BUALUANG SECURITIES

EARNINGS RESULTS

Precious Shipping

9 February 2016

PSL TB / PSL.BK

Extra expenses put damper on 4Q15 bottom line; to see deeper core loss

Sector: Transportation – NEUTRAL

Rating: HOLD

Target Price: Bt6.00

Price (8 February 2016)**: Bt5.00**

Core loss in line with estimate

PSL reported a net loss of Bt1,513m, deeper YoY and QoQ. Stripping out a Bt5m gain on disposal of current investment, Bt279m loss on sales of vessels, Bt841m loss on impairment of assets, Bt6m bad debt expense and Bt25m FX loss, the 4Q15 core loss would be Bt410m, deeper both YoY and QoQ. While the core loss was in line with our forecast, the net loss was much deeper than estimate, due to extra expenses.

Results highlights

The core operational weakness was led by: 1) a lower average freight rate, 2) higher SG&A expenses and 3) higher interest expenses. The average freight rate dropped by 26% YoY and 18% QoQ to US$5,950/day/ship. The SG&A/sales ratio rose to 10.5% from 3.5% in 4Q14 and 7.9% in 3Q15. In addition, the interest expenses increased by 39% YoY and 5% QoQ to Bt151m, due to higher loan outstanding. Note that the number of vessels increased to 45 in 4Q15 from 44 in 4Q14 (but remained unchanged QoQ).

Outlook

The average BDI in 1Q16 to date has dropped 40% YoY and 42% QoQ to 370 points, led by a 52% plunge in the Capesize index followed by a 41% decrease in the Supramax index and a 34% contraction in the Handysize. The key reasons behind the weak BDI and freight rates were: 1) low seasonal demand during long Chinese New Year holidays and 2) sluggish global demand, particularly China, on the back of economic slowdown. As such, we expect PSL's core operation to remain in red ink and weaken further both YoY and QoQ in 1Q16.

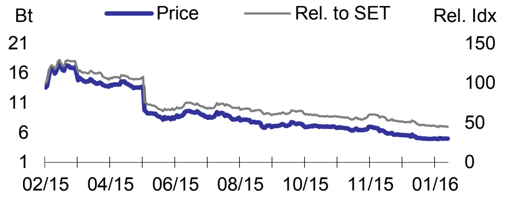
What's changed?

We deepened our FY16 net loss forecast to Bt613m from Bt432m to reflect a 4% downward revision in our average freight rate assumption to US$7,516/day/ship for 2016. As such, our revised YE16 target price is now Bt6 (from Bt9.75), pegged to PBV of 0.6x—the valuation that the stock traded during the tough cycle.

Recommendation

In our view, the prolonged weak dry bulk shipping market and the firm's operational performance in 2016, to be brought about by weak global demand, will continue to put downward pressure on the share price going forward. However, we think the current share price which trades at a YE16 PBV of 0.5x—1.8SD below its long-term mean of 1.2x—has already priced this in.

Price chart

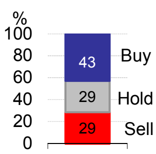


Share price perf. (%)	1M	3M	12M
Relative to SET	(15.8)	(21.3)	(45.9)
Absolute	(10.7)	(28.1)	(64.3)

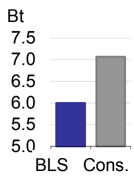
Key statistics

Market cap	Bt7.8bn	USD0.2bn
12-mth price range	Bt4.9/Bt17.9	
12-mth avg daily volume	Bt39m	USD1.1m
# of shares (m)	1,559	
Est. free float (%)	39.3	
Foreign limit (%)	49.0	

