KASIKORNTHAI **EQUITY ANALYSIS**

หลักทรัพย์กสิกรไทย 开泰证券 KASIKORN SECURITIES

Shipping Sector

Shipping Sector **Positive**

Prefer dry bulk to container shipping in 2022

- **Expect BDI to post a strong rebound after Chinese New Year, supported by monetary and fiscal policy easing and slower fleet growth.**
- **Expect container freight rate to remain high in 1H22 on supply chain disruption, but to be lower in 2H22 on improving COVID-19 situation.**
- **Outperform rating for PSL with TP of Bt24.80, but downgrade RCL to Neutral with lower TP of Bt44 due to peak container rate outlook.**

Investment highlights

- **Restocking demand and low fleet growth will drive BDI in 2022.** The BDI has fallen by 77% from its peak at the beginning of 4Q21 to 1,300, the lowest level in a year due to a slowdown in the Chinese property market, China's staging of the Winter Olympics, steel production curbs, industrial production being hit by Beijing's "zero-COVID" policy and power shortages, as well as Indonesia's one-month ban on coal exports in January 2022. We believe these factors are just short-term headwinds and therefore expect to see a strong rebound in the wake of the Chinese New Year holiday, which ended on Feb. 6. This should be supported by 1) global demand growth > supply growth in 2022, 2) China's easing of its monetary/fiscal policies to support economic growth, and 3) slow fleet growth, as the current order-book-to fleet of 6.3% is close to a historical low. We expect PSL to post 2022 earnings of Bt4.7bn (+16.5% YoY) on a higher TC rate of USD22,000/vessel/day (+7.4% YoY). Despite low season during Chinese New Year in 1Q22, the average Supramax TC rate QTD has been quite good at USD20,000/vessel/day (+20% YoY) and above PSL's break-even level of USD10,000/vessel/day.
- **Expect container freight rates to remain high in 1H22 but fall in 2H22.** The SCFI has risen by 8% QTD and 83% YoY to 5,067 on pent-up demand and ongoing port congestion. The omicron outbreak and China's zero-COVID policy could prolong port congestion and supply chain disruption and support freight rates to stay at their current high level in 1H22. However, we expect container freight rates will start to decline from 2H22 onwards on an improving COVID-19 situation, normalizing consumer demand for goods given no stimulus, higher interest rates, and a shift from spending on goods to services after borders reopen. Hapaq Lloyd estimates supply growth will outpace demand growth in 2023 due to rising deliveries. As a result, we expect RCL's average freight rate will decrease by 10% YoY in 2022 to USD448 per TEU. We expect the rate will decrease further by 30% YoY to USD313 per TEU in 2023, which is near the pre-COVID-19 level of USD300 per TEU in 2019, due to higher ship supply.
- **Prefer dry bulk shipping sector.** We maintain our Outperform rating for PSL with a target price of Bt24.80, but downgrade RCL to Neutral with a lower target price of Bt44 (from Bt58) due to the peak container rate outlook in 1H22E.

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Kasikorn Securities Public Company Limited

	Fig	Unit	Price 9-Feb-22	Change (%) -1W	-2W	-1M	-1Y	QTD' 1Q22	1Q21	YoY (%)	4Q21	QoQ (%)	YTD' 22	2021	YoY (%)
Baltic Exchange Indexes															
Baltic Dry Index	3	Index	1,711	23.9%	20.9%	-22.8%	28.9%	1,726	1,733	-0.4%	3,401	-49.3%	1,726	2,921	-40.9%
Baltic Handysize Index	4	Index	1,086	7.4%	-1.5%	-25.9%	52.5%	1,157	919	26.0%	1,722	-32.8%	1,157	1,424	-18.7%
Baltic Supramax Index	5	Index	1,911	19.7%	9.3%	-16.6%	67.8%	1,832	1,505	21.7%	2,735	-33.0%	1,832	2,424	-24.4%
Baltic Panamax Index	6	Index	2,153	17.0%	7.1%	-16.3%	32.2%	2,265	2,043	10.8%	3,199	-29.2%	2,265	2,972	-23.8%
Baltic Capesize Index	7	Index	1,503	39.8%	68.7%	-35.0%	-2.4%	1,536	2,064	-25.6%	4,928	-68.8%	1,536	3,974	-61.4%
Container Related Indexes															
Shanghai Export Containerized Freight Index	8	Index	5,010	0.0%	-0.8%	-0.7%	75.1%	5,061	2,783	81.9%	4,670	8.4%	5,061	3,751	34.9%
Bunker Fuel 380 cSt															
Singapore	14	USD/metric tonne	487	-0.2%	1.5%	12.2%	33.8%	466	375	24.3%	445	4.7%	466	409	13.8%

Source: Bloomberg and KS Research

Fig 1 Valuations

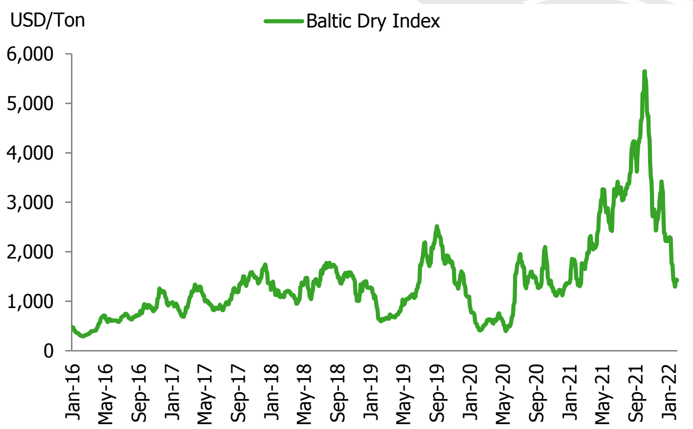
Stock	Rating	Price (Bt) 09-Feb-22	Target price (Bt)	Upside (%)	P/E (x) 2021E	P/E (x) 2022E	P/BV (x) 2021E	P/BV (x) 2022E	Net profit grth (%) 2021E	Net profit grth (%) 2022E	Div. yield (%) 2021E	Div. yield (%) 2022E	ROE (%) 2021E	ROE (%) 2022E
PSL	OP	16.60	24.80	49.4	6.4	5.5	1.8	1.4	n.m.	16.5	0.0	0.0	33.1	28.4
RCL	N	43.75	44.00	0.6	2.5	2.7	1.8	1.2	742.4	-7.5	10.3	7.5	101.0	53.4
Simple Average					4.5	4.1	1.8	1.3			5.1	3.7	67.1	40.9

Source: KS Research

Dry Bulk Shipping: Restocking demand will drive BDI after Chinese New Year and Winter Olympics

