13 January 2023

Transport | Shipping

Pelita Samudera Shipping (PSSI IJ)

Buy

Smooth Sailing Ahead; Initiate BUY

Target Price (Return):	IDR800 (+38%)
Price (Market Cap):	IDR580 (USD203m)
ESG score:	2.90 (out of 4)
Avg Daily Turnover (IDR/USD)	701m/0.05m

- **Initiate coverage with BUY and a IDR800 TP, 38% upside with c.8% FY23F yield**. We like Pelita Samudera Shipping for its net cash position, improving utilisation rates, diversification into non-coal transportation, and fleet expansion. We expect the company to book a revenue and earnings CAGR of 10.5% over FY22-26F and believe margins will expand, with net margins of 30-40% moving forward. We also apply a 2% ESG discount to its intrinsic value to derive our TP, as its ESG score of 2.9 is 1pt below the country median.
- **Improvement in utilisation rates.** Historically, PSSI has maintained high utilisation rates. Since 2016, PSSI has achieved an 83% utilisation rate and managed to boost this to 94% in 2019. With the COVID-19 pandemic in 2020, its utilisation rate dropped to about 77%, with the tugboat and barge (T&B) and motor vessel (MV) segments at 84% each, while the floating cargo facility (FLF) rate was below 64%. The utilisation rate started improving in 2021 and 9M22, but has not reached pre-pandemic levels. In 9M22, it averaged c.89%. There is still room to expand the utilisation rate – we think it could exceed 90% in 2023 and thereafter.
- **Shifting towards non-coal transportation.** Between 2019 and 2021, PSSI expanded its non-coal transportation business, from 3% to c.30% of its total business. In 2020, 10% of the commodities it transported were nickel (3%, transported by T&B) as well as alumina, nickel, steel, and copper (7%, transported by MV). Since 2021, the company has aimed to further expand its non-coal transportation business, to reduce its dependence on one particular commodity.
- **Net cash and ample room for growth.** PSSI is in a net cash position with a very low gearing ratio. On average, it plans to add 6-10 vessels per year, with 10 units to be added in 2028, translating an 8% CAGR between 2023F and 2028F. As of 9M22, the company was in a net cash position, with a gearing ratio of 0.1x. We think PSSI is still able to finance its capex internally, given the historical positive cash flow from its operations.
- **Valuation.** Our IDR800 TP is based on a relative valuation, with an additional discount of 15% applied to account for liquidity and an ESG discount of 2% from the average 7x FY23 P/E of its domestic T&B operator peers. This translates to a FY23 P/E of 5.8x. At the current valuation, the company trades at a FY23 P/E of 4.3x and FY23 EV/EBITDA of 2.8x, with a P/BV of 1.2x – which is relatively low compared to its domestic peers. We think PSSI still has some upside from the aforementioned attributes and as such, trades at undemanding valuations vs domestic peers, with high ROE (c.30%) and dividend yields (c.8%).

Forecasts and Valuation	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total turnover (USDm)	68	109	120	129	146
Recurring net profit (USDm)	6	25	36	39	41
Recurring net profit growth (%)	(45.9)	289.0	43.5	10.3	3.1
Recurring P/E (x)	31.72	8.15	5.68	5.15	5.00
P/B (x)	2.1	1.8	1.4	1.1	1.0
P/CF (x)	7.38	5.47	4.76	3.03	3.31
Dividend Yield (%)	0.9	1.5	4.8	7.7	8.3
EV/EBITDA (x)	9.92	4.97	3.34	2.58	2.38
Return on average equity (%)	9.2	24.0	34.4	29.7	26.0
Net debt to equity (%)	23.1	3.4	net cash	net cash	net cash

Source: Company data, RHB

Analysts

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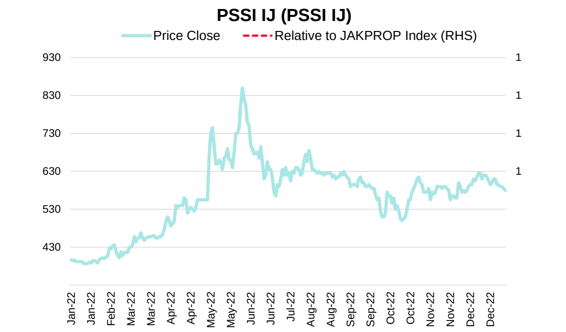
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(2.5)	0.0	9.4	(9.4)	46.5
Relative	(2.5)	0.0	9.4	(9.4)	46.5
52-wk Price low/high (IDR)					386 – 850



Source: Bloomberg

Overall ESG Score: 2.90 (out of 4)

E: GOOD
PSSI strives to reduce its impact on the environment from its operational activities. The company established an environmental impact reduction programme that covers the use of environmentally friendly materials and energy, as well as a waste treatment system.

S: GOOD
PSSI aims to improve the standard of living of the communities surrounding its areas of operation, in line with the growth of its business. In addition to involving local communities in labour recruitment schemes, PSSI has had an indirect economic impact via the activities under its community development and empowerment programme.

G: GOOD
To implement systematic corporate governance practices in the business environment, the company refers to regulations and principles, and complies with applicable laws and regulations. By implementing these principles, it aims to realise good corporate governance in all business lines. PSSI is committed to upholding transparency through the disclosure of information via its corporate website.

Note:
Small cap stocks are defined as companies with a market capitalisation of less than USD0.5bn.

Financial Exhibits

Asia
Indonesia
Transport
Pelita Samudera Shipping
PSSI IJ
Buy

Valuation basis

We use a relative valuation – P/E ratio vs peers

Key drivers

i. Strong demand for commodities;
ii. High demand from smelters;
iii. Long-time queue for newbuilds and limited ship availability.

Key risks

i. Unfavourable government regulations;
ii. Non-extension of available contracts;
iii. Deteriorating economic conditions.

Company Profile

Pelita Samudera Shipping is engaged in shipping and logistics provider services, especially for mining companies – for coal and other commodities – in Indonesia. It is a member of the IMC group, which is also in the business of providing industrial and maritime solutions for maritime logistics and transportation in Asia.

Financial summary (USD)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Recurring EPS	0.00	0.00	0.01	0.01	0.01
DPS	0.00	0.00	0.00	0.00	0.00
BVPS	0.02	0.02	0.03	0.03	0.04
Return on average equity (%)	9.2	24.0	34.4	29.7	26.0

Valuation metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Recurring P/E (x)	31.72	8.15	5.68	5.15	5.00
P/B (x)	2.1	1.8	1.4	1.1	1.0
FCF Yield (%)	6.4	14.6	15.1	24.2	12.5
Dividend Yield (%)	0.9	1.5	4.8	7.7	8.3
EV/EBITDA (x)	9.92	4.97	3.34	2.58	2.38
EV/EBIT (x)	32.65	7.22	4.64	3.58	3.34

Income statement (USDm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total turnover	68.4	108.7	119.6	129.0	145.9
Gross profit	12.5	34.9	46.6	50.3	52.0
EBITDA	22.7	41.7	56.8	60.9	63.1
Depreciation and amortisation	(15.8)	(13.0)	(16.0)	(16.9)	(18.1)
Operating profit	6.9	28.7	40.8	44.0	45.0
Net interest	(1.5)	(1.1)	(1.3)	(0.7)	(0.3)
Pre-tax profit	7.1	27.7	49.5	52.9	55.5
Taxation	1.4	(2.7)	(4.7)	(4.8)	(5.0)
Reported net profit	8.4	25.0	44.7	48.1	50.5
Recurring net profit	6.4	24.9	35.7	39.4	40.6

Cash flow (USDm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Change in working capital	5.0	(8.3)	(14.3)	1.6	(7.8)
Cash flow from operations	27.5	37.1	42.6	67.0	61.2
Capex	(14.5)	(7.4)	(11.9)	(17.8)	(35.9)
Cash flow from investing activities	(12.0)	(14.6)	(12.7)	(18.2)	(36.4)
Dividends paid	(2.5)	(2.5)	(10.8)	(16.7)	(17.8)
Cash flow from financing activities	(6.3)	(13.3)	(25.8)	(16.2)	(17.8)
Cash at beginning of period	3.4	12.6	21.9	26.0	58.6
Net change in cash	9.2	9.2	4.1	32.6	7.1
Ending balance cash	12.6	21.8	26.0	58.6	65.6

Balance sheet (USDm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total cash and equivalents	13	22	27	59	66
Tangible fixed assets	108	101	93	90	104
Total assets	147	161	180	213	248
Short-term debt	11	12	5	3	5
Total long-term debt	23	14	8	10	8
Total liabilities	52	47	33	35	37
Total equity	95	115	146	178	211
Total liabilities & equity	147	161	180	213	248

Key metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Revenue growth (%)	(9.3)	59.1	10.0	7.8	13.2
Recurrent EPS growth (%)	(45.9)	289.0	43.5	10.3	3.1
Gross margin (%)	18.3	32.1	38.9	39.0	35.6
Operating EBITDA margin (%)	33.1	38.3	47.5	47.2	43.2
Net profit margin (%)	12.3	23.0	37.4	37.3	34.6
Dividend payout ratio (%)	22.5	12.1	21.9	32.6	33.4
Capex/sales (%)	21.2	6.8	10.0	13.8	24.6
Interest cover (x)	4.35	25.07	30.17	49.28	49.42

Source: Company data, RHB

Business Overview

PSSI was founded in 2007, to mainly provide coal transportation services with FLFs, floating cranes, T&Bs and MVs. Currently, it operates five FLF and floating crane units, five bulk cargo vessels, 37 tugboats, and 36 barges. The company has three representative offices in the main locations for coal transportation – Muara Pantai, Samarinda (East Kalimantan) and Banjarmasin (South Kalimantan).

