



CHINA  
DEVELOPMENT  
FINANCIAL

# Samudera Shipping Line

(SAMU SP/SAMU.SI)

## Buy - Maintain

Price as of 13 Oct 2017	0.26
12M target price (\$\$)	0.38
Previous target price (\$\$)	0.26
Upside (%)	49.0

## Trading data

Market Cap (\$\$m)	137.5
Issued Shares (m)	539.1
Ave Daily Traded (3-Month) Vol / Val	0.1m / \$0.0m
52 week lo / hi	\$0.16 / \$0.26
Free Float	34.9%

## Major Shareholders

PT Samudera Indonesia	65.3%
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## Previous Recommendations

Date	Rating	Share Price (\$\$)	Target Price (\$\$)
25-Apr-17	BUY	0.190	0.260
27-Oct-16	BUY	0.180	0.220
15-Sep-16	HOLD	0.180	0.180
28-Jul-16	HOLD	0.180	0.190
29-Apr-16	HOLD	0.210	0.210

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See the last page for important disclosures.

## Positive outlook on near-synchronous global growth

### Event

Latest trade data from China is indicating global trade is gaining strength: China's exports grew 9% in September in yuan terms while imports rose by almost 20%. Although this comes on top of a low base in 2016, global growth for both 2017 and 2018 were recently upgraded by the IMF. Trade is also positive elsewhere as countries such as South Korea and Taiwan registered record levels last month.

### Impact

The latest set of trade data from China and other major exporting countries (e.g., South Korea, Taiwan) reaffirms that the near-synchronous global economic growth is picking up momentum and should be positive for shipping stocks like Samudera.

### Valuation & Action

We upgrade our target price for Samudera to 38 Singapore cents from our previous target of 26 Singapore cents, based on 0.6x FY17F P/B. This is still a huge discount to global shipping peers that are trading at an average of 1.5x historical P/B. Furthermore, the surprisingly resilient Baltic Dry Index is lending support to our thesis that the worst is over for Samudera's dry bulk business segment which has been a drag on results over the past years.

Samudera is cheap on all valuation methodologies (P/B, P/E). Global peers are trading at around 0.7x to 2.2x P/B while Samudera is currently trading at 0.4x P/B. Samudera also has a very strong balance sheet – its net gearing of 20% is much lower vs peers' average of 180%. See Figure 3 for the complete list.

### Risks

Oversupply in container vessels or a drop in global trade due to increased protectionism may negatively affect shipping rates.

### Financials & Key Operating Statistics

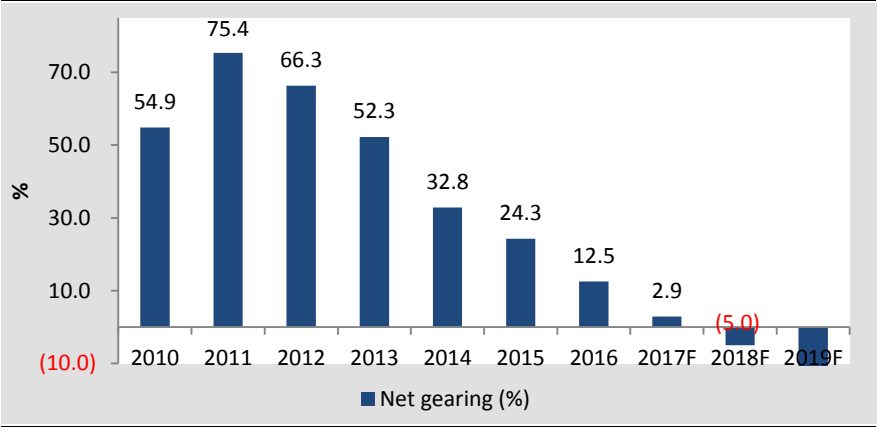
YE Dec (US\$ m)	2015	2016	2017F	2018F	2019F
Revenue	317.7	260.5	266.2	274.1	282.5
PATMI	4.2	-5.4	5.5	6.8	8.2
Core PATMI	17.9	2.4	5.5	6.8	8.2
Core EPS	3.3	0.5	1.0	1.3	1.5
Core EPS grth (%)	25.4	-86.4	126.8	22.5	21.3
Core P/E (x)	5.5	40.2	17.7	14.5	11.9
DPS (SG cents)	0.7	0.3	0.3	0.3	0.3
Div Yield (%)	2.8	1.2	1.2	1.2	1.2
Net Margin (%)	1.3	-2.1	2.1	2.5	2.9
Gearing (%)	24.3	12.5	2.2	-4.3	-11.4
Price / Book (x)	0.4	0.4	0.4	0.4	0.4
ROE (%)	1.7	-2.2	2.2	2.7	3.1

