

NAT US - Shipping - Initiation of coverage - 24 October 2018

Nordic American Tanker Shipping Ltd

Arctic Buy

Risk	High
Target (USD)	3.10
Price (USD)	2.27
Market Cap (USDm)	323
Enterprise Value (USDm)	677
No of shares, fully dil. (m)	142.0

IoC: Everybody loves a good comeback story

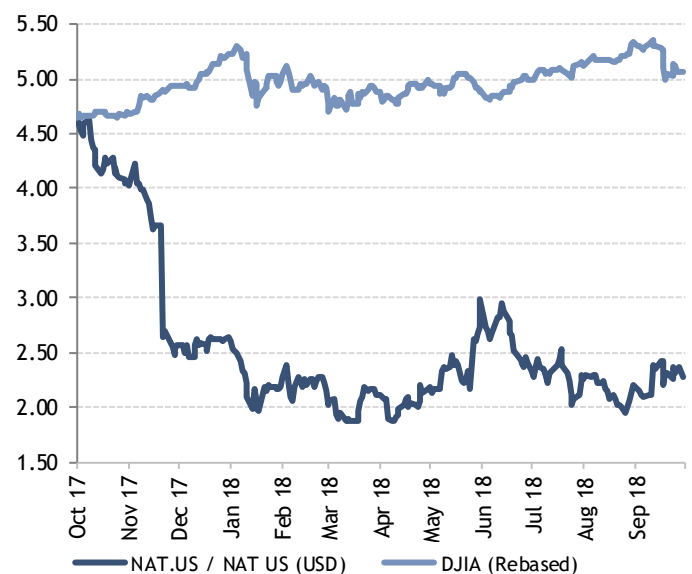
We initiate coverage of Nordic American Tankers (NAT) with an Arctic Buy rating and target price of USD 3.1/sh. Historically, NAT has obtained a premium to NAV valuation, which we attribute to the strategy of relatively low leverage and a strong focus on returning cash to shareholders. In our view, a key element to the NAT investment case is that the company is able to replace its current credit facility with a new package rather than the restrictive Backstop Facility that is currently lined up. Given our view on the tanker market, we believe that rates will recover (we estimate 2019 and 2020 Suezmax spot rates of USD 28k/d and USD 35k/d, respectively) and that the upside to vessel values is substantial - both of which are factors that should support NAT's recapitalization efforts. Apart from continued improvements in the tanker market, we view a new financing solution allowing NAT to return to its former dividend policy as a potential short term trigger.

- **Recapitalization is a key to the investment case** - NAT is currently in the process of refinancing its USD 500m credit facility (USD 374m outstanding as of Q2/18) that is secured by NAT's 22x owned vessels. Since December 2017, the company has taken several steps to reduce the outstanding amount, and we estimate that as of Q3/18, each of the 22x vessels has USD 13.9m / USD 12.6m of gross / net debt outstanding (USD 306m gross in total). This compares to a current scrap value of USD ~11m and a historical average scrap value of USD ~7.1m, and implies gross and net LTV of ~60% and ~54%, respectively. With an average remaining lifetime of the 22x vessels of ~7.6 years, they would need to generate USD 569k/d / USD 1,976k/d in cash in order to reduce net debt to current / hist. avg. scrap.
- **At the mercy of the market** - With a fleet of 25x vessels (of which 3x vessels are on long-term financial lease from Ocean Yield), NAT is the world's 4th largest owner of Suezmax tankers. With only 1x vessel currently on long-term employment, the company's earnings are highly sensitive to changes in the spot market. As such, the depressed tanker market of the past years, together with an unresolved financing situation, have sent the NAT share down by ~54% over the past year. However, with our market view, we expect NAT to generate significant cash flows over the coming years, and when the recapitalization issue is resolved, we expect focus to return to returning cash to shareholders.
- **We initiate coverage with Arctic Buy and TP USD 3.1/sh** - We calculate an end-Q3/18 NAV of USD 2.12 per share, implying P/NAV and EV/GAV of 1.12x and 1.05x, respectively, and estimate that a 10% change in asset values would lead to a ~23% (USD 0.49/sh) change in NAV. We initiate coverage on NAT with an Arctic Buy rating and target price of USD 3.1/sh, implying a 20% increase in asset values and NAV valuation.

Key Figures

USDm	2016	2017	2018e	2019e	2020e
Sales	237	155	148	251	308
Adj. EBITDA	144	54	50	166	223
Adj. EBIT	53	-46	-11	95	152
Adj. EBIT margin	22.5%	n.m.	n.m.	37.7%	49.3%
EPS (USD)	0.4	-0.7	-0.3	0.4	0.9
Adj. dil. EPS (USD)	0.4	-0.7	-0.3	0.4	0.9
Adj. EPS growth	-71.9%	n.m.	n.m.	n.m.	122.0%
Net IB debt	361	330	354	244	84
ROE	3.6%	-9.0%	-7.1%	8.2%	15.7%
ROCE	3.9%	-3.7%	-1.1%	11.5%	16.3%
DPS (USD)	1.1	0.4	0.1	0.1	0.1
Dividend yield	13.9%	14.6%	4.0%	3.5%	3.5%
FCFE yield	-7.1%	-4.3%	-3.5%	37.5%	53.1%
EV/Sales	5.0x	4.4x	4.6x	2.3x	1.3x
Adj. EV/EBITDA	8.3x	12.5x	13.5x	3.4x	1.8x
Adj. EV/EBIT	22.4x	n.m.	n.m.	6.0x	2.7x
P/E	22.1x	n.m.	n.m.	5.6x	2.5x
P/B	0.9x	0.4x	0.5x	0.5x	0.4x

Share Price



Arctic vs Consensus

USDm	Arctic			Consensus			Deviation		
	2018e	2019e	2020e	2018e	2019e	2020e	2018e	2019e	2020e
Sales	148	251	308	120	159	215	23%	58%	43%
EBITDA	50	166	223	26	85	141	93%	95%	59%
EBIT	(11)	95	152	(32)	24	74	65%	299%	104%
EPS	(0.3)	0.4	0.9	(0.5)	(0.0)	0.3	28%	n.m.	164%

Forecast Changes

USDm	New			Old			Change		
	2018e	2019e	2020e	2018e	2019e	2020e	2018e	2019e	2020e
Sales	148	251	308	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
EBITDA	50	166	223	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
EBIT	(11)	95	152	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
EPS	(0.3)	0.4	0.9	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

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Company description

Nordic American Tankers is the world's 4th largest owner of Suezmaxes, and the fleet counts 25x vessels, of which 3x are on long term finance leases from Ocean Yield. NAT was incorporated in Bermuda in 1995, and was listed on the NYSE in September the same year. Since inception, NAT's focus has been to have a relatively low leverage and to distribute cash to its shareholders. Since inception, NAT has distributed USD 48.5 in cash dividends per share.

Arctic case

After three years of sliding earnings, we believe that the crude tanker market is finally in recovery mode. As we have highlighted before, 2018 is looking more and more like 2013, and rates have risen sharply since we entered Q4. Slowing fleet growth, a turning inventory cycle, more long haul exports out of the US and increased OPEC and Russian oil production are factors that will support the tanker market recovery. Asset values are still low, and as we expect rates to increase, we do see values following suit. In our view, a key element to the NAT investment case is that the company is able to replace its current credit facility with a new package rather than the restrictive Backstop Facility that is currently lined up. Given our view on the tanker market, we believe that rates will recover (we estimate 2019 and 2020 Suezmax spot rates of USD 28k/d and USD 30k/d, respectively) and that the upside to vessel values is substantial - both of which are factors that should support NAT's recapitalization efforts. Apart from continued improvements in the tanker market, we view a new financing solution allowing NAT to return to its former dividend policy as a potential short-term trigger.

Bull case

The crude tanker market turns out to be better than expected - lifting asset values. Upside potential could be highly attractive should the rate environment improve and lift asset values higher. 10% increase in asset values corresponds to a ~23% increase in NAT's NAV.

Bear case

Crude tanker freight rates dwindle back to depressed levels when the winter season comes to an end. Newbuild prices once again fall as yards work to attract business, and secondhand values come under pressure again. Downside risk is in our view around 5-10% on asset values.

Catalysts

- Rise in spot rates, hence rise in 1-year charter rates, leading to asset value appreciation
- Change in trade dynamics creating an increase in ton-miles (i.e. more Atlantic Basin output)
- Turning inventory cycle
- Vessels with scrubbers will command a premium to benchmark rate
- Scrapping of older tonnage

Risks

- Sustained pressure on asset values
- Shipowners tempted by low newbuilding prices at struggling shipyards
- Change in trade routes leading to a decrease in ton-miles (i.e. Atlantic Basin producers remain under pressure and increased output from MEG and Asia)



Investment case

Company overview - NAT is a crude tanker owner and operator with a fleet of 25x Suezmaxes, making it the world's 4th largest Suezmax owner (3x of the vessels are on financial lease from Ocean Yield). The company was listed on the NYSE in 1995, and has since inception had a focus on keeping leverage relatively low and distributing cash to its shareholders. NAT is led by Mr. Herbjørn Hansson, who owns ~2.7% of the outstanding shares.

Top 10 Suezmax owners

NAT is the 4th largest Suezmax owner

Owners	Delivered	Orderbook	Total
Teekay Corporation	50	6	56
Dynacom Tankers	30	2	32
Euronav	26	0	26
Nordic American Tankers*	25	0	25
Marmaras Navigation	20	0	20
Frontline	18	0	18
Tsakos Group	17	0	17
Knutsen NYK	15	2	17
SCF Group	15	0	15
Petronas	6	7	13

*Includes the 3x OCY vessels

Source: Arctic Securities Research, Worldyards, Company data

Top 10 shareholders

Mr Herbjørn Hansson owns ~2.7% of the company

Owner	m shares	%
Morgan Stanley	7.1	5.02%
BlackRock Inc	7.1	5.02%
Herbjørn Hansson	3.9	2.72%
State Street Corp	2.3	1.60%
HANSAINVEST	2.1	1.49%
City Financial Investments	2.0	1.41%
Invesco Ltd	1.7	1.20%
Greylin Investment Man	1.7	1.17%
Charles Schwab Corp	1.5	1.05%
Bank of America Corp	1.4	0.97%
Other	111.3	78.36%

Source: Arctic Securities Research, Bloomberg, Company data

Fleet overview - NAT's current fleet consists of 25x Suezmaxes (mostly built in Korea) with an average age of ~11 years. Throughout 2018, NAT has sold 8x older Suezmaxes, which has reduced the average age of the fleet from ~13.2 years.

