Global Ship Lease Inc.

Buy - Initiating Coverage (Share price: $5.02)



Laurier Student Investment Fund

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Executive Summary

Global Ship Leasing owns a fleet of 17 shipping vessels. The company was spun off from the French company CMA CGM ("CMA") in 2008 and GSL continues to only lease to CMA CGM on fixed rate charters with a weighted average maturity date of February 21, 2020. This is an anomaly in an industry where fixed shipping leases are typically short term and it offers GSL a stable, easily forecasted revenue stream (to the extent of the charter contract lengths).

After breaching a 75% loan to appraised ship value covenant in April 2011, GSL is forced to divert all cash in excess of $20M to pay down debt. The company has failed to achieve <75% LTV on two other "test dates" in November 2011 and November 2012 causing much investor disappointment. The next "test date" is December 2014.

This report argues that GSL can very likely meet its debt covenant requirements in 2014, freeing up cash to pay out dividends to shareholders while maintaining the required LTV ratio of <75%. In the scenario analyzed in this report the company would liquidate in year 2025, which is the approximate year that GSL´s fleet will have exhausted the extents of the vessel´s useful lives.

The main concerns raised are the company's sole reliance on CMA CGM's ability to pay in order to receive revenues (credit risk), and the firm's relations with debt holders (entire debt amount is due in mid-2016, requiring a restructuring). In addition, once charters expire it is likely that new contracts obtained will be less attractive in terms of contract length and lower daily charter rates.

Furthermore, on September 16, CMA CGM filed a Schedule 13D filing (purchase of shares) indicating the company finds GSL to be undervalued and as well that the company´s intent is to potentially change the board or expand.

Conservative financial model forecasts indicate that GSL's DCF valuation derived share price implies a 21% upside at $6.06 (even after the 11% increase in price after the 13D filing). Further upside potential that has not already been priced in may be present as CMA CGM´s motivations become clearer (operational improvements or better yet, perhaps they reacquire GSL). Thus, I rate Global Ship Lease a Buy.

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1 INTRODUCTION

1.1 Investment Thesis

Dividend Payments - The ability to pay out dividends is the biggest catalyst for GSL. This is because equity investors will appreciate the cash in their pocket. The future event that is likely to occur that will enable this catalyst to take effect:

GSL achieves <75% Leverage Ratio - In order for this to happen, GSL must achieve a leverage ratio (LR) of 75% (asset values of ships vs. loan amounts). Currently, after breaching the LR covenant, GSL is now forced to divert all free cash flows to pay down debt until the next test date on December 1, 2014. Once they achieve the LR ratio, they will pay dividends again and provide a sizeable dividend yield that will drive the stock price and bring confidence to the market.

Overall, the ability for GSL to reach a LR of <75% will depend on two factors: (1) the company's outstanding debt balance at the test date in December, 2014 and (2) the appraised value of GSL's vessel assets (which is more difficult to predict).

Outstanding debt: According to the financial model, GSL's outstanding debt will be approximately $245M by the test date near the end of 2014.

Vessel values: This is dependent on the values of GSL's 17 vessels. In fall of 2012 Morgan Stanley valued the fleet at $520M. According to the authority textbook on vessel valuation, *Maritime Economics,* it is reasonable to forecast future vessel values using a depreciation rate if one does not have a firm conviction on the stage in the market cycle the vessel industry is in. Thus I forecast future vessel appraised values using a straight line depreciation rate over the useful life of the fleet as a proxy of estimation. I would further argue that this value may be conservative since it appears the shipping industry is at the bottom of its cycle and has potential to improve. My forecasted value of all the vessels will be $455M by the end of 2014, implying that GSL can easily meet the debt covenant of reaching less than a 75% LTV ratio (my forecasts indicate a 64% LTV ratio by the end of 2014).

Other factors:

Second Hand Ship Prices – Second hand ship pricing will have a huge effect on the value of GSL when the charters expire. The base case assumes that charter rates remain at the current depressed levels into the long-term, as a form of conservatism. If this is the case, then renewed charter rates will be much lower than the current rates being paid by CGM. My methodology

for forecasting future charter rates using the ConTex index will be explained further in the report.

Key Term: *Twenty foot equivalents (TEU)* – a measure of the size of shipping vessels.

1.2 Road Map

This report explores the potential for GSL to meet its debt covenant requirements on the next "test date" in 2014, freeing GSL's cash constraints. This will allow GSL to issue a sizeable dividend given the company's stable, fixed charter rates on its vessels. Firstly, GSL will be described, followed by an analysis of the container shipping industry.

