

## Precious Shipping

Novation gains lift headline profit, recurring loss widened as this is cycle bottom; OW as we expect outlook to improve

We continue to like the smaller vessel segments of the bulk shipping sector and expect average freight rates in 2014 to surpass 2013 levels, driving earnings recovery. We believe this year marks the cycle's bottom and 2014 average freight rates will improve y/y as sector demand-supply growth returns to balance, with potential supply shortage in 2015. We think PSL provides a low-risk play on the sector recovery, given its cost-efficient fleet and strong balance sheet. PSL's counter-cyclical strategy to acquire cheap vessels should give it a significant cost advantage over peers and substantial profit upside from future disposals.

- Recurring loss widened y/y, q/q as this is the cycle's bottom; net profit shrank due to smaller gains from novation of shipbuilding contracts:** Net profit fell 91% y/y, 87% q/q to Bt20MM in 3Q13. Net margin fell 18ppts y/y, 12ppts q/q to 1.8%. Net profit includes Bt194MM gain on sale of new shipbuildings under novation agreements and Bt3MM F/X gains. Excluding one-offs, 3Q13 **recurring loss was Bt176MM, 118% larger y/y and 66% larger q/q** and recurring loss margin of 15.5%, 8ppts smaller y/y. This resulted in 9M13 net profit of Bt458MM, +139% y/y but recurring loss of Bt415MM, 285% larger y/y. Annualized recurring ROE was -3.7% vs 0.9% in 2012.
- Key 3Q13 highlights:** Net vessel operating income (vessel operating income net of voyage disbursements and bunker consumption) rose 16% y/y, 2% q/q to Bt772MM. The average earnings per day per vessel fell 12% y/y, 6% q/q to US\$7,041. Operating expenses rose 6% y/y, 1% q/q to US\$4,622 in 3Q13. Operating profit fell 62% y/y, 46% q/q to Bt137MM. Operating margin fell 20ppts y/y, 10ppts q/q to 12.1%. Balance sheet remains healthy - net debt-equity fell 12ppts q/q to 45% at the end of Sep 2013 and remains lower than sector average of 67%. Sep-13 BV/share rose 2% y/y to c.Bt14.40.
- Substantial earnings upside when rates recover:** PSL's current and forward 4-year (2013 to 2017) rolling book is at 14.0% with a visible revenue stream of US\$181MM as at 30th Sep 2013. It fixed 31% of revenue days in 2013 (contract value \$46MM), 14% in 2014 (\$30MM) and 14% from 2015 to 2017 (\$35MM) which should provide substantial upside when rates recover. Management commented that "it will have to wait out the current uncertain period in the freight market before re-employing this strategy to lock in longer term contracts in the future when the market starts to clearly move in an upward direction".

### Precious Shipping (Reuters: PSL.BK, Bloomberg: PSL TB)

Bt in mn, year-end Dec	FY11A	FY12A	FY13E	FY14E	FY15E
Revenue (Bt mn)	3,079	3,488	3,563	5,326	8,309
Net Profit (Bt mn)	719	141	296	697	2,167
EPS (Bt)	0.69	0.14	0.28	0.67	2.09
DPS (Bt)	0.55	0.40	0.20	0.17	1.04
Revenue Growth (%)	0.9%	11.5%	16.4%	20.3%	55.8%
EPS Growth (%)	-36.6%	-80.4%	109.8%	135.5%	211.0%
ROCE	5.5%	2.5%	3.1%	4.8%	9.9%
ROE	4.8%	0.9%	2.0%	4.7%	13.9%
P/E	28.8	146.7	69.9	29.7	9.5
P/BV	1.3	1.4	1.4	1.4	1.3
EV/EBITDA	12.9	18.6	15.2	12.0	7.1
Div Yield (%)	2.8%	2.0%	1.0%	0.8%	5.2%

Source: Company data, Bloomberg, J.P. Morgan estimates.

