

Arctic Buy

Risk	High
Target (USD)	3.10
Price (USD)	2.16
Market Cap (USDm)	349
Enterprise Value (USDm)	616
No of shares, fully dil. (m)	142.0

NAT US - Shipping - Result preview - 26 June 2019

Nordic American Tanker Shipping Ltd

Q2/19e: H2 rate rebound to set the stage for higher dividends

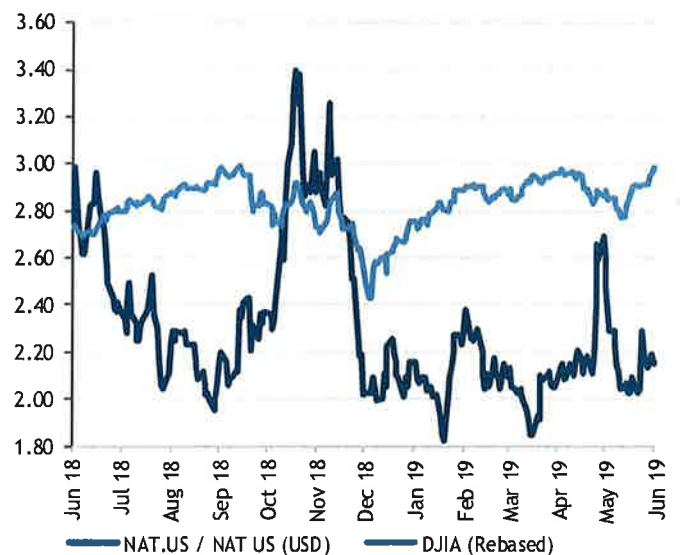
On the back of our positive view on the tanker market, we reiterate our Buy recommendation with a target price of USD 3.10/sh ahead of the Q2/19 report. The February refinancing of the old RCF has increased NAT's flexibility with regards to dividend distributions - which is an important part of the NAT equity story. Although the new facility contains a discretionary cash amortisation mechanism and certain covenants, given our view on the market, we believe that NAT will be able to raise quarterly distributions significantly from Q4/19 and onwards. Based on our rate assumptions, we estimate that NAT could declare total dividends of USD 0.44/sh for FY/20, indicating a dividend yield of ~20%.

- **We expect Q2/19 EBITDA of USD 12.3m:** On the back of an average achieved Suezmax rate of USD 15.3k/d, we expect NAT to report TCE revenues of USD 31.7m, EBITDA of USD 12.3m and a loss per share of USD 0.09/sh. As such we are 16% ahead of Bloomberg consensus on EBITDA (USD 10.6m), but note that some of the contributions to consensus might be outdated. Furthermore, we expect NAT to declare a dividend for the quarter of USD 0.01 per share, reflecting the discretionary cash amortisation mechanism under the Beal Bank facility (50% of net earnings from the collateral vessels, less capex provisions and fixed amortisation).
- **Ready for take-off:** In our view, the Q4/18 rate rally marked the beginning of a new upcycle in the tanker segments. The recent weakness, is, however, easily explained, as heavy OPEC production cuts, vessel deliveries and heavier than usual refinery maintenance have been weighing on rates. The latter is a transitional situation in our view, and we foresee a sharp rebound in refinery activity in the second half of the year. Longer term, we remain upbeat about the outlook for the tanker market due to increasing long-haul Atlantic basin exports and the anticipated IMO 2020 impact on oil demand. We keep our rate estimates largely unchanged, and estimate average Suezmax rates of USD -25.6k/d (28k/d) in '19 and USD 35k/d in '20. Given our rate assumptions, we see a 10-20% upside to asset values on 12-month horizon.
- **We reiterate Arctic Buy:** We estimate Q2/19 NAV of USD 2.61/sh, implying P/NAV and EV/GAV of 0.83x and 0.91x, and implicitly valuing a 5yr old Suezmax at USD 45.5m (vs. current quote of USD 50m). Arctic Buy and TP USD 3.10 reiterated.

