

PSL: Expect core earnings to hit another decade high in 3Q21



Update

We expect PSL to report 3Q21 core profit at Bt1,225m (+57%QoQ, recovery from a loss in 3Q20), the highest level in more than decade.

- QoQ and YoY improvement in 3Q21 driven by high profitable level of TCE rate which supported by shortage on supply-side factor along with moderate recovery in seaborne trade demand after the lockdown in the major countries.
- We expect an increase in PSL's average earnings per vessel per day to US\$22,367 per day in 3Q21 (+25%QoQ +155%YoY).
- EBITDA in 3Q21 is expected to be at Bt1,635m (+38%QoQ +294%YoY), the highest level in decade.

We upgrade PSL with HOLD rating from a SELL after raised target price by 20% to Bt21.20 (Previous TP: Bt17.60) as EPS was raised due to higher-than-expected freight rate in 2H21. The target derived from 2.0xPBV'22E (2 S.D. 10-year average). HOLD rating reflect our expectation for demand in dry bulk trading to face a hiccup in late 4Q21 as China's import volume of soybean and iron ore will remain low after a peak of the recovery cycle. However, 2022 freight rate is anticipated to remain high supported by supply-side factor.

Valuation table

Year end Dec	19A	20A	21E	22E	23E
PE (x)	749.7	nm	9.1	11.6	19.9
Recurring net profit growth (%)	(90.6)	nm	nm	(21.7)	(41.7)
Recurring EPS (Bt)	0.0	(0.3)	2.3	1.8	1.1
Recurring EPS growth (%)	(90.6)	nm	nm	(21.7)	(41.7)
PBV (x)	2.8	3.2	2.5	2.2	2.0
BVPS (Bt)	7.4	6.5	8.3	9.7	10.3
ROE (%)	(1.9)	(11.9)	31.1	20.0	10.5
DPS (Bt)	-	-	0.5	0.5	0.4
Dividend yield (%)	na	na	2.2	2.2	2.0
Enterprise value (Bt m)	44,070	41,535	37,628	34,557	32,607
EV-to-EBITDA (x)	26.9	30.0	7.1	7.9	10.5

Precious Shipping PCL

Recommendation: HOLD

Current price: Bt20.90

Target price 2022: Bt21.20

Up/(downside): 1%

IOD: 5 out of 5

CAC: Declared

Stock data

RIC code	PSL.BK
Index	.SETI
SET Index (30 September 2021)	1,605.68
Market cap (Bt m)	31,342
Shares outstanding (million)	1,559
Par (Bt)	1.00



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PSL: Updated scorecard

(Bt m)	3Q20	4Q20	1Q21	2Q21	3Q21E	%QoQ	%YoY
Revenue	944	1,050	1,246	1,918	2,591	35.1	174.4
Cost of sales	(762)	(798)	(784)	(883)	(1,050)	18.9	37.8
Gross profit	182	253	463	1,035	1,541	48.8	745.5
SG&A	(75)	(67)	(79)	(154)	(210)	36.4	178.3
Other (exp)/inc	0	0	1	0	-	(100.0)	(100.0)
EBIT	107	186	384	881	1,331	51.0	1,146.1
Finance cost	(145)	(122)	(117)	(108)	(110)	1.8	(23.9)
Other inc/(exp)	1	1	0	1	-	(100.0)	(100.0)
Earnings before taxes	(37)	65	267	774	1,221	57.7	NA
Income tax	-	(4)	-	-	-	NA	NA
Earnings after taxes	(37)	61	267	774	1,221	57.7	NA
Equity income	3	4	4	4	4	(1.5)	54.4
Minority interest	-	0	-	(0)	-	(100.0)	NA
Earnings from cont. operations	(35)	64	271	778	1,225	57.4	NA
Forex gain/(loss) & unusual items	12	(37)	104	48	50	3.6	302.4
Net profit	(22)	27	375	826	1,275	54.3	NA
EBITDA	415	488	676	1,184	1,635	38.0	294.3
Recurring EPS (Bt)	(0.02)	0.04	0.17	0.50	0.79	57.4	NA
Reported EPS (Bt)	(0.01)	0.02	0.24	0.53	0.82	54.3	NA
Profits (%)	3Q20	4Q20	1Q21	2Q21	3Q21E	chg QoQ	chg YoY
Gross margin	19.3	24.0	37.1	54.0	59.5	5.5	40.2
Operating margin	11.3	17.7	30.8	61.7	63.1	1.4	51.8
Net margin	(2.3)	2.6	30.1	43.1	49.2	6.1	51.5

