

FEBRUARY 22, 2021

## Earnings upgrade

### Hold

Catalyst: Positive

2021E TP: Bt10.00

Close Bt9.55

## Expect better cycle ahead

We lift PSL's earnings in 2021-22E to factor in the potential better-than-expected TC rate in 2021E amid the favorable bulk ship demand-supply situation. This prompted us to raise PSL's TP to Bt10.00 (vs. Bt7.20 previously), pegged at P/BV of 1.5x (+2 S.D. over the historical average). We maintain our Hold rating for PSL.

### 4Q20 core profit in line

PSL posted a net profit of Bt27mn in 4Q20, +5% YoY and improving from the net loss of Bt22mn in 3Q20, including FX loss of Bt30mn and other extra loss totaling Bt16mn. Stripping out FX gain and extra items, PSL reported a core profit of Bt73mn, in line with our expectation but better than the street estimate (Bt60mn). The strong earnings growth was ascribed to the increase in the TC rate to USD10,002 (-5% YoY, +14% QoQ) and the decline of SG&A expenses. For 2020, PSL reported a core loss of Bt413mn, with a TC rate of USD8,333 (-13% YoY) and Opex of USD4,705 (-2% YoY).

### BDI remaining strong in 1Q21 (QTD)

In 1Q21 (QTD), the average BDI, BHSI and BSI have continued to increase QoQ, despite the normal low season, thanks to the improvement of economic activities after the easing of the COVID-19 pandemic globally, especially in China. We expect ongoing improvement in the BDI in the rest of this year owing to the growth of demand likely outpacing that of supply in the bulk ship industry. It should be noted that during 2009-2020, the average BDI always dropped to its lowest level in 1Q.

### Raise PSL's earnings projections in 2021-22E by 24% and 19%

Given the stronger-than-expected BDI, BHSI and BSI in 1Q21, we decide to revise up PSL's net profit forecasts in 2021-22E by 24% and 19% from the previous expectations to Bt796mn and Bt1,093mn, based on the upward revisions of the TC rate in 2021E to USD12,200 (from USD12,000 previously) and in 2022E to USD13,200 (from USD13,000 previously).

### Financial Valuations

FY Ending Dec 31	2018	2019	2020	2021E	2022E
Sales (Btmn)	4,933	4,152	3,730	5,260	5,668
Core Profit (Btmn)	462	(228)	(413)	796	1,093
Net Profit (Btmn)	456	(223)	(1,295)	796	1,093
Core EPS(Bt)	0.30	(0.14)	(0.27)	0.51	0.70
Core EPS growth (%)	NM	NM	NM	NM	37.3
EPS (Bt)	0.29	(0.15)	(0.83)	0.51	0.70
EPS growth (%)	NM	NM	NM	NM	37.3
Dividend (Bt)	0.00	0.00	0.00	0.36	0.49
BV(Bt)	8.14	7.41	6.50	6.65	6.86
PER(x)	32.26	NM	NM	18.71	13.62
EV/EBITDA(x)	11.43	16.32	16.85	8.71	7.34
PBV(x)	1.17	1.29	1.47	1.44	1.39
Dividend yield (%)	0.00	0.00	0.00	3.74	5.14
ROE (%)	3.69	(1.84)	(3.81)	7.76	10.38
Net gearing (%)	100.00	99.33	82.99	64.93	46.92

### Share data

	FY21	FY22
Consensus EPS (Bt)	0.390	0.567
KTZ vs. consensus	30.8%	23.5%

Reuters / Bloomberg	PSL.BK/PSL TB
Paid-up Shares (m)	1,559.29
Par (Bt)	1.00
Market cap (Btbn/USDm)	15.00/497.00
Foreign limit/actual (%)	49.00/21.05
52-week High/Low (Bt)	9.55/2.38
Avg. daily T/O(shares 000)	21,629.00
NVDR (%)	4.96
Estimated free float (%)	46.81
Beta	1.25
URL	www.preciousshipping.com
CGR	
Anti-corruption	Level 4 (Certified)

