BUY (Unchanged)

Change in Numbers

TP: Bt 22.00 (From: Bt 29.00)

Upside : 40.1%

31 January 2022

Small Cap Research

Precious Shipping Pcl (PSL TB)

Bottoming out



PATTADOL BUNNAK
662 – 483 8298
pattadol.bun@thanachartsec.co.th

Having fallen 38% from last year's peak, we believe PSL's share price has been overly punished by concerns over a China slowdown and the low-season impact in 1Q22F. We expect freight rates to bottom out as Chinese New Year will soon pass while we foresee an overall economic recovery in China.

Punishment looks overdone

We reaffirm our BUY call on PSL with a 12-month TP (2022F base year) of Bt22 (from Bt29). ***First***, PSL's share price looks to have been overly punished to us, falling by 38% from 2021's peak and 12% YTD to trade at 1.4x P/BV again, which is below its, historical average of 1.5x. *Second*, we expect the low-season impact from Chinese New Year to soon pass and freight rates to recover. ***Third***, though having been revised down, we forecast PSL's average freight rate to remain in a very high zone. Our freight rate assumptions are US$18,700/18,737/18,363 per ship per day in 2022-24F.

Supporting factors

PSL's freight rate has fallen by 42% from its peak in 3Q21 and 28% YTD. Aside from the 1Q low season factor, we believe this was due mainly to China factors (around 50% of dry bulk demand), including Evergrande's debt crisis, the government's order to cut industrial production during the Beijing Winter Olympics in February, and the zero-COVID policy causing lockdowns here and there. That said, we expect freight rates to recover as Chinese New Year will end soon and the government's implementation of improving growth-oriented policies, including interest rate cuts and easing fiscal policies, after seeing disappointing GDP. Exhibits 8-17 show China's import volume of main dry bulk products remains at a high level while inventory is not high.

Still in an upcycle

Although global demand growth of dry bulk products has been revised down by 0.3% to 3.1% by the shipping research house Clarksons, we remain bullish on the industry on weak new ship supply, which is expected to grow by only 1.8% this year. New ship orders remained weak in 2020-21 despite a surge in freight rates as operators have remained cautious over freight rate sustainability.

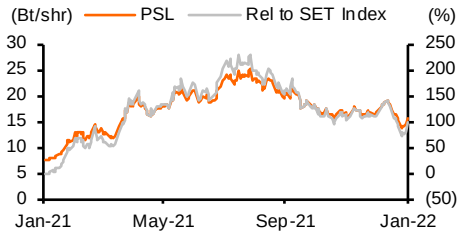
Attractive valuation in our view

PSL's current freight rate in the low season of US$15,000 remains at the highest level since over a decade, excluding spikes in 2021 amid the global reopening. We expect freight rates to rebound after Chinese New Year and estimate an average of US$18,700 in 2022F. Our freight rate assumptions are cut by 13/13/15% in 2022-24F because of the China factors mentioned above, the Omicron variant spread and potentially faster-than-expected Fed funds rate hikes. We therefore cut our earnings projections by 19/21/22% in 2022-24F. However, as we still expect PSL to deliver very high earnings of Bt3.7bn this year, we reckon the stock is cheap trading at 1.4x P/BV and 6x PE. We reaffirm our BUY rating on PSL with a P/BV-based TP, using a 2022F base year, of Bt22/share (from Bt29).

COMPANY VALUATION

Y/E Dec (Bt m)	2020A	2021F	2022F	2023F
Sales	3,730	7,944	8,251	7,983
Net profit	(1,295)	3,620	3,721	3,587
Consensus NP	—	3,970	3,146	2,992
Diff frm cons (%)	—	*(8.8)*	*18.3*	*19.9*
Norm profit	(422)	3,620	3,721	3,587
Prev. Norm profit	—	3,525	4,584	4,566
Chg frm prev (%)	—	*2.7*	*(18.8)*	*(21.4)*
Norm EPS (Bt)	(0.3)	2.3	2.4	2.3
Norm EPS grw (%)	na	na	2.8	(3.6)
Norm PE (x)	na	6.8	6.6	6.8
EV/EBITDA (x)	24.3	5.5	4.5	4.0
P/BV (x)	2.4	1.8	1.4	1.2
Div yield (%)	0.0	0.0	0.0	7.3
ROE (%)	na	30.3	23.8	19.1
Net D/E (%)	88.0	32.2	(2.4)	(18.6)

PRICE PERFORMANCE



COMPANY INFORMATION

Price *as of* 31-Jan-22 (Bt)	15.70
Market Cap (US$ m)	734.9
Listed Shares (m shares)	1,559.3
Free Float (%)	46.85
Avg Daily Turnover (US$ m)	16.14
12M Price H/L (Bt)	25.25/7.35
Sector	Shipping
Major Shareholder	Globex Corporation 28.4%