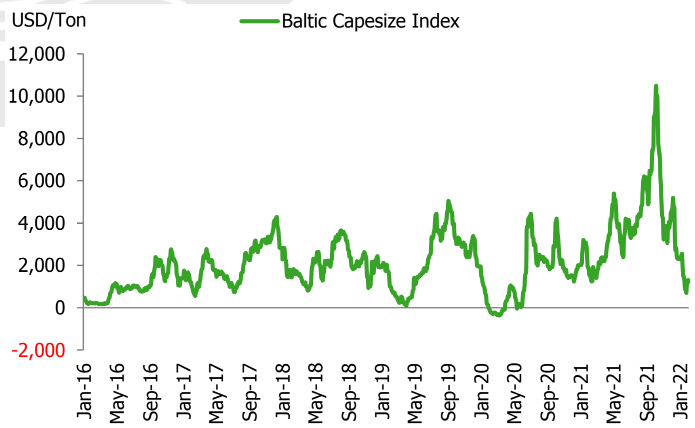
We expect the Baltic Dry Index (BDI) to post a strong rebound after Chinese New Year and the Winter Olympics end in February 2022 on restocking demand and easing financial conditions, which will support growth. The BDI has fallen by 77% from a peak reached at the beginning of 4Q21 to 1,300, its lowest level in one year. The Capesize, Panamax, and Supramax indices have decreased by 93%, 58%, and 56%, respectively, from their peaks in 4Q21 due to a slowdown in the Chinese property market, China's staging of the Winter Olympics, steel production curbs, industrial production being hit by Beijing's zero-COVID policy and power shortages, as well as Indonesia's one-month ban on coal exports in January 2022. We believe these factors are just short-term headwinds and therefore expect to see a strong rebound in the wake of the Chinese New Year holiday, which ended on Feb. 6. We maintain our positive view on the Dry Bulk Shipping sector in 2022 due to 1) global demand growth > supply growth in 2022, 2) China's easing of its monetary/fiscal policies to support economic growth, and 3) slow fleet growth, as the current order-book-to fleet of 6.3% is close to a historical low.

Fig 2 Baltic Dry Index



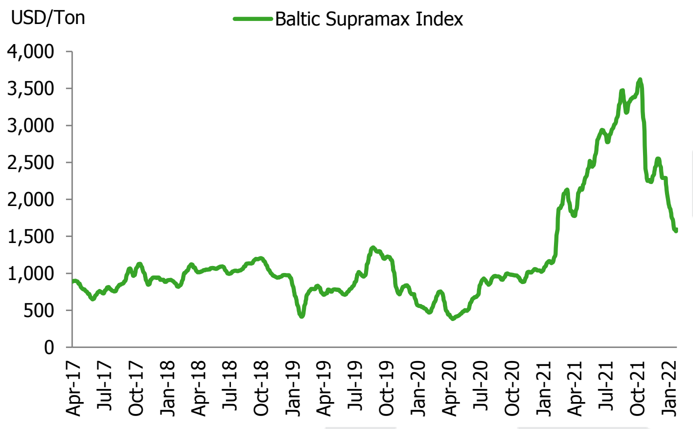
Source: Bloomberg and KS Research

Fig 3 Baltic Capesize Index



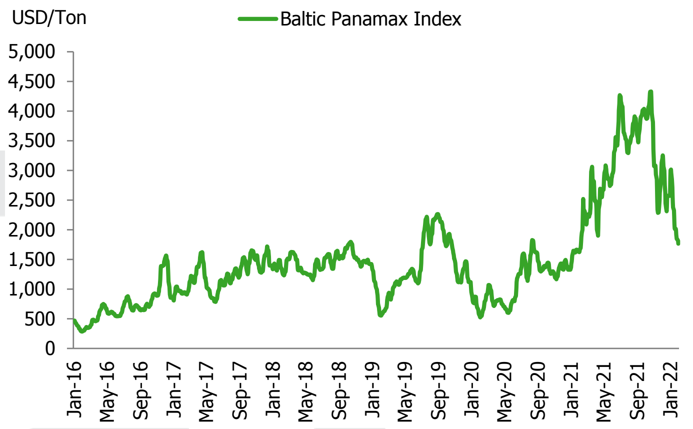
Source: Bloomberg and KS Research

Fig 4 Baltic Supramax Index



Source: Bloomberg and KS Research

Fig 5 Baltic Panamax Index

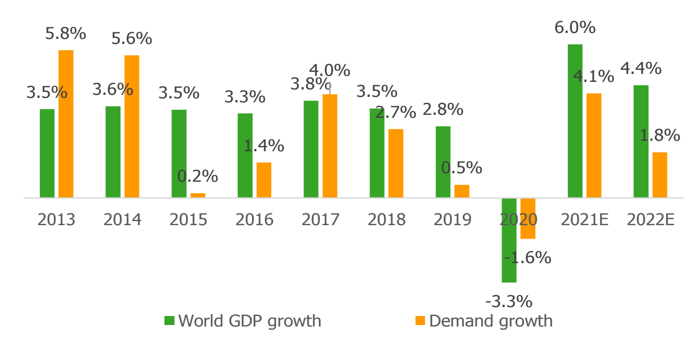


Source: Bloomberg and KS Research

1) Global demand growth > supply growth in 2022E

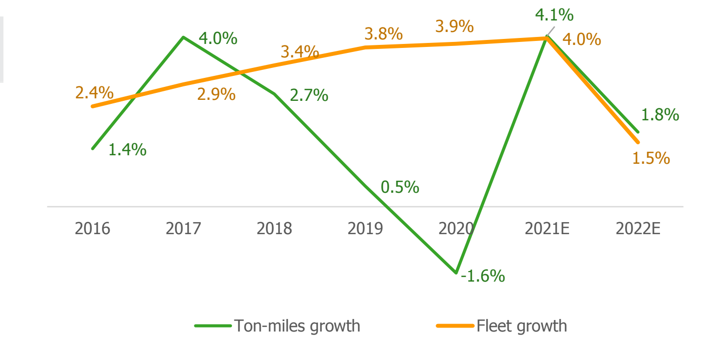
Clarkson, the world's largest shipbroker, estimates global dry bulk demand will increase by 1.8% YoY in 2022, outpacing expected supply growth of 1.5% YoY in. In our view, this demand number is quite conservative compared to the IMF's 2022E global GDP growth estimate of 4.4% YoY on the back of a rollout of vaccines, policy support, and continued accommodative financial conditions. Note that global economic growth is highly correlated with demand growth in the dry bulk market.

