



Nordic American Tankers



Shipping – Equity Research

Sector Report

24-Sep-18

Hitch your wagon to a star

Nordic American Tankers was listed on the New York Stock Exchange in 1995 and has since grown to a fleet of 25 vessels. The strategy of the Company has been low leverage and a focus on returning cash flow to its shareholders. The high payout ratio, in our view, is a key reason why NAT historically has traded at a premium to steel value (NAV). However, weak rates and restrictive terms by lenders have choked dividends and sent valuation of the Company down more than 60% in the last year. Looking ahead, we expect materially stronger tanker fundamentals which should allow NAT to refinance their debt at materially better terms. Due to its unparalleled track record in the tanker space of paying dividends (84 consecutive quarters), we also expect that improved fundamentals will result in higher dividends, a key valuation trigger in our view. Based on our rate expectations we estimate fleet TCE of \$20,300/d in 2019, while in 2020 we expect the same rates as in 2015 of \$35,800/d. We calculate that this translates into operating cash flow of \$59m (\$0.42/sh) in 2019 and \$201m (\$1.42/sh) in 2020. In perspective, this equals 75% of gross debt after adjusting for the sale of 8 vessels lowering the average age of the fleet from 13 to 11 years. This particular part of the asset curve is, in our view, a sweet spot when sentiment turns. As seen in the Dry Bulk recovery from March 2016, a year after brand new Capesize vessels increased 17% in value while the 10-15 year olds soared 67-71%. While NAT writes in their 20-F that valuation of the Company should not be based on NAV, we expect that at least lenders find higher asset coverage more comforting. In sum, we believe current valuation underappreciates the earning power of the world's 4th largest Suezmax owner. We re-initiate coverage with BUY rating and a target price of \$/sh, with the same headline as we used on Star Bulk (SBLK US, BUY) in 2016.

Balance sheet

NAT had \$374m of debt outstanding by 2Q18 and \$46m cash. The Company recently sold 8 of 30 vessels which should reduce debt by \$27.2m in 3Q18 and add \$28.8m to liquidity (\$25.2m received in 2Q18). This gives 2Q18 adjusted cash of \$75m and \$347m gross debt on the 22 Suezmax vessels or \$15.8m gross debt per vessel. In perspective, to reduce debt to \$10m scrap based on the average scrap age the last 20 years only \$1,400/d is required on average for the remaining lifetime of the 22 vessels. In light of this we view 8-10.5% interest cost (\$3,700-4,700/d) and \$5,000/d repayment from 2019 unreasonably restrictive and borderline destructive by lenders. Finally, the 3 Suezmax deliveries in 2H18 with \$117m remaining capex are funded with a \$129.6m sale-leaseback facility, or \$43.2m per vessel. Delivery of these vessels will also add \$11m to liquidity, taking this into account gives 2Q18 adjusted cash of \$85.8m.

Valuation

We estimate current NAV at \$338m (\$2.4/sh), declining to \$237m (\$1.7/sh) in 2020 without taking into account cash flow until 2020. Said differently, current NAT share price of \$2.02/sh reflects \$50m of cash flow, or \$2,800/d split by 25 vessels for 2 years, above running cost of the Company (Opex \$8,000/d, SG&A \$1,350/d and interest). If values return to secondhand parity in 2020 based on current \$61m resale the NAV increases to \$512m (\$3.6/sh) in 2020. Applying the same with 2014/15 resale of \$72m would lift NAV to \$645m (\$4.5/sh) in 2020. Based on our rate assumptions we expect \$260m (\$1.8/sh) cash flow in 2019/20. Consequently, our \$5/sh target reflects parity on secondhand values in 2020 with current resale and cash flow of \$198m. On the assumption of 6% interest on the main facility we estimate \$3,000/d interest cost while \$2,000/d amortization would give \$14,350/d cash break-even on average for the 25 vessels. Consequently, at our 2019/20 TCE assumptions free cash flow to equity could be \$54.3m and \$196m respectively. Applying long term dividend yield of 8.5% from Bloomberg would give \$4.5/sh in 2019 and \$16.2/sh in 2020 with rates returning to 2015 levels.

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Clarksons Platou Securities, Inc. was retained as joint lead manager and bookrunner in the US\$110million equity offering in December 2017.

Clarksons Platou Securities AS was retained as sole financial advisor to Star Bulk Carriers Corp. in connection with the acquisition of 15 vessels from Songa Bulk closed in July 2018 and was sole manager and advisor in the dual listing of Star Bulk Carriers Corp on Oslo Børs in July 2018.

