Update

Edison investment research

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ACM Shipping Group

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	PE (x)	Yield (%)
03/06	13.6	0.5	N/A	0.0	N/A	N/A
03/07	13.2	3.7	14.9	**2.0	12.7	3.2
03/08e	14.1	4.0	15.9	6.0	11.9	3.2
03/09e	15.2	4.5	17.9	7.0	10.5	3.7

Note: *PBT and EPS are normalised, excluding goodwill amortisation and exceptional items; EPS based on current issued capital; **pro rata payment.

Investment summary: Underlying growth

ACM has delivered to expectations, although the severe weakness of the US dollar means that earnings have fallen short. The key factor is the consistent underlying volume growth in a sound marketplace, supported by the rising quality of earnings implied by the growth in time charter business.

Growth in revenues

ACM's maiden set of full-year figures show pre-tax profits up from the nominal £0.5m in 2005/2006 to £3.7m. Revenues rose by 8% in US$ terms, but exchange differences, largely since flotation, reduced the sterling impact on the top line by £1.5m and by £0.7m at the pre-tax level. Growth was achieved in each of the core businesses, making full use of a sound trading climate, despite spot rates running at a level below those of the previous year.

Potential positive

The number of movements continues to rise steadily, supported by ongoing strong growth in time charters. Supporting activities continue to develop consistently. We look for increased profits in both the current year and in 2008/2009.

Strong balance sheet

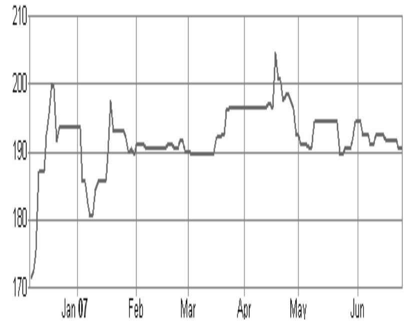
The group balance sheet remains strong with net cash of £0.6m at March 2007. A cash outflow of £0.8m related to special factors: the pre-IPO bonus scheme and a strategic investment in the London Broker Tanker Panel. The group should be cash generative on operations for the foreseeable future.

Valuation: Rating justified

ACM shares stand on a nominal premium rating to the shipbroking sub-sector. This probably reflects the group focus on the energy sector, which is seen to offer more consistent medium-term potential.

Price	188.5p
Market Cap	£28.8m

Share price graph



Share details

Code	ACMG
Listing	AIM
Sector	Transport
Shares in issue	15.3m

Price

	High	Low
52 week	205p	172p

Balance Sheet

Debt/Equity (%)	N/A
NAV per share (p)	9.5p
Net Cash (£m)	0.6

Business

ACM is a shipbroker, with a clear focus on the global oil tanker market. It arranges spot and time charters, and also handles ship sale and purchase to an international customer base.

Valuation

	2007	2008e	2009e
P/E relative	52%	73%	77%
P/CF	17.4	9.1	9.0
EV/Sales	2.2	2.0	1.8
ROE	154%	73%	59%

Revenues on geography

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

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ACM Shipping Group is a research client of Edison Investment Research Limited

Underlying growth

The key message is that, while the declared figures are below best expectations, the underlying 8% rate of growth in US$ terms (the currency in which the international shipping industry operates) is in line with our original targets. Moreover, investment decisions taken by management since flotation demonstrate a clear focus on taking the group forward and delivering consistent progress into the future.

8% underlying growth

Turnover and pre-tax profits for the year to March 2007 demonstrate continuing progress for ACM, despite the adverse impact of a weak US dollar. The vast majority of income is generated in US dollars, but expenses are mostly in sterling, with the majority of employees UK based. The preliminary announcement does not provide a direct breakdown in revenues for 2006/2007, which we estimate as follows:

Exhibit 1: Revenue breakdown

Note: Sterling/dollar exchange rate: $1.74 in 2005/2006; $1.94 in 2006/2007

To March		2006		2007
	US$	£m	US$	£m
Spot brokerage	14.75	8.48	15.80	8.20
Time charters	6.51	3.74	7.20	3.70
Other	2.31	1.33	2.60	1.30
	23.57	13.55	25.60	13.20

Source: Share issue prospectus; preliminary announcement

It can be seen that, despite a modest setback of 2.7% in the group revenue figure, both of the key segments of the business grew in dollar terms, while a combination of Sale & Purchase, Demurrage and the overseas operation in Singapore also moved forward.

Spot brokerage

Spot remains the core business of ACM, representing 62% of revenues. In a relatively buoyant market, despite lower average freight rates, ACM generated a 15% increase in the number of movements managed, delivering a small rise in revenue in US$ terms.

