

Bermuda Aviation Services Limited

Ticker: **BAS - BH**
Sector: **Transport**

Fiscal Year-End: **March 31, 2007**
Web Site: **none**

Share Price (09/30/07):	\$6.65	Annual Dividend:	\$0.32	Shares O/S:	5.07m
Stock Rating:	Hold	Current Yield:	4.81%	Market Cap:	\$33.7m
Risk Profile:	Moderate	Payout Ratio:	48%	BSX Weight:	1.16%
1-Year Target Price:	\$7.00	Ex-Dividend Date:	11/06/07	Book Value:	\$6.35
1-Year Implied ROR:	10.1%	Frequency:	Quarterly	Price/Book:	1.05x

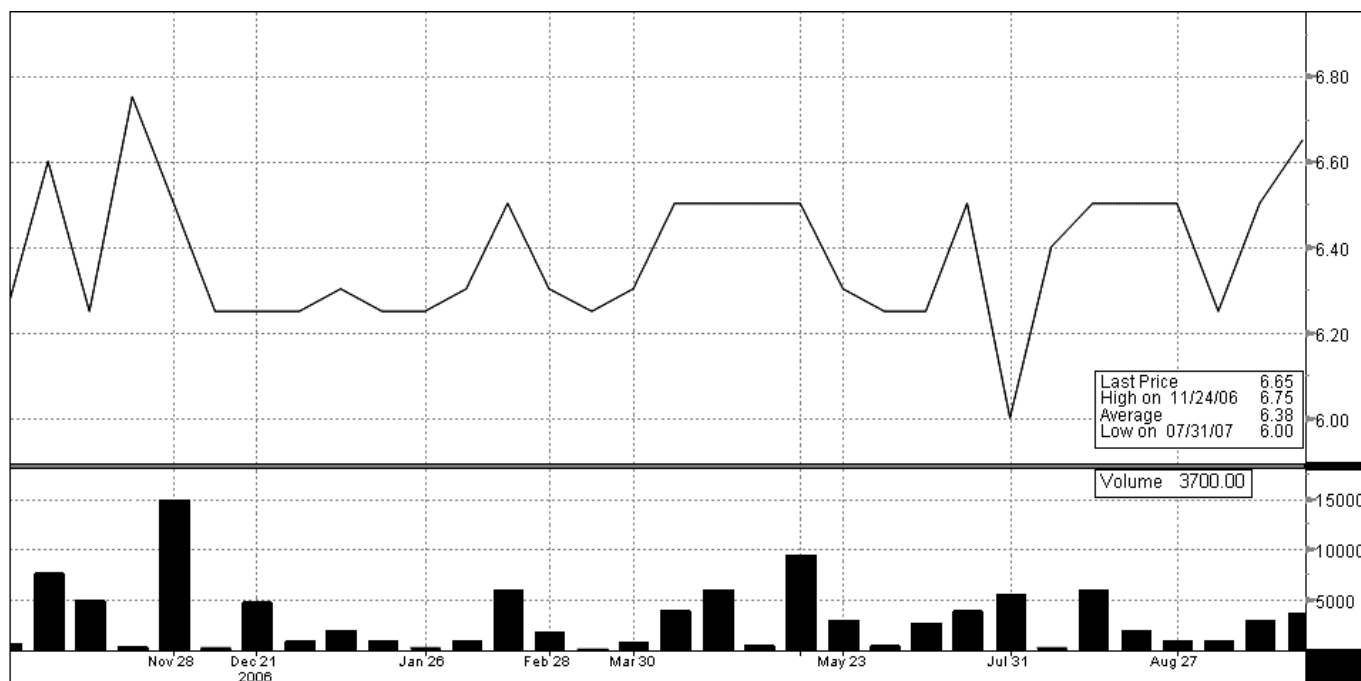
52-Week High: \$6.75
52-Week Low: \$6.00
Avg. Monthly Volume: 3,700

