

PSL: Positive Outlook for Dry Bulk Carrier Market in 2021-22E



We expect the PSL's earnings to turn positive in 4Q20 as TC rate is recovering back to above breakeven level owing to strong demand recovery after the pandemic and easing fleet supply glut issue. Looking forward to 2021E, we forecast the company to book the annual net profit for the first time in the past three years driven by the same factor mentioned above.

- Positive outlook for TC rate in 2021
- Recovery in demand side
- Revise up earnings by 570% in 2021E and 47% in 2022E.

We maintain our BUY rating with a new target price of Bt10.0 (Previous TP: Bt7.10) derived from 1.43xPBV'21E, equivalent to +1S.D. of ten year average historical PBV. We forecast core earnings to turn positive in 2021E onwards on the back of TC rate recovery following an improving global fleet demand-supply balance.

Valuation table

Year end Dec	18A	19A	20E	21E	22E
PE (x)	29.7	nm	nm	23.3	19.2
Recurring net profit growth (%)	nm	nm	nm	nm	21.3
Recurring EPS (Bt)	0.3	(0.1)	(0.2)	0.4	0.5
Recurring EPS growth (%)	nm	nm	nm	nm	21.3
PBV (x)	1.1	1.2	1.3	1.3	1.2
BVPS (Bt)	8.1	7.4	6.6	7.0	7.5
ROE (%)	3.6	(1.9)	(11.1)	5.5	6.3
DPS (Bt)	-	-	-	-	-
Dividend yield (%)	na	na	na	na	na
Enterprise value (Bt m)	26,417	25,203	24,601	22,778	21,304
EV-to-EBITDA (x)	10.8	15.4	17.7	9.7	8.9

