Small Cap Research

Thanachart Securities

BUY	(Unchanged)	TP: Bt 28.00	(From: Bt 27.00)
Change in Numbers		Upside : 16.7%	2 August 2021

Precious Shipping Pcl (PSL TB)

Positive developments

We see stronger demand against weaker new ship supply in 2H21F and this should support the current record-high freight rate. We raise our street-high earnings forecasts further and reaffirm BUY on PSL. Its valuations are not excessive in our view being off the past cycle's peak at 2.1x P/BV despite the far higher freight rate.

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Potentially far stronger 2H21F

We expect a stronger dry bulk shipping demand during a period of weaker new ship supply in 2H21F to at least support PSL's record-high freight rate into 2H21F. Despite already estimating a sharp profit rise to Bt800m in 2Q21F (vs. Bt271m in 1Q21), we project PSL's 2H21F profit to jump by another 102% from 1H21F. Note that PSL's freight rate was US$12,157/ship/day in 1Q21, increasing to US$17,400 in 2Q21F while it is now at US$22,000. With stronger demand-supply dynamics, we raise our already street-high earnings estimates by another 7-8% in 2021-23F and lift our TP slightly to Bt28 (from Bt27). Note that we derive PSL's TP using a P/BV of 2.5x or near +2 STD historical P/BV.

Stronger demand growth

We expect demand for dry-bulk products to be stronger in 2H21 than in 1H21. The 2H is the strong harvest season for top global grain exporters, e.g., the US, Russia, Ukraine and other European countries. Coal demand is also expected to be stronger in the 2H going into the winter season. On top of seasonal demand, the reopening of many large economies is helping to drive demand further. Clarksons, the shipping research house, projects demand growth for PSL's ship categories of 4% and 3% in 2021-22F.

Less new ship supply

Against stronger demand, ships in PSL's Handysize, Supramax and Ultramax segments are estimated to come in at only 5.9m dead weight ton (DWT) in 2H21 vs. 10.5 in 1H21, according to Clarksons. On a yearly basis, new ship supply growth is forecast at 2.8% this year (vs. 4% demand growth), falling to a historically low level of 1.6% in 2022F (vs. 3% demand growth). Supply growth has averaged 6% p.a. over the past 10 years. The soft growth in 2021-22F is due to weak ship orders in prior years amid the industry's long downturn along with regulatory concerns. IMO-2023 requires ships to cut CO2 emissions from the current level. But as the exact amount of reduction has yet to be announced, this has caused uncertainty over new ships' specifications.

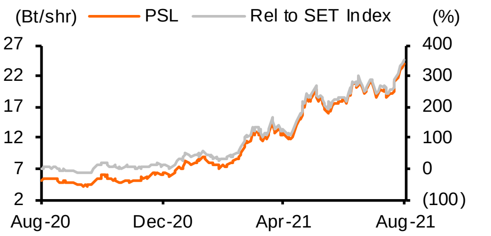
Consensus numbers too bearish in our view

We expect consensus earnings upgrades after 2Q21F results are announced as the numbers are still 9% below ours in 2021F and 40% below in 2022F. PSL's freight rate averaged US$15,000 in 1H21F vs. the current rate of US$22,000. We assume a freight rate of US$17,800 and profit of Bt3.1bn in 2021F and US$21,000 with a profit of Bt4.4bn in 2022F. Valuation wise, PSL isn't expensive in our view at 2.1x P/BV in 2022F vs. its 2007 peak of 3.0x with more than a US$14,000 peak freight rate in that year.

