IPO Research

Edison investment research

1 November 2006

ACM Shipping

Year End	Revenue (£m)	PBT* (£m)	PBT** (£m)
03/05	13.8	0.4	11.2
03/06	13.6	0.5	9.3
03/07e	14.7	4.2	9.5
03/08e	16.1	4.8	10.6

Note: *PBT normalised, excluding goodwill amortisation and exceptional items (post-bonus)
**PBT normalised, excluding goodwill amortisation and exceptional items (pre-bonus)

Investment summary: Voyage of growth

ACM Shipping has developed a strong franchise in the tanker broking market over 24 years, building long-term relationships over a broad customer base. The company is highly cash generative, debt-free, and plans an aggressive dividend payout, the first of which is expected in calendar 2007. The key risks include short term volatility in tanker earnings and £/$ exchange rate movements. Our DCF valuation implies a 2007 P/E for ACM of 10.4x, a modest premium to Clarkson on 9.8x and at a discount to Braemar Seascope on 11.5x.

Continuing to build on strong 24 year track record

ACM has established a strong franchise over more than two decades, maintaining high management and employee retention, therefore building strong long-term relationships with a diverse customer base in the tanker market. The firm has retained all the founders and key management since inception, which has been instrumental to the company growing pre-bonus operating profit by a CAGR 20.4% over the last 14 years. Management expects that future growth will be driven by; 1) organic improvement in the core business, 2) continuing expansion into Asia and 3) diversification into other shipping segments longer term.

Aggressive dividend payout planned

Historically ACM paid virtually all its earnings out as a bonus. With bonus payments being scaled back, key staff and consequently shareholders are expected to benefit from a c.35% to 40% dividend payout ratio and a progressive dividend policy.

Risks include volatile tanker earnings, $/£ exchange rate

1) ACM's earnings structure hedges somewhat against volatile tanker earnings, but the company is still exposed to this risk; 2) ACM's earnings are in US$, but its costs are in UK£, exposing earnings to the risk of $ depreciation.

Valuation: DCF of equity at £26.9m

Using a DCF analysis, we value the equity of the company at £26.9m, implying a P/E of 10.4x for 2007, a modest premium to Clarkson on 9.8x and at a discount to Braemar Seascope on 11.5x.

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Business
ACM is a ship broker with a focus on the global tanker market, offering spot freight, time charter and ship sale and purchase broking to a broad global customer base.

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Investment summary: Voyage of growth

Company description: Tanker broker to list in December

ACM Shipping, which plans to list on AIM in early December, is a ship broker focussing on the tanker market. The company has a strong 24 year track record, during which it has maintained a high level of staff retention, allowing it to establish long term relationships across a broad customer base. These employees, their knowledge of the market, and their client relationships represent the most important 'assets' of ACM.

The company intends to list to; 1) offer employees a stake in the firm and ensure continuity of the team and their client relationships over time, and 2) support further balanced, customer-led expansion into Asia, and 3) support longer term diversification into other shipping segments.

Top line revenues are generated from commission on; 1) spot freight broking, 2) time charter, 3) demurrage, and, 4) the sale and purchase of ships. These four segments represent 73% of pre-bonus operating profit; the other 27% is contributed by joint ventures, with the largest from ACM's stake in the GFI derivatives broking joint venture.

Financials: High planned payout, cash generative and debt free

A key strength of the company is a low fixed cost base, comprising mainly salaries and office rental costs. The majority of the variable cost base has been bonuses (53% of ACM's total cost base in 2006 were bonus payments), paid as a percentage of operating profit, which has acted as a natural hedge for the cost base during less profitable years. Historically, close to 100% of the pre-bonus operating profit line was paid out to employees. After the listing, however, employees will hold a significant stake in the equity of the company, and bonuses will be reduced to 50% of operating profits, but the company will implement an aggressive dividend policy. Some profit will be retained to drive a further expansion in Asia, as well as possible diversification into other shipping segments. The company has had zero debt throughout its history, and we do not expect it to take on leverage. We forecast pre-bonus operating profit growth of 9% in 2007 and 10% in 2008.

Valuation: DCF of equity at £26.9m

We value the equity of the company at £26.9m using a DCF valuation, prior to any capital raised in the listing, which would imply a 2007 P/E 2007 of 10.4x, which would place at a premium to Clarkson on 9.8x and at a discount to Braemar Seascope on 11.5x. Although ACM's peers are currently larger and more diversified across shipping segments, ACM is strong relative to the group on operational metrics, has a strong platform for continued organic growth, and further diversification is planned.

Sensitivities: Exchange rates and tanker earnings volatility

We perform two scenario analyses in this report: 1) UK ship brokers generate revenues in US$, but face costs in £; therefore the US$/£ exchange rate can have a significant effect on earnings. We believe that a depreciation of the US$ is more likely, with a 10% depreciation from our base assumption of $1.85/£ cutting our earnings forecast by 13%. 2) Tanker earnings exhibit significant volatility, and although ACM's operating structure reduces the impact of these swings somewhat, they remain a risk factor for earnings. In our core forecast we 'smooth' out these swings, but in our second scenario analysis, we re-introduce the volatility to the numbers to demonstrate how short-term earnings forecasts could diverge from our estimates, even as the long term trend holds.

Company description: Focus on tanker market

Tanker broker continues to build on strong track record

ACM Shipping is a ship broker in the tanker market, with spot freight broking, time charter, demurrage and ship sale and purchase in the; 1) fuel oil, 2) clean petroleum, and 3) crude oil segments which, combined, accounted for 73% of 2006 operating profit. The remaining 27% of operating profit comprised joint ventures and associates, with the key contributor a growing derivatives broking operation in the joint venture with GFI.

The company has a 24 year track record of growth, over which time it has maintained a high rate of staff retention, allowing it to develop a strong, long-term network of relationships with its clients maintained at all levels of the firm, from senior to the junior. These employees and their client relationships, really represent the key 'assets' of ACM. It is important to note that all the founders and key directors have remained with the company over the last two decades.