Sources: Bloomberg, Company data, Thanachart estimates

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Thanachart Securities

Bottoming out

We reaffirm our BUY on PSL as…

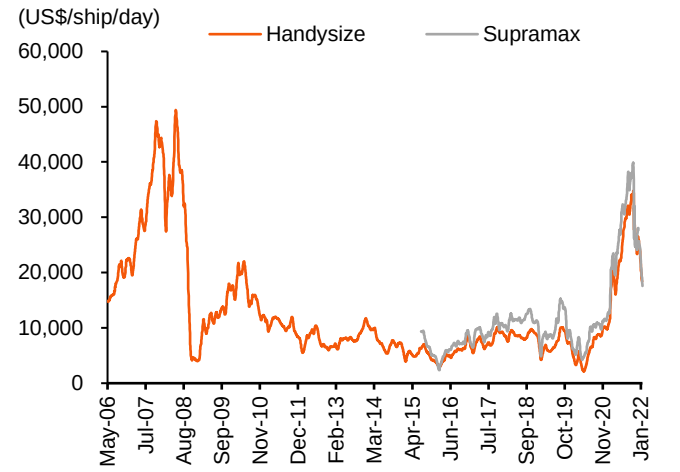
We reaffirm our BUY rating on Precious Shipping Pcl (PSL) with a P/BV-based TP, using a 2022F base year, of Bt22/share (from Bt29). We discuss our thesis below:

1) It looks cheap after its sharp share price drop to trade at 1.4x P/BV

First, PSL's share price looks to have been overly punished in our view, falling by 38% from its peak in 2021 and by 12% YTD to trade at 1.4x P/BV vs. its historical average of 1.5x, while PSL is still enjoying a decade-plus high freight rate of US$15,000/ship/day, excluding the spike in 2021 amid the global reopening post-COVID. We expect the rate to rebound after Chinese New Year and estimate an average of US$18,700 in 2022F

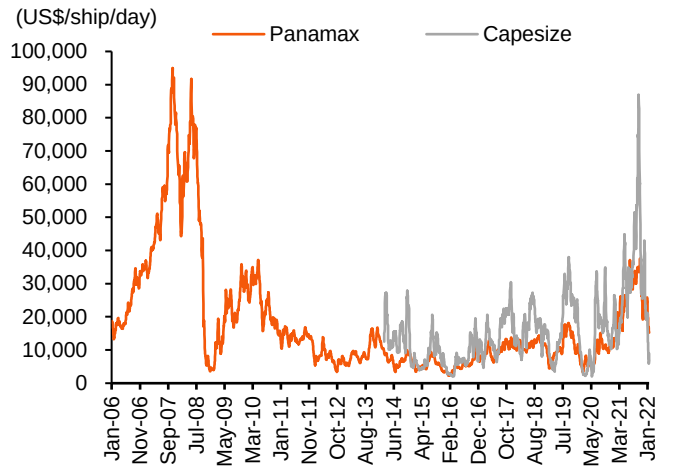
Note that after our freight rate assumption and earnings cuts (see Exhibit 5), we still forecast PSL to make Bt3.7bn in profit this year.

