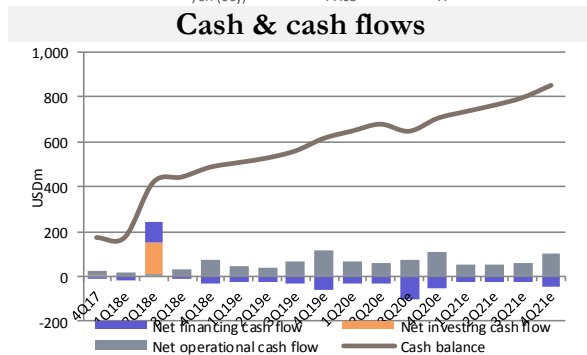
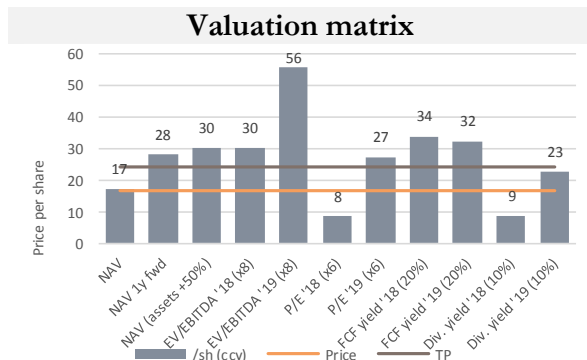
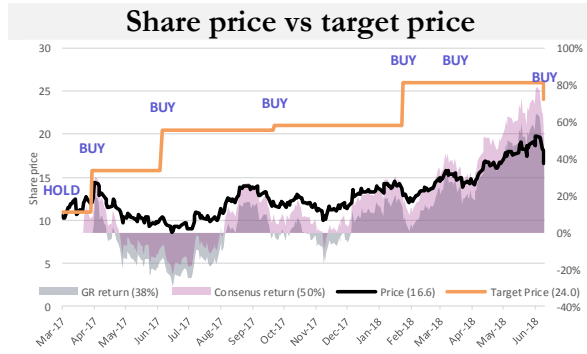


SGNK (#BUY, 24): Dilutive equity issuance and asset purchase above market value leads us to reduce our TP by \$2/sh

GNK-US

BUY/TP 24

Value Destruction



Gersemi Research / Analysts

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Genco Shipping raised new equity this week with concurrent vessel acquisitions, which were highly dilutive towards existing shareholders. We calculate a direct loss of \$0.86/sh (-4.7%) for existing shareholders and reduce our target price to \$24/sh (from \$26) based on the direct value destruction and dilution of future earnings multiples. We reiterate our BUY as we see GNK benefitting from continued cyclical expansion.

Dilutive equity raise: As we wrote in our [22 March dry bulk sector report](#), we were sceptical towards Genco management's goal of fleet renewal on a "dollar for dollar" basis given that it also would be "EBITDA neutral". The missing piece of the puzzle was a dilutive equity issuance, so in hindsight our fears were well placed. GNK raises \$100.65m gross at \$16.5/sh, or a discount of 9% vs last close and 7% below NAV. Assuming fees of around 3%, the net price is \$16.01/sh (-12% vs last close and 10% below NAV). The immediate value destruction for existing shareholders on a NAV-basis is thus \$0.37/sh.

Asset purchase above market: GNK also bought 2+2 Capesize+Ultramax for a \$141m consideration. This is 14% above our fair value for similar vessels, exemplified by the implied value on GNK's deal of \$47m for a 2015-built Capesize vs the Japanese 2015-built *Red Cherry* changing hands at \$43m this week (TC adj.). Looking to GoodBulk's options announced two weeks ago, the implied fair value for a similar vessel is ~\$42m. We calculate the above-market price paid to be \$0.49/sh pre-equity issuance.

