

Precious Shipping

Results weaker than expected in this seasonally weakest third quarter

We maintain our positive view on the sector and expect freight rates to improve from 2015 as the sector demand-supply growth turns favorable in 2015E, driving an earnings recovery. PSL provides a low-risk play on a sector recovery, given its cost-efficient fleet and strong balance sheet. PSL's counter-cyclical strategy to acquire cheap vessels should provide a significant cost advantage over peers.

- Results weaker than expected with widening losses during this seasonally weakest quarter:** PSL reported a net loss of Bt147MM in 3Q14, 178% larger q/q and vs net profit of Bt20MM in 3Q13. The net margin fell 15ppts y/y and 8ppts q/q to negative 12.9%. The results include novation gains on one vessel of Bt40MM and exchange gains of Bt1MM. Excluding these, PSL reported a **recurring loss of Bt187MM, 6% larger y/y and weaker than its recurring profit of Bt22MM in 2Q14.** The recurring profit margin was negative 16.5%, 1ppt lower y/y, **resulting in a 9M14 net loss of Bt60MM, vs a net profit of Bt458MM in 9M13 and recurring loss of Bt51MM in 9M14 and Bt415MM in 9M13.** Annualized recurring ROE was negative 0.4% vs 2.8% in 2013.
- Key 3Q14 highlights:** Net vessel operating income (vessel operating income net of voyage disbursements and bunker consumption) rose 4% y/y but fell 19% q/q to Bt800MM. The average earnings per day per vessel fell 7% y/y and 12% q/q in 3Q14 to US\$6,575, driven by continued weakness in dry bulk freight rates. Opex also fell 2% y/y to US\$4,547/day in 3Q14 despite the higher number of vessels in 3Q14 at 43 on average vs 40 in 3Q13, which is positive. PSL incurred an operating loss of Bt41MM compared to an operating profit of Bt137MM in 3Q13 and Bt125MM in 2Q14. The operating margin fell 16ppts y/y, and 15ppts q/q to negative 3.6%. Net debt-equity rose 17ppts q/q to 70% at the end of September 2014 but remained lower than the sector average. Sep-14 BV/share was steady y/y at c.Bt14.46. Interim DPS was Bt0.10 (based on 2Q14 results), steady y/y, implying a yield of 0.5%.
- Substantial earnings upside when rates recover:** PSL's current and forward four-year (2014 to 2018) rolling book is at 16% with a visible revenue stream of \$200MM as at 30 September 2014. There is a fixed 37% of revenue days in 2014 (contract value \$62MM), 14% in 2015 (\$37MM), 10% from 2016 to 2017 (\$35MM) and 9% in 2018 (\$31MM), which provide substantial upside potential when rates recover.

Overweight

PSL.BK, PSL TB

Price: Bt22.10

▼ **Price Target: Bt25.00**
Previous: Bt27.00

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J.P. Morgan Securities Singapore Private Limited

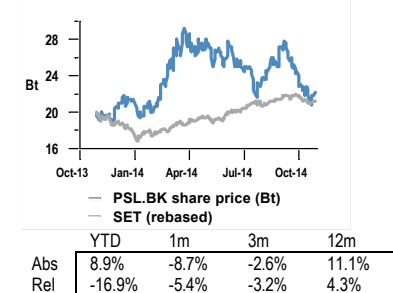
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Price Performance



Precious Shipping (Reuters: PSL.BK, Bloomberg: PSL TB)

Bt in mn, year-end Dec	FY12A	FY13A	FY14E	FY15E	FY16E
Revenue (Bt mn)	3,828	4,829	4,315	5,973	8,742
Net Profit (Bt mn)	141	528	(311)	741	1,795
EPS (Bt)	0.14	0.51	(0.30)	0.71	1.73
DPS (Bt)	0.40	0.40	0.40	0.57	1.38
Revenue growth (%)	11.5%	26.1%	(10.6%)	38.4%	46.4%
EPS growth (%)	(80.4%)	274.2%	(158.9%)	(338.4%)	142.2%
ROCE	1.2%	0.2%	0.6%	4.5%	7.9%
ROE	0.9%	3.5%	(2.0%)	4.9%	11.8%
P/E (x)	162.9	43.5	NM	31.0	12.8
P/BV (x)	1.6	1.5	1.5	1.5	1.5
EV/EBITDA (x)	25.4	25.0	21.7	12.0	8.5
Dividend Yield	1.8%	1.8%	1.8%	2.6%	6.3%

Source: Company data, Bloomberg, J.P. Morgan estimates.