One of the main drivers behind the listing is to offer employees a long term stake in the company through equity and ensure that these client relationships, the keystone of the firm, are maintained over time. Additionally, the listing will give the company an avenue to finance future growth initiatives, which include a further expansion into Asia, and diversification into other shipping segments longer term.

Pre-bonus operating profit the key performance indicator

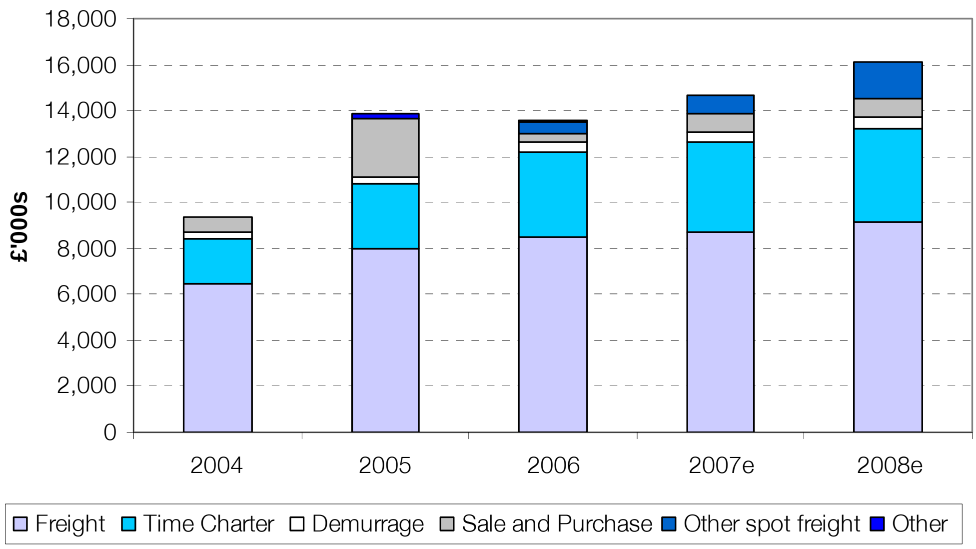
In this report we will refer to pre-bonus operating profit as the key performance metric. ACM has historically paid out close to 100% of operating profit in bonus to its employees, leading to the appearance in the historical financials of very slim margins. Pre-bonus operating profit is a better metric for demonstrating the significant cash flow and high margins actually generated by the business. Going forward, the company plans to reduce the cash payout to around 50% of operating profit, as the employees will hold a significant equity stake, and benefit from an aggressive dividend payout, which we estimate at 35% from fiscal 2007 onward.

Exhibit 1: ACM revenue and operating profit (£'000s)

	2004	2005	2006	2007e	2008e	2009e
1) Freight	6,446	7,981	8,483	8,706	9,141	9,598
2) Time Charter	1,960	2,861	3,741	3,894	4,089	4,294
3) Demurrage	326	295	434	430	451	474
4) Sale and Purchase	600	2,530	304	820	853	887
5) Other	0	181	49	0	0	0
6) Core Revenue	**9,332**	**13,848**	**13,011**	**13,850**	**14,535**	**15,253**
7) Other Spot Freight Revenue	1	0	541	812	1,574	1,889
8) Total Revenue	**9,333**	**13,848**	**13,552**	**14,662**	**16,109**	**17,142**
9) Freight as % Total Revenue	*69%*	*58%*	*63%*	*59%*	*57%*	*56%*
10) Time Charter as % Total Revenue	*21%*	*21%*	*28%*	*27%*	*25%*	*25%*
11) Demurrage as % Total Revenue	*3%*	*2%*	*3%*	*3%*	*3%*	*3%*
12) Sale and Purchase as % Total Revenue	*6%*	*18%*	*2%*	*6%*	*5%*	*5%*
13) Other as % Total Revenue	*0%*	*1%*	*0%*	*0%*	*0%*	*0%*
14) Other Spot Freight as % Total Revenue	*0%*	*0%*	*4%*	*6%*	*10%*	*11%*
14) Core operating profit pre-bonus	**4,932**	**8,972**	**7,009**	**7,864**	**8,060**	**8,216**
15) JV's and associates pre-bonus	**722**	**2,251**	**2,318**	**1,528**	**2,273**	**2,483**
16) Operating profit pre-bonus	**5,654**	**11,223**	**9,327**	**9,392**	**10,333**	**10,699**
17) Core operating profit as % total	*87.2%*	*79.9%*	*75.1%*	*83.7%*	*78.0%*	*76.8%*
18) JV and associates as % total	*12.8%*	*20.1%*	*24.9%*	*16.3%*	*22.0%*	*23.2%*

Source: Company accounts/Edison Investment Research estimates

Exhibit 2: ACM revenue (£'000s)



Source: Company accounts/Edison Investment Research

Freight spot market the core revenue generator

The company's largest revenue segment is broking ships for the spot market (63% of 2006 revenue, Exhibit 1, Line 1 and 9). ACM is an intermediary, between the owners of the ships, and the owners of the cargo (the large oil companies), the charterers. ACM helps negotiate the terms of the deal between the two parties, and generates 1.25% commission on the shipping revenue generated by the voyage, which is a function of the distance travelled and freight rates. Both the charterers and the ship owners are customers of ACM. The company offers the charterers a comprehensive knowledge of the size, cost and availability of tankers, from a size of 10,000 dead weight tonnes (DWT) to very large crude carriers (VLCC), while offering the ship owners access to a wide variety of charterers.

The freight spot market is where shipping is organised for a single voyage, and the owner of the ship manages the voyage. The company arranged around 1,000 spot fixtures in 2006, generating spot freight revenues of £8.48m. Tanker earnings tend to be volatile, and this does carry over to ACM's spot freight earnings to a degree. However the effects of this volatility are muted by diversification across the fuel oil, clean petroleum and crude oil segments of the tanker market, which are not perfectly correlated. Spot brokerage clients include; Shell, BP, Chevron, Vela, KPC, NITC, Petrobras, Thai Oil, TPI, PTT, Arcadia, Vitol, Glencore, Engen, Sasol, Mercuria, CPC, Projector, Morgan Stanley, Kangqi and Litasco.

