

PRECIOUS SHIPPING

PSL

TRANSPORTATION & LOGISTICS

12M Fair Value (Bt)

15.40

Closing Price: Bt14.70

Rating

Neutral

(Maintained)

Valuation Matrix

Current valuation	Neutral
Long-term growth	Neutral
Tactical	Neutral

VALUATIONS

	2021	2022E	2023E
EPS estimates (Bt)	2.87	3.70	3.14
EPS growth (%)	n.a.	29.03	(15.09)
Earnings yield (%)	19.52	25.18	21.39
Implied PER (x)	5.12	3.97	4.68

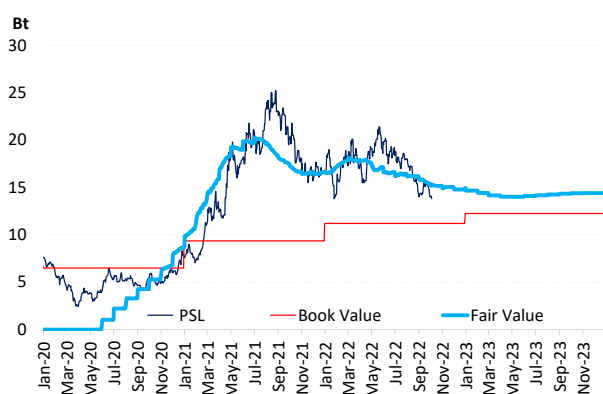
Required return (%) 21.57

Risk-free rate (%) 3.02

SHARE DATA

Market cap (Btmn/USDmn)	22,921.59/613.04
Avg. daily T/O ('000 shares)	12,742.44
Estimated free float (%)	47.55

VALUATIONS CHART



We maintain our Neutral rating, with the fair price cut to Bt15.40 (from Bt20.80 previously), reflecting the de-rating upon the industry outlook. While its earnings should be on a downtrend, the stock is cheap at the 2023E earnings yield of 21% (PER of 4.7x), and it offers a decent dividend yield of 13-15% in 2022-23E.

EVENTS AND CORPORATE ACTIONS

DATE	UPCOMING EVENT
Late Nov. 2022	Global trade data

FINANCIAL SUMMARY

	Sales (Btmn)	NP (Btmn)	EPS (Bt)	EPS growth (%)	DPS (Bt)	Yield (%)	ROE (%)	ROCE (%)	BV (Bt)	DER (x)
2019	4,152	(228)	(0.15)	n.a.	-	-	(1.96)	2.22	7.40	1.10
2020	3,730	(1,295)	(0.83)	n.a.	-	-	(12.80)	0.82	6.49	0.99
2021	8,615	4,475	2.87	n.a.	1.75	11.90	30.66	24.26	9.36	0.56
2022E	9,380	5,774	3.70	29.03	2.22	15.10	35.15	31.11	10.53	0.39
2023E	8,247	4,903	3.14	(15.09)	1.89	12.86	27.28	27.61	11.52	0.25

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The peak has passed, but still strong

- 3Q22 earnings of Bt1,348mn (-10% YoY, -19% QoQ)
- Abundance of catalysts awaiting from recovery of trading activities in the US, China and Ukraine
- Neutral view on the industry, given the reversion of freight rates from the peak amid the pandemic
- Maintain a Neutral rating, with a new 12M forward fair price of Bt15.40

BUSINESS INSIGHTS

- PSL owns and operates 38 dry-bulk ships on a tramp-shipping basis, amounting to 1,657,569 DWT in aggregate. The company mainly operates in the Handysize sector (21 ships), equivalent to 10,000-39,999 DWT/ship, followed by Supramax (nine ships) and Ultramax (eight ships).
- All PSL's business operations are overseas. Its main cargoes in 2021 were cement (32%), agricultural products (17%), coal (13%), fertilizer (11%), ore concentrate (10%), steel (9%) and others (8%); 60% of PSL's ships operate in the Atlantic region, while 40% operate in the Pacific.
- PSL reported a 3Q22 net profit of Bt1,348mn, down 10% YoY and 19% QoQ, mainly due to the contraction of freight rates. Its 3Q22 revenue fell 5% YoY and 4% QoQ to Bt2,499mn, and the gross profit margin (GPM) shrank to 60.6% (vs. 68.7.0% in 3Q21 and 70.4% in 2Q22).
- We believe freight rates could rebound on the recovery of activities in China next year. But rates will not return to the peak level in 2021, when they were driven by the extraordinary pandemic.
- Basically, PSL's stock price moves in line with the Baltic Exchange Handysize Index, regardless of its earnings performance. With the benchmark rate already having peaked in October 2021 and a potential retreat due to the easing of port congestion and pent-up demand, the stock price is unlikely to hit a new high.