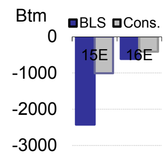
Consensus rating



BLS Target price vs. Consensus



BLS earnings vs. Consensus



Financial summary

FY Ended 31 Dec	2015	2016E	2017E	2018E
Revenues (Btm)	4,257	4,979	5,724	5,724
Net profit (Btm)	(2,426)	(613)	413	395
EPS (Bt)	(1.56)	(0.39)	0.26	0.25
EPS growth (%)	-1,916.0%	+74.7%	n.m.	-4.3%
Core profit (Btm)	(1,279)	(613)	413	395
Core EPS (Bt)	(0.79)	(0.38)	0.26	0.25
Core EPS growth (%)	-1,011.8%	+52.1%	n.m.	-4.3%
PER (x)	n.m.	n.m.	18.9	19.7
PBV (x)	0.5	0.5	0.5	0.5
Dividend (Bt)	0.0	0.0	0.4	0.4
Dividend yield (%)	0.0	0.0	8.0	8.0
ROE (%)	(15.3)	(3.8)	2.6	2.5

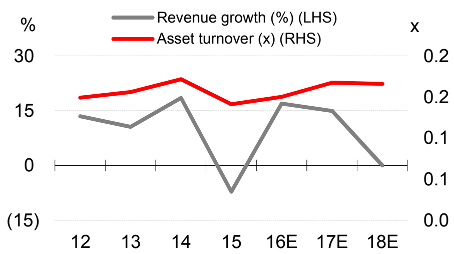
CG/Anti-Corruption / 4

Suppata Srisuk
Securities Fundamental Investment Analyst
suppata@bualuang.co.th
+66 2 618 1343

