SN VALUATION [Stocks, Real Estate, Bonds]

December 06, 2011 Analyst: Sung Nam

Excel Maritime Carriers (EXM) Update

The stock is down 28.52% since starting research on the company back in October 28, 2011.

Good News

Zack's Research upgraded the stock to Neutral mid-November, due to improving revenue and a possible bottoming as negative economy news is priced in.

Dry bulk shipping companies have been hit hard as 1) the global economy depressed activity levels 2) an oversupply of ships drove down price/unit . Recently, we read an article about a Brazilian commodity company which built large vessels to ship to China, but the Chinese government denied permission to enter China. As a result, the company is sitting on a huge asset, which may not be used efficiently.

Bad News

For bad news, S&P cut the credit rating from a B+ to B, with a pessimistic view of the global economy affecting the dry bulk shipping industry, but mainly the highly leveraged operation. They are forecasting lower charter rates in 2012 and operating cashflow to debt would fall from 12% to 10%.

We disagree. The company will be able to pay interest payments, and they are cash flow positive, which they will use to pay down debt. Unless they have problems refinancing upcoming maturities, we see no need to price leverage risk into the stock.

However, they did mention negative cash flow after debt ammortization. They have been paying down debt at around $100 MM/ year. If this is a part of their debt covenant, then we will side with S&P and say this is a risk, since their cashflow could be cut, if we project a continued slowdown for the company.

Per Wikipedia, the $1 BB term loan, $400 MM revolving loan capped at 5% with a swap rate, associated with a 2008 acquisition. Revenue earned from spot rate (Baltic Dry Index) and time charters. Bunge (23% of revenue) was largest customer.Market prices for the ships have shrunk i.e. Capesize in 2007 were $150 MM. In 2009, $60 MM, so if they were recorded at cost, the book value has an inflated value relative to the market, which may be true for competitors as well.

BDI

"On 20 May 2008 the index reached its record high level since its introduction in 1985, reaching 11,793 points. Half a year later, on 5 December 2008, the index had dropped by 94%, to 663 points, the lowest since 1986;though by 4 February 2009 it had recovered a little lost ground, back to 1,316.These low rates moved dangerously close to the combined operating costs of vessels, fuel, and crews.By the end of 2008, shipping times had been already increased by reduced speeds to save fuel consumption, but lack of credit meant the reduction of letters of credit, historically required to load cargoes for departure at ports. Debt load of future ship construction was also a problem for shipping companies, with several major bankruptcies and implications for shipyards. This, combined with the collapsing price of raw commodities created a perfect storm for the world's marine commerce. During 2009 the index recovered as high as 4661, but then bottomed out at 1043 in February, 2011, after continued deliveries of new ships and flooding in Australia."

Source: Wikipedia