

## Scorpio Tankers Inc.

# Product rates show momentum after Red Sea impact; yet orderbook rising; PO \$72

Reiterate Rating: NEUTRAL | PO: 72.00 USD | Price: 65.38 USD

## Pricing accelerating in the wake of Red Sea disruptions

Scorpio Tankers (STNG) posted 4Q23 adj EPS of \$2.75, down 35% y-y, below our \$2.79 estimate yet above Street's \$2.59. The slight miss was led by lower than expected rates as 4Q23 fleet time-charter equivalent (TCE) was \$32,950/day, below our \$33,640/day target with a milder than anticipated winter pressuring product tanker ton-mile demand. However, 1QTD TCEs have surged as tightening product tanker capacity after Red Sea disruptions accelerated pricing. The company booked 68%, 59%, and 55% of its spot LR-2, MR, and Handymax Revenue Days at \$57,000, \$34,500, and \$32,500 per day, respectively, well ahead of our prior targets of \$37,000, \$30,000, and \$29,000 per day (now \$51,000/\$33,700/\$33,600). Sailing days for key Asia-Europe lanes have increased from 20-30 days on average to 40-50 days after rerouting from Suez, resulting in a rapid increase in charterer ton-mile demand in an already constrained vessel supply backdrop. Given elevated product tanker rates and an uncertain macro outlook, STNG may increase its charter-out exposure as it moves to lock in returns for the long-term.

## Focused on net debt target; Orderbook ratio rise to 13%

STNG reduced its outstanding debt by \$178 million from 3Q, with net debt now \$1.1 billion (as of Feb 13). The reduced leverage lowered its cash breakeven TCE to \$16,000/day from \$17,000/day. It remains focused on decreasing its net debt to below scrap value, which we estimate to be approximately \$850 million, before increasing shareholder returns. As the robust rate backdrop persist, we see potential for STNG to achieve its target ahead of schedule (prior to 2Q24). Product tanker Orderbook-to-Fleet ratio increased to 13% from 12% in 4Q23 and 10% in 3Q23 as newbuild orders continue to build. Net Vessel Revenues were \$334 mil, down 27% y-y and \$3 mil below our target. Operating Income was \$176 mil, down 41% y-y and \$1 mil below our target.

## Reiterate \$72 PO

We reiterate our \$72 PO on STNG's shares based on 5.0x our 2024 EBITDA estimate (from 6.0x), moving to the bottom of its 5x-8x EV/EBITDA range as a rising capacity view is countered by the carrier's strong cash generation and rates momentum. We increase our 2024 and 2025 EPS estimates 23% and 13%, to \$11.35 and \$8.95, from \$9.20 and \$7.95, respectively, as we increase our charter rate forecasts.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	11.42	10.47	11.35	8.95	10.20
GAAP EPS	11.49	10.04	11.35	8.95	10.20
EPS Change (YoY)	NM	-8.3%	8.4%	-21.1%	14.0%
Consensus EPS (Bloomberg)			11.83	11.35	7.18
DPS	0.40	1.05	1.95	2.20	2.60
Valuation (Dec)					
P/E	5.9x	6.4x	5.9x	7.5x	6.6x
GAAP P/E	5.9x	6.7x	5.9x	7.5x	6.6x
Dividend Yield	0.6%	1.6%	2.9%	3.3%	3.9%
EV / EBITDA*	3.6x	4.1x	4.3x	5.3x	5.2x
Free Cash Flow Yield*	21.9%	25.1%	23.1%	20.0%	21.0%

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

14 February 2024

### Equity

#### Key Changes

(US\$)	Previous	Current
2024E DPS	1.80	1.95

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### Stock Data

Price	65.38 USD
Price Objective	72.00 USD
Date Established	23-Jan-2024
Investment Opinion	C-2-7
52-Week Range	40.34 USD - 72.89 USD
Mkt Val (mn) / Shares Out (mn)	3,256 USD / 49.8
Free Float	87.1%
Average Daily Value (mn)	102.27 USD
BofA Ticker / Exchange	STNG / NYS
Bloomberg / Reuters	STNG US / STNG.N
ROE (2024E)	20.8%
Net Dbt to Eqty (Dec-2023A)	40.3%
ESGMeter <sup>TM</sup>	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".

