



# Nordic American Tankers



Tankers—Equity Research

October 14, 2019

## Return of the dividend machine

It has been a few years since NAT has been viewed as a vehicle for high dividends, due to weak overall tanker rates and management's focus on keeping the balance sheet healthy. This is changing in our view as Suezmax spot rates have surged, allowing for a material increase in NAT's earnings potential. Investors should be prepared for a sizable series of dividends over the next several quarters. We reiterate our Buy rating and raise our target from \$3 to \$6.

### Pure-play Suezmax platform set up for material shift in cash flow profile.

Prior to last week's massive run-up in Suezmax rates, the previous three weeks had averaged \$40,000/day, representing roughly 25-30% of the 4Q19 earnings period. Currently spot rates are in excess of \$150,000/day and, should they average \$100,000/day for the remainder of the quarter, NAT could achieve an average above \$80,000/day. At that level, NAT would generate \$0.85 in operating cash flow per share for the quarter and a dividend potential of at least \$0.41. This represents a very high 10% yield based on just one quarter's dividends.

### Management likely to take balanced approach to dividends and debt reduction.

Following its \$306 million debt refinancing with Beal Bank earlier this year, NAT has streamlined its debt repayments with a 20-yr amortizing profile over the loan's 5-year term. In addition 50% of excess free cash flow is swept towards the loan. Based on NAT's earnings profile in the coming quarters, we expect a significant reduction in outstanding debt and also meaningful dividends. NAT ended 2Q19 with \$42 million of unrestricted cash and overall net debt of \$358 million. Should Suezmax spot rates average \$80,000/day for 4Q, NAT would generate \$130 million of EBITDA during the quarter, allowing for a major reduction in debt and still allow for a high dividend. NAT's net debt represents 49% of its fleet value, though after just one quarter's average of \$80,000/day, its leverage would drop to just 33%. In speaking with management, should NAT refinance its debt and remove the 50% sweep, it would still focus on a balanced approach to dividends and debt repayments.

**Equity issuance not in the cards.** NAT filed a \$40 million ATM equity offering in March 2019 and, as of its most recent filing on September 20th, a modest \$1.3 million had been raised. In a recent discussion with management, NAT indicated it has no plans to issue further equity "for any reason". Considering the sizable amount of fresh equity coming in via the spot market, tapping the ATM is unneeded in our view. Looking ahead, investors can feel comfortable buying shares in NAT without concern for an equity raise. Obviously should a compelling transaction come down the line, equity may be used, but management is quite pointed in noting that no new equity is coming for some time.

**Reiterate Buy rating and raise target to \$6.** We believe NAT is a compelling investment, equipped to capitalize on the current strength in the Suezmax market. We expect the tanker market to remain elevated for some time, allowing for a major increase in NAT's cash flows and shareholders are set for a large increase in dividends going forward. We forecast Suezmax spot rates at \$40,000/day for 2020, which we view as conservative, and at that level NAT would generate \$1.40 in CFPS and have dividend capacity of \$0.61/share. We target a 10% yield on our 2020 dividend forecast, which leads to our \$6 price target.

### Rating

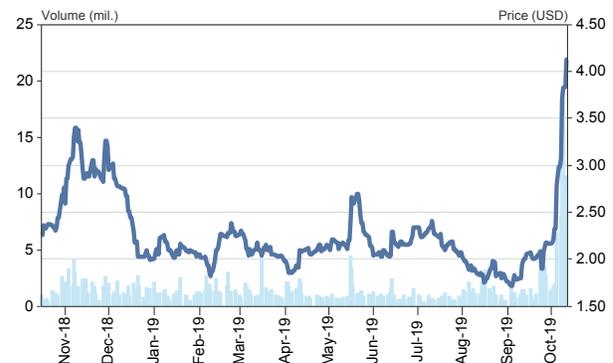
Buy Neutral Sell

Nordic American Tankers		52-wk Range	
Symbol	NAT	Yield	2.18
Price	\$4.13	Avg Daily Vol	3,700,188
Price Target	\$6.00	Market Cap (M)	\$586
		Free Float	97%

### Key Financials (\$)

FYE Dec	2018A		2019E		2020E	
	Actual	Prior	Curr	Prior	Curr	
EPS	Q1	(0.13)	--	0.04A	--	0.34
	Q2	(0.19)	--	(0.11)A	--	0.20
	Q3	(0.27)	--	(0.08)	--	0.14
	Q4	(0.07)	--	0.17	--	0.30
Total		(0.66)	--	0.02	--	0.98
EBITDA	Q1	3.9	--	34.1A	--	71.0
	Q2	0.9	--	10.8A	--	51.0
	Q3	1.6	--	12.0	--	42.5
	Q4	24.4	--	47.8	--	64.2
Total		30.9	--	104.7	--	228.7

