

# Thailand Company Update

## Precious Shipping

Bloomberg: PSL TB | Reuters: PSL.BK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

29 Jun 2021

### BUY

Last Traded Price (28 Jun 2021): Bt21.10 (SET : 1,579.17)  
Price Target 12-mth: Bt22.70 (8% upside)

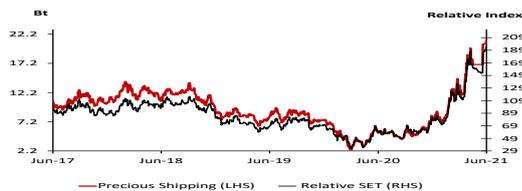
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#### What's New

- PSL's management spoke at our Logistics & Transportation conference on 28 June 2021
- Benchmark TC rate remained high QTD and this momentum is expected to continue in 2H21F
- Upside potential for our FY21F earnings as we expect TC rates to remain strong in 2H21F
- Maintain BUY with TP of Bt22.70

#### Price Relative



#### Forecasts and Valuation

FY Dec (Btm)	2019A	2020A	2021F	2022F
Revenue	4,152	3,730	6,581	7,262
EBITDA	1,667	1,401	4,278	4,889
Pre-tax Profit	(225)	(1,114)	2,592	3,359
Net Profit	(228)	(1,295)	2,566	3,325
Net Pft (Pre Ex.)	(223)	(590)	2,566	3,325
Net Pft Gth (Pre-ex) (%)	nm	(163.9)	nm	29.6
EPS (Bt)	(0.1)	(0.8)	1.65	2.13
EPS Pre Ex. (Bt)	(0.1)	(0.4)	1.65	2.13
EPS Gth Pre Ex (%)	nm	(164)	nm	30
Diluted EPS (Bt)	(0.1)	(0.8)	1.65	2.13
Net DPS (Bt)	0.0	0.0	0.0	1.07
BV Per Share (Bt)	7.41	6.50	8.15	10.3
PE (X)	nm	nm	12.5	9.6
PE Pre Ex. (X)	nm	nm	12.5	9.6
P/Cash Flow (X)	16.9	17.1	11.5	7.1
EV/EBITDA (X)	26.1	29.2	9.0	7.0
Net Div Yield (%)	0.0	0.0	0.0	5.2
P/Book Value (X)	2.8	3.2	2.5	2.0
Net Debt/Equity (X)	1.0	0.9	0.5	0.1
ROAE (%)	(1.9)	(11.9)	22.5	23.2

Earnings Rev (%): 0  
Consensus EPS (Bt): 1.26 1.24  
Other Broker Recs: B: 3 S: 2 H: 3

Source of all data on this page: Company, DBSVTH, Bloomberg Finance L.P.

### Smooth sailing all the way

#### Investment Thesis:

**Freight rates at 11-year high...** The Baltic Exchange Dry Index (BDI) remained at its 11-year high. Similarly, the Baltic Exchange Handysize Index (BHSI) also has reached an 11-year high. We expect Precious Shipping's (PSL) time charter (TC) rate to surge 97% y-o-y to US\$16,409/day/ship in FY21F from US\$8,332 in FY20 and increase further by 9% y-o-y to US\$17,816 in FY22F, on the back of the strong jump in demand but limited new supply.

**...as global dry bulk demand growth far outstrips fleet supply growth.** We expect FY21F to be the new upcycle year for the shipping industry, supported by demand growth for dry bulk trade that is expected to surpass fleet supply growth. According to Clarksons, demand for dry bulk shipping (in billion tonnes-miles) is expected to rise by 3.37% y-o-y in FY21F, while net fleet supply is expected to expand at a lower rate of 2.6% y-o-y.

**Turnaround story with upside potential.** We believe that PSL's FY21F net profit will rebound to Bt2.6bn. Meanwhile, we see upside potential as we expect its freight rate to remain high in 2H21F and trump that of 1H21F.

#### Valuation:

Our target price (TP) of Bt22.70 is based on 2.2x FY22F book value per share (BVPS).

