

BUY (From HOLD)**TP: Bt 16.00**

(From: Bt 3.50)

Change in Recommendation

Upside : 42.9%

23 February 2021

Precious Shipping Pcl (PSL TB)

Profit-making time

PSL's freight rate has begun to surpass its breakeven level and we now project 2021F normalized profit of Bt1.4bn vs. a Bt422m loss last year. We expect the global economic turnaround momentum to continue supporting freight rates and together with easing cash flow concerns, we upgrade PSL to BUY with a new TP of Bt16/share.

**PATTADOL BUNNAK**

662 – 617 4985

pattadol.bun@thanachartsec.co.th

Upgrading to BUY

We upgrade PSL to BUY (from Hold) for its earnings turnaround story. We estimate a Bt1.4bn profit in 2021F and Bt1.8bn in 2022F vs. a Bt422m loss in 2020. *First*, the global economic turnaround has pushed up PSL's average freight rate to US\$15,200/day/ship at present vs. operating and interest costs of US\$9,400. *Second*, we expect freight rates to remain at a high level. DNB, a leading shipping brokerage house, expects 6.7% demand growth in 2021 vs. supply growth of 1.5%. *Third*, PSL's cash-flow situation is no longer tight and it is speeding up debt repayments. We now value PSL at Bt16.0/share or at a +1STD P/BV of 2.1x, which is the level PSL traded at during its last earnings upcycle in 2007. Our previous Bt3.5 TP used DCF methodology amid the COVID crisis, which reflected its cash flow problems and high discount rate.

Bulk of profit from current freight rate

PSL's freight rate stands at US\$15,200/ship/day at present vs. its operating costs of US\$7,900 and interest expenses of US\$1,500. Its cash operating costs, excluding depreciation, are US\$5,100. The abovementioned freight rate implies that PSL can make Bt2.2bn in profit and Bt3.9bn in net cash flow per annum. The current freight rate level is the highest since 2009. We expect PSL to make a Bt1.4bn profit in 2021F (on a US\$13,000 freight rate assumption) and Bt1.8bn in 2022F (US\$13,910).

Demand-supply dynamics

The trade war and COVID-19 caused delays in the dry bulk shipping up-cycle from 2019. Now the global economic turnaround has begun and we expect shipping demand to grow 6.7% p.a. in 2021F from -2.2% in 2020. On the other hand, ship orders were soft in the weak market years in 2019-20 so we foresee low ship deliveries in 2021-22F. The scrap rate was 2% in 2020 vs. 1% in 2019. Net-net, we expect supply growth of 0.7-1.5% p.a. in 2021-22F. High steel prices should also discourage new orders while encouraging scrapping. Twenty-plus year-old ships account for 6.2% of the global ship supply.

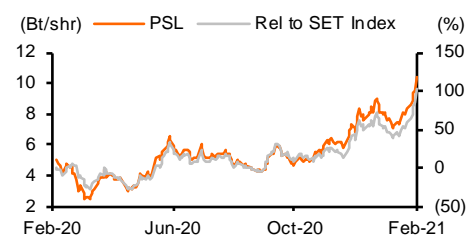
Speeding up debt repayments

Last year PSL's bondholders approved the extension of the maturity date of the Bt1.9bn bond from June 2020 to December 2021 and the Bt3.5bn bond from January 2021 to July 2022. But due to its improving cash flow, PSL bought back the Bt1.9bn bond early and is now left with Bt330m. It also bought back some of Bt3.6bn bond and is left with Bt2.9bn. Net D/E was at 0.9x in 2020 and we estimate 0.6x in 2021F. We project EBITDA at Bt3.0bn in 2021F (vs. Bt1.4bn in 2020) and expect PSL to have no problem servicing its Bt2.7bn total debt in 2021F.