NAT fleet

NAT's fleet consists of 25x Suezmax tankers

Vessel Name	Type	Dwt	Built	Age	Yard	Country
MT Newbuild 3	Suezmax	157,000	2018	0	Samsung HI	Korea
MT Nordic Aquarius	Suezmax	157,338	2018	0	Samsung HI	Korea
MT Nordic Cygnus	Suezmax	157,525	2018	0	Samsung HI	Korea
MT Nordic Space	Suezmax	158,000	2017	1	Sungdong SB	Korea
MT Nordic Star	Suezmax	158,000	2016	2	Sungdong SB	Korea
MT Nordic Breeze	Suezmax	158,597	2011	7	Samsung HI	Korea
MT Nordic Zenith	Suezmax	158,597	2011	7	Samsung HI	Korea
MT Nordic Cross	Suezmax	158,475	2010	8	Samsung HI	Korea
MT Nordic Light	Suezmax	158,475	2010	8	Samsung HI	Korea
MT Nordic Vega	Suezmax	163,000	2010	8	Bohai Shipbuilding	China
MT Nordic Freedom	Suezmax	159,500	2005	13	Daewoo	Korea
MT Nordic Skier	Suezmax	159,089	2005	13	Hyundai HI (Ulsan)	Korea
MT Nordic Sprinter	Suezmax	159,089	2005	13	Hyundai HI (Ulsan)	Korea
MT Nordic Castor	Suezmax	150,249	2004	14	Universal SB	Japan
MT Nordic Luna	Suezmax	150,037	2004	14	Universal SB	Japan
MT Nordic Apollo	Suezmax	159,999	2003	15	Samsung HI	Korea
MT Nordic Moon	Suezmax	159,999	2003	15	Samsung HI	Korea
MT Nordic Pollux	Suezmax	150,103	2003	15	NKK	Japan
MT Nordic Cosmos	Suezmax	159,999	2002	16	Samsung HI	Korea
MT Nordic Grace	Suezmax	149,921	2002	16	Hyundai Samho HI	Korea
MT Nordic Mistral	Suezmax	164,236	2002	16	Hyundai Samho HI	Korea
MT Nordic Passat	Suezmax	164,274	2002	16	Hyundai Samho HI	Korea
MT Nordic Sirius	Suezmax	150,183	2000	18	NKK	Japan
MT Nordic Aurora	Suezmax	147,262	1999	19	Samsung HI	Korea
MT Nordic Sprite	Suezmax	147,188	1999	19	Samsung HI	Korea
Total fleet	25x	3,916,135		10.9		

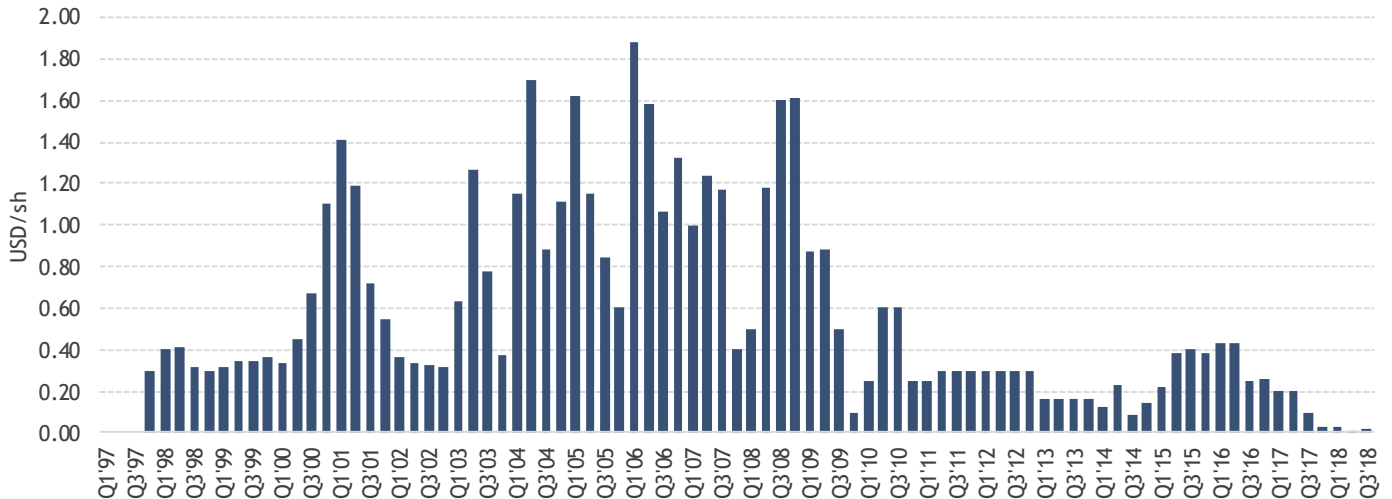
Source: Arctic Securities Research, Company data



84 consecutive quarter of dividends - As mentioned above, since listing back in 1995, one of NAT's key focuses has been to distribute cash to its shareholders. In fact, the USD 0.02 per share dividend announced for the third quarter of 2018 marks the 84th consecutive quarter of dividend from NAT. We expect that paying dividends will remain a key priority in the future as well. With a depressed tanker market and an unresolved funding situation, we believe that NAT will continue to distribute small, symbolic dividends. However, once the market recovers and the financing situation is resolved, we expect that NAT will increase its distributions to become a function of its earnings.

NAT cash dividends - USD per shares

NAT has paid a cash dividend for 84 consecutive quarters

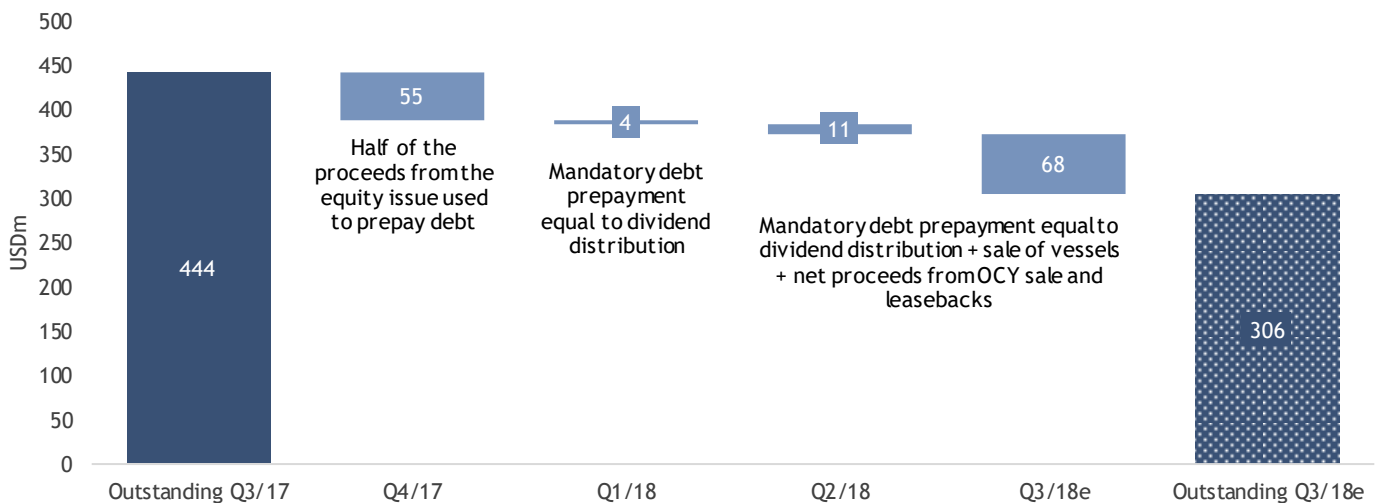


Source: Arctic Securities Research, Company data

Balance sheet and financing - NAT is currently undergoing a recapitalization with the goal of retiring its current credit facility. As part of the recapitalization program, NAT has taken several steps to reduce the outstanding amount under the current facility, and on our estimates, the amount has reduced from USD ~444m as of the end of Q3/17 to USD ~306m as of the end of Q3/18. The reduction in outstanding debt has been possible through a mix of an equity issue, the sale and leaseback of 3x Suezmax newbuilds, as well as the sale of 8x older vessels.

Estimated development in the current credit facility

The outstanding amount under the revolving credit facility has been reduced from USD ~444m in Q3/17 to USD ~306m in Q3/18e



Source: Arctic Securities Research, Company data

The facility that NAT is currently working to retire is a USD 430m revolving credit facility that was entered into in 2012, and later increased to USD 500m in 2015. Borrowings under the RCF are

secured by first priority mortgage over NAT's 22x owned vessels. As NAT was in breach with the required security ratio of vessel value clause at the end of 2016, the company obtained a waiver that lowered the required ratio. Under the terms of the waiver, NAT was unable to draw further on the RCF, the margin was increased by 2.0% for the period of the waiver, and limitations on dividend distribution were put in place. However, the waiver was effective until 31 May 2018, and as such, on 4 May 2018, NAT entered into an amendment of the RCF that modified the covenants until December 2018. NAT is still unable to draw further on the RCF, the margin is increased to 6.0%, and the company can distribute a maximum of USD 0.03/sh (USD 4.3m in aggregate), subject to a corresponding amount being repaid under the RCF.

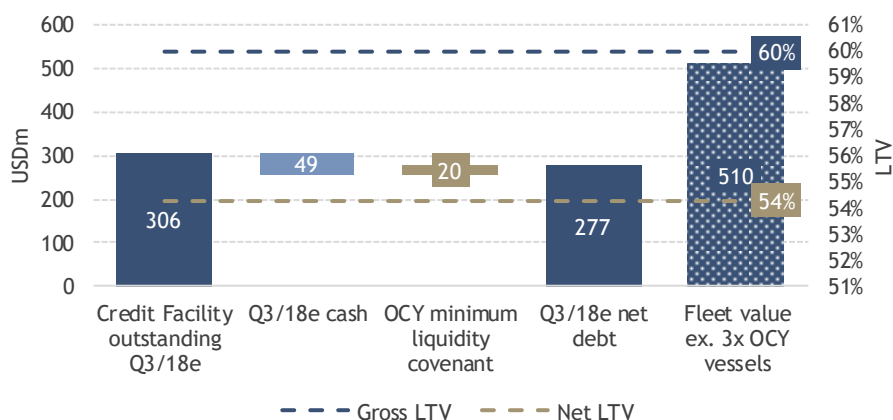
We estimate a current value of NAT's fleet excluding the 3x Ocean Yield newbuilds of USD ~510m. With the borrowings under the credit facility being secured by first priority mortgages over these vessels, we estimate gross and net LTV of ~60% and ~54% as of the end of Q3/18. The vessels in the security package have an average age of ~12.4 years.

As part of the recapitalization program, NAT signed a backstop facility in December 2017. The facility provides for a senior secured loan facility of up to USD 375m, and has been available for drawing from 1 July 2018. If the backstop facility is utilized and not repaid, it will be rolled into a term loan on 1 January 2019 with maturity on 30 November 2020. Although this facility will have no amortization until 31 December 2018, NAT will have to repay the principal of the loan in quarterly instalments of USD 10m from 1 January 2019. The backstop facility will initially carry an interest margin of 8.5%, but the interest will step up over time and carries a maximum interest margin of 10.5%. Furthermore, under the backstop facility NAT is restricted to distributing quarterly dividends of up to USD 0.03/sh.