RATING



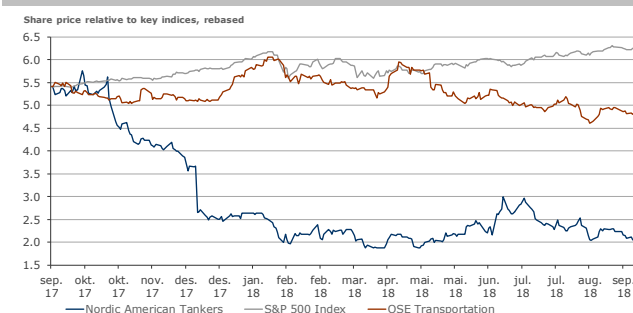
Nordic American Tankers

Bloomberg Symbol	NAT US
Price (USD)	2.02
Target Price (USD)	5.00
Avg Daily Vol	1 067 615
Free Float	100.0%

Market Data

52-wk Range (USD)	1.87-5.76
No. of Shares (m)	142.0
Market Cap (USDm)	287
Net Debt YE (USDm)	387
EV (USDm)	673

One year price history for Nordic American Tankers



Key Financials (USD mill.)

FYE Dec.	2018E		2019E		2020E	
	Curr	Prior	Curr	Prior	Curr	Prior
Oper. revenue	312	220	491	298	864	
EBITDA, adj.	29	114	97	184	234	
EBIT, adj.	-23	8	48	75	185	
Net Profit, adj.	-58	-19	9	45	154	
CFO	2	87	59	154	201	
EPS, adj. (USD)	-0.41	-0.19	0.06	0.44	1.09	

Valuation

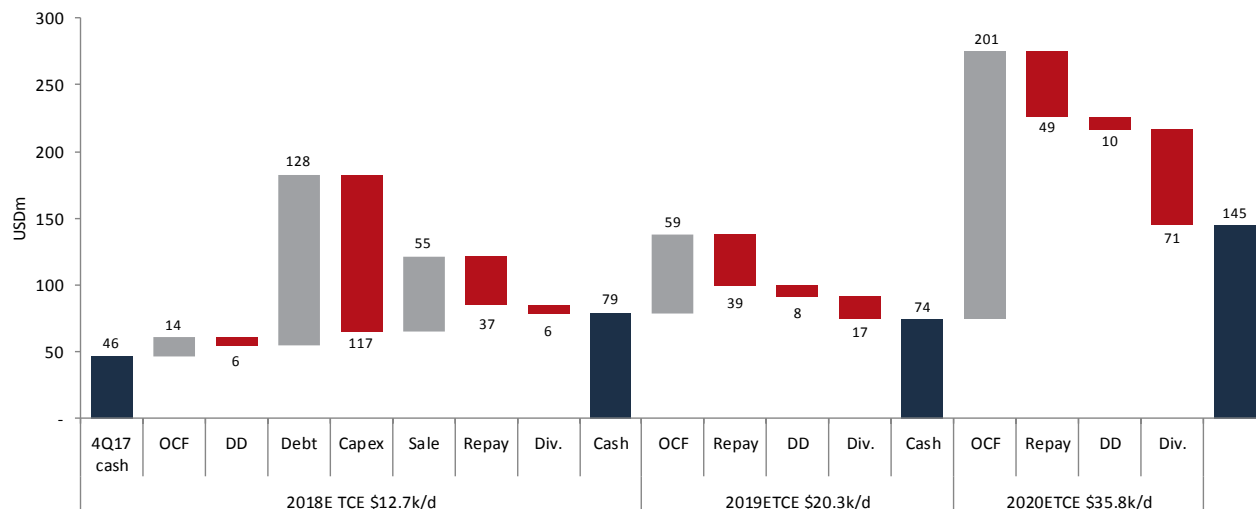
FYE Dec.	2015A	2016A	2017A	2018E	2019E	2020E
EV/EBITDA, adj. (x)	8.1	8.8	14.8	27.2	6.7	2.2
P/E, adj. (x)	12.1	n.m.	n.m.	n.m.	33.4	1.9
P/CF (x)	n.m.	n.m.	n.m.	n.m.	5.6	1.5
P/Book (x)	1.6	1.0	0.4	0.5	0.5	0.4
Net debt/EBITDA	1.4	2.6	6.1	13.4	3.6	1.0
Dividend yield (%)	8.9	14.2	14.6	4.0	5.9	24.8