Current P/E Ratio: 9.93x
Shareholder's Equity: \$32.2m
Total Assets: \$46.1m
Return on Equity: 10.5%
Return on Assets: 7.3%

	2005	2006	2007	2008E
EPS:	\$0.40	\$0.56	\$0.67	\$0.72
YoY Growth:	66.7%	40.0%	19.6%	7.5%
P/E Ratio:	10.43x	11.25x	9.40x	10.00x
Fiscal YE Price:	\$4.17	\$6.30	\$6.30	

Notes: BAS omitted its dividend for August 2007
BAS raised its annual dividend by \$0.06 in November 2006

BAS 1-year price/volume chart:



Bermuda Container Line

Company Description

Bermuda Container Line (BCL) operates ocean freight services linking Bermuda with various destinations around the globe. The company runs a weekly route between Hamilton and New Jersey and through its 50% joint venture Somers Isle Shipping Ltd. (SISL), a service between Hamilton and Florida (operating three times per month.) BCL's network of agencies allows for full container loads to be shipped by a variety of freight methods between Bermuda and all key centres across North America.

2006 Results

BCL reported net earnings for fiscal 2006 of \$4.4 million, an improvement of 28% over 2005 earnings of \$3.4 million. The company's past two years of earnings growth represent, at least on the surface, the reversal of a steady decline in profits between 2001 and 2005. Revenue for the year was up 8.4% to \$33.7 million, with freight revenue growing 5.4%, or \$1.7 million, and other revenues rising a staggering 195%, or \$1.0 million. This substantial increase in "other revenues" was due to three main factors:

- A decision by BCL executives to shift the company's marketable investments from a low rate-of-return "laddered bond" portfolio into a diversified portfolio of fixed income, equity, and alternative investments. While this change has proven lucrative in the short run, we view it as risky and unsustainable - given that these funds have been earmarked by BCL to replace their ageing freighter, "The Oleander".
- A one-time gain on the sale of the SISL freighter "Somers Isles", deemed expendable due to capacity constraints, and subsequently replaced by a larger and more expensive rental charter.
- Interest income earned by both BCL and SISL on higher cash balances, more aggressive cash management, and foreign exchange gains realized on SISL's substantial Euro holdings.

Net of these non-recurring items, BCL's revenues for 2006 increased 5.5% year-on-year. Subtracting these items from bottom-line earnings, net income for 2006 was essentially equal to that of 2005. Persistent increases in stevedoring (ship loading and unloading) costs and cargo handling expenses continue to have a negative impact on BCL's operating earnings.

Half-Year 2007 Results

BCL recently reported six-month earnings of \$2.0 million, or \$0.66 per share, a figure roughly equivalent to half-year earnings for 2005. Operating income relating to the New Jersey service, however, was down 65% due to The Oleander dry-docking in the spring. This earnings shortfall was again offset by an increase in investment income, which rose 175% for the period – a significant amount of non-operating profit which will not likely be replicated going forward.

Forecast and Recommendation

Bermuda's construction boom and the Island's insatiable demand for imports virtually guarantee a steady stream of revenue for Bermuda Container Line. However, the company stands as a "mature firm in a mature industry" and faces a host of operational challenges going forward, including:

- The replacement of "The Oleander", which is nearing the end of its useful life. Management has expressed little desire to hasten this process, given their faith in the ship's continuing utility combined with timing factors. Indeed, the commissioning of a new vessel at present seems illogical due to the cyclical nature of the shipbuilding industry, which seems to have "hit a peak".
- The persistent and unwelcome rise in stevedoring and cargo handling costs, a situation which appears beyond the control of management.
- Ongoing expenses related to the handling of "Ro/Ro" (roll-on/roll-off) cargo in New Jersey.

BCL stands as a formidable player in Bermuda's shipping industry, and while we hold considerable respect for corporate management, we prefer to take a "wait and see" attitude with the stock. By applying a 10.0x multiple to our fiscal 2007 earnings estimate of \$1.35, we generate a one-year target price of \$13.50. LOM rates the shares of Bermuda Container Line as a "hold".