

Braemar Shipping Services plc

Industrial Transportation
BMS (FTSE FULL LIST)

Full steam ahead...

..still very profitable

Investment Case

- Braemar's interims show that it is doing well despite very poor conditions in many sectors of the shipping market.
- The shipbroking division has a strong forward book of business – both time charter and newbuild – is diversified by sector and has a flexible cost base. Its strong Sale & Purchase revenues are helping to offset the effects of current weak spot charter rates.
- Stripped of its cash, the underlying p/e is just 7.4x FY2011 earnings. This is modest given the resilience that Braemar has shown in the current downturn. We expect a continuation of the recent re-rating and see scope for upgrades as a recovery in world trade feeds through to the shipping markets.

Interim Results Review

Buy Upside
15%

What's Changed

2008E EPS	+30.4%
2009E EPS	+23.5%
Rating	previously Hold
Price Target	+29%

Price **428p**
Target Price **491p**



Source: Proquote

Shares in issue	21.0m
Net Debt/(Cash)	£(22.5)m
Market Cap	£90.0m
Enterp. Value	£67.5m
NAV/Share	274.0p
Next Event	Prelims - April 2010

Net cash figure is our Feb 2010 estimate.

Forecasts (£m) 02/08A 02/09A 02/10E 02/11E

Turnover	101.0	127.1	115.9	111.0
EBITDA	15.7	18.2	16.3	16.8
PBT	15.7	17.8	15.7	16.3
Tax (%)	33	29	30	28
EPS (p)	53.8	63.4	55.3	57.3
DPS (p)	23.0	24.0	24.5	25.0

Ratios (x) 02/08A 02/09A 02/10E 02/11E

P/E	8.0	6.7	7.7	7.5
EV/EBITDA	4.3	3.7	4.1	4.0
Yield (%)	5.4	5.6	5.7	5.8
Price/NAV	2.1	1.7	1.6	1.4

Data is adjusted

Company Description

Braemar Shipping Services plc provides broking, consultancy, technical and other services to the global shipping, marine and energy industries.
www.braemarseascope.com

Interim results review

... better than expected

Braemar Shipping Services plc reported interim results that were significantly ahead of our forecast. The key figures were:

- Revenue – down 17% to £57.1m
- Operating profit* – down 28% to £7.9m
- Profit before tax* – down 24% to £8.0m
- EPS* - down 22% to 28.9p
- Dividend – up 3% to 8.75p

This may look unremarkable, but against a background of very weak spot rates and falling vessel values in the shipping market it is a very robust performance.

The results were significantly better than our forecast of £7.1m profit before tax* and the dividend increase was also unexpected.

Reflecting these better than expected figures, we have raised our full year forecast by 25%, from £12.5m to £15.6m and our target price by 29% to 491p – upside of 15%. We therefore move from Hold to Buy.

The year-on-year comparison for the interims is shown below:

Table 1: Braemar Shipping Services - interims vs prior year

£'000s	Actual 2008	Actual 2009	difference £'000s	Change (%)
Half year to 31st August:				
Shipbroking	34,446	25,370	(9,076)	(26.3)
Logistics	21,583	16,021	-5,562	(25.8)
Technical	10,383	12,403	2,020	19.5
Environmental	2,694	3,322	628	23.3
Total Revenue	69,106	57,116	(11,990)	(17.4)
Profit for the period:				
Shipbroking	8,995	5,689	(3,306)	(36.8)
Logistics	359	1,151	792	220.4
Technical	2,204	1,930	(274)	(12.4)
Environmental	178	160	(18)	(10)
Segment result	11,736	8,930	(2,806)	(23.9)
Amortisation of intangibles	(528)	(679)	(151)	28.7
Unallocated common costs	(1,675)	(1,354)	321	(19.2)
Operating profit	9,533	6,897	(2,636)	(27.7)
Net finance income	108	98	(10)	(9.3)
Share of profit after tax from joint ventures	144	26	(118)	
Reported profit before tax	9,785	7,021	(2,764)	(28.3)

Source: Company data, Daniel Stewart analysis

Our **adjusted profit before tax figure of £8.0m** adds back charges for share-based payments (£311,000) and amortisation of intangibles (£679,000).

Summary

* Before amortisation of intangibles and charges for share-based payments

Results versus prior year.

The comparison with our forecasts is shown below:

Table 2: Braemar Shipping Services plc - results versus our forecast

Half year to 31st August:	2009 DS forecast £'000s	2009 actual £'000s	difference £'000s	difference (%)
Shipbroking	23,950	25,370	1,420	+5.9
Logistics	20,513	16,021	(4,492)	-21.9
Technical	10,331	12,403	2,072	+20.1
Environmental	2,500	3,322	822	+32.9
Total Revenue	57,295	57,116	-179	-0.3
Profit for the period:				
Shipbroking	4,790	5,689	899	+18.8
Logistics	1,015	1,151	136	+13.4
Technical	2,170	1,930	(240)	-11.1
Environmental	50	160	110	+220.0
Segment result	8,025	8,930	905	+11.3
Amortisation of intangibles	(638)	(679)	(41)	+6.4
Unallocated common costs	(1,350)	(1,354)	(4)	+0.3
Operating profit	6,037	6,897	860	+14.2
Net finance income	117	98	(19)	
Share of profit after tax from joint ventures	100	26	(74)	
Reported profit before tax	6,254	7,021	767	+12.3

Source: Company data, Daniel Stewart forecast

Compared with our forecast, all of the outperformance came from Braemar's shipbroking business.

Shipbroking makes the difference

There are a large number of moving parts in this division including:

- Foreign exchange – all revenue in dollars and nearly all costs in sterling.
- Movements in spot charter rates.
- The volume of business written – both spot and sale & purchase.
- The size and quality of the forward order book.
- Movements in staff bonuses.