Key Figures

USDm	2017	2018	2019e	2020e	2021e
Sales	155	124	224	282	250
Adj. EBITDA	54	22	146	205	173
Adj. EBIT	-46	-38	80	136	103
Adj. EBIT margin	n.m.	n.m.	35.9%	48.2%	41.1%
EPS (USD)	-0.7	-0.7	0.3	0.7	0.5
Adj. dil. EPS (USD)	-0.7	-0.7	0.3	0.7	0.5
Adj. EPS growth	n.m.	n.m.	n.m.	149.1%	-28.3%
Net IB debt	330	387	309	237	154
ROE	-9.0%	-15.7%	6.7%	16.0%	11.2%
ROCE	-3.7%	-3.6%	7.9%	13.2%	10.1%
DPS (USD)	0.4	0.1	0.3	0.4	0.4
Dividend yield	14.6%	5.0%	13.0%	20.4%	20.0%
FCFE yield	-4.3%	24.3%	32.8%	47.9%	47.4%
EV/Sales	4.4x	5.4x	2.7x	1.9x	1.8x
Adj. EV/EBITDA	12.5x	30.4x	4.2x	2.7x	2.7x
Adj. EV/EBIT	n.m.	n.m.	7.7x	4.0x	4.5x
P/E	n.m.	n.m.	7.2x	2.9x	4.1x
P/B	0.4x	0.5x	0.5x	0.5x	0.5x

Share Price



Arctic vs Consensus

USDm	Arctic			Consensus			Deviation		
	2019e	2020e	2021e	2019e	2020e	2021e	2019e	2020e	2021e
Sales	224	282	250	189	234	250	19%	21%	0%
EBITDA	146	205	173	109	157	165	34%	30%	4%
EBIT	80	136	103	46	115	100	77%	19%	3%
EPS	0.3	0.7	0.5	0.0	0.4	0.5	n.m.	101%	9%

Forecast Changes

USDm	New			Old			Change		
	2019e	2020e	2021e	2019e	2020e	2021e	2019e	2020e	2021e
Sales	224	282	250	213	282	250	6%	0%	0%
EBITDA	146	205	173	135	205	173	8%	0%	0%
EBIT	80	136	103	68	136	103	19%	0%	0%
EPS	0.3	0.7	0.5	0.2	0.7	0.5	27%	0%	0%



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NAT US - Shipping - Result preview - 26 June 2019

Nordic American Tanker Shipping Ltd

Company description

Nordic American Tankers is the world's 4th largest owner of Suezmaxes, and the fleet counts 23x 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.

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)

Arctic case

In our view, the Q4/18 rate rally marked the beginning of a new upcycle in the tanker segments. The recent weakness, is, however, easily explained, as heavy OPEC production cuts, vessel deliveries and heavier than usual refinery maintenance have been weighing on rates. The latter is a transitional situation in our view, and we foresee a sharp rebound in refinery activity in the second half of the year. Longer term, we remain upbeat about the outlook for the tanker market due to increasing long-haul Atlantic basin exports and the anticipated IMO 2020 impact on oil demand. We keep our rate estimates largely unchanged, and estimate average Suezmax rates of USD -25.6k/d (28k/d) in '19 and USD 35k/d in '20. Given our rate assumptions, we see a 10-20% upside to asset values on 12-month horizon. We estimate Q2/19 NAV of USD 2.61/sh, implying P/NAV and EV/GAV of 0.83x and 0.91x, and implicitly valuing a 5yr old Suezmax at USD 45.5m (vs. current quote of USD 50m). Arctic Buy and TP USD 3.10 reiterated.

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. A 10% increase in asset values corresponds to a -19% 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 lose ground 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.



Investment case

Detailed estimate and consensus table

We expect NAT to report TCE revenues of USD 31.7m, EBITDA of USD 12.3m and net loss of USD 13.3m (USD 0.09/sh)

