

Dry Bulk & Precious Shipping PCL



The tide has turned!

In our view, the new cycle for the dry bulk industry may have begun and will last at least until the second half of 2015. From rock bottom, the Baltic Dry Index (BDI, 1,599) has already risen 47.4% from its February low (1,085). But, the BDI could go to 4,000 by 2015, the lowest peak level that all three past cycles have reached. Freight rates will also have plenty of upside if our call is realized.

Three cycles in the dry bulk industry since 2000: The tide may have already turned for the dry bulk industry. Since 2000, we have seen three cycles on the BDI (2003-2005, 2006-2008, and 2009-2011). The key force behind the index was demand (global economy especially China) and supply of dry bulk capacity.

Influx of new ships prolonged down cycle: The super up cycle in 2006-07 that sent the BDI to an all-time high above 10,000 also resulted in record ship orders. As a new ship takes 1.5-2.5 years to build, influx of new ship deliveries subsequently took place during 2010-13, prolonging the down cycle to 3.5 years (compare to the 1.5 years of a normal cycle).

The tide may have turned, new cycle about to begin: The tide may have eventually turned as industry experts expect additional supply growth to trail demand growth in 2014-16F. Pareto Securities expects new ship supply growth of 4.1% and 2.3% for 2014 and 2015 respectively against demand growth of 5.6% and 4.5% respectively. As a result, global dry bulk fleet utilization will rise to 81% and 90% for the same period, a level that will benefit all survivors.

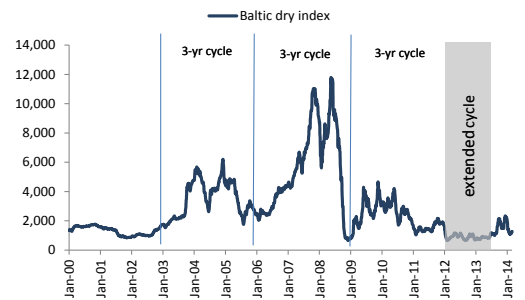
Plenty of upside remains: In perspective, the Time Charter Equivalent (TCE) rate on Supramax, which has lower volatility, already rose 34.5% YoY to US\$12,500 per day. However, this is still 16% below the 2014 forecast of US\$14,500, and has a further 42% to rise to match the US\$20,600 average of the past five years. Similarly, resale ship value has risen 11% YoY but that is still 33% below the past five-year average. The current cycle still has more room to go.

Key concerns: The main issue among investors is the weakening Chinese economy. But, historical data shows that import of grain, iron ore, and coal expanded double digits when China's GDP was around 10% during 2003-07. As the China GDP has been forecasted to grow 7.5% for 2014, it is reasonable for industry experts to see that demand for dry bulk will grow 4.5%-5.6% over the next few years. Note that urbanization plans imply higher electricity consumption and infrastructure investment, such as high-speed trains. Also, pollution concerns can only be allayed by using high-quality imported iron ore and coal, which gives off less pollution.

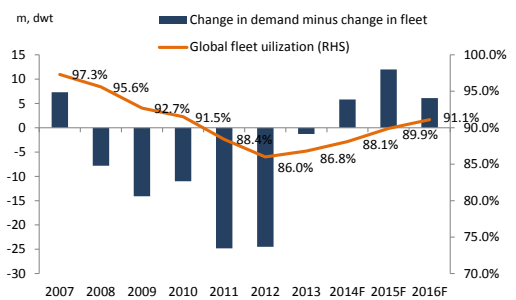
Monday, March 24, 2014

Overweight

New cycle has begun



Supply influx finally ends



Still very early in this cycle



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Turn of the tide for dry bulk shippers

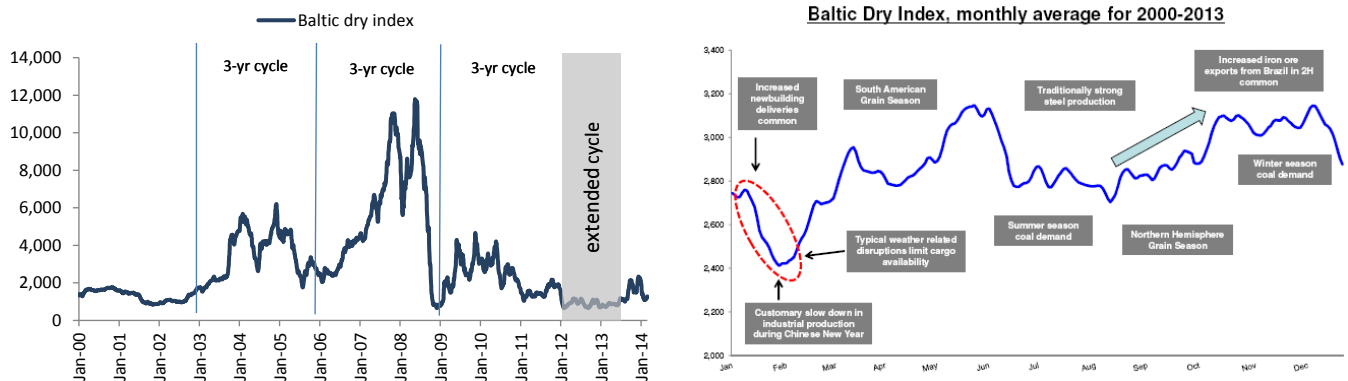
A new cycle for dry bulk may have begun: The tide may have already turned for the dry bulk industry. Looking at the Baltic Dry Index (BDI), the weighted average of dry freight indices comprising four classes of dry bulk ships, e.g., Capsize (100,000-200,000 DWT), Panamax (80,000-100,000 DWT), Supramax (40,000-60,000 DWT), and Handymax (30,000-40,000 DWT), was cyclical and volatile depending on demand to move key commodities such as coal, grain, and iron ore, and compared to supply capability of dry bulk carriers globally.

Three-year cycle for dry bulk: Since 2000, we have seen three cycles on the BDI (2003-2005, 2006-2008, and 2009-2011). The key force behind the index was China's economic prosperity (trade and exports, government investment in infrastructure, rising power consumption, wealth and consumption, and other factors). But, the cycle repeated as supply of ship trying to catch up with demand.

Time to build ship dictates cycle: The BDI (or freight rate) almost always surged up in the first year of each cycle, implying demand to move commodities outpaced supply of ships. As a result, shipowners ordered new ships to capitalize on high freight rates. A new ship takes around 1.5-2.5 years to build depending on its size and the capacity of its home shipyard. Assuming numbers of ships are ordered at the beginning of a cycle, supply of new ships can be delivered 1.5 years from the time each cycle begins. As a result, the freight rate usually takes 1.5-2 years to peak and falls sharply as new-ship supply enters the market.

Abnormal peak-cycle in 2008 caused abnormal down-cycle: During the super cycle in 2007-08, freight rates collapsed as the US ushered the world into global recession. Meanwhile, demand for shipping recovered in 2009-10 after the global recession, but supply of new ships (ordered since the 2008 peak) started its influx, causing the cycle to end. As the 2008 peak was far higher than normal, the aftermath of the supply influx also lasted longer than normal and caused the down-cycle to extend to cover 3.5-4 years compared to 1.5-2 years in past cycles.

Figure 1: Baltic Dry Index appears to demonstrate three-year cycle with seasonality throughout the year



Sources: Bloomberg, Baltic Trading Limited, Clarkson Research, Pareto Securities AECS Research



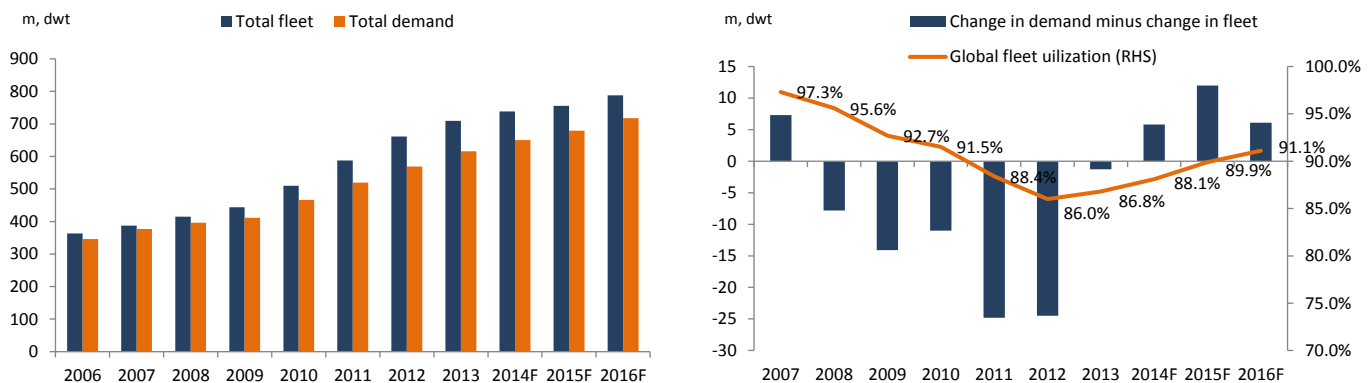
Supply-side analysis

No more ferocious supply in 2014-15: In our view, this new cycle will be influenced more by the supply side while demand continues to grow steadily. The BDI was pressured during 2011-12 when the influx of net new supply (after order slippage and scrapping of older ships) went to sea. New supply more than doubled to 65m-75m deadweight tonnage (DWT) per year during 2010-12, compared to 20m-30m DWT during 2006-09. However, the situation improved in 2013, with only 48m DWT taking to the seas. Meanwhile, many industry sources expect new arrivals to decline further in 2014-15 to normalize at around 30m DWT a year. Lower net new supply comes mainly from fewer scheduled deliveries of new ships.

