Global Ship Lease Inc.

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GLOBAL SHIP LEASE INC.

SECTOR & INDUSTRY

Sector:	Industrials
Industry:	Rental & Leasing Services

STOCK DATA

Price (31/03/2024):	$ 20.30
Ticker:	GSL
Market CAP:	$ 712,272 M
Shares outstanding:	35,09 M
52-week range:	$ 16.80 – 21.94
Daily volume:	$ 13,066,160

MAIN METRICS ($M) 2023

Revenue:	$ 604,49
EBITDA:	$ 449,47
NI:	$ 368,16

MULTIPLES 2023

EV/EBITDA:	3.11
P/E:	2.47

REMUNERATION

Dividend yield:	7.43%

COMPANY OVERVIEW:

GSL is a containership owner operating in the lease of vessels to industrial shipping companies. It has been listed at the NYSE since the 15th of August 2008. The legal headquarters of the company lies in the Marshall Islands, but it also owns executive offices in London and Athens.

The ship leasing business entails the establishment of contracts for the hire of vessels over a fixed period of time. The company is a containership owner leasing mid-size and smaller vessels, applying fixed-rate time charters to reputable liner shipping companies. “Over half of the global containership fleet is owned by containership owners.”

The business results of the firm are strongly dependent on the continuous performance of charter agreements, charter rates, the number of days that vessels are effectively in use (not drydocking, under survey, or off-hire), the ability to manage costs, the impairment of the assets, and the access to financing agreements.

HISTORY

OWNERSHIP

Global Ship Lease was formed in 2007 pursuant to the Marshall Island Corporation Act, by which it acquired 17 containerships. In August 2008 GSL merged indirectly with Marathon and one day later, on the 15th of August 2008, it was listed on the NYSE. In 2018 the company acquired an additional 20 containerships, one of which was sold. The sale is referred to as the "Poseidon Transaction".

The conclusion of this transaction led to the issuance of 3,005,603 class A common shares and 250,000 class C Preferred shares. February 12th, 2024, the Board of Directors declared a dividend of $0.375 per Class A Common Share for the fourth quarter of 2023.

As of 2014, the company issued 1,400,000 Depositary Shares, which correspond to a total of 14,000 class B Preferred shares with a par value of $0.01 each. After various transactions throughout the years, as of the 31st of December 2023, the company has 4,359,190 Depositary shares outstanding, equal to 43,592 Series B Preferred Shares. March 4th, 2024, the Board of Directors declared $0.546875 dividends per Depositary Share.

In 2021 another 23 vessels were acquired and the "La Tour" containership was sold for $16.5 M, while 2023 marked the acquisition of other 4 containerships and the sale of "GSL Amstel" for net proceeds of $5.9 M. The current fleet comprehends 68 small to mid-sized containerships, with an aggregate capacity of 360,406 TEU (twenty-foot equivalent unit), and 36 wide-beam ships.

In June 2023 the rating of the company was revised, and GSL was assigned by the S&P 500 a credit rating of "BB", a corporate rating of "BB" by the Kroll Bond Rating Agency, and a "BBB/stable" investment rating.

CORPORATE STRATEGY

TECHNOMART

The company entrusted Technomar company with all day-to-day technical management activities of the firm, for all its vessels. This includes crewing, purchasing stores, lubricating oils and spare parts, paying wages, pensions, and insurance, organizing the operating necessities, and organizing and managing drydocking. Costs incurred by vessel managers, including maintenance expenses to keep compliance with regulations, can be audited anytime. Moreover, the duties of Technomar extend to administrative support services including accounting and financial reporting, treasury management, and legal services. Either party can terminate the ship management agreement in case of unrepaired default, dissolution, or bankruptcy of either party.

Costs related to Technomar: €785 a day x vessel (2024) and €750 (in 2023). €7500 a year x vessel, to ensure compliance to EU ETS requirements.

CONCHART

Conchart is a third-party company that pursues commercial duties for the business, such as:

- The evaluation of possible daily rates and duration of future employment;
- Marketing of vessels for employment;
- The agreement to detailed terms for new charters, or extension of existing ones.

