BULL & BEAR INDUSTRIALS

BULL & BEAR RESEARCH

Spring 2024 Industrials Outlook:

Shipping

Contents

Contents

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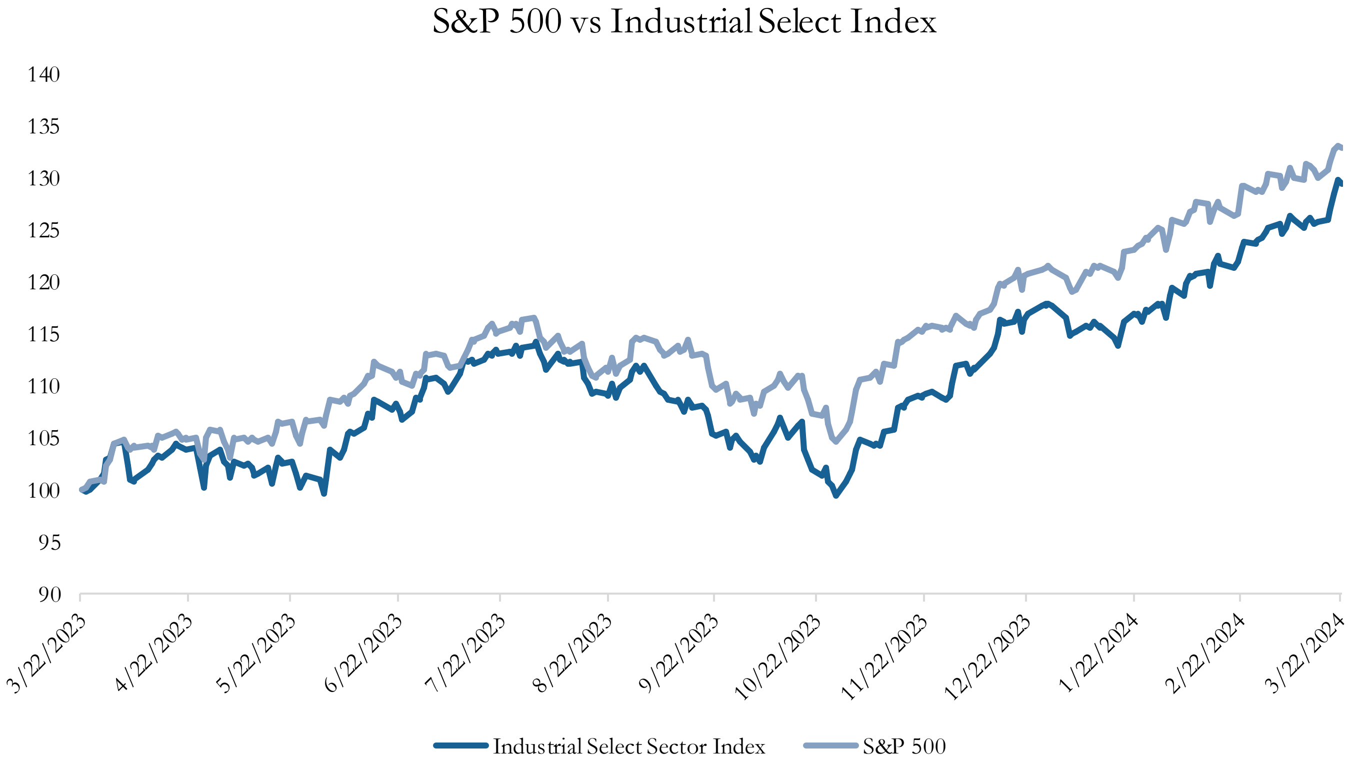
INDUSTRIAL OVERVIEW

Standing Strong Despite Poor Conditions

As we navigate through 2024, the industrial sector has exhibited steady progress amidst the broader market landscape. Year-to-date, the sector has seen a growth of 7.2%, with its performance over the past six months and twelve months reaching 11.9% and 23.25%, respectively. While the industrial sector's growth may not match the more remarkable expansions seen in sectors like communication services and information technology whose performance was fueled by investors optimism in AI. Compared to the S&P 500's average total return over the last twelve months (TTM) and six months (6TM) of 24.4% and 14.6%, the industrials are holding their ground. This level of market performance is particularly noteworthy given the sector's navigation through challenging macroeconomic conditions. Even though the sector underperformed the S&P 500 again it is important to notice that the majority of the S&P 500 rally in 2023 was driven by a few mega cap stocks.

The industrial sector typically flourishes in an environment characterized by high business confidence. However, the current business confidence index presents mixed signals, reflecting the uncertain market sentiment. Moreover, the inversion of the yield curve further complicates matters, as it raises the cost of debt for many companies within this capital-intensive industry. This is especially true for the energy sector which often boasts high debt levels. Despite these hurdles, the sector's resilience and performance are impressive, underscoring its robustness in the face of adversity.



Sources: Charles Schwab, Bloomberg, Fidelity

PROJECTIONS

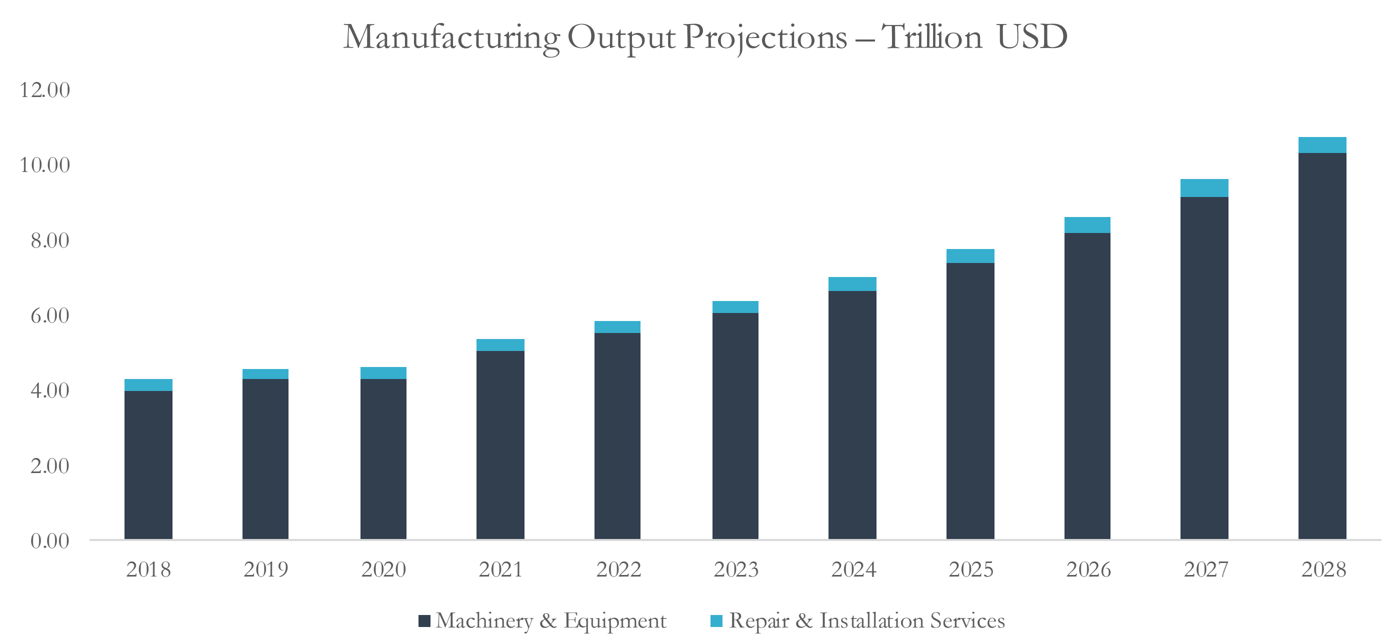
Rising Debt Supported By Stable Demand

2023 marked a period of subdued performance within the industrial sector, continuing a trend influenced by lingering challenges such as pandemic-induced supply chain disruptions and geopolitical trade tensions. These obstacles have created a foundation for greater self-reliance among major economies.

In the short term, we anticipate that the sector requires further economic development to unleash its full potential. Persistent inflation, surpassing Federal Reserve targets, suggests continued underinvestment and high interest rates. Looking ahead, the landscape appears more promising. Legislative initiatives aimed at strengthening U.S. job creation and infrastructure investment are expected to revitalize the sector. These measures, addressing critical infrastructure deficiencies and climate change efforts, should encourage investment and spending, especially for the companies within infrastructural services. Additionally, the rebound in commercial aerospace post-pandemic and robust performance in aerospace and defense contribute to a solid foundation for growth.

While the Federal Reserve navigates towards a soft economic landing, the future remains uncertain. However, specific subsectors are set for growth, fueled by targeted industrial spending. In the long run, advancements in technology will also be important for the sector, enhancing efficiency and resilience. The evolution towards smart factories and the integration of AI signify a shift towards innovation-driven growth and operational excellence.

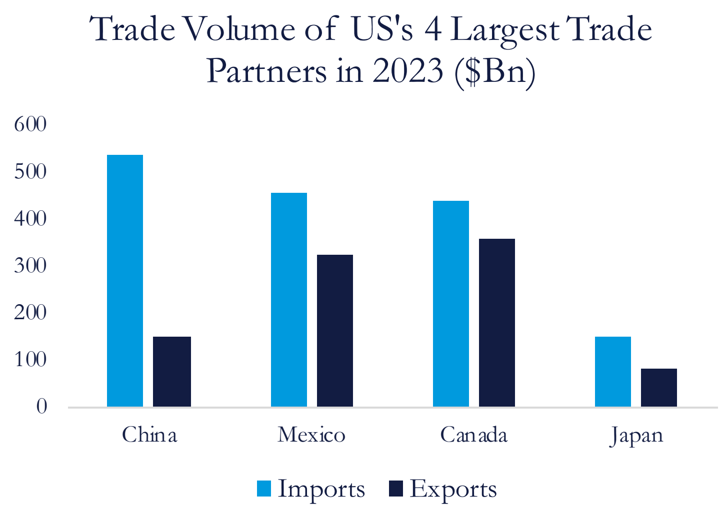
In summary, while the short-term outlook for the industrial sector is mixed, with uncertainties tied to Federal Reserve policies, the long-term perspective is optimistic. Driven by legislative support, technological innovation, and specific subsector growth, the sector is on the cusp of a transformative phase.