PSSI's operational activities consist of two types of transportation:

i. The transfer of cargo in the middle of the sea from ship to ship (trans-shipment), inter-island transportation and delivery;

ii. International shipping using tugboats and barges, MVs as well as FLFs and floating cranes.

In 2019, the company began diversifying its business into the non-coal segment. By 2021, 29% of its cargo products were non-coal – these consisted of bauxite, nickel, cement, steel, copper, and alumina. Currently, PSSI has three major revenue segments, all based on type of vessel: T&B, MV, and FLF.

i. **T&B.** Tugboats are a mode of transportation used to tow loaded barges that carry cargo from one place to another, while a barge is a type of ship used to carry cargo. The barges owned by the company are non-engine vessels. To mobilise cargo, a tugboat is needed as to tow cargo from one place to another. This ship can carry cargo through waterways such as rivers and canals, as well as between islands at home and abroad. Currently, PSSI has 37 tugboats and 36 barges.

ii. **MV**. Large bulk ships are transport ships with large loads used to transport and move coal, minerals, and other commodities for inter-island routes within the country or between countries. The ship is equipped with four cargo cranes that are capable of lifting up to 30 tonnes (the safe working load), four sets of cubic metres of grabs and five loading rooms. The cruise speed of the ship is up to 14 knots. Currently, PSSI has five bulk carrier MVs.

iii. **FLF and floating crane.** This business provides geophysical/seismic data measurement services, oil & gas drilling services, oilfield services, and operation & maintenance (O&M) and EPC services. FLF is a facility used to transfer cargo from barges to large bulk vessels located in open waters, and run by 38-40 crew members including vessel operators. In addition to coal (the main cargo), the company uses FLFs to move bauxite as well.

In 2022, PSSI conducted several divestments and acquisitions:

i. As of January, PSSI has divested one Handysize MV named MV Dewi Gandawati (built in 2008) to Hui Shun Maritime for USD11.6m;

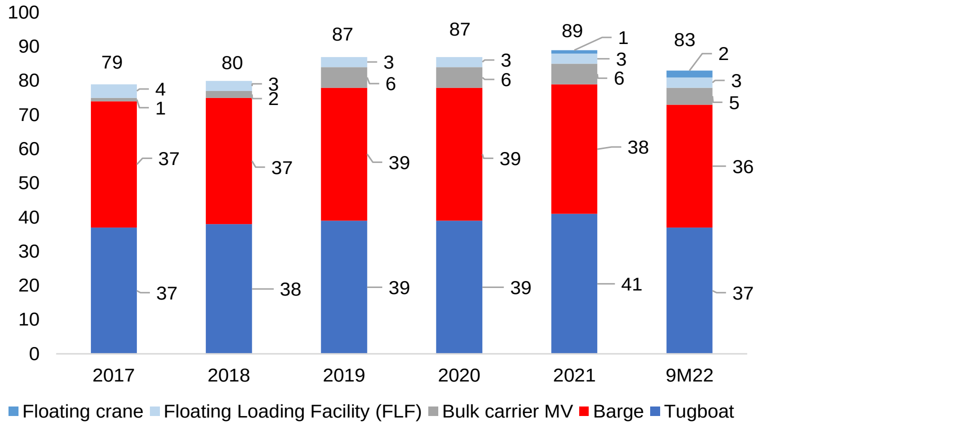
ii. In Jul 2022, it acquired a floating crane barge, the Ben Glory, for USD4.4m from Mitrabahtera Segara Sejati (MBSS IJ, NR);

iii. As of Sep 2022, the company has auctioned off two T&B sets – JKW Mahakam 7 and BG Dewi Iriana with 330ft-type sets worth IDR26bn, and one T&B (Intan Megah 11 and BG Intan Kelana 9) worth IDR17bn;

iv. In Nov-Dec 2002, it bought two floating crane barges from MBSS for USD21.5m

For 2023, the company plans to add six vessels – either T&B sets, FLF, or MVs – to its fleet. The specific type of vessels was not detailed – it will highly depend on the market situation.

Figure 1: PSSI's current fleet



Source: Company

- T&B vessels account for the biggest portion of its fleet. Throughout the years, PSSI has also increased its MVs from one in 2018 to five in 9M22, through divestments and acquisitions
- Its T&B and FLF services provide a good base for catering to coal producers, as is able to service more coal mines in remote areas and offer services in shallow waters
- Its MV services enable PSSI to serve non-coal shipments and also in international waters

Figure 2: PSSI's T&B vessel

Source: Company

Figure 3: PSSI's MV

Source: Company

Figure 4: PSSI's FLF

Source: Company

- T&Bs make up the largest portion of PSSI's fleet, with vessels spanning 300-330ft with the ability to transport 7,500-10,000 tonnes of cargo
- Its MV vessels are Handymax-type and Supramax-type units with a deadweight tonnage (DWT) of c.30k-50k tonnes
- Its T&B vessels have an average usage period of 12-13 years

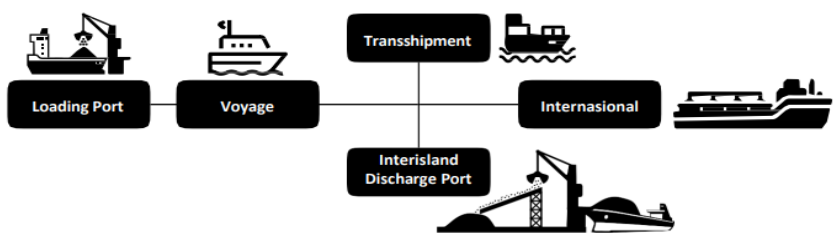
PSSI offers three types of sea transportation services:

i. **Freight trans-shipment.** Trans-shipment transportation is the collective transportation of commodities using barges – cargo is pulled by tugboats from one place to the dock or to a large bulk vessel, before being brought to another place. The company has T&B vessels in a variety of sizes to meet various customer needs. Currently, the main commodities served by PSSI in trans-shipments are coal and nickel.

ii. **Inter-island transport.** Inter-island transportation takes commodities from the port of origin to the domestic inter-island destination port, using T&B and large bulk ships. The main commodities transported through this segment are coal, nickel, alumina, cement clinker, copper concentrate, and iron sand.

iii. **Inter-country freight**. The third business segment is inter-country transportation – which deals with transportation across different national borders.

Figure 5: PSSI's operations



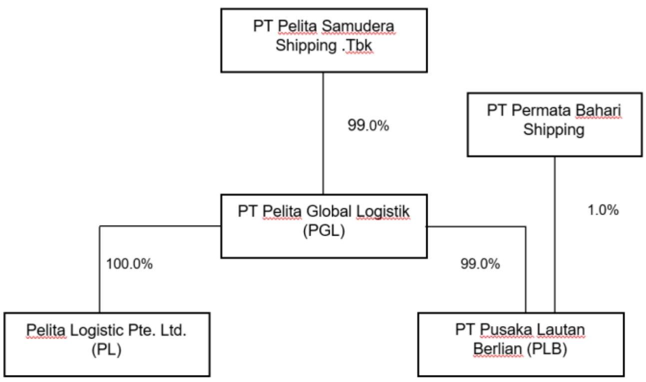
Source: Company

- PSSI provides well-integrated commodity logistics services
- Inter-island operations are well-suited to Indonesia's geography, where coal can be transported from remote mines to open waters, and on shallow waters (if necessary)
- Its MV fleet services are focused on coal and non-coal transportation across international waters

In terms of business structure, PSSI is a holding company that has majority ownership of Pelita Global Logistik, which in turn controls two companies, Pelita Logistik and Pusaka Lautan Berlian. The latter offers MV services (all MV assets fall under Pusaka Lautan Berlian).