Moreover, Conchart administers the conduct of the charter, but it also negotiates sale and purchase transactions.

Conchart receives 1.25% of all money earned and an additional 1% commission on the sale/purchase of vessels.

ASSETS

Global Ship Lease currently owns a fleet of **68 vessels** employed on a fixed-rate-charter basis. Operating standards of all ships emphasize operational safety, quality maintenance, continuous crew training, and compliance with international and U.S. regulations.

All assets are insured and they're subject to regular assessment performed by authorized classification societies to ensure safety and seaworthiness, under applicable regulations.

The **maintenance** of ships is the result of annual, intermediate, and class renewal surveys to be respectively performed every 12 months, either in the second or third year after commission, and every 5 years, at least.

Special surveys are carried out on the ship's hull and machinery, as well as on the electrical plant. In all, the vessel is thoroughly examined to ensure it meets the requirements for its character of classification. Every five years vessels must be drydocked to inspect and repair the underwater parts. Failure to meet survey standards will hinder the possibility of ships transporting cargo from one port to another, and the asset won't be granted insurance.

The only material properties to the company are post-Panamax ships, designed to carry 5000 to 14000 TEUs (Twenty-foot Equivalent Units) of cargo, and smaller containerships, to serve non-Mainlane and intraregional trade routes. The average age of the vessels, weighted by overall capacity, is **17.2 years**. Every vessel is owned by a separate, wholly-owned subsidiary. 23 vessels are owned by companies incorporated in the Marshall Islands, 45 by companies in Liberia, and 5 by companies incorporated in England and Wales.

FINANCING & COST STRUCTURE

The main source of financing of GSL for short-term liquidity is generated through operating revenues, long-term bank loans, lease and sale transactions, and proceeds from trade on equity. The outstanding short-term obligations include funding of working capital, and cash reserve requirements, while long-term commitments mostly regard investment and capital expenditures, other maintenance expenses, debt repayment, and dividend payment to preferred and common stock.

COSTS:

The majority of expenses relate to the maintenance of the vessels' efficient state, as well as the provision of a crew, lubricating oil expenses, insurance, and drydocking. The company is also liable for costs incurred during "Off-hire" periods, when the vessel is not available for service, and any additional fuel expense, needed to regain the time lost. Moreover, the charterer has the right to extend the hire period by a number of days equal to those under "off-hire".

- Vessel Operating Expenses
- Time Charter and Voyage Expenses
- Depreciation & Amortization
- Impairment of Vessels
- Administrative Expenses
- Interest and Other Financial Expenses

REVENUE STRUCTURE

The company makes proceeds collecting obligations that arise from chartering contracts, for the lease of its vessels. Contracts are time charters that charge for the use of the vessel, a crew, lubricating oil, all maintenance, and services related to operations, a specified daily rate for a fixed period. Revenues start running from the time that the vessel is delivered to the charterer. The agreement may include options to extend the charter on pre-agreed terms; by upon expiration of the contract, the vessel shall be returned within a specific time frame.

The daily charter rate is the gross amount payable per day by the charterer, which is typically payable every 15 days in advance, in U.S. dollars. Even if the charter rate stays unchanged throughout the whole chartering period, the fixed rate may be reduced for performance deficiencies or any cost-saving the company realizes.

The charterer is also liable for any cost that arises from operating the ship, including fuel costs, canal fees, port expenses, and extra insurance for war risks when entering areas that fall outside the scope of the ordinary insurance contract.

CUSTOMERS

The relationship between GSL and charterers is strictly regulated under contract conditions. The company operates with well-known shipping companies with the aim of establishing long-term partnerships. GSL supplies flexible chartering solutions that enable to free up capital and management resources, to be employed for other strategic choices.

The chartering contract can be terminated in advance in case of default of either one of the parties. In case one party informs the other of an issue, failure to rectify the default within 60 days gives the right to terminate the contract. Early termination of contract is also applied when a vessel is off hire for a consecutive number of days, from 20 to 90.