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Cash flow outlook



Source: Clarksons Platou Securities AS

Valuation

We estimate current NAV at \$338m (\$2.40/sh), declining to \$237m (\$1.70/sh) in 2020 without taking into account cash flow until 2020. Said differently, the current NAT share price of \$2.02/sh reflects \$50m of cash flow, or \$2,800/d split by 25 vessels for 2 years, above running cost of the Company (Opex \$8,000/d, SG&A \$1,350/d and interest). If values return to secondhand parity in 2020 based on current \$61m resale the NAV increases to \$512m (\$3.60/sh) in 2020. Applying the same assumptions with 2014/15 resale of \$72m would lift NAV to \$645m (\$4.50/sh) in 2020. Based on our rate assumptions we expect \$260m (\$1.80/sh) cash flow in 2019/20. Consequently, our \$5/sh target reflects parity on secondhand values in 2020 with current resale and cash flow of \$198m. On the assumption of 6% interest on the main facility we estimate \$3,000/d interest cost while \$2,000/d amortization would give \$14,350/d cash break-even on average for the 25 vessels. Consequently, at our 2019/20 TCE assumptions free cash flow to equity could be \$54.3m and \$196m respectively. Applying long term dividend yield of 8.5% from Bloomberg would give \$4.50/sh in 2019 and \$16.20/sh in 2020 with rates returning to 2015 levels.

Nordic American Tankers		
	USDm	USD/Share
Market value vessels	515	3.6
Sale of vessels 2Q/3Q 2018	55	0.4
Value newbuilds	183	1.3
Working capital	35	0.2
Value NAO	10	0.1
Cash	46	0.3
Treasury shares	0	0.0
Asset values	845	5.9
Interest bearing debt	-374	-2.6
Other debt	-16	-0.1
Remaining capex	-117	-0.8
Net Asset Value	338	2.4
# shares (mill)	142.0	
NAO shareprice	0.98	
Last shareprice NAT	2.02	
Current Price/ NAV		0.85
Current EV/Asset		0.92

Source: Clarksons Platou Securities AS



Fleet Overview

Owned vessels	Built	%	Segment	Capacity	Age	Yard	Country
Nordic Aquarius	2018	100 %	Suezmax	158 000	0.0	Samsung	Korea
Nordic Cygnus - August	2018	100 %	Suezmax	158 000	0.0	Samsung	Korea
Samsung 3 - October	2018	100 %	Suezmax	158 000	0.0	Samsung	Korea
Nordic Space	2017	100 %	Suezmax	158 000	1.0	Sungdong	Korea
Nordic Star	2016	100 %	Suezmax	159 000	2.0	Sungdong	Korea
Nordic Breeze	2011	100 %	Suezmax	158 000	7.0	Samsung	Korea
Nordic Zenith	2011	100 %	Suezmax	158 000	7.0	Samsung	Korea
Nordic Vega	2010	100 %	Suezmax	163 000	8.0	Bohai	China
Nordic Cross	2010	100 %	Suezmax	158 475	8.0	Samsung	Korea
Nordic Light	2010	100 %	Suezmax	158 475	8.0	Samsung	Korea
Nordic Freedom	2005	100 %	Suezmax	163 455	13.0	Daewoo	Korea
Nordic Skier	2005	100 %	Suezmax	159 089	13.0	Hyundai	Korea
Nordic Sprinter	2005	100 %	Suezmax	159 089	13.0	Hyundai	Korea
Nordic Castor	2004	100 %	Suezmax	150 249	14.0	Universal	Japan
Nordic Luna	2004	100 %	Suezmax	150 037	14.0	Universal	Japan
Nordic Moon	2003	100 %	Suezmax	159 999	15.0	Samsung	Korea
Nordic Apollo	2003	100 %	Suezmax	159 999	15.0	Samsung	Korea
Nordic Pollux	2003	100 %	Suezmax	150 103	15.0	Universal	Japan
Nordic Cosmos	2002	100 %	Suezmax	159 998	16.0	Samsung	Korea
Nordic Grace	2002	100 %	Suezmax	149 921	16.0	Samho	Korea
Nordic Mistral	2002	100 %	Suezmax	164 236	16.0	Samho	Korea
Nordic Passat	2002	100 %	Suezmax	164 274	16.0	Samho	Korea
Nordic Sirius	2000	100 %	Suezmax	150 183	18.0	Universal	Japan
Nordic Sprite	1999	100 %	Suezmax	147 188	19.0	Samsung	Korea
Nordic Aurora	1999	100 %	Suezmax	147 188	19.0	Samsung	Korea
Total Suezmax fleet		25.0		3 921 958	11		

