SN VALUATION

SN CAPITAL SN CONSULTING SN ENGLISH

**Sung Nam**

**February 14, 2013**

## Excel Maritime (EXM)

The dry bulk maritime carrier from Greece, is selling at $0.54/share, and we have lost our shirt on this investment. It is a weighty sandbag on our performance of -1.71% on a weight basis and -80% on a stand-alone basis. What happened to this stock?

Company info – The co. owns 40 dry bulk ships and the co.'s clients are copper, food, etc importers and exporters. For the business to be profitable, the co. needs to make more cash from the contracted daily usage rate than the operational expense (including gasoline, crew wages, insurance cost, related fees). However, due to the glut of fresh supply of more fuel efficient ships, coupled with a weak global economy, utilization rate and voyage revenue have fallen, and on a GAAP operating basis, they are running in the red.

Capital structure/Solvency – About $1BB in long term debt which is paid down by EBITDA of break even. The annual interest expense is around 6%, or $60MM. Operationally, the co. doesn't generate enough cash to pay down interest, so they have been burning cash. The co. has a carrying value of $2.5BB in vessels, which we highly doubt, in today's troubled dry bulk environment. The scary, alarming part is their recent correspondence to an SEC inquiry, where they anticipate $1.6BB in impairment charges on the lofty market valuation of those ships, in the event daily time charter rates do not improve in the next 1 year period. $2.5 - $1.6BB = $900MM, which means the co. has a negative book value, roughly -$100MM. The co. is at the mercy of the secular, global economy, which is never a good moat for value creation.

For the purposes of presenting to our investors with additional information to determine how the Company's future results of operations may be impacted in the event that daily time charter rates do not improve from ırrent levels in future periods, we set forth below an analysis that shows the 1-year, 3-year and 5-year average trailing rates and the effect the use of each of these rates would have on the Company's impairment analysis.

| | 1-year (period) | Impairment charge (in USD million) | 3-year (period) | Impairment charge (in USD million) | 5-year (period) | Impairment charg (in USD million) |
|---|---|---|---|---|---|---|
| apesize | $ 15,657 | $ 483.5 | $ 30,542 | - | $ 62,848 | - |
| anamax (1) | $ 14,528 | $ 978.3 | $ 20,169 | $ 46.5 | $ 34,111 | - |
| andymax(2) | $ 10,782 | $ 65.6 | $ 14,969 | - | $ 25,316 | - |

Cash flow – The co. is essentially burning cash right now. The co. sold their oldest boat MV attractive for $2.9MM, less than the $3.9MM listed on their correspondence. They must be really cash strapped, to resort to 1) not make interest payments in the midst of restructuring agreements with their syndicated lenders of $1.4BB, 2) sell their vessel for what seems like firesale price. In their 6 month performance, their operating cash flow is negative. Of course, there may be seasonality effect, but the overarching trend is cash burn. Also, by selling off cash generating assets, the debt offset is not 1 for 1, since they are selling at distressed prices, at a discount. So less cash generated with a stubborn debt balance, will ultimately lead to Ch. 7 proceedings.

Baltic dry index – The index is like the LIBOR for voyage rates. The BDI has fallen from its' historic highs in 2007, roughly in the neighborhood of 11,000, down to historic lows today of 975.