

# Maintain Buy on trough rates, PO adjusted for rights offering

## Cutting PO but reiterate Buy, valuation at a deep discount

We maintain our Buy rating on PSL but lower our price objective to Bt13.8 from Bt18.4 based on 1x PNAV (unchanged). PSL is now attractively trading at 0.7x PNAV, one standard deviation below its long-term trading range. An estimated 24% BVPS dilution from PSL's planned rights offering is responsible for 98% of the change in our PO. We have also cut our 2015-16E core earnings by 52-53% to reflect a larger fleet size, as PSL delays vessel retirements in a weak rates environment.

## Current weak freight rates start to slow down supply growth

We see limited downside to the current Handysize and Handymax spot time charter (TC) rates of US\$4,808 and US\$6,549 per day as they are close to cash-negative levels. Weak TC rates have also led to net supply growth trailing at the lowest level in a decade with Handysize and Handymax growth averaging only 1% and 5.8% during Jan–May15. These compare to BofAML's 2015 forecasts of 3% and 8.1%.

## Expect 2H seasonal pick-up in TC rates to drive re-rating

The dry bulk market has been extremely weak in 1Q, with the Baltic Dry Bulk Index averaging 616 in 1Q15 vs. 1,382 in 1Q14 due to poor commodity demand in China and a large number of newbuilt vessels delivered in Jan and Feb. We expect rates to seasonally strengthen in 2H due to seasonally stronger demand (grain in 2Q/4Q and winter pre-stocking iron shipments in 2H), which should re-rate PSL's valuation.

## Risk/reward profile skewed to the upside

The bear argument is that PSL could prove a value trap as the share price today reflects a depressed secondhand vessel value, which is in line with near cash-negative freight rates. Should the seasonal rates recovery fail to materialize, PSL could opt to divest some of the 22 vessels planned for retirement at market price, which would be accretive to core earnings.

## Estimates (Dec)

(Bt)	2013A	2014A	2015E	2016E	2017E
Net Income (Adjusted - mn)	(399)	(153)	(194)	(514)	288
EPS	(0.384)	(0.147)	(0.124)	(0.330)	0.185
EPS Change (YoY)	-186.0%	61.6%	15.6%	-165.0%	NM
Dividend / Share	0.400	0.300	0	0	0
Free Cash Flow / Share	(1.60)	(5.94)	(2.90)	(0.114)	1.52

## Valuation (Dec)

	2013A	2014A	2015E	2016E	2017E
P/E	NM	NM	NM	NM	47.05x
Dividend Yield	4.60%	3.45%	0%	0%	0%
EV / EBITDA*	24.57x	17.61x	13.15x	13.75x	11.66x
Free Cash Flow Yield*	-12.25%	-45.54%	-33.32%	-1.31%	17.49%

\* For full definitions of *iQmethod*<sup>SM</sup> measures, see page 16.

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## Stock Data

Price	Bt8.70
Price Objective	Bt13.80
Date Established	22-May-2015
Investment Opinion	C-1-8
Volatility Risk	HIGH
52-Week Range	Bt8.70-Bt21.58
Mrkt Val / Shares Out (mn)	US\$404 / 1,559.3
Average Daily Volume	5,209,751
BofAML Ticker / Exchange	XORGF / SET
Bloomberg / Reuters	PSL TB / PSL.BK
ROE (2015E)	-1.2%
Net Dbt to Eqty (Dec-2014A)	74.4%
Est. 5-Yr EPS / DPS Growth	-76.0% / NA
Free Float	36.5%

## Key Changes

(Bt)	Previous	Current
Price Obj.	18.40	13.80
2016E EPS	-0.32	-0.33
2017E EPS	0.20	0.18

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Refer to important disclosures on page 17 to 19. Analyst Certification on Page 14. Price Objective Basis/Risk on page 14.

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## iQprofile<sup>SM</sup> Precious Shipping

Key Income Statement Data (Dec)	2013A	2014A	2015E	2016E	2017E
<b>(Bt Millions)</b>					
Sales	3,858	4,575	6,028	6,430	6,719
EBITDA Adjusted	1,151	1,605	2,149	2,056	2,424
Depreciation & Amortization	(1,137)	(1,267)	(1,587)	(1,743)	(1,611)
EBIT Adjusted	13.8	338	562	313	814
Net Interest & Other Income	499	(426)	(785)	(858)	(555)
Tax Expense / Benefit	(7.90)	(2.24)	0.99	2.60	(1.43)
Net Income (Adjusted)	(399)	(153)	(194)	(514)	288
Average Fully Diluted Shares Outstanding	1,040	1,040	1,559	1,559	1,559

### Key Cash Flow Statement Data

Net Income (Reported)	NA	NA	NA	NA	NA
Depreciation & Amortization	1,137	1,267	1,587	1,743	1,611
Change in Working Capital	(716)	869	15.1	53.4	(50.0)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other CFO	514	(1,215)	757	829	524
<b>Cash Flow from Operations</b>	<b>1,463</b>	<b>841</b>	<b>2,165</b>	<b>2,112</b>	<b>2,373</b>
Capital Expenditure	(3,125)	(7,019)	(6,685)	(2,290)	0
(Acquisition) / Disposal of Investments	4,709	1,500	0	0	3,726
Other CFI	(384)	6.50	(105)	(11.3)	110
<b>Cash Flow from Investing</b>	<b>1,200</b>	<b>(5,512)</b>	<b>(6,790)</b>	<b>(2,302)</b>	<b>3,836</b>
Share Issue / (Repurchase)	0	0	2,079	0	0
Cost of Dividends Paid	(514)	(312)	0	0	0
Increase (decrease) debt	206	2,641	3,500	1,500	(6,000)
Other CFF	(1,431)	(46.3)	(782)	(856)	(552)
<b>Cash Flow from Financing</b>	<b>(1,739)</b>	<b>2,282</b>	<b>4,797</b>	<b>644</b>	<b>(6,552)</b>
<b>Total Cash Flow (CFO + CFI + CFF)</b>	<b>923</b>	<b>(2,388)</b>	<b>172</b>	<b>455</b>	<b>(343)</b>
FX and other changes to cash	117	(18.3)	0	0	0
Change in Cash	1,041	(2,407)	172	455	(343)
Change in Net Debt	(835)	5,047	3,328	1,045	(5,657)
Net Debt	6,331	11,378	14,707	15,752	10,095

