


DMG & Partners Research
SHIPPING

Jason Saw
 +65 6232 3871 (SG)
 +66 2200 2000 (TH)
 jason.saw@sg.oskgroup.com

Shipping

Precious Shipping is a shipping company with exposure to the handymax and super handymax bulk carriers.

Stock Profile/Statistics

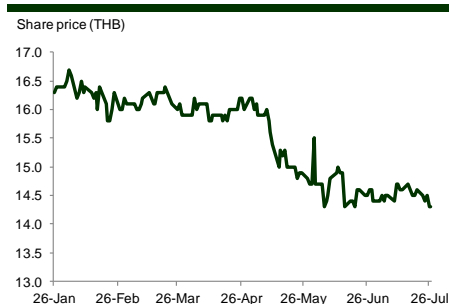
	PSL TB
Bloomberg Ticker	PSL TB
SET	1,178
Issued Share Capital (m)	1,040
Market Capitalisation (THBm)	14,865
52 week H L Price (THB)	19.70 13.00
Average Volume ('000)	337
YTD Returns (%)	-12%
Net gearing (%)	38
Altman Z-Score	2.3
ROCE/WACC	0.4
Beta (x)	0.85
Book Value/share (THB)	14.52

Major Shareholders (%)

Nishita Shah	43.0%
Munir Hashim	9.1%
Khalid Hashim	8.4%

Share Performance (%)

Month	Absolute	Relative
1m	-1%	-8%
3m	-12%	-12%
6m	-12%	-15%
12m	-17%	-11%

6-month Share Price Performance

2Q12 Results Review

Private Circulation Only

PRECIOUS SHIPPING

SELL	U
Price	THB14.30
Previous	THB14.95
Target	UTHB11.85

Results below expectations

Downgrade to SELL. Precious Shipping (PSL)'s 2Q12 net profit of THB13.1m (-97% YoY) was below our below-consensus estimate of THB164m and street estimate of THB265m due to the continued weakness in bulk freight rates. The BDI averaged 1,019 points in 2Q12, up from 880 in 1Q12, but remains under pressure from excess capacity in the market. In our view: (1) falling scrap prices and still-high order book could delay the recovery of the dry bulk sector; (2) ship prices could fall further before a sustainable recovery takes place. We lower our FY12 average earnings per ship by 6% and cut our FY12F net profit by 44%. Downgrade PSL to a SELL with a TP of THB11.85.

Results below expectations. 2Q12 vessel operating revenue rose +26, QoQ, +22% YoY to THB991m, lifting 1H12 revenue to THB1.78b (+15% YoY). The sequential improvement in 2Q12 revenue was largely driven by higher average earnings per ship, which came in at US\$9,130/day (+10% QoQ, -29% YoY), while fleet size has expanded from 21 ships in 2Q11 to 30 ships in 2Q12. Based on its vessel delivery schedule, PSL is expected to add 12 new ships (4x34k DWT, 2x54k DWT, 4x57k DWT and 2x20k DWT cement carriers) in 2012 (some vessels are likely to be delayed/cancelled as they are running behind schedule).

Pressure on freight rates from excess supply. The supply situation in the dry bulk freight market is worrying. The sector added 6% new capacity YTD June, and fleet growth could reach 10% by year end, far outpacing the demand growth.

Valuation: Cut TP from THB14.30 to THB11.85. We lower FY12 net profit by 44% to THB255m as we cut average earnings per ship to US\$9,491/day (old: US\$10,073). We expect average earnings per ship to average US\$10,100 in 2H12. We value PSL based on: (1) fleet value at market price; (2) adjust for net debt, investments, and advances for vessel purchase; (3) and a 10% discount on the total equity value to reflect the risk of further decline in ship prices and depressed earnings.

