

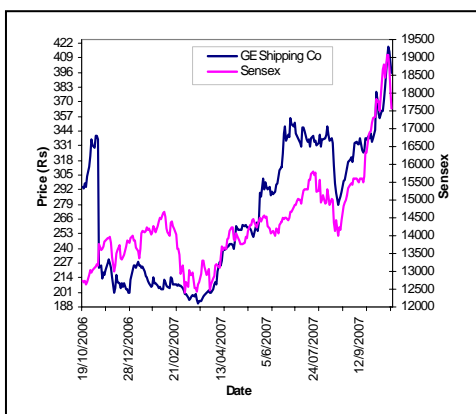
GE Shipping

CMP: Rs396
Buy
**Target Price: Rs472
(12 Months)**
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Sector	Shipping
Market Cap (Rs cr)	6,025
Beta	0.3
52 WK High / Low	438/185
Avg Daily Volume	311515
Face Value (Rs)	10
BSE Sensex	17,560
Nifty	5,215
BSE Code	500620
NSE Code	GESHIPPING
Reuters Code	GESC.BO
Bloomberg Code	GESCO IN

Shareholding Pattern (%)

Promoters	29.5
MF/Banks/Indian FIs	21.6
FII/ NRIs/ OCBs	20.0
Indian Public	28.9

Share Price Vs Sensex


Q2FY2008 Result Update

Performance Highlights

- Topline grew 15%:** For Q2FY2008, GE Shipping registered 15.2% yoy growth in Revenue to Rs601.3cr (Rs522.2cr) on the back of increased revenue days and doubling of dry bulk rates. The company had most of its fleet on period charter. Hence, the negative impact of drop in tanker freight rates was minimised. Revenue days rose 15% yoy to 4,303 days. Of the total fleet of 48 ships, the company had 75% tankers and 25% dry bulk carriers.
- Operating Margins decline by 464bp:** EBITDA Margins for Q2FY2008 declined by 464bp to 46.2% (50.9%). The decline was mainly on account of higher expenditure related to repair and maintenance, which increased 112% yoy. Dry docking expense for the quarter stood at Rs42cr (Rs12cr). This also affected revenues as the non-operational days increased to 181 (95) days. Staff costs increased 36% and Other Expenses increased 42% yoy mainly on account of increase in fleet from 39 vessels to 48 vessels.
- Net Profit surged 46%:** GE Shipping reported 45.6% yoy rise in Net Profit to Rs342.8cr (Rs235.5cr) on the back of higher Other Income and gains from sale of ship. Other Income increased 194% to Rs89cr (Rs30.2cr). However, the rise was mainly on account of foreign exchange gains of Rs48.7cr. Gains from sale of ship increased 199% to Rs115.8cr.

Exhibit 1: Key Financials

Y/E March (Rs cr)	FY2006	FY2007	FY2008E	FY2009E
Net Sales	2,036.1	2,166.0	2,545.3	2,934.1
% chg	(4.5)	6.4	17.5	15.3
Net Profit	852.1	912.4	1,265.0	1,266.1
% chg	1.8	7.1	38.6	0.1
Diluted EPS (Rs)	54.2	58.0	80.4	80.5
EBITDA Margin (%)	46.0	49.3	47.6	48.9
P/E (x)	7.3	6.8	4.9	4.9
P/CEPS (x)	5.3	5.1	3.7	3.7
RoE (%)	35.7	29.7	31.1	24.7
RoCE (%)	23.2	20.0	22.8	20.5
P/BV (x)	2.5	2.0	1.5	1.2
EV/Sales (x)	3.2	3.3	2.8	2.1
EV/EBITDA (x)	7.0	6.7	5.8	4.3

