Precious Shipping Pcl (PSL TB) - BUY

Earnings Preview

Pattadol Bunnak | Email: pattadol.bun@thanachartsec.co.th

Earnings preview

- **Despite being strong, 4Q21F is likely weaker than expected**
- **1Q22F will also likely be a softer quarter**
- **A favorable demand-supply dynamic remains intact to us**
- **Maintain BUY on PSL**

Though PSL likely reports strong earnings in 4Q21F of Bt1.1bn, the results are likely weaker than our expectation due to the falling freight rate during the quarter. Looking into 1Q22F, we expect for a continued soft quarter due to a seasonal impact. That said, there is no change to our view of the industry's favorable demand-supply dynamic and we reaffirm BUY on PSL.

- We estimate PSL to post norm earnings of Bt1.1bn in 4Q21F, increased significantly from the small Bt28m profits in 4Q20 but dropped 30% q-q. PSL's freight rate were US$20,500/ship/day in 4Q21F vs. US$10,628 in 4Q20 and US$24,722 in 3Q21. Freight rate increased sharply from the COVID-led low base in 4Q20. However, despite 4Q is normally a stronger quarter, the rate in 4Q21 fell from that in 3Q21. So far, we estimate PSL's freight rate stays at US$19,000 vs. the projected total breakeven cost of US$9,000. The rate fell 20% from its peak in 2021. The weakness was caused mainly by the slowdown in China (over 50% of dry-bulk demand).
- However, there is no change in our projections for PSL's earnings in 2021F because its 3Q21 earnings beat our expectation.
- Looking into 1Q22, we expect for a softer freight rate trend as 1Q is normally the weakest quarter because it being a quarter for new ships delivery while demand will likely fall amid the Chinese New Year.
- We see some downside to our freight rate assumption this year but continue to remain of our view of the industry's favorable demand-supply dynamic. Despite having been revised down slightly due to the China slowdown and uncertainly amid the new COVID variant in other major markets, the dry bulk's demand growth for PSL's ship segments is still projected to outpace the supply growth (3.0% demand growth vs. 1.8% supply growth), according Clarksons, the leading shipping research house. This implies the freight rate should remain resilient.
- The soft supply growth is the results
  - The swift global turnaround and the corresponding freight rate increase since mid-2020 came as a surprise to all shipping operators. This, together with the soften freight rate trend since 2H21, causes some operators to remain cautious about the sustainability of the strong dry-bulk market going forward, and thus reluctant to order new ships.
  - There is less capacity available at shipbuilding yards because the overall shipping industry's prolonged downturn since 2008 resulted in some of them to close down. Moreover, existing ship builders' capacity has already been taken up by orders from other ship types, e.g., container, gas carries and tanker ships.

Key Valuations

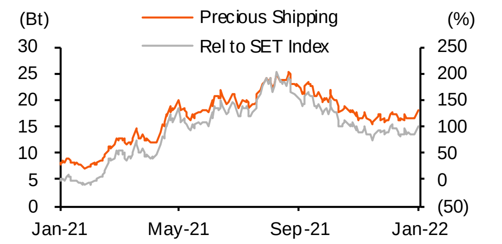
Y/E Dec (Bt m)	2020	2021F	2022F	2023F
Revenue	3,730	7,779	8,741	8,595
Net profit	(1,295)	3,525	4,584	4,566
Norm net profit	(422)	3,525	4,584	4,566
Norm EPS (Bt)	(0.3)	2.3	2.9	2.9
Norm EPS gr (%)	na	na	30.0	(0.4)
Norm PE (x)	na	8.0	6.1	6.1
EV/EBITDA (x)	27.0	6.3	4.4	3.8
P/BV (x)	2.8	2.1	1.5	1.3
Div. yield (%)	0.0	0.0	0.0	8.1
ROE (%)	(3.9)	29.6	28.7	22.9
Net D/E (%)	88.0	33.3	(6.3)	(24.0)

Source: Thanachart estimates

Stock Data

Closing price (Bt)	18.00
Target price (Bt)	29.00
Market cap (US$ m)	843
Avg daily turnover (US$ m)	17.4
12M H/L price (Bt)	25.25/7.05

