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3 November 2016

To : The President of the Stock Exchange of Thailand

Subject : The 3rd Quarter of 2016 Management Discussion and Analysis (MD&A)

Our Key Performance Indicators:

THE RESULTS reviewed by EY Office Limited, show you the latest financial position of the Company. The net loss for Q3 was USD 24.75 million from an average of 39 ships in the quarter. The earnings per day per ship during Q3 came in at USD 6,955. In this quarter, average daily operating costs per ship were USD 4,455, which is lower than our target of USD 4,600. The loss in Thai Baht for Q3 was Baht 0.55 per share.

| THE HARD FACTS | Q3, 2015 | Q3, 2016 |
|--|-----------------|-----------------|
| Highest Earnings per day per ship in USD | 15,000 | 15,000 |
| Average Earnings per day per ship in USD | 7,282 | 6,955 |
| Average Earnings per day per ship in USD (Handy Size) | 7,009 | 7,325 |
| Average Earnings per day per ship in USD (Supramax) | 7,601 | 6,636 |
| Operating cost per day per ship in USD | 4,628 | 4,455 |
| EBITDA in million USD | 7.71 | 6.30 |
| Net Profit (Loss) in million USD (excluding Exchange gain and Non-recurring items) | (5.04) | (7.16) |
| Net Profit (Loss) in million USD | (4.90) | (24.75) |
| Earnings (Loss) Per Share in Thai Baht (excluding Exchange gain and Non-recurring items) | (0.12) | (0.16) |
| Earnings (Loss) Per Share in Thai Baht | (0.11) | (0.55) |

The Fleet Rejuvenation Plan has progressed well with 36 ships in the water at the end of this quarter. Two more Ultras from Sanfu Shipyard will join our fleet by the end of Q1 2018. We plan to dispose of two older ships from our fleet in the near future. That will complete our fleet renewal plan.

Update on disputes with Sainty Marine Shipyard: As of date, all 12 ships were delayed and not delivered within the maximum period allowed under the relevant Shipbuilding Contracts with Sainty Marine. Therefore, the Company exercised its contractual right and cancelled all the 12 relevant shipbuilding contracts. We received the refunds of the instalments paid along with the interest thereon from the refund guarantor for 3 out of the 12 cancelled

shipbuilding contracts. There are no more outstanding orders with Sainty Marine now. Arbitration proceedings have been commenced for 11 shipbuilding contracts including the 2 ships delivered to us in 2014 in respect of which, we have initiated arbitration to recover our Warranty claims.

Market Segmentation: During Q3, the Baltic Handy Size Index (BHSI) averaged 399 points derived from the average Time Charter (TC) rate of USD 5,792. Compared to that, our Handies earned USD 7,325 and beat the BHSI TC rate by 26.47%. During Q3, the Baltic Supramax Index (BSI) averaged 676 points derived from the average Time Charter (TC) rate of USD 7,064. Compared to that, our Supramaxes earned USD 6,636 and underperformed the BSI TC rate by 6.06%. Our target has been to outperform both the indexes.

The next SET Opportunity Day will be held at the SET building at 10.10 hours on the 8th November where we will be presenting and discussing our Q3 results. For those of you who cannot attend physically, the SET [webcasts](#) the Opportunity Day presentation live, giving you a chance to be present via the web.

Long Term versus short term Charters: The long term charters already booked as of 30th September are shown in the chart below. As can be seen, our current and forward four year rolling book is currently at the 16.2% level with a visible revenue stream of USD 162.05 million.

| Year | 2016 | 2017 | 2018 | 2019 | 2020 |
|--------------------------------------|--------|--------|--------|--------|--------|
| Total Available Days | 14,819 | 13,870 | 14,226 | 14,235 | 14,274 |
| Fixed T/C Days | 2,562 | 2,555 | 2,240 | 2,190 | 2,196 |
| %age Fixed T/C Days | 17% | 18% | 16% | 15% | 15% |
| Av. T/C Rate/Day in USD | 13,713 | 13,713 | 13,849 | 13,875 | 13,875 |
| Contract value in million USD | 35.13 | 35.04 | 31.02 | 30.39 | 30.47 |

It is our intention to continue to charter out our ships on long term period contracts whenever practical and economically viable.