#### Where we differ:

**We are more bullish on revenue assumption:** Our FY21F and FY22F earnings assumptions are 59% and 76% higher than consensus respectively, mainly on the back of our higher assumptions for TC rate.

#### Key Risks to Our View:

Decline in trade activities, slowdown in global economy and increased new supply surpassing demand growth are some of the key risks.

#### At A Glance

Issued Capital (m shrs)	1,559
Mkt. Cap (Btm/US\$m)	32,901 / 1,027
Major Shareholders (%)	
Globex Corporation Limited	28.4
Mr. Khalid Moinuddin Hashim	8.4
Graintrade Limited	8.3
Free Float (%)	46.9
3m Avg. Daily Val (US\$m)	15.5

**GIC Industry** : Industrials / Transportation



Live more, Bank less

## WHAT'S NEW

### Key takeaways from Logistics & Transportation conference

#### PSL invited to join our Logistics & Transportation conference:

Precious Shipping's (PSL) top management joined our Logistics & Transportation Conference from 28 June till 2 July 2021 to update investors on its overview of the business as well as its outlook and strategies. Representing the company was managing director Khun Khalid Hashim.

#### Salient points from management presentation:

1. Its China segment performed well in 1Q21, with iron ore imports growing 7.6% y-o-y while steel imports also rose 15.6% and steel exports grew 23.8%
2. According to Clarkson data as of 26 April 2021, the percentage change in demand is expected at 3.37% with supply at 2.6% in FY21F, and demand growth is expected to come in at 2.55% with supply growth of only 0.9% in FY22F. Similarly, according to DNB, demand growth is expected at 6.7% while supply will grow by 1.5% in FY21F.
3. Orderbook ratio remains low at 5.57% (geared sector at 4.71% and gearless at 6.03%), with persistently low supply growth expectations for the future as vessel age of 20+ years ratio is higher than the orderbook.
4. Strong benchmark TC rate in 2Q21 with Supramax average TC rate QTD at US\$25,270/day/ship vs. US\$16,633/day/ship in 1Q21 and Handysize average TC rate QTD of US\$22,299/day/ship vs. US\$16,610/day/ship in 1Q21
5. One of its strategy is to tie the ships to longer-term contracts.
6. OPEX cost may be higher than previously expected at US\$4,750/day/ship but not to surpass US\$5,000/day/ship.

## FAQs

### Do you expect TC rate to be higher in 2H compared to 1H, and are you overall as positive as or more positive than you were at the beginning of the year?

Management is more positive about freight rates now compared to the beginning of the year. We had expected things to turn around but we did not expect the turnaround to be so quick and sharp.

Going forward, 2Q in FY21 overall will be better than in the past ten years for sure. Additionally, due to seasonality, 1Q is usually the weakest quarter, followed by 3Q and 2Q, while 4Q is the strongest quarter. However, the company does not expect the seasonal freight rate trends to hold but the rates should continue to rise, with 1Q to see the lowest rates and

rates to rise from 2Q to 3Q and peak in 4Q. This is on the back of China's stimulus plan.

### TC rates remain high but your orderbook is still low, what do you think is holding back new vessel orders?

Management believes that the following main reasons are holding back new orders and expect new orders to remain low going forward.

1. Lack of capital for ships operators that erodes the ability to buy new vessels – as a result of poor earnings and a sluggish market over the past 12 years
2. Several regulations in the pipeline could actually shorten the vessels' economic life down to 15-20 years from c.25 years.
3. Less yards available for new vessels as it's occupied with other preferred type of vessels, i.e. tankers with dry bulk ships should be the least favourite for builders – no thanks to the lower profitability.

### Does the company have any plans to buy second-hand ships or new builds for FY21 and FY22? If there are no plans, what will prompt the company to add new vessels again?

The company does not have any plans to add any ships – both second-hand and new vessels – at the moment as the price of second-hand vessels has risen +50-60% while buying new vessels does not make sense. Nonetheless, if the company has to buy, it will buy ZEV ships with zero emissions.

