

Analyst: Vincent Leung

Main Board Listing - Research

太平洋航運集團有限公司

Pacific Basin Shipping Limited [Stock Code: 2343]

Sole Global Coordinator, Bookrunner, Sponsor and Joint Lead Manager : Goldman Sachs

Joint Lead Manager : JP Morgan

Co-Lead Managers : HSBC Cazenove Asia

Sector : Transportation

Business : Dry-bulk shipping business in the Asia-Pacific region

Total share offer: <u>437,000,000</u> shares (34.49% of the enlarged share capital) Public Offer: 43,700,000 shares (10%) - 25,000,000 new shares - 18,700,000 sale shares Int'l Placing: 393,300,000 shares (90%) - 225,000,000 new shares - 168,300,000 sale shares Greenshoe: 63,000,000 shares	<u>Business of Pacific Basin</u> Pacific Basin is principally engaged in the dry-bulk shipping business, operating principally in the Asia-Pacific region, through a fleet of shallow-draft Handysize dry-bulk carriers. The Group specializes in transporting minor bulk commodities, including forest products, iron & steel products, fertilizers, agricultural products, cement and other products. It operates the world's largest fleet of modern Handysize dry-bulk carriers in the 25,000 dwt-35,000 dwt segment. Its fleet currently comprises 42 vessels, aggregating approximately 1.2 million dwt, including 19 self-owned vessels, 7 chartered ships and 16 vessels managed by the Group on behalf of 3 rd -party owners. Currently, 39 of the 42 vessels in the fleet are operated through the International Handybulk Carrier (IHC) revenue-sharing pool established in 2001. This pool has 9 members, including Sinotrans Shipping, BHP Billiton and A/S Dampskibsselskabet TORM (a shipping company listed on the NASDAQ National Market and the Copenhagen Stock Exchange).
Price: HK\$2.20 – HK\$2.90 per share Market Cap.: HK\$2,787.4 mln – HK\$3,674.3 mln Forecast FY2004 P/E: 4.7x – 6.2x (pro-forma fully-diluted) FY2003 price-to-book: 2.1x – 2.8x Adjusted NTA per share: HK\$1.03 (before the over-allotment option is exercised) Staffing: 175	
Book opens: 22 nd June 2004 Book closes: 7 th July 2004 IPO commences: 30 th June 2004 IPO ends: 7 th July 2004 Receiving bank: HSBC Share registrar: Computershare Hong Kong Investor Services Ltd Listing date: 14 th July 2004	

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Major Shareholders after Listing (Assuming the over-allotment option is not exercised)

Dry Bulk Shipping (BVI) Ltd (initial investor)	22.93%
IDB Carriers BVI Ltd (initial investor)	19.12%
Pembroke Shipping Ltd	14.22%
Vessel Company shareholders (comprising shareholders of Pembroke and other financial investors identified by Pembroke) and Jardine Shipping Ltd	8.28%
Plymouth Shipping Investments Ltd	0.96%
	<u>65.51%</u>

Use of Proceeds

Net proceeds from the offer are estimated to be US\$74.5 million (or HK\$581.0 million).

(Assuming the over-allotment option is not exercised and an issue price of HK\$2.55, being the midpoint of the proposed range of issue prices of HK\$2.20 and HK\$2.90 per offer share)

	US\$ million
To acquire Handysize and/or Handymax vessels and newbuilding contracts	47.4
To serve as the Company's general working capital	balance

Financial Highlights
Unaudited Pro Forma Combined Financial Data

	Year ended 31 st December 2003 US\$'000
Turnover	
<i>Charter-hire and related income</i>	66,442
<i>Management fee and other income</i>	14,226
	<u>80,668</u>
Operating profit	<u>29,441</u>
Net profit	<u>24,536</u>

Combined Financial Data

	Year ended 31 st December		
	2003 US\$'000	2002 US\$'000	2001 US\$'000
Turnover – charter-hire income from			
<i>Vessels under the IHC pooling arrangement</i>	52,475	26,791	2,687
<i>Others</i>	1,713	1,133	15,570
	<u>54,188</u>	<u>27,924</u>	<u>18,257</u>
Operating profit	<u>27,507</u>	<u>9,494</u>	<u>8,023</u>
Net profit/(loss)	<u>22,686</u>	<u>(2,027)</u>	<u>3,256</u>
Dividend	13,900	-	-



Strengths/Opportunities

- ✓ World seaborne trade in major bulk commodities (i.e. iron ore, coal and grain) by dry-bulk cargoes has grown by 470 million tonnes, or a CAGR of 3% in 1989-2003, with the Asia-Pacific region accounting for 80% of the increase. At present, the Asia-Pacific region, where the Group is operating principally, represents 58% of the world's seaborne trade in dry-bulk cargoes.
- ✓ The Group commercially operates the world's largest fleet of modern Handysize dry-bulk carriers of 42 vessels in the 25,000 dwt-35,000 dwt segment. The average age of its fleet is 6 years, significantly younger than the world Handysize fleet average of 17 years in that segment.
- ✓ The Group intends to declare dividends in respect of each financial year, with a dividend payout ratio of approximately 50%. Based on the Group's forecast net profit of US\$65 million for FY2004, this would translate to an attractive estimated dividend yield of 6.9%-9.1%.

Weaknesses/Threats

- × The financial performance of the dry-bulk shipping industry has been historically cyclical, with volatility in profitability resulting from the fluctuation of freight rates. In fact, the Baltic Dry Index, which is the benchmark for global freight rates, has dropped by more than 40% from its historical high in February this year.
- × The dry-bulk shipping industry is highly fragmented and is characterized by intense competition.
- × The Group has a weak balance sheet, with net debts of US\$150.4 million and a net debt-to-equity ratio of 127.4% as at the end of 2003.
- × The existing shareholders are cashing in some HK\$458 million (assuming an offer price of HK\$2.55 per share) through the sale of 187 million existing shares, which represent 42.8% of the total offered shares.

Recommendation: Unexciting