

Teekay Tankers Limited

20-min series: Sees tight crude tanker market continue; Volatile but strong rates

Maintain Rating: NEUTRAL | PO: 47.00 USD | Price: 36.71 USD

TNK continues 4th annual 20-minute Shipping Call series

On June 1, we hosted Teekay Tankers(TNK) as part of our 4th annual Hoexter's 20-minute Shipping update call series. TNK operates 53 mid-sized crude tanker vessels (45 owned, 8 chartered-in). We hosted CEO Kevin Mackay and CFO Stewart Andrade to discuss the state of pricing, demand, orderbook, its focus on the spot market, and capital priorities.

Mid-size crude tankers move a third of seaborne crude

Teekay Tankers has 53 mid-size tanker vessels, representing ~4% of the global mid-size fleet of ~1,280 vessels (600 Suezmaxes, 680 Aframax). There are approximately 101 million barrels of crude produced per day (mbpd). Approximately 2/3 of global oil supply/demand, or 66 mbpd are transported by seaborne trade. Of the 66 mbpd, about 43 mbpd are global seaborne crude and ~24 mbpd are global product trade. Of the 43 mbpd crude by sea, 50% is moved in Very Large Crude Carriers (VLCCs) and 50% on mid-sized tankers (Suezmax, Aframax vessels). TNK remains confident that tanker rates will remain elevated, evidenced by it keeping 96% of its fleet in the spot pool. While freight forward assessments (FFA) imply lower rates in 3Q23, CEO Mackay is optimistic on pricing, noting that 2Q-to-date fixtures have outperformed historical seasonality.

Still sees tight tanker market, OPEC impact limited

TNK believes the tight supply/demand balance in the mid-size tanker market will continue as the tanker orderbook is at 4%-5% of the on-water fleet, near historic lows. Although carrier new orders have started to rise, new orders are on track for only 24 mil deadweight tons (dwt) this year, below the 30-mil historical annual average and well below prior super-cycles (51 mil in 2015, 94 mil in 2006) when day rates were elevated. The earliest new vessel delivery remains for 2026. Since 1Q (when charter rates averaged \$61k/day), rates have been volatile given fluctuations of vessel availability (dispersion of demand and capacity locations). TNK noted Gulf Aframax rates fluctuated from \$10k/day in May to \$132k/day last week, which it locked in for a 9-day fixture. While incremental OPEC production cuts on June 4 may limit rates, TNK sees the negative impact limited to the Middle East focused VLCC trade. It sees tanker ton-mile upside from rising int'l travel (higher jet fuel demand) and 2H China reopening.

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)			13.76	8.80	9.93
DPS	0	0	2.00	1.00	1.00
Valuation (Dec)					
P/E	NM	5.8x	2.8x	12.0x	38.6x
GAAP P/E	NM	5.5x	2.8x	12.0x	38.6x
Dividend Yield	0%	0%	5.4%	2.7%	2.7%
EV / EBITDA*	NM	4.4x	2.7x	6.8x	10.2x
Free Cash Flow Yield*	-10.3%	14.0%	35.9%	10.8%	5.5%

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

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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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Equity

Ken Hoexter
Research Analyst
BofAS
+1 646 855 1498
ken.hoexter@bofa.com

Nathan Gee, CFA >>
Research Analyst
Merrill Lynch (Singapore)
+65 6678 0418
nathan.gee@bofa.com

Adam Roszkowski, CFA
Research Analyst
BofAS
+1 646 855 5498
adam.roszkowski@bofa.com

Nathan Ho, CFA
Research Analyst
BofAS
+1 646 855 3599
nathan.m.ho@bofa.com

Stock Data

Price	36.71 USD
Price Objective	47.00 USD
Date Established	11-May-2023
Investment Opinion	C-2-7
52-Week Range	14.53 USD - 46.84 USD
Mrkt Val (mn) / Shares Out (mn)	1,268 USD / 34.5
Average Daily Value (mn)	18.74 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

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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 505,622

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

Current rate environment implies ~60% FCF yield

CFO Andrade believes that based on current rates and 4Q/1Q cash flows, it can generate a free cash flow yield of 60% (annual free cash flow/market cap). With a 13.5 year average fleet age, nearly in-line with industry average, and an improved balance sheet, the company restarted its dividend, with target for a fixed quarterly dividend of \$0.25/sh. It also launched an upcoming special dividend of \$1.00/sh and initiated a \$100 million share repurchase program. This represents a shift in capital focus to shareholder returns, though it will also progress to a net-debt positive level by 2H23 as it continues to reduce its leverage.



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

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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
	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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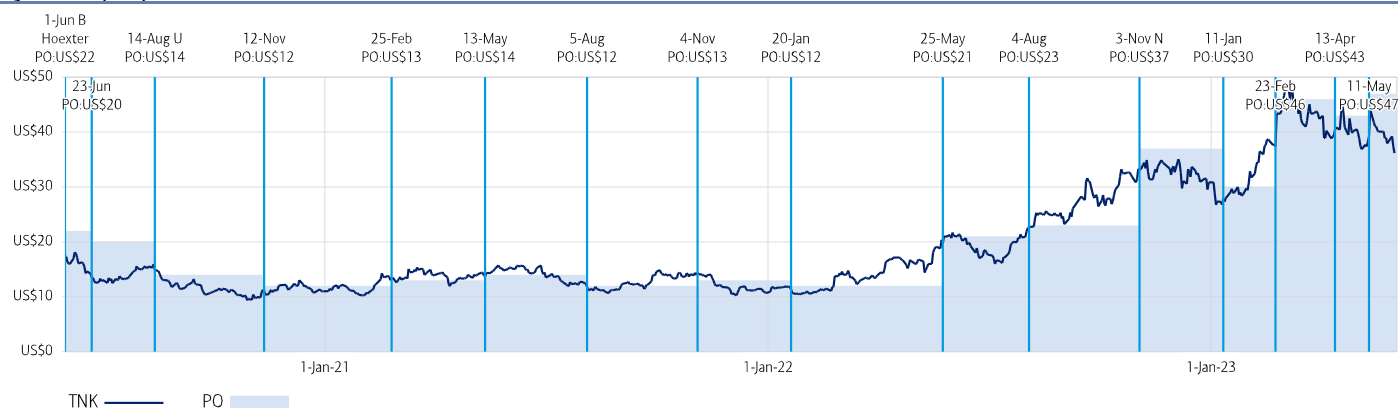
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Teekay Tankers (TNK) Price Chart



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 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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