Key risk is old-ship-scrapping rates: A key risk on the supply side could arise from delayed scrapping as current freight rates are persuasive arguments for prolonging vessel life. The industry demolished more than 30m DWT per year in 2012-13 (or 4%-5% of the global fleet), while research specialists expect 20m-25m DWT will be scrapped in 2014 (or 2%-3% of the global fleet) and a significant drop in 2015. Delayed scrapping will not change the up-cycle, but will rather cap upside on freight rate in our view.

Freight rates are key indication: Currently, smaller class ships (Handysize, Handymax, and Supramax) have started to make profit at the bottom line since 3Q-4Q13, however, this depends on ship efficiency. The all-in cost of running a Supramax is US\$9,000-10,000 per day (with a cash break-even point of US\$4,000-5,000 per day). Meanwhile, the Time Charter (TC) rate for Supramax rose above US\$10,000 in 3Q-4Q13 to its current US\$12,500. At this level, even older, less efficient ships can be profitable. Therefore, if freight rates fail to rise further, it implies there are more ships than industry has expected. Note that industry experts expect Supramax's TC rate to reach between US\$14,500 and US\$17,500 for 2014-15. If their projection is correct, the freight rate should rather easily surpass current levels. We should be skeptical if the rate stagnates around the current level.

Figure 3: Influx of new ships normalized since 2013, sending global fleet utilization up



Sources: Pareto Securities, AECS Research

Figure 4: Schedule of new deliveries

m, dwt	Existing fleet	2013	2014	2015	2016	Total delivery	% of existing
Capesize	240.4	11	12.4	11.6	5.7	40.7	16.9%
Panamax	103.4	5.2	5.9	0.7	0	11.8	11.4%
Supramax	152.9	9.8	12.4	8.5	2.7	33.4	21.8%
Handysize	84.9	3.3	4.9	3.9	1.1	13.2	15.5%

Sources: Pareto Securities, AECS Research

Figure 5: Ship delivery peaked in 2011-12

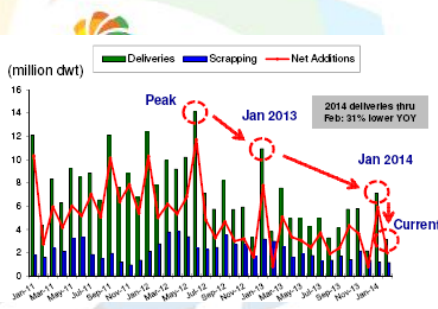


Figure 6: Record scrapping rate in 2011-13

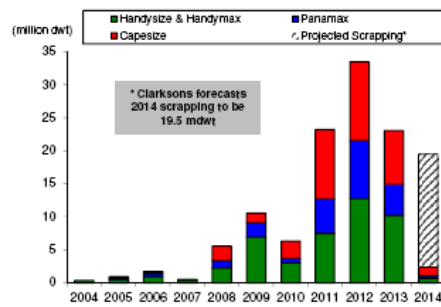


Figure 7: Slippage rate

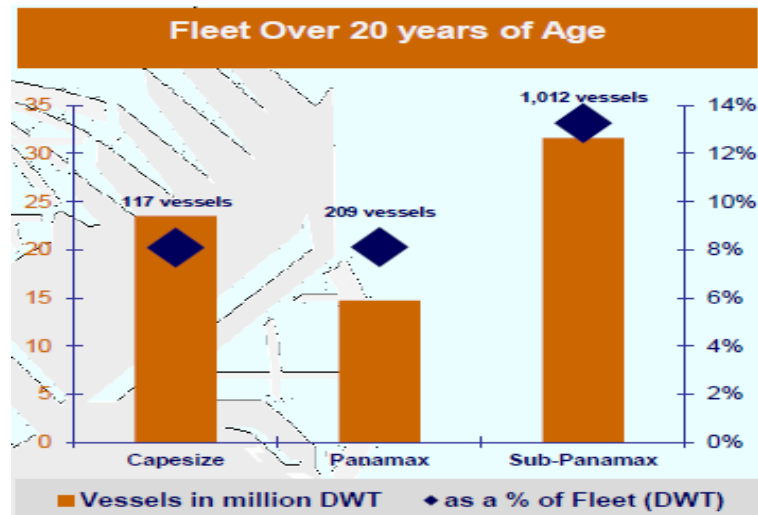
	FY 2012 (mdwt)	FY 2013 (mdwt)	Jan-Feb '14 (mdwt)
Actual Deliveries	99.6	62.4	10.3
Scrapping	33.6	23.1	2.3
Net Additions	66.0	39.3	8.0
Scheduled Deliveries	138.9	101.2	16.9
Slippage %	28%	38%	39%

Sources: Baltic Trading Limited, Eagle Bulk Shipping Inc., Clarksons, AECS Research

Aging smaller-class ship implies higher scrapping potential: Although scrapping could be delayed a few years, it cannot be delayed too long, especially for the smaller class ship. Currently, 14% of smaller class ships are reaching more than 20-years old, followed by Capesize (10%) and Panamax (6%). Besides the fuel efficiency issues, safety and environmental regulations are another basis for ship hirers to prefer newer ships.

Ultramax is new threat to smaller class ships: Another key development is the emergence of a new vessel class, the "Ultramax", the biggest ship among the smaller vessels. It has roughly 65,000 DWT capacity (12% larger than next in line Supramax), yet consumes 10%-12% less bunker per day at normal speed (13.75-14 knots, or 25-26km/h). This class has already broken the waves in recent years and will emerge more during the next few years. If demand to fill the ship is decent enough and ports allow it, shippers will be much better off running an Ultramax than they would on a Handysize or Handymax. This reason will also drive scrapping of Handysize and Handymax in future.

Figure 8: Scrapping potential is in smaller class ships



Sources: Eagle Bulk Shipping Inc., AECS Research



Demand-side analysis

Expect demand growth of 4.5%-5.6% for 2014-16F: Demand for dry bulk is forecasted to grow 4.5%-5.6% for 2014-16F, shipping specialist Pareto Securities says. This expected growth rate is a deceleration from 2010-12 when it was 9.5%-13.4%, which is primarily attributable to the slowing Chinese economy. In terms of breakdown, iron ore accounted for 34% of demand, followed by steam coal (30%), melt coal (10%), steel product (9%), grain (4%), and other cargo (13%).

Economic recovery continues for major economies: In our view, global trade should improve further in 2014-15. Recent data shows three major economies; i.e. the US, EU, and Japan, continuing to improve as they exited economic crises. Meanwhile, the key concern is on China's target GDP growth slowing to 7.5%. We think this level of growth can support 5%-6% growth in key commodities, such as iron ore and coal. However, large class bulkers (panama and capsized) will bear the most risk as iron ore and coal are the major commodities carried in those.

Figure 8: Global trade looks to improve in 2014-16

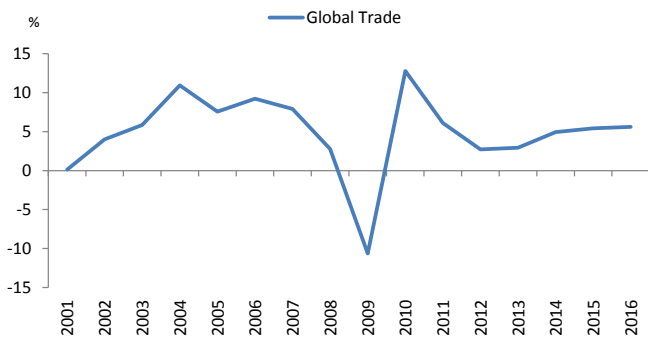
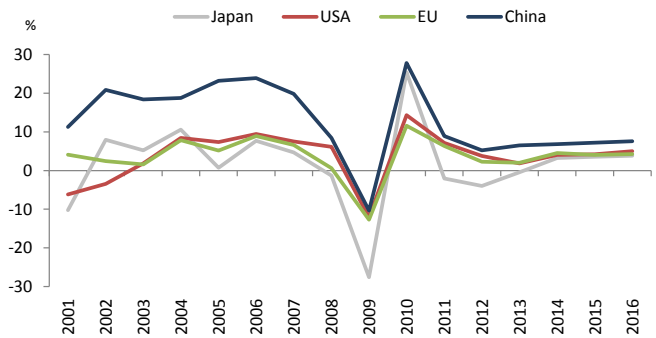


