

GE Shipping (GESHIP)

Rs 285

WHAT'S CHANGED...

PRICE TARGET Changed from Rs 387 to Rs 334
 EPS (FY11E) Changed from Rs 37.9 to Rs 36.7
 EPS (FY12E) Changed from Rs 54.9 to Rs 45.4
 RATING..... Strong Buy to Buy

Subdued performance...

Great Eastern Shipping (GE) reported subdued results in the current quarter mainly led by sharp correction in crude tanker and product carrier freight rates as majority of its fleet consists of crude and product carriers. Extra-ordinary gains of Rs 84.6 crores on account of profit on sale of ship and gain on foreign currency transaction helped to boost the bottomline. Due to challenging business environment, operating performance of the company would continue to be volatile and subdued in the near term.

Operating performance deteriorates led by drop in crude carrier rates

GE reported 16% q-o-q drop in topline in Q1FY11 at Rs 644.3 crores as against Rs 766.7 crores in Q4FY10. The main factor contributing to the drop in topline was the sharp correction in crude tanker and product carrier freight rates. The company reported an average TCY of \$ 20444 for crude carriers, \$ 15485 for product carriers and \$ 24484 for dry bulk carriers. The company reported a sharp rise in interest costs from Rs 46.4 crores in Q4FY10 to Rs 93.1 crores in Q1FY11 on account of rise in average cost of debt by issuing non convertible debentures at ~ 9.5% interest rate and exchange rate impact. The company posted PAT of Rs 171.8 crores which was 10.3% higher on q-o-q basis but it included extraordinary gain on sale of ship and gain on foreign currency transaction of Rs 44.1 and Rs 40.5 crores respectively. Excluding the above two extraordinary items the operating performance for the company has been subdued.

Valuation

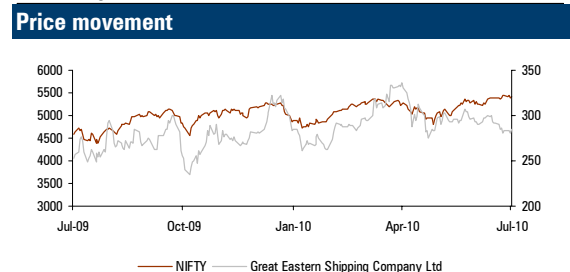
The company is ramping up its fleet (especially in offshore segment), which will be scaled up to 27 vessels and total fleet size would rise to 74 vessels in FY12. Scaling up of fleet along with improvement in tanker freight rates is likely to result in improvement in performance over the next one year. We have valued GE on multiple valuation parameters and recommend **BUY** with price target of Rs 334.

Rating matrix	
Rating	: Buy
Target	: Rs 334
Target Period	: 12 months
Potential Upside	: 17 %

Key Financials				
(Rs Crore)	FY09	FY10	FY11E	FY12E
Net Sales	3800.8	2856.5	3194.7	3687.5
EBITDA	1662.1	959.5	1158.1	1475.0
Net Profit	1407.6	512.8	558.5	691.9

Valuation summary				
	FY09	FY10	FY11E	FY12E
PE (x)	3.1	8.5	7.8	6.3
Target PE (x)	3.6	9.9	9.1	7.4
EV to EBITDA(x)	3.8	8.3	7.1	5.6
Price to book (x)	0.8	0.8	0.7	0.7
RoNW (%)	26.9	9.0	9.1	10.4
RoCE (%)	12.7	4.8	6.5	8.7

Stock data	
Market Capitalisation	Rs 4340.3 Crore
Debt(FY10)	Rs 5370.2 Crore
Cash(FY09)	Rs 1743.9 Crore
EV	Rs 7966.6 Crore
52 week H/L (Rs)	345 / 227
Equity capital	Rs 152.3 Crore
Face value	10.0
MF Holding (%)	12.7
FII Holding (%)	12.6