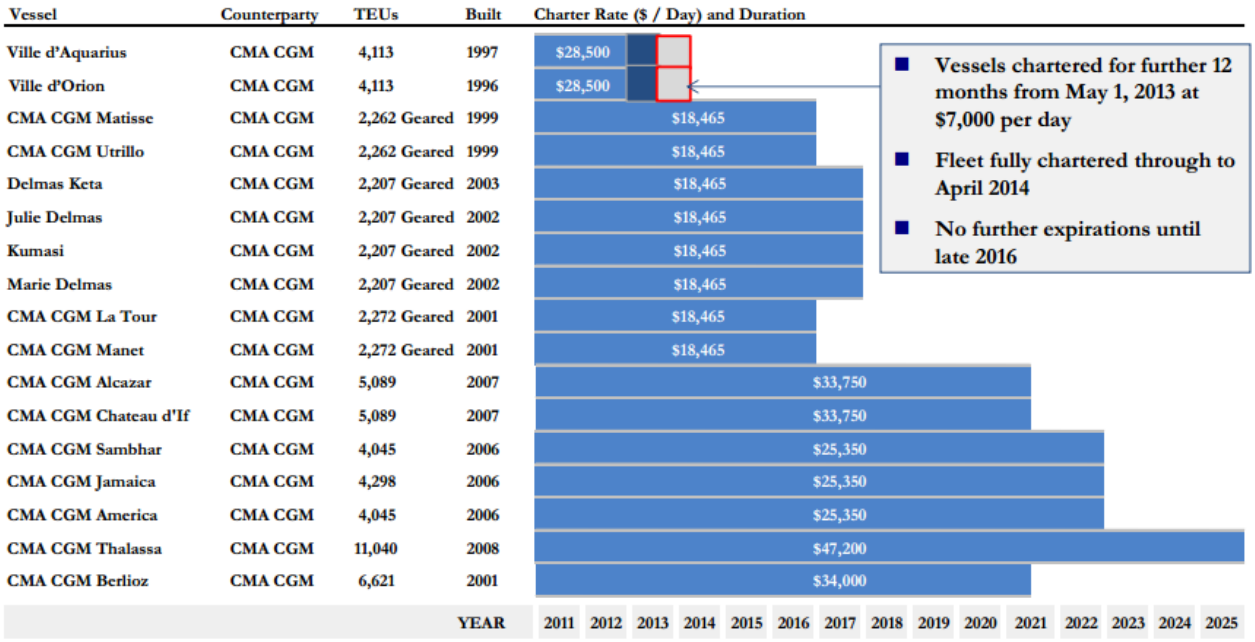
In the Forecast section, during the charters revenues are virtually fixed, making an easy calculation. However, after charter contracts expire, the renewed contract rates are calculated based on the ConTex container shipping rate index. Costs were forecasted based on ratios to operating income. In the 25th year of each vessel´s life it is assumed that the ships are scrapped. The scrap value is determined using a scrap value per ton figure found through research of comparable vessels.

2 Company Overview

GSL owns and manages vessels leased to container liners over long-term charter contracts. GSL manages the crews, maintenance of vessels, lubricants, insurance, and the daily technical operations, while their customers pay for fuel. The company was spun off from the 3rd largest container shipping group CMA CGM in 2007 (still retains 44.5% ownership).

All vessels are time chartered to CMA CGM S.A. (CMA CGM) for remaining terms as at December 31, 2011 ranging from 1 to 14 years. As of December 31, 2011, the Company's fleet consisted of 17 containerships with an aggregate capacity of 66,349 twenty-foot equivalent unit and a weighted average age of approximately 7.8 years and a non-weighted average age of 8.9 years. All of the vessels are fixed on long-term charters to CMA CGM with an average remaining term of 7.1 years, or 8.3 years on a weighted by capacity basis.

Figure 1 GSL charter timelines; Source: GSL corporate presentation



Debt Issues and Covenant Breach: December 2007, the Company entered into an $800M senior secured credit facility with a consortium of institutions. Interest rates are either US dollar LIBOR plus a margin of 2.5% (LR < 65%), 3.0% (65%<LR<75%), or 3.5% (LR>75%). Technically, GSL is not permitted to exceed a LR of 75%.

At April 30, 2011, the LR was less than 75% but greater than 65%. So the LIBOR margin was +3%, prepayments of borrowings was set at $10M per quarter, and GSL was permitted to make dividends.

April 2011 - Downturn Causes LR to Exceed 75%: However, due to the downturn after April 2011 in charter free market values of containerships, GSL obtained a waiver to perform an LR test on November 30, 2011. The test date got forwarded out to November 30, 2012. However, because of this, the interest margin was raised to 3.5%, prepayments to borrowing each quarter was to be the amount of all free cash in excess of $20M (and a minimum of $40M on a TTM basis), and no dividends were allowed.

November 2012 – LR Test Date Further Extended: Due to continuing poor industry conditions, the LR ratio test was further extended to December 1, 2014 (GSL would not have had a LR <75% otherwise). The fixed interest margin was raised to 3.75%, prepayments follow the previous cash flow rules, and dividends are still not permitted.

The final maturity date of the credit facility is August 14, 2016, at which point all remaining outstanding balances must be paid. According to my forecasts, GSL will have a debt balance of only $100M at this time which will be easily refinanced.

3 Industry Overview

The vessel leasing industry is highly fragmented with the top company taking up 6.5% of the market and the top 25 companies taking up only 64% of the market. Some major competitors are Seaspan, Danaos, Costamare, Box Ships, and Diana Containers. This business is lower risk than their customer's freight liner industry since vessels are leased on long-term contracts, not subject to short-term fluctuations.

