Small Cap Research

BUY (Unchanged) | **TP: Bt 9.00** (From: Bt 14.10)

Change in Numbers | **Upside : 71.4%** | **7 JULY 2022**

Prima Marine Pcl (PRM TB)

Bottoming out


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Thanachart Securities

We maintain our BUY call on PRM but cut our TP to Bt9.0 from Bt14.1. We see PRM as a bottom-fishing opportunity as its valuation looks attractive to us on 1.3x 2023F P/BV (vs. its 2.3x average over the past four years). We believe earnings have also bottomed and we expect an improvement from 2H22F onwards.

Cutting earnings but rock-bottom valuation

We think the worst is over for PRM and expect an improvement from 2H22F onwards. While we have significantly downgraded our earnings and TP (see Exhibit 5) due to the deterioration in the FSU business since we last updated our numbers last year, we maintain our BUY call as wee its valuation as compelling. The stock is trading at just 1.3x P/BV, which is well below its historical average of about 2.3x. What's more, the share price has de-rated despite the recent rallies in vessel prices. This means that, from an NAV perspective, PRM's stock has been trading in the opposite direction to its underlying asset value. Given that we believe time charter rates for tankers have bottomed and that earnings will pick up in 2H22F and 2023F, we think the current share price represents an attractive opportunity to get in.

FSU unit stabilized

PRM's core business, floating storage units or FSUs, has come under intense pressure for time-charter rates given the knock-on impact from the very poor environment for oil tankers globally. Still, we think this business has already seen the bottom and we expect rates to stabilize and increase marginally over the next few years. In fact, the global VLCC fleet could potentially shrink in 2022-23F. This bodes well for the daily rate which could offer upside to our revised, more conservative forecasts.

New VLCCs add to 2H22F growth

PRM is expanding its fleet of very large crude carriers (VLCCs) to service Thai Oil Pcl (TOP TB, HOLD, Bt51.00, covered by Yupapan Polpornprasert). We believe most of the growth will be seen in 2H22F when two vessels should be fully operational with a third vessel due to join the fleet in 4Q22. We see this as a high-quality growth driver given stable, long-term contracts. Given TOP's capacity expansion, we believe PRM may have opportunities to further expand its fleet in the future.

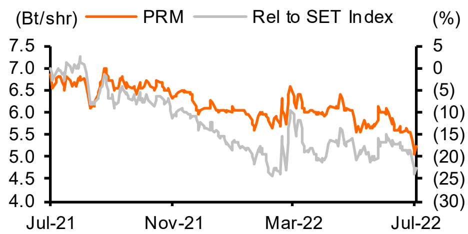
Chemical tankers & offshore key growth drivers

In the medium term, we expect most of the growth to come from chemical tankers and offshore service vessels. PRM's management sees growth opportunities in Thailand's chemical exports given various capacity expansions being undertaken by PTT-group companies. We expect 34% and 13% gross profit growth for this small-vessel segment (grouped under "domestic tankers") in 2022-23F. The offshore segment is also benefiting from high oil prices and increased E&P activities in Thailand. This would help drive a sharp recovery of the offshore GP with growth of 61% and 14% in 2022-23F.

COMPANY VALUATION

Y/E Dec (Bt m)	2021A	2022F	2023F	2024F
Sales	5,880	5,745	6,453	7,297
Net profit	1,403	1,191	1,323	1,502
Consensus NP	—	1,099	1,268	1,371
Diff frm cons (%)	—	*8.4*	*4.3*	*9.6*
Norm profit	1,060	1,191	1,323	1,502
Prev. Norm profit	—	2,259	2,539	2,904
Chg frm prev (%)	—	*(47.3)*	*(47.9)*	*(48.3)*
Norm EPS (Bt)	0.4	0.5	0.5	0.6
Norm EPS grw (%)	(33.7)	12.4	11.1	13.6
Norm PE (x)	12.4	11.0	9.9	8.7
EV/EBITDA (x)	7.0	6.8	6.7	5.7
P/BV (x)	1.5	1.4	1.3	1.2
Div yield (%)	5.0	4.1	4.5	5.2
ROE (%)	12.7	13.1	13.6	14.2
Net D/E (%)	30.1	40.8	60.4	46.9

