SMALL/MID CAP HIGHLIGHTS

First Ship Lease Trust (FSLT SP)

Potential Beneficiary Of Smoother Sailing Times Ahead

With eight tankers that are on fixed-rate period charters, FSLT enjoys a high degree of cash flow certainty. In 2Q22, the company had 89% fleet utilisation and its financial position has improved markedly vs the pre-COVID-19 period. Since 2Q19, FSLT has undergone an asset recycling strategy, selling off 10 of its older vessels. The company's 1H22 DPU of US$0.016 implies a yield of over 21%.

WHAT'S NEW

- **Resilient portfolio and a turnaround story.** With the Aug 22 disposal of a product tanker, all of First Ship Lease Trust's (FSLT) fleet now operates under fixed-rate period charters. These charters arguably formed the backbone of the company's steady cash flow through the peak of the COVID-19 pandemic. This was seen in FSLT's ability to swing back to a net profit of US$2.1m in 2Q22 vs a net loss of US$0.5m for 2Q21. Operating cash flow and free cash flow for 2Q22 were US$2.8m and US$21.4m respectively, with the latter positively impacted by sales of vessels. FSLT's contracted revenue up to 2029 is US$31.8m, with two vessels up for contract renewal at the end of this year (one of which has a one-year option).
- **Recent asset disposals could signal upcoming capital recycling.** Over the three-year period to Aug 22, FSLT reduced the size of its fleet from 18 vessels to eight, with three of those sales occurring in 2022 alone. This has resulted in its current fleet, with an average age of 16 years, being only specialised tankers and all of them operating under bareboat charter to James Fisher & Sons. We expect FSLT to recycle its capital and pivot towards acquiring newer vessels that are environmentally-friendlier or assets that are in the renewables or upstream oil & gas industry, thus encouraging greater business sustainability and longevity.
- **Underutilised balance sheet.** As at end-2Q22, FSLT had net cash of US$9.4m which is a significant turnaround from its net debt position of US$13.2 in the year-ago period. This could allow the company to increase its gearing to acquire younger and more fuel-efficient vessels, and also potentially enter new market segments.
- **High dividend yield.** Despite the COVID-19 pandemic, dividend per unit has trended up over the course of 2019 to 2022 to date with DPU of US$0.015 in 2019, US$0.03 in 2020, US$0.035 in 2021 and an interim 2022 DPU of US$0.016. We highlight that in 2H22 to date, FSLT has sold two vessels for an estimated US$25.6m equating to US$0.014/unit. As a result, the trust's potential 2022 DPU of US$0.03 would equate to a yield of 40.0%.
- **Valuation.** Based on 1H22 numbers, FSLT is currently trading on a P/B of 1.9x and an annualised 2022F PE of 28.9x.

KEY FINANCIALS

Year to 31 Dec (S$m)	2018	2019	2020	2021	1H22
Net turnover	67.0	73.1	48.3	25.0	13.4
EBITDA	20.4	41.7	23.6	5.1	5.0
Operating profit	(11.4)	16.9	8.8	(0.7)	2.7
Net profit (rep./act.)	(19.0)	10.1	6.2	(1.5)	2.2
Net profit (adj.)	(19.0)	10.1	6.2	(1.5)	2.2
EPS (US cents)	(3.0)	0.6	0.4	(0.1)	0.1
PE (x)	n.a.	8.9	14.4	n.a.	20.2
P/B (x)	0.2	0.4	0.7	1.4	1.3
EV/EBITDA (x)	4.0	1.9	3.4	15.7	8.0
Dividend yield (%)	0.0	20.5	41.1	47.9	0.0
Net margin (%)	(28.3)	13.9	12.9	(6.1)	16.6
Net debt/(cash) to equity (%)	53.6	13.6	7.1	20.0	(13.8)
Interest cover (x)	2.4	6.2	9.2	5.9	11.0
ROE (%)	(11.5)	5.7	3.8	(1.6)	6.6

Source: First Ship Lease Trust, Bloomberg, UOB Kay Hian

NOT RATED

Share Price	S$0.075
Target Price	n.a.
Upside	n.a.