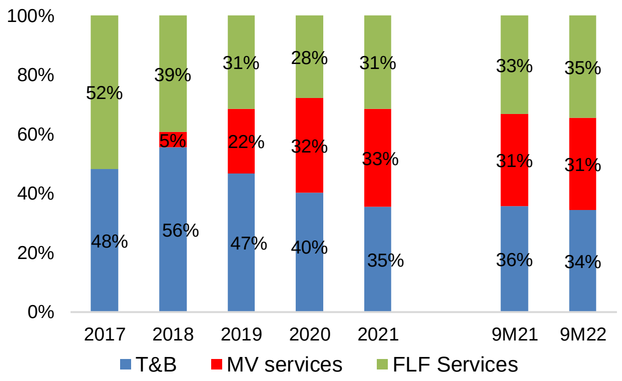
The majority of PSSI's revenue in 9M22 came from its T&B business, followed by the FLF and MV divisions. MV services started in 2018, and gradually ramped up to account for c.30% of revenue in 9M22. So far, each business accounts for an equal weighting in revenue contributions – we expect this to remain so going forward.

Figure 6: PSSI's business structure



Source: Company data

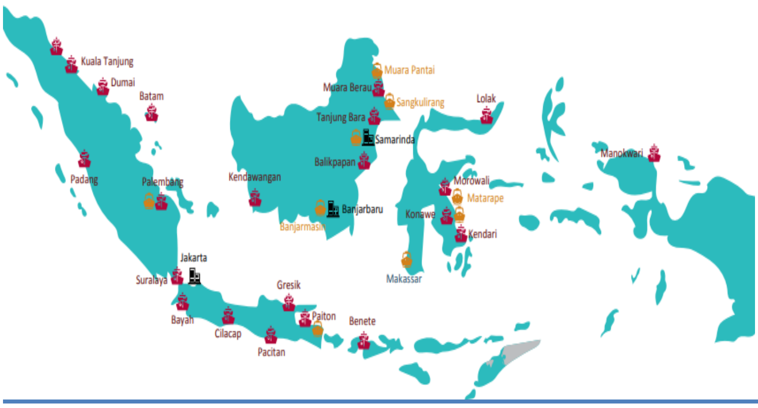
Figure 7: PSSI's revenue mix



Source: Company data

PSSI serves both domestic and international waters. In domestic waters, inter-island transportation dominates the domestic routes, as this is related to commodity transportation. On the international front, as of 2021, the company has penetrated international routes – destinations include Russia (with shipments from Persian Gulf countries), for the transportation of coal and steel using large bulk ships.

Figure 8: Domestic routes for inter-island transportation



Source: Company

Figure 9: PSSI also serves international routes

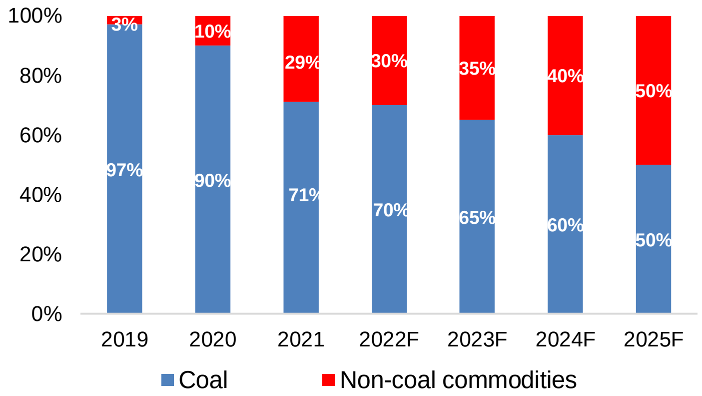
Source: Company

Investment Thesis

Shifting towards non-coal transportation

Between 2019 and 2021, PSSI enlarged its non-coal transportation business. Aside from coal, PSSI has transported clinker, albeit at a small portion. In 2020, 10% of the commodities it transported consisted of nickel (3%) via T&B, while alumina, nickel, steel, and copper made the other 7%, transported by MV. In 2021, coal transportation still commanded the largest portion, although the non-coal portion has gradually expanded. Coal represents 71% of total commodities transported, while the remaining 29% consists of various commodities – 2% of the commodities include bauxite transported using FLF, 8% is nickel transported using T&B, and 19% includes nickel, steel cement, copper, alumina, and even grain transported by MV. After 2021, PSSI plans to further expand its non-coal transportation business to reduce its dependence on the commodity. The company plans to achieve equal-weighted portions of transported commodities by 2025.

Figure 10: Portion of commodities transported by PSSI

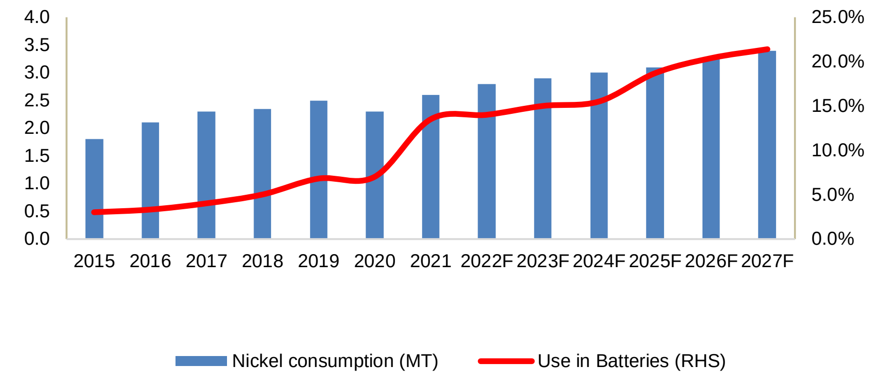


Source: Company data

- The Government's plan to build several smelters will help support the demand for coal and non-coal commodities. These smelters will need transportation vessels to move commodities such as nickel, bauxite, and other metal products
- The company expects to reach a balance between its coal and non-coal transportation by 2025

According to data from the International Nickel Study Group, nickel use in batteries will reach 22% by 2027 – a 100% increase from 11% in 2021 – due to growing sales and demand for larger battery capacities in EVs. The use of nickel in batteries is expected to be the main driver of nickel demand. We expect this to support the medium- to long-term growth of PSSI's business.

Figure 11: Nickel consumption forecast (2015-2027)



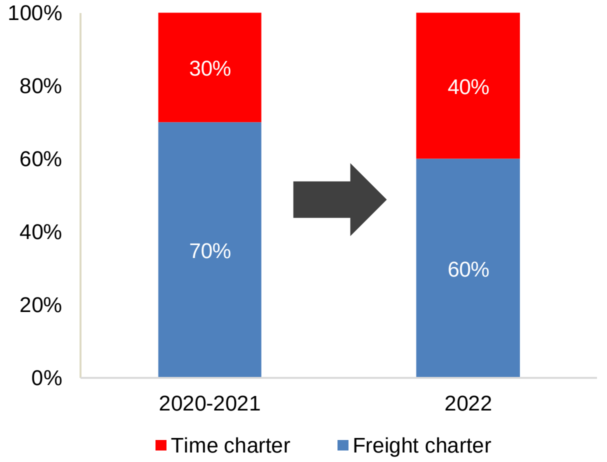
Source: International Nickel Study Group, Wood Mackenzie, Department of Industry, Science, Energy and Resources (2022)

Contract flexibility between freight and charter rates

PSSI is able to be relatively flexible in terms of balancing its freight charter and time charter portions. Freight charter tariffs are based on volume, while time charters are charged based on the amount of time the customer uses the vessel. In the wake of COVID-19, coal demand was relatively low, and this pushed management to focus more on time charter transportation. The split between time and freight charters has shifted more towards time charters since 4Q20 – management decided to tilt the composition of its revenue from volume-based to time-based by securing time charter contracts. According to management, time charters currently account for 40% of total transport activities – although in 2021, this was at 30%. A higher time charter revenue composition helps manage the company's ability to cover fixed operating and financing expenses during difficult times. With this, PSSI has the flexibility to adjust for demand volatility.