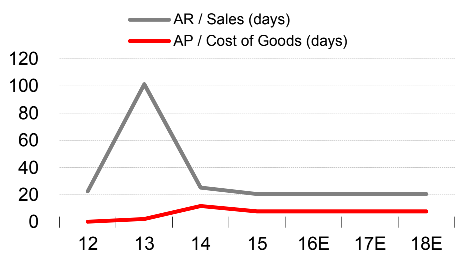
PSL: Financial Tables – Year

PROFIT & LOSS (Btm)	2014	2015	2016E	2017E	2018E
Revenue	4,585	4,257	4,979	5,724	5,724
Cost of sales and services	(3,995)	(4,594)	(4,525)	(4,118)	(4,118)
Gross profit	**590**	**(338)**	**454**	**1,606**	**1,606**
SG&A	(252)	(386)	(448)	(515)	(515)
EBIT	**338**	**(724)**	**6**	**1,091**	**1,091**
Interest expense	(425)	(565)	(669)	(728)	(748)
Other income/exp.	5	2	12	12	12
EBT	**(82)**	**(1,286)**	**(651)**	**376**	**356**
Corporate tax	(2)	(2)	0	(0)	(0)
After-tax net profit (loss)	**(84)**	**(1,288)**	**(651)**	**375**	**356**
Minority interest	2	0	1	(1)	(1)
Equity earnings from affiliates	8	8	37	38	40
Extra items	(6)	(1,146)	0	0	0
Net profit (loss)	**(80)**	**(2,426)**	**(613)**	**413**	**395**
Reported EPS	(0.08)	(1.56)	(0.39)	0.26	0.25
Fully diluted EPS	**(0.08)**	**(1.51)**	**(0.38)**	**0.26**	**0.25**
Core net profit	**(74)**	**(1,279)**	**(613)**	**413**	**395**
Core EPS	(0.07)	(0.79)	(0.38)	0.26	0.25
EBITDA	**1,605**	**782**	**1,538**	**2,685**	**2,749**
KEY RATIOS					
Revenue grow th (%)	18.5	(7.2)	17.0	15.0	0.0
Gross margin (%)	12.9	(7.9)	9.1	28.1	28.1
EBITDA margin (%)	35.0	18.4	30.9	46.9	48.0
Operating margin (%)	7.4	(17.0)	0.1	19.1	19.1
Net margin (%)	(1.7)	(57.0)	(12.3)	7.2	6.9
Core profit margin (%)	(1.6)	(30.1)	(12.3)	7.2	6.9
ROA (%)	(0.3)	(8.0)	(1.8)	1.2	1.1
ROCE (%)	(0.3)	(8.3)	(1.9)	1.3	1.2
Asset turnover (x)	0.2	0.1	0.1	0.2	0.2
Current ratio (x)	0.9	0.2	0.5	0.2	0.5
Gearing ratio (x)	0.8	0.9	1.1	1.1	1.2
Interest coverage (x)	0.8	n.m.	0.0	1.5	1.5
BALANCE SHEET (Btm)					
Cash & Equivalent	535	454	267	444	214
Accounts receivable	318	241	282	324	324
Inventory	0	0	0	0	0
PP&E-net	22,071	25,330	26,440	26,406	26,339
Other assets	4,665	6,099	6,470	6,775	7,097
Total assets	**27,909**	**32,458**	**33,941**	**34,484**	**34,521**
Accounts payable	128	99	97	89	89
ST debts & current portion	812	5,604	1,624	7,274	1,624
Long-term debt	11,101	9,206	15,233	10,309	16,186
Other liabilities	73	82	87	91	95
Total liabilities	**12,625**	**15,972**	**18,070**	**18,843**	**19,128**
Paid-up capital	1,040	1,559	1,559	1,559	1,559
Share premium	584	2,140	2,140	2,140	2,140
Retained earnings	14,551	12,122	11,508	11,277	11,028
Shareholders equity	**15,285**	**16,488**	**15,875**	**15,643**	**15,394**
Minority interests	(1)	(2)	(3)	(2)	(2)
Total Liab.&Shareholders' equity	**27,909**	**32,458**	**33,941**	**34,484**	**34,521**
CASH FLOW (Btm)					
Net income	(80)	(2,426)	(613)	413	395
Depreciation and amortization	1,267	1,505	1,532	1,594	1,658
Change in w orking capital	(214)	269	(142)	(52)	43
FX, non-cash adjustment & others	373	1,698	(47)	(684)	(51)
Cash flows from operating activities	**1,346**	**1,046**	**730**	**1,272**	**2,046**
Capex (Invest)/Divest	(5,518)	(3,868)	(2,642)	(1,560)	(1,592)
Others	7	307	(371)	(305)	(322)
Cash flows from investing activities	**(5,512)**	**(3,561)**	**(3,013)**	**(1,866)**	**(1,913)**
Debt financing (repayment)	2,099	184	2,096	771	283
Equity financing	0	2,283	0	0	0
Dividend payment	(321)	(208)	0	0	(645)
Others	7	307	(371)	(305)	(322)
Cash flows from financing activities	**1,778**	**2,259**	**2,096**	**771**	**(362)**
Net change in cash	(2,388)	(256)	(187)	177	(229)
Free cash flow (Btm)	**(4,173)**	**(2,823)**	**(1,912)**	**(289)**	**454**
FCF per share (Bt)	**(4.0)**	**(1.8)**	**(1.2)**	**(0.2)**	**0.3**
Key assumptions	**2014**	**2015**	**2016E**	**2017E**	**2018E**
TC rate (US$/day/ship)	8,096.0	6,266.0	7,519.2	8,647.1	8,647.1
No.of operating days (days)	15,330.0	16,425.0	20,257.5	20,257.5	20,257.5
No.of ships	42.0	45.0	55.5	55.5	55.5