### Is management worried about inflation or the US Fed raising rates could impact the sentiment in the sector and drive down the BDI, or will the market focus only on demand growth vs. lack of new supply?

The company believes that rising inflation is on the back of demand-supply dynamics and does not think the impact on the market would come from the US Fed. The current high inflation rate is driven by the supply not being to keep up with demand. This was due to the shrinking business activities as a result of the economic downturn. And management believes that it will take time for the supply side to restart again. Nonetheless, once supply normalises, the company expects the inflation rate to decelerate, thus it believes that the current high inflation rate is only temporary.

### Will dry bulk benefit from demand spill-over as a result of high container cargo cost?

Dry bulk will also benefit from the demand spill-over from container cargo, though not substantially.

## Precious Shipping

### What are the key concerns for management at the moment?

There are no key concerns at the moment but the key factor to keep an eye on is China – the biggest largest dry bulk market.

### Our take

**Expect 2Q21F earnings to come in better than previously expected:** We previously expect the company to post another strong quarter with a turnaround in its net profit to Bt897m in 2Q21F (vs. core loss of Bt485m in 2Q20 and core profit of Bt292m in 1Q21), again, supported by higher revenue arising from higher TC rates – average TC rate of US\$18,349/day/ship in 2Q21F vs US\$6,099/day/ship in 2Q20 and US\$12,157/day/ship in 1Q21.

However, we expect 2Q21F earnings to come in higher than previously expected, to the tune of c.Bt1-1.1bn, as the company's QTD benchmark TC rates remained high at US\$25,270/day/ship for Supramax and US\$22,299/day/ship for Handysize. However, though we still expect the company to post a TC rate discount to the market, we do not expect the discount to be as huge as that in 1Q21.

### Average benchmark TC rate (US\$/day/ship)

Avg. TC Rate	1Q	April	May	Month-to-date June	QTD
Supramax	16,633	21,216	25,524	29,070	25,270
Handy size	16,610	19,238	22,776	24,883	22,299

Source: Company, DBSVTH

### FY21F-FY22F outlook remains decent with upside

**potential to our earnings forecast:** We believe the outlook for the dry bulk sector remains decent and expect TC rates to remain high, supported by (i) demand growth outstripping supply growth, with orderbook ratio to remain low, (ii) China's stimulus to remain high, and (iii) a recovery in the global economy.

We expect its FY21F and FY22F earnings to rebound to Bt2.6bn and Bt3.3bn, respectively, with TC rate assumptions of US\$16,409/day/ship in FY21F (+97% y-o-y) and US\$17,816/day/ship in FY22F (+9% y-o-y). Though opex per day per ship might be higher than previously expected, but expect this to be offset by the upside risks to our FY21F TC rate assumptions as TC rates for both Handysize and

Supramax are expected to remain above US\$20,000/day/ship throughout 3Q21F and 4Q21F. Note that the company's benchmark TC rate for Supramax and Handysize YTD stood at US\$20,952/day/ship and US\$19,455/day/ship, respectively, and the company's TC rate is usually discount to its benchmark.

### Outlook remains positive, maintain BUY with TP of Bt22.70:

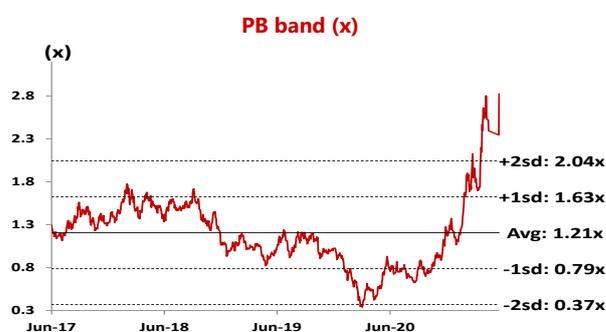
We still have a positive view towards PSL with its short-term outlook to remain decent while still expecting an earnings turnaround in FY21F-FY22F. Overall, demand growth for dry bulk trade is still expected to outstrip supply growth amid a global economic recovery, coupled with expectations that freight rates will remain high at least during FY21F-FY22F.

