1 April 2009

ACM Shipping Group

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
03/07	13.18	3.68	14.9	2.0	10.9	1.2
03/08	19.64	5.48	22.2	6.0	7.3	3.7
03/09e	29.00	8.50	33.8	7.5	4.8	4.6
03/10e	25.30	6.90	27.2	8.0	6.0	4.9

Note: * PBT and EPS (fully diluted) are normalised, excluding goodwill amortisation and exceptional items; 2007 dividend on pro rata basis equivalent to 6.0p.

Investment summary: Sterling performance

The ACM share price has rallied well since the publication of interim figures in late 2008. Previous weakness, in sympathy with other shipbroking groups, ignored the greater stability of wet cargo rates relative to those for dry cargos. The present rating fails to recognise the strong defensive qualities of the energy sector, as defined by the stable global demand levels for oil.

Exceptional year to March 2009

The combination of weak sterling and an increased share of a sound underlying market has easily overshadowed the impact of falling charter rates, leading to strong trading throughout 2008/09. The cautious line we took at the time of the interim announcement has not proved necessary, with full year profits likely to be well above earlier estimates. We are raising our pre-tax profits from £6.8m to £8.5m.

Underlying strength

There is an underlying strength to the business, reinforced by the organic business development and acquisitions of the past 18 months. While the terms of trade remain favourable, the recent further falls in charter rates suggest that lower profits look inevitable for next year. The pound/dollar exchange rate remains a key factor influencing margins, with any recovery in sterling likely to undermine targets.

Cash positive

Group operations remain highly cash generative, especially in the current year. Earlier hopes that the group could finance its acquisition expenditure of over £5m and remain cash positive at March 2009 should now prove conservative.

Valuation: Qualities not recognised

ACM's decision to concentrate on the energy sector is proving highly rewarding in the current year. Other shipbrokers are more geared towards the more volatile dry cargo segment of the market. The rating fails to recognise the quality of earnings.

Price	162.5p
Market Cap	£28m

Share price graph

Share details

Code	ACMG
Listing	AIM
Sector	Transportation
Shares in issue	17.5m

Price

52 week	High	Low
	276p	115p

Balance Sheet as at 30 September 2008

Debt/Equity (%)	N/A
NAV per share (p)	48
Net cash (£m)	1.7

Business

ACM is a fully integrated shipbroking business, focused on the global oil tanker market. It arranges spot and time charters, and also offers other services, including the sale and purchase of ships.

Valuation

	2008	2009e	2010e
P/E Relative	52%	69%	68%
P/CF	5.5	4.3	6.0
EV/Sales	1.1	0.9	0.9
ROE	39%	47%	30%

Revenues on geography

UK	Europe	US	Other
96%	0%	0%	4%

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Strong year to March 2009

The doubling of profits at the interim stage reflected a combination of favourable factors that have largely continued through to the end of the trading year, despite the developing global recession. The caution that we introduced to our estimates at the time of the half-year announcement has not been necessary and it now appears that full year results will be well ahead of our estimates.

Excellent trading results

Spot brokerage: Following a 23% increase in the number of movements at the interim stage, management reports continuing strong performance in spot markets, despite a softening of wet charter rates towards the end of the trading period. The new team from Harris & Dixon settled in and is understood to have delivered at the top end of expectations.

We are cautious about the continued softening of charter rates, but volumes are reported to be holding up well; demand for oil cannot be switched off to the same extent as that for dry cargos. We are hopeful that the improvement can be sustained into 2009/10, but we find it hard to believe that margins can be sustained at the high levels seen this year.

Time charter: The trend towards time charters has continued, with ACM sustaining the volume growth achieved during the first half of the year. Forward order books remain at close to record levels, which augur well for the next 12-18 months.

Customers remain keen to ensure availability of capacity into the future despite the uncertainty. There is extensive new tonnage currently on order for delivery over the next four to five years, but some 20% of current capacity will be retired over the next two years as single-hull ships are taken out of usage. However, because of the credit crunch it is quite likely that several of the new ships on order may either be delayed or not be completed, suggesting that the volatility of supply and demand being experienced in the dry cargo market will not be repeated to the same extent in wet cargos.

Sale and purchase: The indication given in December that several deals were in the pipeline proved well placed, despite the falling charter rates. Again, the group looks well placed to participate effectively in the market in the coming year, but it is much too early to predict a sustained performance, given the reduction in activity across the market.

Overseas operations: The performance of the group's overseas operations continues ahead of expectations, with management again signalling progress. The decision to invest heavily in staff training is proving rewarding in the tougher trading climate, which is likely to prevail in the immediate future.

Associates: The contribution from the GFI joint venture was up by 45% at the interim stage. The decision by an increasing number of oil majors, oil traders and tanker owners to use the futures market to secure a measure of certainty in the potentially more volatile markets continues to prove rewarding.

Estimates raised

Ahead of expectations

It is clear from the above comments that the caution that we expressed at the time of the interim results announcement in December has proved unnecessary. The number of movements has continued to increase, while the integration of new teams into the broking business has been seamless and delivered immediate success.

Fears about the impact of falling charter rates have been fully justified, but the continued weakness of sterling has helped sustain margins at record levels. As we have previously indicated, the vast majority of group revenue is generated in US dollars, while costs are largely sterling based. When formulating our estimates back in December, we had been anticipating an average exchange rate of some $1.80/£ over the full year; this has clearly proved over cautious.

