

MITA No. 010/06/2008

17 April 2009

Pacific Shipping Trust

Maintain

HOLD

Previous Rating: HOLD

US\$0.17

Fair Value: US\$0.16

Stock Code:

Reuters: PFST.SI

ISIN Code: P48U

Bloomberg: PST SP

Event:

Update

General Data

Issued Capital (m)	590
Mkt Cap (US\$m/S\$m)	100 / 150
Major Shareholder	
Pacific Intl Lines	59.15%
Free Float (%)	40.9
NAV per share (US\$)	0.38
Daily Vol 3-mth ('000)	390
52Wk High (US\$)	0.430
52Wk Low (US\$)	0.130

Charterer CSAV seeking rate reduction

Charterer CSAV seeking rate reduction. Pacific Shipping Trust's (PST) customer CSAV is asking ship owners (such as PST) for a temporary reduction in charter hire payments. Two PST vessels (out of a 12 vessels fleet) are chartered to CSAV on 5-year time charters. These charters contribute 30% of PST's annual revenue.

Expect PST will agree. We expect PST to agree to the renegotiation request. The reality is that accepting this reduction is probably the best option PST has in today's environment. PST's manager acknowledged that vessels of comparable size to the two PST vessels are currently unemployed and while the current market rate would cover operating costs, it would likely not be enough to cover both interest expenses and debt repayments. Lower cash flows from CSAV are better than no cash flows at all, in our view.

Still a lot of unknowns. Discussions are still in very preliminary stages. This is a complicated process as CSAV will have to negotiate reductions with all the numerous ship owners. Based on CSAV's targeted savings, PST estimates that it may be asked for a 30% reduction in charter rates. This figure only holds if every owner agrees to similar terms (a big if). Typically, ship owners would demand some sort of compensation in return - revenue clawback or partial payment in CSAV equity - that has yet to be determined. Also unclear is how PST's lenders will react to what likely qualifies as 'material change' in the trust's circumstances. PST's lenders could conceivably tack on a punitive spread to PST's cost of debt (increasing interest expense) or demand higher debt repayments.

Will PIL follow suit? PST derives the remaining 70% of its annual revenue (on original rates) from bareboat charters to its sponsor and 59.2% stakeholder, Pacific International Lines (PIL). PST said it has not received any indications from PIL regarding rate reductions. Despite their strong ties, a request for renegotiation is not unlikely, especially if the container industry's performance continues to deteriorate.

Maintain HOLD. We have reduced our revenue forecasts for FY09-10F by 7% and 9%, and slashed DPU estimates by 17% and 22%. We may need to make further revisions as more details emerge. Counterparty risk (and lender reaction) remains the key risk, and we think this is reflected in our US\$0.16 fair value estimate. PST will release 1Q09 results next week. PST already has a fairly conservative distribution payout policy but the Board may have to be even more prudent in light of recent events.

Meenal Kumar

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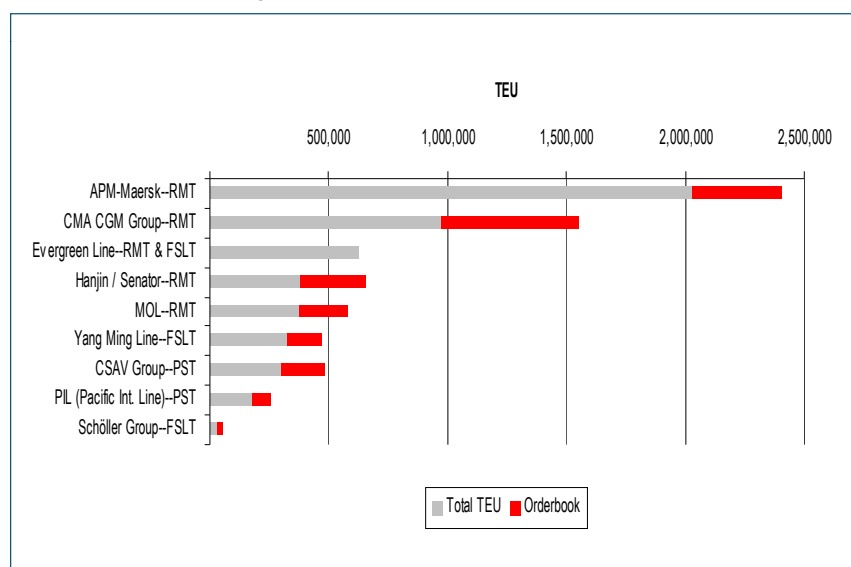
e-mail: MeenalK@ocbc-research.com

