



Precious Shipping PCL

PSL TB	Outperform	
Target Price	Bt	26.00
Price (6/08/2021)	Bt	23.30
Upside	%	11.59
Valuation	PBV	
Sector	Transportation & Logistics	
Market Cap	Btm	36,332
30-day avg turnover	Btm	783.17
No. of shares on issue	m	1,559
CG Scoring	Excellent	
Anti-Corruption Indicator	Certified	

Investment fundamentals

Year end Dec 31	2020A	2021E	2022E	2023E
Company Financials				
Revenue (Btmn)	3,730	8,289	8,611	7,537
Core profit (Btmn)	-413	3,974	4,623	3,645
Net profit (Btmn)	-1,295	4,136	4,623	3,645
Net EPS (Bt)	-0.83	2.65	2.96	2.34
DPS (Bt)	0.00	0.00	0.00	0.00
BVPS (Bt)	6.50	9.15	12.12	14.45
Net EPS growth (%)	-466.70	419.39	11.79	-21.15
ROA (%)	-5.57	19.46	22.55	16.78
ROE (%)	-11.94	33.89	27.88	17.60
Net D/E (x)	0.88	0.30	-0.07	-0.27
Valuation				
P/E (x)	-9.15	8.79	7.86	9.97
P/BV (x)	1.17	2.55	1.92	1.61
EV/EBITDA (x)	15.27	7.45	6.08	6.62
Dividend yield (%)	0.00	0.00	0.00	0.00

PSL TB rel SET performance



Source: Bloomberg (all figures in THB unless noted)

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Analyst

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Kasikorn Securities Public Company Limited

TC rates to rise in line with market

- **2Q21 earnings of Bt826mn 32.5% below our estimate as PSL's average TC rate underperformed the market BSI by 21% and BHSI by 30%.**
- **Trim 2021-23E earnings by 5-7% on weaker-than-expected 2Q21 results and higher SG&A. Expect 3Q21 to be stronger on higher BSI (+25% QoQ).**
- **Outperform with a higher TP of Bt26.00 from Bt24.80 pegged to a PBV of 1.8x (+2.5SD) and 2023E BVPS of Bt14.5 after roll forward to end-2022.**

Investment Highlights

- **2Q21 earnings 32.5% below our estimate, but in line with consensus.** PSL reported a 2Q21 net profit of Bt826mn, a significant improvement from a net loss of Bt1.2bn in 2Q20 and a net profit of Bt375mn in 1Q21 thanks to a higher TC rate of USD17,841/vessel/day in 2Q21 (+192% YoY, +47% QoQ). Excluding an FX gain of Bt52mn and other extra items of Bt5mn, core profit totaled Bt769mn. The reported net profit of Bt826mn was 32.5% lower than our forecast of Bt1.2bn but in line with the consensus estimate due mainly to lower-than-expected TC rates. The average TC rate of PLS's Handysize TC vessels in 2Q21 was \$15,753, which was lower than the BHSI TC rate by 30%, while the TC rate of its Supramax & Ultramax vessels was \$20,175, which was 21% below the average BSI TC rate. The underperformance was due to PLS's conservative method of fixing its TC rates beyond the normal length of its time charter business, or 60 days. We expect PSL will increase its TC rates in the following quarters to catch up with market BSI and BHSI rates, as we expect rates will rise in a straight line in 2H21 supported by pent-up demand and a limited supply. SG&A expense in 2Q21 increased by 105% QoQ to Bt164mn due to higher crew expense related to COVID-19 restrictions, higher employee benefits, and management remuneration linked to PSL's better 2Q21 performance in, which was 64% above our estimate.
- **Trim 2021-23 earnings estimates by 5-6% after 2Q21 results.** We trim our 2021-23 earnings estimates by 5-6% as we factor in weaker-than-expected 2Q21 results and higher SG&A. We maintain our bullish view of PSL's near- and long-term outlook. In the near term, we expect earnings momentum to continue to accelerate in 2H21 as pent-up demand changes from finished goods to intermediate/raw material goods. PSL should report stronger 3Q21 earnings of Bt1.4bn-Bt1.5bn as the market BSI rose 25% QoQ in 3Q21 (as of end-July 2021). Note that the Supramax TC rate increased by 188% YTD to US\$33,000/ship/day, the highest level since 2008 and outperformed the BDI (+147% YTD) due to strong demand for coal, grain, and minor bulks, and the China-Australia trade dispute pushing coal trade on the longer route with smaller vessels. Note that the percent of Supramax vessels used in China's total coal imports rose from one-third in 1Q20 to more than half in 1Q21. In the longer term, the TC rate should remain high supported by a strong increase in ton-mile demand of 5-7% that should outpace supply growth of 2-3% over the next 18 months given the record-low level dry bulk industry orderbook-to-fleet ratio of 5.4% as of the end of 2Q21.