Precious Shipping PCL

Recommendation: BUY

Current price: Bt8.80

Target price 2021: Bt10.0

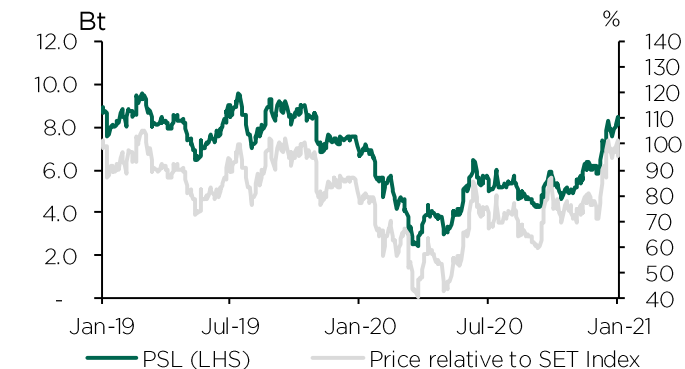
Up/(downside): 14%

IOD: 5/5

CAC: Declared

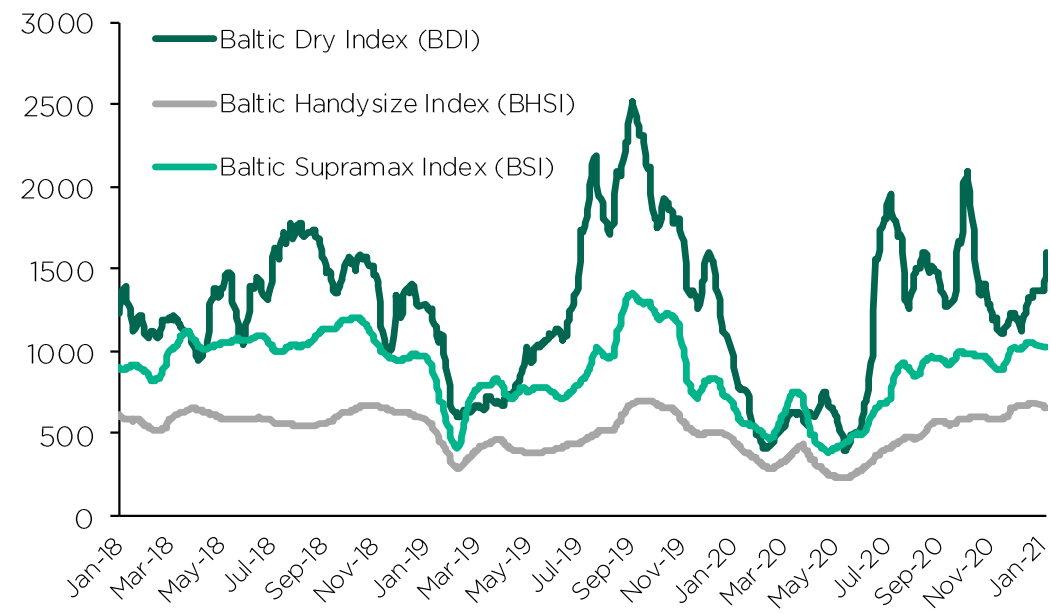
Stock data

RIC code	PSL.BK
Index	.SETI
SET Index (8 January 2021)	1,536.44
Market cap (Bt m)	12,630
Shares outstanding (million)	1,559
Par (Bt)	1.00



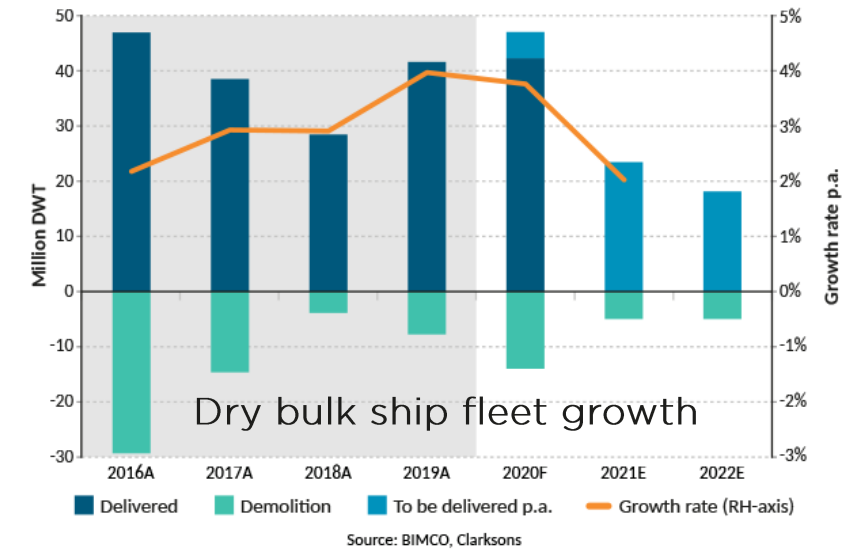
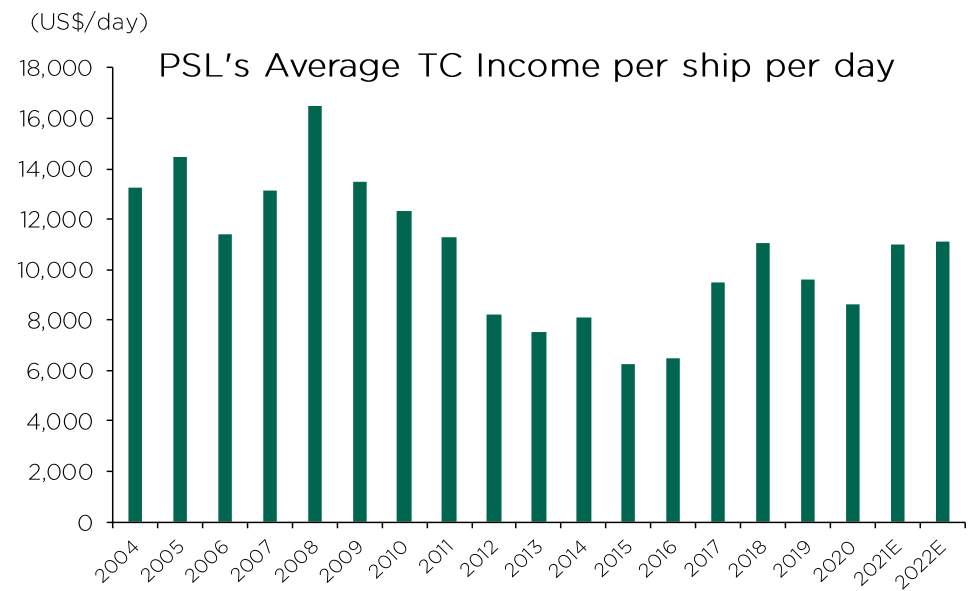
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Easing vessels supply issue support TC rate recovery in 2021-22E