Ex 1: Freight Rates For PSL's Ship Categories



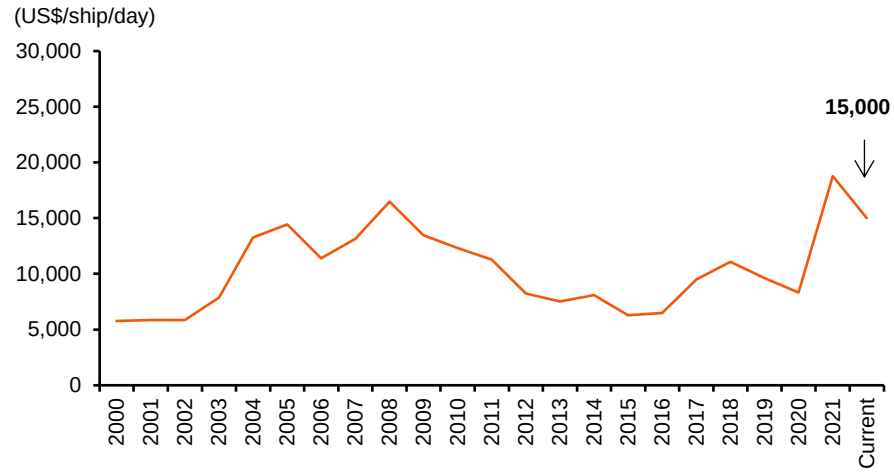
Source: Bloomberg

Ex 2: Freight Rates For Other Ship Categories



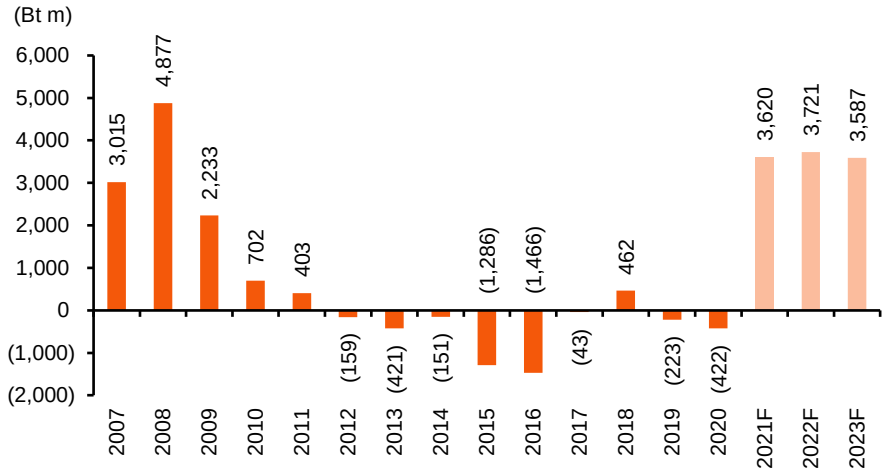
Source: Bloomberg

Ex 3: PSL's Freight Rate



Sources: Company data, Thanachart estimates

Ex 4: PSL's Earnings Level



Sources: Company data, Thanachart estimates

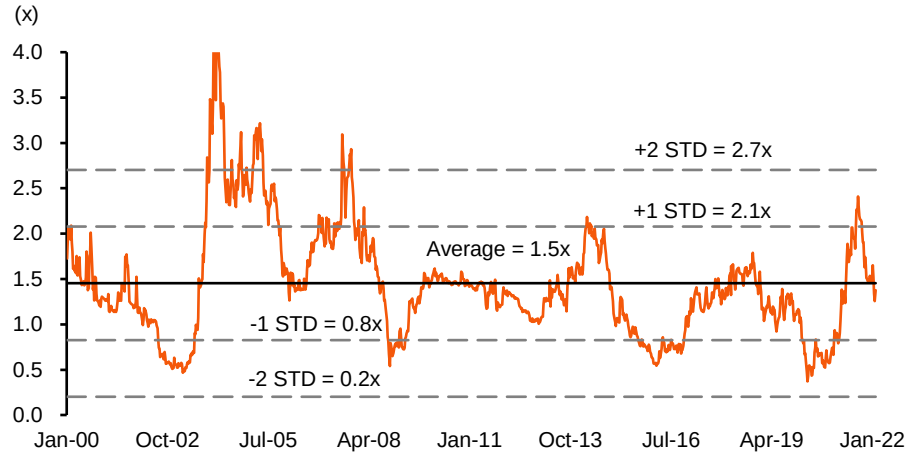
Ex 5: Our Key Assumption Revisions

	2020	2021F	2022F	2023F
Freight rate (US$/ship/day)				
New	8,332	18,700	18,700	18,737
Old		15,000	21,500	21,543
Change (%)		*24.7*	*(13.0)*	*(13.0)*
Breakeven cost (Bt m)				
New	9,500	9,400	9,400	9,400
Old		9,400	9,400	9,400
Change (%)		—	—	—
Normalized profit (Bt m)				
New	(422)	3,620	3,721	3,587
Old		3,525	4,584	4,566
Change (%)		*2.7*	*(18.8)*	*(21.4)*

Sources: Company data, Thanachart estimates

Our TP of Bt22/share implies PSL is trading at 2.0x P/BV, which is not too high, in our view. PSL's P/BV surpassed 2.5x in 2007 when its freight rate was above US$14,000.

Ex 6: In The Cheap Zone In Our View



Sources: Bloomberg, Thanachart estimates

Note that although we derive our TP for PSL using P/BV methodology, we also show our DCF calculation below in Exhibit7

Ex 7: 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	5,346	5,184	4,654	4,444	4,169	4,230	3,916	3,584	3,274	2,963	2,772	—
Free cash flow	5,050	4,886	4,390	4,154	3,882	3,909	3,630	3,299	2,988	2,678	1,938	28,914
PV of free cash flow	5,036	4,166	3,455	3,019	2,573	2,386	2,041	1,708	1,425	1,176	763	11,385

Risk-free rate (%)	2.5
Market risk premium (%)	8.0
Beta	1.2
WACC (%)	8.3
Terminal growth (%)	2.0
Enterprise value - add investments	39,135
Net debt (2021F)	4,433
Minority interest	0
Equity value	34,701
# of shares (m)	1,559
Value/share (Bt)	**22**

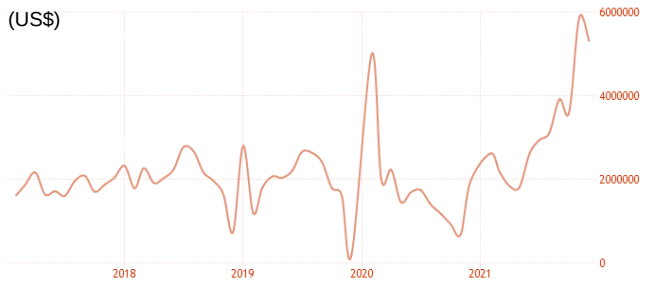
Source: Thanachart estimates

2) We expect freight rates to pick up soon

Second, we foresee factors to support the recovery of PSL's freight rate, which fell by 42% from its peak in 3Q21 and 28% YTD amid the low-season impact in 1Q and China factors (around 50% of dry bulk demand), such as the Evergrande debt crisis, the government's order to cut industrial production during the Beijing Winter Olympics in February, and its zero-COVID policy causing lockdowns in some parts of the country.

