

GE Shipping Company



THE GREAT EASTERN
SHIPPING CO. LTD.

Financials & Valuations (INR m)

Y/E Dec	FY22	FY23	FY24
Sales	35,621	58,077	54,954
EBITDA	14,625	31,989	30,716
PAT	6,297	25,750	26,142
EPS (INR)	44.1	180.4	183.1
EPS Gr. (%)	-29	309	2
BV/Sh.(INR)	563.9	719.7	868.4
Ratios			
Net D:E	0.1	-0.1	-0.3
RoE (%)	8.0	28.1	23.1
RoCE (%)	7.6	22.3	19.3
Valuations			
P/E (x)	30.9	7.6	7.4
P/BV (x)	2.4	1.9	1.6
EV/EBITDA (x)	14.5	6.0	5.7
Div. Yield (%)	0.7	2.1	2.7
FCF Yield (%)	3.6	12.1	9.5

Offshore strengthening further; shipping to remain tight

GE Shipping's market cap has quadrupled in the last three years as its EBITDA has improved amid a tight shipping market. We met with the company's management recently and following are our key takeaways: 1) demand-supply fundamentals remain robust across crude/product/dry-bulk segments; commentary from global shipping companies affirms our view that markets will remain tight over the next two years; 2) offshore charter rates continue to hit new highs, with only a marginal impact from Saudi Arabia's decision to defer oil capacity expansion; 3) ~20% of the company's shipping fleet is now on time charter, improving earnings visibility, while its offshore fleet continues to get re-priced at charter rates, which are 40-80% higher.

Key takeaways from our meeting with GE Shipping management:

Offshore segment revenue might ramp up amid increasing demand

- The management expects the offshore segment's profitability to get a boost, as two of the four jack-up rig contracts would be repriced in FY25 and another rig may be repriced in 2HFY26.
- In addition, five of the company's 19 OSVs are currently outside India employed at 20-30% higher charter rates and the group continues to look for lucrative opportunities for its OSV fleet.

ONGC tenders remain key catalysts in FY25

- ONGC is going to come up with two jack-up rig tenders in the coming months even as the offshore market remains tight. The previous tender in Indian waters was done at a charter rate of ~93k/day, while three of GE Shipping's jack-up rigs are currently employed at USD 40-45k/day.
- Global charter rates for one-year contracts are currently between USD140k and USD150k per day. Meanwhile, operating expenses remain around USD20k-25k per day for jack-up rigs.

Asia's growing structural shortfall in crude is positive for tankers

- IEA's oil and refining demand-supply outlook report for Jun'24 emphasized that oil production growth is concentrated in the US, while new refineries are being established in Asia. This structural trend is anticipated to persist for many years and is expected to keep the ton-mile demand high even if the Red Sea issue gets resolved in the coming months.
- As per IEA, from CY24 to CY30, there are limited new capacity additions or expansions in US/Europe. However, both regions together dominate in refinery shutdowns (48% share).
- We believe this highlights what IEA calls "Asia's growing structural shortfall in crude". This, in turn, could lead to elevated ton-mile demand for oil tankers at a time when supply growth remains weak.

Tanker rates expected to remain robust

- **In 1QFY25, crude tanker rates declined 8% QoQ, product tanker rates flat:**
 - Suezmax/Aframax spot charter rates in Jun'24 averaged ~ USD54k/USD53k per day, up 10%/21% QoQ. However, charter rates remain elevated and at a strong premium to their 30-year long-term average of USD33k/USD27k per day. Red Sea issues continue to persist, keeping charter rates high.

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Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

- **Dry bulk tanker rates up 5% QoQ:** Capesize/Panamax/Supramax dry bulk tankers spot charter rates in Jun'24 averaged ~USD29k/USD17k/USD17.5k per day, down 16%/6% and up 2% QoQ. However, charter rates remain elevated and at a premium to their 30-year long-term average of USD27k/USD15.5k/USD14k per day.
- **Soft China GDP outlook key medium-term risk to dry-bulk rates:** Dry bulk rates surged 101% YoY in Jun'24. We believe that an increase in iron ore imports and congestion at Chinese ports have contributed to keeping these rates high. However, IMF's GDP growth rates data indicates China's GDP growth is expected to decline to below 4% at constant prices from FY26 and beyond, which may cause a decline in commodity demand and rates post CY26.

No end in sight to threat posed by Houthi rebels

- As per media reports, Red Sea issues persist and tankers continue to go around the Cape of Good Hope, adding 10-15 days to their journey to Asia. A [media report](#) published recently highlighted that the threat from Houthi rebels has only grown in recent months and they have established a strong arms manufacturing infrastructure in Yemen and are relying on Iran only for specific components.
- As such, in the near term, we believe crude and product tanker rates will likely remain strong.

Company continues to evaluate lucrative time charter opportunities

- All the four LPG tankers of the company are already on long-term charters. Furthermore, five more product tankers are on such contracts, given elevated charter rates in the range of USD30-40k/day.
- Should lucrative opportunities arise, the company is willing to increase the proportion of time charter contracts in the overall contract mix, which currently stands at 20%.