Significant forward book for time charter

Time charter (28% of 2006 revenues, Exhibit 1, Line 2 and 10) differs from the spot market in that the ship is hired for a period of time, not just a single voyage, and although the ship is still operated by the ship owner, the charterer has control of the destinations and the operation of the ship. Time charters can be fixed far in advance, and are effectively a futures market where charterers can 'lock-in' ship availability at a future date. Being set in advance, on up to a twenty year time horizon, time charter offers a more steady earnings stream for ACM versus the spot freight market. For example, at the outset of fiscal year 2006/07, 61% of the management's time charter estimate for the year was already confirmed at the start of the fiscal period. ACM has one of the largest forward order books in the industry for tanker time charter, with clients including; BP, Shell, Chevron, PDVSA, Heidmar, Stena, Sun, Navion, ST Shipping Vela and Pacific Star.

Small contribution from demurrage

Demurrage revenues (Exhibit 1, Line 3 and 11) are generated when a given voyage is longer than the originally contracted period, whether because of extended time at sea or in port. ACM negotiates between the ship owner and charterer then charges a commission on the additional revenues. Demurrage has historically been about 3% of combined spot freight and time charter revenues; we have assumed that this ratio holds in our forecast.

Ship sale and purchase can offer periodic large upside to growth

ACM arranges the sale and purchase of ships, generating typically a 1% commission on the sales, and can also be involved in the financing of ship sales. It does this both directly through ACM and ACMSS, a 30% associate company. ACM generates ongoing revenue on its ship sale and purchase operations, from recurring small deals. However, the company also works on longer term, larger deals, which may take several years to complete, and bring windfall gains in a given year. An example of the completion of such a deal is shown in Exhibit 1, Lines 4 and 12, where sale and purchase revenue rises to £2.5m in 2005 from £0.6m the prior year, or to 18% of revenues from 6%. Going forward we have accounted for only the recurring revenue from sale and purchase revenue on small deals, although we note that a repeat of the high levels of 2005 are possible, and offer upside to our current forecast.

Asian expansion, an example of customer driven growth

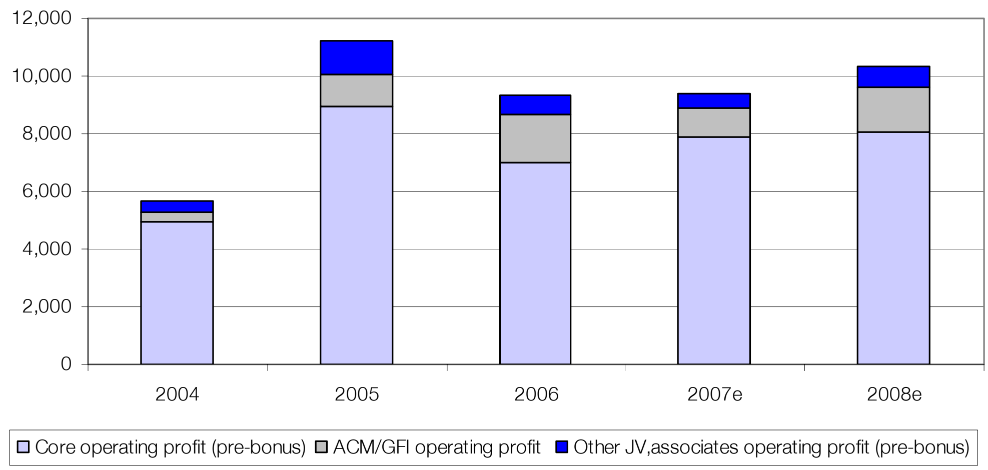
The revenue contributions from ACM's growing businesses in Asia are shown in Line 7, Exhibit 1. In 2006 and 2007, this line incorporates just the company's existing Asia Pte business; but from

2008 the company forecasts the first contribution from the company's new spot freight operation in India, which management expects will nearly double the contribution of the Asian business from 6% in 2007 to 10% in 2008. This is an example of customer driven growth, with ACM's clients suggesting that there would be demand for India-based operations, and the company meeting this through its current expansion plan.

Joint ventures: Derivatives brokerage the largest

ACM's joint ventures and associates make a significant contribution to the bottom line; as shown in Exhibit 1 (Line 17) 27% of 2006 pre-bonus operating profit was contributed by joint ventures and associates, of which the majority is from the GFI/ACM joint venture, a derivatives broking operation. The GFI/ACM JV was established in April 2002 and has been voted by Energy Risk Magazine as the "Best Wet Freight Derivatives Broker" in 2004, 2005 and 2006. We expect this will continue to contribute significantly to operating profit going forward as more and more ship owners are starting to wake up to the benefits, thereby providing further diversification of group revenues. The operation performs strongly in times of higher volatility, but a more benign market so far for the company in fiscal 2007 has lead us to forecast a dip in the GFI/ACM contribution from £1.6m in 2006 to only £1.0m in 2007, although we expect a rebound in 2008.

Exhibit 4: ACM pre-bonus operating profit breakdown (£'000s)



Source: Company accounts/Edison Investment Research

ACM focussed on single niche versus more diversified competitors

ACM has two main listed competitors in the UK, Clarkson and Braemar Seascope. Both have significantly diversified broking revenues across several different types of ship categories, where ACM is relatively narrowly focussed on the tanker market (Exhibit 5 – note that Braemar Seascope operates across the ship categories noted, but it does not give a breakdown by category). These companies are also considerably larger than ACM, the closest in size being Braemar Seascope with revenues and operating profits five times that of ACM. However, we note that ACM's long term growth strategy includes diversification across shipping segments.