Company Data	
Shares O/S (mn)	1,040
Market Cap (Bt mn)	22,973
Market Cap (\$ mn)	709
Price (Bt)	22.10
Date Of Price	27 Oct 14
Free Float(%)	29.5%
3M - Avg daily vol (mn)	2.49
3M - Avg daily val (Bt mn)	61.54
3M - Avg daily val (\$ mn)	1.9
SET	1547.89
Exchange Rate	32.41
Price Target End Date	31-Dec-15

See page 9 for analyst certification and important disclosures, including non-US analyst disclosures.

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<p>Key catalysts for the stock price:</p> <p>Vessel delivery deferrals, locked-in long-term time charters, stable management team, limited asset impairment risks.</p>	<p>Upside risks to our view:</p> <p>Rebound in dry bulk shipping volumes and freight rates, Handysize segment faces less industry oversupply than the larger vessel segments, stronger balance sheet versus peers.</p>	<p>Downside risks to our view:</p> <p>Longer-than-expected industry overcapacity, weaker-than-expected global dry bulk shipping demand, counter-party risks, political risks.</p>
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Key financial metrics	FY13A	FY14E	FY15E	FY16E
Revenues (Bt MM)	4,829	4,315	5,973	8,742
Revenue growth (%)	26.1%	-10.6%	38.4%	46.4%
EBITDA (Bt MM)	2,108	1,539	2,876	4,253
EBITDA margin (%)	43.7%	35.7%	48.1%	48.6%
Tax rate (%)	1.5%	-1.5%	1.5%	1.5%
Net profit (Bt MM)	528	(311)	741	1,795
EPS (Bt)	0.51	(0.30)	0.71	1.73
EPS growth (%)	4.8%	-23.4%	39.4%	46.4%
DPS (Bt)	0.40	0.40	0.57	1.38
BVPS (Bt)	15.03	14.33	14.48	14.82
Operating cash flow (Bt MM)	1,013	1,649	2,479	3,583
Free cash flow (Bt MM)	2,213	(3,098)	(1,166)	(261)
Interest cover (x)	2.6	3.0	5.4	7.0
Net margin (%)	10.9%	-7.2%	12.4%	20.5%
Sales/assets (X)	0.2	0.2	0.2	0.3
Debt/equity (%)	59.3%	82.3%	94.7%	105.3%
Net debt/equity (%)	40.5%	66.1%	77.1%	86.3%
ROE (%)	3.5%	-2.0%	4.9%	11.8%
Key model assumptions	FY13A	FY14E	FY15E	FY16E
Average TC Rate (US\$/Day)	7,508	8,484	9,757	10,732
Vessel running expense growth	33%	2%	5%	46%

Source: Company and J.P. Morgan estimates.

Sensitivity analysis	EBIT	EPS
Sensitivity to	FY15E	FY15E
1% chg in Average TC rate (US\$/day)	+/-2%	+/-3%
1ppt chg in vessel running expense growth	-/+1%	-/+2%

Source: J.P. Morgan estimates.

Comparative metrics

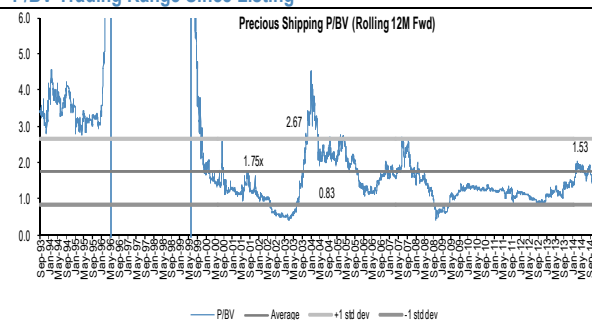
	CMP LC	Mkt Cap \$Mn	P/E (x)		P/BV (x)		ROE		YTD Stock perf.
			FY14E	FY15E	FY14E	FY15E	FY14E	FY15E	
Pacific Basin Shipping	3.69	921	nm	12.2	0.8	0.7	(10.5)	6.9	-33.5
Precious Shipping	22.10	709	nm	31.0	1.5	1.5	(2.0)	4.9	8.9
Sector Average			24.1	16.6	1.0	1.0	1.2	5.4	-8.0

Source: Bloomberg, J.P. Morgan estimates. Prices are as of 27th October, 2014.