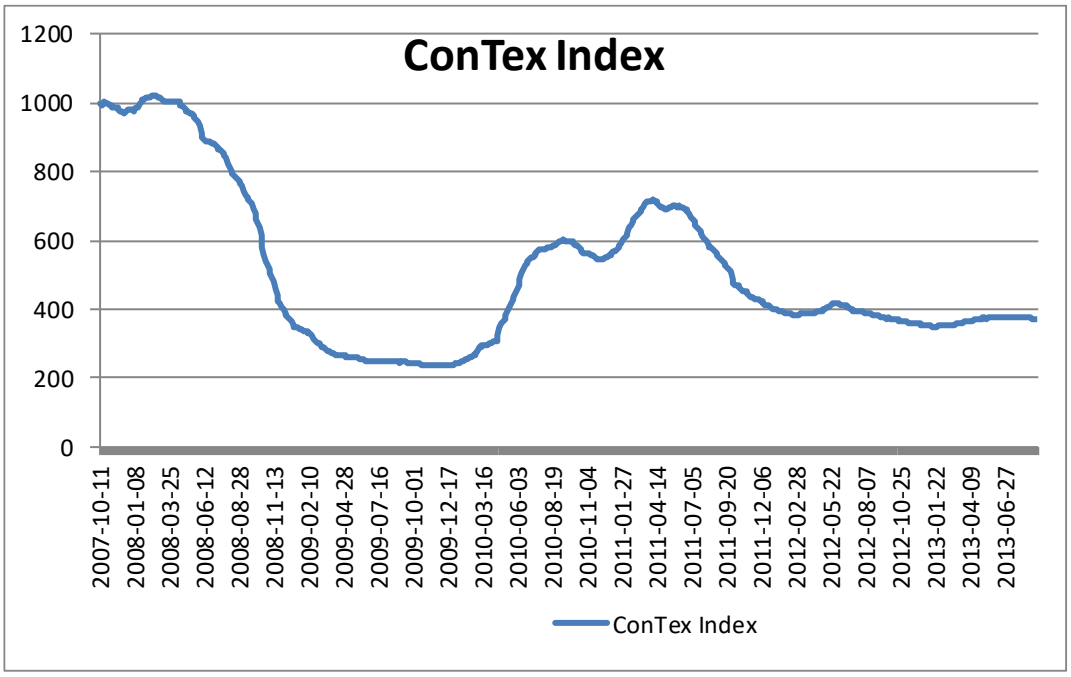


Figure 2 ConTex index price history; Source: ConTex website

The ConTex is a company-independent index of time charter rates for container ships[i]. It is based on assessments of the current day charter rates of six container ship sizes. As this chart shows, the container ship industry has suffered from rate decreases both in 2008, and again in 2011 as global economies and trade patterns have decreased. However, it appears that pricing has been stable over the past 18 months and may be at a bottom. This sentiment is further strengthened as scrapping is increasing and new ship orders are decreasing.

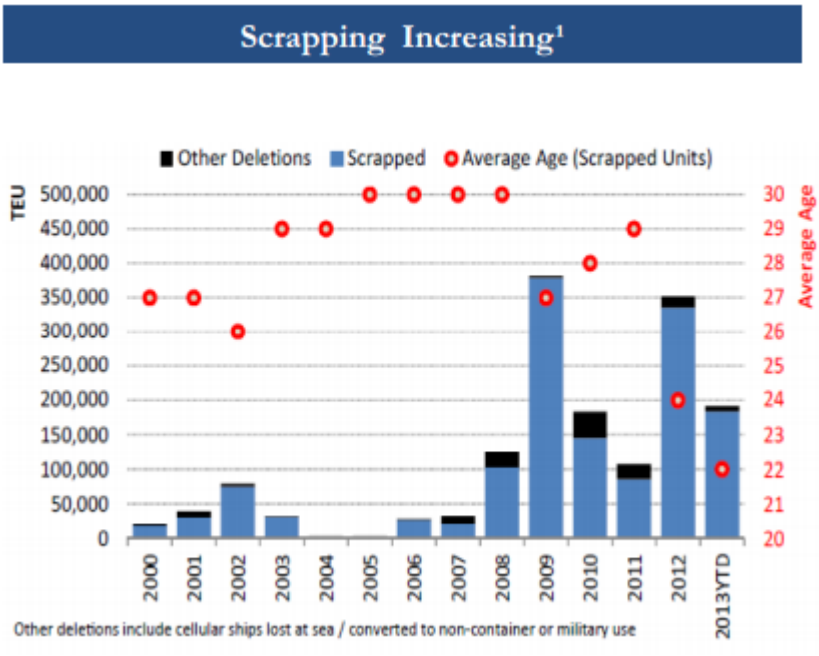


Figure 3 Vessel scrapping rates; Source: GSL Q2 corporate presentation

Scrapping is on the rise with 350k TEU´s scrapped in 2012 and with 190k TEU´s scrapped in in the first 4 months of 2013, an estimated 450k TEU´s are expected to be eliminated in 2013FY. This indicates that excess capacity is being taken from the market, lowering available supply.