PRICE PERFORMANCE



COMPANY INFORMATION

Price *as of* 7-Jul-22 (Bt)	5.25
Market Cap (US$ m)	363.12
Listed Shares (m shares)	2,500.00
Free Float (%)	45.16
Avg Daily Turnover (US$ m)	1.18
12M Price H/L (Bt)	7.00/5.05
Sector	TRANS
Major Shareholder	Nathalin Co., Ltd. 54.20%

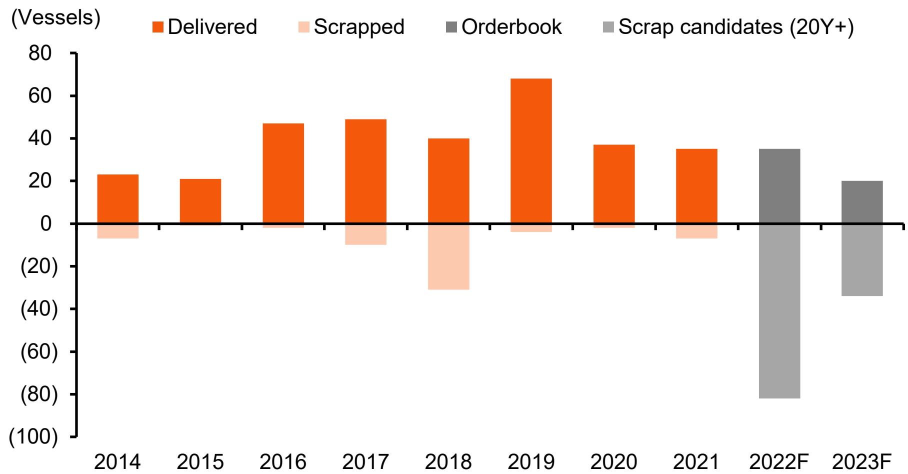
Sources: Bloomberg, Company data, Thanachart estimates

We think the worst is over for Prima Marine Pcl (PRM) and we expect an improvement from 2H22F onwards. FSU rates have already come down and stabilized while other units are seeing strong improvements. In particular, the domestic tanker segment (which also includes chemical tankers) and offshore support vessels are likely to be the key drivers over the medium term.

Bottoming VLCC rates globally bode well for PRM's FSU business

For FSU, we expect the segment to track improvements in the global VLCC market. On that front, we believe the supply outlook bodes well for improving VLCC time charter rates. Deliveries in 2022F look likely to stay flat y-y at about 35 vessels while potential scrap candidates amount to as many as 82 vessels. In fact, the total tanker fleet already began shrinking in 1Q22 and we believe this trend will likely continue. In 2023F, deliveries are down to only about 20 vessels whereas ships reaching 20 years old or more will come to more than 30 vessels. Again, this bodes well for the supply outlook longer term.

