Angel Broking™

Service Truly Personalized

India Research

G E Shipping

Buy

CMP: Rs 256

Target Price: Rs 318 (12 Months)

Surbhi Chawla

Tel: 022 – 4040 3800 Ext: 342

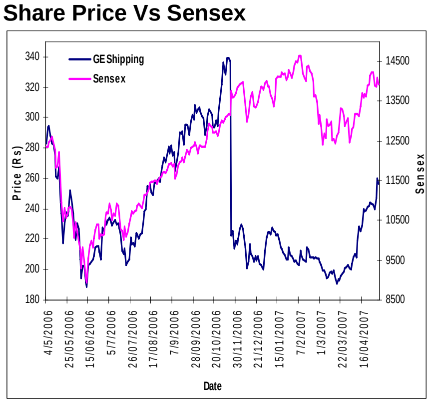
e-mail: surbhi.chawla@angeltrade.com

Sector	Shipping
Market Cap (Rs cr)	3,904
Beta	0.5
52 WK High / Low	353 / 171
Avg Daily Volume	401594
Face Value (Rs)	10
BSE Sensex	13,934
Nifty	4,117
BSE Code	500620
NSE Code	GESHIPPING
Reuters Code	GESC.BO
Bloomberg Code	GESCO IN

Shareholding Pattern (%)

Promoters	29.3
MF/Banks/Indian FIs	24.2
FII/ NRIs/ OCBs	15.1
Indian Public	31.4

Share Price Vs Sensex



May 04, 2007

Q4FY2007 Result Update

Performance Highlights

- **Significant improvement in operating Margin:** G E Shipping reported 3.2% YoY rise in Revenue for FY2007 at Rs 1,997.5cr (Rs 1,934.8cr). The EBIDTA Margin for FY2007 expanded by 314bps to 51.5% (48.4%). The Net Profit growth for FY2007 was 5.3% at Rs 883.3cr (Rs 838.6cr). Although the company recorded a 3% decline in revenue days to 14,922 from 15,327 for the year, the rise was primarily seen due to increase in dry bulk earnings, lower repair and maintenance costs and higher treasury income.

- **Q4FY2007 Net Profit surged by 31% YoY:** G E Shipping reported 3% YoY rise in Revenue for Q4FY2007 which stood at Rs 543.8cr (Rs 528.4cr) and Net Profit growth of 31% to Rs 240.9cr (Rs 183.5cr). The Net Profit growth in the quarter was seen on back of dry bulk segment. Growth in tanker revenue days was partly offset by the softness in the tanker rates, while in the dry bulk segment, the growth in revenue days coupled with the rise in freight rates, led to an overall increase in performance. The EBIDTA Margin for the quarter expanded by 380bps to 55% (51.2%).

- **Dividend payout reported at 20%:** The company declared two interim dividends aggregating Rs 7.0 per equity share and a final dividend of Rs 4.5 per equity share, totaling to dividend yield of 5%.

