

# 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
<b>Ratios</b>			
Net D:E	0.1	-0.1	-0.3
RoE (%)	8.0	28.1	23.1
RoCE (%)	7.6	22.3	19.3
<b>Valuations</b>			
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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Investors are advised to refer through important disclosures made at the last page of the Research Report.

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- **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
<b>LPG carriers</b>																	
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
<b>Product Tankers</b>																	
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
<b>Crude Tankers</b>																	
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
<b>Dry bulk</b>																	
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

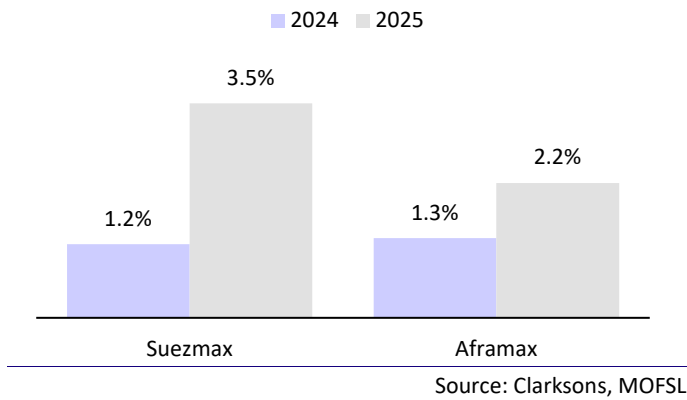
Source: Bloomberg, MOFSL

**Exhibit 2: Domestic peer comparison**

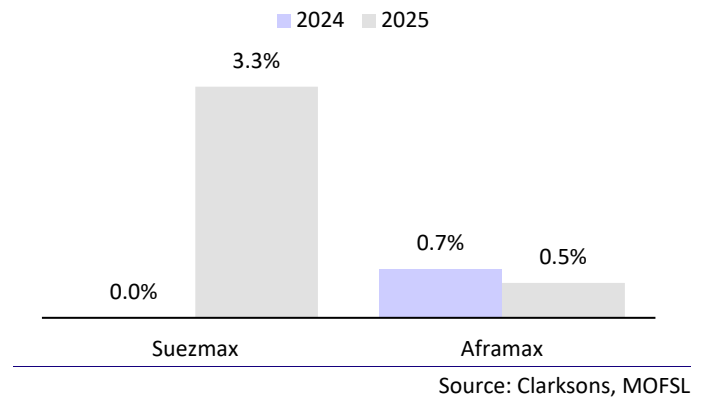
Company Name	Market Cap (INR M)	ROE (%)			EV/EBITDA (x)			PE (x)			PB (x)		
		FY23	FY24E	FY25E	FY23	FY24	FY25E	FY23	FY24	FY25E	FY23	FY24	FY25E
Great Eastern Shipping Co Ltd/ Shipping Corp of India Ltd	1,94,527	28.1	20.1	18.3	2.4	5.1	4.9	3.6	8.7	7.8	0.9	NA	1.4
	1,28,211	13.5	NA	NA	3.7	NA	NA	5.0	NA	NA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

