

Teekay Tankers Limited

Rates fall short of targets yet accelerating in 1Q24; Debt-free by March; PO to \$65

Reiterate Rating: BUY | PO: 65.00 USD | Price: 54.78 USD

Spot rates fall short of targets; Accelerating in 1QTD

Teekay Tankers posted adj 4Q23 EPS of \$2.88, below our \$3.90 target and Street's \$3.42. The shortfall was due to weaker than expected 4Q23 time-charter equivalent (TCE) rates, with its spot fleet averaging \$41,000/day, below our \$51,000/day target as it pulled forward its bookings earlier in the quarter. Net Vessel Revenues were \$195 million, down 17% year-year and \$32 million below our target (-\$0.94/sh). 1QTD TCEs have accelerated 25% sequentially to \$50,000/day with 70% of revenue days booked (below our prior target of \$62,000/day 1Q24, now \$52,000/day) as voyage re-routings due to Red Sea disruptions led a surge in ton-mile demand. Rates were below January Clarkson averages of \$68,000/day for Suezmax, \$78,000/day for Aframax, \$65,000/day for LR-2 as demurrages and forward bookings led to worse rate capture. Nevertheless, TCEs remain well above Teekay's \$16,000/day free cash breakeven level given robust demand-supply. Trade lane dislocations continues to be a tailwind as sailing days for Europe-Middle East lanes increased to 40 days from 13 days prior to the disruptions.

Expects no debt by end of March; See dividend potential

Teekay Tankers will repurchase \$137 million in vessel sale leasebacks in 1Q24, lowering its total debt to zero. This effectively completes its capital strategy set at 1Q23 where it highlighted its deleveraging focus. It anticipates lowering its breakeven TCE by approx \$500/day following the completion of its debt repayment. The company is agnostic in terms of deploying cash yet noted a preference to periodically issue special dividends (above its fixed \$0.25 quarterly dividend) over share repurchases or ordering new vessels given the elevated forward cover at shipyards (~3.5 years). The crude tanker capacity backdrop remains tight with an orderbook ratio of 7%, and 2024 deliveries of 9 million deadweight tons are expected to be the lowest in 27 years.

PO to \$65

We reiterate our Buy on Teekay Tankers' shares yet lower our PO to \$65 (from \$72) holding our 3.2x target multiple on our revised 2024 EBITDA estimate as we lower our charter rate target given its worse-than-expected rate capture. We remain positive on the carrier's strong cash generation, improved leverage levels, and increasing potential to ramp shareholder returns. We decrease our 2024 and 2025 EPS estimates 10% and 2% to \$12.95 and \$6.55, from \$14.35 and \$6.65, respectively, on lower TCE estimates.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	6.34	14.48	12.95	6.55	6.35
GAAP EPS	6.69	14.86	12.95	6.55	6.35
EPS Change (YoY)	NM	128.4%	-10.6%	-49.4%	-3.1%
Consensus EPS (Bloomberg)			13.63	13.79	14.16
DPS	0	2.00	1.00	1.00	1.00
Valuation (Dec)					
P/E	8.6x	3.8x	4.2x	8.4x	8.6x
GAAP P/E	8.2x	3.7x	4.2x	8.4x	8.6x
Dividend Yield	0%	3.7%	1.8%	1.8%	1.8%
EV / EBITDA*	4.9x	2.7x	3.4x	5.7x	5.7x
Free Cash Flow Yield*	9.4%	32.5%	24.7%	13.4%	14.7%

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

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Timestamp: 22 February 2024 04:34PM EST

22 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	72.00	65.00
2024E Rev (m)	1,309.4	1,219.3
2025E Rev (m)	924.2	919.1
2026E Rev (m)	NA	916.1
2024E EPS	14.35	12.95
2025E EPS	6.65	6.55
2026E EPS	NA	6.35

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Stock Data

Price	54.78 USD
Price Objective	65.00 USD
Date Established	22-Feb-2024
Investment Opinion	C-1-7
52-Week Range	35.00 USD - 64.42 USD
Mrkt Val (mn) / Shares Out (mn)	1,896 USD / 34.6
Free Float	82.9%
Average Daily Value (mn)	26.08 USD
BofA Ticker / Exchange	TNK / NYS
Bloomberg / Reuters	TNK US / TNK.N
ROE (2024E)	28.5%
Net Dbt to Eqty (Dec-2023A)	-20.3%
ESGMeter TM	Medium

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iQprofileSM Teekay Tankers Limited

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	14.3%	28.2%	20.6%	9.6%	8.7%
Return on Equity	22.7%	38.6%	28.5%	14.3%	13.9%
Operating Margin	24.1%	39.3%	34.2%	22.6%	22.6%
Free Cash Flow	178	616	469	253	279

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.9x	1.3x	1.2x	1.3x	1.3x
Asset Replacement Ratio	0.2x	0.1x	0.3x	0.3x	0x
Tax Rate	0.2%	1.8%	NM	NM	NM
Net Debt-to-Equity Ratio	-10.0%	-20.3%	-39.6%	-53.8%	-69.6%
Interest Cover	7.2x	19.3x	NM	35.1x	34.9x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	1,063	1,364	1,219	919	916
% Change	96.0%	28.3%	-10.6%	-24.6%	-0.3%
Gross Profit	913	1,215	1,072	775	772
% Change	142.1%	33.2%	-11.8%	-27.7%	-0.3%
EBITDA	355	633	514	304	303
% Change	NM	78.4%	-18.9%	-40.8%	-0.4%
Net Interest & Other Income	(26)	(13)	17	11	6
Net Income (Adjusted)	217	501	434	219	212
% Change	NM	130.6%	-13.2%	-49.6%	-3.0%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	229	514	434	219	212
Depreciation & Amortization	99	98	97	97	97
Change in Working Capital	(112)	27	0	0	0
Deferred Taxation Charge	4	11	0	0	0
Other Adjustments, Net	(26)	(23)	(30)	(30)	(30)
Capital Expenditure	(15)	(10)	(32)	(32)	0
Free Cash Flow	178	616	469	253	279
% Change	NM	246.3%	-23.9%	-45.9%	10.0%
Share / Issue Repurchase	0	0	0	0	0
Cost of Dividends Paid	0	(56)	(34)	(33)	(33)
Change in Debt	(112)	(398)	(141)	(4)	(4)