### Price Performance



Source: SET Smart

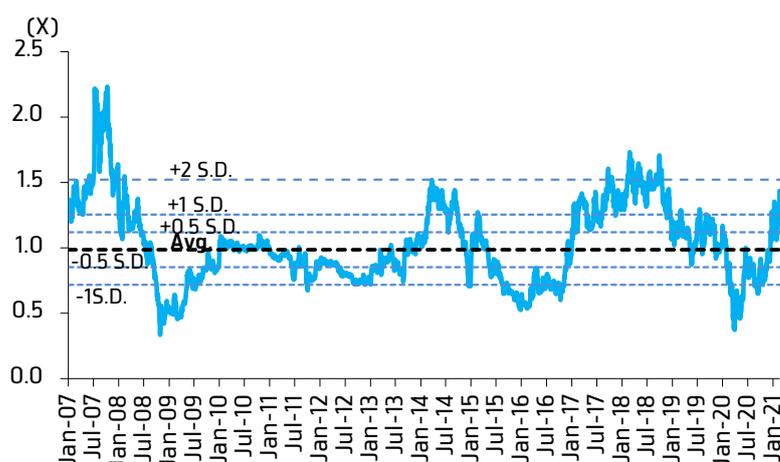
**Note: An executive of Krungthai Zmico Securities is also a member of PSL's board.**

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



	2021E	P/BV (x)	Implied market price (Bt)	Upside/Downside vs. current market price (%)
+3.0SD	1.79	11.90	24.6	
+2.5SD	1.66	11.01	15.3	
+2.0SD	1.52	10.12	6.0	
+1.5SD	1.39	9.23	-3.4	
+1.0SD	1.25	8.34	-12.7	
+0.5SD	1.12	7.45	-22.0	
Average	0.99	6.56	-31.3	

Sources: Bloomberg, KTZ Research

#### 4Q20 core profit in line

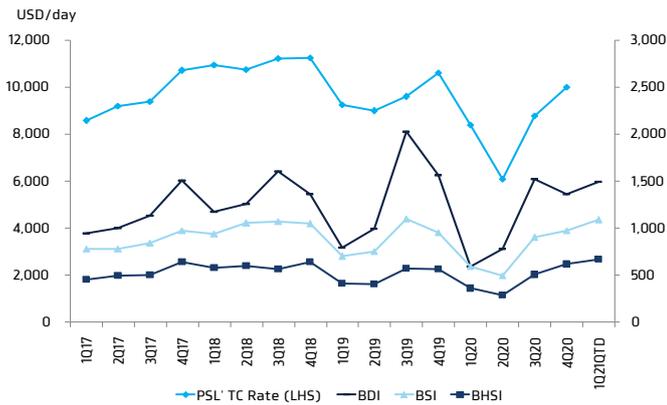
PSL delivered a net profit of Bt27mn in 4Q20, +5% YoY and improving from the net loss of Bt22mn in 3Q20, including FX loss of Bt30mn and other extra loss of Bt16mn (losses on settlement agreements and expected bad debt and doubtful accounts). Stripping out FX gain and extra items, PSL reported a core profit of Bt73mn, in line with our expectation (Bt80mn) but better than the street estimate (Bt60mn). The strong earnings growth on both a YoY and QoQ basis was ascribed to the increase in the TC rate (USD per day per vessel) to USD10,002, -5% YoY but +14% QoQ, coupled with lower SG&A expenses on account of the decline in legal fees related to a dispute with shipbuilders. For 2020, PSL reported a core loss of Bt413mn, with a TC rate of USD8,333 (-13% YoY) and Opex of USD4,705 (-2% YoY).

