



Shipping Sector

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Neutral

The fall of container prices, the rise of dry bulk

- ▶ **Expect BDI to rebound after Chinese New Year led by China's reopening and slower fleet growth. Rebuilding Ukraine could be a wild card.**
- ▶ **Expect container freight rates to fall below pre-COVID level in 2023 on excess supply leading to stiff competition.**
- ▶ **Outperform on PSL with reduced TP of Bt18.50 from Bt19.20, Underperform on RCL with TP of Bt27.25 on a container freight recession.**

Investment highlights

- ▶ **China's reopening and low fleet growth will drive BDI in 2023-24.** As of Dec 2022, Clarksons Research estimates dry bulk trade in ton-miles to increase by 1.59% YoY in 2023 and by 2% YoY in 2024 with the key drivers to be 1) China's reopening; 2) more China's policy stimulus measures in the pipeline; 3) rising grain trade from Brazil's record soybean harvests; and 4) higher Chinese coal shipments after it lifted its unofficial ban on Australian coal. Clarksons Research estimates the fleet supply to grow by 2.4% YoY and 0.3% YoY in 2023-24, respectively. This is due to a low order book at 7% of the global fleet, a 30-year low. We expect to see a rebound in dry bulk freight rates in 2023-24 as demand growth outpaces supply growth. PSL is expected to post weak 4Q22 earnings of Bt772mn (-43% QoQ, -56% YoY), and earnings could bottom out in 1Q23 given a 40% QoQ drop in freight rate amid the low season, an easing of the supply chain disruption, and heavy rain impeding iron ore shipments from Brazil. However, we expect to see a rebound after Chinese New Year driven by demand following China's reopening. A Russia-Ukraine ceasefire in 2023-24 is a wild card as it would lead to higher demand for commodities to rebuild Ukraine. The cost of reconstruction could amount to US\$349bn, or 8x China's Summer Olympic investment of US\$42bn in 2008.
- ▶ **Expect container freight rates to fall below pre-COVID level in 2023.** Clarksons estimates the global container fleet supply will grow by 8% YoY in 2023 and 9% YoY in 2024 and capacity in 2025 will be 30% higher than before the pandemic. This is more than 3-4x the estimated global trade growth of 2-3% YoY p.a. in 2023-24, according to the WTO. We expect an excess supply will lead to fierce competition and cause container freight rates to fall below the pre-COVID level. The unraveling of the 2M alliance between MSC and Maersk, the two largest operators in the world with a combined 34% market share confirms our view. The Shanghai Container Freight Index (SCFI) has dropped by 80% YoY in so far in 1Q23 to 1,000, the pre-COVID level, from a peak of 5,000 at the beginning of 2022 and we expect the SCFI to fall further and possibly to a loss-making level in the future. Blank or canceled sailings are on a rise, up to 31% in 1Q23 from 23% in 1Q22 and 16% in 2021, according to Drewry. We estimate RCL's earnings in 2023-24 to fall by 83% YoY and 20% YoY, respectively, on a container freight recession.
- ▶ **Recommend long dry bulk and short container stocks.** We maintain our Outperform rating on PSL with a reduced target price of Bt18.50 from Bt19.20) and Underperform on RCL with a TP of Bt27.25 on a weak container freight outlook.

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Valuations

Stock	Rating	Price (Bt) 06-Feb-23	Target price (Bt)	Upside (%)	P/E (x)		P/BV (x)		EV/EBITDA (x)*		Net profit grth (%)		Div. yield (%)		ROE (%)	
					2022E	2023E	2022E	2023E	2022E	2023E	2022E	2023E	2022E	2023E	2022E	2023E
PSL	Outperform	16.20	18.50	14.2	5.0	6.0	1.5	1.4	4.4	4.6	13.4	-17.6	10.7	9.4	32.6	23.7
RCL	Underperform	31.00	27.25	-12.1	1.1	6.6	0.5	0.5	0.3	0.4	32.3	-81.4	17.9	4.8	67.0	9.5
Simple Average					3.0	6.3	1.0	0.9			22.9	-49.5	14.3	7.1	49.8	16.6

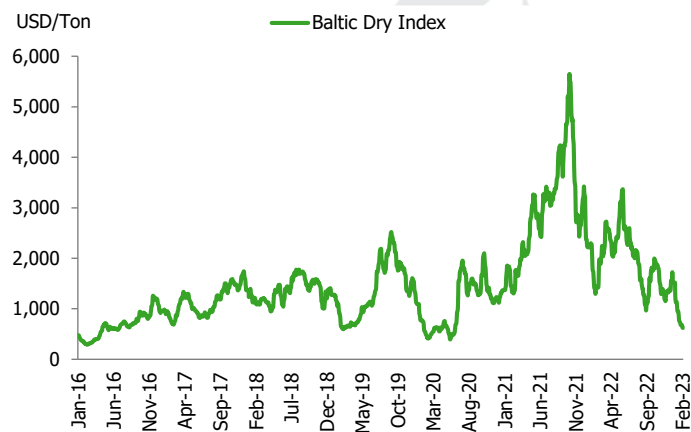
Source: KS Research



Dry Bulk Shipping: Demand-supply imbalance will drive BDI in 2023-24

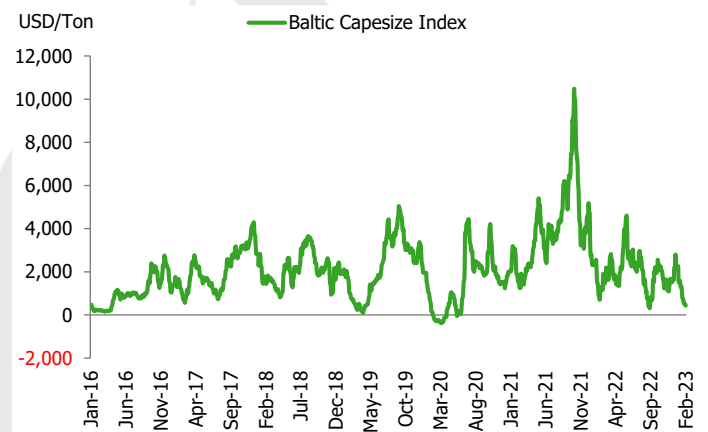
We expect the Baltic Dry Index (BDI) to rebound after Chinese New Year led by China's reopening. China's zero-COVID policy has hit demand for dry bulk commodities in 2022 due to repeated lockdowns to stem a rise of COVID-19. The BDI fell by 32% YoY in 2022 due to weaker vessel demand (-1.25% YoY in 2022E) vs. supply growth of 2.86% YoY in 2022), according to Clarksons Research. The Capesize, Panamax, and Supramax indices decreased by 2.2%, 40%, and 54%, respectively.