The average rate at which dollar earnings were converted in H1 was **\$1.57/£** - a substantial movement compared with the **\$1.90/£** for the same period last year. Without this benefit, the decline in revenue would have 39% year-on-year rather than the 26% decline reported in sterling, as shown below:

USD move adds £4.4m to revenue...

Table 3: Braemar Shipping Services - shipbroking revenues in USD

Half year to 31st August:	Actual 2008	Actual 2009	difference £ or \$	Change (%)
Shipbroking revenue - £'000s	34,446	25,370	(9,076)	(26.3)
Multiplied by : Exchange rate - US\$ per £	1.90	1.57		
Equals: Shipbroking revenue - US\$'000s	65,447	39,831	(25,617)	(39.1)

Source: Company data, Daniel Stewart analysis.

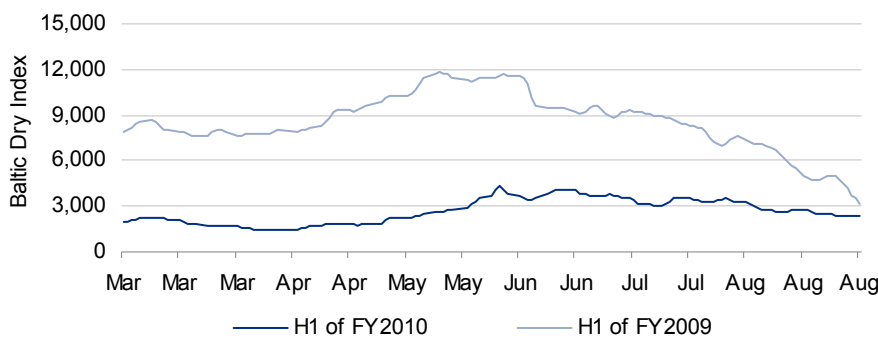
Looking at it the other way round, at an exchange rate of \$1.90/£, the division's revenue would have been £20.964m. The reported figure is £4.4m higher. Not all of this benefit goes straight to operating profit as the bonuses of the fee earning shipbrokers will have taken some of the benefit.

The biggest single reason for the big decline in revenue between the two half years, shown above, is the sharp fall in spot charter rates for dry bulk ships and crude oil tankers. Shipbroking gross commissions are typically 1.25% of the charter cost although, unlike the market indices, this includes costs such as bunkers (fuel oil) so brokers' earnings from spot business are usually less volatile than the indices might suggest.

...but spot rates well down.

The chart below shows how the levels of the Baltic Dry Index (BDI) - which measures spot charter rates for Dry Bulk ships across a range of sizes – compare between the two half years.

Chart 1: Baltic Dry Index - half year v half year



Source: Baltic Exchange data, Daniel Stewart analysis

Braemar's commentary on the market's performance in H1 was that:

"In May and June speculation over iron ore pricing encouraged traders into the spot market during a period when Chinese steelmakers were stockpiling which pushed rates in the Capesize market upwards and dragged the smaller sizes up simultaneously. The dry bulk market has since softened as iron ore pricing has now been agreed, causing trade and the freight market to flatten. The underlying demand for bulk commodities remains strong as China and India continue to maintain volumes and the effects of the Chinese government's stimulus package flows through their economy".

The average level of the BDI in H1 was 2,750 down 69.3% vs 8,969 a year earlier.

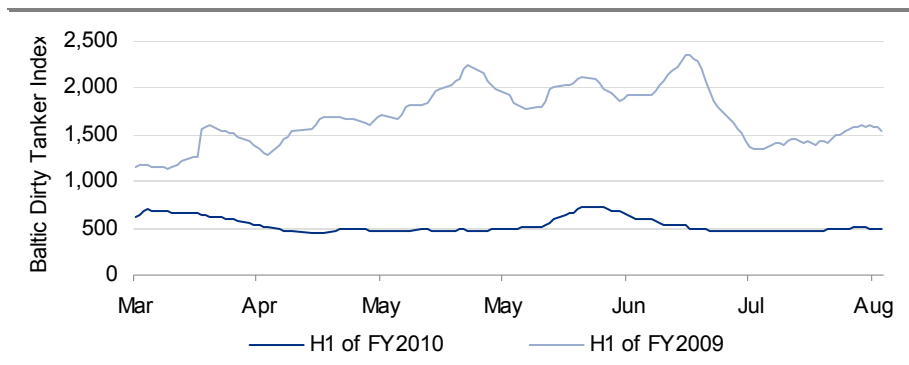
Although spot levels in the dry bulk market were well down on the levels of a year ago, they were substantially higher than the absolute lows reached in the wake of the meltdown of financial markets towards the end of calendar 2008.

The BDI reached a low point of 663 – a decline from the market peak of 94.4% - on 5th December 2008 and its average level in the second half of Braemar's FY2009 was 1,903.

Continuing strong demand for iron ore and coal imports from China and India are among the factors behind the recovery that are highlighted by Braemar. It also highlights that the fall in iron ore prices and freight rates meant that the delivered price of iron ore imported from Australia and Brazil became far lower than China's domestically produced iron ore.

The comparative picture for crude oil tanker spot charter rates is shown below:

Chart 2: Baltic Dirty Tanker Index - half year vs half year



The average level of the BDTI was 535 in H1, down 69.1% compared with 1,730 a year earlier.

Source: Baltic Exchange data, Daniel Stewart analysis

The spot market for oil tankers was exceptionally strong in the comparative period but weakened markedly from the Autumn of 2008 onwards as the demand for oil dropped while size of the tanker fleet was static.

The year-on-year drop in oil demand has been fairly modest: OPEC estimates that oil demand in Q1 of 2009 was 83.91 million bopd **down 3.04%** year-on-year. It's estimate for Q2 is that demand was **down 2.38%** at 83.16 million bopd.

Oil demand down 2-3%

The effect on the crude oil tanker market was greater than this might suggest because all of the reduction in demand was met by cuts in production by OPEC members acting, as usual, as the world's swing producers.

