

## Scorpio Tankers Inc.

# Rates rebound post refinery maintenance; focused on returns; PO to \$60

Reiterate Rating: BUY | PO: 60.00 USD | Price: 48.54 USD

## Product rates rebounding as refinery utilization recover

Scorpio Tankers (STNG) posted an 1Q23 adj EPS of \$3.31, above our \$2.94 target and Street's \$3.12. Operating income was \$231 mil, \$18 mil above our target (+\$0.31/sh) as 1Q fleet charter rates came in above our target (time-charter equivalent (TCE) of \$38k/day vs our \$37k/day target). Rates are down from 4Q22's peak (\$46k/day) due to a heavy Gulf refinery maintenance cycle (see our [Shipping Preview](#)) but remain above STNG's \$17k/day breakeven level. 2Q-to-date spot TCEs (\$53k/day for LR2s; \$37k/day for MRs; \$37k/day for Handymax) are also accelerating higher from 1Q levels (\$43k/day, \$34k/day, and \$38k/day, respectively) as refinery utilization levels recovered. While debt was flat at \$2 bil in 1Q23 from 4Q22, STNG repurchased \$138 mil in shares (vs \$76 mil in 4Q22), indicative of its shareholder return focus. It aims to further reduce its leverage yet noted it aims to utilize balance sheet and financing efficiently.

## Disciplined on capacity; Sees increased scrapping

CEO Emanuele Lauro noted that STNG will remain focused on harvesting its business rather than growing it, emphasizing its capacity discipline. Although STNG expects more operators to place vessel orders given a robust time charter market, it noted that the earliest delivery on newbuilds is 2026 given full shipyard slots and orderbook ratios near record lows (6% of fleet vs 5% in 4Q22). It also noted scrapping activity may accelerate over the next 3 years, with 12% of the LR2 fleet, 23% of the MR fleet and 50% of the Handy fleet expected to reach 20+ years-old by 2026. STNG fleet age is comparatively lower (7 years vs 15-year lifespan). We believe it has 5 years until it needs to begin modernizing its fleet. It targets to dispose older vessels, noting that 5-year-old LR2/MR vessels are currently trading well above their historical purchase price.

## Outlook still favorable given strong cash generation

We reiterate our Buy on STNG's shares yet lower our PO to \$60 (from \$67) on 5.0x our 2023 EBITDA estimate (from 6.5x) to the low end of its 5x-9x range as rate acceleration moderates with record tightness behind us. We remain positive on product tanker supply-demand and focus on STNG's cash generation (target \$717 mil 2023 free cash flow) as it further prioritizes shareholder returns. We increase our 2023 and 2024 EPS estimates 38% and 27%, to \$8.10 and \$2.60, from \$5.85 and \$2.05, respectively.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	-4.17	11.42	8.10	2.60	1.30
GAAP EPS	(4.29)	11.49	8.27	2.65	1.31
EPS Change (YoY)	NM	NM	-29.1%	-67.9%	-50.0%
Consensus EPS (Bloomberg)			11.59	10.04	6.69
DPS	0.40	0.40	0.95	1.00	1.00
Valuation (Dec)					
P/E	NM	4.3x	6.0x	18.7x	37.3x
GAAP P/E	NM	4.2x	5.9x	18.3x	37.1x
Dividend Yield	0.8%	0.8%	2.0%	2.1%	2.1%
EV / EBITDA*	24.0x	3.4x	4.3x	7.2x	9.0x
Free Cash Flow Yield*	0.8%	26.6%	26.0%	13.7%	11.7%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 5.

02 May 2023

## Equity

### Key Changes

(US\$)	Previous	Current
Price Obj.	67.00	60.00
2023E DPS	0.80	0.95

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## Stock Data

Price	48.54 USD
Price Objective	60.00 USD
Date Established	2-May-2023
Investment Opinion	C-1-7
52-Week Range	23.62 USD - 64.20 USD
Mkt Val (mn) / Shares Out (mn)	2,759 USD / 56.8
Average Daily Value (mn)	50.72 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

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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Refer to important disclosures on page 6 to 8. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.