KEY TAKEAWAYS

- 3Q22 earnings of Bt1,348mn (-10% YoY, -19% QoQ)**
- PSL reported a 3Q22 net profit of Bt1,348mn, down 10% YoY and 19% QoQ, mainly due to the contraction of freight rates. The Baltic Exchange Handysize Index (BHSI), the key benchmark rate for PSL's vessels, declined amid the weaker dry-bulk freight market. With PSL's average earnings per day per ship decreasing by 20% YoY and 17% QoQ to USD19,840/day in 3Q22, its quarterly revenue fell 5% YoY and 4% QoQ to Bt2,499mn, and the gross profit margin (GPM) contracted to 60.6% from 68.7.0% in 3Q21 and 70.4% in 2Q22. Its net profit was 6% lower than our forecast. The 9M22 earnings accounted for 75% of our full-year forecast. We see slight downside risk to our full-year forecast, as its earnings are expected to remain on a contraction trend in 4Q22E. The Baltic Exchange Handysize Index (BHSI), the key benchmark rate for PSL's vessels, has averaged at 963 points QTD, 45% lower than the 4Q21 average and 7% lower than the 3Q22 average.

3Q22 earnings review

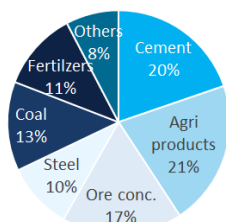
	3Q21	2Q22	Actual	3Q22 Estimate	Deviation	2022E FY Dec.	2022 YTD%
EPS (Bt)	0.96	1.06	0.86	0.92	-6%	3.70	75%
Sales (Btmn)	2,639	2,616	2,499	2,318	8%	9,380	79%
Net profit (Btmn)	1,501	1,660	1,348	1,430	-6%	5,774	75%
Gross margin (%)	68.7%	70.4%	60.6%	71.0%		64.1%	

- Abundance of catalysts await in management's view**
- While multiple challenges in the shipping industry — including the US economic slowdown, the tightening of monetary policy, China's lockdowns and the Russia-Ukraine war — have caused freight rates to retreat, PSL's earnings still managed to show solid growth in 9M22. The company's fleet is in the minor bulk classes (Supramax and Handysize), which saw lesser drops in their benchmark rates of 2-4% YoY in 9M22 compared to the decline in the overall Baltic Dry Index by 25% YoY, thanks to the better balance of demand and supply. The management foresees catalysts to the industry from i) the recovery of economic activities in China; ii) the slowing (or end) of the monetary policy tightening cycle; and iii) increasing trade activities in Ukraine.
- We have a neutral view on the industry**
- We believe freight rates could rebound on the recovery of activities in China next year. But rates will not return to the peak level in 2021, when there was a massive misallocation of the ships due to COVID-19, which was an extraordinary event.
- Maintain a Neutral rating, with a new 12M forward fair price of Bt15.40**
- Basically, PSL's stock price moves in line with the Baltic Dry Exchange Index, regardless of its earnings performance. With the benchmark rate already having peaked and a potential retreat due to the easing of port congestion and pent-up demand, the stock price is unlikely to hit a new high. We maintain a Neutral rating, with the fair price cut to Bt15.40 (from Bt20.80 previously), reflecting the de-rating upon the industry outlook. While PSL's earnings should be on a downtrend, the stock is cheap at the 2023E earnings yield of 21% (PER of 4.7x), and it offers a decent dividend yield of 13-15% in 2022-23E.

PSL's fleet profile

Ship types	DWT range (MT)	Ships
Handysize	10,000-39,999	19
Supramax	40,000-59,999	9
Ultramax	60,000-69,999	8