Source: Company Data, KGI Research

**Well positioned with its strong free cash flow generation and healthy balance sheet**

Samudera generated US\$29.4m of free cash flow in FY16, resulting in an industry-low net gearing of 12.5% as at end December 2016. It has generated an average of US\$27.9m free cash flow p.a. from FY13 to FY15.

**Figure 1: We expect Samudera to be near net-cash by end FY17**



Source: Company data, KGI Research \*negative net gearing=net cash position

With the Baltic Dry Index recovering from its low in 2016, we can perhaps expect Samudera’s bulk business to be able to perform much better in 2017 and thereby lift earnings higher. We have not factored in any growth from its bulk carriers in our current forecast but will be looking forward to its earnings next month to get a more concrete signal.

**Figure 2: Baltic Dry Index is recovering well above 2016’s lows**



Source: Shanghai Shipping Exchange

Samudera is cheap on all valuation methodologies (P/B, P/E). Global peers are trading at around 0.7x to 2.2x P/B while Samudera is currently trading at 0.3x P/B. Samudera also has a very strong balance sheet – its net gearing of 0.2x is much lower vs peers' average of 1.8x.

**Figure 3: Peer comparison**

Company	Bloomberg Ticker	Price (Lcl curr)	Mkt Cap (\$m)	P/E (x) (hist)	P/E (x) (fwd)	P/B (x)	ROE (%)	EV/EBITDA (x) (TTM)	Net Gearing (%)	Dvd Yld (%)
Samudera Shipping	SAMU SP	0.18	98	na	7.0	0.3	0	3.9	16.0	1.5
<b>BIG CAP CONTAINER SHIPPING - INTERNATIONAL</b>										
AP Moeller-B	MAERSKB DC	12,000.00	52,871	-	15.9	1.3	(7)	7.5	37.1	1.2
China Cosco-H	1919 HK	4.12	12,746	-	10.5	1.7	(4)	19.5	78.7	-
China Shipping-H	2866 HK	1.75	7,421	7.9	9.8	1.2	16	23.9	612.4	-
Nippon Yusen	9101 JP	2,370.00	4,875	-	19.9	0.8	(40)	14.4	137.1	-
Mitsui OSK Lines	9104 JP	3,380.00	4,932	44.4	12.7	0.7	2	15.1	134.7	0.6
Orient Overseas	316 HK	73.45	7,970	-	21.2	1.3	(2)	19.4	-	0.2
Kawasaki Kisen	9107 JP	3,040.00	3,454	-	23.3	1.3	(39)	30.4	118.7	-
Wan Hai Lines	2615 TT	18.35	1,826	26.7	15.3	1.2	5	7.0	16.9	2.2
Evergreen Marine	2603 TT	17.90	2,821	72.3	11.8	1.2	2	15.6	123.0	-
Hyundai Merchant	011200 KS	8,040.00	1,850	-	-	2.2	(308)	-	202.6	-
Yang Ming Marine	2609 TT	12.50	887	-	-	1.2	(41)	-	467.8	-
<b>SMALL-MID CAP CONTAINER SHIPPING - INTERNATIONAL AND SINGAPORE</b>										
Naigai Trans Line	9384 JP	1,716.00	222	23.7	13.5	2.7	11	5.9	NC	1.7
AIT Corp	9381 JP	1,268.00	303	23.6	19.4	4.6	21	11.0	NC	2.5
First Ship Lease	FSLT SP	0.09	54	-	-	0.2	(22)	-	68.6	-
<b>Average (Excluding Samudera)</b>				<b>33.1</b>	<b>15.8</b>	<b>1.5</b>	<b>(29)</b>	<b>15.4</b>	<b>181.6</b>	<b>1.4</b>