### Key Balance Sheet Data

Property, Plant & Equipment	20,908	26,088	31,186	31,733	26,397
Goodwill	0	0	0	0	0
Other Intangibles	NA	NA	NA	NA	NA
Other Non-Current Assets	259	648	753	764	654
Trade Receivables	NA	NA	NA	NA	NA
Cash & Equivalents	2,942	535	707	1,161	818
Other Current Assets	327	320	422	450	470
<b>Total Assets</b>	<b>25,510</b>	<b>27,909</b>	<b>33,486</b>	<b>34,555</b>	<b>28,806</b>
Long-Term Debt	8,619	11,101	14,363	15,761	10,169
Other Non-Current Liabilities	NA	NA	NA	NA	NA
Short-Term Debt	654	812	1,051	1,153	744
Other Current Liabilities	606	712	929	1,039	1,029
<b>Total Liabilities</b>	<b>9,879</b>	<b>12,625</b>	<b>16,343</b>	<b>17,952</b>	<b>11,942</b>
<b>Total Equity</b>	<b>15,631</b>	<b>15,284</b>	<b>17,143</b>	<b>16,603</b>	<b>16,864</b>
<b>Total Equity &amp; Liabilities</b>	<b>25,510</b>	<b>27,909</b>	<b>33,486</b>	<b>34,555</b>	<b>28,806</b>

### Business Performance\*

Return On Capital Employed	0.08%	1.19%	1.71%	0.87%	2.40%
Return On Equity	-2.65%	-0.99%	-1.20%	-3.04%	1.72%
Operating Margin	0.36%	7.38%	9.32%	4.86%	12.1%
Free Cash Flow (MM)	(1,662)	(6,178)	(4,520)	(178)	2,373

### Quality of Earnings\*

Cash Realization Ratio	NM	NM	NM	NM	8.23x
Asset Replacement Ratio	2.75x	5.54x	4.21x	1.31x	0x
Tax Rate	1.45%	NM	0.50%	0.50%	0.50%
Net Debt/Equity	40.5%	74.4%	85.8%	94.9%	59.9%
Interest Cover	0.03x	0.68x	0.72x	0.36x	1.46x

\* For full definitions of *iQmethod*<sup>SM</sup> measures, see page 16.

### Company Description

Precious Shipping (PSL TB) is a pure dry-bulk shipping company that owns and operates a fleet of 35 Handysize and 11 Supramax/Ultramax dry-bulk ships. PSL was established in Thailand in 1989, but serves markets all over the globe.

### Investment Thesis

PSL's valuation is attractive, in our view, trading at 0.7x PNAV, compared to its 10-year historical average of 1x. We believe dry-bulk's tepid fundamentals have been built into the price. Positive catalysts: 2H expected seasonal rate rise into the grain season and iron ore shipments. The currently depressed rates have caused industry supply to come under forecast. Historically, dry bulk stock prices generally trade with spot TC rates.

### Stock Data

Price to Book Value 0.8x

## Reiterate Buy on trough in time charter rates and undemanding valuation

We maintain our Buy rating on PSL but lower our price objective to Bt13.8 from Bt18.4 based on 1x PNAV. Despite a currently soft commodity demand outlook, we reiterate our Buy rating on PSL due to: limited expected downside to time charter (TC) rates and an undemanding valuation of 0.7x PNAV, one standard deviation below its long-term trading range.

Exhibit 1: PSL's P/NAV has undershot its range



Source: Clarksons, Bloomberg, Phatra Securities, BofA Merrill Lynch Global Research

Our price objective adjustment is mainly to reflect PSL's rights offering plan. The offering is driven by PSL's decision not to divest 22 older Handysize as originally planned in a current weak rates and second hand price environment, hence the requirement of bridging cash for capex and loan refinancing. Our PO adjustment is factored down to -Bt4.5/sh for dilution (24% BVPS dilution) and -Bt0.1/sh on relatively lower non-fleet net assets post earnings cuts.

Table 1: PSL – Rights offering

Before XR shares (mn)	1,040
New shares from Rights Offerings (mn)	520
Post XR shares (mn)	1,559
Offering price	Bt 4/sh

XR date	8 May 2015
Subscription periods	27-29 May 2015
Payment periods	2-3 June 2015

Source: PSL

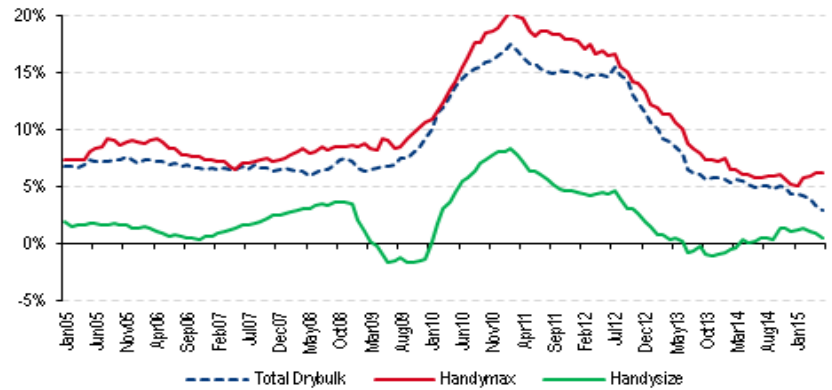
As a result of larger fleet size due to delayed vessel divestment, PSL will be sitting on 38%-47% larger tonnage capacities during 2015-16 assuming no new delivery deferrals. Given BofAML's view on the Baltic Dry Index which it sees at 1,000 and 950 index points respectively for this year and next (which is loss-making at a net profit level), we have cut our 2015-2016E core earnings by 52% and 53% respectively.

We expect PSL to turn profitable in 2017 due to our expectation of a rates recovery. We assume PSL will divest 22 older vessels in 2017, where net proceeds should also reduce interest expenses for the year.

