

## PRECIOUS SHIPPING

### PSL

#### TRANSPORTATION & LOGISTICS

12M Fair Value (Bt)

**Bt15.50**

Closing Price: Bt16.50

Rating

**Neutral**

Maintained

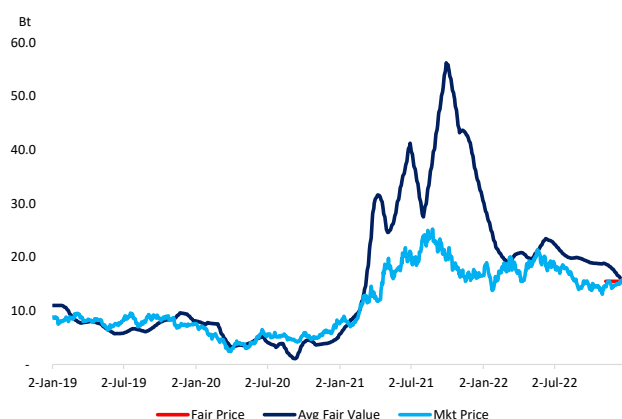
Valuation Matrix

Current valuation Neutral  
Long-term growth Poor

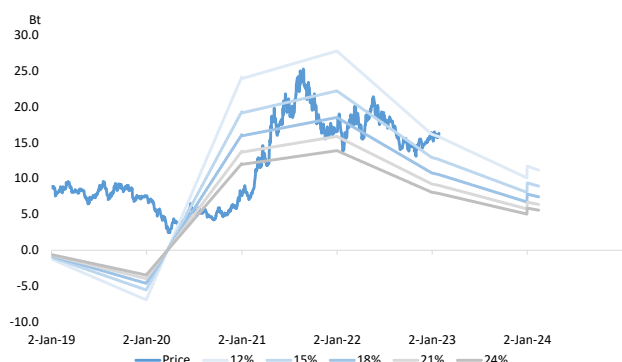
Tactical Very limited downside

VALUATIONS	2021	2022E	2023E
EPS estimates (Bt)	2.87	3.33	1.94
EPS growth (%)	n.a.	16.03	-41.79
Earnings yield (%)	17.39	20.18	11.76
Implied PER (x)	5.75	4.95	8.51
Risk-free rate (%)	3.58	Market cap (Btmn)	25,728
Equity risk premium (%)	8.92	Avg. daily T/O ('000 shrs)	9,411
Required return (%)	12.50	Free float (%)	47.55

## VALUATIONS CHART



## EARNINGS YIELD BAND



## ESG PERCENTILE SCORE

No comparable data available.

## FINANCIAL SUMMARY

	Sales (Btmn)	NP (Btmn)	EPS (Bt)	EPS growth (%)	DPS (Bt)	Yield (%)	ROE (%)	ROCE (%)	BV (Bt)	D/E (x)
2020	3,730	(1,295)	(0.83)	n.a.	-	-	(12.78)	0.89	9.21	1.11
2021	8,615	4,475	2.87	n.a.	1.50	9.09	31.15	23.55	11.77	0.64
2022E	9,491	5,192	3.33	16.03	2.25	13.64	28.29	23.16	12.59	0.49
2023E	7,562	3,022	1.94	(41.79)	0.97	5.88	15.21	14.33	13.45	0.45
2024E	6,606	2,198	1.41	(27.29)	0.70	4.24	10.48	10.96	13.95	0.42

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REFER TO DISCLOSURE SECTION AT END OF THE NOTE

## Entering high season, but long-term outlook is weak

- PSL's performance varies in line with global freight rates, which are expected to rebound in the short term after the sharp plunge in 4Q22 on the anticipation of a demand surge from China's reopening and after the Chinese New Year.
- Nonetheless, earnings are expected to decline in 2023-24E, as we believe the shipping industry just passed the upcycle.
- Maintain a Neutral rating on PSL, with a fair price of Bt15.50