The immediate outlook remains relatively good, despite rates having edged lower again over the past month. However, we remain positive about the medium to long term. A number of ships will be taken out of service during the next few years because of environmental safety legislation at a rate which may exceed the build-rate. Time charter rates are currently above spot rates, which is frequently a precursor for rising rates.

At this stage we are pencilling in modest revenue growth for the current year, although the momentum looks set to be stepped up before long.

Time charters

The longer-term market, as mentioned above, is far more buoyant. The group negotiated 52 new time charters during the course of the year, leading to a 78% rise in the forward order book at the year-end. ACM has already established itself at the forefront of this segment of the market and, with some contracts extending for more than ten years, there is an increasing visibility to this part of the ACM business, which will contribute more than 30% of revenues in the coming year.

We look for a minimum 25% rise in Time Charter revenues in 2007/2008, to be followed by a further useful increase the following year.

Other operations

The main features elsewhere were a useful increase in Sale & Purchase activity and the continuing development of overseas operations.

The S&P activity is undertaken both directly and through the group's associated company ACMSS. The fluctuating views in the market, as emphasised by the variation between spot and time charter rates has led to increased activity in the market for tankers. Demand is being created by the likely decommissioning rate running slightly ahead of build rates in the immediate future, while port delays seem to be an increasing feature in a number of key locations. We expect to see a further increase in activity in the current year.

The venture in Singapore continues to progress steadily, with the growing market in the Far East, notably China, fuelling a number of opportunities. The group opened a new office in India in late 2006, which offers similar opportunities over the medium term. It will be difficult to assess the long-term impact of these overseas offices because their activities are intertwined with the brokerage business in the UK, often dealing with the same customers. However, we are confident of the medium-term potential.

Trading outlook

As can be seen from the above comments, we remain optimistic about the medium term. The main growth area in the immediate future will continue to be time charters, but other operations can still be expected to deliver progress in dollar terms. In our calculations, we are assuming little further change in the sterling/dollar exchange rate from the current $1.98 level in the immediate future.

We look for revenues rising by a minimum 5–10% in each of the next two years, which should be sufficient to raise pre-tax profits £4.0m in the current year, followed by a similar rise to £4.5m in the year to March 2009. We believe that trading conditions will remain positive over the medium term and are hopeful that we may be able to edge our targets higher as the year progresses.

Management strengthening

ACM has, as indicated in the flotation prospectus, strengthened its management team.

The fundamental appointment was a new finance director. Ian Hartley joined the board in March 2007, bringing valuable public company experience to group finances. The finance function has already been strengthened, providing more effective support to the ambitious group strategy.

In addition, the non-executive element of the board has also been extended. David Cobb brings major shipping industry experience from his time as executive chairman of James Fisher and from a number of key industry roles. Timothy Chadwick also brings fundamental relevant experience to the board, having served as a senior director at a number of successful sea-port operators.

Finance

The underlying message on finance is positive. A major investment in the London Tanker Broker Panel, to raise the group's profile in the sector, has meant that the net cash balance at March 2007 was lower than originally expected, but the group remains cash positive on operations and well able to support its medium to longer term growth ambitions.

Cash flow

Group operations are cash positive, enabling management to operate a progressive dividend policy. During the year to March 2007, there was, however, a net outflow of £0.8m. There were two key elements to the outflow:

- A £1.4m decrease in creditors, which related to the changes made to the payment of the pre-IPO bonus to employees. Creditors should continue at the revised level into the future.
- The group paid £1.0m for its membership of the London Tanker Broker Panel. For cash flow purposes this was a one-off major investment.

Without these two factors the group would have generated net cash of £1.6m, significantly more than the ongoing dividend committment of just under £1.0m per annum.

In the absence of further major transactions, we expect the group to generate cash in both 2007/2008 and 2008/2009.

London Tanker Broker Panel

ACM has accepted a invitation to become a member of the London Tanker Broker Panel (LTBP) and Worldscale earlier this year. LTBP is the recognised independent global authority on the sector, providing impartial advice and market assessments to the outside world.

The investment reinforces the status of ACM within its industry and provides a useful financial return from fees generated from third party subscribers to its services.

Acquisitions

Acquisitions remain on the group agenda, although we do not expect to see any major transactions in the immediate future. Growth will continue to be largely organic, supplemented by the introduction of new teams which will take the group into adjacent areas of the shipbroking and shipping services industry. These will usually involve taking on new specialist employees rather than completing outright acquisitions.