FYE 31 Dec	FY09	FY10	FY11	FY12F	FY13F
Turnover (THBm)	5,524	2,928	3,079	4,130	6,073
Reported net profit (THBm)	3,047	1,134	719	255	1,225
% Chg YoY	-38	-63	-37	-65	381
Consensus (THBm)	nm	nm	nm	755	1,130
EPS (THB cents)	293	109	69	24	118
DPS (THB cents)	180	87	55	30	55
Div Yield (%)	12.6	6.1	3.8	2.1	3.8
ROE (%)	18.3	7.2	4.8	1.7	7.9
ROA (%)	15.2	5.4	3.4	1.0	4.1
P/E (x)	4.9	13.1	20.7	58.4	12.1
P/B (x)	0.87	1.02	0.97	0.98	0.93

Source: Company data and DMG Estimates

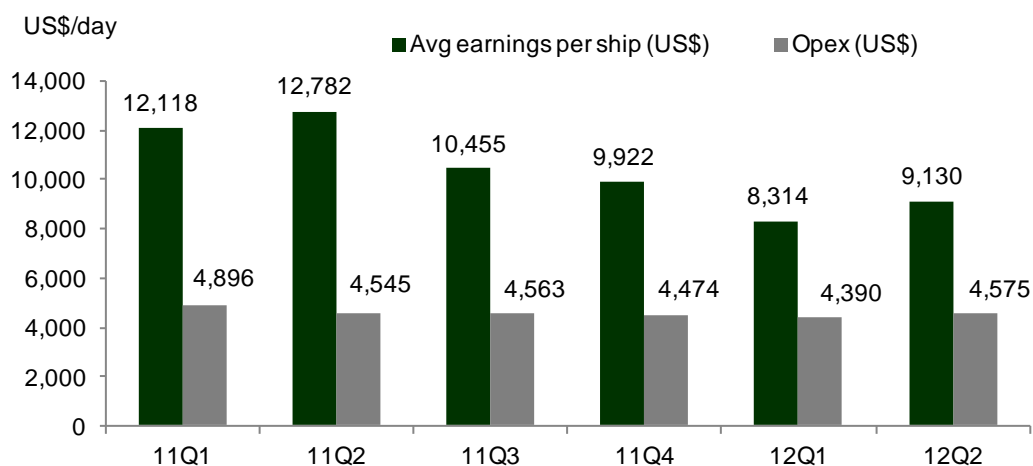
DMG & Partners Securities Pte Ltd may have received compensation from the company(s) covered in this report for its corporate finance or its dealing activities; this report is therefore classified as a non-independent report. Please refer to important disclosures at the end of this publication.

Figure 1: Quarterly financial summary

FYE 31 Dec (THBm)	11Q2	12Q1	12Q2	QoQ (%)	YoY (%)	1H11	1H12	YoY (%)	Remarks
REVENUE	812	788	991	26	22	1,544	1,778	15	Average earnings per ship of US\$9,130 in 2Q12 (US\$12,782 in 2Q11) and US\$8,747 in 1H12 (US\$12,454 in 1H11).
Hire income	534	446	594	33	11	1,111	1,040	-6	
Freight income	278	342	397	16	43	433	738	71	More voyage charter vs. time charter
COST OF GOODS SOLD	-463	-660	-795	20	72	-905	-1,455	61	
Vessel operating costs	-304	-467	-563			-586	-1,030		
Vessel running expenses	-202	-265	-317		57	-419	-582	39	Primarily due to higher operating days (~40% YoY). Avg. opex of US\$4,575/day in 2Q12 vs. US\$4,545/day in 2Q11.
Voyage disbursements	-34	-47	-61		78	-53	-108	103	Due to higher voyage charters
Bunker consumption	-68	-155	-185		173	-114	-340	198	Due to higher voyage charters
Depreciation	-156	-192	-230			-315	-422		
Cost of services	-3	-1	-2			-4	-3		
GROSS PROFIT	349	127	196	54	-44	640	323	-50	
SG&A EXPENSES	-71	-63	-64	2	-10	-146	-127	-13	
Admin expenses	-46	-43	-43			-95	-86		
Management expenses	-25	-20	-21			-51	-41		
NET OTHER INCOME	5	-20	3	nm	nm	-3	-17	Nm	
Service income	1	1	1			3	3		
Exchange gains	3	0	2			3	2		
Other income	0	0	0			0	0		
Dividend received	1	0	0			1	0		
Bad debts	0	-19	0			0	-19		
Other losses	0	0	0			0	0		
Exchange losses	0	-2	0			-9	-2		
OPERATING PROFIT	282	44	134	204	-52	491	179	-64	
Interest income	5	7	5			12	12		
Interest expense	-73	-87	-117			-176	-204		
Share of results of associates/JVs	-1	-4	-7			-1	-11		
Exceptional items	188	0	0			190	0		
Gains on sales of vessels and equipment	0	0	0			1	0		
Gains on sales of newbuild under Novation	188	0	0			188	0		No exceptional gain this year.
PROFIT BEFORE TAX	402	-40	16	-139	-96	515	-24	-105	
Income tax	0	-1	-2			-3	-2		
Minority interest	0	-1	-1			-1	-2		
NET PROFIT	401	-41	13	-132	-97	510	-28	-105	
NET PROFIT (EX EXCEPTIONAL ITEMS)	213	-41	13	-132	-94	320	-28	-109	
EBITDA (DMG)	439	236	365			806	601		
Margins									
EBITDA margins %	54%	30%	37%			52%	34%		
Operating profit margins %	35%	6%	14%			32%	10%		
Balance sheet (THBm)									
Cash	4,601	3,137	2,197						
Short term borrowing	655	652	412						
Long-term borrowing	4,009	7,398	7,449						
Net debt	63	4,912	5,664						
Total equity	15,024	14,754	15,091						
Shareholders' equity	14,993	14,721	15,091						
Net gearing	0	33	38						