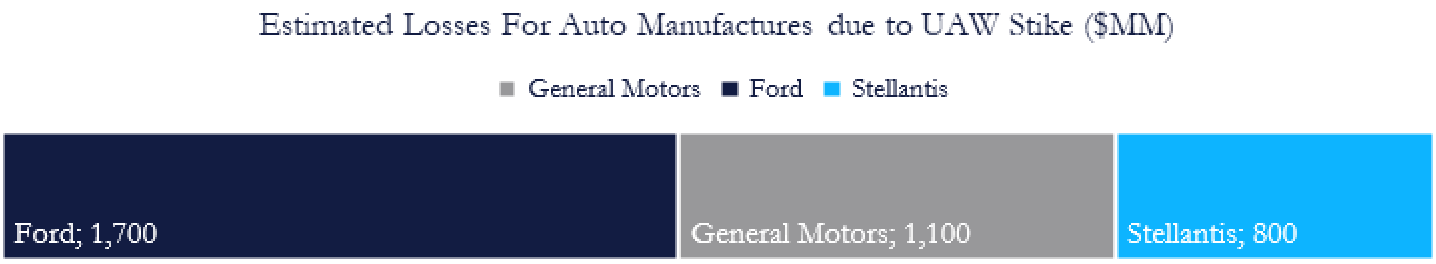
REGULATORY LANDSCAPE

A Term in Review

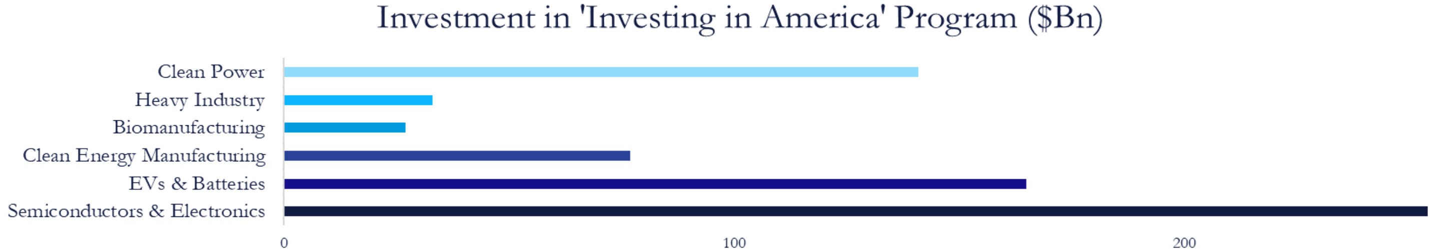
As the US reaches the end of Biden's term and ramps up for its latest election cycle, rejuvenating the American Industrial sector has and will continue to be a top priority.



Imports and Exports: To date, Biden has left many of the tariffs Trump imposed on China intact in a bid to reclaim them as his own a present "tough" on them. Additionally, with the skyrocketing interest and investment in the semi-conductor industry, Biden has imposed export controls of US manufactured chip and semiconductor equipment as well as restrictions of US investment in Chinese AI, Semiconductor, and Quantum Computing industries. In a bid maintain the sway of the union vote Biden heeded pressure from unions to keep the 301 tariffs, a roughly $300 billion import tax on Chinese goods, letting them remain and fall subject to a 4-year review.



Unions: This past fall Biden backed the United Auto Workers (UAW) Union in their strike against Ford, General Motors, and Stellantis. After coming out victorious around 150,000 UAW workers will receive anywhere from a 25% to 168% raise in their wages. Biden's support for the people that will allow US manufacturing to return to the internation powerhouse it once sent a strong message to the workforce that working in the industry can be a prosperous career.



Investing in America: The "Investing in America" agenda is a culmination of all of Biden's programs: the American Rescue Plan, the Bipartisan Infrastructure Law, the CHIPS and Science Act, and the Inflation Reduction Act. Each of these bills aims to promote private sector investment into the US and thus creating a multitude of new positions for Americans. So far, the administration has announced around $650 billion in commitments to industries such as Semiconductors, EVs, Clean Energy, and Bio manufacturing.

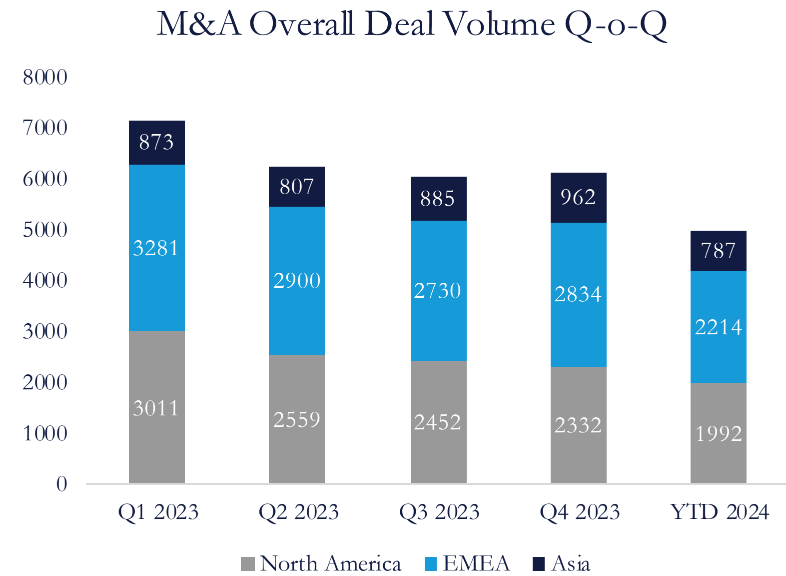
Sources: The White House, Gray

TRANSACTION ACTIVITY

Navigating Currents: The Industrials Sector's Dynamic Transformation Ahead

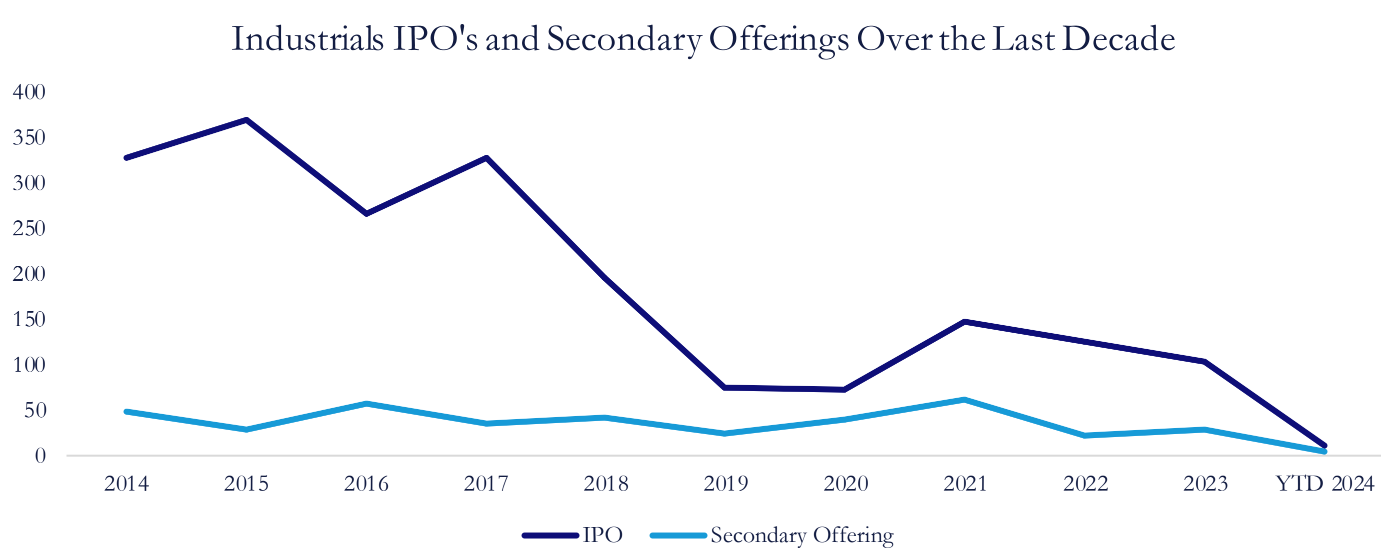
Outlook for the 2024 M&A Market

The outlook for the M&A market in 2024 suggests a cautious yet optimistic rebound shaped by economic recovery, sector-specific dynamics, and strategic imperatives. Anticipated trends suggest a stabilization phase ahead, with a notable shift towards traditional sectors and a heightened emphasis on cross-border activities and corporate simplification. Projections for 2024 indicate a rebound in US private equity deal volume by 13% and corporate mergers and acquisitions by 12%. Dealmakers will likely need to navigate a landscape of higher capital costs and valuation challenges.



Pioneering Change: The Journey Towards Sustainable and Digital Innovation

The industrials sector continues to see robust M&A activity through Q1 2024, with over 3,000 deals in energy, transportation, and automotive over the past year. This consolidation is driven by companies combining to achieve economies of scale and integrate operations. According to the Fidelity Institutional outlook, major themes propelling M&A include sustainability initiatives, digitization of manufacturing, and reshoring production. The shift to EVs is also catalyzing deals in automotive and energy. IPO volumes vary but are strongest where new technologies are emerging, like battery metals, aerospace, and renewable energy. Private equity remains active with over 1,000 LBOs across industrials, attracted to infrastructure and renewable plays throughout 2023. While near-term economic uncertainty presents headwinds, the outlook states that trends around sustainability, digitization, and domestic manufacturing will transform industrials over the long run.