Analyst's name	
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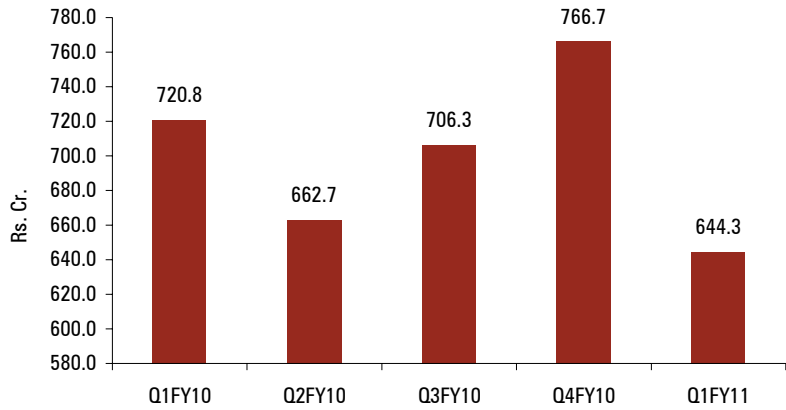
Exhibit 1: Financial Performance

	Q1FY11	Q1FY11E	Q1FY10	Q4FY10	YoY Gr. (%)	QoQ Gr.(%)
Net Sales	644.3	727.7	720.8	766.7	-10.6	-16.0
EBITDA	261.4	270.5	256.7	335.1	1.8	-22.0
EBITDA Margin (%)	40.6	37.2	35.6	43.7	500 bps	(310 bps)
Depreciation	104.7	120.1	96.1	111.3	9.0	-5.9
Interest	93.1	53.8	44.6	46.4	108.7	100.5
Reported PAT	171.8	136.8	154.2	155.7	11.4	10.3
EPS (Rs)	11.3	8.9	10.1	10.2	11.8	10.6

Source: Company, ICICIdirect.com Research

Topline registered 16% drop on account of correction in crude tanker and product carrier rates

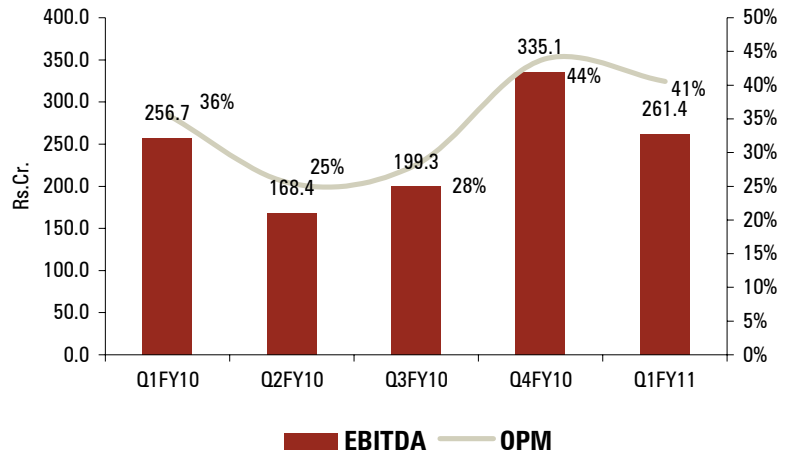
Exhibit 2: Topline performance



Source: Company, ICICIdirect.com Research

EBITDA margin contracted to 41% in Q1FY11 from 44% in the previous quarter

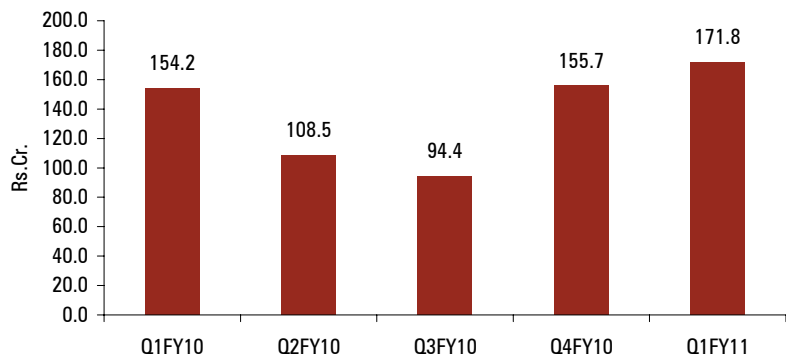
Exhibit 3: EBITDA performance



Source: Company, ICICIdirect.com Research

GE posted PAT of Rs 171.8 crores which also included extra ordinary gains of Rs 84.6 crores on account of profit on sale of ship and exchange gains.