RISK EVALUATION

Operating Revenue Risk

Counterparty diligence in honouring their obligations to the company is crucial to ensure an incoming Cash Flow to the company since this stream of revenue represents the only cash income for GSL. The risk of default also relates to the cyclical nature of the business, as well as the geopolitical disruptions, discussed in the Market Risk section. The risk of deploying a vessel is the inability not to reemploy the ship, getting no revenues for it, but being liable to pay expenses related to maintenance of the asset. However, as of December 31, 2023, no charter hire payments were outstanding.

Rechartering risk is reduced by applying a staggered expiration approach to chartering contracts, so as to reduce the impact of the cyclical nature of the business.

Operational Growth Risk

The ability of the company to access new sources of financing, in the current period of high cost of financing and accelerated repayment schedules, is negatively affected by the actual and perceived credit quality of charterers. The reliance on Technomar and Conchart, two privately held companies, for the technical and commercial management of the firm results in not having access to the financial health of the third-party companies. Shareholders are limited by the absence and scarcity of publicly available information. The lack of diversification could harm the wealth of the company in periods of market disruption in the containership sector.

Market Growth Risk

The majority of market risks relate to supervening events that globally affect the economy. The Covid-19 pandemic resulted in negative growth, followed by a rebound in 2021, and a further negative development through 2022 and 2023. However, the compound annual growth rate (CAGR) of containerized trade volumes increased by 2.8% from 2010 to 2023. The last two years were negatively impacted by the geopolitical tensions that involved the Ukraine and Russia war, the conflict between Israel and Gaza, the tensions between China and Taiwan, and the low sea levels around the Panama Canal.

Financing Debt Risk

The, already high, debt level of GSL could affect its ability to raise additional funding for operations. Moreover, it could lead to reduced elasticity when facing adverse industry developments. A big share of operating revenues will have to be deployed for the repayment of interest expenses and overall obligations. The low cash disposal negatively impacts the ability to divest, make strategic acquisitions, or have more flexibility when planning operations.

RISK EVALUATION

Asset Fair Value Risk

The fair value of assets can be altered by changes in regulations, market conditions, availability of new models, demand for available vessels, and the need to upgrade second-hand/previously owned vessels. When required, costs for the evaluation of impairment may be incurred. In 2023 a loss of $ 18.8 M was recorded for impairment of two ships. Future impairment losses will be computed by evaluating charter rates, vessel utilization, operating expenses, residual value, and inflation.

