

14 April 2020

# Prima Marine

Sector: Transportation & Logistics

2020E earnings to grow further on strong demand for FSU

Bloomberg ticker	PRM TB
Recommendation	BUY (maintained)
Current price	Bt5.15
Target price	Bt8.30 (maintained)
Upside/Downside	+61%
EPS revision	No change

Bloomberg target price	Bt7.46
Bloomberg consensus	Buy 4 / Hold 0 / Sell 2

<b>Stock data</b>	
Stock price 1-year high/low	Bt9.40 / Bt3.36
Market cap. (Bt mn)	12,875
Shares outstanding (mn)	2,500
Avg. daily turnover (Bt mn)	83
Free float	28%
CG rating	Excellent
ESG rating	Very good

## Financial & valuation highlights

FY: Dec (Bt mn)	2018A	2019A	2020E	2021E
Revenue	4,480	5,347	5,678	6,358
EBITDA	1,440	1,999	2,354	2,710
Net profit	712	1,023	1,142	1,333
EPS (Bt)	0.28	0.41	0.46	0.53
Growth	-0.9%	43.8%	11.6%	16.7%
Core EPS (Bt)	0.26	0.40	0.46	0.53
Growth	6.3%	52.1%	13.9%	16.7%
DPS (Bt)	0.14	0.20	0.21	0.25
Div. yield	2.7%	3.9%	4.1%	4.9%
PER (x)	18.1	12.6	11.3	9.7
Core PER (x)	19.5	12.8	11.3	9.7
EV/EBITDA (x)	10.3	8.5	7.8	6.8
PBV (x)	1.8	1.8	1.6	1.4

## Bloomberg consensus

Net profit	712	1,023	1,273	1,487
EPS (Bt)	0.28	0.41	0.49	0.56



Source: Aspen

Price performance	1M	3M	6M	12M
Absolute	35.5%	-19.5%	-40.5%	-27.0%
Relative to SET	26.0%	2.5%	-16.5%	-1.4%

## Major shareholders

	Holding
1. Nathalin Co., Ltd.	54.20%
2. Austin Asset Ltd.	9.82%
3. Kimberly Asset Ltd.	8.00%

Analyst: Amnart Ngosawang (Reg. No. 029734)

We reiterate a BUY rating on PRM and a target price of Bt8.30, which is pegged to 2020E PER of 18x, or -1 SD below its 2-yr average. We held a group conference call with PRM yesterday (April 13) and thus have a neutral view of the company's guidance, which remains unchanged to the earlier one. We forecast 1Q20E net profit to grow +9% YoY but to decline -10% QoQ on FX loss of Bt80mn, while core profit would jump +45% YoY, +15% QoQ to Bt320mn in the face of strong FSU business given a 100% capacity utilization in the entire quarter from IMO2020 amid a limited supply, which allowed PRM to raise the rental rate by 20% in a one-year contract for three ships from March (PRM has a total of eight FSU ships). We thus maintain our 2020E net profit forecast at Bt1.14bn, which indicates a growth of +12% YoY, in expectation of strong FSU business amid an increase of rental rate in one ship and an additional one FSU ship to the fleet later in the year. This should offset the impact from a decrease in jet fuel transportations in the domestic oil trading business due to the COVID-19 outbreak.

PRM's share price underperformed the SET Index by 17% in a six-month period due to concern over the domestic oil trading business from the COVID-19 outbreak. The price, however, significantly outperformed the SET Index by 26% in a one-month period, which we believe was driven by the strong FSU business amid the rental-rate increase. We see the stock rising further as the FSU business is expected to grow further and the baht movement impact is likely to soften over the remaining year.

## Event: Group conference call / 1Q20E earnings preview

❑ **1Q20E core profit to grow significantly but net profit to decline QoQ on FX loss.** We forecast 1Q20E net profit to grow +9% YoY but to fall -10% QoQ to Bt240mn as we expect PRM to record FX loss of Bt80mn due to a weaker baht. Excluding extra items, core profit would jump +45% YoY, +15% QoQ to Bt320mn, as its FSU (62% of total gross profit) is expected to remain strong from 1) a 100% capacity utilization for the entire quarter and 2) an increase in the rental rate of 20% for a one-year contract of three ships from March (PRM has a total of eight FSU ships), which should offset the impact from a decrease in jet fuel transportation in March in the domestic oil trading business (20% of total gross profit).