Fig 1 Baltic Dry Index



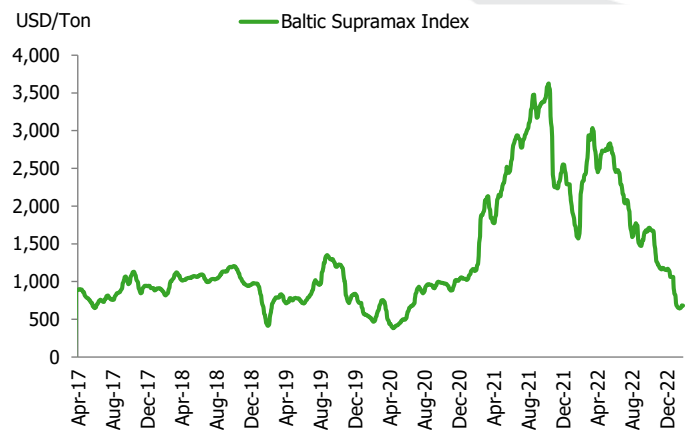
Source: Bloomberg and KS Research

Fig 2 Baltic Capesize Index



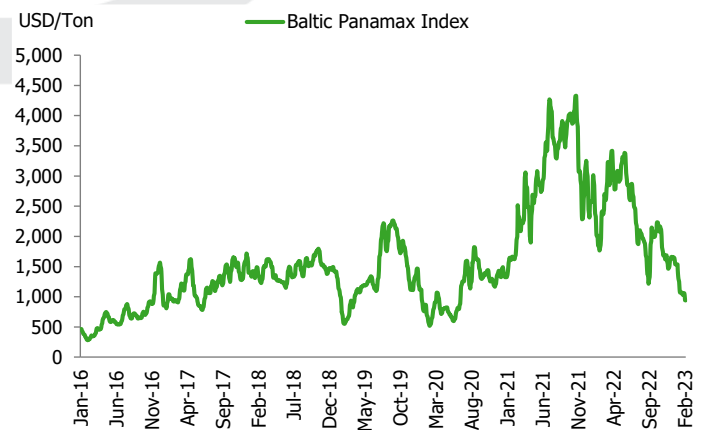
Source: Bloomberg and KS Research

Fig 3 Baltic Supramax Index



Source: Bloomberg and KS Research

Fig 4 Baltic Panamax Index



Source: Bloomberg and KS Research

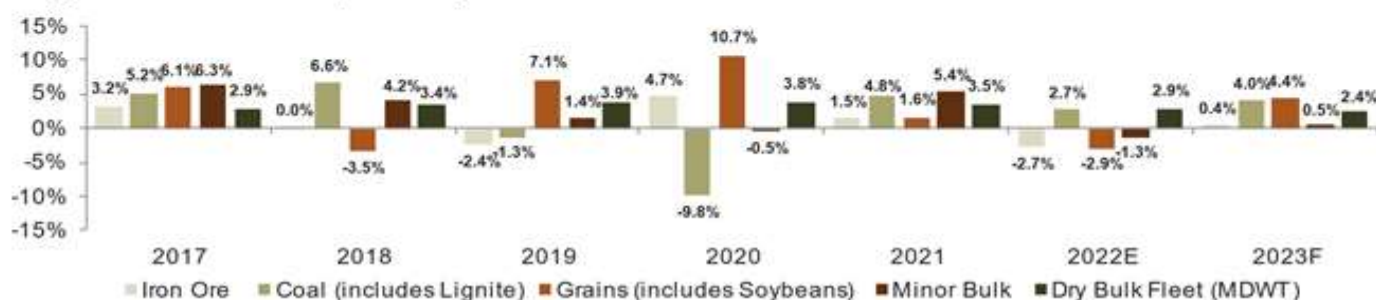
Clarksons Research estimates dry bulk trade in ton-miles to increase by 1.59% YoY to 28,909 billion ton-miles in 2023 led by iron ore (+0.4%), coal (+4.0%), grain (+4.4%), and minor bulk (0.5%). Key demand drivers will be 1) China's reopening; 2) more China's policy stimulus on pipeline; 3) a rising grain trade from a record volume of soybeans from Brazil for this harvest season in 1H23; and 4) higher Chinese coal shipments after it lifted a more than two-year-old unofficial ban on Australian coal. We see upside in 2023 demand as we are not sure whether Clarksons Research fully took into account the entire number of stimulus measures the Chinese government plans to throw at its economy. For 2024, Clarksons Research estimates dry bulk trade in ton-miles to grow by 2% YoY to 29,493 billion ton-miles, slightly below the IMF's 2024 world GDP forecast of 3.1%.



Fig 5 Seaborne dry bulk trade

Seaborne Dry bulk Trade							
All Units In Billion Tonne-Miles	2017	2018	2019	2020	2021	2022E	2023F
Iron Ore	8,190	8,190	7,990	8,366	8,494	8,261	8,296
Coal (includes Lignite)	4,881	5,204	5,137	4,635	4,856	4,989	5,189
Grains (includes Soybeans)	3,272	3,158	3,383	3,743	3,804	3,693	3,857
Minor Bulk	10,532	10,969	11,120	11,064	11,663	11,513	11,568
Total	26,874	27,522	27,630	27,808	28,817	28,457	28,909
Total % Change In Trade	5.09%	2.41%	0.39%	0.64%	3.63%	-1.25%	1.59%
Dry Bulk Fleet (MDWT)	813.53	840.82	873.43	906.99	939.15	966.03	989.3*
% Change in Dry Bulk Fleet (MDWT)	2.93%	3.35%	3.88%	3.84%	3.55%	2.86%	2.4%

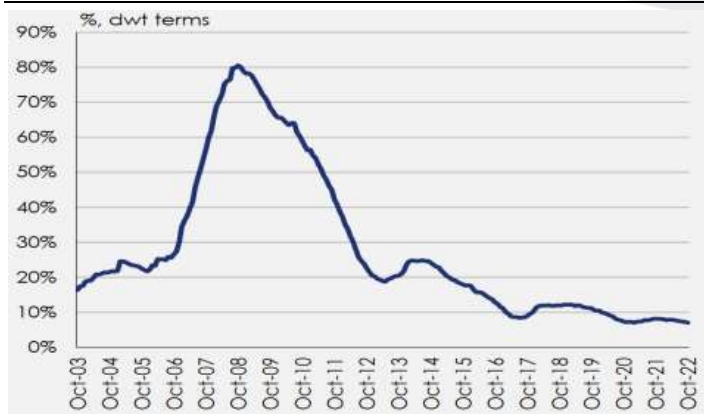
% age increase over the previous year



Source: Clarksons Research and Company data (December 2022)

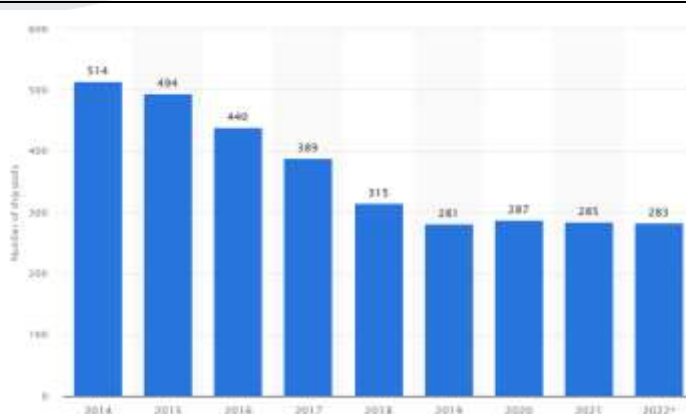
Clarksons Research estimates the dry bulk fleet supply at the end of 2023 and 2024 will be 989.3 and 992.7 MDWT, implying an increase of 2.4% YoY and 0.3% YoY, respectively. This is due to low order book that is 7% of the global fleet, a 30-year low. As a result, we expect to see a rebound in dry bulk freight rates in 2023-24 as demand growth outpaces supply growth.

Fig 6 Dry bulk ship order book worldwide



Source: TTA and Clarkson, Oct 2022

Fig 7 No. of active shipyards worldwide from 2014-2022



Source: Statista

Key drivers for dry bulk include:

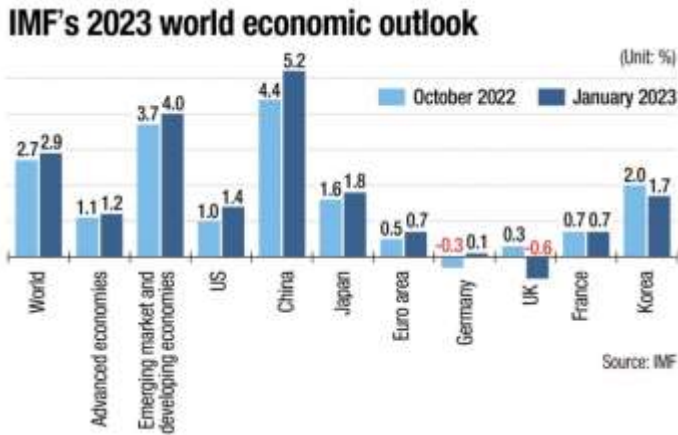
1) China’s reopening and more Chinese policy stimulus measures in the pipeline

We expect to see a strong recovery of dry bulk activity from China’s reopening as consumer spending will stimulate industrial activity in China and demand for import of dry bulk commodities. China is far more important than the rest of the world (ROW) in the dry bulk segment as its imports account for 50% of the seaborne dry bulk market. We believe this could offset a slowdown in the ROW in case of a mild recession in 2023. As the Chinese government shifts its focus back to growth mode by abandoning its zero-COVID-19 policy and boosting its property market by monetary and fiscal policy, the IMF forecasts



China's GDP in 2023 will be in excess of 5% (up 0.8 percentage point from its projection in October). Pent-up demand could also fuel a stronger rebound in China.

