

Singapore Shipping Corp (SSCL SP)

Buy (Maintained)

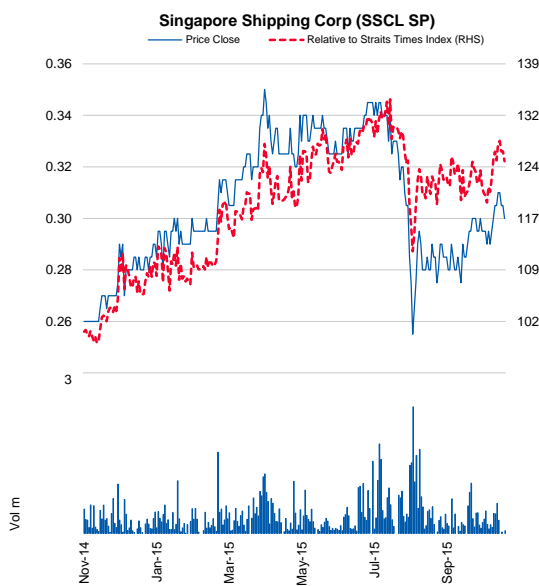
Transport - Logistics

 Target Price: **SGD0.67**

Market Cap: USD92.1m

 Price: **SGD0.30**

Call Of Conviction

 Macro
 Risks
 Growth
 Value


Source: Bloomberg

Avg Turnover (SGD/USD)	0.10m/0.07m
Cons. Upside (%)	123.3
Upside (%)	123
52-wk Price low/high (SGD)	0.26 - 0.35
Free float (%)	51
Share outstanding (m)	436
Shareholders (%)	
Ow Chio Kiat Ao	35.3
Tan Gim Tee Holdings	3.0
Chu Siew Hoong	2.8

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	7.1	3.4	(7.7)	(7.7)	15.4
Relative	18.5	4.0	(2.3)	6.4	24.8

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SSC delivered a stellar set of 2QFY16 results that beat our expectation by 20%. Maintain BUY with a DCF-derived SGD0.67 TP (from SGD0.59, 123% upside, WACC: 10%, terminal growth: 0%), implying 11.7x FY17 P/E. Most notably, we are encouraged by its bullish outlook statement, which implies that a new vessel acquisition (with favourable contract terms in-built) is on the horizon without an equity-raising exercise.

- ◆ **2QFY16 (Mar) results beat estimates.** Beating our estimates by 20%, Singapore Shipping Corporation (SSC) delivered stellar 2Q results with net income surging 136.4% YoY and 36.5% QoQ to USD4.2m. This was due to the absence of several one-off items such as: i) a vessel that was off hire for dry-docking (likely to be one of the smaller vessels), and ii) one-off crew hiring and training costs for the newly-delivered vessel (*MV Taurus*) that occurred in 1QFY16.
- ◆ **Promising outlook looks set in stone.** As we pointed out previously, SSC's ship owning business is extremely safe (>10 years contract with the customer bearing most of the variable costs). Without factoring in any new vessel acquisitions, 2QFY16 provided a very good indication of what SSC can and would likely deliver every quarter. Hence, we raise our FY16 and FY17 earnings estimates by 14.2% and 12.7% respectively to account for operating costs that came in lower than expected.
- ◆ **Strong operating cash flow powers new vessel acquisition.** Key to the 2QFY16 results is a very bullish outlook statement indicating that SSC is operationally and financially ready to undertake new vessel acquisitions with satisfactory terms. In 1HFY16 alone, SSC generated USD12.6m of net operating cash flow, equivalent to around 2/3 of the cost of a second hand vessel. Hence, this justifies our thesis that SSC can purchase new vessels without raising any equity. Also, as management had previously indicated that new vessel purchases would come with favourable contracts terms like: i) long-term charters, ii) blue-chip customers, and iii) solid returns comparable to current vessels, we can expect a new vessel with favourable terms on the horizon. This would make our base case of one new vessel per year well-founded.

