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Avoiding Sins, and Pirates

Thailand's Precious Shipping has sailed through the economic crisis while rivals have capsized. Credit the Hashim brothers' cautious management. By Susan J. Cunningham



PETER CHARLESWORTH / ONASIA FOR FORBES

AS THE GLOBAL RECESSION CHOKES OFF TRADE finance and slashes the volume of exports and imports, at least 11 big shipping lines have filed for protection from their creditors since October. But Thailand's Precious Shipping has been riding out the storm. That's made Managing Director Khalid Hashim one of the go-to guys when shipping reporters seek analysis. He refers them to his "seven cardinal sins." Doomed shipowners have committed all or most of them. Not paying off loans early and failing to sell any ships in the past four years are two of them. Then there's speculating that freight

rates would remain high long enough to make a killing.

Needless to say, Hashim isn't guilty of any of them. His 22-year-old dry-cargo carrier ended last year with a net profit of \$148 million, up 5% from 2007. Revenue, at \$259 million, was roughly flat last year. But in the first quarter of this year net profit fell \$9 million to \$24 million. And Raenoo Bhandasukdi, a Capital Nomura analyst in Bangkok, expects net profit for the year to reach only \$83 million. She has a sell recommendation on the stock. As Hashim puts it, "An absolutely diabolical macroeconomic environment [is] hammering the demand side of our business. Prospects over the next 12 months look extremely poor."

The benchmark Baltic Dry Index has been charting the carnage. It touched a two-decade low of 663 in December after sinking 94% from its all-time peak of 11793 on May 20 of last year. One factor: a 15% to 20% drop in China's demand for iron ore in the last few months of last year, probably because it was allowing inventories to run down. But by January and February China was importing again, and the index, which sizes up rates on the spot market for chartered ships, has rallied to the 2000 level.

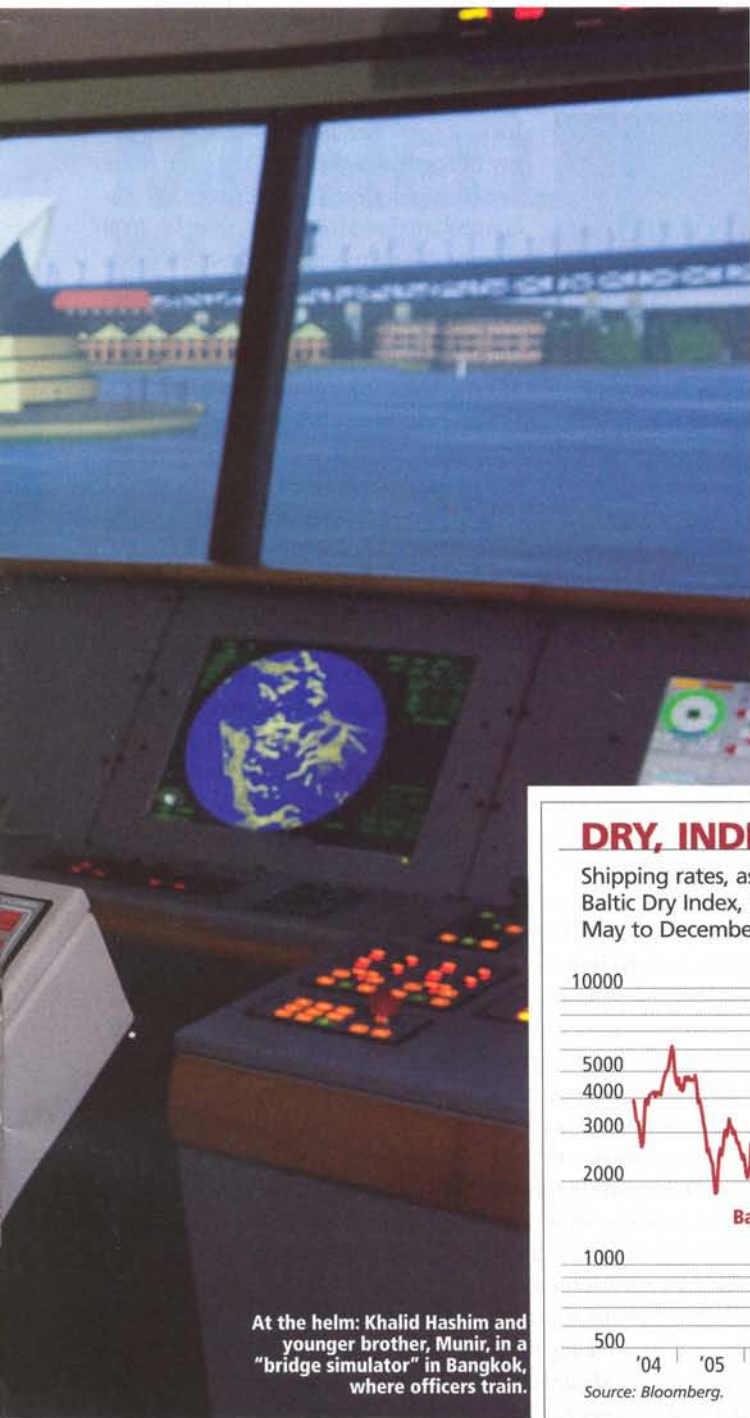
As the index moves, so does the value of shipping stocks and the underlying value of the vessels. So PSL's market capitalization has fallen from \$1 billion early last year to \$450 million now.