COMPANY VALUATION

Y/E Dec (Bt m)	2020A	2021F	2022F	2023F
Sales	3,730	5,525	5,807	5,914
Net profit	(1,295)	1,418	1,784	1,905
Consensus NP	—	977	1,210	1,422
Diff frm cons (%)	—	45.2	47.5	34.0
Norm profit	(422)	1,418	1,784	1,905
Prev. Norm profit	—	402	648	800
Chg frm prev (%)	—	252.7	175.3	138.2
Norm EPS (Bt)	(0.3)	0.9	1.1	1.2
Norm EPS grw (%)	na	na	25.8	6.8
Norm PE (x)	na	12.3	9.8	9.2
EV/EBITDA (x)	19.2	7.8	6.3	5.5
P/BV (x)	1.7	1.5	1.3	1.2
Div yield (%)	0.0	0.0	0.0	5.5
ROE (%)	na	13.1	14.3	13.6
Net D/E (%)	88.0	59.3	29.4	11.1

PRICE PERFORMANCE



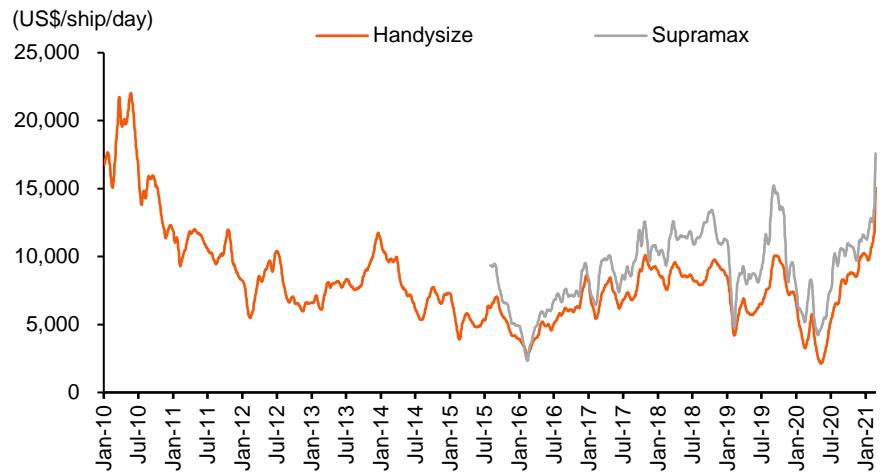
COMPANY INFORMATION

Price as of 23-Feb-21 (Bt)	11.20
Market Cap (US\$ m)	581.6
Listed Shares (m shares)	1,559.3
Free Float (%)	46.81
Avg Daily Turnover (US\$ m)	7.61
12M Price H/L (Bt)	10.40/2.42
Sector	Shipping
Major Shareholder	Globex Corporation 28.4%

