

# First Ship Lease Trust

(FSLT SP; FSLT.SI)

**BUY**

Price as of 6 November 2015	0.171
12M target price (S\$)	0.260
Previous target price (S\$)	-
Upside (%)	52.0%

**Trading data**

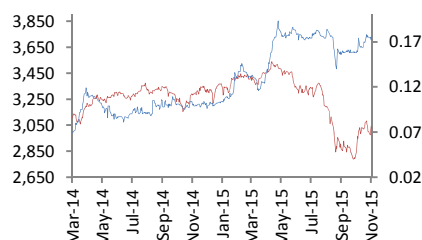
Market Cap (S\$m)	109.4
Issued Shares (m)	639.7
Ave Daily Traded (3-Month) Vol / Val	1.0m / \$0.2m
52 week lo / hi	\$0.10 / \$0.19
Free Float	73.9%

**Major Shareholders**

FSL Holdings	25.1%
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**Previous Recommendations**

Date	Rating	Share Price (S\$)	Target Price (S\$)
05-Aug-15	BUY	0.176	0.260

**12-Mth FIRT SP (Blue) vs. FSSTI**


Source: Bloomberg

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**Another good set of results**

**Good results as expected.** First Ship Lease Trust (FSL) reported US\$28.4m revenue for 3Q15, which is 3.1% higher QoQ and 20.1% higher YoY. While net profit is significantly higher YoY, net profit is lower at US\$2.8m QoQ (2Q15: US\$6.2m) mainly due to i) higher depreciation from the two Evergreen vessels as the residual value has changed, ii) a decline in 'other income' from US\$1m to S\$0.5m and iii) higher operating expenses incurred on voyages and tanker charters.

**Acquisition of new MR tanker.** FSL expects the delivery of a new ~46,000 DWT MR tanker in November, with an acquisition cost of US\$21.8m and a cash-on-cash yield of 14.5%. This tanker may be kept in the spot market, until FSL finds a reasonable charter rate to lock in. While this increases the concentration of FSL's portfolio to the tanker segment, we think that once the charter rate is firmed up, FSL would be one step closer to a potential dividend payout.

**Expect a slightly weaker 4Q.** We are projecting a slightly weaker 4Q due to temporary factors. The delivery of the MR requires management takeover costs and working capital, and 2 vessels are undergoing special surveys which incurs drydocking fees and result in reduced cashflow generation.

**Struggling containership segment to have a contained impact.** Yesterday, we saw a steep decline in Rickmers Maritime's share price amidst a poor containership operating environment. FSL's cashflows has been impacted due to a lower contribution from its 2 feeder containerships, and the scrap value of the Evergreen vessels may be at risk. Nevertheless, we think that the impact is contained as the 2 feeder containerships contribute only 2.6% of 3Q15 bareboat charter equivalent revenues while the decline in salvage value of the vessels will only have a one-time impact on cashflows.

**Keeping our BUY on the potential for dividend payout.** We keep our TP unchanged at S\$0.260 based on revalued P/B of 1. We like FSL's strong cashflow generation, which helps to pay down debt while rejuvenating its fleet. FSL is also exposed to the booming tanker segments, which is still seeing strong time charter rates. We keep FSL as a BUY, with further upsides in sight due to the potential to pay out dividends.

**Financials & Key Operating Statistics**

YE Dec (US\$ m)	2013	2014	2015F	2016F	2017F
Revenue	90.0	93.4	107.0	101.8	99.6
Net cash from operations	36.0	53.2	63.6	57.6	56.5
Profit after tax	-65.2	4.1	19.8	18.1	20.1
Net finance cost	-24.6	-16.4	-12.7	-11.7	-10.4
Net assets	265.6	266.7	260.2	290.4	310.3
Borrowings	377.5	317.6	274.5	230.5	186.5
Gearing (x)	1.4	1.2	1.1	0.8	0.6
Earnings per share (US cents)	-10.0	0.6	3.1	2.8	3.1
Price / Book (x)	0.3	0.3	0.3	0.3	0.3

