

Scorpio Tankers Inc.

20-min series: Rates elevated, but pull back bit; Capacity view aided by scrapping

Reiterate Rating: BUY | PO: 60.00 USD | Price: 44.87 USD

Scorpio Tankers continues 20-minute Shipping Call Series

On June 8, we hosted Scorpio Tankers (STNG) President Robert Bugbee and Head of Corporate Development James Doyle to discuss product tanker market, rates outlook, orderbook activity, trade flow dislocation, cash flow generation, and capital strategy.

Quarter-to-date rates moderated, expects 2H upturn

STNG noted 2Q charter rates moderated to \$35k-\$40k per day for its larger vessel fleet (LR-2s) and \$30k-\$35k per day for its smaller vessels (MR/Handy) since its prior [2QTD Update](#) (\$53k/\$37k/\$37k/day for its LR2/MR/Handy fleet respectively). This is slightly below our \$45k target for LR2s and \$35k for MRs/Handy's. This was due to increased refined product inventory draws and a more muted seaborne trade. It expects demand to improve in 2H on higher jet/diesel consumption (driven by air travel, China reopening, and cruise liner demand) offsetting lower trucking activity. It noted ton-mile benefits of the Feb 5 Russia product ban (US/Middle East moves to Europe with longer sailing days).

Capacity view supportive; Focused on share repurchases

While the product tanker orderbook has ticked up to 8% of total fleet from 5% in 4Q22, capacity remains supportive for rates with 10% of the fleet at 20+ years of age (vs 15-yr useful life for clean product tankers). It noted vessels within 15-19-years account for 30% of the fleet. At \$40k/day average charter rate, it can generate \$1.2 bil in free cash flow. It still views buybacks as attractive, noting shares are below its Net Asset Value (NAV) view of \$65-\$80/sh. It has repurchased 7.5% of its shares since Jan. We reiterate our Buy on STNG and our \$60 PO, given its robust cash generation potential.

An update on the Product Tanker market

The global product tanker fleet is approx. 2,960 vessels in 4 main categories: Long Range 2s (LR2s, 85k-125k dwt, 420 vessels), Long-Range 1s (LR1s, 55k-85k dwt, 380 vessels), Medium Range (MRs, 40k-55k dwt, 1,730 vessels), and Handymax's (25k-40k dwt, 430 vessels). Global refined product capacity is 100 mil barrels/day with US and China at 18 mil barrels/day capacity each. Global seaborne refined product export is 24 mil barrels/day with US at 2.6 mil barrels/day. STNG operates 113 vessels (10% of the LR2 fleet (20% of the clean LR2 fleet), 3% of MR fleet, and 3% of Handy fleet).

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	-4.17	11.42	8.70	3.15	1.60
GAAP EPS	(4.29)	11.49	8.66	3.15	1.60
EPS Change (YoY)	NM	NM	-23.8%	-63.8%	-49.2%
Consensus EPS (Bloomberg)			11.64	10.95	10.59
DPS	0.40	0.40	0.95	1.00	1.00
Valuation (Dec)					
P/E	NM	3.9x	5.2x	14.2x	28.0x
GAAP P/E	NM	3.9x	5.2x	14.2x	28.0x
Dividend Yield	0.9%	0.9%	2.1%	2.2%	2.2%
EV / EBITDA*	21.9x	3.1x	3.9x	6.6x	8.2x
Free Cash Flow Yield*	0.8%	28.8%	28.2%	15.2%	12.7%

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

09 June 2023

Equity

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Stock Data

Price	44.87 USD
Price Objective	60.00 USD
Date Established	2-May-2023
Investment Opinion	C-1-7
52-Week Range	28.50 USD - 64.20 USD
Mrkt Val (mn) / Shares Out (mn)	2,550 USD / 56.8
Average Daily Value (mn)	57.92 USD
BofA Ticker / Exchange	STNG / NYS
Bloomberg / Reuters	STNG US / STNG.N
ROE (2023E)	18.4%
Net Dbt to Eqty (Dec-2022A)	49.2%
ESGMeter™	Medium

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Timestamp: 09 June 2023 07:01AM EDT

iQprofileSM Scorpio Tankers Inc.

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	-1.7%	17.5%	14.0%	6.8%	5.0%
Return on Equity	-11.7%	33.2%	18.4%	5.8%	2.8%
Operating Margin	-16.8%	54.5%	49.0%	30.9%	22.6%
Free Cash Flow	21	735	720	388	324

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	NM	1.1x	1.5x	2.7x	4.5x
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%	26.0%	26.1%	22.5%
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	1,283	930	832
% Change	-41.0%	189.0%	-17.9%	-27.5%	-10.6%
Gross Profit	541	1,563	1,283	930	832
% Change	-41.0%	189.0%	-17.9%	-27.5%	-10.6%
EBITDA	150	1,058	836	498	398
% Change	-70.6%	607.8%	-21.0%	-40.4%	-20.0%
Net Interest & Other Income	(138)	(149)	(144)	(134)	(116)
Net Income (Adjusted)	(228)	722	485	154	72
% Change	NM	NM	-32.8%	-68.1%	-53.1%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	(235)	726	482	154	72
Depreciation & Amortization	240	207	208	210	210
Change in Working Capital	14	(176)	28	0	0
Deferred Taxation Charge	0	0	0	0	4
Other Adjustments, Net	53	12	17	46	43
Capital Expenditure	(52)	(34)	(16)	(23)	(5)
Free Cash Flow	21	735	720	388	324
% Change	-91.4%	NM	-2.1%	-46.1%	-16.4%

