

Scorpio Tankers Inc.

3Q Preview: Costs up yet raise 4Q rates view; Dividend potential rising; PO \$63

Reiterate Rating: NEUTRAL | PO: 63.00 USD | Price: 58.56 USD

Lower 3Q EPS 16% yet expect rates to accel into winter

Product tanker rates were in-line with our target for 3Q, yet are ramping earlier than seasonally normal into 4Q (well ahead of Thanksgiving), setting Scorpio Tankers up for a strong 4Q EPS and cash flow post. We lower our 3Q23 EPS target 16%, to \$1.53 from \$1.81, as increased costs to weigh on near-term earnings. We hold our 3Q time charter equivalent (TCE) target flat at \$27.6k/day (-38% y-y, -14% seq from 2Q23) as market spot rates trended largely in-line with our expectations since the company's Aug update. However, we increase our 4Q TCE target to \$30.2k/day from \$25.5k/day as refined product inventory levels remain low and demand climbs. Product tanker spot rate TCEs have increased in 4Q with LR-2 (long-range 2) spot rates in the low-\$40k's/day range, accelerating from \$29.2k/day in 3Q23. The product tanker orderbook has increased to 11% of the active fleet (from 2022 lows of ~5%), yet delivery lead times are 2.5+ years. The company noted that available shipyard capacity has more than halved over last 15 years, which may moderate the pace of new capacity adds. Given a supportive supply-demand view, we expect STNG's spot fleet exposure to remain in the 95% range.

Dividend potential increasing; Aims to cut costs

After reducing \$1.4 bil in debt and repurchasing ~\$580 mil in shares since 2022, we believe there is increasing dividend potential for STNG as TCEs remain above its cash breakeven of \$17k/day. President Bugbee highlighted the potential to increase its payout when STNG's net debt falls below its scrap value (we estimate to be ~\$15/sh) at an industry conference, which would become the company's first dividend since the onset of the elevated product tanker backdrop. Given \$1.8 bil in outstanding debt as of Sep 29 (or \$34/sh), an annual cash flow run rate of ~\$800 mil/yr at current TCEs (\$14/sh), and \$300 mil cash on hand as of 2Q23 (~\$6/sh), we believe STNG is on track to achieve that target over the next year. It aims to repurchase \$340 mil in sale-leaseback agreements in 4Q23 to further reduce costs and improve cash generation.

PO to \$63

We reiterate our Neutral on STNG's shares yet raise our PO to \$63 (from \$53) on 5.5x our 2024 EBITDA (from 7.5x) given our improved product tanker rate view. Earnings may decelerate as the product tanker market pass record tightness on an uncertain macro backdrop, yet remain elevated. We increase our 2023 and 2024 EPS estimates to \$9.45 and \$7.85, from \$8.90 and \$3.20, respectively, on increased TCE estimates.

| Estimates (Dec) (US\$) | 2021A | 2022A | 2023E | 2024E | 2025E |
|---------------------------|--------|-------|--------|--------|--------|
| EPS | -4.17 | 11.42 | 9.45 | 7.85 | 6.40 |
| GAAP EPS | (4.29) | 11.49 | 9.40 | 7.85 | 6.40 |
| EPS Change (YoY) | NM | NM | -17.3% | -16.9% | -18.5% |
| Consensus EPS (Bloomberg) | | | 10.06 | 10.49 | 10.78 |
| DPS | 0.40 | 0.40 | 0.95 | 1.00 | 1.00 |
| Valuation (Dec) | | | | | |
| P/E | NM | 5.1x | 6.2x | 7.5x | 9.2x |
| GAAP P/E | NM | 5.1x | 6.2x | 7.5x | 9.2x |
| Dividend Yield | 0.7% | 0.7% | 1.6% | 1.7% | 1.7% |
| EV / EBITDA* | 25.6x | 3.6x | 4.4x | 5.5x | 6.5x |
| Free Cash Flow Yield* | 0.7% | 23.7% | 25.1% | 19.7% | 17.3% |