Valuation and price target basis

Our Dec-15 price target of Bt25 is based on 1.7x P/BV, in line with PSL's historical average valuation since listing as we expect the industry's demand-supply growth balance to improve, driving a significant earnings recovery in the next two years.

P/BV Trading Range Since Listing



Source: Bloomberg, Company and J.P. Morgan estimates.

JPM change in estimates and vs. Consensus

EPS (Bt)	FY14E	FY15E
JPMe old	0.47	1.42
JPMe new	(0.30)	0.71
% chg	nm	-50%
Bloomberg	0.48	1.24

Source: Bloomberg, J.P. Morgan.

3Q14 Results Review

Results weaker than expected with widening losses during this seasonally weakest quarter

PSL reported a net loss of Bt147MM, 178% larger q/q and vs net profit of Bt20MM in 3Q13. Net margin fell 15ppts y/y and 8ppts q/q to negative 12.9%. The results include novation gains on one vessel of Bt40MM and exchange gains of Bt1MM.

Excluding these, PSL reported a recurring loss of Bt187MM, 6% higher y/y and compared to recurring profit of Bt22MM in 2Q14. The recurring profit margin was negative 16.5%, 1ppt lower y/y.

This resulted in a 9M14 net loss of Bt60MM, compared to net profit of Bt458MM in 9M13 mainly due to lower novation/vessel disposal gains in 9M14 (Bt67M) vs 9M13 (Bt867MM). The recurring loss was Bt51MM in 9M14 vs Bt415MM in 9M13. Annualized recurring ROE was negative 0.4% vs 2.8% in 2013.

Net debt-equity rose 17ppts q/q to 70% at the end of September 2014 but remains lower than the sector average. Sep-14 BV/share was steady y/y at c.Bt14.46. Interim DPS Bt0.10 (based on 2Q14 results), steady y/y implying a yield of 0.5%.

Key 3Q14 highlights

Net vessel operating income (vessel operating income net of voyage disbursements and bunker consumption) rose 4% y/y but fell 19% q/q to Bt800MM.

The average earnings per day per vessel fell 7% y/y, 12% q/q in 3Q14 to US\$6,575 driven by continued weakness in dry bulk freight rates.

Opex also fell 2% y/y to US\$4,547 in 3Q14 despite higher number of vessels in 3Q14 at 43 vessels on average vs 40 vessels in 3Q13 which is positive.

PSL incurred an operating loss of Bt41MM compared to an operating profit of Bt137MM in 3Q13 and Bt125MM in 2Q14. Operating margin fell 16ppts y/y, 15ppts q/q to negative 3.6%.

Substantial earnings upside when rates recover

PSL's current and forward four year (2014 to 2018) rolling book is at 16% with a visible revenue stream of \$200MM as at 30th September 2014. Fixed 37% of revenue days in 2014 (contract value \$62MM), 14% in 2015 (\$37MM), 10% from 2016 to 2017 (\$35MM) and 9% in 2018 (\$31MM) which provide substantial upside when rates recover.

Lowering estimates and price target but stay OW as we expect earnings to rebound significantly in 2015 when the demand-supply balance turns favorable

We have revised down our FY14-16E earnings forecasts, mainly to factor in more conservative time-charter rates assumptions following the recent drop in spot market freight rates. (The large earnings revision is due to Precious Shipping's high earnings leverage to small changes in key drivers such as average freight rates and average vessel expenses.) Notwithstanding this, we still expect PSL's recurring earnings to rebound significantly as the industry demand-supply growth balance improves after 6 years of industry oversupply.

Consequently, we have cut our Dec-15 price target to Bt25 from Bt27 (rolled over from Jun-15) which is based on 1.7x P/BV, in line with PSL's historical average valuation since listing as we expect the industry's demand-supply growth balance to improve, driving a significant earnings recovery in the next 2 years.

We maintain our positive view on the sector and expect freight rates to improve from as sector demand-supply growth turns favorable from 2015, driving earnings recovery. PSL provides a low-risk play on the sector recovery, given its cost-efficient fleet and strong balance sheet. PSL's counter-cyclical strategy to acquire cheap vessels should provide a significant cost advantage over peers. Precious Shipping remains one of our best plays on this theme, along with Pacific Basin Shipping.

