

Clarksons (CKN)

Transport

Shipping group Clarksons has made excellent progress over the last few years helped by strong growth in freight markets and 2005 has continued that trend, producing another record profit. The group continues to widen its range of activities and its competitive advantage of market intelligence gives it an edge in this regard. By moving into areas such as logistics, fund management, financial services, property and derivatives broking, the company's fortunes will be less closely linked to the shipping cycle and this should improve the visibility and quality of earnings. The new year has started well, with freight rates above the long term averages helped by strong demand from China which continues to be a major driver. The company is well placed to produce another excellent result in 2006 and the shares stand on a very modest multiple and sport an attractive yield.

Activities

Clarksons is acknowledged as the world's leading shipping services group. Through its global network of offices, it is able to provide its clients with unique access to shipbroking services across the full range of dry bulk, tanker and sale and purchase sectors. The group's dry cargo business, which is based in London, is the largest group of dry cargo chartering brokers in the world, whilst the tanker business charters ships carrying crude oil and other petroleum products with these vessels ranging from 20,000 tons up to 500,000 tons. The latter operations operate globally from three main centres of activity, London, Houston and Singapore and the shipbroking activities were expanded in January with the acquisition of J O Plowright & Co. The sale and purchase activities are involved in newly built ships, second hand vessels and demolition brokering. The group is also the leading broker of freight derivatives.

More recently, the group has expanded its range of services so that it is now a fully integrated shipping services provider covering activities such as research and consultancy, shipping publications, shipping derivatives, shipping finance advice, shipping logistics and ship valuations. Following the closure of Channel Freight Ferries in December, the logistics business comprises the more recently purchased MV Pacific Dhow, which is being used to transport jet fuel to Kong Kong International Airport.

Results and Consensus Forecasts

Year to 31st December	Turnover (£m)	Pre-tax Profit* (£m)	Earnings per share* (p)	P/E Ratio	Net Dividend (p)	Net Yield (%)
2004A	82.4	23.1	98.0	9.3	25.0	2.7
2005A	115.9	26.8	108.9	8.4	32.0	3.5
2006E	108.0	21.5	89.0	10.2	35.0	3.8
2007E	110.0	22.0	90.0	10.1	39.0	4.3

* on continuing operations

SHARE DATA

Share Price:	910p
Prospective p/e ratio:	10.2x
Prospective net yield:	3.8%
Market Capitalisation:	£155m
Next Results Due:	AUG
Net Cash:	£46.9m
NAV per Share:	280p

SHARE PRICE PERFORMANCE



2005/06 High/ Low: **985p/700p**

COMPANY DATA

Stockbrokers:

Panmure Gordon/ JPMorgan Cazenove

Significant Shareholdings:

Employees & Employee Share Trusts - 21.1%, CMB Group - 17.8%, Barclays Group - 5.6%. LloydsTSB - 4.8%,

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2005 Results

Record results last year

Following the record profits produced in 2004, Clarksons enjoyed another record year in 2005. Group turnover for the year on continuing operations rose by over 40% to £115.9m (2004: £82.4m), whilst pre-tax profits on the same basis were 16% ahead at £26.8m (2004: £23.1m). Earnings per share were 11% higher at 108.9p (2004: 98.0p) and the total dividend was raised by 28% to 32p (2004: 25p). The group also made a pre-tax profit of £5.6m on its discontinued logistics operations, representing earnings per share of 7.9p.

Sale and purchase broking did exceptionally well

Although most areas of the group's business saw increased revenues, the sale and purchase broking business almost doubled its turnover thanks to strong buying markets, with the combination of both a high volume of transactions and a high value of ships proving highly profitable for the business. Both dry bulk chartering and deep sea chartering increased turnover, although margins came under pressure due to increased staff remuneration costs, whilst the other chartering businesses, covering gas, containers and specialised products all did well. Clarksons has particularly targeted the significant market of specialised products and the acquisition of J O Plowright, which was finally completed in January, should create synergies with the group's existing business in this area. Competitive market conditions in the futures broking business led to lower profits on similar revenues, whilst the research business enjoyed a strong year, with its digital products doing particularly well. The logistics business now comprises the Pacific Dhow, which is being used to transport jet fuel to Hong Kong International Airport from a local refinery on a four year contract - this commenced operations in October and after the initial start-up phase this is now trading successfully and should make a positive contribution to earnings this year. Following the move of the head office last May, the company occupies 40,000 sq ft of the 136,000 sq ft available, with most of the surplus space now let to independent shipping businesses thus producing a small profit.

Scope for expansion in specialised products

Surplus office space now let

At the year end the group had net cash of £46.9m, although a number of significant payments were made subsequently, the largest of these being £32.6m of staff bonuses relating to 2005.

Prospects

Solid start to the new year....

.....although Clarksons continues to expand its other activities

The new year has started well, with freight rates above long term averages and a confident statement by the chairman bodes well for the outlook for the current year. However, Clarksons continues to look at ways to reduce its dependence on its shipbroking activities and it is therefore committed to expanding its other businesses as these are less cyclical and would also help to improve the quality of earnings.

There is useful potential in the specialised products chartering business, which should benefit from the acquisition of Plowrights, whilst logistics will benefit from the closure of the loss-making Channel Freight Ferries business. The property services business will benefit from the rents received from the other occupiers of St Magnus House, whilst Clarkson Fund Management will run the newly formed Clarkson Shipping Hedge Fund.

Group is well regarded

Shares could attract a higher rating

The group has considerable expertise in its field and is well regarded throughout the shipping industry. As shipbroking becomes a less important part of the group, the shares should attract a higher rating and so there is scope for the share price to at least challenge last year's high of 985p.

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