Sources: Ernst & Young, PwC, Goldman Sachs, Morgan Stanley, Pitchbook, Fidelity

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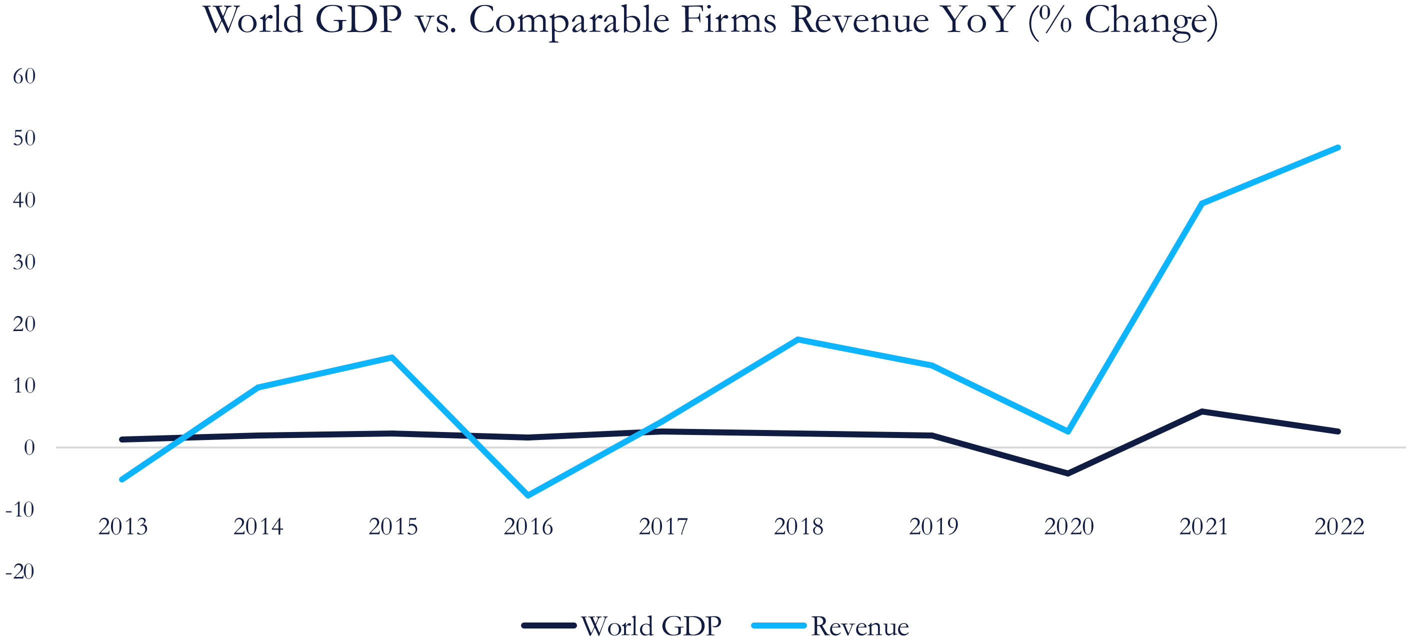
Maritime Shipping

VERTICAL OVERVIEW

In Brief

Maritime Shipping is an industry within the industrials sector that serves as the backbone of the global supply chain and international trade. It encompasses firms involved in container shipping (packaged goods stored in truck-sized containers), bulk shipping (unpackaged goods shipped in bulk such as grain or coal), and tanker shipping (unpackaged liquids and gasses shipped in bulk). As of January 2024, there are 305 publicly traded firms in the Maritime Shipping vertical. The vertical is a major contributor to global GDP; as of 2023, it contributed 2.5%, 5.2% and 7.2% to the GDPs of the United States, China, and India, respectively. Additionally, roughly 80% of international cargo is transported by ships. Some of the largest contributors to the vertical's success are Moller-Maersk, Hapag Llyod, Nippon Yusen, and Evergreen Marine. Despite strong historical growth from the industry - with globalization continuing to be a driving force – analysts are weary of the Maritime Shipping's future, at least in the short term. A consensus among analysts is that firms face a changed environment following the COVID-19 pandemic, mainly regarding volatility in demand. Analysts are generally bullish, with recent projections from various analysts ranging from 1.5% to 4.0% for the year 2024.

According to the US International Trade Commission and looking back to the second half of the 2020, Maritime Shipping expanded at an annualized rate of 16.4%. This boom was marked by a rapid increase in trade with Asian nations, which erased the sharp contraction the vertical faced in the beginning of 2020. In 2023, Maritime Shipping faced an uncharacteristic year even as growth gradually returned to pre-pandemic levels. The significance of this "COVID-19 boom" in 2024 is that during the period of heightened growth, cash-rich carriers ordered more vessels for their fleets, which has created a delayed infusion of increased capacity into the market. The time for the infusion of this added capacity has arrived and it is having a noticeable impact on 2024 projections. The current capacity of new vessels is equivalent to 27% of the global fleet, which was merely 8% in October 2020. An additional challenge for carriers and ship-builders alike is that the delivery of these vessels will coincide with an anticipated drop in sector growth, with estimates falling below expectations from previous years. Emissions regulations, geopolitical disputes, extreme weather events, supply chain woes, and changes to global trade patterns will also be prominent factors driving the vertical into the remainder of 2024 and the beginning of 2025. The strength of the industry also heavily relies on the direction of consumer spending, the short-term future of which remains uncertain.



Sources: US International Trade Commission, Yahoo Finance, Marine Insight

PROJECTIONS

Key Factors

Panama Canal Restrictions: A severe drought late last year forced the Panama Canal, one of the busiest waterways in the world, to reduce the number of vessels allowed to pass through at just 24 per day, compared to the normal level of 36. This will negatively impact carriers across all subcategories and will hinder growth until at least April, when the restrictions are reevaluated. Rerouted ships will have longer ton-mile journeys, raising carrier rates and ultimately increasing earnings.

Positive Tanker Supply-Demand Dynamics: Increased oil consumption anticipated through the end of the year could drive tanker demand growth higher. Disruptions from armed conflicts, mainly from threats surrounding the Middle East, will increase ton-miles as carriers look for alternative (although longer) routes around potentially hazardous waters. Increased oil exports from the US will counteract any potential cuts from OPEC nations. Crude tanker demand is estimated to grow 4.2% in 2024.

Grim Future for Container Shipping: With added tonnage finally hitting the global fleet thanks to the pandemic-boosted ordering spree, container carriers may face profitability issues as growth cools and the volatility of excess capacity rises. China's short-term economic health and the US ability to stick a "soft landing" and avoid a recession will determine the direction of demand. Current expectations are for single-digit gains in 2024.

Anticipated Growth for Dry Bulk Carriers: Moderately healthy forecasted demand of 1.9% coupled with restraints related to new emissions rules means supply growth may be outpaced by demand in this subcategory. Bulk Carriers will benefit the most by raising rates as long as demand remains steady, which is expected to do so through 2024.

Record-Low Orderbook: The rate of new vessels being ordered in the first months of 2024 has hit a 30-year low. This comes after an ordering spree following the demand boom coming off the heels of the COVID-19 pandemic. Shipbuilders will see slower growth as a result through the end of the year.

Francis Scott Key Bridge Incident: On March 26th, 2024, a Singapore-flagged vessel bound for Sri Lanka lost control while exiting the Port of Baltimore and collided with the Francis Scott Key Bridge, causing the bridge to collapse into the bay. The incident blocks waterway access to the 18th largest port in the US, disrupting nearly $81 billion worth of trade. This will strain the region's supply chain and cause unprecedented damage to dry-bulk carriers – 28% of America's coal exports pass through this port as of 2023. Container carriers will also be affected due to the closure of a key automotive export hub. Currently, there is no credible figure to determine the full impact.

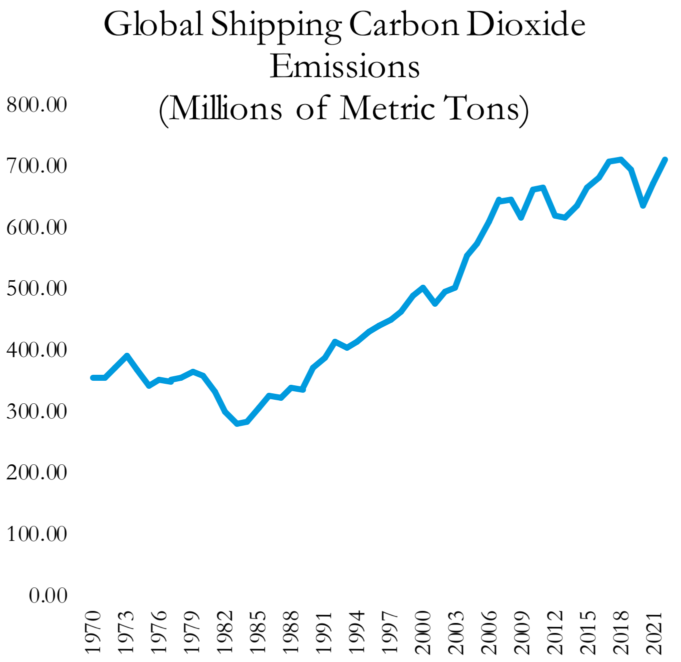
Sources: Bloomberg Intelligence, US Army Corps of Engineers, US Energy Information Administration, Washington Post (map)

SHIPPING HEADWINDS

Critical infrastructure instability coupled with cybersecurity risks and decarbonization campaigns have put question marks on reliability for the future of the marine shipping industry.

Green Agenda

As the world moves to carbon neutrality, the shipping industry faces heavy constraints to lower emissions. Companies like Maersk have already set goals to cut carbon emissions 50% by 2030. Shipping accounts for roughly 3% of worldwide greenhouse gas emissions and has become a target for reductions. The EU has placed the shipping industry in its Emissions Trading System as ships going to or from the EU will have to pay for their carbon emissions. Investments in methanol-enabled vessels have already begun as companies prepare for increasingly stringent regulations as time progresses. Beginning in 2024, ships will also be assessed by CII (Carbon Intensity Indicator) standards where grades ranging from A-E will be assessed to each vessel in use. Vessels that fall in the D or E range will be evaluated and must create corrective action plans that must be implemented with the threat of detainment under IMO standards.



Cybersecurity Risks

Increased digitalization on ships and at ports raises cyberattack vulnerability. From 2016 to 2021, the U.S. saw a 450% increase in cyberattacks nationally, a trend that is not expected to slow down. Critical infrastructure in the U.S. such as sewage and drinking water plants have been targeted by hackers and the shipping industry faces similar risks. The U.S. government has already enacted an executive order to address maritime cybersecurity and other nations are likely to follow suit. Vessels and ports are now required to invest in preventative cybersecurity measures with the associated costs falling on the companies that operate them.

