

Teekay Tankers Limited

Rates falling, cash still flowing; focused on fleet renewal and reducing leverage

Reiterate Rating: NEUTRAL | PO: 47.00 USD | Price: 43.21 USD

Earnings in line, but see seasonal sequential rate decline

Teekay Tankers posted 2Q23 adj diluted EPS of \$4.33, in line with our \$4.35/Street's \$4.40. Net voyage revenues were \$253 million, up 119% year-year, yet \$2 mil below our target, on a slight shortfall in 2Q23 rates. Average time charter equivalent (TCE) spot rate was \$53.9k/day (Suezmax/Aframax rates were \$57.6k/\$50.1k/day), down 12% from 1Q, and 9% below our \$59.4k target (or \$61.4k/\$57.5k target per vessel class). Its 3Q-to-date fixtures for its Suezmax/Aframax fleet have averaged \$42.8k/\$48.3k/day, respectively, implying further deceleration from 2Q levels. The moderation in rates was driven by crude output cuts by OPEC+ and the Russian shadow fleet capacity moving back to the G7 market, more than offsetting increased China and India oil imports. CFO Stewart Andrade noted that rates remain above its fleet free-cash-flow breakeven TCE (now \$16k/day, up from \$15k/day in 1Q23). While TNK reduced its net debt to \$30 mil (from \$180 million in 1Q), the cost benefits were offset by a rise in charter-in rates (8 of its 53-vessel fleet is chartered in) as it extended terms on 2 vessels.

Rates still cash generative; Focus capital on debt and fleet

Teekay Tankers remains focused on the spot market for its crude tankers (96% of its fleet in spot) as it remains positive on crude tanker fundamentals. CEO Kevin MacKay believes the recovery in China demand (aiding 2 mil barrel/day in incremental demand over 2H23 and a historically low crude tanker orderbook-to-fleet ratio (4% as of Aug vs 3% in 1Q23) sets up well for a robust rate outlook. Although it aims to be opportunistic in contract-out opportunities, it noted its strong liquidity (~\$600 mil) enables it to be patient on spot rate recovery. The company is focused on reducing its debt, as it gave notice on 4 sale-leaseback agreements for \$350 mil in July. It also targets fleet renewal as a top capital priority with approximately 30% of its fleet aged 15 years and older.

\$47 PO; continued gains

We reiterate Neutral on TNK's shares and hold our \$47 PO on 6.3x our 2024e EBITDA (from 3.0x 2023e EBITDA) as we roll our target multiple past our view of peak crude tanker rates. We are positive on TNK's cash generation as well as an incrementally more upbeat outlook on spot rates, yet cautious on macro headwinds. We raise our 2023e and 2024e EPS 3% and 25%, to \$13.55 and \$3.80, from \$13.10 and \$3.05.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	(4.10)	6.34	13.55	3.80	1.45
GAAP EPS	(7.17)	6.69	13.44	3.80	1.45
EPS Change (YoY)	NM	NM	113.7%	-72.0%	-61.8%
Consensus EPS (Bloomberg)			15.00	11.62	15.16
DPS	0	0	2.00	1.00	1.00
Valuation (Dec)					
P/E	NM	6.8x	3.2x	11.4x	29.8x
GAAP P/E	NM	6.5x	3.2x	11.4x	29.8x
Dividend Yield	0%	0%	4.6%	2.3%	2.3%
EV / EBITDA*	NM	4.6x	2.8x	6.9x	10.5x
Free Cash Flow Yield*	-8.8%	11.9%	34.2%	10.9%	5.8%

* For full definitions of *IQmethod*SM measures, see page 4.

03 August 2023

Equity

Key Changes

(US\$)	Previous	Current
2023E Rev (m)	1,303.9	1,257.6
2024E Rev (m)	838.0	733.7
2025E Rev (m)	748.1	591.0
2023E EPS	13.10	13.55
2024E EPS	3.05	3.80
2025E EPS	0.95	1.45

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Stock Data

Price	43.21 USD
Price Objective	47.00 USD
Date Established	11-May-2023
Investment Opinion	C-2-7
52-Week Range	21.20 USD - 46.84 USD
Mrkt Val (mn) / Shares Out (mn)	1,492 USD / 34.5
Average Daily Value (mn)	17.83 USD
BofA Ticker / Exchange	TNK / NYS
Bloomberg / Reuters	TNK US / TNK.N
ROE (2023E)	38.1%
Net Dbt to Eqty (Dec-2022A)	-10.0%
ESGMeterTM	Medium

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Timestamp: 03 August 2023 05:25PM EDT

iQprofileSM Teekay Tankers Limited

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	-10.6%	14.3%	25.8%	7.2%	6.3%
Return on Equity	-14.5%	22.7%	38.1%	9.2%	7.0%
Operating Margin	-35.8%	24.1%	38.8%	18.5%	9.4%
Free Cash Flow	(131)	178	511	163	86