Key numbers

USDm	2018	2019	2020	2021
Net sales	286	397	447	408
EBITDA	152	262	311	272
EBIT	75	184	233	194
PTP	57	184	233	194
Net earnings	57	184	233	194
EPS	1.41	4.53	5.73	4.78
DPS	0.85	2.26	2.87	2.39
USDm	2018	2019	2020	2021
Fwd NAV	1,132	1,431	1,586	1,752
Adj. equity ratio	68%	75%	81%	83%
FCF yield	41%	39%	46%	40%
Dividend yield	5%	14%	17%	14%
EV/EBITDA	4.4	1.9	1.0	0.5
P/E (adj.)	11.7	3.7	2.9	3.5

Key numbers

USDm	2018	2019	2020	2021
Net operational cash flow	134	262	311	272
Free cash flow	275	262	311	272
Net cash flow	313	128	89	147
TCE/day	12,238	16,960	19,050	17,433
Cash break-even	7,597	7,558	10,274	6,995
Liquidity	495	623	712	859
Property & Equip. (incl. NBs)	1,063	985	907	829
Total equity	1,095	1,187	1,304	1,401
Interest bearing debt	493	452	346	318
Net interest bearing debt	-1	-171	-366	-541
Market Cap.	675	675	675	675
Enterprise value	674	504	309	134
Capex	-141	-	-	-

Source: Gersemi Research, Bloomberg, company data

Disclaimer: The publisher currently own shares in the company. More disclaimers at the end of this document

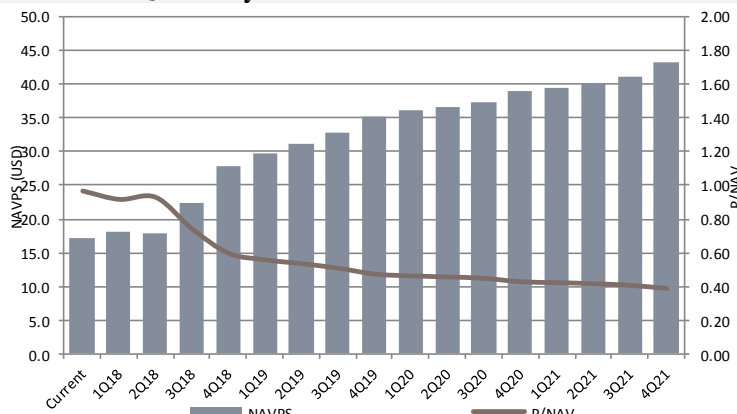


Valuation

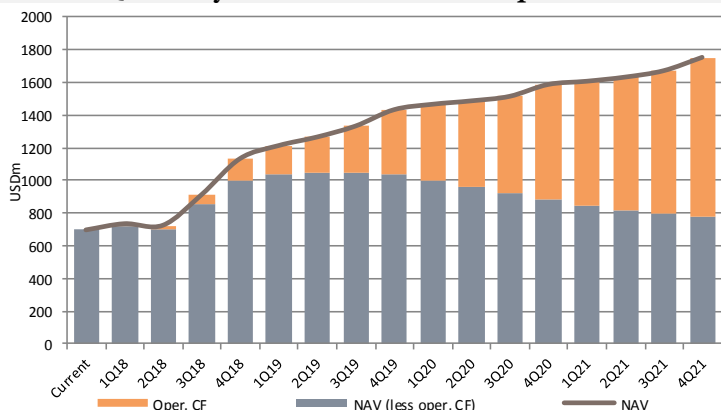
Valuation & target price

Net asset values			
USDm	4Q17	Fair value	Implied
Primary assets	1,280	1,044	1,023
Contract value	0	0	0
Other	36	36	35
GAV	1,316	1,080	1,059
Net debt	-336	-239	-239
Capex	0	-141	-141
Other	-5	-5	-5
NAV	975	696	675
Shares	41	41	41
NAVPS	24.0	17.1	16.6
Share price	24	17	17
P/NAV	0.69	0.97	1.00
EV/GAV	0.80	0.98	1.00
Adj. Total Assets	1,521	1,285	1,264
Adj. Equity Ratio	64%	54%	53%
Target price	USD	24	44%