## BUSINESS INSIGHTS

- PSL's earnings performance varies in accordance with global freight rates.
- We have a neutral view on the stock, as the shipping industry is in the normalization phase after the recent pandemic-induced upcycle. The Baltic Dry Index has contracted by 88% from the peak at 5,650 points in October 2021 to 680 points currently, taking it below the pre-COVID level.
- We forecast PSL's earnings to slump from Bt5.2bn in 2022E to Bt3.0bn (-42% YoY) in 2023E and Bt2.2bn (-27% YoY) in 2024E, based on time charter rates at USD15,259/day in 2023E and USD13,733/day in 2024E, falling from USD20,346/day in 2022E.
- Despite the earnings slowdown, the earnings yields remain attractive at 11.8% in 2023E and 8.5% in 2024E.
- With the beta running at over 2x on the declining earnings outlook and the expected resilience of the SET Index, PSL runs the risk of significantly underperforming the market.
- Fundamentally, we are bearish, but tactically, we have a positive view in the short term. We expect a speculation window given the seasonal pattern in which the BDI normally rallies after the Chinese New Year holiday in February.

## SHARE PRICE DRIVERS

- We maintain a Neutral rating on PSL, with a new fair price of Bt15.50, up from Bt15.40 previously, derived from an earnings yield (required rate of return) of 12.5%. Our earnings yield is based on a risk-free rate of 3.6% and an equity risk premium (ERP) of 8.9%. We estimate the ERP using a multiple regression model, finding a significant R-squared of 56% with the parameters of net debt/equity, EPS growth, the WTI oil price, the Baltic Dry Index and the Thai 2Y and 10Y bond yields.

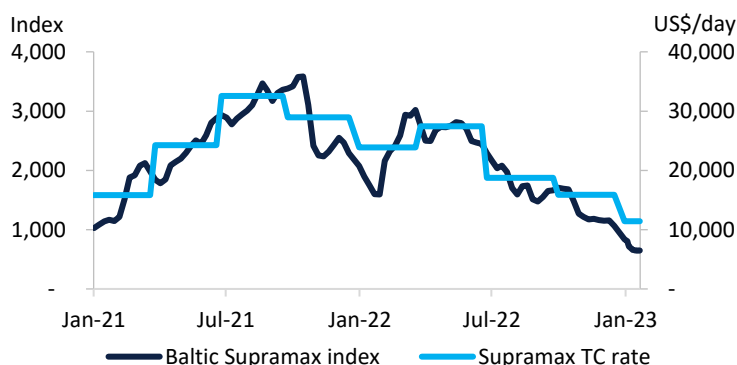
### KEY TAKEAWAYS

Pure dry-bulk shipping stock to benefit from freight rate high season

From a long-term perspective, shipping business just passed the upcycle

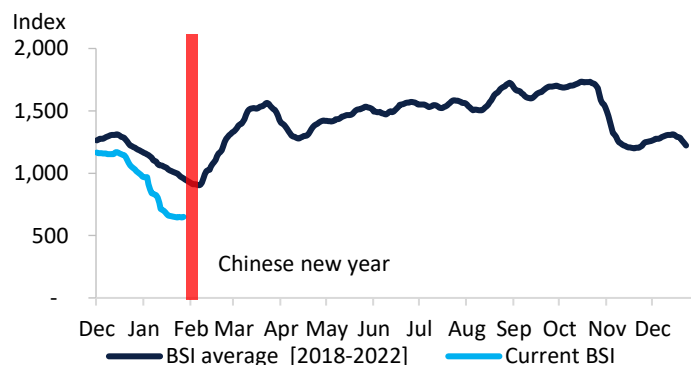
- PSL owns and operates 38 dry-bulk ships on a tramp-shipping basis, amounting to 1,657,569 DWT in aggregate. The company mainly operates in the Handysize sector (21 vessels with sizes between 10,000-39,999 DWT), followed by Supramax (nine vessels; size: 40,000-59,999 DWT) and Ultramax (eight vessels; size: 60,000-69,999 DWT). The business is quite commodity-related, with the earnings performance varying in accordance with global freight rates. While we expect the 2023-24E earnings to slow down after hitting the peak recently, the stock should enjoy a rally on the back of the seasonal increase in freight rates during the first quarter.
- The Baltic Dry Index (BDI) and the Baltic Supramax Index (BSI), the benchmarks for shipping charter rates, have declined from the recent upcycle peaks at 5,650 points and 3,624 points, respectively, in October 2021 to 680 points and 658 points currently. The falls were attributed to a normalization after event-led upcycles fueled by COVID-19. Pandemic-induced port congestion worldwide caused an artificial ship supply shortage and, at the same time, created pent-up demand for logistics services for goods restocking amid the economic reopening. While we do not expect freight rates to retreat much more from the current level, PSL’s earnings should gradually decline following the expiration of forward agreements quoted in the upcycle.