## Overweight

PSL.BK, PSL TB

Price: Bt19.90

▲ **Price Target: Bt23.00**  
Previous: Bt22.00

### Thailand

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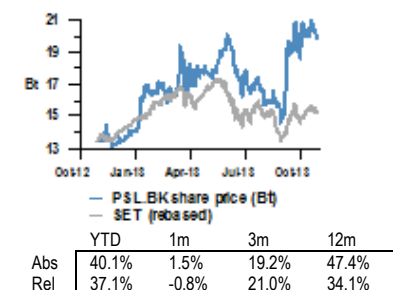
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### Price Performance



### Company Data

Shares O/S (mn)	1,040
Market Cap (Bt mn)	20,686
Market Cap (\$ mn)	667
Price (Bt)	19.90
Date Of Price	28 Oct 13
Free float (%)	40.0%
Avg daily volume (mn)	0.17
Avg daily value (Bt mn)	33.69
Avg daily value (\$ mn)	1.09
SET	1,450
Exchange Rate	31
Fiscal Year End	Dec

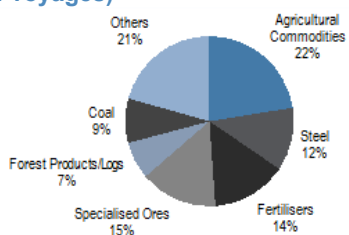
See page 9 for analyst certification and important disclosures, including non-US analyst disclosures.

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## Company Description

- Core businesses are dry bulk shipping mainly in the Handysize vessel segment with c.1.0% global Handysize market share in capacity terms.
- Positive drivers:** rebound in dry bulk shipping volumes and freight rates, vessel delivery deferrals, locked-in long term time charters, Handysize segment faces less industry oversupply than the larger vessel segments, stable management team, stronger balance sheet versus peers, limited asset impairment risks.
- Negative drivers:** longer than expected industry overcapacity, weaker-than-expected global dry bulk shipping demand, counter-party risks, political risks.

## 2012 Commodities Carried Breakdown (Based on number of voyages)



Source: Company data.

## EPS: J.P. Morgan vs. Consensus

US\$	J. P. Morgan	Consensus
FY13E	0.28	(0.10)
FY14E	0.67	0.81
FY15E	2.09	1.65

Source: Bloomberg, J.P. Morgan estimates

## Peer Group Valuation Comparison Table

Company Name	Rec	Stock Code	Price 28-Oct-13 (LC)	P/E		P/BV (x)		ROE	
				2013E (X)	2014E (X)	2013E (X)	2014E (X)	2013E (X)	2014E (X)
Pacific Basin Shipping	OW	2343 HK	5.43	nm	10.8	1.0	0.9	1.7	10.0
Precious Shipping	OW	PSL TB	19.90	69.9	29.7	1.4	1.4	2.0	4.7
				<b>34.2</b>	<b>21.0</b>	<b>0.8</b>	<b>0.9</b>	<b>(0.9)</b>	<b>2.6</b>

Source: Bloomberg, annual reports, J.P. Morgan estimates, forecasts for non-covered (NC) stocks to calculate the sector average are based on consensus estimates.

P&L Sensitivity Metrics	EBIT impact (%)	EPS impact (%)
2014E		
Average TC rate (US\$/day)	8,509	8,509
Impact of each 1% change	+/-2%	+/-3%
Revenue days	20,193	20,193
Impact of each 1% change	+/-1%	+/-2%

Source: J.P. Morgan estimates.

## Price Target & Valuation Analysis

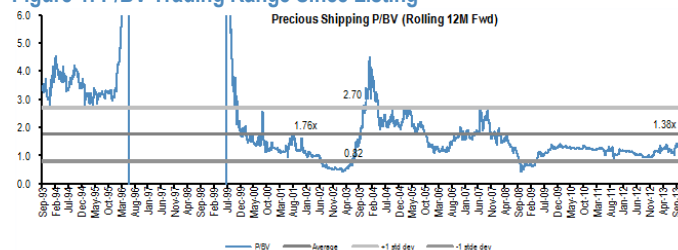
Our Dec-14 price target of Bt23 is based on 1.5x P/BV, a 15% discount to PSL's historical average valuation since listing, as the near-term industry outlook remains challenging. However, we expect sector demand-supply growth to improve, driving a significant earnings recovery in 2014.

## PB Table

Average	1.8
+1 Standard Deviation	2.7
-1 Standard Deviation	0.8

Source: Company reports, Bloomberg, J.P. Morgan estimates.

Figure 1: P/BV Trading Range Since Listing



Source: Company data, Bloomberg, J.P. Morgan estimates.

**Key downside risks:** 1) weaker than expected global dry bulk shipping demand, 2) prolonged industry oversupply, 3) counterparty risks, 4) political risks.

## 3Q13 Results Review

### **Recurring loss widened y/y, q/q at the bottom of the cycle; net profit shrank due to smaller gains from novation of shipbuilding contracts**

Net profit fell 91% y/y, 87 q/q to Bt20MM in 3Q13. Net margin fell 18ppts y/y, 12ppts q/q to 1.8%. Net profit includes Bt194MM gains on sale of new shipbuildings under novation agreements and Bt3MM F/X gains.