Source: Company Data

**Figure 1: Results comparison**

FYE Dec (USD m)	3Q15	3Q14	YoY % chg	2Q15	QoQ % chg	Comments
Revenue	28.4	23.6	20.1	27.5	3.1	Slightly higher due to spot revenue
Vessel operating & voyage expenses	-7.6	-5.3	44.7	-6.2	23.6	Higher due to spot expenses on voyage and tanker expenses
Depreciation expense & impairment	-13.8	-12.7	8.2	-11.5	19.9	In-line
Management fees	-0.9	-0.7	31.0	-0.8	6.9	In-line
Trustee & other trust expenses	-0.5	-0.6	-6.2	-0.6	-4.7	In-line
Other income	0.5	0.0	n.a.	1.0	-49.4	In-line
Net interest expense	-3.2	-3.7	-12.6	-3.3	-2.9	In-line
Net profit before tax	2.8	0.7	282.9	6.2	-53.8	Lower mainly due to higher deprecia-

Source: Company data, KGI Fraser

## Summary of Financials

YE 31 Dec

<b>INCOME STATEMENT (US\$m)</b>	<b>2013</b>	<b>2014</b>	<b>2015F</b>	<b>2016F</b>	<b>2017F</b>
<b>Revenue</b>	<b>90.0</b>	<b>93.4</b>	<b>107.0</b>	<b>101.8</b>	<b>99.6</b>
Depreciation	(54.5)	(48.7)	(47.1)	(39.4)	(36.4)
Impairment losses	(48.7)	(1.9)	0.0	0.0	0.0
Voyage & vessel operating expense	(19.6)	(20.3)	(24.9)	(26.8)	(26.9)
Management & trustee fees	(2.9)	(3.2)	(3.6)	(3.7)	(3.7)
Other gross expenses	(4.9)	(2.6)	(2.0)	(2.0)	(2.0)
<b>Gross expenses</b>	<b>(130.6)</b>	<b>(76.6)</b>	<b>(77.7)</b>	<b>(71.9)</b>	<b>(69.0)</b>
Net finance cost	(25)	(16)	(13)	(12)	(10)
Other income/losses	0	4	3	0	0
<b>Net Income before tax</b>	<b>(65.2)</b>	<b>4.1</b>	<b>19.9</b>	<b>18.1</b>	<b>20.1</b>
Income tax expense	(0.0)	(0.0)	(0.0)	0.0	0.0
<b>Net Income after tax</b>	<b>(65.2)</b>	<b>4.1</b>	<b>19.8</b>	<b>18.1</b>	<b>20.1</b>
Net adjustments	101.2	49.2	43.8	39.4	36.4
<b>Net cash generated from operations</b>	<b>36.0</b>	<b>53.2</b>	<b>63.6</b>	<b>57.6</b>	<b>56.5</b>
Amount not available for distribution	0	0	0	0	0
Repayment of loans	(54.0)	(61.0)	(44.0)	(44.0)	(44.0)
<b>Income available for distribution</b>	<b>(18.0)</b>	<b>(7.8)</b>	<b>19.6</b>	<b>13.6</b>	<b>12.5</b>