COMPANY DESCRIPTION

First Ship Lease Trust is a business trust that is involved in the leasing of its ships on a long-term bareboat charter basis for the international shipping industry. It owns a diversified fleet of eight tankers as at end Sep 22.

STOCK DATA

GICS sector	Industrial
Bloomberg ticker	FSLT SP
Shares issued (m):	1,768.1
Market cap (S$ m):	129.1
Market cap (US$ m):	90.1
3-mth avg t'over (US$ m):	0.1

Price Performance (%)

52-week high/low S$0.092/S$0.064

1mth	3mth	6mth	1yr	YTD
1.4	9.0	0.0	(9.9)	(8.8)

Major Shareholders	%
FSL Hldgs	72.6
-	-
-	-
NAV/Share (US$)	0.04
Net Cash/Share (US$)	0.005

PRICE CHART

Source: Bloomberg

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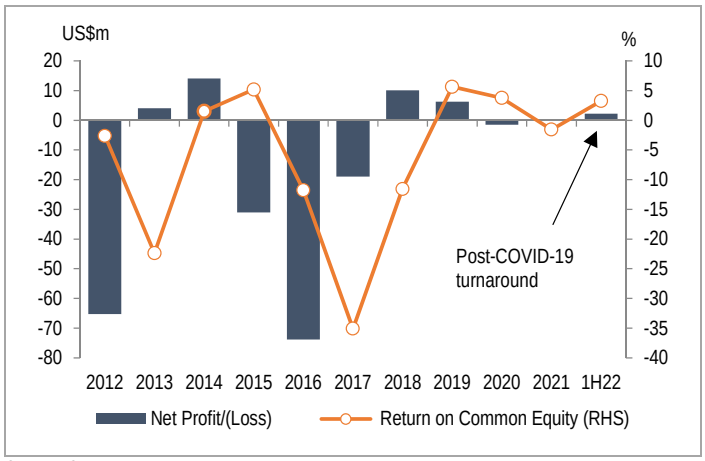
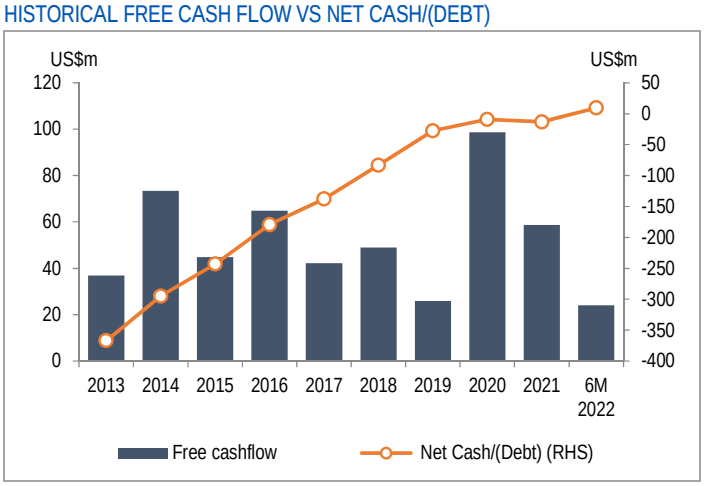
- **Negative Altman's z-score.** Due to its past performance, FSLT has a low and negative z-score which may signal that the company is in distress. However, it is worth noting that the z-score focuses on past performance which may not equate to future performance. Further, companies that were in similar boat as FSLT during the pandemic have also reported negative z-score and are recovering well from COVID-19. Coupled with stronger market fundamentals, management is confident that the company is healthy and will be able to generate profits in years to come.