Sources: Bloomberg, Company data, Thanachart estimates

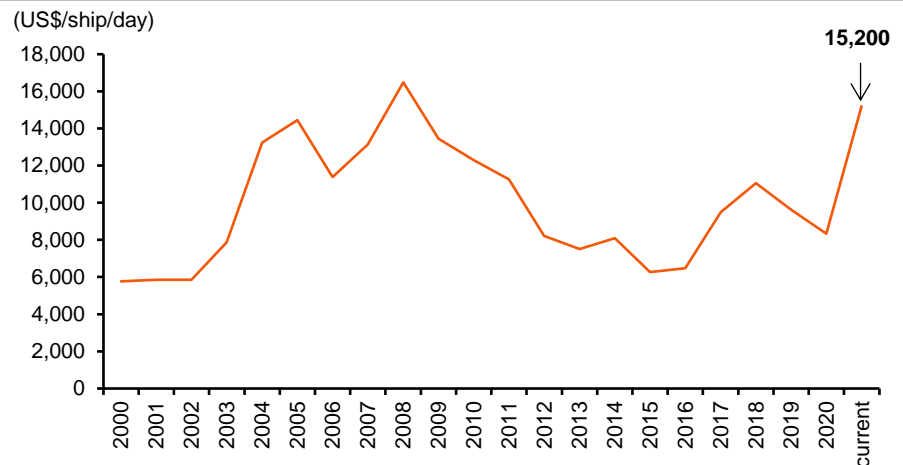


Ex 1: Freight Rates Have Surged For PSL's Ship Segments



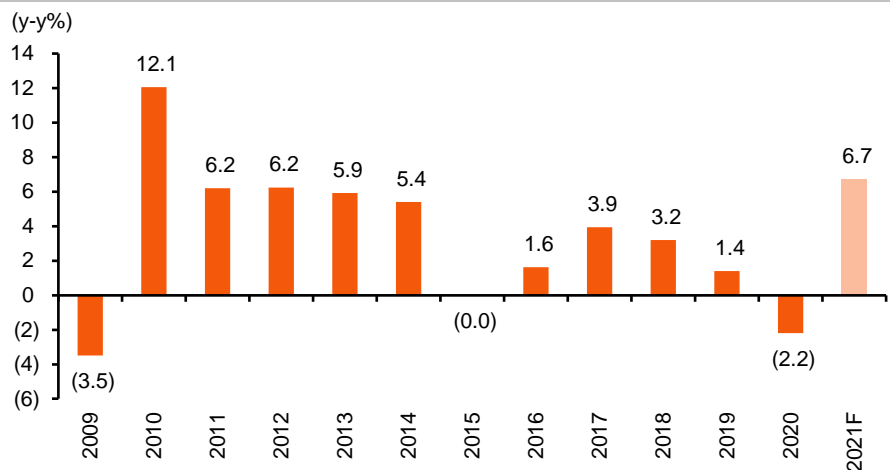
Source: Bloomberg

Ex 2: PSL's Freight Rate Has Reached Its Highest Level Since 2009



Sources: Company data, Bloomberg, Thanachart estimates

Ex 3: Demand Turnaround



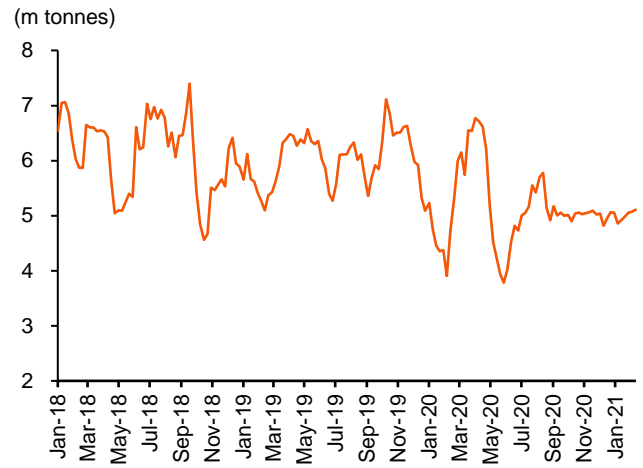
Sources: DNB, Clarksons

Ex 4: Inventory Level Is Not High For Iron Ore...