With the backstop facility in place, NAT has the funding required to refinance the current credit facility. However, the financing is short (matures in November 2020), and it will restrict NAT's ability to pay dividends once the market recovers. As such, we believe that a key element of the investment case is for NAT to obtain financing with a longer maturity than the ~2 years provided by the backstop facility. In our estimates, we have assumed that USD 300m of the backstop facility is utilized during Q4/18, however, given our view on the market (rising rates and asset values), we believe that longer term funding could be available to NAT. Financing on such terms will come at a price, but in our view, quarterly amortization could be reduced, which would give room for higher dividends.

Estimated LTV 22x vessels (excl. OCY vessels)

We estimate a Q3/18 net LTV of ~54% on the vessels that serve as security under the current credit facility



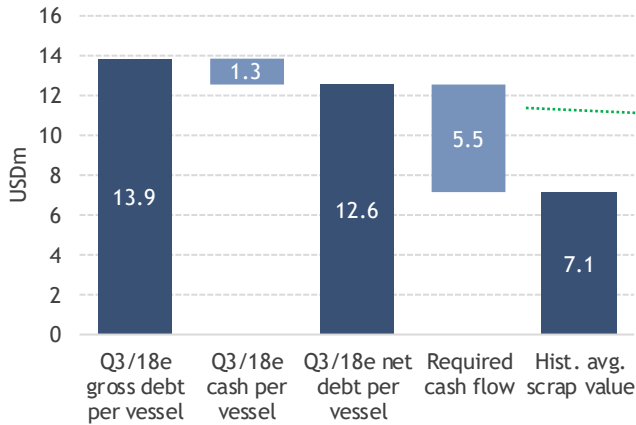
Source: Arctic Securities Research, Company data

Based on the above, we estimate Q3/18e gross and net debt per vessel of USD 13.9m and USD 12.6m for the 22x vessels that are security under the current credit facility. The historical average scrap value of a Suezmax vessel is USD ~7.1m, meaning that in order to reduce net debt to the historical average scrap value, the vessels would need to generate USD 1,973/d on average for the remaining life of the vessels. However, scrapping a Suezmax these days would fetch around USD 11m, which would reduce the required cash generation to USD 569 per vessel per day.



Gross and net debt vs. historical average scrap value

We estimate Q3/18 gross and net debt of USD 13.9m and USD 12.6m for the 22x vessels securing the current credit facility...



Source: Arctic Securities Research, Company data

...meaning that the vessels will need to generate USD 1,973/d and USD 569/d in order to reduce net debt to historical average and current scrap

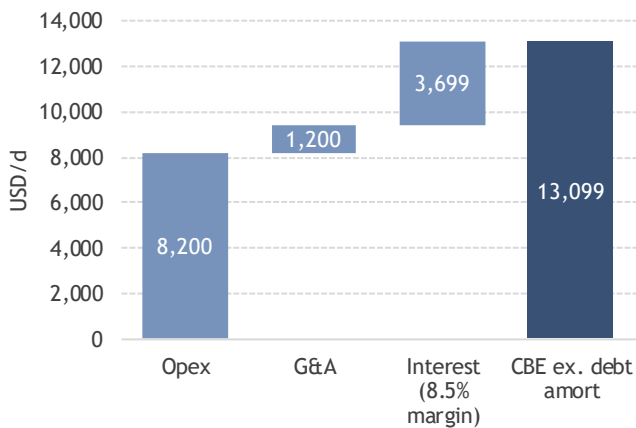
22x vessels securing current credit facility		
Avg. age	yrs	12.4
Avg. remaining life	yrs	7.6
Avg. remaining days	days	2,771
Required CF to reduce net debt to hist. avg. scrap value	USDm	5.5
Required CF to reduce net debt to hist. avg. scrap value	USD/d	1,973
Required CF to reduce net debt to current scrap value	USDm	1.6
Required CF to reduce net debt to current scrap value	USD/d	569

Source: Arctic Securities Research, Company data

Based on the terms of the backstop facility described above, we calculate a cash breakeven rate of USD -13.1k/d on the 22x vessels when excluding debt amortization of USD 10m per quarter. Adding amortization of USD -5k/d, takes all in cash breakeven for the 22x vessels to USD -18.1k/d. Comparing the 2019e cash breakeven ex. amortization to the historical developments in the Suezmax tanker market, it can be seen that the market has been below the CBE in only two years since 1990 (1992 and YTD 2018). Furthermore, the market has only been lower than the cash breakeven plus the USD 1,973/d (required to reduce net debt to historical average scrap) for three years since 1990.

2019e cash breakeven excluding debt amortization

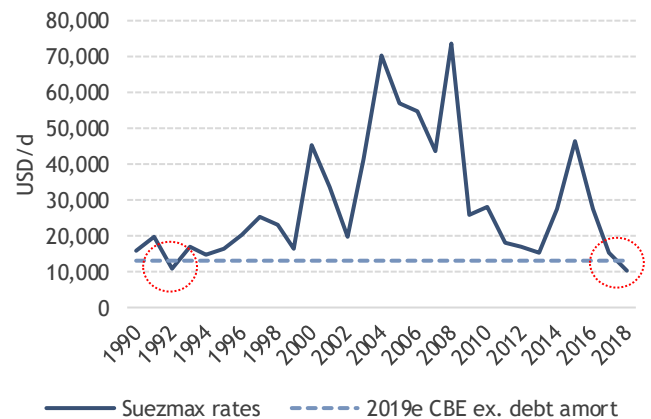
We estimate 2019e cash breakeven on the 22x owned vessels of USD -13.1k/d ex. debt amortization



Source: Arctic Securities Research, Company data

2019e cash breakeven vs. historical Suezmax rates

On a yearly basis, Suezmax rates have been below NAT's 2019e cash breakeven (ex. amort) for only two years since 1990

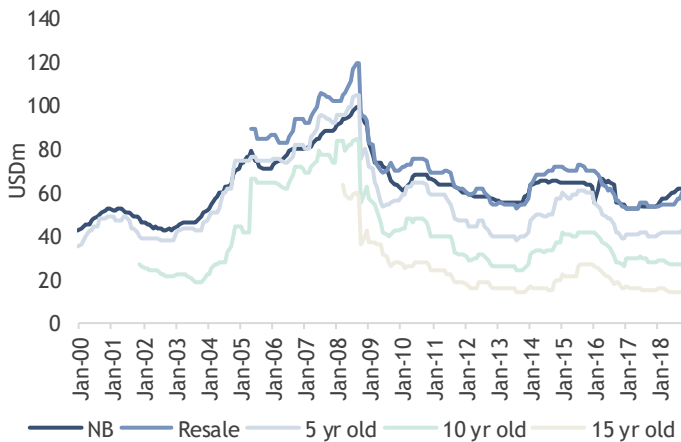


Source: Arctic Securities Research, Company data

Asset values - With the poor tanker market development seen since the end of 2015, Suezmax values have, along with rates, been sliding steadily. Since August 2018, resale, 5yr old, 10yr old and 15yr old Suezmax values have declined by ~18%, ~30%, ~36% and ~48%, respectively. As such, values are currently at or close to historical low levels, and secondhand vessels are valued at large discounts to parity lines.

Suezmax value development

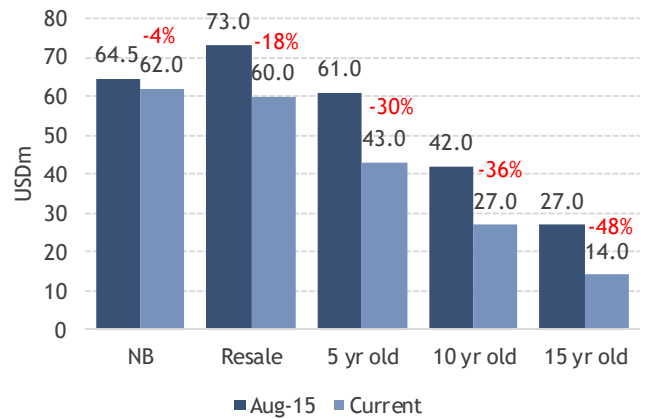
Suezmax values at close to historical lows



Source: Arctic Securities Research, Arctic Shipping, Company data

Suezmax values: current vs. August 2015

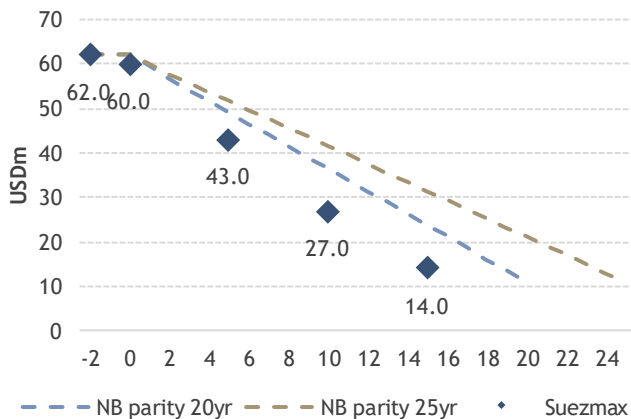
Secondhand Suezmax values have dropped by 18-48% since August 2015



Source: Arctic Securities Research, Arctic Shipping, Company data

Suezmax newbuild parity

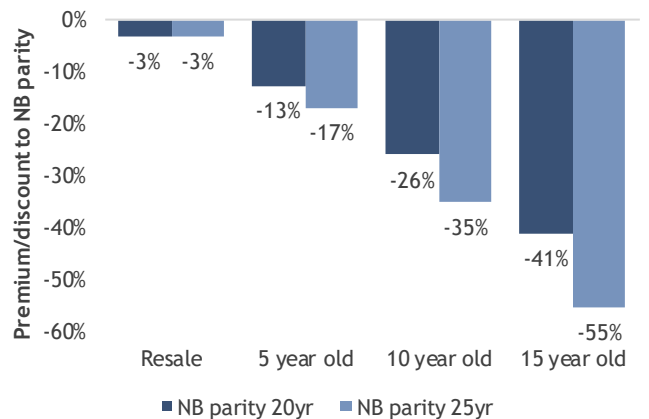
Current Suezmax values vs. theoretical newbuild parity lines