Fleet modernization preferred to fleet expansion given multi-year high asset prices

- Since the tanker prices are soaring high, the company does not intend to expand its fleet aggressively and instead is focusing on maintaining a low average fleet age. This is being accomplished by selling older ships and purchasing new ships of the same type.

LPG comes strong despite solid OB-to-fleet ratio

- According to IEA, demand for Naphtha and LPG/ethane is projected to increase by 3.7mb/d between CY23 and CY30. Deliveries to petrochemical plants will drive about four-fifths of this growth. The remaining growth is expected to be driven by a rise in LPG demand for clean cooking and other household applications.
- IEA expects strong growth in LPG/ethane usage, projecting an increase of 2.5mb/d between CY23 and CY30. This growth reflects significant expansions in the supply of new natural gas liquids (NGL), particularly from the US and major producers in the Middle East.
- US NGL product balance is expected to increase from 0.8mb/d in CY12 to 5.2mb/d in CY30 at a CAGR of 11%, out of which propane accounts for ~30%.
- As a result, even though the OB-to-fleet ratio for LPG carriers remains above 20%, we think the charter rate outlook for the segment remains robust.

Net cash of INR35b at FY24 end; 17% of current market cap

- The company had a net cash balance of ~INR35b as of FY24 end. With high charter rates and limited capex, the operating cash flow generation is likely to remain strong.
- The company plans to utilize the cash for dividend payments and fleet modernization.

Valuation

- GE Shipping (Not Rated) is trading at FY24 P/NAV of ~1.04x, implying a premium of 4% vs. historical average P/NAV of 0.66x. On FY24 P/B basis, GE Shipping is trading at 1.5x vs. global oil tanker companies, which trade at 1.2-2.1x trailing P/B basis.
- The dividend yield rose from 0.2% in FY21 to 2.7% in FY24.

Exhibit 1: Global peer comparison

Company Name	Market Cap (USD M)	ROE (%)				EV/EBITDA (x)				PE (x)				PB (x)			
		CY21	CY22	CY23A	CY24E	CY21	CY22	CY23A	CY24E	CY21	CY22	CY23A	CY24E	CY21	CY22	CY23A	CY24E
LPG carriers																	
Dorian LPG Ltd	1,769	9.6	7.7	19.2	32.4	5.8	6.4	5.6	5.2	7.7	10.9	4.7	4.6	0.6	0.6	0.9	1.6
Avance Gas Holding Ltd	1,190	6.5	15.6	27.1	48.6	6.2	4.5	6.6	5.4			4.7					1.9
Product Tankers																	
Scorpio Tankers Inc	4,162	-12.0	29.3	21.6	24.7	24.3	4.8	4.9	5.1	4.7	6.1	5.8		0.4	1.3	1.3	1.2
Ardmore Shipping Corp	835	-12.4	35.6	22.7	28.0	39.9	4.2	4.3	4.5	3.8	5.2	5.4		0.4	1.3	1.1	1.2
International Seaways Inc	2,785	-12.5	29.2	34.7	30.9		4.6	3.7	4.4	4.9	4.3	5.0		0.6	1.2	1.3	1.4
Crude Tankers																	
DHT Holdings Inc	1,738	-1.1	5.8	15.4	24.6	10.3	8.7	6.4	5.3	44.1	9.9	7.4		0.8	1.4	1.5	1.6
Frontline PLC	5,232	-0.9	24.4	28.9	36.4	21.3	7.5	7.8	6.2	5.5	6.8	6.7		0.9	1.2	2.0	2.1
Teekay Tankers Ltd	2,173	-25.3	24.0	39.6	28.5		4.1	2.5	3.2	4.8	3.4	4.4		0.4	1.0	1.1	1.2
Nordic American Tankers Ltd	777	-31.2	2.9	18.3	17.5		9.6	6.4	5.6	64.1	8.9	8.1		0.6	1.2	1.6	1.4
Dry bulk																	
Star Bulk Carriers Corp	2,806	37.5	27.6	9.4	22.2	3.9	4.0	7.5	5.2	3.4	3.5	13.9	5.7	1.1	1.0	1.0	1.1
Golden Ocean Group Ltd	2,639	32.0	24.0	5.8	16.5	4.3	4.6	9.0	7.3	3.5	4.4	16.5	8.8	0.9	0.9	1.0	1.3
Eagle Bulk Shipping Inc	571	32.4	33.3	3.2	17.7	2.7	2.3	7.9		3.8	3.3	79.7		0.9	0.8	0.9	
Genco Shipping & Trading Ltd	878	21.9	16.8	-1.4	11.6	3.0	3.3	13.2	5.9	3.8	4.2	35.3	9.3	0.7	0.7	0.8	0.9

Source: Bloomberg, MOFSL

Exhibit 2: Domestic peer comparison

Company Name	Market Cap (INR M)	ROE (%)			EV/EBITDA (x)			PE (x)			PB (x)		
		FY23	FY24E	FY25E	FY23	FY24	FY25E	FY23	FY24	FY25E	FY23	FY24	FY25E
Great Eastern Shipping Co Ltd/ Shipping Corp of India Ltd	1,94,527	28.1	20.1	18.3	2.4	5.1	4.9	3.6	8.7	7.8	0.9	NA	1.4
	1,28,211	13.5	NA	NA	3.7	NA	NA	5.0	NA	NA	0.6	NA	NA

