

DECEMBER 24, 2020

## Earnings upgrade

**Hold**

Catalyst: Neutral

2021E TP: Bt7.20

Close Bt7.40

## Wait for better entry point

We lift PSL's earnings in 2020-21E to factor in potential better-than-expected TC rates in 4Q20E and 2021E given the favorable bulk ship demand-supply situation. Thus, we raise PSL's TP to Bt7.20 (vs. Bt5.10 previously), pegged at P/BV of 1.0x (historical average). However, PSL's share price jump of 53% in three months should already reflect the positives. We thus keep our Hold rating on PSL, expecting a better entry point to occur early next year based on the historical pattern.

## Handysize and Supramax indexes keep advancing in 4Q20

Although the BDI is still improving at current thanks mainly to high iron ore import demand from China, the average BDI in 4Q20 (QTD) fell to 1,339 points (-14% YoY, -12% QoQ). Nevertheless, the average Handysize (BHSI) and Supramax (BSI) indexes in 4Q20 continued to advance to 607 points (+7% YoY, +20% QoQ) and 905 points (+0% YoY, +6% QoQ), respectively, which is likely to benefit PSL's TC rate in 4Q20E. The recent improvement in the BDI came in part from the turnaround of the Chinese economy and the positive impact of China's stimulus package on infrastructure projects, helping to drive steel and iron ore demand, in our view. Meanwhile, robust demand for soft commodities from China, especially soybeans, should spur on demand for smaller ships. However, we believe the BDI will cool off early next year (before the Chinese New Year) based on the historical pattern (less economic activities in China during the long weekend).

## Raise PSL's earnings projections

Given the stronger-than-expected BHSI and BSI in 4Q20, we revise PSL's core loss in 2020E to Bt391mn (vs. Bt672mn previously). This includes the upward revision of the TC rate to USD8,600 (from USD8,000 previously) and the downward revision of SG&A expenses owing to legal cost savings. Meanwhile, we lift PSL's net profit forecasts in 2021-22E by 73% and 43%, respectively, on the back of the upward revision of the TC rate by 4% from the previous expectation for both years.


## Financial Valuations

FY Ended 31 Dec	2018	2019	2020E	2021E	2022E
Sales (Btmn)	4,933	4,152	3,823	5,198	5,605
Core Profit (Btmn)	462	(228)	(391)	644	923
Net Profit (Btmn)	456	(223)	(1,243)	644	923
Core EPS(Bt)	0.30	(0.14)	(0.25)	0.41	0.59
Core EPS growth (%)	NM	NM	NM	NM	43.3
EPS (Bt)	0.29	(0.15)	(0.80)	0.41	0.59
EPS growth (%)	NM	NM	NM	NM	43.3
Dividend (Bt)	0.00	0.00	0.00	0.29	0.41
BV(Bt)	8.14	7.41	7.16	7.29	7.47
PER(x)	25.00	NM	NM	17.92	12.51
EV/EBITDA(x)	10.04	14.24	16.27	8.67	7.03
PBV(x)	0.91	1.00	1.03	1.02	0.99
Dividend yield (%)	0.00	0.00	0.00	3.91	5.60
ROE(%)	3.69	(1.84)	(3.44)	5.71	8.02
Net gearing (%)	100.00	99.33	102.77	86.53	70.28

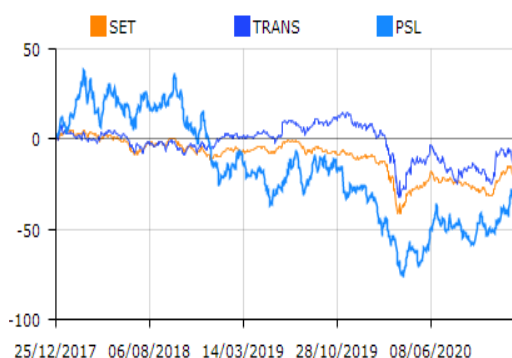
## Share data

	FY20	FY21
Consensus EPS (Bt)	-0.453	0.166
KTZ vs. consensus	-44.8%	147%

Reuters / Bloomberg	PSL.BK/PSL TB
Paid-up Shares (m)	1,559.29
Par (Bt)	1.00
Market cap (Btbn/USDm)	12.00/382.00
Foreign limit/actual (%)	49.00/21.85
52-week High/Low (Bt)	7.90/2.38
Avg. daily T/O(shares 000)	17,804.00
NVDR (%)	6.74
Estimated free float (%)	46.81
Beta	1.27
URL	www.preciousshipping.com
CGR	
Anti-corruption	Level 4 (Certified)

