

PSL: Anticipate demand for seaborne trade to slow down in 2Q21



Update

We downgrade PSL with SELL rating as we expect dry bulk freight rates to drop in mid 2Q21 from a high base reported in 1Q21 while anticipating the rate to recover again possibly during a U.S. soybean harvest season in late September. The stock also trading on demanding valuation at 2.4xPBV'21E (+3 S.D. of ten-year average)

- Maintain positive outlook for TC rate recovery in 2021-22E
- Anticipate demand for seaborne trade to slow down in 2Q21
- Revise up earnings by 86% and 27% in 2021-22E

PSL stock price surged 40%MTD to factored in a solid rebound in TC rate after a correction in the past one month. Deep correction in stock price will create opportunity for investors to accumulate as we still maintain positive earnings outlook in 2021-23E on the back of TC rate recovery following an improving global fleet demand-supply balance. Our target price at Bt14.0 (previous TP:10.0) derived from 1.8xPBV'22E (+2 S.D. of ten-year average).

Valuation table

Year end Dec	19A	20A	21E	22E	23E
PE (x)	620.6	nm	24.6	29.7	30.5
Recurring net profit growth (%)	(90.6)	nm	nm	(17.2)	(2.7)
Recurring EPS (Bt)	0.0	(0.3)	0.7	0.6	0.6
Recurring EPS growth (%)	(90.6)	nm	nm	(17.2)	(2.7)
PBV (x)	2.3	2.7	2.4	2.2	2.1
BVPS (Bt)	7.4	6.5	7.2	7.8	8.4
ROE (%)	(1.9)	(11.9)	10.3	7.8	7.0
DPS (Bt)	-	-	-	-	-
Dividend yield (%)	na	na	na	na	na
Enterprise value (Bt m)	38,457	35,922	33,811	31,935	30,078
EV-to-EBITDA (x)	23.5	25.9	12.2	12.7	12.4

Precious Shipping PCL

Recommendation: SELL

Current price: Bt17.30

Target price 2022: Bt14.0

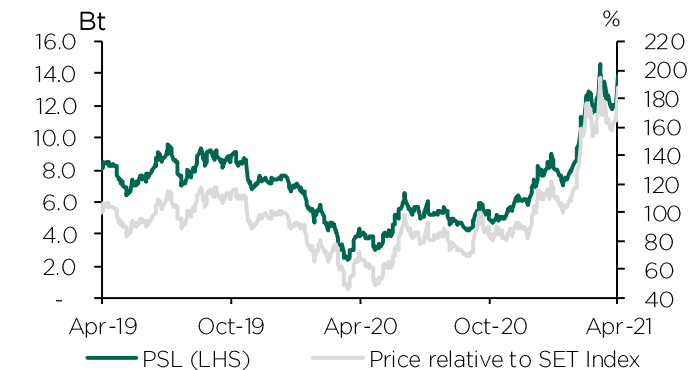
Up/(downside): (19%)

IOD: 5/5

CAC: Declared

Stock data

RIC code	PSL.BK
Index	.SETI
SET Index (16 April 2021)	1,548.96
Market cap (Bt m)	21,674
Shares outstanding (million)	1,559
Par (Bt)	1.00



Boonyakorn Amornsank
Registration No. 111124
boonyakorn.am@countrygroup.co.th
+66 2 205 7000 ext 4403