Saudi Arabia, for instance, has cut its production by 14.7% (from 9.5m to 8.1m bopd) between July 2008 and September 2009. Total OPEC production is down by 7.4% compared with average 2008 production while non-OPEC production has been steady at around 51m bopd. The oil production which has been shut in was more likely to be moved by tanker.

Shipbrokers usually estimate that a 1 million b/d cut in crude oil production equates to a drop in VLCC demand amounting to 30 vessels. With oil demand currently down by 2.5m bopd from the recent peak, this rule of thumb suggests that about 75 VLCCs have become surplus to requirements in the last year and a half. With the world's VLCC fleet standing at 519 ships, this is a significant overhang.

Braemar's commentary on the market performance in H1 was as follows:

"At the beginning of the year the tanker industry along with the rest of the shipping markets was bracing itself for a significant period of low charter rates as newbuildings delivered to the market at the same time as the global economic slow-down reduced demand for industrial energy. The BDTI (Baltic Dirty Tanker Index) has lacked volatility and fluctuated between 453 and 731 over the past 6 months, currently standing at 580, thus indicating an ominous outlook for the ship owners and operators alike."

There is a similar story in the spot rates for petroleum product tankers; the average level of the Baltic Clean Tanker Index was 442 in the Braemar's first half year, down 65% from the average level of 1,270 in the comparative period last year.

Product tankers

Braemar is also active in the broking of LPG and LNG ships, chemical tankers, container ships and in the offshore market (oil supply vessels, for instance). Other segments of the shipping market tend to be less important for shipbroking companies



and Braemar is no exception, with the dry bulk and crude oil tanker markets being the biggest earners.

Although freight rates and vessel values are well down compared with a year ago. Braemar reported that:

Volumes holding up.

"...in the shipbroking areas in which we operate, transaction volumes are, for the most part, fully restored to the levels seen before the financial crisis and in some cases they have increased"

The volume of Sale & Purchase transactions concluded in the first half was very strong with the CEO commenting that:

S&P

"Our sale and purchase section had a tremendously successful first half, setting a record for transaction volumes much of which will be delivered in the second half of the year. Through our extensive contact base we have had many clients taking advantage of falling price levels in all segments and our market position remains strong. In addition to this, our demolition volumes have increased substantially and we see this continuing as a result of the weaker freight rates."

Our understanding is that Sale & Purchase contributed about 45% of the division's revenue in H1 (or about £11.4m) compared with about 41% (c.£14m) a year earlier.

The revenue here is split between:

- Sale and purchase of second hand ships
- New build contracts
- Scrapping

Braemar, in common with the other quoted shipbrokers, does not disclose the split between these three revenue streams, each of which typically attracts a commission of 1% of the value of the vessel.

Of these three elements, new build contracts will be the most predictable on a short term view: commissions are paid in stages throughout the period between ordering and delivery of a new vessel. The expected payments for any one ship will be known in advance once an order is placed, the only doubt – although it can be a very serious one – is whether the order will be completed in line with the original schedule or at all.

New buildings

This doubt is always there to an extent but is particularly high at present because of the massive shift in charter rates (and hence ship values) and the reduction in the availability of bank credit for ship finance that we have seen in the last 18 months. The time delay between order and delivery of a new ship (up to 3 years) makes it a risky business, especially for leveraged shipping companies or vessel owners. Most vessels now being delivered will be worth less than they cost to build and, depending on the vessel type and when they were ordered, the gap can easily be tens of millions of dollars.

The problem here is acute and widespread as the recession came at a time when the shipyards' order books were at record levels. The ship owner can either take the hit, if he/she has enough equity or try to negotiate a delay in the delivery date with the shipyard. In some cases, the ideal solution for the owner is for the shipyard to go bust.

Braemar's experience to date has been better than average; its forward order book (which includes term charter as well as newbuild business) was *"overall little changed"* in H1 with some new business which offset the deliveries of new ships.

Braemar has seen some deferrals of newbuilds but, so far, has seen only two outright cancellations of orders in a forward book of over 100 ships.

The Chairman's statement highlighted that... *"The timing and volume of newbuilding deliveries within the industry is a cause for uncertainty over the coming years."* This caution, though, was more directed at the effect these deliveries would have on charter rates than on the likely performance of Braemar's own forward book. While many shipbuilding orders placed in the boom times were speculative – placed by owners hoping to "flip" the vessel for a higher price shortly after delivery – Braemar did not get involved in this business.

Another factor which has protected Braemar from the decline (and volatility) of the spot charter market in the last year has been its Time Charter business. These contracts are long-term charters of ships – typically from 5-7 years in length – where Braemar receives its commissions (again, typically 1.25%) monthly over the life of the contract.

Time charter...another buffer

In addition to being a very stable source of earnings, these commissions tend to be at much lower rates than those seen at the peak of the market and, as such, are less likely to be drastically uneconomic for the charterer of the vessel.

At the start of its current financial year (i.e. 28th February 2009) about 40% of Braemar's £29m forward order book for the next year was Term Charter business. At the exchange rate on that date (\$1.425/£) this suggests that Braemar's current annual income from term charters is about \$16.5m. This is about 20% of our forecast revenue for the group's shipbroking division.

Another stabilising effect that this business has is with regard to staff retention. Any of the group's fee earners who might consider leaving for greener pastures elsewhere would have to walk away from the time charter business that they had written in earlier years and start again from zero.

A substantial proportion of the pay of the fee earners within a shipbroking business is in the form of bonuses. The typical arrangement is that the bonus pool is half of the pre-bonus operating profit of the division. So, whatever the fall (or rise) in the revenue of the division - all other things being equal - the operating profit falls by half of that amount.

Staff bonuses...the biggest buffer

This principal showed through in the interim results just reported:

Table 4: Braemar Shipping Services plc - Shipbroking division

Half year to 31st August:	2008	2009	difference
Revenue	34,446	25,370	(9,076)
Operating costs	25,451	19,681	(5,770)
Segment operating profit	8,995	5,689	(3,306)

Source: Company data, Daniel Stewart analysis

In addition to this effect, there was a drop in "unallocated common costs" – which is mostly board costs – between the two half years, from £1.675m to £1.354m. This will reflect the effect on board room bonuses of the decline in profits from shipbroking.

