

Scorpio Tankers Inc.

Fluidity issues aiding rates, we see rising rate potential; PO to \$68

Reiterate Rating: NEUTRAL | PO: 68.00 USD | Price: 62.86 USD

Improving rates view given vessel fluidity challenges

We increase our Scorpio Tankers' 4Q23 and 2024 EPS 4% each, to \$3.01 and \$8.85, from \$2.90 and \$8.55, respectively, as we increase our 4Q23 and 2024 rate targets as product tanker time-charter equivalent (TCE) rates remain robust and look to sustain higher than targeted rates deeper into 2024. We increase our 4Q23 TCE target to \$33,640/day from \$33,200/day given stronger rates at quarter-end. Although ton-mile demand was challenged by a warmer-than-expected winter, Panama Canal, which moves 2.5% of global trade, continues to experience low water levels. Daily transits at the traditional lock will be limited to 13 vessels/day in Feb 2024, approximately half of avg daily traffic of 24 vessels. Given challenges in the Red Sea/Suez Canal, we expect the already tight product tanker demand-supply fundamentals to lead to higher rates for longer, especially for lanes such as US Gulf-South America where STNG is concentrated.

Suez transits intact for product tankers, yet a rising focus

Despite recent Red Sea disruptions, product tanker fluidity remains mostly intact across the Suez as charterers continue to sail across the channel (for now). While initially large liquid bulk charterers such as BP and Equinor announced plans to divert voyages away from the Red Sea, a majority of the majors are maintaining regular seaborne routes through the Suez. Weekly transits for product tankers across the Suez remain stable at 40 ships per week, compared to a 73% decline in containership transits to 34 from 125 in November. Nevertheless, we expect longer sailing days and lower vessel capacity to be positive for clean tanker rates. A potential escalation or additional disruptions, such as closing the Strait of Hormuz, which moves 20% of global oil, could lead to the loss of 17 mil barrels/day of crude/refined product and result in further voyage diversions.

Raise PO to \$68

We reiterate our Neutral on STNG's shares yet increase our PO to \$68 (from \$58) on 6.0x our 2024e EBITDA (from 5.4x) as we see a path for continued rate strength, as well as potential ramp in its dividend, as STNG's net debt moves below its scrap value. However, we remain cautious on the industry's rising orderbook ratio (to 12% from 6% a year ago) and a volatile demand view. We increase our 2024 and 2025 EPS estimates 4% each, to \$8.85 and \$7.55, from \$8.55 and \$7.25, respectively.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	-4.17	11.42	10.70	8.85	7.55
GAAP EPS	(4.29)	11.49	10.66	8.85	7.55
EPS Change (YoY)	NM	NM	-6.3%	-17.3%	-14.7%
Consensus EPS (Bloomberg)			10.40	10.73	10.71
DPS	0.40	0.40	1.05	1.80	2.20
Valuation (Dec)					
P/E	NM	5.5x	5.9x	7.1x	8.3x
Dividend Yield	0.6%	0.6%	1.7%	2.9%	3.5%
EV / EBITDA*	26.4x	3.7x	4.3x	5.5x	6.4x
Free Cash Flow Yield*	0.7%	23.4%	27.3%	20.7%	18.5%

* For full definitions of *IQmethod*SM measures, see page 5.

10 January 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	58.00	68.00

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Stock Data

Price	62.86 USD
Price Objective	68.00 USD
Date Established	10-Jan-2024
Investment Opinion	C-2-7
52-Week Range	40.34 USD - 66.93 USD
Mkt Val (mn) / Shares Out (mn)	3,137 USD / 49.9
Free Float	87.1%
Average Daily Value (mn)	64.29 USD
BofA Ticker / Exchange	STNG / NYS
Bloomberg / Reuters	STNG US / STNG.N
ROE (2023E)	23.1%
Net Dbt to Eqty (Dec-2022A)	49.2%
ESGMeter™	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

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Timestamp: 10 January 2024 01:46AM EST

iQprofileSM Scorpio Tankers Inc.