Fig 8 IMF's 2023 world economic outlook



Source: The Korea Times

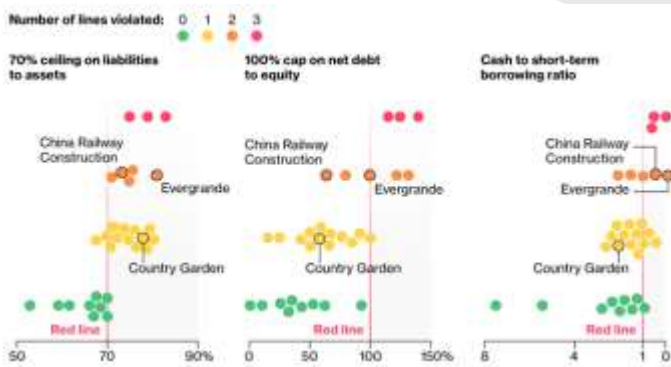
Fig 9 China imports comprise 50% of dry bulk market



Source: UNCTAD - Major dry bulk trades in 2021 (world market shares)

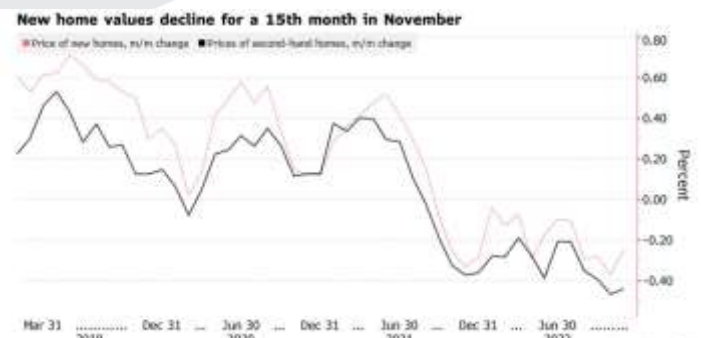
Its policy stimulus measures will help sustain a recovery this year. The People's Bank of China will ease its "three red lines" for developers in 2023. Introduced in 2020, these measures were aimed at reducing developers' debt levels and curtailing financial risks in real estate amid a broader push to limit speculation in home prices to make homes more affordable as part of President Xi Jinping's common prosperity push. Still, the sweeping measures have yet to hit China's housing sector, which has also been slowed by a surge in virus cases. New home sales dropped 31% YoY in December 2022 and 48.6% YoY in January 2023, while home prices declined for 15 straight months.

Fig 10 Two-thirds of top 30 Chinese developers crossed at least one red line



Source: Bloomberg

Fig 11 Chinese Home Prices continue to fall



Source: Bloomberg

According to Bloomberg, China is planning to allow some property firms to add more leverage by easing borrowing caps depending on how many red lines they meet. Companies that meet all three thresholds will no longer have borrowing caps and can use letter of guarantees from banks to pay land purchase deposits. China will also push back the grace period for meeting debt targets set by the policy. The deadline could be extended by at least six months from the original June 30 date. Note that the plans are still in deliberation and could be changed.

2) China's resumption of coal imports from Australia

We expect higher China's seaborne coal imports in 2023 after it lifts a more than two-year-old unofficial ban on Australian coal as diplomatic ties broke down. The resumption of coal trade comes amid improved bilateral ties after frequent high-level meetings and talks under new Australian government. According to



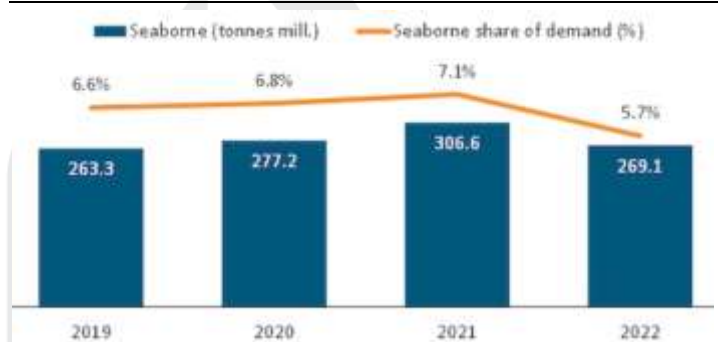
the Global Times, a Chinese steel firm has resumed purchasing Australian coal products, with the first shipment of about 72,000 tons of coking coal expected to arrive at the Zhanjiang port in South China's Guangdong province on February 8. Chinese companies that suspended coal trade with Australia are now turning their attention back to the country with the resumption of coal trade a real-life example, to diversify their sources of supply to balance risks and costs. China's coal shipments fell 12.2% in 2022, while Australia's exports of coal to China fell to nearly zero in 2022 vs. nearly a quarter of all Australian coal supplies in 2019. China's decision to soften its ban on Australian coal could increase seaborne coal imports and also average sailing distances for Chinese coal imports. Note that this policy was paired with a return of coal import tariffs from April 2023 onwards, 3% for coking coal and 6% for thermal coal, as well as a continued effort to raise output from domestic coal mines.

Fig 12 Australia's exports of coal (mn tons)



Source: EIU

Fig 13 Chinese seaborne coal imports

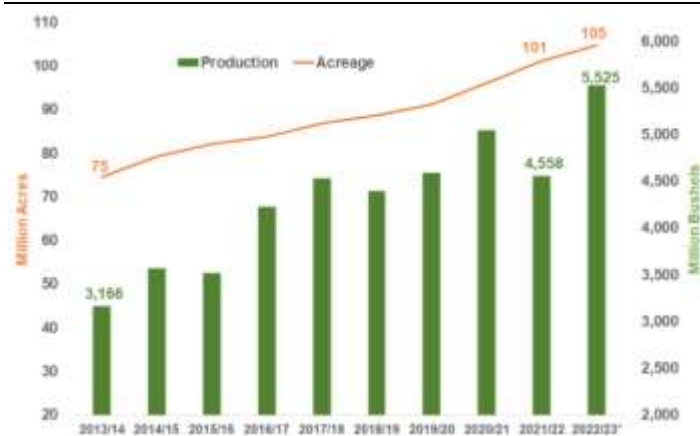


Source: Hellenic shipping news

3) Rising grain trade from Brazil's record soybean harvests

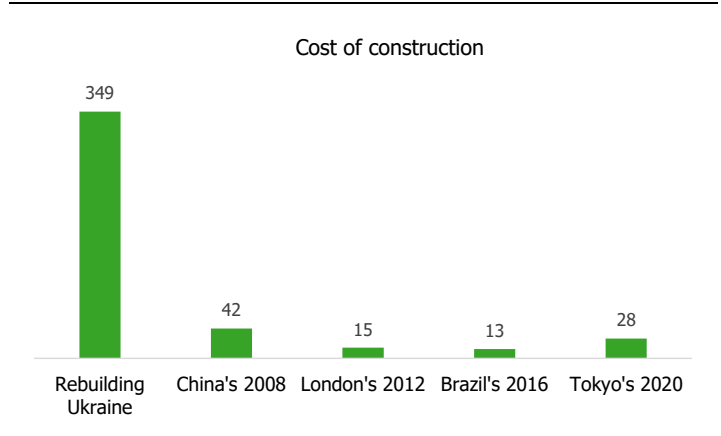
According to National Supply Company, Brazil's soybean crop is predicted to grow by 21% YoY to 5,525 mn bushels, or 150mn tons in 2023, led by adding soybean hectares. Soybean exports from Brazil are expected to grow by 16.6% YoY to a record 92mn tons this year. We believe this will benefit the Supramax and Handy size, which focus on seaborne grain trade.

Fig 14 Soybean acreage and production in Brazil



Source: National Supply Company

Fig 15 Rebuilding Ukraine vs. hosting Olympics (US\$ bn)



Source: Reuters

4) Rebuilding Ukraine is a wild card

A Russia-Ukraine ceasefire in 2023-24 could be a wild card as it would lead to higher demand for commodities to rebuild Ukraine. According to Reuters, a joint report in September by the Ukraine government, European Commission and the World Bank, estimated that the cost of reconstruction and recovery amounted to US\$349bn (EUR322bn) and the figure is rising as war drags on. The cost of reconstruction could be as high as 8x of China's Summer Olympic investment of US\$42bn in 2008.



Expect 4Q22 earnings to drop 43% QoQ

We expect PSL to post weak 4Q22 earnings of Bt772mn (-43% QoQ, -56% YoY) and earnings to bottom out in 1Q23 given a more than 40% QoQ drop in freight rates due to weak Chinese demand during the low season, an easing of the supply chain disruption, and heavy rain impeding iron ore shipments from Brazil. China slows down during Chinese New Year period every year. This year, after a hiatus of three years, people in China have been allowed to travel freely. The number of people taking flights within China in January 2022 has already exceeded pre-COVID levels. As a result, the seasonal impact has been very pronounced so far this year, according to PSL's management. An easing of supply chain disruptions reduces waiting times for ships at ports and therefore releases more ships into the market. This increases net supply of ships and therefore has a negative impact on time charter rates, and the market goes down. However, we expect the market to post a strong recovery in 2Q23 on a full return of China's to work, a reopening effect, and Chinese stimulus measures. Another reason that hit the BDI is a sharp drop in the Capesize sector (-81% YTD) which mainly carries iron ore, due to heavy rain that impeded iron ore shipments from Brazil. Brazil has had a very wet start to the year with January 2023 iron ore shipments down 25% compared to 2022 levels.