Source: Bloomberg, MOFSL

Exhibit 3: Crude Tanker Demand

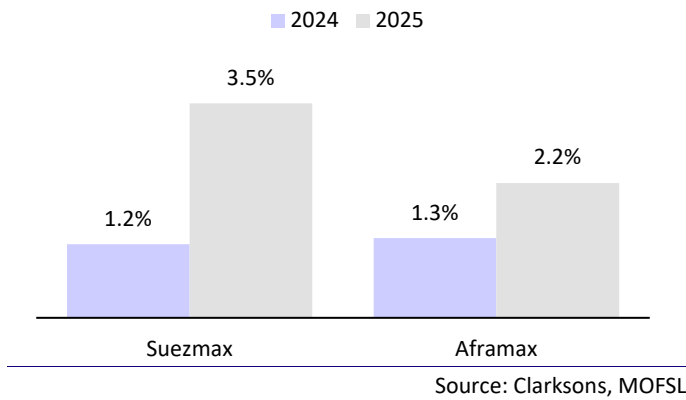


Exhibit 4: Crude Tanker Supply

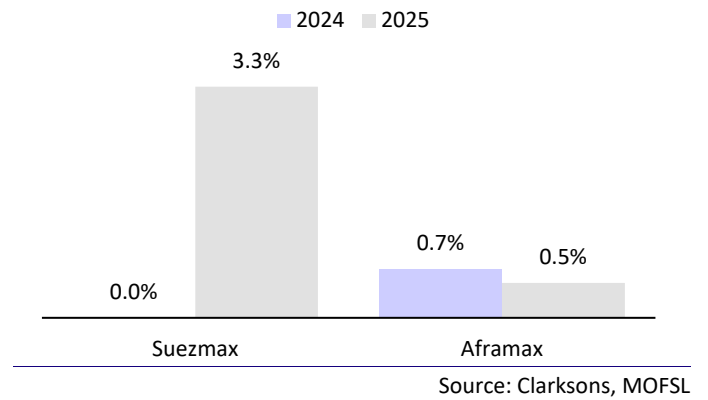


Exhibit 5: Product Tanker Demand

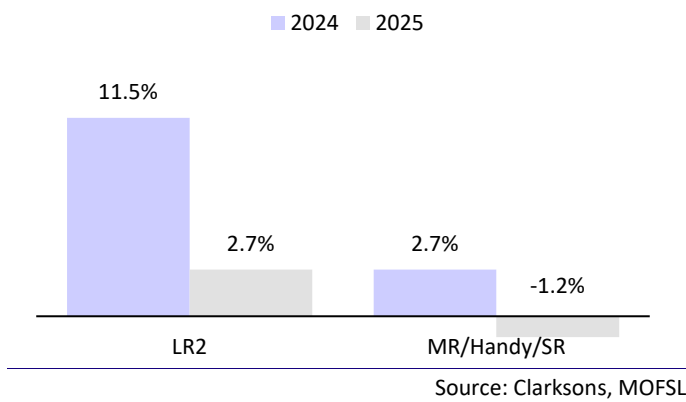


Exhibit 6: Product Tanker Supply

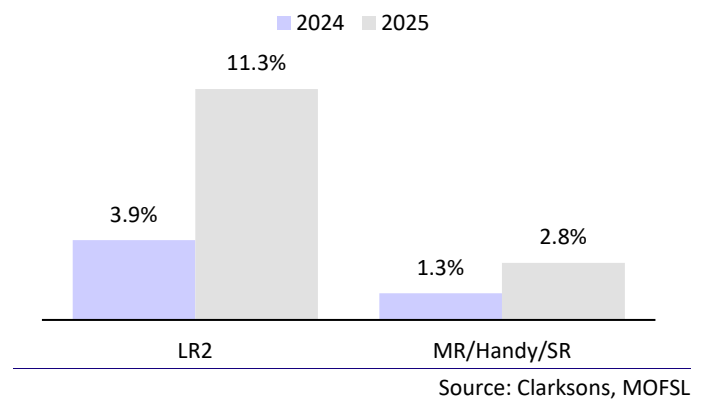


