Seaspan Corp. (NYSE:SSW)

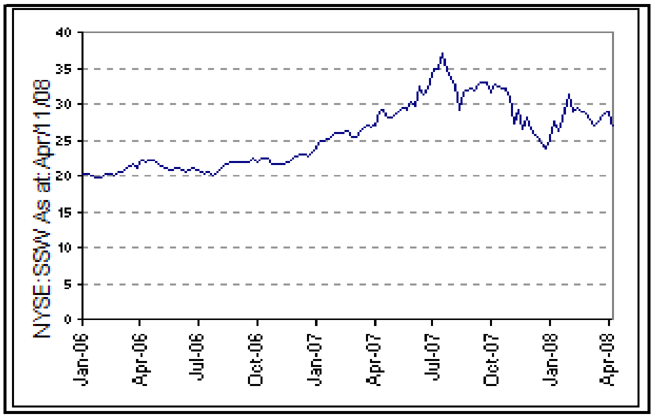
THE COMPANY

Seaspan (NYSE:SSW) is a Hong-Kong based company which owns 17 containerships and has contracted to add another 24 over the next three years. Its current fleet consists of 15 vessels with the capacity to carry 4250 TEU (twenty foot equivalent) containers and two which can accommodate 8500 TEUs. The company transports various goods, including consumer goods, waste paper, metal scrap, wood materials, frozen foods, furniture, toys, clothing, food, metal products, coffee, peanuts, machinery, industrial products, chemicals, textiles, seafood, and sugar.

FINANCIAL DATA

	2005	2006	2007E
Earnings per Share ($)	0.40	0.98	1.25
Price to Earnings (times)	55.0	22.0	17.0
Dividend ($)	1.70	1.70	2.00
Dividend Yield (%)	7.70	7.70	9.10
Book Value ($)	14.50	15.00	16.25
Price to Book Value (times)	1.50	1.40	1.30

HISTORICAL SHARE PRICES



WHY ABC FUNDS BOUGHT SEASPAN

In July 2005 Seaspan announced plans to go public via an IPO. In August, the company made a stop in Toronto to tell its story to potential investors. Although we were not familiar with the company or its business model, we decided to attend the presentation with an open mind.

After listening to Seaspan's CEO Gerry Wang and CFO Kevin Kennedy, it became apparent that Seaspan's business strategy was not only very simple, but stood to benefit from the explosive growth taking place in global trade between China and the rest of the world. Upon further research and financial analysis, we determined that the shares looked very undervalued at $21. Ultimately, we purchased Seaspan for our ABC funds.

In a nutshell, Seaspan acquires or contracts to have built some of the largest containerships in the world. These ships are capable of carrying between 4250 and 8500 TEU (twenty-foot equivalent) containers. To put this into perspective, an 8500 TEU vessel costs over $100 million to build and is over 1000 feet long. This is the equivalent of three and a half football fields. Seaspan then leases these ships out to well-established liner operators under long-term fixed-rate charters.

Given the fixed rate, long term nature of its charters, Seaspan enjoys a highly predictable, steady stream of cash flow. This year, it will pay out approximately 85% or $1.70 per share to shareholders as dividends. Based on its current share price of around $22, this represents an attractive yield of 7.7%. Further, as Seaspan acquires or contracts to build more ships in the coming years, we expect this dividend to grow. In fact, with 24 vessels coming on line over the next 3 years, we believe Seaspan will have the capacity to pay a dividend of $2.25 per share by 2008.

It should also be noted that as net asset value buyers, we calculate that Seaspan is currently trading below the replacement value of its fleet. The current cost to build a containership runs at approximately $17,000 per TEU. At this level, Seaspan's fleet would be valued at close to $1.5 billion. This results in an NAV per share of approximately $32, a 45% premium to its current price. Given the growth in Seaspan's fleet and the successful execution of its business strategy, we feel the announcement of a dividend increase and recognition of its discount to NAV could eventually result in meaningful share price appreciation.

ABC Funds
October 13, 2006

UPDATE

Since its IPO in July 2005, Seaspan CEO Gerry Wang and CFO Kevin Kennedy have delivered on their promise to investors. For example, they have grown Seaspan's fleet, diversified the customer base, and most importantly, increased the annual dividend from $1.70 to $1.79 per year.

Another promise was that Seaspan would eventually return to the equity markets to finance its steady growth. Therefore, we were not surprised on October 25th when Seaspan announced it was selling an additional 10 million shares in a registered offering. The shares were priced attractively at $21.50. This price was only slightly above its IPO price of $21 and offered an attractive dividend yield of 8.3%. We believe the dividend is safe given the long term, fixed rate nature of its contracts. It should also be noted that Seaspan's contracts are signed at below market rates. Therefore, if any of its customers fail to honour their contract, Seaspan can re-charter its vessels at higher rates with shorter long term contracts.

After carefully reevaluating our investment thesis, we decided to purchase additional shares of Seaspan for our five ABC funds. Additionally, as net asset investors, we calculate that Seaspan trades at a significant discount to its estimated net asset value of $30 per share. Overall, Seaspan is an investment which provides a steady dividend, while at the same time; it has potential for significant capital appreciation as management continues to effectively execute its growth strategy.

