

SEPTEMBER 14, 2020

## Earnings upgrade

**Hold**

Catalyst: Neutral

2021E TP: Bt5.10

Close Bt4.34

## Improving sentiment

We lift PSL's earnings estimates in 2020-21E to reflect the better-than-expected performances of the BDI and TC rate. Meanwhile, we roll over PSL's TP to the 2021E performance at Bt5.10 (from 2020E TP of Bt3.70), based on P/BV of 0.7x (-1 S.D. below historical average). In light of the potential improvement in the earnings performance, we lift PSL's rating to Hold (from Sell earlier).

### QTD BDI rebound to help drive PSL's earnings in 2H20E

We expect PSL's earnings in 2H20E to improve from 1H20 thanks to the better performance of the BDI. Nevertheless, earnings are still likely to be in the red. In 3Q20 (QTD), the BDI stood at 1,520 points (-23% YoY, +99% QoQ), with the BHSI at 486 points (-16% YoY, +68% QoQ) and the BSI at 886 points (-20% YoY, +78% QoQ), given the rebound of commodity demand from China. As a result, we forecast the average TC rate to improve to USD9,000 and USD8,500 in 3Q20E and 4Q20E, respectively, vs. USD7,249 in 1H20.

### BDI improvement to continue

The BDI rebounded strongly in 2Q20 to 783 points (vs. 592 points in 1Q20) thanks to improving demand from China and an increase in scrapping activities. We believe this factor, on top of seasonality, will help drive the BDI's performance in the rest of this year. We maintain our view that the BDI will increase further in 2021E on the back of global demand growth for bulk ships outpacing supply growth next year.

### Upward earnings revision

Based on the better-than-expected performances of the BDI, BHSI and BSI, we revise up PSL's TC rate in 2020-21E to USD8,000 and USD11,500 (vs. USD7,500 and USD11,000 previously). As a result, we revise PSL's earnings in 2020E to a net loss of Bt669mn (from -Bt799mn previously) and lift the earnings forecast in 2021E to Bt374mn (vs. Bt220mn previously). Based on this forecast, PSL should report a core loss of Bt216mn in 2H20E (vs. a core loss of Bt452mn in 1H20).


### Financial Valuations

FY Ended 31 Dec	2018	2019	2020E	2021E	2022E
Sales (Btmn)	4,933	4,152	3,578	4,994	5,401
Core Profit (Btmn)	462	(228)	(669)	374	648
Net Profit (Btmn)	456	(223)	(1,521)	374	648
Core EPS(Bt)	0.30	(0.14)	(0.43)	0.24	0.42
Core EPS growth (%)	NM	NM	NM	NM	72.9
EPS (Bt)	0.29	(0.15)	(0.98)	0.24	0.42
EPS growth (%)	NM	NM	NM	NM	72.9
Dividend (Bt)	0.00	0.00	0.00	0.00	0.29
BV(Bt)	8.14	7.41	6.99	7.23	7.35
PER(x)	14.66	NM	NM	18.07	10.45
EV/EBITDA(x)	8.07	11.29	16.26	7.70	6.01
PBV(x)	0.53	0.59	0.62	0.60	0.59
Dividend yield (%)	0.00	0.00	0.00	0.00	6.70
ROE(%)	3.69	(1.84)	(5.96)	3.38	5.70
Net gearing (%)	100.00	99.33	107.82	90.03	73.69