Nordic American Tankers USDm	Arctic				Consensus				Deviation			
	2019 Q2e	2019e	2020e	2021e	2019 Q2e	2019e	2020e	2021e	2019 Q2e	2019e	2020e	2021e
TC Revenues	31.7	224	282	250	41.7	222	276	239	-24%	1%	2%	5%
Vessel operating expenses	-16.9	-67	-68	-68								
SG&A/other expenses	-2.5	-11	-10	-10								
Operating and other expenses	-19.4	-78	-78	-78	-31.1	-108	-110	-66	38%	28%	29%	-18%
EBITDA	12.3	146	205	173	10.6	114	166	173	16%	29%	23%	0%
Depreciation	-17.0	-66	-69	-70								
Gain/(loss) on sale	0.0	0	0	0								
Impairment	0.0	0	0	0								
EBIT	-4.7	80	136	103	0.0	68	136	103		18%	0%	0%
Financial income/(expense)	-8.7	-36	-31	-27								
Result from JVs and associated companies	0.0	0	0	0								
Other financial items	0.0	-2	0	0								
PTP	-13.3	42	105	75	0.0	33	105	75		28%	0%	0%
Taxes	0.0	0	0	0								
Minorities	0.0	0	0	0								
Net profit	-13.3	42	105	75	0.0	0	0	53				41%
EPS (USD)	-0.09	0.30	0.74	0.53	-0.11	0.08	0.49	0.47	15%	266%	52%	14%
Adjusted EPS (USD)	-0.09	0.31	0.74	0.53								
DPS (USD)	0.01	0.28	0.44	0.43	0.00	0.27	0.44	0.43		4%	0%	0%

Source: Arctic Securities Research, Bloomberg, Company data

Q2/19e NAV

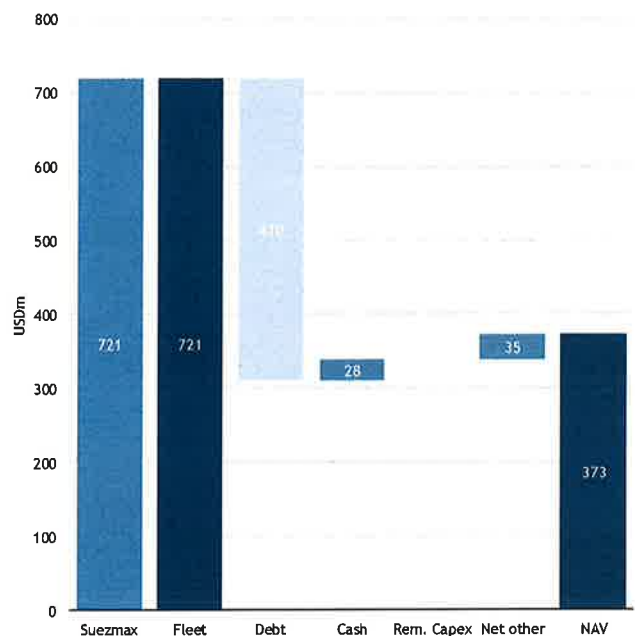
Trading at P/NAV of 0.83x

USDm	# of units	Average age	NAV	Implied
Suezmax	23x	11.2	721	656
Fleet	23x	11.2	721	656
Debt			410	410
Cash			28	28
Rem. Capex			0	0
Net other			32	32
NAV / mcap			371	307
# of shares			142	142
NAV/share USD			2.61	2.16
Share price USD			2.16	
P/NAV			.83x	
EV/GAV			.91x	
Net LTV			53.0%	58.2%

Per unit (USDm)	Value per unit	Implied per unit
Suezmax	31.3	28.5
Suezmax resale	66.0	60.1
Suezmax 5yr	50.0	45.5