### One year price history for NAT



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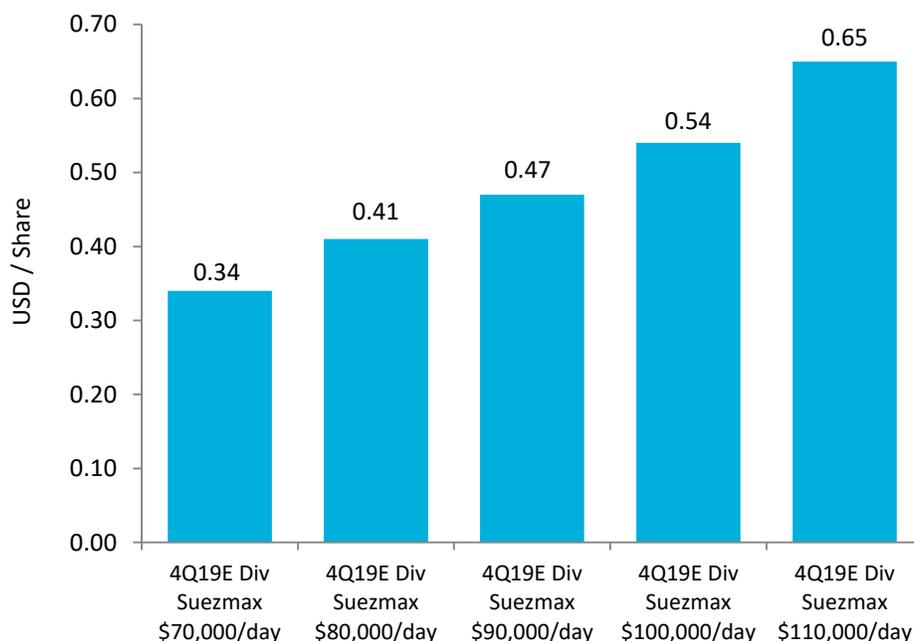
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### Investors positioned for large 4Q19 dividend payout

NAT is set up for a material increase in its dividend capacity based on spot rates achieved thus far in the quarter. Spot Suezmax rates have surpassed \$150,000/day and NAT's large operating platform is positioned well to participate in the latest market strength. In fact, at least three of NAT's Suezmaxes were booked out of the Arabian Gulf in last week's market frenzy based on fixture reports. NAT's fleet consists of 23 Suezmax tankers, including 21 deployed on the spot market. Its two vessels on time charter are earning ~\$22,000/day with an average remaining duration of 18 months. The 21 spot ships meanwhile are in-line to provide an influx of cash for the next several quarters.



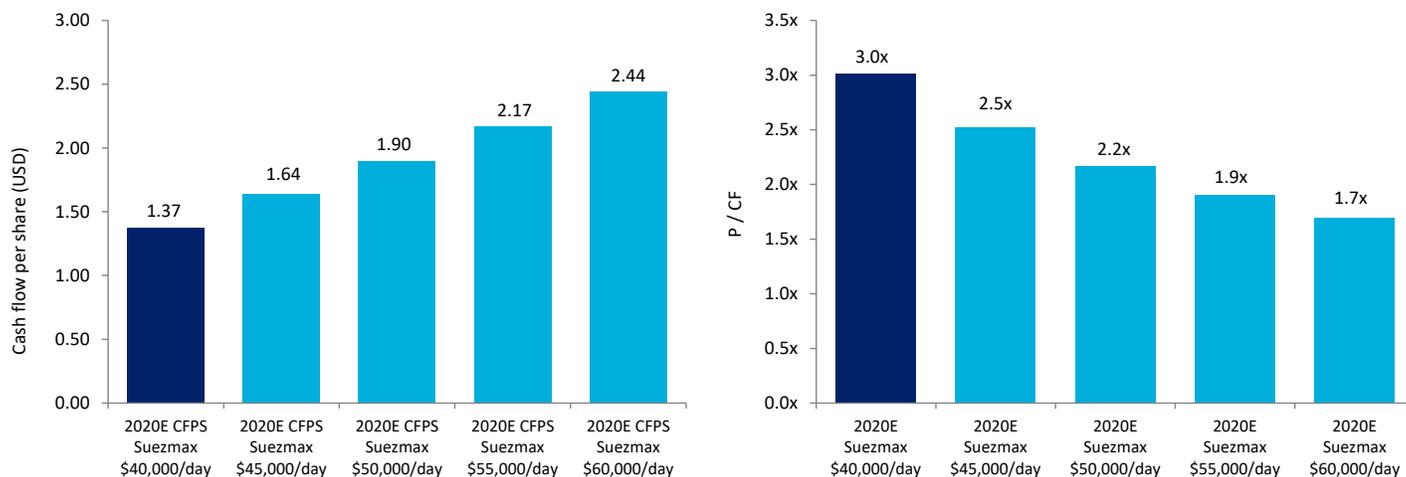
Spot Suezmax rates averaged \$40,000/day during the three-week period preceding last week's surge to \$150,000/day. The \$40,000/day average likely represents 25-30% of the 4Q19 earnings period and, should rates maintain an average of \$100,000/day for the remainder of the quarter, the blended average for the entire quarter would be above \$80,000/day. While seemingly unlikely, should rates remain above \$150,000/day for the remainder of the quarter, the 4Q19 spot average would be in excess of \$110,000/day.