Route Turmoil

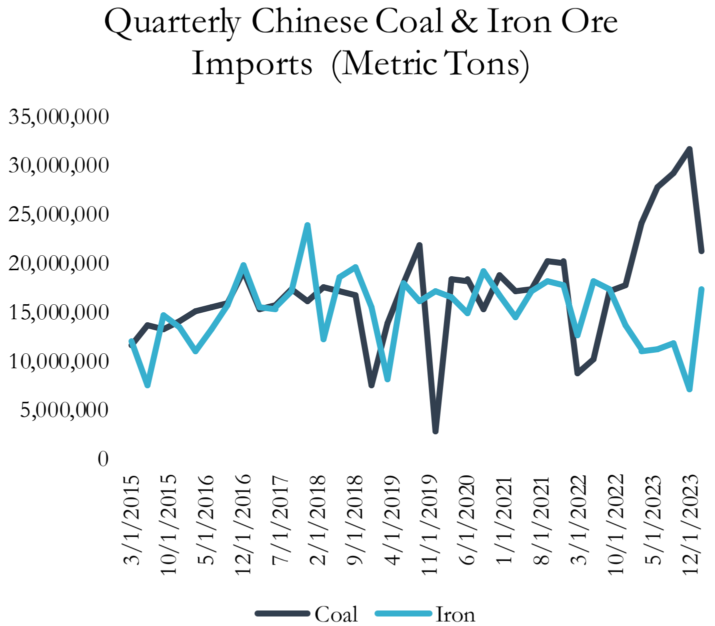
Marine shipping relies heavily on major canal developments including both the Suez and Panama Canals. The fragility of the infrastructure on which the marine shipping industry heavily relies has been exposed by environmental and political turmoil in Panama and the Red Sea, respectively. In the Panama Canal, a drought has reduced daily vessel capacity by 33%. With 3% of global trade volume passing through the canal, this reduction causes a massive slowdown for the vertical. Climate change has created a difficult environment for predicting rainfall in the region with a figure that has been trending down in the past two decades. Similarly in the Red Sea, Houthi rebels are creating a hostile environment for ships passing through the Suez Canal. The Canal carries 12% of global trade, with a heavy emphasis on oil exports. Ships have already been seized by the group and the tensions as a whole have brought freight in the canal down by 45%. Incidents such as these are unpredictable and can consistently cause exponential slowdowns for the shipping industry.

Sources: Deloite, McKinsey & Company, Bain & Company, Bloomberg, Reuters, DNV, Statista

SHIPPING TAILWINDS

Pandemic Cash CapEx

2021 and 2022 saw record profits for global shipping companies. The dry bulk and container shipping industries in particular saw immense gains. In container shipping, companies saw record profit figures of $110 and $208 billion as compared to $37.5 billion for the decade prior combined. In dry bulk, continued demand throughout the pandemic coupled with longer port holding times due to restrictions led to similar multi-year highs. Many of these profits have been invested in new vessels and port technologies, a significant portion of which includes technology that aligns with the green agenda the industry faces. Maersk, Evergreen, and Hapag-Lloyd are some of the largest players in the industry and have all taken part in these massive order books that include ships primarily powered by methanol and liquefied natural gas. Heavy investments in clean energy now will prevent slowdowns for carbon reduction deadlines in the future. Many ships that do not meet emissions standards are being forced to slow down to reduce emissions and investment in clean ships will allow for continued efficiency.



Digitalization & Automation

Following the trend of the globe, marine shipping is becoming increasingly digital. From 2011-2016, 75% of insurance claims for shipping related accidents found human error as a primary cause. Digitalization aims to reduce many of these errors while increasing efficiency, and lowering costs. The digital transition in marine shipping aims to extend from ports, to the vessels themselves. In the U.S., the government has already allocated $20 billion to bolster cybersecurity in ports as they become digitalized. In ports, innovations ranging from remote operations to integrated softwares for all levels of the business. On vessels, technologies helping with items such as route optimization, and autonomy help achieve all the listed goals. From 2011-16, the accidents from human error cost shipping companies $1.6 billion. Digitalization and automation not only aims to reduce this sort of loss, but also to lower the associated insurance rates.

Consumer Demand & Supplier Pivots

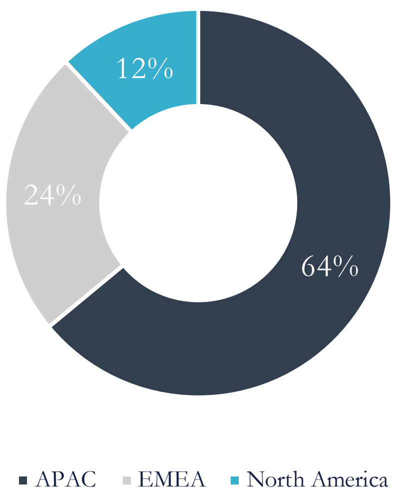
Consumer necessity is trending in the right direction for shipping companies. Chinese dry bulk imports of coal hit record highs in 2023 with 474.4 million metric tons, and this growth is expected to continue into 2026 before they look to cut down emissions. Similarly, iron ore, which is the largest dry bulk commodity is expected to remain constant after a strong rebound in 2023. China is essential to iron ore growth as they account for 75% all iron ore on the seas. After 5.9% growth in demand for the commodity in China for 2023, property development among other economic factors could contribute to further demand for the commodity in coming years. On the tanker side, market disruptions from sanctions on Russia have resulted in oil exports coming from other nations such as Iraq, Brazil, and the U.S. among others. Prior to their invasion of Ukraine, Russia exported 8 million barrels of oil daily. These changes in the supply chain, coupled with consistent demand for crude oil and its associated products are leading many nations to lean on imports that will result in longer voyage times.

Sources: Deloitte, Mckinsey & Company, Statista, Bloomberg, PWC, DNV, S&P Global, GlobalTrade, Allianz Commercial, The White House, Marsh

TRANSACTION ACTIVITY

Anticipation Awaits the Maritime Shipping Sector in 2024

Shipping Intial Public Offerings by Region (TTM)



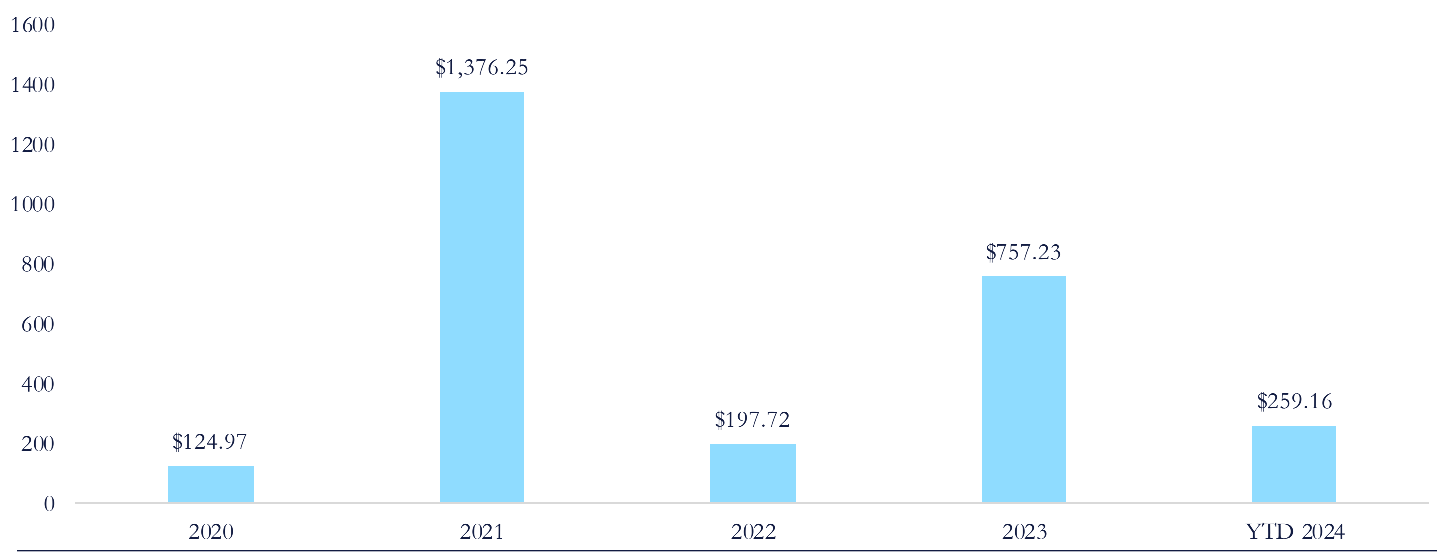
Innovative Deals Across the Shipping Sector

After concluding 2023 on a challenging note, the shipping sector is poised for a comeback in 2024, driven by a wave of groundbreaking agreements. Euronav, an industry forerunner in the decarbonization and efficiency enhancement of oil tankers, has recently finalized its acquisition of CMB.TECH for an impressive $1.25 billion. This move marks a leap towards innovative shipbuilding & improved sustainable infrastructure in vessels traditionally sold for pennies on the dollar at the end of their lifetime. Marking a development that shines spotlight on the maritime industry's commitment to embracing technological advancements & sustainable initiatives in the coming years.

2024 Shipping and Logistics: Transformative Strategies Amidst Economic Headwinds

In 2024 we anticipate to see a continued influx of new ship deliveries, potentially leading to freight rate pressures because of supply outpacing demand. However, strategic adjustments such as blank sailings and General Rate Increases may help stabilize rates. Simultaneously, over 40% of transport and logistics CEOs acknowledge the urgent need for transformative actions to maintain future viability, viewing M&A as a critical tool for acquiring new capabilities and securing competitive advantages. This period of transformation, underscored by technological advancements and regulatory changes, including the anticipated impact of the Consortia Block Exemption Regulation's abolition, sets the stage for a year where strategic, operational, and viable strategies will be pivotal to navigating the industry's challenges and opportunities. Following transaction downturn in 2023, access to private credit funds and potential rate cuts in 2024 see prosperous deal uptick in M&A, IPO, and LBOs in the coming months.