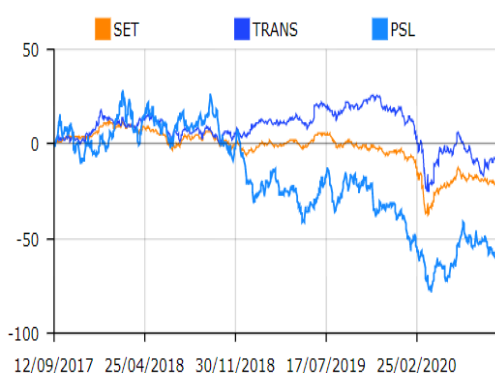
### Share data

	FY20	FY21
Consensus EPS (Bt)	-0.340	0.181
KTZ vs. consensus	26.5%	32.6%

Reuters / Bloomberg	PSL.BK/PSL TB
Paid-up Shares (m)	1,559.29
Par (Bt)	1.00
Market cap (Btbn/USDm)	7.00/216.00
Foreign limit/actual (%)	49.00/30.11
52-week High/Low (Bt)	9.40/2.38
Avg. daily T/O(shares 000)	13,083.00
NVDR (%)	4.64
Estimated free float (%)	46.81
Beta	1.26
URL	www.preciousshipping.com
CGR	
Anti-corruption	Level 4 (Certified)

### Price Performance



Source: SET Smart

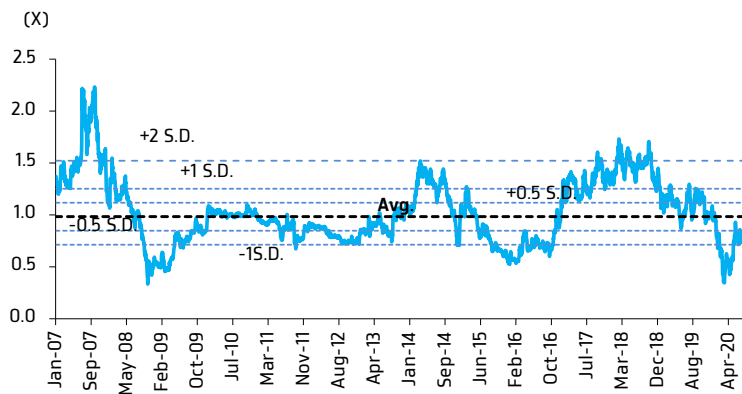
**Note: An executive of Krungthai Zmico Securities is also a member of PSL's board.**

Raenoo Bhandasukdi, no. 17989

Raenoob@ktzmico.com

66 (0)2-695-5836

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



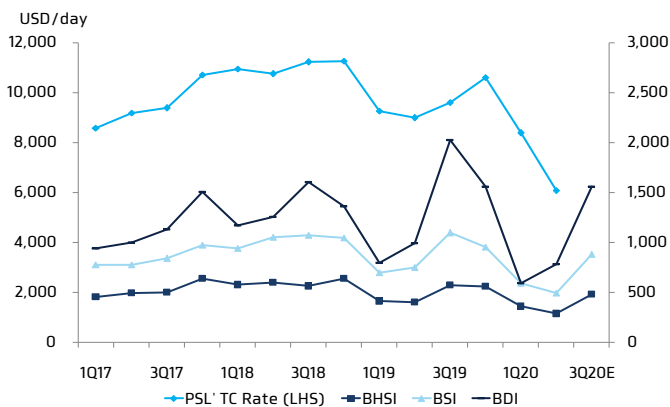
	2021E P/BV (x)	Implied market price (Bt)	Upside/Downside vs. current market price (%)
Average	0.98	7.11	54.6
-0.5SD	0.85	6.14	33.4
-1.0SD	0.71	5.16	12.2
-1.5SD	0.58	4.19	-9.0
-2.0SD	0.44	3.21	-30.2
-2.5SD	0.31	2.24	-51.4
-3.0SD	0.04	0.29	-93.8