Collectively, the non-shipbroking businesses of Braemar reported segment operating profits of £3.24m in the first half, up 18% compared with the £2.74m reported a year earlier.

Non-broking businesses doing well

The "Technical" division, which comprises three main companies – Falconer, Steege and Wavespec – is the biggest of the three. Its operating profit was down by 13% from £2.22m to £1.93m.

Technical

Negative factors included the reduction in oil rig movements during the first half of the year – which hit Braemar Falconer – and the quiet hurricane season in the Gulf of Mexico – which effected the results of Braemar Steege.

Offsetting these pressures, Falconer won new contracts in China and Vietnam while Steege was recently appointed as loss adjuster on the oil rig fire at the Montara Field in the Timor Sea, offshore Western Australia. This will benefit results in the second half.

Profits in the Logistics division were well ahead, year-over-year, with operating profits of £1.15m compared with £0.34m a year ago, despite a reduction in revenue of 26%, from £12.6m to £16.0m.

[Logistics](#)

Our understanding is that all of the swing in operating profit between the two half years was caused by the reversal of a provision of £0.4m which was made in the first half of the prior year. So, between the two half years, a one-off loss of £0.4m became a one-off profit of £0.4m as the group made a full recovery of an expected loss.

Clean of this effect, the operating profits of the division were about £0.75m, similar to the underlying result for both the first and second halves of FY2009.

Profits in Environmental were comparable with last year's first half and showed a good recovery from the losses reported in H2 of last year. The H2 losses were mainly due to redundancy costs and should not be repeated this year.

[Environmental](#)

The table below summarises the dates, costs and returns of the companies that Braemar has acquired since it began its diversification strategy. The first of these acquisitions, Wavespec in 1999, was completed before the merger of the Braemar businesses with Seascope Shipping Holdings plc in 2001.

[Healthy returns](#)

Table 5: Braemar's acquisitions

Company and division (£'000s)	Acquisition Date	Consideration:			Total	Forecast Operating profit	Pre-tax ROI (%)	p/e
		Initial	Deferred Paid	Deferred Outstanding				
Logistics								
Cory Brothers Shipping Agency	30 Jul 03	1,658	-	-	1,658			
Gorman Cory Shipping Agency Ltd	1 Mar 06	241	900	-	1,141			
Geo A Morrison & Co (Leith) Ltd	30 Jun 05	254	181	-	435			
Planetwide Group Ltd	2 Nov 05	438	350	-	788			
Fred Olsen Freight	24 Dec 07	447	730	355	1,532			
Logistics - Total		3,038	2,161	355	5,554	1,521	27.4	5.2
Technical								
Wavespec Ltd	19 Feb 99	280	150	-	430			
Falconer Bryan Pte Ltd	7 Jul 07	5,977	-	-	5,977			
Steege Kingston Partnership Ltd	3 Mar 08	5,989	1,036	1,226	8,251			
Technical - total		12,246	1,186	1,226	14,658	3,980	27.2	5.3
Environmental								
DV Howells Ltd	22 Mar 06	415	160	-	575			
Hi-Bar (UK) Ltd	29 Sep 06	134	225	-	359			
Environmental - total		549	385	-	934	310	33.2	4.3
Total		15,833	3,732	1,581	21,146	5,811	27.5	5.2

Source: Company data, Daniel Stewart analysis

The operating profit figures shown above are our forecasts for FY2010. For the Logistics division we have stripped out the £0.4m recovery mentioned above.

Braemar finished the period with a net cash balance of £9.8m and no debt. The closing cash balance was £15.36m below the level at 31 December 2008.

[Cash flow and balance sheet](#)

The cause of the outflow was the payment of cash bonuses to the fee earning shipbroking staff in the first half. Unlike ACM Shipping Group, for instance, Braemar pays all of its bonuses in the first half of its financial year. This can lead to big swings in cash levels between the year end and the half year end if, as happened this time round, we have a relatively lean year coming after a very profitable year.

The bonuses showed through in the cash flow statement (see page 14) as part of a £15.081m outflow in the "Trade and other payables" line.

The bonus for the shipbroking staff is typically 50% of the pre-bonus profit for the business. This means that the bonus accrual for the year is equal to the post-bonus operating profits of the division. As the division reported an operating profit of **£15.046m** in FY2009, this will be a rough approximation of the bonuses accrued in FY2009 and paid in H1*. In addition, the bonuses for the Board - **£1.52m** - were paid in H1.

* National insurance will have added to the cash outflow

Offsetting these cash outflows, the group will have accrued, but not paid, shipbroking bonuses for FY2010 of around £5.7m in the first half. The net of these three numbers is an outflow of about £10.9m, which accounts for over 70% of the movement in "Trade and other payables" in H1. The balance will be due to the National Insurance payments on the bonuses and normal working capital movements.

Forecasts

Our forecasts for Braemar are shown in full on pages 13-15. It is worth highlighting that our numbers may not be on a comparable basis to some other broker's numbers; our adjusted profit and EPS figures exclude both charges for share-based payments and amortisation of intangible assets. These are very material adjustments – adding back, we estimate, about £1.98m to our raw forecasts for FY2010 and £1.5m for FY2011.

For FY2010, we expect profits in H2 to be similar to those of H1. There will be no further recovery of the bad debt which boosted the Logistics division in H1 but, offsetting that, current spot charter rates for dry bulk ships (as measured by the Baltic Dry Index) are about 16% higher than the average seen in H1 while for crude oil tankers (measured by the Baltic Dirty Tanker Index) they are 10% higher.

FY2010

In addition, the shipbroking division will benefit from the completion of some of the Sale & Purchase business that was arranged in the first half.