Shipping M&A Average Deal Size YoY ($MM)



Sources: Pitchbook, Deloitte, McKinsey, PwC, Cello Square Logistics

M&A and IPO Activity

M&A

$57 Million

MAERSK

Acquisition of

INTERNATIONAL MARTIN BENCHER FREIGHT FORWARDERS

January 2023

$87.05 Million

GRIMALDI GROUP

Acquisition of

HERAKLION PORT AUTHORITY SA

December 2023

Maersk Acquires Martin Bencher:

Maersk, the third largest maritime shipping company by market cap, made a blockbuster acquisition in their acquisition of Martin Bencher. Martin Bencher is a logistics company for non-containerized cargo, heavy shipments, and special handling of goods. In a deal to bolster their capacities in these areas, Maersk acquired 100% of equity in a deal worth $57 million. Furthermore, through this acquisition, Maersk has created a new product entitled Maersk Project Logistics Product, advertising new innovative ship designs, special cargo transportation, and project management services.

IPO

$325.97 Million Raised

194.12M Shares Issued

$1.59/Share

November 2023

宁波远洋运输股份有限公司
NINGBO OCEAN SHIPPING CO., LTD.

$143 Million Raised

118M Shares Issued

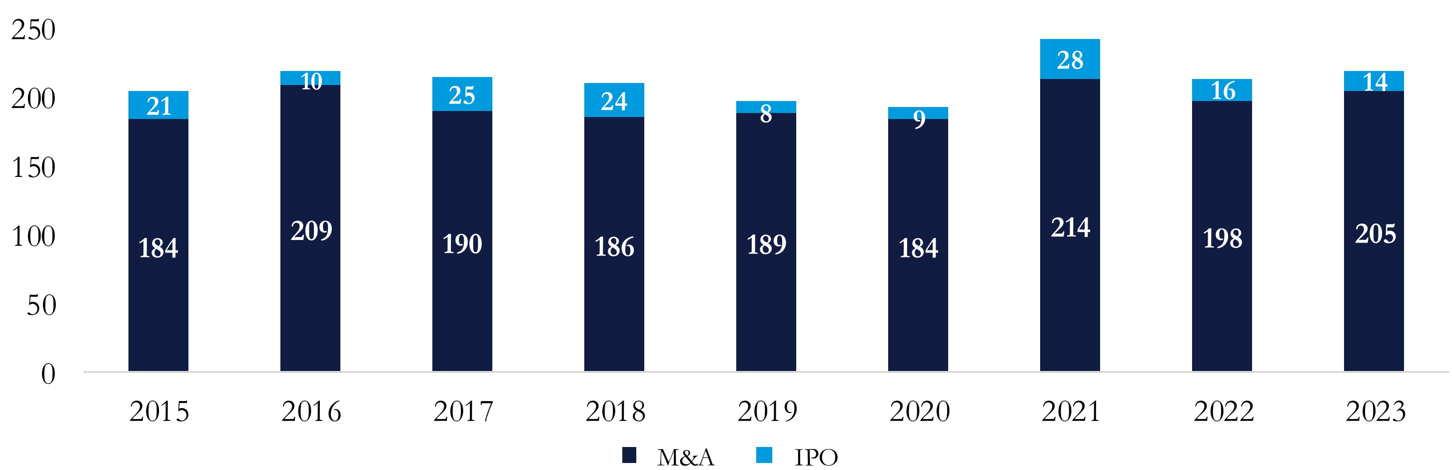
$1.18/Share

December 2022

Shanghai JinJiang Shipping IPO:

Shanghai JinJiang Shipping had its IPO on the Shanghai Stock Exchange. It is a Chinese container shipping company focused on routes connecting to China. Currently, they operate in China (including Hong Kong and Taiwan), Japan, South Korea, Thailand, Vietnam, Philippines, India, the United States, Brazil. Shanghai JinJiang is part of Shanghai Port Group (SIPG), the sole operator of all public terminals in the Port of Shanghai. This gives the company a strong competitive advantage over its peers, especially in the East Asian shipping market. SIPG has subsidiaries in various industries, such as real estate, energy, and logistics.

M&A and IPO Volume by Year

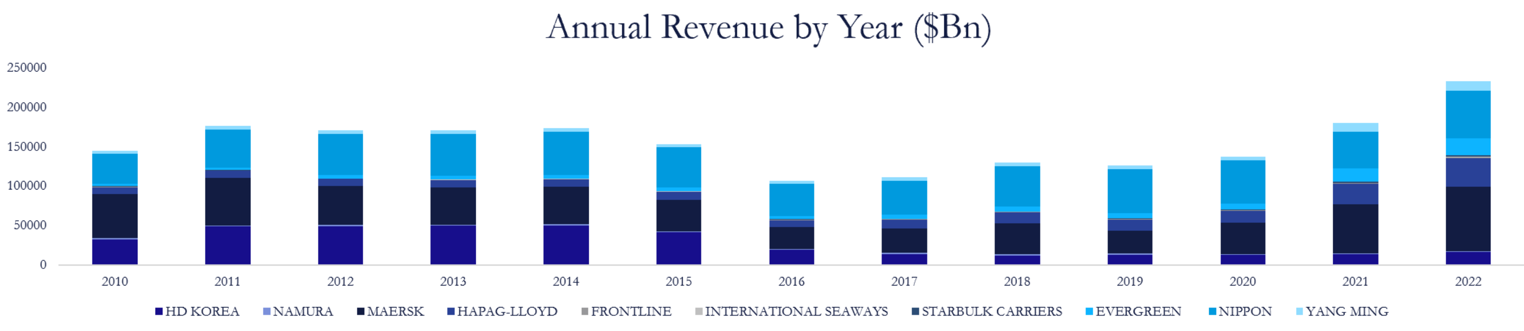


Sources: Pitchbook, Financial Times, The Loadstar

BASIC INFORMATION

Basic Information (2024)								
Company Name	Exchange	Market Cap. ($Bn)	USD Stock Price (2/21/2024)	Revenue (TTM $Bn)	Revenue per Employee ($ MM)	Revenue Growth (YoY)	Adj EPS (TTM)	Beta
HD Korea Shipbuilding*	KRX	6.30	88.09	16.31	1.27	21.40%	$2.38	1.03
Namura Shipbuilding Co*	TYO	0.80	11.56	0.91	0.41	(0.10%)	$1.12	1.53
A.P. Moller-Maersk	OTC	26.23	7.50	51.01	0.48	(34.11%)	$195.93	1.00
Hapag-Lloyd	OTC	25.27	72.50	23.46	1.65	(36.30%)	$38.84	0.95
Frontline	NYSE	5.19	23.33	1.92	24.62	72.20%	$3.24	0.86
International Seaways	NYSE	2.54	51.99	1.16	0.64	86.60%	$12.65	0.40
Star Bulk Carriers	NASDAQ	2.02	22.55	0.95	4.55	(33.90%)	$1.87	0.60
Evergreen Marine	TPE	10.40	4.91	10.25	0.95	(56.00%)	$0.79	1.10
Nippon Yusen	TYO	16.44	32.22	16.79	0.47	(17.30%)	$3.26	0.76
Yang Ming Marine	TPE	5.35	1.53	5.41	0.90	(62.70%)	$0.20	0.91
Lower		2.38	6.85	1.11	0.48	-0.41	1.04	0.72
Median		5.83	22.94	7.83	0.93	-0.26	2.81	0.93
Mean		10.04	31.62	12.82	3.59	-0.06	26.03	0.91
Upper		18.65	57.12	18.46	2.38	0.34	19.20	1.05

In an industry as cyclical as shipping, having a lean and efficient workforce is of paramount importance as seen in the average revenue per employee of $3.59 MM. Frontline is a notable outlier with a revenue per employee of $24.62 indicating extremely strong operational efficacy. Compared to last year the growth of the industry is notably lower, with nearly all companies well into the negatives in revenue growth. The average growth of –6% is bolstered from being further negative by Frontline, International Seaways, and HD Korea. Being the only companies posting positive growth, and strong growth at 72.2%, 86.6%, and 21.4% respectively. Despite the rest of the industry's slump facing lower shipping rates and higher costs, Frontline and International capitalized on strategic fleet optimization each integrating new freighters in the past year.



As discussed above, the tendency of revenues in the shipping industry sway from historic profits to heavy losses depending on the cycle of the market. The latest cycle is attributed to the massive supply spike created by COVID and the subsequent inflated levels of online shopping, necessitating an equally high amount of shipping. However, those levels have died down, leaving shipping companies with unused freighters battling a price war to cut their rates. The big companies like Hapag-Llyod and Maersk likely are less concerned about this latest ebb with large amounts of cash on hand leaving them the ability to cut costs. But smaller companies like Namura and Star Bulk likely will need to start pulling voyages or cutting routes altogether if the current climate persists. Compounding these concerns is the need to update the fleet to more sustainable alternatives which, with an average build time of 3-4 years, creates an extremely difficult launch and retirement timing issue for companies. It is fair to say that in the next 12-24 months the shipping industry will be a tumultuous voyage.