Maintain Outperform on PSL with a lower TP of Bt18.50 from Bt19.20)

We revise down our target price for PSL to Bt18.50 from Bt19.20. Our new target is pegged to a lower 2024 BVPS of Bt13.25 from Bt13.7 and PBV of 1.4x (+0.5SD). We lower our 2022-24 earnings forecasts by 5.0%/13.5%/7.3% to Bt5bn/Bt4.2bn/Bt4.7bn on weaker than expected TC rates in 4Q22-1Q23 following a hiccup from China's shift toward reopening from its zero-COVID policy and FX effect from a stronger THB against the USD. We lower our 2022/23 TC rate assumptions for PSL by 2.0%/2.4% to USD20,498/vessel/day and USD18,974/vessel/day, but maintain our 2024 TC rate assumption of USD19,681/vessel/day. Note that our 2023-24 forecasts exceed the Bloomberg consensus estimate of Bt3.5bn/Bt3.6bn by 20%/30%, respectively, given our higher TC rate assumptions. This is due to our expectation of a demand-supply imbalance in 2023-24.

Fig 16 PSL 4Q22 performance preview

	4Q21	1Q22	2Q22	3Q22	4Q22	%YoY	%QoQ	2022E	2023E	% change	2024E
Financials											
Sales (Btmn)	2,818	2,280	2,639	2,500	2,051	-27.2	-18.0	9,470	8,945	-5.5	9,345
EBITDA (Btmn)	1,834	1,383	1,748	1,396	884	-51.8	-36.7	6,709	5,795	-13.6	6,077
Operating profit (Btmn)	1,834	1,383	1,748	1,396	884	-51.8	-36.7	5,411	4,436	-18.0	4,774
Core profit (Btmn)	1,762	1,303	1,610	1,301	772	-56.2	-40.6	4,987	4,109	-17.6	4,679
Net profit (Btmn)	1,772	1,294	1,660	1,348	772	-56.4	-42.7	5,075	4,109	-19.0	4,679
Net EPS (Bt)	1.14	0.83	1.06	0.86	0.50	-56.4	-42.7	3.25	2.64	-19.0	3.00
Performance Drivers											
Number of vessels	35	35	36	38	38	8.6	0.0	37	38	3.4	38
Operating days	3,194	3,194	3,285	3,468	3,468	8.6	0.0	13,414	13,870	3.4	13,870
TC rates (US\$/day)	26,429	21,995	23,901	19,840	16,256	-38.5	-18.1	20,498	18,820	-8.2	19,681
USDTHB	32.8	33.1	34.6	37.2	35.5	8.4	-4.6	35	34	-4.6	34
OPEX (US\$/day)	5,241	4,914	4,683	5,159	5,400	3.0	4.7	5,039	5,400	7.2	5,400
SG&A (US\$/day)	1,603	1,242	1,022	915	1,015	-36.7	10.9	1,042	1,248	19.8	1,291
Ratios											
						Change	2022E	2023E	Change	2024E	
Gross margin (%)	71.1	66.4	70.6	60.5	49.2	-21.9	-11.4	62.3	56.1	-6.2	57.5
EBITDA margin (%)	65.1	60.7	66.2	55.8	43.1	-22.0	-12.7	70.8	64.8	-6.1	65.0
Optg. margin (%)	65.1	60.7	66.2	55.8	43.1	-22.0	-12.7	57.1	49.6	-7.5	51.1
ROE (%)	12.3	8.3	9.9	8.1	0.0	-12.3	-8.1	32.6	23.3	-9.3	23.9

Source: Company data, KS Research

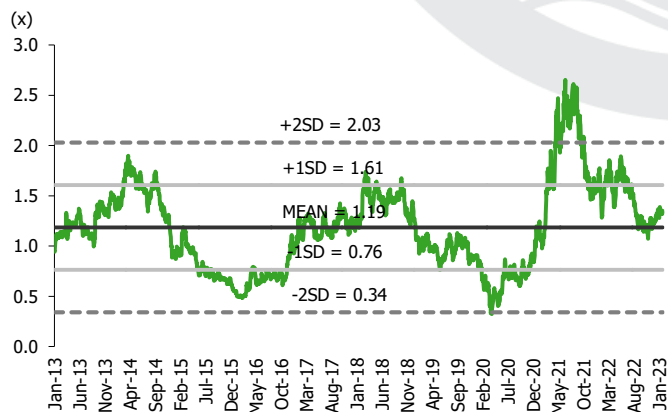


Fig 17 PSL earnings revisions

Unit: Btmn.	2022E			2023E			2024E		
Profit and loss statements	New	Previous	%Change	New	Previous	%Change	New	Previous	%Change
Total revenue	9,470	9,799	-3.4	9,016	10,107	-10.8	9,345	10,027	-6.8
Cost of goods sold	3,570	3,629	-1.6	3,928	4,310	-8.8	3,971	4,267	-6.9
Gross profit	5,900	6,170	-4.4	5,088	5,798	-12.2	5,374	5,760	-6.7
SG&A	491	496	-1.0	580	640	-9.4	600	615	-2.4
Operating profit	5,411	5,676	-4.7	4,508	5,158	-12.6	4,774	5,145	-7.2
EBITDA	6,709	6,974	-3.8	5,866	6,516	-10.0	6,077	6,416	-5.3
EBIT	5,472	5,737	-4.6	4,518	5,168	-12.6	4,784	5,155	-7.2
Core profit	4,987	5,252	-5.1	4,180	4,830	-13.5	4,679	5,050	-7.3
Net profit	5,075	5,340	-5.0	4,180	4,830	-13.5	4,679	5,050	-7.3
Key assumptions									
Number of vessels	37	37	0.0	38	38	0.0	38	38	0.0
Operating days	13,414	13,414	0.0	13,870	13,870	0.0	13,870	13,870	0.0
TC rates (US\$/day)	20,498	20,914	-2.0	18,974	19,436	-2.4	19,681	19,681	0.0
USDTHB	35.11	35.61	-1.4	33.50	36.75	-8.8	33.50	36.00	-6.9
OPEX (US\$/day)	5,039	5,039	0.0	5,400	5,400	0.0	5,400	5,400	0.0
SG&A (US\$/day)	1,042	1,038	0.4	1,248	1,256	-0.6	1,291	1,232	4.8