Story

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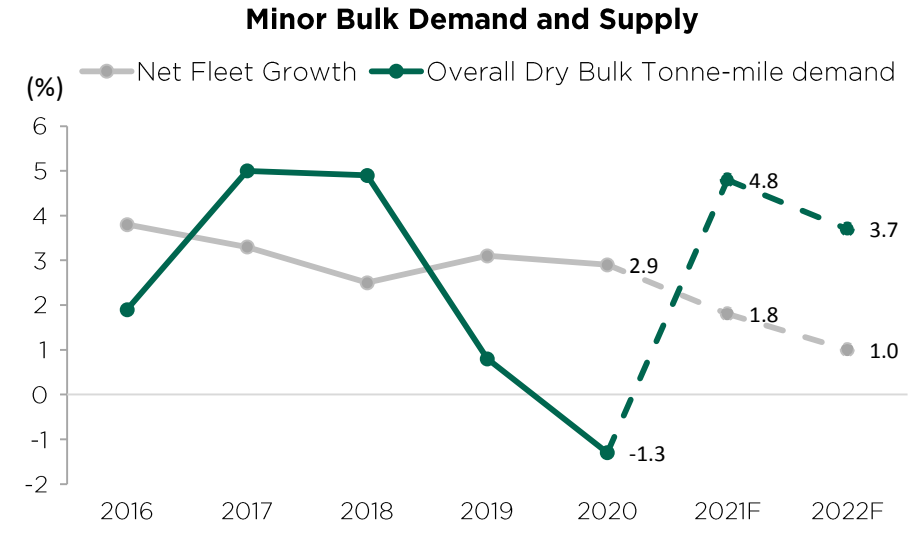
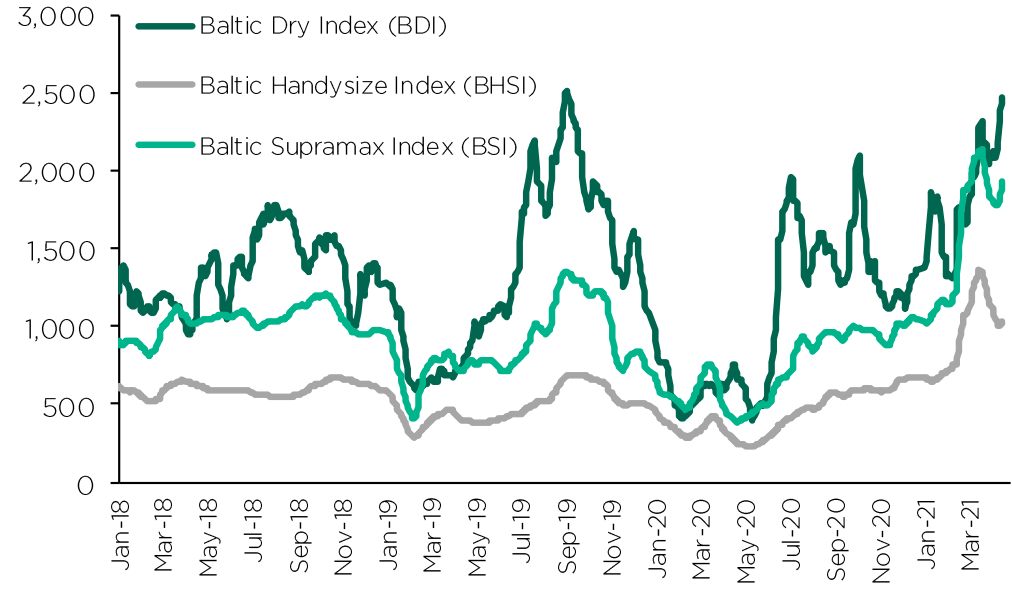
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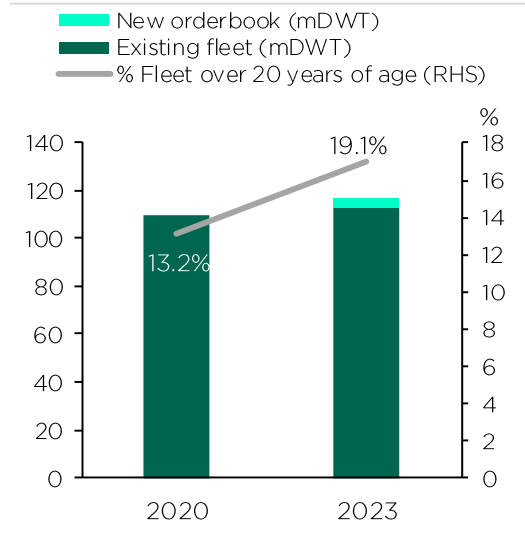
Value

Risks



Vessel supply reduction support freight rate in an upcycle

The COVID-19 induced a supply side correction in 2020 leading the dry bulk market to accelerate its path to market normalization. We expect PSL's average charter rate for 2021E and 2022E to lift up from unprofitable level in the past two years. We estimate the average rate at \$US11,980/day (+44%YoY from \$US8,332 per day in 2020) supported by easing fleet oversupply issue given; 1.) a curtail in number of new minor bulk ships (PSL types) entering to join the global fleet in the next two years (+1.8% in 2021E, +1.0% in 2022E) after a high base level of net fleet growth at 2.9% in 2020E. and, 2.) a substantial increase in percentage of 20-year old Handysize and Supramax vessels of the global Handy/Supra fleets, that will be voyaging with limited speed or going for scrapping in near term (17% and 14% of global fleet will be more than 20 years by 2023 compared to 13% and 8% as of 2020). This will benefit the global and company's fleet earnings at least in the next three years.