Result summary

- We expect PSL to report 3Q21 core profit at Bt1,225m (+57%QoQ, recovery from a loss in 3Q20), the highest level in more than decade.
- QoQ and YoY improvement in 3Q21 driven by high profitable level of TCE rate which supported by shortage on supply-side factor along with moderate recovery in seaborne trade demand after the lockdown in the major countries.
- We expect an increase in PSL's average earnings per vessel per day to US\$22,367 per day in 3Q21 (+25%QoQ +155%YoY). On the other hand, average market TC rate for Supramax and Handy-sized are expected to be at US\$34,265 (+34%QoQ +245%YoY) and US\$32,184 (+43%QoQ +252%YoY). A discount to market is due to smaller fleet size relative to the market and different contract duration with clients.
- EBITDA in 3Q21 is expected to be at Bt1,635m (+38%QoQ +294%YoY), the highest level in decade.

PSL: Expect demand in dry bulk to drop moderately in 4Q21

Story

Sales

P5F

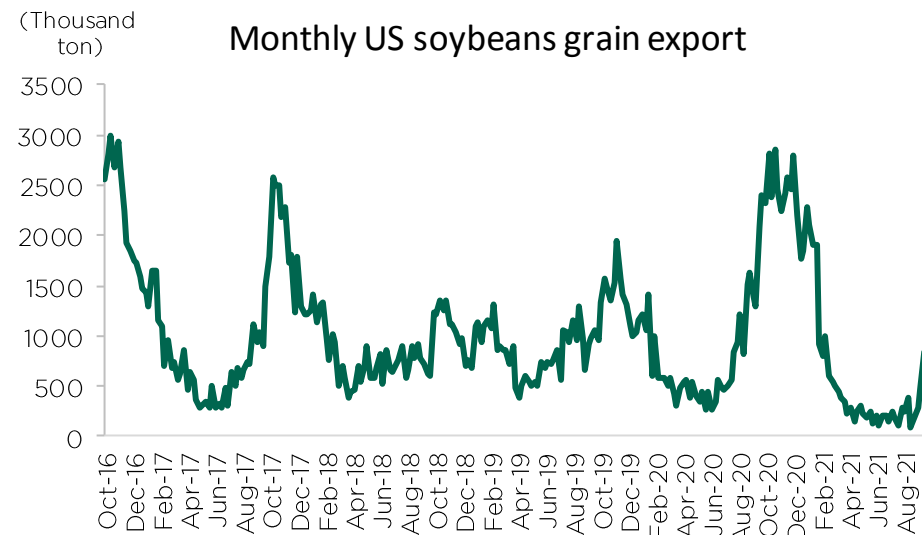
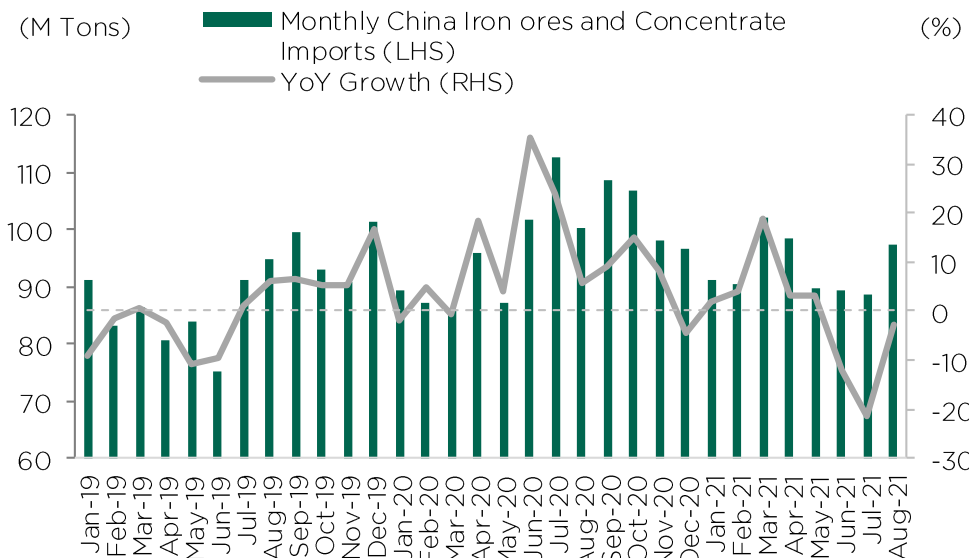
Team