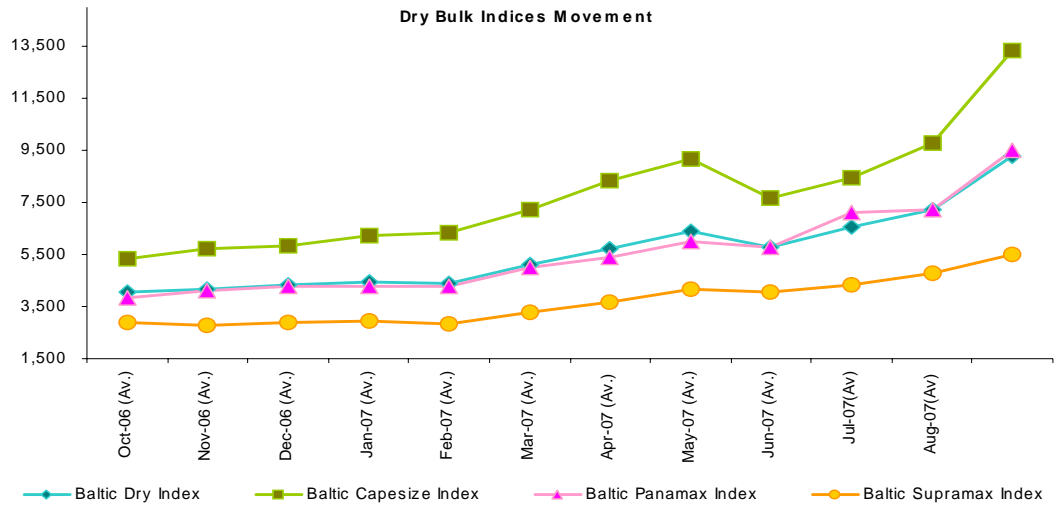
Source: Company; Angel Research, Note: Numbers are on fully diluted equity



Dry bulk freight rates drive growth

GE Shipping reported better Q2FY2008 results following an increase in the dry bulk freight rates. Dry bulk earnings continued to rise on the back of strong trade demand for commodities like iron ore and coal from Asia, particularly China. Coupled with this, increasing congestion at the Brazilian iron ore ports and Australian coal ports increased the ship turn-around time, which resulted in a shortage of vessels available in the Spot market.

Exhibit 2: Dry Bulk rates heading north

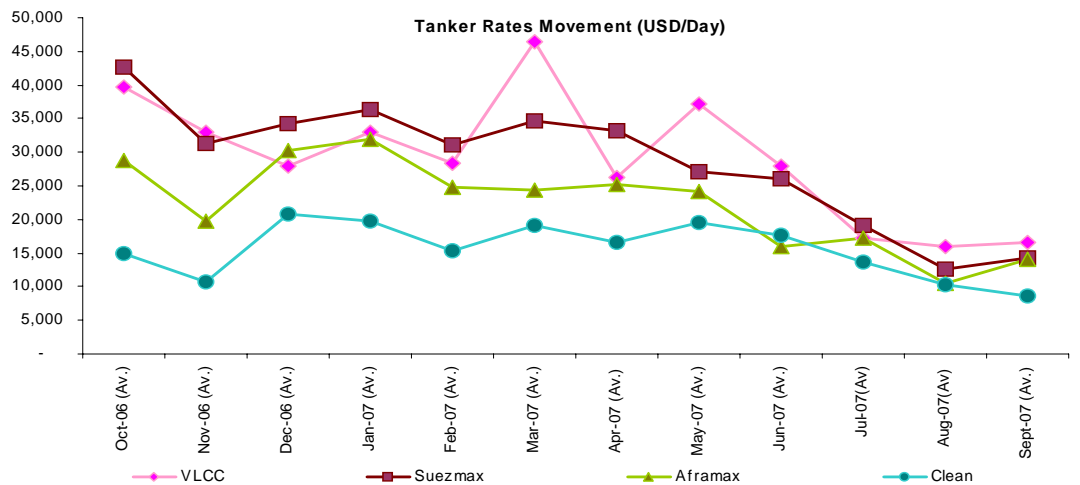


Source: Industry, Angel Research

The Baltic Exchange Dry Index (BDI), an indicator of dry bulk freight rates, rose 114% yoy during Q2FY2008 to 7,683. Although currently contribution of dry bulk carriers is only around 25% to overall earnings, going ahead, we expect the contribution to rise to 30-35%.