We expect PSL's average charter rate for 2021E to recover strongly from 2020 doldrums after being hit by the pandemic. We estimate the average rate at \$US11,021/day (+28%YoY from \$US8,641 per day in 2020E) supported by easing fleet supply glut issue given; 1.) a gradual reduction in number of new ships to be delivered to global fleet in the next two years (+2.2% in 2021E, +1.8% in 2022E) after 3.5-3.8% growth in 2020E. and, 2.) a steep rise in percentage of 20-year old Handysize and Supramax vessels relative to the global Handy/Supra fleets, which will be heading to scrapping yards in near term (17% and 14% of global fleet will be more than 20 years by 2023 compared to 13% and 9% as of 2020). This will benefit the company's fleet earnings as the company's fleets are concentrated in these fleet types.



Sources: CGS Research, company data, BIMCO, Clarkson (BSI: Baltic Supramax Index, BHSI Baltic Handysize Index)

Story

Sales

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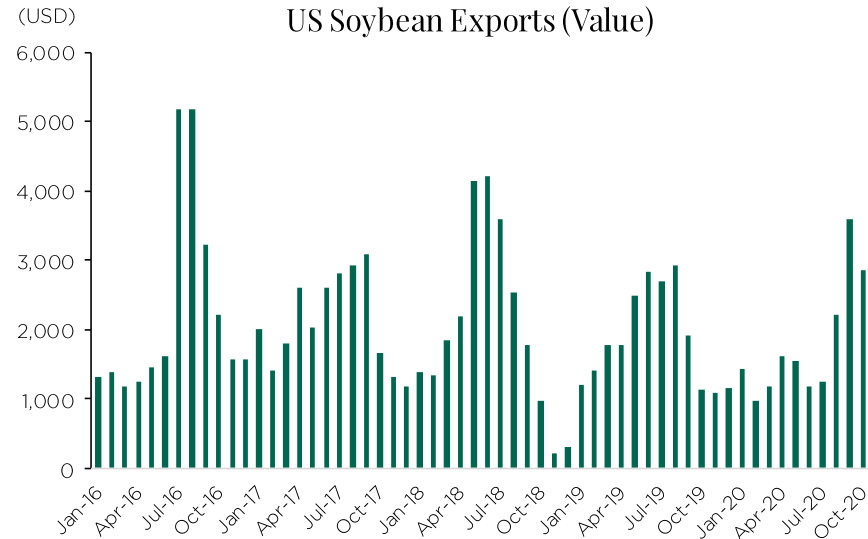
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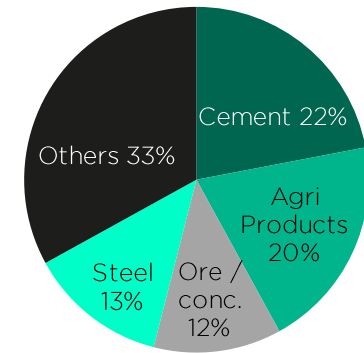
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PSL's Cargo Exposure By Commodities