Source: Bloomberg, MOFSL

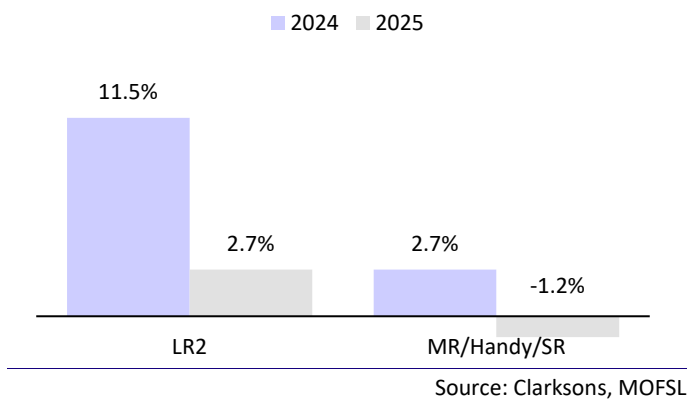
**Exhibit 3: Crude Tanker Demand**



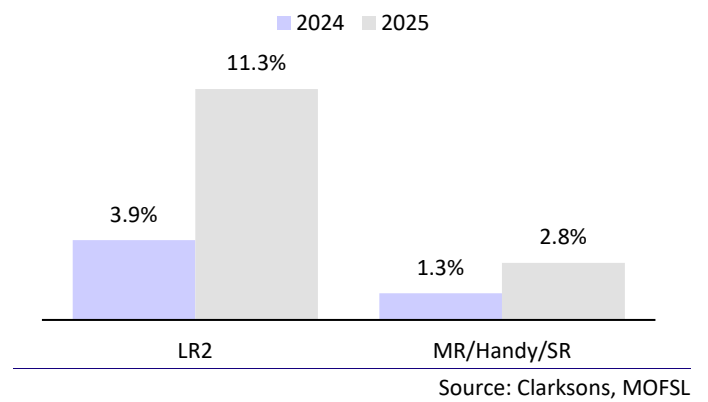
**Exhibit 4: Crude Tanker Supply**



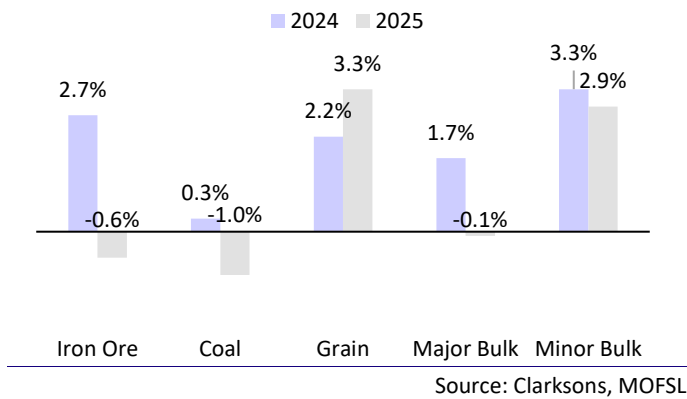
**Exhibit 5: Product Tanker Demand**



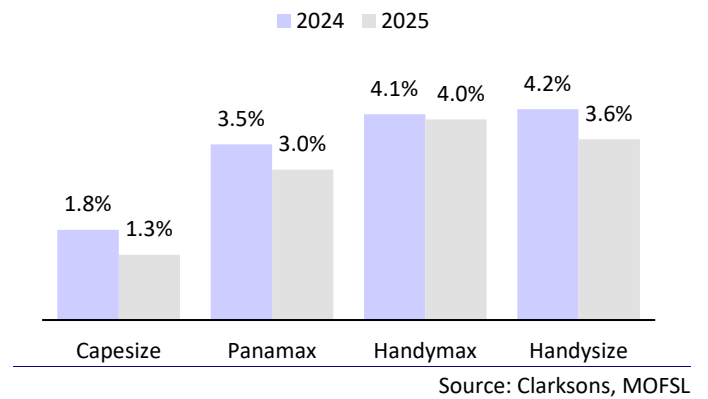
**Exhibit 6: Product Tanker Supply**



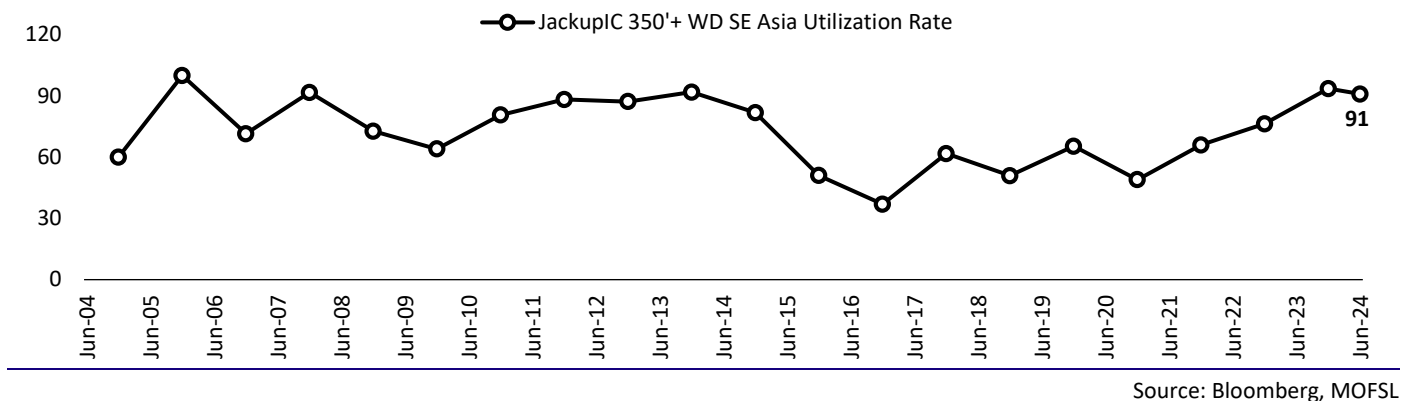
**Exhibit 7: Dry Bulk Demand**



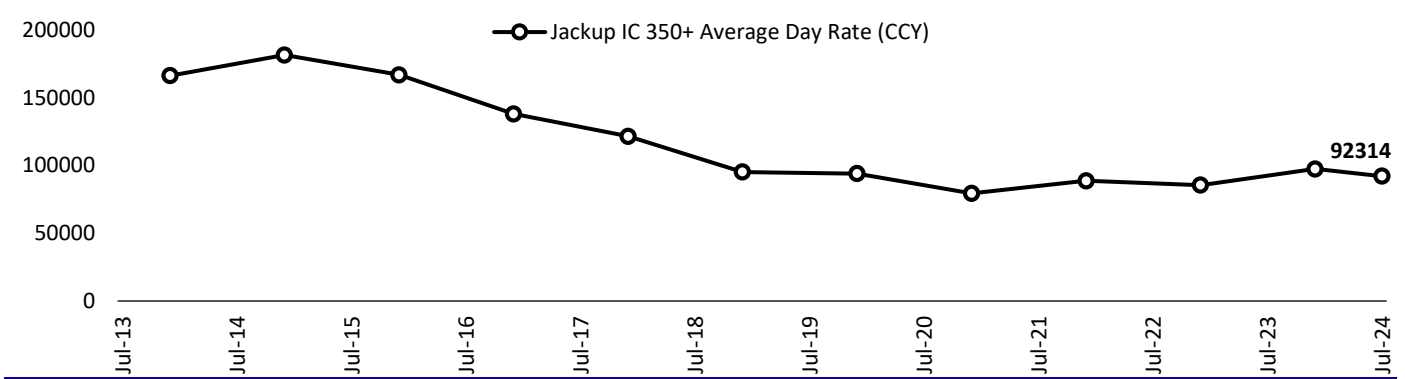
**Exhibit 8: Dry Bulk Supply**



**Exhibit 9: Jack-up Rig Utilization**

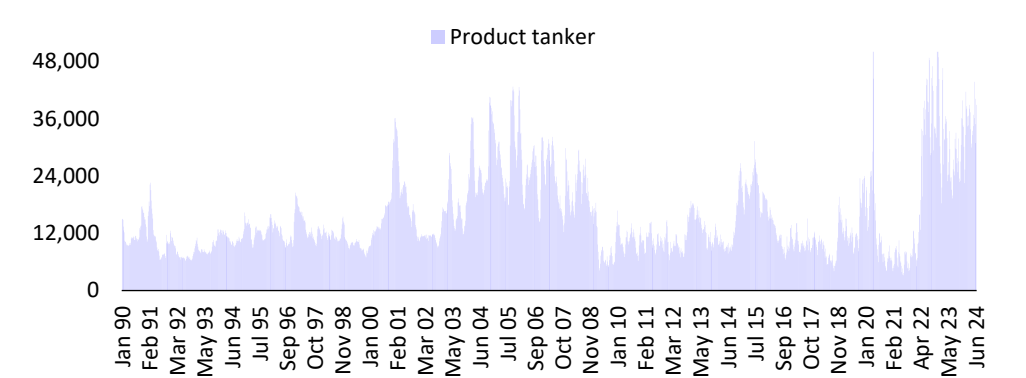


**Exhibit 10: Jack-up Rig average day rate (USD/day)**



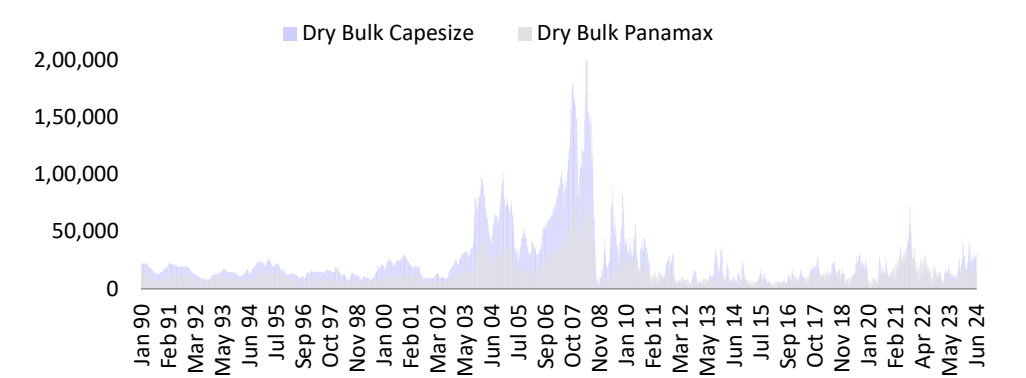
Source: Bloomberg, MOFSL

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



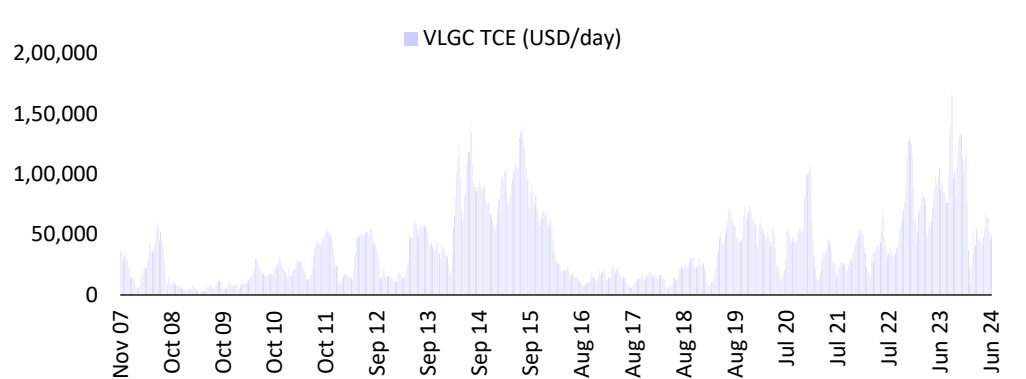
Source: Clarksons, MOFSL

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



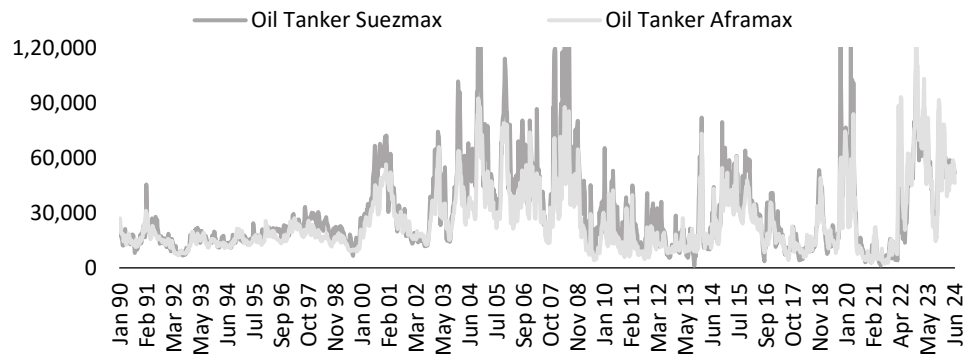
Source: Clarksons, MOFSL

**Exhibit 13: VLGC TCE (USD/day)**



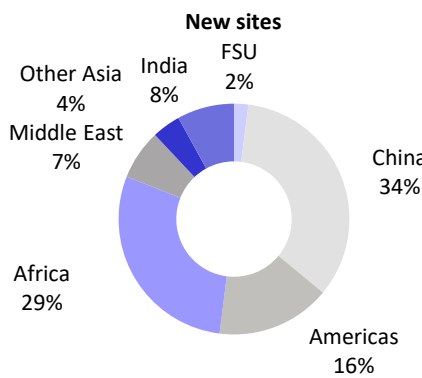
