

26 OCTOBER 2010

UNITED KINGDOM • Industrial Transportation

Buy

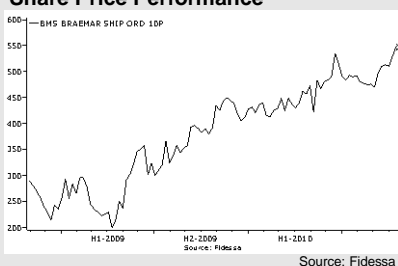
Price at 25 Oct 2010 543.5p
Price target 610p
52-week range 382p - 558p

Reuter: BMS.L Bloomberg: BMS LN
Exchange: LSE Ticker: BMS

Braemar Shipping

Interims update

Share Price Performance



Performance(%)	1m	3m	12m
Absolute	7.7	12.7	40.8

Stock Data

Market cap (£m)	110.0
Shares outstanding (m)	20.1
FTSE All Share	5778.5

Key Indicators

Net cash 2011f (£m)	30.0
EBIT margin 2011f adj' (%)	12.2

Activities

Provider of shipbroking, consultancy, logistics, technical and other services to the marine and energy industries

Directors

Sir Graeme Hearne	NEC
Alan Marsh	CEO
James Kidwell	CFO

Significant Share Holders

Blackrock	7.5%
Charles Stanley	7.1%
Majedie	6.5%
Alan Marsh (CEO)	5.9%
AXA Framlington	5.9%
Quentin Soanes (Exec Dir)	5.6%
Total	38.5%

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Braemar Shipping Services announced steady interim results this morning, with revenue up 18% to £67.6m PBT increased 3% to £7.2m and basic EPS was up 7%, to 25.99p. The shares continue to look attractive, despite the recent rise, trading on 9.9x 2011E adjusted EPS and 9.5x 2012E adjusted EPS. The balance sheet remains strong with £14.8m cash at HY'10/11, no debt and FY10/11 forecast cash of £27.9m. The interim dividend has been nudged up to 9p (from 8.75p). We expect a FY10/11 dividend of 26p giving a prospective yield of 4.8%, covered 1.9x.

Interim results

Group revenues were up 18% and PBT was up 3%, to £7.2m. Shipbroking revenues advanced 26% (with 31% increase in operating profit before unallocated costs). Non-broking businesses suffered a £1.56m (down 56.7%) reduction in operating profits mainly due to the newer operations within the Technical division taking longer than expected to reach profitability and lower margins in the Environmental division.

Resilient trading through volatile shipping markets

The dry bulk market has coped with the delivery of new tonnage better than the wet market recently, thanks to continued growth in raw material demand from Asia. New tonnage is expected to suppress freight rates for some time resulting in lower commissions. However Braemar's level of activity has been steady and indeed improved in some segments during the period. The US\$ exchange rate had minimal impact during the period.

Outlook

Further geographic expansion, particularly in Asia, could lead to upgrades - we see this as the main medium term catalyst. Today's statement highlighted the importance of growth for Braemar in Asia (particularly China and Singapore) and management has a strong commitment to expanding operations in the region. We have maintained our forecasts and await further news of a return to previous profit levels within non-broking operations. The shares remain attractive at the current valuation and we remain positive about longer term prospects but we see limited upside beyond our price target of 610p in the short term.

Forecasts and ratios

Year End Feb	2008a	2009a	2010a	2011f	2012f
Sales (£m)	101.0	127.1	119.0	123.4	129.2
PBT (£m)	14.7	16.2	13.5	14.1	14.7
Adjusted PBT (£m)	14.7	17.3	15.0	15.6	16.2
Basic EPS (p)	49.0	56.7	47.9	47.8	49.7
Adjusted EPS (p)	49.0	62.0	55.3	55.0	56.9
Adjusted PER (x)	11.1	8.8	9.8	9.9	9.5
ROE (%)	24.1%	21.8%	16.4%	15.5%	15.0%
ROCE (%)	23.2%	20.8%	15.8%	14.9%	14.5%
FCFPS (p)	80.1	68.4	50.2	43.0	56.6
FCF Yield (%)	14.7%	12.6%	9.2%	7.9%	10.4%
EV/EBITDA (x)	3.5	3.4	4.5	4.7	4.0
Dividend Per Share (p)	23.0	24.0	25.0	26.0	27.0
Dividend Yield (%)	4.2%	4.4%	4.6%	4.8%	5.0%

Source: Cenkos Securities, Company reported data

2010/1 Interim results overview

The interim results announced this morning were solid in our view but we were a little surprised by the fall in non-broking profitability. The proportion of profitability coming from broking operations was back over 80% - managements' long term strategy is to balance group profits between shipbroking and non-broking operations.

Strong shipbroking performance

The shipbroking performance was strong during the period with revenues advancing 26% to £32.0m and operating profit (before unallocated costs) up 32.5% to £7.5m, representing 82% of group operating profits.

