Turnaround: James Fisher & Sons, a diversified Marine Service firm

Company:	James Fisher & Sons (FSJ LN)	**Market Cap:**	£213mio
Industry:	Marine Services	**Net debt:**	£195mio (£40mio net receivables)
Country:	UK, worldwide	**Revenue:**	£475mio
Date:	14th January 2022	**Net Income:**	£25mio (5.2%)
Dividend:	-	**Free Cash Flow:**	£40mio (8.4%)
Entry:	£220mio	**Target market cap:**	£300mio

Introduction

James Fisher & Sons separates its business into four divisions, namely Marine Support (Fendercare, JF Marine & Testing Services & Subtech, EDS), Specialist Technical (JFD, JFN), Offshore Oil (Scantech Offshore & AS, RMSpumptools) and Tankships (JFE, Cattedown Wharves), and serves eight maritime markets, namely Oil and Gas, Marine, Nuclear, Defence, Transport and Infrastructure, Renewable Energy, Ports and Terminals and Construction. Over years margins and performance of the business have been relatively stable. Then Covid came and caused a reduction in business volume and volatility in its Marine Support and Specialist Technical divisions, missing the firm's margin goal of 10% and return on capital employed goal of 15% widely. Moreover, ship-to-ship transfers, which are listed within Marine support (Fendercare), have remained below expectations in recent weeks and the market appears to have fundamentally shifted to new regions. At the same time, JFD's short-cycle diving equipment and nuclear decommissioning demand remains below 2019 levels with contracts being delayed from 2021 into 2022. The renewed decline in profitability has led to a collapse in the firm's market capitalization from over £1bn in 2019 to merely £150mio in December 2021 – less than ~2x operating cash flows of 2020!

57 Lansdowne House, Berkeley Square, London W1J 6ER
www.aozorastep.com · david@aozorastep.com

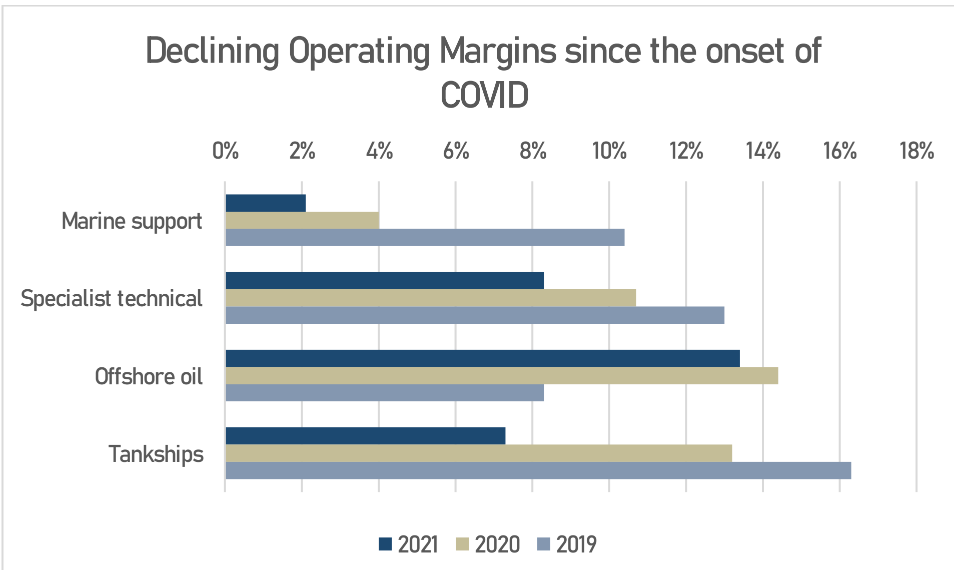
James Fisher & Sons divisional performance 2019-2021

2021*	Marine support	Specialist technical	Offshore oil	Tankships
Revenue (in £ mio)	200	135	80	60
Margin	2%	8.3%	13.4%	7.3%
ROCE	3.7%	11.2%	9.2%	20.1%

2020	Marine support	Specialist technical	Offshore oil	Tankships
Revenue (in £ mio)	249	130	78	60
Margin	4%	10.7%	14.4%	13.2%
ROCE	5%	12.9%	8.9%	25.5%

