

Teekay Tankers Limited

Surging tanker rates lead beat; Restarts dividend/buyback; see 2Q pressure; PO\$47

Reiterate Rating: NEUTRAL | PO: 47.00 USD | Price: 44.06 USD

Rate surge leads beat; Sees 2Q pressure from OPEC cuts

Teekay Tankers (TNK) posted adj 1Q23 EPS of \$5.06, above our \$3.65 target and Street's \$4.50. Net revenue was \$271 million (a TNK record), up 274% year-year and \$48 mil above our target as average spot tanker rates surged to \$61k per day from \$54k per day in 4Q22, above our \$53k/day target. Record US crude exports (aided by an early refinery cycle this year) coupled with a recovery in China crude imports elevated ton-mile demand. Tanker capacity remains, as the orderbook is ~4% of current fleet (from sub 4% in 4Q22). TNK booked ~40% of its 2Q Suezmax and Aframax/LR2 revenue days at \$62k/\$59k/day respectively (we were \$45k/\$50k/day, now \$61k/\$58k/day in 2Q). TNK remains focused on the spot market (96% of its fleet is on spot), yet it expects 2Q rates to be capped by May's OPEC+ production cut (~1 million barrels per day) as excess VLCC capacity move into the mid-size market. We target a 3% sequential decline in 2Q avg spot rates, to \$59k/day, yet well above its \$15k/day free-cash-flow breakeven level.

A rising focus on returns; Starts dividend and buybacks

TNK restarted its quarterly dividend at \$0.25/sh (which it discontinued in 2018) and will pay a special cash dividend of \$1.00/sh on June 2. It also authorized a \$100 million share repurchase program. These moves highlight a pivot in TNK's capital strategy to a returns focus (vs leverage reduction) after lowering its debt to capitalization ratio to 13% from 41% in 2022 (see our [Shipping Preview](#)). It also noted a rising focus on renewing its fleet, but expects to take a disciplined approach to capacity given elevated newbuild and secondhand values. It exercised the purchase options for 9 vessels on sale-lease back agreements in 1Q23 and expects to exercise 6 more in 2Q, 4 in 3Q (and its final 8 in 1Q24) to further lower financing costs and strengthen its balance sheet. Its moves should reduce its breakeven charter rate by \$400/day by yearend 2023.

Raise PO to \$47

We maintain our Neutral yet increase our PO to \$47 (from \$43) on TNK's shares. Our target is on 3.0x our 2023e EBITDA (from 3.2x) as we lower our multiple as we move past peak crude tanker tightness. Our PO implies a 6.6x 2024e EBITDA, slightly above its historical 5.8x midpoint. We remain positive on TNK's robust cash generation and increased returns focus, yet expect rate increases to moderate from record levels. We increase our 2023/2024 EPS estimates 30%/5% to \$13.10/\$3.05, from \$10.05/\$2.95.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	(4.10)	6.34	13.10	3.05	0.95
GAAP EPS	(7.17)	6.69	12.94	3.05	0.95
EPS Change (YoY)	NM	NM	106.6%	-76.7%	-68.9%
Consensus EPS (Bloomberg)			12.78	11.12	9.23
DPS	0	0	2.00	1.00	1.00
Valuation (Dec)					
P/E	NM	6.9x	3.4x	14.4x	46.4x
GAAP P/E	NM	6.6x	3.4x	14.4x	46.4x
Dividend Yield	0%	0%	4.5%	2.3%	2.3%
EV / EBITDA*	NM	5.1x	3.1x	7.9x	11.8x
Free Cash Flow Yield*	-8.6%	11.7%	29.9%	9.0%	4.6%

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

11 May 2023

Equity

Key Changes

(US\$)	Previous	Current
Inv. Opinion	C-2-9	C-2-7
Price Obj.	43.00	47.00
2023E Rev (m)	1,589.8	1,303.9
2024E Rev (m)	1,064.6	838.0
2025E Rev (m)	808.3	748.1
2023E EPS	10.05	13.10
2024E EPS	2.95	3.05
2025E EPS	0.65	0.95
2023E DPS	0	2.00

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Stock Data

Price	44.06 USD
Price Objective	47.00 USD
Date Established	11-May-2023
Investment Opinion	C-2-7
52-Week Range	14.72 USD - 48.05 USD
Mrkt Val (mn) / Shares Out (mn)	1,522 USD / 34.5
Average Daily Value (mn)	20.73 USD
BofA Ticker / Exchange	TNK / NYS
Bloomberg / Reuters	TNK US / TNK.N
ROE (2023E)	38.1%
Net Dbt to Eqty (Dec-2022A)	-10.0%
ESGMeter TM	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: 11 May 2023 04:47PM EDT

iQprofileSM Teekay Tankers Limited

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	-10.6%	14.3%	24.4%	6.6%	4.9%
Return on Equity	-14.5%	22.7%	38.1%	7.9%	5.0%
Operating Margin	-35.8%	24.1%	36.5%	15.4%	7.0%
Free Cash Flow	(131)	178	455	137	69