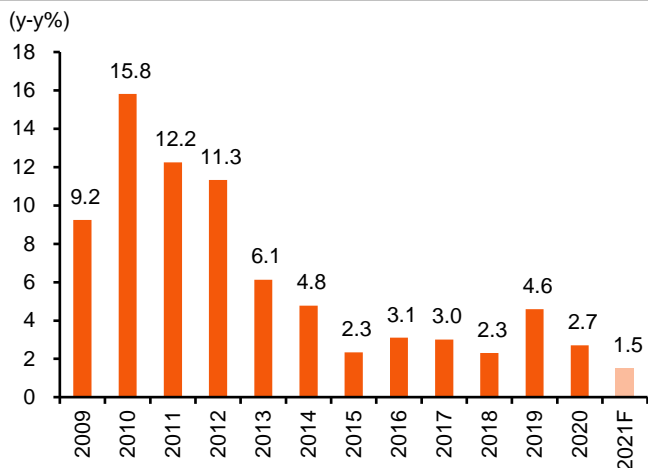
Source: Bloomberg

Ex 5:... And For Coal



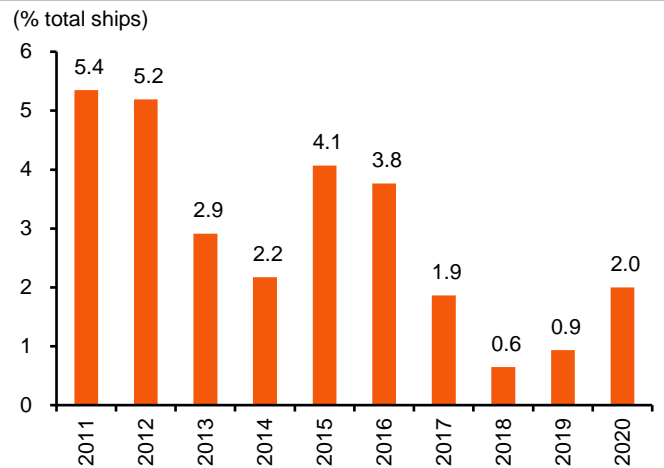
Source: Bloomberg

Ex 6: A Very Low New Ship Supply Level



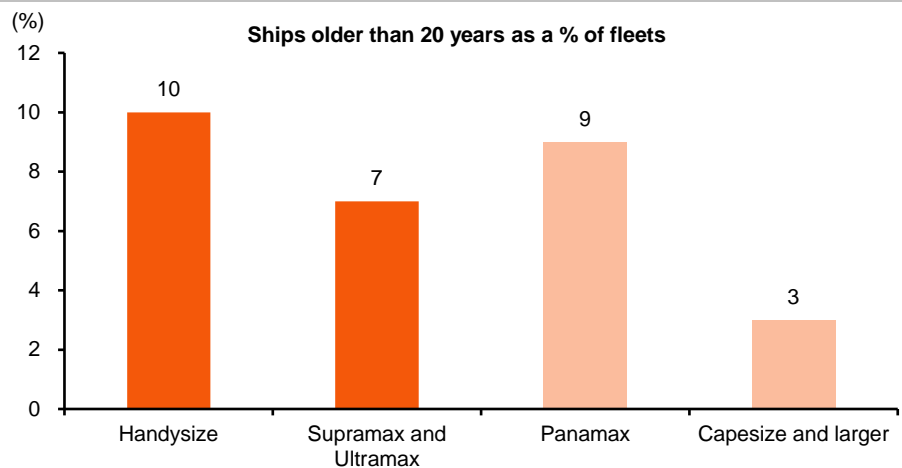
Sources: DNB, Clarksons

Ex 7: Scrap Rate Picking Up But Still Low

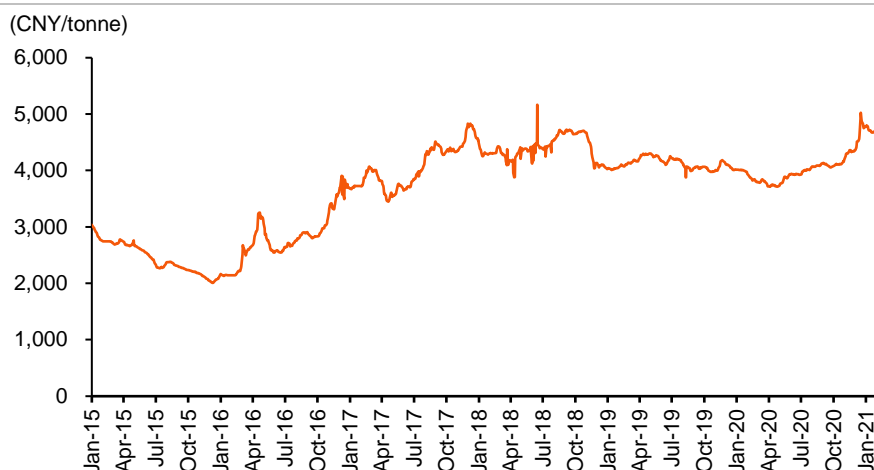


Source: Clarksons

Ex 8: Ships Older Than 20 Years



Source: Clarksons

Ex 9: Steel Price In A High Range

Source: Bloomberg

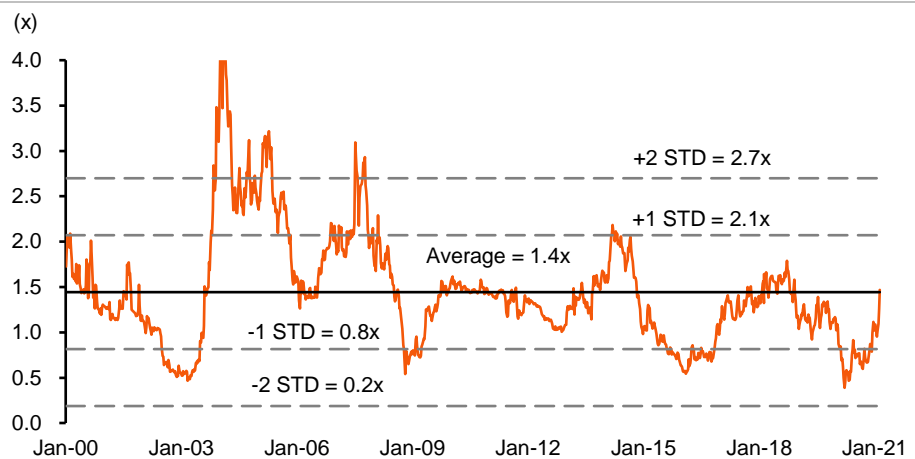
Ex 10: Our Assumption Revisions

	2020	2021F	2022F	2023F
Freight rate (US\$/ship/day)				
New	8,332	13,000	13,910	14,188
Old		10,434	10,956	11,175
Change (%)		24.6	27.0	27.0
Breakeven cost* (US\$/ship/day)				
New	9,500	9,400	9,354	9,335
Old		9,400	9,354	9,335
Change (%)		—	—	—
Revenue (Bt m)				
New	3,730	5,525	5,807	5,914
Old		4,521	4,741	4,827
Change (%)		22.2	22.5	22.5
Normalized profit (Bt m)				
New	(422)	1,418	1,784	1,905
Old		402	648	702
Change (%)		252.7	175.3	138.2

Sources: Company data, Thanachart estimates

Note: *Breakeven cost = operating and interest costs

Ex 11: Historical P/BV



Sources: Bloomberg, Thanachart estimates

Note that although we derive our TP for PSL using the P/BV methodology, we also show our DCF calculation below in Exhibit 12.

Ex 12: Our 12-month DCF-based Valuation, Using A Base Year Of 2021F

(Bt m)	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	Terminal Value
EBITDA	3,107	3,409	3,452	3,184	2,980	2,783	2,986	3,155	3,287	3,240	3,201	—
Free cash flow	2,896	3,263	3,321	3,064	2,859	2,662	2,676	2,847	2,981	2,942	2,903	32,031
PV of free cash flow	2,888	2,782	2,614	2,227	1,918	1,625	1,504	1,474	1,422	1,292	1,174	11,588
Risk-free rate (%)	2.5											
Market risk premium (%)	8.0											