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

03 November 2023

Equity

Key Changes

| (US\$) | Previous | Current |
|------------|----------|---------|
| Price Obj. | 53.00 | 63.00 |

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Stock Data

| | |
|---------------------------------|-----------------------|
| Price | 58.56 USD |
| Price Objective | 63.00 USD |
| Date Established | 3-Nov-2023 |
| Investment Opinion | C-2-7 |
| 52-Week Range | 40.34 USD - 64.20 USD |
| Mrkt Val (mn) / Shares Out (mn) | 3,106 USD / 53.0 |
| Average Daily Value (mn) | 61.02 USD |
| BofA Ticker / Exchange | STNG / NYS |
| Bloomberg / Reuters | STNG US / STNG.N |
| ROE (2023E) | 19.7% |
| Net Dbt to Eqty (Dec-2022A) | 49.2% |
| ESGMeter™ | Medium |

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Timestamp: 03 November 2023 03:09PM EDT

iQprofileSM Scorpio Tankers Inc.

iQmethodSM – Bus Performance*

| (US\$ Millions) | 2021A | 2022A | 2023E | 2024E | 2025E |
|----------------------------|--------|-------|-------|-------|-------|
| Return on Capital Employed | -1.7% | 17.5% | 14.7% | 11.1% | 9.0% |
| Return on Equity | -11.7% | 33.2% | 19.7% | 13.7% | 10.1% |
| Operating Margin | -16.8% | 54.5% | 51.1% | 43.9% | 38.0% |
| Free Cash Flow | 21 | 735 | 781 | 613 | 537 |

iQmethodSM – Quality of Earnings*

| (US\$ Millions) | 2021A | 2022A | 2023E | 2024E | 2025E |
|--------------------------|--------|-------|-------|-------|-------|
| Cash Realization Ratio | NM | 1.1x | 1.5x | 1.7x | 1.9x |
| 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% | 16.8% | 5.3% |
| Interest Cover | -0.6x | 5.4x | 4.0x | 3.7x | 3.5x |

Income Statement Data (Dec)

| (US\$ Millions) | 2021A | 2022A | 2023E | 2024E | 2025E |
|------------------------------|--------------|------------|---------------|---------------|---------------|
| Sales | 541 | 1,563 | 1,312 | 1,125 | 1,017 |
| % Change | -41.0% | 189.0% | -16.1% | -14.2% | -9.6% |
| Gross Profit | 541 | 1,563 | 1,312 | 1,125 | 1,017 |
| % Change | -41.0% | 189.0% | -16.1% | -14.2% | -9.6% |
| EBITDA | 150 | 1,058 | 874 | 699 | 591 |
| % Change | -70.6% | 607.8% | -17.4% | -20.0% | -15.4% |
| Net Interest & Other Income | (138) | (149) | (147) | (109) | (96) |
| Net Income (Adjusted) | (228) | 722 | 522 | 385 | 291 |
| % Change | NM | NM | -27.6% | -26.3% | -24.5% |

Free Cash Flow Data (Dec)

| (US\$ Millions) | 2021A | 2022A | 2023E | 2024E | 2025E |
|--|---------------|------------|-------------|---------------|---------------|
| Net Income from Cont Operations (GAAP) | (235) | 726 | 520 | 385 | 291 |
| Depreciation & Amortization | 240 | 207 | 204 | 205 | 205 |
| Change in Working Capital | 14 | (176) | 57 | 0 | 0 |
| Deferred Taxation Charge | 0 | 0 | 0 | 0 | 4 |
| Other Adjustments, Net | 53 | 12 | 25 | 47 | 42 |
| Capital Expenditure | (52) | (34) | (25) | (23) | (5) |
| Free Cash Flow | 21 | 735 | 781 | 613 | 537 |
| % Change | -91.4% | NM | 6.3% | -21.5% | -12.4% |

