



Mossberg's Investor Digest

Idea Profile

DryShips (Nasdaq: DRYS)

DESCRIPTION:

Headquartered in Athens, Greece, DryShips, Inc. owns and operates a fleet of 46 dry bulk ships. The company's fleet carries various dry bulk commodities, including coal, iron ore, grains, bauxite, phosphate, fertilizers, and steel products worldwide.

KEY INVESTMENT CONSIDERATIONS:

The supply of dry bulk ships and the demand for their use is imbalanced –

Demand - About 75% of the demand for bulk shipping is from iron ore, coal and grains. While economic cycles tend to drive demand for dry bulk shipping of these items, the globalization of economies is driving a secular trend that should keep demand for dry bulk shipping high for several years to come.

Supply – Given that it takes several years to build a ship and the ship builders are currently behind schedule, there is inadequate new supply to meet increasing demand. The supply side has also been constrained due to the increasing costs of steel and the credit crises' affect on the ability to finance new ships.

Evidence of imbalance - To illustrate this imbalance, a shipper can order a new Panamax dry bulk ship for about \$100 million to be delivered in 2012. A used ship currently costs approximately \$150 million. The disparity between the valuations of the new and used ships indicates the market's value of dry bulk shipping and gives evidence that spot market for shipping rates will stay at increased levels for at least the next five years.

DryShips has the most exposure to increases in shipping rates – While most dry shippers lock in rates for one year, DryShips has only locked in pricing for approximately 60% of its capacity, which is among the lowest of its peer group. DryShips should be in better position to capture increases in pricing, if spot prices for shipping rates increase.

KEY RISKS:

Most aggressive name in the dry shipping industry – DryShips has locked in pricing for approximately 60% of its shipping capacity. While DryShips is in good position if pricing increases, profitability could also be negatively impacted if prices decline.

Significant Debt Levels – DryShips is currently carrying significant debt levels, above the industry average. While there are adequate funds to manage current and even higher debt levels, the ability to service and manage high levels of debt is risky in a cyclical business.

CATALYSTS:

Shipping rates could increase significantly this fall – The Baltic Dry Index (BDI), which is the index of dry bulk shipping rates, is currently 25% below its peak reached in May 2008. It is seasonally typical for rates to decline in the summer due the seasonality of the grain trade, however, rates may also be temporarily depressed by the Summer Olympics in China. DRYS After July 20, the Chinese will halt steel production in plants near Beijing to lower pollution levels during the 2008 Summer Olympics. In the fall, a pickup in iron ore transport in China and the seasonal pick up in the grain trade, could cause shipping rates to increase significantly.

IPO of ultra deep water drilling (UDW) business unit – Within the next 12 months, and as early as this fall, DryShips is planning to spin off its newly developed UDW business unit in a U.S. IPO. The business unit recently acquired deep water driller Ocean Rig ASA, and is currently constructing two drill ships. As a separate company, this business unit could be worth as much as \$25 to \$30 per share by itself. In a spinoff, a greater portion of this value could be realized.

VALUATION:

DryShips trades at approximately 6x Enterprise Value to trailing twelve months EBITDA, or at about half of the multiple of several comparative peers.

(Nasdaq: DRYS)	
Investment Data (As of 7/15/08)	
Recent Price	\$77.65
52-Week Range	46.21 - 131.34
Fiscal Year End	Dec
Dividend	\$0.80
Yield	1.1%
Shares Outstanding	41.4 MM
Average Trading Volume (3 mos)	4.7 M
Market Capitalization	3.22 B
Cash	624.5 MM
Long Term Debt	1.34 B
Enterprise Value (EV)	3.8 B
LT Debt/ Equity	0.87
Tangible BV/ Share	\$37.24
TTM Revenue	727.9 MM
P/ Revenue	4.2x
TTM EPS	16.03
P/ EPS	4.8x
TTM EBITDA	593.2 MM
EV/ TTM EBITDA	6.4x

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