Figure 2: PSL's 4Q20 earnings review

Profit and Loss (Btmn)	Year-end Dec 31			% YoY	% QoQ	2019	2020	% YoY
	4Q19	3Q20	4Q20					
Revenue	1,150	944	1,050	(8.7)	11.2	4,152	3,730	(10.2)
Gross profit	337	182	253	(25.0)	38.6	979	504	(48.5)
SG&A	(167)	(75)	(58)	(65.5)	(23.5)	(547)	(336)	(38.6)
EBITDA	463	413	493	6.4	19.5	1,616	1,382	(14.5)
Interest expenses	(150)	(145)	(122)	(18.5)	(15.3)	(703)	(597)	(15.1)
Other income	5	1	2	(66.9)	137.6	31	9	(70.6)
Forex gain (loss)	(2)	12	(30)	NM	(343.5)	(6)	(15)	144.0
Other extraordinary items	0	-	(16)	NM	NM	0	(867)	-
Gn (Ls) from affiliates	6	3	4	(42.3)	42.6	20	11	(45.5)
Net profit (loss)	26	(22)	27	4.9	NM	(228)	(1,295)	NM
Core profit (loss)	28	(35)	73	161.9	NM	(223)	(413)	NM
Reported EPS (Bt)	0.02	(0.01)	0.02	4.9	NM	(0.15)	(0.83)	NM
Gross margin (%)	29.3	19.3	24.0			23.6	13.5	
EBITDA margin (%)	40.3	43.7	46.9			38.9	37.1	
Net margin (%)	2.4	(3.7)	7.0			(5.4)	(11.1)	
Current ratio (x)	0.4	0.8	0.6			0.4	0.6	
Interest coverage (x)	1.1	0.7	1.6			0.6	0.3	
Debt / equity (x)	1.1	1.1	1.0			1.1	1.0	
BVPS (Bt)	74	6.8	6.5			7.4	6.5	
ROE (%)	1.0	(1.3)	2.8			(1.8)	(3.8)	

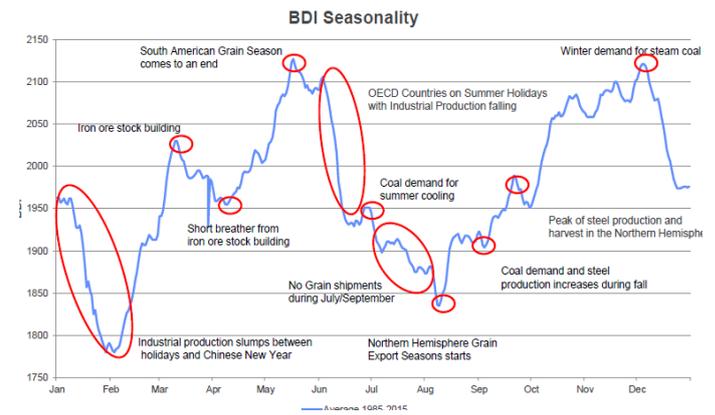
Source: KTZ Research

Figure 3: PSL's TC rate vs. BDI



Source: Bloomberg, PSL

Figure 4: Baltic Dry Index (BDI) – seasonality (1985-2015)



Source: PSL

**BDI remaining strong in 1Q21 (QTD)**

In 1Q21 (QTD), the average BDI stands at 1,497 points, +154% YoY and +10% QoQ, despite the normal low season due to the Chinese New Year. The Handysize (BHSI) and Supramax (BSI) indexes have also increased strongly to 670 points (+85% YoY, +8% QoQ) and 1,090 points (+83% YoY, +12% QoQ), respectively, as the bounce back of economic activities after the easing of the COVID-19 pandemic globally has boosted bulk ship demand, especially in China. Meanwhile, according to PSL, supply growth in 2021E is anticipated to decline to only 1.8% given fewer new ships entering the bulk ship market. And in light of the expected demand growth of +5.2% in 2021E due to the better economic situation, the BDI is likely to continue improving for the rest of this year. It should be noted that during 2009-2020, the average BDI always dropped to its lowest level in 1Q.

Figure 5: Demand & supply growth vs. the BDI

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021E
Supply growth (%)	16.5	13.9	11.2	6.2	4.8	2.4	2.4	2.9	3.4	3.9	3.8	1.8
Demand growth (%)	11.7	6.6	5.8	6.5	5.5	(0.2)	1.5	4.1	2.7	0.8	(2.2)	5.2
Demand - Supply (%)	(4.8)	(7.3)	(5.4)	(0.4)	0.7	(2.2)	(0.9)	1.1	(0.6)	(3.1)	(6.0)	3.3
Average BDI (points)	2,758	1,549	920	1,206	1,105	719	673	1,145	1,353	1,353	1,066	1,497*
% +/-	5.4	(43.8)	(40.6)	31.1	(8.4)	(34.9)	(6.4)	70.1	18.2	0.0	(21.2)	40.4

