

OCTOBER 21, 2020

Overview unchanged

Hold

Catalyst: Neutral

2021E TP: Bt5.10

Close Bt4.88

Outlook clouded by BDI performance

We expect PSL's net loss in 3Q20E to decline significantly QoQ thanks mainly to the improvement in the TC rate. PSL's share price is still being pressured by the weak BDI performance at current. Nonetheless, we maintain our positive view on the BDI and PSL's TC rate in 2021E based on the improvement of the global economy and trade. We thus maintain our Hold rating for PSL, with the P/BV-based TP of Bt5.10.

Net loss to decline QoQ in 3Q20E

We forecast a net loss of Bt30mn in 3Q20E for PSL, turning around from the net loss of Bt1.2bn in 2Q20, due to the increase in the TC rate and declining SG&A expenses. For 9M20E, PSL is likely to report a core loss of Bt482mn, 72% of our full-year projection. However, as the Handysize and Supramax indexes remain healthy at current, our earnings forecasts for PSL are under review for a possible upgrade.

BDI plunged in October due to Capesize index decline

The BDI has now plunged more than 30% from the recent peak owing to the negative impact from seasonality on the Capsize Index, in our view. The key factor to watch in the fourth quarter is coal import demand from China. Although the historical pattern may not be repeated in the fourth quarter this year, we maintain our positive view on the BDI and PSL's TC rate in 2021E.

Slight gain from cash in advance in exchange for rate discount


PSL will receive a lump sum of USD25.23mn after reaching an agreement with a customer on an advance payment for daily chartering for a period of one year in exchange for a 5% discount on the TC rate. According to PSL, the company intends to use the cash for the repayment of loans and bonds. As the average cost of funds has currently increased due to the extension of the bond payment (with the coupon rate rising from 5.00%-5.25% to 6.50%-6.75%), we expect this transaction to yield a slight benefit to PSL.

Financial Valuations

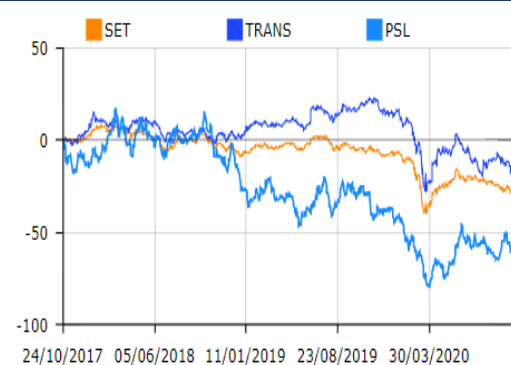
FY Ended 31 Dec	2018	2019	2020E	2021E	2022E
Sales (Btmn)	4,933	4,152	3,578	4,994	5,401
Core Profit (Btmn)	462	(228)	(672)	372	644
Net Profit (Btmn)	456	(223)	(1,523)	372	644
Core EPS(Bt)	0.30	(0.14)	(0.43)	0.24	0.41
Core EPS growth (%)	NM	NM	NM	NM	73.1
EPS (Bt)	0.29	(0.15)	(0.98)	0.24	0.41
EPS growth (%)	NM	NM	NM	NM	73.1
Dividend (Bt)	0.00	0.00	0.00	0.00	0.29
BV(Bt)	8.14	7.41	6.98	7.22	7.35
PER(x)	16.49	NM	NM	20.46	11.82
EV/EBITDA(x)	8.41	11.81	17.01	8.08	6.35
PBV(x)	0.60	0.66	0.70	0.68	0.66
Dividend yield (%)	0.00	0.00	0.00	0.00	5.92
ROE(%)	3.69	(1.84)	(5.98)	3.30	5.67
Net gearing (%)	100.00	99.33	107.87	90.11	73.79

Share data

	FY20	FY21
Consensus EPS (Bt)	-0.313	0.196
KTZ vs. consensus	37.4%	22.4%

Reuters / Bloomberg	PSL.BK/PSL TB
Paid-up Shares (m)	1,559.29
Par (Bt)	1.00
Market cap (Btbn/USDm)	8.00/243.00
Foreign limit/actual (%)	49.00/29.56
52-week High/Low (Bt)	9.10/2.38
Avg. daily T/O(shares 000)	14,395.00
NVDR (%)	4.97
Estimated free float (%)	46.81
Beta	1.27
URL	www.preciousshipping.com
CGR	
Anti-corruption	Level 4 (Certified)