Figure 1: Baltic Supramax Index and market TC rate for Supramax



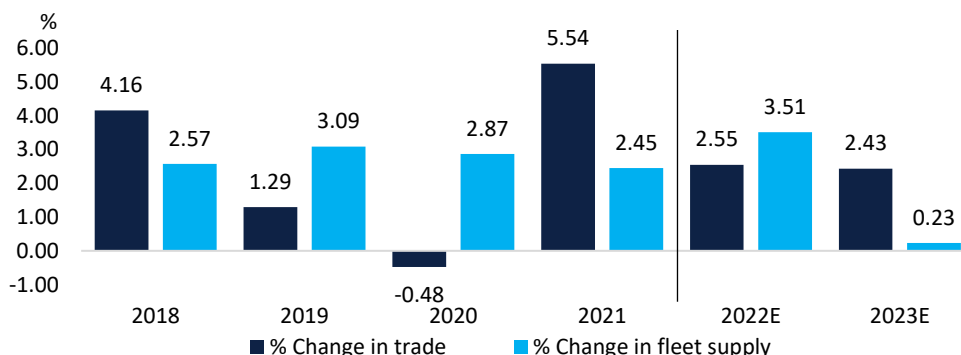
Sources: Bloomberg, Company data

Figure 2: Shipping industry’s seasonal pattern



Source: Bloomberg

Figure 3: Global minor bulk demand growth to exceed that of supply in 2023E



Sources: Clarksons, Company data

- Expect healthy rebound in freight rates from February*
- We expect freight rates to rally in early February given the seasonal pattern in which Chinese businesses reopen after the New Year holidays. Looking at the last five-year average, the Baltic Supramax Index rallied by 58% from February's bottom to the end of March. We believe the potential freight rate rally should support speculation on PSL. In addition, global demand for minor bulk shipping in 2023E is expected to grow 2.4%, exceeding the supply growth at 0.2%, creating a better balance than in 2022E when supply growth exceeded that of demand.
- 4Q22E slowdown on freight rate retreat*
- We expect PSL to report a 4Q22E net profit of Bt891mn, down 50% YoY and 34% QoQ, mainly due to the contraction of freight rates. We estimate 4Q22E revenue at Bt2,094mn, shrinking 26% YoY and 16% QoQ, eroded by the expected decline in the time charter rate to USD16,500/day (-38% YoY, -17% QoQ). The gross profit margin (GPM) is forecast at 52.9%, down from 71.2% in 4Q21 and 60.5% in 3Q22, mainly owing to the drop of revenue along with high fixed costs.

Figure 4: 4Q22E earnings preview

	4Q21	3Q22	4Q22E	YoY	QoQ	2022E	YoY
<b>EPS (Bt)</b>	<b>1.14</b>	<b>0.86</b>	<b>0.57</b>	<b>-50%</b>	<b>-34%</b>	<b>3.33</b>	<b>16%</b>
Sales (Btmn)	2,812	2,500	2,094	-26%	-16%	9,491	10%
<b>Net profit (Btmn)</b>	<b>1,722</b>	<b>1,348</b>	<b>891</b>	<b>-50%</b>	<b>-34%</b>	<b>5,192</b>	<b>16%</b>
Gross margin (%)	71.2%	60.5%	51.9%			62.8%	

