Industry Insights

Dry Bulk Shipping

Refer to important disclosures at the end of this report

DBS Group Research . Equity

9 Sep 2021

Freight rates momentum to sustain

- The BDI is up by 180% since start of the year, and momentum should continue into 4Q
- We expect favourable demand-supply situation to persist, and ensure BDI stays elevated in 2021/22
- Supply side looks exceptionally benign, with orderbook-to-fleet ratio at multi-decade lows
- Dry bulk operators will return to strong profits after a few tepic years, our top picks are Thoresen Thai and Precious Shipping in Thailand; also favour Yangzijiang for shipbuiling cycle exposure

2H21 will be a strong season. The BDI is seasonally stronger in the second half of the yearand we expect momentum in BDI to persist this year, with 4Q21 stronger on average than the 3Q21 levels, although there could be some moderation from current highs once port congestion levels ease off. BDI has averaged around 2,600 YTD in 2021, and we expect the full-year average of over 2,700 in 2021, with the 2H21 average expected at around 3,500.

Expect to see very strong numbers for dry bulk operators in FY21/22. At BDI around 1,500 points, average operating margins for dry bulk are in the mid-teen range, and when BDI is above 2,000, we should see strong operating margins close to 30%. This will result in strong earnings and cash flows for dry bulk operators in 2021/22 and lead to a strong rebound in earnings after a few years of tepid performance. Maintain BUY on dry bulk operators PSL TB and TTA TB in Thailand. To play the shipbuilding cycle, BUY YZJ SP, an undervalued proxy for the newbuild cycle.

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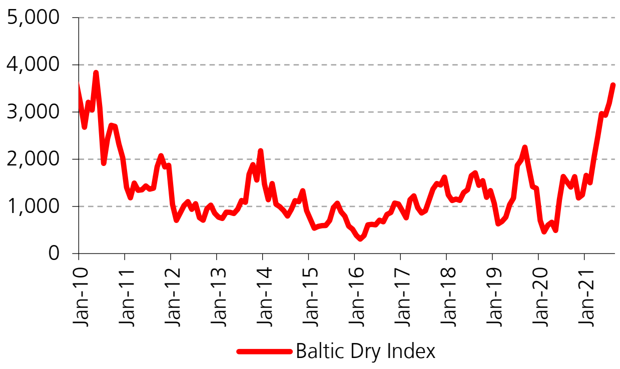
STOCKS

	Price	Mkt Cap	12-mth Target Price	Performance (%)		
	Bt	US$m	Bt	3 mth	12 mth	Rating
Precious Shipping	21.60	1,031	24.40	6.1	350.6	BUY
Thoresen Thai Agencies	15.50	864	21.70	(14.7)	431.7	BUY
Yangzijiang Shipbuilding	1.62	4,752	1.95	10.9	75.3	BUY

Source: DBSVTH, DBS Bank, Bloomberg Finance L.P.
Closing price as of 8 Sep 2021

BDI close to decade high levels



Source: Bloomberg Finance L.P., DBS Bank

DBS
Live more, Bank less

ed: CK / sa: PY, CS

Investment Summary

The Baltic Dry Index (BDI) is up by 180% YTD in 2021. The Baltic Dry Index (BDI), considered the bellwether index for the health of the dry bulk shipping industry, and indeed, all of its sub-indices, have staged a remarkable recovery YTD in 2021, and, while current level of 3,822 is slightly off the high of 4,235 in late August, the BDI is still close to triple where it started the year, at 1,366. As 2H is a seasonally stronger period, the recovery in the dry bulk shipping market that we have seen since early 2021 continues momentum, aided by a rebound in trade and port congestion. With world GDP and trade recovering in 2021/22, dry bulk shipping demand is likely to be above trend at 4% in 2021 and should normalise to 2% in 2022. Given that supply growth (fleet growth) will remain muted for a while (orderbook-to-fleet is only 6-7% across ship sizes), good times for dry bulk shipping are expected to continue, even if rates moderate from current highs.

2H21 will be a strong season. The BDI is seasonally stronger in the second half of the year, owing to higher demand for commodities to cater to festive demand months. BDI levels tend to be the weakest in 1Q, when Chinese demand is affected by the Lunar New Year period, and stronger in 3Q/4Q, when demand peaks out. We expect similar trends in BDI to persist this year, and 4Q21 should be stronger on average than the 3Q21 levels, although there could be some moderation from current highs once port congestion levels ease off. **BDI has averaged around 2,600 YTD in 2021, and we expect the full-year average of over 2,700 in 2021, with the 2H21 average expected at around 3,500.**

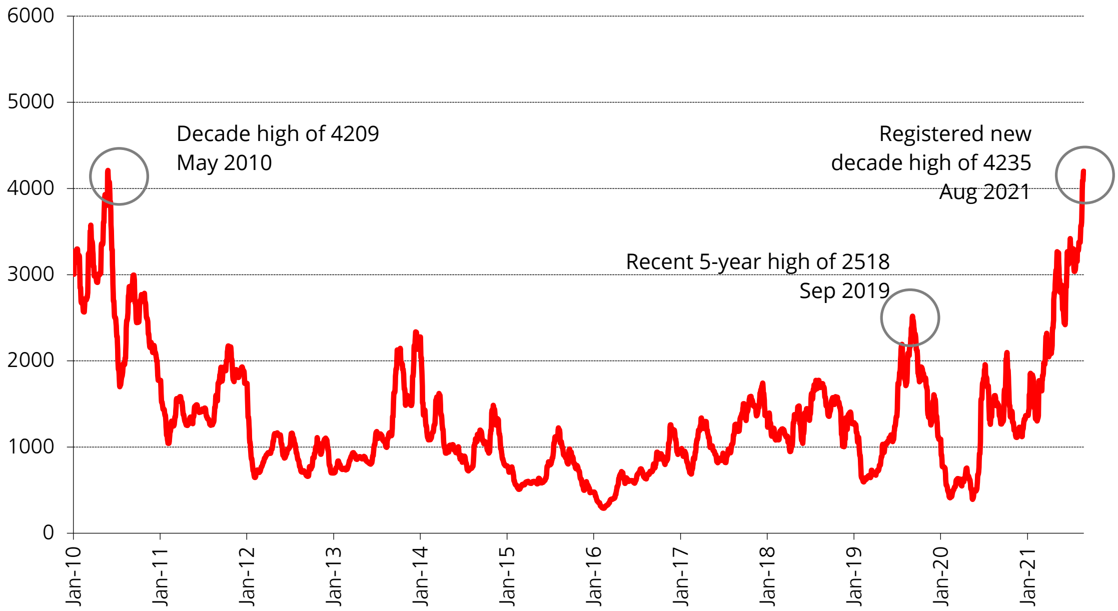
2022 should be a good year as well for dry bulk. Demand trends for commodities will continue to moderate in late 2021 and 2022 as industrial activity normalises, and a return to more usual economic activity following vaccine deployments could result in a gradual shift back towards the usual 2% growth norm for the dry bulk shipping sector in 2022. Logistical disruptions should also dissipate over time. Thus, looking ahead to 2022, we expect freight rates to be lower than the 2H21 average, but they should hold up around the 2,500 levels on average, as we expect limited supply growth, given the dearth of new orders and low orderbook-to-fleet ratio.

Of course, we expect freight rates to drop in the first half of the year, but not drastically. Dry bulk operators should, in general, continue to enjoy favourable demand-supply dynamics for a while, owing to the paucity in supply. Smaller ship sizes like Handysize and Supramax should see a better market than Capesize, as vessels are older on average in the smaller ships category and fleet replacement with new orders is unlikely to be enough to meet demand growth trends.

With BDI likely to average more than 3,000 in 2H21, we expect to see very strong numbers for dry bulk operators in 2H21, and new order momentum is likely to pick up slowly as well, benefiting shipbuilders. At BDI around 1,500 points, average operating margins for dry bulk are in the mid-teen range, and when BDI is above 2,000, we should see strong operating margins close to 30%. This will help lead to strong earnings and cash flows for dry bulk operators in 2021/22 and lead to a strong rebound in earnings after a few years of tepid performance. **For exposure to the rebound in earnings for dry bulk operators, we maintain BUY on PSL TB and TTA TB. To play the shipbuilding cycle, we reiterate buy on YZJ SP, an undervalued proxy for the newbuild cycle.**

