



DMG & Partners Research

SHIPPING

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Shipping

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

Stock Profile/Statistics

	PSL TB
Bloomberg Ticker	SET
Issued Share Capital (m)	1,295
Market Capitalisation (THBm)	1,040
52 week H L Price (THB)	13,930
Average Volume ('000)	17.60 13.10
YTD Returns (%)	971
Net gearing (%)	-17%
Altman Z-Score	33%
ROCE/WACC	2.2
Beta (x)	n/a
Book Value/share (THB)	0.9
	14.17

Major Shareholders (%)

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

Share Performance (%)

Month	Absolute	Relative
1m	2%	2%
3m	-6%	-14%
6m	-16%	-23%
12m	-8%	-40%

6-month Share Price Performance



3QFY12 Results Review

Private Circulation Only

PRECIOUS SHIPPING

NEUTRAL	📌
Price	THB13.40
Previous	THB11.85
Target	📌THB12.83

Novated high priced ships; upgrade to Neutral

3Q12 operating earnings were below ours and consensus expectations as oversupply of ships lead to lower average earnings per ship. Last month, PSL novated four ships due to construction delays. The delays were a blessing in disguise as prices for similar ships are 25-30% lower today. Following the sale of the four high-priced ships, we raise TP from THB11.85 to THB12.83 (10% discount to mark-to-market NAV) and upgrade PSL from SELL to NEUTRAL. We think handymax/supramax rates are at the bottom.

Earnings hit by weak rates. 3Q12 net profit of THB219m (+10% YoY) lifted 9M12 net profit to THB191m (-73% YoY). Results were boosted by THB305m gains from novation of shipbuilding contracts for Hull Nos. 333 and 315 (novated in Dec 2011 and Jan 2012) Depressed dry bulk rates in 3Q12 lead to lower operating profit of THB57m (-67% YoY), below ours and consensus estimates.

Rates in 4Q12 likely to stay depressed. Since the start of 4Q12, charter rates for handymax and handysize remain soft, and this could lead to another weak set of results in 4Q12. PSL achieved average earnings per ship of US\$7,957 in 3Q12 (-24% YoY, -13% QoQ) and current one-year time charter rates are around US\$7,750-9,000 per day. PSL continue to keep operating expenses in control with 3Q12 average expenses per ship at US\$4,349/day (-5% YoY).

Positive on novation of shipbuilding contracts. Following shipbuilding delays at ABG Shipyard, PSL signed four more novation contracts for Hull Nos. 336 (32k DWT), 340 (32k DWT), 316 (54k DWT) and 347 (54k DWT) on 10 Sept 2012. The buyer is Global Bulk Carriers. We view the novation positively as prices of the shipbuilding contracts were much higher at US\$30-38m per ship compared to current resale prices of US\$22-27m, leading to substantial savings for PSL.

Valuation: Raise TP to THB12.83. Our TP is based on 10% discount to charter free NAV. Within regional dry bulk names, valuation for Pacific Basin appears the most attractive at 0.8x P/B (based on consensus estimates).

FYE 31 Dec (THBm)	FY10	FY11	FY12F	FY13F	FY14F
Turnover	2,928	3,079	3,482	5,013	5,673
Reported net profit	1,134	719	338	1,431	1,461
% Chg YoY	-63	-37	-53	323	2
Consensus	nm	nm	755	1,130	1,760
EPS (THB cents)	109	69	33	138	141
DPS (THB cents)	87	55	30	55	55
Div Yield (%)	6.5	4.1	2.2	4.1	4.1
ROE (%)	7.2	4.8	2.2	9.1	8.8
ROA (%)	5.4	3.4	1.5	5.9	5.6
P/E (x)	12.3	19.4	41.2	9.7	9.5
P/B (x)	0.96	0.91	0.92	0.86	0.81