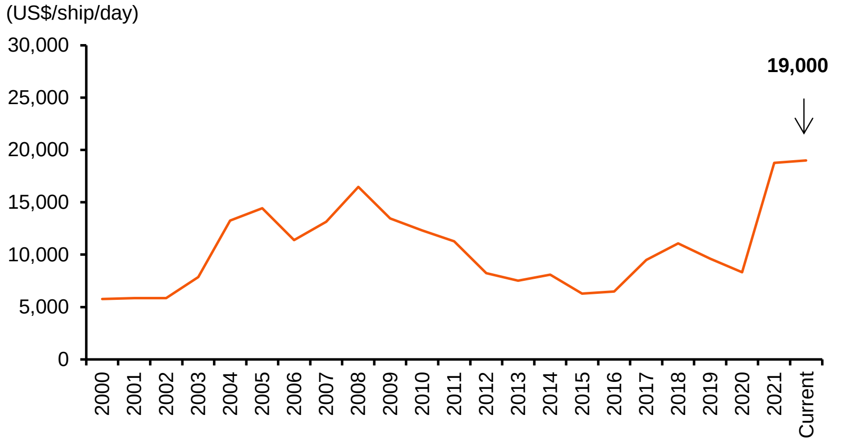
Price Performance



Source: Bloomberg

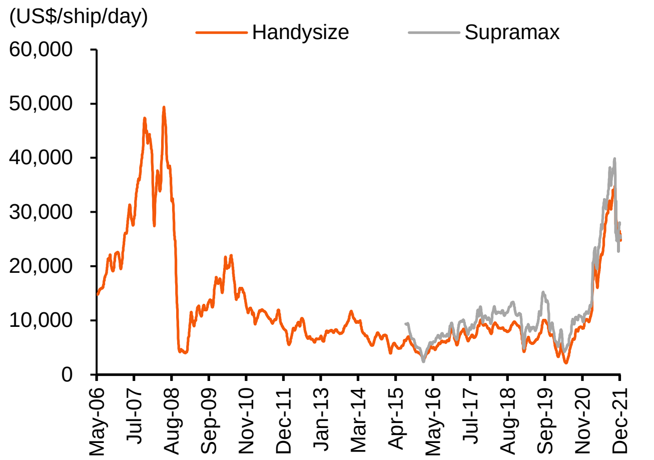
- Demand wise, Exhibit 3-9 show the improving trend of imports, price and inventories for main products which PSL's ship segments carry after having worsen since 3Q21. This implies the demand is starting to rebound.
- We reaffirm BUY on PSL. The share price fell by 29% from its peak last year to trade at 1.5x P/BV or 6x in 2022F while its freight rate remains in the high zone against the level seen during the past decade. Note that in the last upcycle in 2007, PSL's P/BV surpassed 2.5x while its freight rate pealed above US$14,000/ship/day.

Ex 1: PSL's Freight Rate



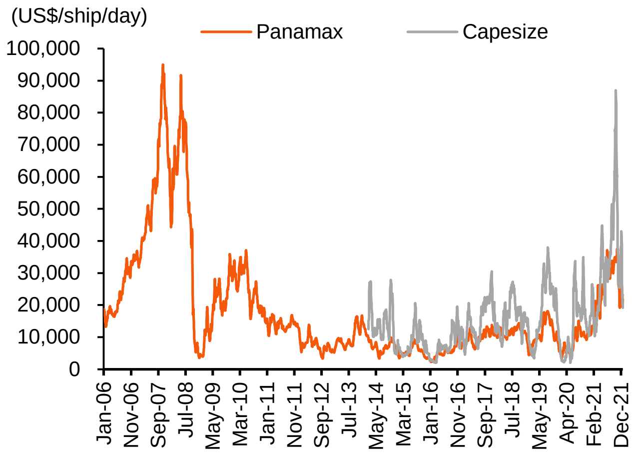
Sources: Company data, Thanachart estimates