The revenues from shipbroking are likely to be translated into sterling at a similar rate to the \$1.57/£ seen in the first half. We have been conservative in assuming that operating margins in shipbroking are just 20.8% in H2 versus the 22.4% seen in H1.

We expect the group to show some growth in profits next year and have upgraded our forecast from £15.2m to £16.3m.

FY2011

We have assumed that current spot charter rates are maintained, which will boost the shipbroking revenue year-on-year. However, we have assumed that Sale & Purchase revenue declines somewhat from the current high levels so that total revenue from shipbroking is \$83.5m, a similar level to our current year forecast of \$83.2m.

At current exchange rates of \$1.628/£, we expect the sterling revenue of the division to fall from £53.0m this year to £51.25m next.

We expect a useful increase in profits from Technical, helped by a recovery in the number of rig moves (Falconer), a more normal hurricane season in the USA (Steege) and the revenue from the Montara Field incident in Western Australia. Meanwhile, earnings from the Logistics businesses should edge up a little from the underlying level of £1.5m seen in recent periods.

The net result is that we expect Braemar to report EPS of **57.3p for FY2011**. This is within 10% of the peak EPS reported for FY2009, a period which included the boom year for shipbroking. Despite this, the share price, although well above its recent lows, is still over 20% below its 2008 high and reflects a relatively modest rating. This brings us to the subject of valuation.

Valuation

We believe that the recent results reported by Clarkson and Braemar go a long way to demonstrate the resilience of shipbrokers' businesses in the face of the current weak conditions in the shipping market.

The keys to this resilience are the strong forward book of both time charter and new build commissions which they stand to receive and the earnings buffer which is provided by staff bonuses.

The raw valuations of the UK's three listed shipbrokers, using our current forecasts, is shown below:

Table 6: The UK's listed ship brokers

	Price (p)	EPS (p)			p/e		
		Historic	Year 1	Year2	Historic	Year 1	Year2
ACM [^]	206	37.1	26.7	28.1	5.6	7.7	7.3
Clarkson	844.5	201.1	82.6	91.7	4.2	10.2	9.2
Braemar	426.75	63.4	55.3	57.3	6.7	7.7	7.4

Source: Daniel Stewart forecasts

However, the three companies' capital structures are very different:

- **Clarkson** had **£38.1m** of net cash on its balance sheet at the end of June 2009. This figure excludes the accrued (but not paid) bonuses and the proposed interim dividend of £3.0m (paid on 2 October 2009). In addition, we estimate that the group had about **£11.8m** of its own money invested in its hedge funds** - £9.4m in the Clarkson Shipping Hedge Fund and £2.4m in the Clarkson Freight Fund. The pro-forma total of the group's own cash and investments is £49.9m, equivalent to **264.5p per share**.
- **Braemar** had **£9.837m** of its own cash on its balance sheet on 31 August 2009. To make this comparable with our Clarkson calculations we need to strip out an estimate of the accrued (but not paid) staff bonuses at the same date (**£5.7m**) and the interim dividend of **£1.84m** (8.75p per share, xd 4th Nov 2009, to be paid on 11th Dec 09). The net total is £2.3m, equivalent to **11.0p per share**.
- **ACM Shipping Group** is currently in its closed period ahead of the publication of its interim results on 24th November 2009. Our forecast of its cash balance at the end of September 2009 is £6.7m, while our estimate for its unpaid bonus accrual is £5.3m. The net balance of £1.4m is equivalent to **8.1p per share**.

If we adjust the share prices to strip out the companies' own cash and investments and adjust the earnings to take out the interest income, we get the following "normalised" valuations:

Table 7: Listed brokers - adjusted prices and EPS

	Price (p)	EPS (p)			p/e		
		Historic	Year 1	Year2	Historic	Year 1	Year2
ACM	198	37.1	26.7	28.1	5.3	7.4	7.0
Clarkson	580	199.3	80.4	89.5	2.9	7.2	6.5
Braemar	416	62.4	54.6	56.5	6.7	7.6	7.4

Source: Daniel Stewart forecasts

Qualitative

[^] ACM is in closed period but we have updated our model to reflect current exchange rates and spot charter rates. These give an EPS upgrade of 2.6% this year and 5.3% next. We will revisit these numbers when ACM reports its interims.

**We exclude the £2.8m of available-for-sale financial assets shown in Clarkson's 2008 Annual Report as these are unlisted ordinary shares shown at cost as there is no reasonable pricing alternative

We think all of the listed shipbrokers are too cheap and are refreshing our target prices to reflect revised p/e multiple targets. For ACM and Clarkson, our new targets reflect an underlying 8.0x p/e multiple based on our Year 2 projections (to March 2011 for ACM and to December 2010 for Clarkson). For Braemar, our new target reflects an 8.5x p/e multiple for the year to February 2011.

The justification for the (slightly) higher multiple for Braemar is:

- Relative to ACM - its greater diversification, both within its shipbroking earnings and its ownership of the non-shipbroking businesses.
- Relative to Clarkson – the absence of loss-makers within its portfolio of non-shipbroking businesses.

Our new target prices, are shown below:

Table 8: UK Listed shipbrokers - new target prices

	Target prices (p)			Share price (p)	Upside (%)
	New	Old	Change (%)		
ACM	233	215	+8.4	206	+13.1
Clarkson	981	916	+7.1	844.5	+16.2
Braemar	491	380	+29.2	426.75	+15.1

Source: Daniel Stewart estimates

Accordingly, we have Buy recommendations on all three of the listed brokers.