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	NM	0.9x	1.1x	1.7x	3.3x
Asset Replacement Ratio	0.2x	0.2x	0.2x	0.3x	0.3x
Tax Rate	0.8%	0.2%	1.9%	7.5%	20.7%
Net Debt-to-Equity Ratio	39.2%	-10.0%	-19.7%	-16.6%	NA
Interest Cover	-5.5x	7.2x	15.0x	6.3x	4.6x

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	542	1,063	1,304	838	748
% Change	-38.8%	96.0%	22.7%	-35.7%	-10.7%
Gross Profit	377	913	1,146	684	599
% Change	-46.3%	142.1%	25.6%	-40.3%	-12.5%
EBITDA	(88)	355	575	229	153
% Change	NM	NM	61.9%	-60.1%	-33.5%
Net Interest & Other Income	(50)	(26)	(32)	(23)	(13)
Net Income (Adjusted)	(139)	217	440	98	31
% Change	NM	NM	102.9%	-77.7%	-68.8%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	(242)	229	435	98	31
Depreciation & Amortization	106	99	99	101	101
Change in Working Capital	(50)	(112)	(29)	0	0
Deferred Taxation Charge	13	4	4	0	0
Other Adjustments, Net	64	(26)	(29)	(30)	(30)
Capital Expenditure	(21)	(15)	(24)	(32)	(32)
Free Cash Flow	-131	178	455	137	69
% Change	NM	NM	156.0%	-69.9%	-49.4%

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	53	184	319	280	0
Trade Receivables	41	117	155	155	0
Other Current Assets	152	159	160	160	0
Property, Plant & Equipment	1,337	1,253	1,179	1,110	0
Other Non-Current Assets	36	71	121	121	0
Total Assets	1,619	1,784	1,933	1,825	0
Short-Term Debt	77	77	74	74	0
Other Current Liabilities	80	93	90	90	0
Long-Term Debt	305	0	0	0	0
Other Non-Current Liabilities	318	543	528	421	0
Total Liabilities	780	714	692	585	0
Total Equity	838	1,070	1,240	1,240	0
Total Equity & Liabilities	1,619	1,784	1,933	1,825	0

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

Company Sector

Sea Transport

Company Description

Teekay Tankers is one of the world's largest tanker owners and operators. It owns 44 mid-sized tanker vessels, is a 50% joint-owner of one VLCC, charters-in 9, for an operational fleet of 54 tankers (our 54 includes 2 STS support vessels). The company owns a combination of Suezmax, Aframax, Product Tankers, support ships, and a 50% JV stake in one VLCC tanker.

Investment Rationale

Despite solid medium-term crude fundamentals, Teekay Tankers is highly leveraged to rates, which have remained volatile after a surge in 2Q following Russia's invasion of Ukraine, creating longer hauls. It remains mostly focused on the spot market, having ended most contracts, and on deleveraging its balance sheet, partially offsetting our cautious view. We see benefit in deleveraging and longer hauls and upside in rates outpacing the demand decline, but decelerating macro keeps us at Neutral.

Stock Data

Average Daily Volume 470,460

Quarterly Earnings Estimates

	2022	2023
Q1	-0.41A	5.06A
Q2	0.75A	4.35E
Q3	1.68A	2.31E
Q4	4.28A	1.28E

Achieves record earnings as tanker rates remain strong

Revenues were \$395 million, up 127% year-year and \$63 million below our target. Net revenues were \$271 million, up 274% year-year and \$48 million above our target. Operating income was \$182 million, up 46% year-year and \$54 million above our target. The better-than-expected net revenue was primarily driven by higher tanker rates (fleet averaged \$61k/day vs our \$54k/day target) as US crude exports increased to 4 million barrels/day in 1Q23. The trade was partly for addressing a shortfall in Europe crude imports and partly due to an earlier than expected Gulf refinery maintenance cycle this year. While TNK noted that the 1.16 million barrel/day OPEC+ production reduction starting May will mainly affect VLCC (Very Large Crude Carrier) volumes, it expects negative impacts to Suezmax and Aframax rates as well as excess VLCC capacity bleed into mid-size tanker markets.