LR-2: Long-Range 2

MR: Medium Range

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

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

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	17.5%	16.3%	16.3%	12.9%	13.1%
Return on Equity	33.2%	22.5%	20.8%	13.9%	14.3%
Operating Margin	54.5%	53.1%	51.9%	44.9%	45.2%
Free Cash Flow	735	842	777	672	706

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

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.1x	1.5x	1.4x	1.6x	1.5x
Asset Replacement Ratio	0.2x	0.1x	0.2x	0x	0x
Tax Rate	NM	NM	NM	NM	NM
Net Debt-to-Equity Ratio	49.2%	40.3%	13.5%	1.3%	-10.3%
Interest Cover	5.4x	4.3x	5.2x	4.7x	6.3x

## Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	1,563	1,341	1,298	1,134	1,157
% Change	189.0%	-14.2%	-3.2%	-12.6%	2.0%
Gross Profit	1,563	1,341	1,298	1,134	1,157
% Change	189.0%	-14.2%	-3.2%	-12.6%	2.0%
EBITDA	1,058	915	879	714	727
% Change	607.8%	-13.6%	-3.9%	-18.7%	1.8%
Net Interest & Other Income	(149)	(142)	(98)	(84)	(63)
<b>Net Income (Adjusted)</b>	<b>722</b>	<b>570</b>	<b>576</b>	<b>425</b>	<b>460</b>
<b>% Change</b>	<b>NM</b>	<b>-21.0%</b>	<b>0.9%</b>	<b>-26.1%</b>	<b>8.0%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	726	547	576	425	460
Depreciation & Amortization	207	203	205	205	205
Change in Working Capital	(176)	59	0	0	0
Deferred Taxation Charge	0	0	0	0	0
Other Adjustments, Net	12	57	47	47	47
Capital Expenditure	(34)	(23)	(50)	(5)	(5)
<b>Free Cash Flow</b>	<b>735</b>	<b>842</b>	<b>777</b>	<b>672</b>	<b>706</b>
<b>% Change</b>	<b>NM</b>	<b>14.6%</b>	<b>-7.7%</b>	<b>-13.6%</b>	<b>5.1%</b>
Share / Issue Repurchase	(161)	(490)	(155)	(210)	(210)
Cost of Dividends Paid	(185)	(547)	(250)	(311)	(322)
Change in Debt	(849)	162	(500)	(272)	(45)

## Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	377	356	383	472	810
Trade Receivables	277	204	204	204	204
Other Current Assets	34	18	18	18	18
Property, Plant & Equipment	3,089	3,578	3,373	3,169	2,964
Other Non-Current Assets	783	74	74	74	74
<b>Total Assets</b>	<b>4,559</b>	<b>4,229</b>	<b>4,051</b>	<b>3,935</b>	<b>4,069</b>
Short-Term Debt	32	221	221	221	221
Other Current Liabilities	442	289	289	289	289
Long-Term Debt	1,579	1,165	564	292	247
Other Non-Current Liabilities	NA	NA	NA	NA	NA
<b>Total Liabilities</b>	<b>2,052</b>	<b>1,675</b>	<b>1,075</b>	<b>803</b>	<b>758</b>
<b>Total Equity</b>	<b>2,507</b>	<b>2,554</b>	<b>2,976</b>	<b>3,133</b>	<b>3,311</b>
<b>Total Equity &amp; Liabilities</b>	<b>4,559</b>	<b>4,229</b>	<b>4,051</b>	<b>3,935</b>	<b>4,069</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 110 owned product tankers. STNG largely operates in the spot shipping markets.

