

Royal Railway Plc.

Credit Rating

Issuer Credit Rating	khCCC
Outlook	Stable
Bond Credit Rating	khAAA

Bond Information

Size	KHR 49.2 billion
Settlement	≈USD 12 million
Maturity	10 years
Type	Guaranteed
Coupon Rate (Net)	Year 1 - Year 5: Term SOFR plus 3.5% p.a or 5% p.a, whichever is higher Year 6 - Year 10: Term SOFR plus 3.75% p.a or 5% p.a, whichever is higher
Guarantor	GuarantCo Ltd

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Note: Conditional on the signing of the Deed of Guarantee between GuarantCo Ltd and the investors.

Key Rating Rationale

We initiate the credit coverage of Royal Railway Plc. Bond (“the Bond”) with a Bond Credit Rating (BCR) of khAAA (National Scale) which indicates in the Cambodian context an “Extremely strong capacity to meet financial commitments”. In our methodology the BCR is made of two components: the Issuer Credit Rating (ICR) and the Recovery Scoring (RS).

The Recovery Scoring of the issue is “Very Low Risk”. The Bond is covered by a 100% irrevocable on-demand guarantee on the Principal and Interest by GuarantCo, an entity that carries a global credit rating of A1 by Moody’s and AA- by Fitch: “AA ratings denote expectations of very low default risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events”. Hence, the Bond Credit Rating is rated at an equivalent level: khAAA (National Scale).

The Issuer Credit Rating itself has two components: a Stand- Alone Credit Profile (SACP) and an External Support Factor (ESF). The SACP analyses the credit profile of Royal Railway from the perspective of its business risks and financial risks. In its own right, Royal Railway has a “capacity to meet financial commitments dependent on favorable business, financial and economic conditions”. The SACP rating of khCCC indicates a “High Risk” profile. We take notice of the re-capitalization effort and the plan to upgrade the rail equipment and network. However, a positive outcome remains contingent on several elements that are out of Royal Railway’s control.

The External Support Factor can be generated either by related party such as a parent company or a holding company (Group Support), or by government-related entities (Country Support). In our view, the ability to support and the likelihood of support from the Royal Group point to a “Moderately Strong” External Support Factor which does not justify a rating “uplift”. Hence the ICR remains khCCC.

Outlook

The proceeds of the issuance of the Guaranteed Bond will be used to acquire rolling stock and upgrade the rail network. The benefits are expected to kick in by August 2023. This should improve the financial situation, allowing Royal Railway to further expand its services and network, compete on better terms with the new highways to be constructed. However, adverse market conditions and economic environment could delay the recovery.

Rating Sensitivity

On the upside, we would look to the successful implementation of the re-capitalization and expansion plan to result in a better financial risk profile to consider upgrading the ICR of the company. On the downside, a sharp deterioration in economic activity, continuously elevated fuel prices and a less robust support from the shareholder of Royal Railway would compel us to consider a rating downgrade on the Royal Railway ICR. For the Royal Railway Guaranteed Bond, khAAA rating is pegged on GuarantCo’s global rating which we will monitor as well.

Issues to Monitor

Royal Railway operates the network (rail and some rail cars) that is owned by the Royal Government of Cambodia (RGC) under a Concession Agreement that provided for a 30-year concession starting in June 2009. Concession fees were to be paid to the RGC on the date of the Concession Agreement. However, since the conditions precedent specified in the Concession Agreement have not been fully satisfied and both the RGC and the company have not agreed on the effective date, the obligation to pay the concession fee has not yet become effective. The signing of an amended Concession Agreement would trigger the payment of substantial but manageable fees to be paid by Royal Railway.

Royal Railway Summary

Overview

Royal Railway operates a rail network of about 639 kms along two lines: the Northern Line from Phnom Penh towards Battambang and Banteay Meanchey, and the Southern Line joining Phnom Penh to Sihanoukville. Freight cargo represented about 90% of total revenue in 2021 with value added services and passenger transport making the balance.

Performance

The business and financial performance of the company has been poor over the past five years with losses at the net profit level and only one year (2020) barely in the black at the operating profit level. This resulted in a continuous deterioration of Royal Railway's financial situation with negative equity until 2021 with a debt-equity swap and recapitalization by the shareholder.