COMPANY VALUATION

Y/E Dec (Bt m)	2020A	2021F	2022F	2023F
Sales	3,730	7,427	8,548	8,509
Net profit	(1,295)	3,160	4,355	4,429
Consensus NP	—	2,910	3,109	3,414
Diff frm cons (%)	—	*8.6*	*40.1*	*29.7*
Norm profit	(422)	3,160	4,355	4,429
Prev. Norm profit	—	2,958	4,021	4,094
Chg frm prev (%)	—	*6.9*	*8.3*	*8.2*
Norm EPS (Bt)	(0.3)	2.0	2.8	2.8
Norm EPS grw (%)	na	na	37.8	1.7
Norm PE (x)	na	11.8	8.6	8.5
EV/EBITDA (x)	33.8	8.8	6.2	5.5
P/BV (x)	3.7	2.8	2.1	1.8
Div yield (%)	0.0	0.0	0.0	5.9
ROE (%)	na	27.0	28.1	22.9
Net D/E (%)	88.0	37.1	(2.9)	(21.3)

PRICE PERFORMANCE

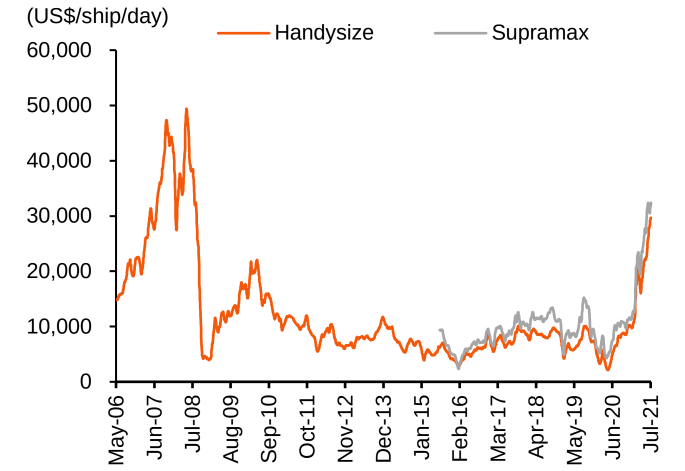


COMPANY INFORMATION

Price *as of* 2-Aug-21 (Bt)	24.00
Market Cap (US$ m)	1,136.2
Listed Shares (m shares)	1,559.3
Free Float (%)	46.85
Avg Daily Turnover (US$ m)	18.56
12M Price H/L (Bt)	23.30/4.22
Sector	Shipping
Major Shareholder	Globex Corporation 28.4%

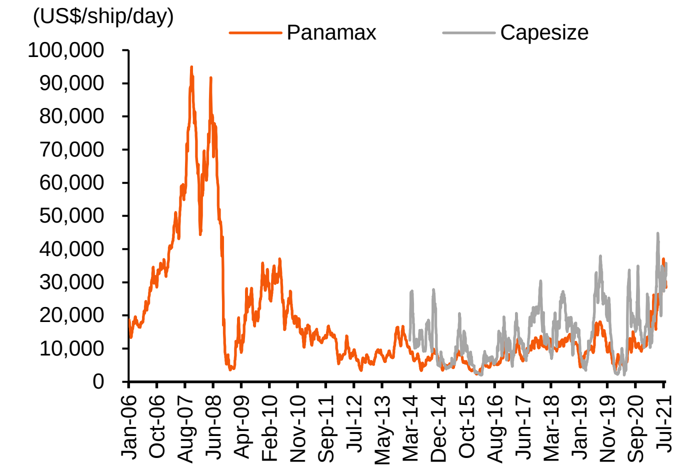
Sources: Bloomberg, Company data, Thanachart estimates

