

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

7 Nov 2022

HOLD

Last Traded Price (4 Nov 2022): Bt14.60 (SET : 1,626.32)
Price Target 12-mth: Bt15.50 (6% upside) (Prev Bt17.40)

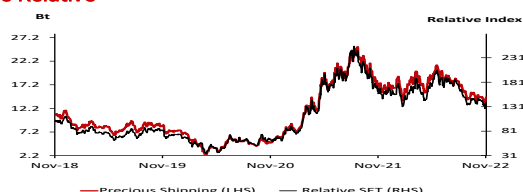
Analyst

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What's New

- 3Q22 net profit fell 10.2% y-o-y and 18.8% q-o-q to Bt1.35bn, on weaker time charter (TC) rates
- Weaker 4Q22F earnings expected as freight rates are trending down, coupled with a high base y-o-y
- Cut FY23F earnings by 34% on lower-than-expected TC rates outlook
- Maintain HOLD with lower TP of Bt15.50

Price Relative



Forecasts and Valuation

FY Dec (Btm)	2021A	2022F	2023F	2024F
Revenue	8,615	9,168	6,853	6,573
EBITDA	5,970	6,312	3,960	3,609
Pre-tax Profit	4,450	4,743	2,461	2,141
Net Profit	4,475	4,696	2,437	2,120
Net Pft (Pre Ex.)	4,367	4,696	2,437	2,120
Net Pft Gth (Pre-ex) (%)	nm	7.5	(48.1)	(13.0)
EPS (Bt)	2.87	3.01	1.56	1.36
EPS Pre Ex. (Bt)	2.80	3.01	1.56	1.36
EPS Gth Pre Ex (%)	nm	8	(48)	(13)
Diluted EPS (Bt)	2.87	3.01	1.56	1.36
Net DPS (Bt)	1.75	1.50	1.00	1.00
BV Per Share (Bt)	9.21	10.5	11.0	11.4
PE (X)	5.1	4.8	9.3	10.7
PE Pre Ex. (X)	5.2	4.8	9.3	10.7
P/Cash Flow (X)	3.9	3.9	6.1	6.8
EV/EBITDA (X)	4.8	4.1	6.1	6.3
Net Div Yield (%)	12.0	10.3	6.8	6.8
P/Book Value (X)	1.6	1.4	1.3	1.3
Net Debt/Equity (X)	0.4	0.2	0.1	CASH
ROAE (%)	36.5	30.6	14.5	12.1
Earnings Rev (%):		0	(34)	N/A
Consensus EPS (Bt):		2.14	1.96	2.42
Other Broker Recs:		B: 7	S: 0	H: 2

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

Hold for yield

Investment Thesis:

Dry bulk demand still growing surpassing supply in FY23F. Clarksons has now projected ton-mile demand to contract c.-0.5% in FY22F vs. ton-mile demand growth previously with net supply growth at 2.7% (also lower than previously expected). Nonetheless, for FY23F, Clarksons projects ton-mile demand of 1.9% and net supply growth of 0.7%. Meanwhile, the industry orderbook percentage to fleet remains low.

Freight rates high but expected to trend down during FY22F-FY23F. The Baltic Exchange Dry Index (BDI) has started to trend down. Similarly, the Baltic Exchange Supramax Index (BSI) and Baltic Exchange Handysize Index (BHSI) have also been declining since hitting their peak in October 2021. While we still expect TC rates to remain healthy and above the breakeven point, we expect rates to gradually decline in 2H22F.

Healthy balance sheet and decent yield. We expect PSL's FY22F earnings to inch up 8% y-o-y but decline 48% in FY23F. PSL is expected to maintain its healthy balance sheet. The company offers an attractive dividend yield of c.6-7% in FY22F-FY23F.

Valuation:

Our target price (TP) of Bt15.50 is based on a 1.4x FY22F BVPS

Where we differ:

We are slightly more bearish than the consensus for FY23F, mainly on our TC rate assumptions.