## Price Performance



Source: SET Smart

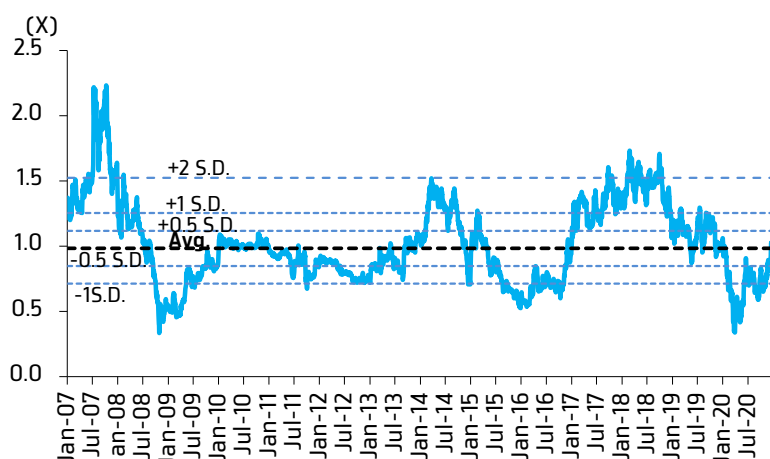
**Note: An executive of Krungthai Zmico Securities is also a member of PSL's board.**

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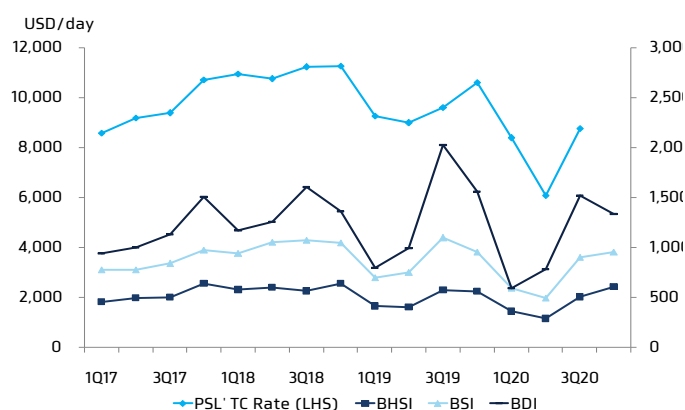
Figure 1: PSL's P/BV band and sensitivity of market prices based on P/BV at different standard deviations



	2021E	P/BV	Implied market price	Upside/Downside vs. current market price (%)
		(x)	(Bt)	
+1.5 S.D.	1.39		10.12	36.8
+1.0 S.D.	1.25		9.14	23.5
+0.5 S.D.	1.12		8.15	10.2
Average	0.98		7.17	-3.2
-0.5 S.D.	0.85		6.18	-16.5
-1.0 S.D.	0.71		5.19	-29.8
-1.5 S.D.	0.58		4.21	-43.1