Key positive drivers: rebound in dry bulk shipping volumes and freight rates, vessel delivery deferrals, locked-in long term time charters, higher rate of scrapping in the Handysize segment, stable management team, stronger balance sheet versus peers.

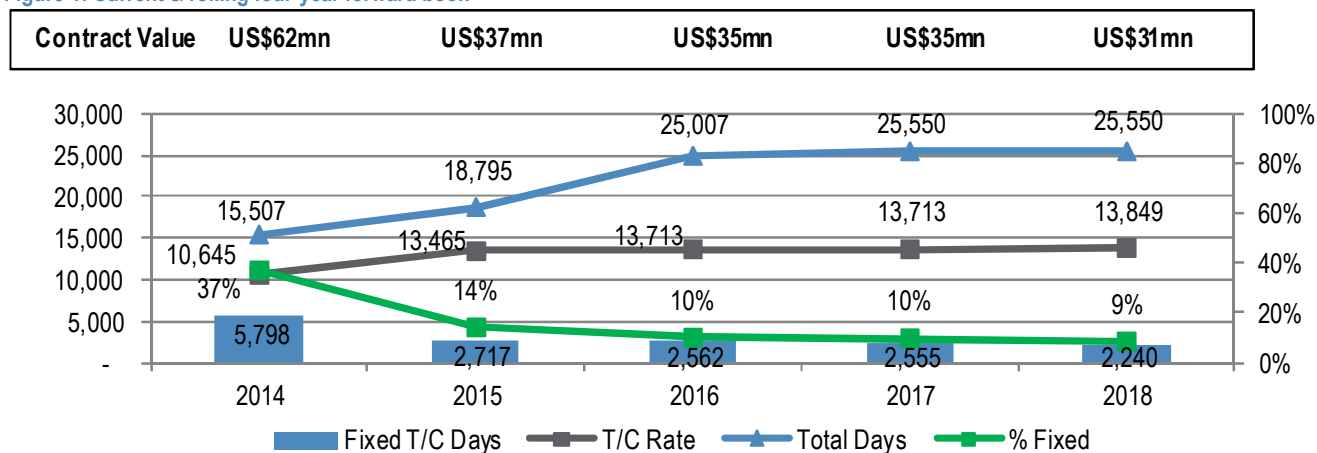
Key risks: longer than expected industry overcapacity, weaker-than-expected global dry bulk shipping demand, potential vessel disposal losses, counter-party risks, political risks.

Table 1: Precious Shipping: 3Q14 & 9M14 results review

Bt MM, YE Dec.	3Q14	3Q13	Y/Y Chg	2Q14	Q/Q Chg	9M14	9M13	Y/Y Chg
Revenues								
Vessel operating income								
Hire income	658	637	3%	887	-26%	2,439	1,883	30%
Freight income	435	296	47%	227	92%	887	812	9%
Total vessel operating income	1,093	934	17%	1,113	-2%	3,326	2,695	23%
Service income	3	2	31%	1	270%	6	9	-28%
Gains on sale of vessels/sale of new shipbuildings under Novation Agreements	40	194	-80%	-	nm	67	867	-92%
Interest income	0	0	-19%	3	-95%	4	4	2%
Exchange gains	1	3	-62%	0	197%	1	7	-78%
Other income	-	1	-100%	0	-100%	0	2	-98%
Total Revenues	1,137	1,134	0%	1,117	2%	3,404	3,583	-5%
Expenses								
Vessel operating costs								
Vessel running expenses	496	442	12%	487	2%	1,433	1,209	19%
Voyage disbursements	72	36	101%	37	94%	138	119	17%
Bunker consumption	222	127	75%	87	154%	373	381	-2%
Total vessel operating costs	789	604	31%	611	29%	1,945	1,709	14%
Depreciation	324	303	7%	302	7%	922	834	11%
Cost of services	1	1	-1%	2	-49%	4	4	-1%
Administrative expenses	44	51	-12%	51	-13%	141	166	-15%
Management remuneration including perquisites	19	26	-26%	27	-28%	67	83	-19%
Bad debts and doubtful accounts	0	12	-98%	(0)	nm	0	1	-90%
Exchange losses	-	-	-	-	-	2	-	nm
Total Expenses	1,177	997	18%	992	19%	3,081	2,797	10%
EBIT	(41)	137	nm	125	nm	323	786	-59%
Margin	-3.6%	12.1%	-15.7ppt	11.2%	-14.8ppt	9.5%	21.9%	-12.5ppt
Share of income from investment in associate held by a subsidiary	1	8	-85%	2	-34%	3	25	-88%
Finance cost	(107)	(123)	-13%	(180)	-41%	(391)	(350)	12%
PBT	(147)	22	-767%	(53)	178%	(65)	461	nm
Corporate income tax	-	(1)	-100%	0	-100%	3	(3)	nm
Net Profit	(147)	21	nm	(53)	178%	(62)	458	nm
Profit attributable to:								
Equity holders of the Company	(147)	20	nm	(53)	178%	(60)	458	nm
Margin	-12.9%	1.8%	-14.7ppt	-4.7%	-8.2ppt	-1.8%	12.8%	-14.5ppt
Non-controlling interests of the subsidiaries	(0)	0	nm	0	nm	(2)	0	nm
Basic earnings per share (baht)	(0.14)	0.02	nm	(0.05)	178%	(0.06)	0.44	nm

