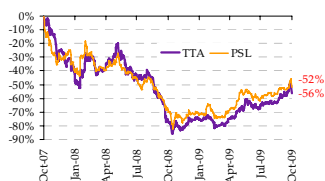


# Dry Bulk Shipping

## Cargo upside from better 2010 steel demand forecast

### Share Price Performance



Source: SET

### Share performances

	1M	3M	12M
<b>Absolute</b>			
PSL	12.9	31.4	74.8
TTA	7.9	25.6	93.4
<b>Relative</b>			
PSL	13.15	12.50	29.78
TTA	8.15	6.70	48.40

Source: SET

- **Upgrade steel use forecast** – With signs of recovery apparent since the onset of 2H09, the World Steel Association has revised its steel use forecast up to a contraction of 8.6% (1,104 mmt) in 2009 from a contraction of 14.1% estimated earlier and growth of 9.2% to 1,206 mmt in 2010, back to 2008 levels. The improvement this year is largely due to the exceptionally strong growth in steel demand in China and 2010 recovery will be driven by European Union (+12%), North America (+17%), and Middle East (+11%).
- **Firmer demand to dry bulkers** – This implies greater demand for major shipping cargoes, including iron ore and coking coal, which together account for ~40% of total dry cargoes and leads us to expect stronger demand for Capesize and Panamax ships. We expect this to be a boost to sector sentiment.
- **Market too worried about tonnage oversupply** – While the amount of cargoes available looks low when taken against current plus upcoming supply of ships, we believe the actual number of ships added to world fleets will be fewer than the market expects because of delays in newbuild deliveries, vessel layups, and cancellations of orders for new ships. Based on 9M09 YTD figures, net supply growth shortfall is 35% annualized, with 20.2mn dwt additions for 9M09 against the initial full year forecast of 41.2mn dwt net additional supply. (Table 2)
- **Reiterate buy TTA** – We reiterate our optimistic view of the direction of the BDI and our Buy recommendation for TTA at PT of Bt31. We believe the current share price offers a good entry point. While the concerns over political stability have pulled TTA down by 11%, greater than the 7% contraction in the SET (since Oct 13), TTA has immaterial earnings risk in the domestic market as only 5% of its cargo tonnage is linked to Thailand.

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### Valuation summary

Rating	Target (Bt)	Price (Bt)	Expected total return (%)	SCBS PBV			SCBS PBV at TP			SCBS PE		
				08	09F	10F	08	09F	10F	08	09F	10F
PSL Sell	20	18.60	8	1.2	1.1	1.1	1.3	1.2	1.2	3.9	5.9	16.4
TTA Buy	31	27.25	14	0.6	0.6	0.6	0.7	0.7	0.7	2.0	11.3	20.0

Source: SCBS Investment Research

Table 1: Steel demand forecast (Oct 12, 2009)

	Apparent Steel Use (mmt)			Growth %		
	2008A	2009F	2010F	2008A	2009F	2010F
European Union	181	122	137	-8%	-33%	12%
Other Europe	25	21	24	-11%	-18%	14%
C.I.S.	49	34	37	-14%	-31%	8%
N.A.F.T.A.	129	83	97	-8%	-36%	17%
Central & South America	44	33	37	7%	-24%	10%
Africa	26	26	29	11%	0%	11%
Middle East	43	39	43	7%	-10%	11%
Asia & Oceania	709	745	802	2%	5%	8%
BRIC	554	626	663	2%	13%	6%
<b>China</b>	<b>443</b>	<b>526</b>	<b>553</b>	<b>3%</b>	<b>19%</b>	<b>5%</b>
World	1,207	1,104	1,206	-1%	-9%	9%
<b>World excl. China</b>	<b>764</b>	<b>577</b>	<b>653</b>	<b>-4%</b>	<b>-24%</b>	<b>13%</b>

Source: The World Steel Association, SCBS Investment Research

**Table 2: Net supply shortfall**

	Delivered		Demolition		Net growth	
	No.	DWT (mn)	No.	DWT (mn)	No.	DWT (mn)
Jan	49	3.36	22	1.16	27	2.19
Feb	33	2.43	24	0.83	9	1.60
Mar	28	2.10	15	0.78	13	1.32
Apr	41	3.31	7	0.25	34	3.07
May	24	1.54	18	0.89	6	0.66
Jun	42	3.61	3	0.11	39	3.50
Jul	48	4.52	-	-	48	4.52
Aug	35	2.10	2	0.05	33	2.06
Sep	16	1.52	6	0.03	10	1.26
9M09	316	24.50	97	4.09	219	20.17
2009F (as of Jan 2009)						41.20
<b>Net shortfall (annualized rate)</b>						<b>-35%</b>

Source: Fearnley Fleet Update, Clarkson, SCBS Investment Research