Owned vessels	Built	%	Segment	Capacity	Age	Yard	Country
Nordic Saturn	1998	100 %	Suezmax	157 332	20.0	Daewoo	Korea
Nordic Jupiter	1998	100 %	Suezmax	157 411	20.0	Daewoo	Korea
Nordic Discovery	1998	100 %	Suezmax	153 328	20.0	Hyundai	Korea
Nordic Fighter	1998	100 %	Suezmax	153 328	20.0	Hyundai	Korea
Nordic Harrier	1997	100 %	Suezmax	151 475	21.0	Samsung	Korea
Nordic Hawk	1997	100 %	Suezmax	151 475	21.0	Samsung	Korea
Nordic Hunter	1997	100 %	Suezmax	151 400	21.0	Samsung	Korea
Nordic Voyager	1997	100 %	Suezmax	149 591	21.0	Dalian	China

Source: Clarksons Platou Securities AS



Profit and loss (USDm)	2014	2015	2016	2017	2018E	2019E	2020E
Total revenue	351	446	357	297	312	491	864
Voyage expenses & commissions	-199	-159	-126	-142	-192	-310	-546
Time-charter equivalent	152	287	231	155	120	180	318
Operating expenses	-76	-76	-93	-100	-91	-83	-84
EBITDA, adj.	76	211	139	54	29	97	234
Gain/loss sale of assets	0	0	5	0	0	0	0
EBITDA	76	211	144	54	29	97	234
Depreciation	-81	-83	-91	-101	-52	-49	-49
Amortization/Write down	0	0	-47	-19	0	0	0
EBIT	-5	128	7	-65	-23	48	185
EBIT, adj.	-5	128	48	-46	-23	48	185
Associated companies	5	-2	0	-8	-4	-2	2
Net interest	-12	-11	-11	-20	-31	-38	-34
Gains/losses on securities or financial instruments	-1	0	0	-1	-1	0	0
Other financial Items	0	0	0	0	0	0	0
Pre-tax profit	-13	115	-4	-94	-59	9	154
Tax	0	0	0	0	0	0	0
Minorities	0	0	0	0	0	0	0
Result from discontinued operations/ Other	0	0	0	0	0	0	0
Net income	-13	115	-4	-94	-59	9	154
Adjustments after tax	1	0	-5	1	1	0	0
Adjusted net income	-12	115	-10	-94	-58	9	154
EPS (USD)	-0.15	1.29	-0.05	-0.91	-0.41	0.06	1.09
EPS, adj. (USD)	-0.14	1.29	-0.10	-0.90	-0.41	0.06	1.09
Balance sheet (USDm)	2014	2015	2016	2017	2018E	2019E	2020E
Cash and liquid assets	101	30	82	58	79	74	145
Other current assets	76	88	82	69	71	98	151
Current assets	176	118	164	127	149	172	296
Fixed assets	910	1 027	1 140	1 096	983	942	904
Long-term interest bearing assets	0	0	0	0	0	0	0
Other long-term assets	89	100	46	47	23	22	24
Long-term assets	999	1 126	1 186	1 144	1 006	964	928
Total assets	1 176	1 245	1 350	1 271	1 156	1 136	1 224
Short term interest bearing debt	0	0	0	0	40	40	40
Other short term liabilities	24	21	22	25	42	69	122
Current liabilities	24	21	22	25	82	109	162
Long term interest bearing debt	250	330	443	389	301	271	231
Finance obligation	0	0	0	0	124	116	107
Other long-term liabilities	13	13	15	16	16	17	17
Long term liabilities	263	343	457	405	441	403	355
Minorities	0	0	0	0	0	0	0
Shareholders equity	889	881	871	841	632	624	707
Total liabilities and shareholders equity	1 176	1 245	1 350	1 271	1 156	1 136	1 224
Working capital	52	67	60	43	29	29	29
Net debt	149	300	361	330	387	353	233
Cash flow (USDm)	2014	2015	2016	2017	2018E	2019E	2020E
Pre-tax profit	-13	115	-4	-94	-59	9	154
- Associated companies	-5	2	0	8	4	2	-2
+ Depreciation and amortization	81	83	138	120	52	49	49
- Payable tax	0	0	0	0	0	0	0
+/- Other operating items	0	-10	-13	-14	-10	1	1
Cash flow from operations	63	190	120	20	-13	59	201
Change in working capital	-5	-16	7	17	15	0	0
Operating cash flow	57	174	128	37	2	59	201
Capex	0	0	0	0	-9	-8	-10
Growth capex	-74	-123	-188	-38	-117	0	0
Acquisition capex	-8	-74	2	-10	0	0	0
Sale of assets	0	0	0	1	81	0	0
Cash flow from investments	-82	-197	-187	-47	-45	-8	-10
Free cash flow	-24	-23	-59	-10	-44	51	191
Dividend paid	-54	-123	-126	-54	-11	-17	-71
Share buy back	0	0	0	0	0	0	0
Equity increase	113	0	120	104	0	0	0
Cash flow from financing	59	-123	-6	50	-11	-17	-71
Other items	0	-5	4	-9	-1	0	0
Change in net debt	-35	151	61	-30	56	-34	-120