Source: Company data and DMG estimates

Figure 2: Average earnings per ship and opex



Source: Company data

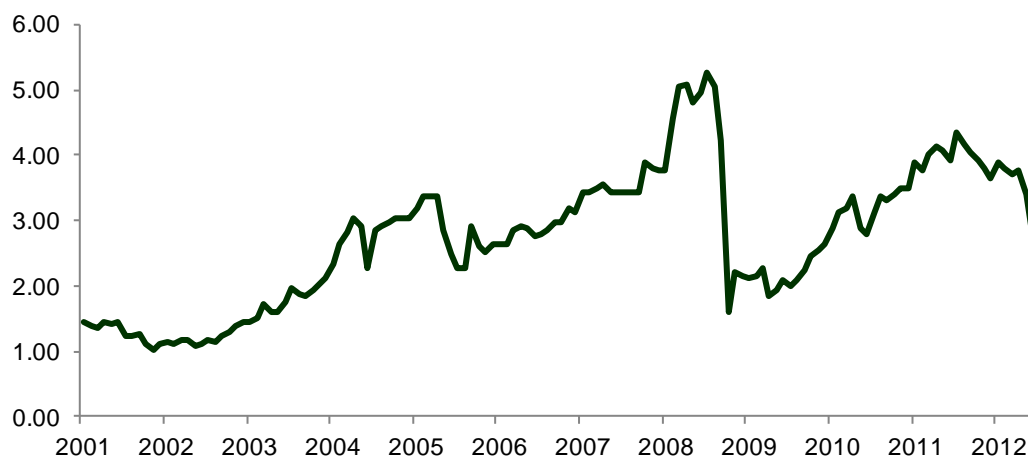
Figure 3: Average earnings per ship compared to the BDI

Quarter	Avg. earnings per ship (US\$)	Baltic Handysize Index	Baltic Dry Index
11Q1	12,118	727	1,371
11Q2	12,782	773	1,373
11Q3	10,455	680	1,534
11Q4	9,922	689	1,913
12Q1	8,314	466	880
12Q2	9,130	614	1,019

Source: Bloomberg

Figure 4: Lower scrap value may discourage removal of old tonnage

Scrap value per Handysize bulker (US\$m)



