

D'Amico IPO- New Italian Listing



Though the raging drybulk bull market has been stealing the show lately, D'Amico International Shipping SA, a Luxembourg based holding company, was readying a tanker sector IPO of shares that will be listed on the Borsa Italiano in Milan. D'Amico International, formed around a shipping company dating from the 1930's, got into conventional tankers in the early 1950's, and product tankers shortly thereafter.

In 2000, the D'Amico organization set out to become a major player in the 30/ 37000 ton Handy product tanker and 46000 ton (MR) sectors. Seven years later, its fleet of 33 product tankers, ranging from 35,000 to 55,500 dwt. aggregating 1.5 Mdw- with a concentration in the MR sector (10 owned and 16 chartered in vessels). D'Amico is a member of the Handytankers pool (along with Maersk, Saarland Tankers and Motia)-controlling a total of 79 vessels. Seven chartered in D'Amico MR ships trade in the High Tankers pool- set up along with Nissho Shipping, in 2003.

Two years ago, D'Amico joined forces with Glencore in setting up Glenda International Management, an operator of 19 product tankers, 11 of which are tied to D'Amico (five owned, six chartered in). D'Amato has also joined with Mitsubishi, holding a 51% interest in "DM Shipping", which will be chartering in two MR newbuildings.

An important *raison d'être* for the IPO, beyond monetizing the investments of founders in a highly successful but illiquid family entity, is to provide capital for exercising contractual purchase options on many vessels that are chartered in. Besides commitments to charter in seven MR size newbuildings due for delivery in 2008- 2009 (in addition to the DM Shipping vessels), the company holds purchase options, exercisable through year 2020, on 15 chartered in vessels.

The IPO required a re-organization from a family structure to the more corporate holding company arrangement in 2007, where the selling shareholder, D'Amico International S.A., Luxembourg, moved its shareholdings in High Pool Tankers Limited, Glenda International Management Limited, DM Shipping Limited (51%) and Handytankers K/S (33%) into a subsidiary further down the chain- d'Amico Tankers Limited- based in Ireland. Thus, D'Amico's investments in dry cargo and service businesses remain outside the realm of the offering.

The drybulk side provides precedent for utilizing purchase options as a fleet acquisition mechanism. Navios Maritime Holdings, one of the early dry IPO's, utilized "in the money call options" (where, contractually, vessels can be bought below their current fair market value) to create substantial value for shareholders, in some cases as much as \$20 Million on Panamax bulk carriers.



The new entity is midrange in terms of its size. Analysts estimated that market capital value (representing equity outstanding adjusted for minority interests in vessels carried on the balance sheet) of the listed entity could be approximately \$513 Million - \$771 Million. Though imperfect, this measure can be compared with estimates of market capitalization for names such as Stealthgas (~\$230 Million), Omega Navigation (~\$250 Million), Arlington Tankers (\$375 Million), Tsakos Energy (~\$1 Billion), and the slimmed down General Maritime (also ~ \$1 Billion).

The prospectus circulated in connection with its public offering provides an interesting peek into this important player in the product tanker scene, which has implemented a TMSA programme since the Summer of 2005. Strategically, the company will be looking at opportunities to buy tonnage, but, also to move into the vegetable oil market, saying: “We have a long history of working with a variety of commodities and dealing with regulatory changes. We plan to capitalise on our experience to expand into new markets, including cargoes, such as palm oil, vegetable oil and other chemicals, which can only be transported by vessels that are IMO classified.”

In terms of earnings, after a period of rapid growth, the D’Amico tanker businesses produced \$243 Million of time charter equivalent earnings (TCE) in 2006. That year, its MR vessels produced average daily TCE of \$21,088, after deducting commissions, with an operating cost of \$5,731 (which does not include a DD reserve). For its modern handy tankers, comparable figures are \$21,011/day and \$5,642/day. For comparison purposes, Omega Navigation, also operating Handy product tankers, listed its 4Q 2006 revenues at \$20,750/day and its operating expenses on two newbuilding Handies, not directly comparable due to different accounting treatments, at \$4,166/day. Torm’s 3Q 2006 results show its MR tankers averaged \$26,181/day TCE.

The stock offering, of just under 60 Million shares (to be priced at between €3.00/ share and €4.50/ share, is aimed primarily at institutional investors. The exact amount will be subject to the sales effort spearheaded by JP Morgan and Italian bank Capitalia, to be sold through private placements internationally and in Italy. 39 Million shares are being offered by the Selling shareholders- D’Amico International S.A.(ultimately owned by the D’Amico family) and 21 Million will go into the company’s coffers, resulting in a net raise for the company (rather than the individual share sellers) of between €8.6 Million and €9.4 Million. Approximately 6 Million shares will be reserved for a public offering to Italian retail holders. Post offering, existing shareholders (mainly family interests) will still control the company, retaining more than half of outstanding shares, 54%, assuming that an extra allotment for underwriters is exercised.

The company hopes to pay dividends of between 30% and 50% of recurring net income. Among peers, Omega has committed to full payout of available cash, distributions since its inception have run at a \$2.00/ share annual rate (actually exceeding earnings per share estimated to be in the region of \$1.10/share for 2007). By comparison, Brostrom management is proposing to pay out SEK 8/share, approximately 53% of net profit of SEK 15.14/share, to reflect 2006. Tsakos Energy, with a stated policy of paying out 25%



to 50% of earnings, paid out \$2.75/share for 2006 operations, versus record earnings of \$10.30 /share.

In conjunction with the IPO, the debt side of the balance sheet has been streamlined. A complicated set of debt agreements intertwined among D'Amico companies, has been refinanced with a new \$350 Million ten year "secured" Credit facility entered into by D'Amico Tankers, spearheaded by Calyon S.A. and Intesa Sanpaolo S.p.A., in a syndicate consisting of four other banks. Security provisions include a parent company guarantee. The security provisions include a parent guarantee (ie the IPO company, high up in the corporate hierarchy, guarantees the new tanker owning subsidiary lower down); thirteen owned ships are mortgaged, and their timecharter contracts are assigned to the lenders. In early April 2007, \$250.0 Million was outstanding under the new credit, priced at Libor plus 0.65% (but Libor plus 0.95% if the ratio of outstanding loan / vessel value exceeds 50%).

So, what is the company worth and how big is it? The "Enterprise Value" (EV), another important financial measure, is computed by adding economic capitalization to the post offering debt expected to be outstanding after repaying old debt and refinancing with the Calyon facility. Depending on the share pricing and \$/ € conversions, EV could then range from \$750 Million up to almost \$1 Billion.

An important numeraire in the bankers' toolboxes for valuing companies is the ratio of EV to annual cash flow- with flows provided by a measure called EBITDA (earnings before interest, taxes, depreciation/ amortization, a computation beginning with the recurring net income). Based on an expected EBITDA from recurring operations (with "Ordinary Activities" including gains on ship sales) in the region of approximately \$105 Million, an estimated range of EV/ EBITDA (depending on the low and high share prices) works back to between 7.2 x and 9.6 x. The price to be paid by Teekay / Torm for OMI is estimated to be between 10.0 x and 11.0 x OMI Corporation's EBITDA.

An analysis shows this measure to be squarely in line with such ratios for comparable companies, ranging from 6.3x for Overseas Shipholding Group to 12.9x for Torm, with others such as Euronav (at 6.8x), Tsakos Energy (at 8.6x) and General Maritime (at 9.1 x) scattered in between. If Navios is a guide, D'Amico will embark on a transition from "operator" to "owner", with its newfound access to capital. And, with recent activity surrounding OMI, with 34 product tankers, the sector will be at the top of mind to investors.