Valuation and Recommendation

- **Outperform and raise target price to Bt26.00.** We raise our TP to Bt26.00 (from Bt24.80) pegged to a PBV of 1.8x (+2.5SD its historical mean) and 2023E BVPS of Bt14.5 as we roll forward our valuation base period to end-2022. We expect PSL to outperform the SET Index in 2H21 on strong earnings momentum, being a key beneficiary of strong global trade, and a limited impact from government lockdown measures.

- **Key risks:** Volatile freight rates.


Fig 1 Earnings revisions

Unit: Btmn. Profit and loss statements	2021E			2022E			2023E		
	New	Previous	%Change	New	Previous	%Change	New	Previous	%Change
Total revenue	8,289	8,319	-0.4	8,611	8,611	0.0	7,537	7,537	0.0
Cost of goods sold	3,292	3,223	2.1	3,244	3,244	0.0	3,302	3,302	0.0
Gross profit	4,997	5,096	-1.9	5,367	5,367	0.0	4,235	4,235	0.0
SG&A	595	380	56.3	600	400	50.0	600	400	50.0
Operating profit	4,405	4,717	-6.6	4,767	4,967	-4.0	3,635	3,835	-5.2
EBITDA	5,457	5,769	-5.4	5,761	5,961	-3.4	4,575	4,775	-4.2
EBIT	4,580	4,833	-5.2	4,777	4,977	-4.0	3,645	3,845	-5.2
Core profit	3,974	4,359	-8.8	4,623	4,977	-7.1	3,645	3,845	-5.2
Net profit	4,136	4,463	-7.3	4,623	4,977	-7.1	3,645	3,845	-5.2
Key assumptions									
Number of vessels	36	36	0.0	36	36.0	0.0	36	36	0.0
Operating days	13,140	13,140	0.0	13,140	13,140	0.0	13,140	13,140	0.0
TC rates (US\$/day)	19,919	20,024	-0.5	20,987	20,987	0.0	18,308	18,308	0.0
USDTHB	30.90	30.90	0.0	30.50	30.50	0.0	30.50	30.50	0.0
OPEX (US\$/day)	4,879	4,879	0.0	4,928	4,928	0.0	4,977	4,977	0.0
SG&A (US\$/day)	1,464	948	54.4	1,497	998	50.0	1,497	998	50.0