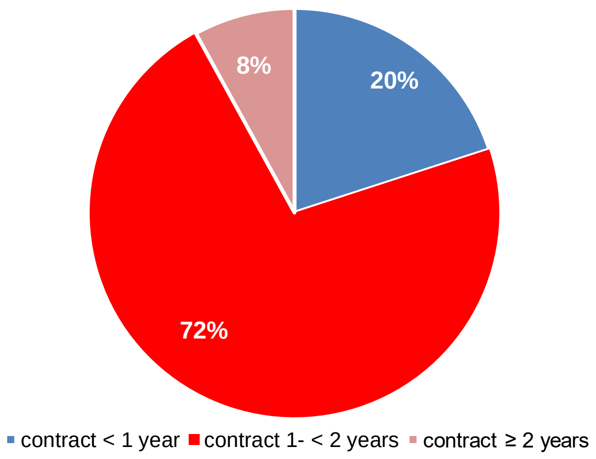
As for the length of contracts, the composition of long-term vs spot contracts remains similar to the historic level of 80% vs 20%. Spot contracts include contracts that are for a duration of less than a year. Among the total long-term contracts, 72% are for durations of over one year, and 8% are for periods of over two years. Contracts that are largely have a period of more than one year and about two years, provide PSSI with contract stability amid demand volatility.

Figure 12: Portion of freight charters vs time charters



Source: Company data

Figure 13: Current length of contracts

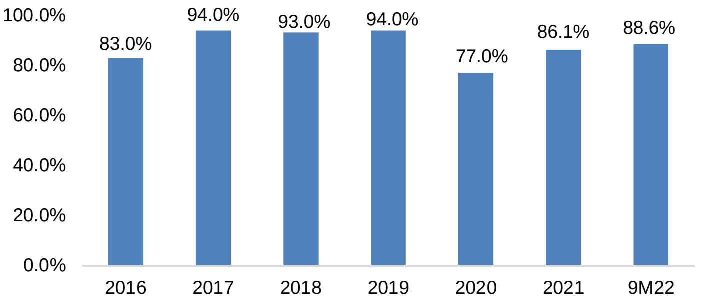


Source: Company data

Improvements in utilisation rates

Historically, PSSI has maintained high levels of utilisation rates. In 2016, PSSI achieved an 83% utilisation rate, and managed to expand this to above 90% to achieve a 94% rate in 2019. Due to the pandemic in 2020, the utilisation rate dropped to an average of 77%, with T&B and MV both at 84% while FLF was below 64%. Utilisation rates have started to improve in 2021 and 9M22, albeit still below pre-pandemic levels. In 9M22 the average utilisation rate was close to 89%, with some room for expansion – we think it could reach above 90% from 2023.

Figure 14: PSSI's utilisation rate



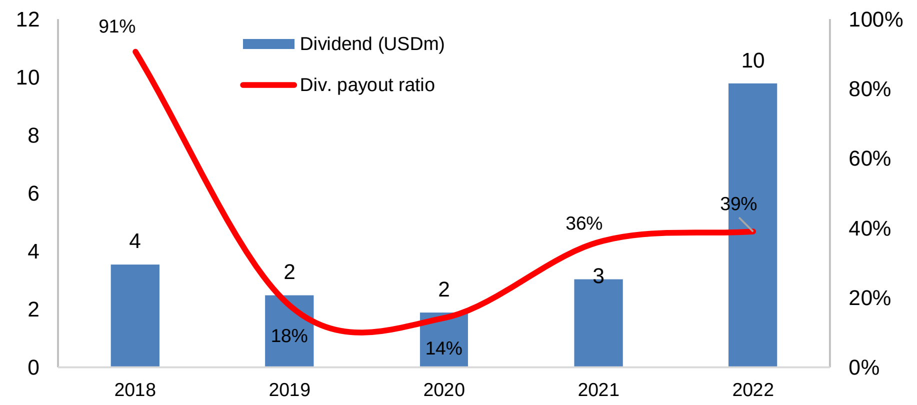
Source: Company data

- PSSI was able to maintain a high utilisation rate and still has some room to increase its capacity to above 90%
- Additional vessels in the coming years will provide further space to cater to demand

Strong dividend track record

Since 2018, PSSI has distributed dividends on a yearly basis. On average, it has recorded a 40% dividend payout ratio. Dividend yields were decent at c.5% in 2022. With its current positive free cash flow position, we believe PSSI will still be able to provide dividends – we think it can chalk 30-40% dividend payout ratios looking ahead.

Figure 15: Dividend and payout ratio trend

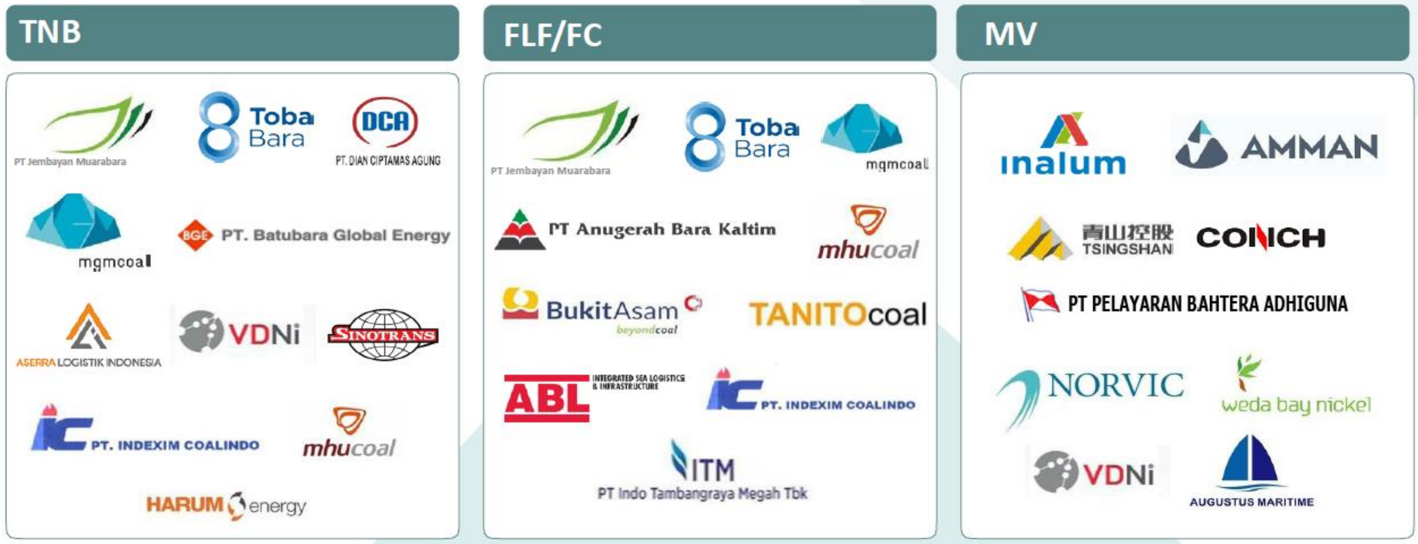


Source: Company data

Top-notch customers with manageable collection period

PSSI has a wide range of top-notch customers, mainly coal companies that require shipments to state-owned power company Perusahaan Listrik Negara (PLN). As of 9M22, Jembayan Muarabara contributed 15% of PSSI's total revenue. In the past, Jembayan accounted for 20-30% of PSSI's total revenue. Jembayan is part of Sakari Resources group that is a part of Thailand's PTT (PTT TB, BUY, TP: THB51). Other large customers include Bahtera Adiguna (subsidiary of PLN, Indo Tambangraya (ITMG IJ, TRADING BUY, TP: IDR49,300), Bukit Asam (PTBA IJ, TRADING BUY TP: IDR5,600), Harum Energy (HRUM IJ, NR), Toba Bara (TOBA IJ, NR), Amman Mineral, which is a subsidiary of Medco Energi (MEDC IJ, BUY TP: IDR1,400), MHU Coal, Tsingshan, and Conch Cement Indonesia. The accounts receivable collection period is relatively manageable, at 30-60 days.

Figure 16: PSSI has a portfolio of respectable and good-quality customers



Source: Company

Valuation

We initiate coverage on PSSI with a BUY recommendation and TP of IDR800, based on a discount of 15% to account for liquidity, with an additional ESG discount of 2% applied from an average FY23 P/E relative valuation of 7.0x for domestic T&B companies. This translates to an FY23 P/E of 5.8x. In comparison with international peers, Indonesia's shipping companies trade at a premium. At the current valuation, the company trades at an FY23 P/E of 4.3x and FY23 EV/EBITDA of 2.8x. Therefore, it trades at an undemanding valuation vs domestic peers, with high ROE (c.30%) and dividend yields (c.8%). The company has a competitive advantage due to its net cash position, improving utilisation rates, high ROE and dividend yields, as well as a comprehensive fleet in terms of having a footing in the T&B, MV, and FLF segments.

