

## Taking Stock: Shippers not quite shipshape for the long haul

by *Malcolm\_Berko*

Dear Mr. Berko: I want to own some shipping transportation stocks and have looked at Omni Corp., Overseas Shipping and Teekay Shipping, but their dividends are all under 2 percent. Can you recommend three shipping (maritime) stocks that have good growth potential and that pay at least 5 percent? And can you give me your thoughts on the shipping/maritime industry as a whole? What do you think of the possibility of higher or lower freight rates over the next few years? Thank you for your help. And thank you for recommending Ford 6.5 percent Convertible Preferreds, which I bought last year at \$26.25.

C.R.

Waterloo, Iowa

Dear C.R.: Did you ever wonder why merchandise carried by a truck is called freight and why merchandise transported in the bowels of a freighter is called cargo? Frankly, I never did until just now. But not to worry because that question has nothing to do with the following answer.

It's certainly easier, less costly and probably quicker to move oil, kangaroo meat, Bordeaux, Mini Coopers, TV sets, Nike sportswear, Danish butter cookies, Perrier, office supplies, men's and women's under and outerwear, watches, sunglasses and shoes via ship than by bus, truck or train.

Quintana Maritime Ltd. (QMAR-\$16.44), Seaspac Corp. (SSW-\$28.01) and K-Sea Transportation Partners (KSP-\$46.22) should give you good participation in this sector and attractive dividend yields with low to modest volatility. Considering American's seemingly insatiable appetite for foreign-made products, these issues should continue to improve their revenues, earnings and dividends for the foreseeable future.

All three of these issues currently trade a jot and dot below their 52-week top.

QMAR came public in late 2005 at \$10. Today, it has a 96 cent dividend and a 6 percent current yield. In fact, 93 percent of its vessels are chartered this year, 75 percent for 2008 and 70 percent for 2009. Revenues in 2005 were \$40 million and grew to \$101 million in 2006. Earnings this year should come in at 70 cents and are expected to be \$1.27 in 2008, which augurs well for a dividend increase.

SSW pays a dividend of \$1.79, yields 6 percent and came public at \$19 a share in 2005 with \$35 million in cargo revenues. SSW has 41 container ships, 28 of which are leased for 10 to a dozen years. Expected

earnings of 94 cents in 2007 and \$1.08 next year certainly improve the probability of regular dividend increases.

KSP carries a \$2.64 dividend that yields 6 percent and is the old man of the three. KSP has three years of operating history as a public company; a 17.4 percent annualized revenue growth from 2002 to \$210 million in 2006 and 60 cents in earnings per share. Earnings are projected to be \$1.52 this year and \$1.79 in 2008, which suggests possible dividend increase.

Last year, many carriers sought to lock in profitable rates by increasing the proportion of their capacity under long-term charters. However, new vessel construction is likely to grow at a much greater rate than demand and new vessel completions and deliveries are expected to outpace old vessel retirements for the next three to four years. So new construction in progress and new vessel delivery will outpace old vessel retirements for three to four years, which should drive down rates.

Meanwhile, oil tanker earnings (spot market) were lower by 25 percent over the last 12 months due to lower warm-weather demand, plus a fall in demand for gasoline (the first in 20 years) in Europe and the U.S. These are temporary short-term conditions - however I am concerned about the effect of new capacity (crude oil tankers as well as product carriers) on current charter rates. As new deliveries continue to come on line, they will definitely undercut current charters, driving down spot rates and earnings. This is the big concern (next to a global recession) in the shipping industry today.

This sector though has performed quite well since December, notwithstanding the expected fall in rates. While the three issues discussed here should fare well, the sector is likely to weaken, but not nearly as much as it did in the late 1990s nor will it match the low-level earning levels of the 2002 slump.

While I believe SSW, QMAR and KSP have modest appreciation potential, I also believe their intermediate-term appreciation potential will be modest.

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