PANMURE GORDON & CO

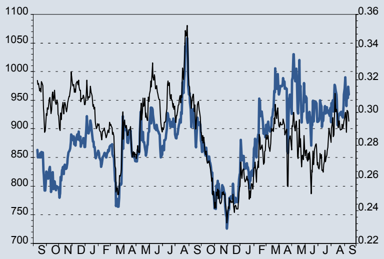
21 September 2007

Equity Research

Key Data

Price	961.5p
Price Target	1280.0p
Market Cap	£181m
FTSE All Share	3,317
Sector	Marine Transportation
Stock codes	CKN.L / CKN LN
Next Event	Prelims
Gearing	Cash

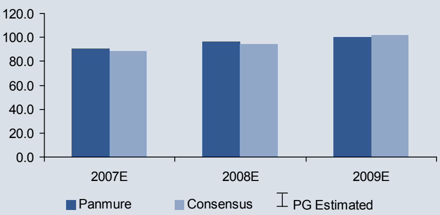
Absolute & relative performance



— *Absolute* — *Relative to FTSE All Share*

***Source** Datastream*

Panmure Gordon EPS rel to consensus



***Source** Reuters, Panmure Gordon*

Panmure Gordon & Co acts as corporate broker in the UK to Clarkson

PANMURE GORDON (UK) LIMITED

CLARKSON

BUY

Attractive play on global trade growth

As one of the world's leading shipping services companies, Clarksons is well positioned to benefit from buoyant market conditions, which are supported by long-term growth in global trade. It continues to expand in related services to reduce earnings cyclicality. Buy.

- **Impressive interim results.** Excellent market conditions in several of its key shipping markets drove up interim segmental results by 70%, with strong contributions from dry bulk chartering and sale and purchase broking. The full-year prospects remain strong.
- **Geared play on global trade.** As one of the world's pre-eminent shipping services companies, Clarksons should benefit strongly from long-term growth in global trade volumes. Rising demand for bulk products, in particular in China and India, should continue to fuel demand for shipping services and rates, and liquidity should remain strong.
- **Strategy.** Even though it is still heavily exposed to chartering and sale and purchase broking operations, Clarksons continues to expand selectively into related shipping services, which should reduce future earnings cyclicality. The group has a flexible cost base, due to its bonus structure, and a growing order book provides improving revenue visibility.
- **Buy recommendation.** Clarksons' shares trade on significant discount to the average earnings multiple of two other London listed shipbrokers, even after making a value adjustment relating to the outstanding legal cases. The shares have an attractive free cash flow yield of close to 9% and carry a rising dividend yield in excess of 4%. We retain our Buy recommendation with a new target price of 1280p (from 1300p).

Year end December	Sales (£m)	PBTA (£m)	EPS (p)	P/E (x)	EV/EBITDA (x)	Yield (%)
2006A	117.7	21.1	83.0	11.6	7.5	3.7
2007E	149.6	24.4	90.8	10.6	5.5	4.2
2008E	152.8	26.6	96.1	10.0	4.5	4.6
2009E	157.7	27.5	100.0	9.6	3.9	8.7

***Source** Company Data, Panmure Gordon*

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Please refer to the important disclosures shown on the inside back cover

INVESTMENT CASE

Clarksons has an increasingly diversified revenue stream with decent visibility. Its strong interim results reflect the excellent market conditions in several key shipping markets, and it is well positioned to benefit from long-term growth in global trade volumes.

Strong interim results overshadowed by court cases?

Clarksons reported excellent interim results, benefiting in particular from buoyant trading conditions in the sale and purchase and dry bulk segments. Prospects for the remainder of the year look excellent in our opinion, with Clarksons forecasting to "produce full year results in line with management expectations and continue to grow our position as the world's leading shipping services group…". Even though the ongoing court cases continue to be a cause for concern, we believe the current share price fully discounts this risk. On the three days that Clarksons made announcements regarding the legal cases, the shares fell a cumulative 185p (approximately), representing a value destruction which more or less equals the total claim value. Despite strong interim results and buoyant market conditions, the shares remain well below the 1000p level achieved immediately prior to the first announcement on the legal case.

Strong outlook for core segments

Prospects for the important dry shipping market remain attractive, with charter rates trading near all-time highs. The sharp rise in market rates and newbuild order books reflects the market's confidence that global trade volumes should continue to grow in the coming years, driven in particular by countries such as China and India. A continuing demand/supply balance should sustain an attractive rate environment and support chartering and newbuild activity. In the absence of any major economic slowdown in China, demand growth for shipping services should remain strong and, provided market liquidity remains good, Clarksons is well positioned to grow profitably.

Diversification of operations

Clarksons continues its strategy to selectively expand its portfolio of shipping services businesses and reduce the cyclicality of its earnings. It has successfully ventured into new areas such as structured shipping projects, fund management and port and agency services, and made acquisitions which have diversified and strengthened its broking business into growth areas like specialised chemicals. The broader range of services should provide a more stable revenue and earnings flow going forward. Clarkson continues to strengthen its existing businesses by recruiting talent from competing brokers.

Decent revenue visibility

Despite the volatility of the shipping markets, Clarksons has a reasonable amount of revenue visibility. Its forward order book of US$80m on 31 December 2006 (for invoicing in 2007 only, not beyond), was equivalent to nearly 35% of last year's annual revenues and over a quarter of the current year's forecast revenues. Furthermore, about 50% of pre-tax profit is typically paid out as staff bonuses, creating a flexible cost base.

Buy recommendation

Target price 1280p

Our new target price for Clarksons is 1280p, which is based on an average earnings multiple of Braemar and ACM Shipping of 12.5x current year's earnings. Over time we believe a premium should be appropriate to reflect Clarksons' more diversified revenue base and ongoing strategy to expand its shipping services and reduce the cyclicality of its revenue streams. Our target price reflects the ongoing financial uncertainty relating to the legal cases, as we have deducted 50% of the total claim value from our target price. This is no reflection of the strength or weakness of Clarksons' legal position, but a rather simplistic way of trying to reflect this uncertainty in our share price target.

CATALYSTS

- **Sustained growth in global trading volumes**
- **Settlement/satisfactory conclusion of court cases**
- **Robust chartering rates**
- **A recovery of the sluggish tanker and gas markets**
- **Acquisitions which strengthen and broaden core operations**
- **Further expansion into shipping services, which reduce earnings cyclicality**
- **Further growth of the fund management division**

RISKS

Clarksons operates in a cyclical industry, which creates an element of volatility in its earnings. The main risks to our earnings forecasts and recommendation relate to global trade volumes and market liquidity.

GLOBAL ECONOMIC SLOWDOWN

The shipping industry is a global business. Demand for vessels, chartering and a variety of other shipping services would be impacted by a slowdown in global trade, which could be exacerbated by an oversupply of vessels and therefore a slide in rates at which they are chartered. Despite the efforts of Clarksons to reduce the volatility of its earnings by increasing the proportion of more stable earnings flows, its financial prospects would nevertheless be impacted by such a slowdown.