Fig 6 Global GDP vs. Dry bulk demand growth



Source: IMF, PSL, and Clarkson

Fig 7 Global dry bulk ship demand vs. supply

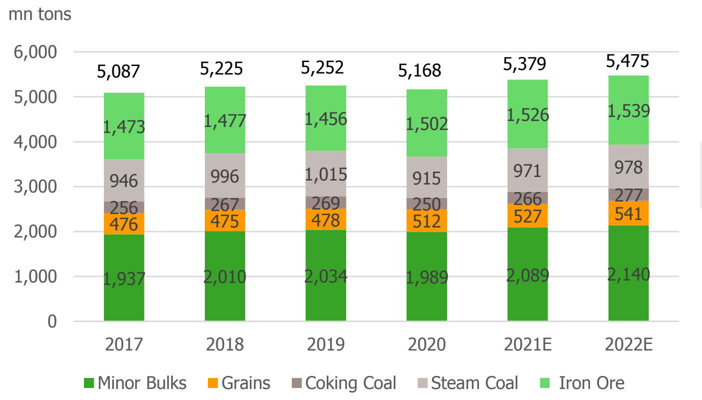


Source: PSL and Clarkson's, Oct 18, 2021

Of the 1.8% demand growth estimate by Clarkson in 2022, grain trade is expected to grow by 2.7% YoY to 541m tons, followed by minor bulk (+2.4% YoY to 2,140m tons), coal (+1.5% YoY to 1,255m tons), and iron ore (+0.9% YoY to 1,539m tons).

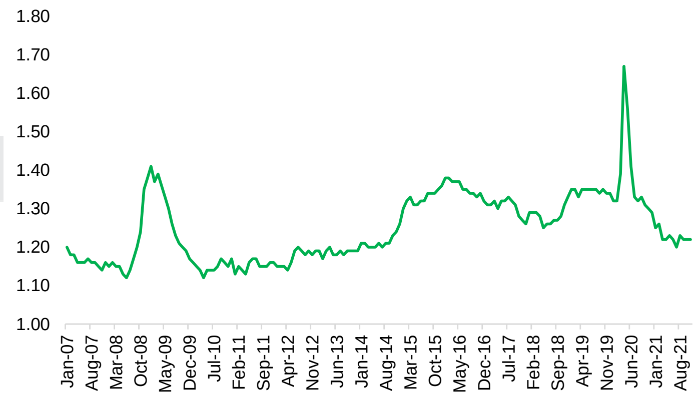
We believe the low merchant wholesalers' inventory-to-sales ratio at 1.22 months as of November 2021, the lowest level since 2014, will be another key supportive factor for restocking demand for raw materials in 2022.

Fig 8 Global dry bulk trade



Source: Clarkson and TTA

Fig 9 Merchant wholesalers: inventories-to-sales ratio

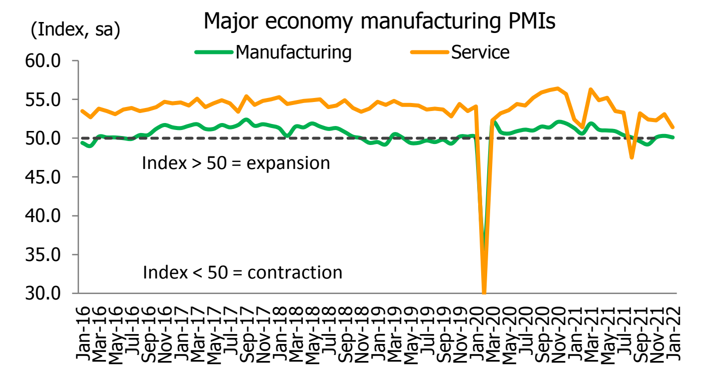


Source: FRED

2) Chinese monetary/fiscal policies easing to support economic growth

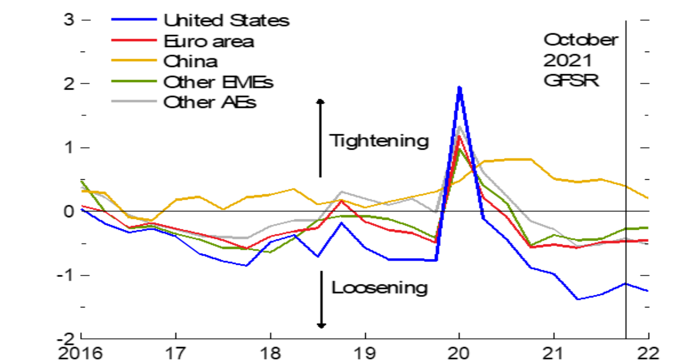
Chinese localities have set 5%-7% GDP growth targets in 2022. We believe these targets will not be achievable if the Chinese government maintains its controls on the property market along with its zero-COVID policy at the same time. The curb on lending in the property market and steel production along with power shortages resulted in a slowdown in Chinese manufacturing PMI, while the zero-COVID policy, which involves mass testing, snap lockdowns, vigilant surveillance and extensive quarantines hurt service PMI. To accommodate the economic expansion, the Chinese government needs to stimulate the real sector instead. China has shifted toward policy easing through interest rates/RRR cuts and started to relax steel output controls by scaling back its timetable for peak steel emissions from 2025 to 2030. The latter policy will allow its huge steel industry another five years of rising carbon emissions and pave the way for the government to launch carbon-intensive stimulus, i.e. to boost construction activity through infrastructure projects. In addition, the People's Bank of China has eased property loans to fund public rental housing by removing it from the lending limits. In January 2021, China's largest state-owned banks were told to trim their loan exposure to the property sector to 40% or less. Bank mortgage lending was capped at 32.5% of outstanding credit. Those exceeding the limits were given a grace period of four years to meet the requirements.