Source: Company data, KS Research

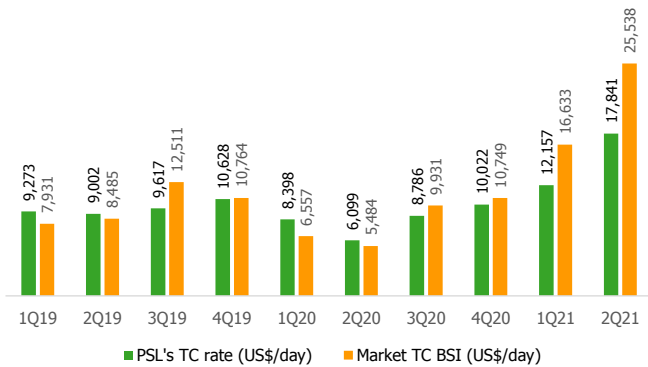
Fig 2 2Q21 performance review

	2Q20	3Q20	4Q20	1Q21	2Q21	%YoY	%QoQ	%YTD2021E	2021E
Financials									
Sales (Btmn)	680	944	1,050	1,246	1,918	182.0	54.0	38.2	8,289
EBITDA (Btmn)	148	412	421	671	873	491.1	30.1	28.3	5,457
Operating profit (Btmn)	-156	107	162	384	873	660.3	127.3	28.5	4,405
Core profit (Btmn)	-310	-35	64	271	769	348.3	184.1	26.2	3,974
Net profit (Btmn)	-1,183	-22	27	375	826	169.8	120.3	29.1	4,136
Net EPS (Bt)	-0.76	-0.01	0.02	0.24	0.53	169.8	120.3	29.1	2.65
Performance Drivers									
Number of vessels	36	36	36	36	36	0.0	0.0	200.0	36
Operating days	3,276	3,312	3,312	3,285	3,285	0.3	0.0	50.0	13,140
TC rates (US\$/day)	6,099	8,786	10,022	12,157	17,841	192.5	46.8	150.6	19,919
USDTHB	31.5	31.5	30.5	30.5	31.5	0.0	3.3	200.6	31
OPEX (US\$/day)	4,531	4,617	5,067	4,800	4,800	5.9	0.0	196.7	4,879
SG&A (US\$/day)	804	723	649	802	1,587	97.5	98.0	163.2	1,464
						Change		Avg YTD	2021E
Gross margin (%)	-11.1	19.3	23.9	37.2	54.0	65.1	16.9	45.6	60.3
EBITDA margin (%)	21.7	43.7	40.1	53.9	45.5	23.8	-8.4	49.7	65.8
Optg. margin (%)	-22.9	11.4	15.5	30.9	45.5	68.4	14.7	38.2	53.1
ROE (%)	-10.5	-0.2	0.3	3.6	0.0	10.5	-3.6	1.8	33.9

Source: Company data, KS Research

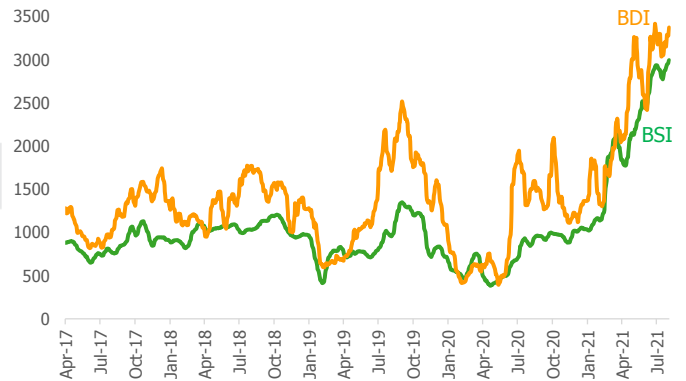


Fig 3 PSL's TC rates vs. Market TC BSI (US\$/ship/day)