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Timestamp: 02 May 2023 05:02PM EDT

# iQprofile<sup>SM</sup> Scorpio Tankers Inc.

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	-1.7%	17.5%	14.5%	7.1%	5.0%
Return on Equity	-11.7%	33.2%	18.7%	5.5%	2.6%
Operating Margin	-16.8%	54.5%	49.2%	31.0%	22.8%
Free Cash Flow	21	735	716	379	321

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	NM	1.1x	1.5x	2.8x	4.7x
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%	31.3%	22.6%	15.4%
Interest Cover	-0.6x	5.4x	4.0x	1.9x	1.5x

## 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	839	499	400
% Change	-70.6%	607.8%	-20.8%	-40.5%	-19.8%
Net Interest & Other Income	(138)	(149)	(150)	(143)	(120)
<b>Net Income (Adjusted)</b>	<b>(228)</b>	<b>722</b>	<b>481</b>	<b>146</b>	<b>69</b>
<b>% Change</b>	<b>NM</b>	<b>NM</b>	<b>-33.3%</b>	<b>-69.7%</b>	<b>-52.3%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	(235)	726	491	148	70
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	5	44	42
Capital Expenditure	(52)	(34)	(16)	(23)	(5)
<b>Free Cash Flow</b>	<b>21</b>	<b>735</b>	<b>716</b>	<b>379</b>	<b>321</b>
<b>% Change</b>	<b>-91.4%</b>	<b>NM</b>	<b>-2.5%</b>	<b>-47.1%</b>	<b>-15.2%</b>

## Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	230	377	376	413	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
<b>Total Assets</b>	<b>5,014</b>	<b>4,559</b>	<b>4,298</b>	<b>4,126</b>	<b>3,686</b>
Short-Term Debt	235	32	69	69	69
Other Current Liabilities	293	442	439	439	439
Long-Term Debt	2,649	1,579	1,137	948	523
Other Non-Current Liabilities	NA	NA	NA	NA	NA
<b>Total Liabilities</b>	<b>3,177</b>	<b>2,052</b>	<b>1,645</b>	<b>1,456</b>	<b>1,031</b>
<b>Total Equity</b>	<b>1,837</b>	<b>2,507</b>	<b>2,653</b>	<b>2,669</b>	<b>2,655</b>
<b>Total Equity &amp; Liabilities</b>	<b>5,014</b>	<b>4,559</b>	<b>4,298</b>	<b>4,126</b>	<b>3,686</b>

\* For full definitions of iQmethod<sup>SM</sup> 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 1,045,014

## Quarterly Earnings Estimates

	2022	2023
Q1	-0.15A	3.31A
Q2	3.13A	3.04E
Q3	4.29A	1.09E
Q4	4.24A	0.49E

## Revenues beat on rates; Costs lower than target

Revenues were \$384 million, up 121% year-over-year, and \$15 million above our target as rates rebounded post its mid-quarter update on recovering refinery activity. Vessel operating expense was \$74 million, down 13% year-over-year and \$5 million below our target given a favorable year-over-year comparison on STNG's sale of 18 vessels in 1Q22. It expects costs to further ease into 2H23 given the delivery of delayed equipment but still higher year-over-year due to inflationary pressures on crewing and operating costs. General & Administrative expense was \$22 million, up 78% year-over-year, yet \$3 million below our target given elevated stock-based compensation. The company declared a quarterly cash dividend of \$0.25/sh payable June 30, 2023 (we had targeted \$0.20 previously) and authorized a \$250 million share repurchase program.

## Rates rebounding following refinery maintenance

STNG has booked 39% of its 2Q23 spot LR2 revenue days at \$53k/day (from \$47k/day in 1Q23), 35% of its 2Q23 spot MR revenue days at \$37k/day (from \$35k/day in 1Q23), and 34% of its 2Q23 spot Handymax revenue days at \$37k/day (from \$38k/day in 1Q23). Although it noted some softness in Atlantic Basin MR trade, its outlook on LR2 demand remains robust as Europe aims to replace missing Russian product import (3-day sailings between Primorsk-Rotterdam) through Middle East and US Gulf trade. It expects 2023 refined product ton-mile demand to outpace macro trends given capacity dislocations.

## Used product vessel pricing above historical newbuilds

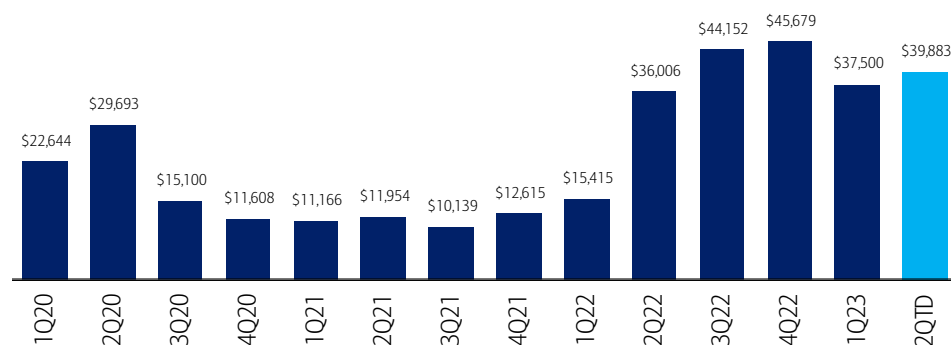
STNG targets to dispose of its older vessels given rising tightness within the used vessel market. With 5-year-old LR2 and MR vessels trading at \$68 million and \$42 million respectively, STNG sees used equipment pricing above historical newbuild costs (20-year average LR2/MR newbuild costs of \$59 million/\$32 million) and original purchase price. Although the heightened demand for capacity has resulted in a slight increase in product tanker orderbook ratio (6% from 5% in 4Q22), STNG noted that earliest delivery on vessels remains 3 years out with yards still occupied with LPG and container ship orders.