Source: Arctic Securities Research, Arctic Shipping, Company data

Suezmax - discount to newbuild parity

Secondhand Suezmaxes are currently valued at large discounts to parity



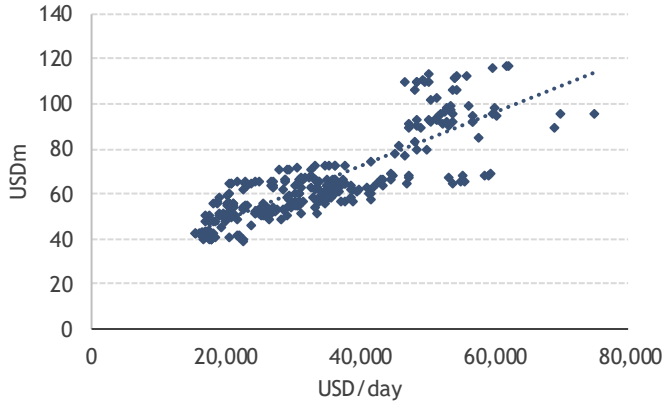
Source: Arctic Securities Research, Arctic Shipping, Company data

Given our positive view on the tanker market going forward, we see large upside potential in asset values. Based on the historical relationship between asset values and 1yr TC rates, we estimate that 5yr old Suezmax values could surge over the coming two years. We currently estimate average Suezmax earnings of USD 28k/d in 2019, increasing to USD 35k/d in 2020, and based on these estimates, we see 35-54% upside potential for 5yr old Suezmax values. However, historically, when asset values have started moving upwards, older vessels (10-15yrs) have moved relatively more than more modern vessels. This is exemplified by the period between August 2013 and August 2015. Obviously, values increased across the board, but the values of 10-15yr old Suezmaxes increased by 75-93%, substantially more than the values of more modern tonnage. NAT's overall fleet has an average age of ~11 years, while the 22x vessels that are security under the current debt facility have an average age of ~12.4 years. As such, if the tanker market develops as we expect, NAT's vessels should see significant value appreciation over the coming years. This would not only imply appreciation of NAV, but also serve as support for the ongoing recapitalization of the company.



Historical Suezmax rates vs. values

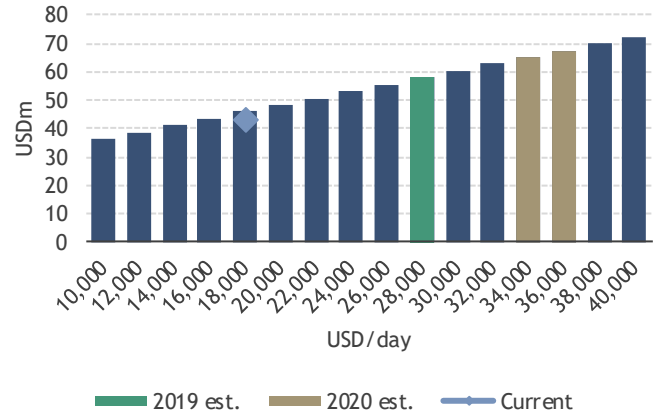
1yr TC rate vs. 5yr old Suezmax value



Source: Arctic Securities Research, Arctic Shipping, Company data

Suezmax rates vs. values

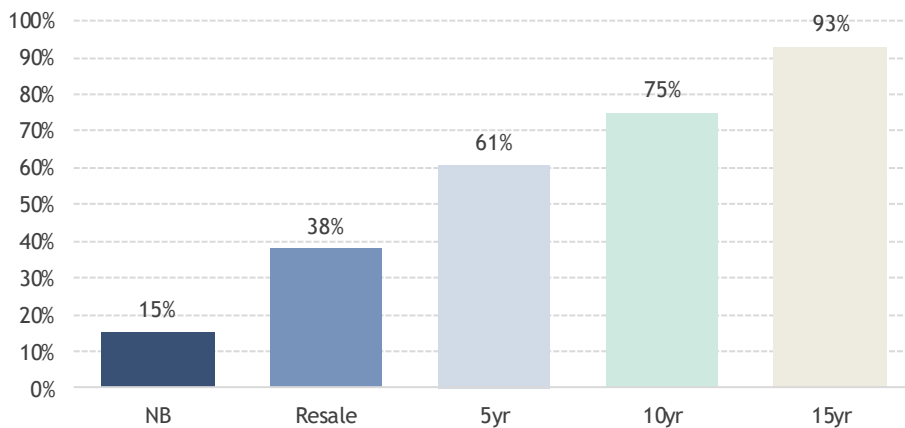
Based on our 2019 and 2020 rate estimates, 5yr old vessel values could increase by 35-54%



Source: Arctic Securities Research, Arctic Shipping, Company data

Suezmax values: August 2015 vs. August 2013

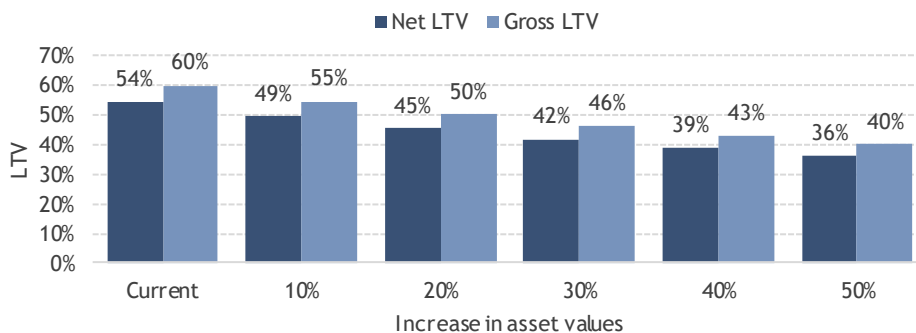
10-15yr old Suezmaxes surged 75-93% from August 2013 to August 2015



Source: Arctic Securities Research, Arctic Shipping, Company data

Estimated Q3/18 gross and net LTV on the current credit facility given different vessel value scenarios

Net LTV on the fleet of 22x owned Suezmaxes would decrease to ~49% if asset values increase by 10%, and further to ~45% if values increase by 20%



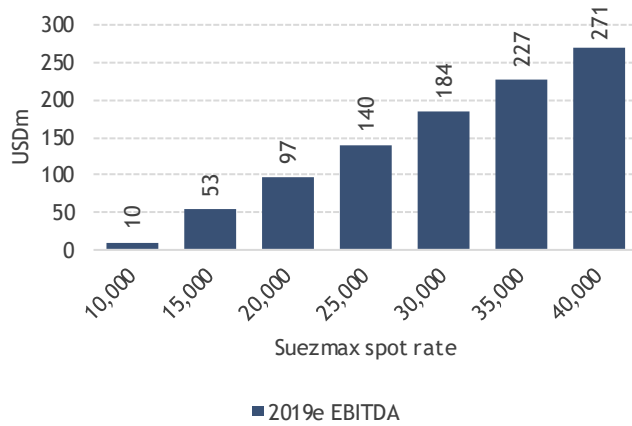
Source: Arctic Securities Research, Arctic Shipping, Company data



Earnings sensitivity - Based on our Suezmax rate estimates, we model significant improvements in NAT's earnings. For 2019 and 2020, we estimate EBITDA of USD 166m and USD 223m, and EPS of USD 0.40 and USD 0.90. However, NAT is highly exposed to developments in the tanker market, and we estimate that a USD 5k/d change in Suezmax day rates would lead to a USD 43m change in 2019 EBITDA and USD 0.31 change in 2019 EPS.

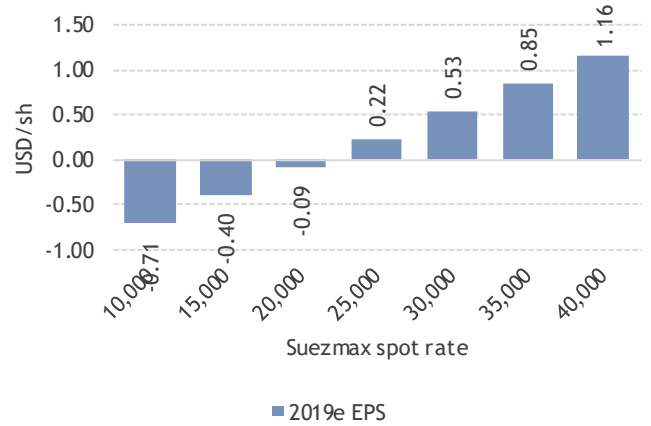
2019e EBITDA sensitivity

We estimate that a USD 5k/d change in day rates would lead to a USD ~43m change in 2019 EBITDA...



2019e EPS sensitivity

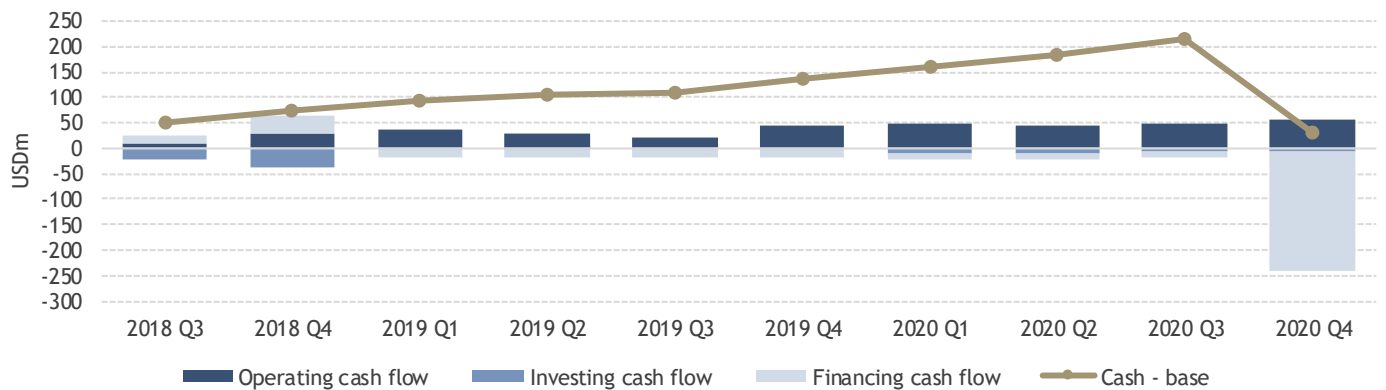
...while the same change in rates would add/remove USD 0.31 per share in EPS