Ex 1: Freight Rate for PSL's Ship Segments



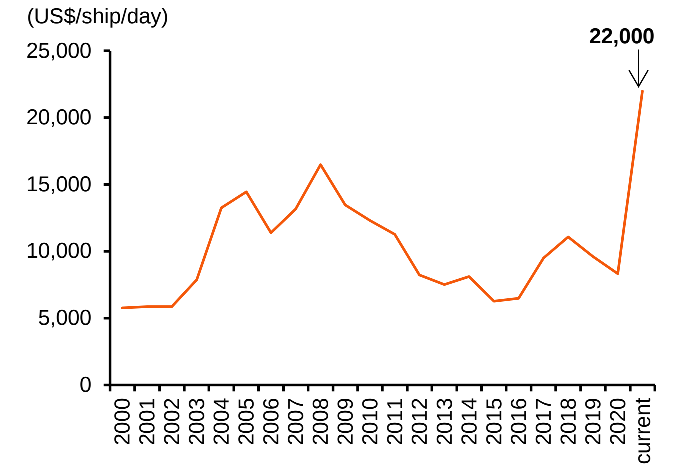
Source: Bloomberg

Ex 2: Freight Rate For Other Segments



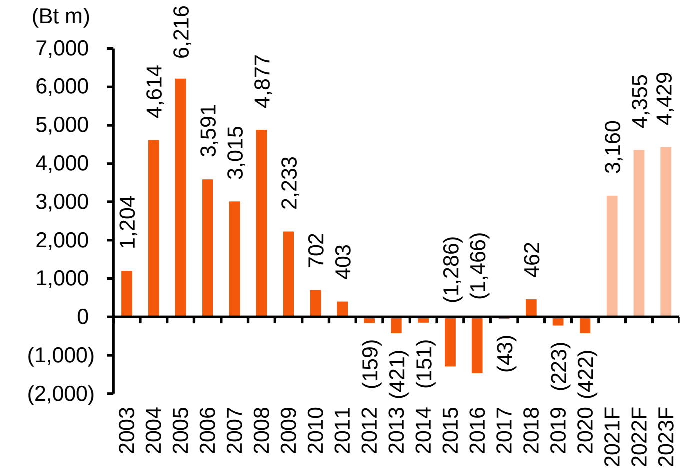
Source: Bloomberg

Ex 3: PSL's Average Freight Rate



Sources: Company data, Bloomberg, Thanachart estimates

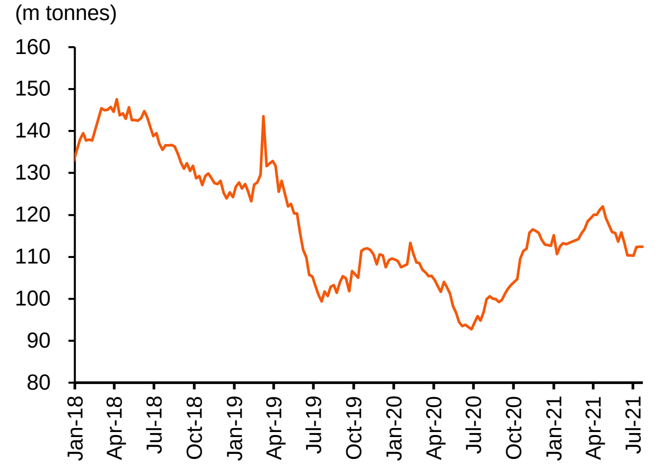
Ex 4: PSL's Normalized Profits



Sources: Company data, Thanachart estimates

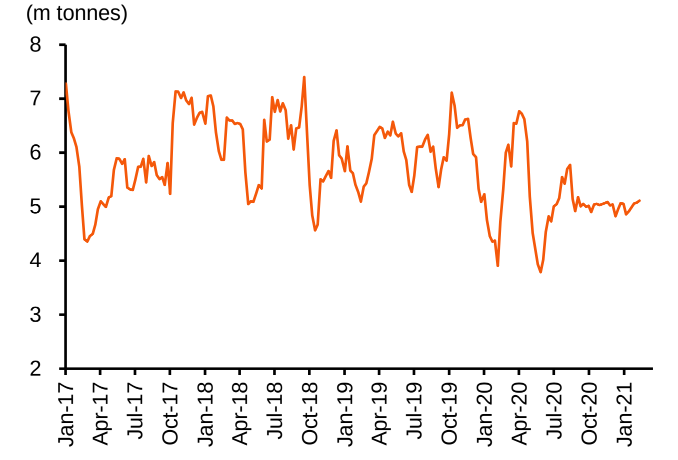
Despite strong demand for dry-bulk products so far, inventory levels for the main dry-bulk products, e.g., iron ore, coal and steel (see Exhibits 5-7), don't look excessive to us.

