

Foundation Alert

PNSC: Analyst Briefing Takeaways

Event

- Pakistan National Shipping Corporation (PNSC PA) held its Analyst briefing yesterday to discuss its financial/operational performance for FY22 and future outlook of the company. Following are the key takeaways of the briefing.

Impact

- PNSC is principally engaged in the business of shipping, including charter of vessels, transportation of cargo and other related services. The company is also engaged in renting out its properties to tenants under lease arrangements. Currently, company is undertaking 3 main operations (1) Fleet maritime operations (including transportation of dry bulk cargo, liquid bulk cargo, NVOCC services and Slot charter Service), (2) real estate management (commercial buildings) and (3) workshops (marine repair and maintenance).
- PNSC has record current deadweight tonnage capacity of 1.5mn ton, whereas current fleet strength is of 13 vessels of which 8/5 are tanker/bunker type.
- Pakistan National Shipping Corporation (PNSC PA) consolidated profitability clocked in at Rs5.7bn (EPS of Rs42.78, up 150% YoY) in FY22 versus profit of Rs2.2bn (EPS Rs17.14) in FY21.
- Management attributes increase in profitability to (1) induction of two new tanker vessels M.T. Mardan/M.T. Sargodha which resulted in an increased liquid cargo weight capacity by 214,246 MT, (2) average growth in AFRA scale from 86 to 116, (3) increase in average Baltic Dry Index rate up 61% YoY to 2,960 in FY22 from 1,839 in FY21 and (4) growth in World scale index from 4.98 to 5.29. However, bottom line growth was restricted by loss on financial assets and taxation charge.
- PNSC revenue increased by 117% YoY in FY22 to 27.7bn of which liquid bulk/dry bulk/slot charter contributes 71.4/18.4/9.1%. Management attributes increase in revenue to higher freight charges, whereas PKR devaluation impact is 12%.
- PNSC recently inducted Aframax crude oil tankers into its fleet. Regarding further capex, management intends to add one Aframax crude oil tanker, one IMO type-II tanker and one ultra Max bulk carrier to be financed with internal sources.
- Management also shared that company gross margins/net margins increased by 7.0/2.0ppt YoY to 29/20% in FY22 and disclosed that apart from aforementioned price/volume factors further support to profitability came from dividends and rental income from other investments.
- PNSC management also discussed significant increase in other operating expenses and disclosed that expenses increased due to higher provision for WPPF and WWF given better profitability of the company and provision booked on account of slow moving stores & repairs (Rs182.8mn).
- According to management, bulk carrier markets have softened in short run, as easing port congestion and a slowdown in newbuilding demand due to fears of a global economic recession have had significant impacts as it will put downward pressure on freight rates and asset prices.
- Management also informed tanker market conditions are currently very strong which have been driven by a range of demand factors, including (1) rebounding oil production in key regions as impact of COVID has subsided, and (2) shifts to longer-haul trade flows as a result of impact both from the Ukraine conflict and shifts in refinery capacity.

- PNSC may be prone to challenges including (1) oversupply in dry bulk/tanker segment, (2) instability of oil/bunker prices, and (3) higher cost of operations.

Outlook

- The stock is not under our formal coverage.

Table 1: PNSC - Financial Highlights

Rs in mn	1QFY23	1QFY22	YoY	FY22	FY21	YoY
Revenue	14,431	4,700	207%	27,714	12,789	117%
Expenditure	8,157	3,749	118%	19,713	9,917	99%
Gross Profit	6,274	952	559%	8,001	2,871	179%
Administrative expenses	349	252	38%	1,217	1,035	18%
Loss/(reversal) on financial assets	230	-	na	930	(284)	na
Other expenses	322	49	561%	423	217	95%
Other income	669	218	207%	1,396	1,094	28%
Operational Profit	6,041	869	596%	6,828	2,999	128%
Finance costs	295	120	146%	531	558	-5%
PBT	5,746	748	668%	6,297	2,441	158%
Taxation	358	113	217%	647	177	265%
PAT	5,388	635	748%	5,650	2,264	150%
EPS	40.80	4.81		42.78	17.14	
Gross Margin	43%	20%		29%	22%	
Net Margin	37%	14%		20%	18%	
Effective tax rate	6%	15%		10%	7%	