Source: Company data and DMG Estimates

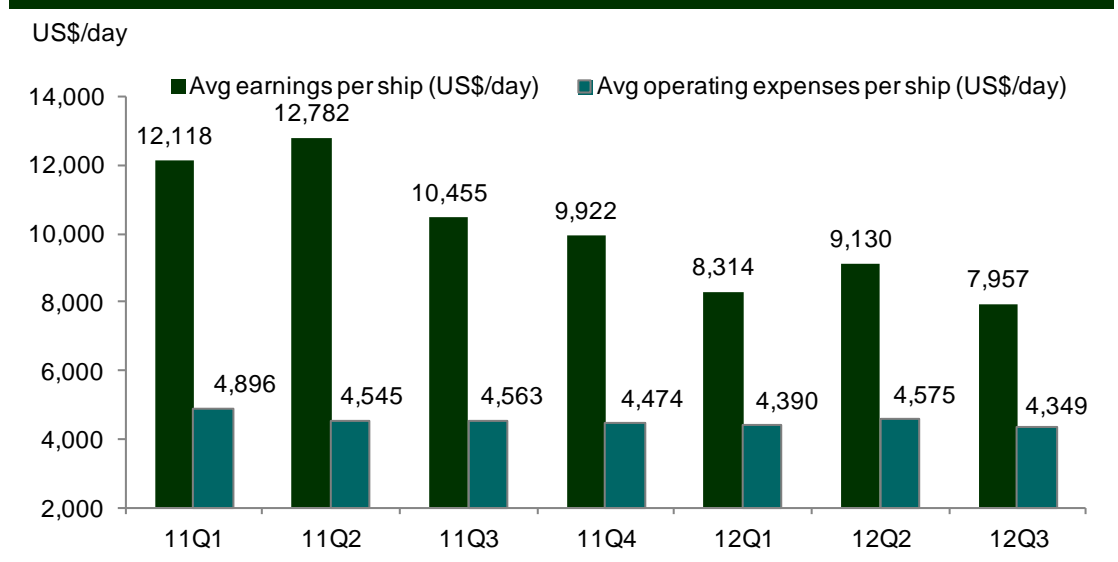
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Figure 1: Quarterly financial summary

FYE 31 December (THBm)	11Q3	12Q2	12Q3	QoQ (%)	YoY (%)	9M11	9M12	YoY (%)	Remarks
REVENUE	735	991	814	-18	11	2,279	2,593	14	More freight income lifted 9M12 revenue.
Hire income	496	594	576	-3	16	1,607	1,616	1	
Freight income	239	397	239	-40	0	671	977	46	
COST OF GOODS SOLD	-502	-795	-689	-13	37	-1,407	-2,144	52	
Vessel operating costs	-342	-563	-452			-927	-1,482		
Vessel running expenses	-218	-317	-304			-637	-887		
Voyage disbursements	-40	-61	-45			-92	-152		
Bunker consumption	-84	-185	-103			-198	-443		
Depreciation	-160	-230	-236			-475	-659		
Cost of services	-1	-2	-1			-5	-3		
GROSS PROFIT	233	196	126	-36	-46	872	449	-49	Below expectations due to lower average earnings per ship. Expenses were in line with our estimates.
SG&A EXPENSES	-68	-64	-72	12	6	-214	-199	-7	In-line with expectations
Admin expenses	-43	-43	-47		9	-138	-133		
Management expenses	-25	-21	-25		1	-76	-66		
NET OTHER INCOME	5	3	3	-3	-45	2	-14	-693	
Service income	1	1	5			4	8		
Exchange gains	2	2	0			5	2		
Other income	2	0	3			2	3		
Dividend received	0	0	0			1	0		
Bad debts	0	0	-1			0	-20		
Other losses	0	0	0			0	0		
Exchange losses	0	0	-5			-9	-8		
OPERATING PROFIT	170	134	57	-58	-67	661	235	-64	Below expectations
Interest income	5	5	3			16	15		
Interest expense	-110	-117	-145			-287	-350		Due to higher loans
Share of results of associates/JVs	4	-7	2			3	-9		
Exceptional items	131	0	305			321	305		
Gains on sales of vessels and equipment	0	0	0			1	0		
Gains on novation of shipbuilding contracts	131	0	305			319	305		Gains from novation of Hull No. 333 and 315.
PROFIT BEFORE TAX	200	16	221	nm	11	714	197	-72	
Income tax	0	-2	-1			-3	-4		
Minority interest	0	-1	0			-2	-2		
NET PROFIT	200	13	219	nm	10	710	191	-73	
NET PROFIT (EX EXCEPTIONAL ITEMS)	69	13	-86	-756	-225	389	-114	-129	