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ESG

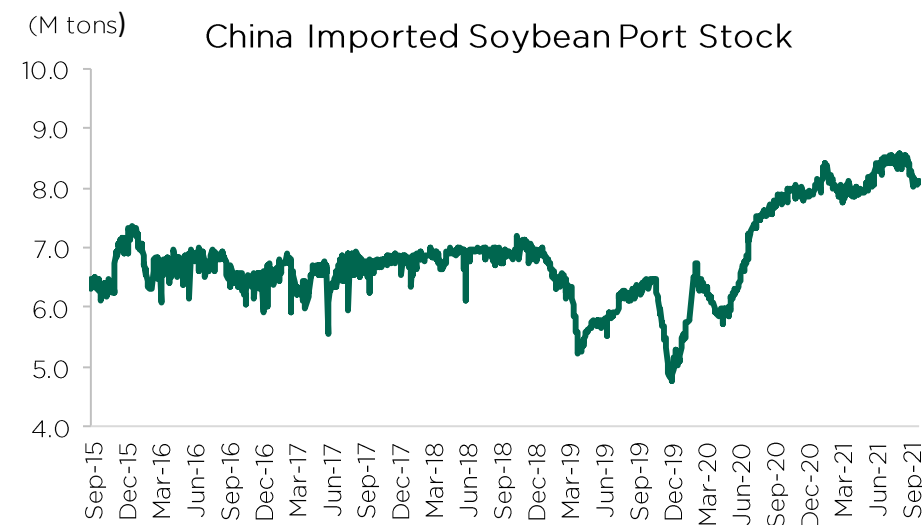
Value

Risks



Expect demand in dry bulk trading to remain strong throughout 2022 but could face a hiccup in late 4Q21

We anticipate a slowdown in demand for dry bulk commodities trading (excluding coal) in late 4Q21 after a period of solid recovery in 9M21, which mainly boosted by easing lockdown in Europe and USA and rebound in China economic activity, led to high level of inventory. Recently, we have seen a peak of the recovery cycle in some of the major dry bulk commodities such as iron ore and grains which accounts for almost half of global dry bulk trade volume. The global powerhouse's iron ore import volume and agriculture products exports from USA have surged since 2Q20 while entering phase of normalized growth in 2H21. We expect PSL's average freight rate to gradually come down in late 4Q21 from a high base reported in 3Q21. However, we still maintain positive outlook for the industry while expect freight rate to remain high profitable level at above US\$ 15,000/day, to be aligned with Clarkson's view that expecting significant demand-supply side improvement over 2022, where minor bulk fleet supply will grow by 1.5%, the lowest in level in a decade, v.s. demand-side growth in terms of tone-mile at 3.2%.