We now look for pre-tax profits for the year to March 2009 of £8.5m. This represents an increase of more than 50% compared with the previous year and is some 25% above our earlier target of £6.8m.

Margin for error widening

There seems little doubt that the group will struggle to get close to the current year figure on 2009/10. The continued softening of charter rates is eating into the strong margins earned last year, while reduced returns are already looking inevitable in the Sale & Purchase operations.

On the other hand, the pound/dollar exchange rate will remains favourable and looks likely to continue so for some time yet. Experience of the past 18 months, however, suggests that trying to pre-judge likely currency movements is going to continue to be very difficult. If the rate stays at current levels, our previous pre-tax target of £6.9m looks quite deliverable, although the margin for error seems to have widened considerably over the past few months.

The cautious optimism about the future, as expressed by the group chief executive, seems well placed. There seems little doubt that strategic action taken over the period since the group’s flotation has already proved successful in terms of raising both the quantity and quality of earnings. While profits may ease back next year, the underlying position continues to improve.

Exhibit 1: Financials

£'000s	2006	2007	2008	2009e	2010e
Year end 31 March	UK GAAP	UK GAAP	UK GAAP	UK GAAP	UK GAAP
PROFIT & LOSS					
Revenue	13,552	13,180	19,638	29,000	25,300
Cost of Sales	(4,116)	(3,954)	(5,891)	(8,700)	(7,000)
Gross Profit	9,436	9,226	13,747	20,300	18,300
EBITDA	618	3,604	5,377	8,700	7,000
Operating Profit (before GW and pre bonus)	474	3,461	5,237	8,500	6,800
Goodwill Amortisation	0	0	(664)	(500)	(400)
Exceptionals	0	0	0	0	0
Other	0	0	0	0	1
Operating Profit	474	3,461	4,573	8,000	6,401
Net Interest	(2)	215	242	0	100
Profit Before Tax (norm)	472	3,676	5,479	8,500	6,900
Profit Before Tax (FRS 3)	472	3,676	4,815	8,000	6,501
Tax	(453)	(1,432)	(1,744)	(2,600)	(2,150)
Profit After Tax (norm)	19	2,244	3,549	5,900	4,750
Profit After Tax (FRS3)	19	2,244	3,071	5,400	4,351
Average Number of Shares Outstanding (m)	N/A	15.1	15.9	17.3	17.3
EPS - normalised fully diluted (p)	N/A	14.9	22.2	33.8	27.2
EPS - normalised (p)	N/A	14.9	22.3	34.1	27.5
EPS - FRS 3 (p)	N/A	14.9	19.3	31.3	25.2
Dividend per share (p)	0.0	2.0	6.0	7.5	8.0
Gross Margin (%)	69.6%	70.0%	70.0%	70.0%	72.3%
EBITDA Margin (%)	4.6%	27.3%	27.4%	30.0%	27.7%
Operating Margin (before GW and except.) (%)	3.5%	26.3%	26.7%	29.3%	26.9%
BALANCE SHEET					
Fixed Assets	944	2,883	10,988	12,888	12,388
Intangible Assets	0	0	8,702	10,702	10,302
Tangible Assets	524	445	484	384	284
Investment in associates	420	1,981	1,509	1,509	1,509
Unquoted investments	0	457	293	293	293
Current Assets	4,418	3,373	7,544	8,138	10,439
Stocks	0	0	0	0	0
Debtors	3,092	2,807	3,979	5,876	6,376
Cash	1,326	566	3,565	2,262	4,064
Other	0	0	0	0	0
Current Liabilities	(4,453)	(3,240)	(9,228)	(8,020)	(7,055)
Creditors	(4,453)	(2,669)	(8,097)	(6,675)	(5,823)
Other creditors	0	(571)	(1,131)	(1,345)	(1,233)
Short term borrowings	0	0	0	0	0
Minority interests	0	0	0	0	0
Long Term Liabilities	(1,421)	(1,556)	(1,439)	(1,439)	(1,439)
Long term borrowings	0	0	0	0	0
Other long term liabilities	(1,421)	(1,556)	(1,439)	(1,439)	(1,439)
Net Assets	(512)	1,460	7,865	11,567	14,333
CASH FLOW					
Operating Cash Flow	(1,842)	283	4,675	6,480	4,648
Net Interest	61	110	125	(100)	(100)
Tax	(42)	(1,007)	(2,063)	(2,386)	(2,263)
Capex	(65)	(64)	(195)	(100)	(100)
Acquisitions/disposals	0	(1,006)	(6,700)	(5,400)	0
Financing	0	3	4,000	0	0
Dividends	0	(500)	(652)	(1,298)	(1,384)
Other	2,389	1,421	3,809	1,500	1,000
Net Cash Flow	501	(760)	2,999	(1,303)	1,802
Opening net debt/(cash)	(825)	(1,326)	(566)	(3,565)	(2,262)
HP finance leases initiated	0	0	0	0	0
Other	0	0	0	0	0
Closing net debt/(cash)	(1,326)	(566)	(3,565)	(2,262)	(4,064)

Source: Company accounts/Edison Investment Research