We see limited downside in TC rates as the current average spot for Handysize and Handymax of \$US5,700 per day is very close to PSL's (and the Handy industry's) operational cash costs of \$US5,900. At TC rates close to cash-negative levels, we believe ship-owners with relatively high gearing and/or weak balance sheets may find it difficult to financially survive. This should lead to relatively higher scrapping and delivery slippage.

Our view is reaffirmed by industry supply data provided by *Clarksons*. Handysize and Handymax net supply growth averaged only 1% and 5.8% respectively, the lowest levels in a decade, and below our 2015 forecasts of 3% and 8.1% respectively (see [PSL upgrade report](#) 13 February 2015).

Exhibit 2: Industry supply growth is at the lowest level in a decade



Source: Clarksons

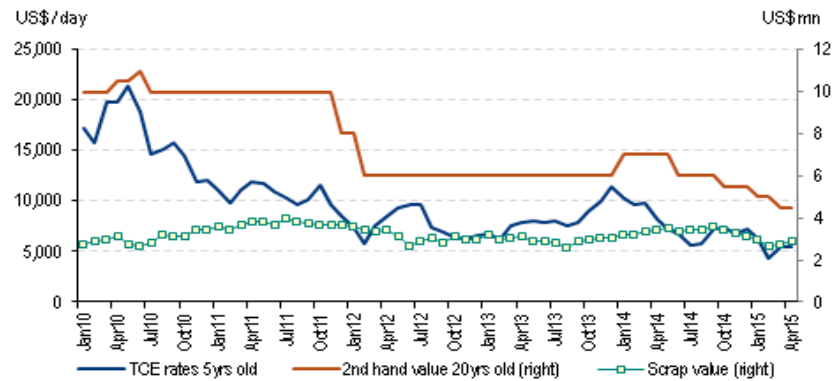
**Risk/reward profile skewed to the upside**

We believe the company’s risk/reward profile is skewed to the upside, since the current share price has already reflected second-hand vessel prices at a depressed level in line with near cash-negative TC rates, which is about 20-25% below our pricing assumptions employed to derive our NAV and price objective.

The bear case would be that PSL proves to be a value trap. In our view second-hand prices should not significantly decline further, in line with a seasonal low for dry bulk and near-cash-negative TC rates.

Should the weakness in TC rates unexpectedly continue into 2H15 or extra cash be required, PSL could opt to divest some of its 22 vessels planned for retirement at market price, which would be accretive to core earnings.

Exhibit 3: Secondhand vessel value trades in line with time-charter rates



Source: Clarksons

Exhibit 4: BDI seasonality, 2005-2013



Source: Bloomberg

Our base case expects a 2H seasonal pick-up to drive a share price re-rating. The share price movements of PSL and other dry bulk operators typically mirror the BDI which in our view presents an opportunity for some names, especially those with undemanding multiples.

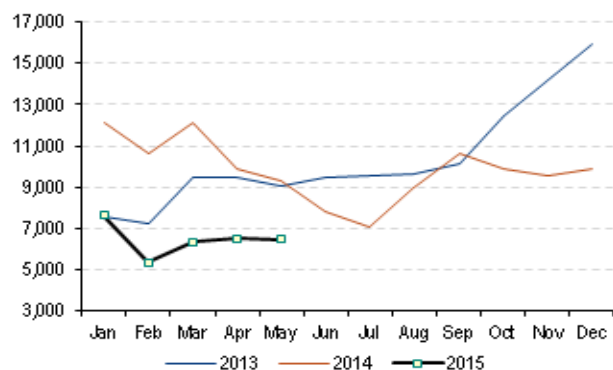
A key reason for the seasonal pattern in rates is iron ore. Iron ore production is usually slower in the first quarter due to uncondusive weather in Brazil and Australia. Iron ore imports by China are also typically stronger in the second half of the year, driven by higher industrial and steel output and winter restocking by steel mills, power stations, manufacturers and suppliers.

This is in line with BofAML's China Metals & Mining team, which expects a solid demand recovery for base metal in 2H15 driven by both property and monetary policy easing (see [Buy selectively on demand expectation improvement](#) dated 31 March 2015 and [Reiterate our positive view with more monetary easing](#) dated 11 May 2015).

Grain harvest also plays a part in causing seasonality in rates. The Southern Hemisphere typically harvests in 2Q and 4Q while the Northern Hemisphere harvests during the second half of the year. Combined, these generally leave 1H to be a softer period for TC rates compared to the 2H.

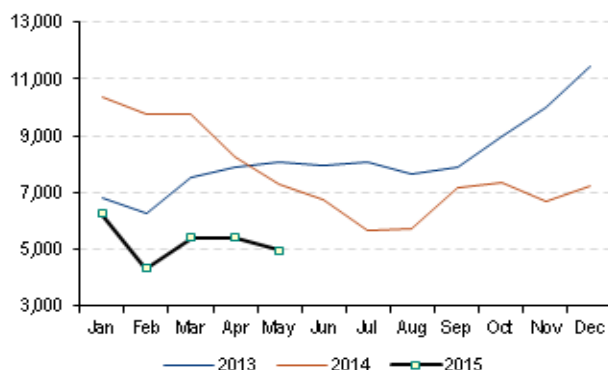
As of today, Handysize and Handymax spot Time Charter Equivalent (TCE) rates have bounced 15% and 22% from the seasonal low at Chinese New Year. We believe the weakness in PSL's share price since March 2015 has been driven by dilution concerns, which we believe is already in the price as discussed.

Exhibit 5: Handymax – TCE rates, 2013-15 (USD/day)



Source: Baltic Exchange, Time Charter Equivalent rates

Exhibit 6: Handysize – TCE rates, 2013-15 (USD/day)



Source: Baltic Exchange, Time Charter Equivalent rates

### Rights offering today for future divestment gains

PSL has called for a rights offering of Bt2.079bn. This will be carried out via an issuance of 519.76mn new shares at Bt4/share at a ratio of two existing shares to one new share. This equates to 24% BVPS dilution assuming all new shares are fully subscribed. We don't see the rights offering as necessary, but view it as a strategically positive move in the current depressed rate environment.