Exhibit 7: Dry Bulk Demand

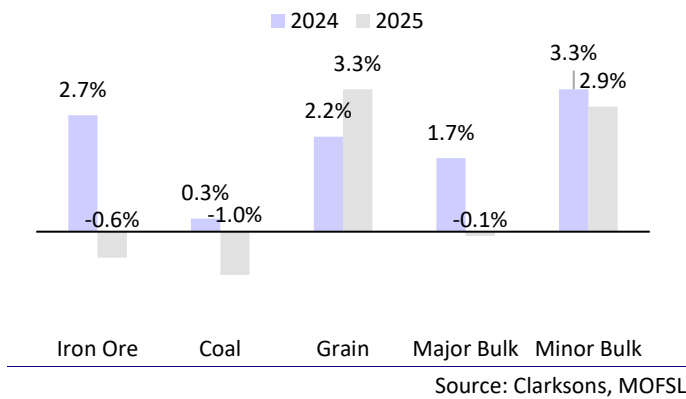


Exhibit 8: Dry Bulk Supply

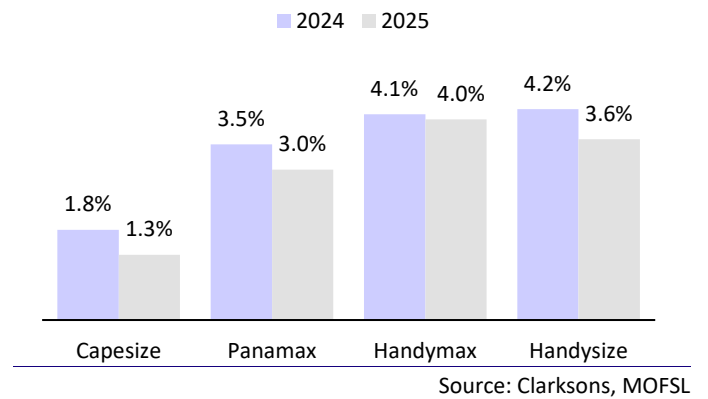


Exhibit 9: Jack-up Rig Utilization

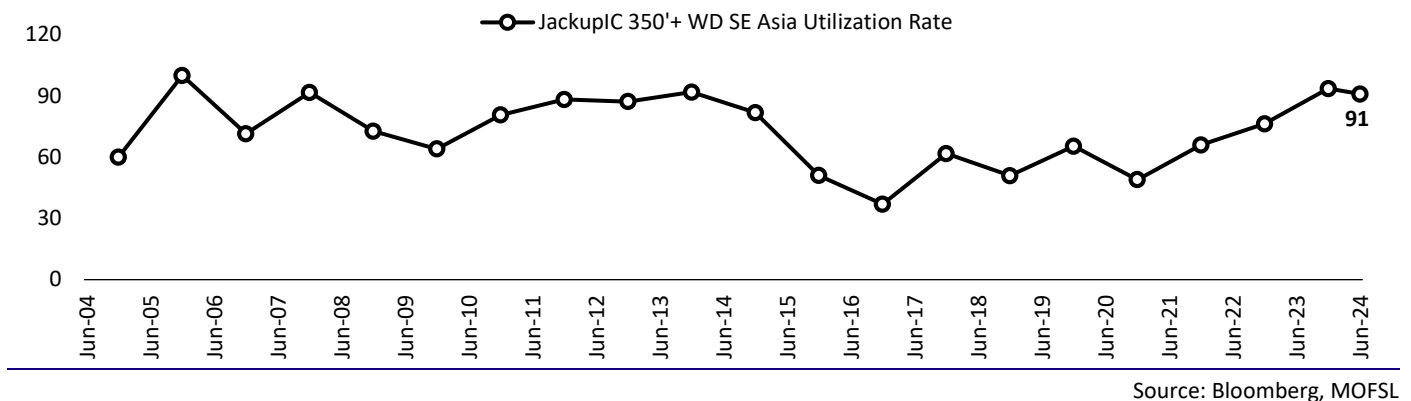
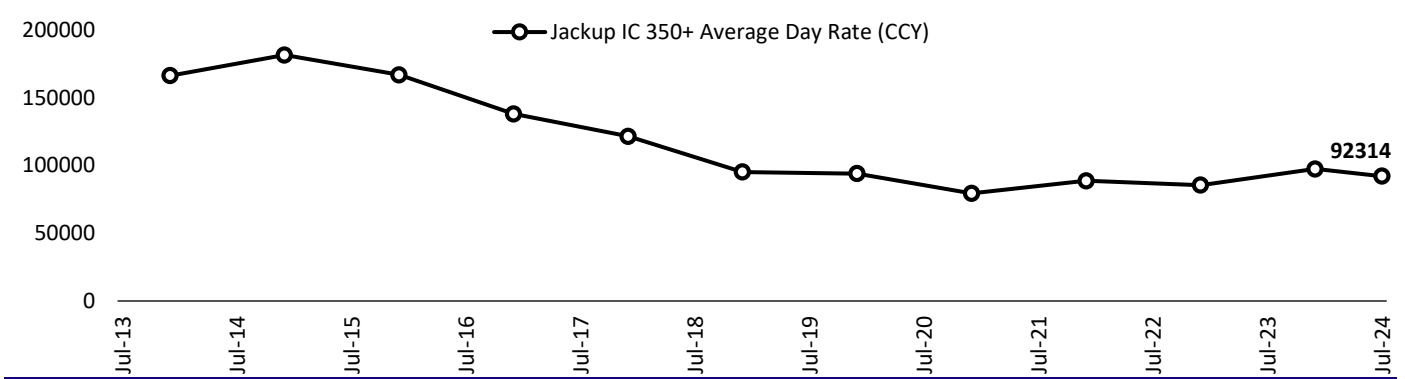
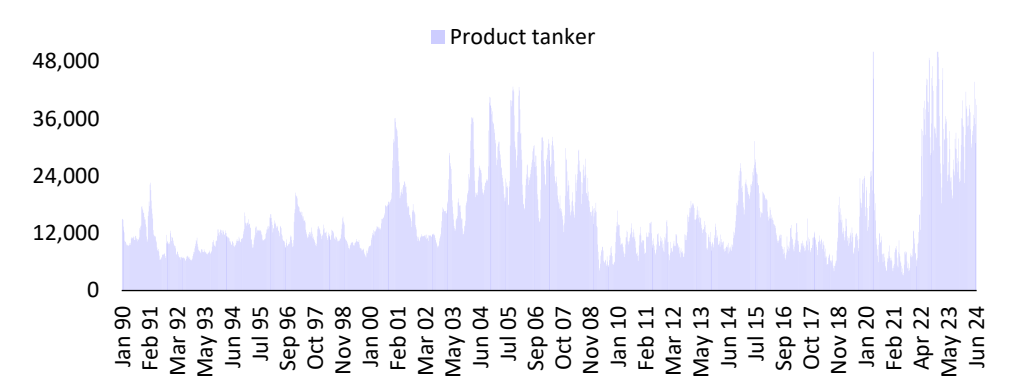