Excluding these one-offs, Precious Shipping reported 3Q13 recurring loss of Bt176MM, 118% larger y/y and 66% larger q/q and recurring loss margin of 15.5%, 8ppts lower y/y.

This resulted in 9M13 net profit of Bt458MM, 139% higher y/y and recurring loss of Bt415MM, 285% higher y/y. Annualized recurring ROE was negative 3.7% vs 0.9% in full year 2012.

Balance sheet remains healthy - net debt-equity fell 12ppts q/q to 45% at the end of Sep 2013 and remains lower than sector average of 67%. Sep-13 BV/share rose 2% y/y to c.Bt14.40. Interim DPS Bt0.10 (based on 2Q13 results), steady y/y implying a yield of 0.5%.

### **Key 3Q13 highlights**

Net vessel operating income (vessel operating income net of voyage disbursements and bunker consumption) rose 16% y/y, 2% q/q to Bt772MM.

The average earnings per day per vessel fell 12% y/y, 6% q/q to US\$7,041. Opex rose 6% y/y, 1% q/q to US\$4,622 in 3Q13. Operating profit fell 62% y/y, 46% q/q to Bt137MM. Operating margin fell 20ppts y/y, 10ppts q/q to 12.1%.

PSL recorded gain on novation of shipbuilding contract of Bt194MM in 3Q13 which represents the gain on novation of 5 shipbuilding contracts closed during the quarter. In 9M13, the total gains on novation of 10 shipbuilding contracts amounted to Bt867MM.

### **Substantial earnings upside when rates recover**

PSL's current and forward four year (2013 to 2017) rolling book is at 17.4% with a visible revenue stream of USD 181MM as at 30th Sep 2013. Fixed 31% of revenue days in 2013 (contract value \$46MM), 14% in 2014 (\$30MM) and 14% from 2015 to 2017 (\$35MM) which should provide substantial upside when rates recover.

Management commented that "it will have to wait out the current uncertain period in the Freight Market before re-employing this strategy to lock in longer term contracts in the future when the Market starts to clearly move in an upward direction".

### **Stay OW**

We have not factored in any further gains on novation of shipbuilding contracts in our earnings forecasts other than the Bt867MM already booked in 9M13. There are 3 more contracts to be novated whose delivery dates are 26th Nov, 2013, 30th Nov, 2013 and 29th Jul, 2014.

Our Dec-14 price target of Bt23 (raised from Bt22 as we roll over to Dec-14 from Jun-14) is based on 1.5x P/BV, a 15% discount to PSL's historical average valuation

since listing, as the near-term industry outlook remains challenging. However, we expect sector demand-supply growth to improve, driving a significant earnings recovery in 2014.

We continue to like the smaller vessel segment of the dry bulk shipping sector and expect average freight rates in 2014 to surpass 2013 levels, driving earnings recovery. We believe this year marks the cycle's bottom and 2014 average freight rates will improve y/y as sector demand-supply growth returns to balance, with potential supply shortage in 2015. Our preferred play is the Handysize segment as it has the lowest order book-to-fleet ratio and highest scrap rate and Precious Shipping remains our best play to play on this theme.

We think Precious Shipping provides a low-risk play on the sector recovery, given its cost-efficient fleet and strong balance sheet. PSL's counter-cyclical strategy to acquire cheap vessels should provide a significant cost advantage over peers and substantial profit upside from future disposals.

**Key positive drivers:** rebound in dry bulk shipping volumes and freight rates, vessel delivery deferrals, locked-in long term time charters, Handysize segment faces less industry oversupply than the larger vessel segments, stable management team, stronger balance sheet versus peers, limited asset impairment risks.