The Baltic Dry Index at a glance

BDI trends since 2010



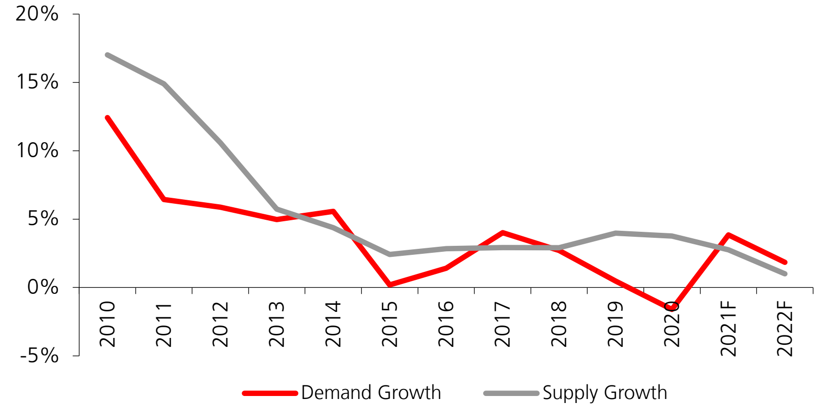
Source: Clarkson Research, DBS Bank

Bulk carrier market conditions continue to strengthen in 3Q21, with the BDI registering new decade highs of 4,235. While 2H is a seasonally stronger period, the recovery in the dry bulk shipping market that we have seen since early 2021 continues momentum, aided by a rebound in trade and port congestion

Given that supply growth (fleet growth), will remain muted for a while (orderbook-to-fleet is still well below 10%), good times for dry bulk shipping are expected to continue, even if rates moderate from current highs

Favourable demand-supply dynamics in near term

Dry bulk shipping demand-supply gap – trends and expectations



Source: Clarkson Research, DBS Bank

Demand has slowed down from 2010 highs. The seaborne dry bulk trade growth trend has fallen to 0-4% per annum in recent years as demand for commodities from China has slowed down, and coal trade has been impacted globally by the trend of energy transition to cleaner fuels. Trade growth fell 1.6% in 2020 as global GDP growth declined.

But with world GDP and trade recovering in 2021/22, dry bulk shipping demand is likely to be above trend at 4% in 2021 and should normalise to 2% in 2022.Iron ore, grain, and minor bulk trades are above pre-COVID levels already.

Supply growth (fleet growth), on the other hand, remains muted, as existing orderbook-to-fleet trends are much less than 10% of fleet.

Dry bulk shipping demand trends by commodity

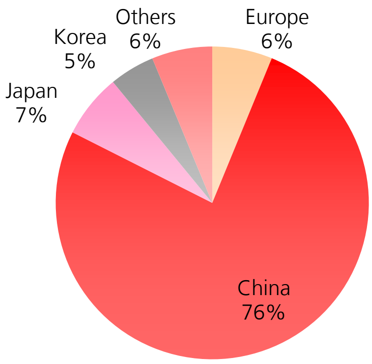
Trade (million tons)	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	10yr CAGR
Iron Ore	991	1,052	1,110	1,188	1,340	1,364	1,418	1,473	1,476	1,456	1,503	4.3%
Thermal Coal	694	774	886	924	961	892	895	946	997	1,017	915	2.8%
Coking Coal	237	226	233	259	256	245	246	256	267	269	250	0.5%
Grains	246	255	279	262	296	303	319	329	328	330	346	3.5%
Soybean	97	91	96	101	113	127	132	146	146	148	166	5.5%
Total Major Bulks	2,265	2,398	2,604	2,734	2,966	2,931	3,010	3,150	3,214	3,220	3,180	3.5%
Y-o-Y Growth	11.8%	5.9%	8.6%	5.0%	8.5%	-1.2%	2.7%	4.7%	2.0%	0.2%	-1.2%	
Minor Bulks	1,589	1,704	1,739	1,825	1,847	1,891	1,880	1,936	2,010	2,029	1,985	2.3%
Y-o-Y Growth	13.3%	7.2%	2.1%	4.9%	1.2%	2.4%	-0.6%	3.0%	3.8%	0.9%	-2.2%	
Total Bulks	3,854	4,102	4,343	4,559	4,813	4,822	4,890	5,086	5,224	5,249	5,165	3.0%
Y-o-Y Growth	12.4%	6.4%	5.9%	5.0%	5.6%	0.2%	1.4%	4.0%	2.7%	0.5%	-1.6%	

Source: Clarkson Research, DBS Bank

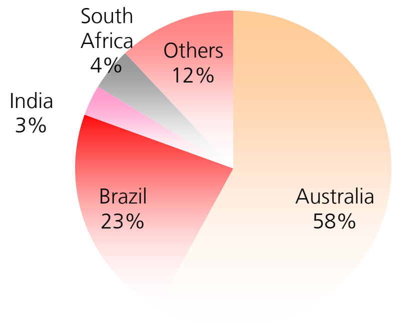
Demand Drivers

Global steel demand is expected to recover strongly in 2021, driving demand for iron ore as well. Our metals team has raised the global steel demand growth forecast for 2021 to 6.2% y-o-y from 5.3% previously. This is in line with the upturn in the economic cycle with the rollout of vaccines and government fiscal stimuli. Global steel demand growth will be largely driven by rest of the world excluding China at 11% y-o-y growth, while demand growth in China decelerates to 2.5% in 2021 (revised up from 2.2%) from 9.6% in 2020. The US and EU are among developed economies that should see strong recovery in steel demand in 2021, with strong double-digit growth expected y-o-y. In 2022, we are expecting steel demand to moderate to around 3%.

Iron ore importing countries

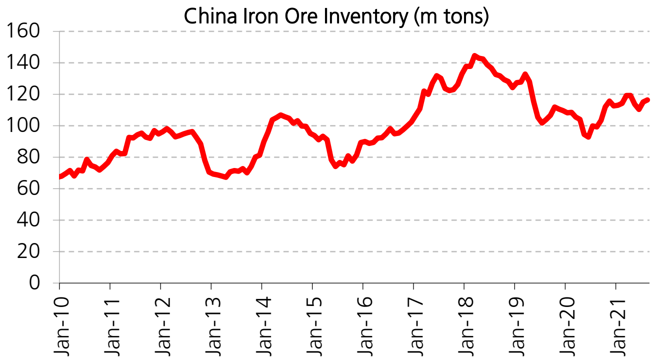


Iron ore exporting countries

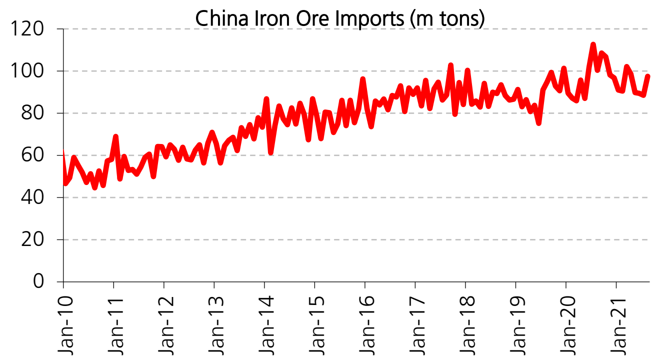


Source: Clarkson Research, DBS Bank

China iron ore inventory below historical highs

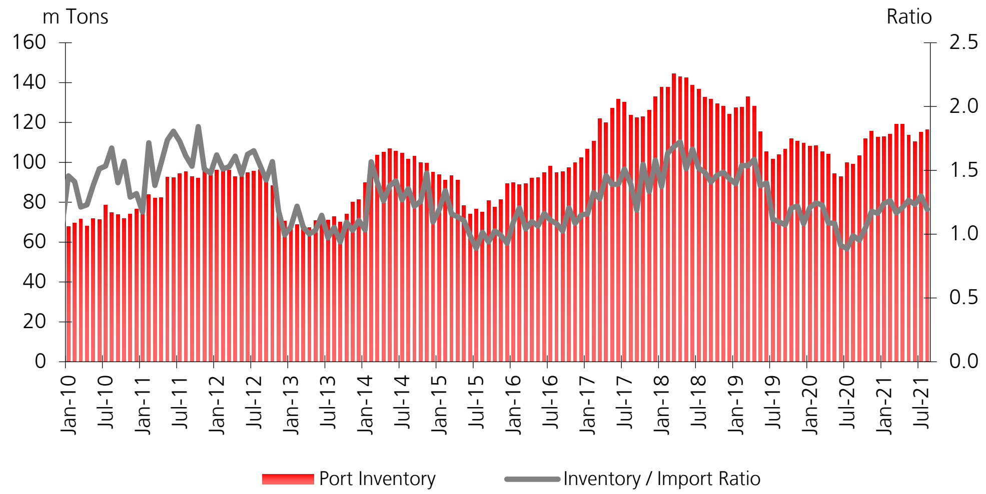


While imports continue to climb



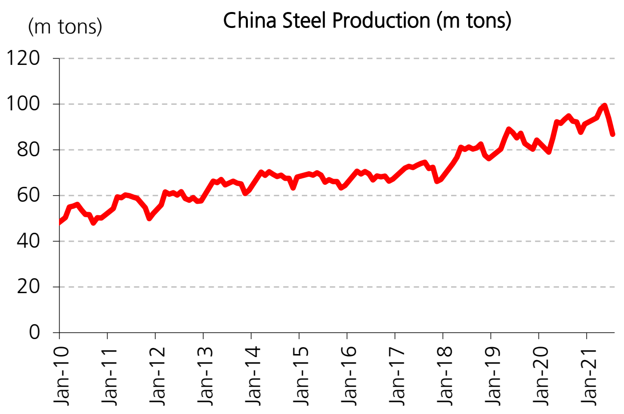
Source: Bloomberg Finance L.P., DBS Bank