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	-1.7%	17.5%	17.0%	13.1%	10.9%
Return on Equity	-11.7%	33.2%	23.1%	16.2%	12.2%
Operating Margin	-16.8%	54.5%	53.2%	44.6%	39.4%
Free Cash Flow	21	735	857	650	581

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	NM	1.1x	1.5x	1.6x	1.8x
Asset Replacement Ratio	0.2x	0.2x	0.1x	0.1x	0x
Tax Rate	NM	NM	NM	NM	NM
Net Debt-to-Equity Ratio	144.5%	49.2%	32.1%	16.5%	4.6%
Interest Cover	-0.6x	5.4x	4.3x	4.3x	4.3x

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	541	1,563	1,349	1,145	1,036
% Change	-41.0%	189.0%	-13.7%	-15.1%	-9.5%
Gross Profit	541	1,563	1,349	1,145	1,036
% Change	-41.0%	189.0%	-13.7%	-15.1%	-9.5%
EBITDA	150	1,058	921	718	614
% Change	-70.6%	607.8%	-12.9%	-22.1%	-14.4%
Net Interest & Other Income	(138)	(149)	(138)	(91)	(75)
Net Income (Adjusted)	(228)	722	580	421	333
% Change	NM	NM	-19.6%	-27.5%	-20.9%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	(235)	726	578	421	333
Depreciation & Amortization	240	207	204	206	206
Change in Working Capital	14	(176)	73	0	0
Deferred Taxation Charge	0	0	0	0	4
Other Adjustments, Net	53	12	31	46	43
Capital Expenditure	(52)	(34)	(29)	(23)	(5)
Free Cash Flow	21	735	857	650	581
% Change	-91.4%	NM	16.7%	-24.1%	-10.6%
Share / Issue Repurchase	0	(161)	(558)	(300)	(210)
Cost of Dividends Paid	(18)	(185)	(614)	(382)	(303)
Change in Debt	(57)	(849)	107	(135)	(400)

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	230	377	365	499	378
Trade Receivables	38	277	193	193	193
Other Current Assets	17	34	28	28	28
Property, Plant & Equipment	3,842	3,089	3,426	3,220	3,013
Other Non-Current Assets	887	783	246	246	246
Total Assets	5,014	4,559	4,257	4,185	3,857
Short-Term Debt	235	32	148	148	148
Other Current Liabilities	293	442	559	559	559
Long-Term Debt	2,649	1,579	1,028	793	359
Other Non-Current Liabilities	NA	NA	NA	NA	NA
Total Liabilities	3,177	2,052	1,734	1,500	1,065
Total Equity	1,837	2,507	2,523	2,685	2,792
Total Equity & Liabilities	5,014	4,559	4,257	4,185	3,857

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Shipping

Company Description

Scorpio Tankers (STNG) provides seaborne transport of refined petroleum products worldwide, such as gasoline, heating oil, and fuel oil. Product tankers move refined products from global refineries to points near consuming markets. STNG operates the world's largest, youngest, and most modern fleet of publicly traded product tankers consisting of 112 owned product tankers. STNG largely operates in the spot shipping markets.

Investment Rationale

After its recent vessel sale and rate gains, STNG shares may see impacts from moderating market rates with slowing refined product demand. However, with 112 product tanker vessels (post sale) generating robust cash flow, shares could also see support from its high FCF yield. It could stabilize within its 5x-9x EBITDA band as rate outlook moderates, offset by its moves to decrease leverage and improve returns. We thus maintain a balanced view on STNG shares with our Neutral rating.