Beta	1.2											
WACC (%)	8.3											
Terminal growth (%)	2.0											
Enterprise value - add investments	33,287											
Net debt (2020)	8,921											
Minority interest	0											
Equity value	24,366											
# of shares (m)	1,559											
Target price/share (Bt)	16											

Source: Thanachart estimates

Valuation Comparison

Ex 13: Comparison With Regional Peers

Name	BBG code	Country	EPS growth		— PE —		— P/BV —		—EV/EBITDA—		— Div yield —	
			21F (%)	22F (%)	21F (x)	22F (x)	21F (x)	22F (x)	21F (x)	22F (x)	21F (%)	22F (%)
U-Ming Marine Transport	2606 TT	Taiwan	63.2	na	21.1	na	1.2	na	11.8	na	4.3	na
Evergreen Marine	2603 TT	Taiwan	34.1	(16.2)	5.9	7.0	1.6	1.4	4.9	5.2	4.6	5.4
Sincere Navigation	2605 TT	Taiwan	6.9	na	25.7	na	0.7	na	8.4	na	3.5	na
Yang Ming Marine	2609 TT	Taiwan	117.1	(24.8)	4.6	6.1	1.7	1.3	2.8	3.6	3.5	5.3
Wan Hai Lines	2615 TT	Taiwan	65.2	na	7.9	na	1.6	na	na	na	3.6	na
COSCO Shipping Energy	1138 HK	Hong Kong	(38.3)	27.1	6.7	5.2	0.4	0.4	12.1	10.8	6.4	5.7
COSCO Shipping	1919 HK	Hong Kong	33.7	(16.0)	7.6	9.0	1.7	1.4	8.3	8.4	0.4	0.5
Pacific Basin Shipping	2343 HK	Hong Kong	na	52.9	24.3	16.2	1.0	1.0	8.0	7.2	2.1	2.9
Kawasaki Kisen Kaisha	9107 JP	Japan	na	(36.1)	4.1	6.4	1.3	1.0	28.6	15.2	0.0	0.4
Mitsui OSK Lines	9104 JP	Japan	45.6	18.4	8.5	7.1	0.7	0.7	17.9	14.0	1.8	2.6
Nippon Yusen KK	9101 JP	Japan	103.8	30.0	8.1	6.3	1.0	0.9	9.8	9.2	2.5	3.2
Korea Line	005880 KS	S. Korea	na	(8.4)	10.3	11.3	0.9	0.8	10.6	10.3	0.0	0.0
Thoresen Thai Agencies	TTA TB	Thailand	na	43.4	27.2	19.0	0.7	0.6	10.6	9.6	0.7	0.7
Prima Marine Pcl*	PRM TB	Thailand	36.7	7.9	9.2	8.5	2.2	1.9	6.5	5.9	5.4	5.9
Precious Shipping*	PSL TB	Thailand	na	25.8	12.3	9.8	1.5	1.3	7.8	6.3	0.0	0.0
Average			46.8	8.7	12.2	9.3	1.2	1.1	10.6	8.8	2.6	2.7