❑ **2020E net profit to grow on strong FSU performance.** We forecast 2020E net profit to grow +12% YoY to Bt1.14bn as FSU business is expected to rise significantly given 1) a full-quarter benefit from the rental-rate increase in 2Q20 and 2) an increase of rental rate for one ship in April, which should offset the COVID-19 impact on a decrease in jet fuel transportation in its domestic oil trading business (50% of diesel transportation, 30% of gasoline and 20% of jet fuel). PRM shifts focus to domestic rents, instead of overseas rents, while transportations of diesel and gasoline are expected to decrease just slightly.

## Valuation/Catalyst/Risk

Our target price is Bt8.30m, which is pegged to 2020E PER of 18x, or -1 SD below its 2-yr average). Key catalyst is an increase in FSU rental rates, which should provide upside to our revenue and gross profit margin forecasts. Key downside risk is the COVID-19 impact, which we expected to be limited, nonetheless.



#### 1Q20E earnings preview

FY: Dec (Bt mn)	1Q20E	1Q19	YoY	4Q19	QoQ	2020E	2019	YoY
Revenues	1,489	1,189	25.3%	1,501	-0.8%	5,678	5,347	6.2%
CoGS	(985)	(844)	16.6%	(967)	1.8%	(3,855)	(3,651)	5.6%
Gross profit	504	344	46.5%	533	-5.4%	1,823	1,695	7.5%
SG&A	(105)	(93)	12.4%	(127)	-17.6%	(421)	(409)	3.1%
EBITDA	533	400	33.1%	559	-4.7%	2,354	1,999	17.8%
Other inc./exps	10	9	11.2%	21	-53.0%	64	58	10.0%
Interest expenses	(60)	(37)	60.8%	(60)	0.0%	(257)	(211)	21.6%
Income tax	(42)	(18)	131%	(47)	-9.6%	(113)	(124)	-9.2%
Core profit	320	221	44.8%	280	14.6%	1,142	1,002	13.9%
Net profit	240	221	8.6%	266	-9.7%	1,142	1,023	11.6%
EPS (Bt)	0.10	0.09	8.6%	0.11	-9.7%	0.46	0.41	11.6%
Gross margin	33.9%	29.0%	4.9%	35.5%	-1.6%	32.1%	31.7%	0.4%
Net margin	16.1%	18.6%	-2.5%	17.7%	-1.6%	20.1%	19.1%	1.0%

## Quarterly income statement

(Bt mn)	4Q18	1Q19	2Q19	3Q19	4Q19
Sales	1,159	1,189	1,268	1,389	1,501
Cost of sales	(907)	(844)	(867)	(973)	(967)
Gross profit	252	344	402	416	533
SG&A	(98)	(93)	(101)	(87)	(127)
EBITDA	339	400	512	528	559
Finance costs	(40)	(37)	(52)	(62)	(60)
Core profit	151	221	245	257	280
Net profit	154	221	283	253	266
EPS	0.06	0.09	0.11	0.10	0.11
Gross margin	21.8%	29.0%	31.7%	30.0%	35.5%
EBITDA margin	29.2%	33.7%	40.4%	38.0%	37.3%
Net profit margin	13.3%	18.6%	22.3%	18.2%	17.7%

## Balance sheet

FY: Dec (Bt mn)	2017	2018	2019	2020E	2021E
Cash & deposits	2,974	1,286	942	717	753
Accounts receivable	303	380	397	440	492
Inventories	121	121	147	149	161
Other current assets	75	49	204	124	150
<b>Total cur. assets</b>	<b>3,472</b>	<b>1,836</b>	<b>1,690</b>	<b>1,431</b>	<b>1,557</b>
Investments	815	879	646	778	851
Fixed assets	6,333	6,943	9,538	11,889	12,716
Other assets	58	1,157	1,190	1,177	1,171
<b>Total assets</b>	<b>10,679</b>	<b>10,815</b>	<b>13,063</b>	<b>15,275</b>	<b>16,295</b>
Short-term loans	0	25	0	156	52
Accounts payable	269	232	320	372	392
Current maturities	1,078	1,042	1,217	1,302	1,281
Other current liabilities	123	248	296	382	420
<b>Total cur. liabilities</b>	<b>1,470</b>	<b>1,547</b>	<b>1,833</b>	<b>2,211</b>	<b>2,146</b>
Long-term debt	2,563	1,960	3,626	4,502	4,702
Other LT liabilities	399	337	324	385	392
<b>Total LT liabilities</b>	<b>2,962</b>	<b>2,298</b>	<b>3,950</b>	<b>4,887</b>	<b>5,094</b>
<b>Total liabilities</b>	<b>4,432</b>	<b>3,844</b>	<b>5,783</b>	<b>7,098</b>	<b>7,240</b>
Registered capital	2,500	2,500	2,500	2,500	2,500
Paid-up capital	2,500	2,500	2,500	2,500	2,500
Share premium	3,407	3,407	3,407	3,407	3,407
Retained earnings	706	1,177	1,700	2,462	3,270
Others	(490)	(494)	(692)	(494)	(494)
Minority interests	123	380	365	302	371
<b>Shares' equity</b>	<b>6,247</b>	<b>6,970</b>	<b>7,280</b>	<b>8,177</b>	<b>9,055</b>