Price Performance



Source: SET Smart

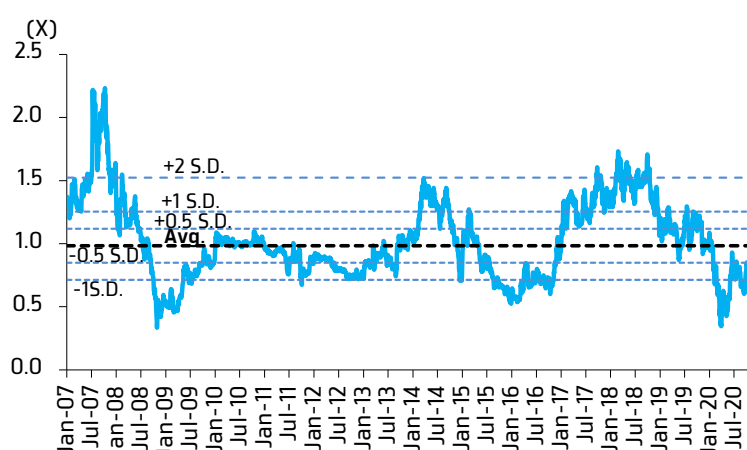
Note: An executive of Krungthai Zmico Securities is also a member of PSL's board.

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Figure 1: PSL's P/BV band and sensitivity of market prices based on P/BV at different standard deviations



	2021E	P/BV	Implied	Upside/Downside
		(x)	market price	vs. current market
			(Bt)	price (%)
Average	0.98		7.11	45.1
-0.5SD	0.85		6.14	25.2
-1.0SD	0.71		5.16	5.3
-1.5SD	0.58		4.19	-14.6
-2.0SD	0.44		3.21	-34.5
-2.5SD	0.31		2.24	-54.4
-3.0SD	0.04		0.29	-94.2

Sources: Bloomberg, KTZ Research

Net loss to decline QoQ in 3Q20E

We forecast a net loss of Bt30mn in 3Q20E for PSL, the same level as 3Q19 and turning around from the net loss of Bt1.2bn in 2Q20, thanks to the increase in the TC rate and declining SG&A expenses. In 3Q20, the average BDI marked at 1,522 points (-25% YoY, +72% QoQ), with the Handysize Index at 508 points (-12% YoY, +75% QoQ) and the Supramax Index at 903 points (-18% YoY, +81% QoQ). As a result, we expect PSL's TC rate (USD/day/vessel) to reach USD9,000 in 3Q20E, -6% YoY and +48% QoQ, while Opex/vessel/day is projected at USD4,439, -3% YoY and -2% QoQ. Meanwhile, we forecast SG&A expenses at Bt82mn, -36% YoY (flat QoQ) due to a decrease in legal expenses after the settlement with Sainty Shipbuilding in 2Q20. For 9M20E, PSL should report a net loss of Bt1.3bn and a core loss of Bt482mn, 72% of our current core loss forecast of Bt672mn for the whole year. However, as the Handysize and Supramax indexes remain healthy at current, we plan to revisit our earnings projections (potential upgrade) after PSL announces its 3Q20 results next month.