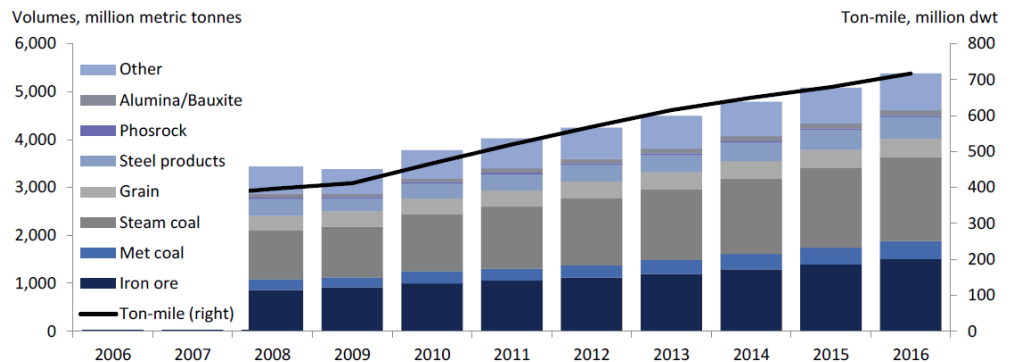
Figure 9: Good prospects for major economies



Sources: IMF, AECS Research

Figure 10: Demand for dry bulk commodities to grow 4.5%-5.6% for 2014-16F

Dry bulk market growing by >6% p.a.



Sources: Pareto Securities, AECS Research



China's ongoing concerns over pollution is a risk: There is ongoing pressure on China to control its pollution, which is possibly trimming steel production (and lowering demand for iron ore and melt coal). In our view, the Chinese government will have to find balance between growth and controlling pollution. In doing so, the government aims to spread economic activities further inland, thus easing activities in major coastal cities. This requires infrastructure investment; i.e. railways, highways, which still require steel.

Poor iron ore plus poor coal equals pollution: Meanwhile, local iron ores and coals are of poor quality. For example, Chinese iron ore has average iron content of 16.5% compared to the 62% in the import grade material from Australia. Chinese coal has 5,500 kcal compared to Indonesia and Australia's coal at more than 6,000 kcal. In order to control pollution, it makes sense to use high-grade iron ore and coal to make steel. This is especially true for coastal cities where there are port availability to import and pollution concern.

Coal power plants are so far irreplaceable by alternative sources: In addition, China's electricity consumption will continue to grow. But major sources of power generation still rely on coal and hydro power. Additional capacity will rely more on alternative sources, such as solar and wind. In our view, these alternative sources can at best fulfill marginal increase in electricity demand, but will not be adequate to replace existing coal power plants.

Figure 11: Lower quality will cap China's domestic iron-ore production

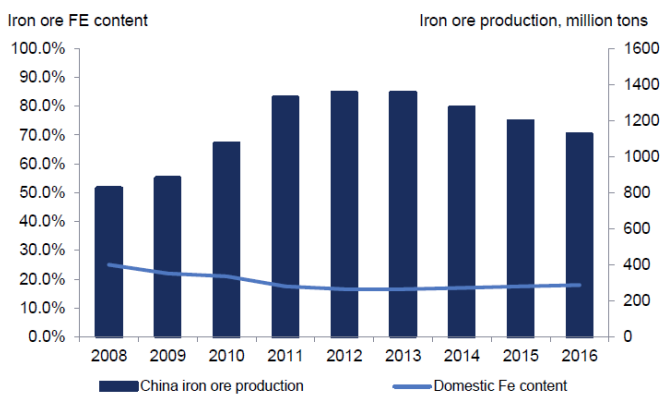
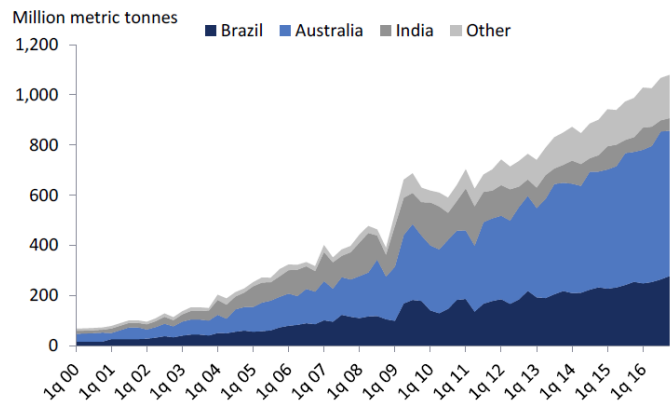


Figure 12: Demand for imported iron ore should continue



Sources: Pareto Securities, Bloomberg, AECS Research

Figure 13: Historical and projected demand and supply of dry bulk industry

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Supply of global fleet											
Scheduled delivery								100.1	42.5	25.2	6.1
New orders for delivery										10.5	47.6
Slippage								-15.6	-1.8		
Cancellation								-7.2	-0.4		
Actual delivery	26.3	24.8	31.6	51.5	84.7	104.3	98.4	77.3	40.3	35.7	40.2
Scrapping	-3.3	-2.2	-5.5	-11.2	-6.5	-26.6	-36.9	-32.7	-24.3	-11.6	-6.8
Avail. Fleet, (m, dwt)	359	390.1	416.7	447.1	513.8	591.3	665.4	712.8	740.3	757	789.1
Combis in oil	-4.5	-3.1	-2.1	-3.2	-3.8	-3.8	-4.2	-3.5	-2.1	-1.6	-1.5
Total adjusted fleet	363.5	387	414.6	443.9	510	587.5	661.2	709.3	738.2	755.4	787.6
Change supply (m, dwt)	23.5	27.6	29.3	66.1	77.5	73.7	48.1	28.9	17.2	32.2	
% change YoY	8.0%	6.5%	7.1%	7.1%	14.9%	15.2%	12.5%	7.3%	4.1%	2.3%	4.3%
Demand for shipping											
Volume (m, tons)	3087	3295	3441	3382	3781	4024	4250	4499	4785	5081	5384
Ton-mile (m, dwt)	328.5	347.7	368.1	377.5	472.2	472.2	515.7	556.4	584.4	604.4	635.1
Port congestion (m, dwt)	12.8	21.5	18.1	21.9	26.1	23.9	25	25	27	30	32
Domestic trade China (m, dwt)	4.6	7.5	10.3	12.3	17.1	23.4	28	33.1	38.8	45	50
Total demand (m, dwt)	345.9	376.7	396.5	411.7	466.8	519.5	568.7	615.5	650.2	679.4	717.7
Change in demand (m, dwt)	22.7	30.8	19.8	15.2	55.1	52.7	49.2	46.8	34.7	29.2	38.3
% change YoY	7.9%	8.9%	5.3%	3.8%	13.4%	11.3%	9.5%	8.2%	5.6%	4.5%	5.6%
Global fleet utilization	95.2%	97.3%	95.6%	92.7%	91.5%	88.4%	86.0%	86.8%	88.1%	89.9%	91.1%

Sources: Pareto Securities, AECS Research



Market dynamic and forecasts

Cargo mixture difference between large and small ships: In the current market environment, smaller class ships including Supramax, Handymax, and Handysize, have operated at profit after considering all-in costs. Meanwhile, larger class ships including Panamax and Capesize remain unstable. The key reason behind this was the commodity each class covers. Larger class ships usually rely heavily on iron ore and coal, which are still vulnerable to the list of China risks. Meanwhile, smaller ships have greater flexibility in reaching smaller and shallower ports and in the greater diversity of commodity carried.

Figure 14: Capesize depends heavily on iron ore and coal

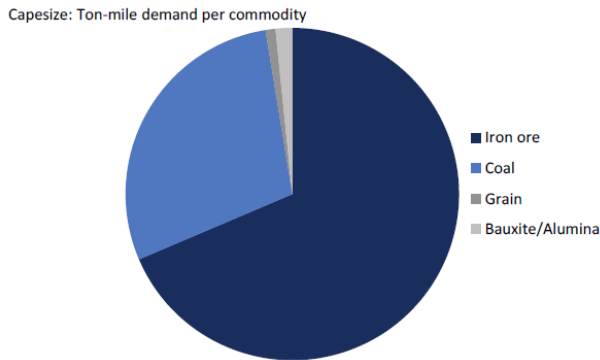
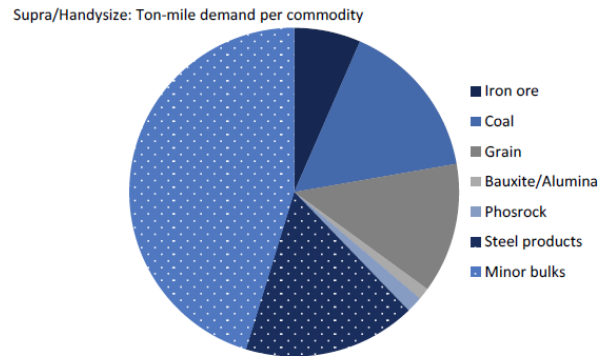


Figure 15: More diversity in cargo for smaller Supramax and Handysize



Sources: Pareto Securities, AECS Research

On average, a Supramax has cash operating cost ranging between US\$4,000-5,000 per day and all-in cost between US\$9,000-10,000 per day. This compares to the spot TC rate for Supramax of US\$12,500. Our industry expert, Pareto Securities, forecasted that the Supramax rate would average US\$14,500 per day for 2014F and rising to US\$17,500 per day for 2015F.