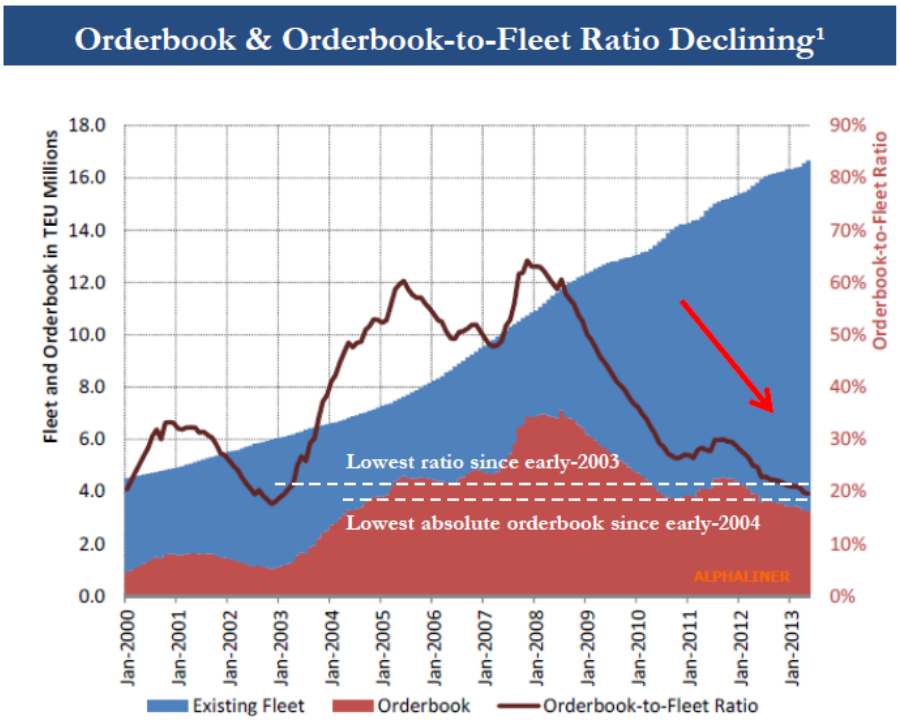


Figure 4 Vessel order books and supply; Source: GSL corporate presentation

Fleet sizes have continued to increase as high orders during the peak in 2009 continue to be completed. However, orders have declined to their lowest level in the past decade in proportion to fleet size. This may indicate that supply is stabilizing in the container ship market and the industry may be poised for growth if demand fundamentals improve. However, it is likely that it will take a few years for this to occur especially as it is apparent in Figure 4 that fleet sizes are at a very high level.

Deployment Geography	Trade Categorization[1]	GSL Vessel Deployment[2]
Asia / Africa	Non-Mainline East-West	1 x 4,100 TEU; 2 x 2,200 TEU (geared)
Africa / Indian Ocean	North-South	3 x 2,200 TEU (geared)
Asia / Mediterranean	Asia-Europe (Arterial)	1 x 6,600 TEU
Asia / Mexico / Caribbean	Non-Mainline East-West	2 x 5,100 TEU
Asia / Red Sea	Non-Mainline East-West	1 x 4,100 TEU
Asia / Red Sea / Mediterranean / Europe	Asia-Europe (Arterial)	1 x 11,000 TEU
Europe / S.America	North-South	2 x 4,000 TEU
Europe / N.America / Caribbean / Oceania	North-South	3 x 2,200 TEU (geared)
N.America / Mediterranean	Transatlantic (Arterial)	1 x 4,300 TEU

Figure 5 GSL vessel deployment geography; Source: GSL corporate presentation

GSL´s fleet currently takes advantage of the emerging markets, with focuses on Asia, Africa, and South America. Management has stated their intent on focusing within intra-Asia as charters continue to roll off in 2016 and 2017.

Overall, it appears that there is potential for improvement in the container shipping market but in the near-term a great improvement will likely not occur. Thus it would be conservative to assume that GSL remains in market fundamentals similar to today from now through until 2025 given the volatility in the containership charter markets.

4 Base Case Forecasts

4.1 Revenue Forecasts

	2013F	2014F	2015F	2016F	2017F	2018F	2019F	2020F
Operating Revenues								
Time charter revenue	$141.082	$139.588	$139.588	$136.735	$123.320	$112.629	$112.629	$111.059
Vessel Name								
Ville d'Orion	$2.565	$1.818	$1.818	$1.818	$1.818	$1.818	$1.818	$1.818
Ville d'Acquarius	$2.565	$1.818	$1.818	$1.818	$1.818	$1.818	$1.818	$1.818
CMA CGM Matisse	$6.740	$6.740	$6.740	$6.084	$3.370	$3.370	$3.370	$3.370
CMA CGM Utrillo	$6.740	$6.740	$6.740	$5.992	$3.370	$3.370	$3.370	$3.370
Delmas Keta	$6.740	$6.740	$6.740	$6.740	$6.075	$3.370	$3.370	$3.370
Julie Delmas	$6.740	$6.740	$6.740	$6.740	$5.992	$3.370	$3.370	$3.370
Kumasi	$6.740	$6.740	$6.740	$6.740	$6.084	$3.370	$3.370	$3.370
Marie Delmas	$6.740	$6.740	$6.740	$6.740	$6.020	$3.370	$3.370	$3.370
CMA CGM La Tour	$6.740	$6.740	$6.740	$6.075	$3.370	$3.370	$3.370	$3.370
CMA CGM Manet	$6.740	$6.740	$6.740	$5.955	$3.370	$3.370	$3.370	$3.370
CMA CGM Alcazar	$12.319	$12.319	$12.319	$12.319	$12.319	$12.319	$12.319	$11.593
CMA CGM Chateau d'If	$12.319	$12.319	$12.319	$12.319	$12.319	$12.319	$12.319	$11.475
CMA CGM Thalassa	$17.228	$17.228	$17.228	$17.228	$17.228	$17.228	$17.228	$17.228
CMA CGM Jamaica	$9.253	$9.253	$9.253	$9.253	$9.253	$9.253	$9.253	$9.253
CMA CGM Sambhar	$9.253	$9.253	$9.253	$9.253	$9.253	$9.253	$9.253	$9.253
CMA CGM America	$9.253	$9.253	$9.253	$9.253	$9.253	$9.253	$9.253	$9.253
CMA CGM Berlioz	$12.410	$12.410	$12.410	$12.410	$12.410	$12.410	$12.410	$12.410

Figure 6 Forecast operating revenues by vessel; Source: GSL filings, LSIF forecasts

Revenues are entirely made up of charter income. The daily charter rates and contract lengths for each vessel are stated in company filings. This means that revenue is easily forecasted within the contract dates.

Past the contract dates, an assumed market vessel rate is applied at a discount of 50% to current charter rates up until each ship´s scrap individual scrap date. This assumption is derived from comparing the ConTex index values at the date GSL was created in April 2008, to the current ConTex index values. The logic behind this is that the GSL charter rates in 2008 prior to the decrease in container shipping rates are unlikely to be renewed at the same rate. Given the fact that ConTex index values are at approximately half the rates in the period in 2008, the 50% discount assumption appears to be reasonable.