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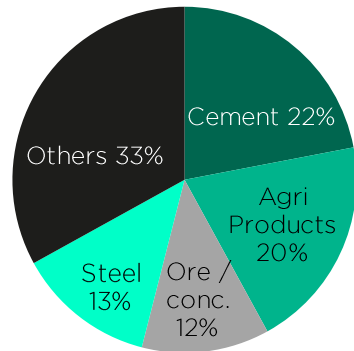
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Value

Risks

PSL's Cargo Exposure By Commodities



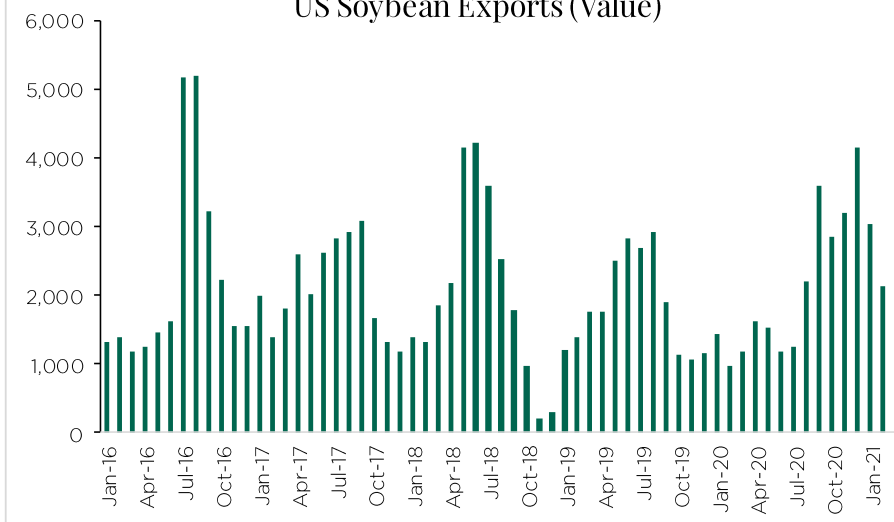
(USD Billions)

China Iron ore / Concentrate Imports



(USD)

US Soybean Exports (Value)



Demand in major dry bulk remain strong throughout 2021 but could face a hiccup in mid 2Q21

We anticipate a slowdown in demand for dry bulk trading in 2Q21 after a period of solid recovery in 4Q20-1Q21, mainly boosted by a rebound in China economic activity and easing lockdown in major developed countries. As of end of 1Q21, we have seen a peak of the recovery cycle in some of the major dry bulk commodities such as iron ore and grain which accounts for half of global drybulk trade volume. The global powerhouse's import value for iron ore and agriculture products have dramatically risen since 2Q20 while we expected it to taper down in 2Q21 after some of the released China economic data have started to enter a phase of normalized growth particularly in manufacturing sector. We expect dry bulk freight rates to drop in mid 2Q21 from a high base reported in 1Q21 while anticipating the rate to recover again possibly during a U.S. soybean harvest season in late September. However, we maintain positive outlook for demand side throughout 2021, aligned with Clarkson's view that expecting significant demand side improvement over 2020's numbers across a variety of bulk cargoes at approximately 3.7% gain in dry bulk tone-mile demand in 2021. (vs.. 0.5%-2% in 2018-2020)

PSL: Revise up earnings by 86% and 27% in 2021-22E

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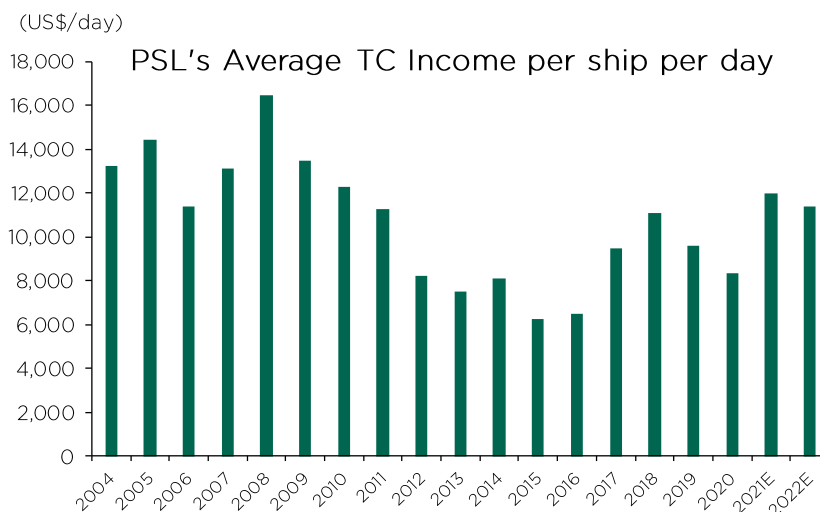
Value