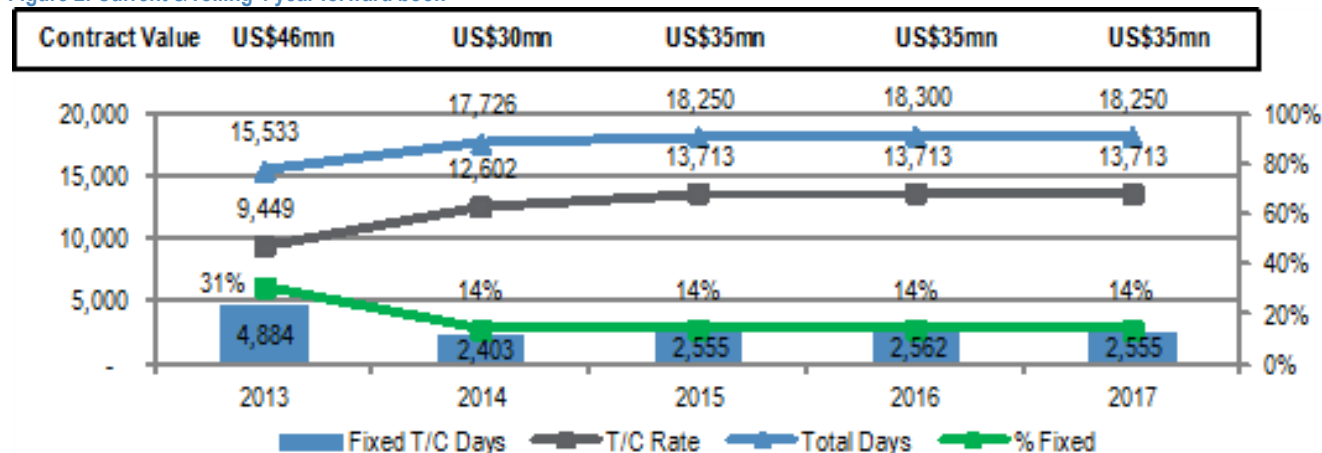
**Key risks:** longer than expected industry overcapacity, weaker-than-expected global dry bulk shipping demand, counter-party risks, political risks.

Table 1: Precious Shipping 3Q13 & 9M13 Results Review

	3Q13	3Q12	Y/Y Chg	2Q13	Q/Q Chg	9M13	9M12	Y/Y Chg
<b>Revenues</b>								
<b>Vessel operating income</b>								
Hire income	637	576	11%	674	-5%	1,883	1,616	17%
Freight income	296	239	24%	209	42%	812	977	-17%
<b>Total vessel operating income</b>	<b>934</b>	<b>814</b>	<b>15%</b>	<b>882</b>	<b>6%</b>	<b>2,695</b>	<b>2,593</b>	<b>4%</b>
Service income	2	5	-59%	1	52%	9	8	5%
Gains on sales of new shipbuildings under Novation Agreements	194	305	-37%	260	-26%	867	305	184%
Interest income	0	3	-93%	2	-92%	4	15	-74%
Exchange gains	3	-	nm	7	nm	7	-	nm
Other income	1	4	-75%	1	-19%	2	4	-44%
<b>Total Revenues</b>	<b>1,134</b>	<b>1,131</b>	<b>0%</b>	<b>1,154</b>	<b>-2%</b>	<b>3,583</b>	<b>2,925</b>	<b>22%</b>
<b>Expenses</b>								
<b>Vessel operating costs</b>								
Vessel running expenses	442	304	45%	403	10%	1,209	887	36%
Voyage disbursements	36	45	-20%	35	3%	119	152	-22%
Bunker consumption	127	103	23%	88	43%	381	443	-14%
<b>Total vessel operating costs</b>	<b>604</b>	<b>452</b>	<b>34%</b>	<b>526</b>	<b>15%</b>	<b>1,709</b>	<b>1,482</b>	<b>15%</b>
Depreciation	303	236	28%	278	9%	834	659	27%
Cost of services	1	1	72%	2	-44%	4	3	13%
Administrative expenses	51	47	8%	61	-18%	166	133	25%
Management remuneration including perquisites	26	25	3%	31	-16%	83	66	25%
Bad debts and doubtful accounts	12	1	2055%	3	258%	1	20	-94%
Exchange losses	-	5	nm	-	-	-	6	nm
<b>Total Expenses</b>	<b>997</b>	<b>767</b>	<b>30%</b>	<b>901</b>	<b>11%</b>	<b>2,797</b>	<b>2,369</b>	<b>18%</b>
<b>EBIT</b>	<b>137</b>	<b>365</b>	<b>-62%</b>	<b>253</b>	<b>-46%</b>	<b>786</b>	<b>556</b>	<b>41%</b>
<b>Margin</b>	<b>12.1%</b>	<b>32.2%</b>	<b>-20.2ppt</b>	<b>21.9%</b>	<b>-9.8ppt</b>	<b>21.9%</b>	<b>19.0%</b>	<b>2.9ppt</b>
Share of income from investment in associate held by a subsidiary	8	2	351%	12	-36%	25	(9)	nm
Finance cost	(123)	(145)	-16%	(103)	19%	(350)	(350)	0%
<b>PBT</b>	<b>22</b>	<b>221</b>	<b>-90%</b>	<b>162</b>	<b>-86%</b>	<b>461</b>	<b>197</b>	<b>134%</b>
Corporate income tax	(1)	(1)	5%	(1)	51%	(3)	(4)	-21%
<b>Net Profit</b>	<b>21</b>	<b>220</b>	<b>-91%</b>	<b>161</b>	<b>-87%</b>	<b>458</b>	<b>193</b>	<b>137%</b>
Profit attributable to:								
<b>Equity holders of the Company</b>	<b>20</b>	<b>219</b>	<b>-91%</b>	<b>161</b>	<b>-87%</b>	<b>458</b>	<b>191</b>	<b>139%</b>
<b>Margin</b>	<b>1.8%</b>	<b>19.4%</b>	<b>-17.6ppt</b>	<b>14.0%</b>	<b>-12.2ppt</b>	<b>12.8%</b>	<b>6.5%</b>	<b>6.2ppt</b>
Non-controlling interests of the subsidiaries	0	1	-82%	0	-45%	0	2	-90%
<b>Basic earnings per share (baht)</b>	<b>0.02</b>	<b>0.21</b>	<b>-91%</b>	<b>0.15</b>	<b>-86%</b>	<b>0.44</b>	<b>0.18</b>	<b>139%</b>