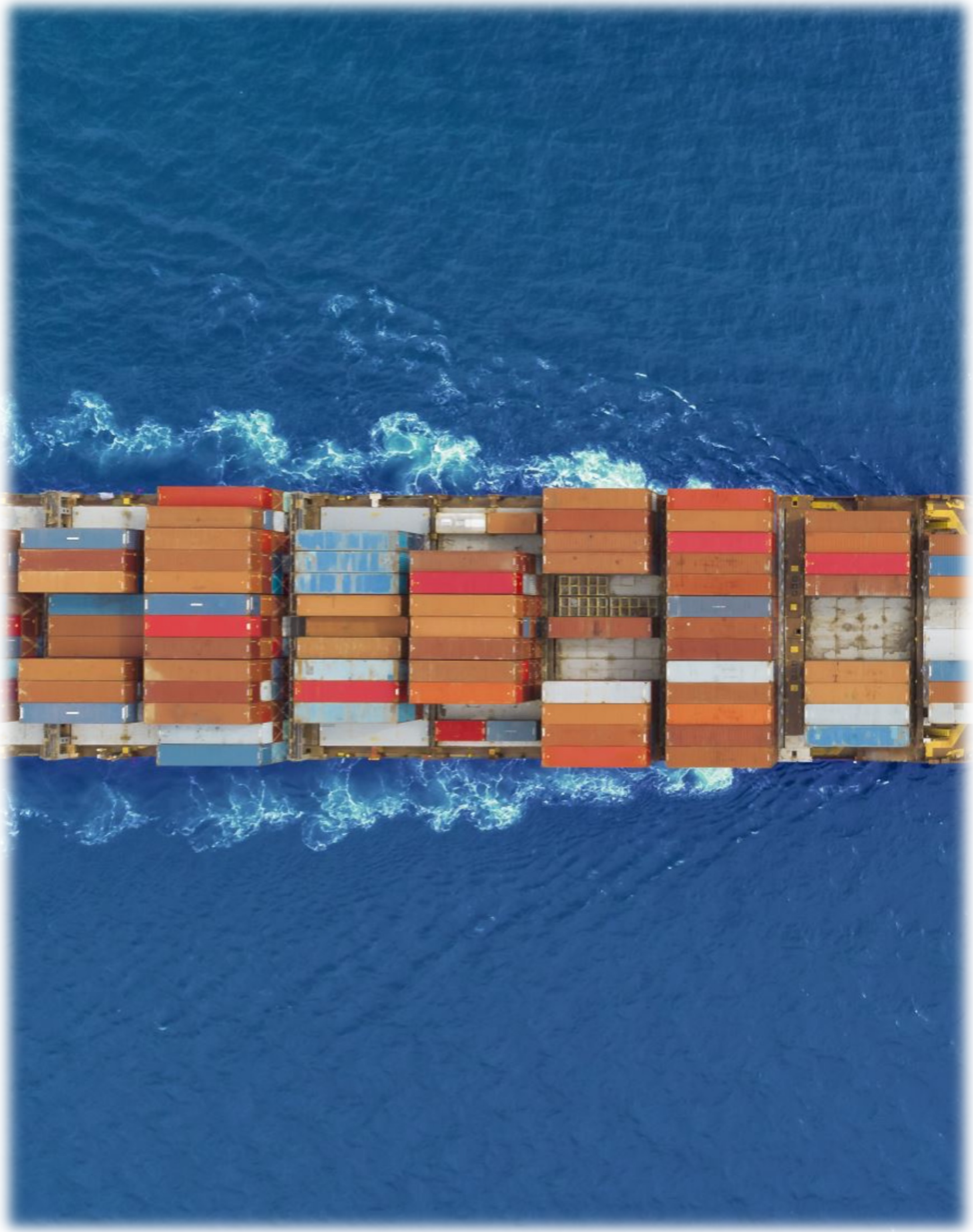
Loss of Income Risk

These risks relate to periods of off-hire: when vessels are not available for service and the burden of costs solely rests on GSL. Only in cases where the charterer is liable for the lack of availability, it'll be also charged with all related costs.

Vessel's Operational Risk

All costs related to the maintenance of the fleet to meet regulatory and commercial requirements, including the support of the company's growth strategy.

GSL employs a conservative and risk-averse commercial strategy, hence, the predominance of long-term charter agreements. This approach is preferred for the forward visibility of cash flows.
GSL aims to employ an investment model that will allow it to establish long-term relationships with its charterers and cover short-term exposure. This approach will provide downside protection and forward clarity concerning cash flows while offering access to upside-earning potential.



MARKET OVERVIEW

Global Ship Lease operates in a market segment that is both pro-cyclical and counter-cyclical, meaning it may or may not follow the economic cycle. Container shipping is both one of the oldest and increasingly relevant transportation methods of modern times, 80% of global trade is carried by sea.

The containership market suffered a recession caused by the 2008-2009 financial crisis, negatively affecting the performance of firms operating in the sector. However, companies were able to recover in the following years up to 2020. The spread of the COVID-19 pandemic triggered another substantial downturn in the wealth of the container shipping industry. During 2020 local authorities prevented ships from docking at ports leading to additional costs related to having ships stranded on territorial water for an extended time. The pandemic caused an overall decrease in import and export trends, thus affecting the whole shipping industry.

Notwithstanding the fast recovery of the market, since the global pandemic, the increasing rates and vessel values placed downward pressure on consumer demand, hence, on the industry as a whole. Moreover, the complex regulatory framework of the ship leasing activities hinders exponential market growth.