The Capesize vessel segment of the dry cargo market has experienced very volatile freight rates. Around one third of global dry bulk tonnage is shipped in Capsize vessels and rates are highly susceptible to iron ore demand from Asia (China in particular).

Tankers has also been tougher over the last few months following a stronger start to the year. The end of floating oil storage along with the introduction of new tonnage has reduced rates. Time chartering activity levels are good however, with oil companies and traders taking advantage of lower rates and securing longer term charters.

Non-shipbroking weaker

Non-shipbroking profitability was disappointing during the period. The Technical division suffered lower levels of profitability on flat revenues and contributed the major proportion of reduction in non-broking profitability. Established operations have performed satisfactorily however the newer operations such as the cargo loss adjusting and the Wavespec consulting businesses have yet to reach profitability. Additionally, margins were reduced within the Logistics division due to the completion of a large contract last year.

Despite higher revenues within the Environmental division, margins were disappointing along with training and consulting services suffering during the recession. Public spending controls have also meant lower income from the incident response team

Outlook

Further geographic expansion, particularly in Asia could lead to upgrades - we see this as the main medium term catalyst. Today's statement highlighted the importance of growth for Braemar in Asia (particularly China and Singapore) and management has a strong commitment to expanding operations in the region.

We have left our forecasts unchanged and look to evidence of a return to previous profit levels within the non-broking operations. The strong order book at the beginning of the year provides a degree of predictability in shipbroking revenues and the strong performance of the broking division during H1 gives us confidence in the FY outlook.

Despite the slightly disappointing non-broking profitability during the period, we remain enthusiastic about the longer-term potential of these businesses as the newer operations bed down. The shares remain attractive on current valuation and activity levels within the broking division are good. The tone of statement this morning was positive but cautious so we see limited short term upside beyond our PT of 610p but remain Buyers.

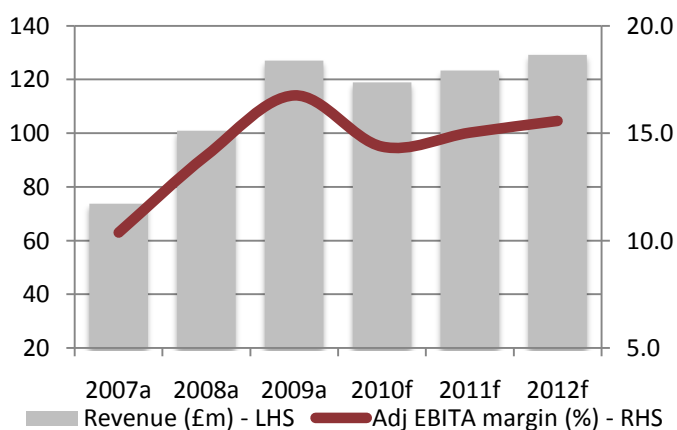
Financials

Forecast Income Statement

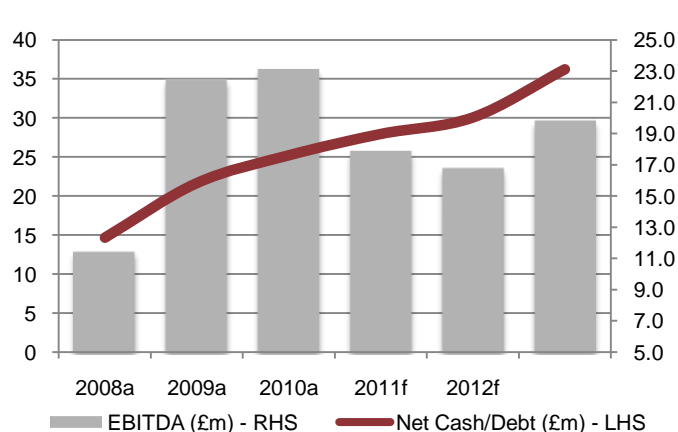
Year end February (£m)	2008a	2009a	2010a	2011f	2012f
Shipbroking	52.8	60.4	57.4	60.2	63.2
Logistics	27.9	40.8	31.9	32.7	34.3
Technical services	9.5	21.2	22.7	23.3	23.8
Environmental services	10.8	4.7	7.1	7.2	7.8
<i>Bunker trading (discontinued 2007/8)</i>	-	-	-	-	-
Revenues (inc' bunker trading)	101.0	127.1	119.0	123.4	129.2
Group Revenues	101.0	127.1	119.0	123.4	129.2
Cost of sales	-28.3	-35.0	-28.1	-37.0	-38.8
Gross profit	72.7	92.1	90.9	86.4	90.5
Admin expenses	-58.7	-76.4	-78.0	-72.9	-76.4
Operating profit (Pre adjustments)	14.0	16.8	14.4	15.0	15.6
Goodwill impairment	-	-	-	-	-
Operating profit	14.0	15.7	12.9	13.5	14.1
Share of JV income	0.4	0.2	0.4	0.4	0.4
Net financial items	0.4	0.3	0.2	0.2	0.2
PBT (Reported)	14.7	16.2	13.5	14.1	14.7
PBT (Adjusted)	14.7	17.3	15.0	15.6	16.2
Tax	-4.8	-4.7	-3.8	-4.4	-4.5
<i>Total tax charge</i>	-	-	-	1.0	2.0
<i>Tax rate</i>	32.6%	29.0%	28.2%	28.0%	28.0%
Net profit	9.9	11.5	9.7	9.8	10.2
Net profit (Pre adjustments)	9.9	12.6	11.2	11.3	11.6
Minority interests	0.1	0.1	0.0	0.0	0.0
Distributable profits	9.8	11.5	9.7	9.7	10.1
<i>Dividend Per Share (p)</i>	23.00	24.00	25.00	26.00	27.00
<i>Dividend Cover (x)</i>	2.13	2.36	1.92	1.84	1.84
Adjusted EPS (p)	48.97	62.02	55.28	55.01	56.94
Basic EPS p	48.99	56.70	47.93	47.76	49.68
Fully Diluted EPS p	48.69	55.72	47.26	47.41	49.32