China iron ore inventory to import ratio leaves room for higher trade volumes



Source: Bloomberg Finance L.P., DBS Bank

China steel production continues to grow steadily

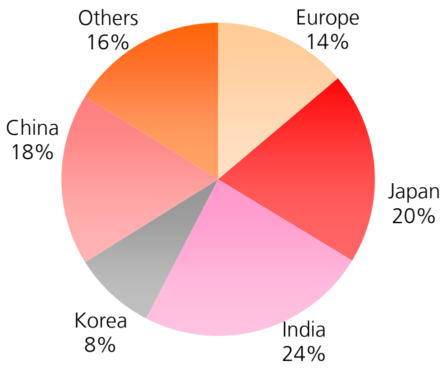


China steel exports higher in recent months

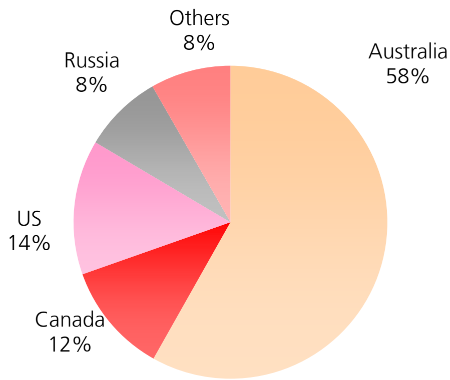
Source: Bloomberg Finance L.P., DBS Bank

The coking coal trade is also linked to global steel production, and, hence, is rebounding in 2021. Global seaborne coking coal trade is expected to rebound by c.6% in 2021, after falling by c.7% in 2020 owing to the impact of COVID-19. The rebound in steel output in key regions excluding China including Europe, India, and Japan is boosting the coking coal trade. On the Chinese front, a "ban" on imports of Australian coal is having a significant impact, but unlike the iron ore market, China is not the biggest importer of coking coal and hence does not have the same influence on overall market conditions. Australian exports continue to hold up despite China, as other importing regions like India have picked up the slack.

Coking coal importing countries



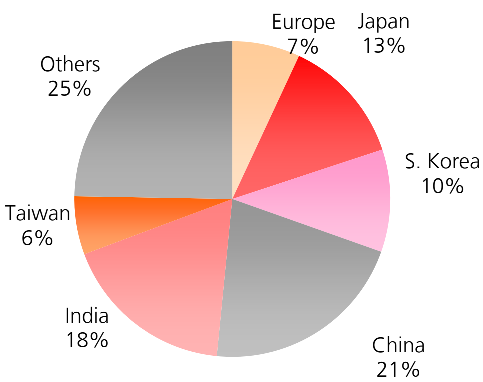
Coking coal exporting countries



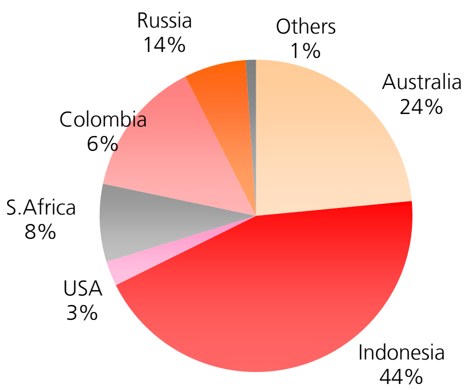
Source: Clarkson Research, DBS Bank

Thermal coal will recover from the lows of 2020 but will still be a gradually shrinking trade in future owing to energy transition mechanics. The thermal coal trade is expected to grow by 4-5% in 2021, after a steep fall of 10% in 2020, but will remain well below pre-COVID levels, going forward. In 1H21, seaborne coal trade volumes remained 7% below 2019 levels. With the gradual shift to cleaner sources of energy and the disruption brought about by COVID-19, it does appear that the seaborne thermal coal market may have peaked already. Still, it is not expected to fall away in any spectacular fashion and should instead decline gradually, as i) Asian countries, especially China, India, and SouthEast Asia, still continue to depend on coal for the majority of base load power generation, ii) extreme weather conditions lead to more heating and cooling requirements in China, and iii) Chinese imports are boosted from time to time by domestic mine closures, safety inspections etc. The rise in thermal coal prices will also encourage more coal-to-gas switching in Europe and limit import growth there.

Thermal coal importing countries

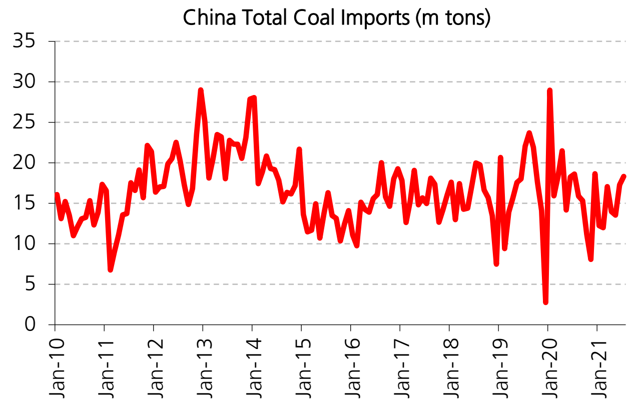


Thermal coal exporting countries

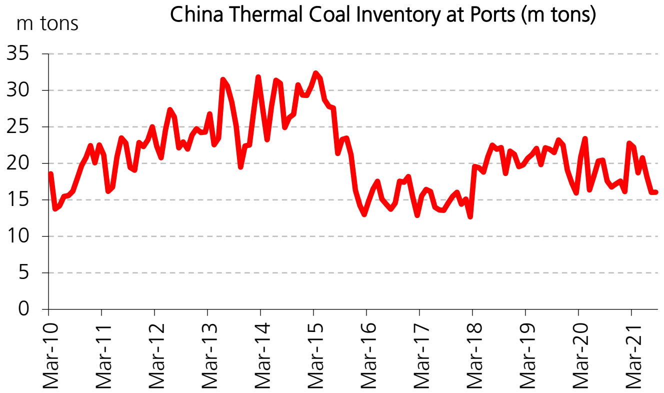


Source: Clarkson Research, DBS Bank

China thermal coal imports are down y-o-y



But inventories remain at reasonable levels



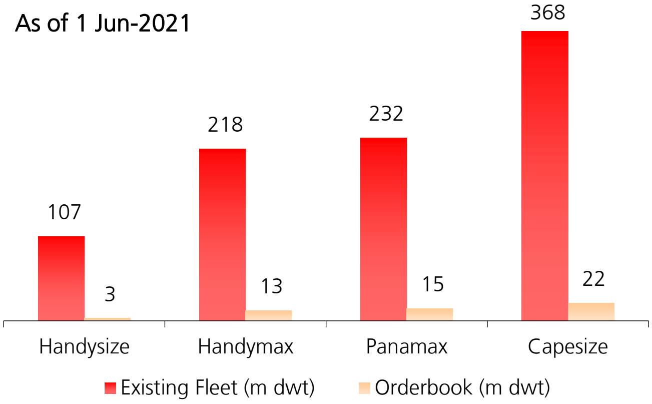
Source: Bloomberg Finance L.P., DBS Bank

Grain and Minor bulk trades expected to retain momentum in medium to long term. While the first two decades of this millennium have been dominated by iron ore and coal trades for the dry bulk industry, we believe grains and minor bulks (metals and others) will be the major growth drivers to 2030 and beyond. Grain trades look likely to continue near-term steady growth momentum of 3-4%, as the population continues to grow in parts of the world that are dependent on grain imports. Minor bulks, especially the metals trade should see multi-year boost, in line with global growth, acceleration towards electric vehicles and clean energy, and technology hardware growth in areas like semiconductors, all of which will require the use of metals.

Supply side trends meanwhile are extremely benign

Orderbook as a percentage of fleet is at multi-decade lows across all vessel sizes. Most of the current orderbook will be delivered in 2021/22; very few deliveries scheduled for 2023 and beyond. Orderbook relatively well divided among Capesize, Panamax, and Handymax classes. Net supply growth is thus projected to remain low at c.2% in 2021/22.