At these new target prices, the raw p/e multiples would look like this:

Multiples

Table 9: UK ship brokers - raw p/e multiple at our new target prices

	Price (p)	EPS (p)			p/e		
		Historic	Year 1	Year2	Historic	Year 1	Year2
ACM	233	37.1	26.7	28.1	6.3	8.7	8.3
Clarkson	981	201.1	82.6	91.7	4.9	11.9	10.7
Braemar	491	63.4	55.3	57.3	7.7	8.9	8.6

Source: Daniel Stewart forecasts and target prices

If we strip out the companies' cash balances from these target prices and use our adjusted earnings figures we arrive back at our target multiples, as shown here:

Table 10: Target prices, less cash balances, adjusted EPS

	Price (p)	EPS (p)			p/e		
		Historic	Year 1	Year2	Historic	Year 1	Year2
ACM	225	37.1	26.7	28.1	6.1	8.4	8.0
Clarkson	716	199.3	80.4	89.5	3.6	8.9	8.0
Braemar	480	62.4	54.6	56.5	7.7	8.8	8.5

Source: Daniel Stewart forecasts

Consolidated income statement

£'000s	Actual	Actual	Actual	Actual	Actual	Actual	Forecast	Forecast	Forecast
Year to 28th February:	2007	2008	H1	H2	2009	H1	H2	2010	2011
Revenue									
Shipbroking	40,530	52,794	34,446	25,963	60,409	25,370	27,631	53,001	51,248
Logistics	23,449	27,874	21,583	19,204	40,787	16,021	16,289	32,310	30,694
Technical	6,623	9,467	10,383	10,810	21,193	12,403	12,462	24,865	24,118
Environmental	3,229	10,829	2,694	2,051	4,745	3,322	2,450	5,772	4,950
Revenue - Continuing	73,831	100,964	69,106	58,028	127,134	57,116	58,832	115,948	111,010
Discontinued	33,369	25,770	-	-	-	-	-	-	-
Total Revenue	107,200	126,734	69,106	58,028	127,134	57,116	58,832	115,948	111,010
Profit for the period:									
Shipbroking	10,645	13,004	8,995	6,051	15,046	5,689	5,733	11,422	11,275
Logistics	1,109	1,153	343	787	1,130	1,151	670	1,821	1,550
Technical	553	844	2,221	1,935	4,156	1,930	1,950	3,880	4,715
Environmental	259	1,985	177	(342)	(165)	160	150	310	300
Segment result	12,566	16,986	11,736	8,431	20,167	8,930	8,503	17,433	17,840
Amortisation of intangibles	(284)	(451)	(528)	(546)	(1,074)	(679)	(681)	(1,360)	(888)
Goodwill Impairment	(950)	(114)	-	(56)	(56)	-	-	-	-
Exceptional items	-	89	-	-	-	-	-	-	-
Common costs	(1,844)	(2,542)	(1,675)	(1,675)	(3,350)	(1,354)	(1,354)	(2,708)	(2,659)
Operating profit	9,488	13,968	9,533	6,154	15,687	6,897	6,469	13,366	14,292
Net finance income	319	380	108	183	291	98	91	189	250
Joint ventures	207	370	144	102	246	26	105	131	250
Profit before tax	10,014	14,718	9,785	6,439	16,224	7,021	6,665	13,686	14,792
Taxation	(3,585)	(4,797)	(2,959)	(1,745)	(4,704)	(2,120)	(1,999)	(4,119)	(4,068)
Profit after tax	6,429	9,921	6,826	4,694	11,520	4,901	4,665	9,567	10,724
Discontinued operations	43	(3)	-	-	-	-	-	-	-
Minority interests	(105)	(146)	(31)	(26)	(57)	(24)	(25)	(49)	(50)
Profit attributable to ordinary shareholders	6,367	9,772	6,795	4,668	11,463	4,877	4,640	9,518	10,674
Dividends paid	(3,595)	(4,053)	(3,147)	(1,721)	(4,868)	(3,121)	(1,841)	(4,962)	(5,207)
Retained profit	2,772	5,719	3,648	2,947	6,595	1,756	2,799	4,556	5,468
Adjusted earnings									
Reported profit before tax	10,014	14,718	9,785	6,439	16,224	7,021	6,665	13,686	14,792
Amortisation of intangibles	284	452	528	546	1,074	679	681	1,360	888
Exceptional items	-	(89)	-	-	-	-	-	-	-
Goodwill Impairment	950	114	-	56	56	-	-	-	-
Share-based charges	309	554	234	219	453	311	311	622	622
Adjusted pre-tax profit	11,557	15,749	10,547	7,260	17,807	8,011	7,656	15,667	16,302
Tax	(3,585)	(4,797)	(2,959)	(1,745)	(4,704)	(2,120)	(1,999)	(4,119)	(4,068)
Profit after tax	7,972	10,952	7,588	5,515	13,103	5,891	5,657	11,548	12,234
Discontinued operations	43	(3)	-	-	-	-	-	-	-
Minority interests	(105)	(146)	(31)	(26)	(57)	(24)	(25)	(49)	(50)
Profit attributable	7,910	10,803	7,557	5,489	13,046	5,867	5,632	11,499	12,184
Fully diluted shares	19,980,539	20,075,292	20,407,248		20,572,296	20,339,131		20,800,131	21,261,131
Earnings per share - basic	32.29p	48.97p	33.51p		56.70p	24.25p		46.26p	50.74p
- adjusted & diluted	39.59p	53.81p	37.03p		63.42p	28.85p		55.28p	57.31p
Dividends declared									
Interim	6.75	8.00	8.50		8.50	8.75		8.75	9.00
Final	12.25	15.00		15.50	15.50		15.75	15.75	16.00
Total (p)	19.00	23.00			24.00			24.50	25.00