Key Risks to Our View:

A decline in trade activities, slowdown in the global economy, or 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)	22,766 / 610
Major Shareholders (%)	
Globex Corp Ltd	28.4
Stock Exchange of Th	10.1
GRAIN TRADE CO LTD	8.3
Free Float (%)	47.6
3m Avg. Daily Val (US\$m)	5.3
GIC Industry : Industrials / Transportation	



Watchlist the stock on Insights Direct to receive prompt updates

WHAT'S NEW

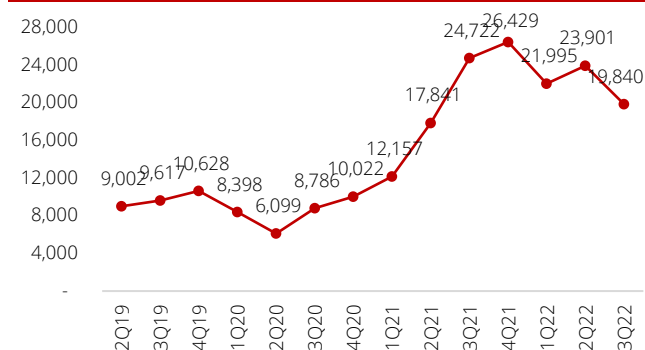
Weaker performance on lower TC rate

Weaker performance from decline in TC rate in 3Q22: PSL delivered weaker net profit of Bt1.35bn, dropping 10.2% y-o-y and declining 18.8% q-o-q. Stripping out extraordinary items mainly from FX gain, PSL normalised net profit stood at Bt1.3bn in 3Q22, lowering 14% y-o-y and decreasing 20% q-o-q. 9M22 earnings totalled Bt4.3bn (+59% y-o-y) and accounted for 90% of our FY22F earnings forecast.

The weaker 3Q22 earnings was mainly on the back of lower revenue arising from declining TC rates that dropped to USD\$19,840/day per ship (-19.7% y-o-y, -17% q-o-q), and a slightly higher OPEX of US\$5,159/day/ship (+0.4% y-o-y, +10% q-o-q) mainly from the Baht depreciation against the USD.

The company's net gearing ratio remained at a healthy level at 0.35x at end-3Q22 vs. 0.4x at end-4Q21.

PSL's quarterly average TC rate (US\$/day/ship)

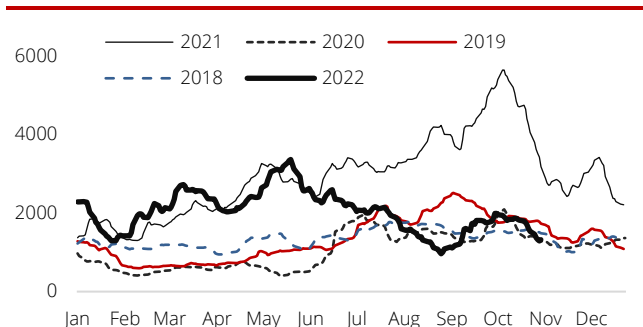


Source: Company, DBSVTH

BDI, BSI, and BHSI are still normalizing amid global economic uncertainties. Dry bulk rates have continued to trend down after peaking in May for the year 2022. The BDI stood at 1,323 on 4 November 2022, averaging 1,678 YTD.

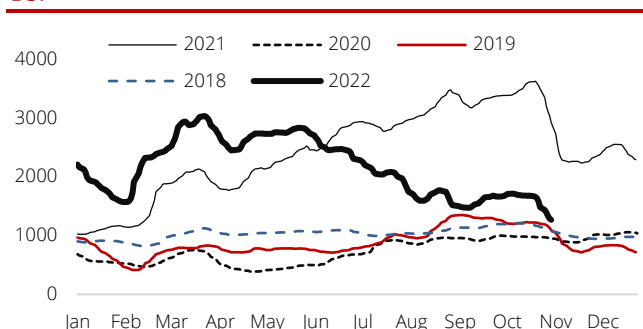
The BSI stood at 1,268 as of 4 November, averaging 1,740 YTD. Similar to BDI, the BSI started to trend down and is still now below the level y-o-y. The BHSI stood at 836 as for the same period with a YTD average at 1,018.

