

Samudera Shipping Line Ltd

30 July 2021

Non-Rated

Price: S\$0.430 (as at 29 July 2021)

| | |
|-----------------------------------|--|
| BBG | SAMU SP |
| Market cap | S\$231.8 million |
| Price (29 July 2021) | S\$0.430 |
| 52-week range | S\$0.138 – S\$0.460 |
| Target Price | Non-rated |
| Shares Outstanding | 539.1 million |
| Free Float | 34.2% |
| Major Shareholder | Samudera Indonesia Tbk PT 65.1% Mulia Bani Maulana 0.6% |
| P/BV (06/21) | 1.0x |
| Net debt to EBITDA (12/20) | Net cash |

Source: Company data, Bloomberg, SAC Capital

Analyst

Lim Li Jun Tracy +65 6232 3239

tlim@saccapital.com.sg

Key Financials

| Year ended 31 December | FY2016 | FY2017 | FY2018 | FY2019 | FY2020 |
|-------------------------------|--------|--------|--------|--------|--------|
| Revenue (US\$m) | 260.5 | 283.7 | 422.3 | 373.8 | 347.9 |
| EBIT (US\$m) | (2.4) | 7.2 | 9.3 | 6.8 | 8.7 |
| Net profit (US\$m) | (5.4) | 5.9 | 8.3 | 3.9 | 7.2 |
| Basic EPS (US cents) | (1.01) | 1.96 | 1.54 | 0.73 | 1.34 |
| Dividend per share (US cents) | 0.50 | 0.75 | 0.75 | 0.75 | 1.05 |
| Net cash / (debt) (US\$m) | (30.6) | (13.5) | (14.2) | 20.8 | 51.3 |
| Valuation | | | | | |
| EBIT margin (%) | -0.9% | 2.5% | 2.2% | 1.8% | 2.5% |
| ROIC (%) | -1.4% | 2.6% | 4.2% | 3.3% | 4.1% |
| EV/EBITDA (x) | 13.6 | 9.0 | 10.8 | 7.7 | 6.9 |
| P/E (x) | NA | 35.3 | 25.4 | 53.7 | 29.0 |
| Dividend yield (%) | 1.3% | 1.9% | 1.9% | 1.9% | 2.7% |

Riding the wave of high freight rates

High freight rates and shipping activity saw strong 1H. SSL recorded a revenue of US\$209.1m in 1HFY21, a 19.6% increase from US\$174.8m in 1HFY20, with container shipping segment being key revenue driver. This was largely due to the higher freight rates charged for container shipping, especially carrier-owned cargo. SSL saw an 8.1% rise in container volume handled to 715,000 TEUs (1HFY20: 662,000 TEUs).

The Group also booked one-off US\$1.5m from the sale of ageing container boxes. Overall 1HFY21 PATMI surged by 5.1x yoy from US\$7.2m to US\$36.7m.

Net cash position. Net cash rose to US\$80.9m (30 Jun 21) from US\$51.3m (31 Dec 20), which was already an increase in net cash from US\$20.8m (31 Dec 19). This was due to the sale of a number of vessels and the increased profitability in 1HFY21. We expect the cash will be deployed for vessels purchase when prices drop. Its solid cash position also gives room for other expansion opportunities.

Freight rates, strong demand for goods to continue to be key drivers. The high consumer demand, port congestions and shortage of containers, against the lack of shipping capacity, led to a surge in freight rates alongside higher container prices. The China containerized freight index, rose 10.1% m-o-m to 2,854.02 as at 23 July. The US fiscal stimulus raised global shipping activity. US recorded high import activity, due to higher household accumulated cash, though a resurgence of Covid-19 infections may dent some economic sentiment. However, we expect global demand for goods to remain elevated as the US fiscal stimulus continues, at least until its scheduled end in September.

SSL currently has some pricing power and will be riding the wave of higher freight rates. However, near/farther term headwinds include port congestions, and the impact of high freight rates on charter-in costs when existing contracts are due.

Key risks: Port congestions, high charter rates, high fuel costs

Investment Highlights

High freight rates and shipping activity saw strong 1H

| Segment Revenue (US\$m) | 1HFY21 | 1HFY20 |
|-------------------------|--------------|--------------|
| Container shipping | 200.9 | 166.3 |
| Bulk and Tanker | 3.1 | 3.5 |
| Agencies & Logistics | 6.6 | 6.0 |
| Others | (1.7) | (1.0) |
| Total | 209.1 | 174.8 |

Source: Company Data, SAC Capital

SSL recorded a revenue of US\$209.1m in 1HFY21, a 19.6% increase from US\$174.8m in 1HFY20, with container shipping segment being key revenue driver.