Coming into 4Q19 we had estimated Suezmax spot rates to average \$35,000/day during the period. However, this figure is materially understated with rates likely to average at least double that amount. NAT is free to distribute dividends after scheduled debt repayment and satisfying its 50% excess free cash flow sweep towards the Beal Bank loan. At \$80,000/day NAT has the ability to distribute dividends of \$0.41 per share during 4Q19 and each \$10,000/day swing in spot averages has a \$0.07 to \$0.09 impact on dividend potential. The overall dividend availability is very high and likely to keep NAT shares supported at a higher level moving forward in our opinion.



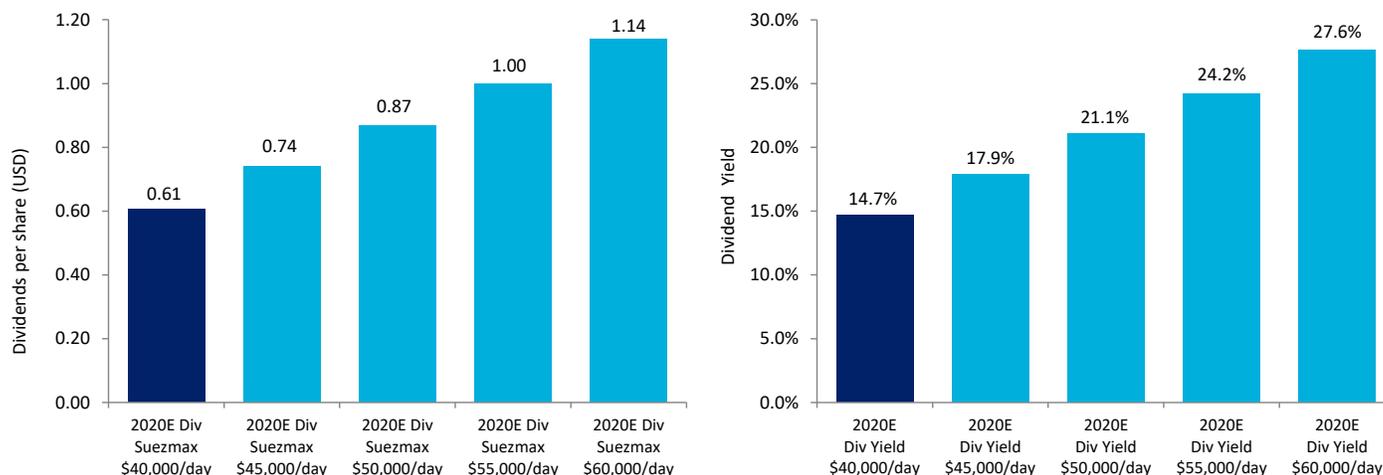
### Healthy cash flow generation on the horizon

Our base case Suezmax spot rate forecast is \$40,000/day for 2020, which implies NAT can generate cash flow of \$1.37 per share. At the current share price, NAT is valued at just 3.0x P/CF, a level we feel is too low considering the opportunity for de-leveraging and for dividend payments. Also we feel our \$40,000/day is conservative given the strength currently seen in the spot market and also compared to current 1-year time charter rates assessed at \$45,000/day. Every \$5,000/day change in spot rate averages for 2020 has a \$0.17 per share impact on NAT's operating cash flow profile.