Ex 2: Freight Rate For PSL's Ship Segments



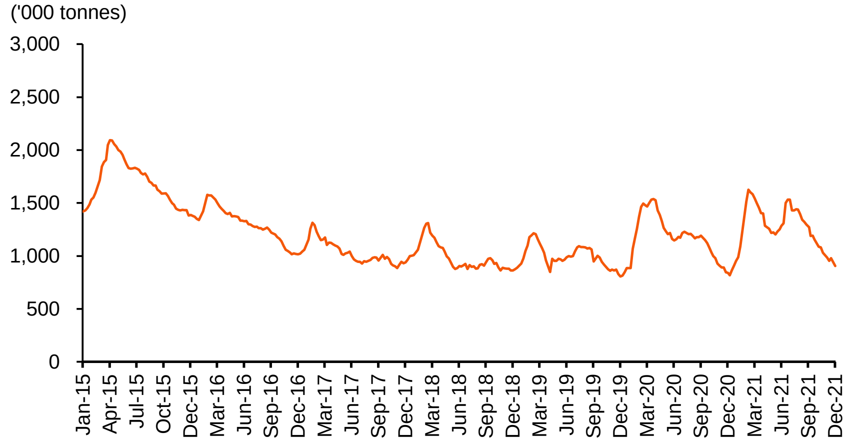
Source: Bloomberg

Ex 3: Freight Rate For Other Ship Segments



Source: Bloomberg

Ex 4: Steel Inventory

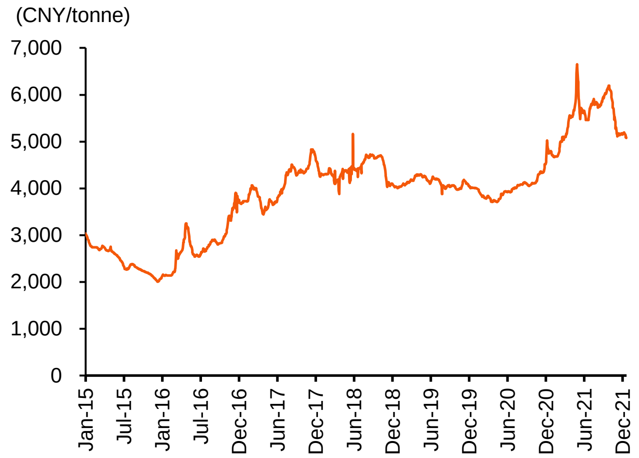


Source: Bloomberg

Ex 5: China's Steel And Iron Ore Import

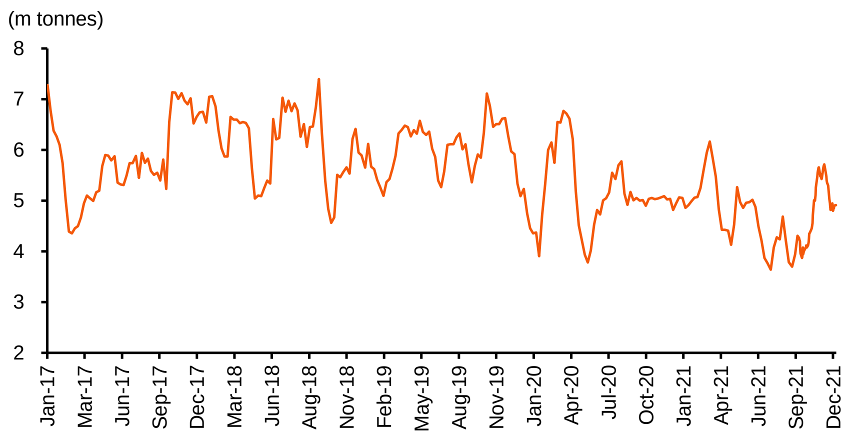
Source: Trading economics

Ex 6: Steel Price



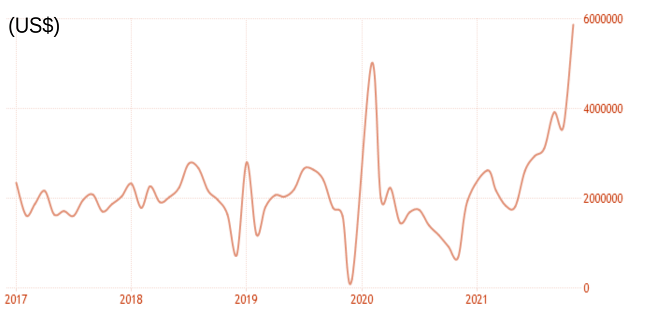
Source: Bloomberg

Ex 7: China Coal Inventory



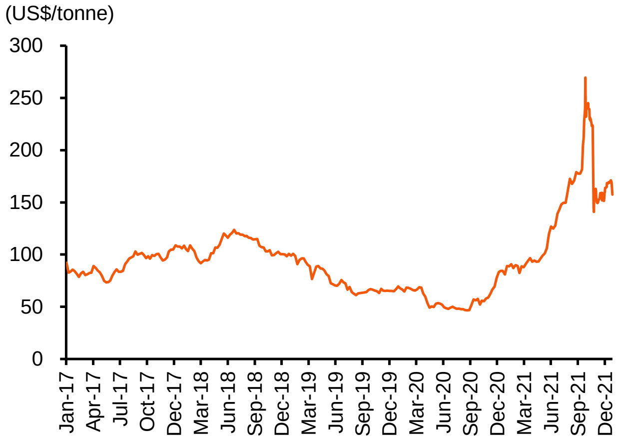
Source: Bloomberg

Ex 8: China Coal Imports



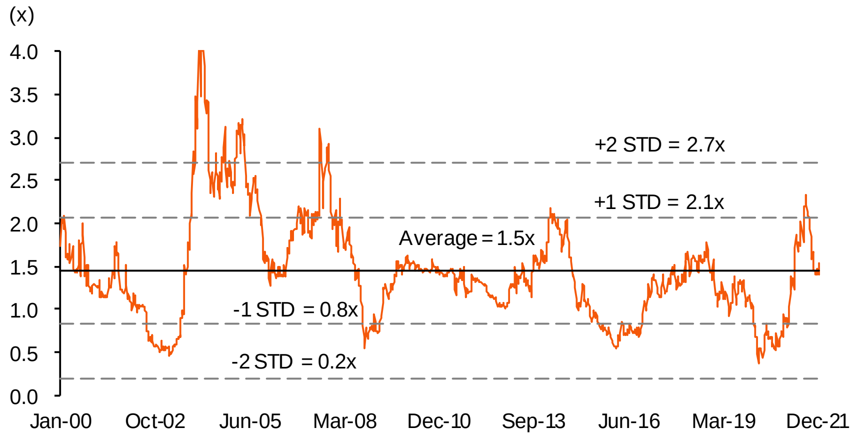
Source: Trading economics

Ex 9: Coal Price



Source: Bloomberg

Ex 10: Historical P/BV



Source: Bloomberg, Thanachart estimates

General Disclaimers And Disclosures:

This report is prepared by analysts who are employed by the research department of TNS. While the information is from sources believed to be reliable, neither the information nor the forecasts shall be taken as a representation or warranty for which TNS or TCAP or its group companies or any of their employees incur any responsibility. This report is provided to you for informational purposes only and it is not, and is not to be construed as, an offer or an invitation to make an offer to sell or buy any securities. Neither TNS, TCAP nor its group companies accept any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

The information and opinions contained herein have been compiled or arrived at from sources believed reliable. However, TNS, TCAP and its group companies make no representation or warranty, express or implied, as to their accuracy or completeness. Expressions of opinion herein are subject to change without notice. The use of any information, forecasts and opinions contained in this report shall be at the sole discretion and risk of the user.

TNS, TCAP and its group companies perform and seek to perform business with companies covered in this report. TNS, TCAP, its group companies, their employees and directors may have positions and financial interest in securities mentioned in this report. TNS, TCAP or its group companies may from time to time perform investment banking or other services for, or solicit investment banking or other business from, any entity mentioned in this report. Therefore, investors should be aware of conflict of interest that may affect the objectivity of this report.