Forecasts and Valuations	Mar-14	Mar-15	Mar-16F	Mar-17F	Mar-18F
Total turnover (USDm)	34.4	35.1	49.0	57.5	66.4
Reported net profit (USDm)	8.6	9.3	15.3	17.7	20.0
Recurring net profit (USDm)	7.6	9.3	15.3	17.7	20.0
Recurring net profit growth (%)	12.0	22.1	64.4	15.6	13.0
Recurring EPS (USD)	0.02	0.02	0.04	0.04	0.05
DPS (USD)	0.007	0.007	0.007	0.007	0.007
Recurring P/E (x)	12.1	9.9	6.0	5.2	4.6
P/B (x)	1.47	1.38	1.16	0.98	0.83
P/CF (x)	6.20	8.57	3.27	3.12	2.80
Dividend Yield (%)	3.3	3.3	3.3	3.3	3.3
EV/EBITDA (x)	7.4	15.0	7.6	6.5	5.6
Return on average equity (%)	14.3	14.4	21.0	20.5	19.6
Net debt to equity (%)	net cash	150.0	122.1	97.5	74.5
Our vs consensus EPS (adjusted) (%)			0.0	0.0	0.0

Source: Company data, RHB

Figure 1: 2QFY16 results summary

FYE Mar (USDm)	2QFY15	1QFY16	2QFY16	QoQ (%)	YoY (%)	Comments
Revenue	8.2	11.7	12.5	6.7	52.1	
EBITDA	2.5	5.5	6.3	14.0	148.8	
<i>EBITDA margin (%)</i>	<i>31%</i>	<i>47%</i>	<i>50%</i>			
Depreciation and amortisation	(0.8)	(1.6)	(1.7)	1.3	100.2	
EBIT	1.7	3.9	4.6	19.5	172.6	
<i>EBIT margin (%)</i>	<i>20.6%</i>	<i>32.9%</i>	<i>36.9%</i>			
Net finance cost	(0.1)	(0.6)	(0.8)	43.0	n.m	
Pretax profit	1.8	3.0	4.2	38.9	136.4	
<i>Pretax margin (%)</i>	<i>22%</i>	<i>26%</i>	<i>34%</i>			
Tax	(0.0)	(0.0)	(0.0)	44.4	n.m	
<i>Effective tax rate (%)</i>	<i>0%</i>	<i>0%</i>	<i>0%</i>			
Net profit	1.8	3.0	4.2	39.7	136.9	
<i>Net margin (%)</i>	<i>22%</i>	<i>26%</i>	<i>34%</i>			

Source: RHB

Financial Exhibits

Profit & Loss (USDm)	Mar-14	Mar-15	Mar-16F	Mar-17F	Mar-18F
Total turnover	34	35	49	57	66
Cost of sales	(22)	(22)	(24)	(29)	(35)
Gross profit	12	13	25	28	32
Other operating costs	(4)	(4)	(7)	(8)	(9)
Operating profit	8	9	18	20	22
Operating EBITDA	12	13	24	27	31
Depreciation of fixed assets	(3)	(4)	(6)	(7)	(8)
Operating EBIT	8	9	18	20	22
Net income from investments	(0)	(0)	-	-	-
Interest income	0	0	0	0	1
Interest expense	(1)	(1)	(3)	(3)	(3)
Exchange gains	0	1	-	-	-
Exceptional income - net	1	-	-	-	-
Pre-tax profit	9	9	15	18	20
Taxation	-	(0)	-	-	-
Profit after tax & minorities	9	9	15	18	20
Reported net profit	9	9	15	18	20
Recurring net profit	8	9	15	18	20