NEW ENTRANTS

The entry into the market of a ship broker, particularly one with deep pockets, could have an impact on Clarksons' financial performance, particularly if it tries to poach staff. Clarksons, however, has a very strong global franchise, which should allow it to replace any defectors relatively swiftly.

LEGAL MATTERS

The company is currently involved in two legal cases with Russian shipping interests, which are claiming damages of about US$67m. Clarksons intends to continue to defend its position strongly in both the Sovcomflot and Novoship cases.

EARNINGS RISK OVERSTATED

Even though Clarksons' earnings are tightly linked to the shipping cycles, different shipping markets often follow different growth cycles. Clarksons is therefore not overly exposed to a single market. Furthermore, its forward order book at the beginning of this year accounts for more than 25% of our estimated turnover in the current year. The company intends to grow this proportion going forward, further reducing the volatility of its results.

SECURITY OF THE DIVIDEND

The company's dividend was 3.4x covered in 2005A and 2.3x in 2006A. Clarksons maintains a progressive dividend policy, which in our opinion implies that potential earnings volatility might push the dividend cover below 2x in difficult years. As long as the company's prospects remain sound we do not believe the dividend would be cut.

LOSS OF KEY PERSONNEL

The company lost a number of important individuals early last year but has successfully replaced them. An element of staff turnover is unavoidable, but the Clarksons name and market position are such that we believe high quality replacements can be made relatively swiftly.

OUR CENTRAL CASE

Clarksons reported strong interim results, which clearly reflect the strength of several key shipping markets. Long-term growth prospects remain strong in terms of trade volumes and related shipping services, and Clarksons should achieve attractive and profitable growth.

STRONG INTERIM RESULTS

Revenues and PBT up sharply

The interim results reflect the strong shipping markets and the benefits of recently acquired businesses and teams.

Strong performances in dry bulk and specialist products

Buoyant market conditions helped operating profits in the dry bulk chartering business more than double compared to H1 2006 (which was affected by difficult trading conditions). The specialist products chartering business, which was strengthened last year by the acquisitions of Plowrights and Genchem, also grew strongly with profits rising to £1m in H1 2007A.

Containers flat and tankers down

Container chartering also performed well with good progress reported in both revenues and profits. Deep sea charting (tankers) managed to keep profits level compared with the same period last year, as a rise in volumes and market share offset falling market rates. Gas chartering suffered from difficult market conditions, resulting in a profit decline.

S&P up strongly

Sale and purchase (S&P) broking experienced a strong increase in interim results, benefiting from both strong market conditions and the recent addition to its global team of a number of senior, highly respected industry specialists. Newbuild orders typically provide revenue streams beyond the current year, which strengthens the order book and enhances the company's revenue visibility.

Futures doing well

Freight derivatives are important risk management tools for shipowners, operators and charterers, allowing them to hedge their exposure to future market rate volatility. Clarksons acts as an agent in the FFA (forward freight agreement) market and takes no principal risk. Even though competition is increasing, particularly from energy companies and financial institutions, the strong freight market allowed its business to perform well in H1 2007A. Profits rose from £0.8m to £1.2m, driven by increased volumes from market hedging and client trading operations.

Small losses in logistics

Clarksons operates two vessels in this business segment – the Pacific Dhow and the CFF Seine. The business segment made a loss in the first six months of this year and, as Clarksons considers its Logistics activities to be non-core, the vessels might be sold in due course.

Fund management

The fund management business made its first positive operating profit contribution to the group. Funds under management have roughly doubled from c.US$40m in December 2006 to c.US$82m in July 2007. The 12-month rolling fund performance in July, net of fees, was an impressive 25%.

Shipping data and publications

Clarksons is a leading provider of shipping data and related publications, and the company remains committed to further growth and enhancement in the provision of research products and services. The results were unchanged in the first half of this year.

Short sea port and agency services

The port and agency services were acquired last year as part of the Genchem deal. With operations in Ipswich, Great Yarmouth, Bristol, Liverpool and Southampton, the acquisition takes Clarksons into a new business area that should strengthen its existing short sea business.

Financial and technical services

Last year Clarksons successfully recruited an experienced team to develop structured shipping products and commercially manage vessels. The services are particularly aimed at the German KGs (Kommanditgesellschaft). KGs are closed funds, popular among high earners, which provide nearly tax-free returns (due to Germany's tonnage tax regime) and give investors a number of tax incentives, such as writing off losses against income tax. A relatively slow deal flow combined with investments in technical services impacted the results in H1 2007A.

Segmental analysis by business segment (£m)

	Revenues		Operating profit		*Margin (%)*	
	H1 2006A	H1 2007A	H1 2006A	H1 2007A	*H1 2006A*	*H1 2007A*
Dry bulk chartering	12.8	20.2	2.0	4.9	*15.6*	*24.3*
Container chartering	1.4	1.8	0.3	0.4	*21.4*	*22.2*
Deep sea chartering	12.0	12.0	2.8	2.8	*23.3*	*23.3*
Spec. prod. chartering	4.3	6.3	0.6	1.0	*14.0*	*15.9*
Gas chartering	2.6	2.6	0.6	0.4	*23.1*	*15.4*
Sales & purch. broking	9.6	15.0	1.7	3.5	*17.7*	*23.3*
Futures broking	3.6	4.8	0.8	1.2	*22.2*	*25.0*
Research services	2.9	3.0	0.8	0.8	*27.6*	*26.7*
Logistics	1.2	1.3	-0.4	-0.6	*-33.3*	*-46.2*
Fund management	0.1	1.4	-0.6	0.3	*n.m.*	*21.4*
Property services	3.1	3.2	0.3	0.5	*9.7*	*15.6*
Port & agency services	0.0	1.7	0.0	0.1	*n.m.*	*5.9*
Financial & technical services	0.0	1.2	-0.2	-0.5	*n.m.*	*-41.7*
Total	**53.6**	**74.5**				
Property services revenue within group	-1.0	-1.3				
Segment revenue/result	**52.6**	**73.2**	**8.7**	**14.8**	***16.5***	***20.2***
Head office/forex			-1.9	-5.2		
Operating profit			**6.8**	**9.6**	***12.9***	***13.1***

***Source** Clarksons*

Operating profit rose 41% to £9.6m

Segmental results in the first half of this year rose sharply from £8.7m to £14.8m, largely due to the strong contributions from dry bulk chartering and sale and purchase broking. Head office costs rose sharply due to £2.6m of acquisition and legal expenses. The acquisition cost of new teams in H1 2007A was £1.2m (£2.4m estimated for the full year), which will not be repeated next year, while legal costs relating to the two Russian shipping cases amounted to £1.4m in the period. Despite these additional costs, operating profit rose 41% in H1 2007A to £9.6m.

The strong performance of the Clarksons hedge fund, in which Clarksons invested US$20m of seed capital, boosted the finance income by £1.8m. The rise in finance costs from £-0.5m to £-1.7m reflects the rise in debt.