Source: Bloomberg

Note: * Thanachart estimates, using Thanachart normalized EPS

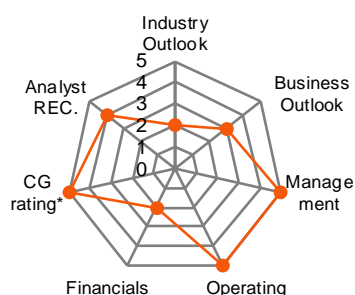
Based on 23-Feb-21 closing prices

COMPANY DESCRIPTION

Precious Shipping Public Company Limited (PSL) is a ship owner that provides regional marine shipping services. The company operates in the tramp freight market sector where its vessels are deployed on a time charter as well as a voyage charter basis. PSL has a network of shipping agents worldwide.

Source: Thanachart

COMPANY RATING



Rating Scale

Excellent	5
Good	4
Fair	3
Weak	2
Very Weak	1
None	0

Source: Thanachart; * CG rating

THANACHART'S SWOT ANALYSIS

S — Strength

- Very focused and experienced management.
- Strong balance sheet.
- Commands higher freight rates vs. peers due to better ships and service quality.
- Lower operating expenses compared with peers.

O — Opportunity

- Fragmented industry provides opportunities for vessel acquisitions at decent prices.
- Targets new segments such as cement carriers.
- Expanding capacity to larger vessels.

W — Weakness

- Exposed to a highly cyclical industry.
- Highly volatile earnings.
- Very fragmented industry, which accelerates pricing pressure during any downturn.

T — Threat

- Barriers to entry are non-existent.
- Commodity shift from dry bulk shipping to container shipping.

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	10.54	16.00	52%
Net profit 21F (Bt m)	977	1,418	45%
Net profit 22F (Bt m)	1,210	1,784	47%
Consensus REC	BUY: 3	HOLD: 2	SELL: 1

HOW ARE WE DIFFERENT FROM THE STREET?

- Our earnings forecasts for 2021-22F and TP are significantly higher than the Bloomberg consensus numbers, which we attribute to us expecting far stronger freight rates.

RISKS TO OUR INVESTMENT CASE

- Weaker demand as a result of the global economic slowdown is a downside risk.

Sources: Bloomberg consensus, Thanachart estimates

Source: Thanachart

INCOME STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Sales	4,152	3,730	5,525	5,807	5,914
Cost of sales	3,173	3,226	3,230	3,193	3,235
Gross profit	979	504	2,295	2,614	2,679
% gross margin	23.6%	13.5%	41.5%	45.0%	45.3%
Selling & administration expenses	547	345	312	308	308
Operating profit	433	159	1,983	2,306	2,371
% operating margin	10.4%	4.3%	35.9%	39.7%	40.1%
Depreciation & amortization	1,183	1,213	1,124	1,103	1,081
EBITDA	1,616	1,372	3,107	3,409	3,452
% EBITDA margin	38.9%	36.8%	56.2%	58.7%	58.4%
Non-operating income	31	9	12	19	27
Non-operating expenses	0	0	0	0	0
Interest expense	(703)	(597)	(587)	(552)	(502)
Pre-tax profit	(240)	(429)	1,408	1,774	1,895
Income tax	3	4	0	0	0
After-tax profit	(243)	(433)	1,408	1,774	1,895
% net margin	-5.8%	-11.6%	25.5%	30.5%	32.0%
Shares in affiliates' Earnings	20	11	10	10	10
Minority interests	(0)	0	0	0	0
Extraordinary items	(6)	(872)	0	0	0
NET PROFIT	(228)	(1,295)	1,418	1,784	1,905
Normalized profit	(223)	(422)	1,418	1,784	1,905
EPS (Bt)	(0.1)	(0.8)	0.9	1.1	1.2
Normalized EPS (Bt)	(0.1)	(0.3)	0.9	1.1	1.2