Fig 10 China manufacturing and service PMI



Source: Bloomberg

Fig 11 Financial conditions indices

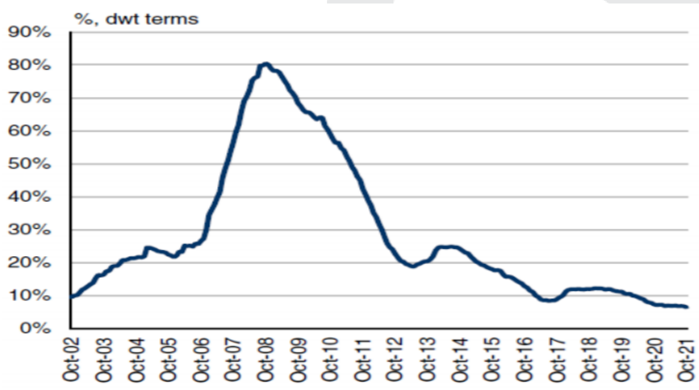


Source: IMF

3) Low fleet growth

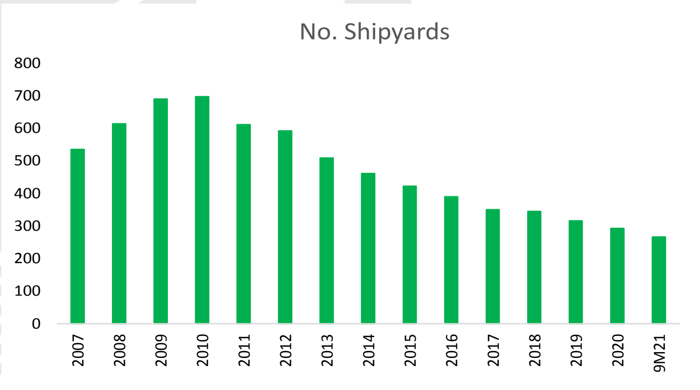
The order book has been increasing but certainly not at the dramatic pace of the last 2003-2009 super cycle. According to PSL, the forward order book as a % of the existing fleet rose from 10.88% at the start of 2003 to a peak of 78.14% in 2009. There were 261 shipyards in China, Japan and South Korea that delivered 1,569 dry bulkers in 2011 and pushed the Baltic Dry Index into a lost decade. However, we do not see history repeating itself this time. The forward order book as a % of the existing fleet has fallen from 65.6% at the start of 2010 to just 10.6% in 2020. At the start of 2021 it was 7.0% and by the end of 9M21 was down to 6.31%. There were 89 shipyards in China, Japan and South Korea that delivered 433 dry bulkers in 2020 with a forward orderbook of just 572 bulkers from the second-half of 2021 till 2025. Some of these orders were driven by high demand for container new building as that market rose substantially in 2020 ahead of dry bulk and certainly yards that could accommodate container new building orders have prioritized this sector given its higher profitability. Another factor might be some reduction in yard capacity as during the tough economic times of the past decade many shipyard groups merged and reduced effective capacity. According to Clarkson, the number of shipyards has dropped from 611 in 2011 to 266 in 9M21.

Fig 12 Dry bulk ship order book worldwide



Source: TTA and Clarkson, Oct 18, 2021

Fig 13 No. of shipyards to deliver at least one vessel



Source: PSL and Clarkson (as of start September 2021)

Maintain Outperform on PSL with TP of Bt24.80/sh

We expect PSL to report 4Q21 earnings of Bt1.3bn (-12% QoQ, but up 4,698% YoY). The QoQ drop should be due to a lower average Supramax TC rate (-12.5% QoQ to USD30,000/vessel/day in 4Q21) and the detention of one ship in Nigeria in 4Q21. We trim our 2021E earnings by 4.7% due to a weaker-than-expected TC rate in 4Q21 (vs. our previous estimate of USD32,000/vessel/day). However, we maintain our 2022 earnings forecast of Bt4.7bn (+16.5% YoY), based on 2022 Supramax TC rate assumption of USD25,000/vessel/day, as we are positive on the strong fundamentals of the dry bulk market. Despite low season during Chinese New Year in 1Q22, the average Supramax TC rate QTD has been quite good at USD20,000/vessel/day (+20% YoY), which is above PSL's break-even level of USD10,000/vessel/day. We expect the Supramax TC rate to rebound strongly, in line with the BDI, fueled by restocking demand post Chinese New Year and the Winter Olympics.

Our target price is pegged to a PBV of 1.7x (+1.5SD) and 2023E BVPS of Bt14.50. PSL's share price has corrected by 34% from its peak of Bt25/sh in 3Q21 and already priced in the weaker 4Q21E results. The strong rebound in TC rates driven by China's easing of its monetary/fiscal policies and tight supply will be key supportive factors for the next leg of the rebound.

Fig 14 PSL 4Q21 performance preview

	4Q20	1Q21	2Q21	3Q21	4Q21E	%YoY	%QoQ	2021E	2022E
Financials									
Sales (Btmn)	1,050	1,246	1,918	2,639	2,505	138.5	-5.1	8,308	9,231
EBITDA (Btmn)	421	671	873	1,643	1,425	238.3	-13.3	5,378	5,819
Operating profit (Btmn)	162	384	873	1,643	1,425	777.3	-13.3	4,326	4,825
Core profit (Btmn)	64	271	769	1,538	1,316	1,962.2	-14.5	3,894	4,681
Net profit (Btmn)	27	375	826	1,501	1,316	4,697.8	-12.4	4,018	4,681
Net EPS (Bt)	0.02	0.24	0.53	0.96	0.84	4,697.8	-12.4	2.58	3.00
Performance Drivers									
Number of vessels	36	36	36	36	35	-2.8	-2.8	36	36
Operating days	3,312	3,285	3,285	3,285	3,194	-3.6	-2.8	13,049	13,140
TC rates (US$/day)	10,022	12,157	17,841	24,722	23,473	134.2	-5.1	19,548	20,987
USDTHB	30.5	30.5	31.5	32.9	32.8	7.4	-0.5	32	33
OPEX (US$/day)	5,067	4,933	5,043	5,136	5,550	9.5	8.1	5,166	5,400
SG&A (US$/day)	649	802	1,587	1,560	1,673	157.6	7.3	1,412	1,673
Ratios						Change		2021E	2022E
Gross margin (%)	23.9	37.2	54.0	68.7	63.9	39.9	-4.8	59.1	60.1
EBITDA margin (%)	40.1	53.9	45.5	62.3	56.9	16.8	-5.4	64.7	63.0
Optg. margin (%)	15.5	30.9	45.5	62.3	56.9	41.4	-5.4	52.1	52.3
ROE (%)	0.3	3.6	0.0	0.0	0.0	-0.3	0.0	33.1	28.4