EPS up 26%

Interim dividend up recommended 17%

Net profits from continuing operations rose 32% from £6.3m to £8.3m and EPS rose 26% from 37.5p to 47.3p. The board has recommended an increase in the interim dividend of 17% to 14p.

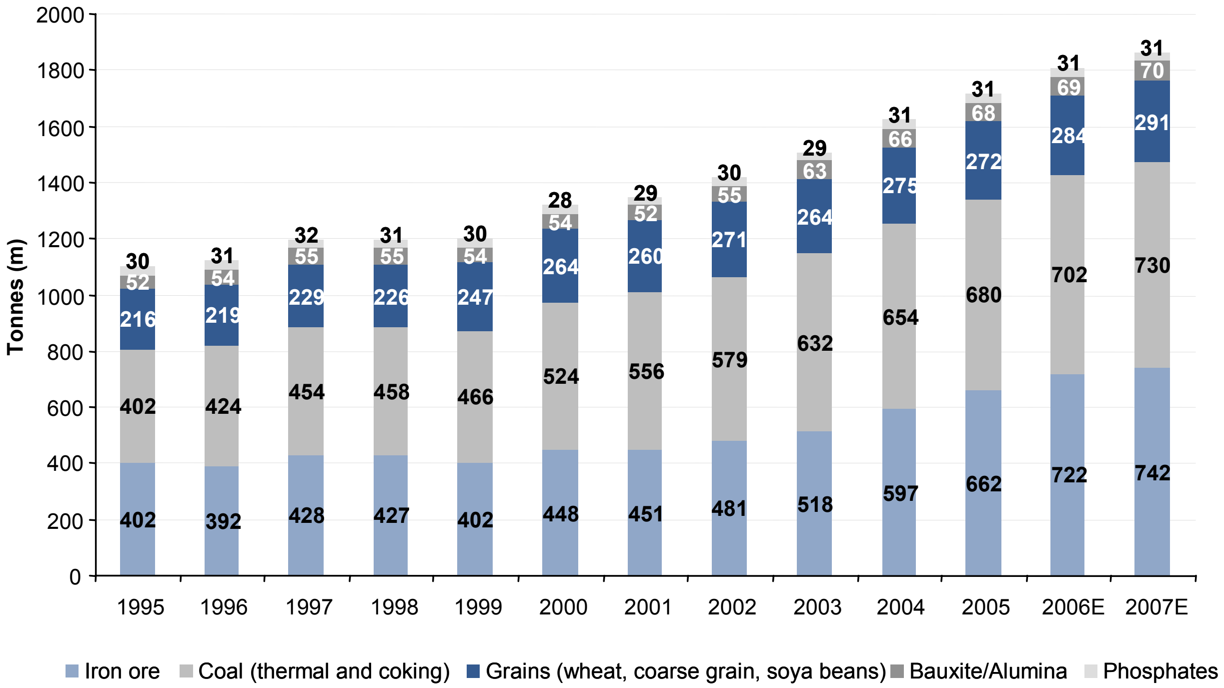
KEY MARKET TRENDS

Dry bulk chartering

Clarksons is one of the leading brokers in dry bulk

Clarksons has one of the largest groups of dry bulk brokers in the world, arranging a variety of charter fixtures for all types of dry bulk ships for a global client base. The key commodities are ore, coking coal, steam coal and grain. Dry bulk is a very important market for Clarksons.

Major bulk trade 1995A–2006E

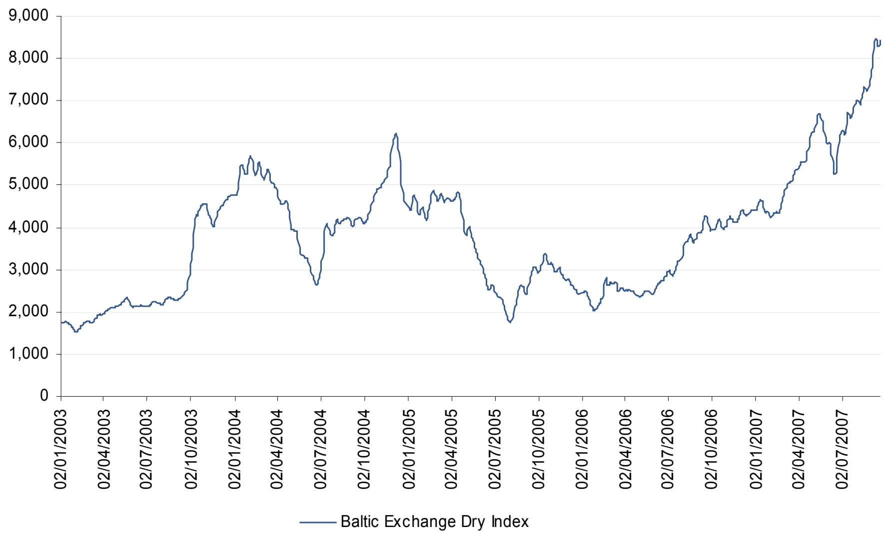


***Source** Clarksons Dry Bulk Trade Outlook*

Market conditions very strong

Market conditions remain exceptionally strong, as witnessed by the Baltic Exchange Dry Index, one of the world's most widely used indices of freight rates in the dry bulk sector. In addition to strong demand for dry cargo, port congestion is also partly to blame for the rate increases. Clarksons expects minerals demand from China and India to support the market throughout 2007.

Baltic Exchange Dry Index



***Source** Clarksons*

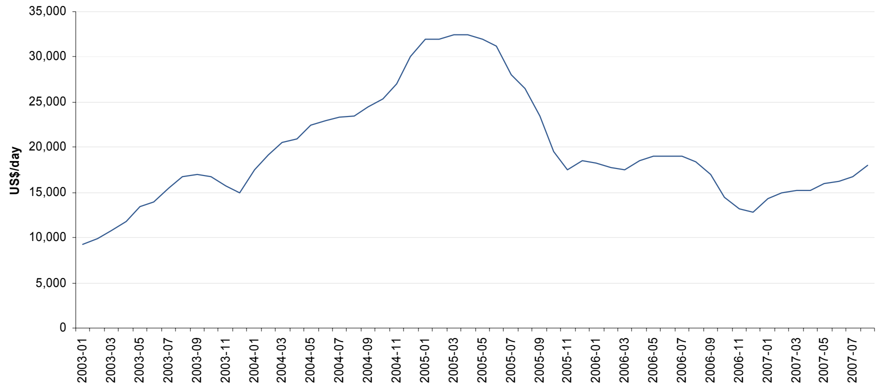
Container chartering

Limited exposure

The container charter operations of Clarksons are relatively small, partly attributed to the fact that it has no representation in Hamburg, Europe's major centre for containers.

The charter market tends to be focused on panamax and smaller vessels rather than the very large container ships, which are generally employed on a permanent basis by the major owners/operators. Rates have risen since the beginning of the year, reflecting a slightly more positive market sentiment despite the large order book for newbuilds.