EBITDA was positive in the past despite net losses

We expect strong profits to resume in 2021F

BALANCE SHEET

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
ASSETS:					
Current assets:	1,681	1,938	3,132	4,190	5,212
Cash & cash equivalent	1,181	1,100	2,000	3,000	4,000
Account receivables	183	169	250	263	267
Inventories	0	0	0	0	0
Others	317	669	882	928	945
Investments & loans	85	91	91	91	91
Net fixed assets	20,098	19,125	18,130	17,158	16,206
Other assets	3,197	244	361	380	387
Total assets	25,061	21,397	21,714	21,818	21,896
LIABILITIES:					
Current liabilities:	4,712	3,339	2,960	2,722	2,324
Account payables	528	277	277	274	278
Bank overdraft & ST loans	0	0	0	0	0
Current LT debt	4,085	2,436	2,152	1,681	1,372
Others current liabilities	99	627	530	767	674
Total LT debt	8,577	7,586	6,703	5,235	4,272
Others LT liabilities	46	171	254	267	271
Total liabilities	13,502	11,263	10,162	8,482	7,131
Minority interest	0	0	0	0	0
Preferreds shares	0	0	0	0	0
Paid-up capital	1,559	1,559	1,559	1,559	1,559
Share premium	1,968	1,968	1,968	1,968	1,968
Warrants	0	0	0	0	0
Surplus	(1,505)	(1,561)	(1,561)	(1,561)	(1,561)
Retained earnings	9,537	8,168	9,586	11,370	12,799
Shareholders' equity	11,559	10,134	11,552	13,336	14,765
Liabilities & equity	25,061	21,397	21,714	21,818	21,896

Sources: Company data, Thanachart estimates

CASH FLOW STATEMENT

No plans to buy new ships; therefore limited capex over the next two to three years

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Earnings before tax	(240)	(429)	1,408	1,774	1,895
Tax paid	(38)	(4)	0	0	0
Depreciation & amortization	1,183	1,213	1,124	1,103	1,081
Chg In working capital	526	(237)	(81)	(16)	(1)
Chg In other CA & CL / minorities	(426)	204	(373)	201	(99)
Cash flow from operations	1,005	747	2,078	3,062	2,876
Capex	1,128	(240)	(130)	(130)	(130)
ST loans & investments	0	0	0	0	0
LT loans & investments	7	(5)	0	0	0
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	(11)	2,203	118	7	3
Cash flow from investments	1,124	1,957	(12)	(123)	(127)
Debt financing	(1,882)	(2,655)	(1,167)	(1,939)	(1,272)
Capital increase	0	0	(0)	0	0
Dividends paid	0	0	0	0	(476)
Warrants & other surplus	(908)	(130)	0	0	0
Cash flow from financing	(2,790)	(2,785)	(1,167)	(1,939)	(1,748)
Free cash flow	2,133	507	1,948	2,932	2,746

VALUATION

We see P/BV as a better valuation method than PE and PSL doesn't look expensive to us

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Normalized PE (x)	na	na	12.3	9.8	9.2
Normalized PE - at target price (x)	na	na	17.6	14.0	13.1
PE (x)	na	na	12.3	9.8	9.2
PE - at target price (x)	na	na	17.6	14.0	13.1
EV/EBITDA (x)	17.9	19.2	7.8	6.3	5.5
EV/EBITDA - at target price (x)	22.5	24.7	10.2	8.5	7.7
P/BV (x)	1.5	1.7	1.5	1.3	1.2
P/BV - at target price (x)	2.2	2.5	2.2	1.9	1.7
P/CFO (x)	17.4	23.4	8.4	5.7	6.1
Price/sales (x)	4.2	4.7	3.2	3.0	3.0
Dividend yield (%)	0.0	0.0	0.0	0.0	5.5
FCF Yield (%)	12.2	2.9	11.2	16.8	15.7
(Bt)					
Normalized EPS	(0.1)	(0.3)	0.9	1.1	1.2
EPS	(0.1)	(0.8)	0.9	1.1	1.2
DPS	0.0	0.0	0.0	0.0	0.6
BV/share	7.4	6.5	7.4	8.6	9.5
CFO/share	0.6	0.5	1.3	2.0	1.8
FCF/share	1.4	0.3	1.2	1.9	1.8