Source: Arctic Securities Research, Company data

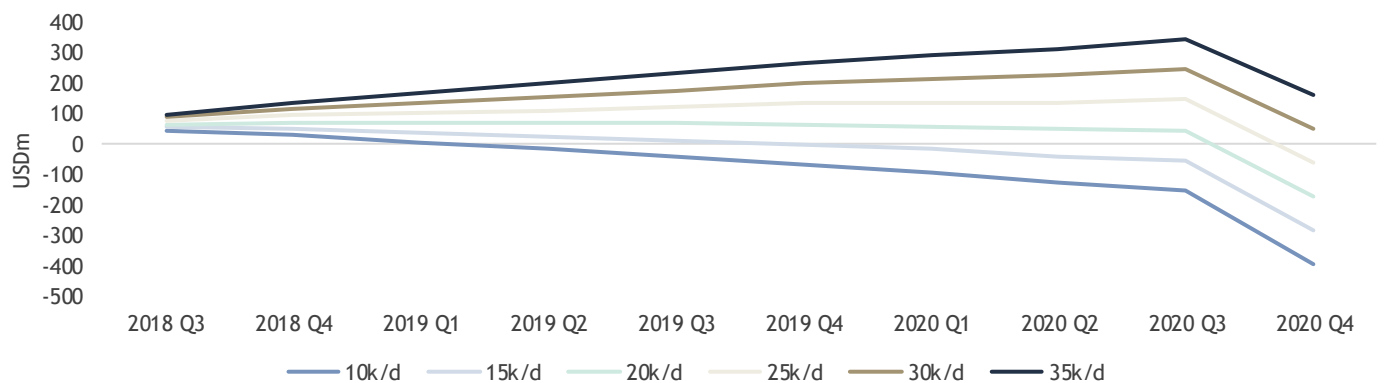
Source: Arctic Securities Research, Company data

Cash flow - base case rates



Source: Arctic Securities Research, Company data

Development in cash in different rate scenarios



Source: Arctic Securities Research, Company data

We expect Q3/18 EBITDA of USD 6.9m - On the back of an estimated blended average Suezmax TCE rate of USD ~12.4k/d, we expect NAT to report TCE revenues of USD 27.3m, EBITDA of USD 6.9m and net loss per share of USD 0.11. Going into 2019 and 2020, we are way ahead of consensus due to our positive outlook on the tanker market sector, and we estimate EBITDA of USD 166m and USD 223mm, respectively.

Detailed estimate and consensus table

We expect NAT to report Q3/18 TCE revenues of USD 27.3m, EBITDA of USD 6.9m and loss per share of USD 0.11

Nordic American Tankers USDm	Arctic				Consensus				Deviation			
	2018 Q3e	2018e	2019e	2020e	2018 Q3e	2018e	2019e	2020e	2018 Q3e	2018e	2019e	2020e
TC Revenues	27.3	148	251	308	26.2	119	154	198	4%	24%	63%	56%
Vessel operating expenses	-17.8	-82	-74	-74								
SG&A/other expenses	-2.6	-12	-11	-11								
Operating and other expenses	-20.4	-94	-85	-85	-20.9	-92	-72	-57	2%	-2%	-17%	-49%
EBITDA	6.9	54	166	223	5.3	28	82	141	30%	97%	102%	59%
Depreciation	-16.4	-62	-72	-71								
Gain/(loss) on sale	0.0	-2	0	0								
Impairment	0.0	-2	0	0								
EBIT	-9.5	-11	95	152	-9.6	-36	16	27	1%	68%	476%	471%
Financial income/(expense)	-6.1	-31	-37	-25								
Result from JVs and associated companies	0.0	0	0	0								
Other financial items	0.0	-3	0	0								
PTP	-15.6	-46	57	127	-19.6	-74	-30	18	20%	38%	-288%	594%
Taxes	0.0	0	0	0								
Minorities	0.0	0	0	0								
Net profit	-15.6	-46	57	127	-19.1	-74	-28	16	19%	38%	-307%	719%
EPS (USD)	-0.11	-0.32	0.40	0.90	-0.12	-0.48	-0.09	0.40	10%	32%	-539%	125%
Adjusted EPS (USD)	-0.11	-0.27	0.40	0.90								
DPS (USD)	0.02	0.09	0.08	0.08	0.01	0.07	0.09	0.26	100%	38%	-11%	-70%
Dividend yield	1.0%	3.7%	4.3%	4.3%	0.5%	2.6%	4.8%	14.0%	100%	38%	-11%	-70%

Source: Arctic Securities Research, Bloomberg, Company data



Valuation - Based on our in-house vessel value estimates, we calculate an end-Q3/18 NAV of USD 2.12 per share, implying P/NAV and EV/GAV of 1.12x and 1.05x, respectively. Furthermore, we estimate that a 10% change in asset values would lead to a -23% (USD 0.49/sh) change in NAV. As we have outlined above, given our rate expectations for the coming years, we believe that there is substantial upside to current asset values. A 35-54% uplift in values (as indicated by our rate estimates and the historical relationship between rates and secondhand values) would raise NAV to just around USD 4.5/sh, while a return to parity would lift NAV to USD -3.3/sh. In a bullish scenario where asset values increase by the same percentages as in the period from August 2013 to August 2015, we estimate that NAT's NAV would increase to USD -5.1/sh. We initiate coverage on NAT with an Arctic Buy rating and target price of USD 3.1/sh, implying a 20% increase in asset values and NAV valuation. Apart from an improving tanker market, we view an update on the refinancing of the company as a trigger in the short term.

Q3/18e NAV

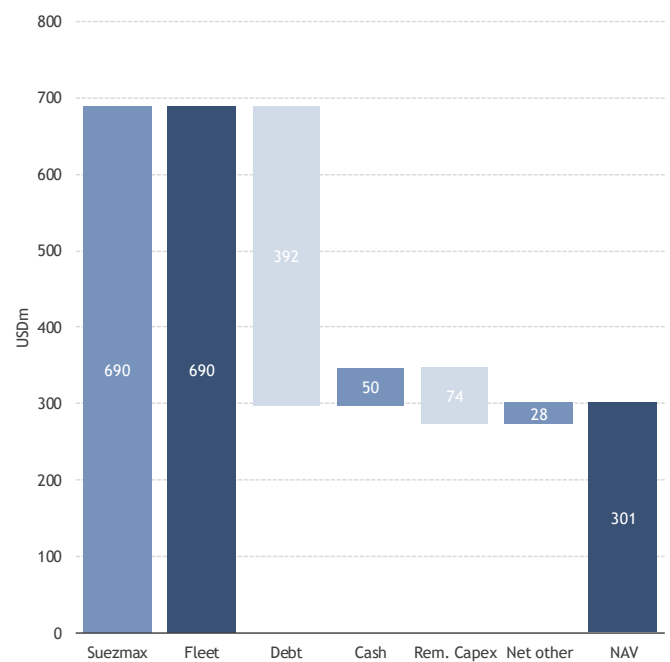
Trading at P/NAV 1.12x

USDm	# of units	Average age	NAV	Implied
Suezmax	25x	10.9	690	725
Fleet	25x	10.9	690	725
Debt			392	392
Cash			50	50
Rem. Capex			74	74
Net other			28	28
NAV/mcap			301	336
# of shares			142	142
NAV/share USD			2.12	2.4
NAV/share USD			2.12	2.4
Share price USD			2.37	
P/NAV			1.12x	
EV/GAV			1.05x	
Net LTV			55.6%	52.6%

Per unit (USDm)	Value per unit	Implied per unit
Suezmax	27.6	29.0
Suezmax resale	60.0	63.1
Suezmax 5yr	43.0	45.2

NAV build-up

We estimate a total fleet value of USD 690m

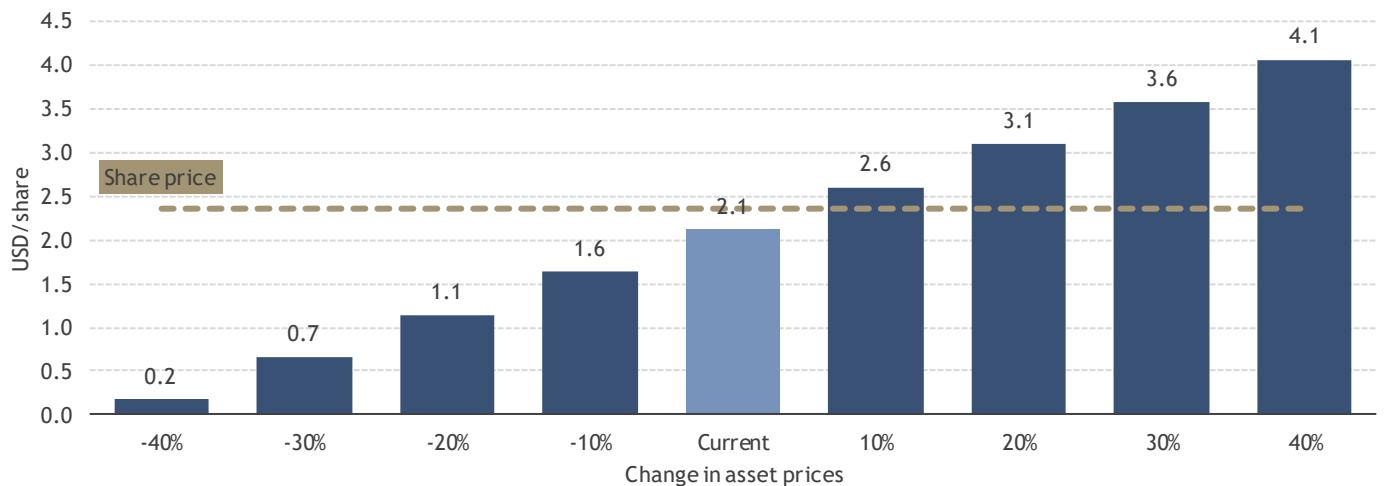


Source: Arctic Securities Research, Arctic Shipping, Company data

Source: Arctic Securities Research, Arctic Shipping, Company data

NAV sensitivity

We estimate that a 10% change in asset values would lead to a +/-23% (USD 0.49/sh) change in NAV

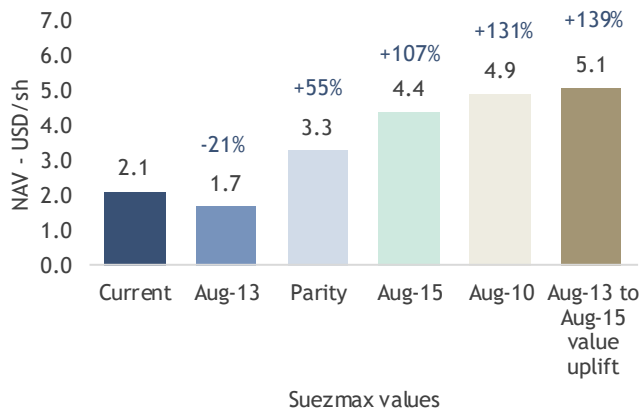


Source: Arctic Securities Research, Company data



NAV in different value scenarios

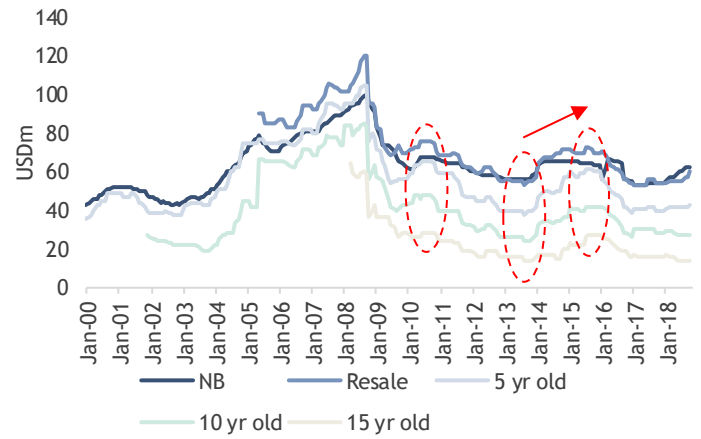
NAV could more than double in certain value scenarios