BDI Developments:

The Baltic Dry Index has continued its recovery peaking at 941 points on the 23rd September before falling to 860 points by 4th October and then staging a smart recovery to 922 points on the 10th October. On the demand side, things have been better than what anyone had expected at the start of this year. Iron ore into China up to the end of Q3 was up 9.1%, coal into china was up 15.2%, steel exports from China was up 2.7% and steel production was down just 0.3% having been up for the last 7 straight months in a row on a year-on-year basis. At the start of the year the forecast for iron ore in to China was for flat to negative growth, coal was to drop by 10% and steel exports were to remain flat to marginally negative. The demand side, therefore, has not let us down when compared to the gloomy forecasts at the start of this year!

So, despite the sterling performance of the demand side we still have a very poor market which can only be explained by the other side of the equation i.e. by the changes in the Supply side.

Key Supply Side Developments:

Supply Side developments: We started 2016 with 771.90 MDWT and have increased to 785.78 MDWT by the end of Q3 for a 1.77% net fleet growth. A further 4.8% (36.94 MDWT) is scheduled for delivery in the balance of 2016 and another 4.92% (37.99 MDWT) scheduled for delivery in 2017. If we were to apply a slippage factor of 55% (was 46.03% in 2015) to these scheduled deliveries and further assume that scrapping reaches 34.70 MDWT per annum (annualised from the 25.98 MDWT scrapped until Q3 of 2016) we would be left with a net fleet growth of 2.82% to 793.68 MDWT in 2016 and another -1.07% to 785.22 MDWT in 2017.

Things, therefore, have not gone as well as one had expected on the supply side. The forecast for the year was for a flat to negative growth rate for the world fleet i.e. scrapping would be equal to or slightly greater than the expected new supply for the year based on the record 14.09 MDWT scrapping in Q1. Scrapping in Q2 at 8.65 MDWT was good but a much slower rate as compared to Q1; however Q3 at 3.24 MDWT is a truly disappointing number. As a result of the slowdown in scrapping, quarter over quarter, there has been a positive increase in the net supply side of the equation of 1.77% or 13.88 MDWT in the first 9 months of this year as against an expected negative fleet growth forecast based on Q1 scrapping numbers. New orders are hovering near zero levels. All existing orders are being delayed due to financial pressure either on the buyers or at the ship yard level. Many orders for 2016/17 have been converted into Tankers and/or Container ships. All of this has helped reduce the pressure from the Supply side of the equation, but if scrapping doesn't pick up in Q4 we think that you may see the market dipping back sharply in Q1 2017 due to the January impact on the supply side (when more ships are delivered in this one month than any other month in the year) and the expected slowdown in demand due to the approaching Chinese New Year. This is not good news for the market.

The Ballast Water Management (BWM) convention comes into force on the 8th of September 2017. All existing ships will have to retrofit a BWM system by their next dry-docks after the 8th September 2017. Any ship that is older than 15 years of age would then become a Scrapping candidate when it's dry-docking becomes due after the effective date. It will make the 'to scrap' decision much easier. Currently there are 130.97 MDWT or 16.67% of the existing dry bulk fleet that would be over 15 years of age and facing their next dry-docking after 8th September 2017 and become likely scrapping candidates.

The main reason why ship-owners would be **buying second hand ships instead of new builds** is the discount compared to new build prices and all the associated angst of ordering new ships with the attendant increase in overall supply. So long as the gap between the depreciated price of a new build as compared to the actual market price of a second hand 5 year old is materially positive i.e. the purchase price of a 5 year old second hand ship is below the depreciated current price of a brand new ship at 5 years of age, then it is better to buy a second

hand ship rather than place an order for a brand new ship. As long as this equation holds, no new build orders will be placed at the empty shipyards.