For the larger Capesize vessel, cash operating cost and all-in cost are around US\$15,000 and US\$25,000 per day respectively. The market TC rate for Capesize has recently been up to US\$25,000 (as of 21 March 2014). Rate on Capesize is still very volatile. It was at US\$5,000 per day in March 2013, and jumped to as high as US\$40,000 per day in September 2013. That kind of leap could be an early indication of balance in demand and supply. For Capesize, Pareto Securities forecasted the TC rate at US\$22,750 and US\$27,500 per day for 2014-15F.

Figure 16: Historical and forecasted TCE rate

USD/d	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013e	2014e	2015e	10-yr	5-yr
Cape	21,000	13,000	12,000	41,000	69,000	50,000	45,000	117,000	105,000	42,000	33,000	16,000	8,000	15,500	22,750	27,500	52,600	40,800
Pmax	11,000	9,000	8,000	20,000	36,000	25,000	24,000	57,000	49,000	19,000	25,000	14,000	8,000	8,800	16,300	20,000	27,700	23,000
Smax	11,000	9,000	9,000	16,000	31,000	24,000	23,000	48,000	41,000	17,000	22,000	14,000	9,000	9,900	14,500	17,500	24,500	20,600
Hsize	7,000	6,000	7,000	11,000	19,000	17,000	14,000	30,000	29,000	11,000	16,000	11,000	8,000	7,900	11,000	13,000	16,600	15,000

Sources: Pareto Securities, AECS Research



Ship value rose 11%-24% YoY, still 30-40% below five-year average: Another key development in the dry bulk industry is in asset value of ship. The recovery in freight rate brought along prices both of new-build and second-hand ships. Higher price adjustment was seen in the larger ships, with second-hand Capesize prices rising 24% YoY compared to 11% YoY for that of Supramax. But, current ship prices are still 30%-40% below their five-year average, and could have more room to rise.

Debt management determines winners and losers: The key implication for vessel prices is mainly debt management among ship owners. Those who master the cycle will replace older ships when prices rise (as opposed to previously placing orders for newer ships when prices were low), and reduce debt. Some contrarian management will add fleet (take on more debt) on an up-cycle (and more aggressively as freight rates increase) to offer shareholders the promise of rising future profitability.

Figure 17: Vessel prices rose recently

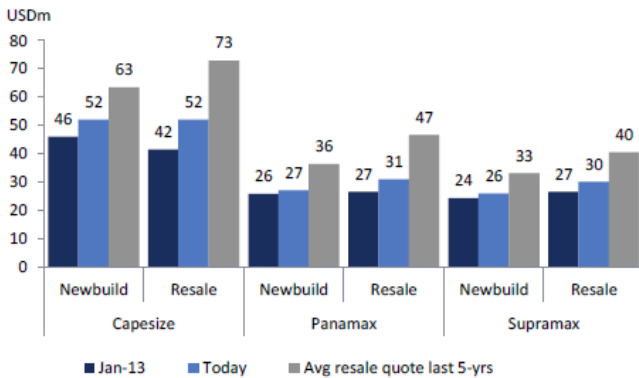
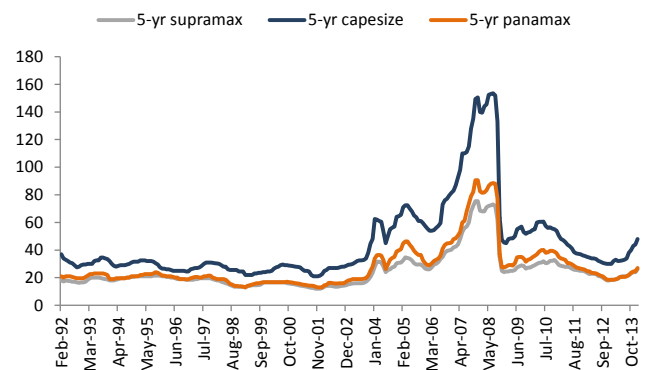


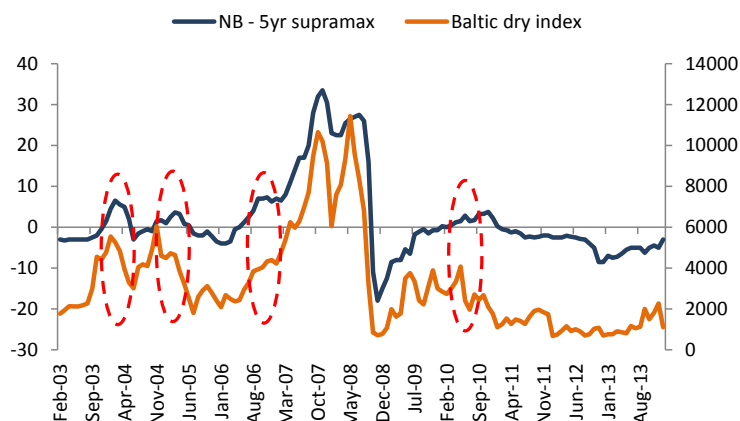
Figure 18: Five-year second-hand prices



Sources: Bloomberg, Pareto Securities, AECS Research

Risk indicator: It makes logical sense for new-build ships to be more expensive than old ships. However, in past cycles, there were times that shipowners were willing to pay more for old ships to take advantage of high freight rate as new builds take 1.5-2 years for delivery. History showed that the three out of four times this happened, freight rates plummeted over the next 3-4 months. The only exception was in the super cycle during 2006-07. For this early cycle, it is not yet happening.

Figure 19: Alarm bells ring when old ships are dearer than new builds



Sources: Bloomberg, AECS Research

Cyclical pattern: If the current conditions prove to be the early stage of a new cycle, risk is relatively low. From past cycles, the BDI rose roughly 100% by the first 11 months, given that the index started the year below 2,000. Also, on cycle with no oversupply overhang (2003-05 and 2006-08), index peaked in the second half of the second year.



Figure 20: Still very early based on historical cyclical pattern of BDI



Sources: Bloomberg, AECS Research

AECS Equity Research

Initial Coverage

PSL TB

Precious Shipping Pcl.

Ready to set sail

We initiate coverage on PSL with a BUY rating. PSL has been adding aggressively to its fleet to capitalize on the next up cycle. This a quality only few shippers in the world have as most are buried in debt. Freight rates will be a key catalyst as industry experts expect the Handymax rate to jump 39% and 18% for 2014-15F. In our view, the new up cycle will last at least 1.5 years into 2H15, so we see plenty more upside to our TP of Bt36.6.

Tide has turned for the dry-bulk industry: The new cycle is due to begin as influx of new ship supply during 2010-13 has ended. For 2014-16, industry experts expects new supply growth of 2.3%-4.3% for 2014-16 to trail demand growth of 4.5%-5.6%, resulting in higher utilization of the global fleet. The Handymax rate is expected to jump 39% and 18% for 2014-15F respectively.

Adding fleet aggressively to capitalize on high tide: PSL has prepared well for the cycle. Management has added to its fleet from 25 in 2010 to 39 in 2013, and has 30 new ships set to be delivered in 2014-2016. In 2016, its fleet rejuvenation plan will bring the average age of its 69 ships down from 11.35 years to eight. Also, management plans to sell 19 old ships in 2016. That will bring average fleet life down further to five or six years.

Expect net profit to jump 52.8% in 2014: We estimate core net profit of Bt2.16bn turning from a core loss of Bt412m, and rising 83.3% in 2015 to Bt3.97bn. Excellent fleet management in the past will support the shipper's current capex program. Assuming no ship sale in 2016, D/E will be comfortably at 1.3x.

TP is at Bt36.6: Our TP is Bt36.6. This is based on 2015 TP of Bt40 to capture the full swing of the industry up cycle. That level equates EV/EBITDA of 13.3x, PBV of 2.4x, and PER of 16.5x. We then applied 8.5% discount to derive 2014 TP. Note that PSL traded at EV/EBITDA of 15x during 2009-10 up-cycle.