Demand in major dry bulk trade remain solid

We are seeing positive signal in demand recovery for dry bulk seaborne trade mainly fueled by China economic rebound after the downturn induced by global virus widespread. PSL will benefit from the demand resurgence in major dry bulks such as iron ore, coal and grain which accounts for 70% of global drybulk trade volume. The global powerhouse's import value for iron ore and agriculture products have been increasing since 2Q20 and expected to increase throughout 2021 along the easing lockdown of major countries. PSL's charter rate are expected to outperform the market in 2021 as it has about a third of commodity exposure in agriculture products and ore & concentrate. Meanwhile, the company typical attributes will support the benchmark outperformance at the same time namely; 1) greater route optimization from its wide network coverage across all regions, and, 2) a younger fleet age compared with the industry, resulting in higher speed and efficiency.

PSL: Revise up earnings by 570% in 2021E

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	2020E			2021E			2022E		
	Revised	Previous	Change (%)	Revised	Previous	Change (%)	Revised	Previous	Change (%)
Financials									
Revenue (Bt mn)	3,875	3,948	(1.9)	5,013	4,466	12.2	5,066	4,828	4.9
Gross profit (Bt mn)	718	563	27.7	1,705	1,163	46.7	1,737	1,504	15.5
Net profit (Bt mn)	(1,214)	(538)	125.5	589	88	570.3	714	486	46.9
EPS (Bt/share)	(0.78)	(0.35)	125.5	0.38	0.06	570.3	0.46	0.31	46.9
Key financial ratios									
			Change			Change			Change
Revenue growth (%)	(6.7)	10.0	(16.6)	29.4	13.1	16.3	1.0	8.1	(7.1)
Gross profit margin (%)	18.5	14.2	4.3	34.0	26.0	8.0	34.3	31.2	3.1
SG&A to sales (%)	13.6	13.5	0.1	10.9	12.4	(1.5)	10.9	11.6	(0.7)
Net profit growth (%)	NA	NA	NA	NA	NA	NA	21.3	453.4	(432.1)
Net profit margin (%)	(31.3)	(13.6)	(17.7)	11.7	2.0	9.8	14.1	10.1	4.0

Revise earnings up by 47%-570% in 2020-22E respectively

We revise up PSL's net profit in 2021E and 2022E by 570% and 47% respectively in order to factor in; 1.) upward revenue revision by 12% as we raised TC rate assumptions in 2021E and 2022E by 14% and 6% to US\$11,021/day and US\$11,125/day respectively, 2.) Gross profit margins are assumed to increase to 34.0% and 34.3% during the same period as a result from upward revision in revenue while operating cost remain flat. However, we revised down net loss in 2020E to Bt1.2bn to factor in one-time loss worth Bt851m from ending arbitration with ship maker in 2Q20.



Background: Precious Shipping PCL established in 1989 and listed on the Stock Exchange of Thailand in 1993. The company owns and operates 36 dry bulk ships including 4 cement carriers, amounting to 1,585,805 DWT in aggregate. The Fleet comprises 20 ships that are registered under the Thai flag and 16 ships that are registered under the Singapore flag. There are 8 ships categorized in the Ultramax sector, 9 ships are in the Supramax sector and the balance 19 ships (including 4 cement carriers) are in the Handy Size sector of the dry bulk market.