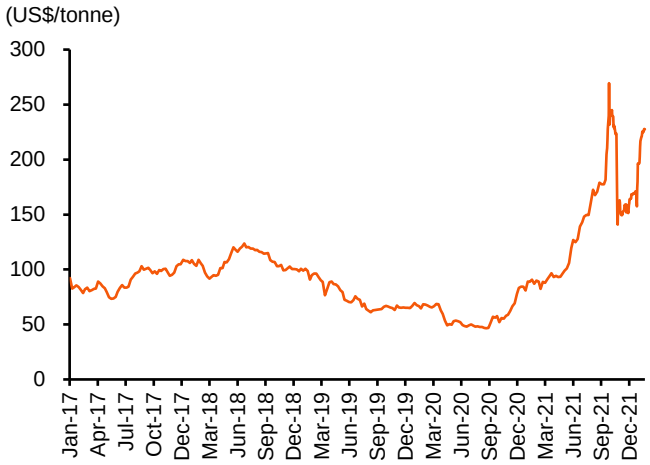
We see supporting factors not only coming from the soon-to-end Chinese New Year, but also the government's improving growth-oriented policies, including interest rate cuts and easing fiscal policies after seeing disappointing GDP. In fact, the recovery has started to materialize despite no impact from the government's support measures yet. Exhibits 8-17 show China's import volume of main dry-bulk products, e.g., coal, steel and main grains, remaining high while inventory is not high.