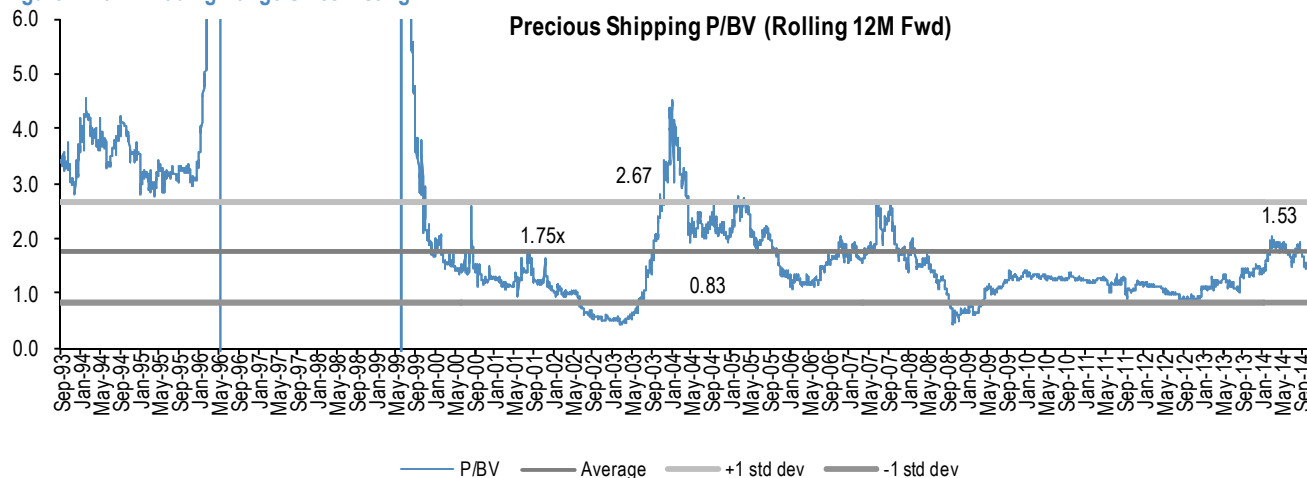
Source: Company reports.

Figure 1: Current & rolling four-year forward book



Source: Company reports. As at 30 September, 2014.

Figure 2: P/BV Trading Range Since Listing



Source: Company data, Bloomberg, J.P. Morgan estimates.

Investment Thesis, Valuation and Risks

Precious Shipping (Overweight; Price Target: Bt25.00)

Investment Thesis

We maintain our positive view on the sector and continue to favor the small bulkcarrier segment. We expect average freight rates in 2015 to surpass 2014 levels as sector demand-supply growth turns favorable in 2015, driving an earnings recovery. We believe PSL provides a low-risk play on the sector recovery, given its cost-efficient fleet and strong balance sheet. PSL's counter-cyclical strategy to acquire cheap vessels should provide a significant cost advantage over peers and substantial profit upside from future disposals.

Valuation

Our Dec-15 price target of Bt25 is based on 1.7x P/BV, in line with PSL's historical average valuation since listing as we expect the industry's demand-supply growth balance to improve, driving a significant earnings recovery in the next 2 years.

Risks to Rating and Price Target

Key downside risks: Longer-than-expected industry overcapacity, weaker-than-expected global dry bulk shipping demand, counter-party risks, political risks.