On top of this, we expect PSL to have a stronger balance sheet with its debt declining in the absence of major capital expenditure in the coming years. With an expected total return of 13% with upside potential, we maintain our BUY recommendation with TP of Bt22.70, based on 2.2x FY22F BVPS.

### Company Background

Precious Shipping (PSL) is a pure dry cargo ship-owning company that operates in the geared sector with a fleet size that ranges from 10,000-69,000 DWT for the tramp freight market globally. The geared sector can be broken down into Handysize sector and Supramax/Ultramax sector. The Handysize sector includes vessels that can carry 10,000-39,999 DWT while the Supramax/Ultramax sector includes ship sizes of 40,000-69,999 DWT. Currently, the company has a total of 36 owned vessels under its operations.

### Historical PB band



Source: Bloomberg Finance L.P., DBSVTH estimates

## Precious Shipping

### Key Assumptions

FY Dec	2018A	2019A	2020A	2021F	2022F
No. of vessels	36	36	36	36	36
TC rate/day/ship (USD)	11,063	9,622	8,332	16,409	17,816
Opex/day/ship (USD)	4,621	4,778	4,705	4,750	4,760

### Segmental Breakdown

FY Dec	2018A	2019A	2020A	2021F	2022F
<b>Revenues (Btm)</b>					
Vessel operating	4,929	4,144	3,726	6,576	7,257
Service	3.68	7.77	3.77	4.33	4.89
<b>Total</b>	<b>4,933</b>	<b>4,152</b>	<b>3,730</b>	<b>6,581</b>	<b>7,262</b>

### Income Statement (Btm)

FY Dec	2018A	2019A	2020A	2021F	2022F
Revenue	4,933	4,152	3,730	6,581	7,262
Cost of Goods Sold	(2,071)	(1,989)	(2,013)	(1,980)	(2,017)
<b>Gross Profit</b>	<b>2,862</b>	<b>2,163</b>	<b>1,717</b>	<b>4,601</b>	<b>5,245</b>
Other Opng (Exp)/Inc	(453)	(546)	(336)	(337)	(371)
<b>Operating Profit</b>	<b>1,224</b>	<b>433</b>	<b>168</b>	<b>3,035</b>	<b>3,629</b>
Other Non Opng (Exp)/Inc	32.0	30.3	8.52	3.59	4.04
Associates & JV Inc	24.4	19.9	10.8	10.8	10.8
Net Interest (Exp)/Inc	(826)	(703)	(597)	(457)	(285)
Exceptional Gain/(Loss)	2.91	(5.0)	(705)	0.0	0.0
<b>Pre-tax Profit</b>	<b>458</b>	<b>(225)</b>	<b>(1,114)</b>	<b>2,592</b>	<b>3,359</b>
Tax	(1.4)	(4.0)	(181)	(25.8)	(33.5)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>456</b>	<b>(228)</b>	<b>(1,295)</b>	<b>2,566</b>	<b>3,325</b>
Net Profit before Except.	453	(223)	(590)	2,566	3,325
EBITDA	2,465	1,667	1,401	4,278	4,889
<b>Growth</b>					
Revenue Gth (%)	13.9	(15.8)	(10.2)	76.4	10.4
EBITDA Gth (%)	26.1	(32.4)	(16.0)	205.3	14.3
Opg Profit Gth (%)	60.2	(64.6)	(61.1)	1,701.9	19.6
Net Profit Gth (Pre-ex) (%)	nm	nm	(163.9)	nm	29.6
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	58.0	52.1	46.0	69.9	72.2
Opg Profit Margin (%)	24.8	10.4	4.5	46.1	50.0
Net Profit Margin (%)	9.2	(5.5)	(34.7)	39.0	45.8
ROAE (%)	3.6	(1.9)	(11.9)	22.5	23.2
ROA (%)	1.6	(0.9)	(5.6)	12.2	16.4
ROCE (%)	4.4	1.7	0.7	14.7	17.8
Div Payout Ratio (%)	0.0	N/A	N/A	0.0	50.0
Net Interest Cover (x)	1.5	0.6	0.3	6.6	12.7