Monday, March 24, 2014

BUY

Target	THB36.60
Close	THB28.50
Up/Downside	+28.4%
Revision	

Company Information

Sector:	Transportation
Shares outstanding (m):	1,039.52
Market capitalization (Btm):	29,626.34
Trading vol/day (Btm):	124.53
Free float (%):	26.83%
Beta:	1.18

Major Shareholders

GLOBEX CORPORATION C	25.65%
SHAH FEDERBUSH NISHI	9.48%
HASHIM MUNIR MOINUDD	8.93%

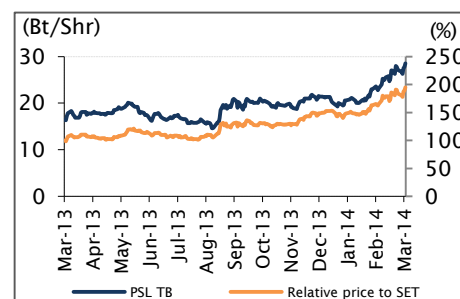
Consensus Bloomberg

2014F EPS (Bt):	0.90
Target price (Bt):	22.41

Price Performance

52 Wk high/low:	29.3 / 14.5			
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	1M	3M	1Y	YTD
Absolute (%)	22.8	33.2	73.8	100.7
Relative (%)	18.5	30.6	84.5	103.0



FY Ended 31 Dec	2011	2012	2013	2014E	2015E
Revenue (Btm)	3,084	3,499	3,869	5,532	7,845
Net profit (Btm)	723	158	548	917	2,519
EPS (Bt)	0.70	0.15	0.53	0.88	2.42
EPS growth (%)	-38.2%	-78.1%	245.6%	67.4%	174.8%
Dividend (Bt)	0.30	0.40	0.40	0.53	1.21
Book value (Bt)	14.77	13.93	15.04	15.39	16.59

FY Ended 31 Dec	2011	2012	2013	2014E	2015E
PER (x)	23.3	93.1	40.4	32.3	11.8
EV/EBITDA (x)	12.9	18.1	23.7	14.5	10.7
PBV (x)	1.1	1.0	1.4	1.9	1.7
Dividend yield (%)	1.9	2.8	1.9	1.8	4.2
ROE (%)	3.4	0.7	2.2	3.5	7.7
Net gearing (%)	17.3	49.5	40.5	57.1	110.8

CGR 2012:

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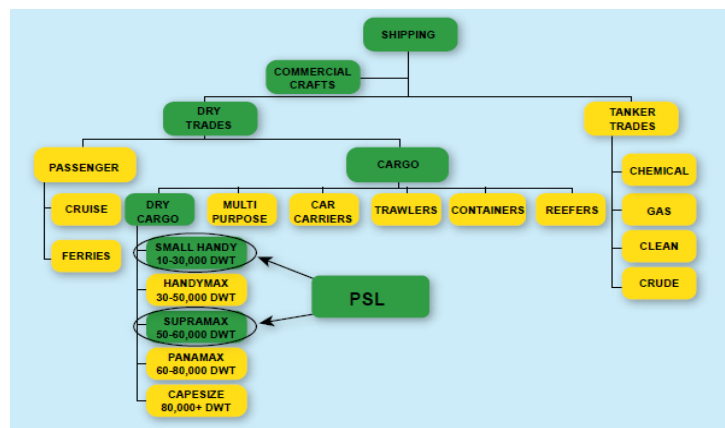


In the best position to ride the new cycle

Operator of 40 ships with 1.35m DWT: Precious Shipping Pcl. (PSL) was established in 1989 and listed on the SET in 1993. PSL operates dry bulk ships in the smaller-class segment, i.e., Handysize (10,000-30,000 DWT) and Supramax (50,000-60,000 DWT).

Good diversification implies lower risk: PSL's fleet offers great diversity in terms of its geographical voyage coverage and commodities carried. In 2013, its fleet was evenly split at 20% along all major routes. In terms of cargo mix, key commodities including grain, steel, and ores accounted for 55% of capacity in 2013. Note that geographical diversity reduces voyage risks including factors such as geopolitics and piracy. Meanwhile, its cargo mix, which relies less on key commodities, will offer less risk as China's economy slows.

Figure 1: Dry bulk industry and PSL's specialty areas



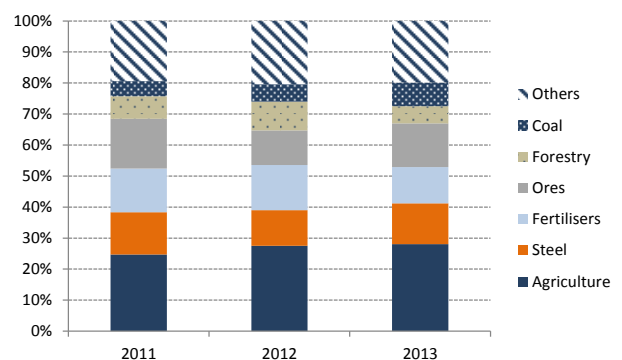
Sources: Company data, AECS Research

Figure 2: Voyages balanced around the globe



Sources: Company data, AECS Research

Figure 3: Good mix of commodities carried

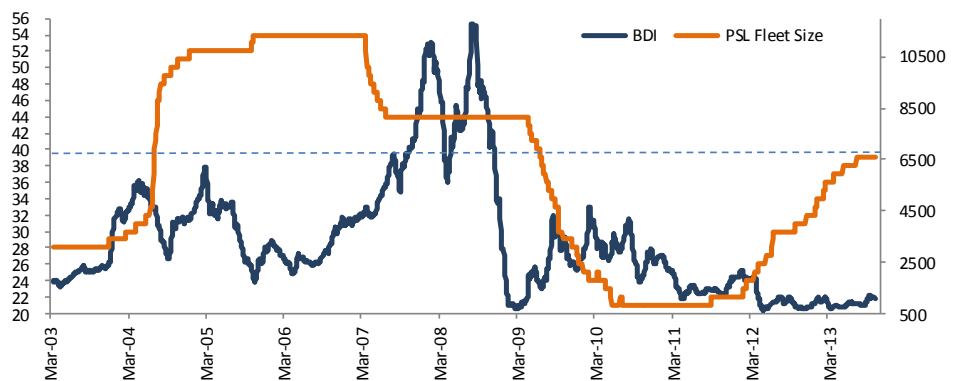




Fleet management is PSL's key strength: Since listing on the SET, PSL had successfully managed ship ownership through the dry bulk cycles. Management aggressively added 24 ships during the course of 2003-04 (from 28 ships to 52 ships) to ride the latter half of the cycle in 2005. PSL again added two ships during 2005 to reach 54 ships at the beginning of 2006-09 super cycle. As the Bulk Dry Index (BDI) hit its previous high level in 2005, PSL reduced its fleet to 44 ships. Finally, PSL aggressively sold ships in 2009-10, down to 25 ships before the down cycle in 2011. As a result, PSL had half the size of its original fleet when spot rates were unprofitable. Also, it used the proceeds from selling ships to pay down debt.

Before the industry hit rock bottom in 2012-13, PSL started placing orders for new ships when ship prices were at a very low level. Since ship delivery began in 2011, PSL's fleet increased from 25 ships in 2010 to 39 ships by end of 2013, which comprised 38 bulkers and a cement carrier with total capacity of 1.35m DWT. Of the 39 ships, nine are in the Supramax sector and the remaining 30 are in the Handysize and Handymax sectors. PSL's fleet had an average age of 11.35 years, already down considerably from 15.43 years in 2010. However, there remains a lot of old ships in the fleet, with 17 over 15 years old, accounting for 56% of PSL's 30 Handysize and Handymax fleet.

Figure 1: Perfect fleet management throughout BDI cycles



Sources: Company data, AECS Research

Capacity to more than double by 2016 with younger fleet: It has been management's intention to rejuvenate the PSL fleet this cycle. It has 30 ship contracts (new-build and resale) on hand for ships to be delivered during 2014-16. New ships for delivery include four cement ships, six Handysize, and 16 Ultramax. In 2016, PSL's fleet will rise to 69 ships with total capacity of 2.92m DWT. Average life of fleet will drop to roughly eight years after all deliveries are received.

Management also plans to sell 19 old ships during 2016, when management expects the dry bulk cycle to peak (along with ship prices). If the plan rolls out, PSL will successfully rid itself of the older ships at a profit. In addition, its fleet profile will be younger and bigger in average DWT per ship. It should be noted that we exclude the ship sales from our financial model at this time.