Stock Data

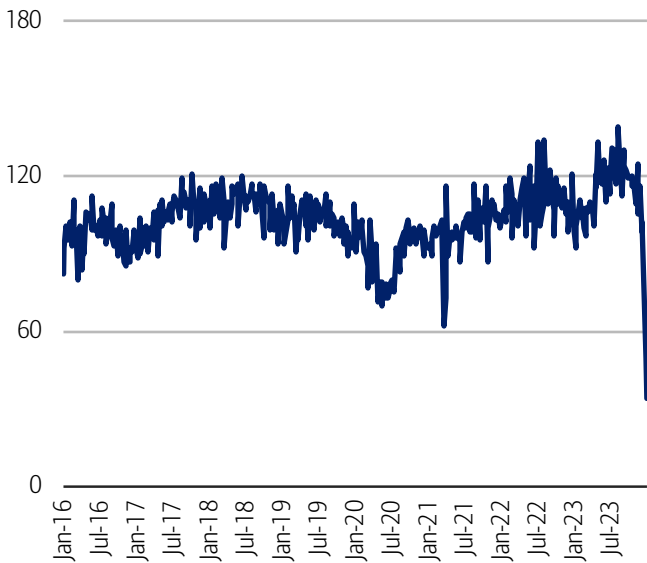
Average Daily Volume 1,022,823

Quarterly Earnings Estimates

	2022	2023
Q1	-0.15A	3.31A
Q2	3.13A	2.41A
Q3	4.29A	1.91A
Q4	4.24A	3.01E

Exhibit 1: Weekly Containership Transits through Suez

Containership transits through the Suez Canal have fallen 73% since Nov.

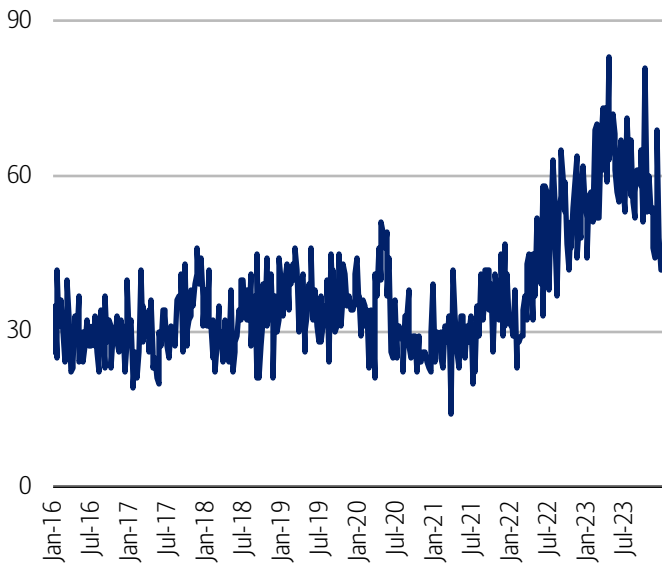


Source: BofA Global Research and Clarksons.

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Exhibit 2: Weekly Product Tanker Transits through Suez

Product tanker weekly transits have remained stable at 40 ships/week.



Source: BofA Global Research and Clarksons.

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Price objective basis & risk

Scorpio Tankers Inc. (STNG)

Our \$68 price objective is based on an 6.0x EV/EBITDA multiple on our 2024 EBITDA estimate. Our valuation multiple is near the bottom of its 5x-9x historical trading range given we are at historically high product tanker rates, as global mobility strengthens, pricing rebounds as inventories reach decade-lows, orderbook remains at historic-lows, and ton mile demand is rising. The negative impacts from COVID disruptions are fading (North America and Europe stronger, Asia stabilizing) though softening economic outlook may weaken demand for refined products. Our multiple is below the bottom end of its range as earnings are set to significantly compound.

Upside risks to our PO are volatile charter rates, better-than-expected spot product tanker rates in 2022-23, lower-than-expected vessel deliveries in 2022-24, a spike in global oil demand, and higher-than-expected levels of scrapping in the market.

Downside risks to our PO are drop off in mobility (return of lockdowns, war disruptions, which have shown to increase ton mile demand), liquidity risk given rolling debt through 2024 versus cash generation (which depends on day rates rising above the daily fixed cost base), a weaker-than-expected rate environment, overcapacity due to greater-than-expected vessel deliveries and lower-than-expected scrapping rates, and weaker global demand for refined products.

