

16 March 2009
Equity Research

MORNING NOTE

Buy **520.0p**
(Remains Unchanged) (Priced at close 13/3/09)

Target Price: 725p

Stock Codes: CKN.L / CKN.LN

EPS

Dec 2008 A 122.9p

Dec 2009 E (90.9p) 77.2p

Dec 2010 E (94.0p) 89.7p

Panmure Gordon Estimates

Market Cap: £98m

Last published research 18 November 2008

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Clarkson

Preliminary 2008 results were in line with expectations, despite a £13.9m non-cash impairment charge. The final dividend is unchanged, giving a full year dividend of 42p (+5%). Net cash (after deducting anticipated bonus and dividend payments) was £33.5m (177p per share), despite paying £27m to settle litigation. We have reduced our forecasts to reflect recent interest rate cuts and lower fund management profits. Despite challenging market conditions, revenues should be supported by forward order book and strong US dollar. The valuation looks compelling, with the shares trading on an 8.1% dividend yield and P/E of 4.4x 2009E (if we take net cash out of the share price). Buy.

- Revenues rose an impressive 44% to £250.3m, driven by record highs in freight rates, strong trading volumes, volatility in the derivatives markets and a stronger US dollar/sterling exchange rate. Segmental results rose by 44% to £38m despite providing £13.9m for impairment of goodwill and intangibles relating to acquisitions over the past four years. Excluding this non-cash impairment charge, segmental results would have risen by 97%. PBT, excluding the £21m exceptional litigation charge, was up 24% to £39.2m. The EPS rose by 2% to 122.9p, considerably less than the profit before tax because the impairment charge did not qualify for tax relief. The final dividend was held at least year's level of 26p, giving a total dividend for the year of 42p (+5%).
- The financial position of the company is strong. Cash balances at the end of the year were £184.4m (up from £115.3m) despite having paid £27m settling the litigation dispute. After the year-end cash payments will be made including the final dividend and bonuses. After deducting these items, net cash amounted to £87.5m which, after borrowings, left net cash of £33.5m (177p per share, more than one third of the market cap).
- Trading conditions for some sectors deteriorated significantly in the second half of the year as a result of the global financial crisis and economic downturn. Since the beginning of 2009 revenues in dry cargo and sale and purchase broking have declined significantly. Tanker broking, whilst affected by the difficult trading environment, has not experienced the same degree of reduction in business. The financial division, particularly the futures business, is experiencing high volumes but at lower rates. Market conditions are expected to remain difficult in 2009 but revenues should be supported by Clarksons' attractive order book and US dollar exchange rates, assuming they remain at current levels.
- We have made some changes to our forecasts. Following recent interest cuts we have reduced our finance revenue forecasts and to a lesser extent our finance costs. In addition we have cut our profit assumptions for the fund management business given the reduction in funds under management and the exceptional market volatility. Our new EPS is 77.2p for 2009E (from 90.9p), 89.7p for 2010E (from 94.0p) and 91.4p for 2011E. We expect annual dividends to remain unchanged at 42p over this period.
- The shares have bounced about 36% over the past three months but they remain attractively valued. After stripping out the net cash (after bonuses and dividend payments) the shares are trading on a PER of 4.4x 2009E and 3.6x, compared with an average 5.5x for its UK competitors. The dividend yield of 8.1% is equally attractive. Clarksons' leading global position in the shipping services, strong balance sheet and attractive order book in our view justify a substantially higher valuation. We retain our

Buy recommendation with a target price of 725p.

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Distribution of investment ratings for equity research (as of 31 Dec 08)

Overall Global Distribution (Banking Client*)		
Buy	Hold	Sell
55% (33%)	27% (9%)	18% (5%)

* Indicates the percentage of each category in the overall distribution that were banking and/or corporate broking clients

Rating: GUIDELINE (return targets may be modified by risk or liquidity issues)

Buy	Expected to produce a total return of 15% or better in the next 12 months
Hold	Fairly valued: total return in the next 12 months expected to be $\pm 10\%$
Sell	Stock is expected to decline by 10% or more in the next 12 months

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