Ex 5: Inventory Level For Iron Ore…



Source: Bloomberg

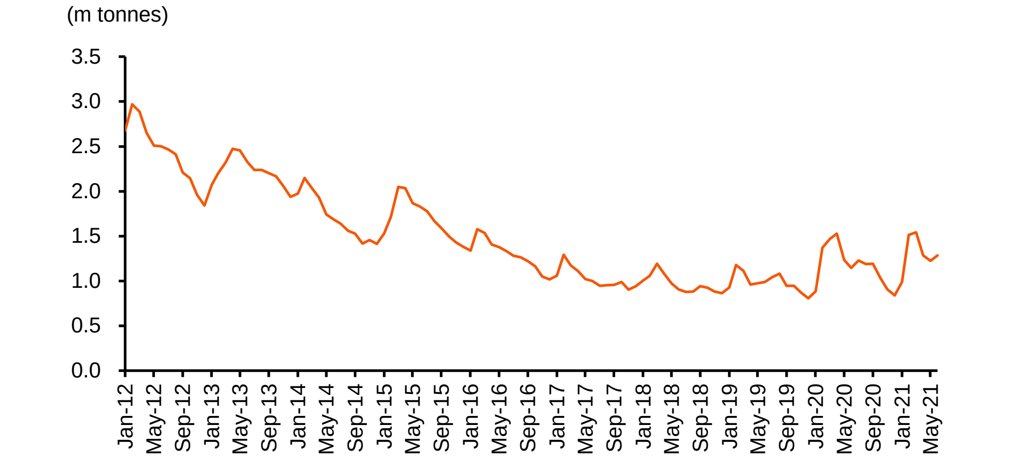
Ex 6: … For Coal…



Source: Bloomberg

Note: Supply of coal at Qinhuagdao port

Ex 7: …And For Steel



Source: Bloomberg

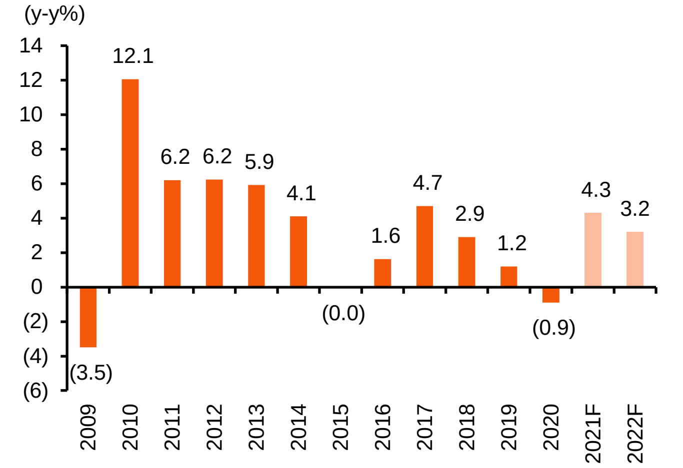
Stronger demand-supply dynamics

While dry-bulk demand growth looks set to remain decent, at 4% and 3% in 2021-22F on the back of the global economic turnaround from the reopening of major economies, Clarksons expects new ship supply growth for PSL's ship categories to be low at 2.8% this year, falling to a historically low level of 1.6% in 2022F. We believe the weak supply growth is because:

1) The industry's long downturn has discouraged new ship orders over the past few years while some shipyards also closed during the period.