The key swing factor is the postponed retirement of 22 older Handysize vessels with an average age of 18 years and average size of 26,000 Dead Weight Tonnage (DWT). The planned net proceeds had been earmarked for part of Bt6.8bn in committed vessel capex in 2015 according to our estimation.

The value of a secondhand vessel generally trades in line with its respective TC rates, and Handysize secondhand prices have declined by 36% YoY and TC rates have halved respectively (per exhibit 3 above).

At the currently depressed average market price of US\$4.5mn (we assume US\$5mn for valuation), PSL would have received US\$99mn for its 22 planned divestments or Bt3.27bn. This would have been ample to cover PSL's Bt2.1bn cash requirement for its rights offering.

However, pushing divestment out to 2017 when we expect the BDI to average at 1,050 points (slightly below 2014 levels), the resulting potential average vessel price of US\$6.3mn implies US\$139mn in proceeds would be gained, or cBt1.2bn in extra cash. Given its proven track record in vessel trading we are therefore not surprised by PSL's decision to defer its vessel retirement plan.

**Table 2: Rights Offering equates to 24% dilution in BPS, assuming full subscriptions**

(Bt mn)	Before XR	After XR	RO impact
Paid-up capital	1,040	1,559	520
Premiums	584	2,143	1,559
Retained earnings	14,551	14,551	-
Other (FX translation)	-890	-890	-
<b>Equity holders of PSL</b>	<b>15,285</b>	<b>17,364</b>	<b>2,079</b>
Minorities	-1	-1	-
<b>Total shareholders' equity</b>	<b>15,284</b>	<b>17,363</b>	<b>2,079</b>
No. of shares (mn)	1,040	1,559	520
<b>BVPS (Bt)</b>	<b>14.7</b>	<b>11.1</b>	<b>-24.3%</b>

\*Calculation is based on December 2014 balance sheet

Source: PSL, Phatra Securities research estimate

## Earnings forecasts and revisions

We cut 2015-2016 core earnings by 52%-53% and increase our 2017 forecast by 36%. Without any change in our BDI forecast of 1000, 950 and 1050 index points over 2015-2017, PSL's decision not to divest 22 older vessels translates to 38-47% higher tonnage capacities over 2015-2016 and hence larger losses can be expected.

Our revenue per ship per day assumptions have been cut by 10%-24% over 2015-17. This is to reflect smaller average ship size (22 originally planned retirements with an average of 26,000 DWT compared to 38,000 and 64,000 DWT for new deliveries) and older average age from three years originally to 10 years. We adjust down total daily costs per ship to reflect smaller vessels and lower ownership costs.

We assume PSL will divest the 22 older ships in 2017 instead as we expect TC rates to pick up. Cash proceeds from divestment should help lower net interest expenses, which led us to increase 2017 core earnings estimate by 36%. Management has not given any new guidance on the timing of divestment.

At the core EPS level, the rights offering dilute EPS by 55% (1,559 shares from 1,040m shares previously). Coupled with core earnings adjustments, core EPS is revised down by 1%-2% over 2015-2016 and 10% for 2017.

Table 3: PSL – Operating assumptions

		2015	2016	2017
Total capacities (DWT)	Revised	2,625,564	3,021,564	2,471,564
	Old	1,789,564	2,185,564	2,185,564
	% change	47%	38%	13%
Average ship size (DWT)	Revised	41,676	43,165	51,491
	Old	43,648	45,533	45,533
	% change	-5%	-5%	13%
Revenue / ship / day (US\$)	Revised	9,182	8,027	9,455
	Old	10,162	10,602	10,935
	% change	-10%	-24%	-14%
Total costs / ship / day (US\$)	Revised	9,525	8,709	9,097
	Old	10,459	11,283	10,623
	% change	-9%	-23%	-14%

Source: Phatra Securities estimates, BofA Merrill Lynch Global Research estimates

Table 4: PSL – Earnings revisions

		2015	2016	2017
Operating profits (Btmn)	Revised	562	313	814
	Old	555	418	889
	% change	1%	-25%	-8%
Core profits (Btmn)	Revised	-194	-514	288
	Old	-128	-336	213
	% change	-52%	-53%	36%
Core EPS	Revised	-0.12	-0.33	0.18
	Old	-0.12	-0.32	0.20
	% change	-1%	-2%	-10%
Reported profits (Btmn)	Revised	-194	-514	289
	Old	-127	-336	213
	% change	-52%	-53%	35%

Source: Phatra Securities estimates, BofA Merrill Lynch Global Research estimates

## Deep discount to NAV, reiterate Buy rating

We are lowering PSL's price objective to Bt13.8 from Bt18.4 (-25%) based on 1x NAV, in line with its historical average and consistent with our previous valuation method. PSL's valuation has retreated to 0.7x NAV, which is at its 10 year -1x STDEV.

This presents a particularly attractive buying opportunity in our view since the only time in which PSL's valuation fell below this level was during the 2008 Global Financial Crisis. Coupled with TC rates which are near cash-negative levels and expected seasonal strength, we reiterate our Buy rating.

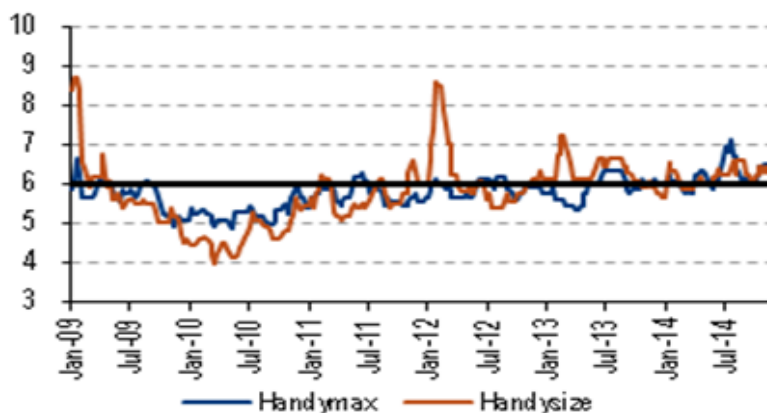


Our change in price objective is made up of two components. The rights offering dilutes NAV by Bt4.5/share or 24.3% BPS dilution as shown in Table 1. This accounts for 98% of the change in our price objective.