Ex 1: VLCC Supply Outlook

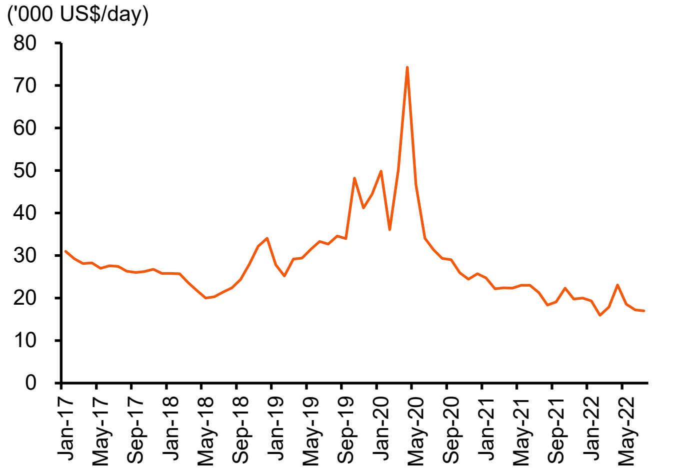


Source: Frontline

Global VLCC fleet could shrink this year

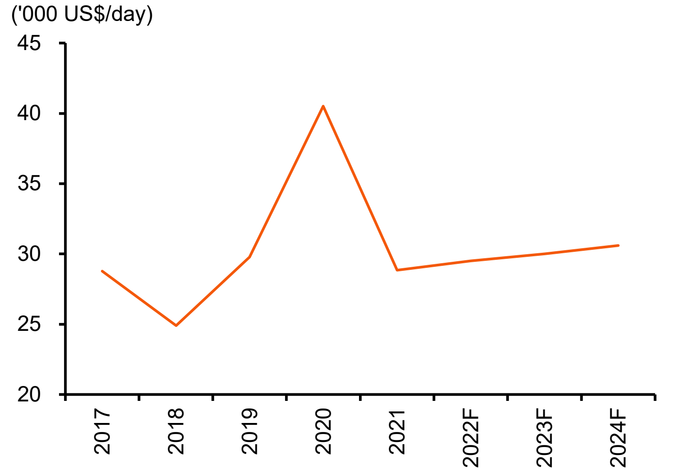
For PRM, the improving VLCC rates globally could support its FSU rates at the current level. There is potential scope for a marginal rate increase, however, if scrap rates for VLCCs accelerate in the second half of this year and into next year. For now, we only estimate a very slight uptick in FSU rates from about $29.5k this year to $30k and $30.6k in 2023-24F, respectively. Note that these are still relatively decent levels, though well short of our prior expectation ($42k previous assumption for these three years) and significantly down from levels in 2020. We have also cut our forecast for fleet growth to reflect PRM's current fleet outlook. As such, from our previous expectation of an FSU fleet expansion, we now expect the fleet to remain relatively flat at six vessels for the foreseeable future.

Ex 2: Global 1Y VLCC TCE rate



Sources: Company data, Thanachart

Ex 3: Our Estimates Of PRM's FSU Daily Earnings

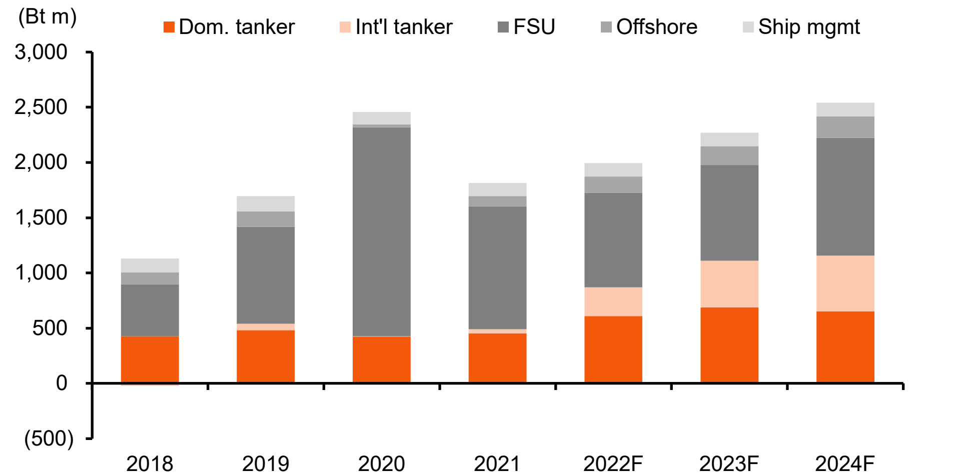


Sources: Company data, Thanachart estimates

Offsetting weaker FSU earnings are the strong improvement in domestic tanker demand, the growth in the VLCC business, and the sharp recovery in the offshore service segment. However, these units are smaller than FSUs and their improvements are not enough to offset the declines in FSUs relative to our previous forecasts.

