

Thailand Equity Research

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Share Price (THB) 34.0
SET Index 650

Share Data

Outstanding shares (mn)	520
Market Capitalization (THBmn)	17,680
Market Capitalization (US\$m)	452.3
3 mo avg daily T/O (US\$'000)	5,196
12 mo avg daily T/O (US\$'000)	3,440
12 month high/low (THB)	132 / 14
Corp Governance Rating	B
Major Shareholder (%)	
Globex / Grain Trade	42.0
Hashim family	16.2
Estimated Free Float	41.8

DCF Assumptions

DCF Value/share (THB)	14.5
Premium (disc) to DCF (%)	57.3
Risk Free Rate	5.7
Equity Risk Premium	13.0
WACC (%)	15.0
Terminal Year	2015
Terminal Gr Rate (%)	5.0

Company Calls/Visits

Company Calls/Visits	Date
Khalid Hasim - Managing Director	15/6/04

Precious Shipping

(PSL)
Shipping

June 28, 2004

Charter rates are sinking.

Shipping rates, and prices of shipping stocks, appear to be heading into a downturn. We would suggest sitting on the sidelines until charter rates fall and then participating in the next boom and bust cycle in the shipping industry.

Shipping rates heading south. At present levels, shipping rates are 2X as high as in early FY03, and 3X as high as in early FY02. There appears to be significant downside risk for charter rates to fall.

Shipping capacity on the rise. In response to skyrocketing charter rates, shipyards are operating at full capacity to build new vessels. As these new ships begin service, industry capacity will increase and put pressure on shipping rates to fall.

China demand slowing. Demand for resources in China has been the primary driver pushing charter rates higher over the past two years. Demand from China may be slowing.

Uncertain economic sentiment. With interest rate hikes inevitable and crude oil prices high, ship charterers are less willing to commit to long term contracts at current rates.

FY end Dec 31 (THBmn)	FY02	FY03	FY04F	FY05F	FY06F
Total Revenues	3,298	3,803	5,909	5,162	5,420
EBITDA	1,371	2,079	3,107	2,715	2,877
Net Income	502	1,537	1,811	1,254	1,409
Earnings per share (THB)	1.0	3.0	3.5	2.4	2.7
Dividend Yield (%)	-	1.5	3.1	2.2	2.4
EBITDA Margin (%)	41.6	54.7	52.6	52.6	53.1
EBITDA gr (%Y-Y)	(5.9)	51.7	49.5	(12.6)	6.0
EV/EBITDA (X)	15.6	9.7	7.6	8.3	7.3
Price/Earnings (X)	35.2	11.5	9.8	14.1	12.5
Net debt to equity (%)	546.1	129.0	172.3	105.0	57.5
Price Performance (%)			1m	3m	1yr
Absolute			9.2	(25.6)	703.7
Relative to SET			10.7	(18.4)	411.1

Handysize tramp shipping. Precious Shipping (“PSL”) owns and leases out a fleet of handysize (10-30,000 DWT) bulk carrier ships. Such ships are at the smaller end of the bulk carrier market.

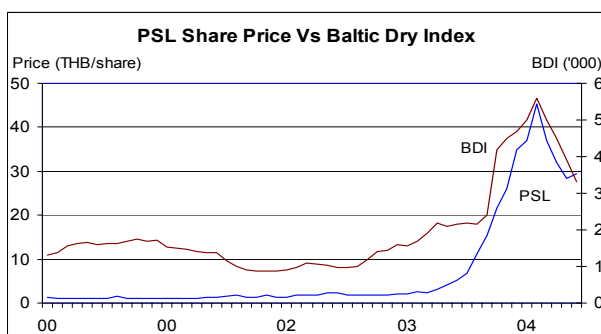
Types of bulk carriers

Type	DWT	Ships
Combined	100,000+	116
Capesize	80-100,000	621
Panamax	60-80,000	1,076
Handymax Bulk	40-60,000	1,204
Handysize Bulk	10-40,000	2,734
General Cargo	10-25,000	1,337

While some vessels operate along established lines (“liners”), PSL’s operate on a tramp basis. The company leases ships to be used from wherever they are needed to wherever they are needed. PSL trains and provides crews to operate and maintain each of its vessels.

