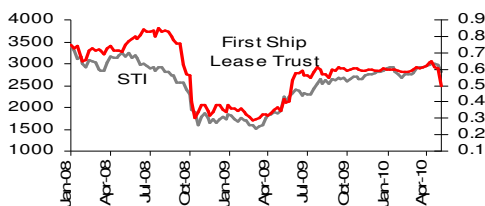


11 May 2010

Maintain

HOLD

Previous Rating: HOLD

Current Price: S\$0.505
Fair Value: S\$0.48


First Ship Lease Trust

Dragged back into uncertainty

Vessel re-delivery. FSL Trust's (FSLT) charterer Groda Shipping recently requested FSLT to take re-delivery of two of its product tankers *Verona I* and *Nika I* as Groda does not intend to continue to make full charter payments. To recap, both vessels are under a seven-year bareboat charter agreement fixed at US\$20,700/day each until Nov 2014. For the month of May 2010, Groda has made full payment for only one of the two vessels. It has also told FSLT that from June 2010 onwards, full payments should not be expected for either vessel. The charter agreement was structured with a cash security deposit of US\$3m/vessel (covering about five months of charter revenue) and an assignment of the long-term Contract of Affreightment (CoA) between Groda and OJSC Rosneft Oil Company, a Russian state-controlled energy company.

What happens to DPU? FSLT said it was exploring legal and commercial options, and that "best efforts will be made to ensure the uninterrupted operation of the vessels". FSLT has the option to either continue the CoA with Rosneft (terms not disclosed) or re-deploy the two vessels elsewhere. The end result could potentially be at a lower rate than before. The two vessels contribute roughly 15% of total revenue. In our view, FSLT may be able to meet its DPU guidance for 2Q10 with cash reserves and the vessel deposits. However, DPU guidance for further quarters will depend on where the two vessels are employed and at what terms. Note that FSLT has to pay out US\$32m (roughly 50% of cash earnings) in loan repayments every year during the covenant waiver period. The balance is utilized towards distributions.

Contagion key concern. Our key concern is what the re-delivery means for the rest of FSLT's product tanker portfolio (26% of total revenue including Groda). While Groda's thought process is unknown, it seems to have found it more profitable to walk away from the deal (and the US\$6m deposits) than to continue with the charter agreements. FSLT has always touted its focus on risk management and current events may be a good test of that focus. On a positive note, we understand from the manager that this development does not impact FSLT's loans. Still, any reduction in revenue could affect FSLT's plans to raise unsecured debt. We reduce our fair value estimate from S\$0.59 to S\$0.48 (which assumes a slight negative drag on cash earnings from the two vessels and increases our discount to FCFE value from 20% to 25%). Maintain **HOLD**.

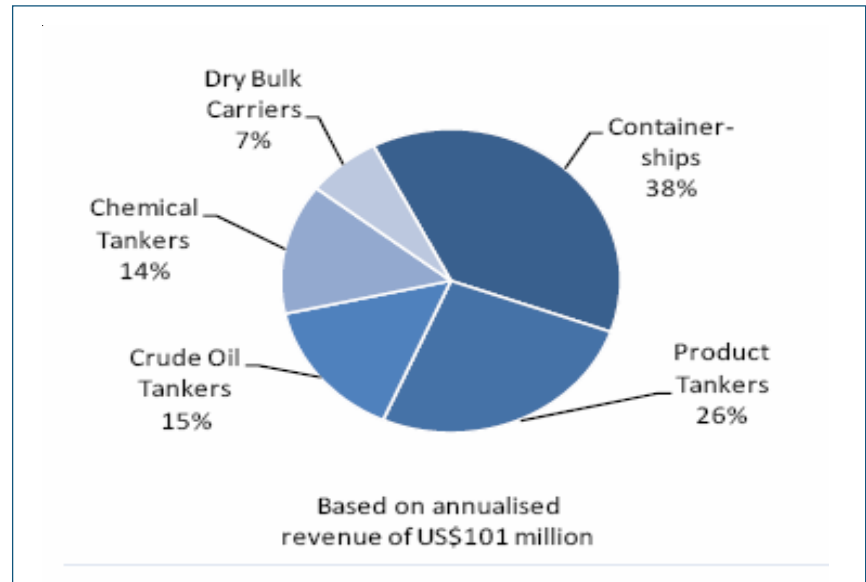
| | |
|------------------------|---------------|
| Reuters Code | FSLT.SI |
| ISIN Code | D8DU |
| Bloomberg Code | FSLT SP |
| Issued Capital (m) | 599 |
| Mkt Cap (S\$m/US\$m) | 302 / 219 |
| Major Shareholders | |
| FSL Holdings Pte Ltd | 26.4% |
| Bridge Partners LP | 6.0% |
| Free Float (%) | 67.6% |
| Daily Vol 3-mth ('000) | 1,482 |
| 52 Wk Range | 0.398 - 0.675 |

