

BUY (Unchanged)

TP: Bt 27.00

(From: Bt 17.00)

Change in Numbers

Upside : 35.0%

21 June 2021

Precious Shipping Pcl (PSL TB)

For the longer haul

We believe the record-high dry bulk freight rate isn't just a temporary spike, given support from not only growing demand but also a stickily low supply growth outlook. From profit of Bt270m in 1Q21, we expect a jump from 2Q21F onward and estimate Bt3bn in 2021F. We reaffirm our BUY on PSL with a new TP of Bt27 (from Bt17).



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Boosting our earnings

PSL's freight rate is now at a historical high of around US\$20,500/ship/day and we believe it could stay high well into 2023F. We raise our freight rate assumptions by 15-32% to US\$17,300-US\$20,369 and consequently our earnings by 52-89% to Bt3bn-4bn in 2021-23F. Together with rolling over to a 2022F base year, we boost our TP to Bt27 (from Bt17) on a higher, up-cycle P/BV ratio of 2.5x (from 2.1x) and we reaffirm our BUY call on PSL. Note that 2.5x P/BV is near 2STD above its 21-year historical average. In the last upcycle in 2007, PSL's P/BV surpassed 2.5x while its freight rate peaked at above US\$14,000.

New high freight rate can last a bit longer

We believe the record-high freight rate could last into 2023F. On the demand side, the world economy is in synchronized turnaround mode. On the supply side, the growth outlook will likely continue to be very weak well into 2023F. According to Clarksons, the leading shipping research house, demand growth for PSL's ship categories (4-5% p.a.) is projected to far outpace supply growth (1-2% p.a.) during 2021-22F. The high freight rate so far hasn't resulted in a jump in new ship orders which is likely due to uncertainty about new, stricter regulations. Ships take about two years to be built and the low order level in 2021 implies weak supply into 2023F.

IMO-2023 a tailwind

According to the International Maritime Organization (IMO), dry bulk vessels must meet the CO2 emission target by January 2023, though the maximum emission rate has yet to be announced. Although the IMO targets in the longer term to reduce CO2 emissions by at least 40% by 2030, there has yet to be an announcement on the emissions that the industry is currently producing. This has created uncertainty over vessel specifications, and therefore weakness in new orders. From 2023, ships that fail to meet the new standard have to slow their speed to reduce CO2 emissions, implying a falling effective supply level. PSL believes it emits less CO2 than the industry average as it has continuously reduced its emissions.

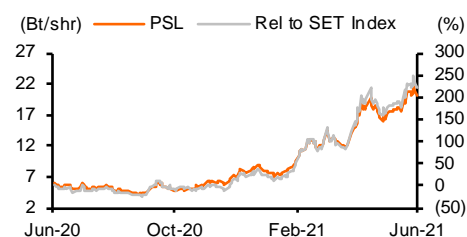
Likely a record 2Q21F

PSL posted its highest quarterly normalized profit in 10 years in 1Q21 at Bt270m on an average freight rate of US\$12,157. We estimate a record normalized profit of Bt700m in 2Q21F on an average US\$17,000/ship/day freight rate, up 180% y-y and 40% q-q. Note that the current freight rate is US\$20,500 and if it stays at this level in 3Q21F, profit would be around Bt1bn.

COMPANY VALUATION

Y/E Dec (Bt m)	2020A	2021F	2022F	2023F
Sales	3,730	7,231	8,189	8,151
Net profit	(1,295)	2,958	4,021	4,094
Consensus NP	—	1,976	2,072	1,997
Diff frm cons (%)	—	49.7	94.1	105.0
Norm profit	(422)	2,958	4,021	4,094
Prev. Norm profit	—	1,951	2,072	2,164
Chg frm prev (%)	—	51.6	94.1	89.2
Norm EPS (Bt)	(0.3)	1.9	2.6	2.6
Norm EPS grw (%)	na	na	36.0	1.8
Norm PE (x)	na	10.5	7.8	7.6
EV/EBITDA (x)	29.2	7.8	5.5	4.9
P/BV (x)	3.1	2.4	1.8	1.5
Div yield (%)	0.0	0.0	0.0	6.6
ROE (%)	na	25.5	26.6	22.0
Net D/E (%)	88.0	39.4	0.3	(18.2)