HISTORICAL NET PROFIT VS RETURN ON COMMON EQUITY



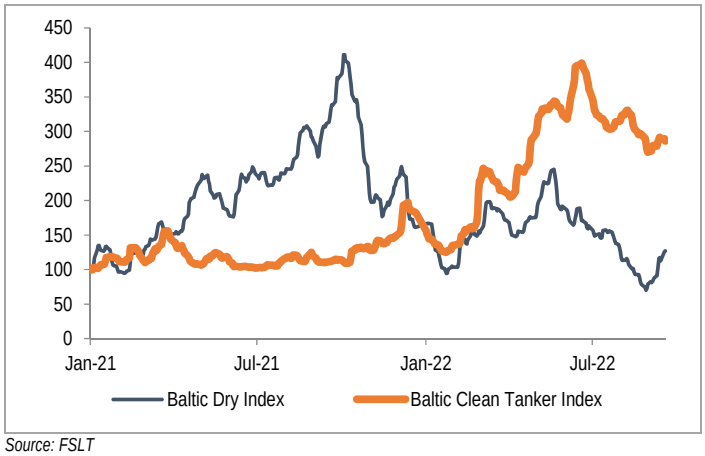
Source: FSLT

HISTORICAL FREE CASH FLOW VS NET CASH/(DEBT)



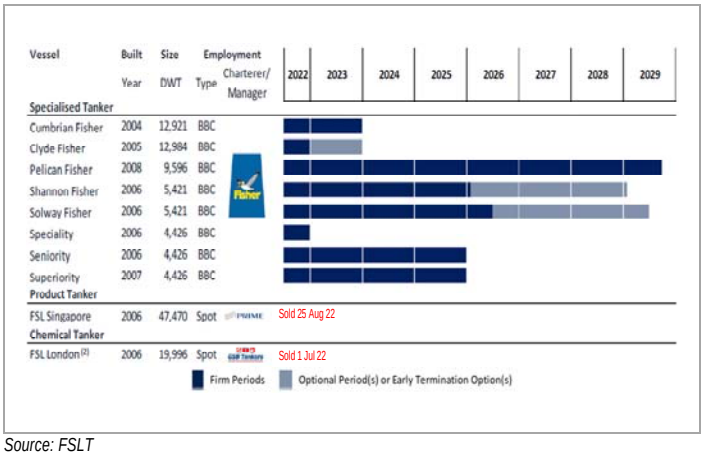
Source: FSLT

BALTIC DRY INDEX VS BALTIC CLEAN TANKER INDEX



Source: FSLT

FSLT'S FLEET EMPLOYMENT PROFILE (2022)



Source: FSLT

PEER COMPARISON

Company	Ticker	Trading Curr (lcy)	Price @ 4 Oct 21 (lcy)	Market Cap (US$m)	PE 2021 (x)	PE 2022 (x)	PE 2023 (x)	P/B 2021 (x)	P/B 2022 (x)	P/B 2023 (x)	ROE 2021 (%)	Yield 2021 (%)	Net Gearing (%)
Teekay Tankers	TNK US	USD	28.5	963	n.a.	7.5	4.4	1.1	1.0	0.9	(25.3)	0.0	66.5
Nordic American Tankers	NAT US	USD	2.76	559	n.a.	42.5	4.7	1.0	1.0	1.0	(31.2)	2.2	64.3
Navigator Holdings	NVGS US	USD	11.57	894	n.a.	15.7	11.1	0.8	0.8	0.7	(3.0)	0.0	60.2
International Seaway	INSW US	USD	34.99	1,739	n.a.	6.3	5.6	1.5	1.2	1.0	(12.5)	3.9	70.0
Global Ship Lease	GSL US	USD	16.19	596	3.5	2.2	1.9	0.8	0.6	0.5	27.7	6.2	110.0
Ap Moller-Maersk	MAERSKB DC	DKK	14300	34,717	2.0	1.2	3.7	0.8	0.5	0.6	48.3	20.2	11.0
Hapag-Lloyd	HLAG GY	EUR	181	31,269	3.5	1.9	5.4	2.0	1.2	1.4	79.4	19.3	(20.9)
Average					3.0	11.0	5.2	1.1	0.9	0.9	11.9	7.4	51.6
First Ship Lease	FSLT SP	SGD	0.073	90	n.a.	n.a.	n.a.	1.4	n.a.	n.a.	(1.6)	0.0	(13.8)