Figure 2: PSL's 3Q20E earnings preview

Profit and Loss (Btmn)											YTD
Year-end 31 Dec	3Q19	2Q20	3Q20E	% YoY	% QoQ	9M20E	% YoY	2019	2020E	% YoY	(% of 20E)
Revenue	1,045	680	936	(10.4)	37.6	2,671	(11.0)	4,152	3,578	(13.8)	74.7
Gross profit	267	(77)	200	(25.2)	NM	269	(58.1)	979	393	(59.8)	68.4
SG&A	(129)	(82)	(82)	(36.3)	0.3	(285)	(25.0)	(547)	(458)	(16.1)	62.1
EBITDA	433	145	414	(4.3)	185.3	891	(22.7)	1,616	1,138	(29.6)	78.3
Interest expenses	(183)	(158)	(153)	(16.3)	(3.2)	(483)	(12.6)	(703)	(628)	(10.8)	77.0
Other income	6	3	2	(68.2)	(23.9)	9	(66.1)	31	9	(70.9)	97.9
Forex gain (loss)	1	(22)	-	NM	NM	3	NM	(6)	-	(100.0)	-
Other extraordinary items	-	(851)	-	NM	NM	(851)	NM	0	(851)	-	100.0
Gn (Ls) from affiliates	8	4	4	(52.7)	8.8	9	(36.6)	20	12	(39.0)	70.5
Net profit (loss)	(29)	(1,183)	(30)	NM	NM	(1,330)	NM	(228)	(1,523)	NM	87.3
Core profit (loss)	(30)	(310)	(30)	NM	NM	(482)	NM	(223)	(672)	NM	71.7
Reported EPS (Bt)	(0.02)	(0.76)	(0.02)	NM	NM	(0.85)	NM	(0.15)	(0.98)	NM	87.3
Gross margin (%)	25.6	(11.3)	21.3			10.1		23.6	11.0		
EBITDA margin (%)	41.4	21.3	44.2			33.4		38.9	31.8		
Net margin (%)	(2.9)	(45.6)	(3.2)			(18.0)		(5.4)	(18.8)		
Current ratio (x)	0.4	0.5						0.4	0.9		
Interest coverage (x)	0.8	(1.0)						0.6	(0.1)		
Debt / equity (x)	1.1	1.2						1.1	1.1		
BVPS (Bt)	7.5	6.7						7.4	7.0		
ROE (%)	(1.0)	(11.0)						(1.8)	(6.0)		