<b>BALANCE SHEET (US\$m)</b>	<b>2013</b>	<b>2014</b>	<b>2015F</b>	<b>2016F</b>	<b>2017F</b>
Cash and cash equivalents	20.4	32.8	27.8	53.6	66.0
Trade and other receivables	5.3	4.8	6.2	5.9	5.8
Other current assets	1.2	0.1	0.3	0.3	0.3
<b>Current Assets</b>	<b>26.9</b>	<b>37.6</b>	<b>34.3</b>	<b>59.9</b>	<b>72.1</b>
Vessels	631.0	556.0	507.9	468.5	432.1
Other non-current assets	4.8	1.3	0.0	0.0	0.0
<b>Non-current Assets</b>	<b>635.8</b>	<b>557.3</b>	<b>507.9</b>	<b>468.5</b>	<b>432.1</b>
<b>Total assets</b>	<b>662.6</b>	<b>594.9</b>	<b>542.2</b>	<b>528.4</b>	<b>504.3</b>
Secured bank loans (Current)	377.5	44.0	44.0	44.0	44.0
Derivative liabilities (Current)	3.4	1.3	0.0	0.0	0.0
Trade and other payables	6.3	1.3	1.8	1.9	1.9
Other liabilities	4.0	4.2	3.2	3.2	3.1
<b>Current Liabilities</b>	<b>391.3</b>	<b>50.8</b>	<b>49.1</b>	<b>49.0</b>	<b>49.0</b>
Secured bank loans (Non-current)	0.0	273.6	230.5	186.5	142.5
Derivative liabilities (Non-current)	0.7	0.2	0.0	0.0	0.0
Other non-current liabilities	5.0	3.6	2.5	2.5	2.5
<b>Non-current liabilities</b>	<b>5.7</b>	<b>277.4</b>	<b>232.9</b>	<b>188.9</b>	<b>144.9</b>
<b>Total liabilities</b>	<b>397.0</b>	<b>328.2</b>	<b>282.0</b>	<b>238.0</b>	<b>193.9</b>
<b>Net Asset</b>	<b>265.6</b>	<b>266.7</b>	<b>260.2</b>	<b>290.4</b>	<b>310.3</b>

<b>CASH FLOW STATEMENT (US\$m)</b>	<b>2013</b>	<b>2014</b>	<b>2015F</b>	<b>2016F</b>	<b>2017F</b>
Net income before tax	(65.2)	4.1	19.9	18.1	20.1
Depreciation	54.5	48.7	47.1	39.4	36.4
Impairment losses	48.7	1.9	0.0	0.0	0.0
Net interest expense	23.4	15.6	10.8	11.2	9.9
Change in working capital	(0.6)	(3.0)	(2.2)	0.2	0.1
Change in other current assets	(0.1)	1.0	(1.6)	(0.0)	(0.2)
<b>Cash flows from operating activities</b>	<b>60.7</b>	<b>68.3</b>	<b>74.1</b>	<b>69.0</b>	<b>66.3</b>
<b>Cash flows from investing activities</b>	<b>(0.4)</b>	<b>20.9</b>	<b>(19.4)</b>	<b>12.0</b>	<b>0.0</b>
Net proceeds from issuance of Units	0.0	0.0	0.0	0.0	0.0
Net proceeds from borrowings	(54.0)	(61.0)	(44.0)	(44.0)	(44.0)
Net interest paid	(23.4)	(15.8)	(11.6)	(11.2)	(9.9)
Payment of distribution to Unitholders	0.0	0.0	0.0	0.0	0.0
Change in other financing activities	0.0	0.0	6.1	0.0	0.0
<b>Cash generated from financing activities</b>	<b>(77.4)</b>	<b>(76.8)</b>	<b>(49.5)</b>	<b>(55.2)</b>	<b>(53.9)</b>
<b>Net increase in cash &amp; cash equivalents</b>	<b>(17.1)</b>	<b>12.4</b>	<b>5.1</b>	<b>25.8</b>	<b>12.4</b>
Beginning Cash	27.5	10.4	22.8	27.8	53.6
<b>Ending Cash</b>	<b>10.4</b>	<b>22.8</b>	<b>27.8</b>	<b>53.6</b>	<b>66.0</b>
<b>Restricted Cash</b>	<b>10.0</b>	<b>10.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

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Rating	Definition
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<b>BUY</b>	>10% total return over the next 12 months
<b>HOLD</b>	-10% to +10% total return over the next 12 months
<b>SELL</b>	<-10% total return over the next 12 months

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