

Scorpio Tankers Inc.

Rates falling year-year yet demand view improves; PO to \$53

Reiterate Rating: NEUTRAL | PO: 53.00 USD | Price: 49.42 USD

Product rates decline yet demand view improving

Scorpio Tankers posted 2Q23 adj. EPS of \$2.41, down 23% year-year, above our \$2.33 target yet below Street's \$2.44. Average fleet time-charter-equivalent (TCE) rates came in slightly ahead of expectations at \$32,154/day (vs our target of \$31,609), down 11% year-year and down 14% vs 1Q, its first quarter of yr-yr rate declines after 6 quarters of increases. Quarter-to-date spot LR-2/MR fixtures averaged \$27k/day (we had targeted 3Q23 TCE of \$37k/\$21k, now \$29k/\$28k), and \$20k/day for its Handymax vessels (we had targeted \$21k/day now \$20k/day), vs 2Q's avg daily TCE of \$40k/\$29k/\$27k for LR-2/MR/Handymax vessels. However, STNG noted that in the past two weeks, demand has materially improved with product inventories at record lows and capacity disruption leading to increased ton-miles. It observed MR fixtures recovering to the mid-\$30k/day range as Asia demand stabilized and LR-2 rates moved above \$40k/day in some lanes.

Focusing on harvesting the elevated rate backdrop

STNG remains focused on reducing leverage and repurchasing shares as its top call on capital. It also plans to dispose additional older vessels (44 of its 112-vessel fleet are aged 9 years and older) following its sale of an MR vessel in July (STI Ville for \$33 mil, near its newbuild price 11 years ago). The company bought back \$260 mil in shares in 2Q23 (or ~5 mil shares and ~10% of total shares), up from \$138 mil in 1Q as it sees share level below its view of \$65/sh net asset value (implying \$50-\$55 mil/vessel fleet value). It also closed a \$1 bil credit facility in July, which will allow it to refinance its sale leaseback agreements and lower its financing spread by approximately 200 bps.

PO to \$53, still see risk to Street expectations

We maintain our Neutral and raise our PO to \$53 (from \$45) on 7.5x our 2024e EBITDA (from 6.5x) as we increase our target multiple one turn given the improved demand view on rates. We also increase our 2023, 2024, and 2025 EPS estimates 18%, 3%, and 16%, to \$8.90, \$3.20, and \$1.80, from \$7.55, \$3.10, and \$1.55, respectively, as we tweak our TCE targets higher. Our 2023 target remains 15% below Street estimates as we see downside to Street rate targets.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	-4.17	11.42	8.90	3.20	1.80
GAAP EPS	(4.29)	11.49	8.84	3.20	1.80
EPS Change (YoY)	NM	NM	-22.1%	-64.0%	-43.8%
Consensus EPS (Bloomberg)			10.32	10.20	11.09
DPS	0.40	0.40	0.95	1.00	1.00
Valuation (Dec)					
P/E	NM	4.3x	5.6x	15.4x	27.5x
GAAP P/E	NM	4.3x	5.6x	15.4x	27.5x
Dividend Yield	0.8%	0.8%	1.9%	2.0%	2.0%
EV / EBITDA*	22.6x	3.2x	4.1x	7.1x	8.8x
Free Cash Flow Yield*	0.8%	28.0%	28.6%	14.7%	12.5%

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

02 August 2023

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	45.00	53.00

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Stock Data

Price	49.42 USD
Price Objective	53.00 USD
Date Established	2-Aug-2023
Investment Opinion	C-2-7
52-Week Range	37.67 USD - 64.20 USD
Mrkt Val (mn) / Shares Out (mn)	2,621 USD / 53.0
Average Daily Value (mn)	52.99 USD
BofA Ticker / Exchange	STNG / NYS
Bloomberg / Reuters	STNG US / STNG.N
ROE (2023E)	18.7%
Net Dbt to Eqty (Dec-2022A)	49.2%
ESGMeter™	Medium

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Timestamp: 02 August 2023 03:40PM EDT

iQprofileSM Scorpio Tankers Inc.