NAV build-up

We estimate a total fleet value of USD 721m



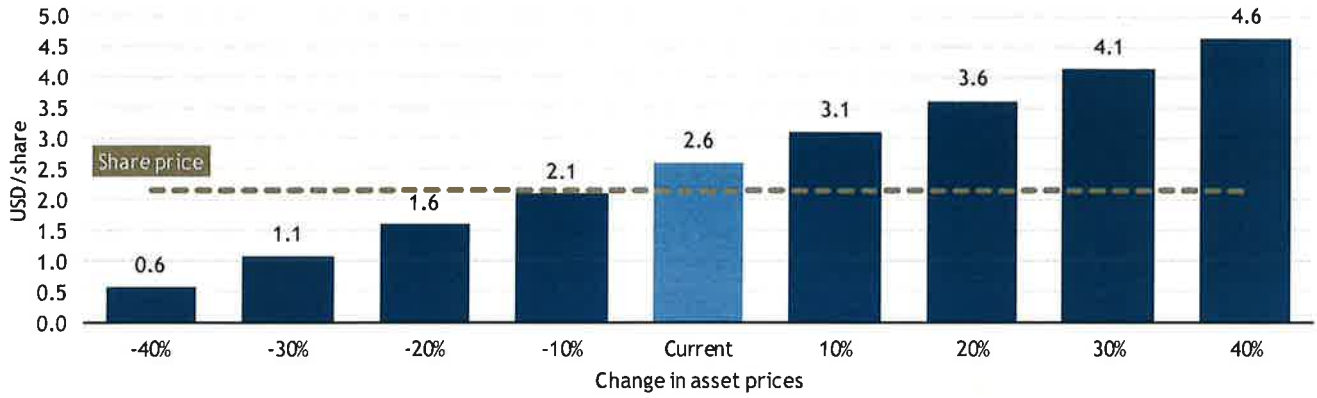
Source: Arctic Securities Research, Arctic Shipping, Company data

Source: Arctic Securities Research, Arctic Shipping, Company data



NAV sensitivity

We estimate that a 10% change in asset values would lead to a ~19% (USD 0.51/sh) change in NAV



Source: Arctic Securities Research, Arctic Shipping, Company data



Profit & loss statement

Profit & loss (USDm)	2017	2018	2019e	2020e	2021e
Sales	155	124	224	282	250
Operating expenses	-100	-93	-78	-78	-78
Adj. EBITDA	54	22	146	205	173
EBITDA	54	22	146	205	173
Depreciation	-101	-60	-66	-69	-70
EBITA	-46	-38	80	136	103
Amortisation & impairment					
Other expenses or revenues					
Adj. EBIT	-46	-38	80	136	103
EBIT	-46	-38	80	136	103
Net interest	-20	-34	-36	-31	-27
Other financial items	-9	-22	-2		
Pre-tax profit	-76	-94	42	105	76
Minority interests					
Taxes					
Net profit	-76	-94	42	105	76
Reported EPS (USD)	-0.71	-0.66	0.30	0.74	0.53
Adj. EPS (USD)	-0.71	-0.66	0.30	0.74	0.53
Adj. EPS fully diluted (USD)	-0.71	-0.66	0.30	0.74	0.53
Sales growth	-34.7%	-19.8%	80.9%	25.9%	-11.4%
Adj. EBITDA growth	-62.3%	-59.4%	562.6%	39.8%	-15.7%
Adj. EBIT growth	n.m.	n.m.	n.m.	69.1%	-24.5%
Adj. Pre-tax profit growth	n.m.	n.m.	n.m.	149.1%	-28.3%
Adj. Net profit growth	n.m.	n.m.	n.m.	149.1%	-28.3%
EPS reported growth	n.m.	n.m.	n.m.	149.1%	-28.3%
Adj. EPS growth	n.m.	n.m.	n.m.	149.1%	-28.3%
Adj. EPS fully diluted growth	n.m.	n.m.	n.m.	149.1%	-28.3%
Adj. EBITDA margin	35.2%	17.8%	65.2%	72.4%	69.0%
Adj. EBITA margin	n.m.	n.m.	35.9%	48.2%	41.1%
Adj. EBIT margin	n.m.	n.m.	35.9%	48.2%	41.1%
Adj. Pre-tax margin	-48.8%	-76.1%	18.9%	37.3%	30.2%
Adj. Net margin	n.m.	n.m.	18.9%	37.3%	30.2%

