

ValueInvestor

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INSIGHT

Pieces In Place

Bob Robotti of Robotti & Co. is no stranger to investment cases that come together long after most investors have lost patience. Here's why his patience remains fully intact with Norwegian shipping firm Stolt-Nielsen.

In a long value-investing career, Robotti & Co.'s Bob Robotti [VII, August 31, 2011] has become oh-too familiar with delayed gratification. "We look for companies where the business is cyclically depressed but we believe the normalized earnings power is much higher," he says. "Coming out of that difficult period often takes longer than one would hope, so there's a reasonable chance of disappointment in the first year or two."

A classic case in Robotti's portfolio today is Norway's Stolt-Nielsen. The company's core business is operating some 150 leased tankers to transport specialty, organic and inorganic chemicals, from adhesives to acids. Like most shipping businesses, the chemicals segment today is plagued by overcapacity, desperate competitors and weak global pricing. While Stolt stands out for its high-end fleet and ability to lock customers into longer-term leases, its tanker business "hasn't had good returns in well over ten years," says Robotti. That's taken a toll on its volatile share price, which at \$17 (translated from Norwegian kroner) remains 40% below its price five years ago.

While the gratification of this business turning has been delayed, Robotti says it should not be denied. He argues that the specialization in the business – ships can have 40-50 compartments and often require unique climate-control, piping and containment infrastructure – protects against the worst ravages of competition. He also sees upside from further consolidation, as competitors such as Jo Tankers, Tokyo Marine and Eitzen Chemical pull back from or exit key routes. All of that bodes well for a market leader like Stolt, he says, especially as the "spreading out" of the world economy and a resurgence of the U.S. chemicals industry translates into long-term increases in the volume of chemicals being moved globally.

Bolstering Stolt's earnings-power story is its diversification into both bulk-liquid chemicals terminals and intermodal

tank containers. The terminals business earns 40%-plus operating margins and is expanding rapidly in Asia. The container business earns 20%-plus returns on assets and is the market leader, with over 30% global share. As the volume of chemicals moving around the world increases, says Robotti, both should continue to prosper.

The market remains unconvinced. The shares today trade at less than 50% of total revenues, 70% of book value, and 35% of the company's own sum-of-the-parts valuation. But Robotti's patience

is intact. A turn in the tanker business and continued ancillary-business growth would result in "earnings power that is a multiple of what the company has earned in the past," he says. As he waits for that to translate into similar good news for the share price, he's confident the company's owner management will do right by shareholders and he's collecting a 4.3% dividend yield. "Some might conclude this is a value trap and move on," says Robotti. "But I'm as convinced as I've ever been that the pieces are in place for this business to generate excellent returns." VII

INVESTMENT SNAPSHOT

Stolt-Nielsen

(Oslo: SNI:NO)

Business: Global provider of integrated shipping, storage and distribution services primarily to large manufacturers of specialty, organic and inorganic chemicals.

Share Information

(@11/29/12, Exchange Rate: \$1 = NOK 5.68):

Price	NOK 98.50
52-Week Range	NOK 95.00 – NOK 135.00
Dividend Yield	4.3%
Market Cap	NOK 6.33 billion

Financials (TTM):

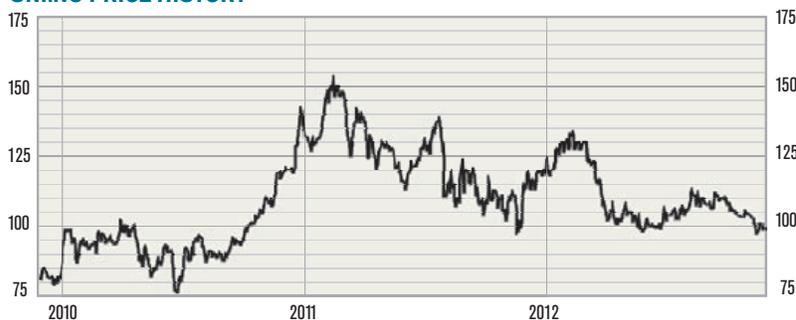
Revenue	\$2.09 billion
EBITDA Margin	7.3%
Net Profit Margin	3.1%

Valuation Metrics

(Current Price vs. TTM):

	SNI:NO	Russell 2000
P/E	16.2	28.7

SNI:NO PRICE HISTORY



THE BOTTOM LINE

The outlook for the company's tanker-shipping business isn't as bleak as the market expects, says Bob Robotti, who believes as it turns and two related business lines continue to prosper that earnings power will be "a multiple of what the company has earned in the past." He expects shareholders with requisite patience to be comparably rewarded.

Sources: Company reports, other publicly available information

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