| (US\$ m) | FY08 | FY09 | FY10F | FY11F |
|-----------------|------|------|-------|-------|
| Revenue | 86.6 | 98.8 | 98.3 | 95.2 |
| EBIT | 24.1 | 31.0 | 26.4 | 21.0 |
| Distributed Inc | 57.7 | 42.0 | 31.9 | 31.9 |
| Distr yield (%) | 31.3 | 21.4 | 14.5 | 14.5 |
| P/NAV (x) | 0.5 | 0.6 | 0.6 | 0.7 |

Note: P/NAV and Distribution Yield based on US-SGD exchange rate of 1.37

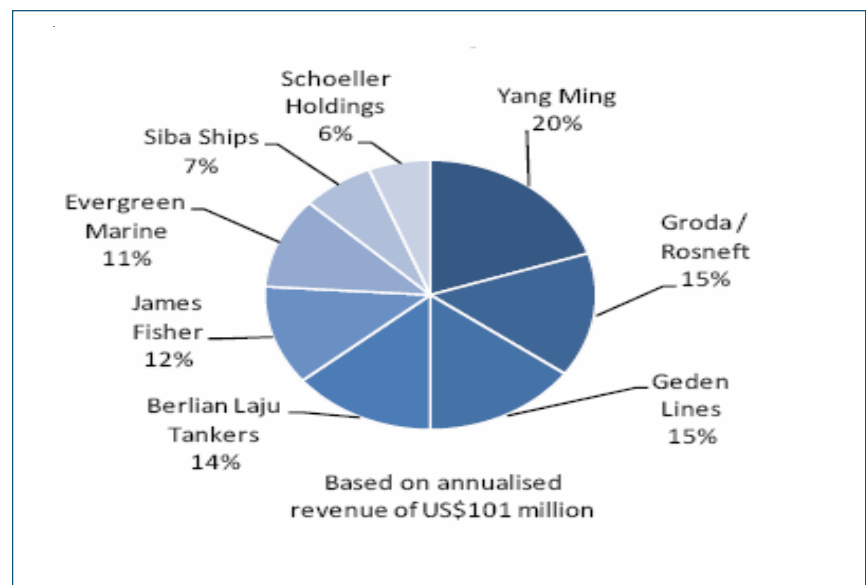
Meenal Kumar
 (65) 6531 9112
 e-mail: MeenalK@ocbc-research.com