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (US$m)	2019	2020	2021	1H22
Net turnover	73.1	48.3	25.0	13.4
EBITDA	41.7	23.6	5.1	5.0
Deprec. & amort.	24.8	14.8	5.8	2.3
EBIT	16.9	8.8	(0.7)	2.7
Total other non-operating income	0.0	0.0	0.0	0.0
Associate contributions	0.0	0.0	0.0	0.0
Net interest income/(expense)	(6.7)	(2.6)	(0.9)	(0.5)
Pre-tax profit	10.2	6.2	(1.5)	2.2
Tax	(0.0)	(0.0)	(0.0)	0.0
Minorities	0.0	0.0	0.0	0.0
Net profit	10.1	6.2	(1.5)	2.2
Net profit (adj.)	10.1	6.2	(1.5)	2.2

BALANCE SHEET

Year to 31 Dec (US$m)	2019	2020	2021	1H22
Fixed assets	180.7	136.1	66.2	47.7
Other LT assets	0.0	0.0	0.0	0.0
Cash/ST investment	42.4	20.7	3.7	24.6
Other current assets	52.1	5.0	13.8	11.9
Total assets	275.2	161.8	83.7	84.2
ST debt	35.5	16.5	3.4	3.4
Other current liabilities	2.3	2.4	0.6	0.6
LT debt	34.5	13.3	13.5	11.8
Other LT liabilities	0.0	0.0	0.0	0.0
Shareholders' equity	202.9	129.6	66.2	68.4
Minority interest	0.0	0.0	0.0	0.0
Total liabilities & equity	275.2	161.8	83.7	84.2

CASH FLOW

Year to 31 Dec (US$m)	2019	2020	2021	1H22
Operating	44.4	38.0	5.7	5.1
Profit fo the year	10.1	6.2	(1.5)	2.2
Tax	(0.0)	(0.0)	(0.0)	0.0
Deprec. & amort.	24.8	14.8	5.8	2.3
Associates	0.0	0.0	0.0	0.0
Working capital changes	(2.4)	8.8	(1.1)	1.9
Non-cash items	(0.0)	(5.0)	(1.1)	(1.9)
Other operating cashflows	12.0	13.1	3.6	0.5
Investing	(12.7)	63.4	53.7	18.1
Capex (growth)	(21.8)	(21.5)	(59.5)	0.0
Investment	0.0	0.0	0.0	0.0
Others	9.1	84.9	113.2	18.1
Financing	(3.2)	(123.1)	(75.9)	(2.2)
Dividend payments	0.0	(79.6)	(61.9)	0.0
Proceeds from borrowings	0.0	0.0	19.0	0.0
Loan repayment	(28.0)	(40.9)	(31.6)	(1.8)
Others/interest paid	24.8	(2.7)	(1.4)	(0.4)
Net cash inflow (outflow)	28.6	(21.7)	(16.5)	21.0
Beginning cash & cash equivalent	13.4	41.9	20.2	3.7
Changes due to forex impact	0.0	0.0	0.0	0.0
Ending cash & cash equivalent	41.9	20.2	3.7	24.6

KEY METRICS

Year to 31 Dec (%)	2019	2020	2021	1H22
Profitability				
EBITDA margin	57.0	48.8	20.5	37.5
Pre-tax margin	13.9	12.9	(6.1)	16.6
Net margin	13.9	12.9	(6.1)	16.6
ROA	3.8	2.9	(1.2)	5.3
ROE	5.7	3.8	(1.6)	6.6
Growth				
Turnover	9.0	(33.9)	(48.3)	4.8
EBITDA	104.7	(43.4)	(78.3)	8.4
Pre-tax profit	n.a.	(38.6)	n.a.	153.9
Net profit	n.a.	(38.3)	n.a.	153.9
Net profit (adj.)	n.a.	(38.3)	n.a.	153.9
EPS	n.a.	(38.3)	n.a.	153.9
Leverage				
Debt to total capital	25.5	18.4	20.2	18.1
Debt to equity	34.5	23.0	25.5	22.2
Net debt/(cash) to equity	13.6	7.1	20.0	(13.8)
Interest cover (x)	6.2	9.2	5.9	11.0

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