Source: KTX Research

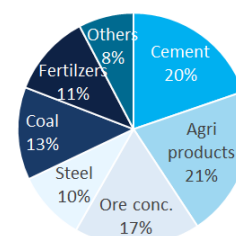
- Downward earnings revision*
- We revised down the 2022-23E earnings forecasts by 10% and 48% to Bt5,192mn and Bt2,554mn, respectively. In the meantime, the 2022E revenue forecast was maintained at Bt9,491mn, and the 2023E revenue forecast was cut by 14% to Bt7,058mn, reflecting a fast decline in dry-bulk shipping freight rates. Note that we switched our forecast method from multiple regression to traditional fundamentals analysis.
- Earnings to decline in 2023-24E*
- We forecast PSL's earnings to slump from Bt5.2bn (EPS Bt3.33) in 2022E to Bt2.6bn (EPS Bt1.94, -42% YoY) in 2023E and Bt1.8bn (EPS Bt1.41, -27% YoY) in 2024E given the slowdown in freight rates. PSL's time charter rates are projected at USD15,259/day in 2023E and USD13,733/day in 2024E, slipping from USD20,346/day in 2022E.
- Maintain a Neutral rating, with a new fair price of Bt15.50, up from Bt15.40 previously.*
- We maintain a Neutral rating on PSL, with a new fair price of Bt15.50, up from Bt15.40 previously, derived from an earnings yield (required rate of return) of 12.5%. Our earnings yield is based on a risk-free rate of 3.6% and an equity risk premium (ERP) of 8.9%. We estimate the ERP using a multiple regression model, finding a significant R-squared of 56% with the parameters of net debt/equity, EPS growth, the WTI oil price, the Baltic Dry Index and the Thai 2Y and 10Y bond yields.

Figure 5: PSL's fleet profile

Ship types	DWT range (MT)	Ships
Handysize	10,000-39,999	21
Supramax	40,000-59,999	9
Ultramax	60,000-69,999	8

Source: Company Data

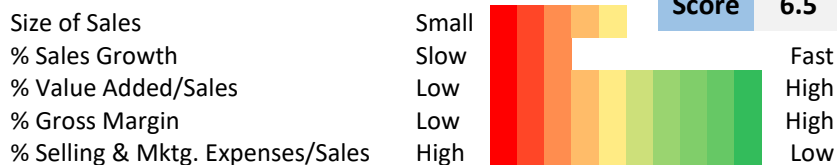
Figure 6: Approximate cargo exposure in 2021



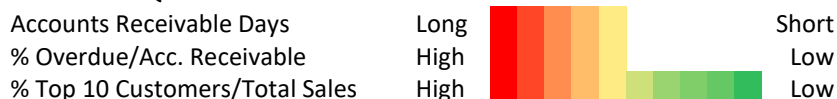
Source: Company Data

## COMPETITIVENESS

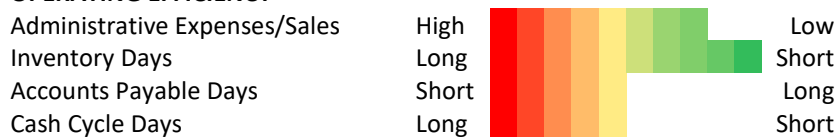
### MARKET POSITION



### CUSTOMER QUALITY



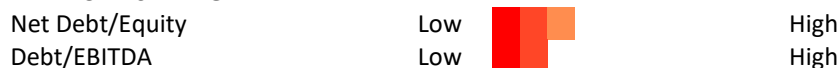
### OPERATING EFFICIENCY



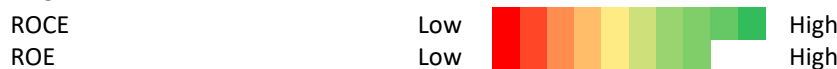
## FINANCIALS & PROFITABILITY

**Score** **4.9**

### FINANCIAL STRENGTH



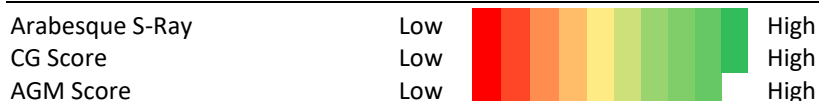
### PROFITABILITY



**Score** **8.9**

## SUSTAINABILITY (SEC)

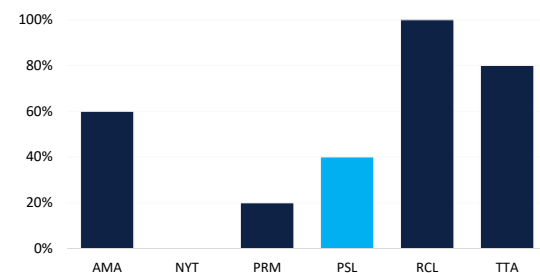
### ESG Score



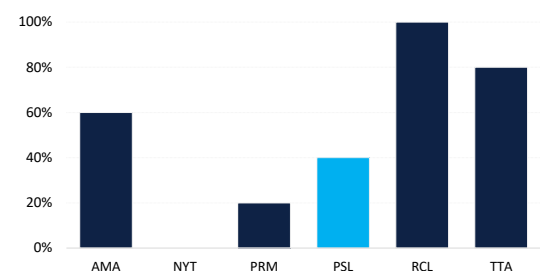
### Some ESG Material Factors

No comparable data available.