Story

Sales

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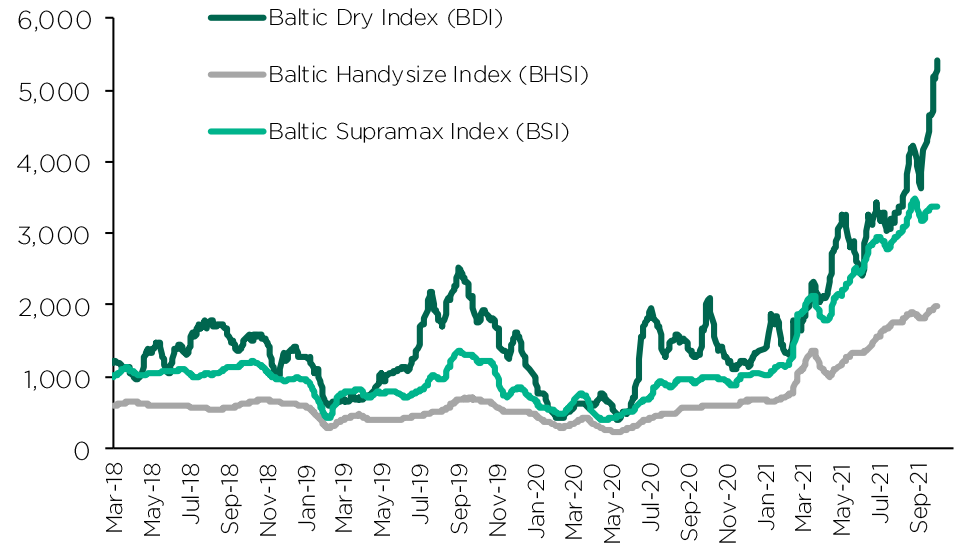
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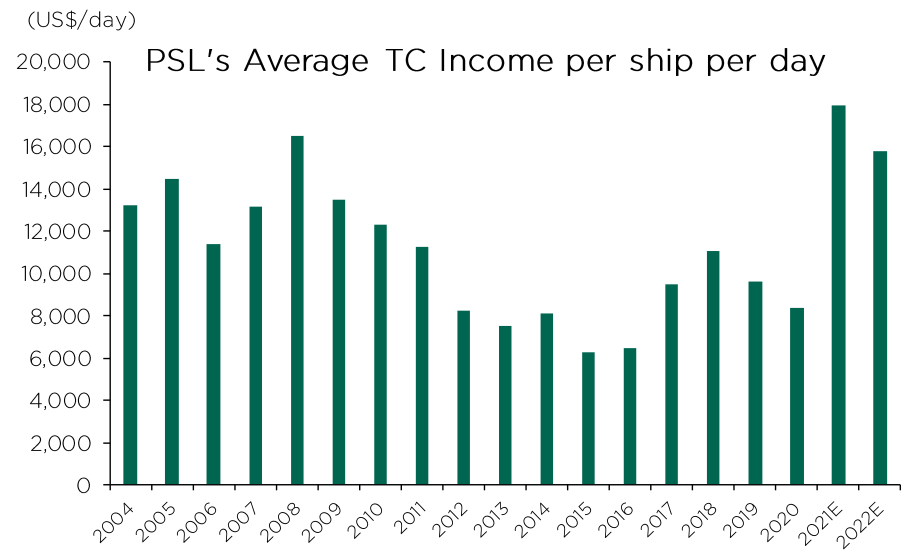
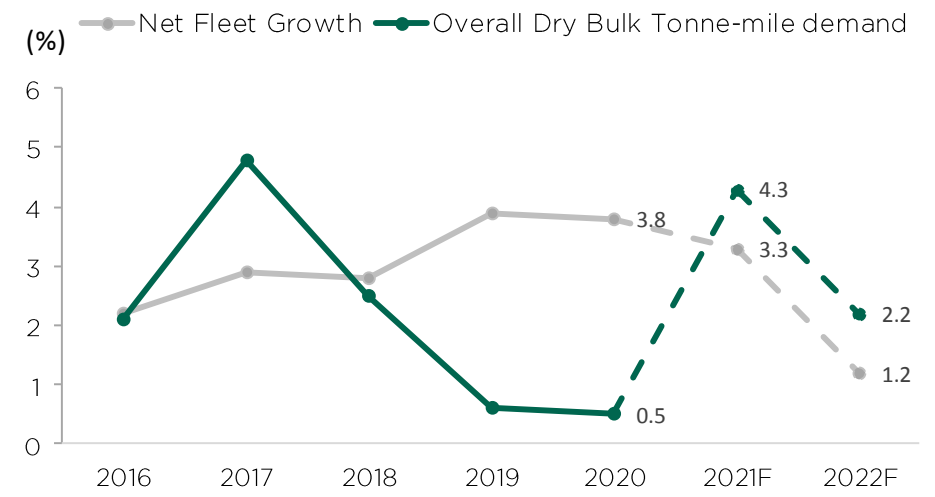
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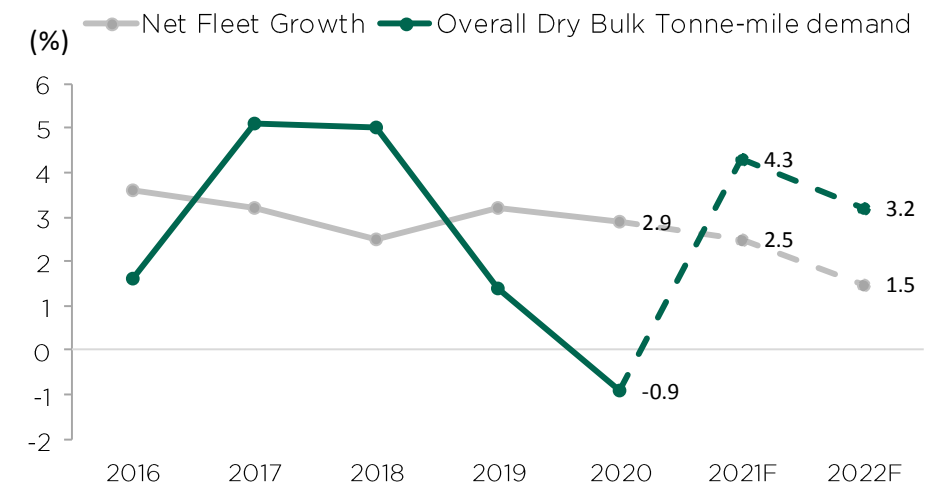
Risks