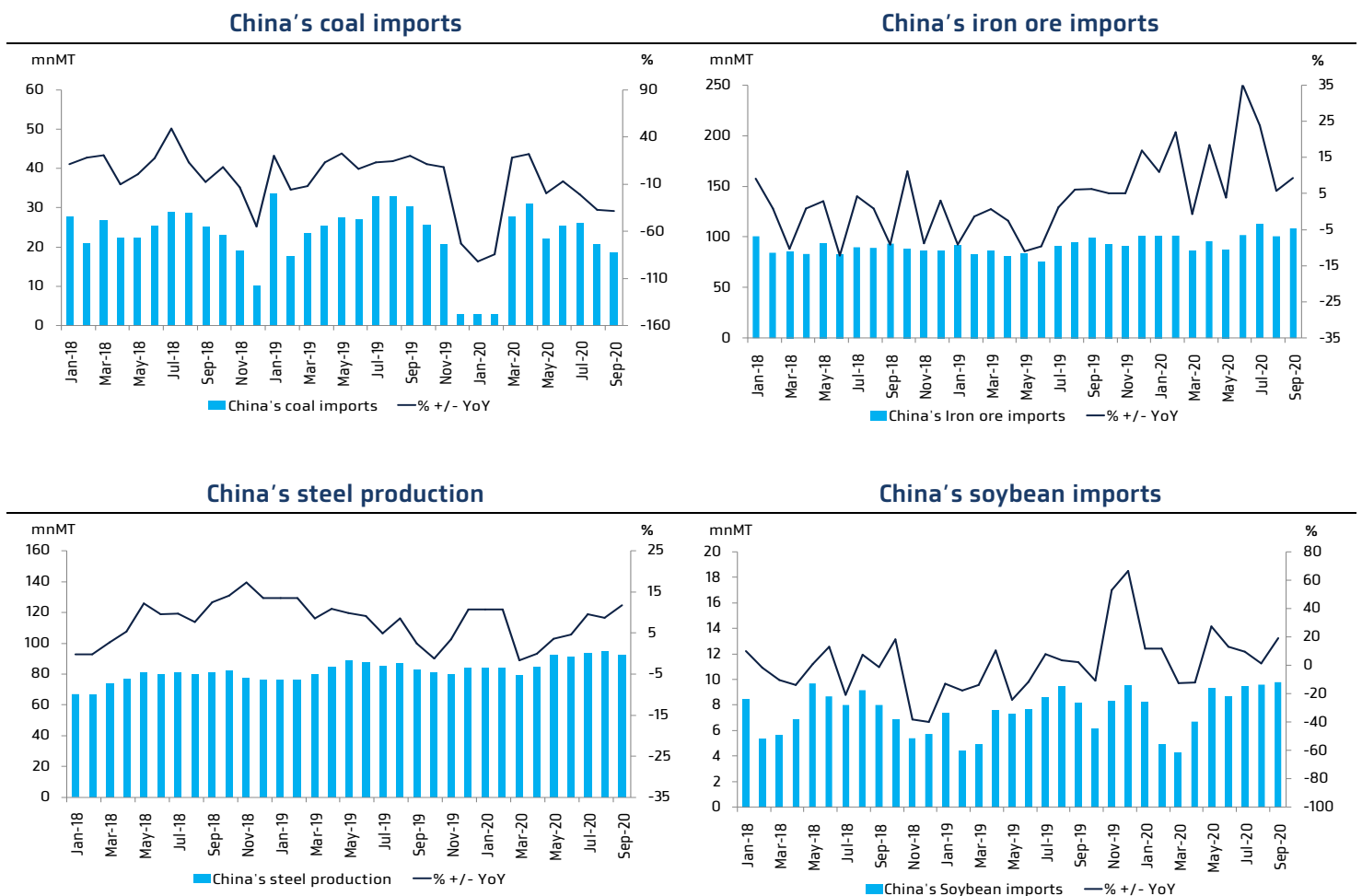
Source: KTZ Research

BDI plunged in October on Capesize Index decline

In 3Q20, demand for bulk vessels from China, especially for imports of iron ore and soybeans, helped propel the BDI after the country reopened and economic activities returned to normal. Meanwhile, the increase in the BDI was in line with the seasonal pattern (the grain export season starts in August and steel production increases during fall). However, as of October 16, the BDI had plunged to 1,477 points, -30% from the recent peak of 2,097 points on October 6, due mainly to the retreat of the Capesize index to 2,406 points (-43% from the recent peak of 4,208 points on the same day). This is still in line with the seasonal pattern wherein steel production peaks in late September. Coal imports will be the major driver of the BDI in the fourth quarter based on seasonality, though the pattern may differ this year as coal imports from China have continued to decline owing to import restrictions and higher power generation from hydroelectric plants, in addition to increasing domestic coal production. According to data from Bloomberg, China’s coal imports fell by 38% YoY in September and -4% YoY in 9M20.

Nevertheless, we maintain our view that the BDI will increase further in 2021E thanks to the growth in global demand for bulk ships outpacing supply growth next year.

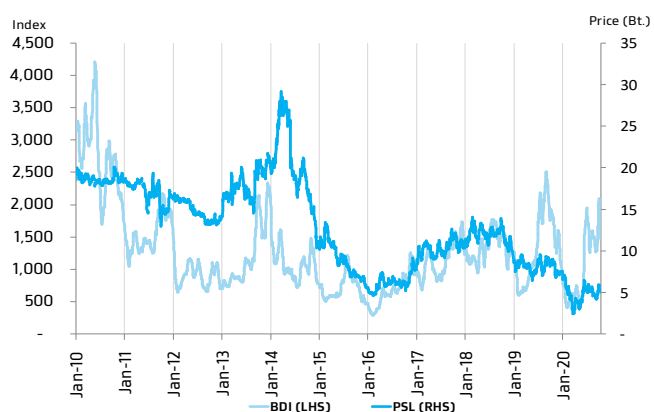
Figure 3: China’s major imported products by month



Sources: Bloomberg, PSL, Reuters

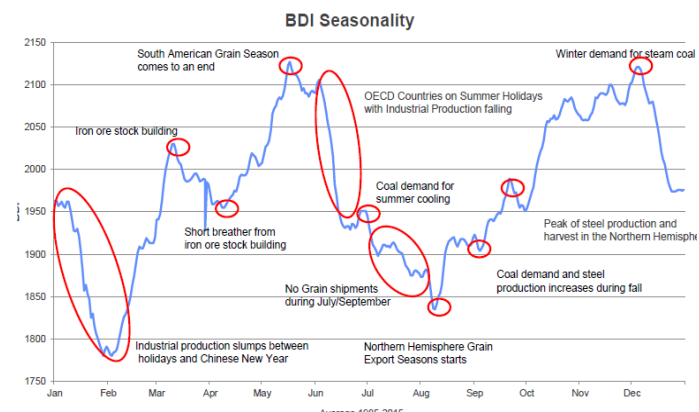
Note: *Bloomberg data during Jan-Mar 2020 adjusted due to COVID-19 impact