### High dividend yield potential moving forward

The charts below highlight NAT's dividend capacity and yield for 2020. In our \$40,000/day scenario, NAT is poised to payout \$0.61 in dividends based on earnings for 2020. At the current share price, this implies a forward yield of 14.7%, which excludes the 4Q19 dividend potential discussed earlier. Each \$5,000/day change in spot averages equates to ~\$0.13 per share in 2020 dividend potential. We feel our base case payout of \$0.61 per share is conservative and that the shares should trade at least to a 10% yield on that figure. Accordingly our target is set at \$6, based on a 10% yield on our 2020 dividend forecast.





**Income Statement (in thousands)**

	FY18	1Q19	2Q19	3Q19E	4Q19E	FY19E	FY20E	FY21E
<b>REVENUES:</b>								
Net revenues	\$124,004	\$53,629	\$30,653	\$32,398	\$68,352	\$185,033	\$310,380	\$267,432
<b>OPERATING EXPENSES:</b>								
Ship operating cost	80,412	15,969	15,947	16,543	16,674	65,133	65,527	65,406
Charter hire	0	0	0	0	0	0	0	0
Depreciation	59,741	15,785	15,742	15,742	15,742	63,011	62,968	62,968
General and administrative	12,727	3,568	3,885	3,885	3,885	15,223	16,162	16,808
Other	8,787	0	0	0	0	0	0	0
Total operating expenses	161,667	35,322	35,574	36,170	36,301	143,367	144,657	145,182
<b>OPERATING INCOME</b>	<b>(37,663)</b>	<b>18,307</b>	<b>(4,921)</b>	<b>(3,772)</b>	<b>32,051</b>	<b>41,665</b>	<b>165,723</b>	<b>122,249</b>
<b>OTHER INCOME (EXPENSE):</b>								
Interest income	334	83	63	326	295	767	2,103	2,093
Interest expense	(34,549)	(10,862)	(9,532)	(8,375)	(8,263)	(37,033)	(28,601)	(20,395)
Equity income	(7,666)	0	0	0	0	0	0	0
Other	(14,808)	(1,885)	(593)	0	0	(2,478)	0	0
Net other expense	(56,689)	(12,664)	(10,062)	(8,049)	(7,969)	(38,744)	(26,497)	(18,302)
<b>Net Income</b>	<b>(\$94,352)</b>	<b>\$5,643</b>	<b>(\$14,983)</b>	<b>(\$11,821)</b>	<b>\$24,082</b>	<b>\$2,921</b>	<b>\$139,226</b>	<b>\$103,947</b>
Basic earnings per common share:	(\$0.66)	\$0.04	(\$0.11)	(\$0.08)	\$0.17	\$0.02	\$0.98	\$0.73
Diluted earnings per common share:	(\$0.66)	\$0.04	(\$0.11)	(\$0.08)	\$0.17	\$0.02	\$0.98	\$0.73
Diluted EPS from continuous operations:	(\$0.66)	\$0.04	(\$0.11)	(\$0.08)	\$0.17	\$0.02	\$0.98	\$0.73
Weighted average shares outstanding-basic	141,969,666	141,969,666	141,969,666	141,969,666	141,969,666	141,969,666	141,969,666	141,969,666
Weighted average shares outstanding-diluted	141,969,666	141,969,666	141,969,666	141,969,666	141,969,666	141,969,666	141,969,666	141,969,666
<b>EBITDA</b>	<b>\$30,865</b>	<b>\$34,092</b>	<b>\$10,821</b>	<b>\$11,970</b>	<b>\$47,793</b>	<b>\$104,676</b>	<b>\$228,691</b>	<b>\$185,217</b>