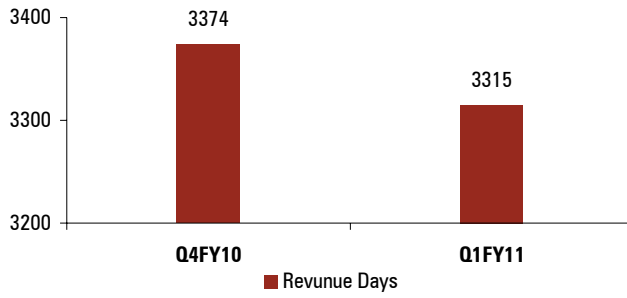
Exhibit 4: PAT performance



Source: Company, ICICIdirect.com Research

Exhibit 5: Revenue days – Registers a drop

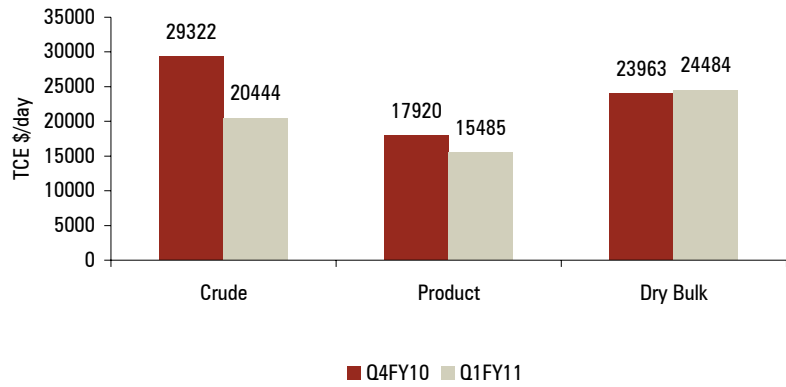
Revenue days dropped from 3374 days in Q4FY10 to 3315 days in Q1FY11



Source: Company, ICICIdirect.com Research

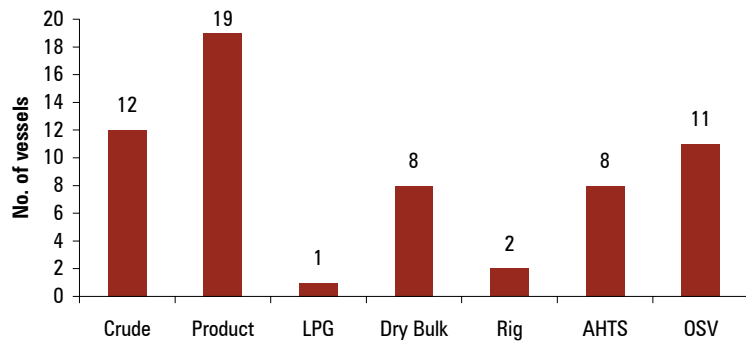
Exhibit 6: Average TCE \$ per day

Crude oil tanker rates declined by 30.3% q-o-q while product carrier rates declined by 13.6% q-o-q however dry bulk freight rates rose by 2.2% over the same period.



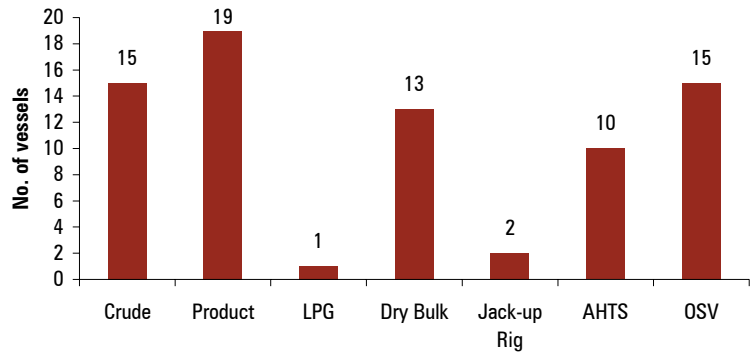
Source: Company, ICICIdirect.com Research