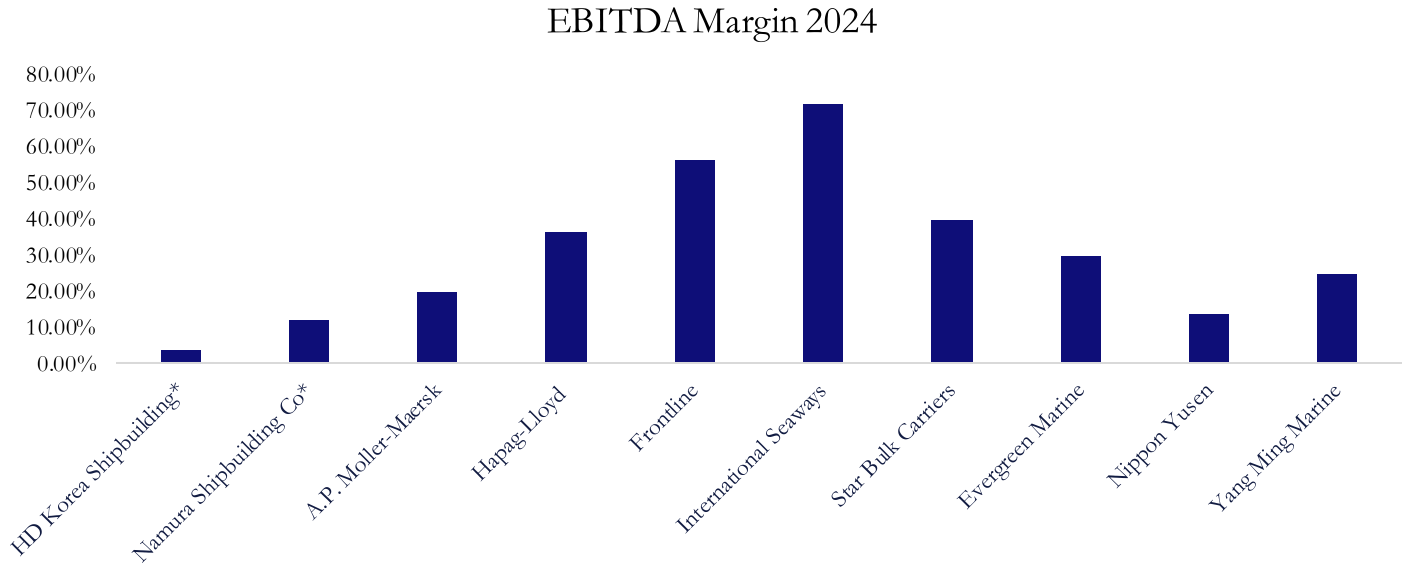
Sources: Bloomberg

PROFITABILITY MARGIN

Profitability Margins (TTM)

Company Name	Gross Margin	Operating Margin	Profit Margin	EBITDA ($Bn)	EBITDA Margin	ROA	ROE
HD Korea Shipbuilding*	6.15%	1.33%	1.04%	0.58	3.57%	0.45%	1.51%
Namura Shipbuilding Co*	13.63%	8.97%	8.61%	0.11	11.78%	7.92%	18.77%
A.P. Moller-Maersk	11.90%	6.85%	7.48%	10.11	19.81%	4.35%	6.48%
Hapag-Lloyd	25.31%	27.45%	29.22%	8.47	36.11%	18.40%	27.33%
Frontline	46.28%	44.59%	40.58%	1.08	56.15%	17.01%	36.58%
International Seaways	62.87%	60.44%	55.45%	0.83	71.73%	25.60%	43.15%
Star Bulk Carriers	33.50%	25.12%	18.28%	0.38	39.70%	5.37%	9.43%
Evergreen Marine	27.22%	19.76%	8.24%	3.05	29.79%	7.44%	12.48%
Nippon Yusen	18.17%	8.12%	10.43%	2.34	13.93%	6.34%	9.99%
Yang Ming Marine	17.70%	12.58%	12.40%	1.35	24.96%	4.53%	6.79%
Lower	13%	8%	8%	0.53	13%	4%	7%
Median	22%	16%	11%	1.22	27%	7%	11%
Mean	26%	22%	19%	2.83	31%	10%	17%
Upper	37%	32%	32%	4.41	44%	17%	30%

Analyzing the profitability margins from the provided data, International Seaways emerges as the top performer with outstanding margins across the board: a gross margin of 62.87%, an operating margin of 60.44%, a profit margin of 55.45%, and an exceptional EBITDA margin of 71.73%. This suggests not only strong pricing power but also operational efficiency and excellent control over costs relative to its peers. On the other hand, HD Korea Shipbuilding is at the bottom end of the spectrum, with the lowest margins in nearly all categories, including a gross margin of just 6.15% and an operating margin of 1.33%. Its profit margin and EBITDA margin are also the lowest at 1.04% and 3.57% respectively, indicating a potential struggle to convert sales into profit and manage operational costs effectively. The Return on Assets (ROA) and Return on Equity (ROE) also mirror these findings, with International Seaways showing a high ROA of 25.60% and ROE of 43.15%, while HD Korea Shipbuilding's ROA and ROE are significantly lower at 0.45% and 1.51% respectively, suggesting less effective utilization of assets and equity to generate profits.

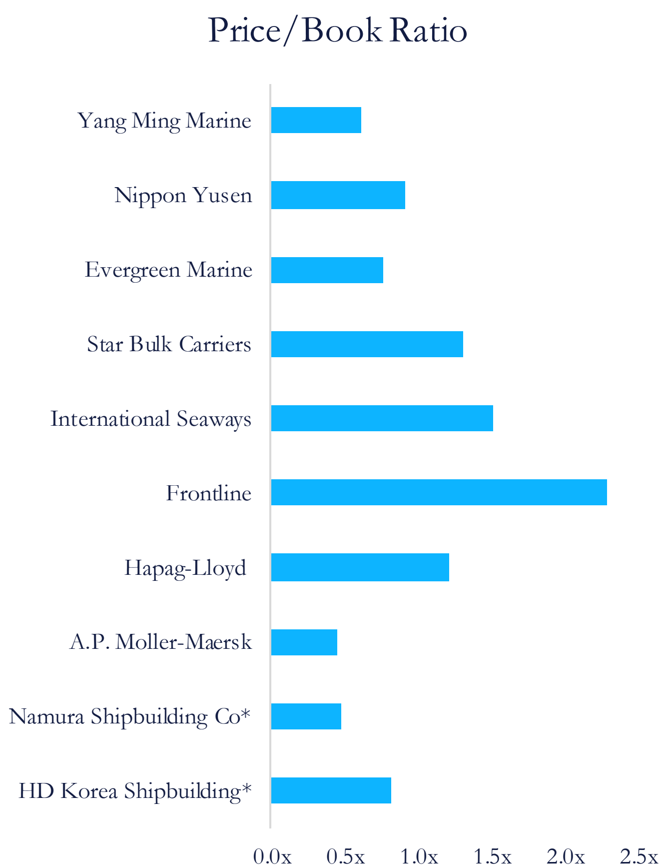


Sources: Bloomberg

VALUATION MULTIPLES

Valuation Multiples (2024)					
Company Name	EV/EBITDA	EV/EBITDAR	Price/Book	P/E	P/Sales
HD Korea Shipbuilding*	13.4x	12.5x	0.8x	10.2x	0.3x
Namura Shipbuilding Co*	0.5x	-	0.5x	-	-
A.P. Moller-Maersk	2.6x	2.6x	0.5x	-	0.6x
Hapag-Lloyd	3.5x	3.5x	1.2x	115.4x	1.5x
Frontline	5.8x	5.8x	2.3x	8.6x	3.7x
International Seaways	3.5x	3.4x	1.5x	6.3x	2.7x
Star Bulk Carriers	7.7x	7.7x	1.3x	7.3x	2.0x
Evergreen Marine	2.1x	2.1x	0.8x	16.5x	1.3x
Nippon Yusen	8.5x	8.5x	0.9x	-	-
Yang Ming Marine	-	-	0.6x	152.3x	1.4x
Lower	2.36x	2.79	0.59x	7.33x	0.73x
Median	3.52x	4.62	0.87x	10.23x	1.42x
Mean	5.29x	5.76	1.04x	45.23x	1.68x
Upper	8.13x	8.33	1.36x	115.39x	2.55x

The marine shipping vertical's pandemic-fueled rally saw an explosion in demand in the second half of 2020, earnings reports that exceeded expectations, and a buying spree of new vessels to increase carrying capacity. This led to generous valuations for a lot of major carriers and strong expectations for future growth – if growth continued at its current pace. As levels of growth return to lower, more familiar levels, these firms appear to be overvalued in several key areas. Of the companies examined, an average Price/Sales ratio of 1.68x could support these concerns. Additionally, shipping giants Hapag-Lloyd and Yang Ming Marine stand out with staggeringly high Price/Earnings ratios of 115.4x and 152.3x, respectively. An average Price/Book ratio of 1.04 suggests that firms are trading relative to their book values, considering firms that became unexpectedly cash-rich during the pandemic used their profits to pay off debt and purchase assets. EV/EBITDA levels appear relatively healthy, excluding Yang Mine and HD Korea Shipbuilding. It's important to note that shipbuilding giant HD Korea is the world's largest shipbuilder by revenue and market share. The firm's unique market position could explain its higher EV/EBITDA of 13.4x.