Source: company reports, Clarksons Platou Securities AS



Growth	2014	2015	2016	2017	2018E	2019E	2020E	
Revenues	44 %	27 %	-20 %	-17 %	5 %	57 %	76 %	
EBITDA, adj.	632 %	178 %	-34 %	-61 %	-47 %	237 %	141 %	
EBIT, adj.	95 %	2 783 %	-63 %	-196 %	51 %	312 %	282 %	
Pre-tax profit, adj.	89 %	1 058 %	-63 %	-276 %	23 %	115 %	1 697 %	
Earnings per share, adj.	91 %	1 017 %	-108 %	-763 %	55 %	115 %	1 697 %	
Operating cash flow per share	191 %	191 %	-29 %	-74 %	-97 %	3 827 %	241 %	
Return ratios	2014	2015	2016	2017	2018E	2019E	2020E	
Return on Equity, adjusted	-1 %	13 %	-1 %	-11 %	-8 %	1 %	23 %	
Return on Capital employed	0 %	11 %	4 %	-4 %	-2 %	5 %	17 %	
Return on Capital employed, after tax	0 %	11 %	4 %	-4 %	-2 %	5 %	17 %	
Gearing and liquidity	2014	2015	2016	2017	2018E	2019E	2020E	
Net debt	149	300	361	330	387	353	233	
Working capital	52	67	60	43	29	29	29	
Capital employed	1 139	1 211	1 314	1 229	1 098	1 050	1 085	
Equity ratio	76 %	71 %	65 %	66 %	55 %	55 %	58 %	
Cash ratio	419 %	143 %	382 %	230 %	96 %	68 %	90 %	
Net debt/Equity	0.2	0.3	0.4	0.4	0.6	0.6	0.3	
Net debt/EBITDA	2.0	1.4	2.6	6.1	13.4	3.6	1.0	
Per share information	2014	2015	2016	2017	2018E	2019E	2020E	
EPS (USD)	-0.15	1.29	-0.05	-0.91	-0.41	0.06	1.09	
EPS, adj. (USD)	-0.14	1.29	-0.10	-0.90	-0.41	0.06	1.09	
OCFPS (USD)	0.67	1.96	1.38	0.35	0.01	0.42	1.42	
FCFPS (USD)	-0.28	-0.26	-0.64	-0.10	-0.31	0.36	1.35	
BVPS (USD)	10.41	9.88	8.54	5.92	4.45	4.40	4.98	
NAV (USD)	2.38	0.00	0.00	0.00	0.00	0.00	0.00	
Dividend (USD)	0.85	1.38	1.19	0.36	0.08	0.12	0.50	
Quarterly profit and loss (USDm)	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18E	4Q18E
Total Revenue	95	74	56	73	67	73	70	103
Voyage expenses & commissions	-39	-35	-32	-36	-37	-46	-44	-65
Time-charter equivalent	55	39	24	37	30	27	26	38
Operating expenses	-25	-24	-25	-26	-26	-26	-19	-20
EBITDA, adj.	30	15	-1	10	4	1	7	17
Gain/loss sale of assets	0	0	0	0	0	-4	0	0
EBITDA	30	15	-1	10	4	-3	7	17
Depreciation	-25	-25	-26	-24	-14	-15	-11	-12
Amortization/Write down	0	0	0	-19	0	0	0	0
EBIT	5	-10	-27	-33	-10	-18	-4	5
EBIT, adj.	5	-10	-27	-14	-10	-14	-4	5
Associated companies	0	-1	-1	-1	-1	-1	-1	-1
Net interest	-3	-4	-6	-6	-7	-8	-8	-8
Gains/losses on securities or financial instrum.	-5	0	0	0	0	0	0	0
Other financial Items	0	0	0	0	0	0	0	0
Pre-tax profit	-3	-16	-34	-41	-19	-27	-13	-3
Tax	0	0	0	0	0	0	0	0
Minorities	0	0	0	0	0	0	0	0
Result from discontinued operations/ Other	0	0	0	0	0	0	0	0
Net income	-3	-16	-34	-41	-19	-27	-13	-3
Adjustments after tax	5	0	0	0	0	4	0	0
Adjusted net income	2	-16	-34	-41	-18	-23	-13	-3
EPS (USD)	-0.03	-0.16	-0.34	-0.37	-0.13	-0.19	-0.09	-0.02
EPS, adj. (USD)	0.01	-0.16	-0.34	-0.37	-0.13	-0.16	-0.09	-0.02