Total Dry Bulk Supply and Demand



Minor Bulk Demand and Supply



PSL: Revise up earnings by 73% and 80% in 2021E and 2022E

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Sales

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Value

Risks

	2021E		Change (%)	2022E		Change (%)	2023E		Change (%)
	Revised	Previous		Revised	Previous		Revised	Previous	
Financials									
Revenue (Bt mn)	8,163	6,302	29.5	7,116	5,713	24.6	5,700	5,153	10.6
Gross profit (Bt mn)	4,609	3,054	50.9	3,699	2,435	51.9	2,396	1,845	29.8
Net profit (Bt mn)	3,594	2,074	73.3	2,817	1,568	79.7	1,646	1,091	50.9
EPS (Bt/share)	2.30	1.33	73.3	1.81	1.01	79.7	1.06	0.70	50.9
Key financial ratios									
			Change			Change			Change
Revenue growth (%)	118.8	69.0	49.9	(12.8)	(9.3)	(3.5)	(19.9)	(9.8)	(10.1)
Gross profit margin (%)	56.5	48.5	8.0	52.0	42.6	9.4	42.0	35.8	6.2
SG&A to sales (%)	6.8	8.5	(1.7)	7.9	9.5	(1.6)	9.7	10.7	(1.0)
Net profit growth (%)	NA	NA	NA	(21.6)	21.3	NA	(41.6)	(30.4)	(11.1)
Net profit margin (%)	44.0	32.9	11.1	39.6	27.4	12.1	28.9	21.2	7.7

