

Shipping Trusts

Neutral

Time to stop hoping for the best

Industry continues to struggle. The container shipping industry faces a major supply-demand imbalance. According to AXS Alphaliner, outstanding orders for new ships account for about 47.6% of the existing fleet. This translates to a 12.9% per annum growth in the world fleet over the next three years. With the global recession dampening demand, especially the US consumption story, we expect tough times ahead for the container industry. Major operators, including shipping trust customers, have announced lay ups, vessel redeliveries, and plans to attempt to delay order deliveries. About 1.1m TEUs, or 8% of the world's total container fleet, is currently idle. This broader reality can have a major impact on the trusts' cash flows - and consequently, on distributions to unitholders. Charterer performance will be key in the coming months - if economic conditions continue to deteriorate, we could see charterers approaching the trust to renegotiate leases.

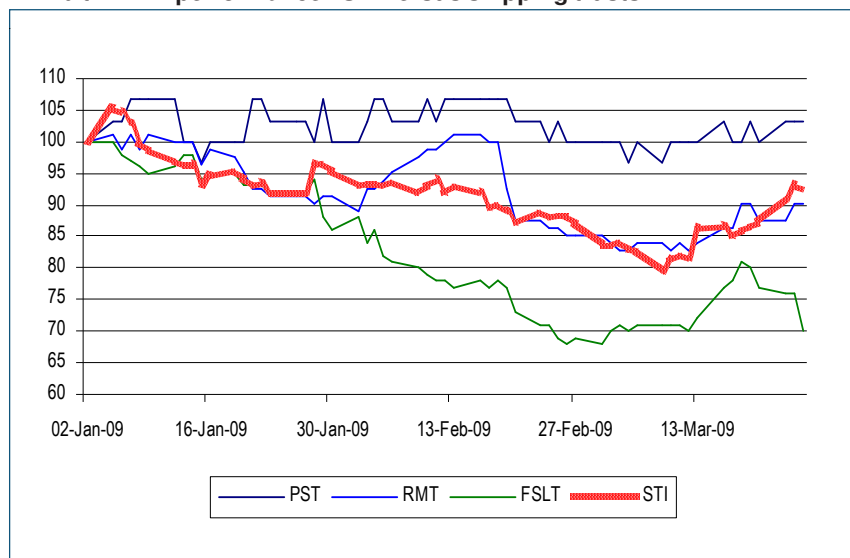
Passively waiting out the storm. US-listed comparable, Danaos Corp [NOT RATED], announced that it was suspending dividend payments to divert cash towards funding its new-building program. It also delayed some deliveries. Back in Singapore, Rickmers Maritime (RMT) is contracted to acquire US\$988m worth of containerships over the next two years, with partial debt funding currently in place. The manager has so far only said that it "is exploring all options" to finance its order book but this is not enough. The market needs more clarity on what RMT will do and whether it will (or can) follow the Danaos route of delaying deliveries or cutting dividends. Unlike RMT, FSL Trust (FSLT) and Pacific Shipping Trust (PST) have no committed orders. Meanwhile, FSLT will retain about 20-25% of cash income in 1Q09 (versus a 100% distribution payout previously) to prepay debt as a pre-emptive "good faith" gesture to lenders eyeing debt covenants. We believe there is room for FSLT to lower payout further to a point where both unitholders and lenders are satisfied. In comparison, PST is only paying out about 50% of cash income. An explicit debt repayment plan would also demonstrate FSLT's commitment to sustainability, in our view.

Still NEUTRAL on sector. While the STI is down 4% YTD, Singapore-listed shipping trusts are down 10% for the year. On average, the sector is trading at a 66% discount to NAV but we are not quite ready to call this a "value" opportunity. In our opinion, a re-rating of the sector depends on 1) signs of an improving external environment and 2) the trusts taking more aggressive action to remedy some fundamental concerns.

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	Share price	FY09F DPU (US-cents)	FY09F DPU Yield (%)	Price/NAV (x)	Fair value	Rating
Pacific Shipping Trust	USD 0.155	3.9	25.0	0.4	USD 0.16	HOLD
Rickmers Maritime	SGD 0.365	8.6	35.5	0.3	SGD 0.40	HOLD
First Ship Lease Trust	SGD 0.35	9.3	40.2	0.3	UNDER REVIEW	HOLD

Exhibit 1: YTD performance - STI versus shipping trusts



Source: Bloomberg

Looking at US comparables. Singapore-listed shipping trusts have not shown a very aggressive response to global events, so far. With a suspension of further acquisitions and only one case of lowered distributions, this has been more of a 'wait out the storm' strategy. In this respect, the trusts' US-listed comparables seem to be ahead of the curve. Exhibit 2 highlights latest developments at the sector's US-listed comparables. Danaos Corp, for instance, announced that it was suspending dividend payments to divert cash towards funding its new-building program. It also delayed deliveries of some newbuilds and said it was negotiating waivers of debt covenants. One other US peer has cut dividends and two others have announced order book delays/cancellations.