Another Bt0.1/share reduction is derived from relatively lower non-fleet net assets in the wake of our earnings cut.

We calculate NAV by applying a 6x multiple to the expected one-year TC rate for 2015 for its fleet, and this has remain unchanged. Our secondhand pricing assumptions are 9% below 2014 levels, in line with the decline in our BDI forecasts over 2014 to 2015.

Exhibit 7: Small vessels – five-year-old value/one-year time charter rate



Source: Clarksons

Note that we conservatively value the 22 vessels planned for divestment at an average price of US\$5mn each (no change from our previous price objective). This is lower than an average of US\$7.4mn per ship or Bt1.1/share higher if we were to assign value as operational ships, rather than for divestment/scrap, at the 2015 year-end estimated market price.

Table 5: PSL – NAV estimation for December 2015 (see overleaf for fleet list)

		Unit
Est. market value of fleet at December 2015	1,079	US\$mn
Est. market value of fleet at December 2015 @ 33 THBUSD	35,606	Btmn
Other non-current asset	753	Btmn
Total current asset	1,547	Btmn
Total liabilities	16,343	Btmn
Net Asset Value at December 2015	21,563	Btmn
Number of shares	1,559	mn
<b>NAV / share</b>	<b>13.8</b>	<b>Bt/sh</b>

Source: Clarksons, Bloomberg, Phatra Securities, BofA Merrill Lynch Global Research



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Table 6: Estimation of PSL's Handysize fleet list and market value at December 2015

No.	Ship Name	Flag	Year Built	Age (Years old)	Dead Weight Tonnes (DWT)	Clarksons Est. value (\$mn)
1	Boonrika Naree	Thai	1990	25	27,881	5 (5)
2	Saranya Naree	Thai	1991	24	28,583	5 (5)
3	Suchada Naree	Thai	1994	21	23,732	5 (6)
4	Tharinee Naree	Thai	1994	21	23,724	5 (6)
5	Parinda Naree	Thai	1995	20	23,720	5 (6)
6	Ploypailin Naree	Thai	1995	20	26,472	5 (6)
7	Fonthida Naree	Thai	1995	20	28,484	5 (6)
8	Sujitra Naree	Thai	1995	20	28,290	5 (6)
9	Apisara Naree	Thai	1996	19	18,596	5 (6)
10	Chalothorn Naree	Thai	1996	19	27,079	5 (6)
11	Mathawee Naree	Thai	1996	19	28,364	5 (6)
12	Bussara Naree	Thai	1997	18	18,573	5 (7)
13	Chollada Naree	Thai	1997	18	18,485	5 (7)
14	Dusita Naree	Thai	1997	18	18,486	5 (7)
15	Emwika Naree	Thai	1997	18	18,462	5 (7)
16	Vijitra Naree	Thai	1997	18	28,646	5 (7)
17	Urawee Naree	Thai	1997	18	28,415	5 (7)
18	Rattana Naree	Thai	2002	13	28,442	5 (10)
19	Rojarek Naree	Thai	2005	10	29,870	5 (12)
20	Nalinee Naree	Thai	2005	10	31,699	5 (12)
21	Chamchuri Naree	Thai	2005	10	33,733	5 (12)
22	Charana Naree	Thai	2005	10	33,720	5 (12)
23	Mayuree Naree	Thai	2008	7	30,193	15
24	Mallika Naree	Thai	2008	7	30,193	15
25	Mookda Naree	Thai	2009	6	30,162	16
26	Ananya Naree	Singapore	2011	4	33,857	18
27	Benjamas Naree	Singapore	2012	3	33,780	19
28	Lanna Naree	Thai	2012	3	33,843	19
29	Latika Naree	Thai	2012	3	33,869	19
30	Chintana Naree	Singapore	2013	2	33,945	20
31	Apinya Naree	Singapore	2014	1	21,136	21
32	Boonya Naree	Singapore	2014	1	21,159	21
33	Chanya Naree	Singapore	2014	1	21,113	21
34	Danaya Naree	Singapore	2014	1	21,113	21
35	Vipha Naree	Singapore	2015	New built	38,500	22
36	Cement carrier	na.	2015	New built	38,000	22
37	Cement carrier	na.	2015	New built	38,000	22
38	Cement carrier	na.	2015	New built	38,000	22
39	Cement carrier	na.	2015	New built	38,000	22
<b>Handysize-39 Vessels</b>					<b>1,108,319</b>	<b>447</b>

(\*) market price as considered as operational assets. We conservatively value them at US\$5mn as they are planned for disposals.

Source: PSL, Clarksons

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**Table 7: Estimation of PSL's Supramax/Ultramax fleet list and market value at December 2015**

No.	Ship Name	Flag	Year Built	Age (Years old)	Dead Weight Tonnes (DWT)	Clarksons Est. value (\$mn)
40	Kanchana Naree	Thai	2011	4	56,920	23
41	Kirana Naree	Thai	2011	4	56,823	23
42	Apiradee Naree	Singapore	2012	3	56,512	24
43	Baranee Naree	Singapore	2012	3	56,441	24
44	Chayanee Naree	Singapore	2012	3	56,548	24
45	Daranee Naree	Singapore	2012	3	56,588	24
46	Warisa Naree	Thai	2010	5	53,839	22
47	Wariya Naree	Thai	2011	4	53,833	23
48	Wikanda Naree	Thai	2013	2	53,000	26
49	Inthira Naree	Thai	2014	1	63,468	27
50	Issara Naree	Thai	2014	1	63,468	27
51	Ultramax	na.	2015	New built	64,000	28
52	Ultramax	na.	2015	New built	64,000	28
53	Ultramax	na.	2015	New built	64,000	28
54	Ultramax	na.	2015	New built	64,000	28
55	Ultramax	na.	2015	New built	64,000	28
56	Ultramax	na.	2015	New built	64,000	28
57	Ultramax	na.	2015	New built	64,000	28
58	Ultramax	na.	2015	New built	64,000	28
59	Ultramax	na.	2015	New built	64,000	28
60	Ultramax	na.	2015	New built	64,000	28
61	Ultramax	na.	2015	New built	64,000	28
62	Ultramax	na.	2015	New built	64,000	28
63	Ultramax	na.	2015	New built	64,000	28
<b>Supra/Ultramax-24 Vessels</b>					<b>1,459,440</b>	<b>632</b>
<b>Total</b>				<b>10.24</b>	<b>2,567,759</b>	<b>1,079</b>

