



### Shin Yang Shipping Corp Berhad

Main Market/ Syariah Compliant

#### Recommendation : -

Expected Price = RM1.35 per share

#### Content : -

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|  |                            |
|--|----------------------------|
| IPO Price:   | RM1.28 per share           |
| # of IPO Shares  | 305,186,000 shares         |
| # of Public Issue New Shares                             | 176,386,000 shares         |
| # of Existing Shares Offer for Sale                      | 128,800,000 shares         |
| IPO Closing Date:  | 8 <sup>th</sup> June 2010  |
| Listing Date:  | 23 <sup>rd</sup> June 2010 |
| Par Value  | RM1.00                     |
| Enlarged and Paid Up Capital                             | RM1,200,000,000.00         |
| Authorised Share Capital                                 | RM3,000,000,000.00         |
| Market Capitalization<br>(1,200,000,000 shares x RM1.28) | RM1,536,000,000.00         |

| Proceeds Utilization |  | Amount<br>(million) | Time Frame<br>(month) |
|----------------------|--|---------------------|-----------------------|
| 1.                   | Part finance construction of additional 7 vessels for shipping operations                        | RM115.7             | 36 months             |
| 2.                   | Part finance expansion of shipbuilding capacity and establishment of new shipbuilding facilities | RM61.20             | 24 months             |
| 3.                   | Working capital  | RM49.02             | 3 months              |
| 4.                   | Estimated listing expenses   | RM8.00              | immediate             |
| Total                |  | RM233.9             |                       |

Leveraged on a fleet of 245 vessels with a total GRT of 300,000 tonnes, and the advantage of an integrated player in shipping industry, Shin Yang Shipping Corporation Berhad saw its top-line growing positively in the past 3 years with an EPS of RM0.099 for FYE 30 June 2009

Shin Yang Shipping Corporation Berhad is selling at a price to book value of 1.15 x (times). This number is not considered overvalued compared to that of Malaysian Bulk Carrier Berhad of 1.60 x and Coastal Contracts Berhad of 1.84 x.

In a move to further capture business opportunities in Middle East region, the Group will be setting up shipbuilding and ship repair & maintenance operations there.

#### 1. BUSINESS HISTORY

Shin Yang Shipping Corporation was incorporated under the ACT on 15 September 2004 as private limited It was subsequently converted to a public limited company on 20 November 2009.

However, its business history can be traced back to 1983 when Shin Yang Sdn Bhd was incorporated as a logging company with shipping activities. It ventured into cargo shipping in 1994 followed by international shipping of chemicals in 2004.

#### 2. PRINCIPAL ACTIVITIES

Shin Yang Shipping Corporation Berhad is principally involved in the provision of domestic and international shipping services supported by a fleet of 245 vessels with a gross register tonnage (GRT) of 300,000 tonnes and 3 shipbuilding yards of approximately 248 acres in Sarawak.

Its wholly owned subsidiaries are Danum Shipping, Piasau Shipways, Shinline, Shin Yang Shipping, Shin Yang Shipyard and Thailine. Other subsidiaries and associated companies include Shin Yang FZC (90% owned), Trelco FZC (60% owned), Marsol LLC (49% owned), Al Ghaith LLC (40%), and Deena LLC (49%), etc.

Shin Yang Shipping Corporation Berhad's current scale of business operations are domestic shipping (142 vessels plying in the coastal and regional waters of M'sia), international shipping (42 vessels

calling at various ports in Japan, China, India, Russia, etc), Middle East shipping (54 vessels operates in ports of UAE, Saudi Arabia, Qatar, Bahrain, Oman, etc).

Apart from shipping operations, the Group has also encompassed its operations in area of shipbuilding and ships repair in places; such as Miri, Bintulu, Tanjung Manis of Sarawak, and UAE.

### 3. **KEY PERSONNEL**

Mr Ling Chiong Sing, aged 53, Group Managing Director. He has more than 20 years of extensive and hands-on knowledge on business activities ranging from shipping, shipbuilding, and ships repair & maintenance. He is responsible for projects planning & management, and business development.