Source: Clarkson

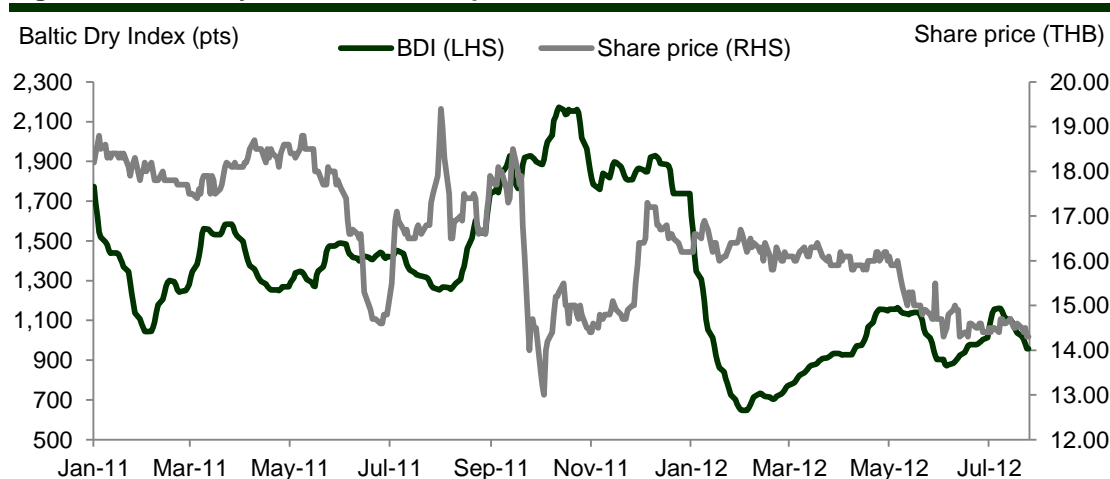
Figure 5: Global dry bulk capacity could grow by 10% in 2012

			Remarks
Jan'12 Capacity	mDWT	615.2	From Clarkson as of 1-Jul-2012
End June 2012 Capacity	mDWT	654.8	From Clarkson as of 1-Jul-2012
Scheduled delivery in 2H12	mDWT	80.6	From Clarkson as of 1-Jul-2012
Slippage		50%	DMG estimate
Projected delivery	mDWT	40.3	
Estimated demolition in 2H12	mDWT	-16.2	DMG estimate. Similar pace to 1H12
End FY12 tonnage	mDWT	678.9	10% fleet growth

Source: Clarkson, DMG estimates

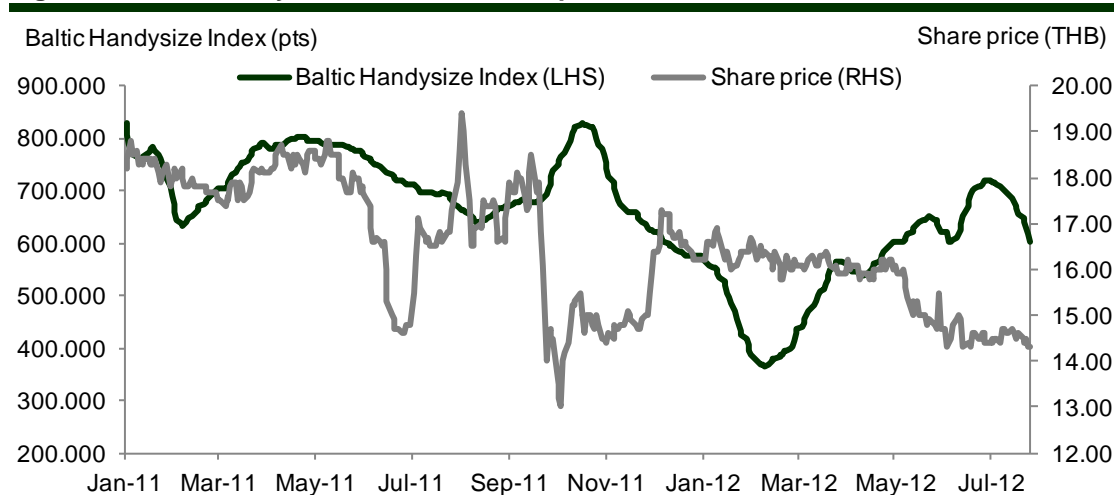
We note that PSL's share price has low correlation with the Baltic Dry Index and Baltic Handysize Index since Jan 2011. See Figure 6 and 7.