Strong domestic tankers and offshore units help to offset weaker FSU earnings

Ex 4: PRM's Gross Profit Breakdown



Sources: Company data, Thanachart estimates

Exhibit 5 below summarizes our earnings and TP revisions.

Ex 5: Our Earnings And TP Revisions For PRM

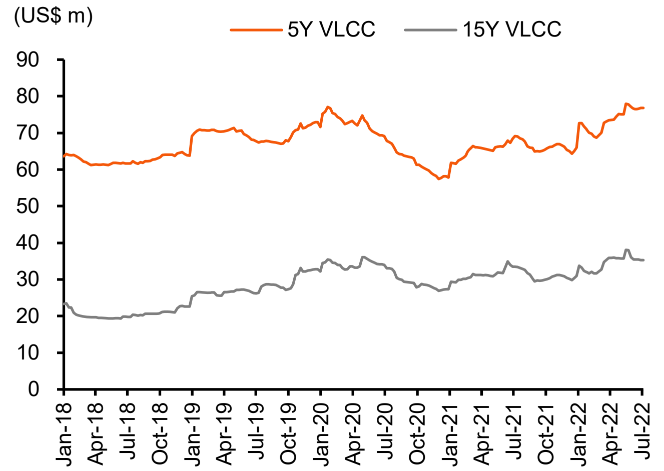
(Bt/shr)	Norm EPS						TP
	2019	2020	2021	2022F	2023F	2024F	
New/actual	0.39	0.64	0.42	0.48	0.53	0.60	9.00
Old				0.90	1.02	1.16	14.10
Change (%)				*(47.3)*	*(47.9)*	*(48.3)*	*(36.2)*

Sources: Company data, Thanachart estimates

Valuation looks to be at rock-bottom, in our view

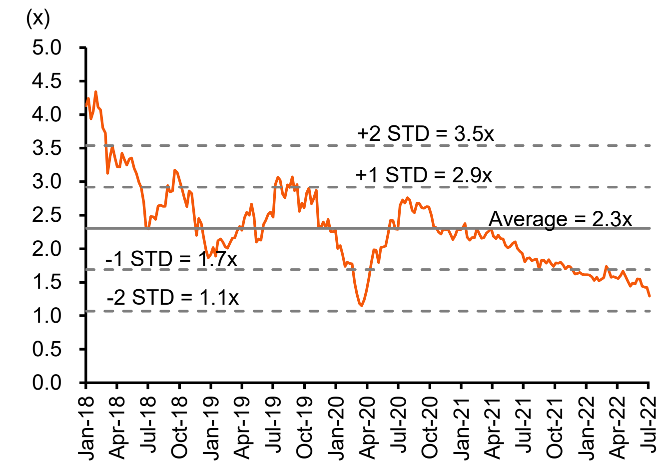
Despite the downward revisions to our earnings and TP, we view PRM's current valuation as compelling and maintain our BUY rating. The stock is trading at just 1.3x P/BV, which is well below its historical average of about 2.3x. What's more, the share price has de-rated despite the recent rallies in vessel prices (likely due to sharp increases in steel prices and limited capacity at shipyards for newbuilds). This means that from an NAV perspective, PRM's stock has been trading in the opposite direction to its underlying asset value. Since we believe time charter rates for tankers have bottomed and that earnings will pick up in 2H22F and 2023F, we think the current share price represents an attractive opportunity to get into the stock.