Source: Company reports.

Figure 2: Current & rolling 4 year forward book



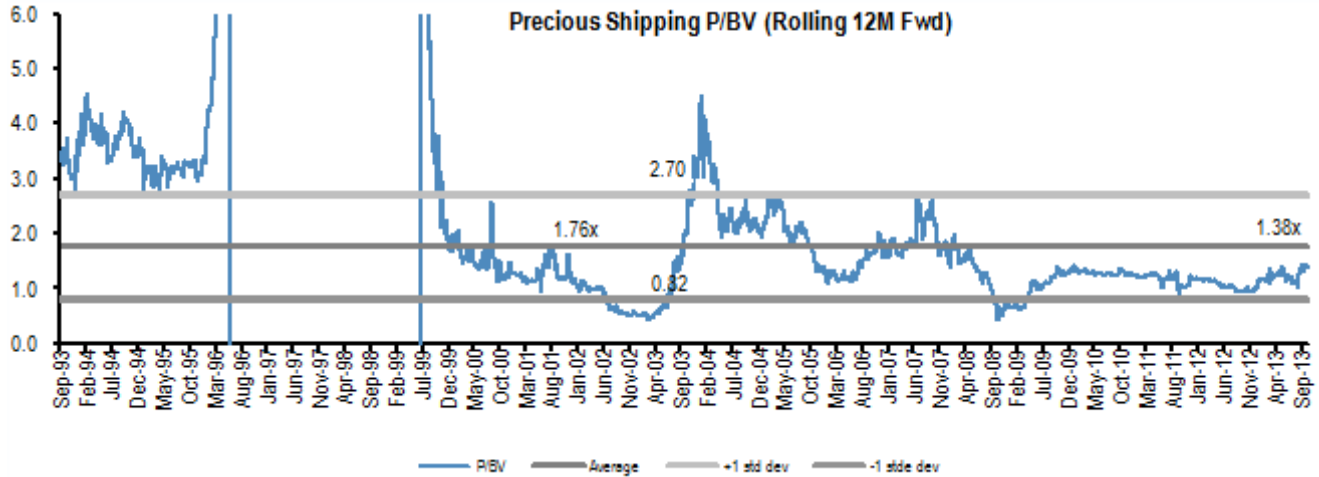
Source: Company reports. As at 30 Sep, 2013.

Table 2: Precious Shipping: Earnings Estimates Revisions

Year to Dec	Old			New			% chg		
	2013E	2014E	2015E	2013E	2014E	2015E	2013E	2014E	2015E
Net profit (Bt in mn)	297	711	2,245	296	697	2,167	0%	-2%	-3%
Basic EPS (Bt)	0.3	0.7	2.2	0.3	0.7	2.1	0%	-2%	-3%

Source: J.P. Morgan estimates.

Figure 3: P/BV Trading Range Since Listing



Source: Company data, Bloomberg, J.P. Morgan estimates.