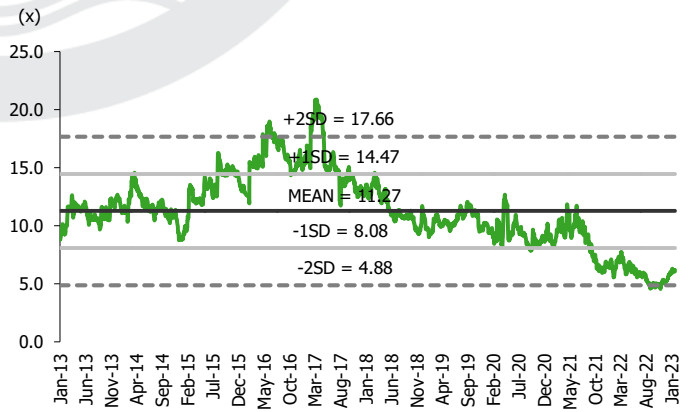
Source: Company data, KS Research

Fig 18 12M FWD PBV – PSL



Source: Bloomberg, KS Research

Fig 19 12M FWD EV-EBITDA – PSL



Source: Bloomberg, KS Research



Fig 20 PSL peer comparison

Stock	Market Cap (USD mn)	Basic EPS growth (%)			Basic P/E (x)			P/BV (x)			Div. Yield (%)			ROE (%)		
		21	22E	23E	21	22E	23E	21	22E	23E	21	22E	23E	21	22E	23E
Precious Shipping PCL	763	n.m.	13.4	-17.6	5.8	5.0	6.0	1.8	1.5	1.4	10.5	10.7	9.4	36.5	32.6	23.7
Global selected peers																
Atlas Corp *	4,194	161.5	21.5	-1.2	11.0	9.0	9.1	1.0	n.a.	n.a.	3.4	3.4	3.4	9.4	11.5	9.4
Capital Product Partners LP *	285	221.3	18.4	-36.2	2.8	2.4	3.7	0.5	n.a.	n.a.	3.1	4.1	4.8	20.0	n.a.	n.a.
Danaos Corp *	1,159	694.9	-47.1	-0.5	1.1	2.1	2.1	0.6	0.5	0.4	0.0	5.2	5.2	67.4	27.3	19.7
Diana Shipping Inc *	368	n.m.	128.9	-65.9	5.8	2.5	7.5	1.0	0.7	0.6	0.0	19.5	9.0	14.9	25.2	9.9
Eagle Bulk Shipping Inc *	731	n.m.	26.3	-66.9	3.6	2.8	8.6	1.0	0.9	0.8	3.7	13.5	4.9	32.4	17.9	8.1
Genco Shipping & Trading Ltd *	731	n.m.	-13.6	-34.7	4.0	4.6	7.1	0.8	1.2	1.2	5.6	15.1	11.9	21.9	0.2	4.5
Kirby Corp *	3,901	n.m.	n.m.	70.1	(15.8)	31.6	18.6	1.4	1.3	1.2	0.0	n.a.	n.a.	-8.3	4.1	6.4
Navios Maritime Partners LP *	802	n.m.	-7.6	1.9	1.2	1.3	1.3	0.5	0.3	0.3	0.8	0.8	0.8	42.6	11.7	10.9
Pacific Basin Shipping Ltd *	1,781	n.m.	-18.8	-36.8	1.9	2.3	3.7	0.9	0.9	0.8	21.1	26.1	17.1	58.3	37.2	25.2
Safe Bulkers Inc *	378	n.m.	-3.5	-23.0	2.2	2.3	3.0	0.6	n.a.	n.a.	0.0	6.3	9.4	30.2	13.0	8.5
Eneti Inc *	400	n.m.	76.3	-81.8	8.3	4.7	25.7	0.7	0.5	0.5	11.5	0.2	0.2	4.5	10.7	1.1
SFL Corp Ltd *	1,372	n.m.	12.6	-19.7	7.3	6.5	8.1	1.3	1.2	1.1	6.4	9.2	9.6	18.5	18.0	9.2
Star Bulk Carriers Corp *	2,270	6,630.0	-17.1	-39.3	3.3	4.0	6.5	1.1	1.1	1.0	10.2	25.5	13.1	37.5	27.1	18.5
Simple average		1,926.9	14.7	-25.7	2.8	5.9	8.1	0.9	0.9	0.8	5.1	10.7	7.4	26.9	17.0	10.9
SET selected peers																
Thoresen Thai Agencies PCL *	452	n.m.	11.3	-38.6	3.8	3.5	5.6	0.7	0.6	0.5	0.2	4.2	3.3	20.6	13.4	8.7

Source: KS Research (as of Feb 6, 2023)

Fig 21 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	0.30	0.50	0.70	0.90	1.2	1.4	1.60	1.80	2.00	2.20	2.40
Fair value (Bt/shr)	3.9	6.6	9.2	11.9	15.2	18.5	21.1	23.8	26.4	29.1	31.7

Source: KS Research



Container Shipping: Expect container freight rates to fall below pre-COVID level in 2023-24

We expect a container freight recession in 2023 as supply growth will significantly outpace demand in 2023-24. Clarkson's Research estimates the global fleet supply will grow by 8% YoY in 2023 and 9% YoY in 2024, and capacity will be 30% higher than prior to the pandemic in 2025. This is more than 3-4x the estimated global trade growth of 2-3% YoY p.a. in 2023-24, according to the WTO. Coupled with an easing of the supply chain disruption and risk of a recession from high interest rates, we expect excess supply will lead to fierce competition and cause container freight rates to fall below the pre-COVID level in 2023-24. The unraveling of the 2M alliance between MSC and Maersk, the world's two largest operators with a combined 34% market share, confirms our view.

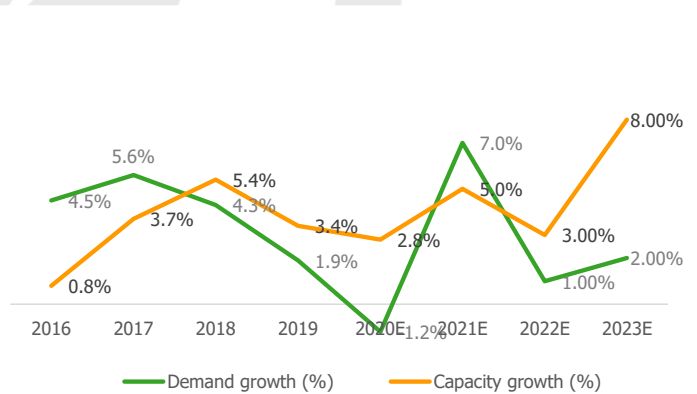
The Shanghai Container Freight Index (SCFI) has fallen by 80% YoY so far in 1Q23 to 1,000, the pre-COVID-19 level, from a peak of 5,000 at the beginning of 2022, and we expect the index will fall further and possibly to a loss-making level given a weaker demand outlook and an abundance of supply. Blank or canceled sailings are on a rise, up to 31% in 1Q23 vs. 23% in 1Q22 and 16% in 2021, according to Drewry.

Fig 22 Shanghai Export Containerized Freight Index



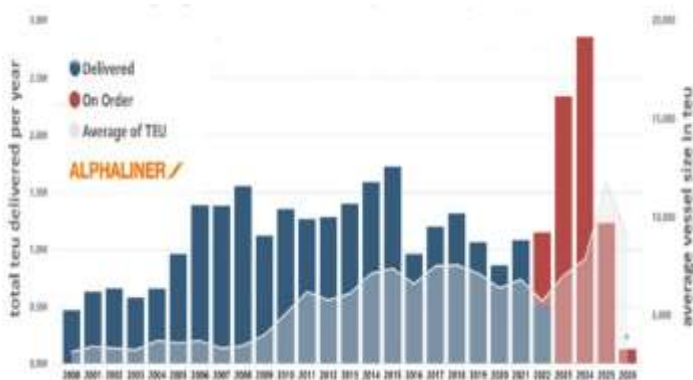
Source: Bloomberg and KS Research

Fig 23 Global container ship demand vs. supply



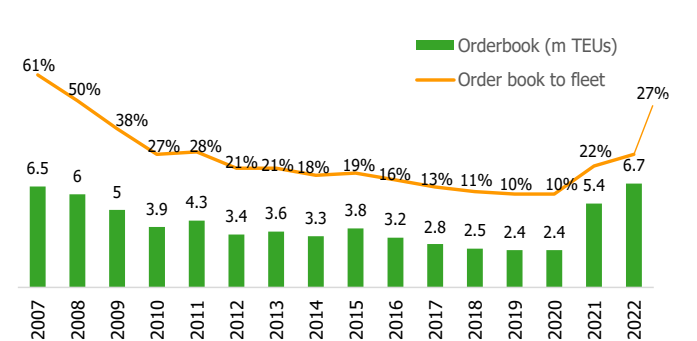
Source: Hapag Lloyd and Clarkson's Research

Fig 24 Actual and projected container ship deliveries



Source: Alphaliner

Fig 25 Container ship order book worldwide



Source: Hapag LLOYD



Expect 4Q22E earnings to drop 68% QoQ

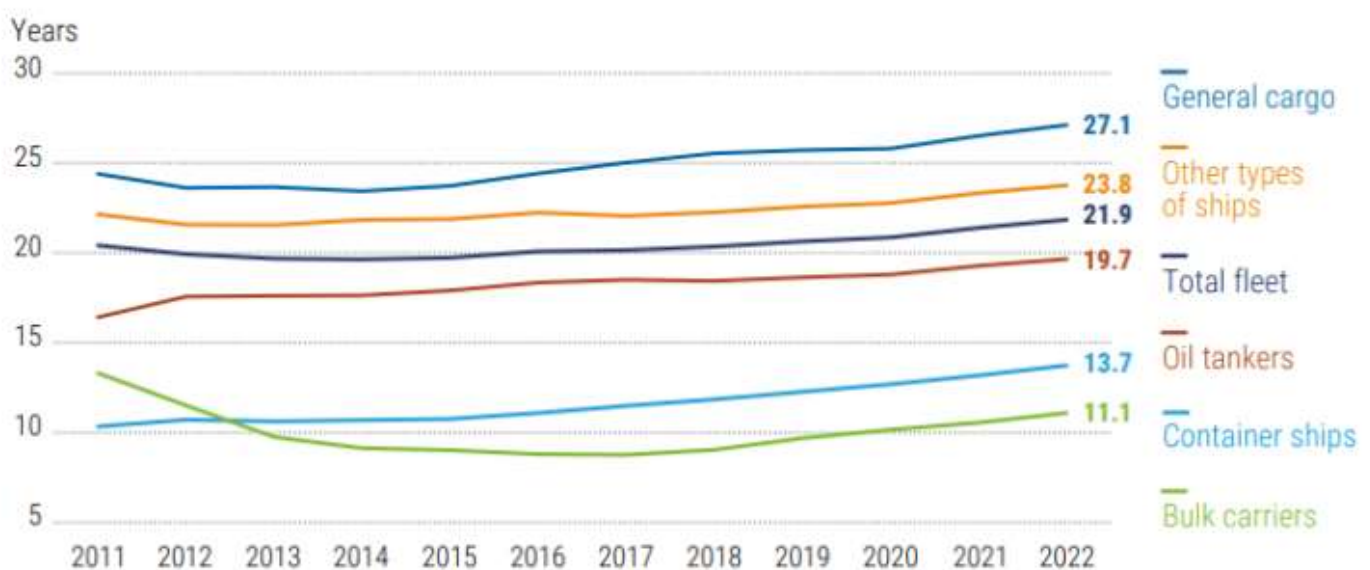
We expect RCL to post 4Q21 earnings of Bt2bn (-68% QoQ, -75% YoY). The Shanghai Containerized Freight Index (SCFI) has fallen by 57% QoQ and 70% YoY in 4Q22, implying a dramatic drop in RCL's freight rate in 4Q22. We expect its lifting volume will fall by 4.1% YoY in 4Q22, in line with lower exports from Thailand to ASEAN (-3.6% YoY in Oct 22, -9.5% YoY in Nov 22, and -19% YoY in Dec 22) and China (-8.5% YoY in Oct 22, -9.9% YoY in Nov 22, and -20.8% YoY in Dec 22). Note that ASEAN and China account for 50% and 30% of RCL's total lifting volume in 2022, respectively. RCL will charter out two new ships (12,000 TEU each) received in 4Q22 and 1Q23 at USD60,000/vessel/day for five years. We expect RCL's cost of operations to decrease by 14% QoQ and 2.9% YoY due to a drop in bunker oil prices and an easing of the supply chain disruption. We estimate RCL's freight rate to have declined by 37% QoQ to USD420/TEU in 4Q22 while OPEX should decrease by 14% QoQ to USD291/TEU, we estimate GPM will narrow to 31% in 4Q22 vs. 48.8% in 3Q22.