## Investment Rationale

We believe Scorpio Tankers will benefit from rising rates in the aftermath of the recent Red Sea disruptions, yet remain cautious on the rising product tanker orderbook negatively impacting our view of capacity. However, with 110 product tanker vessels (post sale) generating robust cash flow, shares could also see support from its high FCF yield. We thus maintain a balanced view on STNG shares with our Neutral rating.

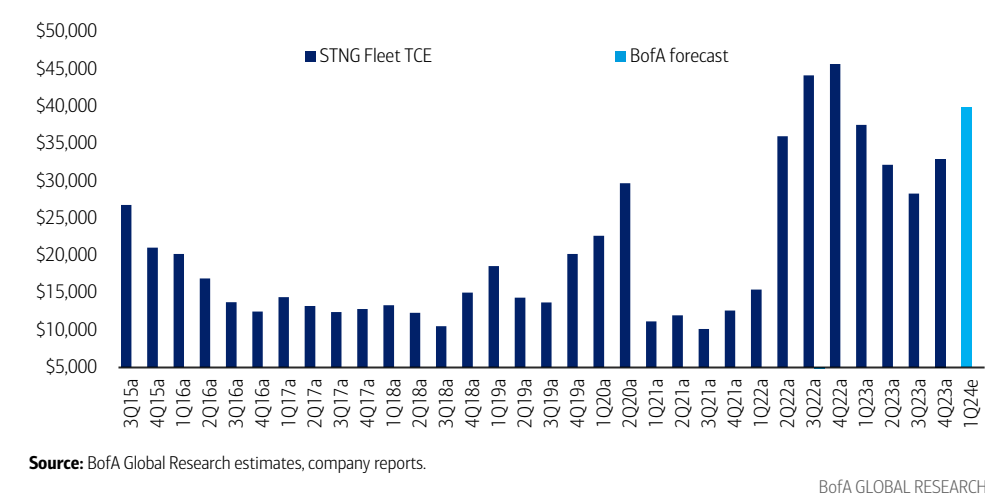
## Stock Data

Average Daily Volume 1,564,294

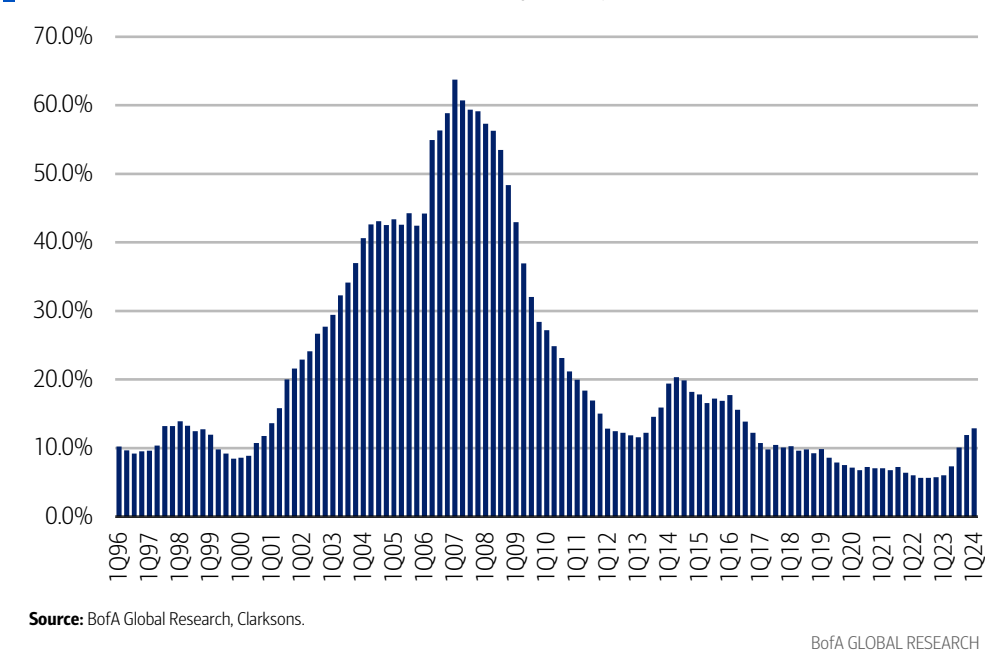
## Quarterly Earnings Estimates

	2023	2024
Q1	3.31A	4.13E
Q2	2.41A	2.51E
Q3	1.91A	1.91E
Q4	2.75A	2.78E

**Exhibit 1: Scorpio Tankers Fleet Time Charter Equivalent (TCE) Rate**  
We increase our 1Q24 fleet TCE target to \$40,000/day from \$32,000/day previously.



**Exhibit 2: Product Tanker Orderbook to Fleet Ratio**  
Product tanker orderbook to fleet ratio is 13% in February 2024, up from 12% in 4Q23 and 10% in 3Q23.



## Price objective basis & risk

### Scorpio Tankers Inc. (STNG)

Our \$72 price objective is based on an 5.0x EV/EBITDA multiple on our 2024 EBITDA estimate. Our valuation multiple is at the bottom of its 5x-8x historical trading range given we are at historically high product tanker rates, as impacts of Red Sea disruptions, Russia export sanctions, and refinery dislocations lengthen charter voyage thus increasing ton-mile demand in a tight vessel supply backdrop. However, the rising product tanker orderbook-to-fleet ratio suggests increasing newbuild orders, indicating potential capacity headwinds ahead.