Exhibit 10: Jack-up Rig average day rate (USD/day)



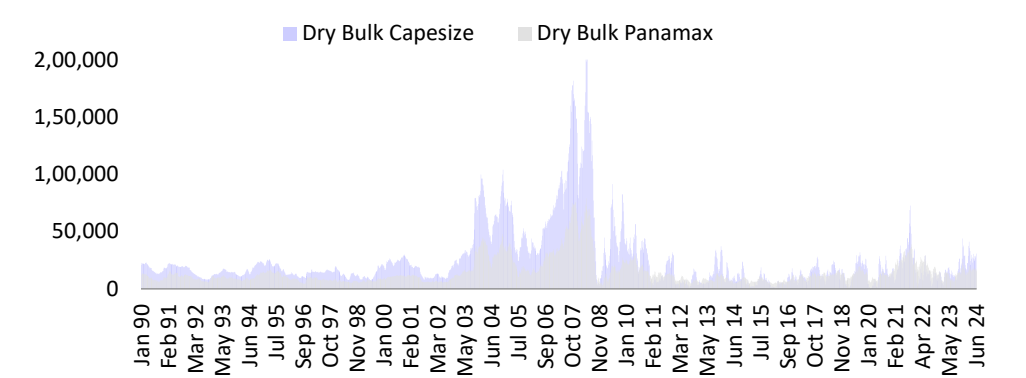
Source: Bloomberg, MOFSL

Exhibit 11: Product tanker charter rates (USD/day)



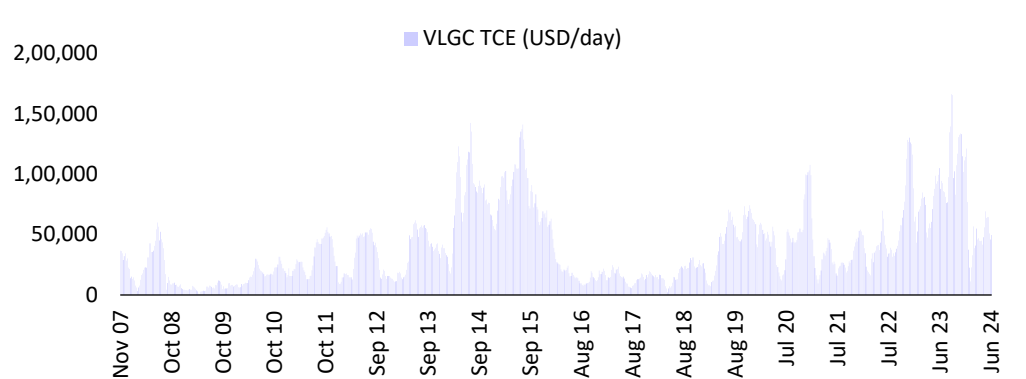
Source: Clarksons, MOFSL

Exhibit 12: Dry Bulk tanker charter rates (USD/day)



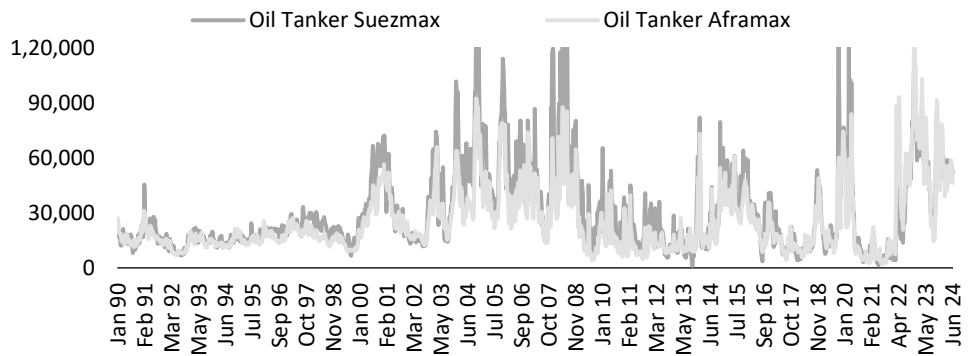
Source: Clarksons, MOFSL

Exhibit 13: VLGC TCE (USD/day)