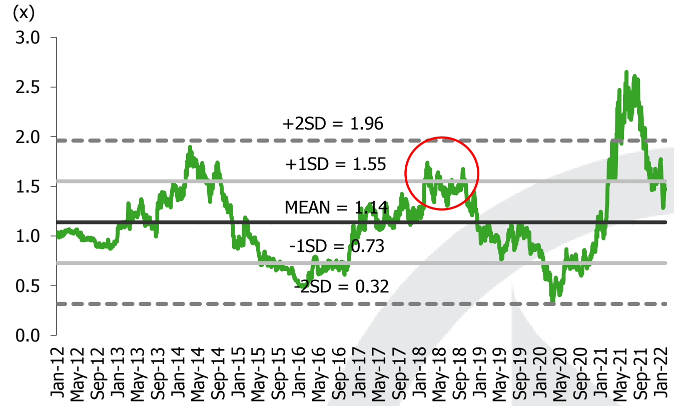
Source: Company data, KS Research

Fig 15 PSL earnings revision

Unit: Btmn.	2021E			2022E			2023E		
Profit and loss statements	**New**	**Previous**	**%Change**	**New**	**Previous**	**%Change**	**New**	**Previous**	**%Change**
Total revenue	8,308	8,530	-2.6	9,231	9,231	0.0	8,079	8,079	0.0
Cost of goods sold	3,396	3,422	-0.8	3,687	3,687	0.0	3,727	3,727	0.0
Gross profit	4,911	5,107	-3.8	5,545	5,545	0.0	4,351	4,351	0.0
SG&A	588	588	0.0	720	720	0.0	660	660	0.0
Operating profit	4,326	4,522	-4.3	4,825	4,825	0.0	3,691	3,691	0.0
EBITDA	5,378	5,574	-3.5	5,819	5,819	0.0	4,630	4,630	0.0
EBIT	4,467	4,663	-4.2	4,835	4,835	0.0	3,701	3,701	0.0
Core profit	3,894	4,090	-4.8	4,681	4,681	0.0	3,701	3,701	0.0
Net profit	4,018	4,215	-4.7	4,681	4,681	0.0	3,701	3,701	0.0
Key assumptions									
Number of vessels	36	36	-0.7	36	36.0	0.0	36	36	0.0
Operating days	13,049	13,140	-0.7	13,140	13,140	0.0	13,140	13,140	0.0
TC rates (US$/day)	19,548	19,901	-1.8	20,987	20,987	0.0	18,308	18,308	0.0
USDTHB	31.91	31.91	0.0	32.75	32.75	0.0	32.75	32.75	0.0
OPEX (US$/day)	5,166	5,166	0.0	5,400	5,400	0.0	5,400	5,400	0.0
SG&A (US$/day)	1,412	1,403	0.7	1,673	1,673	0.0	1,534	1,534	0.0

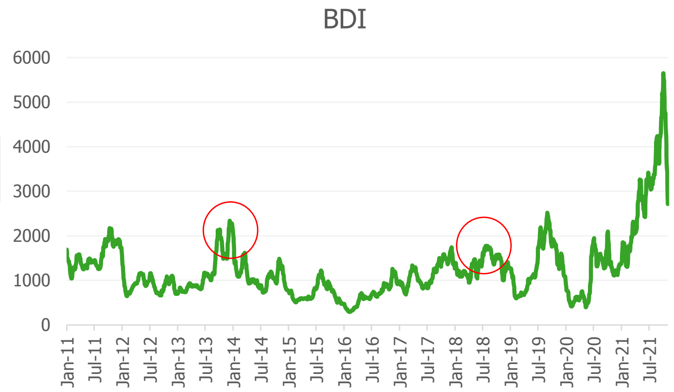
Source: Company data, KS Research

Fig 16 12M FWD PBV – PSL



Source: Bloomberg, KS Research

Fig 17 Baltic Dry index



Source: Setsmart and KS Research

Fig 18 PSL peer comparison

Stock	Market Cap (USD mn)	Basic EPS growth (%)			Basic P/E (x)			P/BV (x)			Div. Yield (%)			ROE (%)		
		20	21E	22E	20	21E	22E	20	21E	22E	20	21E	22E	20	21E	22E
Precious Shipping PCL	**742**	**n.m.**	**n.m.**	**11.1**	**(18.9)**	**5.8**	**5.2**	**2.4**	**1.7**	**1.3**	**0.0**	**0.0**	**0.0**	**-11.9**	**34.4**	**28.0**
Global selected peers																
Atlas Corp *	3,792	-69.8	234.0	8.4	29.5	8.8	8.2	1.0	1.0	0.9	3.3	3.3	3.3	4.2	10.7	13.0
Capital Product Partners LP *	297	n.m.	228.4	-18.6	9.9	3.0	3.7	0.7	0.6	n.a.	4.1	2.8	3.8	7.0	20.3	n.a.
Danaos Corp *	1,958	-21.5	633.4	-50.2	14.6	2.0	4.0	1.9	1.0	0.8	0.0	2.2	2.5	16.0	0.7	0.2
Diana Shipping Inc *	343	n.m.	n.m.	246.7	(2.3)	6.3	1.8	0.9	0.7	0.5	0.0	1.3	11.7	-32.2	0.1	0.3
Eagle Bulk Shipping Inc *	642	n.m.	n.m.	1.2	(13.9)	3.2	3.2	1.2	1.0	0.8	0.0	6.9	9.7	-7.4	33.5	31.6
Genco Shipping & Trading Ltd *	684	n.m.	n.m.	6.4	(3.0)	4.0	3.7	0.9	0.8	1.3	0.5	3.2	27.6	-26.2	21.1	25.5
Kirby Corp *	3,911	n.m.	n.m.	n.m.	(14.3)	(15.8)	30.2	1.3	1.4	1.3	0.0	0.0	n.a.	-8.4	-8.3	4.3
Navios Maritime Partners LP *	922	n.m.	n.m.	-7.9	(5.0)	1.4	1.5	0.5	0.5	0.4	1.5	0.7	0.7	-9.9	45.0	31.0
Pacific Basin Shipping Ltd *	2,094	n.m.	n.m.	4.7	(9.8)	3.1	2.9	2.0	1.3	1.1	0.0	18.2	20.0	-17.8	52.1	46.4
Safe Bulkers Inc *	438	n.m.	n.m.	-17.2	(14.4)	2.8	3.4	0.8	n.a.	n.a.	0.0	0.0	4.6	-5.7	n.a.	n.a.
Eneti Inc *	268	n.m.	n.m.	-91.8	(0.1)	2.6	31.7	0.3	0.4	0.4	2.9	0.9	0.3	-117.1	14.7	3.0
SFL Corp Ltd *	1,158	n.m.	n.m.	-18.2	(4.1)	7.6	9.3	1.3	1.1	1.1	12.0	8.1	8.7	-23.6	18.7	13.4
Star Bulk Carriers Corp *	2,436	n.m.	6,134.0	-4.6	238.3	3.8	4.0	1.5	1.2	1.2	0.3	14.4	21.3	0.6	36.1	31.3
Simple average		**-45.6**	**1,807.5**	**4.9**	**17.3**	**2.5**	**8.3**	**1.1**	**0.9**	**0.9**	**1.9**	**4.8**	**9.5**	**-17.0**	**20.4**	**18.2**
SET selected peers																
Thoresen Thai Agencies PCL *	538	n.m.	n.m.	-45.3	(9.1)	5.2	9.4	1.1	0.9	0.8	0.6	2.1	2.6	-11.3	17.4	8.6

Source: KS Research (as of Feb 7, 2022)