## Precious Shipping: Summary of Financials

Income Statement						Cash flow statement					
Bt in millions, year end Dec	FY11	FY12	FY13E	FY14E	FY15E	Bt in millions, year end Dec	FY11	FY12	FY13E	FY14E	FY15E
Revenues	3,079	3,488	3,563	5,326	8,309	EBIT	1,158	584	748	1,258	2,911
% change Y/Y	0.9%	11.5%	16.4%	20.3%	55.8%	Depr. & amortization	647	910	1,055	1,245	1,483
EBITDA	1,804	1,494	1,803	2,502	4,394	Change in working capital	-185	-320	-54	-77	-256
% change Y/Y	-17.4%	-17.2%	20.7%	38.8%	75.6%	Taxes	-4	-4	-6	-14	-45
EBIT	1,158	584	748	1,258	2,911	Cash flow from operations	1,051	751	1,734	2,395	4,076
% change Y/Y	NM	NM	28.2%	68.0%	131.5%	Capex	-2,301	-4,556	-645	-4,312	-3,312
EBIT Margin	33.7%	15.3%	16.8%	23.5%	34.9%	Disposal/(purchase)	2,169	1,729	3,667	0	0
Net Interest	-441	-434	-471	-563	-688	Net Interest	-441	-434	-471	-563	-688
Earnings before tax	724	148	308	724	2,253	Free cash flow	-1,224	-3,786	628	-2,464	93
% change Y/Y	-40.9%	-79.6%	108.1%	135.5%	211.0%	Equity raised/(repaid)	-	-	-	-	-
Tax	-4	-4	-6	-14	-45	Debt raised/(repaid)	-2,456	-2,748	1,000	3,000	2,000
as % of EBT	0.5%	2.8%	2.0%	2.0%	2.0%	Other	4,251	4,680	0	0	0
Net income (reported)	719	141	296	697	2,167	Dividends paid	-644	-502	-210	-174	-1,084
% change Y/Y	-36.6%	-80.4%	109.8%	135.5%	211.0%	Beginning cash	-	-	-	-	-
Shares outstanding	1,040	1,040	1,040	1,040	1,040	Ending cash	4,375	1,901	3,019	3,380	4,389
EPS (reported)	0.69	0.14	0.28	0.67	2.09	DPS	0.55	0.40	0.20	0.17	1.04
% change Y/Y	(36.6%)	(80.4%)	109.8%	135.5%	211.0%						
Balance sheet						Ratio Analysis					
Bt in millions, year end Dec	FY11	FY12	FY13E	FY14E	FY15E	Bt in millions, year end Dec	FY11	FY12	FY13E	FY14E	FY15E
Cash and cash equivalents	4,375	1,901	3,019	3,380	4,389	EBITDA margin	52.5%	39.0%	40.5%	46.7%	52.6%
Accounts receivable	125	217	252	303	473	Operating margin	33.7%	15.3%	16.8%	23.5%	34.9%
Inventories	69	147	171	205	320	Net margin	20.9%	3.7%	6.6%	13.0%	26.0%
Others	1,453	677	677	677	677	Sales per share growth	0.9%	11.5%	16.4%	20.3%	55.8%
Current assets	6,022	2,941	4,119	4,566	5,859	Sales growth	0.9%	11.5%	16.4%	20.3%	55.8%
LT investments	120	113	143	173	203	Net profit growth	-36.6%	-80.4%	109.8%	135.5%	211.0%
Net fixed assets	9,446	16,213	15,802	18,869	20,698	EPS growth	(36.6%)	(80.4%)	109.8%	135.5%	211.0%
Total Assets	22,893	24,030	24,827	28,371	31,523	Interest coverage (x)	4.09	3.45	3.83	4.44	6.38
Liabilities						Net debt to equity	17.3%	49.5%	46.3%	62.2%	64.2%
Short-term loans	719	802	502	502	502	Sales/assets	0.16	0.16	0.18	0.20	0.28
Payables	33	2	2	2	4	Assets/equity	1.19	1.66	1.70	1.88	1.95
Others	296	316	321	329	356	ROE	4.8%	0.9%	2.0%	4.7%	13.9%
Total current liabilities	1,047	1,119	825	834	862	ROCE	5.5%	2.5%	3.1%	4.8%	9.9%
Long-term debt	6,308	8,265	9,265	12,265	14,265						
Other liabilities	182	161	161	161	161						
Total Liabilities	7,537	9,545	10,251	13,260	15,288						
Shareholders' equity	15,323	14,483	14,569	15,091	16,175						
BVPS	14.74	13.93	14.01	14.52	15.56						

Source: Company reports and J.P. Morgan estimates.