Source: Cenkos Securities, Company reported data estimates

Revenue vs. Adj' EBITA margin



EBITDA vs. Net cash



Cash Flow & Cash Conversion

Year end February (£m)	2008a	2009a	2010a	2011f	2012f
PBT	14.7	16.2	13.5	14.1	14.7
Working capital	5.8	2.7	-1.7	-2.5	-
Intangible amortisation	0.5	1.1	1.5	1.5	1.5
Depreciation	0.7	1.0	1.1	1.1	1.1
Other	-0.5	0.0	0.2	-0.0	-0.0
Operating cashflow	21.2	21.0	15.3	14.2	17.2
EBITDA	22.4	23.0	17.8	16.7	19.8
Net interest	0.4	0.3	0.2	0.2	0.2
Taxation	-4.6	-6.2	-4.4	-4.4	-4.5
Net operating cashflow	17.0	15.0	11.0	10.0	12.9
JV dividends	-	-	0.4	-	-
Net capex spend	-1.0	-1.2	-1.3	-1.2	-1.4
Free cash flow	16.0	13.8	10.1	8.8	11.6
Subsidiary & minorities (net of cash)	-4.3	-5.1	-2.8	-1.5	-
Shares issued	0.7	0.3	0.1	-	-
Share buybacks	-1.5	-1.1	-0.1	-	-
Dividends	-4.1	-4.9	-4.9	-5.2	-5.4
Other	-1.5	-1.2	-0.1	-	-
Net increase in cash	6.9	2.9	2.5	2.1	6.2
Net debt/cash	21.6	25.2	27.9	30.0	36.2
EBITDA	22.4	23.0	17.8	16.7	19.8
Operating Cashflow	21.2	21.0	15.3	14.2	17.2
Cash Conversion (%)	94.4%	90.9%	85.7%	84.8%	87.1%

Source: Cenkos Securities, Company reported data estimates

Balance Sheet & Ratio Analysis

Year end February (£m)	2008a	2009a	2010a	2011f	2012f
Total assets	89.3	105.0	112.7	112.4	118.8
Total liabilities	-47.8	-52.0	-53.6	-49.2	-51.2
Net Assets	41.5	52.9	59.1	63.2	67.6
Shareholders funds	41.2	52.8	59.0	63.2	67.6
Minority interests	0.3	0.1	0.1	-	-
Equity capital	41.5	52.9	59.1	63.2	67.6
Ave NOSH (m)	20.0	20.2	20.1	20.4	20.4
FCFPS (p)	80.1	68.4	50.2	43.0	56.6
FCF Margin (%)	15.8%	10.9%	8.5%	7.1%	8.9%
FCF Yield (%)	14.73%	12.58%	9.24%	7.92%	10.42%
ROE (%)	24.1%	21.8%	16.4%	15.5%	15.0%
Adj ROE %	23.9%	23.8%	18.9%	17.8%	17.2%
ROCE (%)	23.2%	20.8%	15.8%	14.9%	14.5%
EBITDA (£m)	22.4	23.0	17.8	16.7	19.8
EV/EBITDA (x)	3.5	3.4	4.5	4.7	4.0
NAV (p)	208.0	261.9	293.5	310.0	331.6
Net cash per share (p)	108.4	124.6	138.7	147.3	177.5
Net cash/Market Cap (%)	19.8%	23.0%	25.5%	27.4%	33.1%

Source: Cenkos Securities, Company reported data

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