Figure 2: PSL's historical and projected ship ownership and capacity

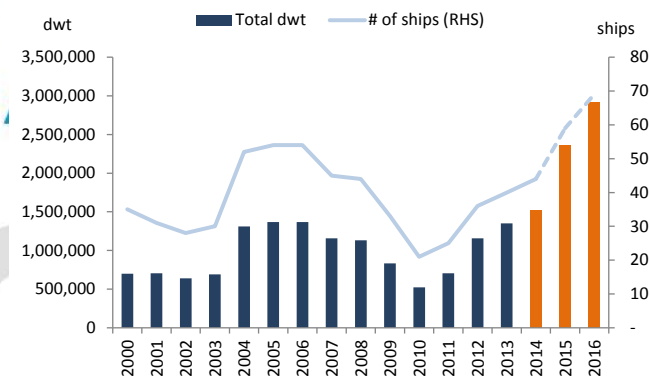
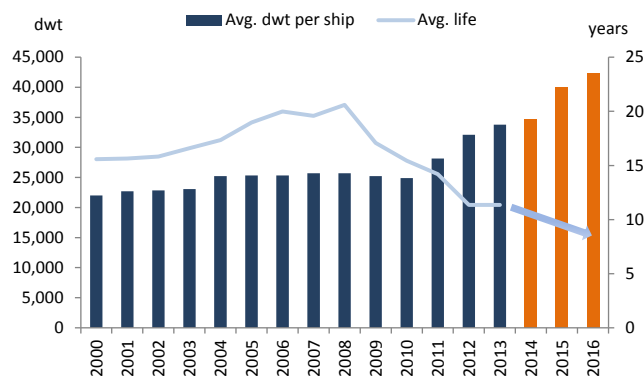


Figure 3: Bigger fleet of bigger, younger ships



Sources: Company data, AECS Research

Figure 4: Breakdown in type of new ship delivery

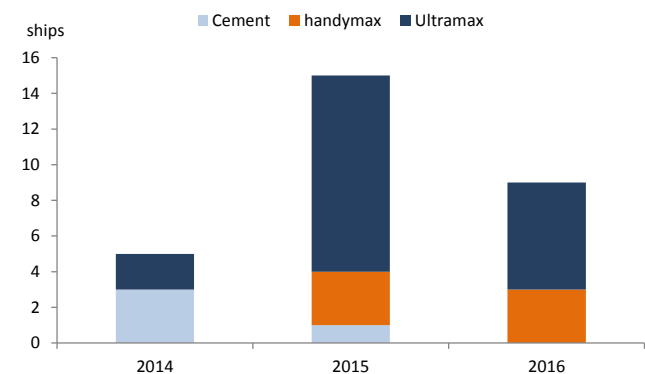
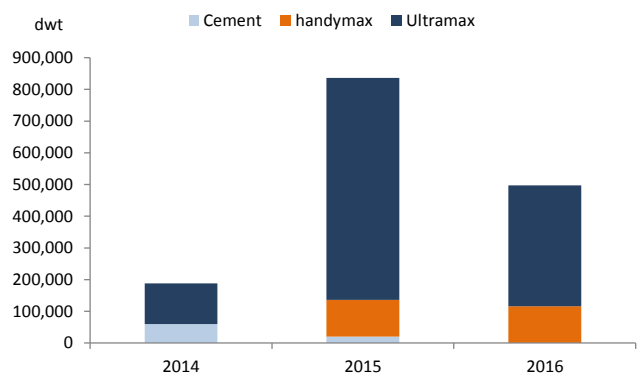


Figure 5: Breakdown in DWT contribution



Sources: Company data, AECS Research

Expect average of 44% p.a. in revenue growth for 2014-16F: We estimate PSL's revenue to increase 43%, 41.8%, and 47.1% for 2014-16F, respectively. Key drivers include a 77% rise in fleet growth from 39 ships at 2013 to 69 ships in 2016 and an up-cycle in freight rate (100% increase in PSL's Time Charter Equivalent [TCE] in 2016 from 2013). We base our freight rate assumption on that of Pareto Securities, which forecasts the Supramax TCE rate at US\$14,500 and US\$17,500 a day for 2014-15 and Handymax TCE rate at US\$11,000 and US\$13,000 a day for 2014-15.

For PSL, we assume TCE at US\$10,419, US\$13,982, and US\$14,359 a day for 2014-16F, respectively. This is based on fleet mix (Supramax:Handymax) at 24:76 for 2014, 36:64 for 2015, and 42:58 for 2016. We also assume PSL's TCE to trail market average by 12%, 10%, and 8% for same periods. It should be noted that although management plans to sell ships in 2016, we have excluded any ship sales from our projections for that year.

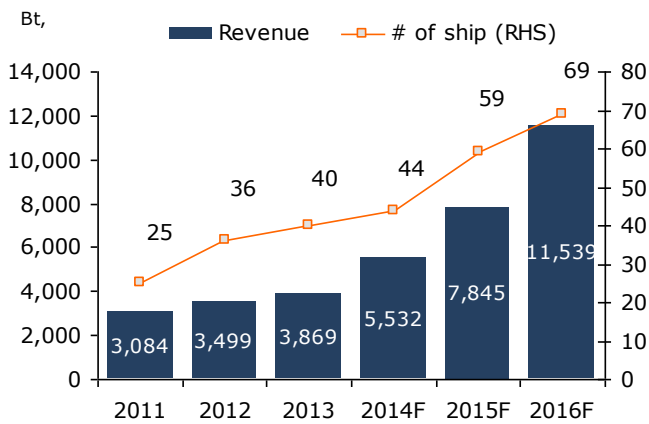


Figure 6 : Summary of key assumptions

Key assumptions	2011	2012	2013	2014F	2015F	2016F
# of ships - average	22	30	39	41	47	67
# of ships - year-end	25	36	40	44	59	69
Total dwt - average	619,740	963,420	1,317,810	1,422,994	1,881,086	2,843,982
Total dwt - year-end	704,258	1,156,109	1,351,583	1,522,661	2,359,176	2,920,471
Average ship size	28,170	32,114	33,790	34,606	39,986	42,326
Supramax TC	14,240	9,420	10,260	14,500	17,500	
Handymax TC	10,615	7,670	8,063	11,000	13,000	
PSL TCE	11,265	8,221	7,194	10,419	13,982	14,392
Cash Opex/ship/day	4,613	4,481	4,535	4,500	4,650	5,000
All-in Opex/ship/day	10,179	9,286	8,789	8,813	9,035	9,107
EBITDA/ship/day	6,652	3,740	2,659	5,919	9,332	9,392
EBT/ship/day	1,086	-1,065	-1,595	1,606	4,947	5,286

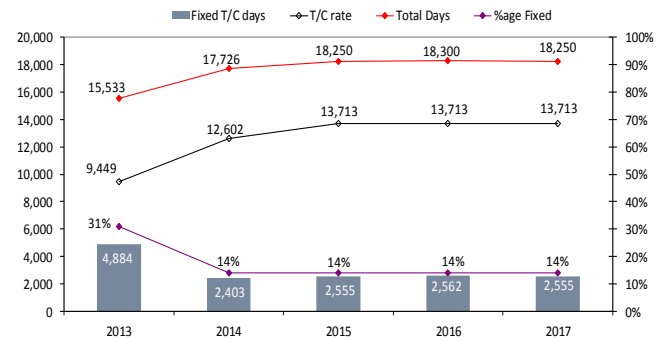
Sources: Company data, Pareto Securities, AECS Research

Figure 7: Revenue and No. of ships projections



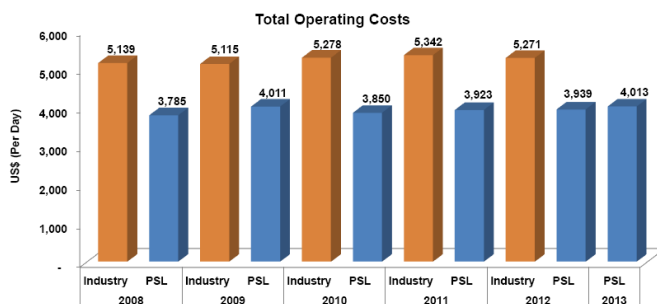
Sources: Company data, AECS Research

Figure 8: Only two ships fixed on long-term charter



High efficiency ship operators: PSL has been one of the most efficient ship operators in the industry. Excluding dry dock and special survey expenses, PSL's operating expenses (opex) per day was 25% lower than the industry, based on a Moore Stephens survey. After incorporating the two expenses, PSL's opex per day was US\$4,503 in 2013. For 2014-16, we assume opex per day of US\$44,500, US\$4,750, and US\$5,000 respectively. This is conservative compared to management's guidance of US\$4,500 for all three years, as there will not be dry-dock expenses in the first two years.

