

Exit James Fisher & Sons: Extreme pessimism got me questioning my thesis

Company:	James Fisher & Sons (FSJ LN)	Market Cap:	£180mio
Industry:	Marine Services	Net debt:	£187mio
Country:	UK, worldwide	Revenue:	£495mio
Date:	16 th March 2022	Net Income:	£10mio (2%)
Dividend:	-	Free Cash Flow:	£48mio (9.7%)
Entry:	£209mio	Exit:	£176mio

A not so pleasant experience

Just days before the results, I wrote an [update](#) on James Fisher & Sons indicating that a turnaround should be around due to the sanctions against Russia and the impact it will have on the niche markets of commodity & energy shipping, servicing and extraction, in which James Fisher & Sons is involved in. The results turned out to be roughly in line with my expectations, in part even beating them. However, the language of the results and the outlook was extremely pessimistic with emphasis on rising costs and high debt load. On the analyst call the pessimistic outlook remained. At one point, a person called Andy Murphy asked a question and the CEO makes a joke, saying “is this Andy Murray, the tennis player?”, while shares were down 25%. On a question related to higher North Sea oil & gas exploration amidst the Russian crisis, he literally said that he doubts there are many reserves left to drill from. Meanwhile, on James Fisher & Sons’ website they uploaded the presentation of the prior year instead of the new one. At the end of the day, I began questioning myself... Did I make a mistake? I was not ready to wait until Tuesday for the investor call and sold the position...

Tuesday’s investor call

On the investor call, the pessimism remained relatively high. I asked 1.) whether the company would handle Russian ship-to-ship (STS) transfers, 2.) whether they see a potential uptick in STS transfers amid less oil & gas going through pipelines from Russia to Europe and hence more from the US and the Arabs

via ship to Europe with active discussions on floating storage vehicles, hence enabling STS transfers in Europe & 3.) how much the Covid restrictions have cost and with them being lifted in the UK and assuming soon worldwide, how much the company would save. The answers were again a mixed bag:

- 1.) They do not handle Russian ships amid the sanctions (although actually only 18 out of 1,505 Russian ships are sanctioned¹).
- 2.) They apparently only discussed this the day prior and are not seeing any uptick yet, but could see this in the future.
- 3.) It would add a few % points to margins for the tanker division and should be beneficial in other regions.

This really didn't give me too much confidence. In my opinion, these are important topics that should have been covered in the results announcement in detail, perhaps with some estimated numbers. Certainly, this could make all the difference and the company would be worth £300mio in market cap today, not £180mio...

Where do we stand now?

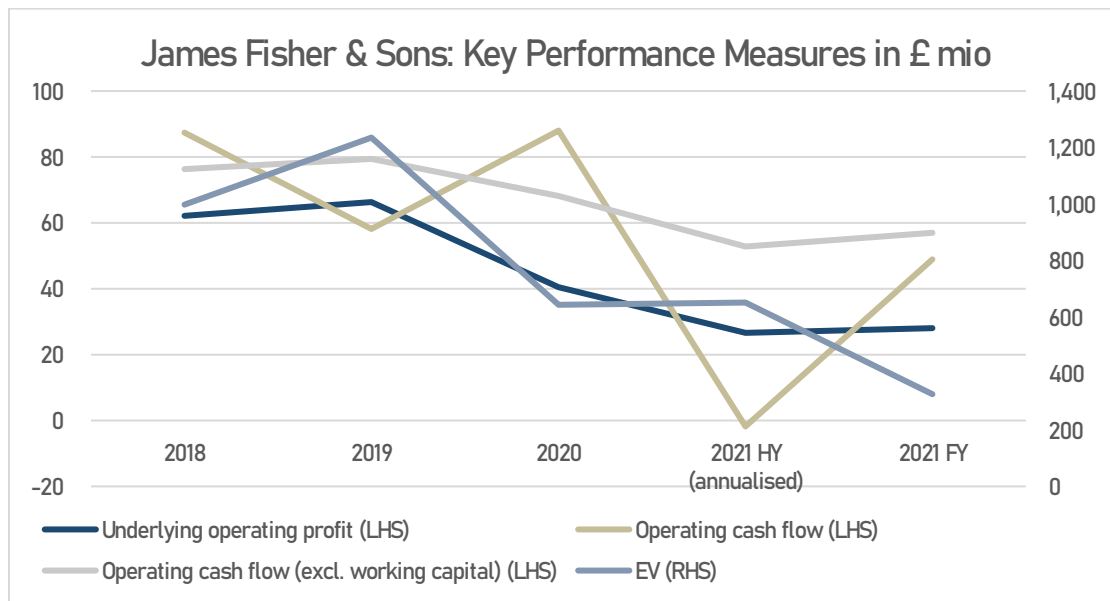
I like to let the numbers talk for themselves, and in this case James Fisher & Sons continues to appear compelling. In particular, the net debt got cut by 30% over the last two years, operating cash flows remain strong and underlying operating profit/Enterprise value is with 9% now a lot higher than in 2018 (6%) and 2019 (5%). However, the gloom displayed by the management has really got me wondered whether there is more bad news to come. They did mention a slight increase in salaries and expect another increase later this year, which is probably driving their poor sentiment, but performance remained within their expectations. I'm somewhat indecisive at this point and look for further insights on a recovery in STS transfers before potentially buying the position back, as this is the key performance driver in a turnaround of James Fisher and Sons.

¹ <https://splash247.com/shipping-walks-tricky-russian-sanctions-tightrope/>

James Fisher & Sons: Attractive valuation (all in £ mio)

	2018	2019	2020	2021 HY (annualised)	2021 FY
Underlying operating profit	62	66	41	27	28
Operating cash flow	87	58	88	-2	49
Operating cash flow (excl. working capital)	76	79	68	53	57
Operating cash flow (excl. working capital, separately disclosed items - mostly intangibles)	78	72	-13	53	11
Net finance costs	6	8	9	8	8
Net debt	145	230	198	211	186
Net debt (excl. leases)	113	200	165	170	140
Market cap	884	1,035	478	481	187
EV	997	1,235	643	651	327
Underlying operating profit / EV	6%	5%	6%	4%	9%

Source: James Fisher & Sons



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