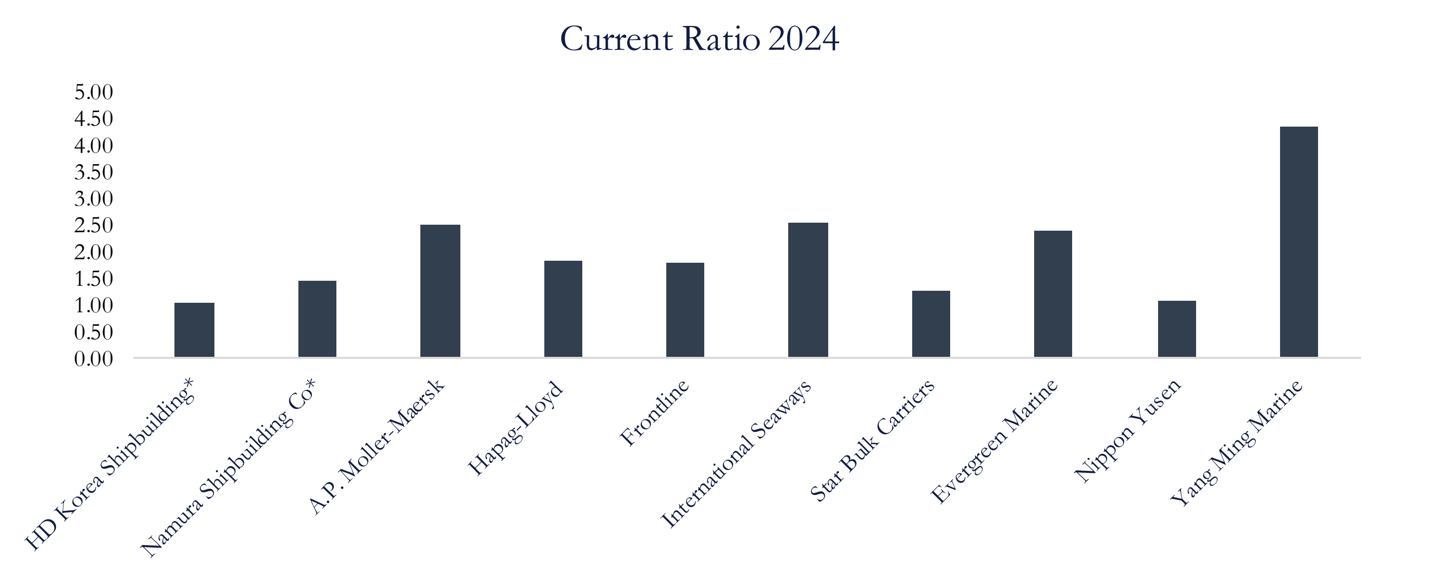


Sources: Bloomberg

LIQUIDITY ANALYSIS

Liquidity Analysis (2024)						
Company Name	Current Ratio	Cash Ratio	Quick Ratio	Free Cash Flow ($Bn)	Net Operating Assets ($Bn)	Capex ($Bn)
HD Korea Shipbuilding*	1.04	0.29	0.34	0.43	8.54	(0.40)
Namura Shipbuilding Co*	1.45	0.61	1.27	0.05	0.26	(0.01)
A.P. Moller-Maersk	2.50	1.58	1.97	7.16	49.97	(3.65)
Hapag-Lloyd	1.82	1.40	1.70	8.00	17.96	(2.03)
Frontline	1.79	1.08	1.08	0.73	3.97	(0.25)
International Seaways	2.53	1.14	2.32	0.52	2.30	(0.22)
Star Bulk Carriers	1.26	0.72	0.72	0.46	2.64	(0.02)
Evergreen Marine	2.41	2.06	2.23	1.10	12.61	(0.39)
Nippon Yusen	1.09	0.24	0.75	4.63	23.10	(1.81)
Yang Ming Marine	4.35	4.03	4.17	0.79	3.06	(0.17)
Lower	1.22	0.53	0.74	0.45	2.56	(1.87)
Median	1.81	1.11	1.49	0.76	6.26	(0.32)
Mean	2.02	1.32	1.66	2.39	12.44	(0.90)
Upper	2.51	1.70	2.25	5.27	19.24	(0.13)

In reviewing the liquidity ratios and financial metrics for the shipping companies listed, Yang Ming Marine stands out with exceptionally high liquidity ratios—current ratio (4.35), cash ratio (4.03), and quick ratio (4.17)—indicating a robust ability to meet short-term liabilities. Its performance is significantly above the upper quartile of the peer group. A.P. Moller-Maersk also demonstrates financial strength with a considerable free cash flow of $7.16 billion and significant capital expenditures, suggesting healthy cash generation and an investment in growth. In contrast, HD Korea Shipbuilding exhibits the weakest liquidity with the lowest current ratio (1.04) and a very low cash ratio (0.29), which could reflect a tighter liquidity situation that might affect its ability to respond to immediate financial obligations. However, due to the financial nature of shipbuilding, where builders must finance construction before receiving full payment upon delivery, their liquidity positions may currently appear weak. Nippon Yusen also has a notably low cash ratio (0.24), indicating potential vulnerability in its liquidity position.



Sources: Bloomberg, Daniel, L. and C. Yildiran (2019)

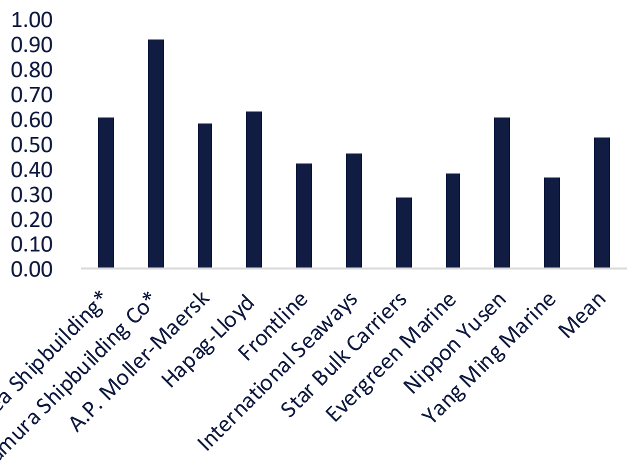
BALANCE SHEET RATIOS

Balance Sheet Ratios (2024)

Company Name	Debt / EBITDA	Debt / EV	Debt / Equity	Asset Turnover	Debt / Working Capital	Depreciation / Revenue
HD Korea Shipbuilding*	5.36x	0.39x	32.45	0.69	16.91	0.02
Namura Shipbuilding Co*	0.90x	1.83x	23.78	1.00	0.63	0.03
A.P. Moller-Maersk	1.52x	0.54x	26.89	0.58	0.80	0.12
Hapag-Lloyd	1.13x	0.24x	26.81	0.53	1.16	0.11
Frontline	3.54x	0.45x	151.89	0.34	10.85	0.13
International Seaways	0.99x	0.27x	43.37	0.42	2.76	0.12
Star Bulk Carriers	3.36x	0.41x	76.20	0.29	13.31	0.15
Evergreen Marine	2.15x	0.02x	31.19	0.34	1.16	0.12
Nippon Yusen	1.66x	0.33x	27.49	0.76	3.14	0.05
Yang Ming Marine	2.17x	2.24x	14.74	0.31	0.25	0.15
Lower	1.10x	0.26x	26.05	0.33	0.76	0.04
Median	1.91x	0.40x	29.34	0.48	1.96	0.12
Mean	2.28x	0.67x	45.48	0.53	5.10	0.10
Upper	3.41x	0.86x	51.58	0.71	11.47	0.13

By analyzing the pulled companies we can draw several insights and conclusions regarding their financial health and capital structures. Notably, there is a significant amount of variability in the chosen metrics. Yang Ming Marine stands out with an especially conservative capital structure, with low Debt / Equity (14.18), and low Debt/WC (.25x). This indicates that they are potentially using low leverage to finance their operations compared to their peers. Conversely, HD Korea Shipbuilding, compared to its peers, has an aggressive capital structure, characterized by a high Debt/EBITDA (5.36x) and Debt/WC (16.91). Additionally, the company has a Debt/Equity value higher than the industries peer median value, potentially resulting in financial strain and concern from investors that the company will be unable to fulfill payments. Within the shipping industry, high turnover on assets is difficult to achieve due to the high cost of the asset base that is required for operations. That said, Namura Shipbuilding have done an exceptional job turning their assets into revenues, boasting the highest asset turnover ratio (1.0).

Asset Turnover Ratio (2024)



When analyzing shipping companies asset portfolios, accumulated depreciation plays a big factor. Given that cargo ships are primary assets, accumulated depreciation impacts each selected company differently, with some facing more depreciation than others. In fact, four of the ten selected companies have Accumulated Depreciation / PPE ratios of over .40. A potential reason for these high depreciation levels could be the high utilization rate of the vessels. These vessels are perhaps the single most important asset to their business operations, and as a result, they endure high wear and tear. Moreover, regulatory compliance requirements also play a role in the depreciation. Given the strict regulatory constraints on these companies, the vessels require frequent repairs and an assurance that the vessels are properly maintained, therefore decreasing their value when damaged. These factors each contribute to the high accumulated depreciation among the industry.

Sources: Bloomberg, PwC, Yahoo Finance

BBR I BULL & BEAR INDUSTRIALS

BBR BULL & BEAR RESEARCH

Initiating Coverage: Star Bulk Carriers

STAR BULK CARRIERS CORP.

April 6th, 2024 | NASDAQ Symbol: **SBLK**

Recommendation: **BUY** Current Price: **$23.88** 12-Mo. Target Price: **$30.10**

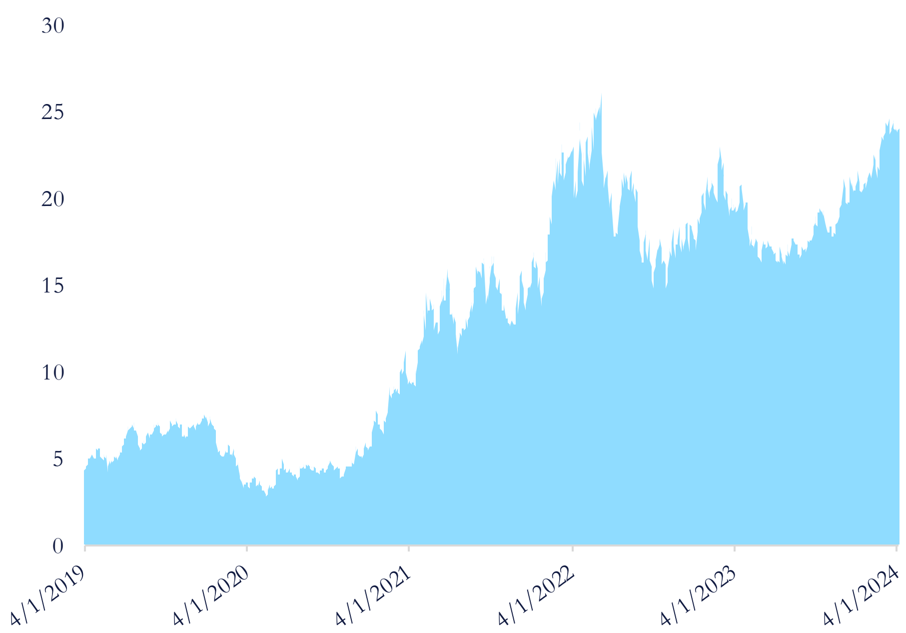
Key Statistics

52-Wk Range	**16.57 - 25.16**	Dividend Frequency	**Quarterly**
TTM EPS	**1.87**	Dividend Yield [%]	**5.95%**
P/E	**12.76**	Beta	**1.09**
Shares Outstanding [mln]	**84.02**	Institutional Ownership [%]	**37.93**
Market Cap [bln]	**2.02**	USD 10K Invested 5 Years Ago	**56,834**

Highlights

- Most significantly, SBLK is finalizing its $500 million merger with Eagle Bulk Shipping (EGLE), creating a multi-billion-dollar shipping giant. The all-stock takeover will make SBLK the world's largest public bulk carrier, with a fleet of 169 ships. Under the deal terms, EGLE shareholders will receive 2.6211 common shares of SBLK for each EGLE common share owned
- As of February 2024, Star Bulk Carriers has suspended its operations through the Suez Canal after two of its ships were targeted by Yemen-based Houthi Rebels. The detour routes are longer, which will increase ton-miles, ultimately having the cost fall on customers and improving SBLK's short-term profit margins.