Ex 6: Vessel Values Nearing Recent Highs In 2020



Sources: Company data, Thanachart

Ex 7: PRM's Forward P/BV



Sources:Bloomberg, Thanachart estimates

Ex 8: 12-month DCF-based TP Calculation, Using A Base Year Of 2023F

(Bt m)	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F	Terminal value
EBITDA & equity income	2,806	3,114	3,211	3,353	3,521	3,674	3,818	3,964	4,115	4,272	4,434	
Free cash flow *	(1,445)	1,818	1,886	2,029	2,157	2,093	2,201	2,310	2,422	2,538	2,658	37,363
PV of free cash flow	(1,445)	1,674	1,598	1,583	1,532	1,364	1,317	1,269	1,221	1,174	1,096	15,407

Risk-free rate (%)	2.5
Market risk premium (%)	8.0
Beta	1.1
WACC (%)	8.6
Terminal growth (%)	2.0
Enterprise value - add investments	29,235
Net debt	6,379
Minority interest	431
Equity value	22,425
# of shares (m)	2,500
Equity value/share (Bt)	**8.97**

Sources: Company data, Thanachart estimates

Valuation Comparison

Ex 9: Comparison With Regional Peers

Name	BBG code	Country	EPS growth 22F (%)	EPS growth 23F (%)	PE 22F (x)	PE 23F (x)	P/BV 22F (x)	P/BV 23F (x)	EV/EBITDA 22F (x)	EV/EBITDA 23F (x)	Div yield 22F (%)	Div yield 23F (%)
U-Ming Marine Transport	2606 TT	Taiwan	na	(2.0)	6.0	6.1	1.1	1.1	6.1	5.6	na	10.3
Evergreen Marine Corp TW	2603 TT	Taiwan	38.5	(48.7)	1.4	2.7	0.8	0.9	0.7	1.4	19.3	30.1
Sincere Navigation	2605 TT	Taiwan	(44.2)	na	30.4	na	na	na	na	na	4.9	na
Yang Ming Marine Transport	2609 TT	Taiwan	22.1	(38.8)	1.5	2.4	0.8	0.8	0.2	0.3	0.0	30.6
Wan Hai Lines Ltd	2615 TT	Taiwan	23.2	(40.3)	2.2	3.8	1.1	1.2	1.0	1.6	na	17.5
China Shipping Dev	1138 HK	HK	168.0	129.6	16.7	7.3	0.7	0.7	11.5	8.2	2.0	2.2
Orient Oversea International	316 HK	HK	33.4	(43.5)	15.6	27.6	10.6	8.8	1.4	2.6	2.6	3.4
China COSCO Holding	1919 HK	HK	17.6	(54.3)	1.7	3.8	0.8	0.7	0.9	1.8	4.9	10.7
Pacific Basin Shipping Ltd	2343 HK	HK	9.8	(9.5)	17.9	19.8	7.1	6.2	2.1	2.1	2.6	3.1
Kawasaki Kisen Kaisha Ltd	9107 JP	Japan	na	25.8	1.3	1.0	1.0	0.5	15.9	11.9	0.0	5.6
Mitsui OSK Lines Ltd	9104 JP	Japan	na	5.7	1.7	1.6	0.9	0.6	13.3	13.7	1.2	12.2
Nippon Yusen KK	9101 JP	Japan	na	(6.4)	1.6	1.7	1.1	0.6	5.8	6.5	1.5	13.8
Korea Line Corp	005880 KS	S.Korea	(0.4)	(6.1)	3.2	3.4	0.5	0.4	6.9	6.6	na	na
Cosco Corp Singapore Ltd	COS SP	Singapore	na	0.0	31.2	31.2	0.7	0.7	10.6	10.1	na	32.1
Prima Marine Pcl	PRM TB *	Thailand	12.4	11.1	11.0	9.9	1.4	1.3	6.8	6.7	4.1	4.5
Precious Shipping Pcl	PSL TB *	Thailand	15.0	(2.0)	5.6	5.7	1.7	1.5	4.7	4.5	9.3	9.1
Average			**26.9**	**(5.3)**	**9.3**	**8.5**	**2.0**	**1.7**	**5.9**	**5.6**	**4.4**	**13.2**