PRICE PERFORMANCE

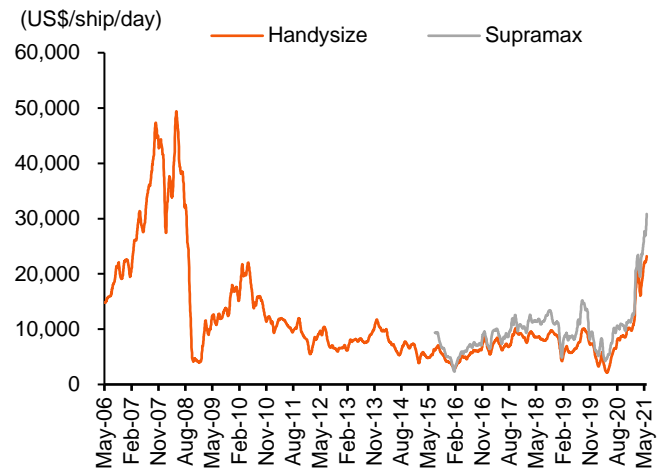


COMPANY INFORMATION

Price as of 21-Jun-21 (Bt)	20.00
Market Cap (US\$ m)	991.6
Listed Shares (m shares)	1,559.3
Free Float (%)	46.85
Avg Daily Turnover (US\$ m)	16.96
12M Price H/L (Bt)	21.80/4.22
Sector	Shipping
Major Shareholder	Globex Corporation 28.4%

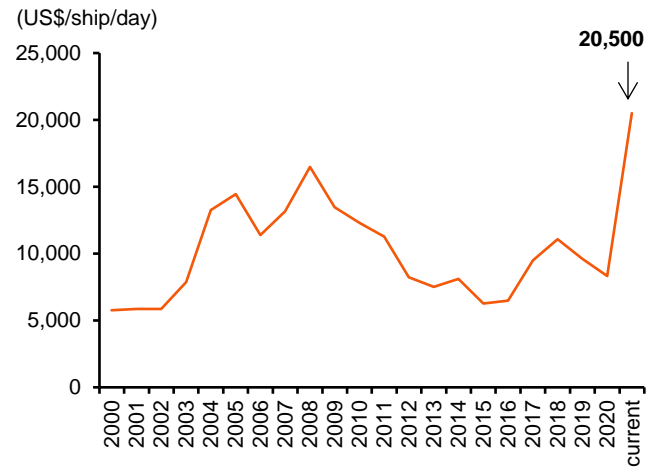
Sources: Bloomberg, Company data, Thanachart estimates