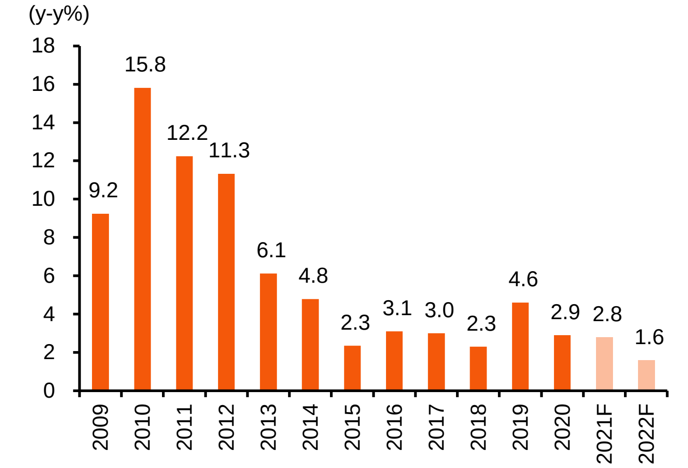
2) The new IMO 2023 regulation is causing uncertainty over new ships' specifications, therefore also discouraging new ship orders. According to the International Maritime Organization (IMO), dry bulk vessels must meet the CO_2 emission target by January 2023. The maximum emission rate has yet to be announced but the IMO expects the longer-term target to be to reduce CO_2 emissions by 40% by 2030 from the current level. The lack of an announcement has created uncertainty over vessel specifications, resulting in weak new orders. From 2023, ships that fail to meet the new standard have to slow their speed to cut CO_2 emissions, implying there will be less effective supply available. As for PSL, it believes it emits less CO_2 than the industry average as it has continuously reduced its emissions.

Ex 8: Demand For PSL's Ship Categories Vs…



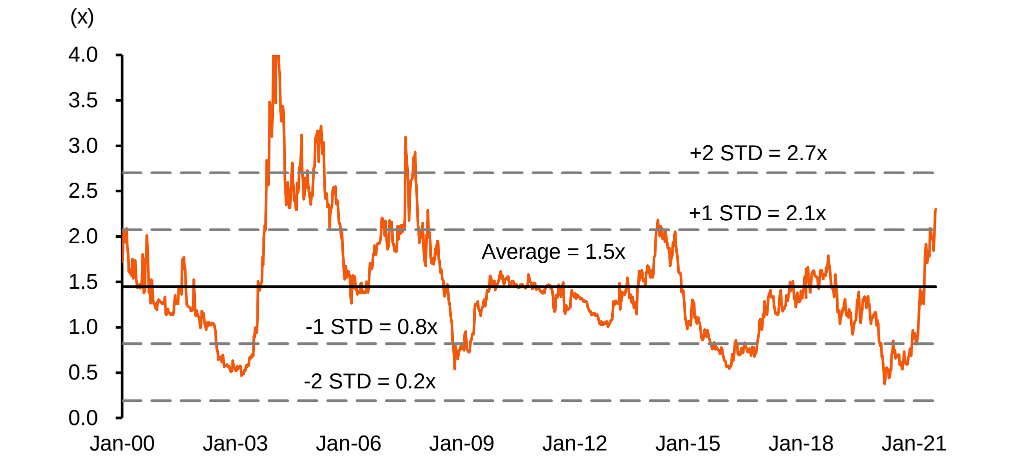
Sources: Clarksons, Thanachart compilation

Ex 9: …Supply Growth



Sources: Clarksons, Thanachart compilation

Ex 10: PSL's Price To Book



Sources: Bloomberg, Thanachart estimates

Ex 11: Earnings Revision

	2020	2021F	2022F	2023F
Freight rate (US$/ship/day)				
New	8,332	17,800	21,000	21,315
Old		17,300	20,068	20,369
Change (%)		*2.9*	*4.6*	*4.6*
Breakeven cost (Bt m)				
New	9,400	9,450	9,440	9,420
Old		9,450	9,440	9,420
Change (%)		—	—	—
Normalized profit (Bt m)				
New	(422)	3,160	4,355	4,429
Old		2,958	4,021	4,094
Change (%)		*6.9*	*8.3*	*8.2*

Sources: Company data, Thanachart estimates

Note that although we derive our TP for PSL using P/BV methodology, we also show our DCF calculation in Exhibit 12.