Precious Shipping: Summary of Financials

Income Statement						Cash flow statement					
Bt in millions, year end Dec	FY12	FY13	FY14E	FY15E	FY16E	Bt in millions, year end Dec	FY12	FY13	FY14E	FY15E	FY16E
Revenues	3,828	4,829	4,315	5,973	8,742	EBIT	584	972	181	1,291	2,458
% change Y/Y	11.5%	26.1%	(10.6%)	38.4%	46.4%	Depr. & amortization	920	1,146	1,357	1,585	1,795
EBITDA	1,494	2,108	1,539	2,876	4,253	Change in working capital	(320)	(63)	116	(374)	(624)
% change Y/Y	(19.9%)	(1.3%)	28.9%	90.3%	47.9%	Taxes	-	-	-	-	-
EBIT	584	972	181	1,291	2,458	Cash flow from operations	751	1,013	1,649	2,479	3,583
% change Y/Y	(49.6%)	66.4%	(81.3%)	612.0%	90.5%	Capex	(6,285)	(3,125)	(4,251)	(3,251)	(3,251)
EBIT Margin	7.3%	0.7%	3.6%	21.6%	28.1%	Disposal/(purchase)	1,729	4,709	0	126	0
Net Interest	(434)	(459)	(506)	(531)	(611)	Net Interest	(434)	(459)	(506)	(531)	(611)
Earnings before tax	148	545	(321)	765	1,852	Other	19	31	(496)	(519)	(592)
% change Y/Y	(79.6%)	268.4%	(158.9%)	(338.4%)	142.2%	Free cash flow	(3,786)	2,213	(3,098)	(1,166)	(261)
Tax	(4)	(8)	5	(11)	(27)	Equity raised/(repaid)	-	-	-	-	-
as % of EBT	2.8%	1.5%	(1.5%)	1.5%	1.5%	Debt raised/(repaid)	2,285	(558)	3,000	2,000	2,000
Net income (reported)	141	528	(311)	741	1,795	Other	(387)	(316)	0	0	0
% change Y/Y	(80.4%)	274.2%	(158.9%)	(338.4%)	142.2%	Dividends paid	(468)	(415)	(416)	(593)	(1,436)
Shares outstanding	1,040	1,040	1,040	1,040	1,040	Beginning cash	4,375	1,901	2,942	2,428	2,669
EPS (reported)	0.14	0.51	(0.30)	0.71	1.73	Ending cash	1,901	2,942	2,428	2,669	2,973
% change Y/Y	(80.4%)	274.2%	(158.9%)	(338.4%)	142.2%	DPS	0.40	0.40	0.40	0.57	1.38
Balance sheet						Ratio Analysis					
Bt in millions, year end Dec	FY12	FY13	FY14E	FY15E	FY16E	Bt in millions, year end Dec	FY12	FY13	FY14E	FY15E	FY16E
Cash and cash equivalents	1,901	2,942	2,428	2,669	2,973	EBITDA margin	31.1%	24.3%	35.0%	48.1%	48.6%
Accounts receivable	217	1,074	960	1,328	1,944	Operating margin	7.3%	0.7%	3.6%	21.6%	28.1%
Inventories	147	102	91	126	185	Net margin	(4.3%)	(8.4%)	(7.8%)	12.4%	20.5%
Others	677	818	818	818	818	Sales per share growth	11.5%	26.1%	(10.6%)	38.4%	46.4%
Current assets	2,941	4,936	4,297	4,942	5,920	Sales growth	11.5%	26.1%	(10.6%)	38.4%	46.4%
LT investments	8	9	9	9	9	Net profit growth	(80.4%)	274.2%	(158.9%)	(338.4%)	142.2%
Net fixed assets	16,213	18,670	21,569	23,109	24,565	EPS growth	(80.4%)	274.2%	(158.9%)	(338.4%)	142.2%
Total Assets	24,030	25,510	27,774	29,964	32,404	Interest coverage (x)	2.7	2.6	3.0	5.4	7.0
Liabilities						Net debt to equity	49.5%	40.5%	66.1%	77.1%	86.3%
Short-term loans	802	654	654	654	654	Sales/assets	0.2	0.2	0.2	0.2	0.3
Payables	2	22	19	27	39	Assets/equity	157.4%	164.6%	174.6%	192.8%	204.8%
Others	316	302	295	317	355	ROE	0.9%	3.5%	(2.0%)	4.9%	11.8%
Total current liabilities	1,119	977	968	998	1,048	ROCE	1.2%	0.2%	0.6%	4.5%	7.9%
Long-term debt	8,265	8,619	11,619	13,619	15,619						
Other liabilities	-	-	-	-	-						
Total Liabilities	9,545	9,879	12,869	14,899	16,949						
Shareholder's equity	14,484	15,631	14,904	15,065	15,454						
BVPS (Bt)	13.93	15.03	14.33	14.48	14.82						