Container shipping segment revenue rose 20.8% yoy to US\$200.9 million, making up 96.1% of total 1HFY21 revenue. This was due to the higher freight rates charged, especially for carrier-owned container cargo. However, shipping activity was impeded by the global port congestions, which led to a smaller 8.1% rise in container volume handled to 715,000 TEUs (1HFY20: 662,000 TEUs). Bulk & Tanker and Agencies & Logistics segments contributed US\$3.1m (-10.8% due to lower employment days and charter-hire rates for its chemical tankers) and US\$6.6m (+11.2%) to topline respectively.

Gross margin jumped from 7.4% in 1HFY20 to 21.4%, with higher shipping rates and the Group's cost management measures, which include active management of its container fleet utilization and focus on securing long-term charter at decent rates.

The Group also booked one-off US\$1.5m from the sale of ageing container boxes. Overall 1HFY21 PATMI surged by 5.1x yoy from US\$7.2m to US\$36.7m.

Net cash position

Net cash rose to US\$80.9m (30 Jun 21) from US\$51.3m (31 Dec 20), which was already an increase in net cash from US\$20.8m (31 Dec 19). This was due to the sale of a number of vessels (*detailed information in previous report*) and the increased profitability in 1HFY21.

1) Sinar Ambon (net consideration: US\$0.7m)

Indonesia flagged container vessel, built in 2005 with capacity of 287 TEUs.

2) Sinar Sabang and Sinar Sumba (total net consideration: US\$13.2m)

Both are Singapore flagged container vessels, built in 2008 with capacity of 1,740 TEUs.

With the Group's strategy to maintain a balance between owned and chartered vessels (based on past levels, ~one-third of total fleet), we continue to expect the cash will be deployed to vessel purchase when ship prices drop. In 1HFY21, SSL added 3 container vessels which are on long-term charter. In total, the Group had secured 9 vessels on long-term charter to ensure capacity is available in the next 12 months. Of these, 7 are under current deployment, and another 2 would be expected to be delivered in 4Q22.

In addition, the even stronger net cash balance will give them more room for other expansion opportunities, which include growing their logistics business and rebuilding their presence in Indonesia for bulk & tanker sector.

Investment Highlights

Freight rates, strong demand for goods to continue to be key drivers

The high consumer demand, port congestions and shortage of containers, against the lack of shipping capacity, led to a surge in freight rates alongside higher container prices. The China containerized freight index, a composite for the overall freight index around the world, rose 10.1% m-o-m to 2,854.02 as at 23 July. Week on week, the composite is up 3.0%.

Effects of major countries' trade activity and their demand for containers will inadvertently trickle down to other countries, as more containers are stuck and as port congestions continue. The US trade deficit in June increased 3.5% to US\$91.2b in June, showing high import activity with higher household accumulated cash, though a resurgence of Covid-19 infections, largely with the Delta variant, may dent some sentiment. However, we expect global demand for goods to remain elevated as the US fiscal stimulus continues to be paid out, which is currently until its scheduled end in September as per the US\$1.9t Covid relief plan.

In the short-term, we continue to see SSL having some pricing power with their previously locked in charter rates, which are favourable vis-à-vis the current spot rates. This gives SSL the ability to charge higher prices but manage costs at contracted levels, which will lift margins. However, in the farther-term, we continue to be wary of the impact of high freight rates and vessel charter-in costs when existing contracts are due. Port congestion is a near-term headwind, with its explicit and implicit costs (lower utilization rates etc) on shipping lines.

Peer comparison

The closest listed peer comparison is Thailand's Regional Container Lines Public Company Limited. The barriers to entry in this sector has increased currently with the higher vessel prices and elevated charter rates. In addition, SSL also has a good relationship with PSA Singapore, which allows for more favourable berth times, among other factors.

We noted that SSL generates a ROIC of 4.1% (FY20). Indonesia's risk-free rate (10Y bond yield) was 6.32%, as at 29 July.

| FY2020 (Y/E 31 Dec 20) | Market cap (US\$m) <i>(29 July 2021)</i> | Revenue (US\$m) | Net profit (US\$m) | Gross margin | EBIT margin | Net cash/ debt to equity | ROIC |
|---------------------------|--|--------------------|-----------------------|--------------|-------------|--------------------------------|-------|
| Samudera Shipping Line | 171.3 | 347.9 | 7.2 | 8.5% | 2.5% | Net cash | 4.1% |
| Regional Container Lines | 1,424.4 | 550.0 | 52.1 | 17.8% | 11.5% | 7.5% | 18.5% |

Source: Bloomberg, Companies' Financial Statements (29 July 2021)

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|---|---------------------------|
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