## Cash flow statement

FY: Dec (Bt mn)	2017	2018	2019	2020E	2021E
Net profit	718	712	1,023	1,142	1,333
Depreciation	(658)	(502)	(640)	(842)	(979)
Chg in working capital	54	(36)	63	(173)	32
Others	1,277	934	1,531	1,330	2,163
<b>CF from operations</b>	<b>1,390</b>	<b>1,107</b>	<b>1,978</b>	<b>1,457</b>	<b>2,549</b>
Capital expenditure	(443)	(1,258)	(3,429)	(2,280)	(1,800)
Others	(47)	130	183	0	0
<b>CF from investing</b>	<b>(490)</b>	<b>(1,128)</b>	<b>(3,246)</b>	<b>(2,280)</b>	<b>(1,800)</b>
<b>Free cash flow</b>	<b>900</b>	<b>(21)</b>	<b>(1,268)</b>	<b>(823)</b>	<b>749</b>
Net borrowings	(971)	(1,252)	1,880	1,205	77
Equity capital raised	3,907	0	0	0	0
Dividends paid	(981)	(250)	(520)	(350)	(525)
Others	(217)	(168)	(417)	(257)	(266)
<b>CF from financing</b>	<b>1,738</b>	<b>(1,670)</b>	<b>944</b>	<b>598</b>	<b>(714)</b>
<b>Net change in cash</b>	<b>2,614</b>	<b>(1,688)</b>	<b>(344)</b>	<b>(224)</b>	<b>35</b>

## Forward PER band



## Income statement

FY: Dec (Bt mn)	2017	2018	2019	2020E	2021E
Sales	4,501	4,480	5,347	5,678	6,358
Cost of sales	(3,370)	(3,369)	(3,651)	(3,855)	(4,298)
<b>Gross profit</b>	<b>1,131</b>	<b>1,111</b>	<b>1,695</b>	<b>1,823</b>	<b>2,060</b>
SG&A	345	390	409	421	453
<b>EBITDA</b>	<b>1,595</b>	<b>1,440</b>	<b>1,999</b>	<b>2,354</b>	<b>2,710</b>
Depre. & amortization	(658)	(502)	(640)	(842)	(979)
Equity income	55	150	92	145	155
Other income	40	48	58	64	69
<b>EBIT</b>	<b>881</b>	<b>920</b>	<b>1,437</b>	<b>1,611</b>	<b>1,831</b>
Finance costs	(217)	(168)	(211)	(257)	(266)
Income taxes	(2)	(58)	(124)	(113)	(132)
<b>Net profit before MI</b>	<b>661</b>	<b>694</b>	<b>1,101</b>	<b>1,241</b>	<b>1,433</b>
Minority interest	(41)	(35)	(99)	(99)	(100)
<b>Core profit</b>	<b>620</b>	<b>659</b>	<b>1,002</b>	<b>1,142</b>	<b>1,333</b>
Extraordinary items	98	53	21	0	0
<b>Net profit</b>	<b>718</b>	<b>712</b>	<b>1,023</b>	<b>1,142</b>	<b>1,333</b>

