

# Royal Railway Plc.

Credit Rating		Credit Rating History	
Issuer Credit Rating	khCCC	Issuer Credit Rating	KhCCC
Outlook	Negative	Outlook	Stable
Bond Credit Rating	KhAAA	Bond Credit Rating	khAAA
Amount	KHR49,2 bn (Equiv. USD12mn)	Issuing Date	December 1, 2022
Maturity Date	December 12, 2027		
Type	Unsecured Guaranteed		
Coupon Rate	1-mth SOFR + 3.5%		
Guarantor	GuarantCo Ltd		

## Analysts:

Mr. Chakara Sisowath, CFA  
 s.chakara@ratingagencyofcambodia.com.kh  
 (+855) 17 398 777

Ms. Darya Sieng  
 s.darya@ratingagencyofcambodia.com.kh  
 (+855) 17 386 777

Ms. Sunvandeth Pov  
 p.sunvandeth@ratingagencyofcambodia.com.kh  
 (+855) 17 318 777

Ms. Achhakrately Lim  
 l.achhakrately@ratingagencyofcambodia.com.kh  
 (+855) 17 250 777

Mr. Kimleng Kang  
 k.kimleng@ratingagencyofcambodia.com.kh  
 (+855) 61 967 221

Mr. Meng Huy Pech  
 p.menghuy@ratingagencyofcambodia.com.kh  
 (+855) 17 993 337

Mrs. Hengjulie Song  
 hengjulie.song@3e-fii.com  
 (+855) 89 239 249

Mr. Tola Nhean  
 tola.nhean@3e-fii.com

## Key Rating Rationale

We maintain the Issuer Credit Rating (ICR) and the Bond Credit Rating (BCR) of Royal Railway Plc. ("RR" or "the Company") at "khCCC" and "khAAA" (National Scale) respectively.

However, we revise the Outlook of the ICR from "Stable" to "Negative". The latest results for the fiscal year 2023 demonstrate improved operational performance, but pressure from the debt burden prevented RR from achieving a higher net profit. The burden also led RR to breach three covenants. The Company has submitted a request for a waiver letter to the Guarantor (GuarantCo), but as of the date of this rating report, it has not been obtained. Risks persist if the waiver letter is not received or covenant breaches occur in the future, potentially triggering a default event.

RR's operations marginally picked up in parallel with the Cambodian economic recovery in 2023. Compared with the last period, the Company's revenues, operating profits and operating cash flows have improved, although the figures are still in the red. However, the bottom line recorded a bigger loss, due to the significant increase in interest expense from Debt Securities. This is the main area of concern going forward (within the bond period).

We keep a constructive medium-term outlook as we believe the main headwinds affecting the Cambodian economy, namely high interest rates and geopolitical uncertainties, will abate in the near future. However, since RR's operations are significantly influenced by global, regional, and local economic cycles, we also remain cautious about the potential for a downturn that could prompt an immediate rating review.

## Outlook

We anticipate RR's operational performance to improve over the next 12 months in light of the expected surge in freight volume and passengers, underpinned by economic growth in 2024 as forecasted by ADB. The management confirms that freight pricing is determined based on operating costs and competitor's cost. Additionally, despite the introduction of the new 11-carriage train, passenger ticket prices will remain unchanged. Therefore, we expect revenue growth to rely mainly on increased volume, which will be marginally enough to cover operating expenses. However, given that the covenant letter from GuarantCo has not been obtained yet, we maintain a conservative view on RR's prospects. Lastly, due to the breach of covenant as leverage increased, coupled with the risks of further covenant breaches and prolonged macroeconomic slowdown, downgrading the outlook from "stable" to "negative" is justified.



## Rating Sensitivity

On the upside, waiver letter from GuarantCo received, no additional covenant breach (during the bond period), increased operational activities, absence of macroeconomic shocks, and improved credit risk profile would prompt us to reconsider our rating outlook.

On the downside, a drastic worsening of the financial risk profile could trigger a rating change.

## Issues to Monitor

Going forward, the obtainment of waiver letter from the Guarantor, potential for further breaches of covenant, anticipated revenue growth from upgrading core services and other income sources, effectiveness of the concessional agreement, macroeconomic conditions, and the financial profile of RR are all important subjects that need to be monitored.

## Royal Railway Plc. Summary

### Overview

After experiencing bad results in 2022 due to Covid-19 and tightened U.S. monetary policy, resulting in a slowdown of the Cambodian economy, RR showed a recovery in operational performance in 2023. However, RR's bottom line worsened significantly due to high interest expenses. This alone does not threaten the Company's credit rating, which we maintain at "khCCC".