ACM operational efficiency strong versus peer group

Although a smaller, less diversified operation, based on core operating efficiency metrics such as revenue and pre-bonus operating profit, ACM measures up well to its competition. The company generated £0.24m in revenue/employee in FY06, exactly in line with the average of £0.24m for the two competitors over the comparable period, and £0.16m in operating profit/employee, above the £0.10m average for the two competitors. The company's operating margin at 69.4% was also significantly higher than its competition in 2006.

Exhibit 5: ACM smaller and less diversified, but operating metrics strong versus competitors

£'m	Clarkson YE Dec '05	Braemar YE Feb '06	ACM YE March '06
Oil Tanker/Deepsea	20.2	Detail N/A	13.1
Container	2.4	Detail N/A	
Dry bulk	31.9	Detail N/A	
Gas	3.4		
Specialised charter	3.3		
Sale and purchase	32.4	Detail N/A	0.3
Other Revenue	24.1		0.0
Total Revenue	117.7	68.5	13.4
Operating profit (pre-bonus)*	59.1	22.0	9.3
Operating margin (pre-bonus)	50.2%	32.1%	69.4%
Average Employees	450	328	57
Revenue/Employee (£ m)	0.26	0.21	0.24
Operating profit (pre-bonus)/employee (£'m)	0.13	0.07	0.16

** Bonus not disclosed in Braemar Seascope's accounts; we assume 55%, in line with Clarkson*

Source: Company accounts/Edison Investment Research

Senior management team

ACM was founded in 1982 by Andrew Morton, Simon Clough, Keith Amato and Johnny Plumbe. This team has combined experience of over 100 years in the ship broking business and are still part of the company. They have grown with their contacts at the oil and shipping companies, providing ACM access to key decision makers. The company has a second tier of management that was brought on in the early 1990s and again all these key individuals have remained with the group. This group have developed contacts and relationships within the middle level management teams at their client base. A final younger generation of traders has joined the group over the last five years and ensures a level of contact with the future management teams at clients. Importantly the key revenue generators and decision makers have all been aligned to shareholders and remain locked in for five years post the IPO.

Johnny Plumbe, 54 – CEO: John has been with the company for 24 years and heads up the crude oil desk, co-ordinating some fourteen brokers on the Crude and Fuel Oil Market. He has been a specialist in large tanker brokering for 34 years, dealing with the major oil companies such as BP, Shell, Kuwait Petroleum Company, Vela, Traders Vitol and Glencore and many owners such as Embiricos, Goulandris, Lemos, Frontline, Pacific Star and NSCSA. In addition to the spot market he is involved in time charters and projects and sale and purchase.

James Gundy, 41 – COO: James has been with the company for 15 years. He was previously at Clarksons for ten years and is now COO at ACM, James specialises in the VLCC Market in the

Atlantic and Arabian Gulf, as well as the Suezmax Market and special projects with close clients Arcadia, Glencore, Total, TMT, Mecuria, CPC, Stena, Glafki and Ermis.

Ben Peck, 48 – Senior Broker: Ben has been with the company for 16 years and works on the Crude Oil Market, dealing with VLCCs for South Africa, South Korea and the Middle East, where he has very good connections with the refiners and concludes about sixty percent of the VLCCs fixed in to that area. He has brokered for owners including: C.M. Lemos, Chandris, Angelicoussis, Tanker Pacific and AP Moller. He has been with ACM since 1990, after some ten years in the British Army attaining the rank of Captain.

Andrew Morton, 57 – Senior Broker: Andrew has been with the company for 24 years. Dealing with long-term finance, bareboat charters, sale and purchase, he has been a Tanker Broker for over thirty years. He has very close contact with the Korean Shipyards and was successful in contracting four new building VLCCs in Samsung on behalf of BP Shipping.

Simon Clough, 53 – Senior Broker: Simon has been with the company for 24 years, and does Sale and Purchase, Time Charter, as well as being a specialist in the Japanese Market, which he has been involved in for some 23 years. He also has very good connections with the Japanese and Korean Shipyards on contracting new buildings.

Keith Amato, 52 – Senior Broker: Keith has been with the company for 24 years and deals with time charters both long and short term. He has been specialising in product tankers for time charter and has been responsible with the support of colleagues for building a period chartering fleet in excess of 100 ships on time charter in the last two years including five vessels for up to five years to Shell and seven vessels for three years to Petroleos De Venezuela. His main accounts are Shell, Chevron, Vela and independent oil traders. He has also concluded some large sale and purchase deals.

Bill Middleton, 50 – Senior Broker: Bill has been with the company for 23 years, concentrating on crude oil, dealing with Shell, Total, Euronav, Lykiardopulo, he has had some 29 years' experience in tanker brokering.

Mike Rudd, 44 – Senior Broker: Mike has been with the company for 8 years, heading up the products desk dealing with Glencore, Morgan Stanley, Cargill, Chevron, Shell, BP and many owners. He was formerly a partner of 'Portland Maritime' and has been with ACM since 1998. He has 26 years of experience on the products market.