We think PSSI still has some upside from the aforementioned attributes – its plans to expand its non-coal transportation segment, its contract flexibility, improving utilisation rates and rewarding dividends are some of the positive factors that investors should consider. We incorporate a 2% ESG discount to our intrinsic value, as our ESG score of 2.9 is slightly below the country median, based on our in-house proprietary methodology. In terms of fleets, PSSI is comparable to Trans Coal Pacific (TCPI IJ, NR), Mitrabahtera Segara (MBSS IJ, NR) and Trans Power Marine (TPMA IJ, NR), which about 40, 60, and 35 sets respectively.

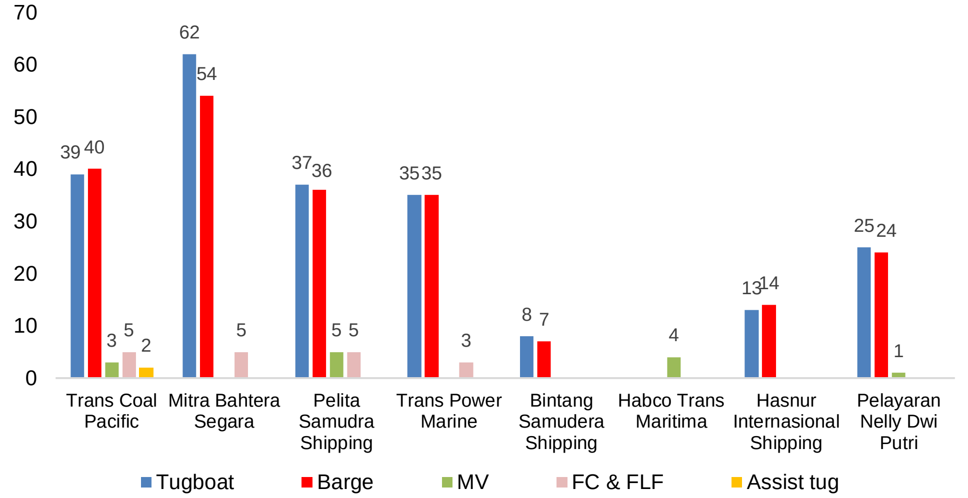
Figure 17: Domestic vs international peers for shipping companies

Domestic peers	Ticker	Mkt Cap (USDm)	P/E (x) FY22	P/E (x) FY23	PBV (x) FY22	PBV (x) FY23	EV/EBITDA (x) FY22	EV/EBITDA (x) FY23	Net margin (%) FY22	Net margin (%) FY23	ROE (%) FY22	ROE (%) FY23	Div. Yield FY22
Trans Coal Pacific	TCPI IJ	2,563	376.7	N/A	26.4	N/A	87.0	N/A	4.7	N/A	6.8	N/A	0.04
Pelita Samudra Shipping	PSSI IJ	208	4.7	4.3	1.4	1.2	3.6	2.8	37.3	37.1	30.5	26.9	4.71
Habco Trans Maritima	HATM IJ	135	15.4	13.6	3.0	2.6	3.0	2.17	37.8	33.0	27.8	20.3	N/A
Mitrabahtera Sejahtera	MBSS IJ	135	7.7	5.9	3.3	2.6	1.9	1.57	37.8	33.0	10.2	12.6	N/A
Trans Power Marine	TPMA IJ	78	5.0	4.3	3.2	3.2	2.7	2.20	20.4	21.5	17.5	18.3	2.60
Pelayaran Nelly Dwi Putri	NELY IJ	47	7.3	N/A	1.3	N/A	33.6	N/A	25.8	N/A	17.7	N/A	1.61
Bintang Samudera Mandiri	BSML IJ	41	44.4	N/A	6.8	N/A	14.6	N/A	7.2	N/A	6.0	N/A	0.31
Hasnur Internasional	HAIS IJ	37	12.9	N/A	1.3	N/A	4.3	N/A	8.2	N/A	10.3	N/A	1.83
Market cap weighted average		**3,244**	**299.8**	**7.0**	**21.4**	**2.2**	**69.9**	**2.3**	**10.3**	**32.9**	**9.8**	**20.6**	**0.4**

International peers	Ticker	Mkt Cap (USDm)	P/E (x) FY22	P/E (x) FY23	PBV (x) FY22	PBV (x) FY23	EV/EBITDA (x) FY22	EV/EBITDA (x) FY23	Net margin (%) FY22	Net margin (%) FY23	ROE (%) FY22	ROE (%) FY23	Div. Yield (%) FY22
Golden Ocean Group	GOGL NO	1,761	4.5	6.6	0.9	0.9	5.5	7.0	22.0	7.0	49.3	36.0	16.1
Navios Maritime Partners	NMM US	800	1.7	1.3	0.3	0.3	3.4	2.1	11.7	2.1	45.2	37.5	0.8
Eagle Bulk Shipping	EGLE US	683	2.9	7.1	0.8	0.8	2.4	3.9	36.0	3.9	42.2	27.7	14.4
Genco Shipping & Trading	GNK US	650	4.1	5.4	1.1	1.0	3.3	3.5	0.2	3.5	38.1	34.9	20.3
Pangaea Logistics	PANL US	237	2.8	5.3	0.7	0.7	3.2	4.3	0.3	4.3	14.2	9.3	7.8
2020 Bulkers Ltd	2020 NO	210	6.3	5.3	1.4	1.3	7.6	6.5	21.7	6.5	43.4	53.0	10.3
Vietnam Shipping Container	VSC VN	156	11.1	10.4	1.2	1.1	4.5	4.0	12.6	4.0	15.5	15.1	3.3
Euroseas Ltd	ESEA US	132	1.3	1.3	0.8	0.5	1.8	N/A	75.3	N/A	57.7	47.9	10.8
Seanergy Maritime	SHIP US	90	6.0	8.3	0.4	0.4	4.9	4.4	6.5	4.4	12.0	9.4	20.2
EuroDry	EDRY US	49	1.4	1.6	0.4	0.3	N/A	N/A	36.0	N/A	46.9	38.6	N/A
Market cap weighted average		**4,768**	**3.8**	**5.3**	**0.8**	**0.8**	**4.1**	**4.6**	**18.7**	**4.6**	**41.3**	**32.6**	**12.2**

Source: Bloomberg, RHB

Figure 18: PSSI and its international and domestic peers



Source: Company data

Industry

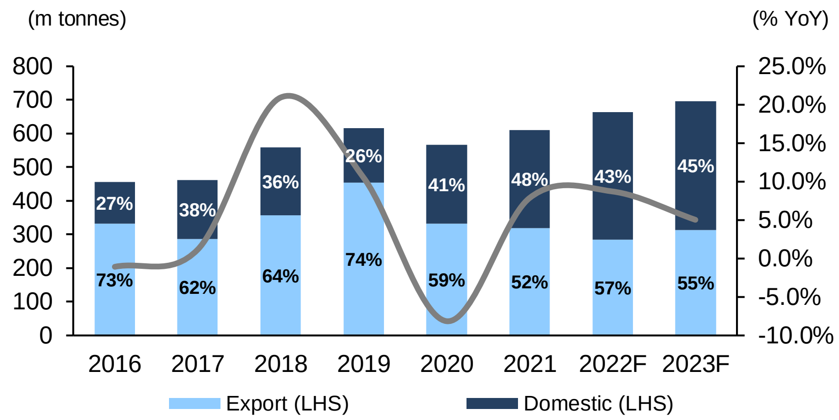
Beneficiary of coal production growth

The Government aims to increase national coal production by 5% YoY this year to 694m tonnes (FY22F coal output totalled 663m tonnes, or c.96% of the projection as at mid-Dec 2022). We expect the demand for coal – especially in Indonesia – to remain elevated in the years to come, as the transition to renewable energy is still in the early phases. Indonesia will remain focused on securing a steady source of electricity to:

i. Cater to the growing demand for power, as more industrial areas in Indonesia spring up;

ii. Keep electricity costs as low as possible, ahead of the national polls and to tame the spike in inflation.

