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Ardmore Shipping Corp (ASC: NYSE)

Financial Analysis By: Hugo Perrin – Industrials

Company Profile as of 02/18/2015

Market Price: $10.66
Industry: Oil and Gas Transportation
Market Cap: $277.66M
52-Week: $8.25 – $14.97
Beta: 12.7

Source	Target Price	Recommendation
Siena College	13.86	BUY
Capital IQ	15.50	BUY
Yahoo Finance	15.92	BUY
Bloomberg	16.07	BUY

Thesis

-Positive Industry Outlook
-International Presence
-Growing Fleet
-Organic growth

Ardmore Shipping Corporation currently operates a fleet of 18 vessels and will operate an additional 10 tankers during the year 2015. The firm has always operated likewise, leading to a meaningful yearly increase of its revenues since its inception in 2010. Presently, the firm focuses on growing its fleet with brand new vessels that are cost efficient and that will generate higher revenues; therefore, enhancing margins. The growing fleet is a key aspect considering the future of the firm as it is the main reason that drives the firm's value. The current oil market is favorable for Ardmore due to the relative volatility. Additionally, the current experienced firm management team is captivating every opportunity to take advantage of the current commodity market and will continue to increase its operations with the overall world's economic recovery, especially in the US.

Company Overview

Ardmore Shipping, created in 2010 by Anthony Gurnee, owns and operates a fleet of mid-size product and chemical tankers ranging from 17,500 Dwt (Deadweight tonnage) to 50,300 Dwt. The deadweight tonnage is a measure of how much weight a ship is carrying or can safely carry. The company provides seaborne transportation of petroleum products and chemicals worldwide to oil majors, national oil companies, oil and chemical traders, and chemical companies, with their modern, fuel-efficient fleet of tankers.

Ardmore's core strategy is to develop a modern, high-quality fleet of product and chemical tankers, build key long-term commercial relationships, maintain its cost advantage in assets, operations and overhead, while creating significant synergies and economies of scale as the firm grows. The company provides its services to customers through voyage charters, commercial pools and time charters and enjoys close working relationships with key commercial and technical management partners. The firm views the continued development of these relationships as crucial to its long-term success. The firm is currently based in Hamilton, Bermuda; this allows an exemption of income taxes. Since its creation, the firm has not paid income taxes; it is only in 2014 that the company paid as low as 2% of income tax.

Management

Anthony Gurnee, the founder and currently Ardmore's CEO has spent his entire career on the naval industry. He graduated from the US Naval Academy and holds a MBA degree from Columbia Business School. He is also a Chartered Financial Analyst (CFA). Gurnee started his career as a shipping banker with Citicorp, prior to which he served for six years in the US Navy as a surface line officer and as an intelligence analyst on merchant shipping activity. Prior creating Ardmore Shipping Corporation, he was the CFO OF Teekay Shipping Corporation, where he led the firm's financial restructuring and initial public offering. He also co-founded Navigation Finance Corporation, a shipping-focused investment fund.

Reginald Jones, the Chairman and Director of Ardmore Shipping Corp. earned a BA from Williams College and an MBA from the Harvard Business School. Prior coming to Ardmore, Jones spent thirteen years at Goldman Sachs & Co., where he was a Managing Director and Group Head of global transportation investment banking. Jones is also the co-founder and Managing Partner of Greenbriar Equity Group LLC, a firm focused on making privately negotiated investments within the global transportation industry, closely linked to Ardmore Shipping Corporation.