Revise earnings up by 51%-80% in 2021-23E respectively

We revise up PSL's net profit in 2021E, 2022E and 2023E by 73%, 80% and 51% respectively in order to factor in; 1.) upward revenue revision by 11-30% as we raised TC rate assumptions in 2021E, 2022E and 2023E by 12-24% to US\$17,925/day, US\$15,773/day, and, US\$12,903 respectively, 2.) Gross profit margins are assumed to increase to 56.5%, 52.0% and 42.0% 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

Story

Sales

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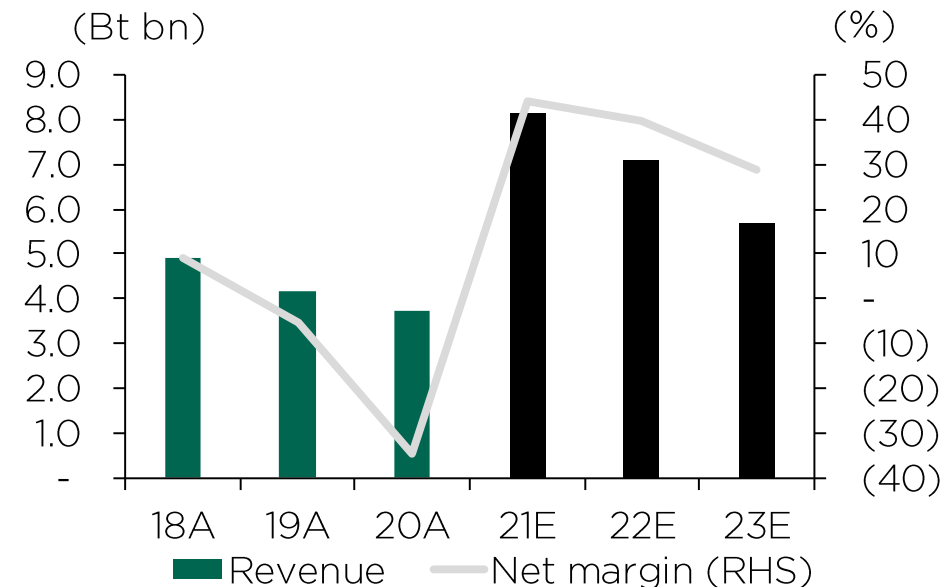
Value

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.