Dry bulk fleet vs. orderbook



Source: Clarkson Research, DBS Bank

Dry bulk fleet, orderbook and deliveries

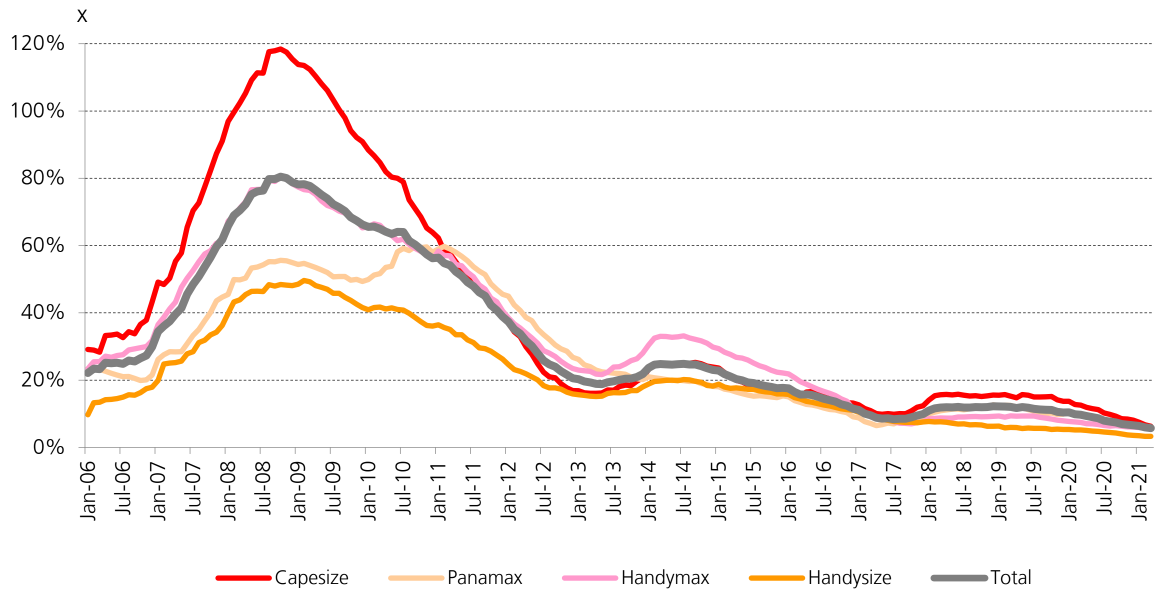
Fleet and Orderbook by Vessel Type (m dwt)	Existing Fleet (m dwt)	Orderbook (m dwt)	% of fleet	% of orderbook
Handysize	107.1	3.1	3%	6%
Handymax	218.4	13.1	6%	24%
Panamax	232.3	15.3	7%	28%
Capesize	367.6	22.3	6%	41%
Total	925.4	53.8	6%	100%

Delivery Schedule (m dwt)	Orderbook	For delivery in		
		2021	2022	2023+
Handysize	3.1	1.8	1.2	0.2
Handymax	13.1	4.9	7.3	0.8
Panamax	15.3	5.6	6.5	3.2
Capesize	22.3	9.4	9.0	3.9
Total	53.8	21.7	24.0	8.1
% of existing fleet	5.8%	2.3%	2.6%	0.9%

Source: Clarkson Research, DBS Bank

Supports freight rate trajectory. The dry bulk orderbook-to-fleet ratio had peaked at around 80% in early 2008. In recent years, the dry bulk orderbook has declined from c.25% in 2014 to c6% only at the start of 2021. Even if new orders in the sector accelerate, an orderbook-to-fleet ratio of c.10-15%, spread over 4+ years, should be reasonably manageable for the industry to digest in the near to medium term, without putting too much pressure on freight rates. In contrast, orderbook-to-fleet ratio for container shipping has surpassed 18%, after strong newbuild activity YTD in 2021, and hence, chances of market overheating and over-ordering is much higher in container shipping than the dry bulk shipping sector.

Dry bulk orderbook-to-fleet ratio

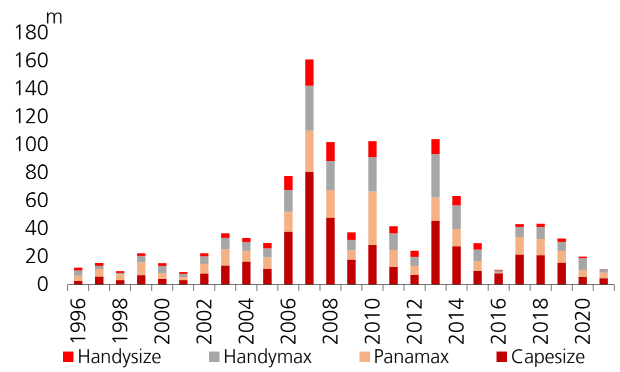


Source: Clarkson Research, DBS Bank

New orders for bulk carriers have been slow in the last five years and have not picked up yet in 2021. The last few high cycles for new orders for bulk carriers were witnessed in 2006-08, 2010, and 2013-14, after which it has been stop-start and has been an extremely low cycle from 2020 onwards, as weak financial performance for multiple years dented shipowners' ability to generate cash flows required for new investments. Total new orders in 2020 was only 20m dwt, and YTD new orders in the first 6 months of 2021 have not picked up much either, languishing at only 11m dwt.

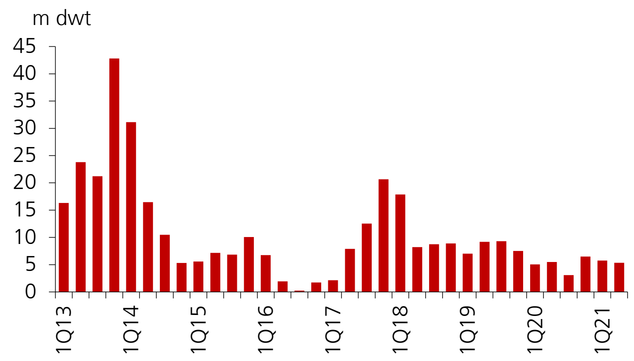
Some orders likely in coming months. The coming months are likely to see more interest in the bulk carrier newbuilding market, with freight rates reaching decade-highs and cash flows in 2H21 likely to be buoyant for shipowners. We expect to see a moderate shipbuilding cycle, at least, if not a high cycle, to arrive for dry bulk sooner than later. With new orders for containerships likely to take a breather after a few high activity months in late 2020 and first half of 2021, shipyards could be more open to taking orders for dry bulk vessels to further fill their orderbooks.

Bulkcarrier new orders by year



Source: Clarkson Research, DBS Bank

Bulkcarrier new orders by quarter



Source: Clarkson Research, DBS Bank

We can expect mid-cycle revival for dry bulk orders soon, but should not impact freight rates too much. Previous cycles have tended to last 6-9 months at least, and as we expect freight rates to be much better than average in 2021, the combination of sentiment, momentum, and cash flows should fuel appetite from dry bulk operators to build or replace fleet for the future. However, given the fragmented nature of the industry and steep losses in previous years, we think appetite from shipowners could be far less than what we have seen in the container shipping sector YTD in 2021.

The overall orderbook-to-fleet ratio, which is currently at 6%, can maybe rise to around 15%, which, if spread over 4+ years, should be reasonably manageable for the industry to digest in the near to medium term, without putting too much pressure on freight rates. We thus expect the new orders to recover from 4Q21 onwards and persist in 2022 as well, but do not expect the newbuild market to go crazy. This should benefit shipyards like Yangzijiang.

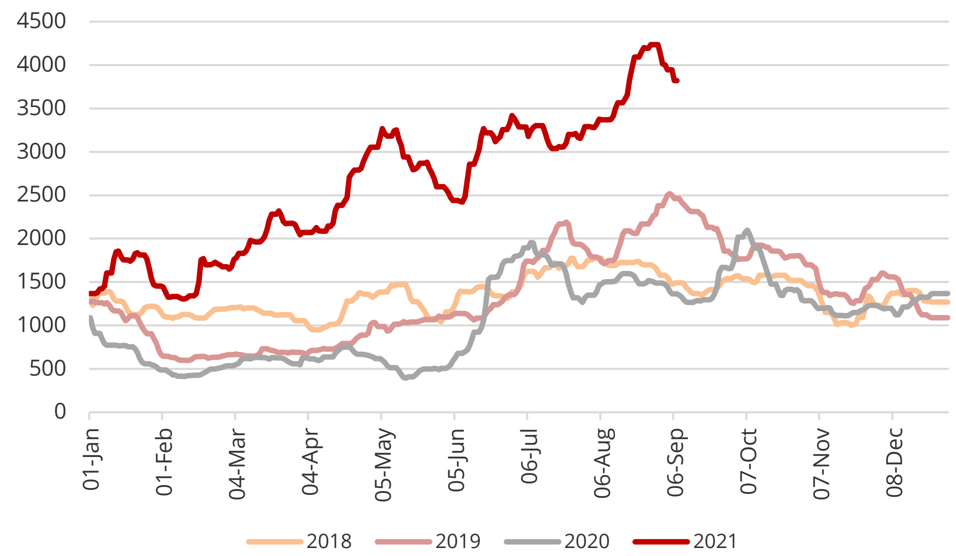
Dry bulk new order cyclicality trends

Average monthly orders	m dwt	Remark
1996 - present	3.6	Long-term average
1996 - 2005	1.7	Historical average prior to 2006
1Q06 - 3Q06	4.5	Mid-cycle
4Q06 - 1Q07	11.0	High cycle
2Q07 - 3Q08	12.8	Peak cycle
4Q08 - 2Q09	1.8	Post financial crisis low
3Q09 - 4Q09	4.3	Recovery
1Q10	9.2	Mid-cycle
2Q10	10.9	High cycle
3Q10-4Q10	7.5	Mid-cycle
1Q11-4Q12	2.4	Low cycle
1Q13-1Q14	9.0	High cycle
2Q14-3Q14	4.5	Mid cycle
4Q14-3Q17	1.9	Low cycle
4Q17-1Q18	6.4	Mid cycle
2Q18-now	2.3	Low cycle

