Charles Stanley SECURITIES

Flash note

27 October 2010

Industrial Transportation
FTSE All Share

Interims

Braemar Shipping Services

Add (n/c)

Price	527.5p
Price target	582.0p
12 high/low	558.0p / 395.0p
Market cap.	£109m
Enterprise value	£80m
Free float	65%
Avg. daily volume	22k
Shares in issue	20.7m
Net cash/equity	45.4%
Company code	BMS.L

Next news	May-2011
Confidence in estimates	Medium
Expected movement in estimates	◄►

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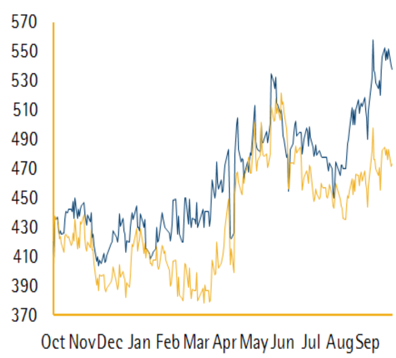
Share price performance (1 year)



	1m	3m	12m
– Price	5.0	8.1	40.8
– Rel all share	2.7	1.1	26.9

Source: Thomson Datastream

Shipbroking & Asia to the fore. Rates outlook weaker

Revenues rose 18% to £67.6m and PBT by 3% to £7.2m. Shipbroking accounts for 86% of operating profit. Dry bulk continues to do well but tankers has weakened. Results from Technical have been lower than anticipated. New tonnage will suppress freight rates in the near term. We have reduced FY2011E PBT by 4% to £14.0m, EPS of 49p and a dividend of 25.25p putting the shares on a PER of 10.7x and a yield of 4.8%. We retain our Add and TP of 582p.

- **Steady performance** – Interims to August highlight a steady performance against a backdrop of volatile shipping markets. Revenues increased by 18% to £67.6m and PTP increased by 3% to £7.2m. This compares to £7.0m in the comparable period in 2009-2010 and £6.5m in the second half. EPS rose by 7% to 25.9p and the interim dividend was raised by 3% to 9p. Net cash rose by 51% to £14.8m.

- **Shipbroking drives the group** – Shipbroking revenues grew by 26% to £32.0m and operating profit increased by 31% to £7.2m, accounting for 86% of group operating profit. The dry bulk activities performed well in a volatile market. The deep sea tanker chartering has weakened throughout the period as excess tonnage has impacted rates. Sale & Purchase has performed well with a good balance of business across both segments. Stable vessel values and newbuild prices as well as deliveries has helped. Demolition has been weaker but BMS has maintained its market share. Offshore has enjoyed a good level of business. Containers has recovered sharply.

- **Technical performance weaker** – Technical was weaker than anticipated with revenues comparable to last year at £12.5m but operating profit lower at £0.9m (£1.9m). The established businesses performed as expected but some of its new ventures in cargo loss-adjusting and consulting have been impacted the weakness of the US economy and the aftermath of the BP/Deepwater Horizon episode.

- **Outlook** – The outlook is broadly positive with growth in Asia underpinning demand for shipping. However new tonnage being delivered will suppress rates and vessel values for the foreseeable future. Transaction volumes are likely to increase though commissions will be lower. The forward order book helps underpin the outlook. We have lowered our FY2011 PBT forecast by 4% to £14.0m, 2012 and 2013 by 3%-5%.

Key financial data (£m) – IFRS

Year to February	2009A	2010A	2011E	2012E	2013E
Sales	127.1	119.0	129.7	136.5	145.0
PBT normalised	16.2	13.5	14.0	15.2	16.2
EPS normalised (p)	55.72	47.26	49.26	52.80	57.25
DPS paid (p)	23.50	24.25	25.25	25.25	25.25
PER (x)	9.5	11.2	10.7	10.0	9.2
EV/EBITDA (x)	4.8	5.3	4.9	4.4	3.9
FCF yield (%)	12.6	9.4	7.5	8.5	9.5
Dividend yield (%)	4.5	4.6	4.8	4.8	4.8

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Operating performance

Shipbroking

Revenue £32.0m (£25.4m) Operating profit £7.4m (£5.5m).

Dry bulk

Dry bulk has performed well in a volatile market

As highlighted earlier the group's dry cargo operations have performed well in a volatile market. The Baltic Dry Index stood at 2,738 at 1 March and rose to a high of 4,209 in May before falling to a low of 1,700 in July, closing the period at 2,713. It is currently 2,778. The Capesize segment was the most volatile as a result of the newbuildings coming on stream set against the export of bulk mineral volumes mainly from Australia, Brazil, South Africa and the US West coast and Gulf of Mexico. Chinese iron ore demand remained strong, although demand for coal has eased.