Source: Clarksons, MOFSL

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



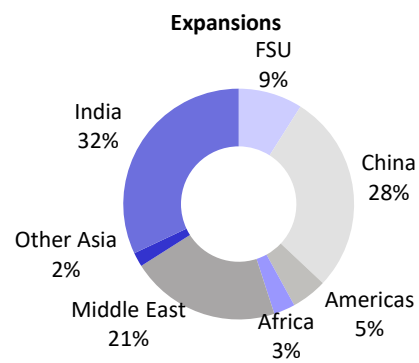
Source: Clarksons, MOFSL

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



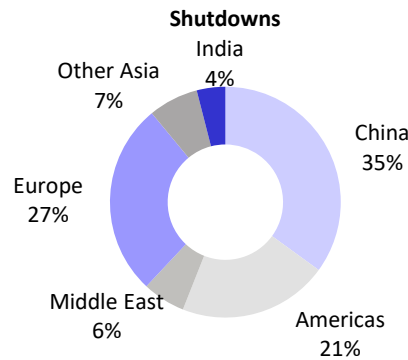
Source: IEA, MOSL

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



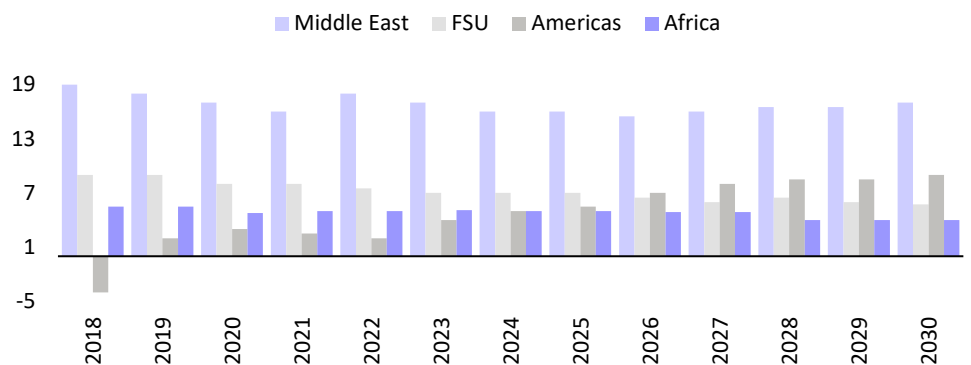
Source: IEA, MOSL

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



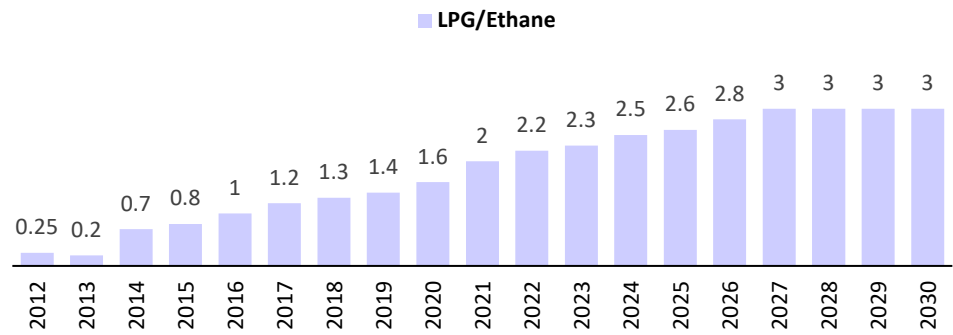
Source: IEA, MOSL

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



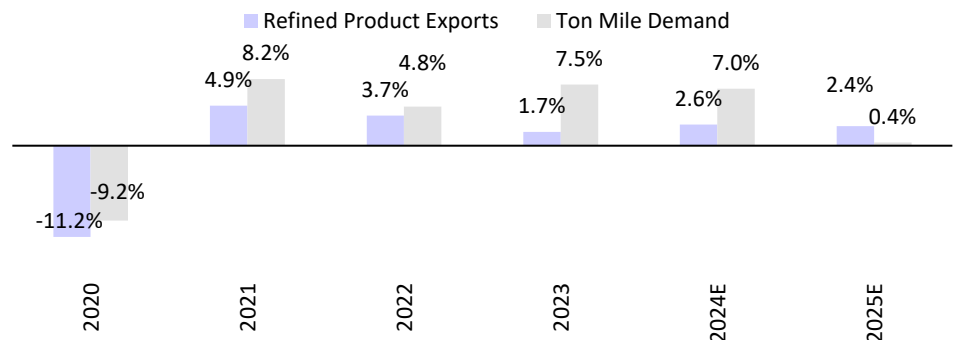
Source: IEA, MOFSL

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



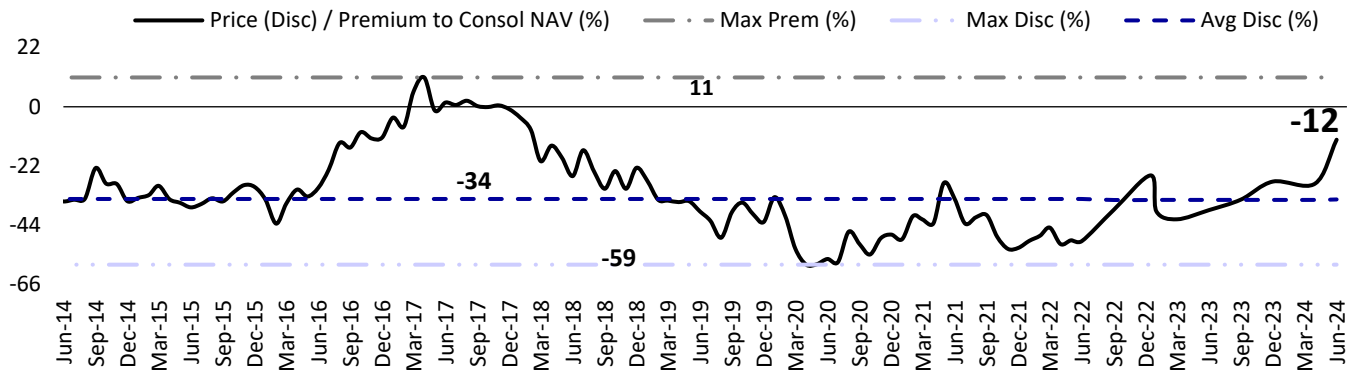
Source: IEA, MOFSL

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
<b>World</b>	<b>104.2</b>	<b>107.4</b>	<b>3.3</b>	<b>82.5</b>	<b>84.7</b>	<b>2.1</b>	<b>79</b>	<b>79</b>
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