Sources: Company data, Thanachart estimates

FINANCIAL RATIOS

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Growth Rate					
Sales (%)	(15.8)	(10.2)	48.1	5.1	1.8
Net profit (%)	na	na	na	25.8	6.8
EPS (%)	na	na	na	25.8	6.8
Normalized profit (%)	na	na	na	25.8	6.8
Normalized EPS (%)	na	na	na	25.8	6.8
Dividend payout ratio (%)	0.0	0.0	0.0	0.0	50.0
Operating performance					
Gross margin (%)	23.6	13.5	41.5	45.0	45.3
Operating margin (%)	10.4	4.3	35.9	39.7	40.1
EBITDA margin (%)	38.9	36.8	56.2	58.7	58.4
Net margin (%)	(5.8)	(11.6)	25.5	30.5	32.0
D/E (incl. minor) (x)	1.1	1.0	0.8	0.5	0.4
Net D/E (incl. minor) (x)	1.0	0.9	0.6	0.3	0.1
Interest coverage - EBIT (x)	0.6	0.3	3.4	4.2	4.7
Interest coverage - EBITDA (x)	2.3	2.3	5.3	6.2	6.9
ROA - using norm profit (%)	na	na	6.6	8.2	8.7
ROE - using norm profit (%)	na	na	13.1	14.3	13.6
DuPont					
ROE - using after tax profit (%)	na	na	13.0	14.3	13.5
- asset turnover (x)	0.2	0.2	0.3	0.3	0.3
- operating margin (%)	na	na	36.1	40.0	40.5
- leverage (x)	2.2	2.1	2.0	1.7	1.6
- interest burden (%)	(51.8)	(254.6)	70.6	76.3	79.0
- tax burden (%)	na	na	100.0	100.0	100.0
WACC (%)	8.3	8.3	8.3	8.3	8.3
ROIC (%)	1.7	0.7	10.4	12.5	13.7
NOPAT (Bt m)	433	159	1,983	2,306	2,371

Sources: Company data, Thanachart estimates

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Thanachart Securities Pcl.

Research Team

19 Floor, MBK Tower

444 Phayathai Road, Pathumwan Road, Bangkok 10330

Tel: 662 - 779-9119

Email: thanachart.res@thanachartsec.co.th

Pimpaka Nichgaroon, CFA

Head of Research

Tel: 662-779-9199

pimpaka.nic@thanachartsec.co.th

Kalvalee Thongsomaung

Food, Hotel, Media

Tel: 662-779-9110

kalvalee.tho@thanachartsec.co.th

Pattadol Bunnak

Electronics, Beverage, Shipping

Tel: 662-483-8298

pattadol.bun@thanachartsec.co.th

Saksid Phadthananarak

Construction, Transportation

Tel: 662-779-9112

saksid.pha@thanachartsec.co.th

Witchanan Tambamroong

Technical Analyst

Tel: 662-779-9123

witchanan.tam@thanachartsec.co.th

Adisak Phupiphathirungul, CFA

Retail Market Strategy

Tel: 662-779-9120

adisak.phu@thanachartsec.co.th

Pattarawan Wangmingmat

Senior Technical Analyst

Tel: 662-779-9105

pattarawan.wan@thanachartsec.co.th

Phannarai Tiyapittayarut

Property, Retail

Tel: 662-779-9109

phannarai.von@thanachartsec.co.th

Sarachada Sornsong

Bank, Finance, Insurance

Tel: 662-779-9106

sarachada.sor@thanachartsec.co.th

Sittichet Rungrassameephat

Analyst, Quantitative

Tel: 662-483-8303

sittichet.run@thanachartsec.co.th

Chak Reungsinpinya

Energy, Petrochemical, Paper

Tel: 662-779-9104

chak.reu@thanachartsec.co.th

Nuttapop Prasitsuksant

Telecom, Utilities

Tel: 662-483-8296

nuttapop.pra@thanachartsec.co.th

Rata Limsuthiwanpoom

Auto, Industrial Estate, Property Fund, REITs

Tel: 662-483-8297

rata.lim@thanachartsec.co.th

Siriporn Arunothai

Small Cap Research, Healthcare

Tel: 662-779-9113

siriporn.aru@thanachartsec.co.th

Thaloengsak Kucharoenpaisan

Analyst, Retail Market

Tel: 662-483-8304

thaloengsak.kuc@thanachartsec.co.th