Ex 8:China's Coal Imports



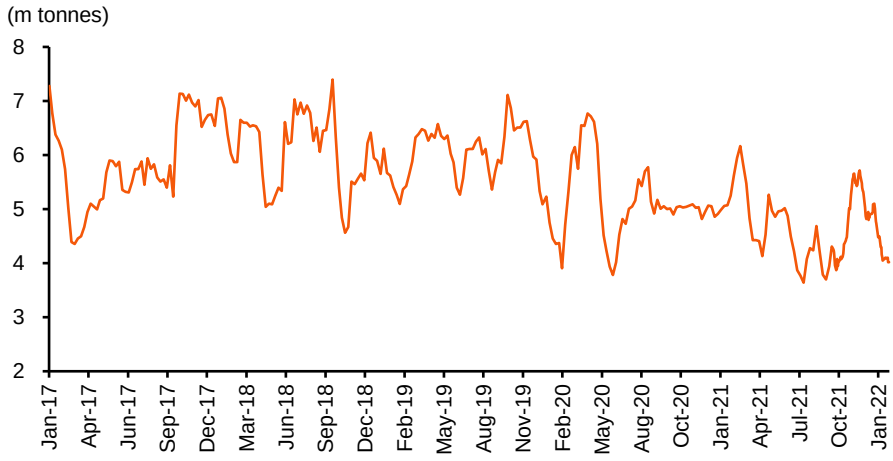
Source: Trading Economics

Ex 9: Coal Price



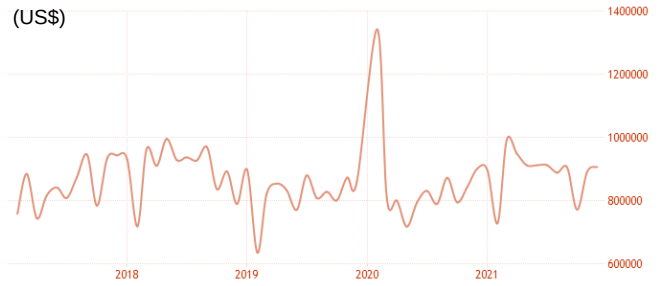
Source: Bloomberg

Ex 10: Coal Inventory



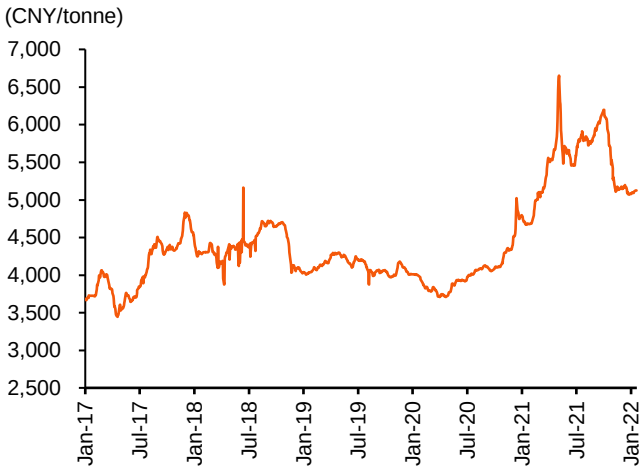
Source: Bloomberg

Ex 11: China's Steel Imports



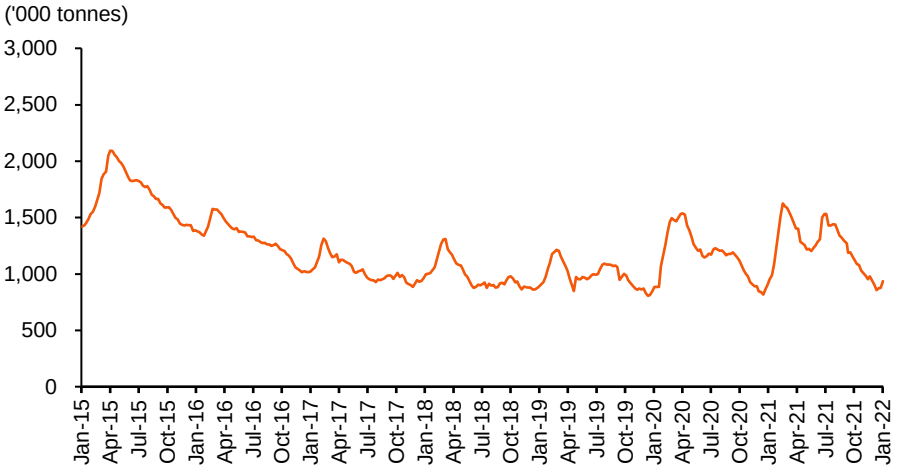
Source: Trading Economics

Ex 12: Steel Price



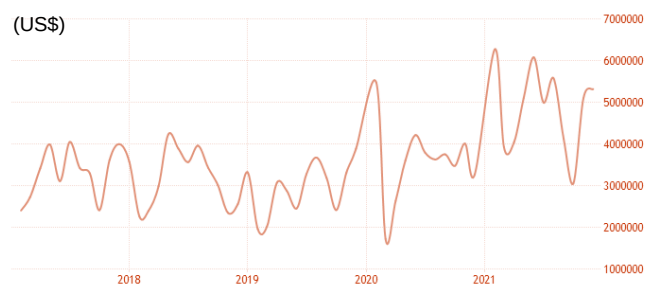
Source: Bloomberg

Ex 13: Steel Inventory



Source: Bloomberg

Ex 14: China's Soybean Imports



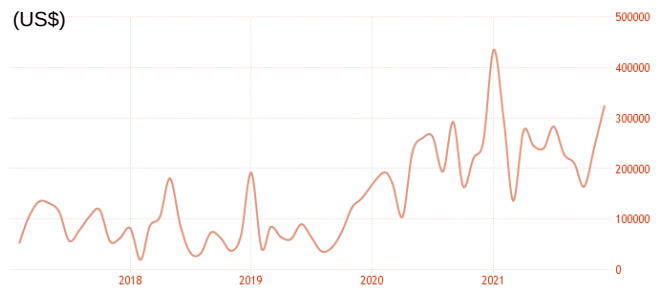
Source: Trading Economics

Ex 15: China's Soybean Price



Source: Trading Economics

Ex 16: China's Wheat Imports



Source: Trading Economics

Ex 17: China's Wheat Price



Source: Trading Economics

Exhibits 18-19 also show freight rates normally increased meaningfully in 2Q from those in 1Q.

Ex 18: Seasonal Pattern For Handysize…

	1Q	2Q	3Q	4Q
2016	3,408	4,794	5,786	6,988
2017	6,597	7,311	7,371	9,369
2018	8,480	8,784	8,265	9,264
2019	5,996	6,082	8,458	8,097
2020	4,516	3,212*	7,187	9,226
2021	14,362	20,455	30,169	28,372

Source: Bloomberg
Note: * A COVID lockdown quarter

Ex 19: …And For Supramax

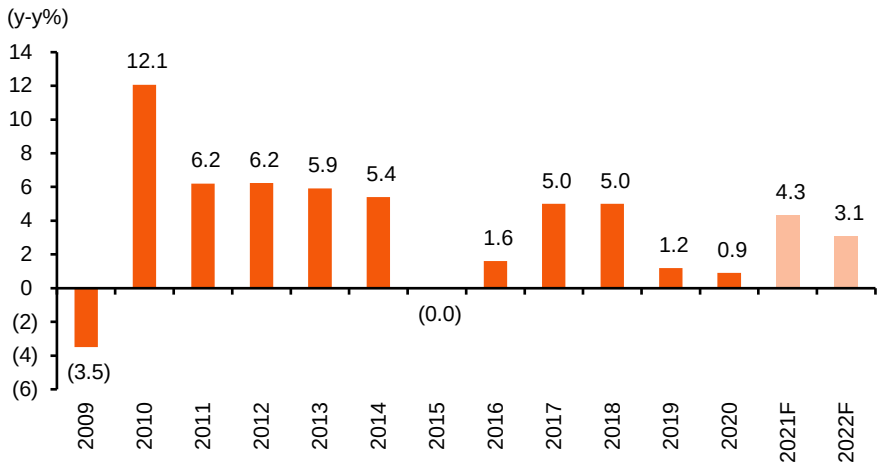
	1Q	2Q	3Q	4Q
2016	3,698	5,857	7,101	8,096
2017	8,041	8,852	9,558	10,998
2018	10,722	11,502	11,881	11,800
2019	7,899	8,483	12,577	10,582
2020	6,530	5,439*	9,945	10,778
2021	16,363	25,407	34,278	29,432

Source: Bloomberg
Note: * A COVID lockdown quarter

3) It remains in a weak supply driven cycle

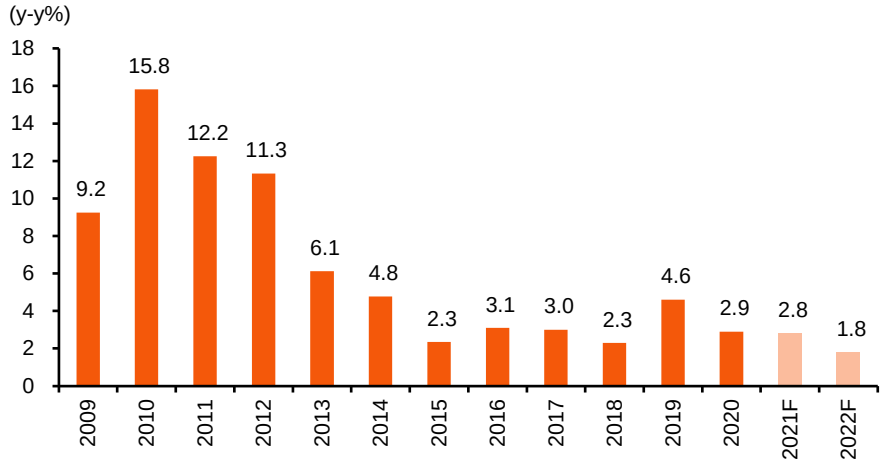
Third, we remain bullish on dry-bulk structural demand-supply dynamics. Although having been revised down by 0.3%, the global demand growth of dry bulk products is still projected by the shipping research house Clarksons to grow by 3.1% this year. This outstrips weak 1.8% new ship supply growth, implying the freight rate still has some way to go.