Figure 6: Baltic Dry Index and share price movement since Jan 2011



Source: Bloomberg

Figure 7: Baltic Handysize Index and share price movement since Jan 2011



Source: Bloomberg

We value PSL based on: (1) fleet value at market price; (2) adjust for net debt, investments, and advances for vessel purchase; (3) and a 10% discount on the total equity value to reflect the risk of further decline in ship prices and depressed earnings.

Figure 8: Target price derivation

Description		Value	Remarks
Fleet value	US\$m	350.5	Estimated based on current market value
Fleet value	THBm	11,041	
Cash	THBm	2,197	
Total debt	THBm	-7,861	
Advances for vessel purchase and construction	THBm	7,940	
Net other investments	THBm	370	
Net asset value	THBm	13,686	
Shares	m	1,040	
Equity value per share	THB	13.17	
Discount		10%	
Target Price	THB	11.85	17% downside from current level

Source: Company data and DMG estimates

FINANCIAL TABLES

FYE 31 Dec (THBm)	FY09	FY10	FY11	FY12F	FY13F
Income statement					
Operating revenue	5,524	2,928	3,079	4,130	6,073
Expenses (except D&A)	-2,038	-1,207	-1,622	-2,484	-2,981
EBITDA	3,486	1,721	1,457	1,646	3,091
Depreciation and amortisation	-935	-678	-647	-972	-1,287
EBIT	2,551	1,043	811	674	1,805
Interest income	38	26	26	35	31
Interest expense	-266	-299	-441	-451	-609
Share of results of associates/JVs	22	19	8	10	10
Exceptional items	760	438	321	0	0
Profit before tax	3,106	1,226	724	267	1,237
Income tax	-46	-83	-4	-10	-9
Minority interest	-14	-10	-2	-2	-2
Net profit (reported)	3,047	1,134	719	255	1,225
Net profit (pre-exceptional/core)	2,287	695	398	255	1,225
Balance Sheet					
Total Assets	22,140	19,962	22,893	28,720	30,528
Fixed assets	7,781	6,400	9,446	17,020	17,591
Other long-term assets	8,315	9,213	7,426	7,436	7,446
Inventory	0	6	69	91	133
Receivables	42	34	125	170	250
Other short-term assets	125	85	1,453	1,453	1,453
Cash and short term investment	5,876	4,223	4,375	2,552	3,655
Total Liabilities	5,004	5,350	7,537	13,549	14,570
ST debt	15	147	719	2,605	2,805
Payables	45	11	33	45	67
Other short-term liabilities	444	282	296	296	296
LT debt	4,277	4,766	6,308	10,421	11,221
Other long-term liabilities	223	144	182	182	182
Total Equity	17,136	14,612	15,356	15,172	15,958
Shareholders' funds	17,112	14,583	15,323	15,136	15,920
Minorities	25	29	33	35	38
Cash Flow Statement					
Operating cashflow	2,688	1,180	1,051	1,581	2,981
Capex & acquisitions	1,352	-139	-2,386	-8,546	-1,859
Free cashflow	4,040	1,040	-1,335	-6,965	1,122
Other inv cashflow	-3,029	-1,645	88	0	0
New borrowings	3,742	1,024	1,998	6,000	1,000
Share issuance	0	0	0	0	0
Dividends paid	-2,079	-1,299	-644	-442	-442
Other fin cashflow	-34	-219	-179	-417	-578
Net cashflow	2,640	-1,098	-73	-1,823	1,103
YoY Growth					
Revenue (%)	-35	-47	5	34	47
Operating profit (%)	-49	-59	-22	-17	168
Profit before tax (%)	-37	-61	-41	-63	363
Net profit (%)	-38	-63	-37	-65	381
Margins					
EBITDA (%)	63	59	47	40	51
EBIT (%)	46	36	26	16	30
PBT (%)	56	42	24	6	20
Per Share Data					
Outstanding shares (m)	1,040	1,040	1,040	1,040	1,040
EPS (THB cents)	293	109	69	24	118
DPS (THB cents)	180	87	55	30	55
BVPS (S cents)	16.46	14.03	14.74	14.56	15.31
ROE (%)	18.3	7.2	4.8	1.7	7.9
ROA (%)	15.2	5.4	3.4	1.0	4.1
Net debt-to-total equity (%)	Net cash	5	17	69	65
P/E (DMG)	4.9	13.1	20.7	58.4	12.1
P/B (x)	0.87	1.02	0.97	0.98	0.93
Dividend yield (%)	12.6	6.1	3.8	2.1	3.8