Source: Clarkson Research, DBS Bank

As a result, 2021 is shaping up to be a great year for the BDI and dry bulk freight rates

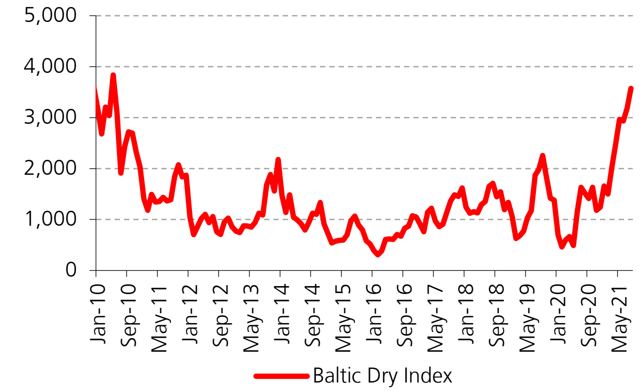
Seasonal trends in BDI – 2021 against the previous three years



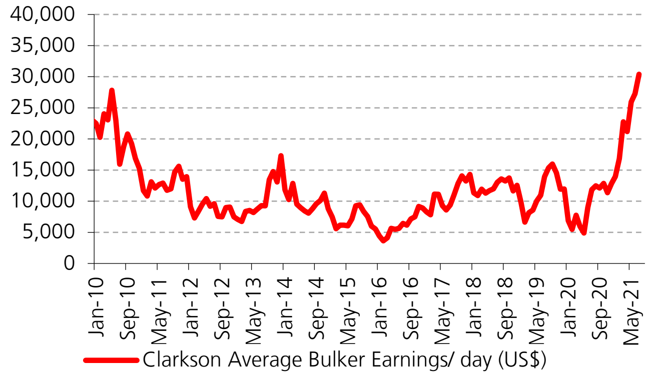
Source: Clarkson Research, DBS Bank

The Baltic Dry Index is up by more than 200% YTD in 2021. The Baltic Dry Index, considered the bellwether index for the health of the dry bulk shipping industry, is a composite Index of the three major sub-indices, the Baltic Capesize Index (BCI), the Baltic Panamax Index (BPI), and the Baltic Supramax Index (BSI), and is calculated by the Baltic Exchange by assessing multiple shipping rates across more than 20 shipping routes for each of the component indices. In 2021, the BDI and, indeed, all of its sub-indices have all staged a remarkable recovery, and at current levels of close to 4,200, the BDI is more than triple where it started the year, at 1,366.

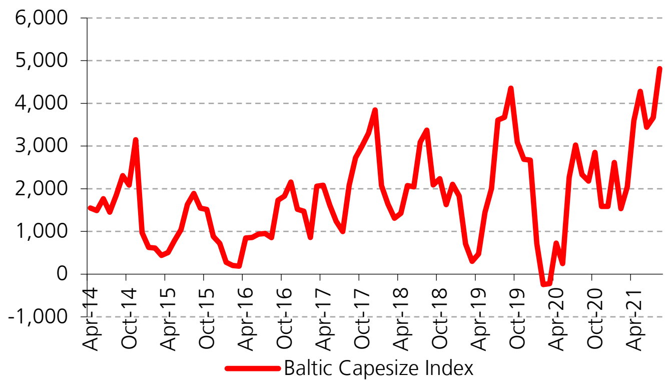
Baltic Dry Index (BDI)



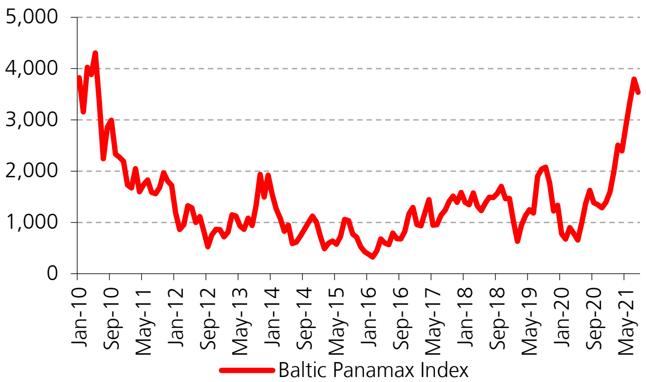
Clarkson Average Bulker Earnings/ day (US$)



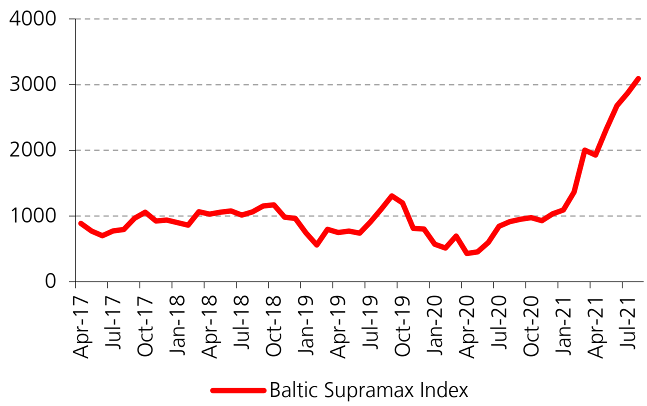
Baltic Capesize Index (BDI)



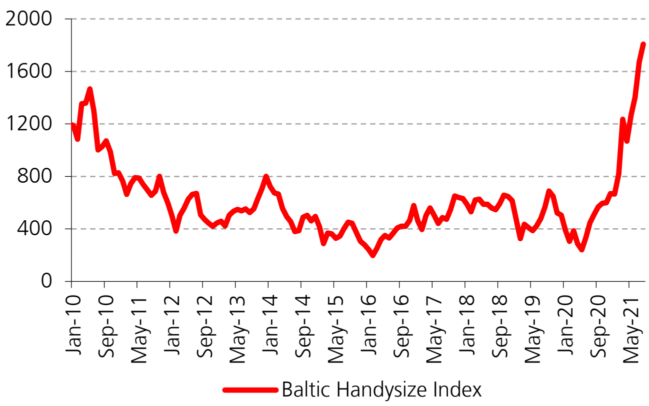
Baltic Panamax Index (BDI)



Baltic Supramax Index (BDI)



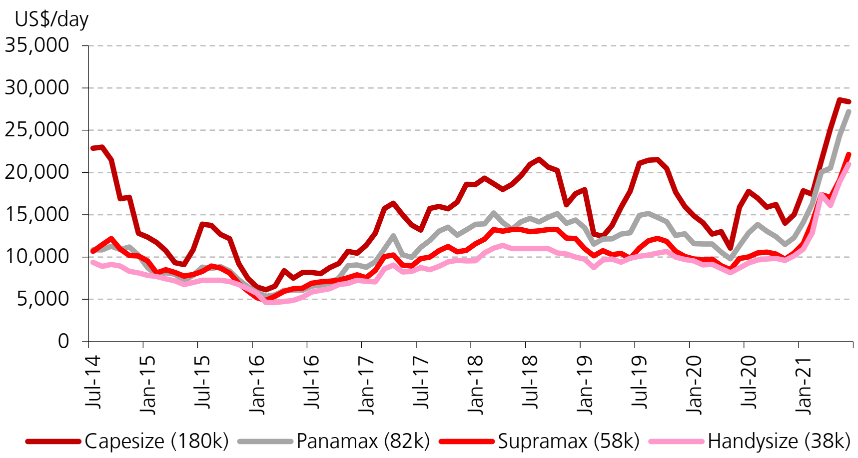
Baltic Handysize Index (BDI)



Source: Clarkson Research, DBS Bank

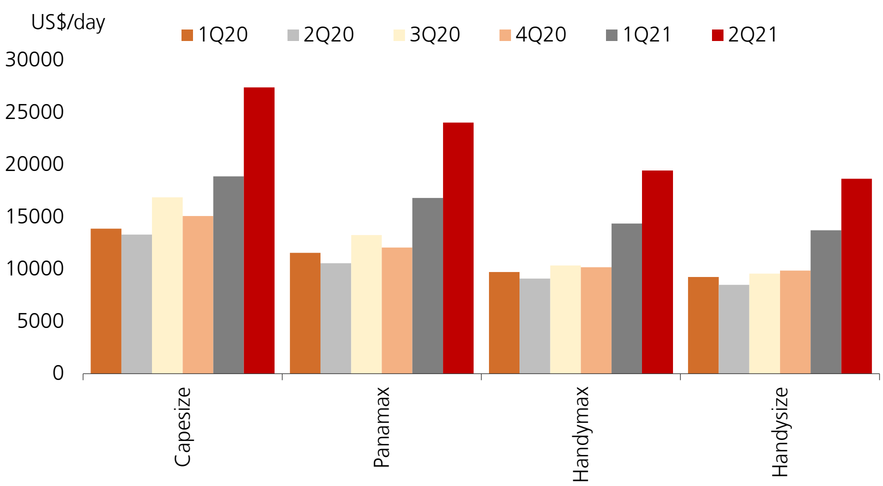
The BSI has performed the best YTD in 2021, although other ship sizes are not far behind. The BSI is up by 222% YTD in 2021, outperforming other sub-indices and the overall BDI index. This may be due to superior demand-supply dynamics in the Supramax segment, which is more exposed to higher growth non-coal dry bulk cargoes.