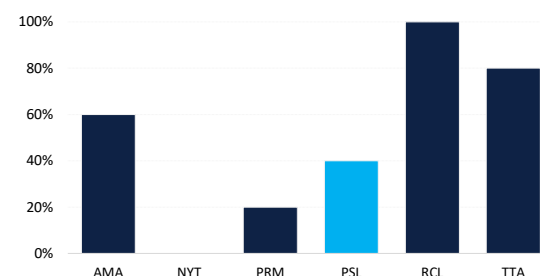
## PERCENTILE RANK SALES GROWTH (%)



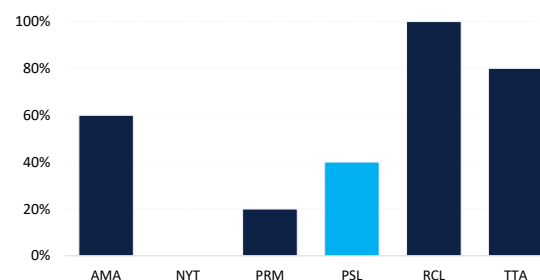
## GROSS PROFIT MARGIN (%)



## NET DEBT TO EQUITY RATIO (x)



## ROCE (%)



## Financial Table

	2020	2021	2022E	2023E	2024E
<b>PROFIT &amp; LOSS (Btm)</b>					
Revenues	3,730	8,615	9,491	7,562	6,606
Cost of sales and service	(3,226)	(3,305)	(3,535)	(3,841)	(3,785)
<b>Gross profit</b>	<b>504</b>	<b>5,311</b>	<b>5,956</b>	<b>3,720</b>	<b>2,821</b>
SG&A	(345)	(572)	(487)	(454)	(396)
<b>EBITDA</b>	<b>1,382</b>	<b>5,957</b>	<b>6,876</b>	<b>4,763</b>	<b>3,923</b>
Depreciation & amortization	1,214	1,215	1,332	1,420	1,421
<b>EBIT</b>	<b>168</b>	<b>4,742</b>	<b>5,544</b>	<b>3,343</b>	<b>2,503</b>
Interest expense	(597)	(415)	(390)	(387)	(385)
Other income / exp.	9	3	75	77	78
<b>EBT</b>	<b>(418)</b>	<b>4,350</b>	<b>5,181</b>	<b>2,980</b>	<b>2,142</b>
Corporate tax	(4)	(2)	0	0	0
Minority interests	0	(0)	0	42	56
Extra items	(872)	127	11	0	0
<b>Net profit</b>	<b>(1,295)</b>	<b>4,475</b>	<b>5,192</b>	<b>3,022</b>	<b>2,198</b>
Reported EPS	(0.83)	2.87	3.33	1.94	1.41
Fully diluted EPS	(0.83)	2.87	3.33	1.94	1.41
<b>Core net profit</b>	<b>(422)</b>	<b>4,348</b>	<b>5,181</b>	<b>3,022</b>	<b>2,198</b>
Core EPS	(0.27)	2.79	3.32	1.94	1.41
Dividend (Bt)	0.00	1.50	2.25	0.97	0.70
<b>BALANCE SHEET (Btm)</b>					
<b>Cash and equivalents</b>	<b>1,100</b>	<b>2,468</b>	<b>2,249</b>	<b>4,305</b>	<b>5,846</b>
Account receivable	169	175	360	287	251
Inventories	0	0	0	0	0
PP&E-net	19,131	20,312	24,112	23,630	23,158
<b>Total assets</b>	<b>21,397</b>	<b>23,531</b>	<b>27,304</b>	<b>28,812</b>	<b>29,854</b>
ST debt & current portion	2,441	1,414	1,250	1,263	1,275
Long-term debt	7,606	6,824	6,710	6,642	6,575
<b>Total liabilities</b>	<b>11,263</b>	<b>9,165</b>	<b>8,948</b>	<b>8,945</b>	<b>8,888</b>
Minority interests	0	0	0	0	0
<b>Shareholder equity</b>	<b>10,134</b>	<b>14,365</b>	<b>18,356</b>	<b>19,867</b>	<b>20,966</b>
<b>Total liab. &amp; shareholder equity</b>	<b>21,397</b>	<b>23,531</b>	<b>27,304</b>	<b>28,812</b>	<b>29,854</b>
<b>CASH FLOW (Btm)</b>					
Net income	(1,295)	4,475	5,192	3,022	2,198
Depreciation & amortization	1,214	1,215	1,332	1,420	1,421
Change in working capital	178	24	1	120	28
FX, non-cash adjustment & others	1,767	182	(3)	(3)	(3)
<b>Cash flow from operations</b>	<b>1,864</b>	<b>5,895</b>	<b>6,521</b>	<b>4,559</b>	<b>3,642</b>
Capex (Invest)/Divest	(274)	(255)	(5,132)	(938)	(948)
Others	1,269	0	(4)	(5)	(5)
<b>Cash flow from investing</b>	<b>997</b>	<b>(235)</b>	<b>(5,136)</b>	<b>(943)</b>	<b>(953)</b>