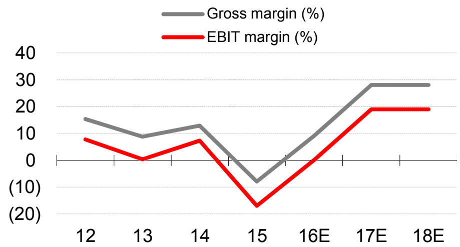
Revenue growth and asset turnover



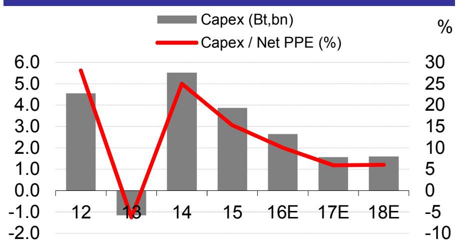
A/C receivable & A/C payable days



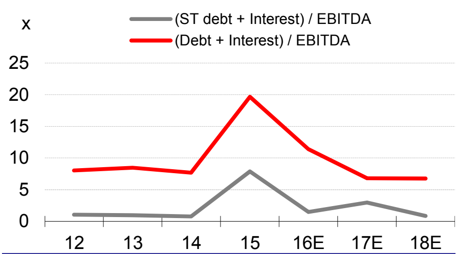
Profit margins



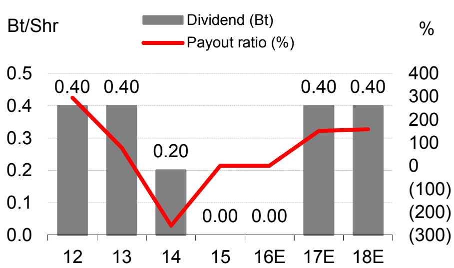
Capital expenditure



Debt serviceability



Dividend payout



PSL: Financial Tables – Quarter

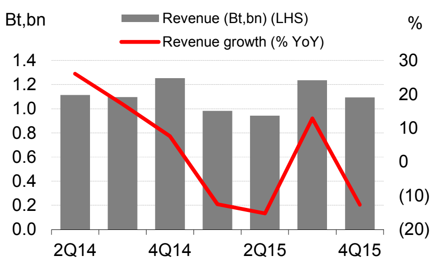
QUARTERLY PROFIT & LOSS (Btm)	4Q14	1Q15	2Q15	3Q15	4Q15
Revenue	1,254	981	944	1,237	1,095
Cost of sales and services	(1,125)	(1,082)	(1,090)	(1,179)	(1,244)
Gross profit	129	(100)	(146)	58	(149)
SG&A	(44)	(88)	(85)	(98)	(115)
EBIT	**85**	**(189)**	**(231)**	**(40)**	**(264)**
Interest expense	(109)	(135)	(135)	(144)	(151)
Other income/exp.	1	0	1	0	1
EBT	**(23)**	**(324)**	**(365)**	**(183)**	**(414)**
Corporate tax	(5)	0	(1)	0	(0)
After-tax net profit (loss)	(28)	(324)	(366)	(183)	(415)
Minority interest	0	0	0	0	0
Equity earnings from affiliates	5	(3)	4	3	4
Extra items	3	(9)	(40)	6	(1,103)
Net profit (loss)	**(21)**	**(336)**	**(403)**	**(175)**	**(1,513)**
Reported EPS	(0)	(0)	(0)	(0)	(1)
Fully diluted EPS	**(0.02)**	**(0.32)**	**(0.25)**	**(0.11)**	**(0.94)**
Core net profit	**(23.36)**	**(326.50)**	**(362.34)**	**(180.30)**	**(410.26)**
Core EPS	(0.02)	(0.31)	(0.22)	(0.11)	(0.25)
EBITDA	**430**	**161**	**129**	**349**	**143**

KEY RATIOS					
Gross margin (%)	10	(10)	(15)	5	(14)
EBITDA margin (%)	34	16	14	28	13
Operating margin (%)	7	(19)	(24)	(3)	(24)
Net margin (%)	(2)	(34)	(43)	(14)	(138)
Core profit margin (%)	(2)	(33)	(38)	(15)	(37)
BV (Bt)	15	14	15	16	14
ROE (%)	(1)	(9)	(10)	(4)	(35)
ROA (%)	(0)	(5)	(5)	(2)	(19)
Current ratio (x)	1	0	0	1	0
Gearing ratio (x)	1	1	1	1	1
Interest coverage (x)	1	n.m.	n.m.	n.m.	n.m.