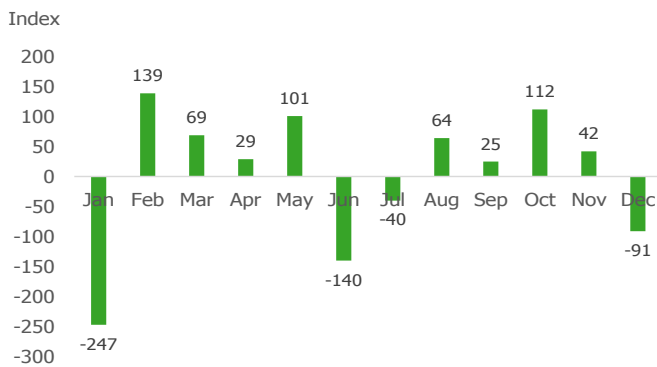
Source: Company and KS Research

Fig 4 BSI vs. BDI



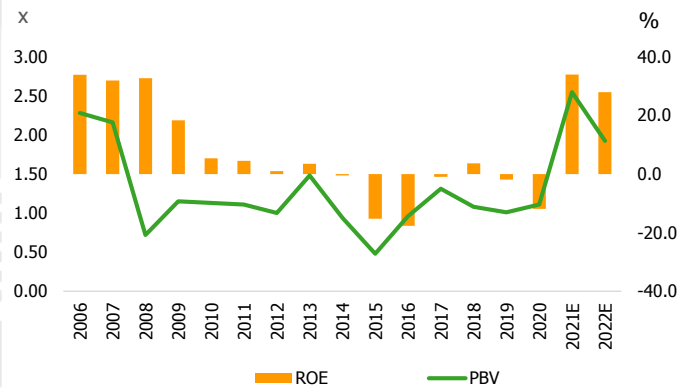
Source: Bloomberg and KS Research

Fig 5 Baltic Dry Index seasonality chart (1986-2018)



Source: Seamatrix

Fig 6 PSL's valuation (PBV vs. ROE)



Source Bloomberg and KS Research

Fig 7 2022 target price based on PBV multiple

Implied SD	-2.0SD	-1.5SD	-1.0SD	-0.5SD	Mean	+0.5SD	+1.0SD	+1.5SD	+2.0SD	+2.5SD	+3SD
PBV multiple	0.6	0.7	0.8	1.0	1.1	1.2	1.4	1.5	1.6	1.8	1.9
Fair value (Bt/shr)	8.7	10.1	11.6	14.5	15.8	17.3	20.2	21.7	23.1	26.0	27.5