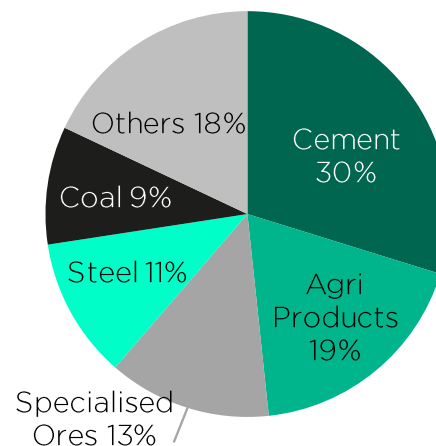


Revenue by cargoes carried, 2020

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%

PSL: Summary financials

Story

Sales

Value

Profit & loss (Bt m)	19A	20A	21E	22E	23E	Jun '20	Sep '20	Dec '20	Mar '21	Jun '21
Revenue	4,152	3,730	8,163	7,116	5,700	680	944	1,050	1,246	1,918
Cost of goods sold	(3,173)	(3,226)	(3,553)	(3,417)	(3,304)	(757)	(762)	(798)	(784)	(883)
Gross profit	979	504	4,609	3,699	2,396	(77)	182	253	463	1,035
SG&A	(547)	(345)	(557)	(563)	(554)	(82)	(75)	(67)	(79)	(154)
Other (exp)/inc	1	0	-	-	-	(0)	0	0	1	0
Operating profit	433	160	4,052	3,136	1,842	(158)	107	186	384	881
Finance cost	(668)	(562)	(440)	(320)	(218)	(158)	(145)	(122)	(117)	(108)
Other inc/(exp)	260	(27)	6	16	24	3	1	1	0	1
Earnings before taxes	26	(429)	3,618	2,832	1,648	(314)	(37)	65	267	774
Income tax	(3)	(4)	(36)	(28)	(16)	-	-	(4)	-	-
After-tax profit	24	(433)	3,582	2,804	1,631	(314)	(37)	61	267	774
Equity income	20	11	12	13	15	4	3	4	4	4
Minorities	(0)	0	-	-	-	0	-	0	-	(0)
Earnings from cont. operations	43	(422)	3,594	2,817	1,646	(310)	(35)	64	271	778
Forex gain/(loss) & unusual items	(272)	(873)	-	-	-	(873)	12	(37)	104	48
Net income	(228)	(1,295)	3,594	2,817	1,646	(1,183)	(22)	27	375	826
EBITDA	1,637	1,385	5,304	4,400	3,117	149	415	488	676	1,184
Recurring EPS (Bt)	0.03	(0.27)	2.30	1.81	1.06	(0.20)	(0.02)	0.04	0.17	0.50
Weighted average shares (m)	1,559	1,559	1,559	1,559	1,559	1,559	1,559	1,559	1,559	1,559
Balance sheet (Bt m)	19A	20A	21E	22E	23E	Jun '20	Sep '20	Dec '20	Mar '21	Jun '21
Assets	25,061	21,397	23,364	23,709	23,225	23,455	23,278	21,397	21,569	21,823
Liabilities	13,502	11,263	9,636	7,164	5,033	13,073	12,607	11,263	10,596	9,735
Equity	11,559	10,134	13,728	16,545	18,192	10,382	10,672	10,134	10,973	12,088
Invested capital	22,955	18,990	17,946	16,972	15,991	21,808	20,735	18,990	19,174	19,357
Growth (YoY, %)	19A	20A	21E	22E	23E	Jun '20	Sep '20	Dec '20	Mar '21	Jun '21
Revenue	(15.8)	(10.2)	118.8	(12.8)	(19.9)	(32.5)	(9.6)	(8.7)	18.1	182.0
Recurring EPS	(90.6)	nm	951.3	(21.6)	(41.6)	(125.4)	(14.7)	108.7	291.1	350.7
Assets	(10.0)	(14.6)	9.2	1.5	(2.0)	(9.9)	(8.4)	(14.6)	(17.9)	(7.0)
Liabilities	(10.8)	(16.6)	(14.4)	(25.7)	(29.7)	(8.1)	(7.9)	(16.6)	(24.5)	(25.5)
Equity	(9.0)	(12.3)	35.5	20.5	10.0	(12.0)	(9.0)	(12.3)	(10.2)	16.4
Profits (%)	19A	20A	21E	22E	23E	Jun '20	Sep '20	Dec '20	Mar '21	Jun '21
Gross margin	23.6	13.5	56.5	52.0	42.0	(11.3)	19.3	24.0	37.1	54.0
EBITDA margin	39.4	37.1	65.0	61.8	54.7	21.9	43.9	46.5	54.2	61.7
Net margin	(5.5)	(34.7)	44.0	39.6	28.9	(173.9)	(2.3)	2.6	30.1	43.1
ROE	(1.9)	(11.9)	30.1	18.6	9.5	(41.9)	(0.8)	1.1	14.2	28.7
ROIC	1.6	0.8	21.7	17.8	11.1	(2.8)	2.0	3.5	8.1	18.3

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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