The Shanghai Container Freight Index (SCFI) has dropped by 80% YoY in 1Q23 to 1,000, the pre-COVID-19 level, from a peak of 5,000 at the beginning of 2022 and we expect the SCFI to fall further and possible to the loss-making level in the future. The blank or canceled sailings are on a rise, up to 31% in 1Q23 from 23% in 1Q22 and 16% in 2021, according to Drewry. We estimate RCL's earnings in 2023-24E to fall by -83% YoY and -20% YoY, respectively on the container freight recession. As a result, we revised down RCL's 2023-24E earnings by -11.5% and -28.0% after incorporating weaker freight rates, lifting volumes, and foreign currency translation effect from stronger THB against USD.

Maintain Underperform for RCL with a lower TP of Bt27.25

Our target price of Bt27.25 is pegged to a PBV of 0.4x (-0.5SD) and 2024 BVPS of Bt62.00. This is in line with RCL's peer average PBV of 0.7x. Note that RCL should trade below that of its global peers as it is less competitive in terms of vessel age, size, and network, and as the company focuses only on regional markets. Note that average age of RCL's fleet is 18 years old vs. global container ships of 13.7 years old, and a young vessel consumes 70% less energy than an old vessel. The company also plans to sell some old vessels more than 20 years old to improve its competitiveness. Currently, 18 ships out of a total of 57 ships have an age more than 20 years. We expect RCL to pay a lower DPS of Bt1.50 and Bt1 in 2023-24 vs. Bt5.55 in 2022 due to weaker operations and its policy of not paying more than 50% of net profit of the company and its subsidiaries.

Fig 26 Average age of the commercial fleet, weighted by number of ships, by vessel type, 2011-22



Source: UNCTAD


Fig 27 RCL 4Q22 performance preview

	4Q21	1Q22	2Q22	3Q22	4Q22E	%YoY	%QoQ	2022E	2023E	% change
Financials										
Sales (Btmn)	13,662	14,715	13,428	14,190	8,581	-37.2	-39.5	50,914	23,175	-54.5
EBITDA (Btmn)	8,796	8,887	7,340	7,402	0	-100.0	-100.0	27,807	10,505	-62.2
Operating profit (Btmn)	8,146	8,237	6,690	6,428	2,114	-74.0	-67.1	23,470	4,150	-82.3
Core profit (Btmn)	8,111	8,223	6,655	6,396	2,040	-74.8	-68.1	23,314	3,911	-83.2
Net profit (Btmn)	8,111	8,223	7,358	6,428	2,040	-74.8	-68.3	24,049	3,911	-83.7
Net EPS (Bt)	9.79	9.92	8.88	7.76	2.46	-74.8	-68.3	29.02	4.72	-83.7
Performance Drivers										
Total volume (TEUs)	586,300	572,000	492,232	575,706	562,500	-4.1	-2.3	2,202,438	2,160,000	-1.9
Average freight rate (US\$/TEU)	706	780	773	662	420	-40.5	-36.6	659	300	-54.5
Average cost of operation (US\$/TEU)	300	323	362	339	291	-2.9	-14.0	329	228	-30.5
FX (Bt/USD)	33.00	33.00	35.30	37.22	35.50	7.6	-4.6	35	34	-5.0
GPM (%)	57.5%	58.6%	53.1%	48.8%	31.0%	-46.0	-36.4	1	0	-52.4
Ratios										
						Change	2022E	2023E	Change	
Gross margin (%)	57.5	58.6	53.1	48.8	31.0	-26.4	-17.8	49.8	25.5	-24.3
EBITDA margin (%)	64.4	60.4	54.7	0.0	0.0	-64.4	0.0	54.6	45.3	-9.3
Optg. margin (%)	59.6	56.0	49.8	45.3	24.6	-35.0	-20.7	46.1	17.9	-28.2
ROE (%)	35.3	26.4	18.9	14.0	4.1	-31.2	-9.9	63.0	7.9	-55.1

Source: Company data, KS Research

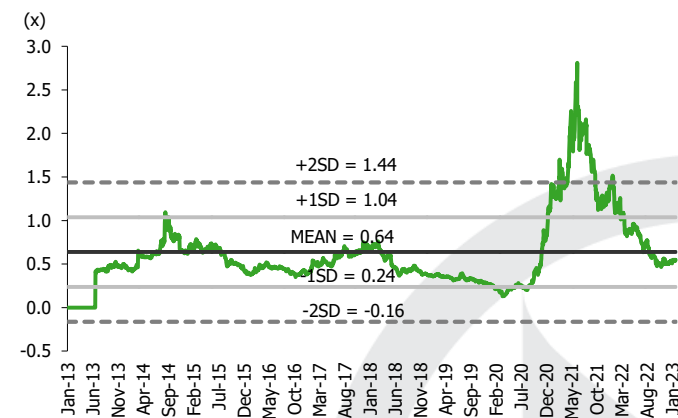
Fig 28 RCL earnings revision

Unit: Btmn.	2022E			2023E			2024E			
Profit and loss statements	New	Previous	%Change	New	Previous	%Change	New	Previous	%Change	
Total revenue	50,914	50,720	0.4	23,175	24,192	-4.2	22,361	24,665	-9.3	
Cost of goods sold	25,570	25,672	-0.4	17,266	17,905	-3.6	17,572	18,669	-5.9	
Gross profit	25,345	25,048	1.2	5,910	6,287	-6.0	4,789	5,996	-20.1	
SG&A	2,056	2,056	0.0	1,760	1,760	0.0	1,780	1,780	0.0	
Operating profit	23,470	23,173	1.3	4,150	4,527	-8.3	3,009	4,216	-28.6	
EBITDA	27,807	27,511	1.1	10,505	9,237	13.7	8,539	9,239	-7.6	
EBIT	23,610	23,313	1.3	4,270	4,647	-8.1	3,129	4,336	-27.8	
Core profit	23,314	23,050	1.1	3,911	4,421	-11.5	3,109	4,316	-28.0	
Net profit	24,049	23,785	1.1	3,911	4,421	-11.5	3,109	4,316	-28.0	
Key assumptions										
Total volume (TEUs)	2,202,438	2,202,438	0.0	2,160,000	2,214,000	-2.4	2,268,000	2,349,000	-3.4	
COC (TEUs)	1,390,964	1,390,964	0.0	1,296,000	1,328,400	-2.4	1,360,800	1,409,400	-3.4	
SOC (TEUs)	811,474	811,474	0.0	864,000	885,600	-2.4	907,200	939,600	-3.4	
Average freight rate (US\$/TEU)	658.6	658.6	0.0	300.0	312.5	-4.0	275.0	300.0	-8.3	
Average cost of operation (US\$/TEU)	328.9	331.4	-0.8	228.5	231.2	-1.2	221.6	227.1	-2.4	
FX (Bt/USD)	35.26	35.26	0.0	33.50	35.00	-4.3	33.50	35.00	-4.3	
GPM (%)	50.1%	49.7%	0.8	23.8%	26.0%	-8.4	19.4%	24.3%	-20.2	