Sources: Bloomberg, PSL, TTA, KTZ Research

Note \*: Average BDI (YTD)

**Raise PSL's earnings projections in 2021-22E**

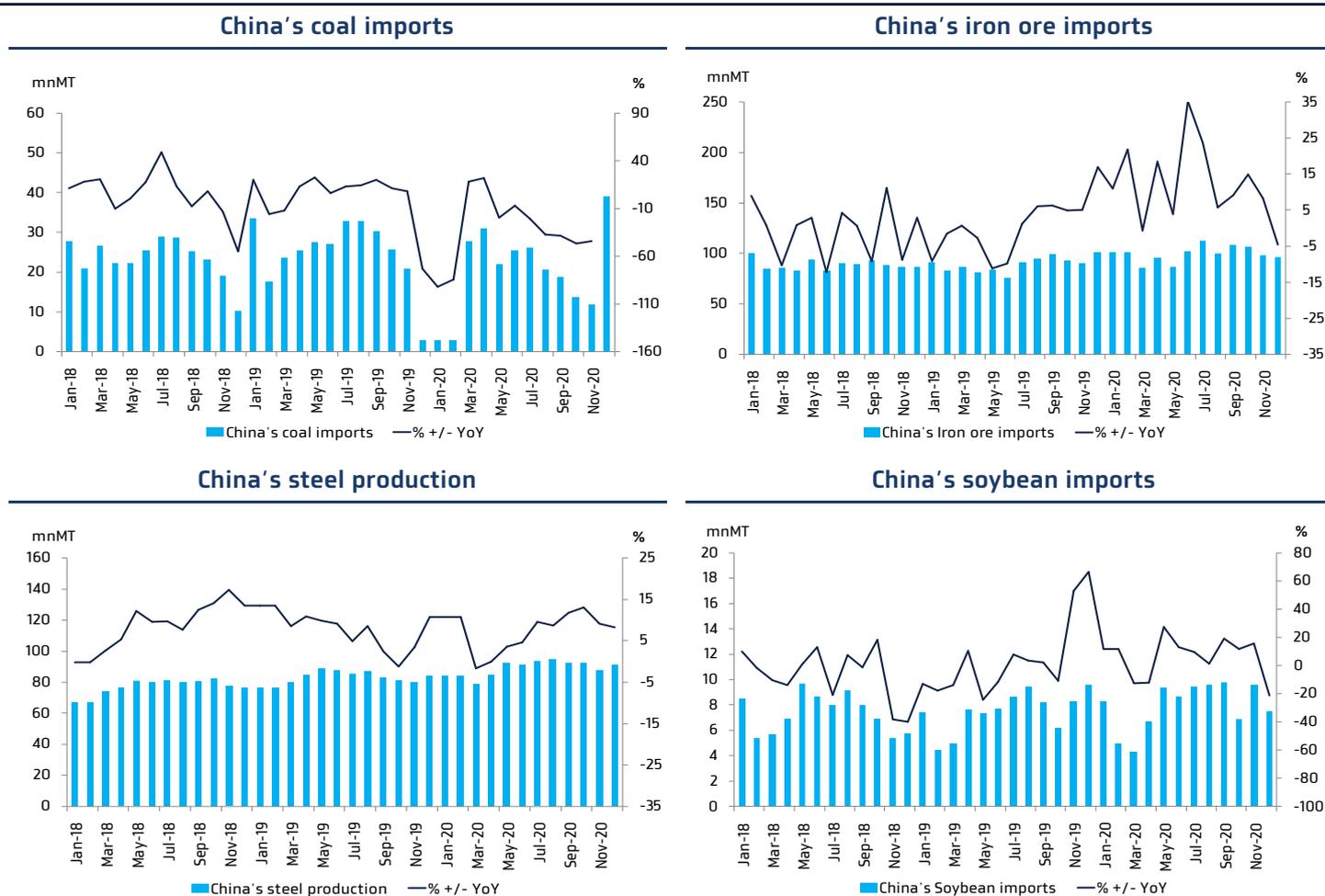
Given the stronger-than-expected BDI, BHSI and BSI in 1Q21, we decide to revise up PSL's net profit forecasts in 2021-22E by 24% and 19% from the previous expectations to Bt796mn and Bt1,093mn, based on the upward revisions of the TC rate in 2021E to USD12,200 (from USD12,000 previously) and in 2022E to USD13,200 (from USD13,000 previously).