Note: Thanachart Securities Public Company Limited act as a Market Maker and Derivative Warrants Issuer. At present, TNS has issued 108 Derivative Warrants which are ACE16C2201A, ACE16C2202A, ADVA16C2201A, ADVA16C2202A, AEON16C2201A, AEON16C2201B, AOT16C2204A, AOT16C2202A, BAM16C2204A, BANP16C2204A, BANP16C2201A, BANP16C2202A, BBL16C2204A, BBL16C2201A, BBL16C2203A, BCH16C2201A, BCH16C2203A, BEC16C2202A, BGRI16C2205A, CBG16C2204A, CBG16C2201A, CBG16C2202A, CHG16C2202A, COM716C2203A, CPAL16C2204A, CPAL16C2203A, CPN16C2202A, CRC16C2204A, DELT16C2202A, DELT16C2203A, DOHO16C2202A, EA16C2201A, ESSO16C2202A, GLOB16C2201A, GLOB16C2203A, GPSC16C2201A, GPSC16C2201B, GPSC16C2203A, GULF16C2202A, GUNK16C2201A, GUNK16C2203A, HANA16C2204A, HANA16C2202A, HMPR16C2202A, INTU16C2201A, INTU16C2202A, IVL16C2202A, JAS16C2202A, JMAR16C2201A, JMAR16C2202A, JMT16C2205A, JMT16C2201A, JMT16C2203A, KBAN16C2201A, KBAN16C2202A, KCE16C2201A, KTC16C2202A, LH16C2202A, MAJO16C2201A, MINT16C2204A, MINT16C2203A, MTC16C2204A, MTC16C2202A, OR16C2202A, OR16C2203A, PTG16C2201A, PTG16C2202A, PTG16C2203A, PTL16C2201A, PTL16C2202A, PTL16C2202B, PTT16C2201A, PTT16C2203A, PTTE16C2203A, RBF16C2202A, RS16C2201A, S5016C2112A, S5016C2112B, S5016C2112C, S5016C2112D, S5016C2203A, S5016P2112A, S5016P2112B, S5016P2112C, S5016P2112D, S5016P2203A, SAWA16C2204A, SAWA16C2202A, SCB16C2201A, SCB16C2202A, SCC16C2204A, SCGP16C2201A, SCGP16C2202A, SPAL16C2202A, SPRC16C2201A, STA16C2203A, STA16C2201A, STEC16C2204A, STEC16C2201A, STGT16C2202A, SYNE16C2202A, TASC16C2201A, TOP16C2202A, TRUE16C2202A, TRUE16C2203A, TU16C2204A, TU16C2202A, WHA16C2202A (underlying securities are ACE, ADVANC, AEONTS, AMATA, AOT, BAM, BANPU, BBL, BCH, BEC, BGRIM, CBG, CHG, COM7, CPALL, CPF, CPN, CRC, DELTA, DOHOME, DTAC, EA, ESSO, GLOBAL, GPSC, GULF, GUNKUL, HANA, HMPRO, INTUCH, IRPC, IVL, JAS, JMART, JMT, KBANK, KCE, KTC, LH, MAJOR, MEGA, MINT, MTC, OR, PTG, PTL, PTT, PTTEP, RBF, RS, SAWAD, SCB, SCC, SCGP, SPALI, SPRC, SET50, STA, STEC, STGT, SYNTEC, TASCO, TOP, TRUE, TU, WHA). Since TNS covers those underlying securities in research report, consequently TNS incurs conflicts of interest. Moreover, Investors are advised to carefully review the details and information in the prospectus before making investment decisions.

Note: Thanachart Securities has an indirect financial interest in Ratchthani Leasing Pcl (THANI). Thanachart Securities Pcl is a subsidiary of Thanachart Capital Pcl (TCAP) which holds more than 56% of the shareholding in Ratchthani Leasing Pcl (THANI).

Note: Thanachart Capital Public Company Limited (TCAP), TMBThanachart Bank Public Company Limited (TTB), are related companies to Thanachart Securities Public Company Limited (TNS). Thanachart Securities Pcl is a subsidiary of Thanachart Capital Pcl (TCAP) which holds 20.1% of the shareholding in TMBThanachart Bank Pcl.

Thanachart Capital Public Company Limited (TCAP), Ratchthani Leasing Public Company Limited (THANI), TMB Public Company Limited, MBK PUBLIC COMPANY LIMITED (MBK) and PATUM RICE MILL AND GRANARY PUBLIC COMPANY LIMTED (PRG) are related companies to Thanachart Securities Public Company Limited (TNS) . Since TNS covers those securities in research report, consequently TNS incurs conflicts of interest.

Disclosure of Interest of Thanachart Securities
Investment Banking Relationship
Within the preceding 12 months, Thanachart Securities has lead-managed public offerings and/or secondary offerings (excluding straight bonds) of the securities of the following companies: Saksiam Leasing Pcl. (SAK TB), SCG Packaging Pcl (SCGP TB)