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	-1.7%	17.5%	13.9%	6.4%	4.7%
Return on Equity	-11.7%	33.2%	18.7%	5.9%	3.2%
Operating Margin	-16.8%	54.5%	49.5%	29.9%	22.1%
Free Cash Flow	21	735	751	385	328

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	NM	1.1x	1.6x	2.6x	4.1x
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%	27.4%	28.5%	25.1%
Interest Cover	-0.6x	5.4x	4.0x	2.0x	1.6x

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	541	1,563	1,265	897	808
% Change	-41.0%	189.0%	-19.1%	-29.1%	-10.0%
Gross Profit	541	1,563	1,265	897	808
% Change	-41.0%	189.0%	-19.1%	-29.1%	-10.0%
EBITDA	150	1,058	830	473	383
% Change	-70.6%	607.8%	-21.6%	-43.1%	-18.9%
Net Interest & Other Income	(138)	(149)	(134)	(111)	(97)
Net Income (Adjusted)	(228)	722	492	157	82
% Change	NM	NM	-31.8%	-68.1%	-47.9%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	(235)	726	489	157	82
Depreciation & Amortization	240	207	205	205	205
Change in Working Capital	14	(176)	57	0	0
Deferred Taxation Charge	0	0	0	0	4
Other Adjustments, Net	53	12	26	47	43
Capital Expenditure	(52)	(34)	(25)	(23)	(5)
Free Cash Flow	21	735	751	385	328
% Change	-91.4%	NM	2.2%	-48.7%	-14.8%

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	230	377	728	523	247
Trade Receivables	38	277	202	202	202
Other Current Assets	17	34	28	28	28
Property, Plant & Equipment	3,842	3,089	3,216	3,011	2,807
Other Non-Current Assets	887	783	442	442	442
Total Assets	5,014	4,559	4,615	4,205	3,725
Short-Term Debt	235	32	86	86	86
Other Current Liabilities	293	442	375	375	375
Long-Term Debt	2,649	1,579	1,398	1,169	784
Other Non-Current Liabilities	NA	NA	NA	NA	NA
Total Liabilities	3,177	2,052	1,859	1,630	1,245
Total Equity	1,837	2,507	2,756	2,574	2,480
Total Equity & Liabilities	5,014	4,559	4,615	4,205	3,725

* 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

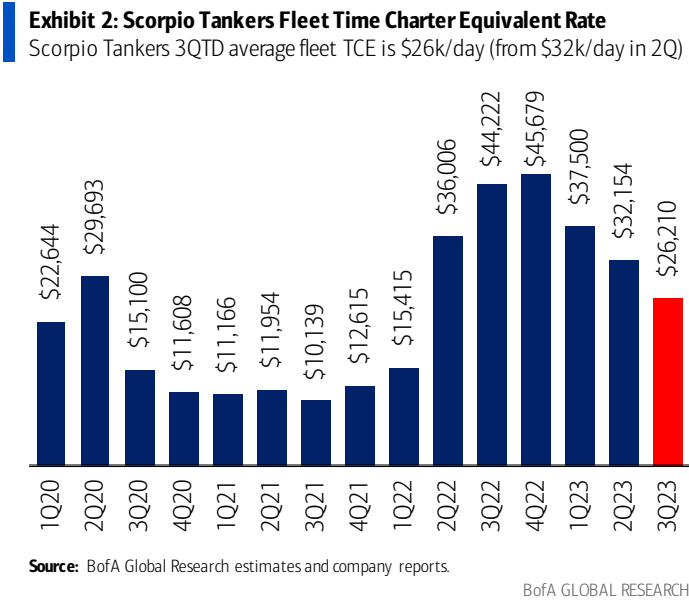
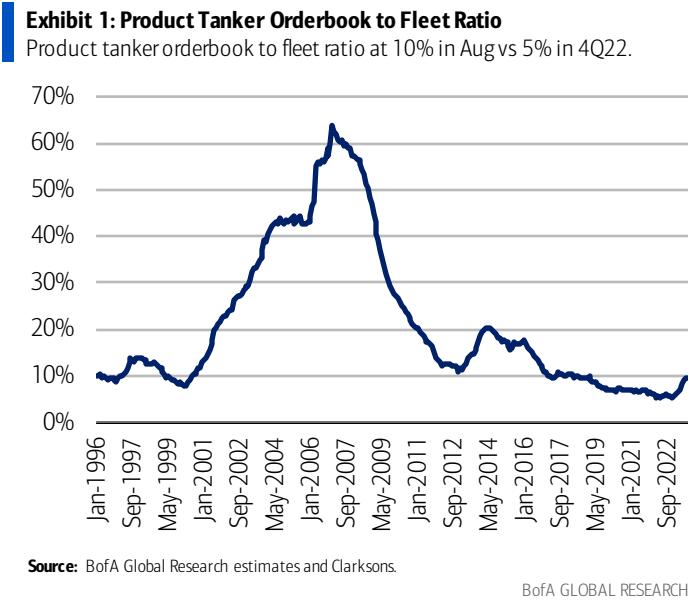
After its recent vessel sale and rate gains, STNG shares may see impacts from moderating market rates with slowing refined product demand. However with 112 product tanker vessels (post sale) generating robust cash flow, shares could also see support from its high FCF yield. It could stabilize within 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 1,072,212