Ardmore's operation segmentation:

Ardmore Shipping Corp. operates two distinct services. The first one is the shipping of oil through the company's product tankers and the other one is the shipping of organic chemicals through chemical tankers

Product tankers:

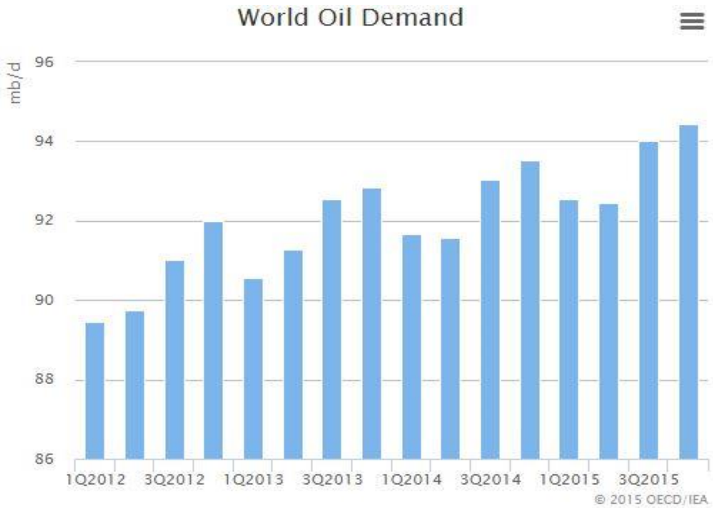
Ardmore is transporting a wide variety of refined petroleum products. It comprises gasoline, jet fuel, kerosene, fuel oil and naphtha. This segment of the company's operation is the most profitable and the one where most of the fleet is dedicated to.

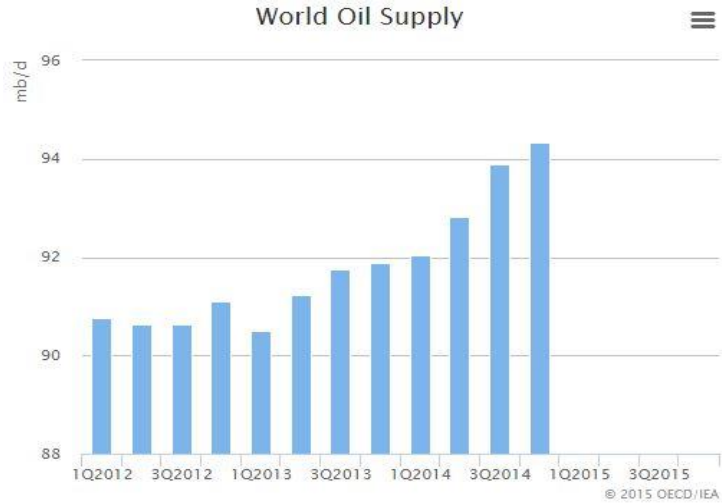
Chemical tankers:

The firm is also carrying organic chemicals, inorganic chemicals and vegetable oils. Also, those vessels designed for the transport of chemicals and also be used for less sophisticated cargos such as molasses, lube oils and refined petroleum products. It is interesting to consider that such vessels can be used for the other type of transportation that Ardmore Shipping Corp, refined oil. In case of an opportunity in the oil sector, the firm could requisition some if its chemical tankers to benefit from an upside demand in the market. However, as explained later, the firm is constantly making deliveries of vessels every year.

Oil Demand:

Since Q3 2014, the price of oil declined by more than 50%, coming from around $100/bbl to currently $46/bbl as of Q1 2015, a level that has not been reached since 2009. This sharp decline in oil price could translate potential difficulties for the firm; however, it is rather beneficial for Ardmore Shipping Corp.





The chart on the left provided by the International Energy Agency (IEA) states the World Oil Demand during the last quarter and shows a forecast for the coming year. The decline in the oil price was driven by higher than expected supply, which has consequently; cut the price of the commodity, as proven by the chart on the right, picturing the World Oil Supply.

As a result, the company's fourth quarter 2014 "has added an extra layer of demand" as reported by the Q4 2014 Earning Call. It is also due to the high volatility of the crude oil that the firm has increased its revenue. This has resulted in more refined products moving at sea and an increase in long-haul arbitrage trade. As most of the firm clients' are oil traders, they want to take to best opportunity for cheap oil. The volatility has been more extreme on a regional scale, which has forced oil traders to favor long-haul trading activity for Ardmore Shipping Corp. The firm is specialized in long-haul products thanks to its fleet. It is to be underlined that the firm is taking advantage of the current situation mainly because of the volatility in oil prices.