Continuing high oil prices and an abnormally warm winter in the Northern hemisphere slowed down demand for oil coupled with production cuts by OPEC. This resulted in relatively soft tanker rates. The refineries also preferred to draw on inventories rather than import oil, which led to further reduction in the rates.

Exhibit 3: Tanker day rates



Source: Industry, Angel Research

Fleet additions during the quarter

GE Shipping took delivery of two 2,000 built double hull Suezmax crude carriers during the quarter. The company also contracted to buy a 2001 built Supramax dry bulk carrier which is likely to be delivered during Q3FY2008. The company sold one 1992 built single hull VLCC and has contracted to sell one 1986 built Aframax tanker and a 1988 built single hull Aframax tanker during Q3FY2008.

The company has a fleet of 48 ships aggregating 3.24mn dwt, comprising 14 crude oil tankers, 20 product tankers, two LPG tankers and 12 dry bulk carriers.

Fleet augmentation at Greatship India

The company has committed capex of \$620mn for vessels under subsidiary, Greatship India. The subsidiary currently has only three PSVs in water. The committed capex is for eight AHTSVs and six PSVs with delivery between Q3FY2008 till Q2FY2010. The subsidiary also has a rig joining its fleet in Q3FY2010 and hence the major growth from subsidiary will be FY2010 onwards.

Outlook

IEA expects average oil demand to grow at 1.8% in CY2007, which would lead to a rise in demand for tankers. Also, an increase in supplies from OPEC could further positively influence tanker freight rates. While the shipyards run on full capacities, tanker deliveries will take time. Meanwhile, International Maritime Organisation (IMO) regulation of phasing out single hull tankers will result in lower supply of tankers going ahead. Hence overall, tankers rates are expected to be in line with FY2007 rates.

GE has crude and product tankers covered to the extent of 63% and 47% of their operating days and dry bulk carriers covered 41% of the fleet's operating days, giving revenue visibility of around Rs440cr for the remaining part of FY2008.

Valuation

We have valued the company on a sum-of-the-parts basis. We have valued the parent company on a NAV basis, giving a 20% discount to the market price of vessels factoring possible downside in asset prices and the offshore subsidiary on a P/E basis. We have arrived at a value of Rs405 per share based on NAV valuation and Rs67 per share for the subsidiary. At Rs396, the stock trades at 4.9x FY2009E on fully diluted Earnings of Rs80.5. We have upgraded our estimates based on NAV valuation and augmentation of offshore fleet. **We maintain a Buy on the stock with a 12-month Target Price of Rs472.**

Exhibit 4: Q2FY2008 Performance

Y/E March (Rs cr)	Q2FY2008	Q2FY2007	%chg	H1FY2008	H1FY2007	%chg
Revenue	601.3	522.2	15.2	1,238.4	956.0	29.5
Expenditure	323.5	256.6	26.0	647.9	457.3	41.7
EBIDTA	277.9	265.5	4.6	590.6	498.7	18.4
<i>EBIDTA Margin (%)</i>	46.2	50.9		47.7	52.2	
Interest	34.1	26.7	27.8	65.5	54.1	21.1
Depreciation	86.6	64.3	34.6	170.1	135.2	25.8
Gain from sale of ships	115.8	38.8	198.5	194.7	118.1	64.8
Other Income	89.0	30.2	194.4	242.7	64.5	276.5
Profit Before Tax	362.0	243.5	48.7	792.3	491.9	61.1
Tax	19.2	8.1	138.7	28.5	15.4	85.1
Net Profit	342.8	235.5	45.6	763.8	476.5	60.3
Add/(Less): Extra. Items	-	-		-	-	
Adj. Net Profit	342.8	235.5	45.6	763.8	476.5	60.3
EPS (Rs)	22.5	15.5		50.2	31.3	

Source: Company, Angel Research


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