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	NM	0.9x	1.1x	1.6x	2.5x
Asset Replacement Ratio	0.2x	0.2x	0.2x	0.3x	0.3x
Tax Rate	0.8%	0.2%	2.2%	NM	NM
Net Debt-to-Equity Ratio	39.2%	-10.0%	-14.7%	-16.7%	NA
Interest Cover	-5.5x	7.2x	18.7x	10.9x	6.1x

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	542	1,063	1,258	734	591
% Change	-38.8%	96.0%	18.3%	-41.7%	-19.5%
Gross Profit	377	913	1,107	587	449
% Change	-46.3%	142.1%	21.2%	-46.9%	-23.6%
EBITDA	(88)	355	587	236	156
% Change	NM	NM	65.3%	-59.8%	-33.9%
Net Interest & Other Income	(50)	(26)	(20)	(11)	(8)
Net Income (Adjusted)	(139)	217	461	124	47
% Change	NM	NM	112.5%	-73.1%	-61.9%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	(242)	229	457	124	47
Depreciation & Amortization	106	99	99	101	101
Change in Working Capital	(50)	(112)	(10)	0	0
Deferred Taxation Charge	13	4	10	0	0
Other Adjustments, Net	64	(26)	(26)	(30)	(30)
Capital Expenditure	(21)	(15)	(19)	(32)	(32)
Free Cash Flow	-131	178	511	163	86
% Change	NM	NM	187.3%	-68.1%	-47.3%

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	53	184	264	291	0
Trade Receivables	41	117	125	125	0
Other Current Assets	152	159	147	147	0
Property, Plant & Equipment	1,337	1,253	1,176	1,108	0
Other Non-Current Assets	36	71	118	118	0
Total Assets	1,619	1,784	1,830	1,788	0
Short-Term Debt	77	77	66	66	0
Other Current Liabilities	80	93	70	70	0
Long-Term Debt	305	0	0	0	0
Other Non-Current Liabilities	318	543	346	304	0
Total Liabilities	780	714	482	439	0
Total Equity	838	1,070	1,349	1,349	0
Total Equity & Liabilities	1,619	1,784	1,830	1,788	0

* For full definitions of iQmethodSM measures, see page 4.

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 412,584

Quarterly Earnings Estimates

	2022	2023
Q1	-0.41A	5.06A
Q2	0.75A	4.33A
Q3	1.68A	2.59E
Q4	4.28A	1.48E

Price objective basis & risk

Teekay Tankers Limited (TNK)

Our \$47 price objective is based on 6.3x our 2024E EBITDA. Our multiple is at the midpoint of Teekay's trading range (4.3x-8.1x) as crude tanker rate levels pass historic peaks as Russia's invasion of Ukraine drives longer-haul trade flows, inventories are at cycle lows, and orderbook remains at historic lows (yet rising). 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

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
	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	YFII	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
	TuSimple	TSP	TSP US	Ken Hoexter



US - Transportation Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	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

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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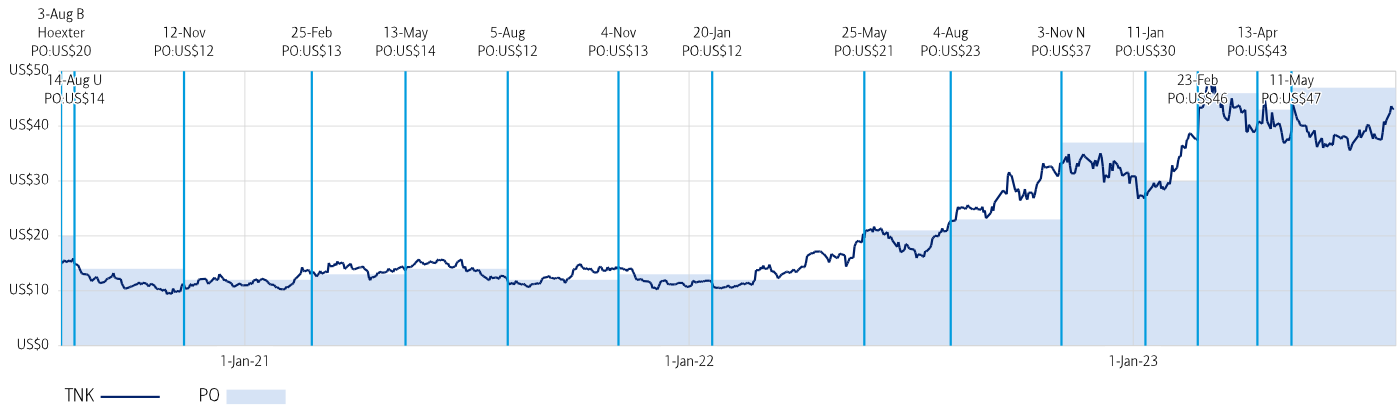
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Teekay Tankers (TNK) Price Chart



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 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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