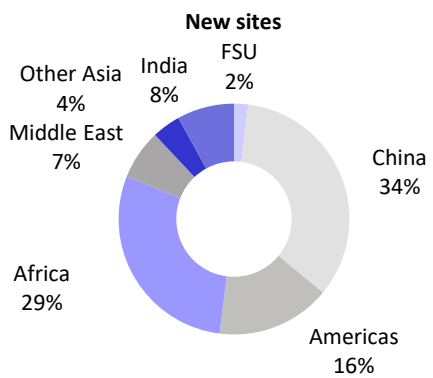
Source: Clarksons, MOFSL

Exhibit 14: Oil Tanker charter rates (USD/day)



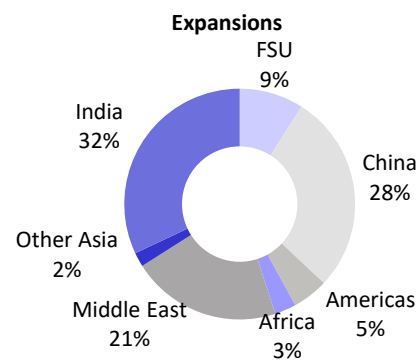
Source: Clarksons, MOFSL

Exhibit 15: Additions in CDU capacity by region, 2023-30



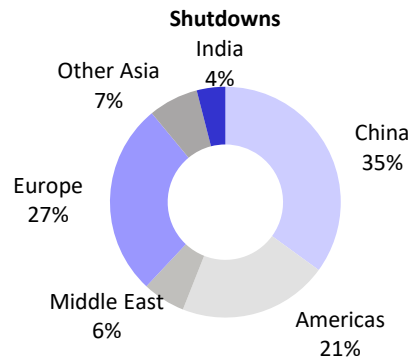
Source: IEA, MOSL

Exhibit 16: Expansions in CDU capacity by region, 2023-30



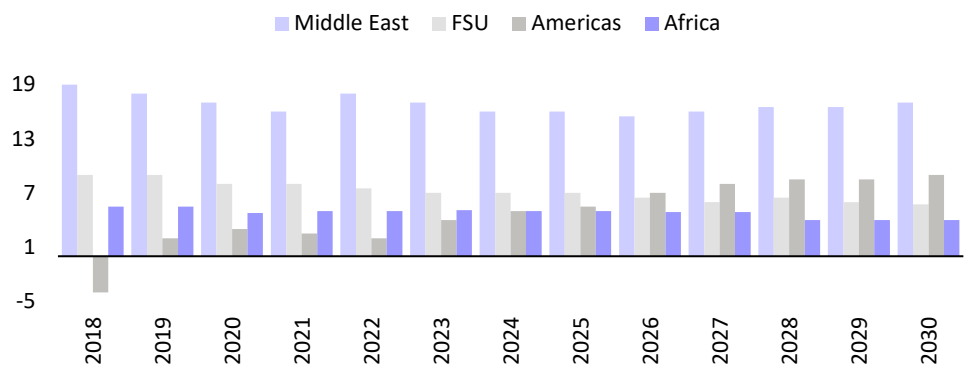
Source: IEA, MOSL

Exhibit 17: Shutdowns in CDU capacity by region, 2023-30



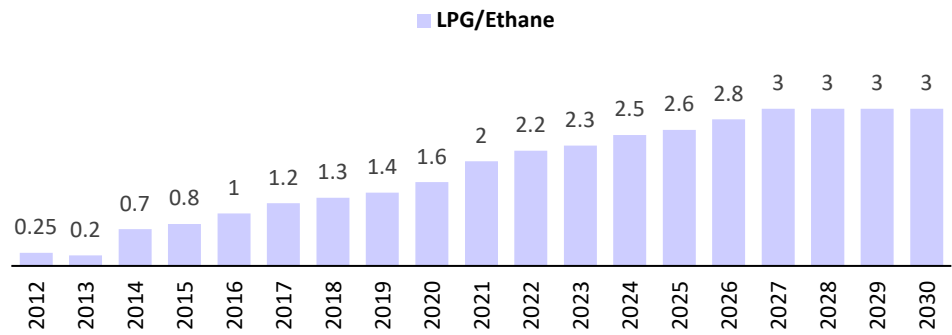
Source: IEA, MOSL

Exhibit 18: Net crude oil trade by major regions, 2018-2030 (mb/d)



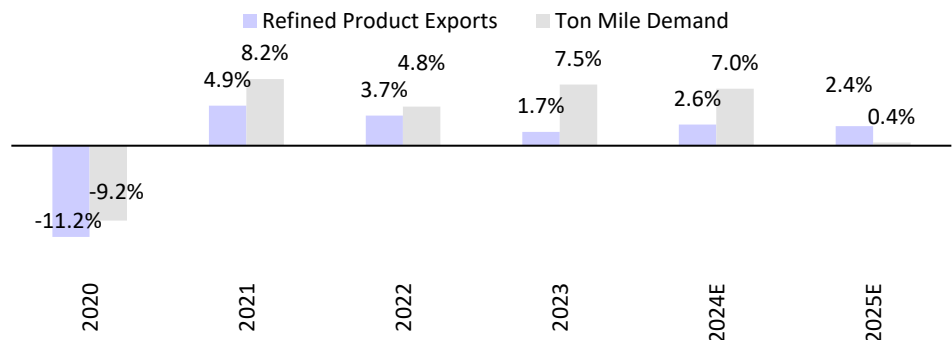
Source: IEA, MOFSL

Exhibit 19: LPG/Ethane’s US product balances (mb/d)