Exhibit 7: Present Fleet



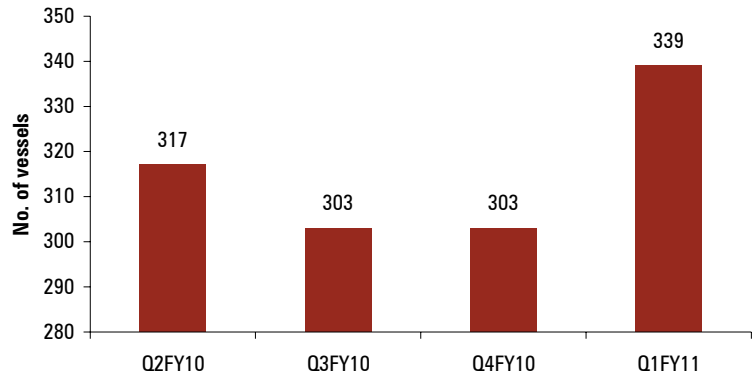
Source: Company, ICICIdirect.com Research

Exhibit 8: Fleet in FY12 post expansion



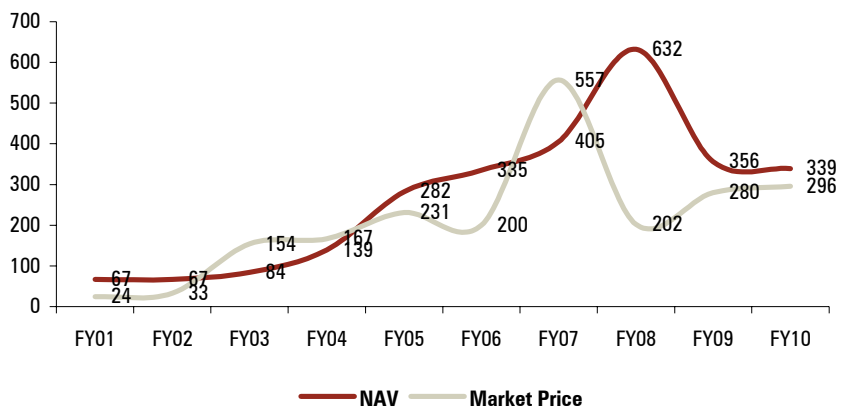
Source: Company, ICICIdirect.com Research

Exhibit 9: Net Asset Value – Rises on account of rise in tanker/product carrier prices



Source: Company, ICICIdirect.com Research

Exhibit 10: Net Asset Value - Market Price Chart



Source: Company, ICICIdirect.com Research

The company is ramping up its fleet (especially in offshore segment), which will be scaled up to 27 vessels and total fleet size would rise to 74 vessels in FY12. Scaling up of fleet along with improvement in tanker freight rates is likely to result in improvement in performance over the next one year. We have valued GE on multiple valuation parameters and recommend **BUY** with price target of Rs 334.

Exhibit 11: Valuation parameters

Valuation based on	Global average	Target multiple	Target price(Rs)
PE multiple (x)	8.98	6.00	272
Price to book value (x)	1.04	0.90	395
Average target price (Rs.)			334
Current market price (Rs)			285
Upside (%)			17.0

Source: Company, ICICIdirect.com Research

Exhibit 12: Valuation

	Sales (Rs. cr)	Sales Growth (%)	EPS (Rs.)	EPS Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY10	2856.5	-24.8	33.7	-63.8	8.5	8.3	9.0	4.8
FY11E	3194.7	11.8	36.7	8.9	7.8	7.1	9.1	6.5
FY12E	3687.5	15.4	45.4	23.9	6.3	5.6	10.4	8.7

Source: Company, ICICIdirect.com Research

Exhibit 13: Revised Estimates

	Old		New	
	FY11E	FY12E	FY11E	FY12E
Sales	3232.9	3800.8	3194.7	3687.5
EBITDA	1193.0	1539.3	1158.1	1475.0
Net Profit	577.0	835.4	558.5	691.9
EPS	37.9	54.9	36.7	45.4