PSL is pretty much a pure play on the shipping industry. It charters out handy-size vessels, the smallest of the dry bulk carriers at 10,000 to 30,000 deadweight tons. They haul coal, cement, steel, ores, timber, fertilizer and grains all over the world in 36 ships, down from 44 for most of last year after the sale of aged 20-something-year-olds. PSL accounts for 1.5% of the worldwide fleet and is the world's third-largest handy-size owner.

A half dozen or so PSL ships pass through the pirate-infested seas off Somalia and Yemen each month, but none have been attacked, much less seized and held for ransom. Although crews have spotted suspected pirates a few times, so far "we have been fortunate," says Hashim. PSL has hired a security team that comes on board for

transit across the Gulf of Aden, providing training and boosting the crew's confidence. When a captured ship has been released, it is assumed that a ransom has been paid. If the worst happens, he says, PSL would probably make the same choice.

During the years when the Baltic index was at its most buoyant, PSL had a reputation among analysts for very conservative management—too conservative for some. "If you want a more speculative investment," he sniffed a year ago, "please go to a casino. If you want stable long-term returns, invest in our company." Hashim's strategy was to lock in chartering rates for its ships for as far ahead as possible. His motto: "Always have a forward book." Last year PSL locked 72% of the days that each of its ships sailed into long-term contracts; this year, the figure is 61%. Daily earnings last year of \$16,500 a ship had never been better. But



At the helm: Khalid Hashim and younger brother, Munir, in a "bridge simulator" in Bangkok, where officers train.

DRY, INDEED

Shipping rates, as measured by the Baltic Dry Index, plunged 94% from May to December last year.



Source: Bloomberg.

Precious Shipping

ships of similar size owned by rivals with more flexibility—such as slightly larger Thoresen Thai Agencies—were able to take advantage of spot rates that were sometimes \$10,000 and more than that a day, at least until rates collapsed in the last quarter of the year.

Hashim, 55, learned his conservatism the hard way as PSL struggled through the 1997 Asian economic crisis, “which actually lasted until 2002,” he says. Like many Thai companies, it was forced to restructure its loans with Thai and foreign banks and found it impossible to get credit. The only way to raise cash was to sell 20 ships. “Our strategy has always been on the conservative side, but since the 1997 crisis, we have increasingly become more conservative in our outlook,” he says.

One of the main lessons he drew from the 1997 crisis concerns borrowing. His rule: He must get at least 8 years to repay, and preferably as long as 10 to 12 years. And he must always have the option to repay early without penalty.

PSL was the brainchild of a Bangkok commodities trader, Kirit Shah, whose daughter Nishita and the rest of the family now owns 42%. Hashim and his younger brother, Munir, who today is PSL’s executive director, met Shah when they were still in their 20s and working for the Maldives national shipping line in Singapore. It was 1983 and Shah was fed up with charter operators vanishing with his precious cargo, which was often worth more than the ships themselves. After the Mumbai-born brothers helped him retrieve a wayward shipment, Shah got the idea of starting his own chartering service, thereby having the captains of the ships answer directly to him.