Container time charter rates – 1,700TEU geared vessel (US$/day)



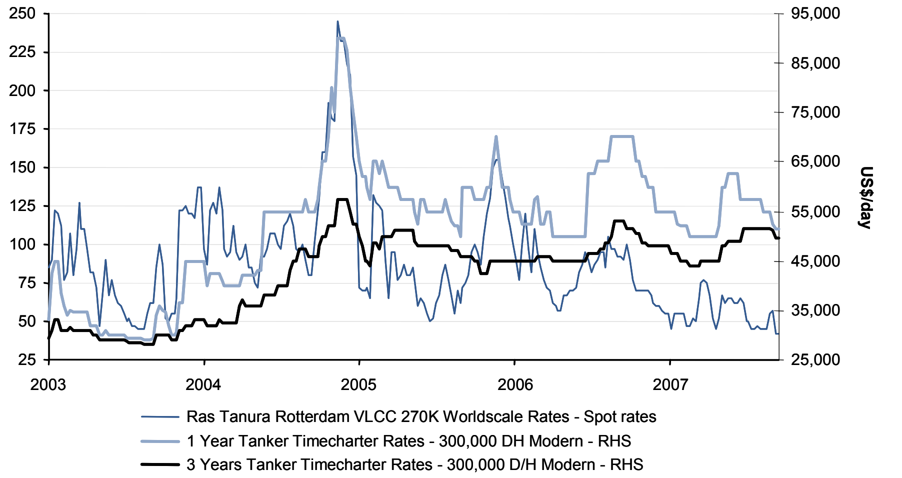
***Source** Clarksons*

Weak market

Deep sea chartering

The deep sea business handles the charter of tankers ranging from smaller product tankers to ultra large crude carriers. The indices below are the benchmarks for the major deep sea oil trades. The spot rate is an index based on the Ras Tanura (Arabian Gulf) to Rotterdam trade for Very Large Crude Carriers (VLCC). Rates have continued to be weak.

Deep sea spot index and time charter rates



***Source** Clarksons*

The demand/supply balance in the tanker market is affected by the introduction of new tonnage, a situation that is expected to continue in the coming years. Unless demand for oil products increases it is unlikely that rates will recover sharply.

Demand/supply balance in tanker markets

(million Dwt)	2003A	2004A	2005A	2006A	2007E
Crude tanker demand	228.9	245.8	247.7	248.6	253
Product tanker demand	62	66.5	70.3	77.8	81.5
Total tanker demand	290.9	312.3	318	326.4	334.5
Change (%)		*7.4*	*1.8*	*2.6*	*2.5*
Crude fleet supply	229.1	236.9	245.9	257.4	268.4
Product fleet supply	57.4	62.4	68.0	74.0	81.7
Total fleet supply	286.5	299.3	313.9	331.4	350.1
Change (YOY) (%)		*4.5*	*4.9*	*5.6*	*5.6*
Supply surplus/(shortage)	**-4.4**	**-13**	**-4.1**	**5.0**	**15.6**

***Source** Clarksons*

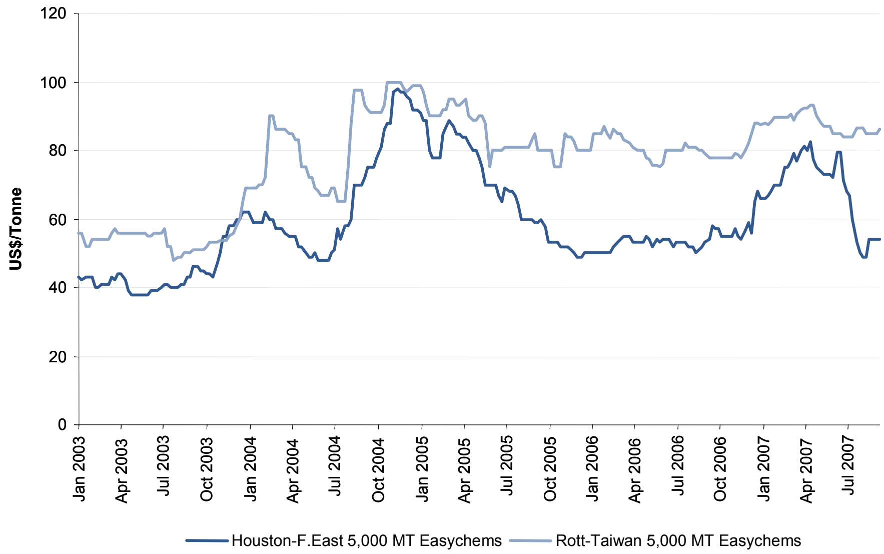
Specialised products chartering

Plowrights and Genchem

This division focuses on petrochemical liquids and gases, clean and dirty oil products, lubricants, vegetable oil products and molasses. Operations in this division were boosted last year by the acquisitions of Plowrights in January 2006 and Genchem in August 2006. Both acquisitions have been fully integrated and the interim results improved strongly YOY. Longer term prospects look attractive as management believes that new legislation is likely to require vegetable oils to be carried in more sophisticated tonnage, which could result in tighter markets. It may also result in the need for more market information among its customers.

Rates strengthened in the second half of 2006 and so far this rise has continued in the current year.

Chemical freight rates (US$/metric tonne)



***Source** Clarksons*

Gas chartering

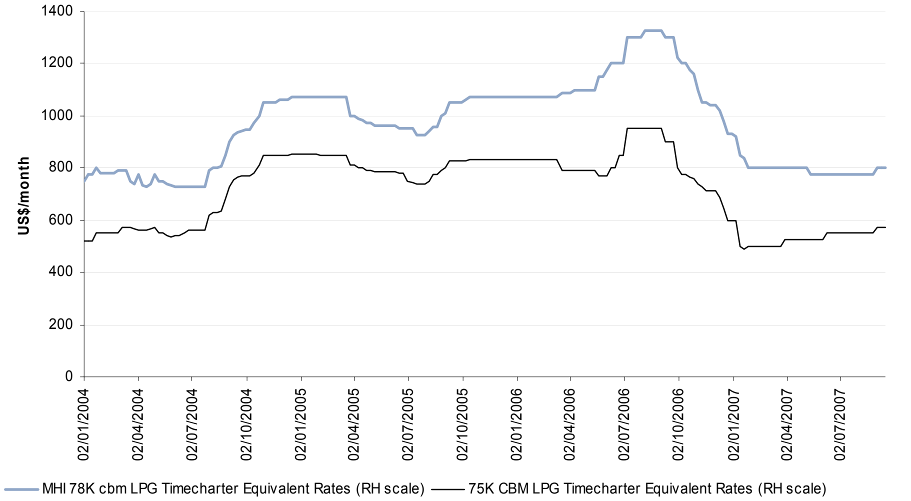
Poor market conditions

Clarksons offers a comprehensive range of services in the gas markets, including broking, consultancy and logistics advice in areas such as LNG chartering, sales and purchase, financing, ship building, vessel management and market analysis.

