

Braemar

Interim results

Evidence of strategic success should drive value

Industrial support services

24 November 2022

Price **323p**

Market cap **£105m**

US\$1.16/£

Net cash at 31 August 2022 £1.8m

Shares in issue 32.2m

Free float 100%

Code BMS

Primary exchange LSE

Secondary exchange N/A

The strong interim results and robust trading in H2 so far confirm that Braemar is in a good position to capitalise on management action taken over the last two years. The disposal of non-core assets and the debt-free balance sheet leave Braemar well-positioned to drive its future growth strategy, as [previously outlined](#). The new Natural Gas desk is one such example. The trading outlook is promising and Braemar will be able to leverage its strong balance sheet in pursuit of strategic growth. We retain our existing FY estimates and our DDM based 520p per share valuation.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
02/21	83.7	6.7	16.2	5.0	17.9	1.7
02/22	101.3	8.9	23.1	9.0	14.0	2.8
02/23e	130.6	19.2	46.3	12.0	7.0	3.7
02/24e	112.5	15.9	37.0	13.5	8.7	4.2

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Share price performance



% 1m 3m 12m

Abs 9.6 19.1 52.7

Rel (local) 1.5 19.3 54.3

52-week high/low 340p 201p

Business description

Braemar is the second largest shipbroker in the world, providing broking services to the dry cargo, deep sea tanker, specialised tanker and sale and purchase markets. It also addresses the fast-growing areas of offshore and renewables, securities and financial markets.

Next events

Preliminary results May 2023

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Interims confirm robust trading

The underlying markets have been favourable for Braemar, which is reflected in revenue growth, as is the benefit of recent strategic changes. Total revenue in sterling terms in H1 increased 46% to £69.4m, while in US dollar terms revenue increased 36%. Operating profit was further boosted by operational gearing that saw operating profit increase 95% to £10.9m. EPS increased from 17.6p to 31.8p, from which Braemar has declared an interim dividend of 4p, in line with our expectations. Braemar ended the period with a net cash position of £1.8m having had a net debt position of £9.3m at the end of February 2022.

Strategic actions evidenced in results

Following the streamlining of the business by disposing of non-core activities, Braemar has now restructured the reporting lines into three divisions: 'Investment Advisory' containing Sale and Purchase (S&P) and Corporate Finance; 'Chartering', which contains the four ship chartering lines; and 'Risk Advisory', which is the old Securities business. Management believes that the outlook is encouraging too. We anticipate that Braemar will continue to seek new income streams from underserved markets. The addition of a new 10-strong Natural Gas team in October is evidence of this. This team will focus on opportunities to broker European Union (EU) gas, UK National Balancing Point (NBP) gas and liquefied natural gas (LNG) as well as EU carbon allowances.

Valuation: DDM confirms 520p/share

In August we materially raised our FY23 and FY24 estimates to reflect the better-than-expected FY22 results, and these interim results confirm the positive underlying conditions and FY23 expectations, which are driven by good markets, strategic progress and the strong US dollar. For FY24, we expect underlying growth but take a cautious view on foreign exchange rates and assume a reversal to rates similar to FY22. Following the interims, we retain our existing forecasts and our dividend discount model (DDM) based valuation of 520p/share.

Refocused strategy leads to 36% underlying revenue growth

Strong underlying markets and decisive management action to streamline the business have proved successful drivers in setting Braemar on the path to consistent underlying growth. Headline revenue growth of 47% benefited from sterling weakness versus the US dollar, and at the headline level, revenue increased by 36% on a constant currency basis highlighting the progress. Operating profit nearly doubled, but grew an estimated 41% on a constant currency basis. Trading and asset disposals leave Braemar in a net cash position at the half year.

Operational gearing drives a near doubling of profit

Chartering was very strong with total revenue up 68% to £44.9m and operating profit up 177% to £6.9m. The key driver was Deep Sea Tankers that benefited from the chaos originating with Russia's invasion of Ukraine as oil flows were disrupted and there was a considerable increase in ton miles. This has led to an increase in time charter cover and to longer charter periods. The division also benefited from a limited order book and impending environmental regulation changes that are delaying new vessel decisions. Clean tanker markets, particularly in the Middle and Far East, are witnessing similar trading conditions, and Specialised tankers benefited from good market conditions and from Braemar's growing global reach.