Since Q3 2014, the volatility of oil prices has constantly increased from the 20% level to currently around 60% implied volatility. Several reports predict to oil price going in the range of $20 to $75 during the year 2015, proving at least the same volatility as what the market experienced during the last two quarters; a positive aspect for the firm activities.

As for the production sites, the USA is the biggest producer, after overtaking Saudi Arabia and Russia, with 12.34 millions of barrels per day, versus 11.70 and 10.76 million barrel per day. Forecasts predict that U.S Gulf exports will grow in the near future. This is particularly convenient for the firm as its mitigate the risk for piracy acts or terrorists attacks against the firm's vessels in the costs of Somalia, Guinea, South China Sea and the Gulf of Aden.

However, the firm predicts that the growth in exports for refined products is happening in Middle East and India. Due to the international environment of the company, operating in promising markets and geographic areas would be feasible due to the current policy of Ardmore of increasing its fleet.

The Fleet:

As of Q1 2015, the firm is scheduled to increase its fleet by 10 new tankers. Four of them will be tankers and will enter in a proprietary spot trading arrangement with a leading oil firm. The remaining six vessels will be hybrid, meaning that they will be able to exploit both markets depending on their strengths at the time.
On the current operating vessels, the majority is exclusively dedicated to product transportation, 2 of the 20 vessels can be considered as hybrid where they can transport both products and chemicals, and the remaining are chemical transportation vehicles. The current fleet has an average age of 4 years, meaning that all of them are relatively modern, fuel-efficient and reliable. Ardmore is not currently considering selling off its oldest vessels (2005) as they are still performing well, but it is not something that the firm is considering. This will logically ease the firms' free cash flow.
One of the vessels set to be delivered in 2015 is already in service, and will boost revenue days by approximately 70% by the end of the year; which will boost earnings and cash flow capacity.

In Q4 2014, the MR (Medium Range) product tankers delivered earnings of $18,500 per day versus an average of $16,000 prior year, a 16% increase. This increase was mainly due to seasonality but also, the drop and volatility in oil prices.

The firm's existing fleet of chemical tankers has increased their earnings per day on Q4 2014 versus Q4 2013 from $10,473 to $11,456, or 9.4%. The chemical tankers fleet carries roughly equal thirds refined products, vegoils and bio-fuels, and commodity chemicals. This segment's performance lagged versus the oil segment but it is set to increase rapidly due to the strengthening global economy that will normally boost chemical tanker demand. According to the American Chemistry Council, the petrochemical exports from US Gulf are expected to increase 45% by 2018.

In less than 5 years of operations, the firm is successfully managing 10 vessels and will double to 20 by the end of 2015, showing the relative growing opportunities in this market that proves not to be saturated.

The firm is focused on vessel deliveries, which will boost its earnings capacity by 70% by year-end if forecasted are set to realize. All vessels that are currently under construction are financed through bank loans, which enables the firm some financial flexibility in executing its growth strategy.

The new vessels coming in 2015 will be more cost efficient, whether in terms of maintenance or fuel-efficiency. By combining the idea that its will increase the capacity of the firm by 70% in daily earnings, and the cost efficiency of those same boats, Ardmore Shipping Corporation will have better margins in the future.

Ardmore Shipping will not continually increase its fleet on that percentage basis every year, meaning that the CapEx will decrease overtime, but the revenue increase should sustain for a longer period of time if all new vessels will boost the firm's earnings capacity by a double digit number, as it is currently the case.

A positive consequence of the addition of 10 new vessels during FY 2015 will lead to a decrease in operating costs. As more tankers will be deployed around the world, the likelihood that one of them to be around a location where Ardmore will do an operation will be higher, and therefore, will reduce the costs of operation. The current low price of oil is also another factor that will drive the operating costs to be lower that year. By combining the idea that the firm will be delivered fuel-efficient tankers and the cheap price of oil, this will also reduce the firm's costs of running those tankers and increase its margins.