Source: Company data and DMG estimates

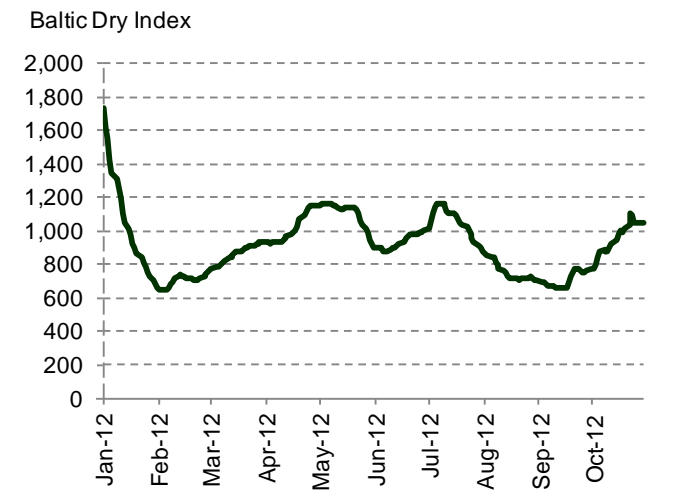
Figure 2: Average earnings per ship and average operating expenses per ship



Source: Company data and DMG estimates

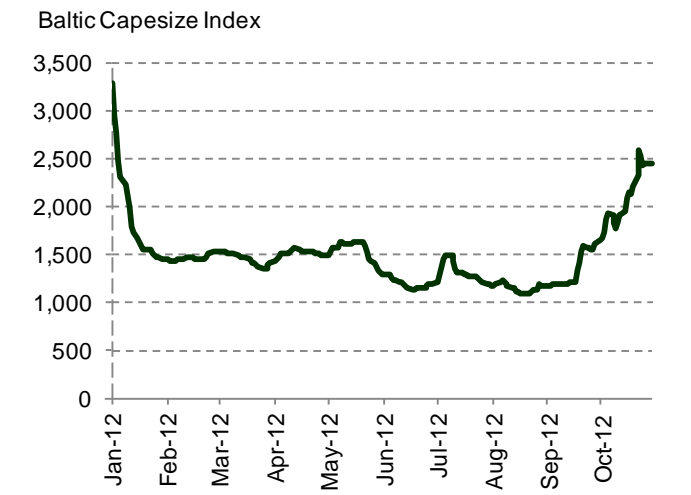
Capesize rates lifted BDI but not all segments seeing the same uptrend. Recent sharp rally in the Baltic Dry Index (BDI) from 661 points on 12 Sept 2012 to a high of 1,109 points on 23 Oct 2012 is not a reflection of overall improvement in the dry bulk shipping sector. A close look at the various indexes shows that only Capesize rates improved while Handysize and Handymax rates remain soft.