<b>Total Income from Operations</b>	<b>35,746</b>	<b>37,348</b>	<b>34,224</b>	<b>35,621</b>	<b>58,077</b>	<b>54,954</b>
Change (%)	17.1%	4%	-8%	4%	63%	-5%
<b>Total Expenditure</b>	<b>22,936</b>	<b>21,473</b>	<b>18,771</b>	<b>20,996</b>	<b>26,087</b>	<b>24,237</b>
% of Sales	64%	57%	55%	59%	45%	44%
<b>EBITDA</b>	<b>12,810</b>	<b>15,875</b>	<b>15,453</b>	<b>14,625</b>	<b>31,989</b>	<b>30,716</b>
Margin (%)	36%	43%	45%	41%	55%	56%
Depreciation	7,820	7,428	7,465	7,057	7,121	7,130
<b>EBIT</b>	<b>4,990</b>	<b>8,447</b>	<b>7,987</b>	<b>7,568</b>	<b>24,869</b>	<b>23,586</b>
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
<b>PBT bef. EO Exp.</b>	<b>559</b>	<b>2,350</b>	<b>9,427</b>	<b>6,197</b>	<b>25,535</b>	<b>26,944</b>
EO Items	138	-	-	-	-	-
<b>PBT after EO Exp.</b>	<b>421</b>	<b>2,350</b>	<b>9,427</b>	<b>6,197</b>	<b>25,535</b>	<b>26,944</b>
Total Tax	636	279	242	-100	-215	802
Tax Rate (%)	151%	12%	3%	-2%	-1%	3%
<b>Reported PAT</b>	<b>-214</b>	<b>2,071</b>	<b>9,185</b>	<b>6,297</b>	<b>25,750</b>	<b>26,142</b>