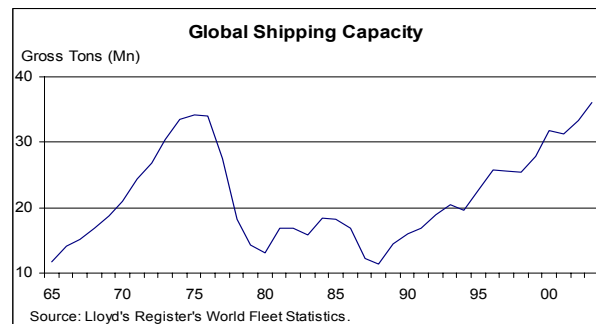
PSL has recently expanded its fleet from 28 ships at end-FY03 to 50 ships at present.

Share price appears to move with charter rates. Over the same period that the Baltic Dry Index (BDI), an index of shipping rates, increased 6X to peak at 5,600 in February, 2004, PSL’s share price increased 30X to peak at THB 45/share. Since hitting these peaks in February 2004, the BDI has declined 41% while PSL’s share price has dropped 35% to THB 34/share. Despite this slide, the BDI is still double what it was 1-1/2 years ago, and triple what it was 2-1/2 years ago. We believe that there is still considerable room for the BDI, and PSL’s share price, to decline.

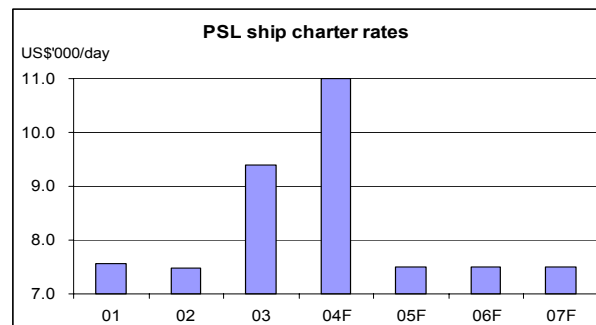


Shipping capacity growing. Because of the high demand for ships (as evidenced by skyrocketing charter rates), shipyards now appear to be operating at full capacity. The average time to build a vessel, however, is

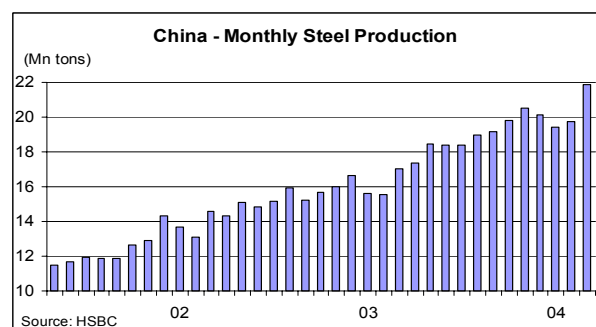
two years. This means that within the next one to two years, a glut of new vessels should begin service. We believe that this will cause charter rates to fall sharply.



From an average daily charter rate of US\$9,393 / ship in FY03, we expect charter rates for PSL to average US\$11,000 / ship in FY04 and then fall to a long term average of US\$7,500 / ship.



China demand slowing. Over the past one to two years, China’s appetite for raw materials has been the primary reason for a shortage of global shipping capacity, and hence the sky-high shipping rates. To illustrate this appetite for materials, monthly steel output in China has almost doubled to 22 million tons per month within the past two years. Needless to say, China is growing up fast. GDP growth rates of 8-10% y-y are routine.



China, however, appears to be entering a cooling off period. The People's Bank of China, ie. China's Central Bank, recently raised its discount rate for bank reserves by 0.5% to 7.5%. A higher reserve rate will restrict bank lending, increase financing costs and, dampen growth rates. The Asian Development Bank has recently lowered its forecast for Chinese GDP growth for FY04 to 8.3% y-y, compared to 9.1% y-y in FY03.

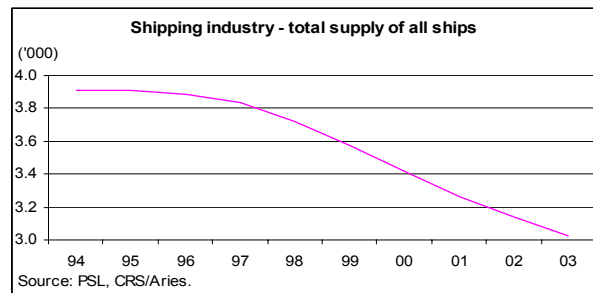
Dragging economic uncertainty. With interest rate hikes inevitable around the world and crude oil prices recently at US\$40/bbl, a level not seen in the past 20 years, there is considerable economic uncertainty in the world. Economic uncertainty impacts shippers who are less able to lock in prices for long term charters and, instead, have to settle for spot rate contracts.