BDI



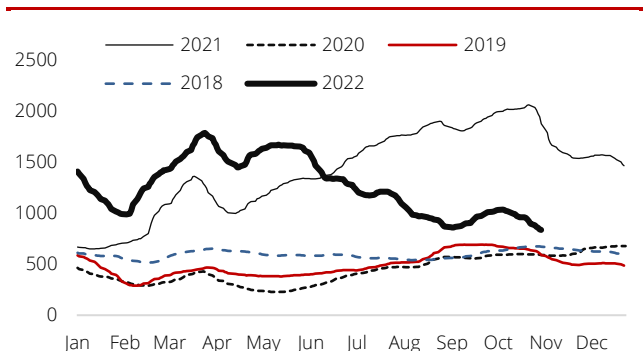
Source: Bloomberg Finance L.P., company, DBSVTH

BSI



Source: Bloomberg Finance L.P., company, DBSVTH

BHSI



Source: Bloomberg Finance L.P., company, DBSVTH

Weaker 4Q22F earnings expected from freight rate trending down, coupled with a high base. The TC rate for PSL had peaked in 4Q21 at USD\$26,429/day per ship, while current TC rate for handysize vessel stands at around

Precious Shipping

USD\$14,376/day per ship in November 2022. As a result, we expect 4Q22F earnings to plunge y-o-y and q-o-q.

Negative ton-mile demand growth in FY22F but demand growth to still surpass supply growth in FY23F, though at a slower pace than previously expected. Dry bulk seasonality has been unusual in 2H22F so far due to demand headwinds from global economic uncertainties especially from China, energy crisis in Europe and the ongoing Russia-Ukraine war. Port congestion has also been easing. The Port Congestion index dropped to 31% in mid-October from 36% in April and is closing the gap to pre-Covid level of 30%, according to Clarksons.

Similarly, Clarksons has now projected ton-mile demand to contract c.-0.5% in FY22F vs. ton-mile demand growth previously with net supply growth at 2.7% (also lower than previously expected). Looking into FY23F, several headwinds are likely to persist, but Clarksons is still forecasting ton-mile demand growth in FY23F of c.1.4%, surpassing net supply growth of 0.5%, but this is lower rate compared to previously expected.

Cutting our FY23F earnings by 34% on slower-than-expected TC rate and weaker global economic outlook. Our FY22F earnings forecast are intact. But due to weaker-than-expected TC rates outlook and to factor in more conservative assumptions, we cut our FY23F earnings by 34% to Bt2.4bn, as we have lowered TC rate assumption to US\$14,815/day/ship from US\$17,593/day/ship in FY23F, and expect earnings to drop 48% y-o-y.

PSL: Earnings forecast revision

(Btm)	Previous		Revised		% change	
	FY22F	FY23F	FY22F	FY23F	FY22F	FY23F
Revenue	9,168	8,137	9,168	6,853	0%	-16%
Net profit	4,696	3,682	4,696	2,437	0%	-34%
TC rate*	20,370	17,593	20,370	14,815	0%	-16%

*US\$/day/ship

Source of all data: Company, DBSVTH

Maintain HOLD with a lower TP of Bt15.50. We believe that freight rates have peaked out as the market normalises amid global economic uncertainties and several headwinds. However, we expect TC rates to still stand at a healthy rate and above its breakeven point. Coupled with generous dividend yields of 6%-7% for FY23F-24F based on a conservative DPS assumption of Bt1.0, we maintain our HOLD recommendation with a lower TP of Bt15.50, pegged to 1.4x FY22F BVPS.