Source: PSL, Clarksons

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**Table 8: Asia Pacific dry bulk shipping valuation comparisons**

	Asia-Pacific ex-Japan					
	China COSCO	China Shipping	Pacific Basin	Precious Shipping	U-Ming Marine	AP ex-Jpn average
Currency	HKD	HKD	HKD	THB	TWD	
Bloomberg ticker	1919 HK	1138 HK	2343 HK	PSL TB	2606 TT	
y/e	Dec	Dec	Dec	Dec	Dec	
Share price	6.03	6.24	2.94	8.90	44.40	
Shares number(m)	10,216	4,038	1,937	1,040	858	
Market Cap (US\$m)	9,100	3,721	738	413	1,249	15,222
Avg. daily turnover (US\$m)	50.1	27.2	4.9	1.5	0.9	84.6
<b>Valuation</b>						
<b>P/E</b>						
2014E	(51.1)	55.2	(2.6)	(60.4)	18.3	(2.6)
2015E	(272.8)	12.7	215.3	(71.6)	49.8	12.7
2016E	117.5	14.5	948.8	(27.0)	79.7	79.7
<b>P/Book</b>						
2014E	2.00	0.79	0.73	0.61	1.35	0.79
2015E	1.97	0.79	0.74	0.81	1.34	0.81
2016E	1.88	0.76	0.75	0.84	1.34	0.84
<b>Returns</b>						
<b>Return on equity (%)</b>						
2014E	(3.9)	0.3	(4.5)	(1.0)	4.6	(1.0)
2015E	(0.7)	3.9	0.3	(1.2)	1.5	0.3
2016E	1.6	3.8	0.1	(3.0)	1.2	1.2
<b>ROCE (%)</b>						
2014E	1.4	2.3	(0.8)	1.2	10.0	1.4
2015E	4.0	4.3	1.7	1.7	5.5	4.0
2016E	4.8	4.3	1.6	0.9	4.7	4.3
<b>Dividend Yield</b>						
2014E	0.0	0.6	1.7	3.4	5.0	1.7
2015E	0.0	2.6	1.7	0.0	1.8	1.7
2016E	0.0	2.3	1.7	0.0	1.1	1.1
<b>Gearing</b>						
<b>Net debt/equity (%)</b>						
2014E	193.8	177.6	0.0	74.4	41.4	74.4
2015E	197.2	144.5	0.0	85.8	61.7	85.8
2016E	188.7	139.2	0.0	94.8	68.4	94.8
<b>Interest cover</b>						
2014E	0.4	0.8	(0.0)	0.7	3.5	0.7
2015E	1.3	1.0	3.7	0.7	1.0	1.0
2016E	1.7	1.7	16.2	0.4	1.0	1.7

Source: BofA Merrill Lynch Global Research, Phatra Securities

## 1Q15 results review

PSL posted 1Q15 core loss of Bt326mn, down 390% YoY as TC rates were very depressed during the quarter. However, the core earnings beat our estimate by 29% and this was driven by PSL's achieved Handysize and Supramax rates which were 9% and 15% above the Baltic bench market TCE rates respectively. Overall operating revenue per ship day was US\$7,405 compared to total costs per ship day of US\$9,849.

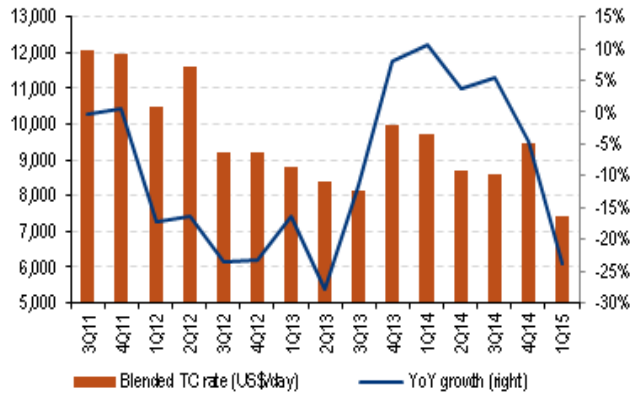
**Table 9: PSL – 1Q15 results analysis**