Ex 20: Dry Bulk Demand Vs…



Sources: Company data, Thanachart estimates

Ex 21: … Supply Growth



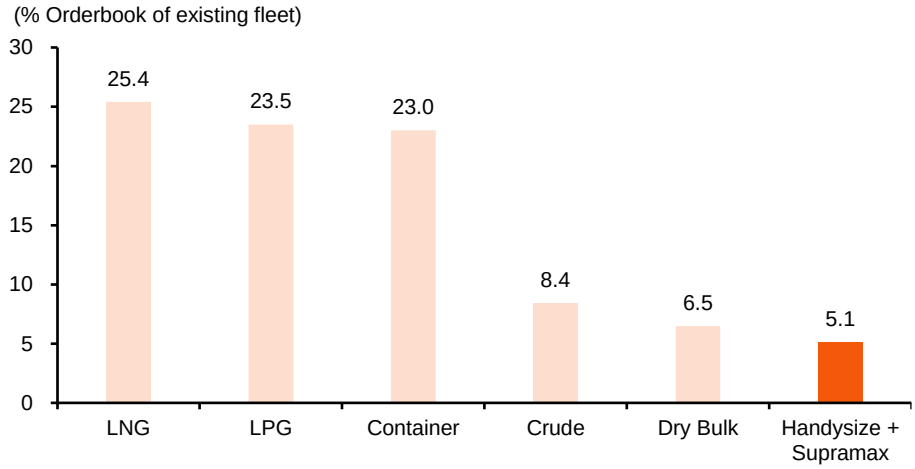
Sources: Company data, Thanachart estimates

It is worth noting that despite the freight rate having performed nicely since 2020, new dry-bulk ships orders remain very weak at around 2.0% of the existing fleet, on our estimate. As new ships take around two to three years to be delivered, we don't see a risk of excess supply. We believe weak new ship orders are because of:

1) The swift global turnaround and the corresponding freight rate increase since mid-2020 coming as a surprise to all shipping operators. And with the sharp fall in rates since 2H21, operators are cautious about the sustainability of the strong dry-bulk market going forward and are therefore reluctant to order new ships.

2) There is less capacity available at shipbuilding yards because of the overall shipping industry's long downturn since 2008 causing some of them to close down. Also, existing shipbuilders' capacity has already been taken up by orders from other ship types, e.g., container, gas carrier and tanker ships. We suspect the reason for those ships operators' strong orders for new ships is that they are facing more serious supply shortages than dry bulk operators such as PSL. Some of them, e.g., container ships, are enjoying higher freight rate increases and are therefore making more profits.

Ex 22: Weak Dry-Bulk Orders



Sources: Clarksons, Thanachart compilation

Note: The order book shown in this chart includes ships already delivered in 1H21 and ships scheduled to be delivered from 2H21 to 2023

Valuation Comparison

Ex 23: Comparison With Regional Peers

			EPS growth		—— PE ——		— P/BV —		—EV/EBITDA—		— Div yield —	
Name	**BBG code**	**Country**	**21F**	**22F**	**21F**	**22F**	**21F**	**22F**	**21F**	**22F**	**21F**	**22F**
			(%)	**(%)**	**(x)**	**(x)**	**(x)**	**(x)**	**(x)**	**(x)**	**(%)**	**(%)**
Evergreen Marine	2603 TT	Taiwan	794.4	(8.9)	2.5	2.7	1.8	1.3	1.9	1.9	15.0	17.3
Yang Ming Marine	2609 TT	Taiwan	931.4	(30.4)	2.1	3.1	1.6	1.1	1.2	1.5	0.0	15.9
Wan Hai Lines	2615 TT	Taiwan	800.8	(32.9)	3.5	5.3	4.8	1.5	na	na	na	na
COSCO Shipping Energy	1138 HK	Hong Kong	(81.4)	373.3	24.7	5.2	0.3	0.3	9.1	6.2	3.5	4.5
COSCO Shipping	1919 HK	Hong Kong	826.7	(14.3)	2.0	2.3	1.4	0.9	1.9	2.1	5.4	10.2
Pacific Basin Shipping	2343 HK	Hong Kong	na	5.3	3.0	2.8	1.3	1.1	3.2	3.0	18.7	20.6
Kawasaki Kisen Kaisha	9107 JP	Japan	322.4	(23.4)	1.4	1.9	1.0	0.6	18.5	8.5	4.9	8.4
Mitsui OSK Lines	9104 JP	Japan	498.4	(21.1)	2.0	2.5	1.0	0.7	14.7	14.1	10.5	8.9
Nippon Yusen KK	9101 JP	Japan	466.6	(24.8)	1.9	2.5	1.2	0.8	7.3	6.5	10.4	9.6
Korea Line	005880 KS	S. Korea	527.1	(46.6)	3.2	6.0	0.6	0.5	8.2	8.1	na	na
Thoresen Thai Agencies	TTA TB	Thailand	na	(40.1)	5.3	8.9	0.9	0.8	4.4	6.2	1.8	2.2
Prima Marine Pcl*	PRM TB	Thailand	18.7	17.9	7.7	6.5	1.6	1.4	6.0	5.3	5.8	6.9
Precious Shipping*	PSL TB	Thailand	na	2.8	6.8	6.6	1.8	1.4	5.5	4.5	0.0	0.0
Average			**510.5**	**12.1**	**5.1**	**4.3**	**1.5**	**1.0**	**6.8**	**5.7**	**6.9**	**9.5**