Ex 1: Freight Rates For PSL's Ship Categories



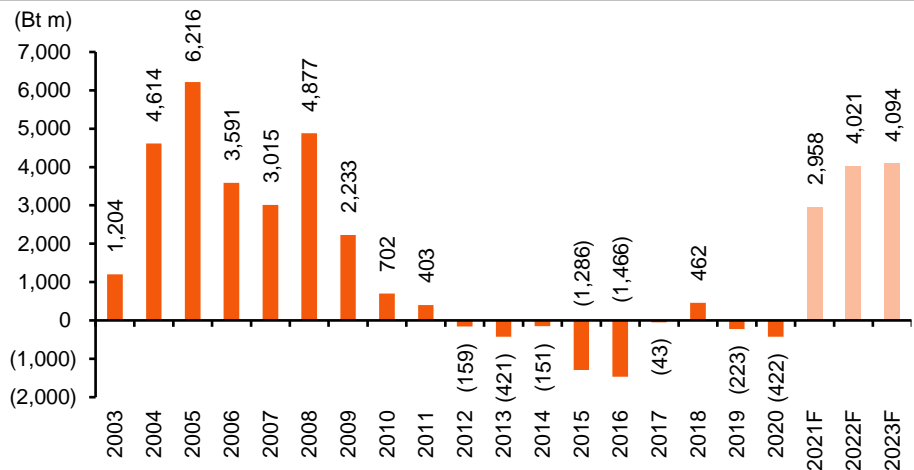
Source: Bloomberg

Ex 2: PSL's Average Freight Rate



Source: Bloomberg

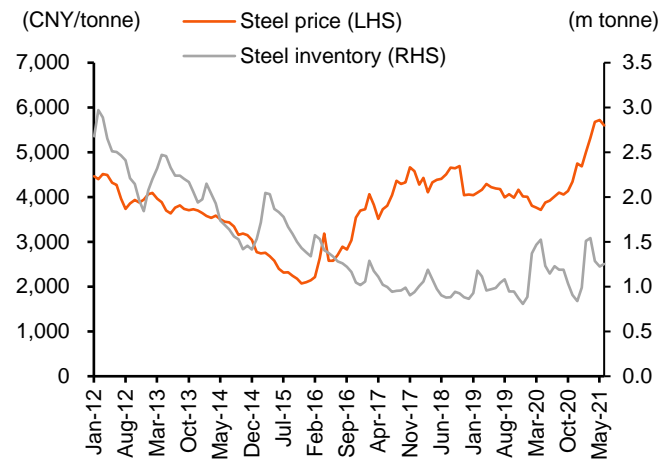
Ex 3: Normalized Profits



Sources: Company data, Thanachart estimates

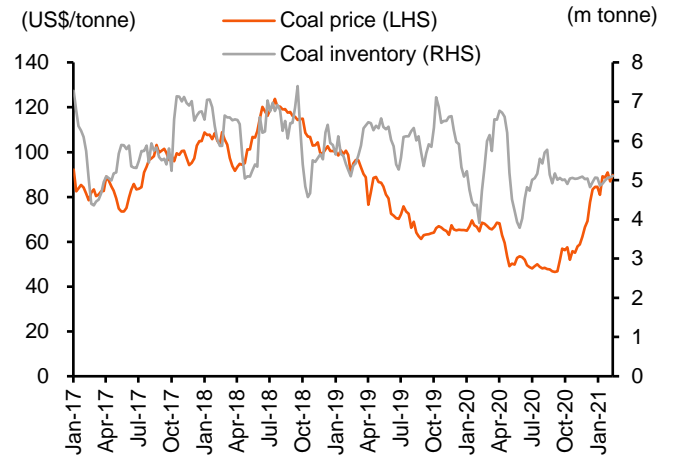
We expect very favorable demand-supply dynamics to help sustain the new-high freight rate for longer. Clarkson forecasts only 2/1% supply growth vs. 5/4% demand growth in PSL's ship categories in 2021-22F. On the demand side, the global reopening is pushing up demand for dry-bulk shipping. Exhibits 5 and 6 show that despite a surge in the prices of the main dry-bulk products, their inventory levels aren't out of their historical range yet. On the supply side, despite the rising freight rate, orders for new ships remain at their historical lowest side. This compares with the previous upcycle during 2004-07 when periods of strong freight rates attracted new ship orders, and thus the industry suffered excess ship supply. We believe the persistently low supply growth is due to 1) the industry's previous long recession, 2) new, stricter emissions regulations causing uncertainty over ship specifications, and 3) still low secondhand ship prices, thus discouraging new ship orders