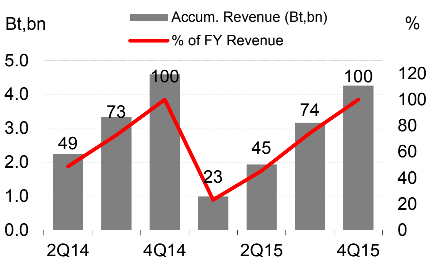
QUARTERLY BALANCE SHEET (Btm)					
Cash & Equivalent	535	335	1,936	632	454
Accounts receivable	318	293	259	245	241
Inventory	0	0	0	0	0
PP&E-net	22,071	22,414	23,685	25,187	25,330
Other assets	4,665	4,873	4,861	6,540	6,099
Total assets	**27,909**	**28,238**	**31,048**	**32,926**	**32,458**
Accounts payable	128	208	86	69	99
ST debts & current portion	812	7,697	4,821	1,644	5,604
Long-term debt	11,101	4,936	8,406	12,355	9,206
Other liabilities	73	75	76	77	82
Total liabilities	**12,625**	**13,473**	**14,019**	**14,764**	**15,972**
Paid-up capital	1,040	1,040	1,559	1,559	1,559
Share premium	584	584	2,140	2,140	2,140
Retained earnings	14,551	14,215	13,813	13,637	12,122
Shareholders equity	**15,285**	**14,767**	**17,030**	**18,164**	**16,488**
Minority interests	(1)	(1)	(1)	(1)	(2)
Total Liab.&Shareholders' equity	**27,909**	**28,238**	**31,048**	**32,926**	**32,458**

Key operating data	4Q14	1Q15	2Q15	3Q15	4Q15
TC rate (US$/day/ship)	8,032.0	6,074.0	5,757.0	7,282.0	5,950.0
No.of operating days (days)	3,967.0	4,050.0	4,146.0	4,140.0	4,140.0
No.of ships	44.0	45.0	45.0	45.0	45.0

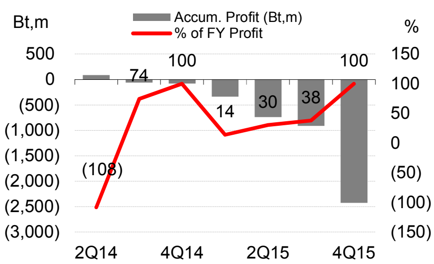
Revenue trend



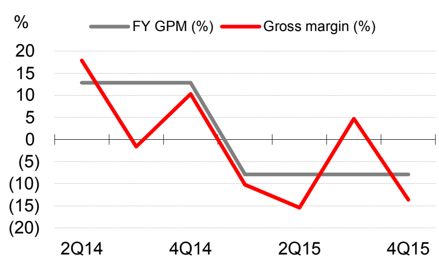
Revenue trend (accumulated)



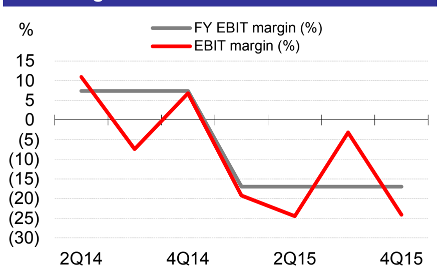
Net profit trend (accumulated)



Gross profit margin



EBIT margin



Company profile

Precious Shipping Public Company Limited (PSL) is a pure dry cargo shipowner. The company is operating in the small handy and supramax sub-sectors. PSL's fleet size now stands at 45 ships with a total capacity of 1,557,173 DWT.