Also in the Chartering division, Offshore Energy Services grew 10% as demand grew for both oil and gas services, as well as from a thriving renewables market. In Dry Cargo, revenue rose 61% as declining post-COVID-19 disruption was met with a reduced cargo supply, again due to the war in Ukraine, and an increase in the customer base.

In Investment Advisory, total revenue increased 8% to £16.3m, driven by a 36% increase in S&P income from investors seeking asset plays, fleet renewals and other individual shipowner strategies. The level of incoming enquiries here has been strong. Corporate Finance income declined 45%, largely due to the timing of 'lumpy' income. H2 is expected to be better. Overall, Investment Advisory operating profit reduced 12% to £3.7m.

In Risk Advisory, revenue increased 48% to £8.2m and operating profit rose 53% to £1.5m as both wet and dry cargo forward freight agreements grew revenue and market share. In Dry Cargo, some quarantine restrictions have eased and prices have followed. However, the market has remained robust with high volumes. The Natural Gas team sits under Risk Advisory and its ability to broker EU carbon allowance gives Braemar a capability that most competitors do not have. Activity here will have many synergies with other desks, particularly in Chartering. This enhanced capability will enable Braemar to play a leading role helping its clients meet their forthcoming obligations under EU laws when they arrive in 2023/24.

Exhibit 1: Braemar interim headline trading results

£m	H122	H123	% chg	% chg (CER)
Revenue				
Chartering	26.8	44.9	67.7%	-
Investment advisory	15.0	16.3	8.4%	-
Risk advisory	5.6	8.2	47.5%	-
Total revenue	47.4	69.4	46.5%	36.0%
Operating profit				
Chartering	2.5	6.9	176.9%	-
Investment advisory	4.2	3.7	-11.5%	-
Risk advisory	1.0	1.5	52.7%	-
Total operating profit	7.7	12.1	58.1%	-
Central costs	(2.1)	(1.2)	-41.2%	-
Underlying operating profit	5.6	10.9	94.6%	41.0%
Operating margin				
Chartering	9.3%	15.4%	6.1%	-
Investment advisory	27.9%	22.8%	-5.1%	-
Risk advisory	17.1%	17.7%	0.6%	-
Underlying operating margin	11.8%	15.7%	3.9%	0.4%

