

Update James Fisher & Sons: Ahoi, the turnaround is in sight

Company:	James Fisher & Sons (FSJ LN)	Market Cap:	£254mio
Industry:	Marine Services	Net debt:	£195mio (£40mio net receivables)
Country:	UK, worldwide	Revenue:	£475mio
Date:	8 th March 2022	Net Income:	£25mio (5.2%)
Dividend:	-	Free Cash Flow:	£40mio (8.4%)
Entry:	£209mio	Target market cap:	£300mio

Back to business

As discussed in the prior [report](#), James Fisher & Sons is on a turnaround path, which mostly relies on higher oil & gas expenditures and movements of the commodities. Then the Ukraine invasion by Russia happened and the West put stringent sanctions against Russia. This will likely mean one thing: A faster recovery for James Fisher & Sons...

Ship-to-ship transfers

James Fisher & Sons generates over 40% of their revenues in Marine Support, which includes Fendercare's ship-to-ship transfers and marine contracting, which also has the high voltage servicing business for windfarms, EDS, under its umbrella. Ship-to-ship (STS) transfers have seen a decline last year after an exceptional 2020 when oil prices hit negative prices for the first time and the world ran out of oil inventories, making tankers the ideal storage vehicle. This changed in 2021, not only because the supply/demand balanced, but also partly due to new regulations that don't allow for Automatic Identification System (AIS) being switched off, as is being done to obscure the origin of the ship¹. STSs usually occur for three reasons:

¹ [AIS Switch Off Clause 2021 \(bimco.org\)](https://www.bimco.org/AIS-Switch-Off-Clause-2021)

1. The ship is too large to enter a port and needs to transfer its LNG or oil to a smaller ship
2. The port handling fees are too high and a STS is a better option for certain ships
3. Sanctions make the vessel undesirable, for example sanctions against Iran or Venezuela, or at the moment on Russian ships that cannot enter UK ports. However, they can transfer the oil or LNG legally in international waters to a ship, which can enter UK ports

Point 3 is what is likely happening right now. As Russian ships can't enter UK ports, but Russian oil & gas can, the way to get the Russian oil & gas to the UK port is via STS transfer. I called Fendercare yesterday morning, and they asked me to send an email with the vessel number, confirming that they can transfer oil & gas from Russian ships. Given the significance of this business segment, I expect more activity in this field and there is some confirmation of this happening already now off the coast of the Bahamas². Today, we saw another twist & turn as the US and also the UK seems to be banning Russian oil. I picked up the phone again and spoke to Fendercare, and they have given me the same friendly, helpful answer: "Even if it is Russian oil, it is still possible to handle it, transfer it to another ship and bring it to the UK." All they need is all the details of the ship, the goods, where it's coming from and where it's going etc... The guy on the phone sounded very busy and didn't seem to remember that I already called yesterday!

James Fisher & Sons' Fendercare: Ship-to-ship transfer



Source: James Fisher & Sons

² https://gcaptain.com/russian-sovcomflot-tankers-sanctions-refuge-bahamas/?subscriber=true&goal=0_f50174ef03-e6c2b29582-170437283&mc_cid=e6c2b29582&mc_eid=61a021805a

Tankships

James Fisher & Sons owns around 16 tankers, mostly quite small vessels³. Whilst the tankships division is generating only around 12% of James Fisher & Sons' revenues and was having a few difficult, low margin months, the picture begins to change with Russian sanctions. As gas and oil pipelines to Europe are not being used, the oil and gas is being shipped to other nations, such as China, while Europe needs to receive oil & gas via ship as well. This alone increases demand for tankers in theory. Secondly, the sanctions on Russia has led to self-sanctioning and a generally avoidance of anything Russian. Russia is the fourth largest seaborne exporter of LNG with a 7.8% global share⁴ and hence critical to the market. I have been tracking James Fisher & Sons tanker ships over the last few weeks and last week I saw all ships in usage – although their largest is on a 5 year contract. While new tankers are entering the market this year, supply is set to fall off a cliff in 2023 and 2024 enabling for a strong margin recovery⁵.

Raleigh Fisher: James Fisher & Sons' largest tanker



Source: James Fisher & Sons

³ <https://www.james-fisher.com/about/companies/james-fisher-everard/fleet-list/>

⁴ <https://www.hellenicshippingnews.com/russian-seaborne-lng-exports-reached-30-3-million-tonnes/>

⁵ <https://www.hellenicshippingnews.com/tanker-supply-falling-off-a-cliff/>

Offshore windfarm services

EDS is James Fisher & Sons renewable business that focuses on high voltage cable maintenance of offshore windfarms. This year James Fisher & Sons has received a number of large, long-term contracts in this field at the beginning of the year⁶ and combines two divisions of James Fisher & Sons, EDS and JF Renewables, which enables to offer a broader niche market package to windfarm operators and also includes Rotos 360, their blade repairing business. According to Clarkson Shipping, 3,450 additional wind turbine generators were installed in 2021 alone (with more than half being installed in China), bringing the total turbines in operation worldwide to 10,831⁷. This market is one of the fastest growing markets and the maintenance demand of these windfarms will only go up.

