



Company Update

Precious Shipping Plc. (PSL)

Transport & Logistics

Overview unchanged

Outperform

(20E TP Bt9.50)

Close Bt8.40



	FY19	FY20
Consensus EPS (Bt)	0.067	0.438
KT ZMICO vs. consensus	34.3%	-58.9%

Share data

Reuters / Bloomberg	PSL.BK/PSL TB
Paid-up Shares (m)	1,559.29
Par (Bt)	1.00
Market cap (Bt bn / US\$ m)	13.00/428.00
Foreign limit / actual (%)	49.00/28.38
52 week High / Low (Bt)	14.00/6.25
Avg. daily T/O (shares 000)	6,109.00
NVDR (%)	4.39
Estimated free float (%)	46.85
Beta	1.65
URL	www.preciousshipping.com
CGR	

Anti-corruption

Level 2 (Declared)

Note: An executive of KT ZMICO Securities is also a member of PSL's board.

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Expect seasonal pickup of the BDI

Switch to Outperform with 2020E TP of Bt9.50

We decided to raise PSL's rating to Outperform (from Underperform) given the expected increase of the BDI and PSL's earnings performance in 2H19E in accordance with the seasonal pattern. We also rolled over PSL's target price to the 2020E performance at Bt9.50 (vs. the 2019E TP of Bt8.20), pegged at P/BV of 1.1x, +0.5 S.D. from the historical average. Although the bulk ship industry may be a beneficiary of the IMO2020 regulations, the BDI and PSL's performance in 2020E remain vulnerable to the uncertainty regarding the trade war and the weak global economy.

BDI to improve in 2H19E thanks in part to seasonality

The BDI has continued to increase to 1,887 points (+17% YoY, +90% QoQ) in 3Q19 (QTD), still mainly owing to the improvement of the Capesize Index to 3,579 points in 3Q19 (QTD), vs. 1,310 points in 2Q19, given the resumption of Vale's Brucutu iron ore mine operations in June after having been suspended since February for wet operations after the tailings dam collapse. Meanwhile, despite the negative impact from the ongoing trade war, China's import demand for commodity products still expanded in July, especially for iron ore (+1%, vs. negative growth since April), coal (+13%, vs. +6% in June) and soybeans (+8%, vs. negative growth in May-June, partly due to import tariffs imposed by the US). This, along with the seasonal pattern, i.e., the grain export season that started in August and rising coal demand in the winter season, causes us to expect the BDI to continue improving in 2H19E.

Dry-bulk industry to be a potential beneficiary of IMO2020

PSL expects dry-bulk ship supply to grow by 3.5% and 3.1% in 2019-20E, based on projected scrap volume of 12mn DWT (vs. 5mn DWT in 7M19). However, the growth of the dry-bulk fleet in 2020E may be lower than PSL's expectation due to the positive impact from the forthcoming IMO2020 regulations for global sulphur, specifically those pertaining to scrubber retrofit times, slower operating speeds and increased recycling. Meanwhile, demand for dry bulk is expected to slow to +1% and +2.5% in 2019-20E (vs. +2.2% in 2018), based on TTA's information. Hence, the dry-bulk industry will still see an oversupply situation in 2020E.

Keep earnings projections unchanged

Since the long-term trend of the dry-bulk industry remains uncertain, we decide to maintain our conservative net profit forecasts of Bt146mn and Bt285mn in 2019-20E for PSL, based on average TC rate assumptions of USD10,300 (-7% YoY) and USD10,700 (+4% YoY) in 2019-20E (in 1H19, PSL's average TC rate stood at USD9,113). We also maintain our BDI forecasts of 1,136 points (-16%) and 1,180 points (+4%) in 2019-20E.

Financial Valuations

FY Ended 31 Dec	2017	2018	2019E	2020E	2021E
Revenues (Btmn)	4,333	4,933	4,508	4,659	4,871
Core profit (Btmn)	(51)	462	146	285	469
Net profit (Btmn)	(129)	456	146	285	469
Core EPS (Bt)	(0.03)	0.30	0.09	0.18	0.30
Core EPS growth (%)	NM	NM	(68.44)	95.82	64.29
Dividend (Bt)	0.00	0.00	0.00	0.13	0.21
BV (Bt)	7.91	8.14	8.24	8.29	8.38
PER (x)	NM	28.38	89.64	45.99	27.93
EV/EBITDA (x)	13.97	10.69	11.77	10.48	9.13
PBV (x)	1.06	1.03	1.02	1.01	1.00
Dividend yield (%)	0.00	0.00	0.00	1.52	2.51
ROE (%)	(0.39)	3.69	1.14	2.21	3.61
Net gearing (%)	112.98	100.00	88.03	76.19	96.94

