



CHINA
DEVELOPMENT
FINANCIAL

Samudera Shipping Line

(SAMU SP/SAMU.SI)

Buy - Maintain

Price as of 27 Oct 2017	0.23
12M target price (S\$)	0.38
Previous target price (S\$)	0.38
Upside (%)	65.2

Trading data

Market Cap (S\$m)	124.0
Issued Shares (m)	539.1
Ave Daily Traded (3-Month) Vol / Val	0.3m / \$0.1m
52 week lo / hi	\$0.16 / \$0.27
Free Float	34.9%

Major Shareholders

PT Samudera Indonesia	65.3%
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Previous Recommendations

Date	Rating	Share Price (S\$)	Target Price (S\$)
10-Oct-17	BUY	0.260	0.380
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

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See the last page for important disclosures.

Profitable and severely undervalued

Event

Samudera reported a 3Q17 core net profit of US\$1.3m (3Q16: losses of US\$3.2m) on the back of a 14% YoY increase in revenue. Its container shipping business contributed the majority of topline improvement as both container volumes and freight rates improved.

Impact

Although results were below expectations, Samudera continued to generate a healthy positive free cash flow of US\$5.8m in the quarter. As a result, net gearing declined to 11% as at end 3Q17 vs 24%/13% as at end FY15/16.

Valuation & Action

We maintain our BUY recommendation and target price of 38 Singapore cents. Our fair value is pegged to 0.6x FY17F P/B, a huge discount to global shipping peers who are trading at an average of 1.5x P/B. The group is well placed to ride on improving macro tailwinds (synchronised global economic growth, YoY rise in exports/imports in major exporting countries such as China and South Korea) and a much stronger balance sheet compared to peers. Its net gearing of 11% is an envy of peers who are averaging 180% (Figure 3).

The 60% discount to its NAV of US\$0.45 is a bargain, in our view, given that it recently sold two old vessels at a premium to book value. The huge discount indicates that markets are still cautious on the shipping outlook and may have reservations in investing in this space. This presents opportunity for investors who have a 6-12 months investment horizon to accumulate shares of this undervalued company that continues to be profitable and generate positive free cash flows every year.

We retain Samudera in our Top Picks for a potential return of >50% over the next 6-12 months.

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)	4.9	36.3	16.0	13.1	10.8
DPS (SG cents)	0.7	0.3	0.3	0.3	0.3
Div Yield (%)	3.1	1.3	1.3	1.3	1.3
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	0.3
ROE (%)	1.7	-2.2	2.2	2.7	3.1

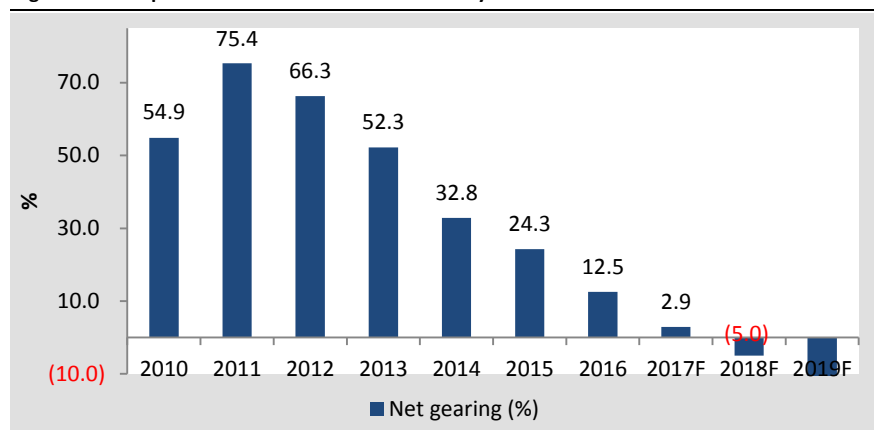
Source: Company Data, KGI Research

Figure 1: Results comparison

FYE Dec (USDm)	2017 Q3	2016 Q3	yoy % chg	2017 Q2	qoq % chg	KGI Est 2017F	Comments
Revenue	69.7	61.0	14.2	71.2	(2.2)	266.2	
Operating costs	(67.8)	(63.4)	7.0	(68.7)	(1.3)	(259.3)	
EBITDA	6.1	2.6	137.0	7.1	(15.1)	27.4	
EBITDA margin (%)	8.7	4.2		10.0		10.3	
Depn & amort.	(4.2)	(5.0)	(14.8)	(4.7)	(8.8)	(20.5)	
EBIT	1.8	(2.4)	175.3	2.5	(26.9)	6.9	
Interest expense	(0.4)	(0.5)	(11.2)	(0.4)	(3.5)	(1.6)	
Int & Inv income	0.1	0.1	(0.9)	0.1	(24.3)	0.5	
Associates' contrib	(0.1)	0.3	(119.1)	0.2	(132.4)	1.5	
Exceptionals	(0.8)	(0.6)	21.3	-	nm	-	US\$0.8m allowance for doubtful trade debts
Pretax profit	0.7	(3.1)	121.7	2.4	(71.8)	7.3	
Tax	(0.3)	(0.6)	(46.3)	(0.3)	(4.1)	(1.5)	
Tax rate (%)	0.5	(0.2)		0.1		0.2	
NCI	0.1	(0.1)	263.1	(0.1)	310.8	(0.3)	
Net profit	0.5	(3.8)	112.7	2.0	(75.7)	5.5	
Core profit	1.3	(3.2)	140.1	2.0	(36.4)	5.5	Below expectations due to lower-than-expected margins. 9M17 core profits make up 34% of our FY forecasts.
EPS (USDcts)	0.1	(0.7)	112.7	0.4	(75.7)	1.0	
Core EPS (USDcts)	0.2	(0.6)	140.1	0.4	(36.4)	1.0	