Source: Company data, KS Research

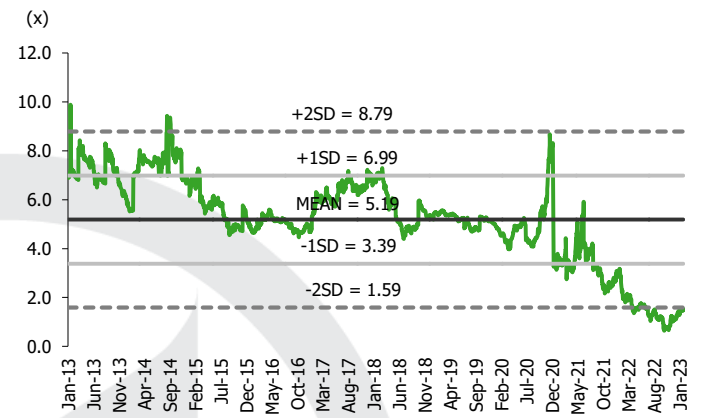


Fig 29 12M FWD PBV – RCL



Source: Bloomberg, KS Research

Fig 30 RCL's 12M FWD EV-EBITDA (x)



Source: Bloomberg, KS Research

Fig 31 RCL peer comparison

Stock	Market Cap (USD mn)	Basic EPS growth (%)			Basic P/E (x)			P/BV (x)			Div. Yield (%)			ROE (%)		
		21	22E	23E	21	22E	23E	21	22E	23E	21	22E	23E	21	22E	23E
Regional Container Lines PCL	794	930.1	33.8	-83.7	2.3	1.1	6.6	1.6	0.5	0.5	12.2	17.9	4.8	102.8	63.0	7.9
Global selected peers																
COSCO SHIPPING Holdings Co Ltd *	3,380	860.9	19.6	-68.9	1.2	1.0	3.1	0.8	0.5	0.5	13.3	43.5	10.5	100.6	66.9	16.4
Evergreen Marine Corp Taiwan Ltd *	10,651	800.6	38.6	-89.4	1.3	1.0	9.1	1.0	0.6	0.7	29.5	46.1	3.9	113.5	76.0	8.7
Korea Line Corp *	590	2,484.3	-19.6	-12.5	2.6	3.2	3.6	0.5	0.5	0.4	0.0	1.5	1.4	23.9	15.8	11.6
Hapag-Lloyd AG *	38,097	879.7	84.2	-80.1	3.9	2.1	10.5	2.2	1.4	1.8	17.5	25.6	5.2	79.4	76.3	12.4
Orient Overseas International Ltd *	10,779	669.5	37.5	-54.0	1.5	1.1	2.3	1.1	0.8	0.7	15.9	57.3	12.2	93.1	80.1	31.1
Wan Hai Lines Ltd *	6,816	813.4	-1.5	-93.5	2.0	2.0	31.5	1.4	0.9	0.9	12.4	16.7	2.2	109.8	52.4	1.1
Yang Ming Marine Transport Corp *	7,145	980.5	11.3	-89.2	1.3	1.1	10.6	0.9	0.6	0.7	32.3	34.8	5.0	122.7	64.2	7.2
AP Moller - Maersk A/S *	21,362	524.4	82.2	-82.1	2.4	1.3	7.3	0.9	0.6	0.6	16.9	n.a.	n.a.	48.3	53.2	7.5
Simple average		1,001.7	31.5	-71.2	2.0	1.6	9.8	1.1	0.7	0.8	17.2	32.2	5.8	86.4	60.6	12.0

Source: KS Research (as of Feb 6, 2023)

Fig 32 RCL's 2022 target price based on PBV multiple

Implied SD	-1.0SD	-0.75SD	-0.5SD	Mean	+0.5SD	+0.75SD	+1.0SD	+1.5SD	+2.0SD	+2.5SD
PBV multiple	0.25	0.35	0.44	0.63	0.77	0.92	1.0	1.0	1.4	1.6
Fair value (Bt/shr)	15.50	21.40	27.29	39.07	48.02	56.74	62.64	62.02	86.20	97.98

Source: KS Research


PSL : Year-end 31 Dec

Income Statement (Btmn)	2020A	2021A	2022E	2023E	2024E	Cashflow (Btmn)	2020A	2021A	2022E	2023E	2024E
Revenue	3,730	8,620	9,470	9,016	9,345	Net profit	-1,295	4,475	5,075	4,180	4,679
Cost of sales and services	-3,226	-3,305	-3,570	-3,928	-3,971	Depreciation & amortization	1,183	1,215	1,298	1,358	1,303
Gross Profit	504	5,315	5,900	5,088	5,374	Change in working capital	362	-270	-226	117	24
SG&A	-336	-581	-491	-580	-600	Others	2,643	406	10	10	10
Other income	9	0	1	0	0	CF from operation activities	2,893	5,826	6,156	5,665	6,016
EBIT	-693	4,892	5,472	4,518	4,784	Capital expenditure	-204	-2,375	-2,238	-500	-500
EBITDA	1,360	5,949	6,709	5,866	6,077	Investment in subs and affiliates	-5	-29	-2	-2	-2
Interest expense	-597	-415	-397	-338	-105	Others	0	0	0	0	0
Equity earnings	11	23	21	10	10	CF from investing activities	-209	-2,405	-2,240	-502	-502
EBT	-1,290	4,477	5,075	4,180	4,679	Cash dividend	0	-2,729	-2,705	-2,362	-2,573
Income tax	-4	-2	0	0	0	Net proceeds from debt	-2,635	-1,809	-2,218	-3,000	-3,000
NPAT	-1,295	4,475	5,075	4,180	4,679	Capital raising	0	0	0	0	0
Minority Interest	0	-0	0	0	0	Others	-56	1,282	0	0	0
Core Profit	-413	4,340	4,987	4,180	4,679	CF from financing activities	-2,691	-3,255	-4,923	-5,362	-5,573
Extraordinary items	-867	-60	40	0	0	Net change in cash	-7	166	-1,007	-199	-60
FX gain (loss)	-15	194	48	0	0	Key Statistics & Ratios					
Reported net profit	-1,295	4,475	5,075	4,180	4,679	Per share (Bt)					
Balance Sheet (Btmn)						Reported EPS	-0.83	2.87	3.25	2.68	3.00
Cash & equivalents	1,100	2,468	1,461	1,262	1,202	Core EPS	-0.27	2.78	3.20	2.68	3.00
ST investments	0	0	0	0	0	DPS	0.00	1.75	1.73	1.51	1.65
Accounts receivable	169	175	346	307	283	BV	6.50	9.21	10.73	11.90	13.25
Inventories	35	22	78	0	0	EV	13.32	20.29	19.31	17.51	15.63
Other current assets	634	145	147	150	153	Free Cash Flow	1.72	2.21	2.51	3.31	3.54
Total current assets	1,938	2,810	2,032	1,719	1,638	Valuation analysis					
Investment in subs & others	91	120	122	125	127	Reported P/E (x)	-9.15	5.78	5.04	6.12	5.47
Fixed assets-net	19,125	20,285	21,225	20,366	19,563	Core P/E (x)	-28.67	5.96	5.13	6.12	5.47
Other assets	244	316	322	329	335	P/BV (x)	1.17	1.80	1.53	1.38	1.24
Total assets	21,397	23,531	23,701	22,539	21,664	EV/EBITDA (x)	15.27	5.32	4.49	4.66	4.01
Short-term debt	2,441	1,409	1,000	0	0	Price/Cash flow (x)	4.10	4.44	4.15	4.51	4.25
Accounts payable	277	0	0	0	0	Dividend yield (%)	0.00	10.54	10.58	9.24	10.06
Other current liabilities	621	508	518	528	539	Profitability ratios					
Total current liabilities	3,339	1,916	1,518	528	539	Gross margin (%)	13.51	61.66	62.30	56.43	57.51
Long-term debt	7,586	6,809	5,000	3,000	0	EBITDA margin (%)	36.47	69.02	70.84	65.06	65.03
Other liabilities	337	440	449	458	467	EBIT margin (%)	-18.59	56.75	57.78	50.11	51.19
Total liabilities	11,262	9,165	6,966	3,986	1,005	Net profit margin (%)	-34.71	51.91	53.59	46.36	50.07
Paid-up capital	1,559	1,559	1,559	1,559	1,559	ROA (%)	-5.57	19.92	21.49	18.08	21.17
Share premium	1,968	1,968	1,968	1,968	1,968	ROE (%)	-11.94	36.53	32.63	23.69	23.86
Reserves & others, net	-916	367	367	367	367	Liquidity ratios					
Retained earnings	7,523	10,471	12,841	14,659	16,765	Current ratio (x)	0.58	1.47	1.34	3.25	3.04
Minority interests	0	0	0	0	0	Quick ratio (x)	0.38	1.38	1.19	2.97	2.76
Total shareholders' equity	10,135	14,365	16,735	18,553	20,659	Leverage Ratios					
Total equity & liabilities	21,397	23,531	23,701	22,539	21,664	Liabilities/Equity ratio (x)	1.11	0.64	0.42	0.21	0.05
Key Assumptions	2020A	2021A	2022E	2023E	2024E	Net debt/EBITDA (x)	6.56	0.97	0.68	0.30	-0.20
Number of vessels	36	36	37	38	38	Net debt/equity (x)	0.88	0.40	0.27	0.09	-0.06
Operating days	13,176	13,049	13,414	13,870	13,870	Int. coverage ratio (x)	-1.16	11.78	13.78	13.39	45.56
TC rates (US\$/day)	8,332	20,287	20,498	18,974	19,681	Growth					
USDTHB	31.0	31.9	35.1	33.5	33.5	Revenue (%)	-10.16	131.09	9.86	-4.79	3.64
OPEX (US\$/day)	4,705	5,088	5,039	5,400	5,400	EBITDA (%)	-19.62	337.34	12.76	-12.56	3.60
SG&A (US\$/day)	822	1,395	1,042	1,248	1,291	Reported net profit (%)	-466.70	445.59	13.40	-17.62	11.92
Financial cost (US\$/day)	1,462	997	1,057	726	226	Reported EPS (%)	-466.70	445.59	13.40	-17.62	11.92
Depreciation (US\$/day)	3,052	3,083	3,114	3,145	3,176	Core profit (%)	-85.78	1,150.05	14.89	-16.17	11.92
Total cost (US\$/day)	10,041	10,563	10,251	10,520	10,094	Core EPS (%)	-85.78	1,150.05	14.89	-16.17	11.92