**Balance Sheet Data (in thousands)**

	FY18	1Q19	2Q19	3Q19E	4Q19E	FY19E	FY20E	FY21E
Cash and cash equivalents	\$49,327	\$34,251	\$42,062	\$37,054	\$67,949	\$67,949	\$86,327	\$71,000
S/T Restricted cash	0	2,572	7,337	7,337	7,337	7,337	7,337	7,337
Total current assets	112,945	108,016	100,193	95,185	126,080	126,080	144,458	129,131
Vessel deposits	0	0	0	0	0	0	0	0
Vessels, net	953,758	938,398	923,275	907,533	891,791	891,791	828,823	765,855
L/T Restricted cash	0	2,948	2,748	2,748	2,748	2,748	2,748	2,748
<b>Total Assets</b>	<b>\$1,071,111</b>	<b>\$1,051,441</b>	<b>\$1,028,198</b>	<b>\$1,007,448</b>	<b>\$1,022,601</b>	<b>\$1,022,601</b>	<b>\$978,011</b>	<b>\$899,716</b>
Current portion of long term debt	11,392	12,700	20,116	15,300	15,300	15,300	15,300	15,300
Current portion of capital leases	7,300	7,100	0	7,540	7,629	7,629	7,960	8,327
Total current liabilities	36,290	38,683	39,377	42,101	42,190	42,190	42,521	42,888
Long term debt	290,736	270,132	266,804	280,620	276,795	276,795	184,783	93,710
Long term capital leases	127,100	125,537	123,574	121,756	119,938	119,938	112,309	104,349
Minority interest	0	0	0	0	0	0	0	0
Stockholders' equity	602,031	602,133	583,003	569,762	592,425	592,425	654,894	683,027
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$1,071,111</b>	<b>\$1,051,441</b>	<b>\$1,028,198</b>	<b>\$1,007,448</b>	<b>\$1,022,601</b>	<b>\$1,022,601</b>	<b>\$978,011</b>	<b>\$899,716</b>



**Condensed Cash Flows (in thousands)**

	FY18	1Q19	2Q19	3Q19E	4Q19E	FY19E	FY20E	FY21E
<b>Cash flows from operating activities</b>								
Net Income (loss)	(\$94,352)	\$5,643	(\$14,983)	(\$11,821)	\$24,082	\$2,921	\$139,226	\$103,947
Depreciation	59,741	15,785	15,742	15,742	15,742	63,011	62,968	62,968
Changes in working capital	0	0	0	0	0	0	0	0
Other	18,508	(3,360)	22,005	(1,866)	(1,866)	14,913	(7,418)	(7,395)
<b>Net cash flows from operating activities</b>	<b>(16,103)</b>	<b>18,068</b>	<b>22,764</b>	<b>2,055</b>	<b>37,958</b>	<b>80,845</b>	<b>194,776</b>	<b>159,520</b>
<b>Cash flows from investing activities</b>								
Capital expenditures	(4,810)	(269)	(826)	0	0	(1,095)	0	0
Other	89,864	0	0	0	0	0	0	0
<b>Net cash flows from investing activities</b>	<b>85,054</b>	<b>(269)</b>	<b>(826)</b>	<b>0</b>	<b>0</b>	<b>(1,095)</b>	<b>0</b>	<b>0</b>
<b>Cash flows from financing activities</b>								
Debt issued / paid	(68,098)	(17,714)	(5,630)	(5,643)	(5,643)	(34,631)	(99,641)	(99,033)
Shares issued / paid	0	0	0	0	0	0	0	0
Dividends paid	(9,936)	(5,678)	(4,258)	(1,420)	(1,420)	(12,775)	(76,757)	(75,814)
Other	51	(9,483)	(4,239)	0	0	(13,722)	0	0
<b>Net cash flows from financing activities</b>	<b>(77,983)</b>	<b>(32,875)</b>	<b>(14,127)</b>	<b>(7,063)</b>	<b>(7,063)</b>	<b>(61,128)</b>	<b>(176,398)</b>	<b>(174,847)</b>
Net increase in cash	(9,032)	(15,076)	7,811	(5,008)	30,895	18,622	18,378	(15,327)
Cash at beginning of period	58,359	49,327	34,251	42,062	37,054	49,327	67,949	86,327
<b>Cash at end of period</b>	<b>\$49,327</b>	<b>\$34,251</b>	<b>\$42,062</b>	<b>\$37,054</b>	<b>\$67,949</b>	<b>\$67,949</b>	<b>\$86,327</b>	<b>\$71,000</b>
Cash Earnings	(\$3,209)	\$23,511	\$1,984	\$4,171	\$40,074	\$69,740	\$203,194	\$167,915
Operating Cash Flow	(\$3,209)	\$23,511	\$1,984	\$2,055	\$37,958	\$65,508	\$194,776	\$159,520
Cash Earnings / Share	(\$0.02)	\$0.17	\$0.01	\$0.03	\$0.28	\$0.49	\$1.43	\$1.18
Operating Cash Flow / Share	(\$0.02)	\$0.17	\$0.01	\$0.01	\$0.27	\$0.46	\$1.37	\$1.12
Dividends / Share	\$0.08	\$0.03	\$0.01	\$0.01	\$0.11	\$0.16	\$0.61	\$0.48



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