Analyst Certification

I, Ken Hoexter, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Transportation Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Canadian Pacific Kansas City Ltd	CP	CP US	Ken Hoexter
	CSX Corporation	CSX	CSX US	Ken Hoexter
	FedEx Corp.	FDX	FDX US	Ken Hoexter
	J.B. Hunt Transport Services	JBHT	JBHT US	Ken Hoexter
	Kirby Corp	KEX	KEX US	Ken Hoexter
	Knight-Swift Transportation Holdings Inc	KNX	KNX US	Ken Hoexter
	Norfolk Southern	NSC	NSC US	Ken Hoexter
	Old Dominion Freight Line	ODFL	ODFL US	Ken Hoexter
	RXO, Inc.	RXO	RXO US	Ken Hoexter
	Saia Inc.	SAIA	SAIA US	Ken Hoexter
	Union Pacific	UNP	UNP US	Ken Hoexter
	XPO, Inc.	XPO	XPO US	Ken Hoexter
NEUTRAL				
	Canadian National	CNI	CNI US	Ken Hoexter
	Schneider National	SNDR	SNDR US	Ken Hoexter
	Scorpio Tankers Inc.	STNG	STNG US	Ken Hoexter
	Teekay Tankers Limited	TNK	TNK US	Ken Hoexter
	TFI International	TFII	TFII US	Ken Hoexter
	TFI International	YTFII	TFII CN	Ken Hoexter
	UPS	UPS	UPS US	Ken Hoexter
	Wabtec Corp.	WAB	WAB US	Ken Hoexter
UNDERPERFORM				
	ArcBest Corporation	ARCB	ARCB US	Ken Hoexter
	C.H. Robinson	CHRW	CHRW US	Ken Hoexter
	The Greenbrier Companies	GBX	GBX US	Ken Hoexter
	Werner Enterprises	WERN	WERN US	Ken Hoexter

US - Transportation Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	World Kinect	WKC	WKC US	Ken Hoexter

IQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income
Operating Profit
Expected 5 Year CAGR From Latest Actual
Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

Numerator

Current Share Price
Current Share Price
Annualised Declared Cash Dividend
Cash Flow From Operations – Total Capex
EV = Current Share Price × Current Shares + Minority Equity + Net Debt +
Other LT Liabilities
Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Amortization
Shareholders' Equity
Sales
N/A
N/A

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)
Shareholders' Equity / Current Basic Shares
Current Share Price
Market Cap = Current Share Price × Current Basic Shares
Sales

Basic EBIT + Depreciation + Amortization

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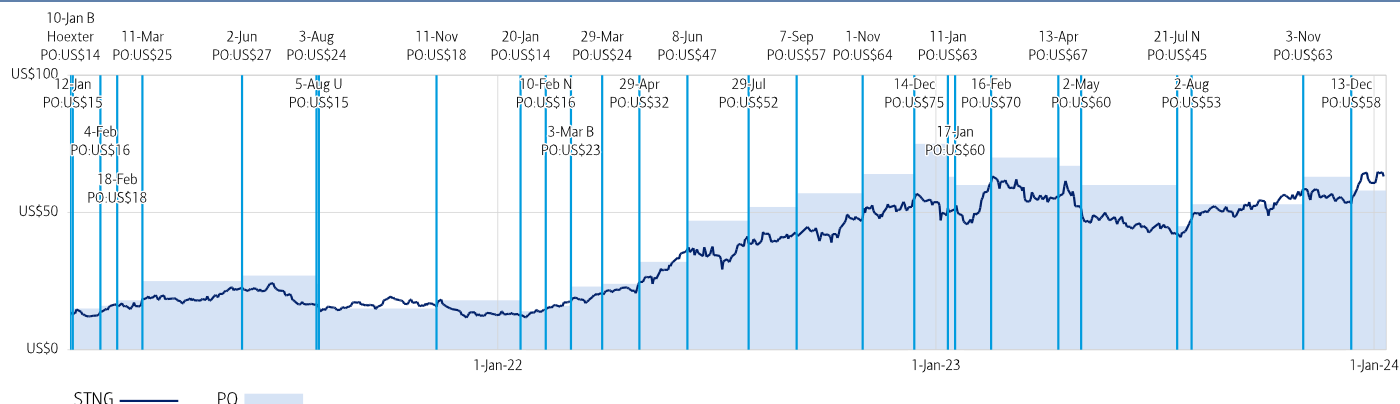
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Scorpio Tankers (STNG) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Transport/Infrastructure Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	67	50.38%	Buy	44	65.67%
Hold	31	23.31%	Hold	13	41.94%
Sell	35	26.32%	Sell	17	48.57%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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