Source: KS Research


Year-end 31 Dec

Income Statement (Btmn)	2019A	2020A	2021E	2022E	2023E	Cashflow (Btmn)	2019A	2020A	2021E	2022E	2023E
Revenue	4,152	3,730	8,289	8,611	7,537	Net profit	-228	-1,295	4,136	4,623	3,645
Cost of sales and services	-3,173	-3,226	-3,292	-3,244	-3,302	Depreciation & amortization	1,228	1,183	1,052	994	939
Gross Profit	979	504	4,997	5,367	4,235	Change in working capital	-12	362	-569	-6	149
SG&A	-546	-336	-595	-600	-600	Others	903	2,643	2	2	2
Other income	31	9	3	0	0	CF from operation activities	1,890	2,893	4,620	5,613	4,735
EBIT	478	-693	4,580	4,777	3,645	Capital expenditure	1,077	0	0	0	0
EBITDA	1,692	1,360	5,457	5,761	4,575	Investment in subs and affiliates	7	-5	-2	-2	-2
Interest expense	-703	-597	-444	-154	0	Others	-1,511	0	0	0	0
Equity earnings	20	11	13	10	10	CF from investing activities	-427	-5	-2	-2	-2
EBT	-226	-1,290	4,136	4,623	3,645	Cash dividend	0	0	0	0	0
Income tax	-3	-4	0	0	0	Net proceeds from debt	-1,876	-2,635	-4,171	-5,856	0
NPAT	-228	-1,295	4,136	4,623	3,645	Capital raising	-0	0	0	0	0
Minority Interest	-0	0	0	0	0	Others	-133	-56	0	0	0
Core Profit	-223	-413	3,974	4,623	3,645	CF from financing activities	-2,009	-2,691	-4,171	-5,856	0
Extraordinary items	0	-867	1	0	0	Net change in cash	-546	197	448	-245	4,733
FX gain (loss)	-6	-15	160	0	0	Key Statistics & Ratios					
Reported net profit	-228	-1,295	4,136	4,623	3,645	Per share (Bt)					
Balance Sheet (Btmn)						Reported EPS	-0.15	-0.83	2.65	2.96	2.34
Cash & equivalents	1,181	1,100	1,548	1,303	6,036	Core EPS	-0.14	-0.27	2.55	2.96	2.34
ST investments	0	0	0	0	0	DPS	0.00	0.00	0.00	0.00	0.00
Accounts receivable	183	169	393	396	352	BV	7.41	6.50	9.15	12.12	14.45
Inventories	176	35	102	104	0	EV	14.96	13.32	26.06	22.46	19.43
Other current assets	140	634	647	659	673	Free Cash Flow	1.90	1.86	2.96	3.60	3.04
Total current assets	1,681	1,938	2,690	2,464	7,061	Valuation analysis					
Investment in subs & others	85	91	92	94	96	Reported P/E (x)	-51.86	-9.15	8.79	7.86	9.97
Fixed assets-net	20,104	19,125	18,073	17,079	16,139	Core P/E (x)	-53.26	-28.67	9.14	7.86	9.97
Other assets	3,191	244	249	254	259	P/BV (x)	1.03	1.17	2.55	1.92	1.61
Total assets	25,061	21,397	21,104	19,890	23,556	EV/EBITDA (x)	13.79	15.27	7.45	6.08	6.62
Short-term debt	4,085	2,441	3,856	0	0	Price/Cash flow (x)	6.27	4.10	7.86	6.47	7.67
Accounts payable	71	277	0	0	0	Dividend yield (%)	0.00	0.00	0.00	0.00	0.00
Other current liabilities	557	621	634	646	659	Profitability ratios					
Total current liabilities	4,712	3,339	4,490	646	659	Gross margin (%)	23.58	13.51	60.29	62.32	56.19
Long-term debt	8,577	7,586	2,000	0	0	EBITDA margin (%)	40.76	36.47	65.84	66.90	60.69
Other liabilities	212	337	344	351	358	EBIT margin (%)	11.50	-18.59	55.25	55.47	48.36
Total liabilities	13,502	11,262	6,834	997	1,017	Net profit margin (%)	-5.50	-34.71	49.89	53.69	48.36
Paid-up capital	1,559	1,559	1,559	1,559	1,559	ROA (%)	-0.86	-5.57	19.46	22.55	16.78
Share premium	1,968	1,968	1,968	1,968	1,968	ROE (%)	-1.88	-11.94	33.89	27.88	17.60
Reserves & others, net	-860	-916	-916	-916	-916	Liquidity ratios					
Retained earnings	8,892	7,523	11,659	16,282	19,927	Current ratio (x)	0.36	0.58	0.60	3.81	10.71
Minority interests	0	0	0	0	0	Quick ratio (x)	0.29	0.38	0.43	2.63	9.69
Total shareholders' equity	11,559	10,135	14,270	18,893	22,538	Leverage Ratios					
Total equity & liabilities	25,061	21,397	21,104	19,890	23,556	Liabilities/Equity ratio (x)	1.17	1.11	0.48	0.05	0.05
Key Assumptions	2019A	2020A	2021E	2022E	2023E	Net debt/EBITDA (x)	6.78	6.56	0.79	-0.23	-1.32
Number of vessels	36	36	36	36	36	Net debt/equity (x)	0.99	0.88	0.30	-0.07	-0.27
Operating days	13,140	13,176	13,140	13,140	13,140	Int. coverage ratio (x)	0.68	-1.16	10.32	31.07	N/A
TC rates (US\$/day)	9,622	8,332	19,919	20,987	18,308	Growth					
USDTHB	29.8	31.0	30.9	30.5	30.5	Revenue (%)	-15.83	-10.16	122.21	3.89	-12.47
OPEX (US\$/day)	4,778	4,705	4,879	4,928	4,977	EBITDA (%)	-32.48	-19.62	301.14	5.57	-20.59
SG&A (US\$/day)	1,394	822	1,464	1,497	1,497	Reported net profit (%)	-150.09	-466.70	419.39	11.79	-21.15
Financial cost (US\$/day)	1,796	1,462	1,076	384	0	Reported EPS (%)	-150.09	-466.70	419.39	11.79	-21.15
Depreciation (US\$/day)	3,022	3,052	3,083	3,114	3,145	Core profit (%)	-148.59	-85.78	1,061.45	16.32	-21.15
Total cost (US\$/day)	10,990	10,041	10,503	9,923	9,620	Core EPS (%)	-148.59	-85.78	1,061.45	16.32	-21.15

Source: Company, KS estimates



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