### Performance

Revenues have been on a growing trend over the period 2020-2023, with a CAGR of 5.2% p.a., despite a tepid growth of only 1.2% yoy in 2023. Southern line revenue faced a small decline of 0.1% yoy due to contracted Rail Freight revenue, caused by lower pricing in FY23. The volume of Rail Freight and Passengers experienced growth of 18.4% yoy and 48.1% yoy respectively in FY23. Operating profits improved from the previous year, largely thanks to lower diesel costs and a tax liabilities waiver from the GDT. Despite this, the Company's Net Profit recorded a bigger loss as the three bond issuances impacted interest expense in FY23.

The Company's liquidity is relatively tight in FY23. RR's Working Capital (WC), Quick Ratio (QR), and Current Ratio (CR) exhibited signs of distress. However, this was primarily due to the reclassification of Debt Securities from non-current liabilities to current liabilities, stemming from the covenant breach. Taking out the effect of the reclassification, the Company's working capital still faced a substantial shortfall.

The Company's gearing profile increased in FY23, with Debt/Capital ratio rising to 132.5% from 108.9% in FY22. RR's operating cash flow -albeit still negative- exhibited improvement, owing to the pickup in operational activities. However, the heightened leverage adversely impacted the Company's cash flow ratios. This was also a leading factor that caused RR to breach the three financial covenants.



Fiscal Year	2020	2021	2022	2023
Fiscal Year End Date	12/31/2020	12/31/2021	12/31/2022	12/31/2023
<b>Leverage Ratio:</b>				
Debt to Capital Ratio	-384.9%	36.1%	108.9%	132.5%
<b>Profitability Ratios:</b>				
EBIT Margin	1.4%	-5.3%	-39.4%	-33.7%
EBITA/Average Assets	1.7%	-5.9%	-17.7%	-9.7%
<b>Interest Coverage Ratios:</b>				
(FFO + Interest)/Interest	4.3	2.2	-9.6	-0.4
EBITDA/Interest	4.9	2.8	-7.8	-0.5
<b>Cash Flow Ratios:</b>				
FFO/Debt	18.0%	17.7%	-15.0%	-18.7%
Debt/EBITDA	3.7	2.4	-9.1	-14.4
FOCF/Debt	11.1%	79.8%	-27.1%	-26.9%
<b>Efficiency Ratios:</b>				
ROA	-2.4%	-9.4%	-3.3%	-2.1%
ROE**	nm	nm	nm	nm
<b>Dupont Decompoistion:</b>				
Net Margin	-2.3%	-8.0%	-40.3%	-52.1%
Asset Turnover	1.02	1.18	0.45	0.29
Equity Multiplier	-1.64	-5.04	-107.67	-7.18
<b>Margins:</b>				
Gross Margin	11.7%	4.6%	-19.9%	-19.3%
EBT Margin	-2.3%	-8.0%	-40.3%	-52.1%
**Negative Profit & Negative Equity				



# 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	
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	

## Disclaimer

The information and statistical data herein have been obtained from sources we believe to be reliable. Such information has not been independently verified and we make no representation or warranty as to its accuracy, completeness, or correctness. Any opinions or estimates herein reflect the judgment of the Rating Agency of (Cambodia) Plc. (henceforth "RAC") at the date of this communication and are subject to change at any time without notice. Any scoring, opinions, estimates, forecasts, ratings or risk assessments herein constitutes a judgment as of the date of this report, and there can be no assurance that future results or events will be consistent with any such scoring, opinions, estimates, forecasts, ratings or risk assessments. The information in this document is subject to change without notice, its accuracy is not guaranteed, it may be incomplete or condensed and it may not contain all material information concerning the company (or companies) referred to in this report and RAC is under no obligation to update the information in this report. To the extent permitted by law, RAC and its directors, officers, employees, agent, and representatives disclaim liability for any direct or compensatory losses or damages cause to any person or entity, including but not limited to by any negligence on the part of, or any contingency within or beyond the control of RAC, or any of its directors, officers, employees, agents and representatives, arising from or in connection with the information contained herein or the use of or inability to use any such information.

©ក្រុមហ៊ុនស្ថិតិយ៉ាងដោយក្រុមហ៊ុនអេស៊ី អេស៊ី (ខេមបូឌា) ម.ក ឆ្នាំ២០២៤

©Copyright 2024, RATING AGENCY OF (CAMBODIA) PLC. All rights reserved.

អាសយដ្ឋាន: អគារលេខ២៤៦, មហាវិថីព្រះមុនីវង្ស ភូមិ១០ សង្កាត់បឹងកែង ខណ្ឌដូនពេញ រាជធានីភ្នំពេញ ព្រះរាជាណាចក្រកម្ពុជា

Address: #246, Preah Monivong Blvd, Village 10, Sangkat Boeung Raing, Khan Daun Penh, Phnom Penh, Kingdom of Cambodia

ទូរស័ព្ទ: (៨៥៥)២៣ ៩០២ ៤០៨ សារអេឡិចត្រូនិច: info@ratingagencyofcambodia.com.kh

Phone: (+855)23 902 408 Email: info@ratingagencyofcambodia.com.kh



RAC website