Figure 1: PSL's P/BV band and sensitivity of market prices based on PER at different standard deviation levels



2020E	P/BV (x)	Implied market price* (Bt)	Upside/Downside vs. current market price (%)
+2.0SD	1.52	12.63	54.9
+1.5SD	1.39	11.51	41.3
+1.0SD	1.25	10.40	27.7
+0.5SD	1.12	9.29	14.0
Average	0.99	8.18	0.4
-0.5SD	0.85	7.07	(13.2)
-1.0SD	0.72	5.96	(26.9)

Sources: Bloomberg, KT Zmico Research

Figure 2: PSL's share price vs. BDI

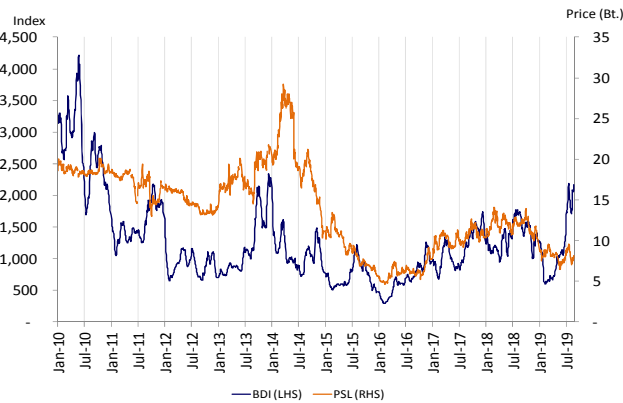
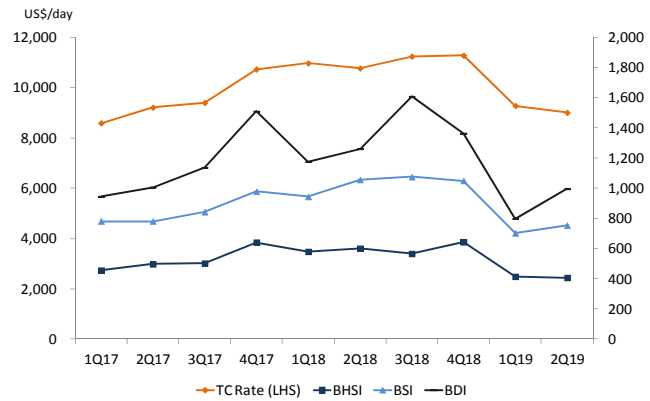
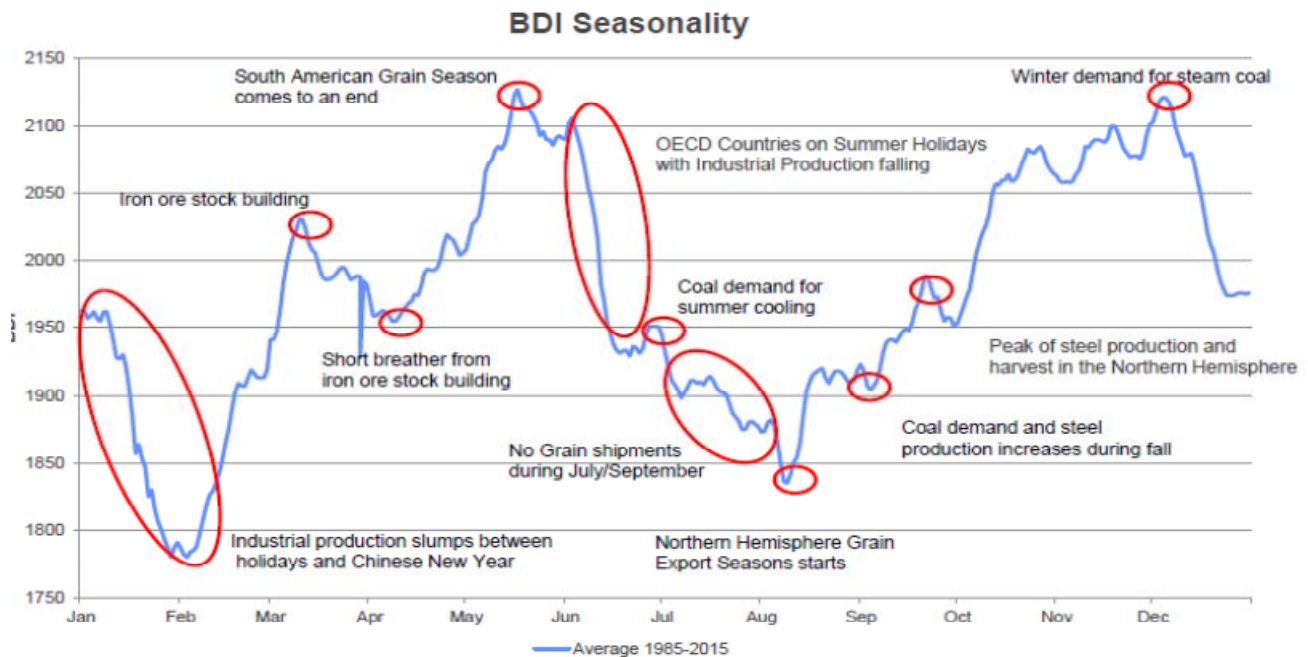