The current Ship Leasing market, starting from $12.78 B in 2023, is expected to reach $14.79 B in 2024 and grow to $ 27.97 B by 2029. Growth is expected to develop majorly in the Asia Pacific region. As of now, the greatest ship leasing employer in North America.

Mainlane routes, linking the major manufacturing economies in Asia with North America and Europe, as well as those between the EU and the US, are mostly served by large-sized vessels.

ESG

The company appointed a specialized committee at the Board level, to ensure it meets its environmental sensitivity, social responsibility, and good governance goals.

Environment:
Since 1990 the U.S. has set extensive regulatory actions for the protection and clean-up of the environment from oil spills. All vessels crossing U.S. maritime territory are strictly liable for any damage expense that arises from the discharge of oil or other hazardous substances in the sea. According to the Clean Air Act, vessels must be regularly subject to vapor control when cleaning fuel tanks, with the aim of regulating air emissions in port areas.
Shipping across all sectors is currently responsible for 3% of the global Greenhouse Gas emissions. The devotion of GSL to ESG culminates with its decarbonization aims from the moment of production to the operation of the ship. The approach of GSL to sustainable technologies entails the exploitation of the existing ships until next-generation sustainable fuels are available and established on the market. The intermediate goal is to achieve regulatory compliance by 2030 and the ultimate goal is obtaining a 0-carbon emission strategy by 2050.

Social:
The core priorities of Global Ship Lease in the social sector entail the promotion of safety and well-being at sea. The aim is to continuously increase safety awareness among employees across all sectors through training, educational material, prompt response to emergencies, computation of risk, and implementation of safety measures. The creation of an inclusive and motivating environment through equal opportunities for career placement, continuous training, and wellness and equipment onboard.

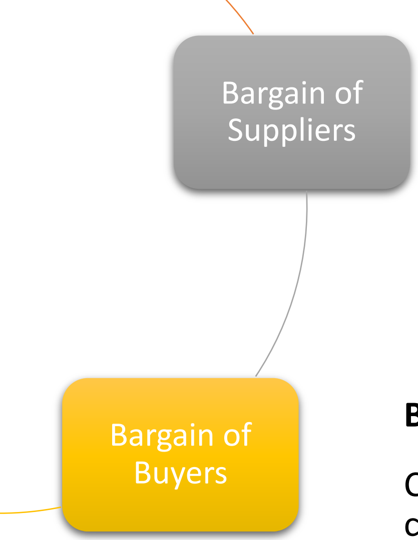
Governance:
The Board of Directors commits to a fiduciary responsibility to represent Shareholders' interests. The Board Committees are divided into Audit, Conflicts, ESG, Nomination and Corporate Governance, and Compensation Committees. Management is subject to a Code of Business Conduct and Ethics, for the promotion of transparent and ethical conduct. The remuneration policy of GSL is determined by the Board itself. Board and Committee remuneration is fixed, while Management remuneration is a function of fixed and variable components.
2017 marked the adoption of Maritime Cyber Risk Management for Safety Management Systems, encouraging shipping companies to effectively face cyber-attacks.

PORTER 5 FORCES

Competitive Rivalry:

Competition within the market is a function of vessel and charter prices, alongside customer relationships, operating expertise, professional reputation, and condition of the assets. Competition refers both to the ability to establish strong market relevance and also to access to newbuildings and second-hand vessels.

Some experienced and substantial companies with better access to financial resources, greater fleets, and better charter agreements could compete against GSL. The industry is characterized by a few players detaining the majority of market share: Maersk A/S, Hamburg Commercial Bank AG, and First Ship Lease Trust, among others. Overall, the supply of vessels exceeded demand in the last years, due to recent industry downturns related to geopolitical issues, thus resulting in an increasing number of short-term charters negotiated at competitive prices.



Bargaining Power of Consumers:

Customers of Ship Leasing include multinational corporations as well as smaller businesses. However, the vessel demand is mainly driven by the volume of cargo each company needs to transport.