Source: KS Research


RCL : Year-end 31 Dec

Income Statement (Btmn)	2020A	2021A	2022E	2023E	2024E	Cashflow (Btmn)	2020A	2021A	2022E	2023E	2024E
Revenue	17,195	37,979	50,914	23,175	22,361	Net profit	1,745	17,973	24,049	3,911	3,109
Cost of sales and services	-14,360	-19,176	-25,570	-17,266	-17,572	Depreciation & amortization	1,542	2,610	4,338	6,355	5,530
Gross Profit	2,835	18,803	25,345	5,910	4,789	Change in working capital	-118	-465	-1,182	1,474	167
SG&A	-1,135	-1,689	-2,056	-1,760	-1,780	Others	356	-1,845	-33	-33	-34
Other income	263	938	181	0	0	CF from operation activities	3,525	18,273	27,173	11,707	8,772
EBIT	2,024	18,193	23,610	4,270	3,129	Capital expenditure	-979	-10,678	-13,759	-2,500	-2,500
EBITDA	3,506	20,663	27,807	10,505	8,539	Investment in subs and affiliates	159	-160	-9	-9	-10
Interest expense	-270	-197	-265	-335	0	Others	0	0	0	0	0
Equity earnings	61	140	141	120	120	CF from investing activities	-820	-10,839	-13,768	-2,509	-2,510
EBT	1,754	17,995	23,345	3,935	3,129	Cash dividend	-414	-4,973	-4,600	-1,244	-832
Income tax	-8	-19	-26	-20	-16	Net proceeds from debt	-1,187	864	-205	-553	-4,977
NPAT	1,746	17,976	23,319	3,915	3,113	Capital raising	0	0	0	0	0
Minority Interest	-1	-4	-5	-4	-4	Others	-80	1,766	5,097	-4,000	0
Core Profit	1,745	17,973	23,314	3,911	3,109	CF from financing activities	-1,681	-2,342	291	-5,797	-5,809
Extraordinary items	0	0	880	0	0	Net change in cash	1,025	5,092	13,696	3,401	454
FX gain (loss)	0	0	145	0	0	Key Statistics & Ratios					
Reported net profit	1,745	17,973	24,049	3,911	3,109	Per share (Bt)					
Balance Sheet (Btmn)						Reported EPS	2.11	21.69	29.02	4.72	3.75
Cash & equivalents	2,587	9,750	23,446	26,847	27,301	Core EPS	2.11	21.69	28.13	4.72	3.75
ST investments	0	0	0	0	0	DPS	0.50	6.00	5.55	1.50	1.00
Accounts receivable	2,301	4,792	6,277	2,857	2,757	BV	10.94	31.26	60.88	59.27	62.02
Inventories	187	554	735	477	486	EV	16.96	44.41	9.89	5.12	-1.43
Other current assets	333	467	476	486	495	Free Cash Flow	3.07	9.16	16.19	11.11	7.57
Total current assets	5,408	15,563	30,935	30,667	31,039	Valuation analysis					
Investment in subs & others	297	458	467	476	486	Reported P/E (x)	6.74	2.27	1.09	6.68	8.40
Fixed assets-net	12,188	20,256	29,677	25,822	22,792	Core P/E (x)	6.74	2.27	1.12	6.68	8.40
Other assets	97	2,436	2,485	2,535	2,585	P/BV (x)	1.30	1.58	0.52	0.53	0.51
Total assets	17,989	38,713	63,564	59,500	56,902	EV/EBITDA (x)	4.01	1.78	0.29	0.40	-0.14
Short-term debt	1,807	2,313	1,471	1,324	0	Price/Cash flow (x)	3.34	2.23	0.96	2.23	2.98
Accounts payable	3,403	5,795	6,281	4,076	4,152	Dividend yield (%)	3.52	12.18	17.62	4.76	3.19
Other current liabilities	578	1,199	1,223	1,248	1,273	Profitability ratios					
Total current liabilities	5,788	9,308	8,975	6,648	5,425	Gross margin (%)	16.49	49.51	49.78	25.50	21.42
Long-term debt	3,065	3,422	4,059	3,653	0	EBITDA margin (%)	20.39	54.41	54.62	45.33	38.19
Other liabilities	63	70	72	73	75	EBIT margin (%)	11.77	47.90	46.37	18.42	13.99
Total liabilities	8,915	12,800	13,106	10,374	5,499	Net profit margin (%)	10.15	47.32	47.23	16.88	13.90
Paid-up capital	829	829	829	829	829	ROA (%)	9.96	63.39	47.03	6.36	5.34
Share premium	4,983	4,983	4,983	4,983	4,983	ROE (%)	21.19	102.78	62.99	7.86	6.19
Reserves & others, net	-988	794	5,890	1,890	1,890	Liquidity ratios					
Retained earnings	4,244	19,299	38,749	41,416	43,693	Current ratio (x)	0.93	1.67	3.45	4.61	5.72
Minority interests	6	7	7	7	7	Quick ratio (x)	0.84	1.56	3.31	4.47	5.54
Total shareholders' equity	9,074	25,912	50,458	49,125	51,403	Leverage Ratios					
Total equity & liabilities	17,989	38,713	63,564	59,500	56,902	Liabilities/Equity ratio (x)	0.98	0.49	0.26	0.21	0.11
Key Assumptions						Net debt/EBITDA (x)	0.65	-0.19	-0.64	-2.08	-3.20
Total volume (TEUs)	2,045,984	2,200,308	2,202,438	2,160,000	2,268,000	Net debt/equity (x)	0.25	-0.15	-0.36	-0.45	-0.53
COC (TEUs)	1,231,027	1,346,125	1,390,964	1,296,000	1,360,800	Int. coverage ratio (x)	7.49	92.18	89.07	12.76	N/A
SOC (TEUs)	814,957	854,183	811,474	864,000	907,200	Growth					
Average freight rate (US\$/TEU)	272	540	659	300	275	Revenue (%)	4.02	120.87	34.06	-54.48	-3.51
Average cost of operation (US\$/TEU)	226	273	329	228	222	EBITDA (%)	195.02	489.38	34.58	-62.22	-18.71
FX (Bt/USD)	31.03	31.98	35.26	33.50	33.50	Reported net profit (%)	454.82	930.08	33.81	-83.74	-20.50
GPM (%)	16.7%	49.5%	50.1%	23.8%	19.4%	Reported EPS (%)	454.82	930.08	33.81	-83.74	-20.50
						Core profit (%)	454.82	930.08	29.72	-83.22	-20.50
						Core EPS (%)	454.82	930.08	29.72	-83.22	-20.50

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