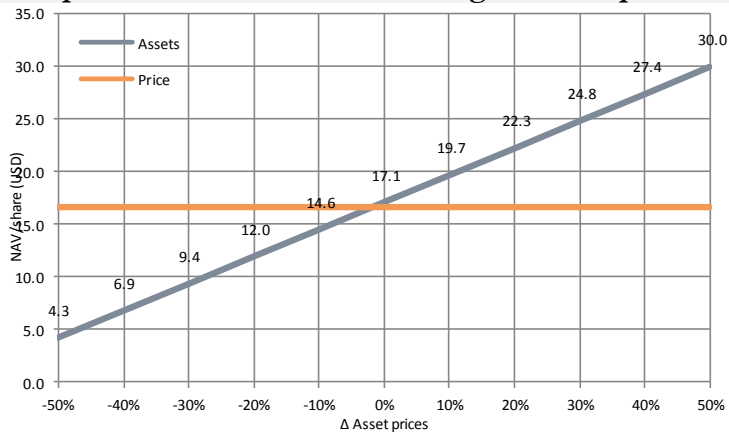
Quarterly forward NAV & P/NAV



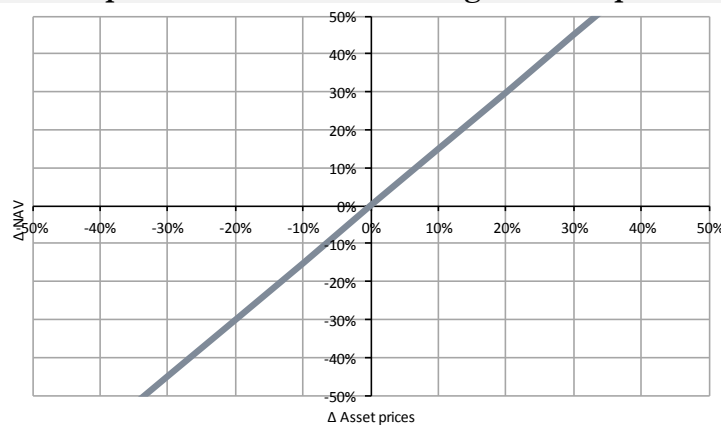
Quarterly forward NAV decomposition



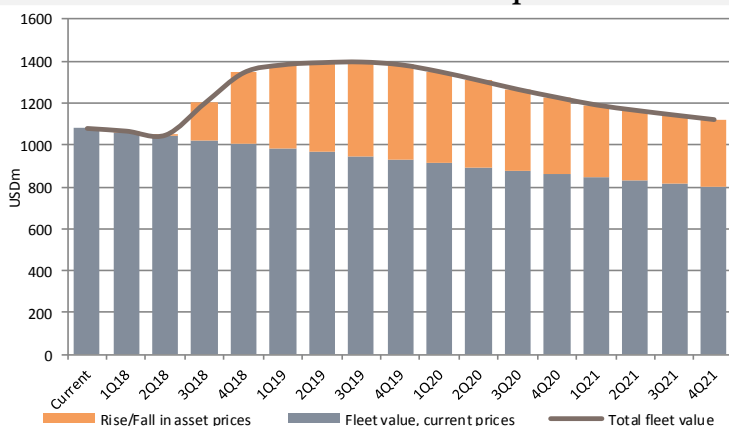
Impact on NAV/sh from % change in asset prices



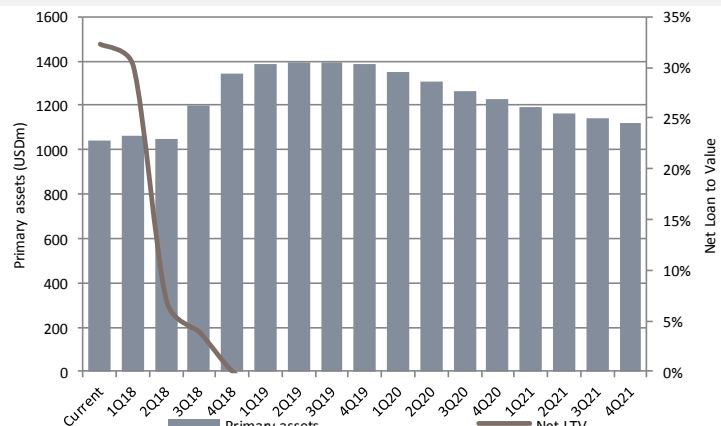
% Impact on NAV from % change in asset prices