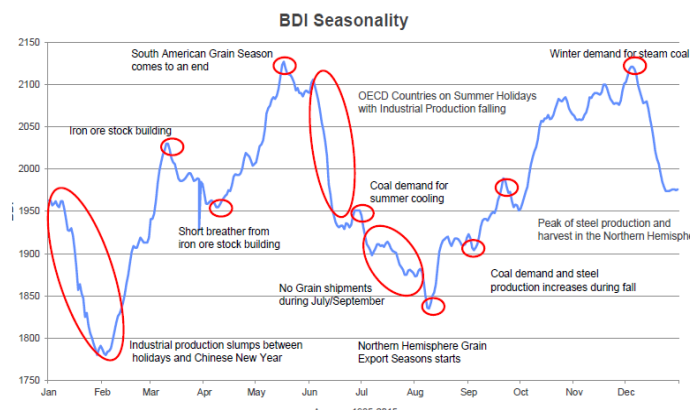
Sources: Bloomberg, KTZ Research

Figure 2: PSL's TC rate vs. BDI



Source: PSL

Figure 3: Baltic Dry Index (BDI) – seasonality



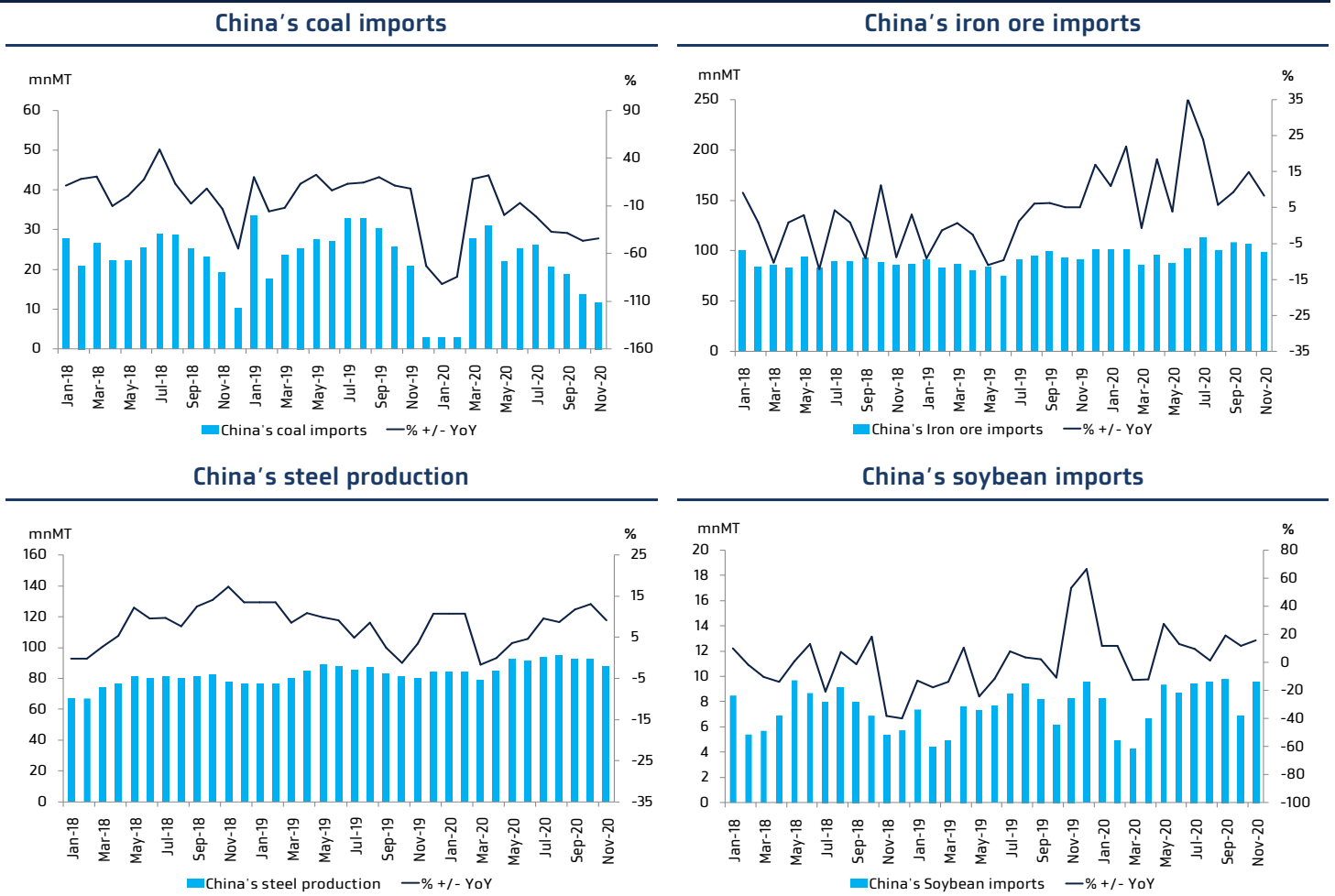
Source: PSL

Figure 4: Key assumptions and 2020-21E earnings revision for PSL

Fiscal year end-September	New			Old			% chg from old		
	2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E
Number of vessels (yearend)	36	36	36	36	36	36			
Average TC rate (USD/day)	8,600	12,000	13,000	8,000	11,500	12,500	7.5	4.3	4.0
% +/-	(10.6)	39.5	8.3	(16.9)	43.8	8.7			
Opex (USD/day)	4,750	4,869	4,992	4,750	4,869	4,992	0.0	0.0	0.0
% +/-	(0.6)	2.5	2.5	(0.6)	2.5	2.5			
Core profit (Btmn)	(391)	644	923	(672)	372	644	NM	73.1	43.3