Key Statistics:

In Millions of USD	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	Current/LTM	FY 2015 Est	FY 2016 Est
12 Months Ending	2010-12-31	2011-12-31	2012-12-31	2013-12-31	2014-12-31	2014-12-31	2015-12-31	2016-12-31
Revenue	3.5	22.4	25.2	35.9	67.3	67.3	115.4	144.6
Growth %, YoY	--	546.8	12.5	42.5	87.7	87.7	71.4	25.3
Gross Profit	0.3	2.7	1.9	6.7	16.0	16.0	74.1	
Margin %	9.4	12.1	7.5	18.8	23.8	23.8	64.2	
EBITDA	0.4	5.5	4.7	10.2	23.6	23.6	60.9	80.1
Margin %	12.5	24.4	18.5	28.5	35.1	35.1	52.8	55.4
Net Income Before XO	-1.2	-3.0	-4.5	-3.8	1.7	1.7	20.8	33.1
Margin %	-33.8	-13.3	-18.0	-10.7	2.5	2.5	18.0	22.9
Adjusted EPS	--	--	--	-0.31	0.07	0.05	0.97	1.26
Growth %, YoY	--	--	--	--	--		1,284.3	30.1
Cash from Operations	--	0.4	4.0	8.1	12.4	12.4	46.1	63.8
Capital Expenditures	--	-56.8	-14.9	-144.6	-209.7	-209.7	-213.5	-2.0
Free Cash Flow	--	-56.4	-10.9	-136.4	-197.3	-197.3	-167.4	61.8

The table above shows the firm's key statistics since 2010. Ardmore Shipping Corporation has been able to significantly increase its revenue since inception. However, it is to be considered that as the firm in is development mode, so it is rather logical for it to have such figures.

Nonetheless, the firm is constantly increasing its margins due to the acquisition of more cost-efficient vessels. Every time the firm increases its revenues, it is also significantly increasing its margins in the meantime.

The firm's revenue growth has been conducted without any acquisitions, highlighting the idea that Ardmore has the know-how to operate organic growth and taking advantage of the current market opportunities. The current CEO claims that "it is an interesting time to consider acquisitions", but does not put that as his top priority, rather focusing on the growth into the actual fleet.

It has to be noted that the insiders do not held any outstanding shares. However, GA Holdings, which currently hold 32% of the shares outstanding is a firm held at 98.6% by Greenbriar Equity LLC, founded by Reginald Jones, the Chairman and Director of Ardmore. This means that Jones, with two other persons have the voting and investment power with respect to shares of the company held by GA Holdings LLC.

Ardmore Shipping profitability versus the industry average:

Name	Trailing 12M Sales Growth	Trailing 12M Operating Margin	Trailing 12M Gross Margin	Capex/Sales	Return on Assets	Return on Equity	Return on Capital
Average	11.64%	10.13%	26.40%	46.83%	1.00%	3.30%	3.19%
100) ARDMORE SHIPPING CORP	87.71%	8.63%	23.79%	95.63%	0.36%	0.59%	1.24%

On the chart above, Ardmore seems to be less profitable compared to its competitors. However, as stated above, this will rapidly change as soon as this current fiscal year. The firm's gross margin will be more than two times higher as the average industry. Ardmore's return on assets is still low but is increasing on a yearly basis, coming from negative 2.36% in 2012 to positive 0.36% in 2014. The path was the same for the return on equity. It is the first year that the return on capital is computed, being two times lower than the industry average, but is set to increase significantly increase due to the reasons stated above.