Source: Arctic Securities Research, Arctic Shipping, Company data

Suezmax asset values

Historical Suezmax value development



Source: Arctic Securities Research, Arctic Shipping, Company data

Tankers

A replay of the 2013 story

We were not expecting a sharp rate recovery as we headed into 2018, but as it turned out the high fleet growth, lack of Opec volumes and inventory drawdowns had indeed caused greater harm than we had anticipated. However, these tanker headwinds have now started to turn, and we are optimistic on the outlook in both the near and long term. We believe that Opec (Saudi Arabia) is becoming concerned about the oil market becoming undersupplied and the fallout from a possible spike in prices. Hence, we expect higher Middle East production in Q4 to compensate for lower Iran volume. Exports are also set to rise from Russia and Brazil, while continuing to climb from the US, which will create a pull on tanker demand. We raise our 2020 crude tanker estimates, while we make no changes to our shorter-term projections. We estimate VLCC rates of USD 35k/d in 2019 (unchanged) and USD 50k/d (40k/d) in '20, and Suezmax rates of USD 28k/d (unchanged) and USD 35k/d (30k/d) in '19-'20. On the back of new regulations, an aging fleet destined for the breakers, a sliding orderbook, strong oil demand, increased MEG crude supply, a turning inventory cycle and ship values near historical lows, we believe it's time to get on board as stocks tend to move ahead of rates and values.

The tanker headwinds have now started to turn, and we are optimistic on the outlook in both the near and long term

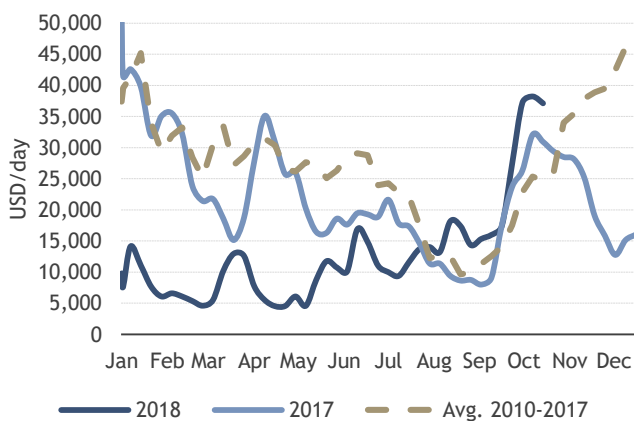
We raise our 2020 crude tanker estimates, while we make no changes to our shorter-term projections

The sharp rate recovery at the start of Q4 supports our thesis - Benchmark VLCC and Suezmax rates averaged USD 10.9k/d and 7.3k/d in the first nine months of 2018, respectively, well below the average levels of USD 28.0k/d and 22.0k/d since 2010. However, after showing promising contra-seasonal strength through September, rates have seen a sharp recovery in October. We are heading into the strong season for tankers as refiners start to purchase crude for the winter. China's oil production declined further in September and is 2.4% down YoY. Combined with strength in refinery demand (refinery runs hit a new all-time high in September of 12.5mbpd, some 0.4mbpd above IEA's estimate) and supply concerns with Iran and Venezuela, this is well set to play into the hands of tanker owners.

After showing promising contra-seasonal strength through September, rates have seen a sharp recovery in October, and we expect strong refinery demand and supply concerns to drive rates further

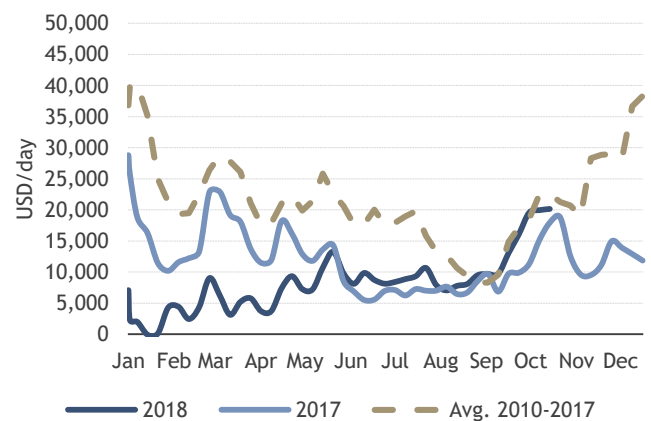
VLCC spot rates

The recent sharp rate recovery supports our thesis



Suezmax spot rates

YTD average of USD 7.3k/d YTD vs 12.5k/d in 2017



Source: Arctic Securities Research, Baltic Exchange

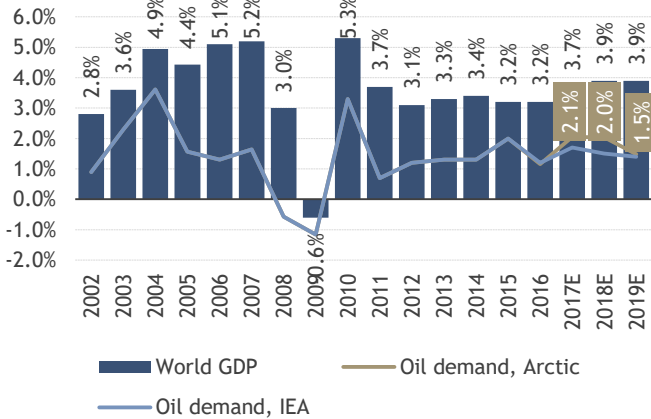
Source: Arctic Securities Research, Baltic Exchange

Demand headwinds becoming tailwinds - Global oil demand strengthened markedly in 2017 and into '18 as the world economy accelerated, but high fleet growth, inventory drawdowns and Opec cuts have caused greater harm to tanker rates and values than we had anticipated. Tankers are not yet reaping the full benefit of booming oil demand, but we expect this to turn in Q4 as Saudi Arabia and other Middle East producers boost exports to cover for the shortfall from Iran. Moreover, we expect the upcoming regulations to be supportive for both crude and product tanker demand from mid-'19 due to increased demand for crude, as well as transportation of products and volatility in product prices. Adding the effect of increasing distances with Atlantic volumes heading east, we estimate tanker demand growth of 2%/5%/3% in 2018-'20.

Tankers are not yet reaping the full benefit of booming oil demand, but we expect this to turn in Q4 as Saudi Arabia and other Middle East producers boost exports to cover for the shortfall from Iran

Improving global economy behind stronger oil demand

GDP growth vs. oil demand growth: we expect oil demand growth of ~2% in both 2017 and 2018, and ~1.5% in 2019

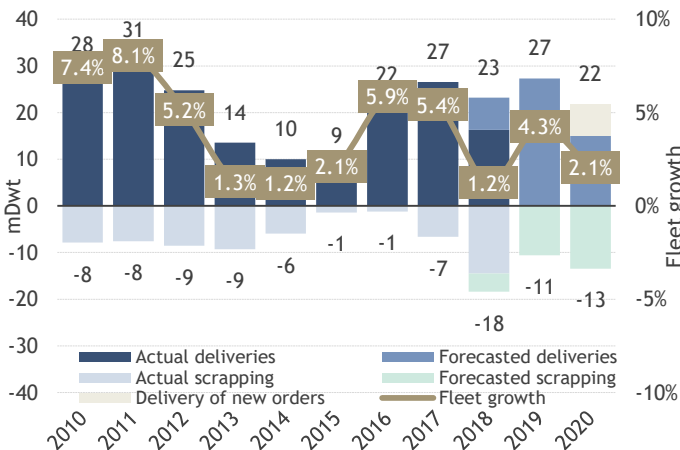


Source: Arctic Securities Research, IMF, IEA

Supply side looking increasingly attractive - After a couple of years of strong fleet growth driven by the high pace of newbuild deliveries and limited scrapping, we have finally started to see some supportive indicators on the tanker supply side. The depressed rate environment seen in '17-'18 has induced an uptick in scrapping, particularly in the crude segment, where YTD demolition has totaled 14.5mdwt. This represents 5.0% of the fleet on an annual basis. We note that our data counts 30x firm VLCCs on the list, which compares to other sources that report up to 40x VLs sold for demolition. As such, there could be considerable upside to these numbers. Moreover, we expect that the upcoming new BWTs and Sulphur cap regulations will make owners of old, inefficient tonnage throw in the towel as we are getting closer to 2020. However, we expect to see a pick-up in rates, and hence expect a lower amount of dwt demolished next year. The orderbooks are looking increasingly attractive, with crude and product currently at ~13.6% and ~7.7%.

Crude tanker supply

We forecast net fleet growth of 1.2% in '18, 4.3% in '19 and 2.5% in '20

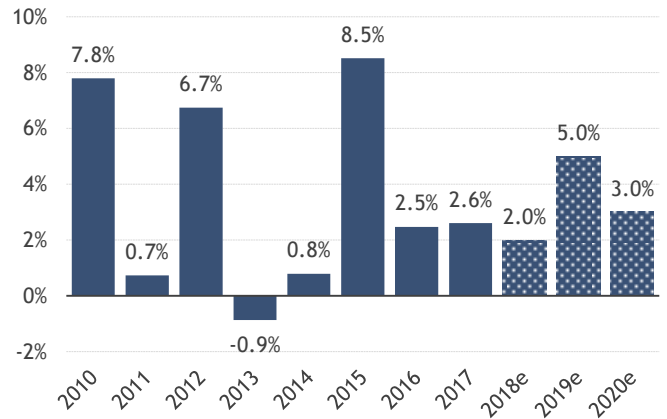


Source: Arctic Securities Research, Worldyards

Attractive entry point - We model an improving tanker market balance, which will lift utilization and rates going forward. We raise our 2020 crude tanker estimates, while make no changes to our short-term projections. We estimate VLCC rates of USD 35k/d in 2019 (unchanged) and USD 50k/d (40k/d) in '20, and Suezmax rates of USD 28k/d (unchanged) and USD 35k/d (30k/d). Ship values are hovering well below historical averages and with an improving market balance in the making, we believe there is very limited downside risk to asset values, even at current weak rates. Rather, we believe the risk is on the upside, and we see a ~10-20% uplift in values as likely over the next 12 months given our rate projections. For the tanker owners under our Arctic coverage, we model a 12-37% NAV sensitivity to a 10% change in values. Thus, NAVs could surge 12-72% in this period, highlighting the significant upside potential for the tanker space even at normalized/parity rates.