Source: Bloomberg, KGI Research

YE 31 Dec

INCOME STATEMENT (US\$m)	2015	2016	2017F	2018F	2019F
<b>Revenue</b>	<b>317.7</b>	<b>260.5</b>	<b>266.2</b>	<b>274.1</b>	<b>282.5</b>
Cost of sales	(290.4)	(245.9)	(247.6)	(253.6)	(259.9)
<b>Gross Profit</b>	<b>27.2</b>	<b>14.6</b>	<b>18.6</b>	<b>20.6</b>	<b>22.6</b>
Other operating income/(expenses)	4.7	4.0	1.2	1.2	1.0
Selling and distribution	(6.9)	(8.4)	(7.5)	(7.7)	(7.9)
Admin	(5.4)	(6.2)	(5.5)	(5.8)	(5.8)
<b>Profit from Operations</b>	<b>19.6</b>	<b>4.0</b>	<b>6.9</b>	<b>8.2</b>	<b>9.9</b>
Finance income/(expenses)	(1.9)	(1.4)	(1.1)	(0.9)	(0.6)
Share of JV results	1.2	1.5	1.5	1.5	1.5
Exceptionals/Investment income	(13.7)	(7.9)	0.0	0.0	0.0
<b>Profit before Tax</b>	<b>5.2</b>	<b>(3.8)</b>	<b>7.3</b>	<b>8.9</b>	<b>10.8</b>
Income tax	(1.1)	(1.5)	(1.5)	(1.8)	(2.2)
Non-controlling interests	0.1	(0.1)	(0.3)	(0.4)	(0.4)
<b>PATMI</b>	<b>4.2</b>	<b>(5.4)</b>	<b>5.5</b>	<b>6.8</b>	<b>8.2</b>
PATMI Normalized	17.9	2.4	5.5	6.8	8.2
BALANCE SHEET (US\$m)	2015	2016	2017F	2018F	2019F
Cash and cash equivalents	45.4	54.1	66.8	78.1	92.2
Trade and other receivables	55.7	44.2	37.3	38.4	39.6
Inventory	3.4	2.6	2.9	2.9	3.0
Other current assets	21.5	18.7	18.7	18.7	18.7
<b>Current Assets</b>	<b>126.0</b>	<b>119.6</b>	<b>125.7</b>	<b>138.1</b>	<b>153.5</b>
Property, plant and equipment	265.9	243.0	231.8	219.9	207.2
Other non-current assets	8.0	9.8	10.0	10.3	10.6
<b>Non-current Assets</b>	<b>273.9</b>	<b>252.8</b>	<b>241.8</b>	<b>230.2</b>	<b>217.9</b>
<b>Total assets</b>	<b>400.0</b>	<b>372.4</b>	<b>367.5</b>	<b>368.4</b>	<b>371.4</b>
Trade and other payables	37.8	40.4	42.1	43.1	44.2
Borrowings (current)	22.0	20.9	14.9	13.8	12.8
Other current liabilities	3.1	2.3	2.2	2.5	2.9
<b>Current Liabilities</b>	<b>62.9</b>	<b>63.7</b>	<b>59.2</b>	<b>59.5</b>	<b>59.9</b>
Borrowings (non-current)	84.7	63.8	57.5	53.3	49.4
Other non-current liabilities	0.3	0.2	0.2	0.2	0.2
<b>Non-current liabilities</b>	<b>85.1</b>	<b>63.9</b>	<b>57.7</b>	<b>53.5</b>	<b>49.6</b>
Shareholders equity	247.4	240.1	245.6	250.1	256.0
Non-controlling interests	4.7	4.7	5.0	5.4	5.8
<b>Total Equity</b>	<b>252.0</b>	<b>244.8</b>	<b>250.6</b>	<b>255.5</b>	<b>261.8</b>
<b>Total Liabilities and Equity</b>	<b>400.0</b>	<b>372.4</b>	<b>367.5</b>	<b>368.4</b>	<b>371.4</b>