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	184	366	661	877	1,119
Trade Receivables	117	100	100	100	100
Other Current Assets	159	148	148	148	148
Property, Plant & Equipment	1,253	1,158	1,094	1,029	933
Other Non-Current Assets	71	102	102	102	102
Total Assets	1,784	1,873	2,104	2,256	2,401
Short-Term Debt	77	56	56	56	56
Other Current Liabilities	93	83	74	74	74
Long-Term Debt	0	0	0	0	0
Other Non-Current Liabilities	543	208	448	600	745
Total Liabilities	714	348	578	730	875
Total Equity	1,070	1,526	1,526	1,526	1,526
Total Equity & Liabilities	1,784	1,873	2,104	2,256	2,401

* 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 53 mid-sized tanker vessels, is a 50% joint-owner of one VLCC, charters-in 9, for an operational fleet of 54 tankers. The company owns a combination of Suezmax, Aframax, Product Tankers, support ships, and a 50% JV stake in one VLCC tanker.

Investment Rationale

Given its elevated spot exposure, Teekay Tankers is highly leveraged to rates, which are likely to see upside following Red Sea disruption and longer haul voyages around the Cape of Good Hope. It remains mostly focused on the spot market (96% of its fleet), having ended most contracts, and on deleveraging its balance sheet, now net cash. We see benefit in deleveraging and longer hauls and upside in rates outpacing the demand decline, supporting our Buy rating on its shares.

Stock Data

Average Daily Volume 476,035

Quarterly Earnings Estimates

	2023	2024
Q1	5.06A	4.19E
Q2	4.33A	3.69E
Q3	2.22A	1.96E
Q4	2.88A	3.10E

Price objective basis & risk

Teekay Tankers Limited (TNK)

Our \$65 price objective is based on 3.2x our 2024E EBITDA. Our multiple is at the bottom of Teekay's trading range (3.0x-7.0x) as crude tanker rate levels sustain historic peak levels after Russia's invasion of Ukraine with disruptions at the Red Sea and Panama Canal drought driving longer-haul trade flows, in and orderbook remains near historic lows.

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 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
	Saia Inc.	SAIA	SAIA US	Ken Hoexter
	Teekay Tankers Limited	TNK	TNK US	Ken Hoexter
	Union Pacific	UNP	UNP US	Ken Hoexter
	Wabtec Corp.	WAB	WAB US	Ken Hoexter
	XPO, Inc.	XPO	XPO US	Ken Hoexter
NEUTRAL				
	Canadian National	CNI	CNI 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
	TFI International	TFII	TFII US	Ken Hoexter
	TFI International	YTFII	TFII CN	Ken Hoexter
	UPS	UPS	UPS 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
	World Kinect	WKC	WKC US	Ken Hoexter
RSTR				
	Norfolk Southern	NSC	NSC 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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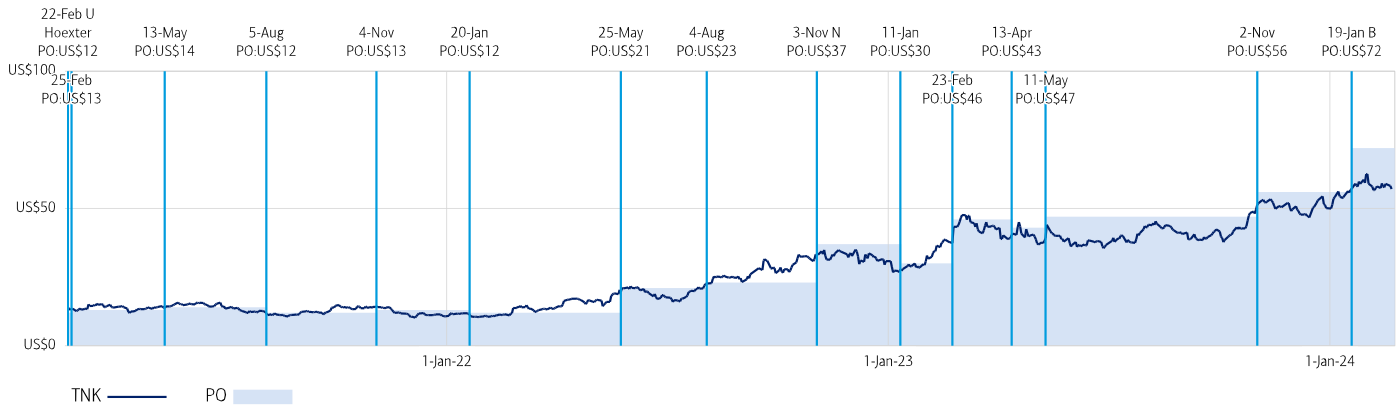
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Important Disclosures

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 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	67	50.38%	Buy	44	65.67%
Hold	31	23.31%	Hold	13	41.94%
Sell	35	26.32%	Sell	17	48.57%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{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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