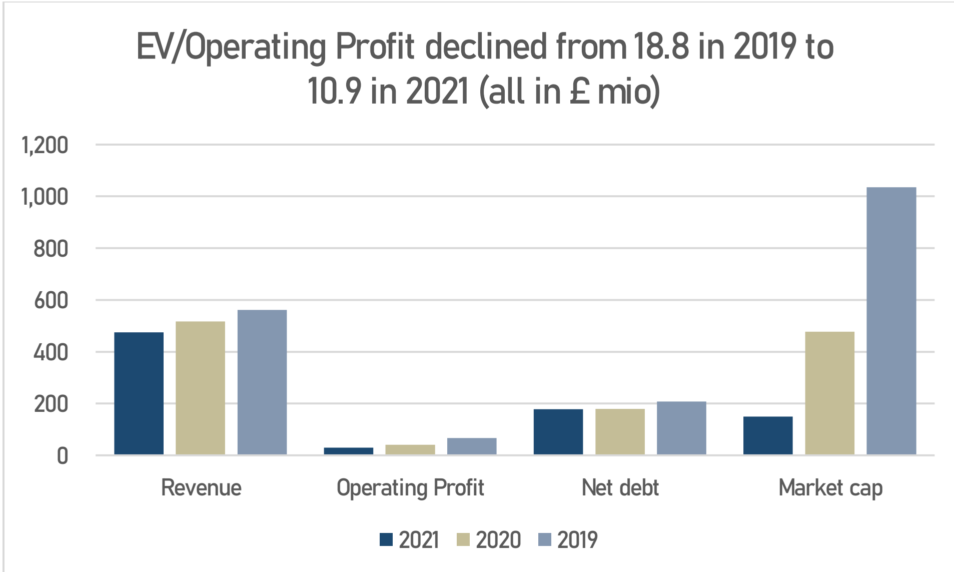
2019	Marine support	Specialist technical	Offshore oil	Tankships
Revenue (in £ mio)	312	149	88	68
Margin	7.9%	12.3%	16.1%	17.7%
ROCE	11.9%	16.7%	10.3%	35.4%

Source: James Fisher & Sons, *estimated



Source: James Fisher & Sons

57 Lansdowne House, Berkeley Square, London W1J 6ER
www.aozorastep.com · david@aozorastep.com



Source: James Fisher & Sons

Is a recovery in sight for 2022?

Despite James Fisher and Sons having four different divisions, they all intercorrelate with each other and the key for the recovery is really a recovery in the oil & gas market. In this sense, with an energy crisis at our doorstep I expect higher capital expenditures from oil & gas producers, higher oil production, leading to more oil & gas being shipped around the world. In other words, companies will need to start spending and investing again, in particular the energy industry. The big ticket items that declined in revenue for James Fisher and Sons were relatively concentrated in the marine support segment, as subsea projects for offshore and oil & gas were substantially lower than in 2019 (£70mio less in revenue). This is set to turn around, as many North Sea oil & gas producers have reduced capital expenditures only until end of 2021, e.g. EnQuest. At the same time, their subsidiary EDS has won some new 13-15 year contracts for offshore wind maintenance recently[1]. The Fendercare business will likely need to wait until ship-to-ship transfers are back to pre-pandemic levels, but they are recovering. Last but not least, the payment for the LNG project in Mozambique was received late last year bringing their net debt likely down to £175mio.

When it comes to the Specialist technical division, their nuclear decommissioning arm, JFN, has seen projects being pushed from 2021 into 2022, which was likely related to Hunterston B nuclear plant in Scotland, which was decommissioned last week. There has been plenty of news on this subject lately, as

[1] https://renews.biz/74737/james-fisher-scores-uk-offshore-hv-om-hat-trick/

57 Lansdowne House, Berkeley Square, London W1J 6ER
www.aozorastep.com · david@aozorastep.com

Germany is shutting down their nuclear plants and France's EDF is struggling with many of its nuclear plants suffering from corrosion problems. At the same time, James Fisher & Sons's defence and diving equipment provider, JFD, is closing in on a £400mio sales pipeline.

Their Offshore Oil business has been performing relatively strongly and, although with slightly lower margins, is overall the least affected by the pandemic amid high demand for air compressors of their Scantech business and strong demand for decommissioning of oil platforms and wells.

The Tankships division is expected to operate at lower than usual margins, especially in light of higher new tankship supply compared to the number being scrapped in 2022[2], which will delay any margin recovery at least into 2023.

James Fisher & Sons Revenues in 2020/21

£m	2020	2021
Q1	129.4	109.3
Q2	128.7	124.4
Q3	125.7	135.2
Q4	134.4	

Source: James Fisher & Sons

Why buy after a 40% rise?

I have been monitoring James Fisher and Sons for nearly a year and when the market capitalization hit £150mio, I was finally ready to invest. However, I had to clear some questions beforehand, which took longer than expected. Although buying at a £220mio valuation, or £415mio enterprise value, with a recovery in revenues in sight, profits could grow to around £50mio, enabling to reduce net debt, which has likely already brought the enterprise value below £400mio. In this sense, the upside I have identified for the near term is only around 35%, less than the usual 40%+ I'm targeting. Nonetheless, James Fisher & Sons is set to benefit from the inevitable: A recovery in capital expenditures from the energy sector. Insider buying at £200mio market cap supports this view.

[2] https://lloydslist.maritimeintelligence.informa.com/LL1139479/Tanker-scrapping-key-to-profitability--or-market-recovery-further-delayed

57 Lansdowne House, Berkeley Square, London W1J 6ER
www.aozorastep.com · david@aozorastep.com

Legal Disclaimer

57 Lansdowne House, Berkeley Square, London W1J 6ER
www.aozorastep.com · david@aozorastep.com