Sources: Bloomberg, KTZ Research

**QTD rebound of Handysize & Supramax rates to help drive PSL's earnings in 2H20E**

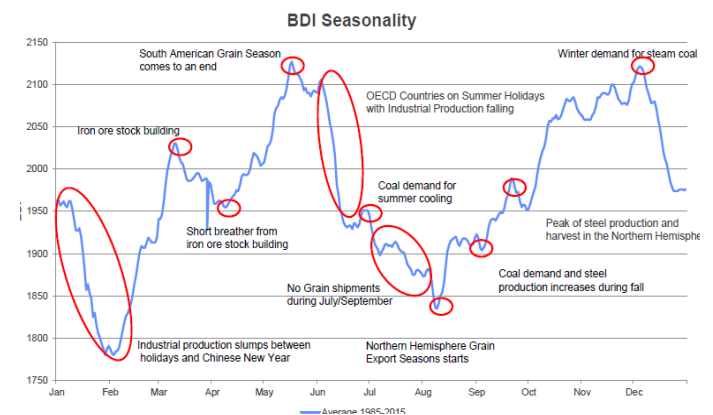
We expect PSL's earnings in 2H20E to improve from 1H20 thanks to the better performances of the BDI, BHSI and BSI. Nevertheless, its earnings are still likely to be in the red. In 3Q20 (QTD), the BDI stood at 1,520 points (-23% YoY, +99% QoQ), with the Handysize Index (BHSI) at 486 points (-16% YoY, +68% QoQ) and the Supramax Index (BSI) at 886 points (-20% YoY, +78% QoQ). The improvement of the BDI (from the previous quarter) came mainly from the rebound of commodity demand from China after having been hurt by the COVID-19 outbreak and the lockdowns in April-May. Note that PSL reported an average TC rate (per day per vessel) of USD7,249 in 1H20, but we expect the TC rate to improve to USD9,000 and USD8,500 in 3Q20E and 4Q20E, respectively.

Figure 2: PSL's TC rate vs. BDI



Source: PSL

Figure 3: Baltic Dry Index (BDI) - seasonality

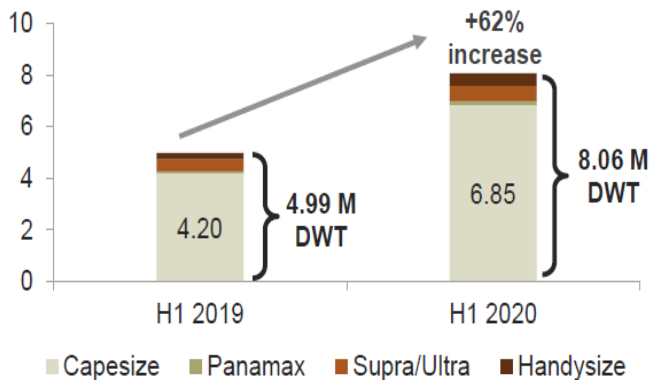


Source: PSL

### Improvement in demand from China to continue to drive BDI in 2H20E

The BDI rebounded strongly in 2Q20 to 783 points (vs. 592 points in 1Q20) thanks to improving demand from China and an increase in scrapping activities. According to PSL, dry-bulk scrapping picked up significantly (+62%) to 8.06mn DWT in 1H20 in response to the COVID-19 outbreak, especially in the Capesize sector. As a result, scrap prices in the Indian subcontinent declined in March through May but have since started to recover. However, PSL maintains its forecast for dry-bulk fleet supply growth of over 4% in 2020E (vs. the 2-3% fleet growth expected by Clarksons, a research expert in the shipping sector).

Figure 4: Scrapping volume (DWTmn)



Source: PSL

Figure 5: Scrap prices (USD/ton)



Source: PSL

We believe the BDI will continue to improve in the rest of this year thanks to the seasonal peak for the bulk ship industry (and the BDI) starting from August onward (the grain export season starts in August and steel production increases during fall). In 1H20, the strong increase in the BDI came mainly from improving demand from China for iron ore, steel and grains (soybean). We expect this trend to continue supporting the BDI's performance in 2H20E. It should be noted that China's coal imports this year are unlikely to increase much, thanks to higher power generation from hydroelectric power plants as well as increasing domestic coal production and inventory.

We maintain our view that the BDI will increase further in 2021E on the back of global demand growth for bulk ships outpacing supply growth next year. We forecast bulk ship demand growth of -4% and +4% in 2020-21E, based on the -5% and +5% global GDP growth forecasts by the IMF. Meanwhile, supply growth is projected to mark at +4.4% and +1.5% in 2020-21E, based on PSL's estimates (order bookings with 18% delivery slippage and scrapping of 16mn DWT per year).