Btmn otherwise stated	1Q2015			1Q2014		Comments
	Actual	Forecast	diff	Actual	YoY	
Total ship days	4,050	3,969	2%	3,532	15%	Growing in line with 2013-2016 capacity guidance of 17% CAGR
Operating revenue per ship day (US\$)	7,405	6,835	8%	9,268	-20%	Better than expected as PSL's Handysize and Supramax outperformed TCE rates by 9% and 15% respectively
Total costs / ship / day (US\$)	9,849	10,565	-7%	8,731	13%	Good cost controls as rejuvenated fleet. YoY growth is driven by larger ship size
Time charter	671	654	2%	894	-25%	
Voyage Charter (COA)	310	251	24%	225	38%	
<b>Vessel operating income</b>	<b>981</b>	<b>905</b>	<b>8%</b>	<b>1,119</b>	<b>-12%</b>	<b>Better than expected revenue as PSL outperformed TCE rates</b>
Vessel running expenses	-513	-584	-12%	-451	14%	
Voyage disbursements (COA)	-83	-60	38%	-30	178%	
Bunker consumption (COA)	-135	-112	21%	-64	111%	
<b>Vessel Gross profits</b>	<b>249</b>	<b>149</b>	<b>67%</b>	<b>575</b>	<b>-57%</b>	
Net service income	0	1	-113%	2	-112%	
Administrative	-88	-65	35%	-67	31%	
<b>EBITDA</b>	<b>161</b>	<b>85</b>	<b>89%</b>	<b>509</b>	<b>-68%</b>	<b>Down YoY given a very depressed rates environment, but beat our forecasts given PSL's TC rates outperforming TCE</b>
Depreciation	-350	-372	-6%	-297	18%	
<b>Operating income</b>	<b>-189</b>	<b>-287</b>	<b>34%</b>	<b>212</b>	<b>-189%</b>	
Net gains from asset disposal	0	0		27		
Net gains from Novation	0	0		0		
Associate income	-3	5		0		
Dividend income	0	0		0		
Other cash income	0	0		0		
Exchange gains (loss)	1	0		-2		
Bad debts / doubtful accounts	-10	-1		0		
<b>EBIT</b>	<b>-201</b>	<b>-282</b>	<b>29%</b>	<b>237</b>	<b>-185%</b>	
Interest income	0	1		1		
Interest expenses	-135	-177	-24%	-104	30%	
Corporate tax	0	0		3		
<b>Net profits</b>	<b>-336</b>	<b>-458</b>	<b>27%</b>	<b>138</b>	<b>-344%</b>	
Minorities	0	1		2		
Net profits to equity holders	-336	-458	27%	140	-340%	
<b>Core profits</b>	<b>-326</b>	<b>-458</b>	<b>29%</b>	<b>112</b>	<b>-391%</b>	<b>Down YoY given a very depressed rates environment, but beat our forecasts given PSL's TC rates outperforming TCE</b>
<i>EBITDA margins</i>	16%	9%	7%	45%	-29%	
<i>Core profit margins</i>	-33%	-51%	17%	10%	-43%	

Source: PSL, Phatra Securities

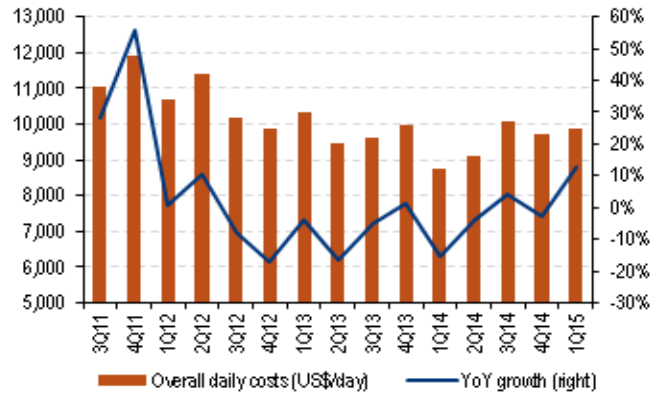
### Key operating statistics

Exhibit 8: Total operating revenue / ship / day



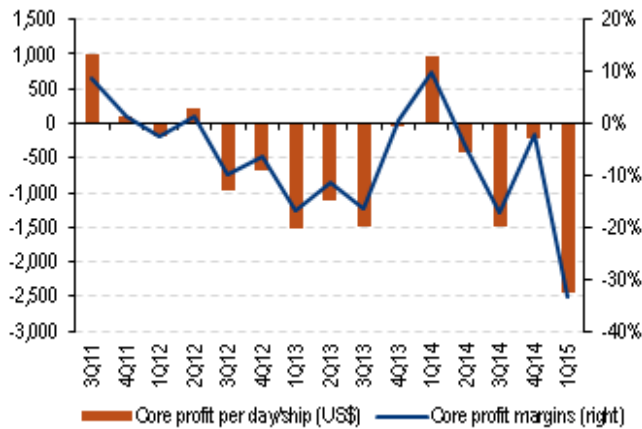
Source: PSL

Exhibit 9: Total costs / ship / day



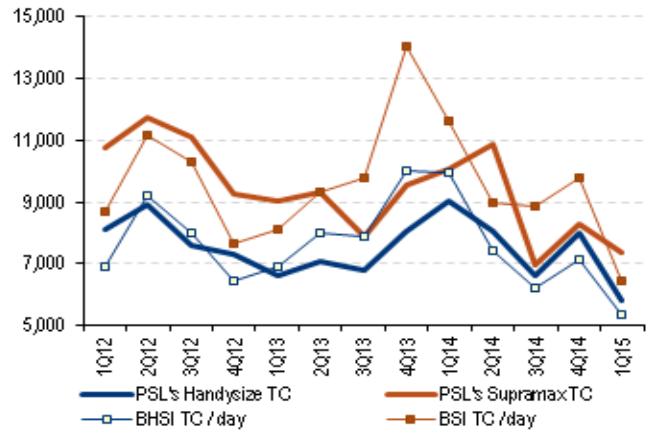
Source: PSL

Exhibit 10: Core profits per ship per day and margins



Source: PSL

Exhibit 11: PSL's achieved rates vs TCE benchmark



Source: PSL, Baltic Exchange

Table 10: Long-term time charter contracts

	2015	2016	2017	2018	2019
Total available days	18,272	24,641	25,185	25,185	25,185
Fixed TC days	2,641	2,562	2,555	2,240	2,190
% of fixed TC days	14%	10%	10%	9%	9%
Av. Fixed TC rates (US\$m)	13,548	13,713	13,713	13,849	13,875
Contract value (US\$m)	35.8	35.1	35.0	31.0	30.4

Source: Phatra Securities, PSL

## Price objective basis & risk Precious Shipping (XORGF)

Our price objective of Bt13.8 is based on our target of 1x prospective 2015 NAV per share, which we believe is the most appropriate valuation as it captures the current intrinsic value of the fleet given PSL's limited fixed TC capacity and absence of chartered-in fleet.

Upside risks: (i) A stronger-than-expected rise in Handysize and Supramax rates driven by ongoing Chinese demand from the stimulus package and a global economic recovery, (ii) greater-than-expected industry scrapping and delivery cancellations and (iii) better-than-expected cost controls by PSL.

Downside risks: (i) a prolonged slump in dry bulk rates caused by China's weak demand for commodities and inventory destocking, (ii) potential write downs from vessel order cancellations or bad debts and (iii) PSL's inability to lock-in forward capacities at desired TC rates and inability to dispose older vessels to partially finance new acquisitions.