PSL: Revenue breakdown

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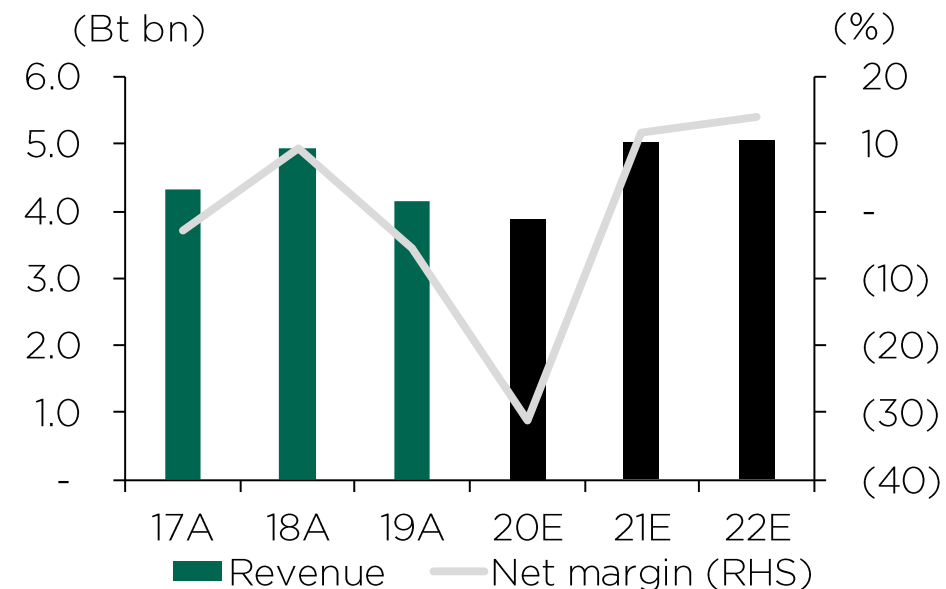
Value

Risks

Currently, the company operates 36 dry bulk ships with a total amount of 1,585,805 DWT. The Fleet comprises 20 ships that are registered under the Thai flag and 16 ships that are registered under the Singapore flag. PSL operates its fleet on a tramp-shipping basis, which covering all-region. Principal cargoes handled by the company are cement 33%, agricultural products 16%, steel 13%, fertilizers 7%, ore 11%, coal 8%, logs 3%, and other items 9%.

There are two types of the company's cargo service includes:

- Voyage Charter 92% revenue contribution: The charterer pays Freight to PSL to transport a particular cargo between two or more designated ports. In this case, PSL bears all the voyage costs, including the cost of bunker fuels.
- Time Charter 8% revenue contribution: The charterer would hire PSL to operate the vessel for an agreed time period. The charterer bears all voyage costs, including the cost of bunker fuels.

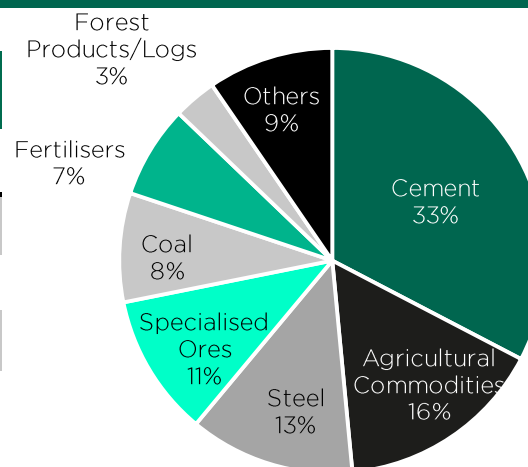


Revenue by cargoes carried, 2019

Revenue by type of services, 2019

PSL's Fleet

Types	DWT	No.
Ultramax	60,000-80,000	8
Supramax	50,000-60,000	9
Handymax	10,000-40,000	19
Total PSL's DWT	1,585,805	36