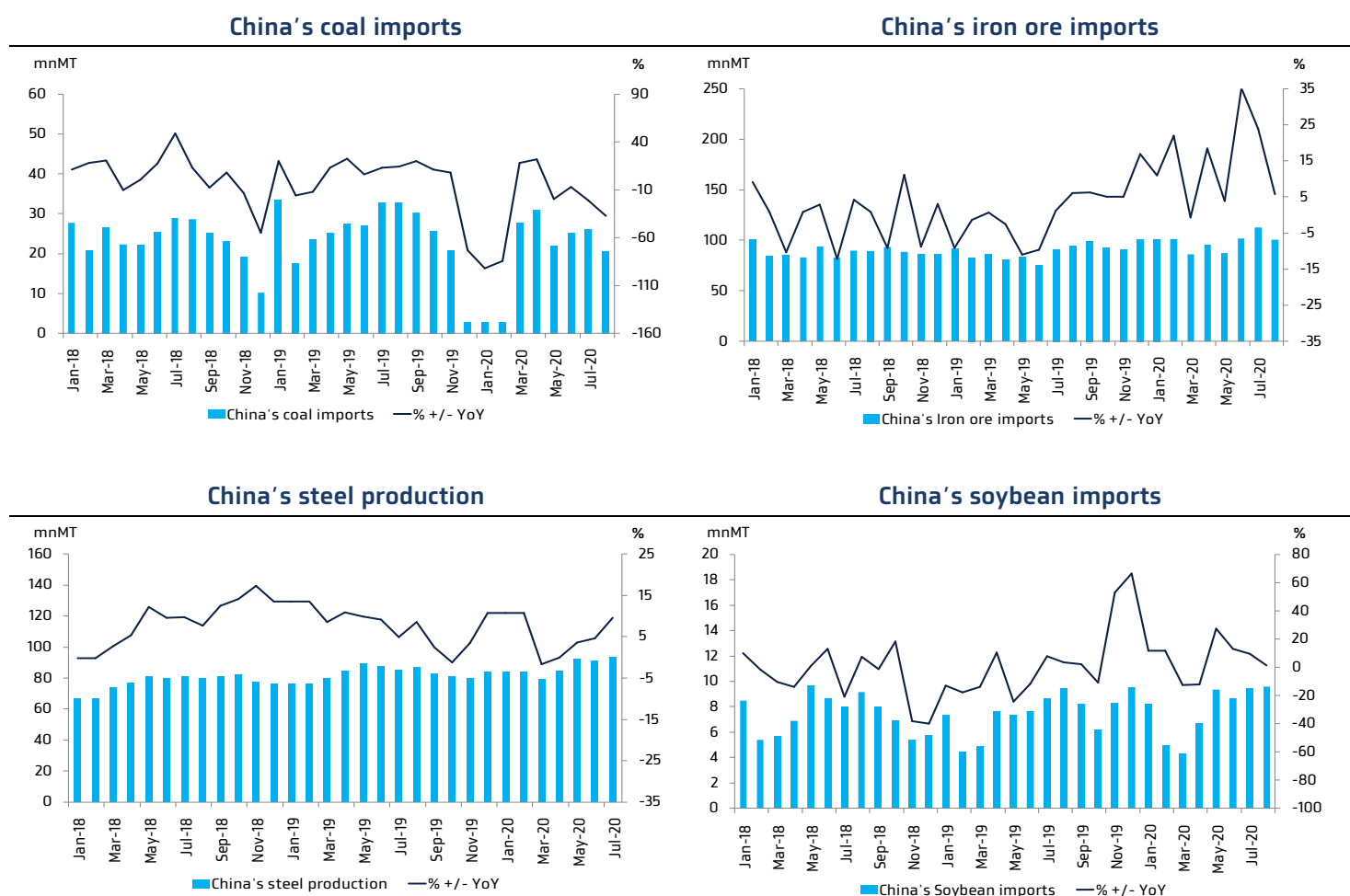
Figure 6: Demand & supply growth vs. BDI