Figure 1 : 4Q15 results

FY Ended 31 Dec (Btm)	4Q15	4Q14	YoY %	3Q15	QoQ %	2015	2014	YoY %
Income Statement								
Revenue	1,095	1,254	*(13)*	1,237	*(11)*	4,257	4,585	*(7)*
Cost of sales and services	(1,244)	(1,125)	*11*	(1,179)	*6*	(4,594)	(3,995)	*15*
EBITDA	143	430	*(67)*	349	*(59)*	782	1,605	*(51)*
EBIT	(264)	85	*(411)*	(40)	*nm*	(724)	338	*nm*
Interest expense	(151)	(109)	*39*	(144)	*5*	(565)	(425)	*33*
Other income/exp.	1	1	*(19)*	0	*457*	2	5	*(59)*
Equity earnings from affiliates	4	5	*(5)*	3	*65*	8	8	*8*
Extra items	(1,103)	3	*nm*	6	*nm*	(1,146)	(6)	*nm*
EBT	**(414)**	**(23)**	*nm*	**(183)**	*nm*	**(1,286)**	**(82)**	*nm*
Corporate tax	(0)	(5)	*(94)*	0	*nm*	(2)	(2)	*nm*
Minority interest	0	0	*nm*	0	*nm*	0	2	*nm*
Net profit (loss)	**(1,513)**	**(21)**	*nm*	**(175)**	*nm*	**(2,426)**	**(80)**	*nm*
Reported EPS	(1.30)	(0.02)	*nm*	(0.15)	*nm*	(1.30)	(0.02)	*nm*
Core net profit	**(410)**	**(23)**	*nm*	**(180)**	*nm*	**(1,279)**	**(74)**	*nm*
Key ratios								
Gross margin (%)	(13.6)	10.3		4.7		(7.9)	12.9	
EBITDA margin (%)	13.1	34.3		28.2		18.4	35.0	
EBIT margin (%)	(24.1)	6.8		(3.2)		(17.0)	7.4	
Tax rate (%)	(0.1)	(23.9)		0.1		(0.1)	(2.7)	
Net margin (%)	(138.2)	(1.6)		(14.1)		(57.0)	(1.7)	
Current ratio (x)	0.2	0.9		0.6		0.2	0.9	
Gearing ratio (x)	0.9	0.8		0.8		0.9	0.8	
Interest coverage (x)	n.m.	0.8		n.m.		(1.3)	0.8	
Balance Sheet								
Cash & Equivalent	454	535	(15)	632	(28)			
Total assets	32,458	27,909	16	32,926	(1)			
ST debts & current portion	5,604	812	590	1,644	241			
Long-term debt	9,206	11,101	(17)	12,355	(25)			
Total liabilities	15,972	12,625	27	14,764	8			
Retained earnings	12,122	14,551	(17)	13,637	(11)			
Shareholders equity	16,488	15,285	8	18,164	(9)			
Minority interests	(2)	(1)	nm	(1)	nm			
BV (Bt)	14.1	14.7	(4)	15.6	(9)			

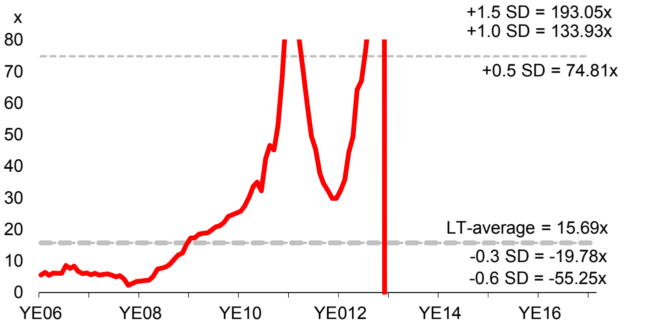
- Revenue contraction was due to lower freight rates both YoY and QoQ
- OPEX per day per ship slid YoY but was stable QoQ
- Depreciation expenses rose both YoY and QoQ in tandem with fleet expansion
- Higher loans outstanding
- Gain on disposal of current investment
- Loss on sales of vessel
- Loss on impairment of assets
- Bad debt expense
- An FX loss
- Core loss was in line with our forecast
- Net loss was deeper than our estimate