Source: Company data and DMG estimates

DMG & Partners Research Guide to Investment Ratings

Buy: Share price may exceed 10% over the next 12 months

Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

Neutral: Share price may fall within the range of +/- 10% over the next 12 months

Take Profit: Target price has been attained. Look to accumulate at lower levels

Sell: Share price may fall by more than 10% over the next 12 months

Not Rated: Stock is not within regular research coverage

DISCLAIMERS

This research is issued by DMG & Partners Research Pte Ltd and it is for general distribution only. It does not have any regard to the specific investment objectives, financial situation and particular needs of any specific recipient of this research report. You should independently evaluate particular investments and consult an independent financial adviser before making any investments or entering into any transaction in relation to any securities or investment instruments mentioned in this report.

The information contained herein has been obtained from sources we believed to be reliable but we do not make any representation or warranty nor accept any responsibility or liability as to its accuracy, completeness or correctness. Opinions and views expressed in this report are subject to change without notice.

This report does not constitute or form part of any offer or solicitation of any offer to buy or sell any securities.

DMG & Partners Research Pte Ltd is a wholly owned subsidiary of DMG & Partners Securities Pte Ltd, a joint venture between OSK Investment Bank Berhad and Deutsche Asia Pacific Holdings Pte Ltd (a subsidiary of Deutsche Bank Group). DMG & Partners Securities Pte Ltd is a Member of the Singapore Exchange Securities Trading Limited.

DMG & Partners Securities Pte Ltd and their associates, directors, and/or employees may have positions in, and may effect transactions in the securities covered in the report, and may also perform or seek to perform broking and other corporate finance related services for the corporations whose securities are covered in the report.

As of the day before 30 July 2012, DMG & Partners Securities Pte Ltd and its subsidiaries, including DMG & Partners Research Pte Ltd, **do not** have proprietary positions in the subject companies, except for:

- a) Nil
- b) Nil

As of the day before 30 July 2012, none of the analysts who covered the stock in this report has an interest in the subject companies covered in this report, except for:

- | Analyst | Company |
|---------|---------|
| a) Nil | |
| b) Nil | |

DMG & Partners Research Pte. Ltd. (Reg. No. 200808705N)

Kuala Lumpur	Hong Kong	Singapore
Malaysia Research Office OSK Research Sdn. Bhd. 6 th Floor, Plaza OSK Jalan Ampang 50450 Kuala Lumpur Malaysia Tel : +(60) 3 9207 7688 Fax : +(60) 3 2175 3202	OSK Securities Hong Kong Ltd. 12 th Floor, World-Wide House 19 Des Voeux Road Central, Hong Kong Tel : +(852) 2525 1118 Fax : +(852) 2810 0908	DMG & Partners Securities Pte. Ltd. 10 Collyer Quay #09-08 Ocean Financial Centre Singapore 049315 Tel : +(65) 6533 1818 Fax : +(65) 6532 6211
Jakarta	Shanghai	Phnom Penh
PT OSK Nusadana Securities Indonesia Plaza CIMB Niaga, 14th Floor, Jl. Jend. Sudirman Kav.25, Jakarta Selatan 12920, Indonesia. Tel : (6221) 2598 6888 Fax : (6221) 2598 6777	OSK (China) Investment Advisory Co. Ltd. Room 6506, Plaza 66 No.1266, West Nan Jing Road 200040 Shanghai China Tel : +(8621) 6288 9611 Fax : +(8621) 6288 9633	OSK Indochina Securities Limited No. 1-3, Street 271, Sangkat Toeuk Thla, Khan Sen Sok, Phnom Penh, Cambodia Tel: (855) 23 969 161 Fax: (855) 23 969 171
Bangkok		
OSK Securities (Thailand) PCL 191, Silom Complex Building 16th Floor, Silom Road, Silom, Bangrak, Bangkok 10500 Thailand Tel: +(66) 2200 2000 Fax : +(66) 2632 0191		