Exhibit 2: Financials

Year ending 31 March	£'000s	2004 UK GAAP	2005 UK GAAP	2006 UK GAAP	2007 UK GAAP	2008e UK GAAP	2009e UK GAAP
PROFIT & LOSS							
Revenue		9,333	13,848	13,552	13,180	14,100	15,200
Cost of Sales		(3,184)	(2,953)	(4,116)	(3,954)	(4,230)	(4,560)
Gross Profit		6,149	10,895	9,436	9,226	9,870	10,640
EBITDA		5,701	11,335	9,471	7,854	8,637	9,441
Operating Profit (before GW and pre bonus)		5,654	11,223	9,327	7,711	8,497	9,301
Goodwill Amortisation		0	0	0	0	0	0
Bonus payments		(5,420)	(10,814)	(8,853)	(4,250)	(4,547)	(4,901)
Other		0	0	0	0	0	0
Operating Profit		235	409	474	3,461	3,950	4,400
Net Interest		12	1	(2)	215	50	100
Profit Before Tax (ex bonuses)		5,666	11,224	9,325	7,926	8,547	9,401
Profit Before Tax (norm)		247	410	472	3,676	4,000	4,500
Profit Before Tax (FRS 3)		247	410	472	3,676	4,000	4,500
Tax		(102)	(224)	(453)	(1,432)	(1,560)	(1,755)
Profit After Tax (ex bonuses)		5,564	11,000	8,872	6,494	6,987	7,646
Profit After Tax (norm)		145	186	19	2,244	2,440	2,745
Profit After Tax (FRS3)		145	186	19	2,244	2,440	2,745
Average Number of Shares Outstanding (m)		N/A	N/A	N/A	15.1	15.3	15.3
EPS - normalised ex bonuses (p)		N/A	N/A	N/A	43.0	45.6	49.9
EPS - normalised (p)		N/A	N/A	N/A	14.9	15.9	17.9
EPS - FRS 3 (p)		N/A	N/A	N/A	14.9	15.9	17.9
Dividend per share (p)		0.0	0.0	0.0	2.0	6.0	7.0
Gross Margin (%)		65.9%	78.7%	69.6%	70.0%	70.0%	70.0%
EBITDA Margin (%)		61.1%	81.9%	69.9%	59.6%	61.3%	62.1%
Operating Margin (before GW and except.) (%)		60.6%	81.0%	68.8%	58.5%	60.3%	61.2%
BALANCE SHEET							
Fixed Assets		554	1,355	944	1,765	1,805	1,865
Intangible Assets		0	0	0	0	0	0
Tangible Assets		103	603	524	445	405	365
Investment in associates		451	752	420	1,320	1,400	1,500
Unquoted investments		0	0	0	0	0	0
Current Assets		2,152	3,441	4,418	4,034	5,891	6,911
Stocks		0	0	0	0	0	0
Debtors		1,454	2,616	3,092	3,468	3,668	3,868
Cash		698	825	1,326	566	2,223	3,043
Other		0	0	0	0	0	0
Current Liabilities		(2,217)	(3,983)	(4,453)	(3,240)	(3,350)	(3,075)
Creditors		(2,217)	(3,983)	(4,453)	(3,240)	(3,350)	(3,075)
Other creditors		0	0	0	0	0	0
Short term borrowings		0	0	0	0	0	0
Minority interests		0	0	0	0	0	0
Long Term Liabilities		(1,852)	(2,591)	(1,421)	(1,099)	(1,009)	(1,009)
Long term borrowings		0	0	0	0	0	0
Other long term liabilities		(1,852)	(2,591)	(1,421)	(1,099)	(1,009)	(1,009)
Net Assets		(1,363)	(1,778)	(512)	1,460	3,337	4,692
Net Debt				1,326	566	2,223	3,043
Net Current Assets				8,871	7,274	9,241	9,986
CASH FLOW							
Operating Cash Flow		(487)	(1,842)	(1,842)	1,704	3,320	3,345
Net Interest		120	57	61	110	50	100
Tax		(89)	(32)	(42)	(1,007)	(1,000)	(1,560)
Capex		(33)	(635)	(65)	(64)	(100)	(100)
Acquisitions/disposals		(5)	0	0	(1,006)	0	0
Financing		0	0	0	3	0	0
Dividends		0	0	0	(500)	(613)	(965)
Other		1,105	2,579	2,389	0	0	0
Net Cash Flow		611	127	501	(760)	1,657	820
Opening net debt/(cash)		0	(698)	(825)	(1,326)	(566)	(2,223)
HP finance leases initiated		0	0	0	0	0	0
Other		0	0	0	0	0	0
Closing net debt/(cash)		(611)	(825)	(1,326)	(566)	(2,223)	(3,043)

Source: Edison estimates

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