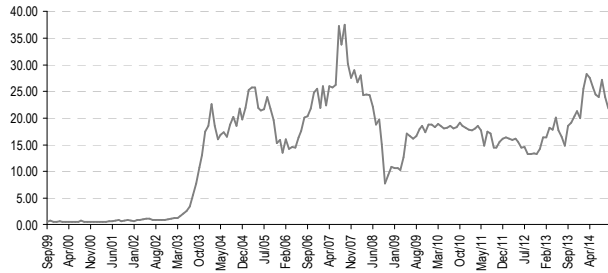
Source: Company reports and J.P. Morgan estimates.

JPM Q-Profile
Precious Shipping Public Co., Ltd. (THAILAND / Industrials)
 As Of: 24-Oct-2014

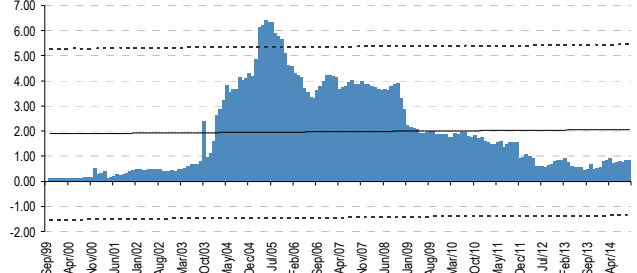
Global Equity Quantitative Analysis

Quant_Strategy@jpmorgan.com

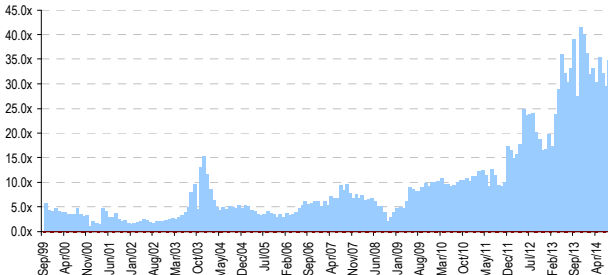
Local Share Price **Current: 21.80**



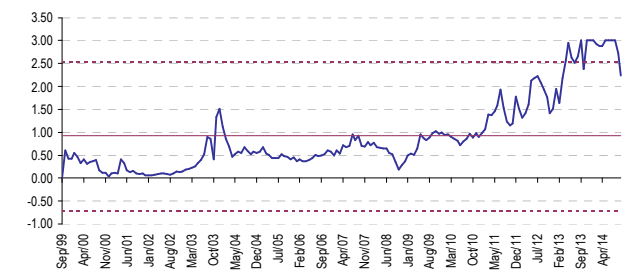
12 Mth Forward EPS **Current: 0.87**



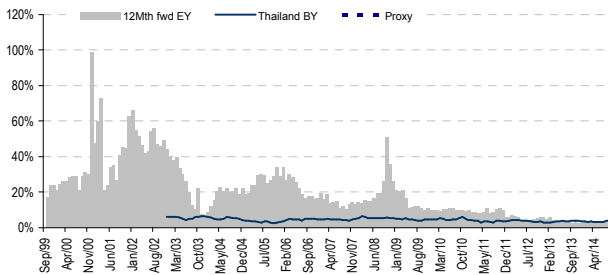
PE (1Yr Forward) **Current: 25.2x**



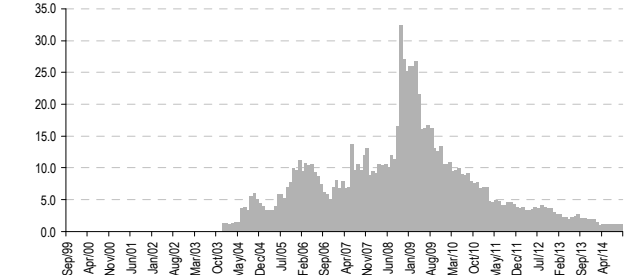
P/E Relative to Thailand Index **Current: 2.24**