<b>Adjusted PAT</b>	<b>-77</b>	<b>2,071</b>	<b>9,185</b>	<b>6,297</b>	<b>25,750</b>	<b>26,142</b>
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
<b>Net Worth</b>	<b>68,097</b>	<b>67,956</b>	<b>77,043</b>	<b>80,513</b>	<b>1,02,754</b>	<b>1,23,975</b>
Total Loans	48,430	47,857	43,943	46,255	36,230	30,310
<b>Capital Employed</b>	<b>1,16,527</b>	<b>1,15,814</b>	<b>1,20,986</b>	<b>1,26,768</b>	<b>1,38,984</b>	<b>1,54,285</b>
<b>Net Fixed Assets</b>	<b>96,173</b>	<b>91,054</b>	<b>90,074</b>	<b>88,499</b>	<b>84,273</b>	<b>83,293</b>
Capital WIP	142	1,225	245	243	348	592
<b>Total Investments</b>	<b>590</b>	<b>787</b>	<b>530</b>	<b>1,074</b>	<b>2,210</b>	<b>3,412</b>
<b>Investment in Liquid Mutual Funds</b>	<b>5,421</b>	<b>8,843</b>	<b>12,972</b>	<b>10,501</b>	<b>12,886</b>	<b>16,285</b>
<b>Curr. Assets, Loans&amp;Adv.</b>	<b>41,376</b>	<b>36,419</b>	<b>37,636</b>	<b>39,370</b>	<b>52,375</b>	<b>64,496</b>
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