Ex 12: Our 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		5,993	5,994	5,395	5,169	4,874	4,878	4,534	4,175	3,840	3,507	3,325	—
Free cash flow		5,639	5,691	5,136	4,880	4,588	4,561	4,249	3,891	3,555	3,223	2,491	37,160
PV of free cash flow		5,623	4,852	4,043	3,547	3,041	2,785	2,389	2,015	1,695	1,416	981	14,632
Risk-free rate (%)	2.5												
Market risk premium (%)	8.0												
Beta	1.2												
WACC (%)	8.3												
Terminal growth (%)	2.0												
Enterprise value - add investments	47,018												
Net debt (2021F)	4,938												
Minority interest	0												
Equity value	42,080												
# of shares (m)	1,559												
Value/share (Bt)	**27**												

Source: Thanachart estimates

Valuation Comparison

Ex 13: Comparison With Regional Peers

Name	BBG code	Country	EPS growth 21F (%)	EPS growth 22F (%)	PE 21F (x)	PE 22F (x)	P/BV 21F (x)	P/BV 22F (x)	EV/EBITDA 21F (x)	EV/EBITDA 22F (x)	Div yield 21F (%)	Div yield 22F (%)
U-Ming Marine Transport	2606 TT	Taiwan	(45.8)	241.7	18.2	21.3	2.2	2.3	14.4	18.3	4.3	4.2
Evergreen Marine	2603 TT	Taiwan	507.7	(33.9)	4.4	6.5	3.0	2.4	3.6	5.2	8.3	6.8
Yang Ming Marine	2609 TT	Taiwan	725.3	(41.4)	3.2	5.5	2.3	1.7	2.6	3.6	8.2	8.8
Wan Hai Lines	2615 TT	Taiwan	554.7	(34.9)	7.0	10.7	4.4	4.0	5.2	7.3	7.2	0.0
COSCO Shipping Energy	1138 HK	Hong Kong	(44.9)	60.5	8.5	5.3	0.3	0.3	11.3	na	4.1	6.6
COSCO Shipping	1919 HK	Hong Kong	756.3	(55.6)	2.1	4.7	1.3	1.1	3.3	5.9	3.9	2.7
Pacific Basin Shipping	2343 HK	Hong Kong	na	10.5	4.7	4.2	1.6	1.3	4.5	4.4	10.7	12.0
Kawasaki Kisen Kaisha	9107 JP	Japan	75.2	(65.0)	2.0	5.7	0.9	0.8	17.2	15.7	0.6	1.6
Mitsui OSK Lines	9104 JP	Japan	159.1	(46.1)	3.2	6.0	0.9	0.8	15.8	14.5	5.8	4.4
Nippon Yusen KK	9101 JP	Japan	135.7	(49.6)	3.3	6.5	1.2	1.1	10.5	11.4	6.8	4.3
Korea Line	005880 KS	S. Korea	102.8	(5.2)	14.0	14.8	0.9	0.9	3.4	3.3	na	na
Thoresen Thai Agencies	TTA TB	Thailand	na	35.5	34.5	25.5	1.8	1.6	11.7	12.0	0.8	0.7
Prima Marine Pcl*	PRM TB	Thailand	18.7	17.9	8.6	7.3	1.8	1.6	6.6	5.8	5.2	6.2
Precious Shipping*	PSL TB	Thailand	na	37.8	11.8	8.6	2.8	2.1	8.8	6.2	0.0	0.0
Average			**267.7**	**5.2**	**9.0**	**9.5**	**1.8**	**1.6**	**8.5**	**8.7**	**5.1**	**4.5**

Source: Bloomberg

Note: * Thanachart estimates, using Thanachart normalized EPS

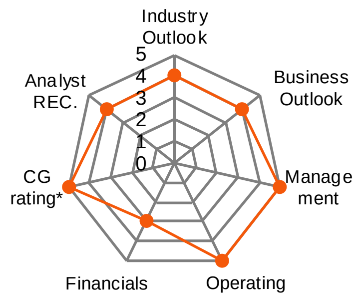
Based on 2-Aug-21 closing prices

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.