Forward fleet valuation decomposition



Forward fleet value & net loan to value





Estimate Changes

Profit & Loss

Estimate changes USDm	New				Old				Change				
	2018	2019	2020	2021	2018	2019	2020	2021	2018	2019	2020	2021	
Net sales	286	397	447	408	270	368	411	375	17	29	36	32	
EBITDA	152	262	311	272	143	240	283	248	9	21	28	25	
EBIT	75	184	233	194	72	170	212	177	4	14	21	18	
PTP	57	184	233	194	42	142	190	166	16	42	43	28	
Net earnings	57	184	233	194	42	142	190	166	16	42	43	28	
EPS	1.41	4.53	5.73	4.78	1.21	4.12	5.51	4.80	0.20	0.40	0.22	-0.02	
DPS	0.85	2.26	2.87	2.39	2.37	4.97	4.51	2.08	-1.52	-2.71	-1.64	0.31	
									2018	2019	2020	2021	
									TCE revenue	17	29	36	32
									Opex & G&A	8	8	8	8
									Depreciation	5	7	7	7
									Net finance	-12	-27	-22	-11
									Taxes & Minorities	-	-	-	-

Cash Flows & Balance Sheet

Estimate changes USDm									Change			
	2018	2019	2020	2021	2018	2019	2020	2021	2018	2019	2020	2021
Net operational cash flow	134	262	311	272	113	213	261	237	21	49	50	35
Free cash flow	275	262	311	272	113	213	261	237	162	49	50	35
Net cash flow	313	128	89	147	6	-	-	137	307	128	89	10
TCE/day	12,238	16,960	19,050	17,433	12,293	16,763	18,696	17,121	-56	197	354	312
Cash break-even	7,597	7,558	10,274	6,995	8,293	8,951	11,599	7,602	-696	-1,393	-1,326	-606
Liquidity	495	623	712	859	188	188	188	325	307	435	524	534
Property & Equip. (incl. NBs)	1,063	985	907	829	1,195	1,124	1,053	982	-132	-139	-146	-153
Total equity	1,095	1,187	1,304	1,401	935	906	940	1,034	161	282	364	367
Interest bearing debt	493	452	346	318	493	452	346	318	-	-	-	-
Net interest bearing debt	-1	-171	-366	-541	305	264	158	-7	-307	-435	-524	-534
Market Cap.	675	675	675	675	491	491	491	491	184	184	184	184
Enterprise value	674	504	309	134	796	755	649	484	-123	-251	-340	-350
Capex	-141	-	-	-	-	-	-	-	-141	-	-	-

