



Mossberg's Investor Digest

Idea Profile

Diana Shipping (NYSE: DSX)

DESCRIPTION:

Through its current fleet of 19 ships, Diana Shipping specializes in shipping dry bulk cargo, such as iron ore, coal, grain and other materials. The company has 13 Panamax, which can each carry about 75,000 tons of cargo (this is the largest size a ship can be and still fit through the Panama Canal). The company also has 6 Capesize, which are massive ships that on average can carry more than 175,000 tons of cargo. To put it in perspective, a Capsize vessel can carry enough iron ore to make steel to build 60,000 to 70,000 cars.

KEY INVESTMENT CONSIDERATIONS:

Market may have bottomed - The Baltic Dry shipping index has fallen from its peak of 12,000 to approximately 500 in December/January, and has now recovered to approximately 2,000.

High quality customers – Diana primarily charters its vessels to government-owned entities and major producers (such as Cargill and BHP Billiton) rather than to more speculative or undercapitalized entities. Customers like Diana because it owns its own vessels and they do not have to deal with multiple ownership chains.

Long-term Contracts – Diana won't escape the fall in shipping rates. However, 50% of the company's fleet is contracted for 2 years or more...20% for more than 3 years. These contracts were put in place at much higher rates than those quoted today, which provides the company the ability to maintain high rates of return on a significant portion of its fleet. In addition, contracts that have come up recently for renewal have been priced at rates that more than cover operating expenses. The company has contracted 5 ships (all Panamax) since November of 2008 at an average rate of \$11,500/day. While these rates range from 60% to 85% below previous levels, they are still more than enough to cover voyage and vessel operating expenses, which have averaged about \$6,500 per day.

DSX in position to consolidate other debt-laden shippers – Diana has one of the lowest debt loads in the industry with debt/equity of just 20%. Other major dry bulk shippers such as DRYS, EGLE, EXM, and GNK carry on average 7 times as much leverage on their balance sheet. Carrying peak-cycle debt loads with an 80% drop in shipping rates is causing many dry bulk shippers to violate debt covenants and several have already filed for bankruptcy. Additional bankruptcies are likely, which means shipping capacity will come down, which is good for shipping rates. With its minimal debt level, Diana is also well positioned to buy ships at fire sale prices.

Suspending dividend enhances liquidity – Management is making the right moves to preserve capital. In November, the company suspended the dividend to preserve its capital and further strengthen the balance sheet to take advantage of potential opportunities that may be available in the shipping industry. The company has also authorized a \$100 million share repurchase plan.

VALUATION:

Based on next year's consensus EPS estimate of \$1.70, shares are trading at a multiple of about 8x. At the low end of estimates, analysts are calling for \$1.20 in earnings and \$130 million in free cash flow. This equals an EPS multiple of 11.5x and a cash flow multiple of 10x. This appears attractive for a leading company that is in good position to maintain strong returns during the bottom of the cycle and purchase additional capacity at fire sale prices.

(NYSE: DSX)

Investment Data (as of 2/18/09)

Recent Price	\$13.81
52-Week Range	6.85 - 41.10
Fiscal Year End	December
Forward Dividend	N/A
Yield	N/A
Shares Outstanding	75.1 MM
Average Trading Volume (3 mos)	2.0 MM
Market Capitalization	1.0 B
Cash	\$4.7 MM
Long Term Debt	\$172 MM
Enterprise Value (EV)	1.2 B
LT Debt/ Equity	0.2
BV/ Share	\$10.54
TTM Revenue	312 MM
P/ Revenue	3.2x
TTM EPS	2.74
P/ EPS	5.0x
TTM EBITDA	234 MM
EV/ TTM EBITDA	5.1x

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