Figure 3: BDI vs. PSL's TC rate



Sources: Bloomberg, PSL

Figure 4: Baltic Dry Index (BDI) – Seasonality



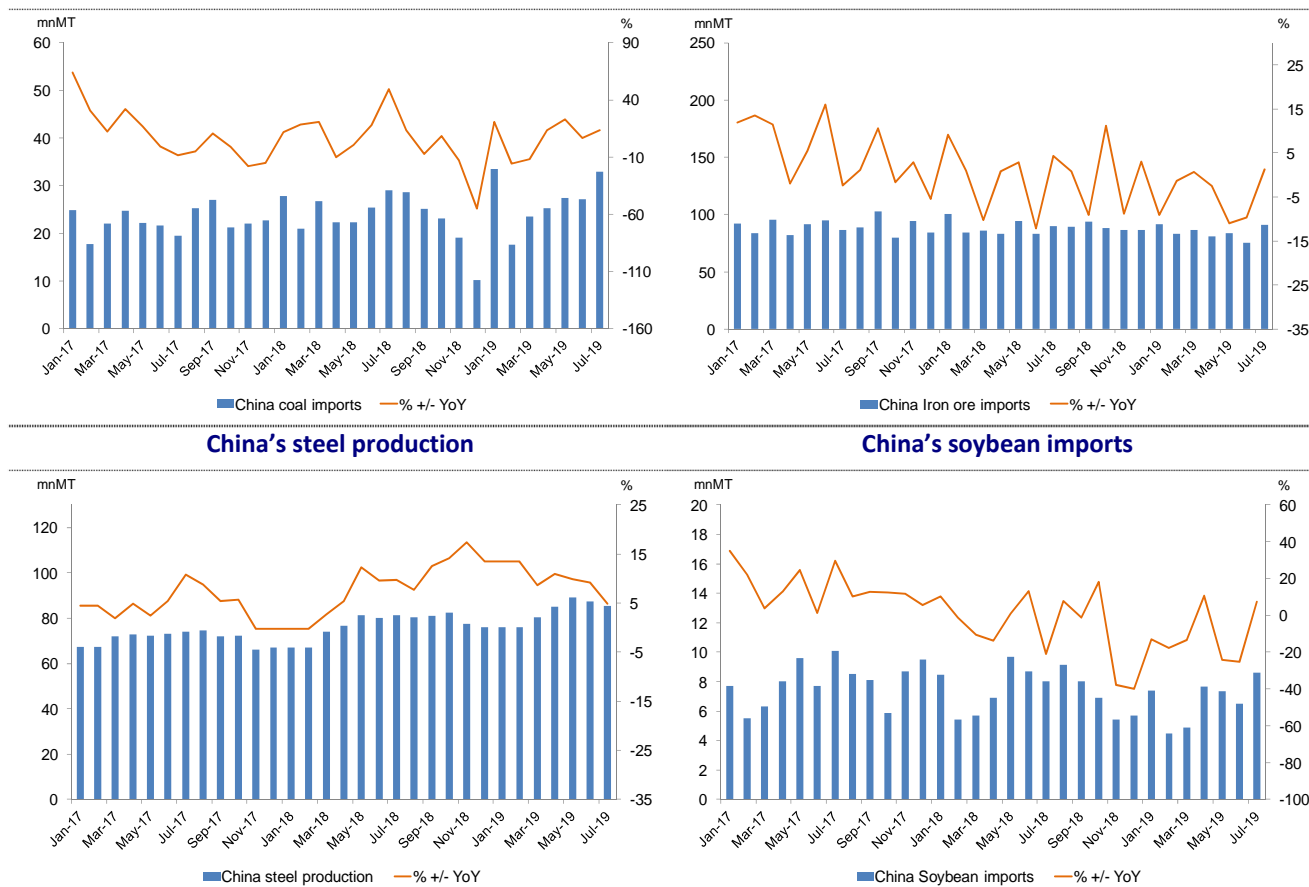
Source: PSL

Figure 5: Demand & supply growth vs. BDI

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019E	2020E
Supply growth (%)	9.9	16.5	13.9	11.2	6.2	4.8	2.4	2.4	2.9	2.8	3.5	3.1
Demand growth (%)	(3.5)	11.7	6.6	6.0	6.1	5.4	(0.0)	1.5	4.0	2.2	1.1	2.5
Demand - Supply (%)	(13.4)	(4.8)	(7.3)	(5.2)	(0.1)	0.6	(2.4)	(0.9)	1.1	(0.6)	(2.4)	(0.6)
Average BDI (points)	2,617	2,758	1,549	920	1,206	1,105	719	673	1,145	1,353		
% +/-	(59.0)	5.4	(43.8)	(40.6)	31.1	(8.4)	(34.9)	(6.4)	70.1	18.2		

Sources: Supply growth forecast by PSL, demand growth forecast by Clarkson Research (from TTA), KT ZMICO Research

Figure 6: China's major imported products by month



Sources: Bloomberg, PSL

Financial Table

PROFIT & LOSS (Btmn)	2017	2018	2019E	2020E	2021E
Revenues	4,333	4,933	4,508	4,659	4,871
Cost of sales and service	(3,165)	(3,256)	(3,241)	(3,296)	(3,363)
Gross profit	1,168	1,677	1,266	1,362	1,508
SG&A	(404)	(449)	(397)	(396)	(400)
EBITDA	1,935	2,413	2,073	2,189	2,350
Depreciation & amortization	(1,171)	(1,185)	(1,204)	(1,223)	(1,242)
EBIT	764	1,228	869	966	1,108
Interest expense	(848)	(826)	(785)	(745)	(704)
Other income / exp.	24	37	41	43	45
EBT	(61)	439	126	264	449
Corporate tax	(0)	(2)	(1)	(1)	(2)
Forex gain (loss)	(12)	(5)	0	0	0
Extra Items	(66)	0	0	0	0
Gain (loss) from affiliates	10	24	21	22	23
Minority interests	(0)	(0)	(0)	(0)	(0)
Net profit	(129)	456	146	285	469
Reported EPS	(0.08)	0.29	0.09	0.18	0.30
Fully diluted EPS	(0.08)	0.29	0.09	0.18	0.30
Core net profit	(51)	462	146	285	469
Core EPS	(0.03)	0.30	0.09	0.18	0.30
Dividend (Bt)	0.00	0.00	0.00	0.13	0.21
BALANCE SHEET (Btmn)	2017	2018	2019E	2020E	2021E