Source: Company data, Daniel Stewart forecasts

Cash flow statements

£'000s	Actual	Actual	Actual	Actual	Actual	Actual	Forecast	Forecast	Forecast
Year to 28th February:	2007	2008	H1	H2	2009	H1	H2	2010	2011
Profit before tax	10,014	14,718	9,785	6,439	16,224	7,021	6,665	13,686	14,792
Discontinued operations	62	(3)	-	-	-	-	-	-	-
Depreciation	518	687	423	533	956	461	475	936	950
Amortisation	284	452	528	546	1,074	679	681	1,360	888
Goodwill impairment charge	950	114	-	56	56	-	-	-	-
Loss/(profit) on sale of property, etc	(12)	57	-	15	15	-	-	-	-
Profit on sale of investment	-	(89)	-	(15)	(15)	-	-	-	-
Interest income	(335)	(391)	(108)	(201)	(309)	(98)	(91)	(189)	(250)
Interest expense	16	11	-	18	18	-	-	-	-
Share of profit of joint ventures	(207)	(370)	(144)	(102)	(246)	(26)	(105)	(131)	(250)
Share based payments	309	554	234	219	453	311	311	622	622
Stocks	7	(21)	(1)	1	-	-	-	-	-
Trade & other receivables	(3,874)	143	(8,527)	9,773	1,246	(509)	1,110	601	1,488
Trade & other payables	2,098	5,630	(1,470)	2,907	1,437	(15,081)	7,652	(7,429)	(1,380)
Provisions	(162)	(334)	(116)	166	50	24	-	24	-
Cash generated from operations	9,668	21,158	604	20,355	20,959	(7,218)	16,697	9,479	16,861
Interest received	335	391	108	201	309	98	91	189	250
Interest paid	(16)	(11)	-	(18)	(18)	-	-	-	-
Tax paid	(3,413)	(4,587)	(3,230)	(3,015)	(6,245)	(2,584)	(1,999)	(4,583)	(4,068)
Net cash from operating activities	6,574	16,951	(2,518)	17,523	15,005	(9,704)	14,789	5,085	13,043
Cash flows from investing activities									
Dividends from joint ventures	263	-	-	-	-	338	-	338	-
Acquisitions of subsidiaries	(1,844)	(4,270)	(4,887)	(250)	(5,137)	(1,652)	(25)	(1,677)	(1,210)
Purchase of property, plant etc	(654)	(1,032)	(654)	(535)	(1,189)	(853)	(250)	(1,103)	(500)
Sale of property plant & equipment	25	57	-	6	6	-	-	-	-
Purchase of investments	-	(38)	(8)	(1)	(9)	(19)	-	(19)	-
Proceeds from sale of investments	-	200	-	-	-	-	-	-	-
Other long term assets	(23)	(74)	11	(32)	(21)	47	-	47	-
Net cash used in investing activities	(2,233)	(5,157)	(5,538)	(812)	(6,350)	(2,139)	(275)	(2,414)	(1,710)
Cash flows from financing activities									
Proceeds from share issues	569	745	133	191	324	-	-	-	-
Dividends paid	(3,595)	(4,053)	(3,147)	(1,721)	(4,868)	(3,121)	(1,841)	(4,962)	(5,207)
Dividends paid to minority interests	(100)	(143)	-	(45)	(45)	-	-	-	-
Purchase of own shares	(50)	(1,480)	(406)	(728)	(1,134)	-	-	-	-
Payment of finance lease principal	(11)	-	-	-	-	-	-	-	-
Cash used in financing activities	(3,187)	(4,931)	(3,420)	(2,303)	(5,723)	(3,121)	(1,841)	(4,962)	(5,207)
Increase in cash & cash equivalents	1,154	6,863	(11,476)	14,408	2,932	(14,964)	12,673	(2,291)	6,126
Opening cash & equivalents	13,567	14,634	21,635	11,052	21,635	25,194	9,837	25,194	22,510
Increase in cash & cash equivalents	1,154	6,863	(11,476)	14,408	2,932	(14,964)	12,673	(2,291)	6,126
Foreign exchange differences	(87)	138	893	(266)	627	(393)	-	(393)	-
Closing cash & equivalents	14,634	21,635	11,052	25,194	25,194	9,837	22,510	22,510	28,637

Source: Company data, Daniel Stewart forecasts

Balance sheets

£'000s	Actual 28 Feb 2007	Actual 29 Feb 2008	Actual 31 Aug 2008	Actual 28 Feb 2009	Actual 31 Aug 2009	Forecast 28 Feb 2010	Forecast 28 Feb 2011
Non-current assets							
Goodwill	22,606	25,826	28,235	28,137	28,198	28,198	28,198
Other intangible assets	1,582	2,315	4,145	3,921	4,452	3,771	2,883
Property, plant & equipment	5,478	5,820	6,175	6,189	6,567	6,342	5,892
Investments	1,538	1,890	2,087	2,344	1,902	2,007	2,257
Deferred tax assets	642	754	987	810	612	612	612
Other receivables	81	155	144	176	129	129	129
	31,927	36,760	41,773	41,577	41,860	41,059	39,971
Current assets							
Inventories	70	91	92	92	92	92	92
Trade & other receivables	21,750	26,784	42,721	37,963	36,053	34,943	33,455
Derivative financial instruments	27	107	-	160	1,402	1,402	1,402
Restricted cash	-	3,952	-	-	-	-	-
Cash & cash equivalents	14,634	21,635	11,052	25,194	9,837	22,510	28,637
	36,481	52,569	53,865	63,409	47,384	58,948	63,586
Total assets	68,408	89,329	95,638	104,986	89,244	100,007	103,557
Current liabilities							
Derivative financial instruments	-	(49)	(1,168)	(649)	-	-	-
Trade & other payables	(29,011)	(39,540)	(41,016)	(46,221)	(29,247)	(36,899)	(34,309)
Current tax payable	(2,402)	(3,017)	(3,438)	(2,689)	(2,575)	(2,575)	(2,575)
Client monies held as escrow agent	-	(3,952)	-	-	-	-	-
Provisions	(294)	(48)	(57)	(88)	(67)	(67)	(67)
	(31,707)	(46,606)	(45,679)	(49,647)	(31,889)	(39,541)	(36,951)
Non-current liabilities							
Deferred tax liabilities	(283)	(681)	(2,301)	(2,255)	(2,390)	(2,390)	(2,390)
Deferred consideration	-	(434)	-	-	(175)	(150)	(150)
Provisions	(169)	(81)	(107)	(137)	(133)	(133)	(133)
	(452)	(1,196)	(2,408)	(2,392)	(2,698)	(2,673)	(2,673)
Net assets	36,249	41,527	47,551	52,947	54,658	57,794	63,933
Equity							
Share capital	2,023	2,061	2,102	2,104	2,104	2,104	2,104
Share premium	8,554	9,261	10,876	10,920	10,920	10,920	10,920
Shares to be issued	(1,047)	(2,527)	(2,798)	(3,479)	(3,195)	(3,195)	(3,195)
Other reserves	21,020	20,687	21,770	25,020	24,708	24,708	24,708
Retained earnings	5,390	11,717	15,434	18,268	19,982	23,093	29,183
Group shareholders' equity	35,940	41,199	47,384	52,833	54,520	57,631	63,720
Minority interests	309	328	167	114	138	163	213
Total equity	36,249	41,527	47,551	52,947	54,658	57,794	63,933
Net asset value per share (p)	177.6	199.9	225.4	251.2	259.2	274.0	302.9