Tanker earnings; fixed ST supply, shifting ST demand

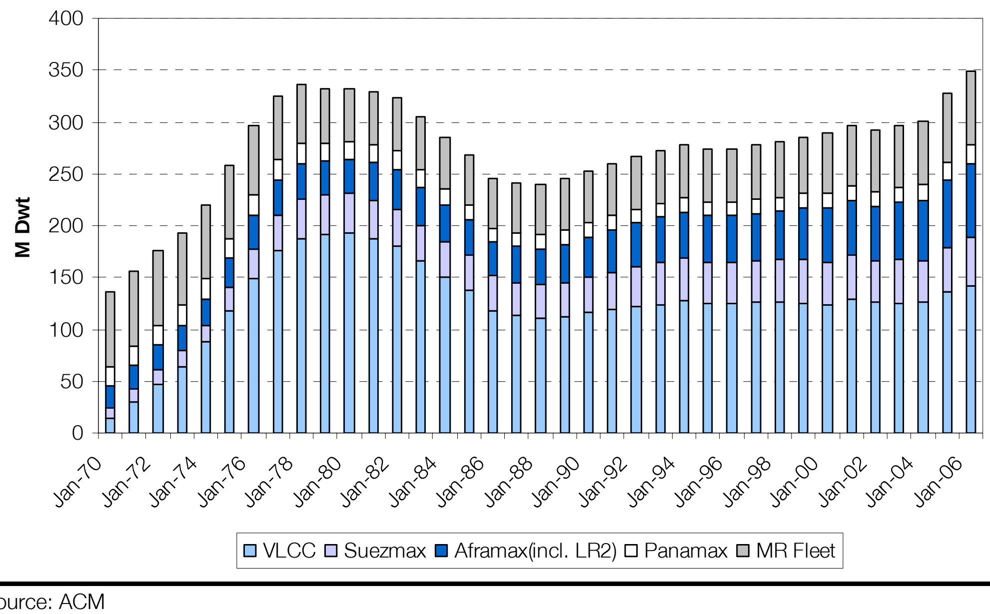
As we have outlined, the majority of ACM's earnings will be partially correlated with tanker earnings over time; we outline the ship supply/demand factors driving this cycle in this section. On the whole, ship supply had been below the increasing level of global shipping demand since 2001, following an extended trough over the 1980s-1990s. However, increased ship supply in the last few years has closed this gap with demand somewhat. In our forecast we assume that there is no major shift in the supply/demand balance in the short term.

Entire global tanker fleet has been renewed in ACM's lifetime

Tankers have an approximate 20-25 year life, with older ships regularly scrapped, and the entire global tanker fleet has been renewed within ACM's history. This offers a revenue opportunity for ACM who can benefit from (a) time charters which it can negotiate for ship owners that provide a payback cycle for the initial capital outlay in purchasing a ship, (b) commissions for sale and purchase and (c) from decommissioning which ACM can undertake. It is worth noting that whilst this cycle will continue, it may accelerate in the near term with the International Maritime Organisation's drive to replace all single hull ships to double hull ships and thus represents a significant opportunity for ACM.

Tankers take two-three years to be produced, leaving a significant lag time during which the demand situation under which the decision to build the tankers was originally made can change significantly. This is demonstrated in Exhibit 6, which shows tanker fleet growth since 1970. Based on expectations of high economic growth and ship demand in the early 1970s, there was rapid growth in the tanker fleet to a peak of over 330m dwt in 1978. However, these expectations proved aggressive given the two oil crises in the 1970s, and with the lag time in ship production, the tankers created an oversupply by the time they reached the market.

Exhibit 6: Crude tanker fleet growth 1970-2006



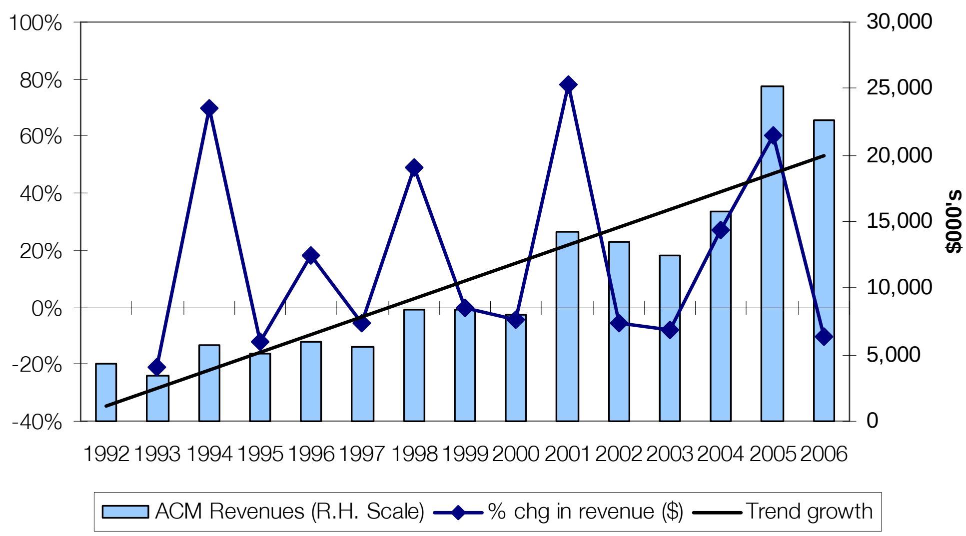
Source: ACM

We can see from Exhibit 6 that although economic growth was relatively robust from the mid 1980s, supply growth troughs as late as 1988, at below 250 dwt, and it takes until the early 1990s before the oversupply diminishes with the scrapping of enough existing ships, and marginal growth in fleet supply resumes. In the 1990s, a recession early in the decade and the Asian crisis led again to limited tanker fleet growth over the decade. Over the last several years, however, the rise in global oil demand in general, especially from China and India, and expectations that this may continue, have driven a significant rise in oil tanker supply, to the current high of 350m dwt in 2006.

Tanker earnings driven by shifts in short-term demand

Against this background of tanker supply, which is relatively fixed in the short term, is tanker demand, which has historically been subject to regular shocks. For the tanker shipping industry, unexpected demand growth (in terms of tanker demand) has included conflict in oil producing nations (Iraq war), natural disasters (hurricane Katrina) and economic growth (particularly of China and India.) This inability of tanker supply to expand (or contract) rapidly in reaction to short term demand shifts, leads to significant jumps in freight rates, large swings in oil tanker earnings, and consequently, some volatility in the earnings of ACM, as shown in Exhibit 7 (ACM revenues in US$ since 1992). However, as we have noted previously, ACM's 1) diversification across the tanker sector into fuel oil, clean petroleum and crude oil segments, and 2) large portion of revenues generated from time charter, means that the swings in ACM earnings are more muted compared to volatile tanker earnings.

