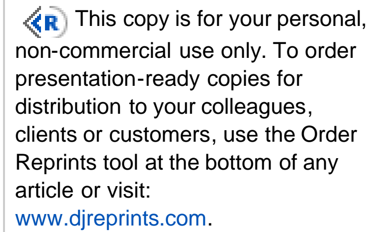
Eagle Bulk Buys 26 Supramax Ships For $1B, Doubles Fleet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By Andrew Edwards

Of DOW JONES NEWSWIRES

NEW YORK (Dow Jones)--Eagle Bulk Shipping Inc. (EGLE) is charging full steam into the bulk shipping market, buying 26 Supramax bulk freighter new-build contracts for about $1.1 billion.

However, unlike Genco Shipping & Trading Co.'s (GNK) acquisition last week of nine Capesize bulk freighters for $1.1 billion, Eagle's deal, which will more than double its fleet by 2012, wasn't anticipated by industry observers.

The average price per ship of $42 million is low compared with the current market, where two-year-old Supramaxes are going for around $63 million.

The New York shipping company announced Wednesday it bought the contracts from Anemi Maritime Services, a private Greek shipping company, based on a personal relationship between the parties.

The ships, all sister ships from China's Yangzhou Dayang Shipbuilding Co. shipyard, are scheduled to hit the water starting in August 2008, with the final freighter coming off the line in April 2012.

Eagle has long seen itself as a consolidator in a very fragmented industry, making savvy, incremental purchases of ships and new-building contracts. Before this latest acquisition, it had a total of 23 ships, including five already on order from Japanese shipyards.

At every turn, the company, headed by Chief Executive Sophocles Zoullas, has taken the most conservative route. Capesize bulkers, the huge ships that carry the coal and iron ore that fuel China's surging economic expansion, earn outsized returns, but can be risky.

Eagle has opted to specialize in Supramaxes, which are smaller, more versatile vessels just one-third the size of a Capesize. Their on-board loading equipment allows them to carry more cargo, including semi-finished manufactured goods, and dock at smaller, less developed ports.

Eagle is likewise conservative in its financial decisions. Other ship companies, like Dryships Inc. (DRYS), have chalked up impressive results by hitching themselves to rising spot charter rates, but put themselves at risk if the market collapses. Eagle's strategy is to lock in rates, albeit at a discount, chartering its ships out for longer periods of time to avoid market volatility.

The company already has charters on 21 of the 26 ships - locking in about $1 billion in revenue out to 2018. Additionally, most of the charters have a clause allowing Eagle to adjust rates upward incrementally to follow market moves.

Analysts have classified the company as a yield stock: it pays out almost all its cash in dividends, generating a dividend yield of 7.6%.

"They are very disciplined," said Basil Karatzas, vice president of sales and finance at Compass Maritime Services, a New Jersey shipbroker. "They were one of the first companies to have found (the Supramax) market," adding that Eagle's focus has been strictly on that market.

With Wednesday's deal, Eagle has committed to maintaining a target quarterly dividend of 50 cents, but things are changing at the company.

"This is an evolution from a full payout model," said Eagle spokesman Jonathan Morgan. He said Eagle plans to increase the 50-cent dividend target over time.

With shipping rates at record highs, the company's lack of exposure has been a worry. While its peers' stock prices have risen in the high double digits, several by more than 40%, since the beginning of July, Eagle's shares have been treading water, up only about 5% for the month despite booming shipping rates. The stock price dipped a bit when Eagle announced a quarterly dividend of 47 cents last week, its lowest in four quarters. It closed Tuesday at $23.39, down 63 cents, or 2.6%, from Monday's close.

"I trust this (acquisition) should be positive for the stock, pending analysis, but caveat emptor and all the other disclaimers," said Urs Dur of Lazard Capital markets. He said he expected, as investors should have, that Eagle "would probably do something that wouldn't be dilutive to dividends." If anything, over time the acquisition may provide enough cash flow for the dividend to go up, he added.

Last week's somewhat similar billion-dollar acquisition announced by Genco sent that company's shares up about 20% to record highs.

Compass Maritime's Karatzas said Eagle had been searching for new acquisitions for the last year without much success.

With ships operating at around 80% margins, Karatzas said, owners have been loath to part with their vessels at any price.

"(Owners) are optimistic about the future, (so) they are not so keen sellers," Karatzas said. "When they sell their vessels, they take cash, and they already have so much they don't know what to do with it. There are a lack of compelling alternative investments."

This market tightness makes Wednesday's buy even more extraordinary. Even new builds are very hard to come by. But Eagle chief executive Zoullas has deep industry ties. His family has been in the business for generations, and in shipping, those connections can mean the world.

"This is still an intensely personal business," Dur said. "A lot of this stuff is done on a handshake." He cited Genco Chairman Peter Georgiopoulos's deal with Metrostar Management Corp. head Theodore Angelopoulos as an example.

Morgan said Eagle's goal is building a true fleet over time, rather than acquiring random assets.

The timing for the deal could be fortuitous as well. Supramaxes are a relatively new class of ship. The Baltic Exchange, which issues the benchmark indexes for shipping rates, just initiated a Supramax index in February 2006. Until recently, it's been stagnant. However, last week, it shot to a record high.

-By Andrew Edwards, Dow Jones Newswires; andrew.edwards@dowjones; 201-938-5400

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