Ex 4: Steel Price Vs. Inventory



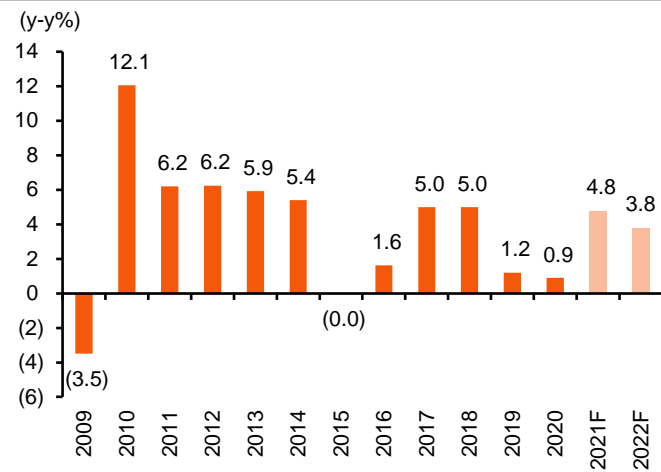
Source: Bloomberg

Ex 5: Coal Price Vs. Inventory



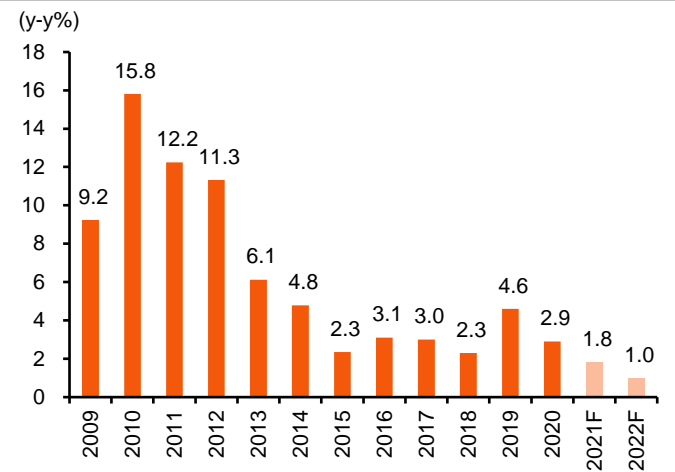
Source: Bloomberg

Ex 6: Demand Growth Vs...



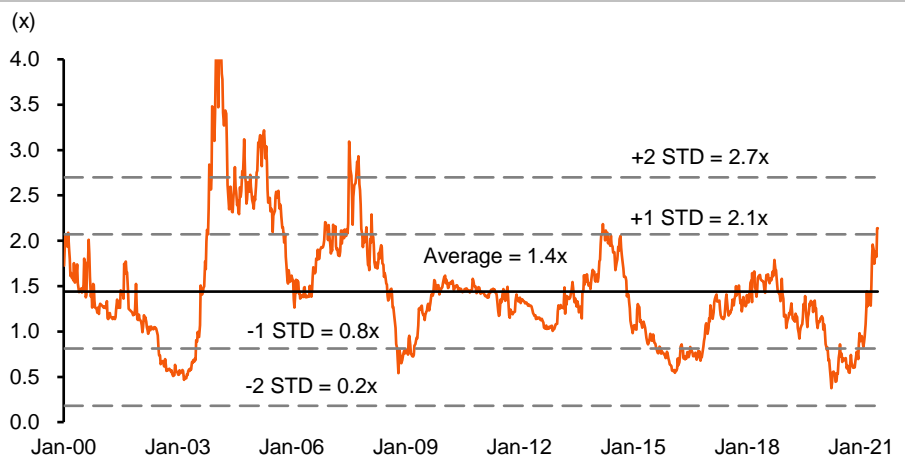
Sources: Clarksons, Thanachart compilation

Ex 7: ...Supply Growth



Sources: Clarksons, Thanachart compilation

Ex 8: PSL's Price To Book



Sources: Bloomberg, Thanachart estimates

Ex 9: Forecast Revisions

	2020	2021F	2022F	2023F
Freight rate (US\$/ship/day)				
New	8,332	17,300	20,068	20,369
Old		15,000	15,300	15,453
Change (%)		15.3	31.2	31.8
Breakeven cost* (USD/ship/day)				
New	9,500	9,400	9,367	9,341
Old		9,400	9,366	9,293
Change (%)		—	0.0	0.5
Normalized profit (Bt m)				
New	(422)	2,958	4,021	4,094
Old		1,951	2,072	2,164
Change (%)		51.6	94.1	89.2

Sources: Company data, Thanachart estimates

Note: *Breakeven cost includes operating and interest costs

Note that although we derive our TP for PSL using P/BV methodology, we also show our DCF calculation below in Exhibit 11.

Ex 10: 12-month DCF-based Valuation, Using A Base Year Of 2022F

(Bt m)	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	Terminal Value
EBITDA	5,634	5,636	5,044	4,829	4,548	4,572	4,246	3,904	3,585	3,268	3,086	—
Free cash flow	5,287	5,333	4,785	4,540	4,261	4,253	3,960	3,620	3,299	2,982	2,252	33,599
PV of free cash flow	5,272	4,547	3,767	3,299	2,825	2,597	2,226	1,874	1,574	1,310	887	13,229
Risk-free rate (%)	2.5											
Market risk premium (%)	8.0											
Beta	1.2											
WACC (%)	8.3											
Terminal growth (%)	2.0											
Enterprise value - add investments	43,407											
Net debt (2021)	5,156											
Minority interest	0											
Equity value	38,251											
# of shares (m)	1,559											
Value/share (Bt)	25											