Voyage Charters
92%

Time Charters
8%

PSL: Summary financials

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Profit & loss (Bt m)	18A	19A	20E	21E	22E	Sep '19	Dec '19	Mar '20	Jun '20	Sep '20
Revenue	4,933	4,152	3,875	5,013	5,066	1,045	1,150	1,055	680	944
Cost of goods sold	(3,256)	(3,173)	(3,156)	(3,308)	(3,328)	(778)	(814)	(909)	(757)	(762)
Gross profit	1,677	979	718	1,705	1,737	267	337	146	(77)	182
SG&A	(449)	(547)	(527)	(548)	(553)	(129)	(167)	(121)	(82)	(75)
Other (exp)/inc	0	0	-	-	-	0	0	(0)	(0)	0
Operating profit	1,228	433	192	1,158	1,184	138	170	25	(158)	107
Finance cost	(826)	(703)	(601)	(574)	(500)	(183)	(150)	(172)	(158)	(145)
Other inc/(exp)	37	31	24	23	30	6	5	4	3	1
Earnings before taxes	439	(240)	(386)	607	714	(39)	25	(143)	(314)	(37)
Income tax	(2)	(3)	-	(6)	(7)	-	(3)	-	-	-
After-tax profit	437	(242)	(386)	601	707	(39)	22	(143)	(314)	(37)
Equity income	24	20	-	-	-	8	6	1	4	3
Minorities	(0)	(0)	25	(12)	7	-	(0)	-	0	-
Earnings from cont. operations	462	(222)	(362)	589	714	(30)	28	(142)	(310)	(35)
Forex gain/(loss) & unusual items	(5)	(6)	(852)	-	-	1	(2)	25	(873)	12
Net income	456	(228)	(1,214)	589	714	(29)	26	(117)	(1,183)	(22)
Recurring EPS (Bt)	0.30	(0.14)	(0.23)	0.38	0.46	(0.02)	0.02	(0.10)	(0.20)	(0.02)
Weighted average shares (m)	1,559	1,559	1,559	1,559	1,559	1,559	1,559	1,464	1,557	1,559
Balance sheet (Bt m)	18A	19A	20E	21E	22E	Sep '19	Dec '19	Mar '20	Jun '20	Sep '20
Assets	27,837	25,061	23,043	22,283	21,565	25,412	25,061	26,263	23,455	23,278
Liabilities	15,141	13,502	12,723	11,361	9,936	13,690	13,502	14,039	13,073	12,607
Equity	12,695	11,559	10,346	10,935	11,649	11,722	11,559	12,224	10,382	10,672
Invested capital	25,299	22,955	21,115	19,893	19,126	23,360	22,955	24,207	21,808	20,735
Growth (YoY, %)	18A	19A	20E	21E	22E	Sep '19	Dec '19	Mar '20	Jun '20	Sep '20
Revenue	13.9	(15.8)	(6.7)	29.4	1.0	(20.5)	(14.4)	11.1	(32.5)	(9.6)
Operating income	59.0	(64.7)	(55.8)	504.3	2.3	(56.9)	(48.5)	(74.5)	(707.1)	(22.6)
Recurring EPS	493.9	(148.2)	(62.5)	262.9	21.3	(128.1)	(81.6)	(81.9)	(125.8)	(14.7)
Assets	(3.5)	(10.0)	(8.0)	(3.3)	(3.2)	(8.8)	(10.0)	(2.7)	(9.9)	(8.4)
Liabilities	(8.2)	(10.8)	(5.8)	(10.7)	(12.5)	(10.7)	(10.8)	(3.9)	(8.1)	(7.9)
Equity	2.9	(9.0)	(10.5)	5.7	6.5	(6.4)	(9.0)	(1.2)	(12.0)	(9.0)
Profits (%)	18A	19A	20E	21E	22E	Sep '19	Dec '19	Mar '20	Jun '20	Sep '20
Gross margin	34.0	23.6	18.5	34.0	34.3	25.6	29.3	13.8	(11.3)	19.3
Operating margin	24.9	10.4	4.9	23.1	23.4	13.2	14.8	2.4	(23.3)	11.3
Net margin	9.2	(5.5)	(31.3)	11.7	14.1	(2.8)	2.3	(11.1)	(173.9)	(2.3)
ROE	3.6	(1.9)	(11.1)	5.5	6.3	(1.0)	0.9	(3.9)	(41.9)	(0.8)
ROIC	4.7	1.8	0.9	5.6	6.0	2.3	2.6	0.4	(2.8)	2.0