## Key ratios

FY: Dec (Bt mn)	2017	2018	2019	2020E	2021E
<b>Growth YoY</b>					
Revenue	4.8%	-0.5%	19.4%	6.2%	12.0%
EBITDA	2.1%	-9.7%	38.8%	17.8%	15.1%
Net profit	-8.8%	-0.9%	43.8%	11.6%	16.7%
Core profit	-17.6%	6.3%	52.1%	13.9%	16.7%
<b>Profitability ratio</b>					
Gross profit margin	25.1%	24.8%	31.7%	32.1%	32.4%
EBITDA margin	35.4%	32.1%	37.4%	41.5%	42.6%
Core profit margin	13.8%	14.7%	18.7%	20.1%	21.0%
Net profit margin	16.0%	15.9%	19.1%	20.1%	21.0%
ROA	5.8%	6.1%	7.7%	7.5%	8.2%
ROE	9.9%	9.5%	13.8%	14.0%	14.7%
<b>Stability</b>					
D/E (x)	0.71	0.55	0.79	0.87	0.80
Net D/E (x)	0.58	0.43	0.67	0.73	0.67
Interest coverage ratio	4.05	5.48	6.81	6.28	6.88
Current ratio (x)	2.36	1.19	0.92	0.65	0.73
Quick ratio (x)	2.28	1.11	0.84	0.58	0.65
<b>Per share (Bt)</b>					
Reported EPS	0.29	0.28	0.41	0.46	0.53
Core EPS	0.25	0.26	0.40	0.46	0.53
Book value	2.50	2.79	2.91	3.27	3.62
Dividend	0.10	0.14	0.20	0.21	0.25
<b>Valuation (x)</b>					
PER	17.93	18.09	12.58	11.27	9.66
Core PER	20.76	19.53	12.84	11.27	9.66
P/BV	2.06	1.85	1.77	1.57	1.42
EV/EBITDA	8.71	10.35	8.50	7.82	6.81
Dividend yield	1.9%	2.7%	3.9%	4.1%	4.9%

Source: Company, KTBST

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#### Corporate governance report of Thai listed companies 2017

##### CG rating by the Thai Institute of Directors Association (Thai IOD)

Score	Symbol	Description	ความหมาย
90-100		Excellent	ดีเลิศ
80-89		Very Good	ดีมาก
70-79		Good	ดี
60-69		Satisfactory	ดีพอใช้
50-59		Pass	ผ่าน
< 50	No logo given	n.a.	n.a.

##### IOD disclaimer

The Corporate Governance Report (CGR) of Thai listed Companies is based on a survey and assessment of information which companies listed on the Stock Exchange of Thailand and the Market for Alternative Investment ("listed companies") disclose to the public. The CGR is a presentation of information from the perspective of outsiders on the standards of corporate governance of listed companies. It is not any assessment of the actual practices of the listed companies, and the CGR does not use any non-public information. The CGR is not therefore an endorsement of the practices of the listed companies. It is not a recommendation for investment in any securities of any listed companies or any recommendation whatsoever. Investors should exercise their own judgment to analyze and consider any information relating to the listed companies presented in this CGR report. No representation or warranty is made by the Institute of Directors or any of its personnel as to the completeness or accuracy of the CGR report or the information used.

##### KTBST's stock rating definition

- BUY** The stock's total return is expected to exceed 10% over the next 6-12 months. The stock has good fundamentals and attractive valuations.
- HOLD** The stock's total return is expected to be between 0% - 10% over the next 6-12 months. The stock has good fundamentals, but may lack of near-term catalysts or its valuations are not attractive.
- SELL** The stock's total return is expected to fall below 0% or more over the next 6-12 months. Stock should be sold as negative total return is anticipated due to deteriorating fundamentals compared with its valuations.

The stock's expected total return is the percentage difference between the target price and the current price, which excludes dividend yields.

##### ESG rating (ESG: Environmental, Social, and Governance)

KTBST believes environment, social and governance (ESG) practices will help determine the sustainability and future financial performance of companies. We thus incorporate ESG into our valuation model.

- ☐ **Environment.** Environment factors relate to corporate responsibility for its actions and how it manages its impact on the environment. KTBST analyzes revenue, which exposes to environment risks and opportunities.
- ☐ **Social.** Social factors deal with company's relationship with its employees and vendors. That also includes company's initiatives related to employee health and well-being, as well as community involvement. KTBST's evaluation on social practices is based on Bloomberg, which measure from company's social responsibility news.
- ☐ **Governance.** Corporate government factors include company's transparency, decision-making structure, concrete risk assessment method, treatment of minority shareholders and anti-corruption practices. KTBST conduct this analysis based on IOD's scores.

##### KTBST's ESG ratings score from 1-5

1. Excellent scores at 5
2. Very Good scores at 4
3. Good scores at 3
4. Satisfactory scores at 2
5. Pass scores at 1

KTBST provides "n.a." in cases of insufficient data.