Source: Company data, RHB

Cash flow (USDm)	Mar-14	Mar-15	Mar-16F	Mar-17F	Mar-18F
Operating profit	8	9	18	20	22
Depreciation & amortisation	3	4	6	7	8
Change in working capital	(1)	1	1	(0)	0
Other operating cash flow	4	(4)			
Operating cash flow	15	10	26	27	31
Interest received	(0)	(0)	(0)	(0)	(1)
Interest paid	1	1	3	3	3
Dividends received	(0)	(0)	-	-	-
Tax paid	(0)	(0)	-	-	-
Cash flow from operations	15	11	28	30	33
Capex	(0)	(110)	(17)	(17)	(17)
Other new investments	(1)	2	-	-	-
Other investing cash flow	(1)	0	0	0	1
Cash flow from investing activities	(2)	(108)	(16)	(16)	(16)
Dividends paid	(3)	(3)	(3)	(3)	(3)
Proceeds from issue of shares	(3)	(5)	-	-	-
Increase in debt	(5)	96	1	1	1
Other financing cash flow	(1)	(1)	(3)	(3)	(3)
Cash flow from financing activities	(12)	87	(5)	(5)	(5)
Cash at beginning of period	17	18	7	12	19
Total cash generated	1	(10)	7	9	12
Forex effects	(0)	(0)	-	-	-
Implied cash at end of period	18	7	15	21	31

Source: Company data, RHB

Financial Exhibits

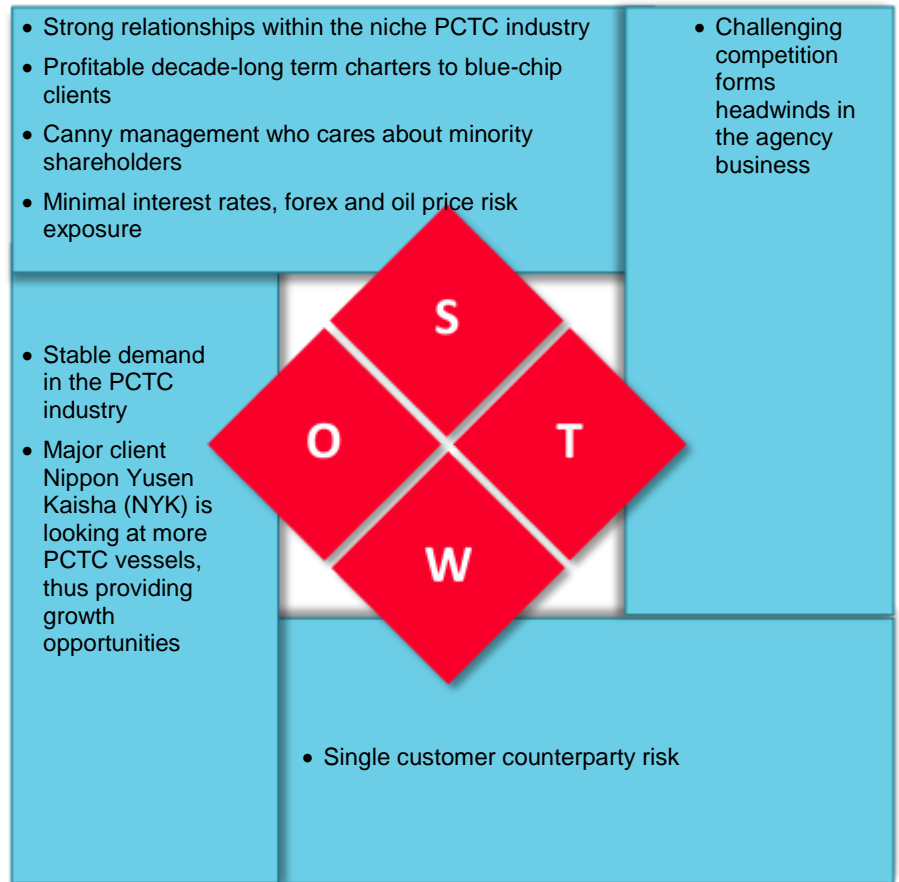
Balance Sheet (USDm)	Mar-14	Mar-15	Mar-16F	Mar-17F	Mar-18F
Total cash and equivalents	20	7	12	19	29
Inventories	0	0	0	0	0
Accounts receivable	5	6	7	9	10
Other current assets	1	-	-	-	-
Total current assets	26	14	20	28	39
Total investments	4	5	5	5	5
Tangible fixed assets	56	162	172	181	190
Intangible assets	1	1	1	1	1
Total other assets	0	0	0	0	0
Total non-current assets	61	168	178	187	195
Total assets	87	182	197	215	234
Short-term debt	5	12	12	12	12
Accounts payable	5	6	8	10	11
Other current liabilities	0	1	1	1	1
Total current liabilities	9	19	22	23	25
Total long-term debt	15	95	97	98	99
Other liabilities	0	0	0	0	0
Total non-current liabilities	15	95	97	98	99
Total liabilities	24	115	118	121	124
Share capital	32	32	32	32	32
Retained earnings reserve	31	37	49	64	81
Other reserves	(0)	(2)	(2)	(2)	(2)
Shareholders' equity	63	67	79	94	111
Total equity	63	67	79	94	111
Total liabilities & equity	87	182	197	215	234