Source: Company, ICICIdirect.com Research

ICICIdirect.com coverage universe (Shipping)

					Sales (Rs. Crore)	EPS (Rs.)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
ESPLL										
Idirect Code	ESSSHI	CMP (Rs.)	83	FY10	3000.5	1.5	52.6	12.4	1.2	3.7
		Target (Rs.)	93	FY11E	3416.7	2.9	89.5	11.8	0.9	3.7
MCap	5111.1	% Upside	12	FY12E	4511.0	6.7	20.9	9.0	3.3	5.2
G.E Shipping										
Idirect Code	GESHIP	CMP (Rs.)	285	FY10	2856.5	33.7	8.5	8.3	9.0	4.8
		Target (Rs.)	334	FY11E	3194.7	36.7	7.8	7.1	9.1	6.5
MCap	4332.0	% Upside	17	FY12E	3687.5	45.4	6.3	5.6	10.4	8.7
Mercator Lines										
Idirect Code	MERLIN	CMP (Rs.)	46	FY10	1808.7	2.2	20.9	4.8	2.3	5.3
		Target (Rs.)	61	FY11E	1826.2	1.3	35.4	4.7	1.3	4.6
MCap	1085.6	% Upside	33	FY12E	2103.8	5.0	9.2	3.3	4.9	6.4
SCI										
Idirect Code	SCI	CMP (Rs.)	161	FY10	3485.6	7.9	20.4	15.7	5.3	5.9
		Target (Rs.)	159	FY11E	3590.9	8.5	18.9	14.5	5.6	6.0
MCap	6818.4	% Upside	-1	FY12E	3738.8	7.3	22.1	11.2	4.7	5.4
Varun Shipping										
Idirect Code	VARSHI	CMP (Rs.)	40	FY10	666.2	0.8	52.5	12.9	1.5	0.1
		Target (Rs.)	36	FY11E	667.7	-	-	11.0	-	1.0
MCap	600.0	% Upside	-10	FY12E	734.7	-	-	8.2	-	3.5
Aban Offshore										
Idirect Code	ABALLO	CMP (Rs.)	878	FY10	3358.7	71.5	12.3	8.4	14.3	10.0
		Target (Rs.)	884	FY11E	3527.6	83.3	10.5	6.9	14.5	11.9
MCap	3318.8	% Upside	1	FY12E	3627.5	190.3	4.6	6.2	25.3	12.7
Garware Offshore										
Idirect Code	GARSHI	CMP (Rs.)	127	FY10	163.2	17.8	7.1	9.1	15.4	7.9
		Target (Rs.)	182	FY11E	232.3	17.4	7.3	7.8	16.2	9.3
MCap	302.3	% Upside	43	FY12E	234.7	21.1	6.0	7.4	14.4	9.2
Great Offshore										
Idirect Code	GREOFF	CMP (Rs.)	412	FY10	1172.7	54.6	7.5	7.5	19.4	12.2
		Target (Rs.)	468	FY11E	1198.9	39.7	10.4	5.7	17.8	11.1
MCap	1528.5	% Upside	14	FY12E	1515.9	69.3	5.9	4.4	20.0	15.1
ABG Shipyard										
Idirect Code	BHASHI	CMP (Rs.)	237	FY10	1812.4	42.8	5.5	7.2	19.6	13.3
		Target (Rs.)	239	FY11E	2307.8	41.7	5.7	6.0	17.2	13.8
MCap	654.1	% Upside	1	FY12E	2452.0	43.0	5.5	5.4	15.7	13.7
Bharati Shipyard										
Idirect Code	BHASHI	CMP (Rs.)	228	FY10	1349.0	47.4	5.0	8.3	16.0	10.3
		Target (Rs.)	327	FY11E	1334.1	55.6	4.3	7.6	10.1	10.1
MCap	629.3	% Upside	43	FY12E	1287.2	74.5	3.2	7.4	8.4	9.7

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 Buy: Between 10% and 20%;
 Add: Up to 10%;
 Reduce: Up to -10%
 Sell: -10% or more;

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