Figure 4: PSL's share price vs. the BDI



Source: Bloomberg

Figure 5: Baltic Dry Index (BDI) - seasonality



Source: PSL

Figure 6: Demand & supply growth vs. the BDI

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020E	2021E
Supply growth (%)	16.5	13.9	11.2	6.2	4.8	2.4	2.4	2.9	3.4	3.9	4.4	1.5
Demand growth (%)	11.7	6.6	5.8	6.5	5.5	(0.2)	1.5	4.1	2.7	0.8	(4.0)	4.1
Demand - Supply (%)	(4.8)	(7.3)	(5.4)	(0.4)	0.7	(2.2)	(0.9)	1.1	(0.6)	(3.1)	(8.4)	2.6
Average BDI (points)	2,758	1,549	920	1,206	1,105	719	673	1,145	1,353	1,353	1,023*	
% +/-	5.4	(43.8)	(40.6)	31.1	(8.4)	(34.9)	(6.4)	70.1	18.2	0.0	(24.4)	

Sources: PSL, TTA, KTZ Research

Note *: Average BDI (YTD)

Slight gain from receiving cash in advance in exchange for rate discount

PSL recently announced that it will receive a lump sum payment of USD25.23mn from Ultratech Cement Ltd., India after reaching an agreement to amend the payment terms for the chartering of five handysize vessels, with the charterer to pay the daily charter fee for a period of one year in advance in exchange for a 5% discount in the TC rate. According to PSL, the company intends to use the cash for the repayment of loans and bonds. As the average cost of funds has currently increased due to the extension of the bond payment (with the coupon rate rising from 5.00%-5.25% to 6.50%-6.75%), we expect this transaction to yield a slight benefit to PSL.

Financial Table

PROFIT & LOSS (Btmn)	2018	2019	2020E	2021E	2022E
Revenues	4,933	4,152	3,578	4,994	5,401
Cost of sales and service	(3,256)	(3,173)	(3,185)	(3,480)	(3,550)
Gross profit	1,677	979	393	1,514	1,851
SG&A	(449)	(547)	(458)	(540)	(564)
EBITDA	2,413	1,616	1,138	2,197	2,531
Depreciation & amortization	(1,185)	(1,183)	(1,203)	(1,223)	(1,243)
EBIT	1,228	433	(65)	974	1,287
Interest expense	(826)	(703)	(628)	(628)	(670)
Other income / exp.	37	31	9	9	9
EBT	439	(240)	(684)	355	625
Corporate tax	(2)	(3)	0	0	0
Forex gain (loss)	(5)	(6)	0	0	0
Extra Items	0	0	(851)	0	0
Gain (loss) from affiliates	24	20	12	17	18
Minority interests	(0)	(0)	(0)	0	0
Net profit	456	(228)	(1,523)	372	644
Reported EPS	0.29	(0.15)	(0.98)	0.24	0.41
Fully diluted EPS	0.29	(0.15)	(0.98)	0.24	0.41
Core net profit	462	(223)	(672)	372	644
Core EPS	0.30	(0.14)	(0.43)	0.24	0.41
Dividend (Bt)	0.00	0.00	0.00	0.00	0.29
BALANCE SHEET (Btmn)	2018	2019	2020E	2021E	2022E
Cash and equivalents	1,843	1,181	394	983	537
Accounts receivable	254	183	188	263	284
Inventories	96	176	85	97	99
PP&E-net	24,613	22,145	19,849	18,725	17,355
Other assets	1,031	1,375	3,265	3,265	3,265
Total assets	27,837	25,061	23,782	23,333	21,541
ST debt & current portion	1,877	4,085	2,615	4,575	7,010
Long-term debt	12,661	8,577	9,527	6,557	1,981
Total liabilities	15,141	13,502	12,890	12,070	10,086
Paid-up shares	1,559	1,559	1,559	1,559	1,559
Shareholder equity	12,695	11,559	10,891	11,263	11,456
Minority interests	0	0	0	0	0
Total liab. & shareholder equity	27,837	25,060	23,781	23,333	21,542
CASH FLOW (Btmn)	2018	2019	2020E	2021E	2022E
Net income	456	(228)	(1,523)	372	644
Forex and other extraordinary adjustments	41	83	0	0	0
Depreciation & amortization	1,185	1,183	1,203	1,223	1,243
Change in working capital	574	852	152	103	134
Cash flow from operations	2,256	1,890	(167)	1,699	2,021
Capex (Invest)/Divest	(272)	(427)	(100)	(100)	(100)
Others	0	0	0	0	0
Cash flow from investing	(272)	(427)	(100)	(100)	(100)
Debt financing (repayment)	(1,996)	(2,125)	(520)	(1,010)	(2,141)
Equity financing	0	0	0	0	0
Dividend payment	0	0	0	0	(225)
Others	0	0	0	0	0
Cash flow from financing	(1,996)	(2,125)	(520)	(1,010)	(2,366)
Net change in cash	(11)	(662)	(787)	589	(445)
Free cash flow	1,984	1,463	(267)	1,599	1,921
FCF per share (Bt)	1.27	0.94	(0.17)	1.03	1.23
PROFITABILITY	2018	2019	2020E	2021E	2022E
Revenue growth (%)	13.9	(15.8)	(13.8)	39.6	8.2
EBITDA growth (%)	24.73	(33.02)	(29.57)	93.02	15.18
EPS growth (%)	NM	NM	NM	NM	73.06
Gross margin (%)	34.0	23.6	11.0	30.3	34.3
EBITDA margin (%)	48.9	38.9	31.8	44.0	46.9
Operating margin (%)	24.9	10.4	(1.8)	19.5	23.8
Net margin (%)	9.2	(5.5)	(42.6)	7.4	11.9
Core profit margin (%)	9.4	(5.4)	(18.8)	7.4	11.9
Effective tax rate (%)	0.5	(1.2)	0.0	0.0	0.0