Source: Thanachart estimates

Valuation Comparison

Ex 11: Comparison With Regional Peers

Name	BBG code	Country	EPS growth		— PE —		— P/BV —		—EV/EBITDA—		— Div yield —	
			21F (%)	22F (%)	21F (x)	22F (x)	21F (x)	22F (x)	21F (x)	22F (x)	21F (%)	22F (%)
U-Ming Marine Transport	2606 TT	Taiwan	241.7	(14.7)	21.3	25.0	2.6	2.7	16.5	20.9	3.6	3.6
Evergreen Marine	2603 TT	Taiwan	435.3	(41.4)	6.0	8.7	3.7	3.1	4.5	6.8	6.8	4.5
Yang Ming Marine	2609 TT	Taiwan	667.4	(50.7)	4.6	9.3	3.5	2.2	3.4	4.7	4.8	3.7
Wan Hai Lines	2615 TT	Taiwan	554.7	(34.9)	7.5	11.5	4.7	4.3	5.6	7.8	6.7	0.0
COSCO Shipping Energy	1138 HK	Hong Kong	(44.9)	60.5	10.5	6.5	0.4	0.4	12.3	na	3.3	5.3
COSCO Shipping	1919 HK	Hong Kong	459.1	(52.1)	3.7	7.8	2.1	1.7	4.6	7.5	2.0	1.6
Pacific Basin Shipping	2343 HK	Hong Kong	na	(9.6)	8.3	9.2	1.5	1.4	5.8	5.8	7.4	7.4
Kawasaki Kisen Kaisha	9107 JP	Japan	19.6	(59.0)	2.5	6.1	0.9	0.8	16.3	15.0	0.2	1.4
Mitsui OSK Lines	9104 JP	Japan	99.6	(37.5)	3.3	5.1	0.8	0.7	14.2	13.1	5.2	4.7
Nippon Yusen KK	9101 JP	Japan	84.7	(42.7)	3.4	5.9	1.1	0.9	9.4	10.2	6.3	4.8
Korea Line	005880 KS	S. Korea	91.9	(12.8)	16.7	19.2	1.1	1.0	10.8	10.5	na	na
Thoresen Thai Agencies	TTA TB	Thailand	na	28.0	37.1	29.0	1.7	1.7	14.6	13.1	0.5	0.6
Prima Marine Pcl*	PRM TB	Thailand	18.7	17.9	9.4	8.0	2.0	1.7	7.0	6.2	4.8	5.6
Precious Shipping*	PSL TB	Thailand	na	36.0	10.5	7.8	2.4	1.8	7.8	5.5	0.0	0.0
Average			238.6	(15.2)	10.3	11.4	2.0	1.7	9.5	9.8	4.0	3.3

Source: Bloomberg

Note: * Thanachart estimates, using Thanachart normalized EPS

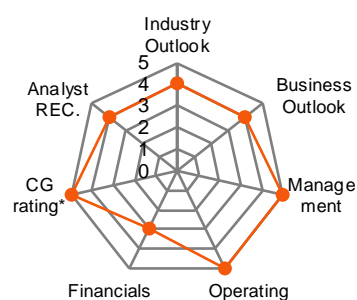
Based on 21-Jun-21 closing prices

COMPANY DESCRIPTION

Precious Shipping Public Company Limited (PSL) is a ship owner that provides regional marine shipping services. The company operates in the tramp freight market sector where its vessels are deployed on a time charter as well as a voyage charter basis. PSL has a network of shipping agents worldwide.

Source: Thanachart

COMPANY RATING



Rating Scale

Excellent	5
Good	4
Fair	3
Weak	2
Very Weak	1
None	0

Source: Thanachart; * CG rating

THANACHART'S SWOT ANALYSIS

S — Strength

- Very focused and experienced management.
- Strong balance sheet.
- Commands higher freight rates vs. peers due to better ships and service quality.
- Lower operating expenses compared with peers.

O — Opportunity

- Fragmented industry provides opportunities for vessel acquisitions at decent prices.
- Targets new segments such as cement carriers.
- Expanding capacity to larger vessels.

W — Weakness

- Exposed to a highly cyclical industry.
- Highly volatile earnings.
- Very fragmented industry, which accelerates pricing pressure during any downturn.

T — Threat

- Barriers to entry are non-existent.
- Commodity shift from dry-bulk shipping to container shipping.