ABC Funds
December 8, 2006

Despite recent turbulence in global stock markets, shares of Seaspan enjoyed a modest rally in the first quarter of 2007. After trading between $20 and $22 for most of 2006, shares of Seaspan have quietly climbed to over $27 a share over the past few months. A lot of the credit should go to CEO Gerry Wang and CFO Kevin Kennedy. They have done an excellent job transitioning new vessels into operation and continue to sign up new customers to long term fixed rate charters.

On March 30th, Seaspan announced that it had signed contracts to build two 2500 TEU vessels to be delivered in 2010. Seaspan has contracted these ships to Kawasaki Kisen Kaisha of Japan under a 10 year charter at $18,000 a day. Each new vessel is expected to contribute between $4.5 and $4.9 million in annual cash flow before interest costs. More importantly, this agreement adds yet another world class liner operator to Seaspan's list of customers. This diversified customer base reduces Seaspan's reliance on any one lessee and opens the door for Seaspan to win additional business from that customer in the future.

Although shares of Seaspan have moved higher we believe they represent good value. With the cost of building a new ship rising to over $18,000 per TEU, the replacement value of Seaspan's fleet continues to increase. We calculate the cost to rebuild Seaspan's entire fleet from scratch would cost over $2 billion or roughly $31 per share after debt. Moreover, Seaspan's dividend yield of 6.6% is quite appealing given today's low interest rate environment of only 3%-5%. But more importantly, we believe that as investors become more comfortable with containership leasing, a relatively new asset class to the public markets, Seaspan could become the beneficiary of significant investor interest.

ABC Funds
April 5, 2007

On July 18th, Seaspan announced second quarter results for the period ending June 30th 2007. During the quarter, revenue increased 75% to $48.9 million. The increase was mainly the result of 11 vessel deliveries which contributed an additional 948 operating days in the quarter. Free cash flow, or cash available for distribution, increased 79% to $27.1 million compared to $15.1 million in the second quarter of 2006. It is evident that Seaspan is beginning to benefit from greater economies of scale as it increases the size of its fleet.

In addition, Seaspan continues to build on its existing relationships. On May 14th, the company announced that it had contracted to purchase eight new vessels at an estimated cost of $1.1 billion. The containerships will be chartered to COSCO Container Lines for twelve years at a charter rate of $42.9 thousand per day. Once the vessels are delivered in 2010, they are expected to contribute between $105 and $109 million in additional EBITDA and be free cash flow accretive.

So far this year, shares of Seaspan are up roughly 55%. It seems investors have become more comfortable with the company's business model and the ship leasing industry in general. Since its IPO, Seaspan's dividend yield has fallen from 8% to 5%. At this level, its yield is now comparable to the average yield on Pipeline and Tanker MLPs. Even so, it appears many people are just now catching onto the story. On July 2nd, Barrons ran a story on the stock, and a number of Wall Street firms have recently initiated coverage. In addition, as Seaspan's market capitalization continues to increase, it may begin to attract the attention of some mid and large cap funds.

Even so, while Seaspan continues to be viewed primarily as an income stock, Wall Street may be underestimating the company's significant growth potential. With 26 containerships already contracted to be delivered over the next three years, management believes EBITDA should grow from $150 million in 2007 to $370 million by 2011. It is important to keep in mind as well that these projections do not include future accretive acquisitions. Looking ahead, we expect Seaspan to continue to be active in signing new charters. In fact, CEO Gerry Wang believes Seaspan can double its fleet to over 100 ships in the next three years. If Seaspan can continue to effectively execute its strategy its shares could show significant further capital appreciation.

ABC Funds
July 20, 2007

Earlier this year, Seaspan CEO Gerry Wang established an ambitious plan– to grow the company's contracted fleet to 100 containership vessels by 2010. With the announcement last week that it was purchasing eight new 13,100 TEU vessels from Hyundai Heavy Industries, it appears Gerry is on track to meeting this goal.

Seaspan's total contracted fleet, which consists of ships currently in use and those that are under construction, now stands at 63. This is up from just 41 at the time of its August 2005 IPO. Consistent with the company's business model, these eight new vessels will be chartered out under long term fixed rate charters. In this case, Seaspan is chartering the vessels to China-based COSCO, one of the largest shipping companies in the world. The economics of the agreement are attractive. The charter is set for 12 years and the rate is fixed at $55,000 per day. Upon delivery in 2011, Seaspan's EBITDA should increase by over $136 million per year.

It is interesting to note that at 13,100 TEUs, these eight new containerships are considerably larger than any vessels currently in Seaspan's fleet. Presently, Seaspan operates ships that range in size from 2500 to 9600 TEUs. Management believes however, that these super-sized ships, while relatively new to the industry, are quickly becoming the standard. The most obvious advantage is the incredible economies of scale that are achieved in construction. While they may carry a higher total cost, we calculate the per-TEU price tag is approximately one third lower than the next largest sized vessel.