Exhibit 7: ACM Core Revenue (US$) driving a 20.4% pre bonus operating profit CAGR



Source: Company accounts

Direct and indirect oil price effects on tanker earnings

The only direct, short term effect of rising oil prices on tanker earnings is that it increases the cost of running a ship. The other effect is longer term, and indirect, the effect of rising oil prices on long term growth. For example, we saw in the 1970s, rising oil prices hindered economic growth, which eventually reduced tanker demand at a given supply level. Dramatic increase in oil prices since

2003 have yet to hinder economic growth significantly, and oil remains relatively cheap versus the 1970s in real terms. However, sustained high oil prices would eventually curb overall global growth, in turn reducing the demand for oil, a key industrial input, and therefore could lower demand for shipping services from tankers. We believe our moderate forecasts account for any oil price driven direct cost increases for tankers, or decrease in overall global demand.

Financials: Estimating 8% revenue growth in 2007

As outlined, the short term demand side of the tanker earnings equation is the main driver of the volatility, and by its nature unexpected and difficult to estimate. In our forecast we have therefore smoothed this earnings volatility, and assumed steady growth in our earnings forecast, expecting core revenue to grow 13% in 2007 to US$25.6m and 5% in 2008 to $26.9m (Line 1,2 in Exhibit 6)). Applying a 1.85 US$/£ exchange rate, these translate into revenues of £13.9m in 2007 and £14.5m in 2008 (Line 3,4).

The decline in total costs (Line 12) in 2007 is the result of a lower direct bonus payout, which we estimate will decline to about c.55% of operating profits including JVs/associates in 2007 from close to 100% previously. The decline in the direct bonus payment drives operating profit up from £0.5m in 2006 to £4.1m in 2007 (Line 16). We forecast that pre-bonus operating profit grows marginally in 2007 (Line 17, 18), mainly due to a decline in the contribution of the GFI/ACM JV outlined earlier in this report offset by growth in the remaining business. We expect that growth in the core business will continue in 2008, and that the GFI/ACM will recover, driving pre-bonus operating growth up 10%.

Exhibit 8: ACM profit & loss forecast

	2004	2005	2006	2007e	2008e	2009e
1) Core Revenue (US$)	15,721	25,173	22,625	25,623	26,889	28,218
2) % growth		*60.1%*	*-10.1%*	*13.3%*	*4.9%*	*4.9%*
3) Core Revenue (UK£)	9,332	13,848	13,011	13,850	14,535	15,253
4) % growth		*48.4%*	*-6.0%*	*6.5%*	*4.9%*	*4.9%*
5) Other Revenue	1	0	541	812	1,574	1,889
6) Total Revenue	**9,333**	**13,848**	**13,552**	**14,662**	**16,109**	**17,142**
7) % growth		*48.4%*	*-2.1%*	*8.2%*	*9.9%*	*6.4%*
8) Staff costs	(3,184)	(2,953)	(4,116)	(4,251)	(5,186)	(5,860)
9) Other admin costs	(1,216)	(1,923)	(2,427)	(2,547)	(2,862)	(3,066)
10) Total admin costs	**(4,400)**	**(4,876)**	**(6,543)**	**(6,798)**	**(8,048)**	**(8,926)**
11) Bonus costs	(5,420)	(10,814)	(8,853)	(5,297)	(5,828)	(6,034)
12) Total Costs	**(9,820)**	**(15,690)**	**(15,396)**	**(12,095)**	**(13,876)**	**(14,960)**
13) GFI/ACM JV	350	1,093	1,649	1,028	1,573	1,783
14) Other JVs/associates	372	1,158	669	500	700	700
15) Total JVs/associates	**722**	**2,251**	**2,318**	**1,528**	**2,273**	**2,483**
16) Operating profit	235	409	474	4,095	4,505	4,665
17) Operating profit (pre-bonus)	**5,654**	**11,223**	**9,327**	**9,392**	**10,333**	**10,699**
18) % growth		*98.5%*	*-16.9%*	*0.7%*	*10.0%*	*3.5%*
19) Profit before tax	247	410	472	4,201	4,762	5,106
20) Profit before tax (pre-bonus)	**5,667**	**11,224**	**9,325**	**9,498**	**10,591**	**11,140**
21) % growth		*98.1%*	*-16.9%*	*1.9%*	*11.5%*	*5.2%*
22) Taxation	(102)	(224)	(453)	(1,620)	(1,789)	(1,892)
23) Profit after tax	**145**	**186**	**19**	**2,581**	**2,974**	**3,214**

Source: Company accounts/Edison Investment Research estimates

Sensitivities: Controlling for cyclicality, US$/£ exchange

Our forecasts have smoothed the inherent earnings volatility in ACM's business to model the long term trend, assuming both a steady US$/£ rate and steady supply/demand balance for oil tankers. In this section we re-introduce volatility to show that although we believe the long term trend of our forecasts are reasonable, the short term swings in earnings can be large.

10% depreciation in $/£ rate cuts operating profit by 13.4% in 2007

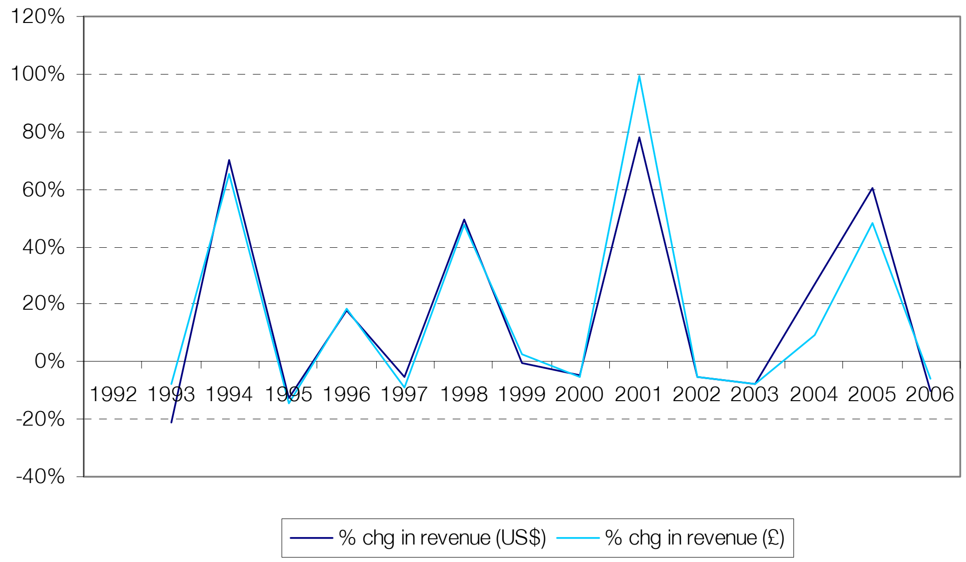
As we have outlined, the company revenues are in US$, while costs are in UK£. Therefore our first scenario analysis allows for changes in the US$/£ exchange rate. We expect that a significant rise in the US$ is unlikely, and so outline an asymmetric analysis of earnings in which the US$ appreciates by 5%, leading to a pre-bonus operating profit rise of 7.8% in 2007, and a 10% depreciation of the US$, where pre-bonus operating profit declines by 13.4% (Exhibit 7).