Revenues and profits in the first half of this year were affected by weak market conditions in the LPG market. Profits in 2005 were depressed as Clarksons absorbed the costs of a new team. Last year, however, revenues rose strongly and the business achieved profits of £1.3m. The team has been winning market share and the forward order book is at record levels.

Time charter rates have remained relatively stable and are clearly less volatile than the spot rates.

Gas carrier time charter rates



***Source** Clarksons*

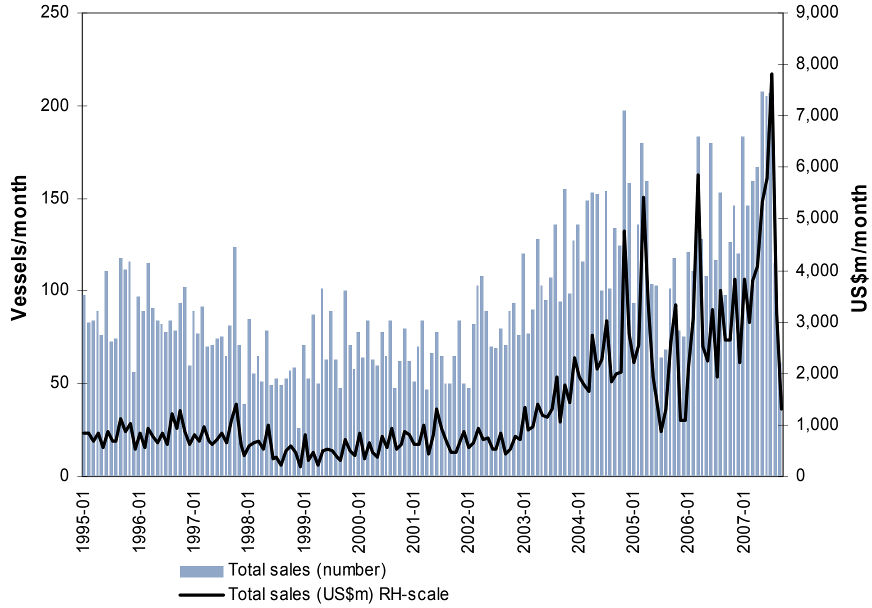
Sales and purchase broking

Good liquidity and generally rising prices

Clarksons' S&P operation is one of the largest newbuild, second-hand and demolition brokers in the sector. It has an extensive client base and placing power with many of the world's major shipbuilders. Clarksons acts as a consultant and adviser, with offices in London, Piraeus, Singapore, Hong Kong and Shanghai.

Clarksons has strengthened its team significantly with the appointment of several high profile individuals from Braemar, who joined late last year. It also strengthened its Asian operations with several new recruits. Industry volumes and prices were strong in the first half of this year, and Clarksons managed to win new clients and increase its market share. We expect the S&P market to remain strong during the remainder of 2007.

Second-hand vessel sales (Number/month and US$m/month)



***Source** Clarksons*

ANALYSIS OF FORECASTS

Clarksons is well positioned to benefit from strong market conditions, particularly in dry bulk and sale and purchase broking. We expect the company to benefit from the expected long-term growth in global trade volumes and rising demand for shipping services.

Strong shipping markets

Clarksons' strong interim results clearly reflect the strength of some important shipping markets, such as dry bulk, specialist products and, to a lesser extent, containers. Sale and purchase broking benefited from a strengthened team, strong sales volumes and rising asset prices. However not all shipping markets were strong – as witnessed by the gas and tanker operations.

Profit contribution from more stable activities

The financial performance of Clarksons is to a considerable extent influenced by the strength of the different shipping markets. In order to reduce the cyclicality of its profits, Clarksons is developing new business segments which have more stable earnings profiles. Even though the profit contribution of these more stable segments (research services, fund management, financial and technical services and port and agency services) are still relatively small, they are likely to provide a valuable and growing profit stream going forward.

Unchanged forecasts mask underlying upgrade

Even though the company is likely to have a good forward order book with reasonable revenue visibility for H2, our full-year profit forecasts are unchanged despite the strong interim results. First, we expect total one-off employee acquisition costs of £2.4m for the full year and £2.8m of legal fees; these were not included in our previous forecasts. Our underlying operating profit forecast excluding head office costs has therefore gone up by about 20%. Second, shipping markets can be both cyclical and volatile and we believe it is prudent to assume that the company is likely to encounter some headwind in the second half of the year. There was a clear drop-off in vessel sales in July, for example, which may be related to the global credit concerns, and weakness might persist in the coming months. We expect PBT to rise by 16% this year, followed by an increase of 9% in 2008E.

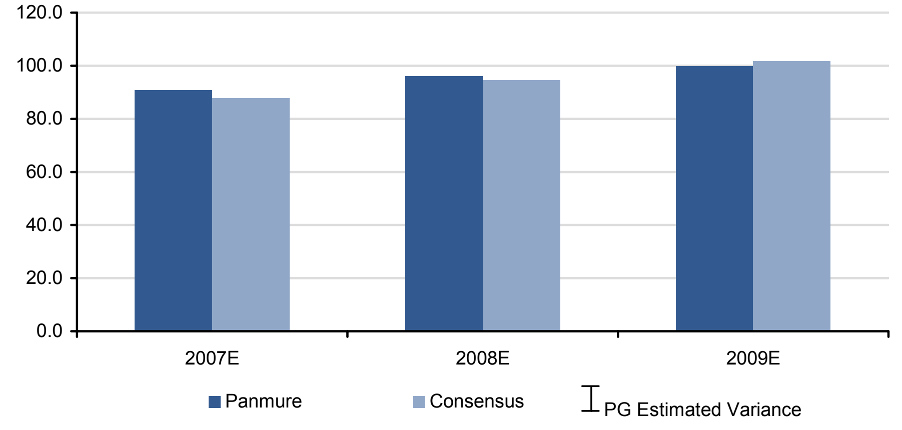
We forecast EPS from continuing operations to rise by 9% in the current year, followed by a rise of 6% in 2008E. Full-year dividends will, in our view, rise by 11% in the current year and 10% next year.

Longer term prospects

Longer term growth depends on the strength of the shipping markets, in terms of both rates and liquidity. Clarksons is strengthening its broking teams where necessary and when opportunities arise, which should allow it to improve its market share. Dry bulk markets show no signs of weakening and ongoing demand for raw materials, from India and China in particular, is likely to support market rates. With global trade volumes still rising, Clarksons should continue to do well in the foreseeable future.