Weakening of rates due to the increased fleet

The group anticipates less volatility in the spot market and a gradual weakening of rates due to the increased fleet. Freight rates in the larger segments are likely to more impacted as a result of the significant number of newbuildings being delivered. The smaller segments like handysize should prove to be more resilient and see less volatility as the level of new capacity is lower. Given the group's links with charters, this should ensure a more consistent revenue base.

Tankers

Tanker rates have weakened through the period

The deep sea tanker charter market started the year in a stronger position than had been anticipated. The main reason being the use of tankers in storage and the contango trade as well as the delay in some newbuildings being delivered. This helped underpin rates. However since the summer the position has revered with the contango trade being unwound and new tonnage coming on stream. The additional tonnage has impacted the chartering market with rates over the last quarter falling back to levels seen one year ago. Over the last six months the Baltic Dirty Tanker Index has fluctuated over 700 points, peaking at 1,122 and subsequently falling back to 715 points at the end of August. This highlights the volatility of markets and how changes in tonnage demand can impact rates. The clean product segment has been active given the throughput of crude in the period.

The spot market has impacted time charter rates which has given charterers the opportunity to fix tonnage for the medium term.

LNG

The LNG market has started to absorb the surplus tonnage that had been constructed for specific projects.

Sale & Purchase

Balance of S&P activity

The group's Sale & Purchase department has performed well in the period, securing a good balance of transactions across both wet and dry segments. It appears that vessel values and newbuild prices have been stable in the period. Furthermore deliveries has been as anticipated. Demolition volumes have been lower than expected due to rates better than expected. The operation has maintained its market share.

Containers

Container market has recovered with increased volumes and improved freight rates

The Container market has continued to recover with increased volumes and improved freight rates. The tonnage previously in lay-up has been reactivated. Rates in certain segments have more than doubled albeit from very low levels. There has also been a recovery in second hand vessel values. The outlook for the second half is less positive with a decline in box volumes anticipated.

Offshore
The Offshore teams have experienced a good level of activity in the first half with a balance of chartering and project business contributing to income. The second half is anticipated to show reasonable activity levels.

Technical

Revenue £12.5m (£12.4m) Operating profit £0.9m (£1.9m).

Overall results were lower than anticipated

The overall results were lower than anticipated. It appears the "established businesses" performed as anticipated but some of its new ventures (cargo loss adjusting and Wavespec's consultancy business in Houston) have been unable to increase income and achieve profitability. The main reasons for this have been the impact of the weakness of the UK economy and the effect of the BP Deepwater Horizon/Macondo oil well incident in the Gulf of Mexico which lead to new regulations being enacted and a delay to certain energy projects to be postponed.

Braemar Falconer
(Technical, survey and consultancy services for the marine and energy sector).

Braemar Falconer continues to perform well

Braemar Falconer has continued to perform well with an improvement seen over the comparable period. Both rig moves and drilling activity have both picked up. Certain territories have seen higher activity levels. Others have picked up since the period end. The cargo loss-adjusting arm of Braemar Marine has been amalgamated with Braemar Falconer to expand its activities in the US and the Far East.

Braemar Steege
(Specialist loss adjusting and other expert services to the energy, marine and related industrial insurance sectors)

Performance in line with expectations

Braemar Steege continues to perform in line with expectations. New energy loss adjusting instructions from the upstream sector have been slow in the first half. This is likely to continue in Houston following a slowdown in Gulf of Mexico development work. In contrast there has been a pick-up in other services.

Wavespec
(Design development, plan approval and construction supervision of ships of all types of vessels, with strong emphasis on ships carrying liquid cargoes in bulk.

Greater demand for the division's advisory services

Wavespec has completed its long term operations with Qatargas in August 2010. It is now working on a number of early stage Chinese LNG projects. There is expected to be greater demand for the division's advisory services in the US given the demand for new operating procedures and increased safety concerns.

Logistics
Revenue £16.0m (£19.1m) Operating profit £0.8m (£1.2m).

Steady performance

Cory's ongoing business was maintained in the UK despite a relatively depressed UK market. Ship agency performed steadily with contributions from ship-to-ship transfer and hub services. The Singapore operation has grown on the back of increased activity in the region.