Figure 19: National coal output trend



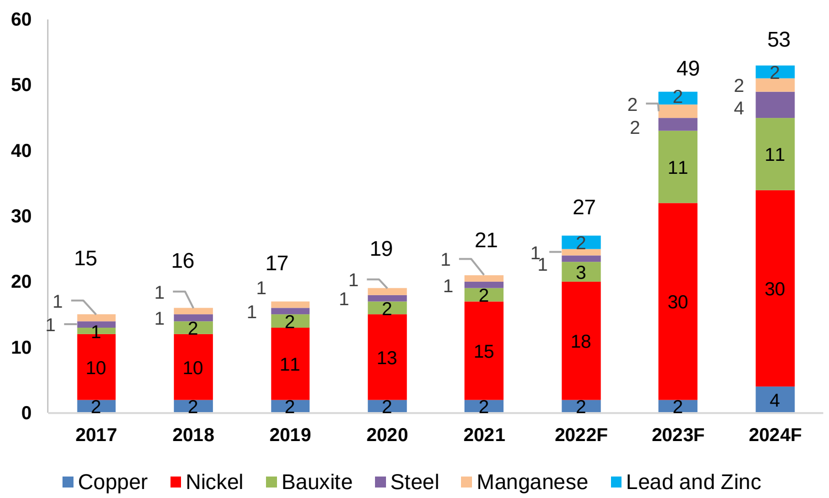
Source: MEMR, RHB

- Although coal prices will likely normalise from 2023 onwards (Newcastle coal price hovered at c.USD200/tonne for FY23F vs the YTD average of USD353/tonne) post-winter season and as domestic production in China and India rises. This should not affect the growth of the shipping industry in the medium term, as there is still limited dry-bulk sea transport services available, while volatile metal prices continue to dampen the speed of ship production

Potential demand from smelters

The Ministry of Energy and Mineral Resources (MEMR) aims to increase the number of smelters in Indonesia to 53 by 2024, vs 27 smelters currently. We believe that there will be at least five new smelters developed in 2023, partly due to the increasing need to produce nickel. This development implies coal transhipments will grow, as smelters need material to power operations as well as for production.

Figure 20: Planned smelters by mineral type (2017-2024F)



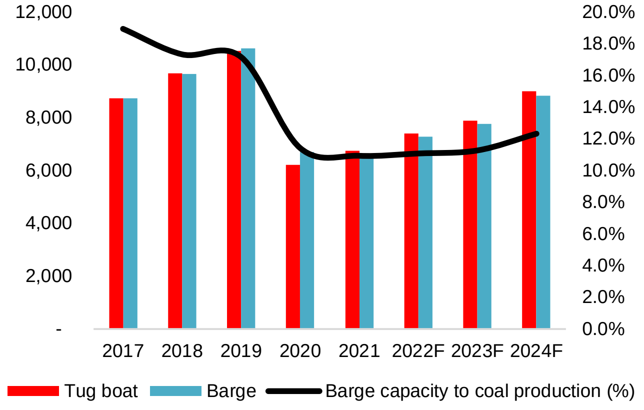
Source: MEMR

- Indonesia plans to increase the number of smelters from 27 to 53 over 2023-2024 – these facilities will largely be for nickel and manganese processing and production
- The additional smelters will eventually need additional sources of energy, which includes coal
- Based on our channel checks, Tsingshan Steel will expand its production line from 85 to 100 lines in the next two years and is estimated to need 20m tonnes of coal pa for its power plants

Limited vessel availability….

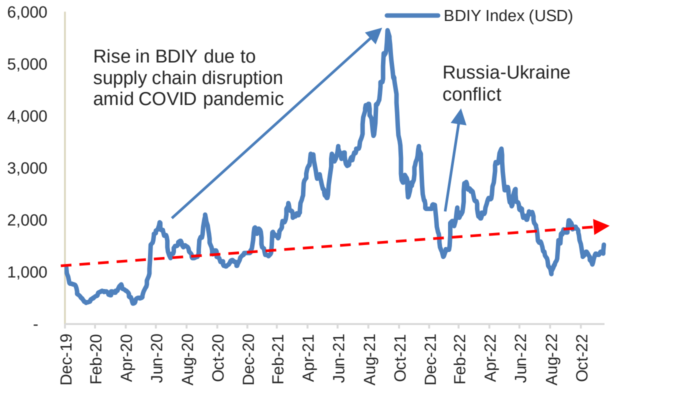
During the pandemic, demand for coal and other commodities increased. At the same time, there were insufficient ships to transport these commodities to various destinations. As the building of new vessels takes several months to complete, this situation made it impossible to immediately fulfil coal orders to various importers. The undersupply of vessels was followed by the lag in building new ships, which in turn led to a spike in shipping rates. This also led to the Baltic Dry Index – a benchmark for shipping rates – rising from about USD1,000 to over USD5,000 in Sep 2021. Such rates have helped provide support to the industry. Based on our discussion with shipping companies, they mostly agree that these conditions will probably last at least until the end of 2023, and should improve by mid-2024.

Figure 21: Indonesia's T&B capacity to coal production



Source: MEMR

Figure 22: Baltic Dry Index (2019-2022)



Source: Bloomberg, RHB

…with expensive capex for new vessels

As of mid-Dec 2022, the average 5-year-old Handysize vessel (at 37,000DWT) was selling at an average of USD24m (+17%, YoY) at second-hand prices. This is way above 2019's pre-pandemic secondhand price of USD17m, based on Intermodal's dry bulk market data. The waiting period can be as long as 24-30 months for newbuilds. A newbuild set of T&B can cost USD3.6-4m, with a waiting period of one year, while in the past, the set cost only USD1.4m. The rise in vessel capex is primarily due to: i) The reopening of major economies post COVID-19, leading to increased logistics activities; ii) rising steel prices (although now these have started to normalise); iii) full utilisation of docking yards and iv) limited T&B engine availability

Figure 23: Average market value of motor vessels (Dec 2022)

		Indicative market value (USDm) – bulk carriers					
5-year old vessel		Dec-22 avg.	Nov-22 avg.	± %	2021	2020	2019
Capesize	180k	35.5	36.6	-3.10%	36.6	27.6	30.8
Capesize Eco	180k	43.0	44.0	-2.30%	43.1	36.1	38.8
Kamsarmax	82k	30.5	30.9	-1.20%	29.8	23.2	24.5
Ultramax	63k	28.0	28.9	-3.00%	26.4	19.4	22.6
Handymax	37k	24.0	24.5	-2.00%	21.4	16.1	17.4

Source: Intermodal Weekly Report

- Overall, second-hand motor vessels have had an average rise of 3.5% YoY in market value vs pre-pandemic levels in 2019

Government policy support with regards to cabotage law

Policies on the empowerment of the national shipping industry and regulations on the sector can boost demand and stabilise the activities of the domestic shipping industry, in our view. Supportive policies should also buoy the employment of domestic crews while providing further room for the growth of the industry locally. We believe the Government is still working on improving its policies to advance the domestic shipping industry.

Financial Analysis And Forecasts

Earnings CAGR of 10.5% Over FY22-28F

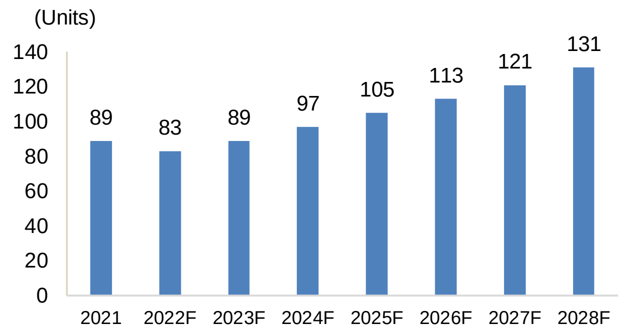
We project PSSI's FY22-28 revenue based on the estimated increase of the time charter equivalent (TCE) rate and also the growth of its fleet. We expect its fleet to expand from 83 units in 2022 to 103 in 2028. For the TCE rate, we divide our calculations between the T&B, MV and FLF segments:

i. For T&B, we assume an increase of 15% YoY in FY22 (due to the limited T&B supply), 5% YoY for FY23-24F, 3% YoY for FY25-27F and 1% YoY for FY28 onwards;

ii. For both the MV and FLF divisions, we assume growth of 5% YoY for FY22-24F, 3% YoY for FY25-27F and 1% YoY for FY28 onwards.

Hence, we expect PSSI revenue and earnings to chart a FY22-28 CAGR of 10.5%, supported by improving margins and consistently well-controlled costs via efficiency upgrades.