Cash and equivalents	1,854	1,843	1,946	2,112	2,318
Accounts receivable	193	254	193	199	208
Inventories	56	96	48	48	49
PP&E-net	25,694	24,613	23,508	22,285	21,080
Other assets	1,036	1,031	1,031	1,031	1,031
Total assets	28,833	27,837	26,726	25,676	24,686
ST debt & current portion	802	1,877	1,290	1,287	1,287
Long-term debt	14,988	12,661	11,960	10,673	9,385
Total liabilities	16,498	15,141	13,885	12,749	11,618
Paid-up shares	1,559	1,559	1,559	1,559	1,559
Shareholder equity	12,335	12,695	12,841	12,927	13,068
Minority interests	0	0	0	0	0
Total liab. & shareholder equity	28,833	27,837	26,726	25,676	24,686
CASH FLOW (Btmn)	2017	2018	2019E	2020E	2021E
Net income	(129)	456	146	285	469
Forex and other extraordinary adjustments	144	41	0	0	0
Depreciation & amortization	1,171	1,185	1,204	1,223	1,242
Change in working capital	825	574	141	147	146
Cash flow from operations	2,010	2,256	1,491	1,655	1,857
Capex (Invest)/Divest	(1,637)	(272)	(100)	(100)	(100)
Others	0	0	0	0	0
Cash flow from investing	(1,637)	(272)	(100)	(100)	(100)
Debt financing (repayment)	(1,194)	(1,996)	(1,288)	(1,290)	(1,287)
Equity financing	0	0	0	0	0
Dividend payment	0	0	0	(100)	(264)
Others	0	0	0	0	0
Cash flow from financing	(1,194)	(1,996)	(1,288)	(1,390)	(1,551)
Net change in cash	(821)	(11)	103	165	206
Free cash flow	373	1,984	1,391	1,555	1,757
FCF per share (Bt)	0.24	1.27	0.89	1.00	1.13
PROFITABILITY	2017	2018	2019E	2020E	2021E
Revenue growth (%)	17.4	13.9	(8.6)	3.4	4.6
EBITDA growth (%)	134.2	24.7	(14.1)	5.6	7.4
EPS growth (%)	NM	NM	(68.4)	94.8	64.9
Gross margin (%)	27.0	34.0	28.1	29.2	31.0
EBITDA margin (%)	44.7	48.9	46.0	47.0	48.2
Operating margin (%)	17.6	24.9	19.3	20.7	22.8
Net margin (%)	(3.0)	9.2	3.2	6.1	9.6
Core profit margin (%)	(1.2)	9.4	3.2	6.1	9.6
Effective tax rate (%)	(0.4)	0.5	0.5	0.5	0.5