Figure 3: YTD Baltic Dry Index



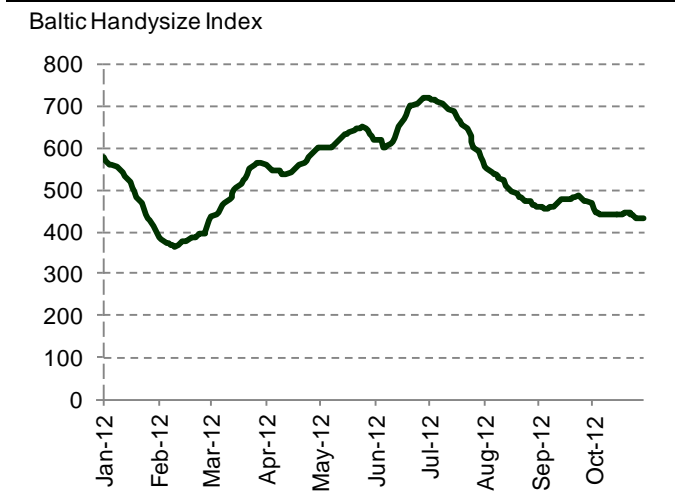
Source: Bloomberg

Figure 4: YTD Baltic Capesize Index



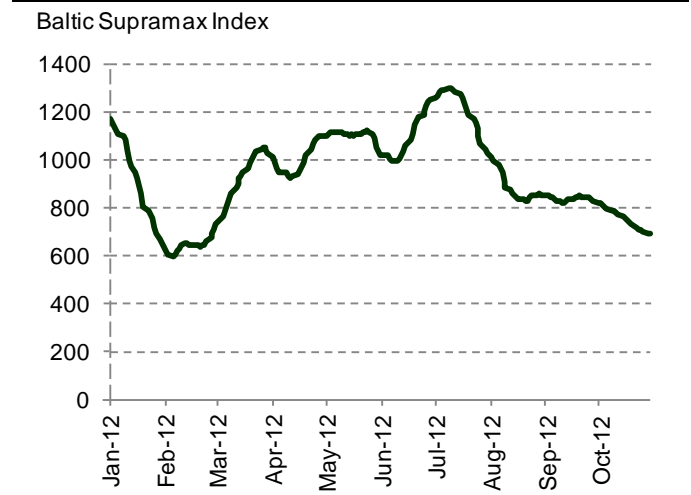
Source: Bloomberg

Figure 5: YTD Baltic Handysize Index



Source: Bloomberg

Figure 6: YTD Baltic Supramax Index



Source: Bloomberg

Figure 7: Revised target price

Description		Value	Remarks
Fleet value	US\$m	455.5	End 3Q12
Fleet value	THBm	13,984	
Cash	THBm	2,519	3Q12
Total debt	THBm	-7,391	3Q12
Advances for vessel purchase and construction	THBm	5,518	3Q12
Net other investments	THBm	189	3Q12
Net asset value	THBm	14,819	
Shares	m	1,040	
Equity value per share	THB	14.26	
Discount		10%	
Target Price	THB	12.83	

Source: Company data, Bloomberg and DMG estimates

FINANCIAL TABLES

FYE 31 Dec (THBm)	FY10	FY11	FY12F	FY13F	FY14F
Income statement					
Operating revenue	2,928	3,079	3,482	5,013	5,673
Expenses (except D&A)	-1,207	-1,622	-2,255	-2,536	-2,625
EBITDA	1,721	1,457	1,228	2,477	3,049
Depreciation and amortisation	-678	-647	-903	-1,118	-1,219
EBIT	1,043	811	325	1,359	1,830
Interest income	26	26	40	37	42
Interest expense	-299	-441	-327	-361	-406
Share of results of associates/JVs	19	8	10	10	10
Exceptional items	438	321	305	400	0
Profit before tax	1,226	724	353	1,444	1,476
Income tax	-83	-4	-12	-11	-13
Minority interest	-10	-2	-2	-2	-2
Net profit (reported)	1,134	719	338	1,431	1,461
Net profit (pre-exceptional/core)	695	398	33	931	1,461
Balance Sheet					
Total Assets	19,962	22,893	23,297	25,305	27,204
Fixed assets	6,400	9,446	12,543	14,425	15,206
Other long-term assets	9,213	7,426	5,436	5,446	5,456
Inventory	6	69	76	110	124
Receivables	34	125	143	206	233
Other short-term assets	85	1,453	1,453	1,453	1,453
Cash and short term investment	4,223	4,375	3,646	3,665	4,731
Total Liabilities	5,350	7,537	8,042	9,059	10,066
ST debt	147	719	1,505	1,705	1,905
Payables	11	33	38	55	62
Other short-term liabilities	282	296	296	296	296
LT debt	4,766	6,308	6,021	6,821	7,621
Other long-term liabilities	144	182	182	182	182
Total Equity	14,612	15,356	15,255	16,247	17,138
Shareholders' funds	14,583	15,323	15,220	16,209	17,098
Minorities	29	33	35	38	40
Cash Flow Statement					
Operating cashflow	1,180	1,051	1,500	2,786	3,002
Capex & acquisitions	-139	-2,386	-4,000	-3,000	-2,000
Free cashflow	1,040	-1,335	-2,500	-214	1,002
Other inv cashflow	-1,645	88	2,000	0	0
New borrowings	1,024	1,998	500	1,000	1,000
Share issuance	0	0	0	0	0
Dividends paid	-1,299	-644	-442	-442	-572
Other fin cashflow	-219	-179	-287	-325	-364
Net cashflow	-1,098	-73	-729	20	1,066
YoY Growth					
Revenue (%)	-47	5	13	44	13
Operating profit (%)	-59	-22	-60	318	35
Profit before tax (%)	-61	-41	-51	309	2
Net profit (%)	-63	-37	-53	323	2
Margins					
EBITDA (%)	59	47	35	49	54
EBIT (%)	36	26	9	27	32
PBT (%)	42	24	10	29	26
Per Share Data					
Outstanding shares (m)	1,040	1,040	1,040	1,040	1,040
EPS (THB cents)	109	69	33	138	141
DPS (THB cents)	87	55	30	55	55
BVPS (S cents)	14.03	14.74	14.64	15.59	16.45
ROE (%)	7.2	4.8	2.2	9.1	8.8
ROA (%)	5.4	3.4	1.5	5.9	5.6
Net debt-to-total equity (%)	5	17	25	30	28
P/E (DMG)	12.3	19.4	41.2	9.7	9.5
P/B (x)	0.96	0.91	0.92	0.86	0.81
Dividend yield (%)	6.5	4.1	2.2	4.1	4.1

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

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