All vessels are assumed to be scrapped during the 25th year of their useful livs. No terminal value is applied since it is assumed that after 2033 the last ship is scrapped and GSL shuts down. Since the useful life of shipping vessels is 25 – 30 years, this adds a level of conservatism assuming that the vessels will be able to generate revenue for only 25 years before liquidation.

4.2 Margins

I fix the operational and G&A costs at the ratio to operating income, while share based compensation was assumed to be equal to the average over the last 5 years.

4.3 Capital Expenditures

CapEx is made up of dry docking expenses, acquisitions of vessels, and capitalizing intangible assets such as purchase options once they are exercised.

- Dry docking are short periods of time when vessels are not in service to perform check-ups and maintenance. These costs are capitalized.
- At times GSL may obtain purchase options that are millions of dollars in order to secure first right of purchase of specific vessels in the ship building process. Once these options are exercised they are capitalized into the fixed assets account.

LSIF Method Not Reflective of Company:

As part of due diligence I the depreciation rate was calculated using the average of the past four year's percentages using the LSIF method.

Maintenance CapEx forecasts were based on the LSIF method. However, growth CapEx was mainly tied to the expected ships added to the fleet (which is nil) rather than tying the value based on sales growth. This is because the historical growth CapEx values were not meaningful and it is believed that this method will be more accurate.

Based Maintenance CapEx on Dry Docking Scheduled:

Upon further analysis, the maintenance CapEx figures were deemed to be too high because it assumes that yearly maintenance CapEx cash outflows will be equivalent to the yearly depreciation expense. However, in this situation this is unlikely and fails to reflect the cash flows of this business.

	2008	2009	2010	2011	2012
	Actual	*Actual*	*Actual*	*Actual*	*Actual*
# Vessel Dry Docks	1	2	0	6	6
Dry Dock Cost	$1,500	$1,700	$0	$7,800	$7,100
Cost per vessel	$1,500	$850	$0	$1,300	$1,183
				Weighted avg. cost	$1,207

Figure 7 Historical average dry-dock cost per vessel; Source: GSL filings

For example, total CapEx in 2009 was $92.1M due to the last acquisitions to the company's fleet of 17 vessels. Since then the company's CapEx has ranged from $0.8M to $7.9M, mainly for dry docking expenditures. These numbers are nowhere near the $37.3M in depreciation expense that the LSIF method forecasts. Thus, I forecast out the CapEx as mainly the dry docking expenses which are laid out in the filings on a schedule. There are currently no intangible purchase contracts outstanding, so these will not be capitalized in the future.

By looking at historical number of vessels dry-docked and the total dry dock costs, the dry-dock cost per vessels were calculated for each year. The weighted average cost per dry dock was calculated over the years 2008 – 2012. I used this cost per dry dock as well as management's stated number of dry-docks per year to forecast future dry-dock CapEx.

	2013F	2014F	2015F	2016F	2017F	2018F
	Forecast	*Forecast*	*Forecast*	*Forecast*	*Forecast*	*Forecast*
# Vessel Dry Docks	3	2	0	7	6	1
Dry Dock Cost	$3,620	$2,413	$0	$8,447	$7,240	$1,207
Cost per vessel	$1,207	$1,207	$1,207	$1,207	$1,207	$1,207

Figure 8 Forecasted dry-dock costs; Source: GSL filings

For the years 2019 and onwards without management forecasts, rule of thumb that dry-docks occur every 5 years was used. Thus, in a 5 year span, it can be reliably certain that 17 dry-docks will occur. The scheduling of these dry-docks over each proceeding period attempted to model based on the forecast 2013 – 2018 numbers.

4.4 Ship Assets and Debt

Value of Ship Assets – This is an important aspect of the thesis because the Leverage Ratio hinges on this value. GSL must achieve a "Leverage Ratio" (LR) of less than 75% by the next "test date" on December 1, 2014. The methodology to determine this value is discussed below.

Debt, LTV Ratio, and Dividend Modeling

The ships were last valued in November 2011 at ~$550 -$660M. Morgan Stanley estimated in its monthly *Maritime Industries* report in fall 2012 that GSL's fleet value is $538M. This report assumes the ship value at the beginning of 2013 is $520M based on these prior appraisals. Thus going forward, the major factors that will affect the appraisal value of the vessels are (1) the depreciation of the vessels over time, as well as (2) adjustments made due to changes in implied values of these vessels as charter rates change[ii].

The depreciation value of the ships are estimated using a straight line depreciation rate based on the $520M end of 2012 value and the time remaining in the useful life of the ships. The weighted average age of the vessels at the beginning of 2013 is 12.5 years. Assuming an average useful life of 25 years (about 12 years remaining), and a $108M salvage value (calculations shown below) the ships´ appraised value is expected to decrease by $32.2M per year.

Determining adjustments to the ship values is more challenging. However, basing the adjustments on an applicable index can shed light on what adjustments should be made. The Baltic Dry Index was explored, but deemed unrepresentative because it focuses mainly on dry bulk shipping rates. The ConTex is more applicable to GSL because it monitors and aggregates charter rates for container ships.