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	230	377	640	493	184
Trade Receivables	38	277	234	234	234
Other Current Assets	17	34	18	18	18
Property, Plant & Equipment	3,842	3,089	2,897	2,687	2,477
Other Non-Current Assets	887	783	774	774	774
Total Assets	5,014	4,559	4,563	4,205	3,686
Short-Term Debt	235	32	69	69	69
Other Current Liabilities	293	442	439	439	439
Long-Term Debt	2,649	1,579	1,290	1,101	676
Other Non-Current Liabilities	NA	NA	NA	NA	NA
Total Liabilities	3,177	2,052	1,799	1,610	1,185
Total Equity	1,837	2,507	2,764	2,595	2,501
Total Equity & Liabilities	5,014	4,559	4,563	4,205	3,686

* 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 113 owned product tankers. STNG largely operates in the spot shipping markets.

Investment Rationale

With its recent vessel sales and rate gains, STNG is moving well past liquidity concerns, and is benefiting from market rate inflection on refined product demand. With 113 product tanker vessels (post sale), an improvement in transport and aviation demand should aid global product shipping demand. It could see acceleration in its 7x-14x EBITDA band as rate outlook improves. Scorpio has one of the most modern fleets, sufficient size/scale, management expertise, and commercial pools benefits.

Stock Data

Average Daily Volume 1289,675

Quarterly Earnings Estimates

	2022	2023
Q1	-0.15A	3.31A
Q2	3.13A	3.50E
Q3	4.29A	1.17E
Q4	4.24A	0.53E



Price objective basis & risk

Scorpio Tankers Inc. (STNG)

Our \$60 price objective is based on an 4.6x EV/EBITDA multiple on our 2023 EBITDA estimate. Our valuation multiple is below the bottom 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				
	Canadian National	CNI	CNI US	Ken Hoexter
	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
	RXO, Inc.	RXO	RXO US	Ken Hoexter
	Schneider National	SNDR	SNDR US	Ken Hoexter
	Scorpio Tankers Inc.	STNG	STNG US	Ken Hoexter
	Union Pacific	UNP	UNP US	Ken Hoexter
	Werner Enterprises	WERN	WERN US	Ken Hoexter
	World Fuel Services	INT	INT US	Ken Hoexter
NEUTRAL				
	Old Dominion Freight Line	ODFL	ODFL US	Ken Hoexter
	Saia Inc.	SAIA	SAIA 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
	XPO, Inc.	XPO	XPO US	Ken Hoexter
UNDERPERFORM				
	ArcBest Corporation	ARCB	ARCB US	Ken Hoexter
	C.H. Robinson	CHRW	CHRW US	Ken Hoexter

US - Transportation Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	The Greenbrier Companies	GBX	GBX US	Ken Hoexter
	TuSimple	TSP	TSP 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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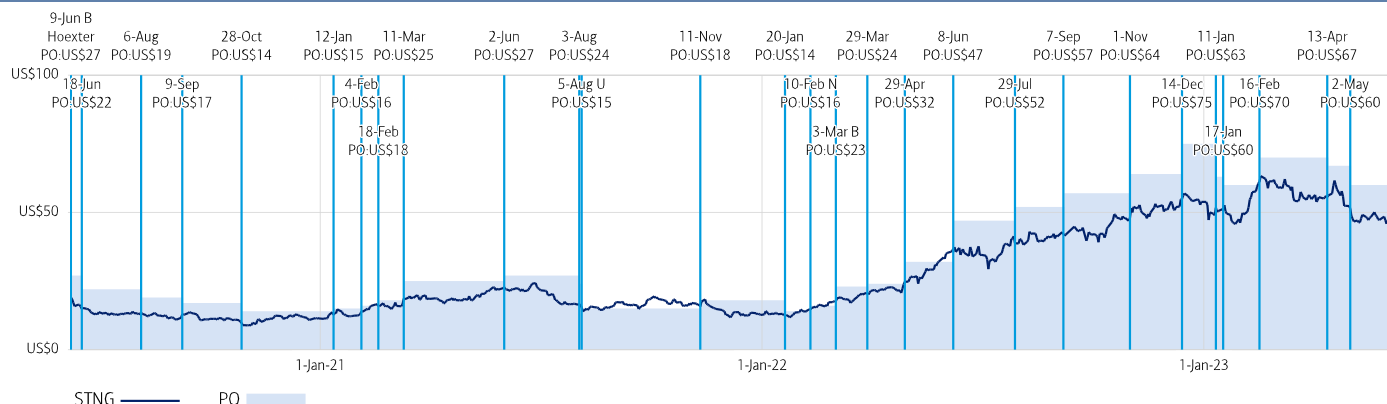
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Scorpio Tankers (STNG) Price Chart



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

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	68	51.52%	Buy	38	55.88%
Hold	28	21.21%	Hold	15	53.57%
Sell	36	27.27%	Sell	18	50.00%

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

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1869	53.01%	Buy	1030	55.11%
Hold	827	23.45%	Hold	476	57.56%
Sell	830	23.54%	Sell	389	46.87%

^{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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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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