CASH FLOW STATEMENT (US\$m)	2015	2016	2017F	2018F	2019F
Net income before tax	5.2	(3.8)	7.3	8.9	10.8
Depreciation & non cash adjustments	27.2	20.1	22.6	20.7	21.2
Change in Working Capital	0.0	15.4	8.8	0.5	0.6
Income Tax Paid	(2.1)	0.0	(1.5)	(1.5)	(1.8)
Interest Paid	(2.2)	(1.9)	(1.6)	(1.5)	(1.4)
<b>CF from operating activities</b>	<b>28.1</b>	<b>36.8</b>	<b>35.5</b>	<b>27.1</b>	<b>29.5</b>
Purchase/Disposal of PPE	(5.8)	(7.5)	(8.1)	(8.1)	(8.1)
Other CFI	6.5	4.2	0.0	0.0	0.0
<b>CF from investing activities</b>	<b>0.7</b>	<b>(3.2)</b>	<b>(8.1)</b>	<b>(8.1)</b>	<b>(8.1)</b>
Dividends Paid	(7.1)	(2.9)	(2.3)	(2.3)	(2.3)
Debt Raised / (Repaid)	(28.4)	(21.7)	(12.3)	(5.3)	(4.9)
Equity Raised / (Bought Back)	0.0	0.0	0.0	0.0	0.0
Other Cash from Financing	(5.2)	(0.9)	0.0	0.0	0.0
<b>CF from financing activities</b>	<b>(40.7)</b>	<b>(25.5)</b>	<b>(14.5)</b>	<b>(7.6)</b>	<b>(7.1)</b>
Net increase in cash & cash equiv.	(12.0)	7.9	12.7	11.3	14.1
FX effects	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
Beginning Cash	46.1	34.1	42.0	54.7	66.0
<b>Ending Cash</b>	<b>45.4</b>	<b>54.1</b>	<b>66.8</b>	<b>78.1</b>	<b>92.2</b>
KEY RATIOS	2015	2016	2017F	2018F	2019F
<b>Core</b>					
Core EPS	3.3	0.5	1.0	1.3	1.5
Core EPS Growth (%)	25.4	(86.4)	126.8	22.5	21.3
DPS (SGD Cents)	0.7	0.3	0.3	0.3	0.3
Dividend Yield (%)	2.8	1.2	1.2	1.2	1.2
<b>Profitability</b>					
Gross margin	8.6%	5.6%	7.0%	7.5%	8.0%
EBITDA margin	13.8%	9.2%	10.3%	10.7%	11.2%
Net margin	1.3%	-2.1%	2.1%	2.5%	2.9%
ROE	1.7%	-2.2%	2.2%	2.7%	3.1%
ROA	1.0%	-1.5%	1.5%	1.8%	2.2%
<b>Growth (% Y-o-Y)</b>					
Revenue	-12.8%	-18.0%	2.2%	3.0%	3.1%
EBITDA	5.8%	-45.2%	14.0%	7.2%	7.7%
Net income (core)	-70.8%	-230.1%	-201.9%	22.5%	21.3%
Diluted EPS (core)	25.4%	-86.4%	126.8%	22.5%	21.3%
<b>Financial Structure (x)</b>					
Interest coverage	8.8	2.1	4.3	5.5	7.1
Total Debt/Equity	0.4	0.3	0.3	0.3	0.2
Net Gearing	0.2	0.1	0.0	0.0	-0.1

Source: Bloomberg, KGI Research

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Rating	Definition
	KGI Securities Research's recommendations are based on an Absolute Return rating system.
<b>BUY</b>	>10% total return over the next 12 months
<b>HOLD</b>	-10% to +10% total return over the next 12 months
<b>SELL</b>	<-10% total return over the next 12 months

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