Khalid Hashim was skeptical, but Shah made him an offer too attractive to refuse and he quit his job and moved to Bangkok. They launched the chartering service under Shah’s 140-year-old G Premjee (today GP) commodities group and quickly turned a profit. As Thailand began a decade of double-digit growth, Hashim and his brother built the company into a shipping powerhouse. Shah never played a hands-on role, but it was his idea to enter an even less likely, more risky business: owning ships himself. In 1987 the Hashims found a secondhand Japanese handy-size ship for \$1.7 million in cash. The brothers bought almost half the shares in that first ship. As more ships were added, Shah encouraged his employees to purchase shares and in the early days even gave advances on salaries for the purpose. By the time Precious Shipping listed on the Stock Exchange of Thailand in 1993, the Hashims and many others were already dollar millionaires. Together the brothers today own 17.5% of PSL’s shares.

Growing to 48 ships, PSL was very profitable right up until the July 1997 crash of the baht. Freight rates and imports into much of Asia crashed as well. But by 2003 PSL was making money again and the Baltic Dry Index was beginning its unprecedented, China-fueled upswing. The company borrowed \$260 million to buy 24 ships

but repaid the loans in two years, seven years ahead of schedule. (Thereby avoiding one of Hashim’s cardinal sins.) Then the index collapsed suddenly last year. “Sept. 15 was the defining date, the day Lehman Brothers filed for bankruptcy,” Hashim says. “I feel strongly that everyone panicked. Lack of trade finance kills demand.”

In the first sign of trouble, a Dubai bank told one of PSL’s customers with a valid letter of credit that it did not have the funds to pay him. In the following months Hashim continued to hear of L/Cs canceled, recalled or not accepted. “The L/C situation has gotten much better than what it was in the fourth quarter,” he says. “But it is not back to normal.” What’s more, earlier this year two of his credit lines were slashed by a total of \$150 million.

But this doesn’t seem to have thrown a wrench into Hashim’s

longstanding plans to rejuvenate his fleet. If his luck continues, his son—now at university in Scotland—will be at the helm some day. Hashim still has a credit line of \$350 million and another \$100 million from his 2008 balance sheet. Probably next year the funds will be used to buy roughly 25 secondhand ships that are 5 to 12 years old. Prices are two-thirds less than a year ago. He’s also ordered 18 new ships now under construction in Gujarat. “He was under a lot of pressure from analysts to buy new ships,” recalls Kim Eng analyst David Bella. “When he finally did order them, he set late delivery dates [starting at the end of 2009].”

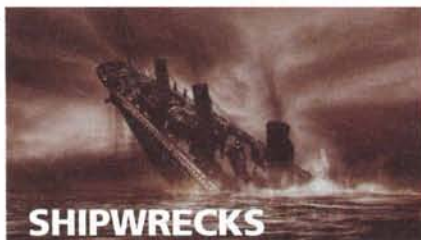
PSL plans to pick up spending money in the next 18 months by selling 19 of its oldest ships. At scrap prices of roughly \$3 million a ship, the proceeds from these ships would amount to \$50 million to \$75 million.

The silver lining of the industry’s woes is a drastic cut in the number of new ships previously expected to enter service. Owners are canceling orders, banks are canceling loans. Then there are the shipowners with orders for ships that have filed for bankruptcy

court protection. For surviving shipowners, though, it means that when demand revives, freight rates will be higher.

Hashim shares the prevailing industry outlook that freight rates won’t start to recover until at least the latter half of 2010. The effect on rates from the Chinese iron imports earlier this year won’t continue because Chinese demand for steel is expected to slip 5% this year, and worldwide steel demand is expected to drop 15%, according to the World Steel Association. It expects a mild recovery next year.

Unlike some of the very large cargo carriers, handy-size vessels enjoy a cushion from the demand for agricultural products from developing countries. But ultimately, Hashim says, “shipping derives its fortunes from the growth in world GDP. Once the banks start lending normally, the common man will have enough change in his pockets to start doing things normally and the pent-up demand for urbanization and infrastructure development will take off once again. That is the trigger point that we will be looking for.”



SHIPWRECKS

At least 11 big shipping lines have filed for bankruptcy court protection since October.

Armada Singapore/Singapore

Atlas/Denmark

Britannia Bulk/U.K.

C & Group/South Korea

Great Ocean Container Line/Hong Kong

Industrial Carriers/Ukraine

Nepline/Malaysia

Parkroad/South Korea

Samsun Logix/South Korea

Senator Lines/Germany

U.S. Shipping Partners/U.S.

Sources: Lloyd’s; Marine Money; court filings.