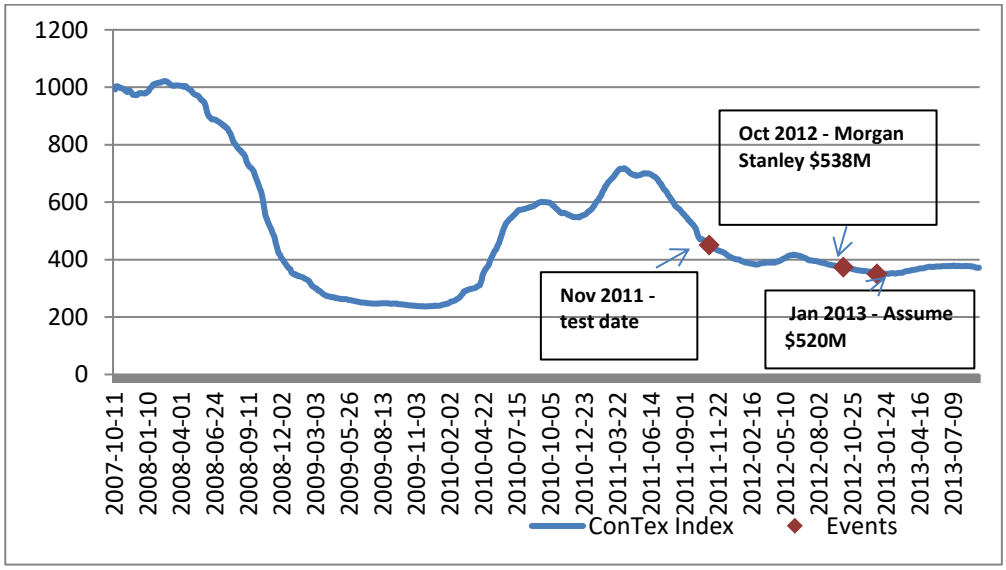


Figure 9 ConTex Index; Source: Vereinigung Hamburger Schiffsmakler und Schiffsagenten

According to the ConTex Index, charter rates have not changed materially since the Morgan Stanley survey in fall of 2012, thus no additional price adjustments were made to the ship values other than depreciation.

DEBT PAYDOWN	2013F	2014F	2015F	2016F	2017F	2018F	2019F	2020F
Net proceeds from debt	-$66.860	-$67.029	-$75.452	-$69.181	-$69.963	-$71.471	-$5.720	$0
Issuance costs of debt	$0	$0	$0	$0	$0	$0	$0	$0
Net warrant proceeds	$0	$0	$0	$0	$0	$0	$0	$0
Net Increase/Decrease Cash	-$6.145	$1	$0	$0	-$1	$0	-$15.000	$0
Minimum Cash Balance	$20.000	$20.000	$20.000	$20.000	$20.000	$20.000	$5.000	$5.000
End Cash Balance	$20.000	$20.000	$20.000	$20.000	$20.000	$20.000	$5.000	$5.000
Dividend payments	$0	$0	$0	$0	$0	$0	-$77.332	-$71.847
Forecast Ship Values	$487.754	$455.508	$423.262	$391.015	$358.769	$326.523	$294.277	$262.031
Loan to Ship Value Ratio	73,6%	64,1%	51,1%	37,6%	21,5%	1,8%	0,0%	0,0%
Straight Line Depreciation	$32.246	$32.246	$32.246	$32.246	$32.246	$32.246	$32.246	$32.246

Figure 10 Forecast debt payments, dividends, and LTV ratios; Source: LSIF forecasts

Based on forecast ship asset value decreases, GSL will meet the LTV covenant on the December 2014 test date. From there the model attributes all excess cash flow to pay down debt. Once all debt is paid off, all excess free cash flow, apart from a $5M operational cash balance will be diverted to dividend payments. Figure 11 shows the debt pay down schedule that allows GSL to easily maintain less than a 75% LTV ratio.

Scrap Value of Ships

According to Clarkson Research Services[iii], scrap values are currently $400 per ton. Demand appears to be strong from Chinese and Indian ship breakers despite the weakening price trends in the containership markets. As a form of conservatism, I placed the scrap value of vessels at $300 per ton, a 25% discount to current levels due to the uncertainty behind this estimate.

Ship ton values were estimated based on ship designer Knudehansen´s catalogue[iv] of ships that were of similar size to GSL´s fleet. On a ship-by-ship basis, the dead weight tonnage of each ship was determined Scrap tab, and the light weight tonnage was calculated based on the assumption that the lightweight tonnage is 50% of the dead weight. This assumption appears reasonable based on various checks. It is assumed that the ships are scrapped in the 25th year of their lives, and this scrap value is deducted from CapEx which benefits cash flows in the years that the scraps occur (the scrap recoupments occur in different years because ages vary between vessels).

Vessel Name	Scrap Year	Dead Weight	lw tons	Scrap Value
Ville d'Orion	2022	40000	20000	$6.000
Ville d'Acquarius	2021	40000	20000	$6.000
CMA CGM Matisse	2024	24000	12000	$3.600
CMA CGM Utrillo	2024	24000	12000	$3.600
Delmas Keta	2028	24000	12000	$3.600
Julie Delmas	2027	24000	12000	$3.600
Kumasi	2027	24000	12000	$3.600
Marie Delmas	2027	24000	12000	$3.600
CMA CGM La Tour	2026	24000	12000	$3.600
CMA CGM Manet	2026	24000	12000	$3.600
CMA CGM Alcazar	2032	50000	25000	$7.500
CMA CGM Chateau d'If	2032	50000	25000	$7.500
CMA CGM Thalassa	2033	115000	57500	$17.250
CMA CGM Jamaica	2031	40000	20000	$6.000
CMA CGM Sambhar	2031	40000	20000	$6.000
CMA CGM America	2031	40000	20000	$6.000
CMA CGM Berlioz	2026	65000	32500	$9.750
Total		672000	336000	$100.800
Price per Ton	$300			

Figure 11 Scrap values; Source: LSIF Forecasts

4.5 Derivative Contracts

GSL has entered into LIBOR interest rate swap agreements to manage the company's exposure to interest rate variability (rates locked at around 3.6%). Unfortunately, in the low interest rate environment this has negatively affected GSL's earnings since despite the fact that rates are lower now, GSL must continue to pay interest at a weighted average rate of 3.59%. Realized gains or losses from interest rate derivatives are recognized in the income statement.