PSL paid high prices for ships. From 4Q03 to 1Q04, PSL expanded its vessel fleet from 28 ships to 50 ships, right before shipping rates were peaking out. Market prices for ships partly depend on charter rates. As PSL was buying at the peak of shipping rates, we believe that the company may have paid excessive prices for its additional vessels.

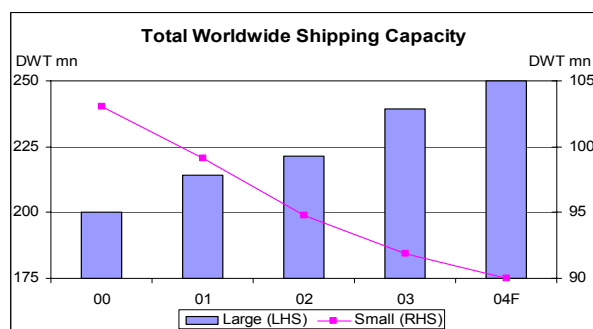
During FY03, PSL purchased 5 ships at an average price of US\$25.6/(dwt * remaining useful life). We assume that the average useful life for the company's vessels is 27 years, an industry standard. This compares to US\$35.9/(dwt * remaining useful life) for the 22 vessels that PSL has purchased to date in FY04. For recent purchases, PSL appears to have paid 40% more per ship over those purchased one year before.

While we currently see considerable downside in shipping business cycles, once the cycle bottoms out we would find PSL a potentially interesting investment:

Limited supply of small ships. While shipping capacity has been increasing since the late 1980s, the worldwide supply of ships has declined from around 3,912 ships in FY94 to slightly more than 3,028 ships in FY03, a compounded rate of decline of (2.5% y-y). This indicates that, as older ships are scrapped, they are being replaced by larger vessels.



Since FY00, the total capacity for large vessels, ie. Capesize, Panamax and Handymax ships, has increased 25% from 200mn DWT to 250 mn DWT in FY04. Over the same period, the capacity for smaller Handysize and general cargo vessels has declined 13% from 103mn DWT to 90mn DWT.



Strong demand for the larger ships, which have higher margins for shipyards, appears to be crowding out new building of small cargo vessels. There would appear to be a limited supply of such ships beginning service over the next one to two years.

Manageable debt. With PSL buying 22 new vessels over the past 6 months, we estimate that the company's net debt will increase from THB 2.5bn at end-FY03 to THB 6bn at end-FY04. Interest coverage, however, will change little, dropping from 8.2X to 7.9X EBITDA. The company would not appear to have any problems servicing this debt.

Nevertheless, PSL is Over valued. The company's current share price implies an equity risk premium of 8%. We believe that this is too low given the risk factors that affect the value of the company: volatility of charter rates, average vessel age, leverage, and corporate governance issues. Using an equity risk premium of 13% above the risk free rate of 5.7%, PSL is trading at a 57% premium to our DCF value of THB 14.5 / share.

Income Statement

FY end Dec 31 (THBmn)	FY02	FY03	FY04F	FY05F	FY06F
Sales	3,291	3,797	5,899	5,154	5,411
Service Income	8	6	10	8	9
Other oper rev	-	-	-	-	-
Total Revenues	3,298	3,803	5,909	5,162	5,420
Cost of sales	(1,758)	(1,531)	(2,482)	(2,168)	(2,277)
SGA	(157)	(178)	(295)	(258)	(244)
Cost of service	(11)	(13)	(21)	(18)	(19)
Other op exp	(1)	(2)	(4)	(3)	(3)
EBITDA	1,371	2,079	3,107	2,715	2,877
Depr & Amort	(635)	(602)	(1,017)	(1,069)	(1,124)
EBIT	736	1,477	2,090	1,645	1,754
Other income	7	3	5	4	4
Interest expense	(201)	(255)	(392)	(508)	(460)
Other non op exp	(65)	(7)	(10)	(9)	(10)
Prof bef tax & ex items	477	1,218	1,692	1,132	1,289
Forex gain (loss)	73	184	-	-	-
Disposal of PPE	24	0	0	0	0
Gain (loss) on invest	(162)	-	-	-	-
Extraord gains (losses)	91	148	148	148	148
Profit bef taxes	502	1,550	1,840	1,280	1,437
Taxes	-	-	-	-	-
Profit bef min interest	502	1,550	1,840	1,280	1,437
Minority Interest	0	(14)	(30)	(26)	(27)
Net Income	502	1,537	1,811	1,254	1,409