Year to 31 Dec	Turnover (US\$m)	EBIT (US\$m)	Net Profit (US\$m)	EPU (US cents)	DPU (US cents)	PER (x)	Div Yield (%)
FY 07	34.5	20.4	10.5	3.1	4.3	5.5	25.3
FY 08	44.6	28.3	18.3	3.1	4.1	5.5	24.1
FY 09F	57.5	33.4	21.1	3.6	3.2	4.8	19.0
FY 10F	56.1	31.9	20.7	3.5	3.1	4.9	18.2

Please refer to the important disclosures at the back of this document.

Background on CSAV. Compañía Sud Americana de Vapores (CSAV) is a Chilean shipping company that is currently the largest in Latin America. It is ranked 16th amongst top global containership operators by fleet capacity (AXS Alphaliner)¹. CSAV has appointed HSH Nordbank to oversee a restructuring plan. CSAV's credit rating was downgraded by two ratings agencies earlier this month, and the Chilean liner is now attempting to arrange a US\$750m financing program. As part of the program, CSAV is asking ship owners for a temporary reduction of charter hire payments with a target savings of about US\$400m in total.

Exhibit 1: Container operators' fleet size and order book

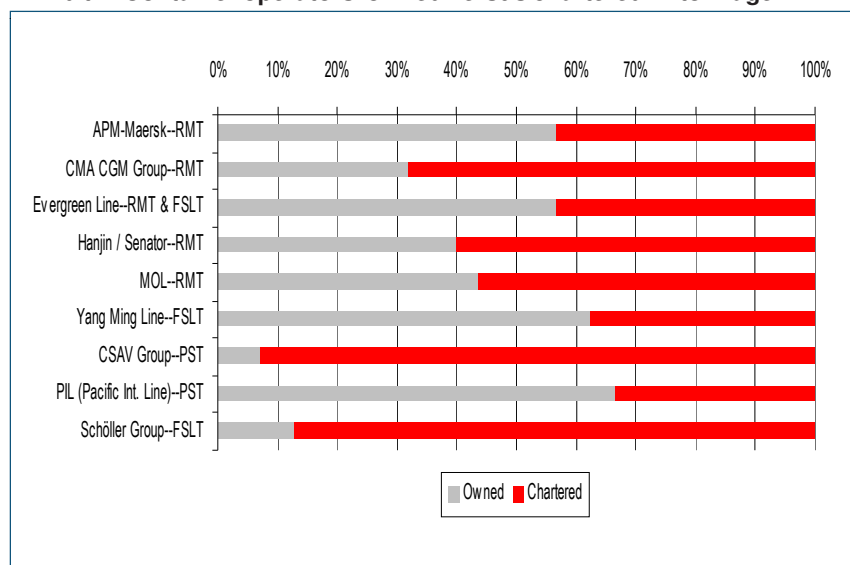


Source: AXS Alphaliner

We note that among the shipping trusts' universe of charterers, CSAV has the highest proportion of chartered-in tonnage.

¹ The global ranking is based on the operator's share of the world liner fleet in TEU terms. Pacific International Lines ranks 19th.