<b>Curr. Liability &amp; Prov.</b>	<b>27,175</b>	<b>22,515</b>	<b>20,470</b>	<b>12,918</b>	<b>13,107</b>	<b>13,794</b>
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
<b>Net Current Assets</b>	<b>14,201</b>	<b>13,904</b>	<b>17,166</b>	<b>26,451</b>	<b>39,267</b>	<b>50,703</b>
<b>Appl. of Funds</b>	<b>1,16,527</b>	<b>1,15,814</b>	<b>1,20,986</b>	<b>1,26,768</b>	<b>1,38,984</b>	<b>1,54,285</b>



## Financials and valuations

### Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24
<b>Basic (INR)</b>						
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
<b>Valuation (x)</b>						
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
<b>Return Ratios (%)</b>						
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
<b>Working Capital Ratios</b>						
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
<b>Leverage Ratio (x)</b>						
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
<b>CF from Operations</b>	<b>10,957</b>	<b>14,810</b>	<b>15,342</b>	<b>13,226</b>	<b>29,746</b>	<b>28,081</b>
(Inc)/Dec in FA	-8,000	-2,844	-8,661	-5,742	-4,653	-8,452
<b>Free Cash Flow</b>	<b>2,957</b>	<b>11,966</b>	<b>6,681</b>	<b>7,484</b>	<b>25,093</b>	<b>19,629</b>
(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
<b>CF from Investments</b>	<b>4,298</b>	<b>4,845</b>	<b>-8,732</b>	<b>-3,748</b>	<b>-383</b>	<b>-9,146</b>
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
<b>CF from Fin. Activity</b>	<b>-10,199</b>	<b>-18,723</b>	<b>-5,053</b>	<b>-11,886</b>	<b>-18,933</b>	<b>-13,302</b>
<b>Inc/Dec of Cash</b>	<b>5,056</b>	<b>932</b>	<b>1,557</b>	<b>-2,409</b>	<b>10,430</b>	<b>5,633</b>
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
<b>Closing Balance</b>	<b>13,838</b>	<b>16,142</b>	<b>17,615</b>	<b>15,583</b>	<b>26,784</b>	<b>32,879</b>

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NOTES

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Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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