Exhibit 2: Recent developments at US peers

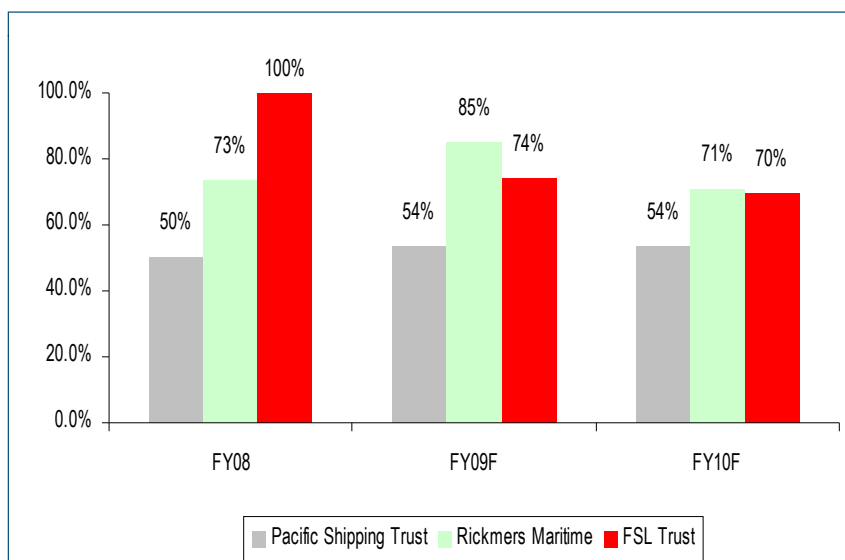
US comparable	Focus	DPU cut	Order book deferral/delay	LTV waiver	Equity issue	Comments
Ship Finance	Crude oil tankers. Also owns containers, drilling rigs, drillships, etc	Yes	Yes	-	-	- Cancelled planned buy of 2 bulk carriers - Cut 4Q dividend; down 50% QoQ - Key shareholder will take dividend in shares - Offering stock dividend alternative
Seaspan	Containers	-	Yes	-	Yes	- Adjusted newbuild delivery schedule for 2009 - Recently raised US\$200m in preferred convertible stock - No collateral maintenance clause
Global Ship Lease	Containers	-	-	Yes	-	- LTV covenants have been revised (in exchange for higher spread, fees, etc)
Danaos Corp	Containers	Yes	Yes	Yes	-	- Suspending dividend payments to fund newbuilds - Delaying delivery of some newbuilds - Received/negotiating for waivers of LTV & other covenants

Note: These companies are NOT RATED by OIR.

Source: Companies, media reports

Payouts across the trusts. Exhibit 3 shows the distributed amount-to-cash income ratios at the three shipping trusts over FY08-FY10F. PST is paying out about 50% of cash income, with the retained cash used to repay debt and for working capital purposes. FSLT has historically had the most aggressive payout of 100% of cash income. However, its 1Q09 DPU guidance represents a 75-80% payout (with the retained income used to prepay debt).

Exhibit 3: Distributed income as % of cash income

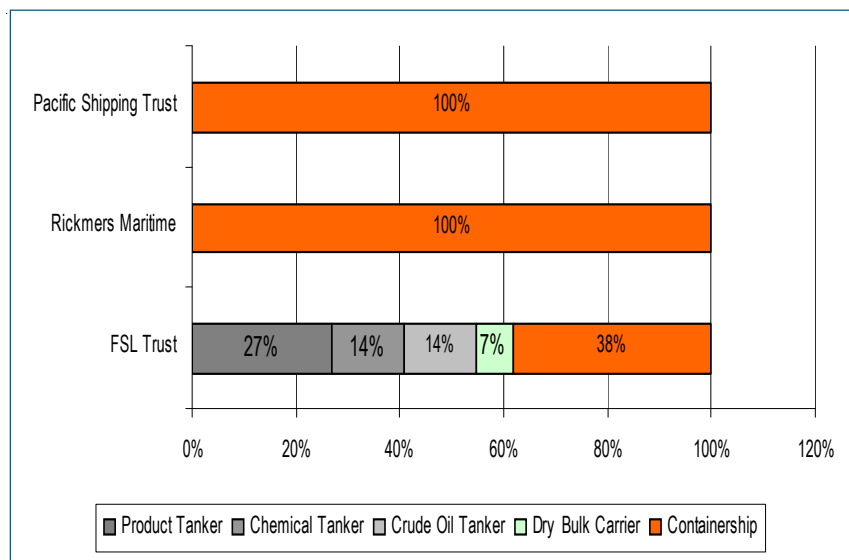


Note: RMT's FY09F payout spikes because of our assumption of an equity issue

Source: OIR estimates

Exposure to containers. Exhibits 4-7 assess the sector's exposure to the container sub-segment. FSLT has a diversified vessel portfolio - we estimate that containers contribute 38% of its annual revenue. RMT and PST are currently focused exclusively on containerships.