Logistics increased revenues to £2.8m as a result of an increase in general forwarding activity. The prior year result was flattered by the contribution of a single large contract which completed in the prior period. The Cruise business saw more port calls and passenger take-up throughout the summer season.

Environmental
Revenue £4.0m (£3.3m) Operating profit Breakeven (£0.1m).

Slowdown in consulting and training services

Revenues increased by 20%. Income grew as a result of several projects undertaken by the UK services arm. However margins were disappointing. There has been a slowdown in its consulting and training services activities. Government spending controls have reduced the income of the Marine Coastguard Agency, the MoD and Network Rail contracts for incident response. International contracts are expected to pick-up in the second half.

Financials

The majority of the group's income is US$ denominated and the average rate of exchange for the conversion of US$ income in the six months to 31 August 2010 was $1.54/£ ($1.57 Interim period to 2009-2010). The half on half translation impact of the dollar was not significant and the group holds forward contracts for $12m at an average exchange rate of $1.49/£ in respect of second half cash flows. In broad terms a 10 cent swing in the US$/£ exchange rate (assuming no hedging) approximates to £1.7m in a full year.

Cash balance amounted to £14.8m.

Cash balances amounted to £14.8m as at the period end compared to net cash of £9.8m in the comparable period in 2008. The group normally generates the bulk of its annual cash flow in the second half of the year.

We are forecasting year end net cash of £29.2m. The reduction in cash at the interim stage reflects the payment of the annual broking bonus and the payment of the final dividend relating to the prior year.

Financials

Profit & loss account (£m) - IFRS

Year to February	**2009A**	**2010A**	**2011E**	**2012E**	**2013E**
Shipbroking	60.4	57.4	63.7	65.6	68.9
Logistics	40.8	31.9	34.0	36.2	38.6
Technical	21.2	22.7	25.0	27.6	30.4
Environmental	4.7	7.1	7.1	7.1	7.1
Sales	**127.1**	**119.0**	**129.7**	**136.5**	**145.0**
Shipbroking	14.9	12.8	14.1	14.7	15.5
Logistics	0.8	1.1	1.2	1.3	1.4
Technical	3.5	1.7	1.2	1.7	1.8
Environmental	-0.2	0.6	0.1	0.2	0.2
Unallocated Common Costs	-3.4	-3.3	-2.9	-3.1	-3.1
Operating profit	**15.7**	**12.9**	**13.7**	**14.8**	**15.9**
Associates & other income	0.2	0.4	0.2	0.3	0.3
Finance costs	0.3	0.2	0.1	0.1	0.0
PBT normalised	**16.2**	**13.5**	**14.0**	**15.2**	**16.2**
Abnormal items	0.0	0.0	0.0	0.0	0.0
PBT reported	16.2	13.5	14.0	15.2	16.2
Taxation	-4.7	-3.8	-3.6	-3.9	-4.1
Minorities & preference dividends	-0.1	0.0	-0.1	-0.1	-0.1
Profit for period (continuing)	11.2	9.3	10.1	10.9	11.7
Profit for period (discontinuing)	0.0	0.0	0.0	0.0	0.0
Profit attributable to shareholders	11.5	9.7	10.3	11.2	12.0
AWC (FD) (m)	20.6	20.4	20.9	21.3	21.3
EPS normalised (p)	**55.72**	**47.26**	**49.26**	**52.80**	**57.25**
EPS Reported (FD) (p)	55.72	47.26	49.26	52.80	57.25
DPS paid (p)	**23.50**	**24.25**	**25.25**	**25.25**	**25.25**

Source: Charles Stanley Securities

Performance metrics

Year to February	**2009A**	**2010A**	**2011E**	**2012E**	**2013E**
Sales growth (%)	25.9	-6.4	9.0	5.2	6.3
EBITDA growth (%)	17.3	-12.8	5.6	7.3	6.1
EPS normalised growth (%)	14.5	-15.2	4.2	7.2	8.4
DPS growth (%)	16.0	3.2	4.1	0.0	0.0
Gross margin (%)	72.4	76.4	72.5	71.5	69.7
EBITDA margin (%)	13.9	13.0	12.6	12.8	12.8
Operating margin (%)	12.3	10.8	10.6	10.9	10.9
Interest cover (x)	na	na	na	na	na
Taxation rate normalised (%)	29.0	28.2	26.0	25.5	25.3