Source: Bloomberg

Note: * Thanachart estimates, using Thanachart normalized EPS

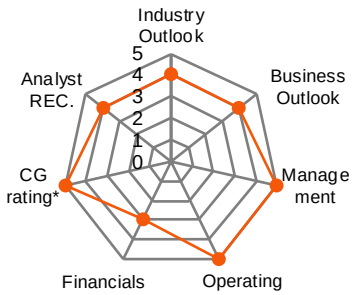
Based on 31-Jan-22 closing prices

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)	21.14	22.00	4%
Net profit 21F (Bt m)	3,970	3,620	9%
Net profit 22F (Bt m)	3,146	3,721	18%
Consensus REC	**BUY: 6**	**HOLD: 1**	**SELL: 1**

Sources: Bloomberg consensus, Thanachart estimates

HOW ARE WE DIFFERENT FROM THE STREET?

- Our earnings estimates for 2021-22F are 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.

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	7,944	8,251	7,983
Cost of sales	3,173	3,226	3,460	3,670	3,553
Gross profit	**979**	**504**	**4,484**	**4,581**	**4,429**
% gross margin	23.6%	13.5%	56.4%	55.5%	55.5%
Selling & administration expenses	547	345	334	348	344
Operating profit	**433**	**159**	**4,150**	**4,233**	**4,086**
% operating margin	10.4%	4.3%	52.2%	51.3%	51.2%
Depreciation & amortization	1,183	1,213	1,128	1,113	1,098
EBITDA	**1,616**	**1,372**	**5,278**	**5,346**	**5,184**
% EBITDA margin	38.9%	36.8%	66.4%	64.8%	64.9%
Non-operating income	31	9	18	47	75
Non-operating expenses	0	0	0	0	0
Interest expense	(703)	(597)	(558)	(568)	(583)
Pre-tax profit	**(240)**	**(429)**	**3,610**	**3,711**	**3,577**
Income tax	3	4	0	0	0
After-tax profit	**(243)**	**(433)**	**3,610**	**3,711**	**3,577**
% net margin	-5.8%	-11.6%	45.4%	45.0%	44.8%
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)**	**3,620**	**3,721**	**3,587**
Normalized profit	**(223)**	**(422)**	**3,620**	**3,721**	**3,587**
EPS (Bt)	(0.1)	(0.8)	2.3	2.4	2.3
Normalized EPS (Bt)	(0.1)	(0.3)	2.3	2.4	2.3

BALANCE SHEET

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
ASSETS:					
Current assets:	1,681	1,938	4,559	9,800	12,064
Cash & cash equivalent	1,181	1,100	3,500	8,700	11,000
Account receivables	183	169	359	373	361
Inventories	0	0	0	0	0
Others	317	669	700	727	703
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	519	539	522
Total assets	**25,061**	**21,397**	**23,466**	**27,914**	**29,362**
LIABILITIES:					
Current liabilities:	4,712	3,339	2,988	3,418	2,979
Account payables	528	277	297	315	305
Bank overdraft & ST loans	0	0	0	0	0
Current LT debt	4,085	2,436	1,928	2,014	1,764
Others current liabilities	99	627	763	1,089	910
Total LT debt	**8,577**	**7,586**	**6,005**	**6,273**	**5,494**
Others LT liabilities	46	171	365	379	366
Total liabilities	**13,502**	**11,263**	**9,711**	**10,437**	**9,195**
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**	**11,789**	**15,510**	**18,201**
Shareholders' equity	11,559	10,134	13,755	17,476	20,167
Liabilities & equity	**25,061**	**21,397**	**23,466**	**27,914**	**29,362**

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)	3,610	3,711	3,577
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)	(171)	4	2
Chg In other CA & CL / minorities	(426)	204	42	310	(146)
Cash flow from operations	**1,005**	**747**	**4,609**	**5,139**	**4,532**
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	179	8	(7)
Cash flow from investments	**1,124**	**1,957**	**(121)**	**(292)**	**(307)**
Debt financing	(1,882)	(2,655)	(2,088)	354	(1,028)
Capital increase	0	0	(0)	0	0
Dividends paid	0	0	0	0	(897)
Warrants & other surplus	(908)	(130)	0	0	0
Cash flow from financing	**(2,790)**	**(2,785)**	**(2,088)**	**354**	**(1,925)**
Free cash flow	**2,133**	**507**	**4,309**	**4,839**	**4,232**