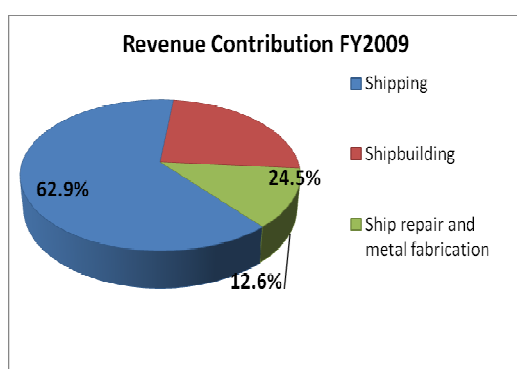
### 4. **SUBSTANTIAL SHAREHOLDERS**

| Name              | Direct shareholding after IPO |
|-------------------|-------------------------------|
| Shin Yang Holding | 55.0%                         |
| Ling Chiong Ho    | 2.9%                          |
| Ling Chiong Sing  | 2.9%                          |
| Ling Chiong Pin   | 2.9%                          |
| Ling Chiong Sieng | 2.9%                          |

FYI, Ling Chiong Ho, Ling Chiong Sing, Ling Chiong Pin, Ling Chiong Sieng hold 25% stake each in Shin Yang Holding.

### 5. **REVENUES SEGMENTATION BY LOCATIONS & PRODUCTS**

| Locations | FPE 5-m 30/11/2009 | FYE 30/6/2009 |
|-----------|--------------------|---------------|
| M'sia     | 63.1%              | 70.1%         |
| Overseas  | 36.9%              | 29.9%         |



| Business Activities             | FPE 5-month 30/11/2009 | FYE 30/6/2009 |
|---------------------------------|------------------------|---------------|
| Shipping                        | 66.1%                  | 62.9%         |
| Shipbuilding                    | 29.8%                  | 24.5%         |
| Ship repair & maintenance       | 2.1%                   | 11.9%         |
| Fabrication of metal structures | 2.0%                   | 0.7%          |

Shipping segment has been the main income earner for Shin Yang Shipping Corporation Berhad with an more than two third contributions to the Group's revenue in the past three financial years (2007 – 2009).

Its major customer, Shin Yang Holding Group (a leading plywood operator in Malaysia exporting timber and wood-based products to overseas customers on C & F terms in a move to provide competitive and timely shipping services) accounted for 31.5% and 30.6% of Group's turnover for FYE 30 June 2009 and 5-m FPE 30 Nov 2009 respectively.

### 6. **INDUSTRY MARKET SIZE**

In 2009, there were about 200 companies registered with Malaysia Shipowners' Association, and approximately 70 shipyards in the country.

According to prospectus, the industry size of shipping and shipbuilding in Malaysia for 2009 was estimated at 390.6 million freight weight tonnes in term of total cargo throughput. As reported, this number represented a drop of 5.9% from 2008.

Shin Yang Shipping Corporation Berhad's market share in overall shipping industry was estimated at 1%.

The Group was ranked Third in Malaysia based on total gross registered tonnage of all vessels owned and used for transportation of goods for third parties; but, ranked First based on number of vessels owned and used for transportation of goods for third parties.

As for the size of overall shipbuilding industry in Malaysia, it was estimated at RM3.4 billion in 2009. Shin Yang Shipping Corporation Berhad commanded a market share of 14%.

As of 10 May 2010, Shin Yang Shipping Corporation Berhad has an order book for shipbuilding operations of RM144.5 million to construct 9 units of vessels.

## 7. BUSINESS MODEL

Shin Yang Shipping Corporation derives its revenues mainly from domestic & international shipping, shipbuilding and ships repair & maintenance.

The business exposure to a more balanced mix of shipping routes (domestic, international and regional) is likely to be healthier in the long term.

And, the shipbuilding business is believed NOT on one-time basis as there will be recurring income in area of ship repair & maintenance services to its vessel buyers.

Furthermore, the in-house repair & maintenance and shipbuilding is going to help the Group to achieve lower shipping operating cost and lower shipping asset cost.

## 8. FUTURE PLAN

Shin Yang Shipping Corporation Berhad intends to construct 4 new vessels for Malaysia market and 3 new vessels for Middle East market.

On this note, Shin Yang Shipping Corporation Berhad must not be overly aggressive, this is to avoid excess capacity situation and make sure that the Group could continue to perform well even in an economic fundamentally weak climate.

In addition, the Group should also find a flexible approach to ensure enough capacity during high demand and not too much excess capacity during a demand trough period, this is to minimize idle days and increase vessels utilization rate.