Fig 19 PSL's 2022 target price based on PBV multiple

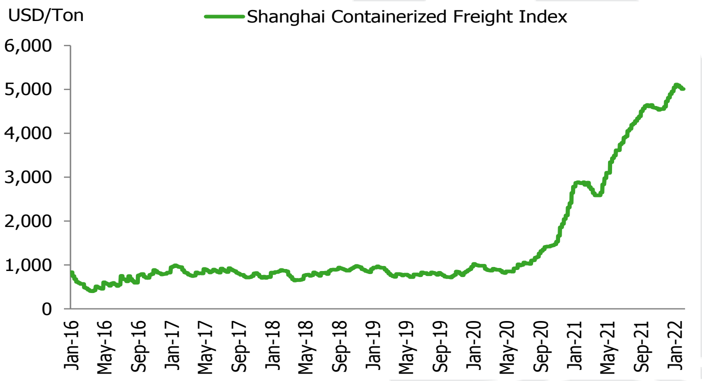
Implied SD	-2.0SD	-1.5SD	-1.0SD	-0.5SD	Mean	+0.5SD	+1.0SD	+1.5SD	+2.0SD	+2.5SD	+3SD
PBV multiple	**0.3**	**0.5**	**0.7**	**0.9**	**1.1**	**1.3**	**1.5**	**1.7**	**1.9**	**2.1**	**2.3**
Fair value (Bt/shr)	4.4	7.3	10.2	13.1	16.0	19.0	21.9	24.8	27.7	30.6	33.5

Source: KS Research

Container Shipping: Supply chain disruption will support container freight rates in 1H22

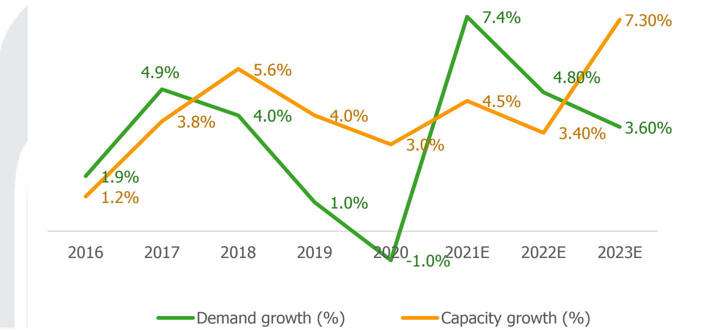
The SCFI has risen by 8% QTD and 83% YoY to 5,067 on pent-up demand and ongoing port congestion. Global GDP growth is estimated to grow by 4.4% in 2022E, according to the IMF. The omicron outbreak could prolong port congestion and the supply chain disruption due to China's zero-COVID policy that involves mass testing, snap lockdowns, vigilant surveillance and extensive quarantines. This should support containerized freight rates at their current high level in 1H22. Other factors that could support shipping rates are: 1) continued port congestion in the US, Europe, and China; 2) pent-up demand on low inventories-to-sales ratios; 3) a shortage of truck drivers in the US; and 4) moderate fleet growth (order book to fleet ratio at 25% vs. 60% in the last super cycle in 2006-2007).

Fig 20 Shanghai Export Containerized Freight Index



Source: Bloomberg and KS Research

Fig 21 Global container ship demand vs. supply

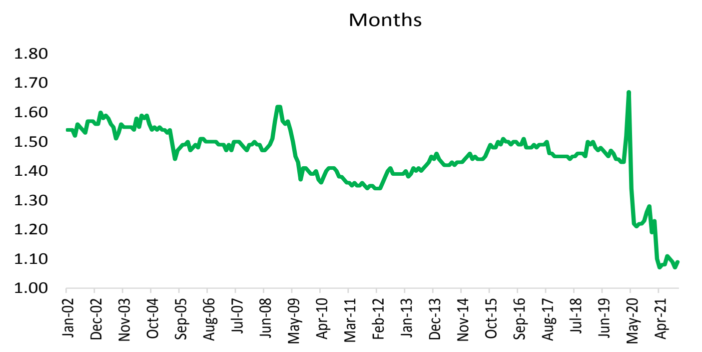


Source: Hapaq LLoyd

Volume growth should normalize in 2022-23E

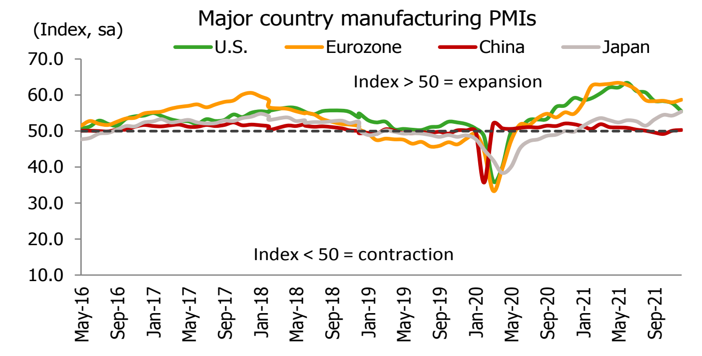
Hapaq Lloyd, one of the world leading container liners, estimates global container volume will grow by 4.8% YoY in 2022 and 3.6% YoY in 2023. This should be supported by restocking demand given near record low inventories-to-sales ratios of US retailers at 1.07 months. Major country manufacturing PMIs remain in an expanding phase (above 50), although we have seen a declining trend since 4Q21.