Exhibit 1: Revenue by vessel type



Source: FSL Trust, 1Q10 results

Exhibit 2: Revenue by charterer



Source: FSL Trust, 1Q10 results

FSL Trust's Key Financial Data

| EARNINGS FORECAST | | | | | BALANCE SHEET | | | | |
|---------------------------|-------|-------|-------|-------|------------------------------|-------|-------|-------|-------|
| Year Ended 31 Dec (US\$m) | FY08 | FY09 | FY10F | FY11F | As at 31 Dec (US\$m) | FY08 | FY09 | FY10F | FY11F |
| Charter income | 86.6 | 98.8 | 98.3 | 95.2 | Cash and bank balances | 26.7 | 56.8 | 28.3 | 28.3 |
| Depreciation | -54.7 | -61.3 | -64.9 | -67.4 | Other current assets | 0.3 | 1.3 | 1.3 | 1.3 |
| Management fees | -3.5 | -4.0 | -3.9 | -3.8 | Vessels, net of depreciation | 905.6 | 845.2 | 808.7 | 741.3 |
| Other expenses | -2.8 | -2.5 | -3.0 | -3.0 | Total assets | 932.7 | 903.2 | 838.3 | 770.9 |
| EBIT | 24.1 | 31.0 | 26.4 | 21.0 | Current liabilities ex debt | 18.1 | 19.6 | 19.6 | 19.6 |
| Finance costs | -19.3 | -22.6 | -27.4 | -24.5 | ST & LT debt | 509.2 | 488.3 | 456.3 | 424.3 |
| Income tax | 0.0 | 0.0 | - | - | Total liabilities | 554.5 | 522.5 | 490.5 | 458.5 |
| Net profit | 4.8 | 8.4 | -1.0 | -3.5 | Net assets | 378.2 | 380.7 | 347.8 | 312.4 |
| Cash earnings | 57.7 | 67.9 | 63.9 | 63.9 | Total equity | 378.2 | 380.7 | 347.8 | 312.4 |
| Distributed income | 57.7 | 42.0 | 31.9 | 31.9 | Total equity and liabilities | 932.7 | 903.2 | 838.3 | 770.9 |

| CASH FLOW | | | | | KEY RATES & RATIOS | | | | |
|---------------------------------|--------|-------|-------|-------|----------------------------------|-------|-------|-------|-------|
| Year Ended 31 Dec (US\$m) | FY08 | FY09 | FY10F | FY11F | | FY08 | FY09 | FY10F | FY11F |
| Net cash from operations | 80.7 | 92.0 | 91.3 | 88.4 | Units outstanding (m) | 477.6 | 510.3 | 598.7 | 598.7 |
| Capex | -354.1 | 0.0 | -28.4 | 0.0 | CEPU (US cents) | 12.1 | 13.3 | 10.7 | 10.7 |
| Net cash from investing | -353.5 | 0.2 | -28.4 | 0.0 | DPU (US cents) | 11.5 | 7.9 | 5.3 | 5.3 |
| Proceeds from issuance of units | 0.0 | 28.2 | - | - | P/CEPU (x) | 3.1 | 2.8 | 3.5 | 3.5 |
| Loan drawdown | 350.5 | 0.0 | 0.0 | 0.0 | Price/NAV (x) | 0.5 | 0.6 | 0.6 | 0.7 |
| Loan repaid | 0.0 | -20.8 | -32.0 | -32.0 | Distr yield (%) | 31.3 | 21.4 | 14.5 | 14.5 |
| Net cash from financing | 281.0 | -62.1 | -91.4 | -88.5 | Distributed to revenue (%) | 66.6 | 42.5 | 32.5 | 33.6 |
| Net cash flow | 8.2 | 30.1 | -28.5 | -0.1 | Distributed to cash earnings (%) | 100.0 | 61.9 | 50.0 | 50.0 |
| Cash at beginning of year | 18.5 | 26.7 | 56.8 | 28.3 | Total debt / Total assets (x) | 0.5 | 0.5 | 0.5 | 0.6 |
| Cash at end of year | 26.7 | 56.8 | 28.3 | 28.3 | Total debt / Equity (x) | 1.3 | 1.3 | 1.3 | 1.4 |

Note: Cash earnings, an OIR estimate, is net profit adjusted for non-cash items - depreciation expense is added back, for instance. It reflects all outgoing expenses, including any fees charged by the manager.

Note: P/NAV and Distribution Yield based on US-SGD exchange rate of 1.37

Source: Company data, OIR estimates

SHAREHOLDING DECLARATION:

The analyst/analysts who wrote this report holds NIL shares in the above security.

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OCBC Investment Research's (OIR) technical comments and recommendations are short-term and trading oriented.

- However, OIR's fundamental views and ratings (Buy, Hold, Sell) are medium-term calls within a 12-month investment horizon. OIR's Buy = More than 10% upside from the current price; Hold = Trade within +/- 10% from the current price; Sell = More than 10% downside from the current price.

- For companies with less than S\$150m market capitalization, OIR's Buy = More than 30% upside from the current price; Hold = Trade within +/- 30% from the current price; Sell = More than 30% downside from the current price.

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For OCBC Investment Research Pte Ltd



Carmen Lee
Head of Research

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