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Dorian gray

When a bullish appraisal of Dorian LPG Ltd. (LPG on the New York Stock Exchange) appeared in the issue of *Grant's* dated May 30, 2014, the company's share price was $20.31. It is $6.07 today. Judgment and misjudgment are the subjects at hand.

You may recall that Dorian operates seagoing gas carriers—very large ones (VLGCs). Its fleet, 22 strong, has a combined carrying capacity of 1.8 million cubic meters (cbm) of liquefied petroleum gas. LPG is a mixture of light gaseous hydrocarbons, such as propane and butane, which is made liquid by pressure and burned as fuel. America's shale revolution facilitated the creation of an Asian export market for LPG. Zero-percent interest rates facilitated the overcrowding of that market with dozens of now-redundant vessels.

Dorian is solvent, leveraged, problematical and—in market cap—tiny (it was illiquid enough even before its share price collapsed). Over the 12 months through June 30, it has booked $304 million of revenue, $157 million of operating income and $115 million of net income. Only 16.5 million of its 55 million outstanding shares count in the public float; and of that minuscule portion, 27.9% is sold short.

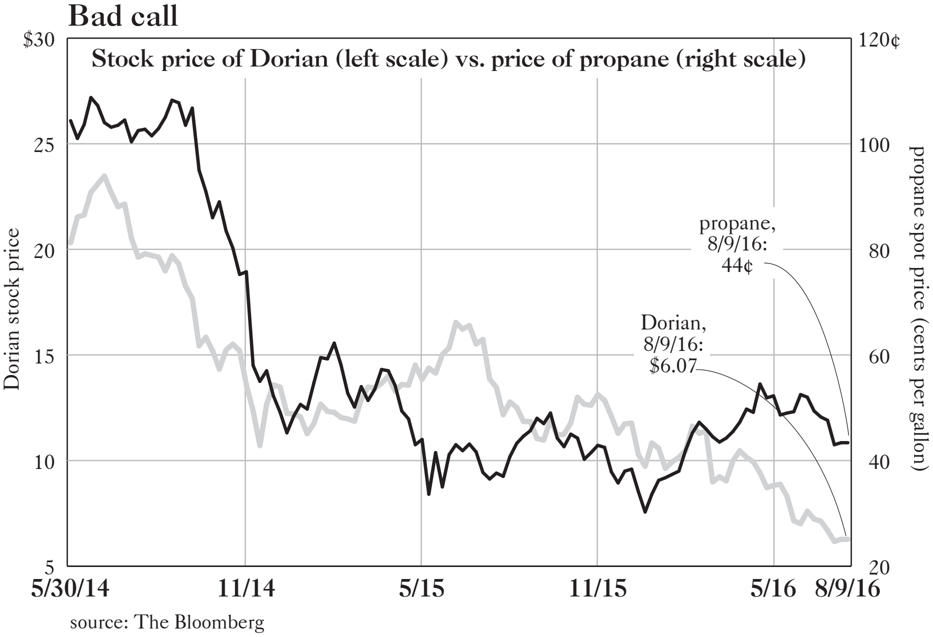
Dorian's fortunes are sensitive to the price of, and demand for, LPG, of course. Natural gas, from which LPG is derived, is another pressure point, as is crude oil, from which comes naphtha, which competes with LPG. Dorian flourished when LPG was relatively cheap to naphtha, Asia was on the bounce and prices paid for LPG transport were strong—as they were in 2014.

Assume, we posited two-plus years ago, that day rates hold near $45,000, that utilization rates cling to 93% and that oil prices remain around $100 per barrel. In those circumstances, said we, Dorian could earn $3.33 a share; a 10-times multiple would make a $33 share price.

You can take those vital signs and saw them in half, or less, to derive today's figures—all except spot capacity utilization, which is still at 93%, according to John Hadjipateras, CEO of Dorian, who briefed dialers-in on the July 28 conference call.

Overcapacity (with attendant depressed day rates) and the appraised value of its ships are Dorian's immediate concerns. From the company's latest 10-K filing: "In the VLGC sector in which we operate, as of April 1, 2016, there were 215 vessels with an aggregate carrying capacity of 17.5 million cbm in the world fleet with 61 vessels on order for delivery by 2018." That would represent an additional 28% increase in ships in an already oversupplied market. And while 16.5% of that worldwide fleet is 20 years of age or older, nobody can promise that the owners of these aging behemoths will scrap them for the convenience of the Dorian shareholders.

As to the balance sheet, the 22 VLGCs amount to just under $1.7 billion of Dorian's $1.8 billion in June 30 assets. Debt liabilities foots to $798 million, of which $712 million derives



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from a 2015 credit facility secured by 18 ships. Covenants in those loan documents hold that the vessels maintain a value of 135% of the outstanding loan balance, about $962 million. As of March, Dorian carried the ships inside the facility at $1.4 billion.

The risk of falling asset values is underscored by a few lines in the latest 10-K report: Outside appraisers, Dorian disclosed, had found that "four of our VLGCs had indicators of impairment." Management took no impairment charge. In 2015, the average time charter equivalent rate was $55,087 and operating earnings covered interest expense by 12 times. By the first quarter of 2016, the average time charter equivalent rate was $26,398 per day, and operating income covered interest expense by 1.8 times.

Another documentary finding, this one from the most recent 10-Q (thank you, Francine McKenna): "During the three months ended June 30, 2015, we purchased $0.1 million of artwork for newbuilding vessels, which have been capitalized and presented in 'Vessels, net.' The artist is a relative of one of our executive officers." A more substantive blemish on the governance escutcheon is the poison pill that's been in place since the 2014 IPO.

Charles Fabrikant, chairman and CEO of longtime *Grant's* favorite Seacor Holdings, Inc. (NYSE: CKH), makes the bull case for LPG in his latest letter to shareholders. Seacor is the largest of Dorian's shareholders—and an original one—with a 16.7% stake. Says Fabrikant: "Dorian has the most modern fleet in the industry, and the demand for propane seems to be growing. . . . Based on Dorian's closing price [on April 15] of $9.99, investors in Dorian's public securities, after taking into account its debt obligations, are pricing its new vessels at approximately $61 million. This seems to me well below the price that even the most desperate shipyard would today quote."

Noah Parquette, equity analyst at JPMorgan Chase, likewise cites shares trading at a discount to his net asset value estimate—$15.43 for next year. "Even using 16-year low asset values, we estimate FY2017E NAV of $9.74," he adds in a July 29 note to clients.

Dorian was always a speculation, its value depending on commodity prices. It is now a very cheap and very risky speculation. Quoted at three times trailing 12-month earnings and 0.3 times June 2016 book value, the company is priced as if for extinction. It has no impending debt maturities. Its current ratio is 1.1:1, its quick ratio (cash plus marketable securities plus accounts receivable to current liabilities) is 0.6:1. It would seem to have time to let the cycle play out. All things considered, we would rather be long than short, $100,000 worth of maritime artwork notwithstanding.

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