The **shipyards will become the next victim** of the deteriorating conditions in the dry bulk, container and offshore markets as 2016 looks to set the record for the lowest newbuilding contracts in more than 20 years. A low level of contracting is exactly what the shipping industry needs in order to eventually restore the fundamental balance between supply and demand. (BIMCO)

Key Demand Developments:

PROSPECTS: China's GDP growth numbers have been steady at 6.7% in the first 9 months of this year. **Chinese Iron Ore imports** reached 762.98 MMT by end September for an annualized total import of 1,017.30 MMT or 6.7% higher than the 953.37 MMT in 2015. **Chinese Steel production** reached 604.66 MMT by end September for an annualized total of 806.21 MMT or a marginal increase of 0.7% compared to the 800.53 MMT in 2015. **Chinese Steel exports** reached 85.37 MMT by end September for an annualized total of 113.83 MMT or an increase of 1.3% compared to the 112.41 MMT in 2015. **Coal imports into China** reached 180.27 MMT by end September for an annualized total of 240.36 MMT or an increase of 17.7% over the 204.18 MMT imported in 2015. In a country that currently produces and consumes just under 4.0 BMT of Coal per annum even a small change in their Coal requirements via imports could have a dramatic impact on the Dry Bulk freight markets.

The geopolitical 'tensions' in the South China Sea are being stirred by big-power politics but have had zero impact on commercial shipping. To date, there has been no slowdown in the movement of cargoes because of this so called 'tension' in the South China Seas. If there was any form of real 'tension' concerning the safety of merchant ships in the South China Seas, the underwriters sitting at Lloyds in London would have demanded an extra war risk premium. That hasn't happened because there is no real 'tension' for shipping cargoes safely via the South China Seas at the moment.

There is a belief that **One Belt, One Road (OBOR)** initiated by Chinese President, Xi Jinping, will help bringing peace, economic development, prosperity and job creation with its infrastructure projects, and therefore, the political turmoil and poverty in the areas within OBOR which covers 65 countries, 3 continents and 4.4b people will probably reduce. OBOR would also generate more demand for dry bulk shipping services.

Brazil's share of **Chinese iron ore imports** has now advanced to 21% y-o-y whilst Australia's total share of imports stands at 62% down from 64% in 2015. Strong figures for Chinese iron ore imports in July-August undoubtedly contributed to the improvement in the Capesize market. (Howe Robinson Research)

Inner Mongolia, China's biggest coal producing region cut its output of the commodity by just over 10 percent in the first seven months of the year. By the end of August, the region had shut seven coal mines. The region plans to close a total of 65 mines by 2020 to curb crippling

overcapacity in the sector. Inner Mongolia's first-half production dropped 10.4%, said the Coal Industrial Bureau, bringing down the raw coal production to 407 million tonnes, or 25% of the nation's total. Even so, China has been struggling to meet its November deadline to complete this year's capacity reduction target of 250 million tonnes with provinces worrying about hurting jobs. (Reuters)

Since the Chinese authorities issued new regulations in April reducing coal mining companies' allowed working days from 330 to 276 with the aim of reducing overcapacity, **Chinese coal output** reported by the National Bureau of Statistics have declined. Using data for April–September 2015 versus April–September 2016, we calculate that Chinese coal output has shrunk 12.2% YTD, or by 457 MMT/year from the reported production of 3,747 MMT in 2015. This would be by far the strongest decline on record (BP statistics going back to 1981). Lower domestic Chinese output has meant higher imports, but only 15% higher YOY or c30 MMT/year on an annualised basis; still positive for dry bulk and Chinese imports may very well continue to grow from here. As the output reduction has been caused by new regulations, it is not hard to imagine that a reversal of the regulations could also reverse the positive impact on shipping and the global energy market. (DNB Markets)

China has ordered major coal mines to raise thermal coal output by another 500,000 tonnes per day, the latest concerted effort by the government to boost supplies to its electric utilities ahead of the winter. The latest change doubles the output increases the government has approved in recent days to 30 million tonnes, equivalent to 1.5 times China's average monthly imports of coal this year. (Reuters)

China is planning additional public-private partnerships worth USD150b to spur growth. The third round of investment projects backed by the government focuses mostly on provincial infrastructure projects. The Finance Ministry has a list to 516 projects across China, with Inner Mongolia benefitting the most. Projects will rely on a range of infrastructure-related projects such as highways, pipelines, industrial parks, sewers and other environmental endeavors. The new batch of projects builds on two earlier rounds of projects worth about USD125b. However it's unclear how much of the funding the government will provide within the PPP structures. So far this year China's infrastructure investments are up 20% YoY. (Maersk Brokers)