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020E	2021E
Supply growth (%)	16.5	13.9	11.2	6.2	4.8	2.4	2.4	2.9	3.4	3.9	4.4	1.5
Demand growth (%)	11.7	6.6	5.8	6.5	5.5	(0.2)	1.5	4.1	2.7	0.8	(4.0)	4.1
Demand - Supply (%)	(4.8)	(7.3)	(5.4)	(0.4)	0.7	(2.2)	(0.9)	1.1	(0.6)	(3.1)	(8.4)	2.6
Average BDI (points)	2,758	1,549	920	1,206	1,105	719	673	1,145	1,353	1,353	928*	
% +/-	5.4	(43.8)	(40.6)	31.1	(8.4)	(34.9)	(6.4)	70.1	18.2	0.0	(31.4)	

Sources: PSL, TTA, KTZ Research

Note \*: Average BDI (YTD)

Figure 7: China’s major imported products by month



Sources: Bloomberg, PSL, Reuters

**Upward earnings revision**

Based on the better-than-expected performances of the BDI, BHSI and BSI, we decide to revise up PSL’s TC rate in 2020-21E to USD8,000 and USD11,500 (vs. USD7,500 and USD11,000 previously). As a result, we revise PSL’s earnings in 2020E to a net loss of Bt669mn (from -Bt799mn previously) and lift PSL’s earnings in 2021E to Bt374mn (vs. Bt220mn previously). Based on this forecast, PSL should report a core loss of Bt216mn in 2H20E (vs. a core loss of Bt452mn in 1H20).

Figure 8: 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	36	36			
Average TC rate (USD/day)	8,000	11,500	12,500	7,500	11,000	11,500	10.7	4.5	8.7
% +/-	(16.9)	43.8	8.7	(22.1)	46.7	4.5			
Opex (USD/day)	4,750	4,869	4,992	4,750	4,869	4,992			
% +/-	(0.6)	2.5	2.5	(0.6)	2.5	2.5			
Net profit (Btmn)	(669)	374	648	(799)	220	402	16.3	70.0	61.2