Also, the CapEx over sales ratio is significantly high, due to the current purchase of new product and chemical tankers. However, it seems that this policy will not be in place for the coming years. As the firm is not going to sell its oldest vessels and is accumulating new ones, the CapEx will decrease overtime. Consequently, a smaller CapEx with a constant improvement in the firm EBIT will rapidly add value to the firm. Currently, the firm has a high EBIT/Interest expense at 1.41, but it should logically decrease considering the future continuing growth in EBIT margins.

The outlook for Ardmore seems solid for the long-term if the firm can continue to grow its revenue by keeping a significant EBIT margin as this should be the case for the next two years. With a fleet that will almost double in size, the firm will generate a significant increase in revenues while cutting its costs. The overall current economic and commodity market is in favor of Ardmore Shipping Corp which will help the firm to post positive net income for the second consecutive year after 2013.

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Ardmore Shipping Corporation	ASC	Analyst	Current Price	Intrinsic Value	Target Value	Divident Yield	Target Return	BULLISH
		Hugo Perrin	$10.70	$12.20	$13.86	4%	33.25%	

General Info

Sector	Energy
Industry	Oil, Gas and Consumable Fuels
Last Guidance	(Invalid Identifier)
Next earnings date	NM

Market Data

Enterprise value	$452.92
Market Capitalization	$279.27
Daily volume	0.11
Shares outstanding	26.10
Diluted shares outstanding	24.55
% shares held by institutions	67.25%
% shares held by insiders	0.00%
Short interest	3.53%
Days to cover short interest	6.62
52 week high	$14.97
52-week low	$8.25
5y Beta	0.00
6-month volatility	38.62%

Peers	Market Cap.
Golar LNG Ltd.	$2,976.10
Scorpio Tankers Inc.	$1,352.86
Nordic American Tankers Limited	$930.17
DHT Holdings, Inc.	$679.95
Frontline Ltd.	$386.51
Teekay Tankers Ltd.	$660.20
GasLog Ltd.	$1,593.13
StealthGas, Inc.	$267.10
Navios Maritime Acquisition Corporation	$541.44
Diana Shipping Inc.	$598.75

Current Capital Structure

Total debt/market cap	51.56%
Cost of Borrowing	2.34%
Interest Coverage	141.05%
Altman Z	0.97
Debt Rating	AAA
Levered Beta	1.83
WACC (based on market value weights)	8.29%

Management

Professional	Title	Comp. FY2012	Comp. FY2013	Comp. FY2014
Gurnee, Anthony	Founder, Chief Executive Officer	$ -	$ -	$ -
Tivnan, Paul	Chief Financial Officer, Chief Acc	$ -	$ -	$ -
Cameron, Mark	Chief Operating Officer	$ -	$ -	$ -
Docherty, Gerry	Director of Technical Services	$ -	$ -	$ -
Ruppelt, Gernot	Director of Chartering and Busin	$ -	$ -	$ -
Cogan, Simon	Financial Controller	$ -	$ -	$ -

Historical Performance

	ASC	Peers	Industry	All U.S. firms
Growth	10.7%	-3.1%	8.8%	6.0%
Retention Ratio	0.0%	-32.2%	59.8%	61.6%
ROIC		-3.4%	22.0%	11.8%
EBITA Margin	0.0%	26.8%	17.9%	13.7%
Revenues/Invested capital	12.8%	22.4%	139.1%	202.3%
Excess Cash/Revenue	#DIV/0!	28.2%	10.6%	18.5%
Unlevered Beta		0.76	0.61	0.95
TEV/REV	8.0x	5.6x	3.1x	2.4x
TEV/EBITDA	31.5x	10.8x	14.7x	11.3x
TEV/EBITA	80.1x	18.5x	19.4x	15.4x
TEV/UFCF		11.7x	39.6x	26.8x

Past Earning Surprises

	Revenue	EBITDA	Norm. EPS
Last Quarter	5.1%	9.9%	60.0%
Last Quarter-1	1.4%	7.6%	
Last Quarter -2	-2.2%	7.0%	
Last Quarter -3	0.2%	13.8%	
Last Quarter -4	-5.3%	-41.7%	