Source: company reports, Clarksons Platou Securities AS

Nordic American Tankers



Valuation	2014	2015	2016	2017	2018E	2019E	2020E
Share price (USD)	10.07	15.54	8.40	2.46	2.02	2.02	2.02
Share price, high (USD)	12.54	17.27	16.00	9.36	2.99		
Share price, low (USD)	7.19	9.41	7.66	2.46	1.87		
No. of shares outstanding at 31.12 (m)	85.4	89.2	102.0	142.0	142.0	142.0	142.0
Market cap. (USDm)	860	1 386	857	349	287	287	287
Net debt (USDm)	149	300	361	330	387	353	233
Enterprise value (USDm)	1 009	1 686	1 217	680	673	639	519
EV/Sales (x)	2.9	3.8	3.4	2.3	2.2	1.3	0.6
EV/EBITDA, adj. (x)	12.5	8.1	8.8	14.8	27.2	6.7	2.2
EV/EBITA, adj. (x)	n.m.	13.4	25.4	n.m.	n.m.	13.6	2.8
EV/EBIT, adj. (x)	n.m.	13.4	25.4	n.m.	n.m.	13.6	2.8
P/E, adj. (x)	n.m.	12.1	n.m.	n.m.	n.m.	33.4	1.9
P/OCF (x)	15.0	7.9	6.1	7.0	n.m.	4.9	1.4
EV/FCF (x)	n.m.	n.m.	n.m.	n.m.	n.m.	12.5	2.7
EV/CE (x)	0.9	1.4	0.9	0.6	0.6	0.6	0.5
P/Book (x)	1.0	1.6	1.0	0.4	0.5	0.5	0.4
P/NAV (x)	4.2	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
Dividend yield (%)	8.4	8.9	14.2	14.6	4.0	5.9	24.8

Source: company reports, Clarksons Platou Securities AS



Disclosure Appendix

Clarksons Platou Securities AS

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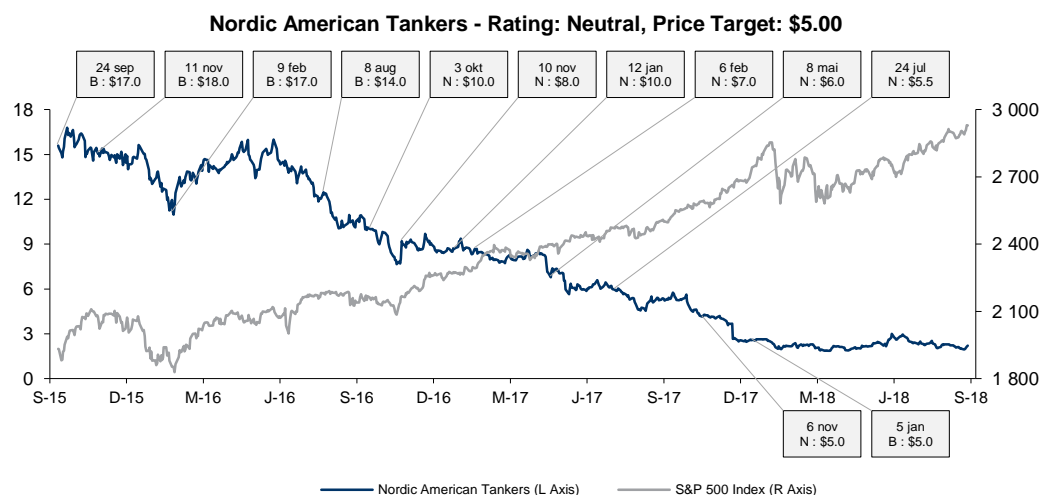
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