Balance Sheet Data (Dec)

| (US\$ Millions) | 2021A | 2022A | 2023E | 2024E | 2025E |
|---------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Cash & Equivalents | 230 | 377 | 759 | 781 | 714 |
| Trade Receivables | 38 | 277 | 202 | 202 | 202 |
| Other Current Assets | 17 | 34 | 28 | 28 | 28 |
| Property, Plant & Equipment | 3,842 | 3,089 | 3,216 | 3,012 | 2,807 |
| Other Non-Current Assets | 887 | 783 | 442 | 442 | 442 |
| Total Assets | 5,014 | 4,559 | 4,646 | 4,463 | 4,192 |
| 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 | 2,786 | 2,833 | 2,947 |
| Total Equity & Liabilities | 5,014 | 4,559 | 4,646 | 4,463 | 4,192 |

* 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

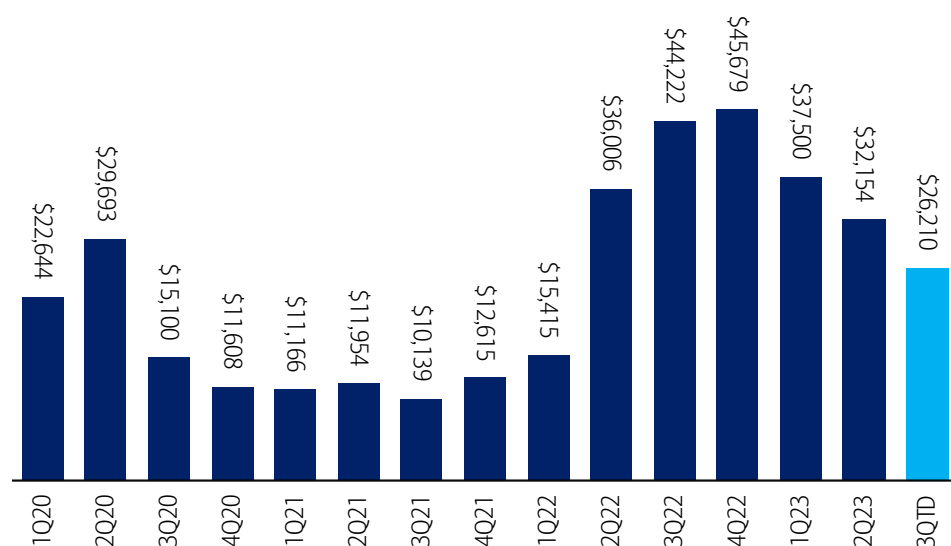
Average Daily Volume 1,042,019

Quarterly Earnings Estimates

| | 2022 | 2023 |
|----|--------|-------|
| Q1 | -0.15A | 3.31A |
| Q2 | 3.13A | 2.41A |
| Q3 | 4.29A | 1.53E |
| Q4 | 4.24A | 2.11E |

Exhibit 1: Scorpio Tanker Time Charter Equivalent Rates

We expect \$27.6k/day TCE in 3Q23 compared to \$26.2k/day from its August update.