Risks

	2021E		Change (%)	2022E		Change (%)	2023E		Change (%)
	Revised	Previous		Revised	Previous		Revised	Previous	
Financials									
Revenue (Bt mn)	5,314	5,013	6.0	5,082	5,066	0.3	5,006	4,919	1.8
Gross profit (Bt mn)	2,066	1,705	21.1	1,804	1,737	3.8	1,698	1,580	7.4
Net profit (Bt mn)	1,096	589	86.0	908	714	27.1	883	628	40.6
EPS (Bt/share)	0.70	0.38	86.0	0.58	0.46	27.1	0.57	0.40	40.6
Key financial ratios			Change	Change			Change		
Revenue growth (%)	42.5	29.4	13.1	(4.4)	1.0	(5.4)	(1.5)	(2.9)	1.4
Gross profit margin (%)	38.9	34.0	4.9	35.5	34.3	1.2	33.9	32.1	1.8
SG&A to sales (%)	10.1	10.9	(0.8)	10.7	10.9	(0.2)	11.0	11.4	(0.4)
Net profit growth (%)	NA	NA	NA	(17.2)	21.3	NA	(2.7)	(12.1)	9.4
Net profit margin (%)	20.6	11.7	8.9	17.9	14.1	3.8	17.6	12.8	4.9

Revise earnings up by 27%-86% in 2020-23E respectively

We revise up PSL's net profit in 2021E, 2022E and 2023E by 86%, 27% and 41% respectively in order to factor in; 1.) upward revenue revision by 2-6% as we raised TC rate assumptions in 2021E and 2022E by 2-8% to US\$11,980/day, US\$11,125/day, and, US\$11,126 respectively, 2.) Gross profit margins are assumed to increase to 38.9%, 35.5% and 33.9% during the same period as a result from upward revision in revenue while operating cost remain flat, and, 3.) SG&A to sales ratio is assumed to drop due to revenue upward revisions.



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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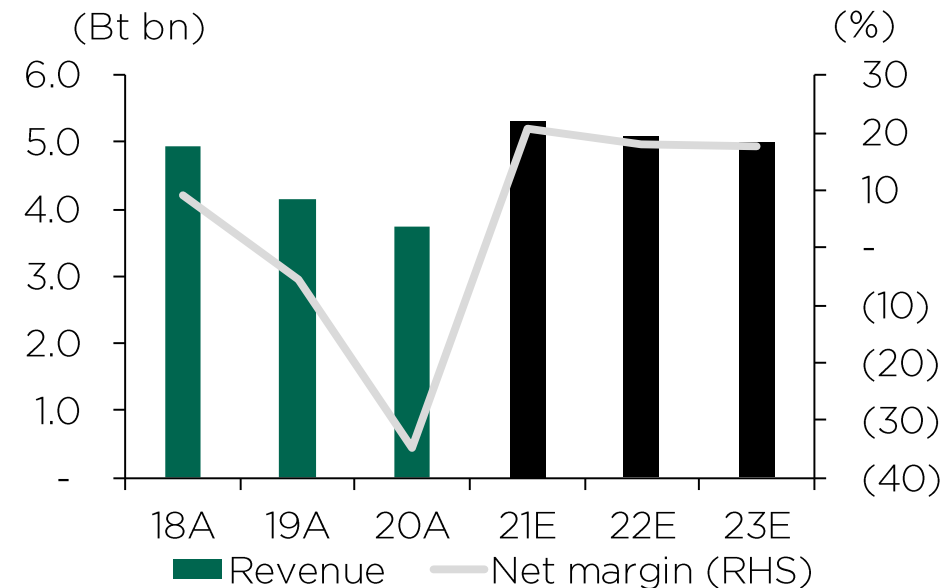
Value

Risks

Currently, the company operates 36 dry bulk carriers with a total 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, covering all regions. Principal cargoes handled by the company are cement 30%, agricultural products 19%, steel 11%, fertilizers 9%, ore 13%, coal 9%, logs 1%, and other items 8%.

The company offers two types of cargo services :

- Voyage charter, 9% 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 fuel.
- Time charter, 91% revenue contribution: The charterer will hire PSL to operate the vessel for an agreed period of time. The charterer bears all voyage costs, including the cost of bunker fuel.

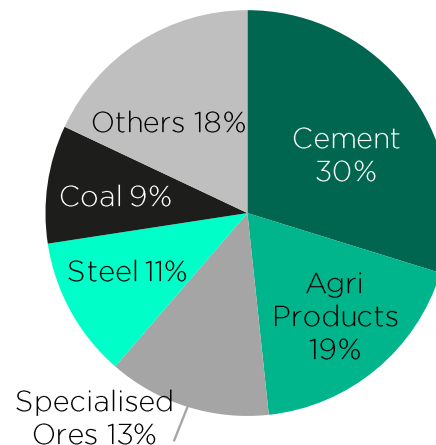


Revenue by cargoes carried, 2020

Revenue by type of services, 2020

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
9%

Time Charters
91%

Disclaimer

Investment ratings

BUY:	Expected return excluding dividends of more than 10% within the next 12 months.
HOLD:	Expected return excluding dividends between -10% and 10% within the next 12 months.
SELL:	Expected return excluding dividends of less than -10% within the next 12 months.
NR:	Not Rated- Stock is not in our research coverage.

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