Fig 22 US retail inventories-to-sales



Source: FRED

Fig 23 Major country manufacturing PMIs

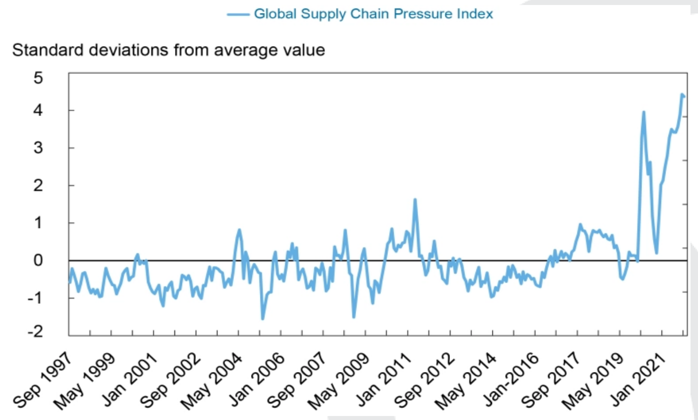


Source: Bloomberg and KS Research

Expect lower container freight rate in 2H22

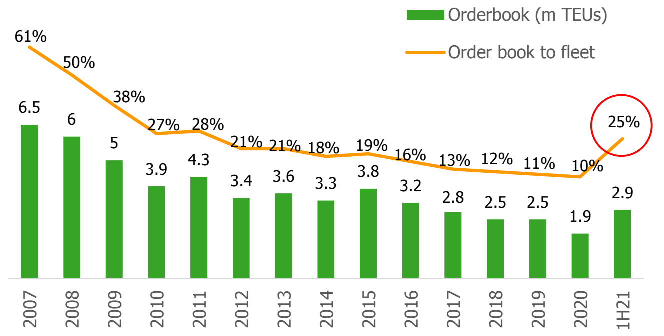
We expect the supply chain disruption caused by COVID-19 to ease in 2H22 on an improving pandemic situation and a higher US labor supply as individuals who have been staying away from the workplace because of health concerns will likely return to the job market in 2022. We expect the omicron variant will speed the transition of COVID from pandemic to endemic disease given its low death rate. Although we expect China will maintain its zero-COVID policy for a while, we do not expect to see stricter measures than the current ones due to omicron's milder severity, accelerating vaccine rollout, and the availability of antiviral pills. Consumer demand for goods will be normalized later this year given no stimulus, higher interest rates, and a shift from spending on goods to services after border reopening. Hapaq Lloyd estimates supply growth will outpace demand growth in 2023 due to rising deliveries. As a result, we expect the container freight rate will decline in 2H22.

Fig 24 Global Supply Chain Pressure Index



Source: New York Fed

Fig 25 Container ship order book worldwide



Source: Hapaq LLoyd

Expect 4Q21E earnings to grow 30% QoQ

We expect RCL to post strong 4Q21E earnings of Bt4.8bn (+30% QoQ, +284% YoY) on the back of a higher freight rate (+11% QoQ to USD560/TEU). We forecast lifting volume at 564,000 TEUs, up 5.8% YoY, in line with accelerating exports. We expect the average cost of operations increased by 31% YoY to USD276/TEU because of higher bunker oil prices and loading/discharge-related expenses.

We raise RCL's 2021-22E earnings by 2% and 24% due to a higher-than-expected container freight rate following continued supply chain disruptions caused by omicron and China's zero-COVID policy. However, we estimate RCL's freight rate will fall by 10% YoY in 2022 to USD448 per TEU due to a lower container freight rate in 2H22 on the improving COVID-19 situation. We also expect the freight rate to decrease by 30% YoY to USD313 per TEU in 2023, which is near the pre-COVID-19 level of USD300 per TEU in 2019, due to higher ship supply.

As of January 2021, RCL was operating a fleet of 45 vessels with sizes ranging from 200 TEUs to 7,000 TEUs with an average age of 22 years. The company's fleet is much older than the industry average of 13.5 years. As a result, RCL purchased six second-hand ships and two new ships this year for a total of USD345m (Bt11.3bn). The six old ships will be used to replace those that were rented once their lease agreements expire this year, while the two new ships with capacities of 12,000 TEUs each, due to be delivered by 4Q22 and 1Q23, will be used for Middle Eastern and Indian routes. RCL's total fleet capacity will thereby increase from 80,000 TEUs in 2021 to 98,000 TEUs in 1Q23.

Downgrade RCL to Neutral with a lower TP of Bt44

We downgrade our recommendation on RCL to Neutral with a lower target price of Bt44 (down from Bt58). Our target is pegged to a PBV of 1.0x (+1.5SD) and 2023 BVPS of Bt44 to reflect our 2021-23E earnings revision. We lower our target PBV to 1.0x (+1.5SD) from 1.4x (+2.5SD) due to the weaker container freight rate outlook in 2H22 and 2023. Our target PBV is below that of RCL's global peers of 1.3x.

Fig 26 RCL 4Q21 performance preview

	4Q20	1Q21	2Q21	3Q21	4Q21E	%YoY	%QoQ	2021E	2022E	% change	2023E
Financials											
Sales (Btmn)	5,097	7,138	7,877	9,301	10,344	102.9	11.2	34,660	33,798	-2.5	28,113
EBITDA (Btmn)	1,687	3,363	3,605	4,139	5,272	212.5	27.4	16,253	15,570	-4.2	9,146
Operating profit (Btmn)	1,287	2,963	3,205	3,739	4,872	278.5	30.3	14,779	13,669	-7.5	6,737
Core profit (Btmn)	1,260	2,942	3,189	3,731	4,836	283.8	29.6	14,698	13,596	-7.5	6,725
Net profit (Btmn)	1,260	2,942	3,189	3,731	4,836	283.8	29.6	14,698	13,596	-7.5	6,725
Net EPS (Bt)	1.52	3.55	3.85	4.50	5.84	283.8	29.6	17.74	16.41	-7.5	8.11
Performance Drivers											
Total volume (TEUs)	533,000	517,000	535,035	558,938	564,000	5.8	0.9	2,174,973	2,314,000	6.4	2,749,000
Average freight rate (US$/TEU)	311	453	467	506	560	80.4	10.7	496	448	-9.9	313
Average cost of operation (US$/TEU)	211	245	256	282	276	30.8	-2.2	265	251	-5.3	224
FX (Bt/USD)	30.80	30.50	31.50	32.90	32.75	6.3	-0.5	32	33	2.6	33
GPM (%)	32.1%	45.8%	45.2%	44.2%	50.7%	58.2	14.7	0	0	-5.7	0
Ratios						Change		2021E	2022E	Change	2023E
Gross margin (%)	32.1	45.8	45.2	44.2	50.7	18.7	6.5	46.7	43.9	-2.9	28.2
EBITDA margin (%)	33.1	47.1	45.8	44.5	51.0	17.9	6.5	46.9	46.1	-0.8	32.5
Optg. margin (%)	25.3	41.5	40.7	40.2	47.1	21.9	6.9	42.6	40.4	-2.2	24.0
ROE (%)	14.5	27.9	23.4	21.9	22.6	8.1	0.8	101.0	53.4	-47.6	20.0