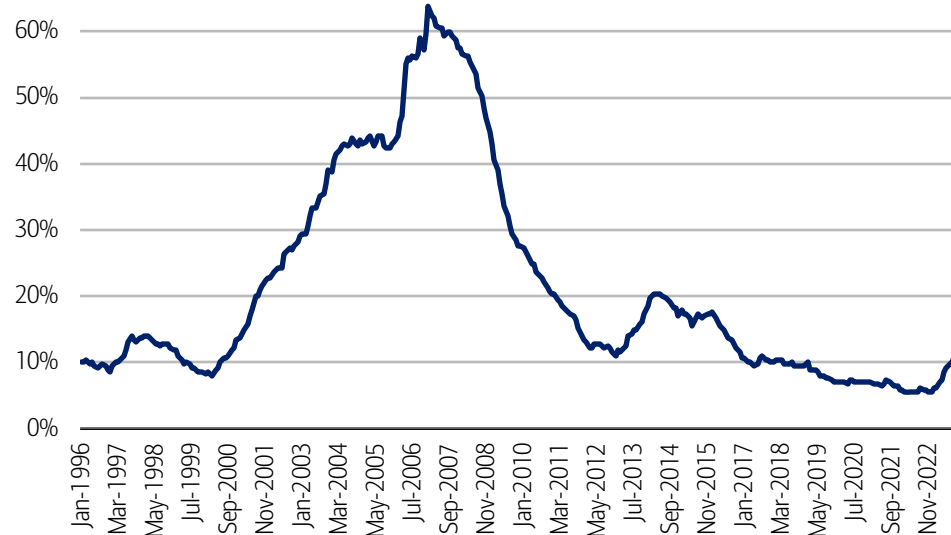


Source: BofA Global Research estimates and company reports.

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Exhibit 2: Product Tanker Orderbook to Fleet Ratio

Orderbook for new vessels are at 11%, coming off 2022 lows of 5% as newbuild orders increased.



Source: BofA Global Research estimates and company reports.

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Price objective basis & risk

Scorpio Tankers Inc. (STNG)

Our \$63 price objective is based on an 5.5x 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 |
| | 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 |
| | Norfolk Southern | NSC | NSC 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

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

Basic EBIT + Depreciation + Amortization

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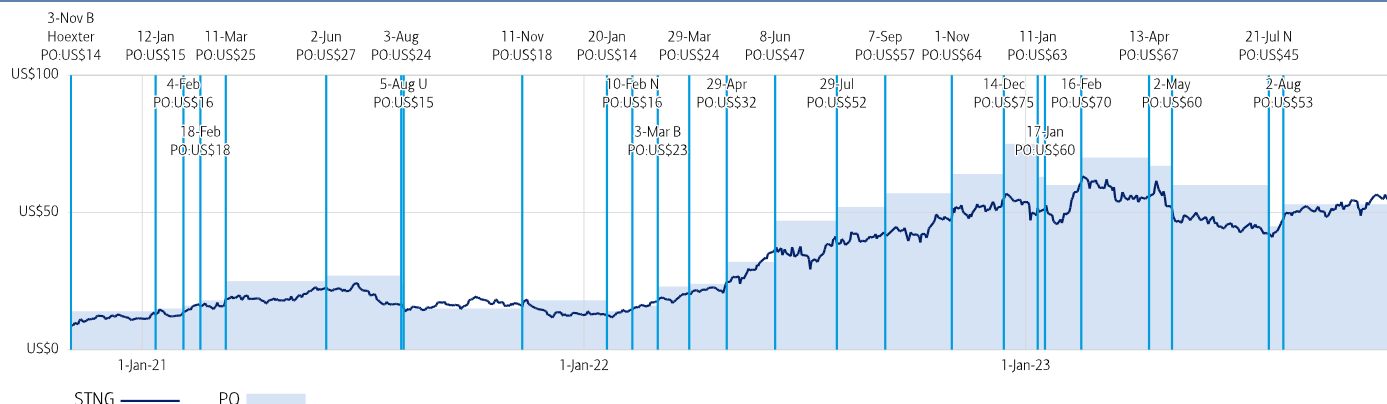
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Important Disclosures

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 Sep 2023)

| Coverage Universe | Count | Percent | Inv. Banking Relationships ^{R1} | Count | Percent |
|-------------------|-------|---------|--|-------|---------|
| Buy | 71 | 53.38% | Buy | 43 | 60.56% |
| Hold | 29 | 21.80% | Hold | 13 | 44.83% |
| Sell | 33 | 24.81% | Sell | 17 | 51.52% |

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

| Coverage Universe | Count | Percent | Inv. Banking Relationships ^{R1} | Count | Percent |
|-------------------|-------|---------|--|-------|---------|
| Buy | 1869 | 53.48% | Buy | 1046 | 55.97% |
| Hold | 828 | 23.69% | Hold | 461 | 55.68% |
| Sell | 798 | 22.83% | Sell | 370 | 46.37% |

^{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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