Exhibit 1: Key Financials

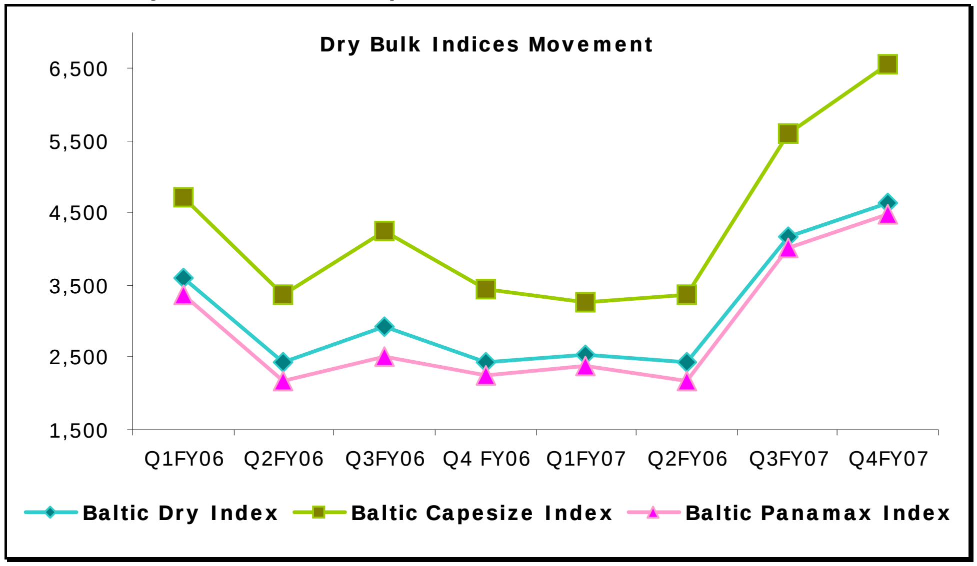
Y/E March (Rs cr)	FY2006	FY2007E	FY2008E	FY2009E
Net Sales	**1,934.8**	**1,997.5**	**2,224.4**	**2,309.2**
% chg	(5.6)	3.2	11.4	3.8
Net Profit	**838.6**	**883.3**	**888.1**	**938.2**
% chg	3.7	5.3	0.5	5.6
Diluted EPS	**55.1**	**58.0**	**58.3**	**61.6**
EBITDA Margin (%)	48.4	51.5	51.1	51.9
P/E (x)	4.6	4.4	4.4	4.2
P/CEPS (x)	3.5	3.4	3.2	3.1
ROE (%)	35.1	28.8	23.5	20.7
ROCE (%)	22.9	19.3	18.5	18.0
P/BV (x)	1.6	1.3	1.0	0.9
EV/Sales (x)	2.3	2.4	2.0	1.6
EV/EBITDA (x)	4.7	4.7	3.9	3.1

Source: Company; Angel Research

Dry bulk freight rates - the driver for the growth

The growth in the dry bulk freight rates has led to better results during Q4FY2007. Dry Bulk earnings continued to rise on the back of strong trade demand for commodities from Asia, particularly China. Increasing congestion at the Brazilian iron ore ports and the Australian coal ports increased ship turnaround time, which resulted in a shortage of vessels available in the spot market.

Exhibit 2: Dry Bulk rates on an upward move

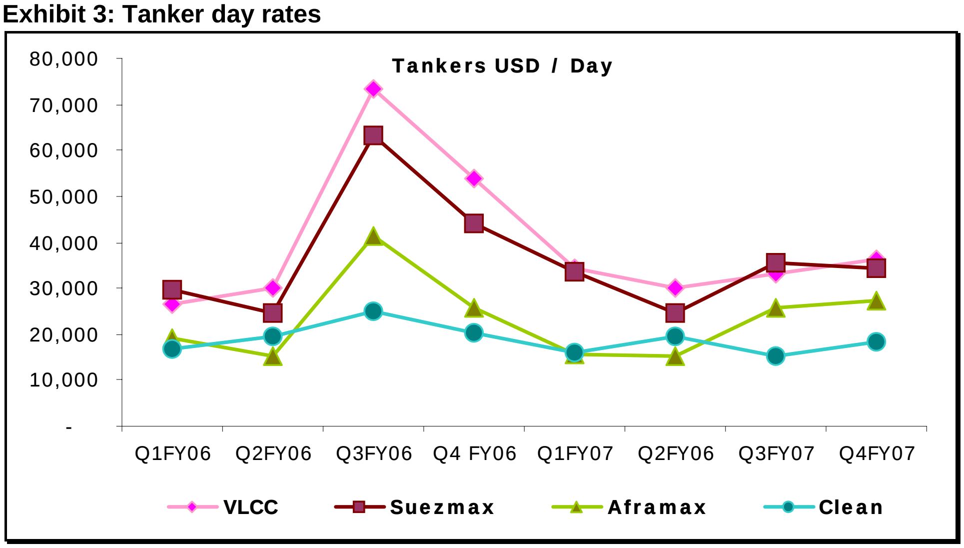


Source: Industry, Angel Research

Baltic Exchange Dry Index (BDI), an indicator of dry bulk freight rates, witnessed a YoY rise of 90% for Q4FY2007 at 4,641. As on May 3, 2007, the BDI stood at 6,276. Although currently the contribution of dry bulk carriers is only around 25% to the 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 imposed by OPEC, resulted in relatively soft tanker rates.