Source: KGI Research

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 2: We expect Samudera to be near net-cash by end FY17


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

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 0.1x is much lower vs peers' average of 1.8x, allowing it to give a dividend yield of 2.2%.

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	0.23	124	-	13.0	0.4	(4)	11.2	12.5	2.2
BIG CAP CONTAINER SHIPPING - INTERNATIONAL										
AP Moeller-B	MAERSKB DC	11,870.00	52,047	-	16.0	1.2	(7)	7.5	37.1	1.3
China Cosco-H	1919 HK	4.45	13,304	-	12.2	1.9	(4)	19.5	78.7	-
China Shipping-H	2866 HK	1.79	7,572	8.2	10.2	1.3	16	23.9	612.4	-
Nippon Yusen	9101 JP	2,317.00	4,722	-	19.0	0.8	(40)	14.4	137.1	-
Mitsui OSK Lines	9104 JP	3,330.00	4,814	43.8	12.6	0.7	2	15.1	134.7	0.6
Orient Overseas	316 HK	74.85	8,213	-	21.5	1.3	(2)	19.4	-	0.2
Kawasaki Kisen	9107 JP	3,050.00	3,434	-	22.6	1.3	(39)	30.4	118.7	-
Wan Hai Lines	2615 TT	18.40	1,845	26.8	15.3	1.2	5	7.0	16.9	2.2
Evergreen Marine	2603 TT	18.00	2,857	72.7	11.9	1.2	2	15.6	123.0	-
Hyundai Merchant	011200 KS	7,170.00	1,667	-	-	2.0	(308)	-	202.6	-
Yang Ming Marine	2609 TT	12.40	884	-	-	1.2	(41)	-	467.8	-
SMALL-MID CAP CONTAINER SHIPPING - INTERNATIONAL AND SINGAPORE										
Naigai Trans Line	9384 JP	1,704.00	218	23.5	13.4	2.6	11	5.9	NC	1.8
AIT Corp	9381 JP	1,300.00	308	24.2	19.9	4.7	21	11.0	NC	2.5
First Ship Lease	FSLT SP	0.08	52	-	-	0.2	(22)	-	68.6	-
Average (Excluding Samudera)				33.2	15.9	1.5	(29)	15.4	181.6	1.4

Source: Bloomberg, KGI Research

YE 31 Dec

INCOME STATEMENT (US\$m)	2015	2016	2017F	2018F	2019F
Revenue	317.7	260.5	266.2	274.1	282.5
Cost of sales	(290.4)	(245.9)	(247.6)	(253.6)	(259.9)
Gross Profit	27.2	14.6	18.6	20.6	22.6
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)
Profit from Operations	19.6	4.0	6.9	8.2	9.9
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
Profit before Tax	5.2	(3.8)	7.3	8.9	10.8
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)
PATMI	4.2	(5.4)	5.5	6.8	8.2
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
Current Assets	126.0	119.6	125.7	138.1	153.5
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
Non-current Assets	273.9	252.8	241.8	230.2	217.9
Total assets	400.0	372.4	367.5	368.4	371.4
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
Current Liabilities	62.9	63.7	59.2	59.5	59.9
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
Non-current liabilities	85.1	63.9	57.7	53.5	49.6
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
Total Equity	252.0	244.8	250.6	255.5	261.8
Total Liabilities and Equity	400.0	372.4	367.5	368.4	371.4
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)
CF from operating activities	28.1	36.8	35.5	27.1	29.5
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
CF from investing activities	0.7	(3.2)	(8.1)	(8.1)	(8.1)
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
CF from financing activities	(40.7)	(25.5)	(14.5)	(7.6)	(7.1)
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
Ending Cash	45.4	54.1	66.8	78.1	92.2
KEY RATIOS	2015	2016	2017F	2018F	2019F
Core					
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 (%)	3.1	1.3	1.3	1.3	1.3
Profitability					
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%
Growth (% Y-o-Y)					
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%
Financial Structure (x)					
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

KGI's Ratings

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

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