W — Weakness

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

O — Opportunity

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

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)	21.71	28.00	29%
Net profit 21F (Bt m)	2,910	3,160	9%
Net profit 22F (Bt m)	3,109	4,355	40%
Consensus REC	**BUY: 5**	**HOLD: 2**	**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.

Sources: Bloomberg consensus, Thanachart estimates

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.

Source: Thanachart

EBITDA was positive in the past despite net losses

We expect very strong profits from 2021-23F

INCOME STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Sales	4,152	3,730	7,427	8,548	8,509
Cost of sales	3,173	3,226	3,394	3,347	3,290
Gross profit	**979**	**504**	**4,033**	**5,202**	**5,219**
% gross margin	23.6%	13.5%	54.3%	60.9%	61.3%
Selling & administration expenses	547	345	327	322	323
Operating profit	**433**	**159**	**3,706**	**4,880**	**4,896**
% operating margin	10.4%	4.3%	49.9%	57.1%	57.5%
Depreciation & amortization	1,183	1,213	1,128	1,113	1,098
EBITDA	**1,616**	**1,372**	**4,834**	**5,993**	**5,994**
% EBITDA margin	38.9%	36.8%	65.1%	70.1%	70.4%
Non-operating income	31	9	18	47	75
Non-operating expenses	0	0	0	0	0
Interest expense	(703)	(597)	(574)	(582)	(552)
Pre-tax profit	**(240)**	**(429)**	**3,150**	**4,345**	**4,419**
Income tax	3	4	0	0	0
After-tax profit	**(243)**	**(433)**	**3,150**	**4,345**	**4,419**
% net margin	-5.8%	-11.6%	42.4%	50.8%	51.9%
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)**	**3,160**	**4,355**	**4,429**
Normalized profit	**(223)**	**(422)**	**3,160**	**4,355**	**4,429**
EPS (Bt)	(0.1)	(0.8)	2.0	2.8	2.8
Normalized EPS (Bt)	(0.1)	(0.3)	2.0	2.8	2.8

BALANCE SHEET

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
ASSETS:					
Current assets:	1,681	1,938	4,536	9,892	12,187
Cash & cash equivalent	1,181	1,100	3,500	8,700	11,000
Account receivables	183	169	336	387	385
Inventories	0	0	0	0	0
Others	317	669	700	806	802
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	485	559	556
Total assets	**25,061**	**21,397**	**23,409**	**28,025**	**29,519**
LIABILITIES:					
Current liabilities:	4,712	3,339	3,055	3,406	2,839
Account payables	528	277	291	287	282
Bank overdraft & ST loans	0	0	0	0	0
Current LT debt	4,085	2,436	2,051	1,990	1,586
Others current liabilities	99	627	713	1,129	970
Total LT debt	**8,577**	**7,586**	**6,387**	**6,197**	**4,940**
Others LT liabilities	46	171	341	392	391
Total liabilities	**13,502**	**11,263**	**10,114**	**10,376**	**8,548**
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**	**11,329**	**15,684**	**19,005**
Shareholders' equity	11,559	10,134	13,295	17,650	20,971
Liabilities & equity	**25,061**	**21,397**	**23,409**	**28,025**	**29,519**