Timecharter rates by ship size



Source: Clarkson Research, DBS Bank

Quarterly progression of timecharter rates by ship size

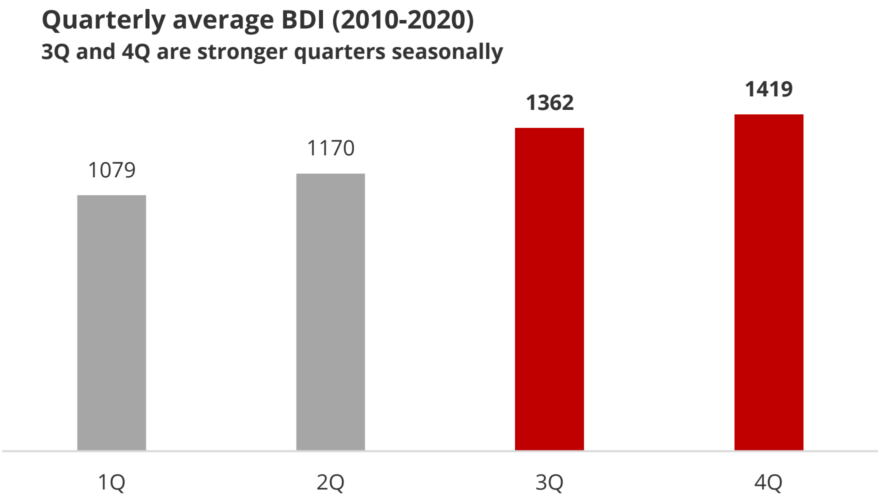


Source: Clarkson Research, DBS Bank

Where next for rates?

Stronger second half in store. The BDI index is seasonally stronger in the second half of the year, owing to higher demand for commodities to cater to festive demand months. As can be seen from the chart on the following page, which illustrates the average BDI index levels over the last decade in each quarter, BDI levels tend to be the weakest in 1Q, when Chinese demand is affected by the Lunar New Year period, and stronger in 3Q/4Q, when demand peaks out. We expect similar trends in BDI to persist this year, and 4Q21 should be stronger on average than 3Q21 levels, although there could be some moderation from current highs once port congestion levels ease off. BDI has averaged around 2,500 YTD in 2021, and we expect the full-year average of around 2,700 in 2021, with the 4Q21 average of around 3,500, slightly higher than 3Q21 average of around 3,300.

Quarterly progression of timecharter rates by ship size



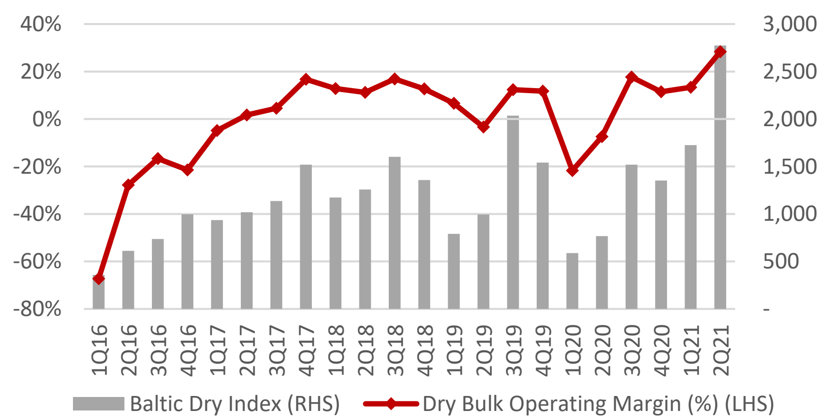
Source: Clarkson Research, DBS Bank

2022 should be a good year as well for dry bulk. Demand trends for commodities will continue to moderate in late 2021 and 2022 as industrial activity normalises; also, a return to more usual economic activity following vaccine deployments could result in a gradual shift back towards the usual 2% growth norm for the dry bulk shipping sector in 2022. Logistical disruptions should also dissipate over time. Thus, looking ahead to 2022, we expect freight rates to be lower than the 2H21 average, but should hold up around the 2,500 levels on average, as we expect limited supply growth, given the dearth of new orders and low orderbook-to-fleet ratio. Of course, we expect freight rates to drop in the first half of the year, but not drastically. Dry bulk operators should, in general, continue to enjoy favourable demand-supply dynamics for a while, owing to the paucity in supply. Smaller ship sizes like Handysize and Supramax should see a better market than Capesize, as vessels are older on average in the smaller ship category and fleet replacement with new orders is unlikely to be enough to meet demand growth trends.

Dry bulk sector profitability has picked up in 1H21 after a few tepid years, and the trend should continue

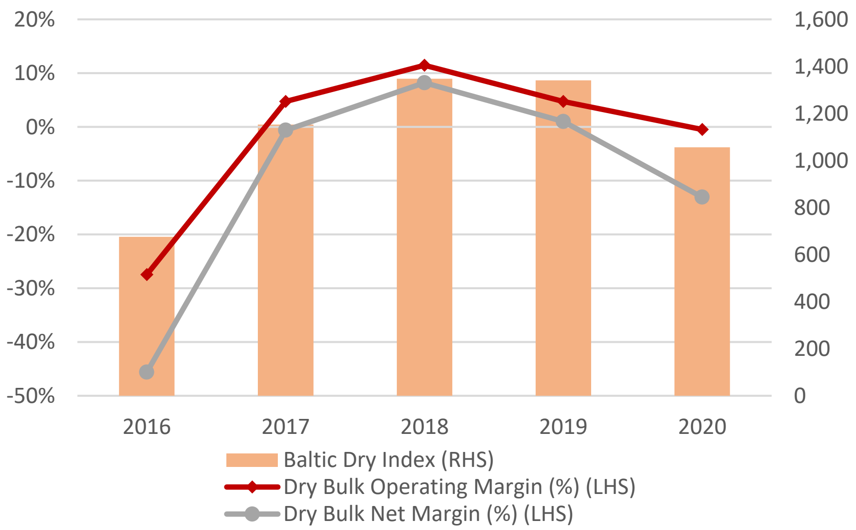
Operating margins highly dependent on BDI Index. As is evident from the chart above, operating margins are a function of freight rates and are typically negative for BDI<1000 points. At BDI of around 1,500 points, average operating margins are in the mid-teen range, and, currently, when the BDI is above 2,000, we see strong operating margins close to 30%. This will help improve cash flows for dry bulk operators in 2021/22 and probably provide them with more firepower to consider expanding their fleets, given that the supply side needs to be replenished for this shipping sector. With the BDI likely to average in excess of 3,000 in 2H21, we expect to see very strong numbers for dry bulk operators in 2H21.

Dry bulk shipping sector quarterly operating margin trend – vs. BDI



Note: Includes major listed dry bulk operators like Pacific Basin, Star Bulk, Golden Ocean, Diana Shipping, D/S Norden and Precious Shipping
Source: Companies, Bloomberg Finance L.P., DBS Bank

Dry bulk shipping sector annual operating and net margin trend – vs. BDI

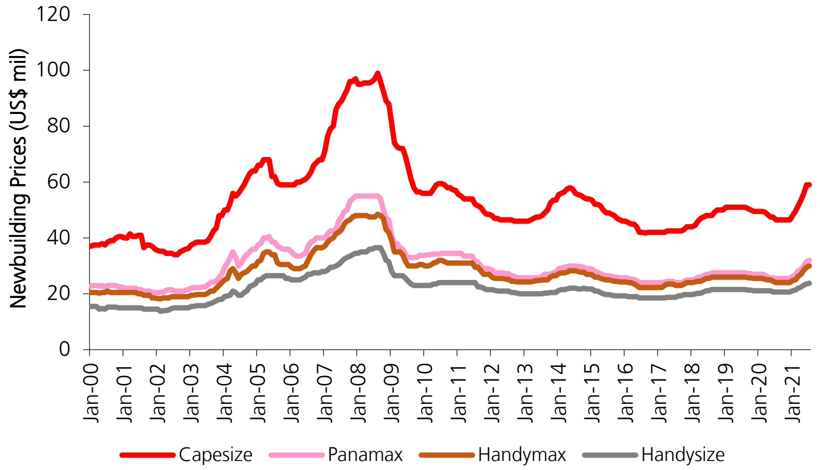


Note: Includes major listed dry bulk operators like Pacific Basin, Star Bulk, Golden Ocean, Diana Shipping, D/S Norden and Precious Shipping
Source: Companies, Bloomberg Finance L.P., DBS Bank