Balance Sheet

FY end Dec 31 (THBmn)	FY02	FY03	FY04F	FY05F	FY06F
Cash	330	897	1,394	1,218	1,279
Short term investment	-	-	590	828	2,047
Accounts receivable	168	72	113	98	103
Inventory	47	21	32	28	29
Other current assets	85	83	129	113	119
Current assets	629	1,074	2,258	2,285	3,577
Investments	36	88	88	88	88
Property plant & equipment	4,427	4,696	9,932	9,645	9,341
Intangible assets	9	8	8	8	8
Other non cur assets	3	3	5	4	4
Total assets	5,104	5,868	12,291	12,029	13,018
Accounts payable	100	52	81	71	75
Short term borrowings	-	-	-	-	-
Current maturities	393	939	2,201	1,871	1,813
Other cur liabilities	302	435	677	591	621
Current liabilities	796	1,426	2,959	2,533	2,508
Long term debt	3,631	2,484	5,825	4,950	4,796
Other non cur liab	-	-	-	-	-
Total liabilities	4,427	3,910	8,784	7,483	7,304
Share capital	520	520	520	520	520
Additional paid in capital	926	411	411	411	411
Retained earnings	(981)	810	2,069	2,939	3,917
Adjustments to ret earn	169	160	408	580	772
Minority Interest	43	57	99	96	93
Shareholders' equity	677	1,958	3,507	4,546	5,714
Liabilities and sh equity	5,104	5,868	12,291	12,029	13,018

Financial Ratios

FY end Dec 31 (THBmn)	FY02	FY03	FY04F	FY05F	FY06F
EV/EBITDA (X)	15.6	9.7	7.6	8.3	7.3
EV/sales (X)	6.5	5.3	4.0	4.4	3.9
Price/Earnings (X)	35.2	11.5	9.8	14.1	12.5
Price/Book Value (X)	26.1	9.0	5.0	3.9	3.1
Earnings per share (THB)	1.0	3.0	3.5	2.4	2.7
Operating Margin (%)	22.3	38.8	35.4	31.9	32.4
EBITDA Margin (%)	41.6	54.7	52.6	52.6	53.1
Net Margin (%)	15.2	40.4	30.6	24.3	26.0
EBITDA/Assets (%)	26.9	35.4	25.3	22.6	22.1
Net Income/Assets (%)	9.8	26.2	14.7	10.4	10.8
EBITDA/Equity (%)	202.6	106.2	88.6	59.7	50.4
Net Income/Equity (%)	74.3	78.5	51.6	27.6	24.7
Free cashflow (THBmn)	1,222	948	(3,319)	1,994	2,036
Capex (THBmn)	232	923	6,254	782	821
Net Debt (THBmn)	3,695	3,695	3,695	3,695	3,695
Interest coverage (x)	6.8	8.2	7.9	5.3	6.3
Net debt to equity (%)	546.1	129.0	172.3	105.0	57.5
Dividend Yield (%)	-	1.5	3.1	2.2	2.4
Sales gr (%Y-Y)	(18.3)	15.3	55.4	(12.6)	5.0
EBITDA gr (%Y-Y)	(5.9)	51.7	49.5	(12.6)	6.0
Net Income gr (%Y-Y)	(25.4)	205.8	17.8	(30.7)	12.4

Cash Flow Statement

FY end Dec 31 (THBmn)	FY02	FY03	FY04F	FY05F	FY06F
Net income	502	1,537	1,811	1,254	1,409
Depr & Amort	635	602	1,017	1,069	1,124
Forex gain/(loss)	(73)	(184)	-	-	-
Net ch in working assets	47	208	172	(61)	21
Cashflow from operations	1,112	2,163	3,001	2,262	2,554
Net ch in PPE & intangibles	(599)	(364)	(6,006)	(610)	(628)
Net ch in investments	(36)	(52)	-	-	-
Net ch in other assets	222	0	(2)	1	(0)
Cashflow from investing	(412)	(416)	(6,008)	(609)	(628)
Dividends	-	(260)	(552)	(384)	(431)
Net ch in debt	(799)	(418)	4,604	(1,205)	(212)
Net ch in equity	4	(501)	42	(3)	(3)
Cashflow from financing	(795)	(1,179)	4,094	(1,592)	(646)
Net change in cash	(96)	568	1,087	61	1,280

Forecast Assumptions	FY02	FY03	FY04F	FY05F	FY06F
Ships	28	30	50	53	55
Rev / Ship / Day (USD)	7,477	9,393	11,000	7,500	7,500