Figure 6: Key assumptions and 2020-21E earnings revision for PSL

Fiscal year end-September	New			Old			% chg from old		
	2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E
Number of vessels (yearend)		36	36		36	36			
Average TC rate (USD/day)		12,200	13,200		12,000	13,000		1.7	1.5
% +/-		46.4	6.6		39.5	8.3			
Opex (USD/day)		4,846	4,992		4,869	4,992		(0.5)	0.0
% +/-		3.0	3.0		2.5	2.5			
Core profit (Btmn)		796	1,093		644	923		23.6	18.5

Source: KTZ Research

Figure 7: China’s major imported products by month



Note: \* Bloomberg data during Jan-Mar 2020 adjusted due to COVID-19 impact

Sources: Bloomberg, PSL, Reuters

## Financial Table

PROFIT & LOSS (Btmn)	2018	2019	2020	2021E	2022E
<b>Revenues</b>	<b>4,933</b>	<b>4,152</b>	<b>3,730</b>	<b>5,260</b>	<b>5,668</b>
Cost of sales and service	(3,256)	(3,173)	(3,226)	(3,532)	(3,611)
<b>Gross profit</b>	<b>1,677</b>	<b>979</b>	<b>504</b>	<b>1,729</b>	<b>2,057</b>
SG&A	(449)	(547)	(336)	(473)	(593)
<b>EBITDA</b>	<b>2,413</b>	<b>1,616</b>	<b>1,382</b>	<b>2,483</b>	<b>2,711</b>
Depreciation & amortization	(1,185)	(1,183)	(1,214)	(1,227)	(1,247)
<b>EBIT</b>	<b>1,228</b>	<b>433</b>	<b>168</b>	<b>1,255</b>	<b>1,464</b>
Interest expense	(826)	(703)	(597)	(480)	(391)
Other income / exp.	37	31	9	9	9
<b>EBT</b>	<b>439</b>	<b>(240)</b>	<b>(420)</b>	<b>784</b>	<b>1,082</b>
Corporate tax	(2)	(3)	(4)	(4)	(5)
Forex gain (loss)	(5)	(6)	(15)	0	0
Extra Items	0	0	(867)	0	0
Gain (loss) from affiliates	24	20	11	16	17
Minority interests	(0)	(0)	0	(0)	(0)
<b>Net profit</b>	<b>456</b>	<b>(228)</b>	<b>(1,295)</b>	<b>796</b>	<b>1,093</b>
Reported EPS	0.29	(0.15)	(0.83)	0.51	0.70
Fully diluted EPS	0.29	(0.15)	(0.83)	0.51	0.70
<b>Core net profit</b>	<b>462</b>	<b>(223)</b>	<b>(413)</b>	<b>796</b>	<b>1,093</b>
Core EPS	0.30	(0.14)	(0.27)	0.51	0.70
Dividend (Bt)	0.00	0.00	0.00	0.36	0.49

BALANCE SHEET (Btmn)	2018	2019	2020	2021E	2022E
Cash and equivalents	<b>1,843</b>	<b>1,181</b>	<b>1,616</b>	<b>786</b>	<b>1,700</b>
Accounts receivable	254	183	169	258	278
Inventories	96	176	35	75	77
PP&E-net	24,613	22,145	19,149	17,743	16,491
Other assets	1,031	1,375	428	428	428
<b>Total assets</b>	<b>27,837</b>	<b>25,061</b>	<b>21,397</b>	<b>19,291</b>	<b>18,974</b>
ST debt & current portion	1,877	4,085	2,441	2,906	4,010
Long-term debt	12,661	8,577	7,586	4,616	2,710
<b>Total liabilities</b>	<b>15,141</b>	<b>13,502</b>	<b>11,263</b>	<b>8,918</b>	<b>8,274</b>
Paid-up shares	1,559	1,559	1,559	1,559	1,559
<b>Shareholder equity</b>	<b>12,695</b>	<b>11,559</b>	<b>10,134</b>	<b>10,373</b>	<b>10,701</b>
Minority interests	0	0	0	0	0
<b>Total liab. &amp; shareholder equity</b>	<b>27,837</b>	<b>25,061</b>	<b>21,397</b>	<b>19,291</b>	<b>18,975</b>