On business expansion plan in Middle East region, the Group will be setting up a new shipbuilding and repair operations in Ras Al Khaimah, UAE. The operations commencement in UAE is expected to kick off by third quarter of 2010.

Domestically, the Group will also be establishing a new shipyard with a land area of 210 acres in Tanjung Manis, Sarawak, besides putting in more facilities at existing shipyard 2 in Kuala Baram, Sarawak.

## 9. SELECTED FINANCIAL STATE ANALYSIS

| Selected Bal Sheet (RM 000)           |                       | FPE 5-months 30 Nov 2009 |                 |  |
|---------------------------------------|-----------------------|--------------------------|-----------------|--|
| Current Assets                        |                       | 532,353                  |                 |  |
| Cash in Hand                          |                       | 64,658                   |                 |  |
| Inventory                             |                       | 166,974                  |                 |  |
| Trade Receivable                      |                       | 299,580                  |                 |  |
| LT Assets                             |                       | 1,604,789                |                 |  |
| Total Assets                          |                       | 2,137,142                |                 |  |
| Current Liabilities                   |                       | 489,727                  |                 |  |
| ST Debt                               |                       | 327,316                  |                 |  |
| Trade Payable                         |                       | 156,294                  |                 |  |
| LT Liabilities                        |                       | 309,903                  |                 |  |
| LT Debt                               |                       | 185,580                  |                 |  |
| Total Liabilities                     |                       | 799,630                  |                 |  |
| S/holders Equity                      |                       | 1,337,512                |                 |  |
| Selected Income State(RM 000)         | FPE2009 5-mths 30 Nov | FYE2009 30 June          | FYE2008 30 June |  |
| Revenue                               | 275,502               | 673,487                  | 595,058         |  |
| PBT                                   | 76,701                | 112,710                  | 156,629         |  |
| EBITDA                                | 110,590               | 200,175                  | 233,271         |  |
| PAT                                   | 67,806                | 101,333                  | 161,821         |  |
| # o/s shares                          | 1,200,000,000         |                          |                 |  |
| BV per share                          | RM1.11                |                          |                 |  |
| EPS (annualized)                      | 14 sen                |                          |                 |  |
| Ratio Analysis                        |                       | FYE 2009                 |                 |  |
| Table 1.1 Profitability Ratio         |                       |                          |                 |  |
| 1. ROA (annualized)                   |                       | 7.6%                     |                 |  |
| 2. ROE (annualized)                   |                       | 12.2%                    |                 |  |
| Table 1.2 Liquidity Ratio             |                       |                          |                 |  |
| 1. Current Ratio                      |                       | 1.09 x                   |                 |  |
| 2. Quick Ratio                        |                       | 0.75 x                   |                 |  |
| Table 1.3 Management Efficiency Ratio |                       |                          |                 |  |
| 1. ITO                                |                       | 1.13 x                   |                 |  |
| Table 1.4 Leverage Ratio              |                       |                          |                 |  |
| 1. Total Debt/Total Asset             |                       | 37.4 %                   |                 |  |

ITO = Inventory turnover (CSG/Inventory).

ROA = Return on asset; ROE = Return on equity

PBT=Profit before tax; PAT=Profit after tax.

### Profitability Ratio (Table 1.1)

Shin Yang Shipping Corporation Berhad registered a ROA (annualize) and ROE (annualized) of 7.8% and 12.7% respectively for FPE 5-m 30 Nov 2009.

The Group has seen consistent growth in revenues from FYE 2007 to FYE 2009; but, suffered a drop of 37% in after-tax profit for FYE 2009 on recognition of impairment loss on appraised value of property, plant & equipment.

### Liquidity Ratio (Table 1.2)

The current ratio of 1.09 x (times) indicated that Shin Yang Shipping Corporation Berhad has the ability to pay its current liabilities with current asset. In other words, it has RM1.09 in current asset for every RM1.00 of current liability.

The quick ratio of 0.75 x (times) showed that for every RM1.00 of current liability, the Group has RM0.75 to cover those immediate obligations.

### Management Efficiency Ratio (Table 1.3)

Shin Yang Shipping Corporation Berhad held a low level of inventory turnover at 1.13 x (times) as of 5-month FPE 30 Nov 2009.