Exhibit 4: Exposure to container industry (as % of annual revenue)



Source: OIR estimates, Companies

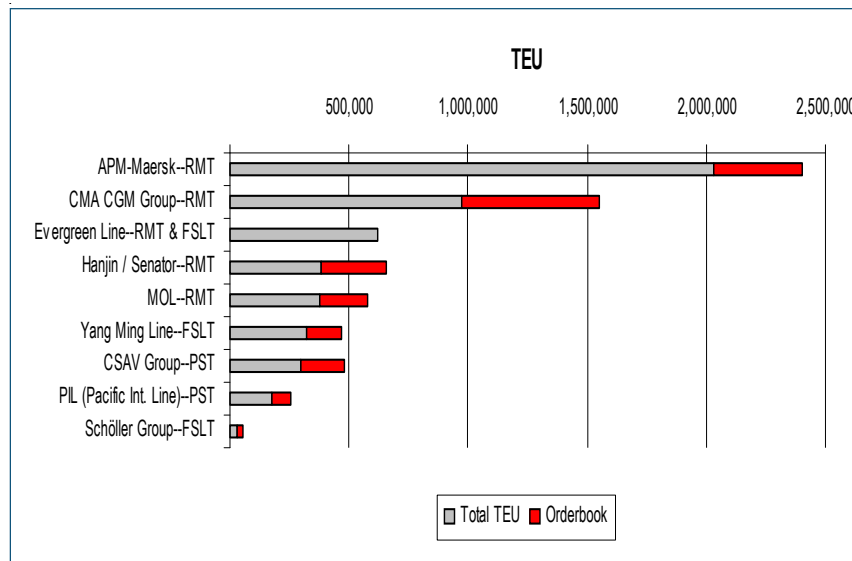
Exhibit 5: Shipping trust exposure to container operators

Shipping trust	Container operator	Global rank	Market Share (%)	Ships leased from trust		As % of operator's fleet		Trust's exposure in revenue	
				(# of ships)	(TEU)	(total TEU)	(chartered TEU)	%FY09F	%annual
Rickmers Maritime	APM-Maersk	1	15.3%	4	52,400	3%	6%	5%	35%
	CMA CGM Group	3	7.4%	6	25,500	3%	4%	37%	21%
	Evergreen Line	4	4.7%	3	10,350	2%	4%	19%	11%
	Hanjin / Senator	10	2.9%	4	17,000	4%	7%	8%	14%
	MOL	11	2.9%	5	21,250	6%	10%	31%	19%
Pacific Shipping Trust	CSAV Group	16	2.3%	2	8,500	3%	3%	30%	30%
	PIL (Pacific Int. Line)*	19	1.4%	10	17,464	10%	29%	70%	70%
FSL Trust	Evergreen Line	4	4.7%	2	8,458	1%	3%	12%	12%
	Yang Ming Line	13	2.4%	3	12,750	4%	10%	20%	20%
	Schöller Group*	34	0.3%	2	2,442	7%	8%	6%	6%

Note*: Shipping trust sponsor

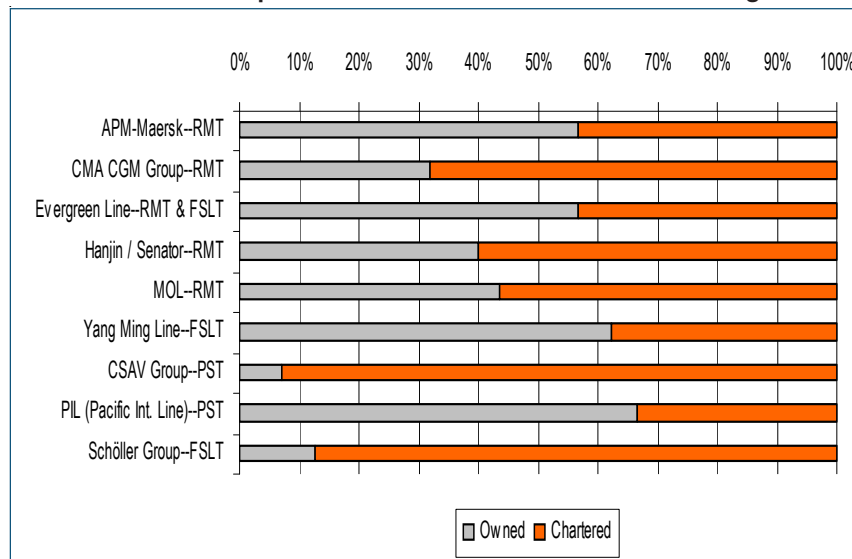
Source: AXS Alphaliner, Companies, OIR estimates

Exhibit 6: Container operators' fleet size and order book



Source: AXS Alphaliner, OIR

Exhibit 7: Container operators' owned versus chartered-in tonnage



Source: AXS Alphaliner, OIR

Exhibit 8: 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 repay debt with retained cash from 1Q09.

Source: Companies, OIR

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