Source: Braemar, Edison Investment Research

Exhibit 2: Financial summary

	£m	2019	2020	2021	2022	2023e	2024e	2025e
Year end 28 February		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT								
Revenue		117.9	117.7	83.7	101.3	130.6	112.5	115.8
EBITDA		10.4	14.4	11.4	13.5	23.6	19.9	20.3
Normalised operating profit		9.1	11.0	7.7	10.1	20.1	16.4	16.8
Amortisation of acquired intangibles		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptionals		(12.5)	(3.8)	(1.5)	(0.3)	0.0	0.0	0.0
Other		0.5	0.7	0.0	0.0	0.0	0.0	0.0
Reported operating profit		(2.9)	7.9	6.2	9.7	20.1	16.4	16.8
Net Interest		(0.2)	(1.4)	(1.1)	(1.2)	(1.0)	(0.5)	(0.3)
Joint ventures & associates (post tax)		0.0	(0.3)	0.0	(0.0)	0.0	0.0	0.0
Profit Before Tax (norm)		8.9	9.4	6.7	8.9	19.2	15.9	16.5
Profit Before Tax (reported)		(3.1)	6.3	5.1	8.5	19.2	15.9	16.5
Reported tax		(1.5)	0.0	(1.6)	(1.8)	(4.2)	(4.0)	(4.1)
Profit After Tax (norm)		7.3	9.4	5.1	7.0	14.9	11.9	12.4
Profit After Tax (reported)		(4.7)	6.3	3.6	6.7	14.9	11.9	12.4
Minority interests		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Discontinued operations		(22.7)	(2.3)	1.0	7.2	0.0	0.0	0.0
Net income (normalised)		7.3	9.4	5.1	7.0	14.9	11.9	12.4
Net income (reported)		(27.4)	4.0	4.5	13.9	14.9	11.9	12.4
Basic average number of shares outstanding (m)		31	31	31	31	32	32	32
EPS - basic normalised (p)		23.78	30.19	16.23	23.06	46.34	36.97	38.30
EPS - diluted normalised (p)		21.79	27.28	13.43	18.79	38.17	30.46	31.57
EPS - basic reported (p)		(88.63)	12.88	14.45	45.56	46.34	36.97	38.30
Dividend (p)		5.00	5.00	5.00	9.00	12.00	13.50	14.00
Revenue growth (%)		14.4	(-0.2)	(-28.9)	21.0	29.0	(-13.9)	0.0
EBITDA Margin (%)		8.8	12.3	13.6	13.4	18.1	17.7	17.5
Normalised Operating Margin		7.7	9.4	9.2	9.9	15.4	14.6	14.5
BALANCE SHEET								
Fixed Assets		91.7	114.7	106.6	99.8	97.3	94.7	92.2
Intangible Assets		86.0	86.2	86.1	80.9	81.1	81.4	81.6
Tangible Assets		2.0	11.9	9.8	7.1	4.3	1.5	(1.3)
Investments & other		3.7	16.5	10.7	11.9	11.9	11.9	11.9
Current Assets		71.9	68.3	51.7	52.8	78.2	76.1	82.9
Stocks		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debtors		37.1	39.5	34.8	38.8	49.0	41.6	44.0
Cash & cash equivalents		24.1	28.7	16.4	14.0	29.2	34.5	38.9
Other		10.6	0.0	0.4	0.0	0.0	0.0	0.0
Current Liabilities		92.0	78.9	51.9	42.8	59.4	52.5	54.6
Creditors		44.9	47.6	45.6	39.3	52.9	45.7	47.0
Tax and social security		1.4	1.3	1.3	1.6	4.0	3.7	3.9
Short term borrowings		35.8	25.1	0.0	0.0	0.3	0.6	0.9
Other		9.8	4.8	4.9	1.9	2.2	2.5	2.8
Long Term Liabilities		13.2	44.9	39.9	34.8	34.8	34.8	34.8
Long term borrowings		4.6	2.6	2.7	2.8	2.8	2.8	2.8
Other long term liabilities		8.6	42.2	37.3	32.0	32.0	32.0	32.0
Net Assets		58.4	59.2	66.5	75.1	81.3	83.6	85.8
Minority interests		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Shareholders' equity		58.4	59.2	66.5	75.1	81.3	83.6	85.8
CASH FLOW								
Op Cash Flow before WC and tax		(1.8)	9.7	8.8	12.0	22.6	19.4	20.0
Working capital		4.6	(0.4)	4.1	5.2	3.7	0.4	(0.8)
Exceptional & other		0.0	0.0	0.0	0.0	0.0	0.0	1.0
Tax		(1.1)	1.2	(0.8)	(2.2)	(1.8)	(4.2)	(4.0)
Other		6.1	1.4	1.8	6.2	0.6	0.2	(0.0)
Net operating cash flow		7.8	11.8	13.9	21.3	25.1	15.8	16.2
Capex		(2.4)	(1.7)	(1.1)	(1.2)	(1.3)	(1.3)	(1.3)
Acquisitions/disposals		(1.7)	(6.3)	3.7	(8.1)	1.3	1.3	1.3
Net interest		(0.9)	(1.5)	(1.2)	(0.8)	(1.0)	(0.5)	(0.3)
Equity financing		23.0	3.9	(28.9)	(2.5)	(2.5)	(2.5)	(2.5)
Dividends		(4.6)	(4.6)	0.6	(2.1)	(2.9)	(3.9)	(4.4)
Other		(2.4)	0.0	(0.9)	(7.0)	(3.5)	(3.5)	(3.5)
Net Cash Flow		18.7	1.6	(13.9)	(0.5)	15.2	5.3	5.4
Opening net debt/(cash)		2.4	11.7	20.0	8.8	9.3	(5.9)	(11.2)
FX		(1.1)	(0.8)	(0.7)	0.3	0.0	0.0	0.0
Other non-cash movements		(26.9)	(9.0)	25.8	(0.3)	0.0	0.0	0.0
Closing net debt/(cash)		11.7	20.0	8.8	9.3	(5.9)	(11.2)	(16.6)

Source: Braemar, Edison Investment Research

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