

21 October 2010

ACM Shipping Group

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
03/09	30.1	8.72	36.9	8.5	5.9	3.9
03/10	25.9	6.60	26.8	9.5	8.3	4.3
03/11e	31.0	6.75	25.9	10.0	8.3	4.6
03/12e	35.0	8.00	29.8	11.0	7.3	5.0

Note: * PBT and EPS (fully diluted) are normalised, excluding goodwill amortisation and exceptional items.

Investment summary: Underlying growth

While forthcoming interim results may show a modest profits shortfall relative to those of 2009, the group will have continued its steady underlying growth, with a further rise in the number of movements managed. Equally significantly, the dry cargo acquisition is settling in well and the group continues to generate cash. The share price has recovered well over the past six months, but still looks far too low.

Challenging trading climate

A continuing weak US dollar and low wet freight rates have not helped margins so far in the current year. While the underlying broking business continues to move ahead, it looks likely that underlying pre-tax profits will fall short of the £3.3m declared for 2009 by up to 10%. However, there are still signs that targeted second half improvement will still be delivered and we are not changing our full year estimates.

Strong underlying position

ACM has achieved a near unique position as a broker in the wet market. The combination of its highly motivated team and strong relationships with leading oil companies, oil traders and shipowners make it a natural partner for managing the movement of oil across the world. The group made its first moves into the dry cargo market earlier this year – the Australian acquisition is already fitting in well to the ACM culture, while the additions to the UK team are steadily building relationships.

Cash generation

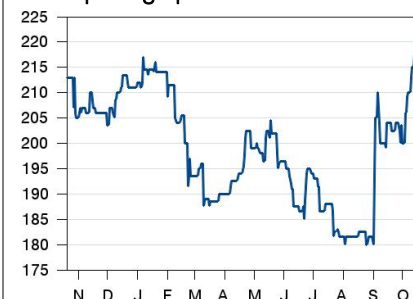
The group remains highly cash generative. We reiterate the assessment in our Outlook report, published in June, that ACM ought to be able to pay the £2.3m cash element of the Australian acquisition and still lift cash balances by around £1m.

Valuation: Still undervalued

The ACM share price has risen by 16.5% since our June report, narrowing the rating gap with other shipbrokers. We believe that the pure broking nature of the group warrants a premium rating, rather than the 13% P/E discount based on current year estimates. The overdue rerating has begun, but has some way still to go.

Price 216p
Market Cap £42m

Share price graph



Share details

Code ACMG
Listing AIM
Sector Transportation
Shares in issue 19.4m

Price

52 week High 220p Low 180p

Balance Sheet as at 30 June 2010

Debt/Equity (%) N/A
NAV per share (p) 76
Net cash (£m) 4.3

Business

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

Valuation

	2010	2011e	2012e
P/E Relative	76%	83%	62%
P/CF	14.8	6.5	5.2
EV/Sales	1.3	1.1	0.9
ROE	32%	21%	20%

Geography based on revenues (2010)

UK	Europe	US	Other
95%	0%	0%	5%

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Exhibit 1: Financials

Year end 31 March	£'000s	2008	2009	2010	2011e	2012e
		IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue		19,638	30,143	25,852	31,000	35,000
Cost of Sales		(5,891)	(9,043)	(7,756)	(9,300)	(10,500)
Gross Profit		13,747	21,100	18,096	21,700	24,500
EBITDA		5,377	8,926	6,857	7,050	8,250
Operating Profit (before GW and pre bonus)		5,237	8,726	6,630	6,850	8,050
Goodwill Amortisation		(664)	(606)	(436)	(650)	(650)
Exceptionals		0	0	0	0	0
Other		0	0	0	0	0
Operating Profit		4,573	8,120	6,194	6,200	7,400
Net Interest		242	(5)	(27)	(100)	(50)
Profit Before Tax (norm)		5,479	8,721	6,603	6,750	8,000
Profit Before Tax (FRS 3)		4,815	8,115	6,167	6,100	7,350
Tax		(1,744)	(2,275)	(1,870)	(1,830)	(2,200)
Profit After Tax (norm)		3,549	6,446	4,733	4,920	5,800
Profit After Tax (FRS3)		3,071	5,840	4,297	4,270	5,150
Average Number of Shares Outstanding (m)		15.9	17.5	17.5	18.9	19.3
EPS - normalised fully diluted (p)		22.2	36.7	26.8	25.9	29.8
EPS - normalised (p)		22.3	36.9	27.0	26.1	30.0
EPS - FRS 3 (p)		19.3	33.4	24.5	22.7	26.7
Dividend per share (p)		6.0	8.5	9.5	10.0	11.0
Gross Margin (%)		70.0%	70.0%	70.0%	70.0%	70.0%
EBITDA Margin (%)		27.4%	29.6%	26.5%	22.7%	23.6%
Operating Margin (before GW and except.) (%)		26.7%	28.9%	25.6%	22.1%	23.0%
BALANCE SHEET						
Fixed Assets		10,988	13,000	12,382	17,672	17,172
Intangible Assets		8,702	10,619	10,183	15,333	14,683
Tangible Assets		484	550	393	393	393
Investment in associates		1,509	1,493	1,208	1,348	1,498
Unquoted investments		293	338	598	598	598
Current Assets		7,544	10,932	10,114	14,058	20,042
Stocks		0	0	0	0	0
Debtors		3,979	5,997	5,848	8,613	9,724
Cash		3,565	4,935	4,266	5,445	10,318
Other		0	0	0	0	0
Current Liabilities		(9,228)	(10,331)	(7,060)	(9,254)	(10,411)
Creditors		(8,097)	(9,014)	(6,046)	(8,250)	(9,314)
Other creditors		(1,131)	(1,317)	(1,014)	(1,004)	(1,097)
Short term borrowings		0	0	0	0	0
Minority interests		0	0	0	0	0
Long Term Liabilities		(1,439)	(1,414)	(2,089)	(1,789)	(1,489)
Long term borrowings		0	0	0	0	0
Other long term liabilities		(1,439)	(1,414)	(2,089)	(1,789)	(1,489)
Net Assets		7,865	12,187	13,347	20,687	25,314
CASH FLOW						
Operating Cash Flow		4,675	8,988	2,567	6,289	8,003
Net Interest		125	(29)	26	(100)	(50)
Tax		(2,063)	(2,137)	(2,247)	(1,840)	(2,108)
Capex		(195)	(267)	(70)	(200)	(200)
Acquisitions/disposals		(6,700)	(5,599)	(44)	(5,800)	0
Financing		4,000	0	(1,025)	3,500	0
Dividends		(652)	(1,139)	(1,531)	(1,930)	(2,123)
Other		3,809	1,553	1,655	1,260	1,350
Net Cash Flow		2,999	1,370	(669)	1,179	4,873
Opening net debt/(cash)		(566)	(3,565)	(4,935)	(4,266)	(5,445)
HP finance leases initiated		0	0	0	0	0
Other		0	0	0	0	0
Closing net debt/(cash)		(3,565)	(4,935)	(4,266)	(5,445)	(10,318)

Source: Edison Investment Research, company accounts

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