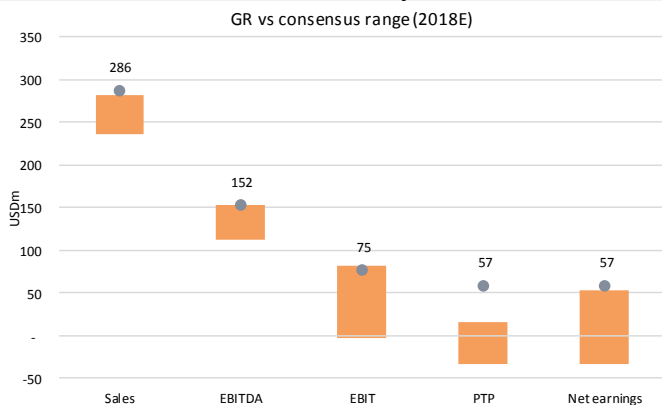
Valuation

Estimate changes USDm									Change			
	2018	2019	2020	2021	2018	2019	2020	2021	2018	2019	2020	2021
Fwd NAV	1,132	1,431	1,586	1,752	1,001	1,250	1,379	1,527	131	182	207	225
Adj. equity ratio	68%	75%	81%	83%	66%	72%	79%	82%	3%	3%	2%	2%
FCF yield	41%	39%	46%	40%	23%	43%	53%	48%	18%	-5%	-7%	-8%
Dividend yield	5%	14%	17%	14%	17%	35%	32%	15%	-12%	-21%	-14%	0%
EV/EBITDA	4.4	1.9	1.0	0.5	5.6	3.1	2.3	2.0	-1.1	-1.2	-1.3	-1.5
P/E (adj.)	11.7	3.7	2.9	3.5	11.7	3.4	2.6	3.0	0.0	0.2	0.3	0.5

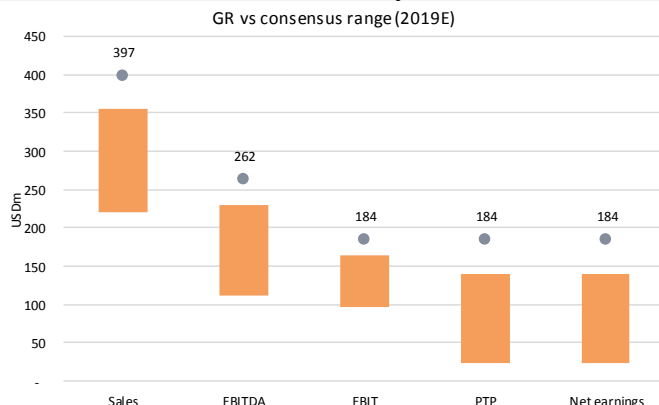


Our Estimates vs Consensus

Profit & Loss, year I



Profit & Loss, year II



Consensus EBITDA development



Target price vs share price

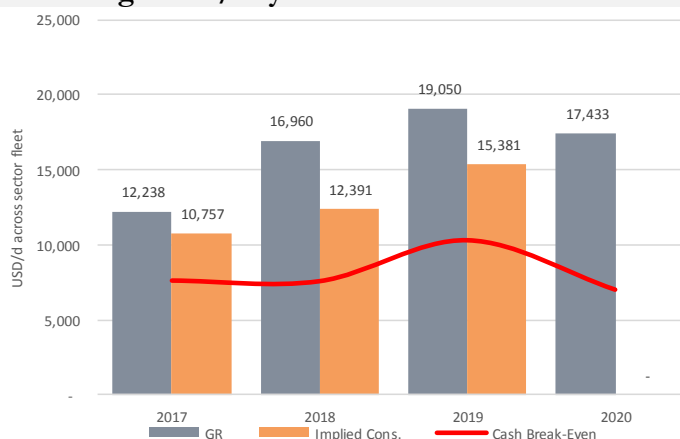


GR vs consensus: P&L break-down

	2018	GR	Consensus	Diff.	Diff.
TCE revenue	286	286	252	35	14%
Opex + G&A	135	135	122	12	10%
Depreciation	76	76	77	-1	-1%
Net finance	18	18	70	-52	-74%
Taxes & Minorities	0	0	-42	42	-100%

	2019	GR	Consensus	Diff.	Diff.
TCE revenue	397	397	290	107	37%
Opex + G&A	135	135	122	13	10%
Depreciation	78	78	52	26	49%
Net finance	0	0	42	-42	-100%
Taxes & Minorities	0	0	2	-2	-100%