Note:

Krungthai Zmico has two major shareholders, Krungthai Bank PLC (KTB) and Seamico Securities PLC (ZMICO). Therefore, prior to making investments in the securities of KTB and ZMICO, investors should consider the risk factors carefully. An executive of Krungthai Zmico is also a board member of BCP, KBS, MAJOR, MK, PSL, SVH, VNG, ZMICO, PACE and JKN.

A management member of Krungthai Zmico is also a board member of NFC.

Krungthai Zmico is a financial advisor for ZMICO, TSE and ASAP.

Krungthai Zmico is a co-underwriter of SCGP.

Corporate Governance Report (CGR)		Source: Sec, Thai Institute of Directors Association (IOD)	
	Excellent (scores: 90-100)		Satisfactory (scores: 60 – 69)
	Very Good (scores: 80 – 89)		Pass (scores: 50 – 59)
	Good (scores: 70 – 79)	No Logo	N/A (scores: below 50)

Anti-corruption Progress Indicator
Source: Sec, Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC)

- **Level 1 (Committed):** Organization’s statement or board’s resolution to work against corruption and to be in compliance with all relevant laws.
- **Level 2 (Declared):** Public declaration statement to participate in Thailand’s private sector Collective Action Coalition Against Corruption (CAC) or equivalent initiatives
- **Level 3 (Established):** Public out preventive measures, risk assessment, communication and training for all employees, including consistent monitoring and review processes
- **Level 4 (Certified):** Audit engagement by audit committee or auditors approved by the office of SEC, and receiving certification or assurance by independent external assurance providers (CAC etc.)
- **Level 5 (Extended):** Extension of the anti-corruption policy to business partners in the supply chain, and disclosure of any current investigations, prosecutions or closed cases
- **Insufficient or not clearly defined policy**
- **Data not available / no policy**

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KTZ Research – Recommendation Definitions

Stock Recommendations

BUY: Expecting positive total returns of 15% or more over the next 12 months

HOLD: Expecting total returns between < 15% to -10% over the next 12 months

SELL: Expecting negative total returns more than -10% over the next 12 months

Total return is defined as the summation of percentage difference between the year-end target price and the current price and the expected annualized dividend yield of the stock

KTZ’s catalyst rating indicates our view regarding specific events or news that are capable to lead share price movement upwards or downwards in a short time period (not over six months), sometime significantly, over the short term (3-6 months). **Catalysts fall into three categories: Positive, Negative and Neutral.**

Positive means that there will be favorable event to push share price up

Negative means that there will be unfavorable event to push share price down and

Neutral means there will be no near term catalyst

Catalysts may include company earnings releases, analyst revisions, significant corporate actions, management transition, product launches, lawsuits and investigations, merger and acquisitions, etc

Sector Recommendations

OVERWEIGHT: The industry, as defined by the analyst’s coverage universe, is expected to outperform the relevant primary market index by at least 10% 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 by 10% over the next 12 months.



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