Source: KTZ Research

## Financial Table

PROFIT & LOSS (Btmn)	2018	2019	2020E	2021E	2022E
<b>Revenues</b>	<b>4,933</b>	<b>4,152</b>	<b>3,578</b>	<b>4,994</b>	<b>5,401</b>
Cost of sales and service	(3,256)	(3,173)	(3,185)	(3,480)	(3,550)
<b>Gross profit</b>	<b>1,677</b>	<b>979</b>	<b>393</b>	<b>1,514</b>	<b>1,851</b>
SG&A	(449)	(547)	(458)	(540)	(564)
<b>EBITDA</b>	<b>2,413</b>	<b>1,616</b>	<b>1,138</b>	<b>2,197</b>	<b>2,531</b>
Depreciation & amortization	(1,185)	(1,183)	(1,203)	(1,223)	(1,243)
<b>EBIT</b>	<b>1,228</b>	<b>433</b>	<b>(65)</b>	<b>974</b>	<b>1,287</b>
Interest expense	(826)	(703)	(628)	(628)	(670)
Other income / exp.	37	31	12	11	12
<b>EBT</b>	<b>439</b>	<b>(240)</b>	<b>(681)</b>	<b>357</b>	<b>629</b>
Corporate tax	(2)	(3)	0	0	0
Forex gain (loss)	(5)	(6)	0	0	0
Extra Items	0	0	(851)	0	0
Gain (loss) from affiliates	24	20	12	17	18
Minority interests	(0)	(0)	(0)	0	0
<b>Net profit</b>	<b>456</b>	<b>(228)</b>	<b>(1,520)</b>	<b>374</b>	<b>648</b>
Reported EPS	0.29	(0.15)	(0.97)	0.24	0.42
Fully diluted EPS	0.29	(0.15)	(0.97)	0.24	0.42
<b>Core net profit</b>	<b>462</b>	<b>(223)</b>	<b>(669)</b>	<b>374</b>	<b>648</b>
Core EPS	0.30	(0.14)	(0.43)	0.24	0.42
Dividend (Bt)	0.00	0.00	0.00	0.00	0.29
<b>BALANCE SHEET (Btmn)</b>	<b>2018</b>	<b>2019</b>	<b>2020E</b>	<b>2021E</b>	<b>2022E</b>
Cash and equivalents	1,843	1,181	397	987	545
Accounts receivable	254	183	188	263	284
Inventories	96	176	85	97	99
PP&E-net	24,613	22,145	19,849	18,725	17,355
Other assets	1,031	1,375	3,265	3,265	3,265
<b>Total assets</b>	<b>27,837</b>	<b>25,061</b>	<b>23,785</b>	<b>23,337</b>	<b>21,548</b>
ST debt & current portion	1,877	4,085	2,615	4,575	7,010
Long-term debt	12,661	8,577	9,527	6,557	1,981
<b>Total liabilities</b>	<b>15,141</b>	<b>13,502</b>	<b>12,890</b>	<b>12,070</b>	<b>10,086</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>10,894</b>	<b>11,268</b>	<b>11,462</b>
Minority interests	0	0	0	0	0
<b>Total liab. &amp; shareholder equity</b>	<b>27,837</b>	<b>25,060</b>	<b>23,784</b>	<b>23,337</b>	<b>21,548</b>
<b>CASH FLOW (Btmn)</b>	<b>2018</b>	<b>2019</b>	<b>2020E</b>	<b>2021E</b>	<b>2022E</b>
Net income	456	(228)	(1,520)	374	648
Forex and other extraordinary adjustments	41	83	0	0	0
Depreciation & amortization	1,185	1,183	1,203	1,223	1,243
Change in working capital	574	852	152	103	134
<b>Cash flow from operations</b>	<b>2,256</b>	<b>1,890</b>	<b>(164)</b>	<b>1,701</b>	<b>2,025</b>
Capex (Invest)/Divest	(272)	(427)	(100)	(100)	(100)
Others	0	0	0	0	0
<b>Cash flow from investing</b>	<b>(272)</b>	<b>(427)</b>	<b>(100)</b>	<b>(100)</b>	<b>(100)</b>
Debt financing (repayment)	(1,996)	(2,125)	(520)	(1,010)	(2,141)
Equity financing	0	0	0	0	0
Dividend payment	0	0	0	0	(227)
Others	0	0	0	0	0
<b>Cash flow from financing</b>	<b>(1,996)</b>	<b>(2,125)</b>	<b>(520)</b>	<b>(1,010)</b>	<b>(2,367)</b>
Net change in cash	(11)	(662)	(784)	590	(443)
<b>Free cash flow</b>	<b>1,984</b>	<b>1,463</b>	<b>-264</b>	<b>1,601</b>	<b>1,925</b>
<b>FCF per share (Bt)</b>	<b>1.27</b>	<b>0.94</b>	<b>-0.17</b>	<b>1.03</b>	<b>1.23</b>
<b>PROFITABILITY</b>	<b>2018</b>	<b>2019</b>	<b>2020E</b>	<b>2021E</b>	<b>2022E</b>
Revenue growth (%)	13.9	(15.8)	(13.8)	39.6	8.2
EBITDA growth (%)	24.7	(33.0)	(29.6)	93.1	15.2
EPS growth (%)	NM	NM	NM	NM	73.3
Gross margin (%)	34.0	23.6	11.0	30.3	34.3
EBITDA margin (%)	48.9	38.9	31.8	44.0	46.8
Operating margin (%)	24.9	10.4	(1.8)	19.5	23.8
Net margin (%)	9.2	(5.5)	(42.5)	7.5	12.0
Core profit margin (%)	9.4	(5.4)	(18.7)	7.5	12.0
Effective tax rate (%)	0.5	(1.2)	0.0	0.0	0.0

**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 and ASAP.

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**

**Disclaimer**

This document is produced using open sources believed to be reliable. However, their accuracy and completeness cannot be guaranteed. The statements and opinions herein were formed after due and careful consideration for use as information for the purposes of investment. The opinions contained herein are subject to change without notice. This document is not, and should not be construed as, an offer or the solicitation of an offer to buy or sell any securities. The use of any information contained in this document shall be at the sole discretion and risk of the user.

**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.