Company Background

Precious Shipping (PSL) is a purely 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 the 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 vessels that it owns under its operations.

Historical PB band



Source: Bloomberg Finance L.P., DBSVTH estimates

Precious Shipping

Quarterly / Interim Income Statement (Btm)

FY Dec	3Q2021	2Q2022	3Q2022	% chg yoy	% chg qoq
Revenue	2,639	2,616	2,500	(5.3)	(4.5)
Cost of Goods Sold	(510)	(456)	(630)	23.4	38.0
Gross Profit	2,128	2,160	1,870	(12.1)	(13.4)
Other Oper. (Exp)/Inc	(169)	(116)	(118)	(29.9)	1.7
Operating Profit	1,643	1,725	1,394	(15.2)	(19.2)
Other Non Opg (Exp)/Inc	0.04	1.10	1.70	3,844.2	53.6
Associates & JV Inc	6.52	6.61	10.2	56.0	53.8
Net Interest (Exp)/Inc	(112)	(94.8)	(107)	4.6	(12.4)
Exceptional Gain/(Loss)	(29.5)	16.6	37.6	nm	127.1
Pre-tax Profit	1,509	1,656	1,339	(11.3)	(19.1)
Tax	(7.4)	4.14	9.40	nm	127.1
Minority Interest	0.0	0.0	0.0	nm	nm
Net Profit	1,501	1,660	1,348	(10.2)	(18.8)
Net profit bef Except.	1,531	1,643	1,310	(14.4)	(20.3)
EBITDA	1,966	2,052	1,765	(10.2)	(14.0)
Margins (%)					
Gross Margins	80.7	82.6	74.8		
Opg Profit Margins	62.3	65.9	55.8		
Net Profit Margins	56.9	63.4	53.9		

Source of all data: Company, DBSVTH

Precious Shipping

Key Assumptions

FY Dec	2020A	2021A	2022F	2023F	2024F
No. of vessels	36	36	36	38	38
TC rate/day/ship (USD)	8,332	20,338	20,370	14,815	13,889
Opex/day/ship (USD)	4,705	5,090	5,090	5,090	5,090
Depreciation (Btm)	1,213	1,214	1,235	1,242	1,242
Baht/US\$	31.00	31.50	34.00	34.00	34.00

Segmental Breakdown

FY Dec	2020A	2021A	2022F	2023F	2024F
Revenues (Btm)					
Vessel operating	3,726	8,612	9,164	6,848	6,568
Service	3.77	3.63	4.11	4.64	5.24
Total	3,730	8,615	9,168	6,853	6,573

Income Statement (Btm)

FY Dec	2020A	2021A	2022F	2023F	2024F
Revenue	3,730	8,615	9,168	6,853	6,573
Cost of Goods Sold	(2,013)	(2,091)	(2,270)	(2,332)	(2,386)
Gross Profit	1,717	6,525	6,898	4,521	4,187
Other Opng (Exp)/Inc	(336)	(581)	(612)	(587)	(604)
Operating Profit	168	4,730	5,051	2,691	2,333
Other Non Opng (Exp)/Inc	8.52	1.87	1.96	2.06	2.16
Associates & JV Inc	10.8	22.8	22.8	22.8	22.8
Net Interest (Exp)/Inc	(597)	(415)	(335)	(257)	(218)
Exceptional Gain/(Loss)	(705)	108	0.0	0.0	0.0
Pre-tax Profit	(1,114)	4,450	4,743	2,461	2,141
Tax	(181)	25.4	(47.2)	(24.4)	(21.2)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	(1,295)	4,475	4,696	2,437	2,120
Net Profit before Except.	(590)	4,367	4,696	2,437	2,120
EBITDA	1,401	5,970	6,312	3,960	3,609
Growth					
Revenue Gth (%)	(10.2)	131.0	6.4	(25.2)	(4.1)
EBITDA Gth (%)	(16.0)	326.0	5.7	(37.3)	(8.9)
Opg Profit Gth (%)	(61.1)	2,708.6	6.8	(46.7)	(13.3)
Net Profit Gth (Pre-ex) (%)	(163.9)	nm	7.5	(48.1)	(13.0)
Margins & Ratio					
Gross Margins (%)	46.0	75.7	75.2	66.0	63.7
Opg Profit Margin (%)	4.5	54.9	55.1	39.3	35.5
Net Profit Margin (%)	(34.7)	51.9	51.2	35.6	32.3
ROAE (%)	(11.9)	36.5	30.6	14.5	12.1
ROA (%)	(5.6)	19.9	19.9	10.4	9.1
ROCE (%)	0.7	21.7	21.6	11.6	10.1
Div Payout Ratio (%)	N/A	61.0	49.8	64.0	73.5
Net Interest Cover (x)	0.3	11.4	15.1	10.5	10.7