Note:

KT ZMICO has two major shareholders, Krungthai Bank PLC (KTB) and Seamico Securities PLC (ZMICO). Therefore, prior to making investments in the securities of KTB and ZMICO, investors should consider the risk factors carefully.

An executive of KT ZMICO Securities is also a board member of BCP, KBS, MAJOR, MK, PSL, SVH, VNG, ZMICO, PACE, TFG and JKN.

A management member of KT ZMICO Securities is also a board member of NFC and GEL.

KT ZMICO is a financial advisor for ZMICO, POMPUI, JKN, BRR, SUN, CRANE, META, NUSA and SCN.

Corporate Governance Report (CGR)		Source: Sec, Thai Institute of Directors Association (IOD)	
 Excellent (scores: 90-100)	 Satisfactory (scores: 60 – 69)		
 Very Good (scores: 80 – 89)	 Pass (scores: 50 – 59)		
 Good (scores: 70 – 79)	No Logo N/A (scores: below 50)		

Anti-corruption Progress Indicator

Source: Sec, Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC)

- **Level 1 (Committed)** :Organization's statement or board's resolution to work against corruption and to be in compliance with all relevant laws.
- **Level 2 (Declared)** : Public declaration statement to participate in Thailand's private sector Collective Action Coalition Against Corruption (CAC) or equivalent initiatives
- **Level 3 (Established)** : Public out preventive measures, risk assessment, communication and training for all employees, including consistent monitoring and review processes
- **Level 4 (Certified)** :Audit engagement by audit committee or auditors approved by the office of SEC, and receiving certification or assurance by independent external assurance providers (CAC etc.)
- **Level 5 (Extended)** : Extension of the anti-corruption policy to business partners in the supply chain, and disclosure of any current investigations, prosecutions or closed cases
- **Insufficient or not clearly defined policy**
- **Data not available / no policy**

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KT ZMICO RESEARCH – RECOMMENDATION DEFINITIONS**STOCK RECOMMENDATIONS**

BUY: Expecting positive total returns of 15% or more over the next 12 months

OUTPERFORM: Expecting total returns between -10% to +15%; returns expected to exceed market returns over a six-month period due to specific catalysts

UNDERPERFORM: Expecting total returns between -10% to +15%; returns expected to be below market returns over a six-month period due to specific catalysts

SELL: Expecting negative total returns of 10% or more over the next 12 months

SECTOR RECOMMENDATIONS

OVERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index by at least 10% over the next 12 months.

NEUTRAL: The industry, as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months.

UNDERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index by 10% over the next 12 months.



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