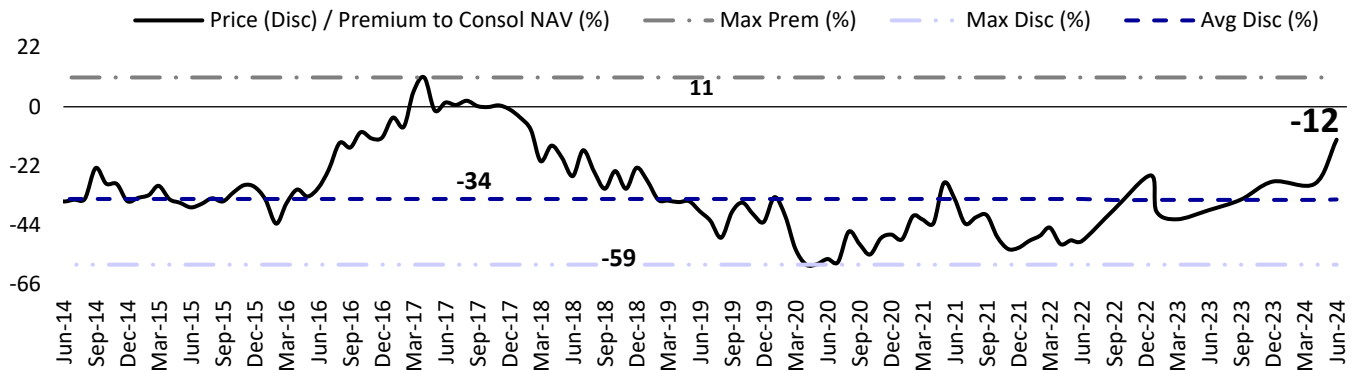
Source: IEA, MOFSL

Exhibit 20: Seaborne Ton Mile Demand & Exports



Source: Scorpio Tanker, MOFSL

Exhibit 21: GESCO’s historical Price to NAV discount



Source: IEA, MOFSL

Exhibit 22: Regional developments in refining capacity throughputs & utilization, 2023-30

	2023	2030	CHANGE	2023	2030	CHANGE	2023	2030
	Total capacity (mb/d)			Refinery throughput (mb/d)			Utilization rates (%)	
United States	18.4	18	-0.4	16	15	-0.9	87	84
Other North America	3.5	3.8	0.3	2.6	2.9	0.3	74	76
Europe	14.9	14.4	-0.5	12.1	11.1	-1	81	77
FSU	9.1	9.2	0.1	6.6	6.9	0.3	72	75
China	18.2	19.2	0.9	15	15.4	0.4	82	81
India	5.8	6.8	1	5.2	6.1	0.9	90	90
OECD Asia Oceania	5.8	6.8	1	5.2	6.1	0.9	90	90
Other Asia	8.4	7.6	-0.8	5.6	4.8	-0.8	67	64
Middle East	11.2	11.9	0.6	8.8	10	1.2	79	84
Latin America	6	6.1	0.1	3.8	3.9	0.1	64	65
Africa	3	3.7	0.8	1.6	2.4	0.7	54	63
World	104.2	107.4	3.3	82.5	84.7	2.1	79	79
Atlantic Basin	53.4	53.8	0.4	41.9	41.3	-0.6	78	77
East of Suez	50.8	53.6	2.8	40.7	43.4	2.7	80	81

Source: IEA, MOFSL

Financials and valuations

Consolidated - Income Statement						(INR m)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24
Total Income from Operations	35,746	37,348	34,224	35,621	58,077	54,954
Change (%)	17.1%	4%	-8%	4%	63%	-5%
Total Expenditure	22,936	21,473	18,771	20,996	26,087	24,237
% of Sales	64%	57%	55%	59%	45%	44%
EBITDA	12,810	15,875	15,453	14,625	31,989	30,716
Margin (%)	36%	43%	45%	41%	55%	56%
Depreciation	7,820	7,428	7,465	7,057	7,121	7,130
EBIT	4,990	8,447	7,987	7,568	24,869	23,586
Forex (Gain)/Loss & Derivative gain/loss	1,672	3,731	-3,133	-485	627	-1,247
Int. and Finance Charges	5,212	4,502	2,421	3,701	3,427	2,647
Other Income	2,454	2,137	728	1,844	4,721	4,758
PBT bef. EO Exp.	559	2,350	9,427	6,197	25,535	26,944
EO Items	138	-	-	-	-	-
PBT after EO Exp.	421	2,350	9,427	6,197	25,535	26,944
Total Tax	636	279	242	-100	-215	802
Tax Rate (%)	151%	12%	3%	-2%	-1%	3%
Reported PAT	-214	2,071	9,185	6,297	25,750	26,142
Adjusted PAT	-77	2,071	9,185	6,297	25,750	26,142
Change (%)		-2794%	343%	-31%	309%	2%
Margin (%)	0%	6%	27%	18%	44%	48%