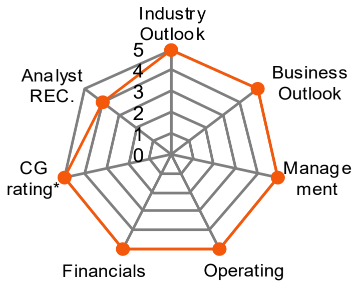
Source: Bloomberg
Note: * Thanachart estimates, using Thanachart normalized EPS
Based on 7 July 2022 closing prices

COMPANY DESCRIPTION

Prima Marine (PRM) engages in the transportation and floating storage of oil products. The company owns a fleet of over 40 oil tankers, ranging from the small 3,000dwt domestic tankers to the largest VLCCs (270,000dwt or more). PRM divides its businesses into five groups: domestic tanker, international tanker, FSU (VLCCs used as floating storage units), offshore support, and ship management. Of the five units, FSU is the biggest profit contributor (72% of 2020F GP) followed by domestic tankers (15% of 2020F GP).

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

- A well-diversified fleet of oil tankers, catering to both domestic and international customers.
- PRM is the biggest domestic tanker owner and accounts for as much as 50% of total waterborne oil product transportation in Thailand.

W — Weakness

- PRM relies heavily on its FSU (VLCC fleet) to generate the bulk of its profit, though we note that by the standard of VLCC owners, PRM's earnings are much less volatile as it fixes most of its ships on long-term time charters.
- Tanker operators generally have high fixed costs and little room to manage earnings when time charter rates decline.

O — Opportunity

- The IMO-2020 regulation has created significant requirements for storage, transportation, and blending capabilities. We see significant growth opportunities for PRM as this is the segment in which it specializes.

T — Threat

- The tanker market generally has low barrier to entry. However, as PRM caters to a very specific segment and its customers have proven to be highly loyal, we think the company has a relative edge over competitors.

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	7.72	9.00	17%
Net profit 22F (Bt m)	1,099	1,191	8%
Net profit 23F (Bt m)	1,268	1,323	4%
Consensus REC	**BUY: 6**	**HOLD: 1**	**SELL: 0**

HOW ARE WE DIFFERENT FROM THE STREET?

- Our 2022F earnings are 17% above the Bloomberg consensus likely due to us having a more positive view on domestic tankers and offshore units. However, we are slightly below the consensus in 2023F.
- Our DCF-based TP is higher than the Street's, likely as we are more positive on PRN's long-term growth outlook

Sources: Bloomberg consensus, Thanachart estimates

RISKS TO OUR INVESTMENT CASE

- Lower-than-expected time charter rates or slower-than-expected fleet growth would negatively impact PRM's FSU and the international tanker businesses.
- Weaker-than-expected domestic oil product demand would negatively impact its domestic oil transport volume.
- A prolonged low oil price environment could lead to a severe earnings decline for its offshore support unit.

Source: Thanachart

We expect a core profit improvement in 2022-23F

INCOME STATEMENT

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Sales	5,926	5,880	5,745	6,453	7,297
Cost of sales	3,398	4,067	3,751	4,183	4,754
Gross profit	**2,527**	**1,813**	**1,994**	**2,269**	**2,543**
% gross margin	42.7%	30.8%	34.7%	35.2%	34.8%
Selling & administration expenses	486	498	479	506	541
Operating profit	**2,042**	**1,315**	**1,515**	**1,763**	**2,002**
% operating margin	34.5%	22.4%	26.4%	27.3%	27.4%
Depreciation & amortization	735	953	1,003	1,160	1,244
EBITDA	**2,777**	**2,268**	**2,518**	**2,923**	**3,246**
% EBITDA margin	46.9%	38.6%	43.8%	45.3%	44.5%
Non-operating income	56	143	100	102	104
Non-operating expenses	0	0	0	0	0
Interest expense	(214)	(249)	(272)	(347)	(390)
Pre-tax profit	**1,883**	**1,210**	**1,343**	**1,517**	**1,716**
Income tax	191	134	134	152	172
After-tax profit	**1,692**	**1,076**	**1,209**	**1,366**	**1,544**
% net margin	28.5%	18.3%	21.0%	21.2%	21.2%
Shares in affiliates' Earnings	90	27	86	72	89
Minority interests	(169)	(124)	(104)	(115)	(131)
Extraordinary items	(80)	424	0	0	0
NET PROFIT	**1,533**	**1,403**	**1,191**	**1,323**	**1,502**
Normalized profit	**1,598**	**1,060**	**1,191**	**1,323**	**1,502**
EPS (Bt)	0.6	0.6	0.5	0.5	0.6
Normalized EPS (Bt)	0.6	0.4	0.5	0.5	0.6

