

RAM Ratings



RAM Ratings reaffirms Sabah Ports' AA3 issue rating

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RAM Ratings has reaffirmed the AA3/stable rating of Sabah Ports Sdn Bhd's (Sabah Ports or the Company) RM80 million Bai' Bithaman Ajil Debt Securities (2007/2017). The reaffirmation is premised on the Company's dominant role as the the State's main port operator, with a near monopoly over the region's port services, and its continued strong financial showing. Based on RAM's rating methodology for government-linked entities, Sabah Ports also benefits from a moderate likelihood of extraordinary government support.

In fiscal 2014, Sabah Ports' cargo volume was flattish, in line with our expectation. Exposure to commodity-price trends and economic cycles are inherent in Sabah Ports, given that the Company's growth is closely tied to import-export movements of the State's primary-commodities, especially palm-oil and related products as well as bulk-oil (approximately 80% of the Company's cargo throughput). Accordingly, up to July 2015, Sabah Ports had observed a 5.5% contraction (annualised) in cargo throughput (excluding containerised cargo). Nonetheless, despite our sensitivities having factored in weak shipping prospects for the next 2 years, the Company's financial metrics are not expected to deteriorate substantially and will remain within the AA3-rating threshold.

To reduce congestion and improve efficiency, Sabah Ports plans capex of RM444.05 million over the next 5 years, mainly entailing the expansion of facilities in congested ports and the purchase of cargo equipment, which are expected to be funded by a mix of internal funding and debt. Taking Sabah Ports' future additional debt into consideration, the Company's financial metrics are anticipated to stay intact, with adjusted operating cashflow debt coverage and gearing of between 0.24 times and 0.67 times, respectively, for the next 5 years.

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