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	6.8	6.6	6.8
Normalized PE - at target price (x)	na	na	9.5	9.2	9.6
PE (x)	na	na	6.8	6.6	6.8
PE - at target price (x)	na	na	9.5	9.2	9.6
EV/EBITDA (x)	22.3	24.3	5.5	4.5	4.0
EV/EBITDA - at target price (x)	28.3	31.5	7.3	6.3	5.9
P/BV (x)	2.1	2.4	1.8	1.4	1.2
P/BV - at target price (x)	3.0	3.4	2.5	2.0	1.7
P/CFO (x)	24.4	32.8	5.3	4.8	5.4
Price/sales (x)	5.9	6.6	3.1	3.0	3.1
Dividend yield (%)	0.0	0.0	0.0	0.0	7.3
FCF Yield (%)	8.7	2.1	17.6	19.8	17.3
(Bt)					
Normalized EPS	(0.1)	(0.3)	2.3	2.4	2.3
EPS	(0.1)	(0.8)	2.3	2.4	2.3
DPS	0.0	0.0	0.0	0.0	1.2
BV/share	7.4	6.5	8.8	11.2	12.9
CFO/share	0.6	0.5	3.0	3.3	2.9
FCF/share	1.4	0.3	2.8	3.1	2.7

Sources: Company data, Thanachart estimates

FINANCIAL RATIOS

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Growth Rate					
Sales (%)	(15.8)	(10.2)	113.0	3.9	(3.2)
Net profit (%)	na	na	na	2.8	(3.6)
EPS (%)	na	na	na	2.8	(3.6)
Normalized profit (%)	na	na	na	2.8	(3.6)
Normalized EPS (%)	na	na	na	2.8	(3.6)
Dividend payout ratio (%)	0.0	0.0	0.0	0.0	50.0
Operating performance					
Gross margin (%)	23.6	13.5	56.4	55.5	55.5
Operating margin (%)	10.4	4.3	52.2	51.3	51.2
EBITDA margin (%)	38.9	36.8	66.4	64.8	64.9
Net margin (%)	(5.8)	(11.6)	45.4	45.0	44.8
D/E (incl. minor) (x)	1.1	1.0	0.6	0.5	0.4
Net D/E (incl. minor) (x)	1.0	0.9	0.3	(0.0)	(0.2)
Interest coverage - EBIT (x)	0.6	0.3	7.4	7.5	7.0
Interest coverage - EBITDA (x)	2.3	2.3	9.5	9.4	8.9
ROA - using norm profit (%)	na	na	16.1	14.5	12.5
ROE - using norm profit (%)	na	na	30.3	23.8	19.1
DuPont					
ROE - using after tax profit (%)	na	na	30.2	23.8	19.0
- asset turnover (x)	0.2	0.2	0.4	0.3	0.3
- operating margin (%)	na	na	52.5	51.9	52.1
- leverage (x)	2.2	2.1	1.9	1.6	1.5
- interest burden (%)	(51.8)	(254.6)	86.6	86.7	86.0
- 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	21.8	23.3	23.9
NOPAT (Bt m)	433	159	4,150	4,233	4,086

Sources: Company data, Thanachart estimates

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Thanachart Securities Pcl.

Research Team

19 Floor, MBK Tower

444 Phayathai Road, Pathumwan Road, Bangkok 10330

Tel: 662 - 779-9119

Email: thanachart.res@thanachartsec.co.th

Pimpaka Nichgaroon, CFA
Head of Research
Tel: 662-779-9199
pimpaka.nic@thanachartsec.co.th

Pattarawan Wangmingmat
Senior Technical Analyst
Tel: 662-779-9105
pattarawan.wan@thanachartsec.co.th

Phannarai Tiyapittayarut
Property, Retail
Tel: 662-779-9109
phannarai.von@thanachartsec.co.th

Sarachada Sornsong
Bank, Finance, Insurance
Tel: 662-779-9106
sarachada.sor@thanachartsec.co.th

Witchanan Tambamroong
Technical Analyst
Tel: 662-779-9123
witchanan.tam@thanachartsec.co.th

Adisak Phupiphathirungul, CFA
Retail Market Strategy
Tel: 662-779-9120
adisak.phu@thanachartsec.co.th

Nuttapop Prasitsuksant
Telecom, Utilities
Tel: 662-483-8296
nuttapop.pra@thanachartsec.co.th

Rata Limsuthiwanpoom
Auto, Industrial Estate, Media, Prop. Fund
Tel: 662-483-8297
rata.lim@thanachartsec.co.th

Siriporn Arunothai
Small Cap, Healthcare, Hotel
Tel: 662-779-9113
siriporn.aru@thanachartsec.co.th

Sittichet Rungrassameephat
Analyst, Quantitative
Tel: 662-483-8303
sittichet.run@thanachartsec.co.th

Chak Reungsinpinya
Thematic Research, Paper
Tel: 662-779-9104
chak.reu@thanachartsec.co.th

Pattadol Bunnak
Electronics, Food & Beverage, Shipping
Tel: 662-483-8298
pattadol.bun@thanachartsec.co.th

Saksid Phadthananarak
Construction, Transportation
Tel: 662-779-9112
saksid.pha@thanachartsec.co.th

Yupapan Polpornprasert
Energy, Petrochemical
Tel: 662-779-9110
yupapan.pol@thanachartsec.co.th

Thaloengsak Kucharoenpaisan
Analyst, Retail Market
Tel: 662-483-8304
thaloengsak.kuc@thanachartsec.co.th