Tanker demand growth

Adding the effects of increasing distances, Opec output and new regulations, we estimate demand growth of 2%/5%/3% in 2018-'20

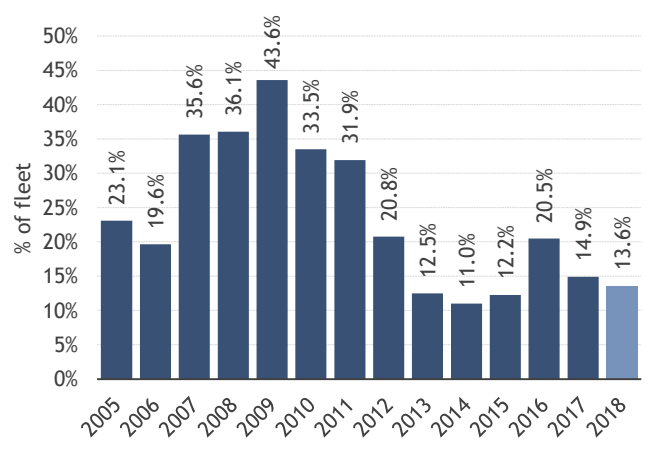


Source: Arctic Securities Research, Company data

We have finally started to see some supportive indicators on the tanker supply side. The orderbooks are decreasing and the depressed rate environment has induced a substantial amount of scrapping

Crude tanker orderbook

Currently standing at 13.6% of fleet



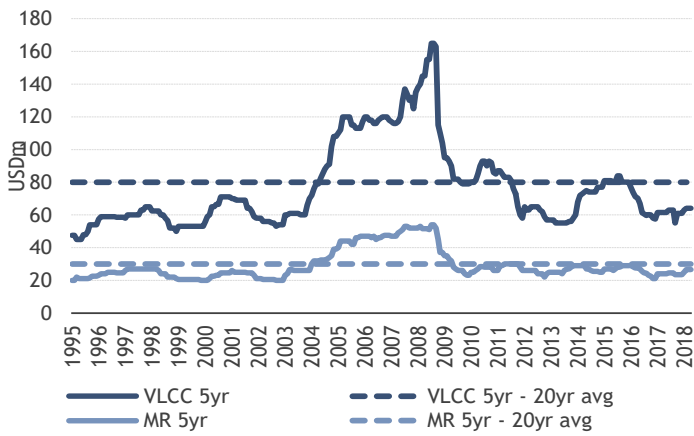
Source: Arctic Securities Research, Worldyards Statistics

We estimate VLCC rates of USD 35k/d in 2019 (unchanged) and USD 50k/d (40k/d) in '20, and Suezmax rates of USD 28k/d (unchanged) and USD 35k/d (30k/d)



Tanker values

5-yr old VLCCs and MRs are 19% and 14% below 20-year averages

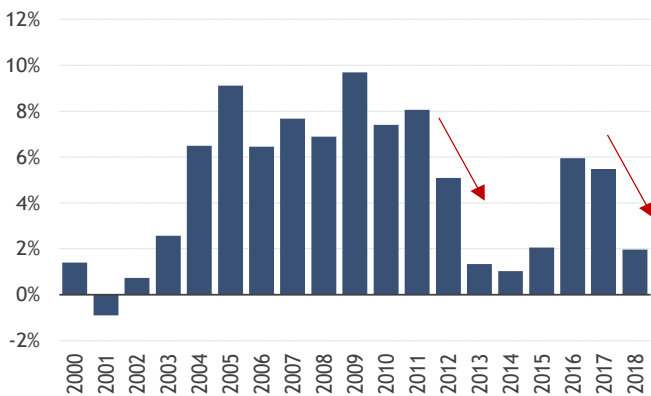


Source: Arctic Securities Research, Arctic Shipping

Replay of the 2013 story... With the above considerations in mind, we see a couple of interesting similarities to what happened back in 2013. The rate environment was dreadful, and the tanker market was written off as structurally over-supplied. However, fleet growth slowed down (like we expect it will in 2018), and Opec production rebounded (which we also expect it eventually will do). The result: tanker rates surged in Q4/13, and we believe that a replay could be in the offing.

2013: Fleet growth came down considerably

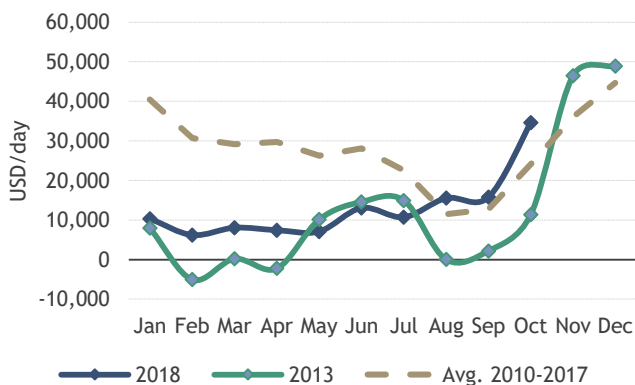
As we expect it will in 2018



Source: Arctic Securities Research, Worldyards Statistics

2013: VLCC rates boomed in Q4

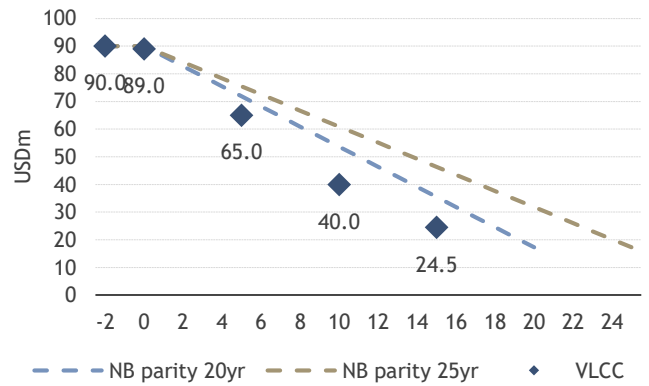
We believe that rates will increase further in the fourth quarter



Source: Arctic Securities Research, Baltic Exchange

VLCC values vs newbuild parity

Older VLCCs currently priced at discounts to newbuild parity

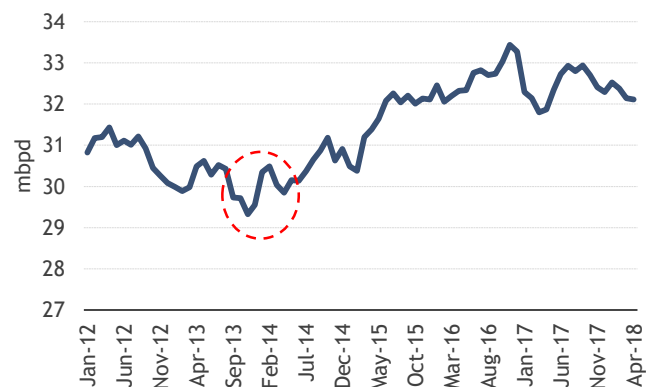


Source: Arctic Securities Research, Arctic Shipping

We believe the stage could be set for a replay of the 2013 story, with rates surging in Q4

2013: Opec production rebounded

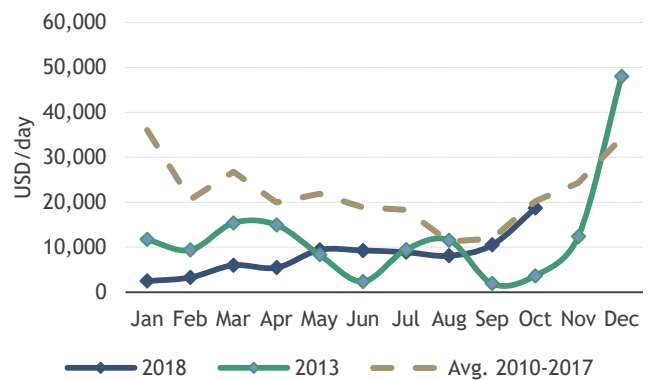
As we expect it will in Q4/18



Source: Arctic Securities Research, EIA

2013: ...and so did Suezmax rates

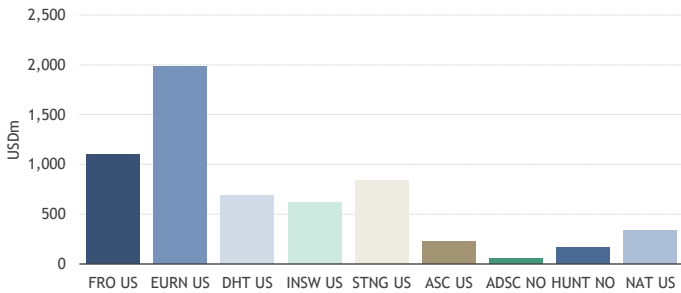
Rates increased in late-November



Source: Arctic Securities Research, Baltic Exchange

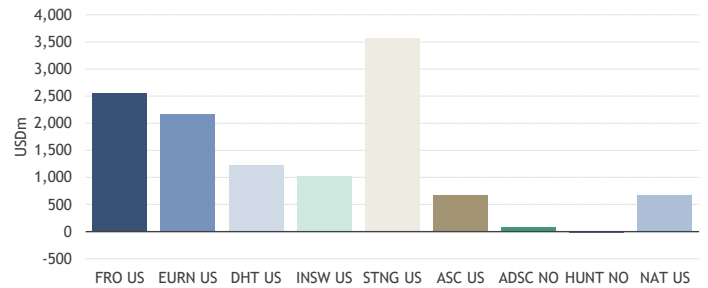
Peer group - Tankers

Market cap



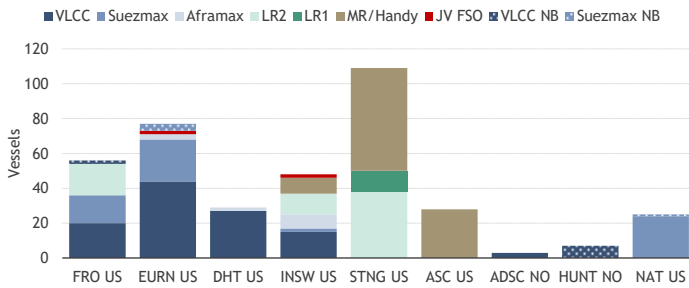
Source: Arctic Securities Research, Factset

Enterprise value



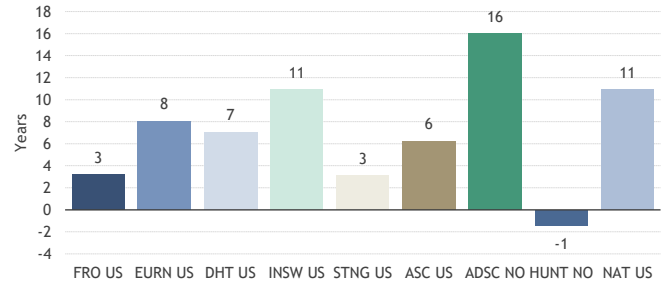
Source: Arctic Securities Research, Facset