**JPM Q-Profile**

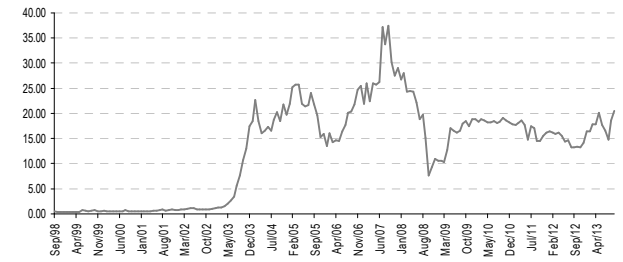
Precious Shipping Public Co., Ltd. (THAILAND / Industrials)

As Of: 25-Oct-2013

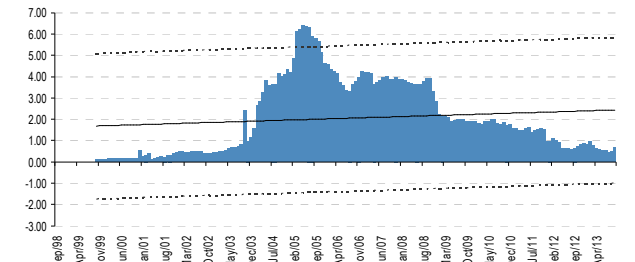
**Global Equity Quantitative Analysis**

Quant\_Strategy@jpmorgan.com

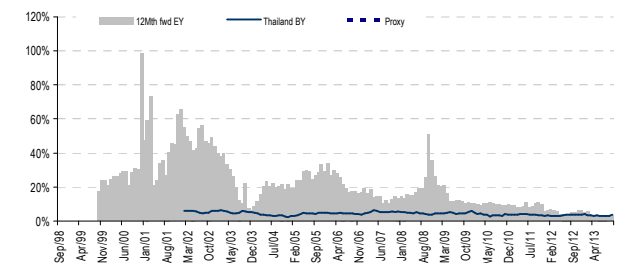
**Local Share Price** Current: **20.50**



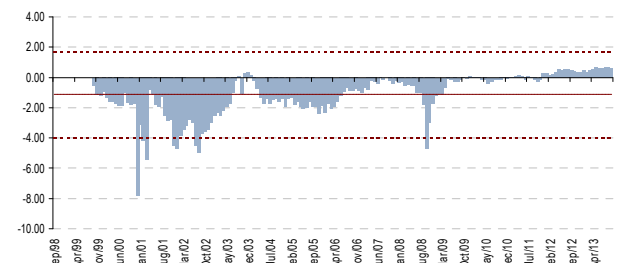
**12 Mth Forward EPS** Current: **0.70**



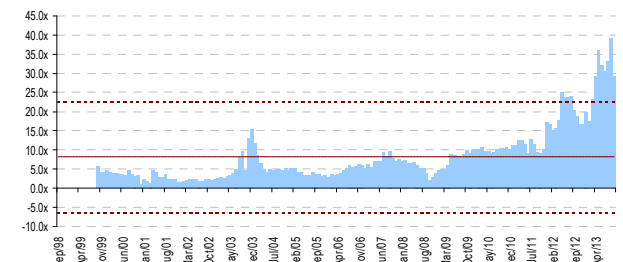
**Earnings Yield (& local bond Yield)** Current: **3%**



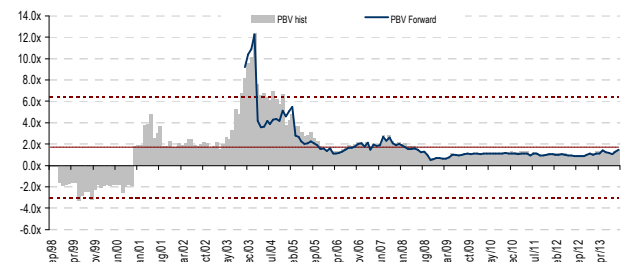
**Implied Value Of Growth\*** Current: **61.45%**