Figure 24: PSSI's fleet expansion plan (2022-2028F)



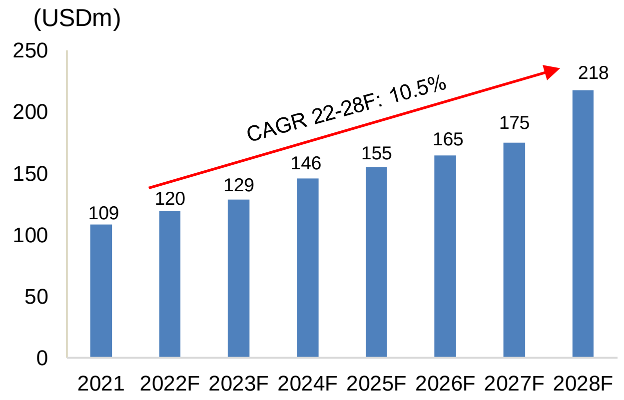
Source: Company data

Figure 25: Assumptions on the TCE growth rate on a yearly base

Growth rate	2022F	2023F	2024F	2025F	2026F	2027F	2028F
T&B TCE	15%	5%	5%	3%	3%	3%	1%
MV TCE	5%	5%	5%	3%	3%	3%	1%
FLF TCE	5%	5%	5%	3%	3%	3%	1%

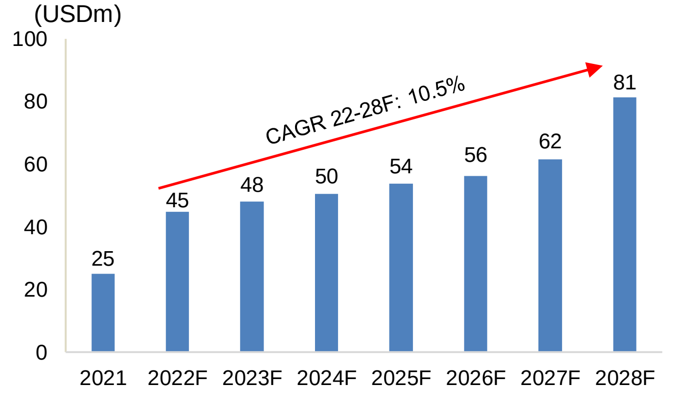
Source: RHB

Figure 26: Revenue trend and forecasts



Source: Company data, RHB

Figure 27: Earnings trend and forecasts



Source: Company data, RHB

9M22 results review

PSSI's 9M22 revenue expanded by 14% YoY. About 28% of 9M22 revenue was contributed by Jembayan Muarabaru and Adimitra Baratama Nusantara. The revenue increase was supported by the rise in the time charter rates for the FLF and MV segments, which grew by 16% YoY. Meanwhile, the increase in the freight charter rate also supported by the increase of 12% YoY in the freight rate, to help offset against the drop in volume transportation. All the three segments recorded growth – especially FLF.

In 9M22, the company also controlled COGS well – this grew by 4% YoY, The increase in the cost of revenue – mainly associated with fuel and oil diesel – was also offset by the decrease in vessel rental expenses. As such, PSSI recorded a decent gross profit margin of 38% and EBITDA margin of 48% for the period.

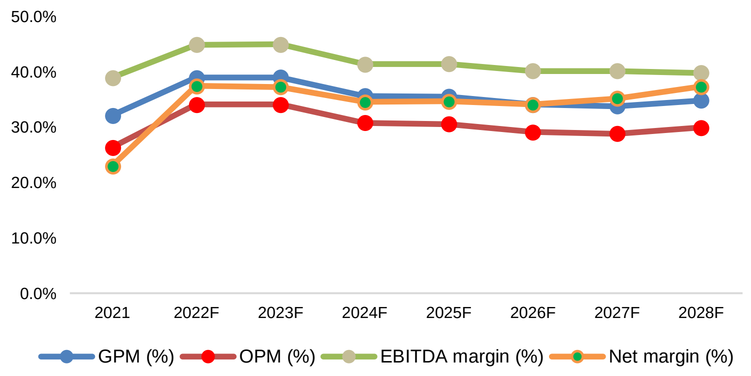
Focusing further on margins

Going forward, PSSI will be focusing more on improving margins. It aims to achieve this by:

i. Managing bunker operation costs;
ii. Managing the combination of rates between freight charters, with a bunker adjustment factor applied to freight rates should fuel costs change dramatically;
iii. Running more time charters, where fuel costs area passed on to the customer – which will help to insulate its business from the volatility in oil prices.

We believe that PSSI will continue to strengthen margins in next two years, before these metrics finally normalise in 2024. After 2023, the company may maintain a threshold of c.40% and c.30% for its EBITDA margins and net margins. With a freight charter-to-time charter ratio of 60:40, fuel costs make up c.17-20% of its total cost of revenue.

Figure 28: Margin trends from 2021 to 2028F

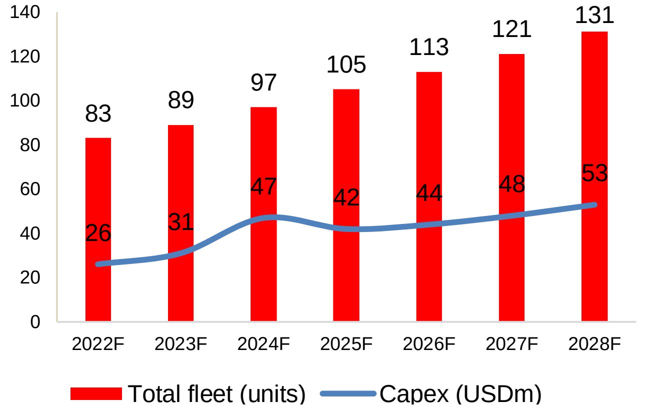


Source: Company data, RHB

Gradual expansion for the next few years

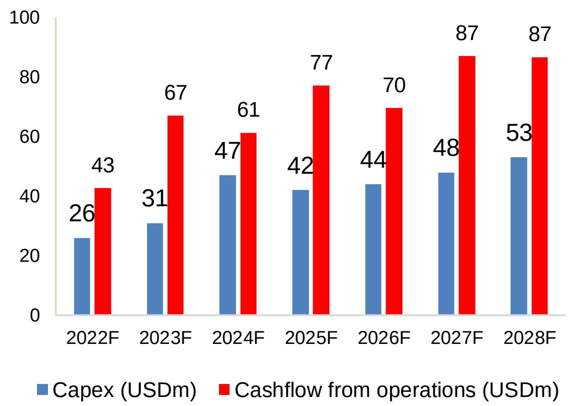
We think PSSI has a fairly sturdy balance sheet at the moment and low debt levels. The company did not provide any background on what type of vessels that it wants to focus on. However, we believe the T&B segment will still be a major driver of growth. On average, PSSI wants to add 6-10 units pa, with the ten units to be added in 2028. Total capex spent could be USD42m (on average) over 2022-2028F. We think that PSSI is still able to finance its capex internally, via historically positive cash flow from operations.

Figure 29: Capex trend and estimated total fleet size



Source: Company data, RHB

Figure 30: Capex and cash flow from operations



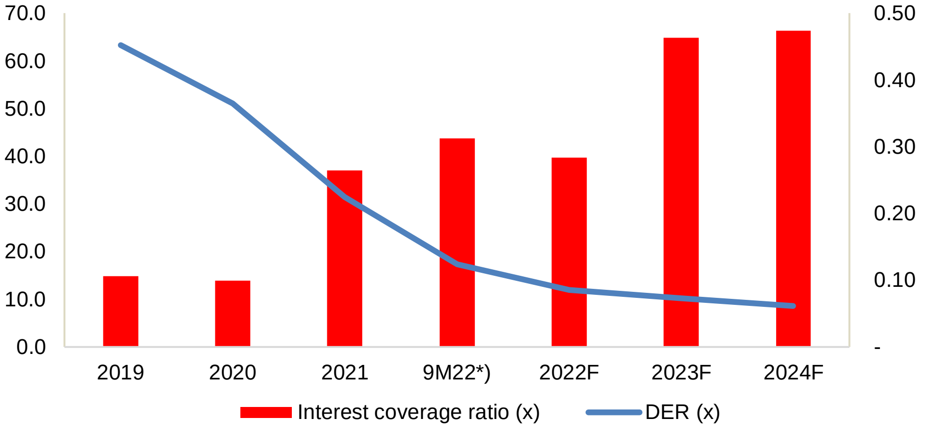
Source: Company data, RHB

Net cash and relatively low debt position

As of 9M22, the company is in a net cash position with a gearing ratio of 0.1x and an annualised interest debt service coverage ratio of 44x. For the past three years, PSSI been shaving down its debts by over USD30m. We still think that it is able to strongly generate additional cash – to ease cash flow as well as maintain its 35% dividend payout ratio for the medium term.

We also believe PSSI will continue to keep a close eye on business and commodity cycles, and will wait for a more opportune time to acquire vessels at reasonable prices.

Figure 31: Interest coverage ratio and debt-to-equity ratio



*Note: *) = Annualised data*
Source: Company data, RHB

Key Risks

Termination of business contracts with customers

We believe that PSSI has good relationships with its customers, but it is not certain that the latter will continue to use PSSI's delivery services in the future. There is no guarantee that PSSI will be able to retain key customers, or that such customers will continue to renew contracts or sign new ones – which may hamper growth. The company mitigates this by prioritising the signing of contracts with a longer time period, offering more attractive services and closely coordinating these. So far, the majority of clients have extended their contracts.