Source: Company data, RHB

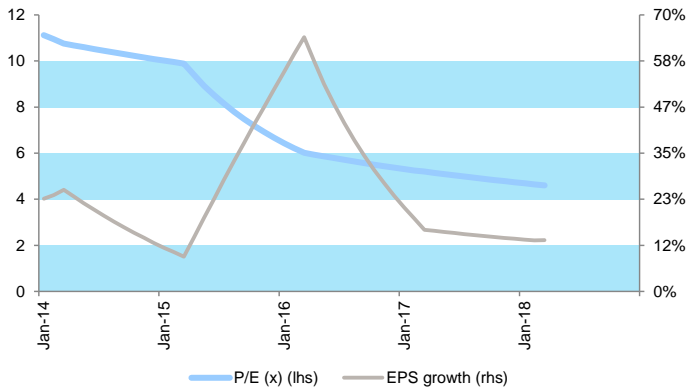
Key Ratios (USD)	Mar-14	Mar-15	Mar-16F	Mar-17F	Mar-18F
Revenue growth (%)	73.0	2.0	39.5	17.3	15.5
Operating profit growth (%)	16.7	4.0	103.7	12.9	10.6
Net profit growth (%)	25.7	8.8	64.4	15.6	13.0
EPS growth (%)	25.7	8.8	64.4	15.6	13.0
BVPS growth (%)	9.0	6.8	18.3	18.5	18.1
Operating margin (%)	24.3	24.8	36.3	34.9	33.4
Net profit margin (%)	24.8	26.5	31.2	30.8	30.1
Return on average assets (%)	10.0	6.9	8.1	8.6	8.9
Return on average equity (%)	14.3	14.4	21.0	20.5	19.6
Net debt to equity (%)	(1.4)	150.0	122.1	97.5	74.5
DPS	0.007	0.007	0.007	0.007	0.007
Recurrent cash flow per share	0.03	0.02	0.06	0.07	0.08

Source: Company data, RHB

SWOT Analysis

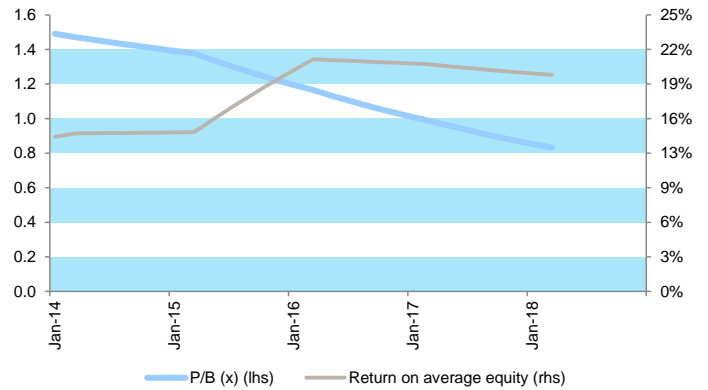


P/E (x) vs EPS growth



Source: Company data, RHB

P/BV (x) vs ROAE



Source: Company data, RHB

Company Profile

Singapore Shipping Corporation Limited (SSC) owns, charters and manages ships and vessels. The company also provides warehousing and logistics, freight forwarding, tugging and ancillary marine services. It also operates shipping agencies and terminals.

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2015-08-30	Buy	0.59	0.30

Source : RHB, Bloomberg

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Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

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