Avg. TCE/day across fleet vs consensus





	2013	2014	2015	2016	2017E	2018E	2019E	2020E	2021E
Profit & Loss (USDm)									
Net sales	236	233	174	149	184	286	397	447	408
Operational costs	-162	-379	-288	-259	-142	-135	-135	-135	-135
EBITDA	74	-146	-113	-110	42	152	262	311	272
Depreciation/Amortization	-141	-113	-80	-76	-72	-76	-78	-78	-78
EBIT	-67	-259	-193	-186	-30	75	184	233	194
Net financials	-88	-966	-60	-31	-29	-18	0	0	0
PTP	-155	-1,225	-253	-217	-59	57	184	233	194
Taxes/Minorities	7	91	58	-1	0	0	0	0	0
Net earnings	-148	-1,133	-195	-218	-59	57	184	233	194
Non-recurring items	0	0	0	0	9	0	0	0	0
Net earnings (adj.)	-148	-1,133	-195	-218	-49	57	184	233	194
EPS	-33.24	-184.18	-26.74	-29.61	-1.71	1.41	4.53	5.73	4.78
EPS (adj.)	-33.24	-184.18	-26.74	-29.61	-1.44	1.41	4.53	5.73	4.78
DPS	0.36	0.50	0.00	0.00	0.00	0.85	2.26	2.87	2.39
Balance Sheet (USDm)									
Cash & short-term investments	123	83	121	133	174	488	616	705	852
Other current assets	43	47	51	39	43	43	43	43	43
Total current assets	166	130	173	173	217	530	659	748	895
Property & equip. (incl. NBs)	2,690	1,540	1,529	1,368	1,280	1,063	985	907	829
Other non-current assets	101	83	13	28	24	24	24	24	24
Total non-current assets	2,791	1,623	1,542	1,396	1,304	1,087	1,009	931	853
TOTAL ASSETS	2,957	1,753	1,715	1,569	1,521	1,617	1,667	1,678	1,747
Total equity	1,309	1,293	1,106	1,030	975	1,095	1,187	1,304	1,401
Short-term debt	1,432	34	579	5	24	161	192	95	118
Other current liabilities	49	30	29	24	28	28	28	28	28
Total current liabilities	1,482	64	608	29	52	189	220	123	146
Long-term debt	167	396	1	510	493	333	260	251	200
Other non-current liabilities	0	0	0	0	0	0	0	0	0
Total non-current liabilities	167	396	1	510	493	333	260	251	200
TOTAL EQUITY & LIABILITIES	2,957	1,753	1,715	1,569	1,521	1,617	1,667	1,678	1,747
Working capital, receivables	14	15	11	10	13	13	13	13	13
Working capital, payables	27	28	27	23	23	23	23	23	23
Net working capital	-13	-13	-17	-13	-10	-10	-10	-10	-10
Interest bearing debt	1,599	431	580	515	518	493	452	346	318
Liquidity	133	93	141	142	182	495	623	712	859
Net interest bearing debt	1,467	337	440	373	336	-1	-171	-366	-541
Cash Flow (USDm)									
Net income	-148	-1,133	-195	-218	-59	57	184	233	194
Depreciation	141	113	80	76	72	76	78	78	78
Other	4	971	52	90	18	0	0	0	0
Cash earnings	-3	-50	-64	-52	31	134	262	311	272
Changes in working capital	0	-10	8	2	-5	0	0	0	0
Net operational cash flow	-3	-60	-56	-50	26	134	262	311	272
Capex	-147	-55	-67	-1	-1	141	0	0	0
Other investments	0	0	0	0	0	0	0	0	0
Proceeds from sales	0	0	0	13	16	0	0	0	0
Other	0	-20	11	-5	-20	0	0	0	0
Net investing cash flow	-147	-75	-57	7	15	141	0	0	0
Repayment of debt	0	6	158	-65	-4	-25	-42	-106	-28
Proceeds from debt	—	33	302	400	0	0	0	0	0
Dividends paid	-2	-3	0	0	0	-35	-92	-117	-97
New equity	137	0	0	—	0	98	0	0	0
Other	64	59	-310	-280	-20	0	0	0	0
Net financing cash flow	200	95	151	55	-6	38	-134	-222	-125
Currency effect	0	0	0	0	0	0	0	0	0
Net cash flow	50	-39	38	12	35	313	128	89	147
Cash balance	123	83	121	150	185	498	626	715	862
Free cash flow	-150	-135	-113	-43	41	275	262	311	272