Competition in the shipping industry

Intense competition in the industry is marked by the fierce race for market share. Playing in a crowded field may affect PSSI's ability to finalise contracts. This is because its competitors may also have lower operating costs, more advanced technology, larger capital, more vessels and may be equipped with better resources. However, PSSI does strive to innovate, improve services and offer more competitive prices. It also aims to grow its fleet and routes – which may include international ones, to better compete against rivals.

Economic conditions affect demand for shipping services

The current global economic slowdown may continue to dampen production and demand – which would also keep commodity prices depressed. This, in turn, would greatly affect the demand for PSSI's shipping services. Its main customer is a commodity-based company (focused on coal) that is also vulnerable to volatilities in prices and demand volatility. In the meantime, PSSI closely monitors market conditions and offers some flexibility in balancing its freight and time charter rates to buoy revenue. It also offers some flexibility in long-term contracts, to better adjust to volatilities in commodity demand and supply.

Vessel damage

PSSI's ships may be damaged at sea, resulting in repair costs and the loss of potential income. If the vessel is still under contract, PSSI may even have to rent a similar vessel from a third party to replace its damaged ones (in order to fulfil the contract terms). The company would not only have to pay the cost of repairing the damaged ships, it would also have to pay the cost of moving the damaged ship to the shipyard and returning to the location after the repair is complete. We note that it does carry out periodic maintenance of its ships and equipment, while maintaining a relatively young fleet. All ships are also insured against various risks.

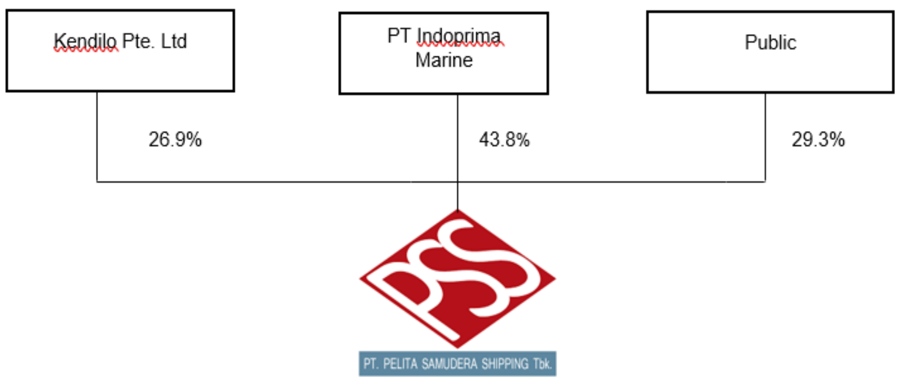
Rising fuel cost

Rising fuel prices will dampen PSSI's gross profit, especially since a significant portion of its services offered are via freight charters. However, some of its contracts have a clause where any increase or decrease in fuel costs would be passed on to the customer.

Company Overview

PSSI, founded in 2007, provides shipping services, especially for miners in Indonesia. It is a member of the IMC Industrial Group (IMC), which provides industrial and maritime solutions for maritime logistics and transportation needs in Asia. PSSI was listed on the IDX on 5 Dec 2017. It provides sea transportation services ranging from T&B vessels, floating cranes, stevedoring ship agency facilities to docking. Currently, it has over 80 vessels in its fleet – and this number is set to grow as it looks to acquire more units, both new and secondhand, to meet demand.

Figure 32: Shareholding structure



Source: Company

PSSI is largely owned by Indoprima Marine (43.8% stake) and is a part of IMC, a leading integrated maritime and industrial solutions provider in dry bulk shipping, industrial logistics, chemical transportation, shipyard and marine engineering, offshore assets and services, consumer logistics and palm oil plantations. It also has extensive experience in integrated shipping in South-East Asia. The remaining holdings are divided between Kendilo and the public.

Figure 33: Company milestones

Year	Description
2007-2010	Founded on 10 Jan 2007 as a limited liability company. Within the timeframe, it also acquired 25 tugboats, 27 barges, four FLF and a floating bulk unloader.
2011-2015	Established its seismic data processing division (the forerunner of Elnusa Geosains Services).
2016	Expanded into several new areas, acquired five more vessels.
2017	Acquired 18 vessels. Listed on the IDX.
2018	Expanded the operating area and acquired two ships.
2019	Acquired seven ships, expanded the operating area and started diversifying from coal transportation.
2020	Entered the international market (ie South-East Asia) and expanded its area of operations.
2021	Added shipping routes to the Persian Gulf to Russia, purchased two ships and established a subsidiary, Pelita Global Logistics.

Source: Company data

Figure 32: Board of Commissioners

Name	Position	Description
Loh Niap Juan 	President Commissioner	Loh Niap Juan is a Singaporean citizen. He graduated from Nanyang Technological University Singapore, majoring in accounting. Loh was appointed as President Commissioner in 2021, and also serves as a Chief Corporate Officer in IMC, and is involved in portfolio investment, governance, and management. He has more than 20 years as a financial practitioner. Previously, he worked in Deloitte London. He also has a chartered accountant qualification from the Institute of Chartered Accountants of England and Wales.
Adi Harsono 	Commissioner	Adi Harsono is an Indonesian citizen. He graduated from Gadjah Mada University Yogyakarta, with a major in nuclear physics. He was appointed as Commissioner in 2017, and is also the managing director of KS Resources (since 2015), chairman of Indonesia Business Association of Shanghai (since 2002), vice-chairman of KADIN Tiongkok Committee (since 2005), senior advisor at Indonesia Chamber in China (since 2016) and vice-chairman at Indonesian Socio Cultural Cooperation Institute in China (since 2005). Previously he was a director at Schlumberger Indonesia in 1993-1998, general manager at Schlumberger China in 2000-2006, general secretary for KADIN Malaysian committee, and vice president for Schlumberger GeoQuest in Houston, the US between 1998 and 1999.
Lilis Halim 	Independent Commissioner	Lilis Halim, an Indonesian citizen, graduated from the University of New South Wales Sydney majoring in Mathematics. She was appointed as Independent Commissioner in 2019. Currently, she is also a member of Nomination and Remuneration Committee in JV Life Insurance (since 2016) and also serves as a commissioner in Tower Watson Indonesia (since 2016). Previously, she was the managing director of Watson Wyatt Indonesia over two periods – 1997-2009 and 2010-2016. She also has Certified Compensation Professional and Global Reward Professional qualifications from WorldatWork in the US.

Source: Company data

Figure 32: Board of Directors

Name	Position	Description
Iriawan Ibarat 	President Director	Iriawan Ibarat is an Indonesian citizen. He graduated from the University of Indiana at Bloomington with a Bachelor of Science degree, then Macquarie University in Sydney, Australia with an MA majoring in marketing management, and the National University of Singapore (NUS) with a Master of Social Sciences majoring applied economics. Iriawan is also a graduate of the NUS Business School, with a Master's degree in technology management. He was appointed as PSSI's President Director in 2015. Currently, he is also Managing Director of IMC's Indonesian arm (and the country head) – and has held this position since 2014. Previously, he was the president director and CEO of Arpeni Pratama Ocean Line (2012-2014) and president director and CEO in Goodyear Indonesia (2006-2012).
Harry Tjhen 	Director	Tjhen, an Indonesian citizen, graduated from California State University in Los Angeles majoring in marketing management. He was appointed as a Director of PSSI in 2015, and also serves as the vice-chairman for investment in Association of Indonesia-China Economic, Social and Cultural Cooperation (since 2017) and vice-chairman of the T&B fleet in Indonesia National Shipowners' Association (INSA) since 2016. Previously, he was the managing director of Trans Pacific Jaya between 2011 and 2014, head of commercial operations in Richland Logistics Indonesia in 2009-2011, and country manager for Indonesia in Goodpack IBC Singapore between 2008 and 2009.
Yolanda Watulo 	Director	Yolanda Watulo is an Indonesian citizen. She graduated from the University of Toronto with a Bachelor's degree in accounting and finance. She was appointed as a PSSI Director in 2017. Previously she served as the general manager of Chandra Asri between 2003 and 2009, vice president in Barito Pacific in 2009-2010, CFO in TCP Internusa over 2010-2011, and a director of Blue Mountain Business and Management Consultancy in 2011-2017.

Source: Company data

Recommendation Chart

Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2022-03-13	Not Rated	na	468

Source: RHB, Bloomberg

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Buy:	Share price may exceed 10% over the next 12 months
Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
Take Profit:	Target price has been attained. Look to accumulate at lower levels
Sell:	Share price may fall by more than 10% over the next 12 months
Not Rated:	Stock is not within regular research coverage

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