Source: Arctic Securities research



Balance sheet & cash flow

Balance sheet (USDm)	2017	2018	2019e	2020e	2021e
Goodwill	19				
Other intangible assets					
Property, plant & equipment	1,096	954	892	851	781
Other fixed financial assets					
Other fixed assets	28	4	5	5	5
Total non-current assets	1,144	958	897	856	786
Inventories	23	20	22	22	22
Receivables	22	23	24	24	24
Other current assets	23	21	28	28	28
Cash & cash equivalents	58	49	90	141	201
Total current assets	127	113	164	214	275
Total assets	1,271	1,071	1,061	1,070	1,061
Total shareholders' equity	841	602	628	659	672
Minorities					
Provisions					
Long-term IB debt	389	418	377	355	332
Other long-term liabilities	16	15	15	15	15
Total non-current liabilities	405	433	392	370	346
Short-term IB debt		19	22	23	23
Payables	3	4	6	6	6
Other current liabilities	22	14	13	13	13
Total current liabilities	25	36	41	41	42
Total liabilities	430	469	433	411	388
Total equity and liabilities	1,271	1,071	1,061	1,070	1,061
Cash & cash equivalents	58	49	90	141	201
Gross IB debt	389	437	399	377	355
Net IB debt	330	387	309	237	154
Working capital	42	39	40	40	40
Capital employed	1,245	1,035	1,020	1,029	1,019
Net IB debt/Equity	39.3%	64.3%	49.3%	35.9%	22.9%
Equity/Assets	66.2%	56.2%	59.2%	61.6%	63.4%
Cash flow (USDm)	2017	2018	2019e	2020e	2021e
Net profit	-76	-94	42	105	76
Non-cash adjustments	107	78	63	69	70
Change in working capital					
Operating cash flow	32	-16	105	174	145
Capital expenditures	-38	85	-0		
Free cash flow (FCF)	-15	69	101	147	145
Change in debt	-55	-68	-34	-22	-23
Dividend paid	-54	-10	-17	-74	-63
Share issues & buybacks	104	-0			
Other non-cash adjustments	-3	0	-7		
Financing cash flow	-9	-78	-57	-96	-85
Change in cash	-24	-9	43	51	60

Source: Arctic Securities research



Key ratios & Valuation

Share data	2017	2018	2019e	2020e	2021e
Shares outstanding (m)	142.0	142.0	142.0	142.0	142.0
Shares fully diluted (m)	142.0	142.0	142.0	142.0	142.0
Shares fully diluted average (m)	142.0	142.0	142.0	142.0	142.0
Share price USD (year-end)	2.46	2.00	2.16	2.16	2.16
Market capitalisation (USDm)	349	284	307	307	307
Adj. enterprise value (USDm)	1	1	1	1	0
EPS reported (USD)	-0.71	-0.66	0.30	0.74	0.53
Adj. EPS (USD)	-0.71	-0.66	0.30	0.74	0.53
Adj. EPS fully diluted (USD)	-0.71	-0.66	0.30	0.74	0.53
DPS (USD)	0.36	0.10	0.28	0.44	0.43
Growth	2017	2018	2019e	2020e	2021e
Sales growth	-34.7%	-19.8%	80.9%	25.9%	-11.4%
Adj. EBITDA growth	-62.3%	-59.4%	562.6%	39.8%	-15.7%
Adj. EBIT growth	n.m.	n.m.	n.m.	69.1%	-24.5%
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Adj. EPS fully diluted growth	n.m.	n.m.	n.m.	149.1%	-28.3%
Margins	2017	2018	2019e	2020e	2021e
Adj. EBITDA margin	35.2%	17.8%	65.2%	72.4%	69.0%
Adj. EBITA margin	n.m.	n.m.	35.9%	48.2%	41.1%
Adj. EBIT margin	n.m.	n.m.	35.9%	48.2%	41.1%
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Adj. Net margin	n.m.	n.m.	18.9%	37.3%	30.2%
Valuation	2017	2018	2019e	2020e	2021e
EV/Sales	4.4x	5.4x	2.7x	1.9x	1.8x
Adj. EV/EBITDA	12.5x	30.4x	4.2x	2.7x	2.7x
Adj. EV/EBIT	n.m.	n.m.	7.7x	4.0x	4.5x
P/E	n.m.	n.m.	7.2x	2.9x	4.1x
Adj. P/E	n.m.	n.m.	7.2x	2.9x	4.1x
P/B	0.4x	0.5x	0.5x	0.5x	0.5x
Profitability	2017	2018	2019e	2020e	2021e
FCFE yield	-4.3%	24.3%	32.8%	47.9%	47.4%
ROE	-9.0%	-15.7%	6.7%	16.0%	11.2%
ROCE	-3.7%	-3.6%	7.9%	13.2%	10.1%
Dividend yield	14.6%	5.0%	13.0%	20.4%	20.0%

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