Source: Company, DBSVTH

## Precious Shipping

### Quarterly Income Statement (Btm)

FY Dec	2Q2020	3Q2020	4Q2020	1Q2021	2Q2021F
Revenue	680	944	1,050	1,246	1,885
Cost of Goods Sold	(453)	(457)	(500)	(497)	(508)
<b>Gross Profit</b>	<b>227</b>	<b>487</b>	<b>550</b>	<b>750</b>	<b>1,376</b>
Other Oper. (Exp)/Inc	(82.0)	(75.5)	(66.6)	(79.2)	(82.0)
<b>Operating Profit</b>	<b>(159)</b>	<b>107</b>	<b>186</b>	<b>384</b>	<b>1,002</b>
Other Non Opg (Exp)/Inc	2.63	0.67	1.14	0.02	0.02
Associates & JV Inc	3.68	2.59	3.69	4.00	4.00
Net Interest (Exp)/Inc	(158)	(145)	(122)	(117)	(110)
Exceptional Gain/(Loss)	(698)	9.94	(29.5)	83.5	0.0
<b>Pre-tax Profit</b>	<b>(1,009)</b>	<b>(24.6)</b>	<b>39.3</b>	<b>354</b>	<b>897</b>
Tax	(175)	2.49	(11.8)	20.9	0.0
Minority Interest	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>(1,183)</b>	<b>(22.1)</b>	<b>27.4</b>	<b>375</b>	<b>897</b>
Net profit bef Except.	(485)	(32.1)	57.0	292	897
EBITDA	151	415	489	675	1,299

### Growth

Revenue Gth (%)	(35.5)	38.8	11.2	18.7	51.2
EBITDA Gth (%)	(56.2)	174.1	17.9	38.1	92.3
Opg Profit Gth (%)	(563.4)	(167.4)	74.1	106.3	161.2
Net Profit Gth (Pre-ex) (%)	274.0	(93.4)	(277.7)	412.0	207.4

### Margins

Gross Margins (%)	33.4	51.6	52.4	60.2	73.0
Opg Profit Margins (%)	(23.3)	11.3	17.7	30.8	53.2
Net Profit Margins (%)	(173.9)	(2.3)	2.6	30.1	47.6

### Balance Sheet (Btm)

FY Dec	2018A	2019A	2020A	2021F	2022F
Net Fixed Assets	22,409	20,098	19,125	18,146	17,151
Invts in Associates & JVs	73.4	68.1	74.3	85.1	95.9
Other LT Assets	3,037	3,214	260	273	287
Cash & ST Invts	1,843	1,181	1,100	942	1,365
Inventory	96.0	176	34.6	104	106
Debtors	254	183	169	319	324
Other Current Assets	124	140	634	666	699
<b>Total Assets</b>	<b>27,837</b>	<b>25,061</b>	<b>21,397</b>	<b>20,534</b>	<b>20,028</b>
ST Debt	1,877	4,085	2,436	0.0	0.0
Creditor	389	528	277	0.0	0.0
Other Current Liab	42.6	99.5	627	150	152
LT Debt	12,661	8,577	7,606	7,350	3,500
Other LT Liabilities	172	212	318	334	350
Shareholder's Equity	12,695	11,559	10,134	12,700	16,026
Minority Interests	0.03	0.03	0.03	0.03	0.03
<b>Total Cap. &amp; Liab.</b>	<b>27,837</b>	<b>25,061</b>	<b>21,397</b>	<b>20,534</b>	<b>20,028</b>
Non-Cash Wkg. Capital	43.1	(128)	(66.4)	938	977
Net Cash/(Debt)	(12,695)	(11,481)	(8,941)	(6,408)	(2,135)
Debtors Turn (avg days)	16.6	19.2	17.2	13.5	16.2
Creditors Turn (avg days)	177.8	207.6	183.6	67.3	N/A
Inventory Turn (avg days)	31.3	61.7	48.2	33.6	49.5
Asset Turnover (x)	0.2	0.2	0.2	0.3	0.4
Current Ratio (x)	1.0	0.4	0.6	13.5	16.5
Quick Ratio (x)	0.9	0.3	0.4	8.4	11.1
Net Debt/Equity (X)	1.0	1.0	0.9	0.5	0.1
Net Debt/Equity ex MI (X)	1.0	1.0	0.9	0.5	0.1
Capex to Debt (%)	2.0	3.4	2.7	3.4	7.1
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBSVTH

## Precious Shipping

### Cash Flow Statement (Btm)

FY Dec	2018A	2019A	2020A	2021F	2022F
Pre-Tax Profit	458	(225)	(1,114)	2,592	3,359
Dep. & Amort.	1,185	1,183	1,213	1,229	1,245
Tax Paid	0.0	0.0	0.0	0.0	0.0
Assoc. & JV Inc/(loss)	(24.4)	(19.9)	(10.8)	(10.8)	(10.8)
Chg in Wkg.Cap.	(24.4)	(19.9)	(10.8)	(10.8)	(10.8)
Other Operating CF	662	971	1,787	(1,020)	(61.7)
<b>Net Operating CF</b>	<b>2,256</b>	<b>1,890</b>	<b>1,864</b>	<b>2,780</b>	<b>4,520</b>
Capital Exp.(net)	(289)	(436)	(273)	(250)	(250)
Other Invts.(net)	0.0	0.0	3.16	0.0	0.0
Invts in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	16.5	8.78	1,267	(13.0)	(13.7)
<b>Net Investing CF</b>	<b>(272)</b>	<b>(427)</b>	<b>997</b>	<b>(263)</b>	<b>(264)</b>
Div Paid	0.0	0.0	0.0	0.0	0.0
Chg in Gross Debt	(1,252)	(1,876)	(2,294)	(2,691)	(3,850)
Capital Issues	0.19	0.0	0.0	0.0	0.0
Other Financing CF	(743)	(248)	(648)	15.9	16.7
<b>Net Financing CF</b>	<b>(1,995)</b>	<b>(2,125)</b>	<b>(2,942)</b>	<b>(2,675)</b>	<b>(3,833)</b>
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	(10.8)	(662)	(80.7)	(159)	423
Opg CFPS (Bt)	1.46	1.23	1.20	1.79	2.91
Free CFPS (Bt)	1.26	0.93	1.02	1.62	2.74

Source: Company, DBSVTH

### Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	15 Mar 21	12.00	13.60	BUY
2:	26 Apr 21	18.70	18.50	BUY
3:	14 May 21	17.00	18.50	BUY
4:	17 Jun 21	20.50	22.70	BUY

Source: DBSVTH

Analyst: Thailand Research Team

Nantika WIANGPHOEM, CFA

THAI-CAC (as of Jun 2020)

Corporate Governance CG Rating (as of Oct 2019)

**THAI-CAC** is Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of May 2018) are categorised into:

**Corporate Governance CG Rating** is based on Thai Institute of Directors (IOD)'s annual assessment of corporate governance practices of listed companies. The assessment covers 235 criteria in five categories including board responsibilities (35% weighting), disclosure and transparency (20%), role of stakeholders (20%), equitable treatment of shareholders (10%) and rights of shareholders (15%). The IOD then assigns numbers of logos to each company based on their scoring as follows:

Certified



Score	Description	
Declared	Companies that have declared their intention to join CAC	
Certified	Companies certified by CAC.	
Score	Range Number of Logo	Description
90-100		Excellent
80-89		Very Good
70-79		Good
60-69		Satisfactory
50-59		Pass
<50	No logo given	N/A

DBSVTH recommendations are based on an Absolute Total Return\* Rating system, defined as follows:

**STRONG BUY** (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

**FULLY VALUED** (negative total return, i.e., > -10% over the next 12 months)

**SELL** (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

\*Share price appreciation + dividends

Completed Date: 29 Jun 2021 10:10:57 (THA)

Dissemination Date: 29 Jun 2021 10:11:45 (THA)

Sources for all charts and tables are DBSVTH unless otherwise specified.

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