Fleet



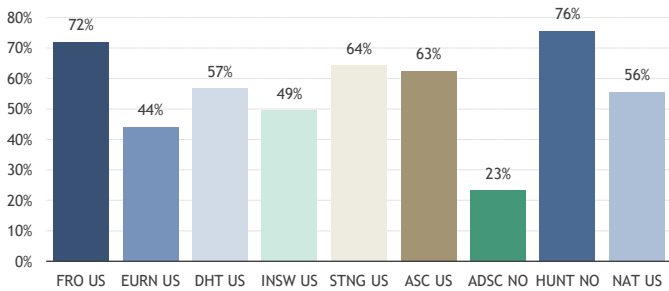
Source: Arctic Securities Research, Company data

Average age



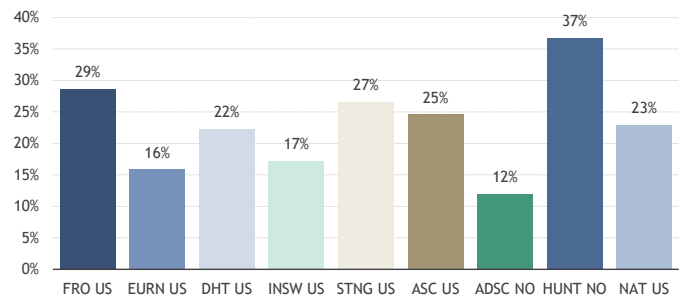
Source: Arctic Securities Research, Company data

Net LTV



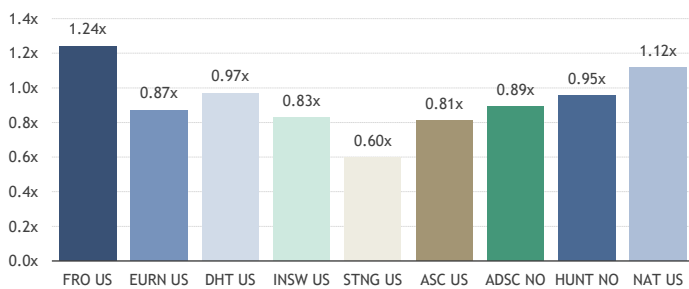
Source: Arctic Securities Research, Arctic Shipping

NAV sensitivity to 10% change in values



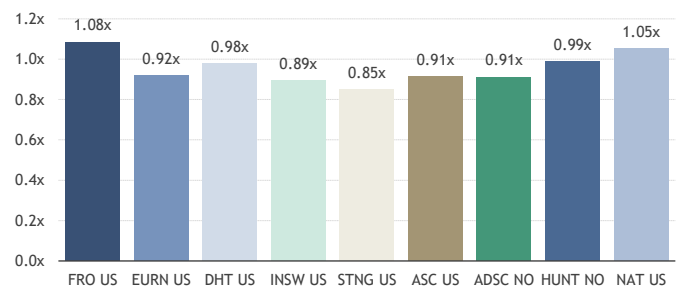
Source: Arctic Securities Research, Arctic Shipping

P/NAV



Source: Arctic Securities Research, Arctic Shipping

EV/GAV



Source: Arctic Securities Research, Arctic Shipping

Profit & loss statement

Profit & loss (USDm)	2016	2017	2018e	2019e	2020e
Sales	237	155	148	251	308
Operating expenses	-93	-100	-94	-85	-85
Adj. EBITDA	144	54	50	166	223
EBITDA	144	54	50	166	223
Depreciation	-91	-101	-62	-72	-71
EBITA	53	-46	-11	95	152
Amortisation & impairment					
Other expenses or revenues					
Adj. EBIT	53	-46	-11	95	152
EBIT	53	-46	-11	95	152
Net interest	-11	-20	-31	-37	-25
Other financial items	-10	-9	-3		
Pre-tax profit	33	-76	-46	57	127
Minority interests					
Taxes					
Net profit	33	-76	-46	57	127
Reported EPS (USD)	0.37	-0.71	-0.32	0.40	0.90
Adj. EPS (USD)	0.37	-0.71	-0.32	0.40	0.90
Adj. EPS fully diluted (USD)	0.37	-0.71	-0.32	0.40	0.90
Sales growth	-17.5%	-34.7%	-4.5%	69.8%	22.8%
Adj. EBITDA growth	-31.5%	-62.3%	-7.6%	230.6%	34.3%
Adj. EBIT growth	-58.4%	n.m.	n.m.	n.m.	60.7%
Adj. Pre-tax profit growth	-72.0%	n.m.	n.m.	n.m.	122.0%
Adj. Net profit growth	-72.0%	n.m.	n.m.	n.m.	122.0%
EPS reported growth	-71.9%	n.m.	n.m.	n.m.	122.0%
Adj. EPS growth	-71.9%	n.m.	n.m.	n.m.	122.0%
Adj. EPS fully diluted growth	-71.9%	n.m.	n.m.	n.m.	122.0%
Adj. EBITDA margin	60.9%	35.2%	34.0%	66.3%	72.5%
Adj. EBITA margin	22.5%	n.m.	n.m.	37.7%	49.3%
Adj. EBIT margin	22.5%	n.m.	n.m.	37.7%	49.3%
Adj. Pre-tax margin	13.9%	-48.8%	-31.1%	22.9%	41.3%
Adj. Net margin	13.9%	n.m.	n.m.	22.9%	41.3%

Source: Arctic Securities research

Balance sheet & cash flow

Balance sheet (USDm)	2016	2017	2018e	2019e	2020e
Goodwill	19	19			
Other intangible assets					
Property, plant & equipment	1,140	1,096	910	846	802
Other fixed financial assets					
Other fixed assets	64	28	25	25	25
Total non-current assets	1,224	1,144	935	871	827
Inventories	21	23	22	22	22
Receivables	18	22	22	22	22
Other current assets	43	23	71	71	71
Cash & cash equivalents	82	58	74	137	31
Total current assets	164	127	188	252	145
Total assets	1,387	1,271	1,123	1,123	972
Total shareholders' equity	908	841	649	695	811
Minorities					
Provisions					
Long-term IB debt	443	389	382	115	108
Other long-term liabilities	15	16	16	16	16
Total non-current liabilities	457	405	398	131	124
Short-term IB debt			46	267	7
Payables	4	3	6	6	6
Other current liabilities	17	22	24	24	24
Total current liabilities	22	25	76	297	37
Total liabilities	479	430	474	428	161
Total equity and liabilities	1,387	1,271	1,123	1,123	972
Cash & cash equivalents	82	58	74	137	31
Gross IB debt	443	389	428	382	115
Net IB debt	361	330	354	244	84
Working capital	35	42	37	37	37
Capital employed	1,366	1,245	1,047	826	935
Net IB debt/Equity	39.7%	39.3%	54.6%	35.2%	10.4%
Equity/Assets	65.5%	66.2%	57.8%	61.9%	83.4%
Cash flow (USDm)	2016	2017	2018e	2019e	2020e
Net profit	33	-76	-46	57	127
Non-cash adjustments	95	107	66	72	71
Change in working capital			6		
Operating cash flow	128	32	26	129	199
Capital expenditures	-188	-38	-38	-8	-27
Free cash flow (FCF)	-59	-15	-11	121	172
Change in debt	117	-55	39	-46	-267
Dividend paid	-126	-54	-11	-11	-11
Share issues & buybacks	120	104	-0		
Other non-cash adjustments	-0	-3	-0		
Financing cash flow	111	-9	27	-58	-278
Change in cash	52	-24	16	63	-107

Source: Arctic Securities research



Key ratios & Valuation

Share data	2016	2017	2018e	2019e	2020e
Shares outstanding (m)	102.0	142.0	142.0	142.0	142.0
Shares fully diluted (m)	102.0	142.0	142.0	142.0	142.0
Shares fully diluted average (m)	102.0	142.0	142.0	142.0	142.0
Share price USD (year-end)	8.18	2.46	2.28	2.28	2.28
Market capitalisation (USDm)	834	349	323	323	323
Adj. enterprise value (USDm)	1	1	1	1	0
EPS reported (USD)	0.37	-0.71	-0.32	0.40	0.90
Adj. EPS (USD)	0.37	-0.71	-0.32	0.40	0.90
Adj. EPS fully diluted (USD)	0.37	-0.71	-0.32	0.40	0.90
DPS (USD)	1.14	0.36	0.09	0.08	0.08
Growth	2016	2017	2018e	2019e	2020e
Sales growth	-17.5%	-34.7%	-4.5%	69.8%	22.8%
Adj. EBITDA growth	-31.5%	-62.3%	-7.6%	230.6%	34.3%
Adj. EBIT growth	-58.4%	n.m.	n.m.	n.m.	60.7%
Adj. Pre-tax profit growth	-72.0%	n.m.	n.m.	n.m.	122.0%
Adj. Net profit growth	-72.0%	n.m.	n.m.	n.m.	122.0%
EPS reported growth	-71.9%	n.m.	n.m.	n.m.	122.0%
Adj. EPS growth	-71.9%	n.m.	n.m.	n.m.	122.0%
Adj. EPS fully diluted growth	-71.9%	n.m.	n.m.	n.m.	122.0%
Margins	2016	2017	2018e	2019e	2020e
Adj. EBITDA margin	60.9%	35.2%	34.0%	66.3%	72.5%
Adj. EBITA margin	22.5%	n.m.	n.m.	37.7%	49.3%
Adj. EBIT margin	22.5%	n.m.	n.m.	37.7%	49.3%
Adj. Pre-tax margin	13.9%	-48.8%	-31.1%	22.9%	41.3%
Adj. Net margin	13.9%	n.m.	n.m.	22.9%	41.3%
Valuation	2016	2017	2018e	2019e	2020e
EV/Sales	5.0x	4.4x	4.6x	2.3x	1.3x
Adj. EV/EBITDA	8.3x	12.5x	13.5x	3.4x	1.8x
Adj. EV/EBIT	22.4x	n.m.	n.m.	6.0x	2.7x
P/E	22.1x	n.m.	n.m.	5.6x	2.5x
Adj. P/E	22.1x	n.m.	n.m.	5.6x	2.5x
P/B	0.9x	0.4x	0.5x	0.5x	0.4x
Profitability	2016	2017	2018e	2019e	2020e
FCFE yield	-7.1%	-4.3%	-3.5%	37.5%	53.1%
ROE	3.6%	-9.0%	-7.1%	8.2%	15.7%
ROCE	3.9%	-3.7%	-1.1%	11.5%	16.3%
Dividend yield	13.9%	14.6%	4.0%	3.5%	3.5%

Source: Arctic Securities research

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