Figure 9: PSL's opex per day is lower than industry



Sources: Company data, AECS Research

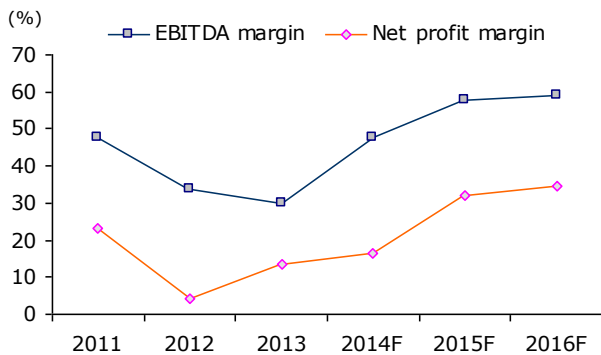
Figure 10: Details on opex per day

Item	2012		Jan-Sep 2013	
	USD	%	USD	%
Crew costs (Abt. 26 people /ship)	1,951	43.54%	2,041	45.32%
Manning Expenses	192	4.28%	196	4.35%
Victualing	168	3.75%	175	3.89%
Lube oils	296	6.61%	266	5.91%
Insurance	359	8.01%	422	9.37%
Repairs/Maintenance	126	2.81%	104	2.31%
Stores/Spares	396	8.84%	430	9.55%
Dry-dock/Special Surveys	542	12.10%	519	11.53%
Management Expenses	384	8.57%	287	6.37%
Misc. expenses	67	1.49%	63	1.40%
Total	4,481	100.00%	4,503	100.00%



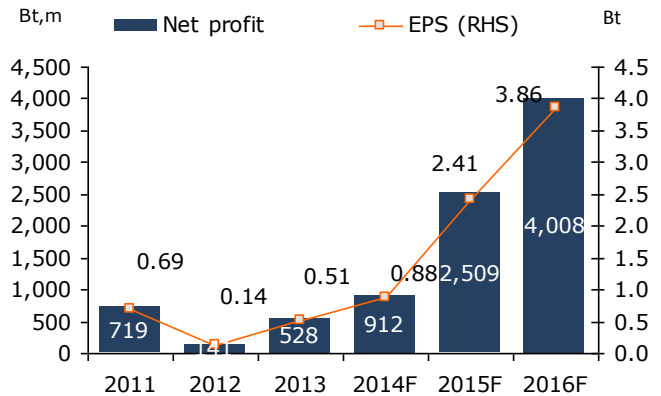
Expect operating net profit to reach Bt2.5bn from 2013 loss: As most ship expenses are fixed, profitability will increase markedly in a rising freight-rate environment. We estimate EBITDA margin to improve from 29.7% in 2013 to 47.8% and 57.7% in 2014-15F respectively. We estimate operating net profit of Bt2.5bn and Bt4bn in 2014-15F respectively, compared to operating loss of Bt412m in 2013. Note, that we exclude assumptions of any extra gain from ship contracts, or FX gain/loss. Also, the 2016 forecast will depend on ship sales that will lower operating revenue and profit, incur gain/loss on sales, and will likely lower the company's debt level.

Figure 11: High operating leverage on up cycle



Sources: Company data, AECS Research

Figure 12: Net profit to reach Bt2.5bn in 2015F



Leverage ratio to rise until ship sales in 2016: PSL has done remarkably well in managing its fleet (capex cycle). The company reduced its fleet size and paid off debt to minimize loss during the down cycle through its lower number of ships and lower interest expenses. PSL's total D/E ratio was at 0.5-0.7x during 2011-13 during the down cycle. In contrast, more than half of global shipowners, who aggressively added ships during the 2007-08 peak cycle, had D/E ratios over 1x in the same period; and many of them failed to survive as the down cycle became prolonged. In the next cycle, PSL will boost its fleet size with an increase in leverage ratio to 2016. At that point, management expects to sell 19 ships, reducing its fleet size to 50 ships, and use the proceeds to pay off debt.

Figure 13: Rising EBITDA to support new capex cycle

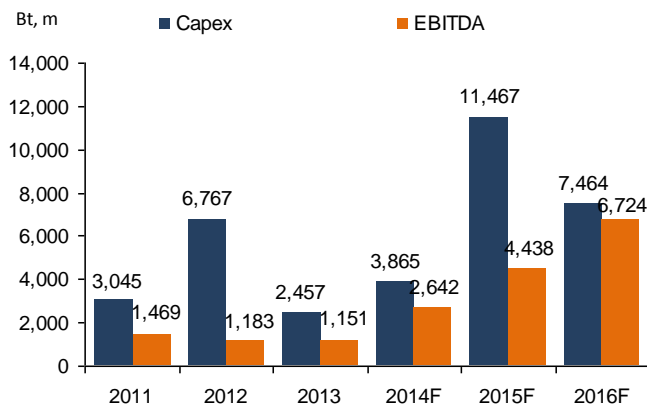
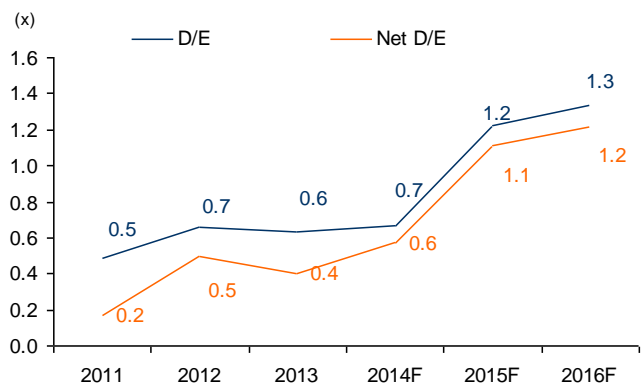


Figure 14: Comfortable D/E at peak capex cycle



Sources: Company data, AECS Research



Our target price is Bt36.6: In our view, it is appropriate to value PSL based on 2015 performance if 2014 is the beginning of a new up cycle. Historical figures show that an up cycle usually lasts at least 1.5 years and could extend to 2.5 years. PSL will also have a significant amount of new ships in its fleet. Our theoretical 2015 target price is Bt40 based on EV/EBITDA of 13x. This level equates PBV of 2.4x and PER of 16.5x. Note that during 2009-10 up-cycle PSL traded up to forward EV/EBITDA of 15x, justifying our target EV/EBITDA of 13x for 2015. Lastly, to derive fair value for 2014, we discount our TP for 2015 down 8.5% (PSL's WACC) to derive our target price of Bt36.6.

Figure 15: Previous up cycle lasted at least 1.5 years



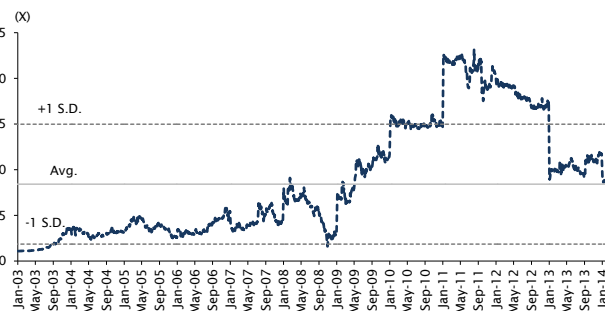
Sources: Company data, AECS Research

Figure 16: Forward PBV band



Sources: Company data, AECS Research

Figure 17: Forward EV/EBITDA band



Freight rate will be key catalyst: PSL's valuations may currently look stretched compared to its historical trading band and industry peers. As a result, share price may hover at its current level. The catalyst behind share price will be freight rate. The current market rate already supports our 2014 assumption. To capture the 2015 rate assumption, the Supramax market rate should reach US\$15,000 (US\$12,500-US\$13,500 currently), and that of Handymax should reach US\$12,500 (US\$10,000-US\$11,000 currently). In our view, these thresholds could be reached by 2H14 based on current levels and the historical pattern as years progressed.



Figure 18: Valuations in the dry-bulk industry

	Country	Mcap (THB) (THB)	2014			
			PER (X)	PBV (X)	EV/EBITDA (X)	D/E (%)
Precious Shipping	Thai	29,626	26.2	1.7	10.5	59.3
Thoresen Thai	Thai	28,678	27.6	1.1	9.9	55.7
COSCO Shipping	China	27,956	36.7	0.8	13.0	93.4
Pacific Basin	HK	40,668	13.2	0.8	6.0	93.4
Eagle Shipping	US	2,382	n.a.	0.2	7.6	192.7
Dryship	US	51,511	12.8	0.4	6.6	145.3
Diana Shipping	US	32,766	n.a.	0.8	8.7	35.7
Average			23.3	0.8	8.9	96.5