Malaysia extended its bauxite mining ban (introduced in early 2016) to end 2016. China is the largest importer of Bauxite accounting for ~60% of global bauxite imports with Malaysia contributing 43% of total Chinese imports in 2015. Post the ban, the share of Malaysia has come down to only 4% in July, 2016. However, Chinese imports have still risen 5% y/y YTD (Jan-Jul) as lost share from Malaysia has been replaced by higher share from Australia, Guinea and Brazil which is positive for ton-mile demand as the distance is much larger compared to Malaysia. Key beneficiary is the Handysize segment which ships minor bulks. (Clarksons and Bloomberg)

Chinese bauxite imports from Brazil and Guinea have taken off in 2016; in the first 7 months of 2016 Guinea has totalled 5.5mt and Brazil 1.9mt compared to a meagre 0.4mt from both countries in 2015. Other suppliers are broadly neutral apart from Malaysian bauxite exports

which have fallen 4.7mt this year as a consequence of its government's continued illegal mining ban. (Howe Robinson Research)

China's ongoing rebalancing has seen a successful economic turnaround so far this year. Its economic development rose above expectations, so despite uncertainty the concerns over the Chinese economy have not been realised. This gives an indication that market-driven activity was somewhat stronger than expected. This is also quietly reflecting the execution of monetary and fiscal stimulus undertaken by the Chinese Government to ensure that the annual GDP growth target is met. IMF has increased their 2016 projection for China by 0.1 percentage point to a 6.6% growth rate. Europe's industrial production growth rate is proving to be better than both the US and Japan, showing a positive development in demand. (BIMCO)

Exports of steel products from China over the first eight months were up 6.3% from a year ago at 76.35 MMT. (Reuters)

We continue to believe that the **risk of dry bulk demand entering a structural decline is overrated**. Our proprietary coal and iron ore survey, covering ~90% of the global trade in these commodities, shows continued expansion of low-cost coal and iron ore export projects, and domestic mining in China is now, finally, contracting. Perhaps the most positive development on the demand side for dry bulk is not about volume, but prices. YTD the prices of all the major commodities have increased (Chinese coal prices are up ~40%, European coal prices are up ~30%, Chinese iron ore prices are up ~50% and in the grain segment prices are also improving as IGC's soybean index is up ~20% YTD), which we believe imply: 1) healthier import demand (probably mostly due to downsizing of Chinese production in the coal and iron ore markets); but also 2) a greater willingness to pay for transportation services as the geographical arbitrages are widening again. The above along with better than expected supply and demand trends YTD, lead us to expect the dry bulk market to show clear signs of life in the coming months, which should lift asset prices further. (DNB Markets)

Indonesia's 2016 half year wheat imports increased by 58% y-o-y to just below 6MMT. According to official statistics, Australian wheat accounted for just above a third of imports while Ukrainian and Canadian cargoes accounted for just below 15% each. (Maersk Broker)

So, while the **'Brexit'** result in June 2016 fuelled concerns of economic uncertainty in the EU, seaborne dry bulk trade in the region has already been under pressure for some time. Total seaborne EU dry bulk imports fell 4% in 2015 and at the same rate in January-May 2016, due to a range of market pressures. Overall, given potential additional pressures from 'Brexit', the outlook for the region's dry bulk trade growth appears challenging. (Clarksons)

Japan is the fourth largest consumer of coal in the world, accounting for approximately 3 percent of global consumption. The primary use of coal in Japan is for power generation, accounting for a third of total power generation. The use of coal for power generation was reinforced following the post-Fukushima nuclear shutdown. In April 2016, the government decided to open up its retail electricity market. The liberalization of the market is expected to

lead to the construction of as many as 41 new coal fired power plants over the next decade. Having fallen in 2014, imports are estimated to have risen 1 percent in 2015, to 190.7 million. In 2016, imports of coking coal are expected to remain steady, whilst imports of thermal coal are expected to fall as a number of nuclear power plants are restarted relieving some of the pressure on coal fired power plants operating at capacity. (Banchemo Costa)

Yours Sincerely,

Precious Shipping Public Company Limited

Khalid Hashim
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