Share Data & Valuation (USDm)	2013	2014	2015	2016	2017E	2018E	2019E	2020E	2021E
Shares outstanding, end	4	6	7	7	35	41	41	41	41
Share price, avg (USD)		180	62	7	11	17	17	17	17
Share price, end (USD)	—	135	15	7	13	17	17	17	17
Market Cap.		831	109	54	460	675	675	675	675
NIBD	1,467	337	440	373	336	-1	-171	-366	-541
Minorities	341	249	0	0	0	0	0	0	0
Enterprise value		920	548	428	796	674	504	309	134
Key Figures & Ratios	2013	2014	2015	2016	2017E	2018E	2019E	2020E	2021E
P/E (reported)						11.7	3.7	2.9	3.5
P/E (adj.)						11.7	3.7	2.9	3.5
P/CE	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
P/Sales		3.6	0.6	0.4	2.5	2.4	1.7	1.5	1.7
EV/Sales		4.0	3.1	2.9	4.3	2.4	1.3	0.7	0.3
EV/EBITDA					18.9	4.4	1.9	1.0	0.5
EV/EBIT						8.9	2.7	1.3	0.7
P/B		0.8	0.1	0.1	0.5	0.6	0.6	0.5	0.5
FCF yield		-16%	-104%	-79%	9%	41%	39%	46%	40%
Dividend yield		0.4%	0.0%	0.0%	0.0%	5.1%	13.6%	17.3%	14.4%
Return on equity (ROE)	-15.3%	-108.5%	-17.6%	-21.1%	-6.0%	5.2%	15.5%	17.9%	13.9%
Return on capital employed (ROCE)	-2.4%	-16.1%	-12.5%	-13.6%	-2.3%	7.0%	18.5%	25.5%	23.2%
Return on assets (ROA)	-5.0%	-64.7%	-11.4%	-13.9%	-3.9%	3.6%	11.0%	13.9%	11.1%
Sales growth	1%	-1%	-25%	-15%	24%	55%	39%	12%	-9%
EBITDA margin	31%	-63%	-65%	-74%	23%	53%	66%	70%	67%
EBIT margin	-28%	-111%	-111%	-125%	-16%	26%	46%	52%	48%
Net margin	-63%	-487%	-112%	-146%	-32%	20%	46%	52%	48%
Net interest rate	6.0%	14.4%	4.6%	7.6%	9.1%	-1414.0%	0.0%	0.0%	0.0%
Tax rate	-1.2%	-0.1%	-0.7%	-0.3%	0.0%	0.0%	0.0%	0.0%	0.0%
Equity ratio	44%	74%	65%	66%	64%	68%	71%	78%	80%
Leverage ratio	56%	26%	35%	34%	36%	32%	29%	22%	20%
NIBD / EBITDA (past 1y)	19.9	-2.3	-3.9	-3.4	8.0	0.0	-0.7	-1.2	-2.0
Operating cash flow/NIBD	0.0	-0.2	-0.1	-0.1	0.1	-104.9	-1.5	-0.9	-0.5
Net interest coverage ratio (EBITDA)	0.8	-3.0	-5.7	-3.9	1.4	8.4			
Current ratio	0.1	2.0	0.3	6.0	4.1	2.8	3.0	6.1	6.1
Adj. equity ratio					56%	68%	75%	81%	83%
Operating assets	2,824	1,640	1,574	1,400	1,316	1,099	1,021	943	865
Operating liabilities	49	30	29	24	28	28	28	28	28
Net operating assets	2,775	1,610	1,545	1,376	1,288	1,071	993	915	837

Source for financial items: Historical numbers primarily gathered from Bloomberg and company data. Forecast from Gersemi Research

Break-even levels vs TCE revenue (USD per fleet day)