Exhibit 2: Container operators' owned versus chartered-in tonnage



Source: AXS Alphaliner

Reducing earnings forecasts. Discussions with CSAV are still in preliminary stages but we have chosen to reduce our revenue forecasts for FY09-10F by 7% and 9%, and cut DPU estimates by 17% and 22%. We may need to make further revisions as more details emerge. For the moment, we are assuming that PST will have to accept a 30% discount on its charter revenue from CSAV starting from 2Q09 onwards. PST's lenders could possibly choose to demand higher interest costs or higher debt repayments from the trust (diverting cash earnings away from distributions). For now, we are not incorporating any such punitive events in our forecasts. Further cuts to our forecasts may be necessary if 1) the rate reduction is larger than expected; 2) PST's lenders do, in fact, decide to levy additional charges against the trust or demand more debt repayment. We also note that while PST already has a fairly conservative distribution payout policy, the Board may have to be even more prudent in light of recent events.

Exhibit 3: Shipping trust exposure to container operators

Shipping trust	Container operator	Global rank	Market Share (%)	Ships leased from trust		As % of operator's fleet		Trust's exposure % annual revenue
				(# of ships)	(TEU)	(total TEU)	(chartered TEU)	
Rickmers Maritime	APM-Maersk	1	15.3%	4	52,400	3%	6%	35%
	CMA CGM Group	3	7.4%	6	25,500	3%	4%	21%
	Evergreen Line	4	4.7%	3	10,350	2%	4%	11%
	Hanjin / Senator	10	2.9%	4	17,000	4%	7%	14%
	MOL	11	2.9%	5	21,250	6%	10%	19%
Pacific Shipping Trust	CSAV Group	16	2.3%	2	8,500	3%	3%	30%
	PIL (Pacific Int. Line)*	19	1.4%	10	17,464	10%	29%	70%
FSL Trust	Evergreen Line	4	4.7%	2	8,458	1%	3%	12%
	Yang Ming Line	13	2.4%	3	12,750	4%	10%	20%
	Schöller Group*	34	0.3%	2	2,442	7%	8%	6%

Note*: Shipping trust sponsor

Note: Based on PST's original charter agreements with CSAV

Source: AXS Alphaliner, Companies, OIR estimates

Exhibit 4: Shipping trusts at a glance

	Rickmers Maritime	Pacific Shipping Trust	First Ship Lease Trust
IPO	2007	2006	2007
Sponsor	Rickmers Group	Pacific Intl Lines	Schoeller Holdings/ HSH Nordbank AG/ Bayerische Hypo-und Vereinsbank
Sponsor role	Acquisition pipeline, ship management	Acquisition pipeline, ship management, customer	Customer, ship management if needed
Sub-segment focus (as of today)	Containerships	Containerships	None. Owns containerships, dry bulk carriers and tankers
Charter type	Time charters	Bareboat & time charters	Bareboat charters
Charter duration	7 - 10 yrs	5 - 10 yrs	7 - 12 yrs
Leases include vessel purchase option	No	No	Yes (end of lease/early buy-out)
Leases include early termination option	Yes (one)	No	Yes (most)
Customers	Maersk, CMA CGM, Hanjin Shipping, Evergreen, Mitsui O.S.K Lines	Pacific Intl Lines, CSAV	Evergreen, Geden, Groda Shipping, James Fisher, PT Berlian Laju, Schoeller Holdings, Siba Ships, Yang Ming
Distributions	USD/quarterly	USD/quarterly	USD/quarterly
Pay out policy	Fixed DPU amount	90% of cash earnings after debt repayment (~about 50% of cash income)	New quarterly guidance for payout: 75-80% of cash income for 1Q09 (100% previously)
Cash earnings retained	Yes	Yes	Yes (from 1Q09 onwards)
Growth plans	US\$988m of acquisitions contracted over 2009-2010	No explicit target set for 2009 (prev: US\$200m p.a.)	No explicit target set for 2009 (prev: US\$300m p.a.)
Debt repayment	No (not immediately)	Yes (immediately amortizing)	No (bullet repayment) except for latest loan. Intends to prepay debt with retained cash from 1Q09.