In line with consensus

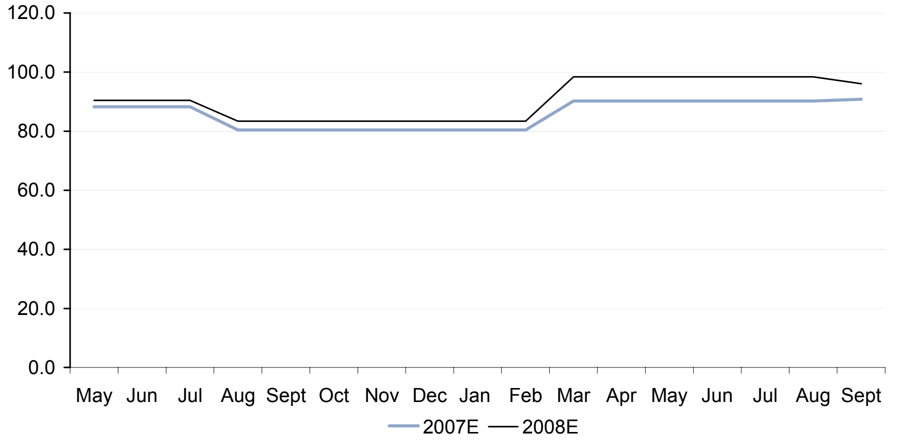
Panmure Gordon relative to consensus forecasts (EPS) (p)



Source Reuters, Panmure Gordon

Consistent forecasts

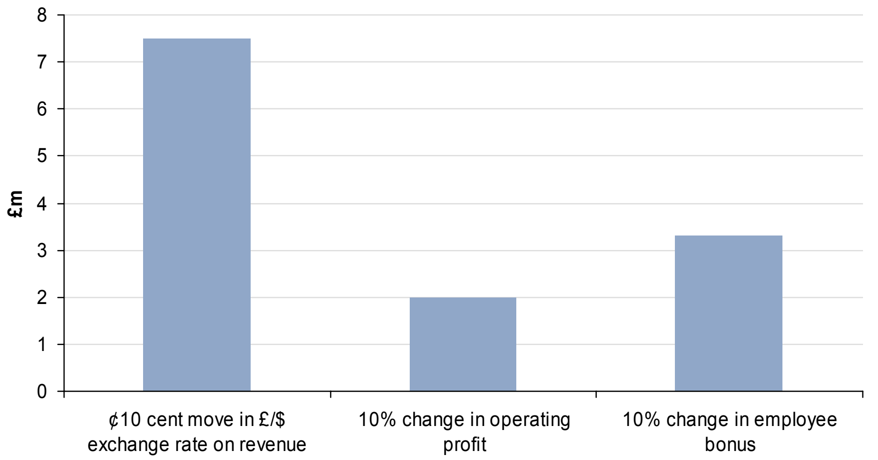
Changes to Panmure Gordon forecasts (EPS) (p)



Source Panmure Gordon

Highly sensitive to US dollar

Sensitivities for Panmure Gordon 2007E forecasts



Source Panmure Gordon

VALUATION

Clarksons trades at a strong discount to the average P/E of London quoted shipbrokers Braemar and ACM Shipping, despite having a more diversified revenue base with arguably less earnings volatility. We retain our Buy recommendation with a new target price of 1280p.

Market leader

Clarksons is a market leader in shipping services, with strong positions in virtually all the main markets. It has strong positions in dry bulk and tanker chartering, which are the two largest markets by tonnage. It also has an attractive market share in specialist products, gas chartering and, to a lesser extent, container chartering. The sales and purchase broking business mainly deals in dry bulk carriers and tankers, although it is flexible and can focus its efforts on whichever market is the most attractive at the time.

Market intelligence is a key to the success of Clarkson, allowing it to provide its clients with much needed and highly valued data and forecasts. The long-term need for access to top quality market intelligence means shipbrokers like Clarksons play a vital role in the shipping industry, and many clients use its broking services even if they can find their own counterparties. Clarksons continues to strengthen its position as one of the world's leading shipbrokers by recruiting top quality brokers from competing firms.

Increasing spread of operations

In recent years Clarksons has developed a number of related business segments aimed at building more stable earnings flows in order to reduce the overall volatility of group earnings. A fund management business was successfully established last year, which made its first positive contribution to operating profits in H1 2007A, and the company created a financial and technical services business segment by recruiting a team to develop structured shipping products and commercially manage vessels. It also acquired a port and agency services business which operates in several UK ports. The contribution of these less volatile businesses should grow in the coming years and provide an attractive contribution to group earnings.

Long-term growth in trade volumes and shipping services

Forecasts for global trade growth remain sound, to a considerable extent driven by China. With seaborne trade accounting for the vast majority of total trade volumes, demand for additional carrying capacity looks set to increase. Supply also looks set to increase with strong vessel order books in most markets. Temporary demand/supply imbalances may impact rates but, as long as liquidity remains healthy, Clarksons should continue to perform well and benefit from the long-term growth in shipping markets.

DCF not meaningful

The financial performance of Clarksons is closely tied to the state of the global shipping markets, and given the volatility and cyclicality of these markets we believe the discounted cash flow methodology is not appropriate as a valuation tool.

Multiples-based valuation

We have valued Clarksons in two ways. The first method is to take our 2007E net EPS and apply the average sector earnings multiple of Braemar Shipping Services and ACM Shipping, two other shipbrokers listed in London. Even though both companies are significantly smaller than Clarksons, with less diversified revenue generation, we have applied the average earnings multiple of Braemar and ACM Shipping to Clarksons' 2007E EPS. Over time we believe a premium should be appropriate to reflect the more diversified revenue base and Clarksons' ongoing strategy to continue to develop additional and less volatile revenue streams.

Multiples-based valuation of 1297p reflects legal uncertainties

We forecast Clarksons will generate basic EPS in 2007E from continuing operations of 90.9p and, after adding back the £5.2m one-off and legal charges included in our current-year forecasts, clean EPS rises to 111p. Applying the Braemar and ACM Shipping average P/E of 12.5x current year's earnings suggests a value for Clarksons of 1387p.

How to deal with legal issues

We believe the current share price likely reflects the full value of the US$67m claim. On the three days that Clarkson made announcements regarding the legal cases, the shares fell a cumulative 185p (approximately):

- 30p on 26 March when Clarksons announced it had been threatened with a legal case;
- 115p when it announced on 23 April that there was a second claim and that the total claim value was about US$51m; and
- 40p when Clarksons announced that the value of the two claims has risen to about US$67m.

The fact that the share price of Clarksons has still not returned to the 1000p level it achieved immediately prior to the first announcement on the legal cases, despite strong interim results and buoyant market conditions, in our view suggests that the share price is still heavily impacted by the potential financial impact of the legal cases.

Target price should reflect uncertainty of legal cases

We do not believe it is correct to reflect the full value of the current claims in the share price, although we recognise that, as long as the legal uncertainties relating to the Russian claims continue, the share price is likely to reflect a potentially negative financial impact. Given the early stage of the proceedings, with no visibility in terms of the potential outcome of the court cases, we believe a value reduction of £17m (90p per share) is more appropriate at this stage of the proceedings. This represents 50% of the value of the total claims of about US$67m. This does not reflect the strength or weakness of Clarksons' legal position, but is a rather simplistic way of trying to reflect this uncertainty in our share price target. The multiples-based valuation of Clarksons, after deducting 90p for the legal uncertainties, is therefore 1297p.