Debt financing (repayment)	(2,294)	(2,192)	(403)	(50)	(49)
Equity financing	0	0	0	0	0
Dividend payment	0	(1,559)	(3,508)	(1,511)	(1,099)
Others	(635)	(671)	2,307	3	3
<b>Cash flow from financing</b>	<b>(2,928)</b>	<b>(4,423)</b>	<b>(1,604)</b>	<b>(1,561)</b>	<b>(1,147)</b>
Net change in cash	(67)	1,237	(219)	2,055	1,542
<b>Free cash flow</b>	<b>2,859</b>	<b>5,640</b>	<b>1,385</b>	<b>3,616</b>	<b>2,689</b>
<b>FCF per share (Bt)</b>	<b>1.83</b>	<b>3.62</b>	<b>0.89</b>	<b>2.32</b>	<b>1.72</b>
<b>PROFITABILITY</b>					
Revenue growth (%)	(10.2)	131.0	10.2	(20.3)	(12.6)
EBITDA growth (%)	(18.3)	330.9	15.4	(30.7)	(17.6)
Net profit growth (%)	n.a.	n.a.	16.0	(41.8)	(27.3)
Gross margin (%)	13.5	61.6	62.8	49.2	42.7
EBITDA margin (%)	37.1	69.1	72.4	63.0	59.4
Operating margin (%)	4.5	55.0	58.4	44.2	37.9
Net margin (%)	(34.7)	51.9	54.7	40.0	33.3
Core profit margin (%)	(11.3)	50.5	54.6	40.0	33.3
Effective tax rate (%)	(1.1)	0.0	0.0	0.0	0.0
<b>FINANCIAL QUALITY</b>					
Net debt to equity (x)	0.88	0.40	0.31	0.18	0.10
Interest coverage (x)	0.3	11.4	14.2	8.6	6.5

**Note:**

**Krungthai XSpring** has two major shareholders, Krungthai Bank Plc. (KTB) and XSpring Capital Plc. (XPG). Therefore, prior to making investment in the securities of KTB and XPG, investors should consider the risk factors carefully.

A director of Krungthai Xspring is also a board member of VNG, PACE, MAJOR, KBS, XPG, NVD, KTC, IVL, SAWAD and CI.

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

Krungthai Xspring is a financial advisor for XPG, TSE, STOWER, NVD, BTS, AHC, THCOM, TFG, PF, NTSC and SENA.

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**KTX Research – Recommendation Definitions****KTX's fair value**

Our fair value is calculated by the 12-month rolling EPS estimate divided by the required rate of return based on the Capital Asset Pricing Model (CAPM).

**Stock Recommendations**

In determining our recommendations for each stock, we combine the fundamental value and the tactical trading overlay to factor in the anticipated market trend. The fundamental value takes into account both the current fair value as mentioned above and the valuation trend over the next 24 months, incorporating the future performance. Each of the three aforementioned criteria is assigned a score in the range of -5 to +5, evaluated against our benchmark. The equally weighted scores are then summed into a single score, which is used to assign stock recommendations.

**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.