Windfarm infrastructure illustration: Jointing cables



Source: ScienceDirect.com

The Offshore Oil segment of James Fisher and Sons will likely see a recovery now as well, as Clarkson Shipping notes “the average lead-time to execution is typically 12-24 months, we will see offshore activities ramp up from 2023 onwards”⁸.

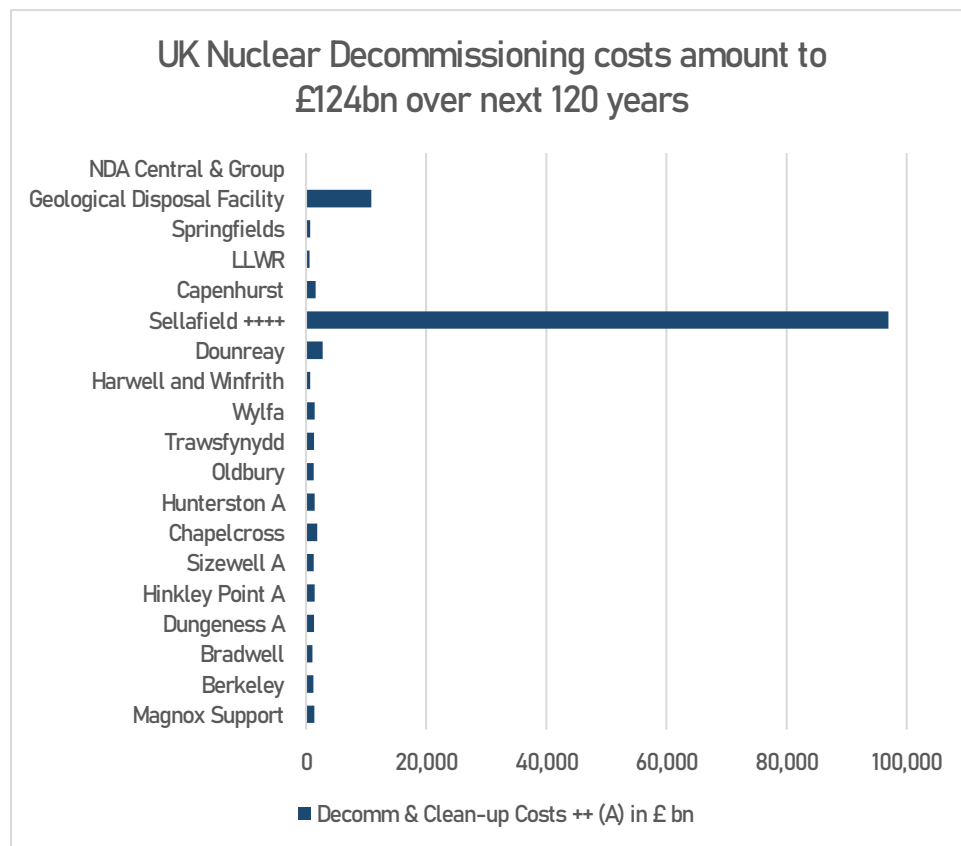
⁶ <https://renews.biz/74737/james-fisher-scores-uk-offshore-hv-om-hat-trick/>

⁷ <https://www.londonstockexchange.com/news-article/CKN/final-results/15355416>

⁸ <https://www.londonstockexchange.com/news-article/CKN/final-results/15355416>

Decommissioning division

In 2021 multiple decommissioning contracts with nuclear facilities were delayed into 2022. Hunterston A was decommissioned early this year and the Dounreay nuclear power plant is expected to be decommissioned later this year⁹ – both are located in Scotland with James Fisher & Sons already being contracted for Hunterston A and also won a decommissioning contract for Dounreay¹⁰. With more decommissioning of oil & gas and old nuclear plants ahead of us, James Fisher & Sons created a whole new division, JF Decom¹¹. Although the revenues in decommissioned nuclear plants will likely be strong in 2022, given the energy crisis it is likely to see the lifetime of nuclear plants and oil & gas fields extended for as long as possible.



Source: Gov.uk

⁹ <https://sectors.sepa.org.uk/media/1105/nuclear-sector-plan-pdf.pdf>

¹⁰ <https://www.ifnl.co.uk/media/news-and-press-releases/first-design-contract-win-dounreay/>

¹¹ <https://www.james-fisher.com/media/press-releases/james-fisher-address-needs-expanding-decommissioning-market-launch-dedicated-business-line/>

Conclusion

James Fisher & Sons is still somewhat far from my initial fair market value. However, the sanctions need to be monitored, as politicians will likely look to regulate the STS transfer market further in order to make the sanctions more effective. For the moment, I expect all subdivisions of James Fisher & Sons to recover and perform strongly.



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