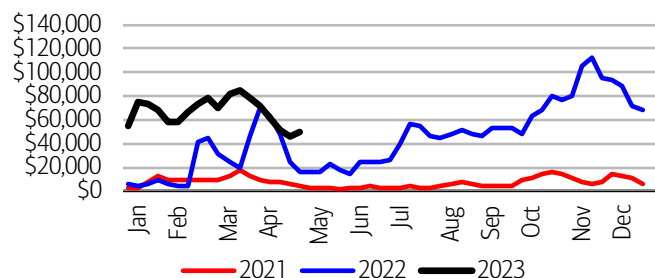
GAAP EPS was \$4.90, which included a \$0.6 million unrealized loss on derivative instruments (-\$0.02/sh) and a \$5 million premium on its exercise of a sale-leaseback early purchase option (-\$0.14/sh).

Slight uptick in orderbook yet scrapping may offset

Crude tanker orderbook-to-fleet ratio increased to approximately 4% in 1Q23 from below 4% in 4Q22. CEO Kevin McKay noted that there has been an uptick in ordering over recent months but expects the ageing tanker fleet to help offset the increased newbuild activity. With respect to renewing its fleet, TNK remains agnostic towards M&A, secondhand vessel trading and newbuilds. It noted that current price levels for newbuilds and secondhand vessels remain very elevated. While TNK has not invested in vessel capacity since 2017, it noted it increased its focus on capacity opportunities on the market. While we expect the crude tanker supply backdrop to remain favorable, we see rising risk of operators extending vessel lifespans given the strong rate environment.

Exhibit 1: Suezmax Time Charter Equivalent Rates

Rates are averaging \$56k/day vs TNK's QTD booking of \$62k/day.

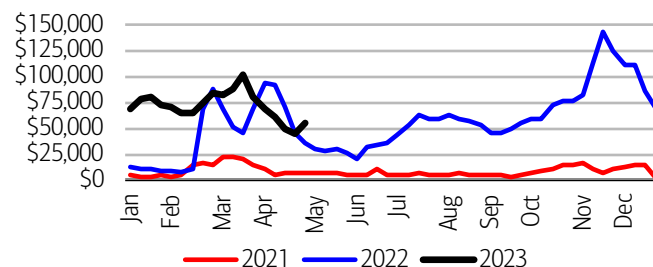


Source: BofA Global Research and Clarksons

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Exhibit 2: Aframax Time Charter Equivalent Rates

Rates are averaging \$56k/day vs TNK's QTD booking of \$59k/day.

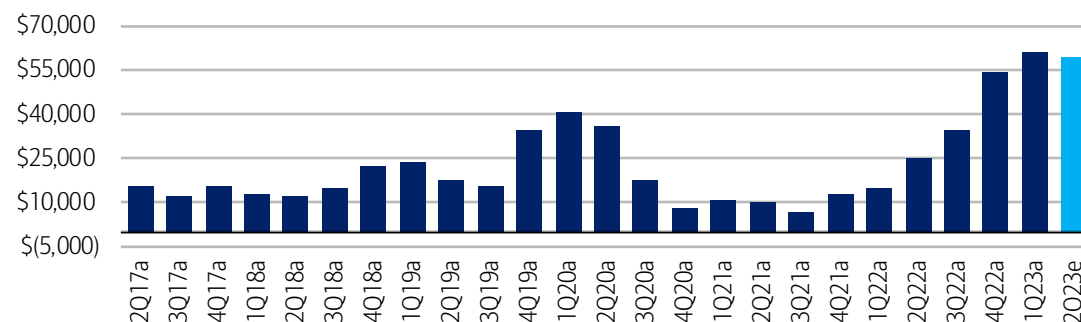


Source: BofA Global Research and Clarksons

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Exhibit 3: TNK Average Fleet Spot Time Charter Equivalent Rate

We expect 2Q23e spot time charter equivalent rates to sequentially decline from 1Q23 levels given rising pricing pressures.



Source: BofA Global Research estimates and company reports.

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Price objective basis & risk

Teekay Tankers Limited (TNK)

Our \$47 price objective is based on 3.0x our 2023E EBITDA. Our multiple is below Teekay's trading range (4.3x-8.1x) as crude tanker rate levels reach historic peaks as Russia's invasion of Ukraine drives longer-haul trade flows, inventories are at cycle lows, and orderbook remains at historic lows. The crude outlook looks to improve as mobility returns, though declining economic activity may weigh on demand.

Downside risks are: (1) Higher leverage levels, with exposure to cyclical and volatile spot market, (2) Risks to the global economy, (3) Risks of further OPEC production cuts and declining oil prices, (4) re-charter risk for vessels on charter.

Upside risks are: (1) a rapid upturn in spot rates, (2) continued debt paydown, or (3) M&A improving valuation for its assets and therefore NAV.

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

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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
	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				
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	Teekay Tankers Limited	TNK	TNK US	Ken Hoexter
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	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
	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

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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Important Disclosures

Teekay Tankers (TNK) 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 ^{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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