Exhibit 3: Tanker day rates



Source: Industry, Angel Research

Lower repair and maintenance cost

The repair and maintenance cost was lower on the back of lower dry docking expenses. In FY2007, 8 vessels were dry docked with total expenditure of around Rs 60cr. Next year the expense will be higher as around 17 vessels will go for dry docking.

Subsidiary contribution

The subsidiary contributed 8% to top-line and 3% to bottom-line during Q4FY2007. Although the company committed capex of $ 380mn for Greatship India for offshore vessels, with bulk of the assets expected to be delivered in CY2009, major contribution will start coming in from FY2010 onwards.

Fleet additions during the quarter

G E Shipping took delivery of 3 new built MR product tankers, one 1988 built GP product tanker, one 1996 built Capesize dry bulk carrier and one 1994 built geared Panamax dry bulk carrier during the quarter. The company sold one 1982 built MR product tanker and has contracted to sell one 1992 built Suezmax.

The current new building orderbook comprises of 5 product tankers aggregating 0.33mn dwt. The company, as on 31st March 2007, has a fleet of 45 ships aggregating 3.26mn dwt, comprising of 13 crude oil tankers, 18 product tankers, 2 LPG tankers and 12 dry bulk carriers.

Outlook

The dry bulk rates are affected by the commodity demand momentum and the state of port congestion. The Dry bulk rates are expected to remain firm going ahead. Tanker rates are affected by non-macro factors. Also with increasing new building tanker deliveries and low scrapping, overall tanker utilization may be marginally lower. However, IEA expects average oil demand to grow YoY at 1.8% in CY2007. This would result in positively influencing tanker freight rates. The rates for tankers are expected to be in-line with FY2007 rates.

The company has Crude tankers and Product tankers covered to the extent of 65% and 54% of their operating days and Dry bulk carriers covered to the extent of around 32% of the fleet's operating days, giving revenue visibility of around Rs 840cr for FY2008.

Valuation

We have valued the company on NAV basis, giving a 20% discount to the market price of vessels factoring possible downside in asset prices. An NAV-based methodology reflects the present value of expected cash flows from shipping assets. We have arrived at a value of Rs 318 per share based on NAV valuation.

At CMP, the stock trades at 4.4x FY2008E and 4.2x FY2009E on fully diluted Earnings of Rs 58.3 and Rs 61.6, respectively. We have upgraded our estimates based on NAV valuation. **We continue to maintain a Buy on the stock with a 12-month Target Price to Rs 318, giving a 24% upside.**

Exhibit 4: Q4FY2007 Performance

Y/E March (Rs cr)	Q4FY2007	Q4FY2006	%chg	FY2007	FY2006	%chg
Revenue	**543.8**	**528.4**	***2.9***	**1,997.5**	**1,934.8**	***3.2***
Expenditure	244.6	257.9	*(5.1)*	968.8	999.0	*(3.0)*
EBIDTA	**299.2**	**270.5**	***10.6***	**1,028.7**	**935.8**	***9.9***
EBIDTA Margin (%)	*55.0*	*51.2*		*51.5*	*48.4*	
Interest	28.8	23.3	*23.9*	107.2	96.9	*10.6*
Depreciation	70.6	77.0	*(8.3)*	265.3	370.4	*(28.4)*
Gain from sale of ships	18.2	-		136.3	331.4	*(58.9)*
Other Income	30.7	21.5	*42.6*	117.3	76.0	*54.4*
Profit Before Tax	**248.6**	**191.8**	***29.6***	**909.9**	**875.8**	***3.9***
Tax	7.3	3.4	*117.0*	32.0	32.3	*(0.8)*
Net Profit	**241.3**	**188.4**	***28.1***	**877.9**	**843.5**	***4.1***
Extarordinary Items	(0.4)	(4.9)		5.4	(4.9)	
Adj. Net Profit	**240.9**	**183.5**	***31.3***	**883.3**	**838.6**	***5.3***
EPS (Rs)	**15.8**	**12.1**		**58.0**	**55.1**	

Source: Company, Angel Research

Angel Broking Limited

Research Team Tel: 4040 3800 **E-mail: research@angeltrade.com** **Website: www.angeltrade.com**