Source: Company, DBSVTH

Precious Shipping

Quarterly Income Statement (Btm)

FY Dec	3Q2021	4Q2021	1Q2022	2Q2022	3Q2022
Revenue	2,639	2,812	2,281	2,616	2,500
Cost of Goods Sold	(510)	(500)	(470)	(456)	(630)
Gross Profit	2,128	2,313	1,811	2,160	1,870
Other Oper. (Exp)/Inc	(169)	(170)	(131)	(116)	(118)
Operating Profit	1,643	1,831	1,383	1,725	1,394
Other Non Opg (Exp)/Inc	0.04	0.92	0.94	1.10	1.70
Associates & JV Inc	6.52	8.22	1.88	6.61	10.2
Net Interest (Exp)/Inc	(112)	(78.0)	(81.9)	(94.8)	(107)
Exceptional Gain/(Loss)	(29.5)	8.85	(9.2)	16.6	37.6
Pre-tax Profit	1,509	1,772	1,296	1,656	1,339
Tax	(7.4)	0.53	(2.3)	4.14	9.40
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Profit	1,501	1,772	1,294	1,660	1,348
Net profit bef Except.	1,531	1,763	1,303	1,643	1,310
EBITDA	1,966	2,152	1,684	2,052	1,765

Growth

Revenue Gth (%)	37.5	6.6	(18.9)	14.7	(4.5)
EBITDA Gth (%)	67.2	9.5	(21.8)	21.9	(14.0)
Opg Profit Gth (%)	88.4	11.4	(24.5)	24.8	(19.2)
Net Profit Gth (Pre-ex) (%)	96.1	15.2	(26.1)	26.1	(20.3)

Margins

Gross Margins (%)	80.7	82.2	79.4	82.6	74.8
Opg Profit Margins (%)	62.3	65.1	60.6	65.9	55.8
Net Profit Margins (%)	56.9	63.0	56.7	63.4	53.9

Balance Sheet (Btm)

FY Dec	2020A	2021A	2022F	2023F	2024F
Net Fixed Assets	19,125	20,285	19,750	18,758	17,759
Invts in Associates & JVs	74.3	91.2	114	137	160
Other LT Assets	260	345	362	380	399
Cash & ST Invts	1,100	2,468	3,187	3,387	4,936
Inventory	34.6	21.6	30.5	31.4	32.1
Debtors	169	175	183	137	131
Other Current Assets	634	144	152	159	167
Total Assets	21,397	23,531	23,779	22,989	23,583
ST Debt	2,436	1,409	1,000	500	500
Creditor	277	354	345	354	362
Other Current Liab	627	154	155	157	158
LT Debt	7,606	6,824	5,500	4,300	4,300
Other LT Liabilities	318	425	447	469	492
Shareholder's Equity	10,134	14,365	16,332	17,209	17,770
Minority Interests	0.03	0.04	0.04	0.04	0.04
Total Cap. & Liab.	21,397	23,531	23,779	22,989	23,583
Non-Cash Wkg. Capital	(66.4)	(167)	(135)	(184)	(190)
Net Cash/(Debt)	(8,941)	(5,764)	(3,313)	(1,413)	136
Debtors Turn (avg days)	17.2	7.3	7.1	8.5	7.4
Creditors Turn (avg days)	183.6	131.3	123.3	117.0	115.1
Inventory Turn (avg days)	48.2	11.7	9.2	10.4	10.2
Asset Turnover (x)	0.2	0.4	0.4	0.3	0.3
Current Ratio (x)	0.6	1.5	2.4	3.7	5.2
Quick Ratio (x)	0.4	1.4	2.2	3.5	5.0
Net Debt/Equity (X)	0.9	0.4	0.2	0.1	CASH
Net Debt/Equity ex MI (X)	0.9	0.4	0.2	0.1	CASH
Capex to Debt (%)	2.7	3.1	10.8	5.2	5.2
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBSVTH

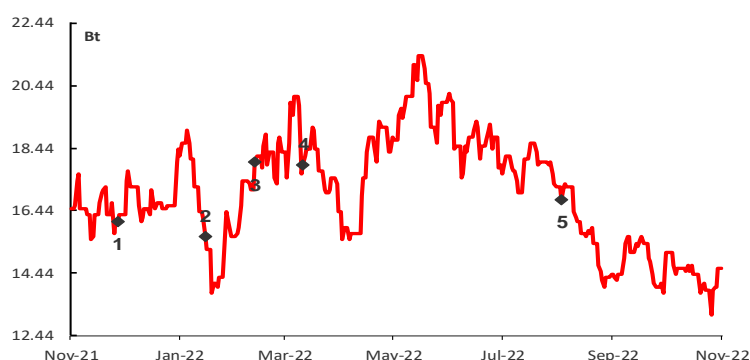
Precious Shipping

Cash Flow Statement (Btm)

FY Dec	2020A	2021A	2022F	2023F	2024F
Pre-Tax Profit	(1,114)	4,450	4,743	2,461	2,141
Dep. & Amort.	1,213	1,214	1,235	1,242	1,250
Tax Paid	0.0	0.0	0.0	0.0	0.0
Assoc. & JV Inc/(loss)	(10.8)	(22.8)	(22.8)	(22.8)	(22.8)
Chg in Wkg.Cap.	(10.8)	(22.8)	(22.8)	(22.8)	(22.8)
Other Operating CF	1,787	278	(56.3)	47.3	8.27
Net Operating CF	1,864	5,895	5,876	3,705	3,354
Capital Exp.(net)	(273)	(256)	(700)	(250)	(250)
Other Invs.(net)	3.16	0.0	0.0	0.0	0.0
Invs 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	1,267	20.6	(17.2)	(18.1)	(19.0)
Net Investing CF	997	(235)	(717)	(268)	(269)
Div Paid	0.0	0.0	(2,729)	(1,559)	(1,559)
Chg in Gross Debt	(2,294)	(2,186)	(1,732)	(1,700)	0.0
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(648)	(2,106)	21.3	22.3	23.4
Net Financing CF	(2,942)	(4,292)	(4,440)	(3,237)	(1,536)
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	(80.7)	1,368	719	200	1,549
Opg CFPS (Bt)	1.20	3.80	3.78	2.39	2.17
Free CFPS (Bt)	1.02	3.62	3.32	2.22	1.99

Source: Company, DBSVTH

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	02 Dec 21	16.10	18.90	BUY
2:	20 Jan 22	15.60	15.80	HOLD
3:	17 Feb 22	18.00	15.80	HOLD
4:	16 Mar 22	17.90	16.60	HOLD
5:	08 Aug 22	16.80	17.40	HOLD

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

Source: DBSVTH

Analyst: Leena Phaerakkakit






THAI-CAC
Corporate Governance CG Rating

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: 7 Nov 2022 07:22:54 (THA)

Dissemination Date: 7 Nov 2022 07:26:29 (THA)

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

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Precious Shipping

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