Source: Charles Stanley Securities

Financials – continued

Cash flow statement (£m) – IFRS

Year to February	2009A	2010A	2011E	2012E	2013E
Operating profit	15.7	12.9	13.7	14.8	15.9
Operating profit discontinued	0.0	0.0	0.0	0.0	0.0
Depreciation & amortisation	2.0	2.5	2.6	2.7	2.7
Other non-cash movements	0.5	0.8	-0.3	-0.3	-0.3
Change in working capital	2.7	-1.7	-1.5	-1.5	-1.5
Other cash movements	0.0	0.7	0.0	0.0	0.0
Operating cash flow	**20.9**	**15.3**	**14.5**	**15.7**	**16.8**
Taxation paid	-6.2	-4.4	-4.9	-4.9	-4.9
Finance costs paid	0.3	0.6	0.1	0.1	0.2
Investment income	0.0	0.4	0.0	0.0	0.0
Capital expenditure (net)	-1.2	-1.3	-1.4	-1.4	-1.4
Free cash flow	**13.7**	**10.1**	**8.3**	**9.5**	**10.7**
Other investing activities	0.0	0.0	0.0	0.0	0.0
(Acquisitions)/disposals	-5.1	-2.8	-1.9	0.0	0.0
Dividends paid	-4.9	-4.9	-5.2	-5.3	-5.3
Shares issued/(repurchased)	-0.8	0.0	0.0	0.0	0.0
Other financing	0.7	0.3	0.0	0.0	0.0
Movement in net cash/(debt)	**3.6**	**2.7**	**1.2**	**4.2**	**5.3**
Net cash/(debt)	25.2	28.0	29.2	33.3	38.7

Source: Charles Stanley Securities

Balance sheet (£m) – IFRS

Year to February	2009A	2010A	2011E	2012E	2013E
Goodwill	28.1	28.7	28.6	28.6	28.6
Intangible fixed assets	3.9	4.2	3.5	3.0	3.0
Tangible fixed assets	6.2	6.5	6.8	7.0	7.2
Working capital	-8.2	-4.8	-3.3	-1.8	-0.3
Assets employed	**30.1**	**34.7**	**35.6**	**36.8**	**38.5**
Other assets/(liabilities)	-0.7	-2.3	0.7	1.2	1.1
Net cash/(debt)	25.2	28.0	29.2	33.3	38.7
Provisions	-1.7	-1.2	-1.2	-1.2	-1.2
Net assets	**53.0**	**59.2**	**64.2**	**70.1**	**77.0**
Minority interests	0.1	0.1	0.1	0.1	0.1

Source: Charles Stanley Securities

Key ratios

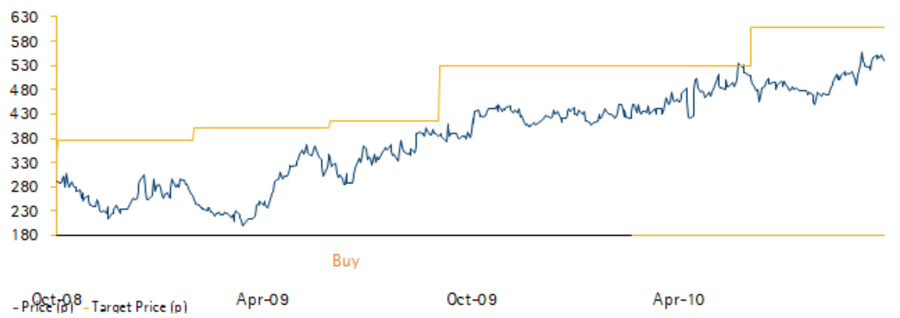
Year to February	2009A	2010A	2011E	2012E	2013E
Net cash (debt)/equity (%)	47.6	47.3	45.4	47.6	50.3
ROAE (%)	37.0	26.7	28.5	30.0	30.8
Net assets per share (p)	262.38	294.53	310.14	332.23	364.93

Source: Charles Stanley Securities

Important Disclosures

Recommendation and target price history

Share price performance



Charles Stanley Securities rating distribution

Total Coverage	Number	Percent	Banking Relationships	Number	Percent
Buy	85	50.60	Buy	25	75.76
Add	23	13.69	Add	4	12.12
Hold	50	29.76	Hold	4	12.12
Reduce	7	4.17	Reduce	0	0.00
Sell	3	1.79	Sell	0	0.00

Charles Stanley Securities rating definitions – 12 month time scale

Buy	+20%	<	expected absolute change		
Add	+10%	<	expected absolute change	<	+20%
Hold	-10%	<	expected absolute change	<	+10%
Reduce	-20%	<	expected absolute change	<	-10%
Sell			expected absolute change	<	-20%

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