Balance sheet remains strong despite fleet expansion

BALANCE SHEET

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
ASSETS:					
Current assets:	2,754	3,615	3,523	3,956	4,474
Cash & cash equivalent	2,219	2,612	2,552	2,866	3,241
Account receivables	364	741	724	813	920
Inventories	163	166	153	171	194
Others	7	96	94	106	119
Investments & loans	673	458	458	458	458
Net fixed assets	8,853	9,606	11,601	14,723	14,806
Other assets	1,364	3,670	3,869	4,052	4,221
Total assets	**13,643**	**17,349**	**19,451**	**23,189**	**23,959**
LIABILITIES:					
Current liabilities:	2,093	2,595	1,351	1,577	1,712
Account payables	661	890	821	916	1,041
Bank overdraft & ST loans	0	0	328	462	433
Current LT debt	1,172	1,385	0	0	0
Others current liabilities	260	320	202	198	238
Total LT debt	**2,998**	**3,968**	**6,228**	**8,783**	**8,231**
Others LT liabilities	229	1,676	2,060	2,260	2,449
Total liabilities	**5,319**	**8,239**	**9,639**	**12,620**	**12,392**
Minority interest	468	327	431	431	561
Preferreds shares	0	0	0	0	0
Paid-up capital	2,500	2,500	2,500	2,500	2,500
Share premium	3,407	3,407	3,407	3,407	3,407
Warrants	0	0	0	0	0
Surplus	(651)	(233)	(233)	(233)	(233)
Retained earnings	**2,600**	**3,109**	**3,707**	**4,464**	**5,331**
Shareholders' equity	7,856	8,783	9,381	10,138	11,005
Liabilities & equity	**13,643**	**17,349**	**19,451**	**23,189**	**23,959**

Sources: Company data, Thanachart estimates

PRM generates high cash flows from operation which it reinvests in fleet expansion

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Earnings before tax	1,883	1,210	1,343	1,517	1,716
Tax paid	(68)	(250)	(80)	(167)	(138)
Depreciation & amortization	735	953	1,003	1,160	1,244
Chg In w orking capital	272	(150)	(39)	(12)	(5)
Chg In other CA & CL / minorities	(10)	(111)	(84)	(43)	81
Cash flow from operations	**2,813**	**1,652**	**2,143**	**2,456**	**2,897**
Capex	(50)	(1,706)	(2,897)	(4,165)	(1,195)
Right of use	(147)	(1,589)	(300)	(300)	(300)
ST loans & investments	88	0	0	0	0
LT loans & investments	(28)	215	0	0	0
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	(199)	1,144	384	200	189
Cash flow from investments	**(336)**	**(1,936)**	**(2,813)**	**(4,265)**	**(1,306)**
Debt financing	(607)	1,153	1,203	2,689	(581)
Capital increase	0	0	0	0	0
Dividends paid	(525)	(650)	(593)	(566)	(636)
Warrants & other surplus	(67)	174	0	0	0
Cash flow from financing	**(1,199)**	**677**	**610**	**2,124**	**(1,216)**
Free cash flow	**2,763**	**(54)**	**(754)**	**(1,709)**	**1,703**