Balance sheets should also improve as asset prices pick up

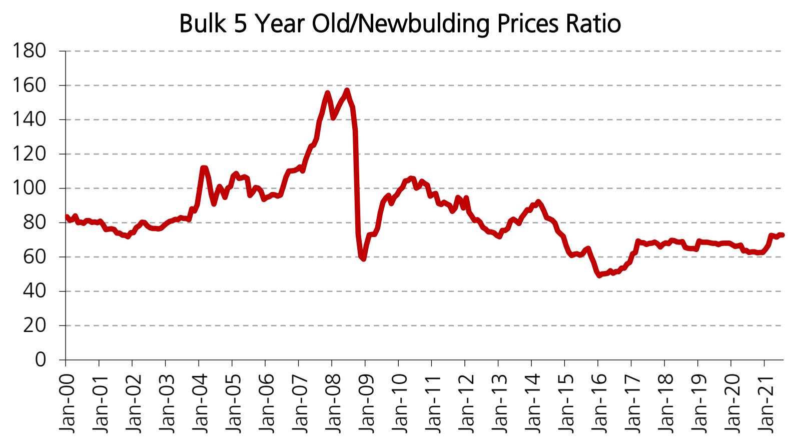
Balance sheets should improve gradually for dry bulk operators, with asset repricing. The increase in freight rates and bulker indices is gradually driving an increase in newbuilding prices and secondhand prices for the bulk carrier fleet, and the increase in secondhand prices is faster, as one would expect in a tight market. The bulk carrier newbuild price index is up 17% YTD in 2021, whereas the secondhand price index is up around 31% YTD. As a result, the bulk carrier 5yr old/newbuilding price ratio has crept up to 73%. Among ship sizes, there is no major difference in speed of asset price recovery, as orderbook-to-fleet is roughly the same for all sizes. This asset price recovery should help asset owners in terms of LTV ratios and, over time, in raising funds to buy/order more ships to retire/replace older fleet and meet new demand.

Newbuild bulkcarrier price trends



Source: Clarkson Research, DBS Bank

Secondhand bulkcarrier price to newbuild price ratio



Source: Clarkson Research, DBS Bank

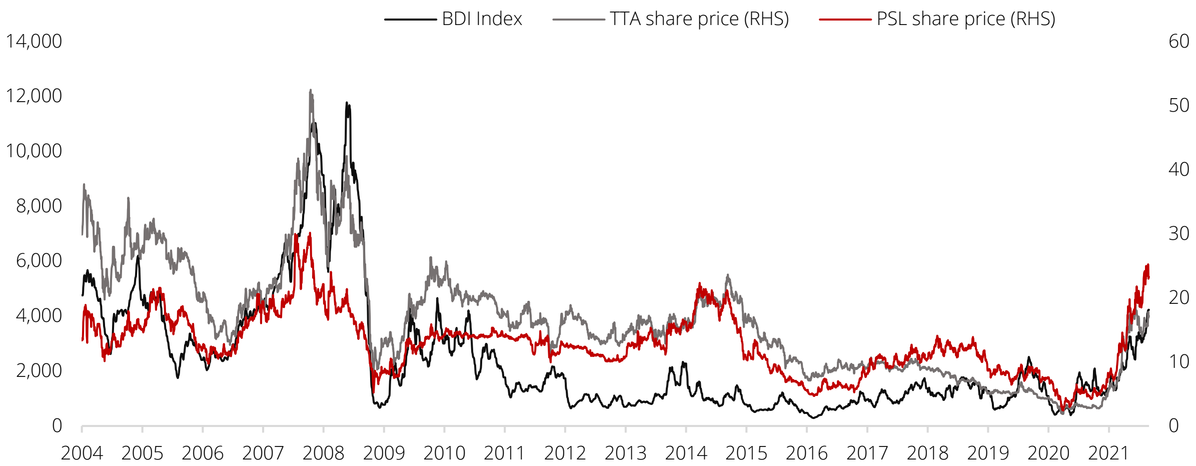
Implications on our coverage

Key highlights

Top Picks	Comments
Precious Shipping	• Pecious Shipping is more leveraged to the Handysize segment of the market, and along with the BDI, the Baltic Exchange Handysize Index (BHSI) has also reached an 11-year high • We expect Precious Shipping's (PSL) time charter (TC) rate to surge 123% y-o-y to US$18,548/day/ship in FY21F from US$8,332 in FY20 and increase further by 8% y-o-y to US$20,000 in FY22F • We believe that PSL's FY21F-FY22F net profit will rebound to Bt3.2bn-Bt3.9bn, respectively, with upside potential still in place for our FY21F earnings assumption as freight rate still on the rise • We have not yet factored in dividends for FY21F, which if materialises, will provide further catalyst
Thoresen Thai	• We expect the time charter equivalent (TCE) rate to jump 108% y-o-y to US$19,759/day/ship in FY21F, from US$9,517 in FY20 and to increase further by 8% y-o-y to US$21,269 in FY22F, on the back of the strong spike in demand amid limited new supply • We expect TTA to report a turnaround in earnings from heavy losses in FY20 to a strong net profit of Bt2.1bn and Bt2.9bn in FY21F and FY22F respectively
Yangzijiang	• Booming shipping markets typically bring about newbuild upcycle that benefits shipyards like Yangzijiang. Yangzijiang has witnessed extraordinarily strong order flow the past one year as containership market skyrocketed. We expect dry bulk orders to pick up and keep order win momentum at elevated levels. • Historical high order book of c.US$9bn keeps yard busy through 2024, propelling earning CAGR of c.20% in 2021-2023. Stock also offers decent dividend yield of 3-4%

Source: DBS Bank

Dry bulk operator share prices seem to be highly correlated with BDI Index



Source: Bloomberg Finance L.P., DBS Bank

Top Pick - Thoresen Thai Agencies

TTA TB (BUY; TP Bt21.70)

Forecasts and Valuation

FY Dec (Btm)	2019A	2020A	2021F	2022F
Revenue	15,428	12,830	20,629	23,987
EBITDA	1,522	691	4,177	4,907
Pre-tax Profit	210	(2,901)	2,072	2,926
Net Profit	563	(1,945)	2,121	2,845
Net Pft (Pre Ex.)	(52.9)	(238)	2,231	2,845
Net Pft Gth (Pre-ex) (%)	nm	(350.8)	nm	27.5
EPS (Bt)	0.31	(1.1)	1.16	1.56
EPS Pre Ex. (Bt)	0.0	(0.1)	1.22	1.56
EPS Gth Pre Ex (%)	nm	(351)	nm	28
Diluted EPS (Bt)	0.31	(1.1)	1.16	1.56
Net DPS (Bt)	0.06	0.02	0.10	0.10
BV Per Share (Bt)	9.98	8.86	10.0	11.5
PE (X)	54.4	nm	14.4	10.8
PE Pre Ex. (X)	nm	nm	13.7	10.8
P/Cash Flow (X)	20.7	26.3	15.8	7.9
EV/EBITDA (X)	23.8	50.9	8.2	6.4
Net Div Yield (%)	0.4	0.1	0.6	0.6
P/Book Value (X)	1.7	1.9	1.7	1.5
Net Debt/Equity (X)	0.1	0.1	0.0	CASH
ROAE (%)	3.0	(11.3)	12.3	14.5

Source: Company, DBS Bank

Over-100-year experience: TTA has a long history with over 100 of years' experiences in the shipping market. The company has a well-diversified portfolio by operating not only in the shipping business but also in offshore services, agrochemical and food & beverages businesses, coupled with its other investments, which help smoothen the earnings volatility of its shipping business.

Favourable demand supply condition for shipping industry: The Baltic Exchange Index (BDI) has reached an 11-year high. Thanks to a global economic recovery, we expect the time charter equivalent (TCE) rate to jump 108% y-o-y to US$19,759/day/ship in FY21F, from US$9,517 in FY20 and to increase further by 8% y-o-y to US$21,269 in FY22F, on the back of the strong spike in demand amid limited new supply.

Strong earnings turnaround in FY21F-FY22F: We expect TTA to report a turnaround in earnings from heavy losses in FY20 to a strong net profit of Bt2.1bn and Bt2.9bn in FY21F and FY22F respectively. This will be driven by: i) the strong surge in time charter (TC) rates for its shipping business, ii) rising orderbook for its offshore business, and iii) expansion of outlets for its food business.