The bargain of consumers is supported by the strong reliance of ship leasing companies on short-term financing, as in the case of GSL. Short-term cash flows enable GSL to meet obligations and perform operating activities. In case of buyer default, the ship leasing company has limited possibilities of reemploying the vessel, especially due to the higher ship supply of the past few years. However, shipping represents a more affordable option to companies than buying their vessels altogether, hence, mutually beneficial agreements shall be established.

Bargaining Power of Suppliers:

In the containership industry suppliers are highly specialized in the production of components and technology, hence they hold strong bargaining power. The market advantage of suppliers is highlighted by the high switching costs that arise when choosing to change providers of specialized products, and by the concentration of the players.

Another great driver of ship leasing performance is the volatility of fuel prices, such as bunker fuel, in the case of maritime shipping. This can majorly impact operating expenses for the company.

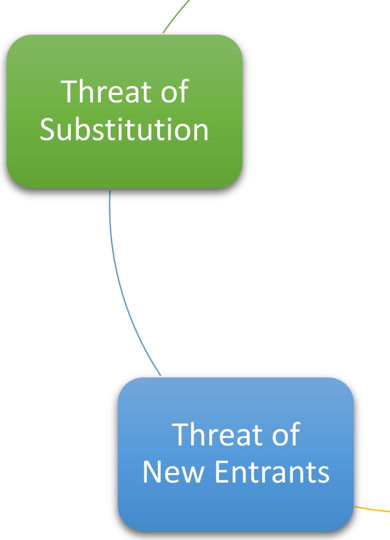
Threat of New Entrants:

The ability to comply with changing regulations leads to the rise of costs that are difficult to compute. Moreover, the increasing environmental concerns have further developed the strict environmental standards for vessels. To this, the developments in cybersecurity requirements for maritime vessels are to be evaluated.

However, smaller players that are already operating in smaller markets are expected to gain more competitive advantage alongside the expected growth in demand. The nature of the ship leasing industry allows it to scale within the market, by gradually expanding its own fleet. However, financing new vessels is especially costly, and access to sources of credit is relatively constrained by the operating performance of the companies.

Threat of Substitution:

Rail and air transportation are the two most relevant substitutes to the maritime shipping industry. Emissions of shipping are approximately 4x lower than road transportation, 50x lower than air freight, and 3x lower than rail solutions, thus being a low-carbon transportation method. However, disruptions in the supply chain, which are nowadays driven by increased technology and higher demand for proximity within a supply chain, may lead to a reduction of shipping distances, hence, preference for land transport over sea shipping solutions.



PEERS

Maersk A/S is a global logistics company founded in Denmark. The Ocean segment provides shipping services, outreaching the scope of Global Ship Lease’s activities.

Its current Market CAP is 140,267 B.

Hamburg Commercial Bank is a private Commercial Bank that among real estate, transportation, and renewable energy solutions, provides its clients with shipping strategies.

CMB Financial Leasing Co., is a Chinese equipment rental company. This company has a diversified portfolio in terms of objects of lease, ranging from ships to aviation equipment.

Founded in Singapore in 2007. The core business of the company is the lease of tanker ships. Its fleet reaches the shores of Asia, Europe, and North America.

Current Market CAP: 61,882 M.

Founded in 2007, ICBC is a derived company of the Industrial and Commercial Bank of China. The core business of the company consists of providing domestic and international customers with leasing solutions, alongside other financial services.

Reasons to invest:

Global Ship Lease operates in a market that has major growth potential in the upcoming years. Nonetheless, the business structure of the company allows it to have a great degree of downside protection.

In fact, by considering the acquisition of the company as an investment in an asset, the fleet, it can be easily grasped that in case of market failure, as stated in the exhibited cash flows, the sale of the vessels would generate enough proceeds to profit from the investment. Moreover, all the active charter contracts would be brought to an end.

The opportunity is to buy an undervalued fleet, that is already fully operational, at a discounted price.

Contributors

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