Valuation looks attractive to us at 1.3x 2023F P/BV vs. 4-year average of 2.3x

VALUATION

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Normalized PE (x)	8.2	12.4	11.0	9.9	8.7
Normalized PE - at target price (x)	14.1	21.2	18.9	17.0	15.0
PE (x)	8.6	9.4	11.0	9.9	8.7
PE - at target price (x)	14.7	16.0	18.9	17.0	15.0
EV/EBITDA (x)	5.4	7.0	6.8	6.7	5.7
EV/EBITDA - at target price (x)	8.8	11.1	10.5	9.9	8.6
P/BV (x)	1.7	1.5	1.4	1.3	1.2
P/BV - at target price (x)	2.9	2.6	2.4	2.2	2.0
P/CFO (x)	4.7	7.9	6.1	5.3	4.5
Price/sales (x)	2.2	2.2	2.3	2.0	1.8
Dividend yield (%)	4.8	5.0	4.1	4.5	5.2
FCF Yield (%)	21.1	(0.4)	(5.7)	(13.0)	13.0
(Bt)					
Normalized EPS	0.6	0.4	0.5	0.5	0.6
EPS	0.6	0.6	0.5	0.5	0.6
DPS	0.3	0.3	0.2	0.2	0.3
BV/share	3.1	3.5	3.8	4.1	4.4
CFO/share	1.1	0.7	0.9	1.0	1.2
FCF/share	1.1	(0.0)	(0.3)	(0.7)	0.7

Sources: Company data, Thanachart estimates

PRM manages to generate double-digit ROE, outperforming other tanker companies

FINANCIAL RATIOS

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Growth Rate					
Sales (%)	10.8	(0.8)	(2.3)	12.3	13.1
Net profit (%)	49.8	(8.5)	(15.1)	11.1	13.6
EPS (%)	49.8	(8.5)	(15.1)	11.1	13.6
Normalized profit (%)	62.3	(33.7)	12.4	11.1	13.6
Normalized EPS (%)	62.3	(33.7)	12.4	11.1	13.6
Dividend payout ratio (%)	40.8	46.3	45.0	45.0	45.0
Operating performance					
Gross margin (%)	42.7	30.8	34.7	35.2	34.8
Operating margin (%)	34.5	22.4	26.4	27.3	27.4
EBITDA margin (%)	46.9	38.6	43.8	45.3	44.5
Net margin (%)	28.5	18.3	21.0	21.2	21.2
D/E (incl. minor) (x)	0.5	0.6	0.7	0.9	0.7
Net D/E (incl. minor) (x)	0.2	0.3	0.4	0.6	0.5
Interest coverage - EBIT (x)	9.5	5.3	5.6	5.1	5.1
Interest coverage - EBITDA (x)	13.0	9.1	9.3	8.4	8.3
ROA - using norm profit (%)	12.0	6.8	6.5	6.2	6.4
ROE - using norm profit (%)	21.6	12.7	13.1	13.6	14.2
DuPont					
ROE - using after tax profit (%)	22.9	12.9	13.3	14.0	14.6
- asset turnover (x)	0.4	0.4	0.3	0.3	0.3
- operating margin (%)	35.4	24.8	28.1	28.9	28.9
- leverage (x)	1.8	1.9	2.0	2.2	2.2
- interest burden (%)	89.8	82.9	83.2	81.4	81.5
- tax burden (%)	89.8	88.9	90.0	90.0	90.0
WACC (%)	8.6	8.6	8.6	8.6	8.6
ROIC (%)	17.1	11.9	11.8	11.9	10.9
NOPAT (Bt m)	1,834	1,170	1,364	1,587	1,802
invested capital (Bt m)	9,807	11,524	13,385	16,518	16,428

Sources: Company data, Thanachart estimates

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For sectors, an “Overweight” sector weighting is used when we have BUYs on majority of the stocks under our coverage by market cap. “Underweight” is used when we have SELLs on majority of the stocks we cover by market cap. “Neutral” is used when there are relatively equal weightings of BUYs and SELLs.

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