Exhibit 9: Effect of US$/£ exchange rate on ACM earnings

Base case	2005	2006	2007e	2008e
Core Revenue ($)	25,173	22,625	25,623	26,889
$/£ exchange rate	1.82	1.74	1.85	1.85
Core Revenue (£)	13,848	13,011	13,850	14,535
OP profit after JV, assoc (pre profit share)	11,223	9,327	9,392	10,333
5% appreciation in $/£ rate	2005	2006	2007e	2008e
$/£ exchange rate	1.82	1.74	1.76	1.76
Core Revenue (£)	13,848	13,011	14,579	15,300
% chg versus base case			5.3%	5.3%
OP profit after JV, assoc (pre profit share)	10,524	8,630	10,121	11,098
% chg versus base case			7.8%	7.4%
10% depreciation in $/£ rate	2005	2006	2007e	2008e
$/£ exchange rate	1.82	1.74	2.04	2.04
Core Revenue (£)	13,848	13,011	12,591	13,213
% chg versus base case			-9.1%	-9.1%
OP profit after JV, assoc (pre profit share)	10,524	8,629	8,133	9,012
% chg versus base case			-13.4%	-12.8%

Source: Company accounts/Edison Research Investment estimates

Exhibit 10: Effects of US$/£ exchange rate on revenue growth



Source: Company accounts

Modelling the potential earnings volatility

Although the US$/£ rate assumptions remain a risk factor to earnings forecast, historically the £/US$ rate has only made a minor contribution to revenue volatility compared to the supply demand imbalances in the oil tanker shipping industry (Exhibit 6 and Exhibit 10).

Revenue growth in sterling from 1992 to 2006 averaged 17% per year, but the standard deviation was 33%, as evidenced by the large swings in Exhibit 7. Pre-bonus operating profit growth exhibits even higher historical volatility and return, with an average yearly growth of 43%, but standard deviation of 108%. Although pre-bonus operating profit CAGR from 1992 to 2006 was 20.4%, this period saw both a year of 350% growth, as well as a year of 46% decline.

These historical trends suggest that our long term forecast for ACM may prove too conservative, and that our short term forecast may not sufficiently incorporate volatility.

Valuation: DCF of equity at £26.9m

We value ACM's equity at £26.9m using a DCF valuation, with a 14.5% discount rate and 3% terminal growth assumption, which would imply a P/E of 10.4x's in 2007, marginally ahead of Clarkson on 9.8x and at a discount to Braemar Seascope on 11.5x. As we have outlined, these two comparables are larger and more diversified, but ACM is in-line or stronger on a range of operating metrics.

Overall we believe that ACM offers a slightly higher risk profile than its direct competitors, given its exposure mainly to one segment of the market and smaller size. However, we believe that the company also exhibits high growth potential versus its competitors, which is rooted in the strong average growth record since ACM's inception. The company is also currently undertaking initial steps towards a balanced diversification, through the derivatives broking joint venture GFI, and the planned geographic expansion of the business, and longer-term targets to enter the non-tanker segments of the market. We believe that given this profile, we should see the company trade on a PE at least at the average of these two competitors longer term.

Exhibit 10: Valuing ACM equity at £26.9m

	2007e	2008e	2009e	2010e	2011e	2012e	2013e	2014e	2015e	2016e	2017e
EBITA	4,095	4,505	4,665	4,877	5,011	5,055	5,099	5,086	5,063	5,025	5,015
Cash tax	(1,579)	(1,692)	(1,728)	(1,781)	(1,810)	(1,813)	(1,817)	(1,803)	(1,787)	(1,767)	(1,756)
Depreciation	151	159	167	175	184	193	203	213	223	235	246
Net capex	(68)	(72)	(75)	(79)	(83)	(87)	(91)	(96)	(101)	(106)	(111)
Working capital	105	145	103	96	82	71	75	67	69	71	74
Operating cash flow	2,704	3,045	3,131	3,288	3,383	3,419	3,469	3,466	3,468	3,458	3,468

Discount rate	14.5%
Long term growth rate	3.0%
Forecast cash flow	18,337
Terminal cash flow	7,276
Total Firm Value	**25,614**
Net Debt/(Cash)	(1,326)
Total Equity Value	**26,940**
Net Income	2,581
Implied PE	***10.4***

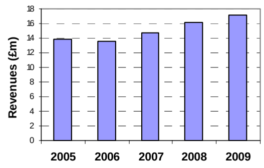
Source: Edison Investment Research estimates