SOTP supports 1280p target price

We have also done a sum-of-the-parts valuation, presented below, which suggests a 1279p valuation.

Sum-of-the-parts valuation

	2007E profit post tax (£m)	Multiple (x)	Value (£m)	Comment
Sale and purchase	4.2	12.5	53	Average P/E for Braemar, ACM Shipping
Chartering	13.4	12.5	167	Average P/E for Braemar, ACM Shipping
Futures	2.2	15.0	33	20% premium to average P/E of group of UK stockbrokers
Research services	1.0	14.9	15	Average P/E of Informa, UBM
Logistics			0	Assume nil value
Fund management			10	Seed capital
Property services			9	Value of sub-lease and Baltic Exchange shares
Port and agency services	0.2	8.0	2	20% of acquisition price of Genchem
Financial and technical services	0.3	12.5	4	Average P/E for Braemar, ACM Shipping
Sub-total			291	
Head office	-3.5	12.5	-44	Excluding one-offs
Associates/JVs	0.3	12.5	4	Average P/E for Braemar, ACM Shipping
Net cash			4	Excluding estimated bonus payments
Equity value			255	
Number of shares (m)			18.6	
Value per share (p)			1369	
Court cases (p)			-90	50% of potential claim of US$67m
Fair value per share (p)			1279	

***Source** Panmure Gordon*

Our new target price of 1280p is based on the lower of these two valuations, and is only slightly below our old target price of 1300p. Our new target price implies upside potential of more than 30% from the current share price.

Attractive and rising dividend yield

The shares also carry an attractive and rising dividend yield. The yield for 2007E is 4.2%, rising to 4.6% in 2008E and 4.9% in 2009E. Free cash flow yields should rise from 8.5% in the current year, to 9.3% in 2008E and 9.5% in 2009E, highly attractive levels in our opinion. We retain our Buy recommendation.

THE NUMBERS

Profit & loss (£m)

Year end December	2006A	H1 2007A	H2 2007E	2007E	2008E	2009E
Dry bulk chartering	28.6	20.2	19.8	40.0	40.0	40.0
Container chartering	2.9	1.8	1.8	3.6	3.8	4.0
Deep sea chartering	24.3	12.0	12.3	24.3	24.3	25.5
Specialised products chartering	10.5	6.3	7.4	13.7	14.3	15.0
Gas chartering	5.5	2.6	2.6	5.2	5.2	5.5
Sale and purchase broking	20.6	15.0	13.8	28.8	28.8	28.8
Futures broking	9.0	4.8	6.9	11.7	12.9	14.2
Research services	5.2	3.0	2.6	5.6	6.0	6.4
Logistics	2.4	1.3	1.2	2.5	2.5	2.5
Fund management	0.5	1.4	1.6	3.0	3.5	4.0
Property services (HQ)	6.2	3.2	3.2	6.4	6.6	6.8
Port and agency services	1.9	1.7	2.2	3.9	4.1	4.3
Financial and technical services	2.3	1.2	2.3	3.5	3.5	3.5
Revenue	119.9	74.5	77.7	152.2	155.6	160.5
Minus property services revenue within group	-2.2	-1.3	-1.3	-2.6	-2.7	-2.9
Total revenue	**117.7**	**73.2**	**76.4**	**149.6**	**152.8**	**157.7**
Dry bulk chartering	6.0	4.9	4.1	9.0	8.9	8.5
Container chartering	0.6	0.4	0.4	0.8	0.8	0.8
Deep sea chartering	5.7	2.8	2.9	5.7	5.7	5.7
Specialised products chartering	1.9	1.0	1.6	2.6	2.7	2.8
Gas chartering	1.3	0.4	0.6	1.0	1.0	1.1
Sale and purchase broking	3.5	3.5	2.5	6.0	5.0	5.0
Futures broking	2.5	1.2	1.9	3.1	3.3	3.5
Research services	1.0	0.8	0.2	1.0	1.1	1.1
Logistics	-1.2	-0.6	-0.7	-1.3	-1.1	-1.0
Fund management	0.0	0.3	0.5	0.8	1.1	1.5
Property services	0.9	0.5	0.6	1.1	1.1	1.1
Port and agency services	0.2	0.1	0.2	0.3	0.4	0.4
Financial and technical services	0.7	-0.5	0.9	0.4	0.5	0.6
Segmental results	**23.1**	**14.8**	**15.7**	**30.5**	**30.5**	**31.1**
Head office costs and forex differences	-6.0	-5.2	-5.0	-10.2	-8.1	-8.5
Operating profit - continuing operations	**17.1**	**9.6**	**10.7**	**20.3**	**22.5**	**22.6**
Share of profits of ass. & JVs (net of tax)	0.4	0.3	0.1	0.4	0.3	0.3
Finance income	4.2	3.5	2.3	5.8	5.0	5.5
Finance costs	-1.7	-1.7	-1.5	-3.2	-2.3	-2.0
Other finance revenue - pensions	1.1	0.6	0.5	1.1	1.1	1.1
Disposal of fleet interests	0.0	0.0	0.0	0.0	0.0	0.0
Profit before tax	**21.1**	**12.3**	**12.1**	**24.4**	**26.6**	**27.5**
Tax	-6.9	-4.0	-4.0	-8.0	-8.7	-9.0
Profit after tax	**14.2**	**8.3**	**8.1**	**16.4**	**17.9**	**18.6**
Profit/(loss) for the year from discontinued operations	0.6	0.1	0.0	0.1	0.0	0.0
Profit attributable to shareholders	**14.8**	**8.4**	**8.1**	**16.5**	**17.9**	**18.6**
EPS - basic and continuing (p)	**83.0**	**47.3**	**43.5**	**90.8**	**96.1**	**100.0**
EPS - basic (continuing and discontinued) (p)	86.5	47.8	43.5	91.4	96.1	100.0
DPS (p)	**36.0**	**14.0**	**26.0**	**40.0**	**44.0**	**47.0**
Average number of shares in issue (m)	17.1	17.6	18.6	18.1	18.6	18.6
Period end number of shares in issue (m)	18.2	18.2	18.6	18.6	18.6	18.6

Source *Company, Panmure Gordon*

Cash flow (£m)