## Targets to further reduce debt

STNG completed the repurchase of sale-leasebacks for 5 vessels in 1Q23 (3 LR2s, 2MRs) for \$105.6 million through utilizing its credit facilities. Its refinancing moves will aid in reducing its interest costs, decreasing its financing rate to SOFR + 1.90% to 1.975% from LIBOR + 3.50% to 5.25%. While a significant share of its leverage remains floating rate exposed, it plans to lower its financing spread. It also aims to reduce its aggregate debt level to \$1.8 billion by 2Q23 (from \$2.0 billion in 1Q23) after having achieved \$1 billion in reductions over 2022.

### Exhibit 1: Scorpio Tankers Average Fleet TCE Rate

Average fleet TCE rate rebounding to \$40k/day in 2Q23 following refinery maintenance cycle in 1Q23.



Source: BofA Global Research estimates and company reports

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## Price objective basis & risk

### Scorpio Tankers Inc. (STNG)

Our \$60 price objective is based on an 5.0x EV/EBITDA multiple on our 2023 EBITDA estimate. Our valuation multiple is at 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

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
<b>BUY</b>				
	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
<b>NEUTRAL</b>				
	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	YFII	TFII CN	Ken Hoexter
	UPS	UPS	UPS US	Ken Hoexter
	Wabtec Corp.	WAB	WAB US	Ken Hoexter
<b>UNDERPERFORM</b>				
	ArcBest Corporation	ARCB	ARCB US	Ken Hoexter
	C.H. Robinson	CHRW	CHRW US	Ken Hoexter
	The Greenbrier Companies	GBX	GBX US	Ken Hoexter
	TuSimple	TSP	TSP US	Ken Hoexter

## US - Transportation Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	XPO, Inc.	XPO	XPO US	Ken Hoexter
<b>RSTR</b>				
	Triton International, Ltd	TRTN	TRTN US	Ken Hoexter

**IQmethod<sup>SM</sup> 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 &amp; 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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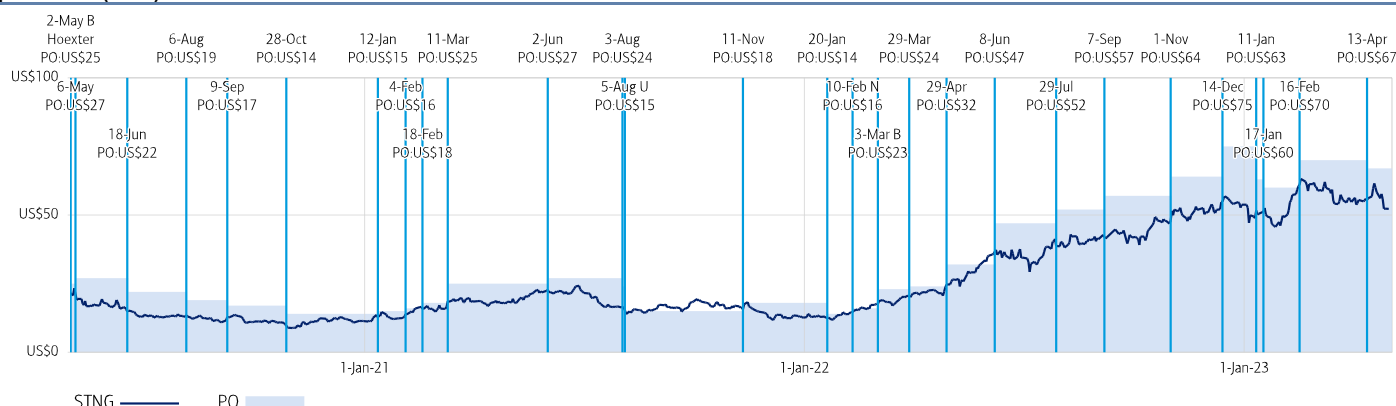
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## Important Disclosures

### 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 31 Mar 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	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 <sup>R1</sup>	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%

<sup>R1</sup> 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 <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> 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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