Exhibit 11: Summary financials

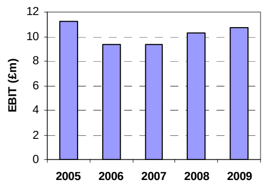
£'000s	2004	2005	2006	2007e	2008e	2009e
Year ending 31st March	UK GAAP	UK GAAP	UK GAAP	UK GAAP	UK GAAP	UK GAAP
PROFIT & LOSS						
Revenue	9,333	13,848	13,552	14,662	16,109	17,142
Cost of Sales	(3,184)	(2,953)	(4,116)	(4,251)	(5,186)	(5,860)
Gross Profit	6,149	10,895	9,436	10,411	10,923	11,282
EBITDA	5,701	11,335	9,471	9,543	10,492	10,866
Operating Profit (before GW and pre bonus)	5,654	11,223	9,327	9,392	10,333	10,699
Goodwill Amortisation	0	0	0	0	0	0
Bonus payments	(5,420)	(10,814)	(8,853)	(5,297)	(5,828)	(6,034)
Other	0	0	0	0	0	0
Operating Profit	235	409	474	4,095	4,505	4,665
Net Interest	12	1	(2)	106	257	441
Profit Before Tax (ex bonuses)	5,666	11,224	9,325	9,498	10,591	11,140
Profit Before Tax (norm)	247	410	472	4,201	4,762	5,106
Profit Before Tax (FRS 3)	247	410	472	4,201	4,762	5,106
Tax	(102)	(224)	(453)	(1,620)	(1,789)	(1,892)
Profit After Tax (ex bonuses)	5,564	11,000	8,872	7,878	8,802	9,248
Profit After Tax (FRS3)	145	186	19	2,581	2,974	3,214
Gross Margin (%)	65.9%	78.7%	69.6%	71.0%	67.8%	65.8%
EBITDA Margin (%)	61.1%	81.9%	69.9%	65.1%	65.1%	63.4%
Operating Margin (before GW and except.) (%)	60.6%	81.0%	68.8%	64.1%	64.1%	62.4%
BALANCE SHEET						
Fixed Assets	554	1,355	944	1,017	1,097	1,184
Intangible Assets	0	0	0	0	0	0
Tangible Assets	103	603	524	576	634	697
Investment in associates	451	752	420	441	463	486
Current Assets	2,152	3,441	4,418	7,447	9,158	10,701
Stocks	0	0	0	0	0	0
Debtors	1,454	2,616	3,092	3,372	3,705	3,943
Cash	698	825	1,326	4,075	5,453	6,758
Other	0	0	0	0	0	0
Current Liabilities	(2,217)	(3,983)	(4,453)	(4,838)	(5,316)	(5,657)
Creditors	(2,217)	(3,983)	(4,453)	(4,838)	(5,316)	(5,657)
Long Term Liabilities	(1,852)	(2,591)	(1,421)	(1,492)	(1,567)	(1,645)
Long term borrowings	0	0	0	0	0	0
Other long term liabilities	(1,852)	(2,591)	(1,421)	(1,492)	(1,567)	(1,645)
Net Assets	(1,363)	(1,778)	(512)	2,134	3,373	4,583
CASH FLOW						
Operating Cash Flow	(487)	(1,842)	(1,842)	2,567	2,232	2,182
Net Interest	120	57	61	106	257	441
Tax	(89)	(32)	(42)	(1,620)	(1,789)	(1,892)
Capex	(33)	(635)	(65)	(68)	(72)	(75)
Acquisitions/disposals	(5)	0	0	0	0	0
Financing	0	0	0	0	0	0
Dividends	0	0	0	0	(903)	(1,041)
Other	1,105	2,579	2,389	1,765	1,652	1,690
Net Cash Flow	611	127	501	2,749	1,378	1,305
Opening net debt/(cash)	0	(698)	(825)	(1,326)	(4,075)	(5,453)
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)	(4,075)	(5,453)	(6,758)

Source: Edison Investment Research estimates

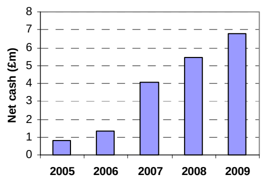
Growth



Profitability



Balance sheet strength



Sensitivities evaluation	
Litigation/regulatory	○
Pensions	○
Currency	◖
Stock overhang	○
Interest rates	◖
Oil/commodity prices	●

Growth metrics	%	Profitability metrics	%	Balance sheet metrics		Company details	
EPS CAGR 04-08e	N/A	ROCE 07e	N/A	Gearing 07e	N/A	Address:	
EPS CAGR 06-08e	N/A	Avg ROCE 04-08e	N/A	Interest cover 07e	N/A	Kinnaird House, 1 Pall Mall London, SW1Y 5AU	
EBITDA CAGR 04-08e	17	ROE 07e	N/A	CA/CL 07e	1.6		
EBITDA CAGR 06-08e	5	Gross margin 07e	71	Stock turn 07e	N/A	Phone	020 7930 7555
Sales CAGR 04-08e	15	Operating margin 07e	64	Debtor days 07e	84	Fax	020 7930 0115
Sales CAGR 06-08e	9	Gr mgn / Op mgn 07e	1.1	Creditor days 07e	120	www.acmshipping.co.uk	

Principal shareholders	%
Andrew Morton	10.2
Simon Clough	10.2
Keith Amato	10.2
Johnny Plumbe	10.2
Bill Middleton	10.2
James Gundy	10.2
Mike Rudd	10.2

Forthcoming announcements	
Listing date	December 2006

Management team
CEO: Johnny Plumbe
Johnny Plumbe has 34 years experience in large tanker brokering for the crude and fuel oil market, with accounts including BP, Shell and KPC. He heads the dirty desk, co-ordinating fourteen brokers on crude and fuel oil markets, and is also involved in time charter, projects and sales/purchases.
COO: James Gundy
James Gundy has 15 years experience in the very large tanker market in the Atlantic, Arabian Gulf and Suezmax market, with accounts including Arcadia, Glencore, Total, TMT, Mecuria, CPC, Stena, Glafki and Ermis.
Chairman: Peter Sechiari
Peter Sechiari has strong experience with listed companies including Mayborn Group Plc and Rio Tinto Plc. Peter is responsible for advising ACM on financial strategy, senior management structure, remuneration, succession issues and financial oversight.