Source: Company data, Daniel Stewart forecasts





Disclosure Checklist

Company	Code	Disclosure
Braemar Shipping Services plc	BMS	3, 10
ACM Shipping Group plc	ACMG	3
Clarkson plc	CKN	3

Source: Daniel Stewart

1. Within the past twelve months Daniel Stewart & Co plc and/or its affiliates has managed or co-managed a public offering for this Company, for which it received fees or the promise of fees
2. Daniel Stewart & Co plc and/or its affiliates act as corporate broker or nominated advisor to this Company
3. Daniel Stewart & Co plc and/or its affiliates regularly hold/may hold in future trading positions (which may include options) in this Company
4. Daniel Stewart & Co plc and/or its affiliates holds more than 5% of the securities of this Company
5. The Company holds more than 5% of the securities of Daniel Stewart & Co plc and/or its affiliates
6. Daniel Stewart & Co plc and/or its affiliates may currently be providing, expects to provide within the next three months or may have provided within the previous twelve months, investment banking services to this Company, which have given rise to payment or the promise of payment
7. The author and/or an individual responsible for production of this report has direct ownership of stock in this Company
8. The author responsible for the production of this report received or purchased shares in the issuer, prior to a public offering of the shares.
9. Daniel Stewart and Company is party to an agreement with this company for the publication of research on it
10. This research note has been disclosed to the Company, with resulting amendments, prior to its dissemination
11. Daniel Stewart & Co and/or its affiliates act as financial advisor to this company

The Daniel Stewart recommendation structure is based on relative upside/downside to target price. The target price is set on a rolling 12 month view. Upside or downside of 10% or more is categorised as Buy or Sell respectively, and less than 10% a Hold.

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Distribution of Ratings

	All Companies	Of which are Investment Banking Clients in the last 12 months
Buy	63%	30%
Hold	29%	15%
Sell	8%	0%

data as of Q2'09 30 September 2009

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Key Assumptions

- Spot ship charter rates stabilise at around current levels

Income (£m)	02/08A	02/09A	02/10E	02/11E
Turnover	101.0	127.1	115.9	111.0
Gross Profit	n/a	n/a	n/a	n/a
EBITDA	15.7	18.2	16.3	16.8
EBIT	15.0	17.2	15.3	15.8
PBT	15.7	17.8	15.7	16.3
EPS (Adj.) (p)	53.8	63.4	55.3	57.3
EPS (p)	49.0	56.7	46.3	50.7
DPS (p)	23.0	24.0	24.5	25.0

Ratios (x)	02/08A	02/09A	02/10E	02/11E
P/E	8.0	6.7	7.7	7.5
EV/EBITDA	4.3	3.7	4.1	4.0
Div. Yield (%)	5.4	5.6	5.7	5.8
P/NAV	2.1	1.7	1.6	1.4
EV/Gross profit	n/a	n/a	n/a	n/a
EV/EBIT	4.5	3.9	4.4	4.3
P/FCF	7.3	10.2	33.3	8.0
FCF Yield (%)	13.7	9.8	3.0	12.5
NAV (p)	199.9	251.2	274.0	302.9

Cash Flows (£m)	02/08A	02/09A	02/10E	02/11E
Op.CF	21.2	21.0	9.5	16.9
FCF	11.8	8.7	2.7	11.3
FCFPS (p)	58.7	42.1	12.8	53.3

Balance Sheet (£m)	02/08A	02/09A	02/10E	02/11E
Fixed Assets	36.8	41.6	41.1	40.0
Current Assets	52.6	63.4	58.9	63.6
Current Liabilities	(46.6)	(49.6)	(39.5)	(37.0)
Capital Employed	19.6	27.6	35.1	35.1
Long-term Liabilities	(1.2)	(2.4)	(2.7)	(2.7)
Net Assets	41.2	52.8	57.6	63.7
Net Debt/(Cash)	(21.6)	(25.2)	(22.5)	(28.6)

Data is adjusted
DSC EPS is fully diluted

Recent News / Events

27 October 2009	Half Yearly Report
24 July 2009	Interim Mgt Statement
12 May 2009	Final Results
13 January 2009	Interim Mgt Statement

Management Team

Sir Graham Hearne	CBE Chairman
Alan Marsh	Chief Executive
James Kidwell	Finance Director
D. Petropoulos	Executive director
Q.B. Soames	Executive Director
R.D. Agutter	Non-executive director
J.S. Denholm	Non-executive director
D.G. Moorhouse	Non-executive director

Major Shareholders

	%
Alan Robert Marsh	5.88
Quentin Bruce Soanes	5.58
JP Morgan Chase & Co	3.22
Majedie Asset Management Ltd	6.49
AXA Framlington Inv Mgmt	5.87
Legal & General Group PLC	4.24
Other Directors/Officers	3.22

Consensus and DSC Estimates

	02/10E
PBT (£m)	
DSCe	15.7
EPS (p)	
DSCe	55.3
DPS (p)	
DSCe	24.5

Source: Fidessa