Sources: Company data, Bualuang Research estimates

Regional Comparisons

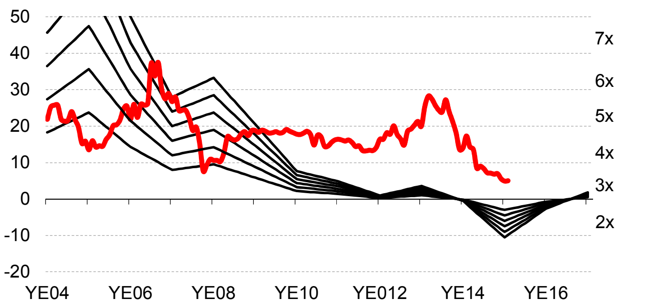
	Bloomberg Code	Price (local curr.)	Market Cap (US$ equivalent)	PER (x) 2015E	PER (x) 2016E	EPS Growth (%) 2015E	EPS Growth (%) 2016E	PBV (x) 2015E	PBV (x) 2016E	ROE (%) 2015E	ROE (%) 2016E	Div Yield (%) 2015E	Div Yield (%) 2016E
U-Ming Marine Transport Corp	2606 TT	TWD24.9	632	24.1	75.5	-86.0	-252.9	0.8	0.8	3.1	2.9	4.2	3.7
Sincere Navigation	2605 TT	TWD19.2	328	11.3	11.8	12.9	-4.4	0.6	0.6	5.3	4.9	5.5	5.6
China Shipping Development	1138 HK	HKD4.7	3,324	16.0	10.6	187.0	26.3	0.6	0.6	4.2	4.3	1.6	2.4
Kawasaki Kisen Kaisha	9107 JP	JPY194.0	1,576	15.4	10.0	-55.9	54.4	0.4	0.4	2.8	4.3	2.7	3.0
Mitsui Osk Lines	9104 JP	JPY226.0	2,357	16.5	8.2	-89.2	627.6	0.3	0.3	0.2	4.5	2.3	2.7
Neptune Orient Lines	NOL SP	SGD1.3	2,313	n.a.	n.a.	-372.6	-102.6	0.9	0.9	31.8	-2.1	0.3	0.4
Precious Shipping	PSL TB	THB5.00	219	n.m.	n.m.	n.m.	n.m.	0.5	0.5	-15.3	-3.8	0.0	0.0
Thoresen Thai Agencies	TTA TB	THB7.20	426	119.1	22.0	-89.4	442.0	0.4	0.4	0.5	2.4	0.4	2.0
Simple average				**33.7**	**23.0**	**-70.5**	**112.9**	**0.6**	**0.6**	**4.1**	**2.2**	**2.1**	**2.5**

PER band versus SD (next 12 months)

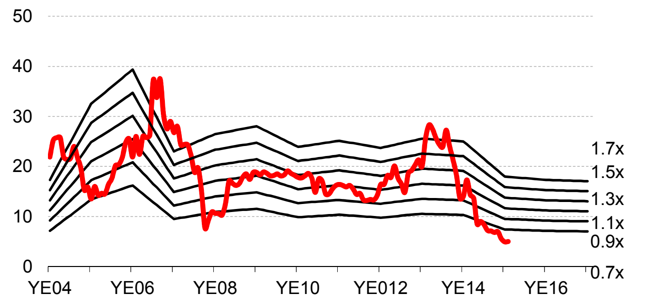


PBV band versus SD (next 12 months)

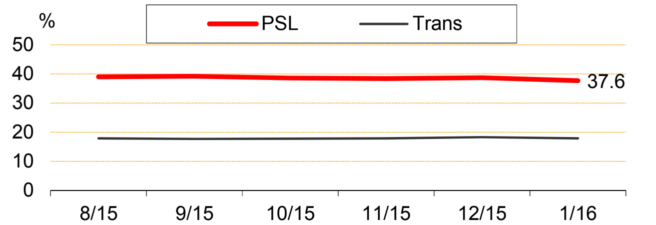
PER band and share price



PBV band and share price



Foreign holdings



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Financial Advisor	Lead underwriter/ Underwriter/ Co-underwriter

CG Rating

Score Range	Score Range	Description
90 – 100		Excellent
80 – 89		Very Good
70 – 79		Good
60 – 69		Satisfactory
50 – 00359		Pass
Below 50	No logo given	N/A

Anti-Corruption Progress Indicator

Level	Description
5	Extended
4	Certified
3B	Established by Commitment and Policy
3A	Established by Declaration of Intent
2	Declared
1	Committed
Partially progress	Partially progress
No progress	No progress

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BUALUANG RESEARCH – RECOMMENDATION FRAMEWORK

STOCK RECOMMENDATIONS

BUY: Expected positive total returns of 15% or more over the next 12 months.
HOLD: Expected total returns of between -15% and +15% over the next 12 months.
SELL: Expected negative total returns of 15% or more over the next 12 months.
TRADING BUY: Expected positive total returns of 15% or more over the next 3 months.

SECTOR RECOMMENDATIONS

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