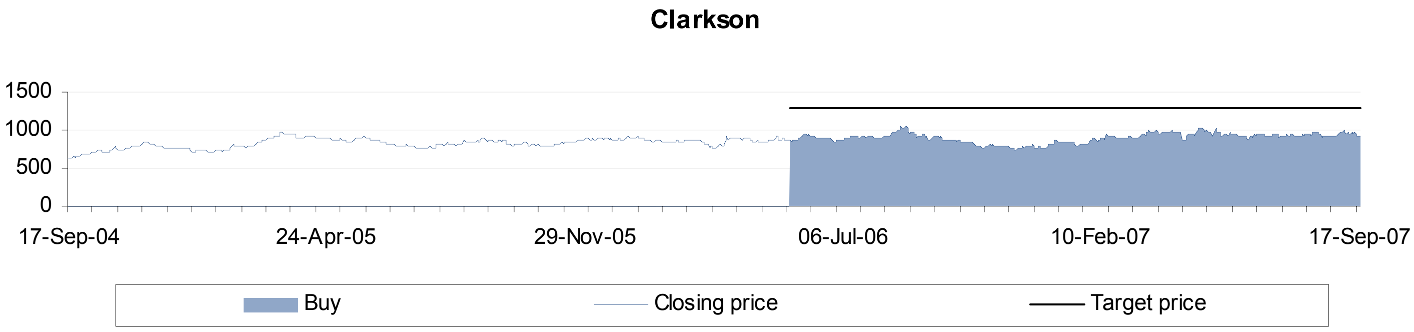
Year end December	2006A	H1 2007A	H2 2007E	2007E	2008E	2009E
Operating profit	17.1	9.6	10.7	20.3	22.5	22.6
Depreciation and amortisation	2.6	2.0	2.0	4.0	4.2	4.4
Impairment of goodwill	0.5	0.0	0.5	0.5	0.5	0.5
EBITDA	**20.2**	**11.6**	**13.2**	**24.8**	**27.2**	**27.6**
Profit before tax from discontinued	0.4	0.1	0.0	0.1	0.0	0.0
Profit on sale of property plant and equipment	0.0	0.0	0.0	0.0	0.0	0.0
Profit on sale of investments	0.0	-0.2	0.0	-0.2	0.0	0.0
Pension differentials	-0.4	-0.2	0.0	-0.2	0.0	0.0
Trade and other receivables	-2.4	-5.0	2.0	-3.0	-3.3	-3.6
Bonus accrual	-9.4	-5.7	17.7	12.0	5.0	5.0
Other payables	13.0	-0.7	0.7	0.0	0.0	0.0
Provisions	-3.0	-0.2	0.2	0.0	0.0	0.0
Net cash inflow from operating activities	**18.4**	**-0.3**	**33.8**	**33.5**	**28.9**	**28.9**
Dividends from associates	0.3	0.5	0.0	0.5	0.5	0.5
Dividends received from investments	1.8	0.2	0.3	0.5	0.5	0.5
Payment to minority interests	0.0	0.0	0.0	0.0	0.0	0.0
Interest received	1.7	1.6	4.2	5.8	5.0	5.5
Interest paid	-1.7	-1.7	-1.5	-3.2	-2.3	-2.0
Tax	-8.3	-3.0	-5.0	-8.0	-8.7	-9.0
Capex (net of sale of tangible fixed assets)	-2.1	-0.5	-1.5	-2.0	-2.2	-2.4
Free cash flow	**10.1**	**-3.2**	**30.3**	**27.1**	**21.7**	**22.1**
Purchase of investments	-11.2	-0.2	0.0	-0.2	0.0	0.0
Investment in associates	-0.7	-0.4	0.0	-0.4	0.0	0.0
Sale of investments	0.0	0.2	0.0	0.2	0.0	0.0
Special contribution to pension scheme	-6.7	0.0	0.0	0.0	0.0	0.0
Acquisitions	-5.5	0.4	0.0	0.4	0.0	0.0
Disposals	0.0	0.0	0.0	0.0	0.0	0.0
Dividends	-5.7	-4.3	-2.6	-6.9	-7.3	-8.4
Acquisition of ESOP shares	-3.1	-4.6	0.0	-4.6	0.0	0.0
Cash inflow/(outflow) from ordinary activities	**-22.8**	**-12.1**	**27.7**	**15.6**	**14.4**	**13.7**
Other (balancing item), usually forex	-1.1	-0.2				
Movement in net debt	**-23.9**	**-12.3**		**15.6**	**14.4**	**13.7**
(Net debt)/ cash	23.0	10.7		38.6	53.0	66.7
Shareholders' equity	65.4	75.4		74.5	84.2	94.0
Net gearing (%)	35.2	14.2		51.8	63.0	71.0

Source *Company, Panmure Gordon*

Distribution of investment ratings for equity research (as of 30 Jun 07)		
Overall Global Distribution (Banking Client*)		
Buy	Hold	Sell
57% (34%)	30% (10%)	13% (0%)

** Indicates the percentage of each category in the overall distribution that were banking and/or corporate broking clients*

Rating: GUIDELINE (return targets may be modified by risk or liquidity issues)	
Buy	Expected to produce a total return of 15% or better in the next 12 months
Hold	Fairly valued: total return in the next 12 months expected to be ±10%
Sell	Stock is expected to decline by 10% or more in the next 12 months



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21 September 2007

Equity Research

COMPANY PROFILE

Business Profile

Clarkson is one of the world's leading shipping services providers in an industry estimated to be worth in excess of US$100bn a year. The group is broadening its range of services, and new initiatives include ship owning and fund management. The company offers comprehensive charter broking combined with industry-leading research and consultancy. As well as its London headquarters, the group has offices in many of the world's major shipping centres.

Recent News

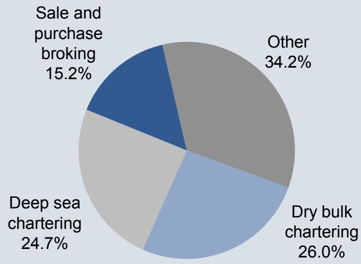
The company reported strong interims with revenues up 39% to £73.2m, net profit up 26% to £8.3m, EPS up 26% to 47.3p and interim DPS up 17% to 14p. Results were held back by one-off acquisition costs of £1.2m and legal costs of £1.4m. Clarksons is optimistic 2007 will be a strong year and is confident fully year profits will be in line with its expectations.

Director dealings

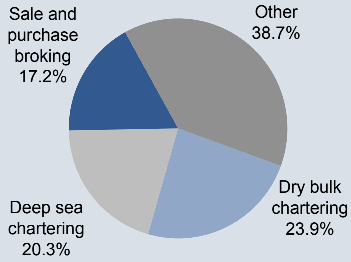
Director	Dealing Date	Value (£)	No of shares	Price (p)	Buy / Sell
Richard Fulford-Smith	01/12/06	261,251	35,000	7,4643	Buy

Source *Reuters*

2006 results by division (%)



2006 sales by division (%)



Source *Company*

Major Shareholders (%)

Clarkson employee share scheme	22.5
CMB	16.8
Scottish Widows	6.6

Company Information

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Address	Magnus House, 3 Lower Thames Street, London, EC3R 6HE
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Website	www.clarkson.co.uk
Chairman	Tim Harris
Chief Executive	Richard Fulford-Smith
Finance Director	Jeff Woyda
IR Officer	Jeff Woyda

Financial Diary

Next Statement	Mar 2008
Next Results	Prelims Mar 2008
Next ex dividend	May 2008

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