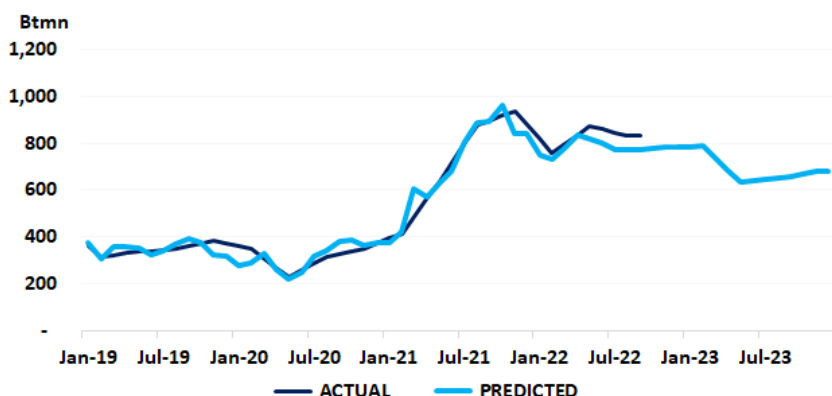
Approximate cargo exposure in 2021



Source: PSL

EARNINGS DRIVERS

SALES R2 96%



Independent Variables to Sales/Cost of Sales

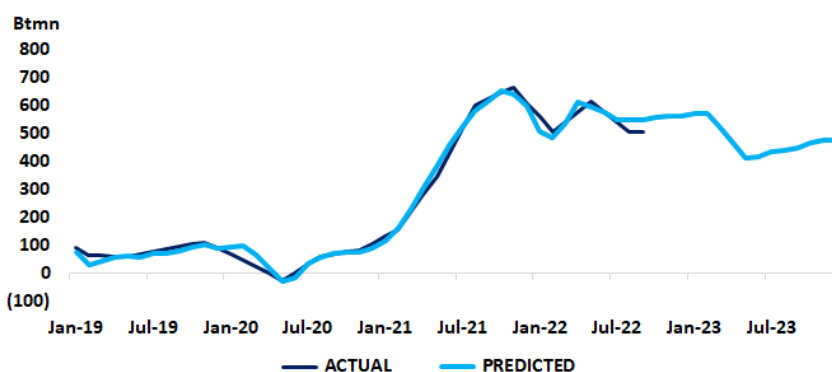
The Baltic Exchange Handysize Index (BHSI)

Bt/USD

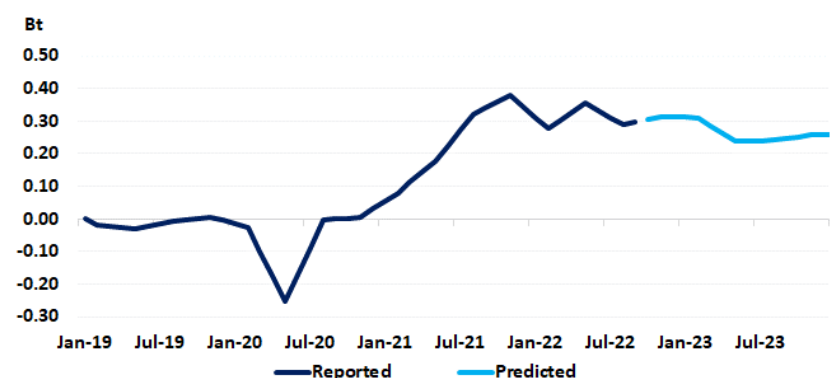
Global trade volume

Fixed asset turnover

GROSS PROFIT R2 99%



EPS (Bt)



QUARTERLY PERFORMANCE

PERIOD	EPS (A)	EPS (F)	SURPRISE
3Q22	0.86	0.92	-6%
2Q22	1.06	1.00	7%
1Q22	0.83	0.84	-2%
4Q21	1.14	n.a.	n.a.
3Q21	0.96	n.a.	n.a.

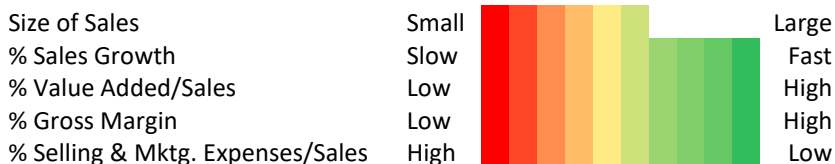
COMPANY VISIT HIGHLIGHTS

DATE	HIGHLIGHTS
Nov. 7, 2022	PSL fleet is in the minor bulk classes (Supramax and Handysize), which have well-balanced demand and supply. The management foresees catalysts to the industry from i) the recovery of economic activities China; ii) the slowing (or end) of the monetary policy tightening cycle; and iii) increasing trade activities in Ukraine.
May 12, 2022	Demand growth for PSL's shipping segment remains healthy, while the growth in supply has stayed slow. The Russia-Ukraine war is expected to lift freight rates. The management expects the recovery of the Chinese economy to support freight demand in 2022E.