Non GAAP Adjustments

Operating Leases Capitalization	100%	Straightline	10 years
R&D Exp. Capitalization	100%	Straightline	10 years
Expl./Drilling Exp. Capitalization	0%	N/A	N/A
SG&A Capitalization	0%	N/A	N/A

Proforma Assumptions

		Period	Rev. Growth	Adj. Op. Cost/Rev
Operating. Cash/Cash	0.0%	LTM	88%	67%
Unlevered Beta	1.20	LTM+1Y	71%	63%
Rev/Invested Capital	100.0%	LTM+2Y	25%	61%
Continuing Period Revenue Growth	4.0%	LTM+3Y	9%	61%
Long Term ROIC	13.1%	LTM+4Y	10%	61%
Invested Capital Growth	Equals to Maintenance	LTM+5Y	8%	61%
Justified TEV/REV	3.0x	LTM+6Y	6%	61%
Justified TEV/EBITDA	14.7x	LTM+7Y	5%	61%
Justified TEV/EBITA	19.4x	LTM+8Y	5%	61%
Justified TEV/UFCF	30.0x	LTM+9Y	5%	62%

Forecasted Profitability

Revenue	NOPLAT	Invested capital	UFCF
$67.33	$5.14	$500.85	$5.14
$115.40	$17.62	$502.62	$15.85
$144.59	$24.63	$503.55	$23.70
$157.05	$27.19	$503.92	$26.82
$173.20	$30.32	$504.41	$29.83
$186.63	$32.70	$504.81	$32.31
$198.40	$34.62	$505.20	$34.23
$209.19	$36.25	$505.55	$35.89
$219.40	$37.67	$505.89	$37.33
$229.28	$38.97	$506.22	$38.64

Valuation

	ROIC	WACC	EVA	Enterprise Value	Total Debt	Other claims	Equity	Adjusted Price
LTM	1.0%	8.3%	-$36.38	$507.32	$233.53	-$59.88	$333.67	$13.01
LTM+1Y	3.5%	8.6%	-$25.39	$551.25	$233.53	-$58.71	$376.44	$14.76
LTM+2Y	4.9%	8.7%	-$19.39	$581.88	$233.53	-$84.19	$432.54	$16.82
LTM+3Y	5.4%	8.9%	-$17.59	$607.06	$233.53	-$106.88	$480.42	$18.63
LTM+4Y	6.0%	9.0%	-$15.19	$631.72	$233.53	-$125.29	$523.48	$20.31
LTM+5Y	6.5%	9.2%	-$13.53	$655.99	$233.53	-$150.97	$573.43	$22.29
LTM+6Y	6.9%	9.3%	-$12.32	$680.42	$233.53	-$177.34	$624.23	$24.18
LTM+7Y	7.2%	9.4%	-$11.31	$705.70	$233.53	-$204.11	$676.28	$26.19
LTM+8Y	7.5%	9.5%	-$10.58	$732.27	$233.53	-$233.34	$732.08	$28.34
LTM+9Y	7.7%	9.7%	-$9.87	$760.08	$233.53	-$263.46	$790.02	$30.27

Monte Carlo Simulation Assumptions

	Base	Stdev	Min	Max	Distribution
Revenue Variation	**0**	**10%**	**N/A**	**N/A**	**Normal**
Op. Costs Variation	**0**	**10%**	**N/A**	**N/A**	**Normal**
Market Risk Premium	**6%**	**N/A**	**5%**	**7%**	**Triangular**
Long term Growth	**4%**	**N/A**	**-3%**	**11%**	**Triangular**
Terminal Value	**0**	**0.1**	**N/A**	**N/A**	**Normal**

Monte Carlo Simulation Results

	Intrinsic Value	1y-Target
Mean est.	$13.01	$14.76
σ(ε)	$0.27	$0.30
3 σ(ε) adjusted price	$12.20	$13.86
Current Price	$10.70	
Analysts' median est.		$15.86