Start Date	Maturity Date	Notional Amount	Fixed Rate
12-May-08	17-Mar-13	$60,000	3.40%
19-May-08	17-Mar-13	$60,000	3.40%
20-May-08	17-Mar-13	$68,000	3.40%
19-Nov-08	29-Nov-13	$50,000	3.30%
17-Dec-08	17-Mar-13	$20,000	3.40%
17-Dec-08	17-Dec-16	$60,000	3.69%
17-Dec-08	17-Dec-16	$60,000	3.81%
17-Dec-08	17-Mar-13	$45,000	3.40%
17-Dec-08	17-Dec-16	$71,000	3.71%
15-Jul-09	29-Aug-14	$41,000	3.78%
29-Oct-10	29-Oct-15	$45,000	4.25%
Total/Weighted Average rate		$580,000	3.59%

Figure 12 GSL's Derivative Instruments; Source: Company Filings

Based on a forecasted flat LIBOR of 0.5% over the next few years and the stated fixed derivative rates, derivative contract cash payments were forecast:

Maturity	2013F	2014F	2015F	2016F	2017F
17-Mar-13	-$358	$0	$0	$0	$0
17-Mar-13	-$358	$0	$0	$0	$0
17-Mar-13	-$405	$0	$0	$0	$0
29-Nov-13	-$1,273	$0	$0	$0	$0
17-Mar-13	-$119	$0	$0	$0	$0
17-Dec-16	-$1,914	-$1,914	-$1,914	-$1,841	$0
17-Dec-16	-$1,986	-$1,986	-$1,986	-$1,910	$0
17-Mar-13	-$268	$0	$0	$0	$0
17-Dec-16	-$2,279	-$2,279	-$2,279	-$2,192	$0
29-Aug-14	-$1,345	-$884	$0	$0	$0
29-Oct-15	-$1,688	-$1,688	-$1,392	$0	$0
TOTAL:	**-$11,992**	**-$8,751**	**-$7,571**	**-$5,942**	**$0**

Figure 13 Forecast hedging cash payments; Source: GSL filings, LSIF forecasts

4.6 WACC

WACC was determined by using the CAPM formula based on GSL's beta of 2.0, adjusted to 1.8 due to the fact that GSL has a very high chance of meeting its covenant obligations by next year and thus the implied risk is slightly lower. This yielded a 7.7% WACC. I assumed that the company did not issue new shares.

GSL D/E Ratio	1,16
GSL Beta	1,8
risk free rate	2,63%
Market premium	5,00%
Cost of equity	11,63%
Cost of debt (MM)	4,25%
WACC	7,66%

Figure 14 WACC calculation; source: Google Finance, LSIF forecasts

5 DCF Valuation

	2013F	2014F	2015F	2016F	2017F	2018F	2019F	2020F
	Forecast	*Forecast*	*Forecast*	*Forecast*	*Forecast*	*Forecast*	*Forecast*	*Forecast*
EBIT	$55.878	$56.292	$57.732	$56.881	$49.081	$43.284	$44.324	$44.490
Less: Taxes	-$204	-$202	-$202	-$198	-$178	-$163	-$163	-$161
Add: Depreciation	$35.903	$34.505	$33.064	$32.037	$31.001	$29.758	$28.717	$27.518
Less: CapEx	-$3.620	-$2.413	$0	-$8.447	-$7.240	-$1.207	-$4.827	$0
Less: Change in NWC	$0	$0	$0	$0	$0	$0	$0	$0
Free Cash Flow	$87.957	$88.181	$90.595	$80.273	$72.664	$71.672	$68.052	$71.847

WACC	7,66%
Enterprise Value	**$632.400**
Less Debt	**$308.244**
Less: Derivatives	**$35.591**
Equity Value	**$288.565**
Shares Outstanding	47.634

Implied Share Price	$6,06
Current Share Price	$5,02
Implied Upside	20,7%

Figure 15 Base case DCF valuation; source: LSIF forecasts

Assuming no growth potential and the model´s fairly conservative forecasts the DCF valuation yields a $6.06 share price and a 21% upside.

Also of note, GSL has a very low tax rate because the company is incorporated in the Marshall Islands and is listed as a foreign company on the NYSE. It appears that management works very hard to bypass all tax regulations by the way the company is structured which explains why historically taxes have been negligible for GSL.

7 Management and Corporate Structure

7.1 Management Background

- **CEO Ian Webber:** was the CFO of CP Ships from 1996 – 2006 (sold in 2005 for $2.3B)
- **Chairman Michael Gross**: Apollo Investment 1990 -2006 (CEO from 2004 – 2006),

and is the current CEO of Solar Capital During his tenure at Apollo Management, L.P., from 1990 to 2006, Mr. Gross was a member of the investment committee that was responsible for more than $13 billion invested in over 150 companies in the United States and Western Europe.

Management appears to be experienced in building value and successfully running businesses both in the shipping industry and in other businesses. Michael Gross owns about 24% of the company and should be aligned with shareholder interests.

7.2 Corporate Structure Explanation

All of GSL's charter contracts are with CMA CGM ("The Parent"). The Parent owns 44.5% of GSL. Of the hundreds of ships in their fleet, GSL's ships account for only 17. Since The Parent has a stake in GSL, it would not make sense to destroy GSL's equity value by cancelling contracts if possible.