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22 May 2015

APR - Transportation Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Air China Ltd	AICAF	753 HK	Paul Dewberry
	Air China Ltd -A	XANLF	601111 CH	Paul Dewberry
	AirAsia BHD	AIABF	AIRA MK	Paul Dewberry
	Asia Aviation Plc	XZWTF	AAV TB	Kaseedit Choonnawat
	BTS Group Holdings	XBGHF	BTS TB	Kaseedit Choonnawat
	BTS Growth Infrastructure Fund	XYIYF	BTSGIF TB	Kaseedit Choonnawat
	Cathay Pac Air	CPCAF	293 HK	Paul Dewberry
	China Airlines	CHAWF	2610 TT	Paul Dewberry
	China Eastern	CHEAF	670 HK	Paul Dewberry
	China Shipping Development	CSDXF	1138 HK	Paul Dewberry
	China Shipping Development-A	CSDJF	600026 CH	Paul Dewberry
	China Southern	CHKIF	1055 HK	Paul Dewberry
	China Southern Airlines Co-A	CHKFF	600029 CH	Paul Dewberry
	Eva Airways	EVAYF	2618 TT	Paul Dewberry
	Evergreen Marine	EVGOF	2603 TT	Paul Dewberry
	Int'l Container Terminal Services, Inc	ICTFM	ICT PM	Dante R. Tinga, Jr.
	Korean Air	KRNRF	003490 KS	Paul Dewberry
	Neptune Orient Lines	NPTOF	NOL SP	Paul Dewberry
	Nok Airlines	XFXTF	NOK TB	Kaseedit Choonnawat
	Orient Overseas (International) Limited	OROVF	316 HK	Paul Dewberry
	Pacific Basin	PCFBF	2343 HK	Paul Dewberry
	Precious Shipping	XORGF	PSL TB	Kaseedit Choonnawat
	Shanghai International Airport	XAISF	600009 CH	Paul Dewberry
	Singapore Air	SINGF	SIA SP	Paul Dewberry
<b>NEUTRAL</b>				
	Airports of Thailand	AIPBF	AOT TB	Kaseedit Choonnawat
	Cebu Air, Inc.	CEBUF	CEB PM	Dante R. Tinga, Jr.
<b>UNDERPERFORM</b>				
	Beijing Cap Airp	BJCHF	694 HK	Paul Dewberry
	China COSCO	CICOF	1919 HK	Paul Dewberry
	China Cosco Holdings-A	XCHDF	601919 CH	Paul Dewberry
	China Eastern Airlines Co-A	XCHEF	600115 CH	Paul Dewberry
	China Shipping Container Line	CITAF	2866 HK	Paul Dewberry
	China Shipping Container Line -A	XCNAF	601866 CH	Paul Dewberry
	Container Corp	CIDFF	CCRI IN	Sanjaya Satapathy
	Hanjin Shipping Co Ltd	XHSJF	117930 KS	Paul Dewberry
	SATS Ltd	SPASF	SATS SP	Paul Dewberry
	SIA Engineering Company	SEGSF	SIE SP	Paul Dewberry
	Thai Airways International	TARWF	THAI TB	Kaseedit Choonnawat
	U-Ming	UMGMF	2606 TT	Paul Dewberry
<b>RVW</b>				
	Jet Airways	JTAIF	JETIN IN	Anand Kumar



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**iQmethod<sup>SM</sup> Measures Definitions**

<b>Business Performance</b>	<b>Numerator</b>	<b>Denominator</b>
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
<b>Quality of Earnings</b>		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
<b>Valuation Toolkit</b>		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Other LT Liabilities}$	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

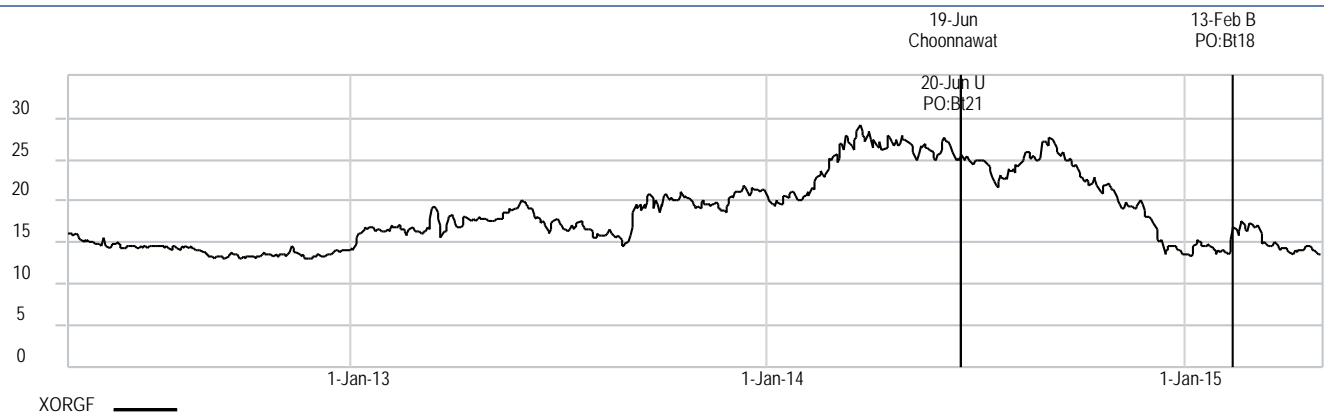
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### XORGF Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of April 30, 2015 or such later date as indicated.

### Investment Rating Distribution: Transport/Infrastructure Group (as of 31 Mar 2015)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	81	54.00%	Buy	53	65.43%
Neutral	35	23.33%	Neutral	25	71.43%
Sell	34	22.67%	Sell	23	67.65%

### Investment Rating Distribution: Global Group (as of 31 Mar 2015)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1696	50.89%	Buy	1258	74.17%
Neutral	805	24.15%	Neutral	586	72.80%
Sell	832	24.96%	Sell	539	64.78%

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

\* Ratings dispersions may vary from time to time where BofA Merrill Lynch Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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