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	18.42	27.00	47%
Net profit 21F (Bt m)	1,976	2,958	50%
Net profit 22F (Bt m)	2,072	4,021	94%
Consensus REC	BUY: 3	HOLD: 4	SELL: 1

HOW ARE WE DIFFERENT FROM THE STREET?

- Our earnings forecasts for 2021-22F and TP are significantly higher than the Bloomberg consensus numbers, which we attribute to us expecting far stronger freight rates.

RISKS TO OUR INVESTMENT CASE

- Weaker demand for dry-bulk shipping as a result of the global economic slowdown is the key downside risk to our call.

Sources: Bloomberg consensus, Thanachart estimates

Source: Thanachart

INCOME STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Sales	4,152	3,730	7,231	8,189	8,151
Cost of sales	3,173	3,226	3,394	3,347	3,290
Gross profit	979	504	3,837	4,842	4,861
% gross margin	23.6%	13.5%	53.1%	59.1%	59.6%
Selling & administration expenses	547	345	327	322	323
Operating profit	433	159	3,510	4,521	4,538
% operating margin	10.4%	4.3%	48.5%	55.2%	55.7%
Depreciation & amortization	1,183	1,213	1,128	1,113	1,098
EBITDA	1,616	1,372	4,638	5,634	5,636
% EBITDA margin	38.9%	36.8%	64.1%	68.8%	69.1%
Non-operating income	31	9	18	40	66
Non-operating expenses	0	0	0	0	0
Interest expense	(703)	(597)	(580)	(550)	(521)
Pre-tax profit	(240)	(429)	2,948	4,011	4,084
Income tax	3	4	0	0	0
After-tax profit	(243)	(433)	2,948	4,011	4,084
% net margin	-5.8%	-11.6%	40.8%	49.0%	50.1%
Shares in affiliates' Earnings	20	11	10	10	10
Minority interests	(0)	0	0	0	0
Extraordinary items	(6)	(872)	0	0	0
NET PROFIT	(228)	(1,295)	2,958	4,021	4,094
Normalized profit	(223)	(422)	2,958	4,021	4,094
EPS (Bt)	(0.1)	(0.8)	1.9	2.6	2.6
Normalized EPS (Bt)	(0.1)	(0.3)	1.9	2.6	2.6

EBITDA was positive in the past despite net losses

We expect very strong profits from 2021-23F

BALANCE SHEET

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
ASSETS:					
Current assets:	1,681	1,938	4,527	8,163	11,658
Cash & cash equivalent	1,181	1,100	3,500	7,000	10,500
Account receivables	183	169	327	370	369
Inventories	0	0	0	0	0
Others	317	669	700	793	789
Investments & loans	85	91	91	91	91
Net fixed assets	20,098	19,125	18,297	17,484	16,685
Other assets	3,197	244	473	535	533
Total assets	25,061	21,397	23,387	26,272	28,967
LIABILITIES:					
Current liabilities:	4,712	3,339	3,089	3,082	2,873
Account payables	528	277	291	287	282
Bank overdraft & ST loans	0	0	0	0	0
Current LT debt	4,085	2,436	2,104	1,713	1,661
Others current liabilities	99	627	694	1,081	929
Total LT debt	8,577	7,586	6,552	5,337	5,173
Others LT liabilities	46	171	332	376	374
Total liabilities	13,502	11,263	10,295	9,159	8,783
Minority interest	0	0	0	0	0
Preferreds shares	0	0	0	0	0
Paid-up capital	1,559	1,559	1,559	1,559	1,559
Share premium	1,968	1,968	1,968	1,968	1,968
Warrants	0	0	0	0	0
Surplus	(1,505)	(1,561)	(1,561)	(1,561)	(1,561)
Retained earnings	9,537	8,168	11,126	15,147	18,217
Shareholders' equity	11,559	10,134	13,092	17,113	20,183
Liabilities & equity	25,061	21,397	23,387	26,272	28,967

Sources: Company data, Thanachart estimates

CASH FLOW STATEMENT

No plans to buy new ships; therefore limited capex over the next two to three years