Sources: Company data, AECS Research

Appendix 1: Historical and projected demand and supply in the dry bulk industry

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Supply of global fleet											
Scheduled delivery								100.1	42.5	25.2	6.1
New orders for delivery										10.5	47.6
Slippage								-15.6	-1.8		
Cancellation								-7.2	-0.4		
Actual delivery	26.3	24.8	31.6	51.5	84.7	104.3	98.4	77.3	40.3	35.7	40.2
Scrapping	-3.3	-2.2	-5.5	-11.2	-6.5	-26.6	-36.9	-32.7	-24.3	-11.6	-6.8
Avail. Fleet, (m, dwt)	359	390.1	416.7	447.1	513.8	591.3	665.4	712.8	740.3	757	789.1
Combis in oil	-4.5	-3.1	-2.1	-3.2	-3.8	-3.8	-4.2	-3.5	-2.1	-1.6	-1.5
Total adjusted fleet	363.5	387	414.6	443.9	510	587.5	661.2	709.3	738.2	755.4	787.6
Change supply (m, dwt)		23.5	27.6	29.3	66.1	77.5	73.7	48.1	28.9	17.2	32.2
% change YoY	8.0%	6.5%	7.1%	7.1%	14.9%	15.2%	12.5%	7.3%	4.1%	2.3%	4.3%
Demand for shipping	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Volume (m, tons)	3087	3295	3441	3382	3781	4024	4250	4499	4785	5081	5384
Ton-mile (m, dwt)	328.5	347.7	368.1	377.5	472.2	472.2	515.7	556.4	584.4	604.4	635.1
Port congestion (m, dwt)	12.8	21.5	18.1	21.9	26.1	23.9	25	25	27	30	32
Domestic trade China (m, dwt)	4.6	7.5	10.3	12.3	17.1	23.4	28	33.1	38.8	45	50
Total demand (m, dwt)	345.9	376.7	396.5	411.7	466.8	519.5	568.7	615.5	650.2	679.4	717.7
Change in demand (m, dwt)	22.7	30.8	19.8	15.2	55.1	52.7	49.2	46.8	34.7	29.2	38.3
% change YoY	7.9%	8.9%	5.3%	3.8%	13.4%	11.3%	9.5%	8.2%	5.6%	4.5%	5.6%
Global fleet utilization	95.2%	97.3%	95.6%	92.7%	91.5%	88.4%	86.0%	86.8%	88.1%	89.9%	91.1%

Source: Pareto Securities

Appendix 2: Historical and forecasted TCE rate

USD/d	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013e	2014e	2015e	10-yr	5-yr
Cape	21,000	13,000	12,000	41,000	69,000	50,000	45,000	117,000	105,000	42,000	33,000	16,000	8,000	15,500	22,750	27,500	52,600	40,800
Pmax	11,000	9,000	8,000	20,000	36,000	25,000	24,000	57,000	49,000	19,000	25,000	14,000	8,000	8,800	16,300	20,000	27,700	23,000
Smax	11,000	9,000	9,000	16,000	31,000	24,000	23,000	48,000	41,000	17,000	22,000	14,000	9,000	9,900	14,500	17,500	24,500	20,600
Hsize	7,000	6,000	7,000	11,000	19,000	17,000	14,000	30,000	29,000	11,000	16,000	11,000	8,000	7,900	11,000	13,000	16,600	15,000

Source: Pareto Securities

Financial tables

INCOME STATEMENT					
Year End Dec (Bt, m)	2011	2012	2013	2014F	2015F
Sales	3,084	3,499	3,869	5,532	7,845
Cost of good sold	(1,985)	(2,960)	(3,528)	(3,768)	(4,305)
Gross profit	1,098	538	341	1,764	3,540
SG&A	(285)	(266)	(328)	(371)	(463)
Other income	3	3	2	2	2
EBIT	850	294	56	1,420	3,105
Finance expenses	(441)	(434)	(459)	(485)	(534)
Corporate tax	(4)	(4)	(8)	(19)	(51)
Minority interests	2	3	9	0	0
Net profit bef. Extra	408	(142)	(401)	917	2,519
Net profit	723	158	548	917	2,519

BALANCE SHEET					
Year End Dec (Bt, m)	2011	2012	2013	2014F	2015F
Cash & Equivalent	4,375	1,901	2,942	991	1,299
Account receivable	125	217	1,074	705	1,003
Inventories	1,327	483	593	593	593
Other current assets	125	194	225	300	300
Total current assets	6,022	2,941	4,936	2,689	3,296
Property, Plant, & Equipment	9,446	16,213	18,670	22,535	34,001
Other non-current assets	734	304	413	400	400
Total assets	22,893	24,030	25,510	26,735	38,308
Bank overdraft & ST debt	0	0	0	0	0
Account payable	33	2	22	25	29
Current LT debt	719	802	654	700	700
Other current liabilities	236	182	231	233	229
Total current liabilities	1,047	1,119	977	1,037	1,056
Long-term liabilities	6,308	8,265	8,619	9,419	19,719
Other non-current liabilities	182	161	283	283	283
Total liabilities	7,537	9,545	9,879	10,739	21,058
Paid-up capital	1,040	1,040	1,040	1,040	1,040
Share premium	411	411	411	411	411
Retained earnings	15,159	14,831	14,943	15,308	16,562
Others	(1,459)	(1,971)	(946)	(946)	(946)
Minority interests	33	1	10	10	10
Total equity	15,356	14,484	15,631	15,996	17,250
Total liabilities & equity	22,893	24,030	25,510	26,735	38,308

CASH FLOW STATEMENT					
Year End Dec (Bt, m)	2011	2012	2013	2014F	2015F
Net profit	724	148	545	935	2,570
Depreciation	656	920	1,146	1,249	1,450
Chg. In working capital	(1,486)	595	(948)	310	(279)
Other operating activities	1,157	(912)	271	(523)	(606)
CF from operating	1,051	751	1,013	1,970	3,135
CAPEX	(3,045)	(6,767)	(2,457)	(3,865)	(11,467)
Other investing activities	771	2,230	3,657	(641)	(690)
CF from investment	(2,274)	(4,537)	1,200	(4,506)	(12,157)
Capital increase	0	0	0	0	0
Debt financing	2,113	2,041	206	846	10,300
Dividend payment	(644)	(468)	(415)	(547)	(1,254)
Other financing activities	(318)	(143)	1,499	(1,000)	(1,200)
CF from financing	1,151	1,430	1,289	(701)	7,846
Inc. (Dec.) in cash	(73)	(2,356)	3,502	(3,237)	(1,176)
Beginning cash	4,223	4,375	1,901	2,942	991
Ending cash	4,150	2,019	5,403	(295)	(185)

QUARTERLY INCOME STATEMENT					
Year End Dec (Bt, m)	4Q12	1Q13	2Q13	3Q13	4Q13
Sales					
Cost of good sold					
Gross profit					
SG&A					
Other income					
EBIT					
Finance expenses					
Corporate tax					
Net profit bef. Extra					
Net profit					

Sale growth (% YoY)
EBITDA growth (% YoY)
Net profit growth (% YoY)
Gross margin (%)
EBITDA margin (%)
Net margin (%)

KEY FINANCIAL RATIO					
Year End Dec (Bt, m)	2011	2012	2013	2014F	2015F
Growth (%)					
Sales	4.9	13.5	10.6	43.0	41.8
EBITDA	(16.2)	(19.4)	(0.9)	122.0	70.7
Net profit	(38.2)	(78.1)	245.6	67.4	174.8
EPS	(38.2)	(78.1)	245.6	67.4	174.8
Profitability ratio (%)					
Gross margin	35.6	15.4	8.8	31.9	45.1
EBITDA margin	48.8	34.7	31.1	48.2	58.1
EBIT margin					
Net margin	23.5	4.5	14.2	16.6	32.1
ROAE	4.8	1.1	3.6	5.8	15.2
ROAA	3.4	0.7	2.2	3.5	7.7
Leverage ratio (x)					
D/E	0.5	0.7	0.6	0.7	1.2
Net D/E	0.2	0.5	0.4	0.6	1.1
Interest coverage	1.9	0.7	0.1	2.9	5.8

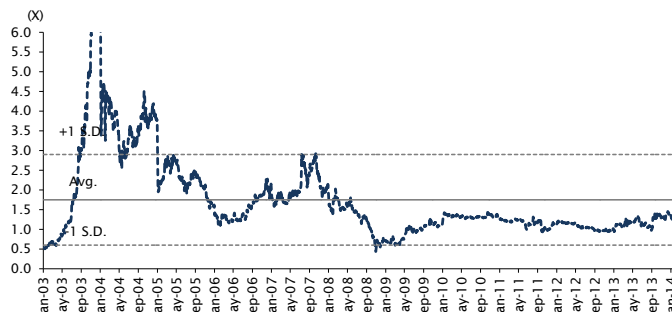
Asset turnover (days)					
Year End Dec (Bt, m)	2011	2012	2013	2014F	2015F
A/R	9.4	17.8	60.9	58.7	39.7
Inventories	122.0	111.6	55.7	57.5	50.3
A/P	4.1	2.1	1.2	2.3	2.3
Per share (Bt)					
EPS	0.70	0.15	0.53	0.88	2.42
DPS	0.30	0.40	0.40	0.53	1.21
BV	14.77	13.93	15.04	15.39	16.59

KEY ASSUMPTION					
Year End Dec (Bt, m)	2011	2012	2013	2014F	2015F
Number of vessels	25	36	40	44	59
Total DWT	704,258	1,156,109	1,351,583	1,522,661	2,359,176
Average freight rate (USD/day)	11,265	8,221	7,194	10,419	13,982
Cash opex expenses (USD/day)	4,613	4,481	4,535	4,500	4,750

PER band



PBV band



Source: AECS Research

AECS Investment Research – Recommendation Definitions

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.

Stock Recommendations

BUY: Expecting positive total returns of 15% or more over the next 12 months.

HOLD: Expecting total returns of not more than -10% to +10% over the next 3 months.

SELL: Expecting negative total returns of 15% or more over the next 12 months

Disclaimers

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