Upside risks to our PO are volatile charter rates, better-than-expected spot product tanker rates in 2024-25, lower-than-expected vessel deliveries in 2024-25, 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 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
	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
<b>NEUTRAL</b>				
	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
<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
	Werner Enterprises	WERN	WERN US	Ken Hoexter
	World Kinect	WKC	WKC US	Ken Hoexter

## US - Transportation Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
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**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

Basic EBIT + Depreciation + Amortization

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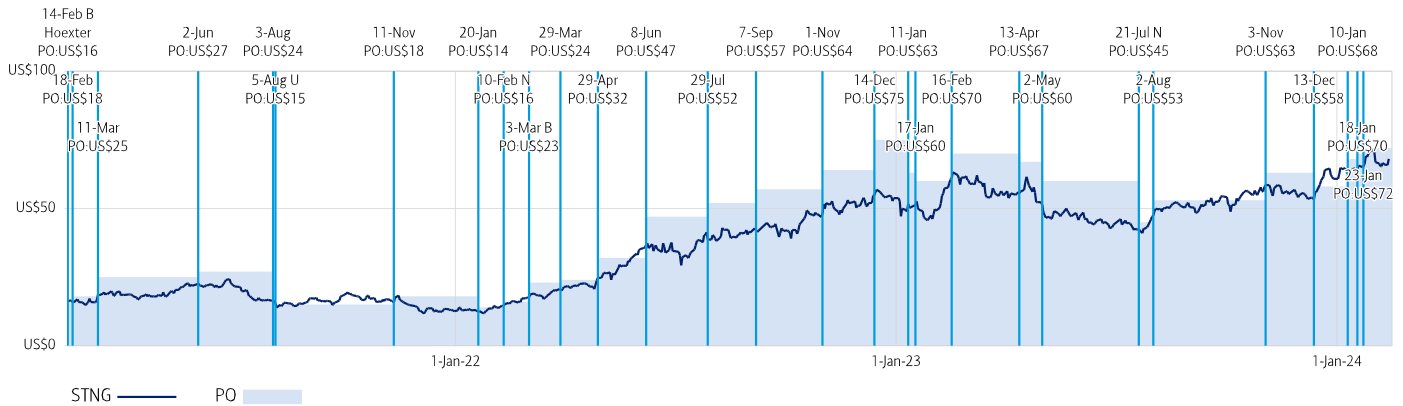
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### Equity Investment Rating Distribution: Transport/Infrastructure Group (as of 31 Dec 2023)

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

<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>
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Neutral	≥ 0%	≤ 30%
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