Quarterly Earnings Estimates

	2022	2023
Q1	-0.15A	3.31A
Q2	3.13A	2.41A
Q3	4.29A	1.81E
Q4	4.24A	1.24E



Price objective basis & risk

Scorpio Tankers Inc. (STNG)

Our \$53 price objective is based on an 7.5x EV/EBITDA multiple on our 2024 EBITDA estimate. Our valuation multiple is above the middle of its 5x-9x historical trading range, 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

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US - Transportation Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
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	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
	Schneider National	SNDR	SNDR US	Ken Hoexter
	Union Pacific	UNP	UNP US	Ken Hoexter
	Werner Enterprises	WERN	WERN US	Ken Hoexter
	XPO, Inc.	XPO	XPO US	Ken Hoexter
NEUTRAL				
	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

US - Transportation Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	TuSimple	TSP	TSP US	Ken Hoexter
	World Kinect	WKC	WKC US	Ken Hoexter
RSTR				
	Triton International, Ltd	TRTN	TRTN US	Ken Hoexter

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

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

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

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

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

EV / EBITDA

Basic EBIT + Depreciation + Amortization

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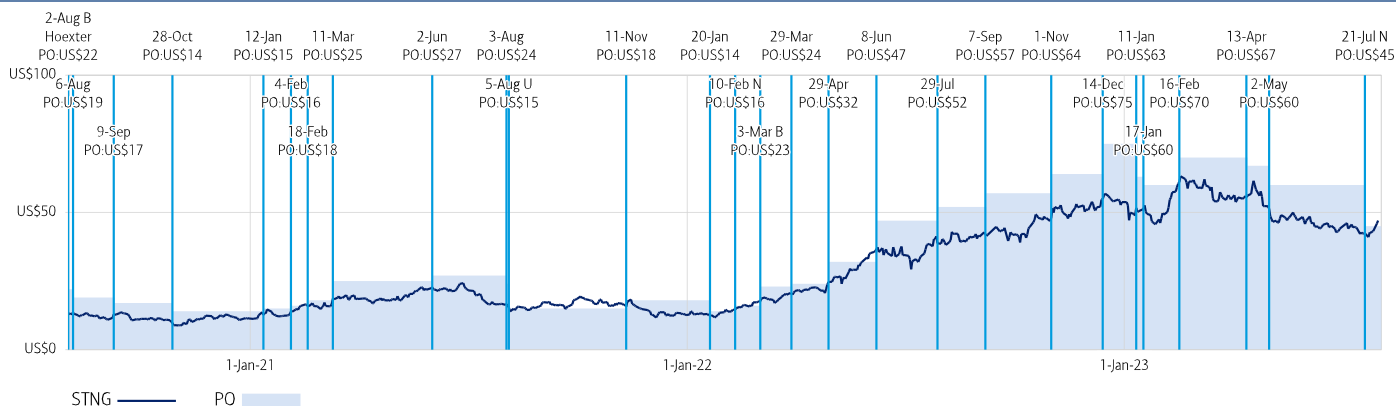
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Scorpio Tankers (STNG) Price Chart



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 30 Jun 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	72	52.94%	Buy	42	58.33%
Hold	29	21.32%	Hold	13	44.83%
Sell	35	25.74%	Sell	17	48.57%

Equity Investment Rating Distribution: Global Group (as of 30 Jun 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1877	53.28%	Buy	1040	55.41%
Hold	815	23.13%	Hold	464	56.93%
Sell	831	23.59%	Sell	385	46.33%

^{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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