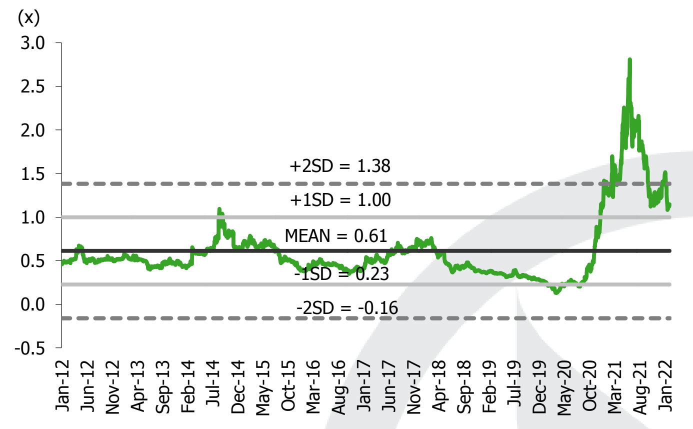
Source: Company data, KS Research

Fig 27 RCL earnings revision

Unit: Btmn.	2021E			2022E			2023E		
Profit and loss statements	**New**	**Previous**	**%Change**	**New**	**Previous**	**%Change**	**New**	**Previous**	**%Change**
Total revenue	34,660	34,199	1.4	33,798	29,636	14.0	28,113	27,838	1.0
Cost of goods sold	18,466	18,329	0.7	18,973	17,447	8.7	20,185	20,004	0.9
Gross profit	16,195	15,869	2.1	14,825	12,189	21.6	7,928	7,833	1.2
SG&A	1,464	1,464	0.0	1,156	1,156	0.0	1,190	1,190	0.0
Operating profit	14,779	14,454	2.3	13,669	11,033	23.9	6,737	6,643	1.4
EBITDA	16,253	15,928	2.0	15,570	12,934	20.4	9,146	9,051	1.0
EBIT	14,883	14,557	2.2	13,711	11,074	23.8	6,779	6,684	1.4
Core profit	14,698	14,373	2.3	13,596	10,959	24.1	6,725	6,630	1.4
Net profit	14,698	14,373	2.3	13,596	10,959	24.1	6,725	6,630	1.4
Key assumptions									
Total volume (TEUs)	2,174,973	2,174,973	0.0	2,314,000	2,302,000	0.5	2,749,000	2,725,000	0.9
COC (TEUs)	1,304,984	1,304,984	0.0	1,388,400	1,381,200	0.5	1,649,400	1,635,000	0.9
SOC (TEUs)	869,989	869,989	0.0	925,600	920,800	0.5	1,099,600	1,090,000	0.9
Average freight rate (US$/TEU)	496.5	490.2	1.3	447.5	393.8	13.7	312.5	312.5	0.0
Average cost of operation (US$/TEU)	264.8	263.0	0.7	250.7	231.5	8.3	224.2	224.2	0.0
FX (Bt/USD)	31.91	31.91	0.0	32.75	32.8	0.0	32.8	32.8	0.0
GPM (%)	46.7%	46.4%	0.7	44.0%	41.2%	6.7	28.2%	28.2%	0.0

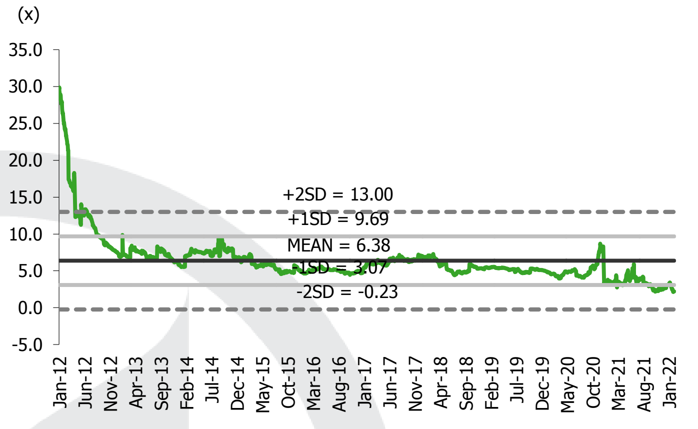
Source: Company data, KS Research

Fig 28 12M FWD PBV – RCL



Source: Bloomberg, KS Research

Fig 29 RCL's 12M FWD EV-EBITDA (x)



Source: Setsmart and KS Research

Fig 30 RCL peer comparison

Stock	Market Cap (USD mn)	Basic EPS growth (%)			Basic P/E (x)			P/BV (x)			Div. Yield (%)			ROE (%)		
		20	21E	22E	20	21E	22E	20	21E	22E	20	21E	22E	20	21E	22E
Regional Container Lines PCL	**1,086**	**n.m.**	**723.7**	**-23.7**	**6.7**	**2.5**	**2.7**	**1.3**	**1.7**	**1.1**	**3.5**	**10.3**	**7.5**	**21.2**	**101.0**	**53.4**
Global selected peers																
COSCO SHIPPING Holdings Co Ltd *	6,113	46.1	912.9	-3.7	20.3	2.0	2.1	4.3	1.4	0.9	0.0	5.3	10.1	25.0	100.6	34.7
Evergreen Marine Corp Taiwan Ltd *	23,561	25,200.0	800.8	-7.4	24.5	2.7	2.9	6.4	2.0	1.4	2.0	13.7	16.2	29.7	113.1	57.7
Korea Line Corp *	613	-90.1	2,092.7	-50.7	66.9	3.0	6.2	0.8	0.6	0.5	0.0	n.a.	n.a.	1.1	22.5	9.2
Hapag-Lloyd AG *	46,250	155.8	n.a.	n.a.	43.7	n.a.	3.8	6.0	n.a.	2.1	1.5	n.a.	11.7	13.9	n.a.	60.2
Orient Overseas International Ltd *	17,202	-33.7	618.9	-13.4	18.1	2.5	2.9	2.9	2.0	1.4	2.1	21.5	19.8	17.1	81.1	60.7
Wan Hai Lines Ltd *	14,196	216.8	800.8	-32.9	34.9	3.9	5.8	9.0	5.2	1.7	0.6	n.a.	n.a.	28.3	n.a.	n.a.
Yang Ming Marine Transport Corp *	13,545	n.m.	931.4	-32.9	23.9	2.3	3.5	9.6	1.7	1.2	0.0	0.0	14.5	45.9	103.0	40.1
AP Moller - Maersk A/S *	32,700	n.m.	545.5	16.8	21.5	3.3	2.8	2.2	1.4	1.1	1.8	n.a.	n.a.	9.8	49.6	39.7
Simple average		**4,249.1**	**957.6**	**-17.8**	**31.7**	**2.8**	**3.7**	**5.2**	**2.0**	**1.3**	**1.0**	**10.2**	**14.5**	**21.4**	**78.3**	**43.2**

Source: KS Research (as of Feb 7, 2022)

Fig 31 RCL's 2022 target price based on PBV multiple

Implied SD	Mean	+0.5SD	+1.0SD	+1.5SD	+2.0SD	+2.5SD	+3.0SD	+3.5SD	+4.0SD
PBV multiple	**0.6**	**0.8**	**0.9**	**1.0**	**1.2**	**1.4**	**1.5**	**1.7**	**1.8**
Fair value (Bt/shr)	28.24	34.81	41.38	43.79	54.52	61.08	67.65	74.92	80.79

Source: KS Research

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