A low inventory turnover ratio showed a sign of ineffective inventory management. However, Shin Yang Shipping Corporation Berhad could be holding high inventory for legitimate reasons; i.e. for constructing new vessels as the nature of shipbuilding industry has been capital intensive, pressure to deliver vessels on stipulated time, etc.

And, out of RM532.3 million in current asset, RM299.5 million (or equivalent of 56%) was tied up in trade receivable. This high amount of receivable could have indicated that the Group was extending credit to more customers.

### Leverage Ratio (Table 1.4)

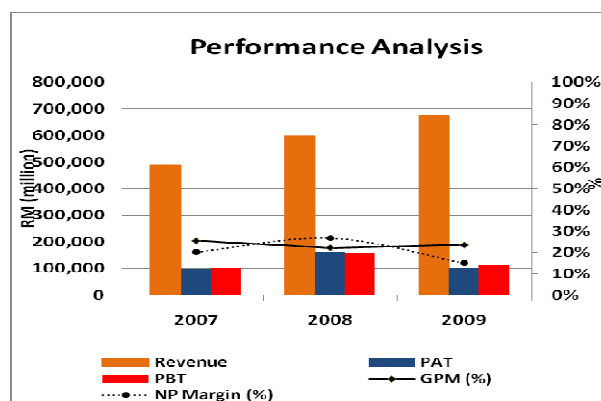
As of 5-month FPE 30 Nov 2009, Shin Yang Shipping Corporation Berhad carried quite a significant amount of debt, the gross gearing of 37.4% meaning that every Ringgit Malaysia of asset was financed with RM0.37 of debt.

The Group was sitting on a net debt position of about RM448 million; however, it was able to cover interest expense with 8.09 x operating income.

## 10. MARGIN ANALYSIS

|         | FPE 5-m 2009 | FYE 2009  | FYE 2008  |
|---------|--------------|-----------|-----------|
| GPM     | 31.7%        | 23.4%     | 22.1%     |
| NPM     | 24.6%        | 15.0%     | 27.1%     |
| Revenue | 275.5 mil    | 673.4 mil | 595.0 mil |
| PAT     | 67.8 mil     | 101.3 mil | 161.8 mil |
| PBT     | 76.7 mil     | 112.7 mil | 156.6 mil |

GPM = Gross profit margin      NPM = Net profit margin  
PAT = Profit after Tax          PBT = Profit before Tax



Shin Yang Shipping Corporation Berhad has been able to register a gross margin of 23% (average) from 2007 to 2009; but, the other operating income (includes gain on disposal of property, plant & equipment, and forex) has also been one factor that affected net profit margin observed in the same periods.

As of 10 May 2010, the Group's foreign currency borrowings accounted for 17.5% of its total borrowings.

## 11. DIVIDEND POLICY

The Directors of Shin Yang Shipping Corporation Berhad intend to pay dividend in the future; but, subject to available of profits/excess funds.

## 12. VALUATION

| 4June10  | Sealink | Maybulk | Coastal | Shin Yang |
|----------|---------|---------|---------|-----------|
| Price    | 0.645   | 2.97    | 2.33    | 1.28      |
| P/E (x)  | 6.44    | 11.9    | 5.17    | 9.08 *    |
| P/S (x)  | 1.67    | 9.78    | 1.81    | 2.32 *    |
| P/CF (x) | 5.81    | 10.6    | 5.17    | 6.87 *    |
| N A (RM) | 0.50    | 1.86    | 1.27    | 1.11      |

\*=Annualized, E=Earnings, S=Sales, CF=Cash Flow, NA=Net Asset, are based on per share basis for FYE 31 Dec 2009.

Based on the information provided in the prospectus, Shin Yang Shipping Corporation Berhad is considered a stock with above average low risk rating in terms of financial and operational.

Financial – Shin Yang Shipping Corporation Berhad saw increases in revenue over past 3 years (673.4 mil – 2009 versus 595.0 mil – 2008; 595.0 mil – 2008 against 486.6 mil – 2007) with positive after-tax profit in the same corresponding periods. It has just a normal working capital solvency.

Operational – Shin Yang Shipping Corporation Berhad has a competitive advantage and balanced business model in a stable shipping industry.

A valuation analysis in determining expected share price of Shin Yang Shipping Corporation Berhad indicated a level of RM1.35.