Source: KTZ Research

Figure 5: China’s major imported products by month



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

Sources: Bloomberg, PSL, Reuters

## Financial Table

PROFIT & LOSS (Btmn)	2018	2019	2020E	2021E	2022E
<b>Revenues</b>	<b>4,933</b>	<b>4,152</b>	<b>3,823</b>	<b>5,198</b>	<b>5,605</b>
Cost of sales and service	(3,256)	(3,173)	(3,185)	(3,480)	(3,550)
<b>Gross profit</b>	<b>1,677</b>	<b>979</b>	<b>638</b>	<b>1,717</b>	<b>2,055</b>
SG&A	(449)	(547)	(427)	(476)	(493)
<b>EBITDA</b>	<b>2,413</b>	<b>1,616</b>	<b>1,415</b>	<b>2,465</b>	<b>2,805</b>
Depreciation & amortization	(1,185)	(1,183)	(1,203)	(1,223)	(1,243)
<b>EBIT</b>	<b>1,228</b>	<b>433</b>	<b>211</b>	<b>1,241</b>	<b>1,562</b>
Interest expense	(826)	(703)	(628)	(628)	(670)
Other income / exp.	37	31	12	12	12
<b>EBT</b>	<b>439</b>	<b>(240)</b>	<b>(405)</b>	<b>626</b>	<b>903</b>
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	13	18	19
Minority interests	(0)	(0)	(0)	0	0
<b>Net profit</b>	<b>456</b>	<b>(228)</b>	<b>(1,243)</b>	<b>644</b>	<b>923</b>
Reported EPS	0.29	(0.15)	(0.80)	0.41	0.59
Fully diluted EPS	0.29	(0.15)	(0.80)	0.41	0.59
<b>Core net profit</b>	<b>462</b>	<b>(223)</b>	<b>(391)</b>	<b>644</b>	<b>923</b>
Core EPS	0.30	(0.14)	(0.25)	0.41	0.59
Dividend (Bt)	0.00	0.00	0.00	0.29	0.41






BALANCE SHEET (Btmn)	2018	2019	2020E	2021E	2022E
Cash and equivalents	<b>1,843</b>	<b>1,181</b>	<b>661</b>	<b>1,299</b>	<b>809</b>
Accounts receivable	254	183	201	273	295
Inventories	96	176	85	97	99
PP&E-net	24,613	22,145	19,849	18,500	17,259
Other assets	1,031	1,375	3,265	3,265	3,265
<b>Total assets</b>	<b>27,837</b>	<b>25,061</b>	<b>24,062</b>	<b>23,434</b>	<b>21,727</b>
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
<b>Total liabilities</b>	<b>15,141</b>	<b>13,502</b>	<b>12,890</b>	<b>12,070</b>	<b>10,086</b>
Paid-up shares	1,559	1,559	1,559	1,559	1,559
<b>Shareholder equity</b>	<b>12,695</b>	<b>11,559</b>	<b>11,171</b>	<b>11,365</b>	<b>11,641</b>
Minority interests	0	0	0	0	0
<b>Total liab. &amp; shareholder equity</b>	<b>27,837</b>	<b>25,060</b>	<b>24,062</b>	<b>23,434</b>	<b>21,727</b>

CASH FLOW (Btmn)	2018	2019	2020E	2021E	2022E
Net income	456	(228)	(1,243)	644	923
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	139	106	134
<b>Cash flow from operations</b>	<b>2,256</b>	<b>1,890</b>	<b>100</b>	<b>1,973</b>	<b>2,300</b>
Capex (Invest)/Divest	(272)	(427)	(100)	(100)	(100)
Others	0	0	0	0	0
<b>Cash flow from investing</b>	<b>(272)</b>	<b>(427)</b>	<b>(100)</b>	<b>(100)</b>	<b>(100)</b>
Debt financing (repayment)	(1,996)	(2,125)	(520)	(1,010)	(2,141)
Equity financing	0	0	0	0	0
Dividend payment	0	0	0	(225)	(548)
Others	0	0	0	0	0
<b>Cash flow from financing</b>	<b>(1,996)</b>	<b>(2,125)</b>	<b>(520)</b>	<b>(1,236)</b>	<b>(2,689)</b>
Net change in cash	(11)	(662)	(520)	637	(489)
<b>Free cash flow</b>	<b>1,984</b>	<b>1,463</b>	<b>0</b>	<b>1,873</b>	<b>2,200</b>
<b>FCF per share (Bt)</b>	<b>1.27</b>	<b>0.94</b>	<b>0.00</b>	<b>1.20</b>	<b>1.41</b>

PROFITABILITY	2018	2019	2020E	2021E	2022E
Revenue growth (%)	13.9	(15.8)	(7.9)	36.0	7.8
EBITDA growth (%)	24.7	(33.0)	(12.5)	74.2	13.8
EPS growth (%)	NM	NM	NM	NM	43.3
Gross margin (%)	34.0	23.6	16.7	33.0	36.7
EBITDA margin (%)	48.9	38.9	37.0	47.4	50.1
Operating margin (%)	24.9	10.4	5.5	23.9	27.9
Net margin (%)	9.2	(5.5)	(32.5)	12.4	16.5
Core profit margin (%)	9.4	(5.4)	(10.2)	12.4	16.5
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, ASAP, UWC, SWG and SA. Krungthai Zmico is a co-underwriter of KEX.

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.