Sources: Company data, Thanachart estimates

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

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Earnings before tax	(240)	(429)	3,150	4,345	4,419
Tax paid	(38)	(4)	0	0	0
Depreciation & amortization	1,183	1,213	1,128	1,113	1,098
Chg In w orking capital	526	(237)	(153)	(55)	(3)
Chg In other CA & CL / minorities	(426)	204	(8)	320	(145)
Cash flow from operations	**1,005**	**747**	**4,117**	**5,723**	**5,369**
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	166	28	(1)
Cash flow from investments	**1,124**	**1,957**	**(134)**	**(272)**	**(301)**
Debt financing	(1,882)	(2,655)	(1,583)	(251)	(1,661)
Capital increase	0	0	(0)	0	0
Dividends paid	0	0	0	0	(1,107)
Warrants & other surplus	(908)	(130)	0	0	0
Cash flow from financing	**(2,790)**	**(2,785)**	**(1,583)**	**(251)**	**(2,768)**
Free cash flow	**2,133**	**507**	**3,817**	**5,423**	**5,069**

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

VALUATION

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Normalized PE (x)	na	na	11.8	8.6	8.5
Normalized PE - at target price (x)	na	na	13.8	10.0	9.9
PE (x)	na	na	11.8	8.6	8.5
PE - at target price (x)	na	na	13.8	10.0	9.9
EV/EBITDA (x)	30.3	33.8	8.8	6.2	5.5
EV/EBITDA - at target price (x)	34.1	38.3	10.1	7.2	6.5
P/BV (x)	3.2	3.7	2.8	2.1	1.8
P/BV - at target price (x)	3.8	4.3	3.3	2.5	2.1
P/CFO (x)	37.2	50.1	9.1	6.5	7.0
Price/sales (x)	9.0	10.0	5.0	4.4	4.4
Dividend yield (%)	0.0	0.0	0.0	0.0	5.9
FCF Yield (%)	5.7	1.4	10.2	14.5	13.5
(Bt)					
Normalized EPS	(0.1)	(0.3)	2.0	2.8	2.8
EPS	(0.1)	(0.8)	2.0	2.8	2.8
DPS	0.0	0.0	0.0	0.0	1.4
BV/share	7.4	6.5	8.5	11.3	13.4
CFO/share	0.6	0.5	2.6	3.7	3.4
FCF/share	1.4	0.3	2.4	3.5	3.3

Sources: Company data, Thanachart estimates

FINANCIAL RATIOS

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Growth Rate					
Sales (%)	(15.8)	(10.2)	99.1	15.1	(0.5)
Net profit (%)	na	na	na	37.8	1.7
EPS (%)	na	na	na	37.8	1.7
Normalized profit (%)	na	na	na	37.8	1.7
Normalized EPS (%)	na	na	na	37.8	1.7
Dividend payout ratio (%)	0.0	0.0	0.0	0.0	50.0
Operating performance					
Gross margin (%)	23.6	13.5	54.3	60.9	61.3
Operating margin (%)	10.4	4.3	49.9	57.1	57.5
EBITDA margin (%)	38.9	36.8	65.1	70.1	70.4
Net margin (%)	(5.8)	(11.6)	42.4	50.8	51.9
D/E (incl. minor) (x)	1.1	1.0	0.6	0.5	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	6.5	8.4	8.9
Interest coverage - EBITDA (x)	2.3	2.3	8.4	10.3	10.9
ROA - using norm profit (%)	na	na	14.1	16.9	15.4
ROE - using norm profit (%)	na	na	27.0	28.1	22.9
DuPont					
ROE - using after tax profit (%)	na	na	26.9	28.1	22.9
- asset turnover (x)	0.2	0.2	0.3	0.3	0.3
- operating margin (%)	na	na	50.1	57.6	58.4
- leverage (x)	2.2	2.1	1.9	1.7	1.5
- interest burden (%)	(51.8)	(254.6)	84.6	88.2	88.9
- tax burden (%)	na	na	100.0	100.0	100.0
WACC (%)	8.3	8.3	8.3	8.3	8.3
ROIC (%)	1.7	0.7	19.4	26.8	28.6
NOPAT (Bt m)	433	159	3,706	4,880	4,896

Sources: Company data, Thanachart estimates

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