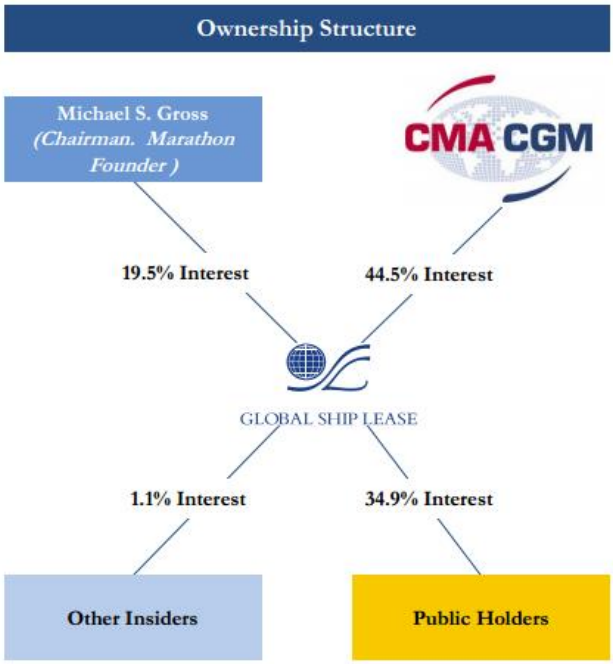


Figure 16 GSL ownership structure; Source: GSL corporate presentation

In the past week CMA CGM has indicated in a Schedule 13D filing that they would like to give input in perhaps changing the board and having a greater influence in management decision-making. Seeing as CMA CGM is GSL´s only customer, this will likely be a benefit to GSL in having their only customer play a greater role in management.

7.3 CMA CGM Financial State

CMA CGM (CMA) is the world's third largest shipper, operating ~400 ships and is based in France. The company is 70% owned by the Saade family.

A large aspect of the future appreciation of the GSL stock price is contingent on the market's comfort in CMA CGM's risk profile. This is because all revenues currently hinge upon CMA CGM's ability to pay the charter fees.

CMA has cleaned up its balance sheet and risk profile by selling assets, restructuring its debt, and issuing equity. The company last year sold its stake in Terminal Link, a shipping terminal

company, for 400M Euros. After having troubles in 2008, and again in 2011, CMA restructured its $4.6B debt with 72 banks earlier this year. Also, a French sovereign wealth fund purchased a 6% equity stake for $150M and a Turkish investor purchased another 4% stake for $100M.

In terms of company operations, its 2012 cost cutting initiatives were ahead of schedule, reducing costs by $800M.Revenues were up 7% due to higher shipping volumes, and accordingly the company expanded its fleet 5% by adding 20 new vessels. EBIT margins of 6.3% were the highest in the industry, and EBITDA increased 82% YoY in 2012 to $1.32B. As of Q1 2013 CMA's debt to equity ratio has lowered to ~1:1, having reduced debt $1.1B YoY and increased equity $640M YoY.

CMA's CEO plans to list CMA on the Paris Stock Exchange by the end of 2014 to gain easier access to financing. Specifications about the proportion of equity released in the float have not been given yet. CMA has also partnered with Maersk and MSC, two other very large shipping companies, to form an operating alliance over key trade lanes in Asia and Europe. This is intended to smooth out demand and capacity logistics, and lower costs through economies of scale. Approval from governing organizations appears to be likely.

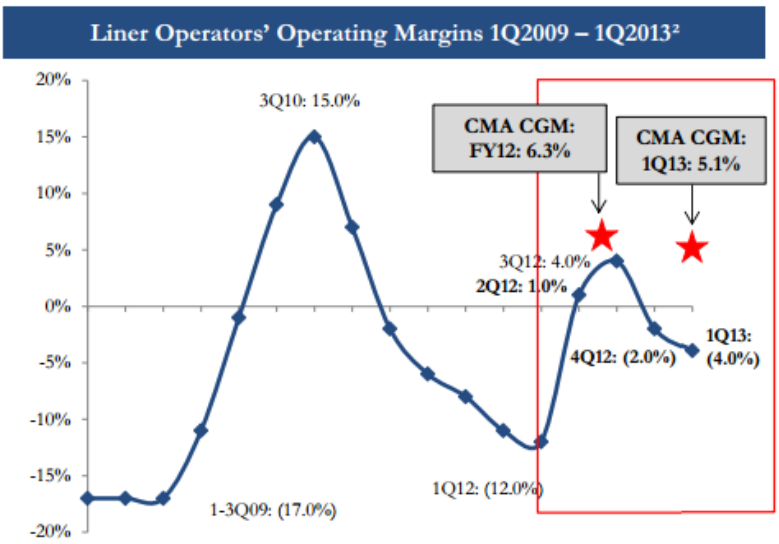


Figure 17 Liner operator´s operating margins; Source: GSL corporate presentation

Overall, CMA's profitability has recovered while the company continues to work on cutting costs and reducing leverage. The shipping industries outlook is far from certain over the next few years but CMA appears to be able to weather storm much better due to its recent steps towards conservatism. Finally, as shown in Figure 17, CMA appears to be recovering its operating margins.

8 Conclusion

A further risk to outline is if CMA becomes insolvent and can no longer pay the charter rates. In this case GSL would be forced to put its vessels in the open market to lease them out. They would likely obtain rates 50% lower than the current charters and may have trouble achieving full utilization. This would be an extremely negative outcome. However, as mentioned earlier, this is very unlikely given the fact that CMA CGM´s most recent results have been encouraging, and furthermore CMA CGM has increased its holdings and involvement with GSL this month.

Overall, GSL will very likely be able to pass its 2014 debt covenant test date, CMA CGM is improving its financial state, and is growing in its willingness to work with GSL. Due to the aforementioned reasons and the fact that the financial model shows a 21% upside, I rate GSL a Buy.

9 Works Cited

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