So what does this all mean for Seaspan shares? Interestingly, less than half of Seaspan shares are currently held by institutional accounts. But this could soon change. Given the pace of new charter signings, and the 32 new vessels expected to be delivered over the next four years, we believe the perception of Seaspan could begin to shift to that of a growth stock. This would attract the interest of a large, new set of investors. In addition, with Seaspan's market cap now at roughly $1.6 billion, it could be catching the eye of some mid and large cap funds.

Furthermore, as net asset value (NAV) investors, we continue to monitor the value of Seaspan's fleet. Given the rising costs of materials and labour, we calculate that Seaspan is currently trading at a 10% discount to its replacement value of around $35 per share. In addition, as Seaspan brings on new vessels at already negotiated prices, its NAV per share should continue to rise. Finally, investors should not rule out the possibility of a dividend increase in early 2008. The company currently pays an annual dividend of $1.79 per share, which represents an attractive yield of 5.5%. However, Seaspan's distributable cash flow per share has increased this year, and a dividend increase would be consistent with the company's policy of providing steady and increasing dividends to shareholders.

ABC Funds
September 21, 2007

On October 18th, Seaspan announced third quarter results for the period ending September 30th 2007. During the quarter, revenue increased 80% to $54.2 million compared to the third quarter of 2006. The increase was mainly the result of 12 vessel deliveries which contributed an additional 1058 operating days in the quarter. Free cash flow, or cash available for distribution, increased 79% to $29.7 million compared to $16.4 million in the second quarter of 2006. It is evident that Seaspan is beginning to benefit from greater economies of scale as it increases the size of its fleet.

In addition, Seaspan announced that beginning next year its dividend will increase 6.1% from $1.79 to $1.90 per share. This represents the second increase in Seaspan's dividend since going public in 2005. Based on a $1.90 dividend, shares of Seaspan now yield an attractive 7.6% and its yield appears generous when compared to other asset classes such as MLPs, REITS, etc. Although many investors may regard Seaspan as a yield play, we believe that the market is underestimating the company's significant growth potential.

With 30 containerships already contracted to be delivered over the next three years, Seaspan's CFO, Sai Chu, believes EBITDA should grow from $150 million in 2007 to around $500 million by 2012. It is important to keep in mind that these projections do not include future accretive acquisitions. Looking ahead, we expect Seaspan to continue to be active in signing new charters. In fact, CEO Gerry Wang believes Seaspan can double its fleet to over 100 ships over the next three years. In summation if Seaspan can continue to effectively execute its growth strategy we believe that its shares will eventually be recognized by a wider audience of investors.

ABC Funds
December 14, 2007

On February 19th, Seaspan announced fourth quarter and full year results for the period ending December 31st 2007. During the quarter, cash available for distribution increased 35.7 % to $31.9 million compared to $23.5 million a year earlier. The increase was mainly the result of 6 vessel deliveries which contributed an additional 552 operating days in the quarter. For the full year, cash available for distribution improved 68% to $114.4 compared to $68.0 million in 2006. Ship operating expense increased by 55.7%, or $4.6 million, to $12.9 million in the quarter, from $8.3 million in the comparable prior year's quarter.

On April 7th, Seaspan announced that it would issue an additional 7 million shares to the public with another 1.1 million available to underwriters. This is Seaspan's fourth financing since it's IPO in 2005. What we found interesting, however, was that for the first time since its IPO, Seaspan's executives will be participating in the deal. They are expected to invest an aggregate of $18.1 million of their own money at the same price as the public. We view this commitment as a positive signal that Seaspan's prospects look bright and that its shares are currently undervalued.

In addition, Seaspan has also secured $235 million in term financing at an attractive rate of just 60 basis points above LIBOR. More importantly, it should be noted that due to recent adverse credit conditions, some of Seaspan's competitors are either unable to borrow or must do so at less attractive rates. This is an important differentiating factor which results in financial flexibility and a low cost advantage for the Company. Armed now with close to $1.5 billion of capital, we believe Seaspan can be opportunistic over the next 6 to 12 months in acquiring new vessels. It is possible that some ships may even be acquired from competitors who cannot get access to financing and must sell at distressed prices.

In January, Seaspan's Board of Directors announced a dividend increase of 6.1% from $1.79 to $1.90 per share. This represents the second increase in Seaspan's dividend since going public in 2005. Based on a $1.90 dividend, shares of Seaspan now yield 6.7%. This is attractive given that similar asset classes such as REITS and MLPs trade at lower yields. In fact, while many investors may regard Seaspan as simply a yield play, we believe that the market is underestimating the company's growth potential as well as its net asset value. With 39 containerships already contracted to be delivered over the next three years, EBITDA should grow from $150 million in 2007 to around $500 million by 2012. We believe this would allow Seaspan to eventually pay a dividend of $2.50 per share. Also, with regard to tangible assets, Seaspan is currently trading at an 18% discount to our $33 per share calculation of net asset value. In summation, if Seaspan can continue to effectively execute its growth strategy we believe that its shares will eventually be recognized by a wider audience of investors.

ABC Funds
April 11, 2008