Consolidated- Balance Sheet						(INR m)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24
Equity Share Capital	1,508	1,470	1,470	1,428	1,428	1,428
Total Reserves	66,589	66,487	75,573	79,085	1,01,326	1,22,547
Net Worth	68,097	67,956	77,043	80,513	1,02,754	1,23,975
Total Loans	48,430	47,857	43,943	46,255	36,230	30,310
Capital Employed	1,16,527	1,15,814	1,20,986	1,26,768	1,38,984	1,54,285
Net Fixed Assets	96,173	91,054	90,074	88,499	84,273	83,293
Capital WIP	142	1,225	245	243	348	592
Total Investments	590	787	530	1,074	2,210	3,412
Investment in Liquid Mutual Funds	5,421	8,843	12,972	10,501	12,886	16,285
Curr. Assets, Loans&Adv.	41,376	36,419	37,636	39,370	52,375	64,496
Inventory	2,179	2,147	2,087	2,243	2,045	2,474
Account Receivables	3,030	3,464	2,032	3,152	5,770	6,469
Cash and Bank Balance	29,219	24,918	27,491	28,369	37,994	48,908
Cash	13,838	16,142	17,615	15,583	26,784	32,879
Bank	15,380	8,776	9,876	12,786	11,210	16,029
Other Current Asset	6,949	5,890	6,027	5,606	6,566	6,646
Curr. Liability & Prov.	27,175	22,515	20,470	12,918	13,107	13,794
Account Payables	3,219	3,582	3,145	3,527	3,435	4,560
Other Current Liabilities	23,478	18,262	16,762	8,805	8,905	8,392
Provisions	478	670	564	586	767	841
Net Current Assets	14,201	13,904	17,166	26,451	39,267	50,703
Appl. of Funds	1,16,527	1,15,814	1,20,986	1,26,768	1,38,984	1,54,285

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24
Basic (INR)						
EPS	-1.4	14.1	62.5	44.1	180.4	183.1
Cash EPS	51.4	64.6	113.3	93.5	230.2	233.0
BV/Share	451.6	462.4	524.2	563.9	719.7	868.4
DPS	5	8	9	10	29	36
Valuation (x)						
P/E	-958.1	96.7	21.8	30.9	7.6	7.4
Cash P/E	26.5	21.1	12.0	14.6	5.9	5.8
P/BV	3.0	2.9	2.6	2.4	1.9	1.6
EV/Sales	6.3	6.0	6.3	6.0	3.3	3.2
EV/EBITDA	17.5	14.1	14.0	14.5	6.0	5.7
Dividend Yield (%)	0.40	0.59	0.66	0.73	2.11	2.66
FCF per share	19.6	81.4	45.5	52.4	175.8	137.5
Return Ratios (%)						
RoE	-0.1	3.0	12.7	8.0	28.1	23.1
RoCE	6.3	9.1	7.4	7.6	22.3	19.3
Working Capital Ratios						
Asset Turnover (x)	0.3	0.3	0.3	0.3	0.4	0.4
Inventory (Days)	22	21	22	23	13	16
Debtor (Days)	31	34	22	32	36	43
Creditor (Days)	33	35	34	36	22	30
Leverage Ratio (x)						
Current Ratio	0.5	0.6	0.8	2.0	3.0	3.7
Net Debt/Equity	0.2	0.2	0.0	0.1	-0.1	-0.3

Consolidated- Cash Flow Statement

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24
						(INR m)
OP/(Loss) before Tax	421	2,350	9,427	6,197	25,535	26,944
Depreciation	7,727	7,428	7,004	6,979	7,121	7,261
Direct Taxes Paid	-788	-639	-16	95	1	-472
(Inc)/Dec in WC	-1,250	-3	951	-1,175	-2,956	17
Others	4,847	5,674	-2,025	1,130	44	-5,669.30
CF from Operations	10,957	14,810	15,342	13,226	29,746	28,081
(Inc)/Dec in FA	-8,000	-2,844	-8,661	-5,742	-4,653	-8,452
Free Cash Flow	2,957	11,966	6,681	7,484	25,093	19,629
(Pur)/Sale of Investments	2,747	-2,240	-2,832	2,617	-1,320	-2,048
Others	9,551	9,929	2,761	-623	5,590	1,353
CF from Investments	4,298	4,845	-8,732	-3,748	-383	-9,146
Issue of Shares	-	-999	-	-1,631	-	-
Inc/(Dec) in Debt	-4,092	-9,780	-1,771	-4,784	-11,792	-6,094
Dividend Paid	-1,086	-397	-397	-1,984	-3,598	-4,925
Others	-5,022	-7,547	-2,886	-3,487	-3,543	-2,282.40
CF from Fin. Activity	-10,199	-18,723	-5,053	-11,886	-18,933	-13,302
Inc/Dec of Cash	5,056	932	1,557	-2,409	10,430	5,633
Opening Balance	8,787	13,838	16,142	17,615	15,583	26,784
Exchange Difference on translation of Foreign currency	-4	1,372	-85	377	771	463
Closing Balance	13,838	16,142	17,615	15,583	26,784	32,879

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NOTES

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SELL	< - 10%
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UNDER REVIEW	Rating may undergo a change
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