Source: Company account, Foundation Securities, November 2022

Analyst

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About the Company

The national flag carrier of Pakistan, trading under the name of Pakistan National Shipping Corporation (PNSC) is engaged in transportation of dry bulk and liquid cargoes globally. PNSC is an autonomous corporation, which functions under the overall control of the Ministry of Maritime Affairs, Government of Pakistan. It manages a fleet of 13 ships, real estate and a repair workshop. Company fleet is a mix of double hull Aframax tankers, LR-1 Product tankers, Panmax bulk carriers, Supramax, Handymax and Handysize bulk carriers, all of modern vintage, having a total carrying capacity of over 1,045 thousand tonnes of deadweight.

PNSC transport all type of cargoes on several geographical routes covering almost entire world. Company Handymax and Handysize dry bulk carriers carry iron and steel products, fertilizers, minerals, forest products, ores, bauxite, alumina, cement and other construction materials. PNSC Panamax dry bulk carriers carry coal and iron ore for energy and steel production as well as grain for feedstocks. Company vessels contribute to worldwide sea borne trade in a multitude of trade routes and carry wide range of cargoes for a number of traders and charterers of international repute. Company vessels are being operated by highly qualified and competent professionals.

Auditors: Grant Thornton Anjum Rahman, Chartered Accountants
Yousuf Adil, Chartered Accountants

Table 2: PNSC Fleet

	No. of Ships
Aframax Tankers	6
LR-1 Product Tankers	2
Bulk Carrier	5
Total	13
Dead Weight Tonnage (DWT)	1,045,957

Source: PSX, Foundation Research, November 2022

Subsidiaries:

PNSC has following subsidiary companies:

- Bolan Shipping (Private) Limited
- Chitral Shipping (Private) Limited
- Hyderabad Shipping (Private) Limited
- Pakistan Marine and Shipping Services Company (Private) Limited [Formerly Islamabad Shipping (Private) Limited]
- Khairpur Shipping (Private) Limited
- Johar Shipping (Private) Limited
- Lalazar Shipping (Private) Limited
- Makran Shipping (Private) Limited
- Malakand Shipping (Private) Limited
- Multan Shipping (Private) Limited
- Sargodha Shipping (Private) Limited
- Shalamar Shipping (Private) Limited
- Sibi Shipping (Private) Limited
- Swat Shipping (Private) Limited
- National Ship Management and Crewing (Private) Limited [Formerly Kaghan Shipping (Private) Limited]
- Pakistan Co-operative Ship Stores (Private) Limited
- Lahore Shipping (Private) Limited [Formerly Pak Nippon Car liner (Private) Limited]
- Karachi Shipping (Private) Limited [Formerly National Tanker Company (Private) Limited]
- Quetta Shipping (Private) Limited

Table 3: Board of Directors and Key Management

Board of Directors

Rear Admiral Jawad Ahmed SI(M)	Chairman/ Chief Executive Officer
Mr. Asad Rafi Chandna, Additional Secretary, Ministry of Maritime Affairs	Director
Mr. Muhammad Anwer, Additional Secretary Finance(Corporate Finance), Finance Division	Director
Ms. Alia Shahid, Director General (Ports & Shipping, Ministry of Maritime Affairs)	Director
Mr. Muhammad Ali	Director
Mr. Ahsan Ali Malik	Director
Capt. Sarfaraz Inayatullah	Director

Key Management

Rear Admiral Jawad Ahmed SI(M)	Chief Executive Officer
Mr. S. Jarar Haider Kazmi	Chief Financial Officer
Mr. Muhammad Javid Ansari	Company Secretary

Source: PNSC, Foundation Research, November 2022

Important disclosures:

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Recommendations definitions

If	
Expected return >+10%	Outperform.
Expected return from -10% to +10%	Neutral.
Expected return <-10%	Underperform.