Price Performance | Apr 2019 – Apr 2024



Investment Rationale

Star Bulk Carriers (SBLK) stands out as an established company capable of competing effectively with larger players across the Marine Shipping vertical. The company has a solid dividend track-record and has displayed strong price performance over the last 5 years. Our price target of $30.10, which was determined using our discounted cash flow model's conservative case, along with our buy recommendation is concurrent with other analysts' forecasts. Star Bulk Carriers is poised for steady growth despite forecasted sluggish growth in the vertical. Its Price/Book ratio of 1.3x suggests the company is trading relative to book value, and its gross margin, operating margin, and profit margin are in line with industry averages. Fresh off its merger with Eagle Bulk Shipping, we are looking forward to monitoring Star Bulk's progress in what is currently such a volatile global economy.

Year	Revenue (million USD)	EPS (USD)
2023	949.3	1.53
2022	1,437.2	5.48
2021	1,427.4	6.72
2020	693.20	0.13
2019	821.4	-0.11

Sources: Yahoo Finance, Macrotrends, SeekingAlpha

WALL STREET PERSPECTIVE

Wall Street Analyst Price Target (Star Bulk Carriers)

Analyst Price Target Summary

Current Share Price: $23.88

Median Price Target: $28.72

Broker/Analyst		Rating Date	Price Target	Rating
SEB	Frederick Ness	4/4/2024	$27	Buy
Deutsche Bank	Amit Mehrotra	3/8/2024	$34	Buy
Jefferies	Omar M. Nokta	2/27/2024	$30	Buy
STIFEL	Ben Nolan	2/14/2024	$28	Buy
DNB Markets	Jorgen Lian	2/14/2024	$25	Buy
Pareto Securities	Eirik Haavaldsen	2/14/2024	$28	Buy

Median Analyst 12-Month Price Target: $28.72

BBR Industrials 12-Month Price Target: $30.10

Select Commentary

The company is in a comfortable position with **USD 260m in cash, ~30% LTV**… heading into three years of gross fleet growth below 3%, Star's prevailing dividend policy will instantly reward shareholders in strong markets.

Eirik Haavaldsen, Pareto, 2/14/24

Our FY24 adj. EBITDA estimate is **increasing by ~48% from ~$417 MM to ~$617 MM** due to Star Bulk's large operational exposure to an improving spot rate market.

Amit Mehrotra, Deutsche, 3/8/24

Disruptions at both the Panama and Suez Canals are putting **upward pressure on rates** due to a decrease in effective capacity as voyage lengths increase.

Amit Mehrotra, Deutsche, 3/8/24

Sources: Bloomberg, Pitchbook, Yahoo Finance

BULL & BEAR INDUSTRIALS

BULL & BEAR RESEARCH

Initiating Coverage: Frontline Ltd.

BBR I BULL & BEAR INDUSTRIALS

FRONTLINE LTD.

April 7th, 2024 | NYSE Symbol: **FRO** | **FRO** is a component of the S&P 500

Recommendation: **BUY** Current Price: **$23.17** 12-Mo. Target Price: **$32.14**

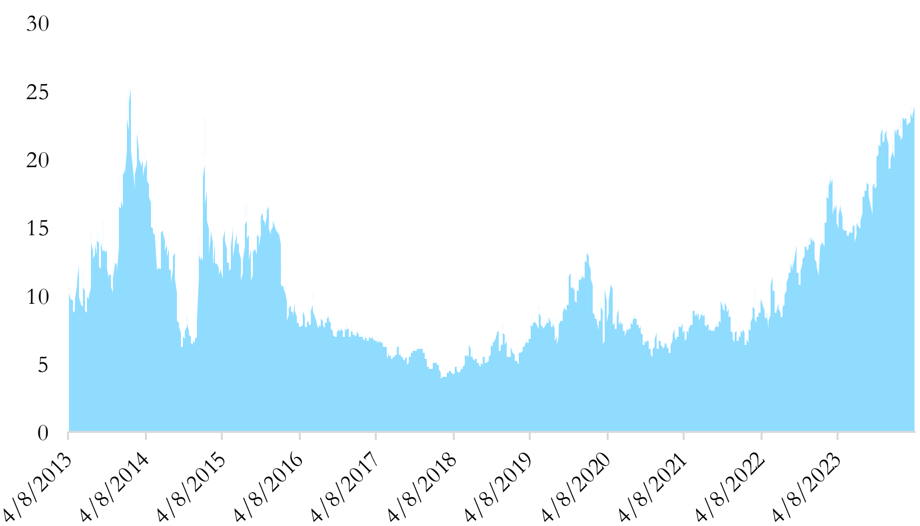
Key Statistics

52-Wk Range	**15.07 – 23.92**	Dividend Frequency	**Quarterly**
TTM EPS	**2.95**	Dividend Yield [%]	**6.19**
P/E	**8.11**	Beta	**-0.03**
Shares Outstanding [mln]	**222.62**	Institutional Ownership [%]	**22.70**
Market Cap [bln]	**5.33**	USD 10K Invested 5 Years Ago	**34,181.05**

Highlights

- Frontline Ltd. has been reinvesting funds in its business and operating assets looking to provide growth. Frontline has doubled its very large crude carrier's capacity (VLCC) after acquiring VLCC vessels from Euronav, a fellow maritime oil shipment company. The acquisition totaled $2.35 billion making Frontline Ltd. the largest publicly traded tanker company in the world. In addition to this acquisition, they have sold off many of their older vessels.
- After finishing 2023 with a net income of $699M and an EPS of $2.95 Frontline delivered investors their strongest full year in fifteen years. This can partially be attributed to the high charter rates shipping companies are experiencing due to the Israel-Palestine war, resulting in higher grossing business as vessels have begun to take alternative routes.
- Frontline's fleet consists of 93% ECO vessels with an average age of 6.4 years, making it one of the most energy-efficient and young fleets in the world.

Price Performance | April 2013 – April 2024



Investment Rationale

Frontline stands out as it is the largest publicly traded tanker company in the world. Over the past year the equity performed outstanding, increasing by nearly 61% with consistent performance, while also providing a high dividend yield compared to an industry average 2.37%. Despite having low institutional ownership compared to other maritime shipping companies, Frontline has exhibited impressive financials with high EPS and relatively low P/E compared to industry comparables average of 10.23. This may reveal a potential undervaluation from investors. With a buy target of $32.14 we see this equity as a buy, and this is in alignment with other analysts on the street. With OPEC recently stating that global oil demand will increase by 2.25 MMbpd in 2024 and 1.85 MMbpd in 2025, we are confident that Frontline will continue to find success and create value for investors.

Year	Revenue (million USD)	EPS (USD)
2023	1802.2	2.95
2022	1430.2	2.22
2021	749.4	-0.08
2020	1221.2	2.11
2019	957.3	0.81

Sources: Bloomberg, Macrotrends, Reuters, Seeking Alpha

WALL STREET PERSPECTIVE

Wall Street Analyst Price Target (Frontline Ltd.)

Analyst Price Target Summary

Current Share Price: $23.17 | Median Price Target: $25.00

Broker/Analyst		Rating Date	Price Target	Rating
J.P.Morgan	Samuel Bland	3/01/2024	$22.3	Hold
Deutsche Bank	Amit Mehrotra	1/09/2024	$26	Buy
Jefferies	Omar M. Nokta	3/21/2024	$30	Buy
BTIG	Gregory Lewis	1/29/2024	$22	Hold
DNB Markets	Jorgen Lian	3/28/2024	$23	Buy
Drewry	Nikesh Shukla	3/14/2024	$32	Buy

Median Analyst 12-Month Price Target: $25.00

BBR Industrials 12-Month Price Target: $32.14

Select Commentary

The company's net margin is a standout performer, exceeding industry averages. With an impressive **net margin of 28.57%,** the company showcases strong profitability and effective cost control.

Amit Mehrotra, Deutsche, 1/09/24

Based on Trailing P/E, FRO currently sits at a **33% discount** to its peers in the Oil & Gas Transportation Industry. Showing promising signs of an uptick in the coming months.

Omar M. Nokta, Jefferies, 3/21/24

Favorable supply-demand environment will drive shipping rates for products and oil tankers. Trading at just 0.8x times net asset value with a substantial **22.5% free cash flow yield** we see imminent value in FRO.

Gregory Lewis, BTIG, 1/29/2024

Sources: Bloomberg, Pitchbook, Yahoo Finance, Market Watch

Team Outlook

The maritime shipping industry has faced both headwinds and tailwinds over the past year, marked by disruptions such as canal limitations, critical infrastructure failures, geopolitical tensions, and fluctuating consumer demand. On the other hand, a resilient supply chain, investments in sustainable technology, and increased tonnage capacity create a “silver lining” amid the turmoil. These factors have collectively forced industry players to adapt to an evolving landscape, most importantly in the form of elevated freight rates, particularly for routes affected by the constraints on the Suez and Panama Canals. In a global economy with few alternatives from maritime shipping, customers are forced to pay elevated rates

Despite the uptick in revenues, this trend may not be sustainable. Forecasts suggest that rates will likely remain high throughout 2024 but could stabilize and decline as additional shipping capacity enters the market and logistical challenges are overcome. Normalization of canal operations is expected to contribute to a downturn in the extraordinary revenue growth experienced by companies like Frontline, Golden Ocean, and Star Bulk over the previous two years.

The shipping sector's inherent cyclicality demands vigilant oversight to grasp its full dynamics. It is an integral part of the global supply chain for most industries and economies. It is the backbone of global trade, considering an overwhelming majority of cargo, estimated at 80%, is transported by ships. While this report has repeatedly emphasized the difficulty in forecasting outcomes in such a volatile environment, it is clear that global events will continue to significantly influence the course of the maritime shipping industry.