Royal Railway suffers from a rail network that is in poor condition -for historical reasons- with tracks that allow a speed of 80 km/h only. The rolling stock needs to be upgraded to offer better services at competitive operational costs. In addition, the recent disruptions in the energy market badly impacted the company whose locomotives are all diesel-powered with fuel prices jumping by 160%. Except for specific cargoes, road transportation is still more competitive.

	31 December 2020		31 December 2021	
	KHR'000	USD	KHR'000	USD
Statement of Profit or Loss				
Revenue	34,421,487	8,442,847	38,126,333	9,372,639
Gross profit	4,010,981	983,807	1,753,765	431,130
Operating profit/(Loss)	93,507	22,935	(2,402,482)	(590,605)
Finance costs	(888,166)	(217,848)	(644,235)	(158,373)
Net profit/(loss) for the year	(794,659)	(194,913)	(3,046,717)	(748,978)

Statement of Cash Flow				
Net profit/(loss)	(794,659)	(194,913)	(3,046,717)	(748,978)
Adjustments:				
Depreciation and amortisation	3,855,199	945,597	3,797,798	933,617
Interest paid	(888,166)	(217,848)	(644,235)	(158,373)
Income tax paid	(541,434)	(132,802)	(401,304)	(98,653)
Net cash flow from Operating	4,377,618	1,073,735	4,801,435	1,180,342
Acquisition of property and equipment	(2,578,217)	(632,381)	(1,412,608)	(347,263)
Net cash flow from Investing	(2,580,251)	(632,880)	(1,418,295)	(348,661)
Repayment of borrowings	(1,848,194)	(453,322)	(3,357,488)	(825,375)
Proceed from borrowings	-	-	-	-
Net cash flow from Financing	(1,848,194)	(453,322)	(3,357,488)	(825,375)
Net Increase/(Decrease) in Cash	(50,827)	(12,467)	25,652	6,306

	31 December 2020		31 December 2021	
	KHR'000	USD	KHR'000	USD
Statement of Financial Position				
Assets				
Cash and cash equivalents	467,036	115,460	496,075	121,766
Total current assets	4,587,022	1,133,998	4,823,160	1,183,888
Property and equipment	27,559,653	6,813,264	25,442,146	6,245,004
Total non-current assets	28,743,681	7,105,978	26,566,643	6,521,022
Total assets	33,330,703	8,239,976	31,389,803	7,704,910
Liabilities				
Borrowings	11,843,008	2,927,814	3,402,254	835,114
Total current liabilities	48,734,528	12,048,091	22,263,937	5,464,884
Lease payables	-	-	-	-
Borrowings	4,710,407	1,164,501	1,341,821	329,362
Total non-current liabilities	4,861,860	1,201,943	1,593,598	391,163
Total liabilities	53,596,388	13,250,034	23,857,535	5,856,047
Equities				
Share capital	10,400,000	2,600,000	52,083,720	13,020,930
Additional capital contribution from the shareholder	11,412,467	2,813,031	-	-
Accumulated losses	(42,338,344)	(10,423,089)	(45,385,061)	(11,172,067)
Total equity	(20,265,685)	(5,010,058)	7,532,268	1,848,863
Total liabilities and equity	33,330,703	8,239,976	31,389,803	7,704,910

Rating Definition

Issuer Credit Rating – National Scale			
National Rating	Definition		
khAAA	Extremely Strong Capacity to meet financial commitments	1	Very low risk
khAA	Very strong capacity to meet financial commitments	2	
khA	Strong capacity to meet financial commitments but somewhat susceptible to adverse changes in circumstances and economic environment	3	Low risk
khBBB	Adequate capacity to meet financial commitments but more susceptible to adverse changes in circumstances and economic environment	4	
khBB	Adequate capacity to meet financial commitment but more vulnerable to adverse changes in circumstances and economic environment	5	Moderate risk
khB	Adequate capacity to meet financial commitments but more likely to be affected by adverse changes in circumstances and economic environment	6	

Rating Definition (Cont.)

Issuer Credit Rating – National Scale			
National Rating	Definition		
khCCC	Capacity to meet financial commitments dependent on favorable business, financial and economic conditions	7	High risk
khCC	Weak capacity to meet financial commitments	8	
khC	Unlikely to be able to meet financial commitments	9	Very high risk
khD	In default partially or for all financial commitments	10	

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