Top Pick - Precious Shipping Limited

PSL TB (BUY; TP Bt24.40)

Forecasts and Valuation

FY Dec (Btm)	2019A	2020A	2021F	2022F
Revenue	4,152	3,730	7,438	8,152
EBITDA	1,667	1,401	4,879	5,526
Pre-tax Profit	(225)	(1,114)	3,192	3,996
Net Profit	(228)	(1,295)	3,160	3,956
Net Pft (Pre Ex.)	(223)	(590)	3,160	3,956
Net Pft Gth (Pre-ex) (%)	nm	(163.9)	nm	25.2
EPS (Bt)	(0.1)	(0.8)	2.03	2.54
EPS Pre Ex. (Bt)	(0.1)	(0.4)	2.03	2.54
EPS Gth Pre Ex (%)	nm	(164)	nm	25
Diluted EPS (Bt)	(0.1)	(0.8)	2.03	2.54
Net DPS (Bt)	0.0	0.0	0.0	1.27
BV Per Share (Bt)	7.41	6.50	8.53	11.1
PE (X)	nm	nm	11.4	9.1
PE Pre Ex. (X)	nm	nm	11.4	9.1
P/Cash Flow (X)	19.1	19.3	10.7	7.0
EV/EBITDA (X)	28.5	32.1	8.6	6.7
Net Div Yield (%)	0.0	0.0	0.0	5.5
P/Book Value (X)	3.1	3.6	2.7	2.1
Net Debt/Equity (X)	1.0	0.9	0.4	0.1
ROAE (%)	(1.9)	(11.9)	27.0	25.9

Source: Company, DBS Bank

Freight rates at 11-year high: The Baltic Exchange Dry Index (BDI) stay at its 11-year high. Similarly, the Baltic Exchange Handysize Index (BHSI) has also reached an 11-year high. We expect Precious Shipping's (PSL) time charter (TC) rate to surge 123% y-o-y to US$18,548/day/ship in FY21F from US$8,332 in FY20 and increase further by 8% y-o-y to US$20,000 in FY22F.

Favourable global dry bulk demand supply outlook: We expect FY21F to be the new upcycle year for the shipping industry, supported by demand growth for dry bulk trade that is expected to surpass fleet supply growth. According to Clarksons, demand for dry bulk shipping (in billion tonnes-miles) is expected to rise by 4.29% y-o-y in FY21F, while net fleet supply is expected to expand at a lower rate of 3.3% y-o-y.

Turnaround story. We believe that PSL's FY21F-FY22F net profit will rebound to Bt3.2bn-Bt3.9bn, respectively, with upside potential still in place for our FY21F earnings assumption as freight rate still on the rise. On top of this, PSL has continued its dividend payment, and we have yet factored into our forecast for FY21F

Top Pick – Yangzijiang Shipbuilding

YZJ SP (BUY; TP S$1.95)

Forecasts and Valuation

FY Dec (RMBm)	2020A	2021F	2022F	2023F
Revenue	14,841	19,957	23,140	25,195
EBITDA	3,584	4,716	5,374	5,904
Pre-tax Profit	3,290	4,307	5,042	5,685
Net Profit	2,516	3,205	3,882	4,378
Net Pft (Pre Ex.)	2,516	3,205	3,882	4,378
Net Pft Gth (Pre-ex) (%)	(19.0)	27.3	21.1	12.8
EPS (S cts)	13.7	17.0	20.5	23.2
EPS Pre Ex. (S cts)	13.7	17.0	20.5	23.2
EPS Gth Pre Ex (%)	(17)	24	21	13
Diluted EPS (S cts)	13.7	17.0	20.5	23.2
Net DPS (S cts)	4.70	5.22	6.27	6.79
BV Per Share (S cts)	176	188	204	220
PE (X)	10.5	8.5	7.0	6.2
PE Pre Ex. (X)	10.5	8.5	7.0	6.2
P/Cash Flow (X)	nm	11.2	7.9	6.4
EV/EBITDA (X)	2.8	1.7	1.1	0.5
Net Div Yield (%)	3.3	3.6	4.4	4.7
P/Book Value (X)	0.8	0.8	0.7	0.7
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	7.9	9.4	10.5	10.9

Source: Company, DBS Bank

Undervalued and best proxy for newbuild supercycle. Yangzijiang has secured record-high order wins of US$6.7bn in 7M21, 34% higher than the last boom of US$5bn annual orders in 2007. The recent wave of newbuilding activities for containerships marks the beginning of a new supercycle since 2007. Next wave of orders is expected to come from bulk carriers in 2H21, followed by tankers in 2022.

Raising orders wins and earnings growth projections. We have raised our order win assumption for 2021 to US$7.5bn (from US$5.2bn), propelling 3-years earnings CAGR of 20%. DPS should rise to 5.0-6.5 Scts (3.5-4.5% yield) in tandem with earnings growth. While its share price has risen ~50% YTD, the stock remains undervalued at 0.8x P/BV, relative to historical upcycle and peer valuations.

Catalysts to drive share price closer to our TP include: i) optimism on macro economy and shipping market; ii) buoyant contract flows and improving pricing power; iii) sequential earnings growth underpinned by revenue and margin expansion; iv) potential increase in dividend payout; v) improving ESG score – potential spin-off of investment arm and gaining traction in dual fuel and liquefied natural gas (LNG) carrier market.

Shipping Peer Valuations

Peer valuation summary for container, dry bulk and tanker shipping industries

Company	Market cap (US$m)	P/E ratio (x)		EV-to-EBITDA (x)		P/B (x)		Core ROE (%)		Net Debt to-Equity (x)	Dividend Yield	
		CY21F	CY22F	CY21F	CY22F	CY21F	CY22F	CY21F	CY22F		CY21F	CY22F
Container												
COSCO SHIP HOL-H	46,390	2.2x	4.8x	2.5x	4.0x	1.4x	1.2x	81.9%	25.5%	1.1x	5.0%	3.0%
ORIENT OVERSEAS	16,178	2.5x	4.0x	1.7x	2.1x	1.8x	1.6x	80.4%	41.4%	0.0x	20.5%	12.3%
SITC	11,240	12.2x	12.3x	9.4x	9.2x	6.5x	5.7x	62.4%	48.3%	0.0x	6.5%	6.6%
EVERGREEN MARINE	24,521	3.7x	5.8x	2.3x	3.1x	2.4x	1.9x	99%	38%	1.2x	9.7%	7.9%
YANG MING MARINE	15,744	3.3x	6.2x	1.9x	2.2x	2.3x	1.7x	96%	40%	1.5x	7.6%	7.5%
WAN HAI LINES	18,802	6.8x	10.4x	4.7x	6.5x	4.3x	3.4x	91.8%	37.5%	0.5x	7.1%	0.2%
AP MOLLER-B	54,138	4.1x	8.6x	2.9x	3.9x	1.4x	1.4x	37%	16%	0.3x	8.6%	5.0%
HAPAG-LLOYD AG	40,473	5.9x	11.2x	4.2x	7.1x	3.0x	2.9x	65%	26%	0.6x	6.4%	4.6%
Dry Bulk												
PACIFIC BASIN	2,543	5.3x	4.8x	4.2x	3.7x	1.8x	1.5x	29.8%	29.2%	0.7x	10.0%	11.2%
STAR BULK CARRIE	2,359	4.4x	5.0x	4.8x	4.5x	1.2x	1.2x	29.2%	26.7%	0.9x	12.3%	16.1%
GOLDEN OCEAN GRO	2,280	5.5x	6.0x	6.5x	5.9x	1.2x	1.1x	24.1%	18.2%	0.8x	13.9%	12.2%
DIANA SHIPPING I	455	13.0x	3.5x	7.6x	3.4x	0.9x	0.8x	2.3%	7.9%	0.8x	0.0%	0.0%
D/S NORDEN	1,025	6.1x	10.3x	2.8x	3.3x	1.0x	1.0x	17.4%	9.8%	0.4x	8.3%	4.7%
PRECIOUS SHIPPIN	1,079	11.9x	11.6x	8.3x	7.2x	2.7x	2.2x	26.1%	21.1%	0.9x	1.5%	2.3%
THORESEN THAI AG	884	17.5x	16.4x	7.4x	7.3x	1.6x	1.4x	11.3%	9.6%	0.3x	0.9%	0.8%
Tanker												
COSCO SHIP ENG-H	3,402	8.9x	6.3x	N/A	N/A	0.3x	0.3x	2.5%	2.8%	0.6x	3.9%	5.7%
CHINA MERCHANT-A	5,446	17.2x	8.1x	N/A	N/A	1.3x	1.1x	8.7%	12.4%	0.8x	1.7%	2.5%
EURONAV NV	1,815	N/A	14.6x	18.9x	5.3x	0.8x	0.8x	-8.9%	9.9%	0.5x	1.5%	5.0%
FRONTLINE LTD	1,427	60.7x	5.2x	15.8x	7.2x	0.9x	0.8x	2.9%	17.2%	1.3x	2.0%	9.3%
SCORPIO TANKERS	946	N/A	7.8x	16.0x	7.1x	0.5x	0.4x	-6.8%	3.3%	1.4x	2.5%	2.4%

Source: Bloomberg Finance L.P., DBS Bank

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BUY (>15% total return over the next 12 months for small caps, >10% for large caps)
HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)
FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)
SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

**Share price appreciation + dividends*

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