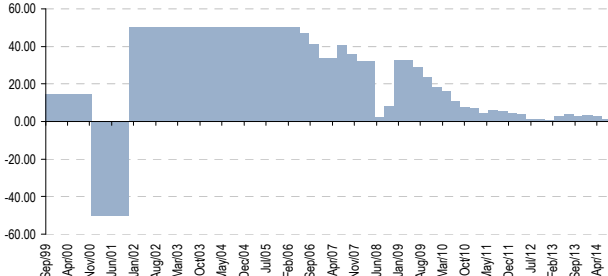
Earnings Yield (& Local Bond Yield) **Current: 4%**



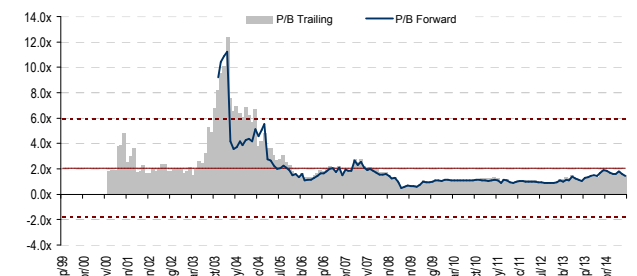
Dividend Yield (Trailing) **Current: 1.25**



ROE (Trailing) **Current: 1.17**



Price/Book (Value) **Current: 1.5x**



Summary

Precious Shipping Public Co., Ltd.		TICKER		PSL TB		As Of:		24-Oct-14			
THAILAND						Local Price:		21.80			
Industrials						EPS:		0.87			
	Latest	Min	Max	Median	Average	2 S.D.+	2 S.D. -	% to Min	% to Max	% to Med	% to Avg
12mth Forward PE	25.20x										
P/BV (Trailing)	1.48	0.00	12.38	1.60	2.07	5.92	-1.78	-100%	737%	8%	40%
Dividend Yield (Trailing)	1.25x	0.00	32.47	3.77	5.38	17.62	-6.86	-100%	2497%	202%	330%
ROE (Trailing)	1.17	-3260.24	50.00	18.31	-190.15	1446.15	-1826.44	-279084%	4179%	1467%	-16371%

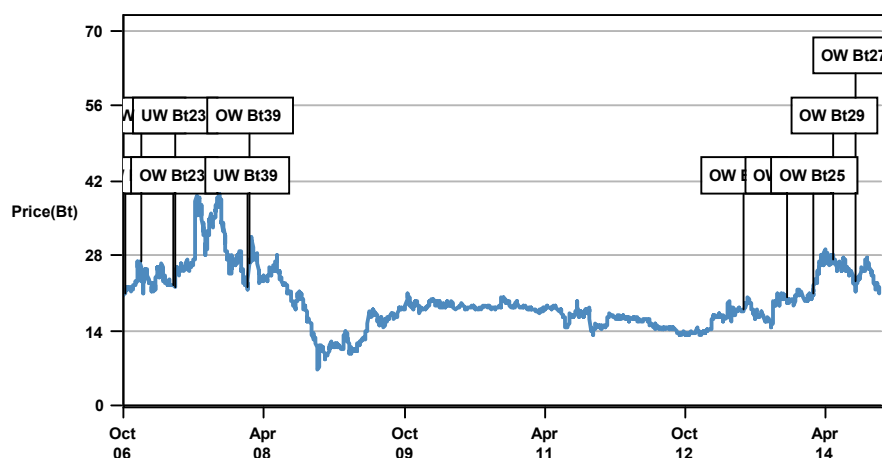
Source: Bloomberg, Reuters Global Fundamentals, IBES CONSENSUS, JPMorgan Quantitative & Derivative Strategy

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Precious Shipping (PSL.BK, PSL TB) Price Chart



Date	Rating	Share Price (Bt)	Price Target (Bt)
05-Oct-06	OW	21.00	50.00
07-Dec-06	OW	27.00	59.00
16-Apr-07	OW	22.40	23.00
19-Apr-07	UW	22.20	23.00
30-Jan-08	UW	21.90	39.00
31-Jan-08	OW	26.75	39.00
14-May-13	OW	17.80	22.00
28-Oct-13	OW	20.30	23.00
08-Feb-14	OW	21.00	25.00
25-Apr-14	OW	27.50	29.00
25-Jul-14	OW	23.20	27.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends. Initiated coverage Oct 05, 2006.

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IB clients*	57%	49%	34%
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IB clients*	76%	67%	51%

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