CASH FLOW (Btmn)	2018	2019	2020	2021E	2022E
Net income	456	(228)	(1,295)	796	1,093
Forex and other extraordinary adjustments	41	83	909	0	0
Depreciation & amortization	1,185	1,183	1,214	1,227	1,247
Change in working capital	574	852	1,036	30	135
<b>Cash flow from operations</b>	<b>2,256</b>	<b>1,890</b>	<b>1,864</b>	<b>2,054</b>	<b>2,476</b>
Capex (Invest)/Divest	(272)	(427)	997	(100)	(100)
Others	0	0	0	0	0
<b>Cash flow from investing</b>	<b>(272)</b>	<b>(427)</b>	<b>997</b>	<b>(100)</b>	<b>(100)</b>
Debt financing (repayment)	(1,996)	(2,125)	(2,941)	(2,505)	(802)
Equity financing	0	0	0	0	0
Dividend payment	0	0	0	(279)	(661)
Others	0	0	0	0	0
<b>Cash flow from financing</b>	<b>(1,996)</b>	<b>(2,125)</b>	<b>(2,941)</b>	<b>(2,784)</b>	<b>(1,463)</b>
Net change in cash	(11)	(662)	(81)	(830)	93
<b>Free cash flow</b>	<b>1,984</b>	<b>1,463</b>	<b>2,860</b>	<b>1,954</b>	<b>2,376</b>
<b>FCF per share (Bt)</b>	<b>1.27</b>	<b>0.94</b>	<b>1.83</b>	<b>1.25</b>	<b>1.52</b>

PROFITABILITY	2018	2019	2020	2021E	2022E
Revenue growth (%)	13.9	(15.8)	(10.2)	41.0	7.7
EBITDA growth (%)	24.7	(33.0)	(14.5)	79.6	9.19
EPS growth (%)	NM	NM	NM	NM	37.3
Gross margin (%)	34.0	23.6	13.5	32.9	36.3
EBITDA margin (%)	48.9	38.9	37.1	47.2	47.8
Operating margin (%)	24.9	10.4	4.5	23.9	25.8
Net margin (%)	9.2	(5.5)	(34.7)	15.1	19.3
Core profit margin (%)	9.4	(5.4)	(11.1)	15.1	19.3
Effective tax rate (%)	0.5	(1.2)	(1.1)	0.5	0.5

**Note:**

**Krungthai 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 Krungthai Zmico is also a board member of BCP, KBS, MAJOR, MK, PSL, SVH, VNG, ZMICO, PACE and JKN. A management member of Krungthai Zmico is also a board member of NFC. Krungthai Zmico is a financial advisor for ZMICO, TSE, UWC, CPF and NOBLE.

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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**KTZ Research – Recommendation Definitions**

**Stock Recommendations**

**BUY:** Expecting positive total returns of 15% or more over the next 12 months  
**HOLD:** Expecting total returns between < 15% to -10% over the next 12 months  
**SELL:** Expecting negative total returns more than -10% over the next 12 months  
 Total return is defined as the summation of percentage difference between the year-end target price and the current price and the expected annualized dividend yield of the stock  
 KTZ’s catalyst rating indicates our view regarding specific events or news that are capable to lead share price movement upwards or downwards in a short time period (not over six months), sometime significantly, over the short term (3-6 months). **Catalysts fall into three categories: Positive, Negative and Neutral.**  
**Positive** means that there will be favorable event to push share price up  
**Negative** means that there will be unfavorable event to push share price down and  
**Neutral** means there will be no near term catalyst  
 Catalysts may include company earnings releases, analyst revisions, significant corporate actions, management transition, product launches, lawsuits and investigations, merger and acquisitions, etc

**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.