Source: Companies, OIR

PST's Key Financial Data
EARNINGS FORECAST

Year Ended 31 Dec (US\$ m)	FY07	FY08	FY09F	FY10F
Charter income	34.5	44.6	57.5	56.1
Depreciation	-12.1	-12.4	-17.3	-17.3
Management fees	-1.4	-1.8	-2.5	-2.5
Trustee fees & other expenses	-0.6	-0.8	-1.1	-1.1
Time charter expenses	0.0	-1.3	-3.3	-3.3
EBIT	20.4	28.3	33.4	31.9
Finance expenses	-9.9	-10.0	-12.3	-11.3
Pre-tax profit	10.5	18.4	21.1	20.7
Income tax	-0.1	-0.0	0.0	0.0
Net profit	10.5	18.3	21.1	20.7
Units outstanding, year end (m)	337.0	589.8	589.8	589.8
EPU (US cents)	3.1	3.1	3.6	3.5
DPU (US cents)	4.3	4.1	3.2	3.1
Profitability Ratios				
EBIT margin (%)	59.2%	63.5%	58.0%	56.9%
Net profit margin (%)	30.3%	41.1%	36.7%	36.8%

BALANCE SHEET

As at 31 Dec (US\$ m)	FY07	FY08	FY09F	FY10F
Cash and bank balances	8.5	13.8	15.9	18.0
Other current assets	0.1	0.7	0.7	0.7
Vessels, net accumulated depreciation	251.2	462.4	445.2	427.9
Total assets	259.7	476.9	461.8	446.6
Current liabilities ex debt	6.1	23.4	23.4	23.4
Debt	108.8	230.0	212.7	195.1
Total liabilities	114.9	253.4	236.2	218.6
Net assets	144.8	223.5	225.6	228.0
Units in issue	151.7	237.0	237.0	237.0
Total equity	144.8	223.5	225.6	228.0
Total equity and liabilities	259.7	476.9	461.8	446.6
NAV per share (US\$)	0.4	0.4	0.4	0.4

CASH FLOW

Year Ended 31 Dec (US\$ m)	FY07	FY08	FY09F	FY10F
Profit before tax	10.5	18.4	21.1	20.7
Add: depreciation and amortization	12.1	12.4	17.3	17.3
Add: interest expense	7.1	8.9	12.3	11.3
Other adjustments	2.4	1.1	0.0	0.0
Net cash from operations	32.1	40.7	50.6	49.2
Capex	0.0	-223.6	0.0	0.0
Cash from disposal of vessels	0.0	0.0	0.0	0.0
Other investing flows	0.5	0.4	0.0	0.0
Net cash from investing	0.5	-223.3	0.0	0.0
Proceeds from issuance of units	0.0	92.3	0.0	0.0
Transaction costs on units issued	0.0	-1.9	0.0	0.0
Proceeds from debt	0.0	203.3	0.0	0.0
Interest paid	-7.1	-9.5	-12.3	-11.3
Loan repayment	-11.5	-82.0	-17.2	-17.6
Distribution to unitholders	-14.3	-14.4	-19.0	-18.3
Net cash from financing	-32.9	187.9	-48.5	-47.1
Net cash flow	-0.2	5.4	2.1	2.0
Cash at beginning of year	8.6	8.5	13.8	15.9
Cash at end of year	8.5	13.8	15.9	18.0

Key Ratios

PER (x)	5.5	5.5	4.8	4.9
Price/NAV (x)	0.4	0.4	0.4	0.4
P/CF (x)	1.8	2.5	2.0	2.0
Dividend yield (%)	25.3	24.1	19.0	18.2
ROE (%)	7.2	8.2	9.4	9.1
ROA (%)	4.0	3.8	4.6	4.6
Total Debt/ Total Assets (x)	0.4	0.5	0.5	0.4
Total Debt/Equity (x)	0.8	1.0	0.9	0.9
Distr to revenue (%)	42.0	36.1	33.0	32.6
Distr to cash income (%)	55.9	50.3	49.6	48.2
Distr to cash income available (%)	100.3	87.2	90.0	90.0

Source: Company data, OIR estimates

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