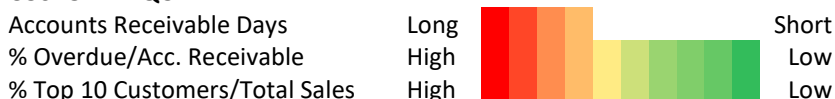
COMPETITIVENESS

Score 7.2

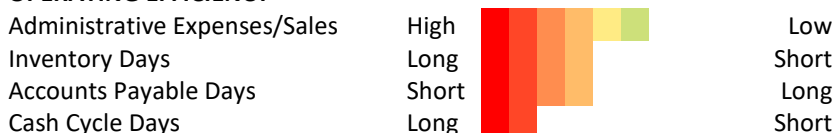
MARKET POSITION



CUSTOMER QUALITY

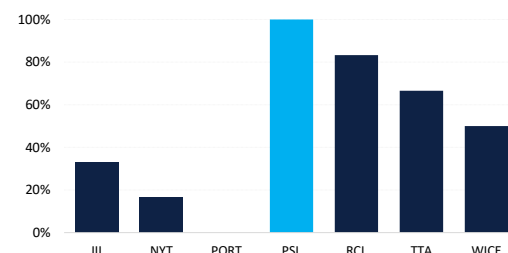


OPERATING EFFICIENCY

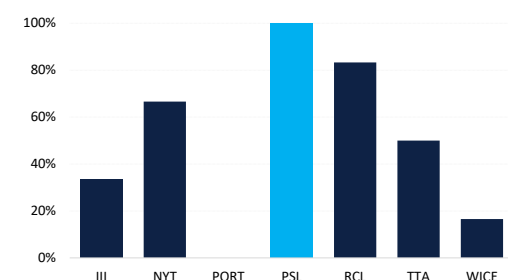


PERCENTILE RANK

SALES GROWTH (%)



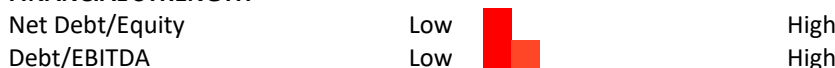
GROSS PROFIT MARGIN (%)



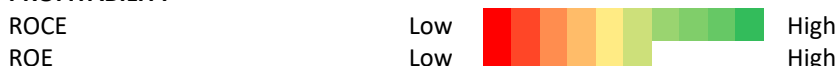
FINANCIALS & PROFITABILITY

Score 3.4

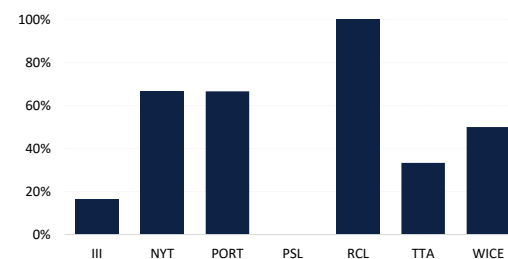
FINANCIAL STRENGTH



PROFITABILITY



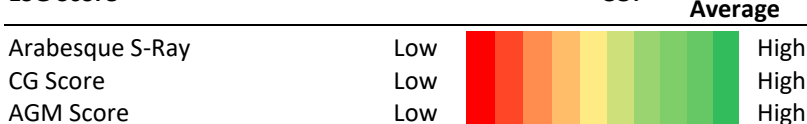
NET DEBT TO EQUITY RATIO (x)



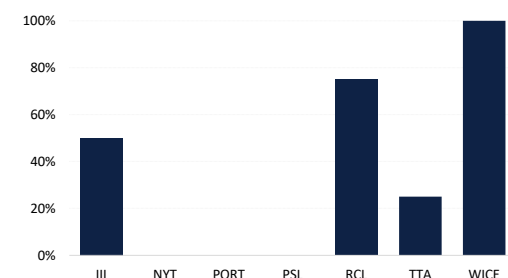
SUSTAINABILITY

Score 9.0

ESG Score



ROCE (%)



Note:

Krungthai XSpring has two major shareholders, Krungthai Bank Plc. (KTB) and XSpring Capital Plc. (XPG). Therefore, prior to making investment in the securities of KTB and XPG, investors should consider the risk factors carefully.

An executive of Krungthai XSpring is also a board member of VNG, SVH, PACE, MAJOR, KBS, XPG, NVD, KTC, IVL, SAWAD, CI and SABUY.

A management member of Krungthai XSpring is also a board member of NFC.

Krungthai XSpring is a financial advisor for XPG, TSE, STOWER, NVD, BTS, AHC, NWR and PF.

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KTX Research – Recommendation Definitions

KTX's fair value

Our fair value is calculated by the 12-month rolling EPS estimate divided by the required rate of return based on the Capital Asset Pricing Model (CAPM).

Stock Recommendations

In determining our recommendations for each stock, we combine the fundamental value and the tactical trading overlay to factor in the anticipated market trend. The fundamental value takes into account both the current fair value as mentioned above and the valuation trend over the next 24 months, incorporating the future performance. Each of the three aforementioned criteria is assigned a score in the range of -5 to +5, evaluated against our benchmark. The equally weighted scores are then summed into a single score, which is used to assign stock recommendations.

Sector Recommendations

OVERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index by at least 10% over the next 12 months.

NEUTRAL: The industry, as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months.

UNDERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index by 10% over the next 12 months.

**KT**X

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