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Earnings before tax	(240)	(429)	2,948	4,011	4,084
Tax paid	(38)	(4)	0	0	0
Depreciation & amortization	1,183	1,213	1,128	1,113	1,098
Chg In working capital	526	(237)	(144)	(47)	(3)
Chg In other CA & CL / minorities	(426)	204	(27)	304	(138)
Cash flow from operations	1,005	747	3,905	5,381	5,041
Capex	1,128	(240)	(300)	(300)	(300)
ST loans & investments	0	0	0	0	0
LT loans & investments	7	(5)	0	0	0
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	(11)	2,203	161	24	(1)
Cash flow from investments	1,124	1,957	(139)	(276)	(301)
Debt financing	(1,882)	(2,655)	(1,366)	(1,605)	(216)
Capital increase	0	0	(0)	0	0
Dividends paid	0	0	0	0	(1,023)
Warrants & other surplus	(908)	(130)	0	0	0
Cash flow from financing	(2,790)	(2,785)	(1,366)	(1,605)	(1,240)
Free cash flow	2,133	507	3,605	5,081	4,741

VALUATION

We see P/BV as a better valuation method than PE and PSL doesn't look expensive to us

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Normalized PE (x)	na	na	10.5	7.8	7.6
Normalized PE - at target price (x)	na	na	14.2	10.5	10.3
PE (x)	na	na	10.5	7.8	7.6
PE - at target price (x)	na	na	14.2	10.5	10.3
EV/EBITDA (x)	26.4	29.2	7.8	5.5	4.9
EV/EBITDA - at target price (x)	33.2	37.2	10.2	7.5	6.8
P/BV (x)	2.7	3.1	2.4	1.8	1.5
P/BV - at target price (x)	3.6	4.2	3.2	2.5	2.1
P/CFO (x)	31.0	41.7	8.0	5.8	6.2
Price/sales (x)	7.5	8.4	4.3	3.8	3.8
Dividend yield (%)	0.0	0.0	0.0	0.0	6.6
FCF Yield (%)	6.8	1.6	11.6	16.3	15.2
(Bt)					
Normalized EPS	(0.1)	(0.3)	1.9	2.6	2.6
EPS	(0.1)	(0.8)	1.9	2.6	2.6
DPS	0.0	0.0	0.0	0.0	1.3
BV/share	7.4	6.5	8.4	11.0	12.9
CFO/share	0.6	0.5	2.5	3.5	3.2
FCF/share	1.4	0.3	2.3	3.3	3.0

Sources: Company data, Thanachart estimates

FINANCIAL RATIOS

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Growth Rate					
Sales (%)	(15.8)	(10.2)	93.9	13.3	(0.5)
Net profit (%)	na	na	na	36.0	1.8
EPS (%)	na	na	na	36.0	1.8
Normalized profit (%)	na	na	na	36.0	1.8
Normalized EPS (%)	na	na	na	36.0	1.8
Dividend payout ratio (%)	0.0	0.0	0.0	0.0	50.0
Operating performance					
Gross margin (%)	23.6	13.5	53.1	59.1	59.6
Operating margin (%)	10.4	4.3	48.5	55.2	55.7
EBITDA margin (%)	38.9	36.8	64.1	68.8	69.1
Net margin (%)	(5.8)	(11.6)	40.8	49.0	50.1
D/E (incl. minor) (x)	1.1	1.0	0.7	0.4	0.3
Net D/E (incl. minor) (x)	1.0	0.9	0.4	0.0	(0.2)
Interest coverage - EBIT (x)	0.6	0.3	6.0	8.2	8.7
Interest coverage - EBITDA (x)	2.3	2.3	8.0	10.2	10.8
ROA - using norm profit (%)	na	na	13.2	16.2	14.8
ROE - using norm profit (%)	na	na	25.5	26.6	22.0
DuPont					
ROE - using after tax profit (%)	na	na	25.4	26.6	21.9
- asset turnover (x)	0.2	0.2	0.3	0.3	0.3
- operating margin (%)	na	na	48.8	55.7	56.5
- leverage (x)	2.2	2.1	1.9	1.6	1.5
- interest burden (%)	(51.8)	(254.6)	83.5	87.9	88.7
- tax burden (%)	na	na	100.0	100.0	100.0
WACC (%)	7.9	7.9	7.9	7.9	7.9
ROIC (%)	1.7	0.7	18.4	24.8	26.4
NOPAT (Bt m)	433	159	3,510	4,521	4,538

Sources: Company data, Thanachart estimates

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