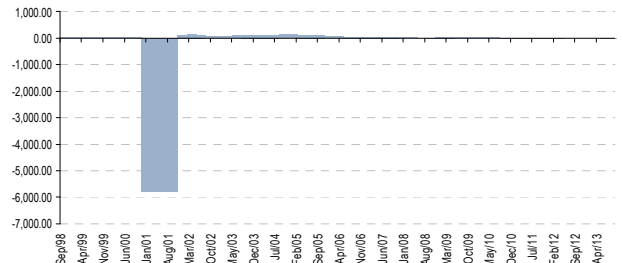
**PE (1Yr Forward)** Current: **29.3x**



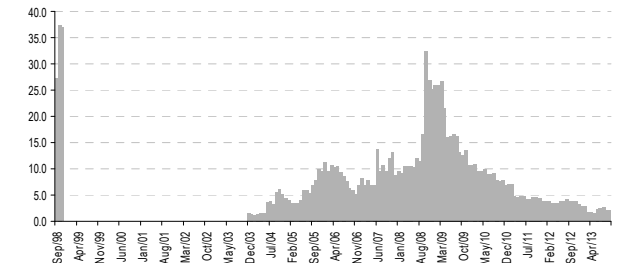
**Price/Book Value** Current: **1.4x**



**ROE (Trailing)** Current: **4.04**



**Dividend Yield (Trailing)** Current: **2.15**



**Summary**

Precious Shipping Public Co., Ltd.		SEDOL		6694526		As Of:		25-Oct-13			
THAILAND						Local Price:		20.50			
Industrials						EPS:		0.70			
	Latest	Min	Max	Median	Average	2 S.D.+	2 S.D. -	% to Min	% to Max	% to Med	% to Avg
12mth Forward PE	29.34x	1.01	39.16	5.39	8.19	22.66	-6.27	-97%	33%	-82%	-72%
P/BV (Trailing)	1.43x	-3.32	12.38	1.37	1.69	6.41	-3.04	-333%	768%	-4%	18%
Dividend Yield (Trailing)	2.15	0.00	37.50	3.80	5.84	20.20	-8.53	-100%	1644%	77%	171%
ROE (Trailing)	4.04	-5799.91	178.88	18.31	-339.24	2571.81	-3250.29	-143679%	4328%	353%	-8498%
Implied Value of Growth	61.4%	-7.80	0.69	-0.87	-1.13	1.70	-3.95	-13689%	12%	-241%	-283%

Source: Bloomberg, Reuters Global Fundamentals, IBES CONSENSUS, J.P. Morgan Calcs

\* Implied Value Of Growth = (1 - EY/Cost of equity) where cost of equity = Bond Yield + 5.0% (ERP)

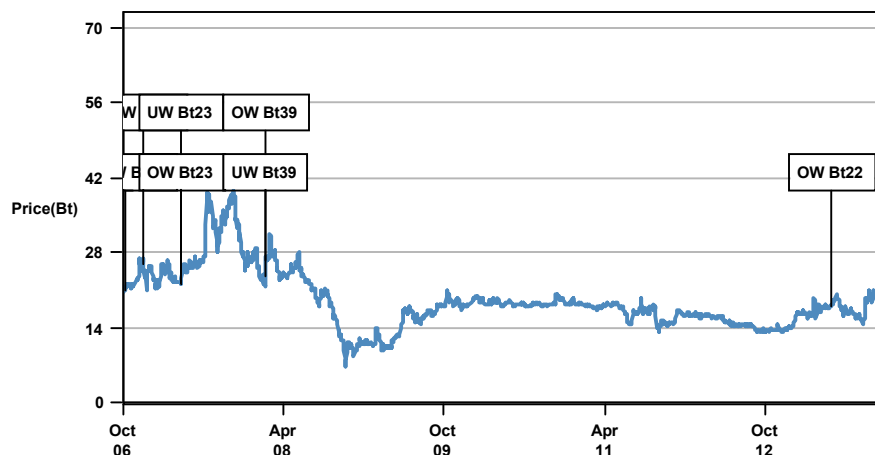


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Precious Shipping (PSL.BK, PSL TB) Price Chart



Date	Rating	Share Price (Bt)	Price Target (Bt)
05-Oct-06	OW	21.00	50.00
07-Dec-06	OW	26.00	59.00
16-Apr-07	OW	22.40	23.00
19-Apr-07	UW	22.20	23.00
30-Jan-08	UW	23.60	39.00
31-Jan-08	OW	26.75	39.00
14-May-13	OW	17.80	22.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends. Initiated coverage Oct 05, 2006.

The chart(s) show J.P. Morgan's continuing coverage of the stocks; the current analysts may or may not have covered it over the entire period.

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IB clients*	57%	49%	39%
JPMS Equity Research Coverage	42%	50%	8%
IB clients*	76%	65%	57%

\*Percentage of investment banking clients in each rating category.

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