive operating cash flow and the F&B segment is growing, these businesses still have limited impact on the group's overall performance.

During 2022-2024, our baseline assumption forecasts TTA's revenue from the agrochemical business to be THB3-THB3.5 billion per annum with an EBITDA margin in the mid-single-digit percentage range. We view the impact of heightened raw material costs in the agrochemical business as temporary and partly offset by increased selling prices. In the F&B business, the main contribution comes from Pizza Hut restaurants. The company operated 184 Pizza Hut outlets as of the end of June 2022. The company plans to open 20-25 outlets per year during 2022-2024. Larger scale and a greater number of outlets should enable the company to improve its operating leverage. We project revenue from Pizza Hut to be THB2-THB2.5 billion per annum during 2022-2024 with an EBITDA margin of 8%-10%.

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 central business district (CBD) area. The total project value is THB8 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 through leased aircrafts. As a holding company with significant amount of cash on hand, TTA could be seeking investment opportunities in new businesses where it has no prior direct experience. While these investments might help diversifying risks over the longer term, if successful, we view they present uncertainty and downside risks in the near term.

Balance sheet and cash flow to remain strong in near term

TTA's financial strength with ample cash reserves is a major factor supporting its credit metrics. With an expected sound operating performance in its core businesses, we view TTA as having a credit buffer against business uncertainty and moderate investment opportunities.

Our baseline forecast projects TTA's revenue to be THB23-THB26 billion per annum during 2022-2024. The EBITDA margin is projected to remain high at 19% in 2022 due to the ongoing robust dry-bulk shipping business, before normalizing in the 11%-13% range during 2023-2024. EBITDA is forecast at THB5 billion in 2022 and THB2.5-THB3.2 billion per annum during 2023-2024. TTA's capital expenditures and investment are estimated to be around THB1.5-THB2 billion per annum during 2022-2024.

At the end of June 2022, TTA had a reported debt of THB10 billion with reported cash and cash equivalent on hand of THB10 billion. We expect TTA to be prudent with investment opportunities and management of cash, including future dividend payments, to allow for sufficient cushioning against any adverse operating conditions in its two core businesses. We also expect TTA to prepare its balance sheet and reserve some cash for a new investment cycle of dry-bulk fleets, which may require a sizable replacement starting in three to five years when there is more clarity in terms of environmental regulations

and new technology economically viable. To stay commensurate with the “BBB+” rating, we expect TTA to be able to keep its adjusted debt to EBITDA ratio below 1.5 times, considering future capital expenditure needs against a normalized and sustainable level of EBITDA.

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.

Sufficient liquidity

TTA’s liquidity is assessed to be sufficient to cover its needs for the next 12 months. Sources of funds are cash and cash equivalent on hand of around THB10 billion at the end of June 2022 and funds from operation (FFO) projected at THB2.5-3 billion. The primary uses of funds are financial obligations of around THB3 billion and capital spending of THB2-THB2.5 billion.

Immaterial subordination risk of rated issues

We currently rate TTA’s senior unsecured debentures at “BBB+”, the same level as the company rating. As of June 2022, TTA had THB8.9 billion in total debt, including THB4.7 billion in priority debt which was mainly secured debt at the subsidiary level. This means the ratio of priority debt to total debt was 53%, exceeding the 50% threshold according to TRIS Rating’s “Issue Rating Criteria”. However, due to TTA’s low level of financial leverage, we view that the rated issues are not subject to significant subordination risk with respect to priority of claims against the company’s assets.

BASE-CASE ASSUMPTIONS

- Average TCE rate of USD21,500 per ship per day in 2022 before normalizing at USD12,000-USD14,000 per ship per day in 2023-2024
- Offshore service revenue of USD190-USD210 million per annum during 2022-2024.
- Revenue of THB23-THB26 billion per annum during 2022-2024.
- EBITDA margin of 19% in 2022, declining to the 11%-13% range during 2023-2024.
- Estimated capital expenditure of THB1.5-THB2 billion per annum during 2022-2024.

RATING OUTLOOK

The “stable” outlook reflects our expectation that TTA will maintain its financial strength to cushion against fluctuation in its operating performance. We expect TTA’s adjust debt to EBITDA to remain below 1.5 times on a sustained basis.

RATING SENSITIVITIES

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. A rating upgrade is unlikely in the near term. The rating could be upgraded if TTA successfully diversifies its businesses and earnings sources resulting in an enlarged and less volatile earnings base while maintaining its balance sheet strength.

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 31% stake as of Jul 2022. 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 14 years. The company’s offshore service segment owns six subsea vessels. For the first six months of 2022, TTA’s total revenues were THB14.1 billion. Dry-bulk shipping contributed 54%, followed by the offshore service segment with 23%, agrochemical business 12%, food & beverage 17%, and other investments 4%.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	Jan-Jun 2022	-----Year Ended 31 December -----			
		2021	2020	2019	2018
Total operating revenues	14,149	22,183	12,880	15,501	13,990
Earnings before interest and taxes (EBIT)	2,751	4,121	(592)	36	377
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	3,408	5,375	696	1,290	1,459
Funds from operations (FFO)	3,187	4,879	241	722	880
Adjusted interest expense	214	420	415	499	499
Capital expenditures	799	1,825	1,763	646	1,657
Total assets	41,938	38,947	31,029	33,473	37,112
Adjusted debt	14	618	3,261	2,389	3,651
Adjusted equity	26,845	24,400	19,191	22,599	24,587
Adjusted Ratios					
EBITDA margin (%)	24.09	24.23	5.41	8.32	10.43
Pretax return on permanent capital (%)	18.49	12.83	(1.97)	0.11	1.09
EBITDA interest coverage (times)	15.89	12.80	1.68	2.59	2.92
Debt to EBITDA (times)	0.00	0.12	4.68	1.85	2.50
FFO to debt (%)	n.m.	788.92	7.38	30.22	24.10
Debt to capitalization (%)	0.05	2.47	14.52	9.56	12.93

n.m.= Not meaningful

RELATED CRITERIA

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

Thoresen Thai Agencies PLC (TTA)

Company Rating:	BBB+
Issue Ratings:	
TTA233A: THB716.2 million senior unsecured debentures due 2023	BBB+
TTA239A: THB1,500 million senior unsecured debentures due 2023	BBB+
TTA252A: THB800 million senior unsecured debentures due 2025	BBB+
TTA265A: THB1,200 million senior unsecured debentures due 2026	BBB+
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: +66 2 098 3000

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