

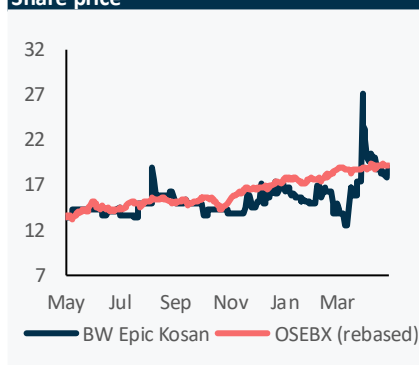
BW Epic Kosan

BUY

Key share data

Sector	Shipping
Bloomberg	BWEK NO
Market Cap (NOKm)	2,898
Net debt (NOKm)	3,583
EV (NOKm)	6,481
Issued shares (mill.)	153

Share price



Performance

	1m	3m	12m
BWEK	-30%	27%	42%
OSEBX	1%	9%	43%

Upcoming events

1Q21 report	May 12, 2021
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Norne Securities AS is a market maker in the shares of BW Epic Kosan.

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A start of a new era for the company

BW Epic Kosan, which we all knew as Epic Gas previously, is reporting its 1Q21 results next Wednesday. Due to uncertainty on accounting we present our expectations of the old part of the company for 1Q and add the projections of BW Kosan's figures starting in 2Q, which might be changed if some other structure is revealed during the presentation. 1Q should be somewhat weaker for the company due to lower number of operating days and significantly increased oil price, but a more distant future looks solid and we reiterate Buy for the share at NOK 22/sh Target Price.

1Q21 expected somewhat slower

As the union with BW Kosan was finalized towards the end of the quarter, we decided to show the prognosis for the "old" part of the company, Epic Gas, and will adjust our model if any other way of reporting is presented next week. While the pressurized LPG shipping rates were rather stable throughout the quarter, we encountered a significant recovery in the oil price at the beginning of this year, which resulted in the lower margin expectations.

1Q21 results	1Q20	4Q20	1Q21E
USDm			Norne
Revenues	47.8	44.2	42.4
EBITDA	14.9	14.3	10.4
Adj. EBIT	6.6	6.6	2.7
EBIT	6.5	5.1	2.7
Pretax profit	2.3	1.7	-0.8
Net earnings	2.3	1.7	-0.8
EPS (USD)	0.02	0.02	-0.01
Adj. EPS (USD)	0.02	0.03	-0.01

No longer Epic Gas

The transaction with Lauritzen Kosan to receive the gas carrier division, combine fleet and business activities and create BW Epic Kosan was finalized and closed on 11th March, 2021. Lauritzen Kosan has contributed 34 gas carriers to Epic Gas's fleet of 42 pressurised gas vessels, in addition to certain other assets, in exchange for new shares in Epic Gas. Therefore, BW Epic Kosan currently has 48 various-sized pressurized LPG carriers, 9 smaller semi-refs and 19 Ethylene/chemical carriers. Post-completion of the related share issue, there were 152,510,755 shares issued. BW Group Limited remained the largest shareholder of the Company with 58% of the shares, followed by Lauritzen Kosan A/S with 26% of the shares.

It is hard to predict how the company re-shapes after the transition to somewhat broader waters, while we are also keen to see how the new reporting structure will look like. Still, our current calculations point to a solid upside and we reiterate Buy recommendation at a higher NOK 22/sh Target Price.

DCF model

USDm	2021E	2022E	2023E	2024E	2025E
Revenues	274	337	366	390	408
EBIT	22	46	62	71	79
Tax on EBIT	0	0	0	0	0
NOPLAT (+)	22	46	62	71	79
Depreciation & amortization (+)	51	58	58	58	58
Capital expenditure (-)	-51	-58	-58	-58	-58
Change in working capital (- or +)	2	0	0	2	0
Free Cash Flow to the Firm	24	46	62	73	79
NPV of FCFF (USD)	22	39	48	51	51
NPV of FCFF (NOK)	183	320	397	427	423

WACC calculation	
Debt ratio	20%
Cost of debt (after tax)	4%
Risk free rate	2.0%
Beta	1.4
Market risk premium	6.0%
Cost of equity	10.4%
WACC	9.1 %

Valuation, NOKm	
Net debt*	3,583
Minority interest	0
NPV cash flow	
2021-2025E	1,750
2026E-	6,546
Total NPV cash flow	8,296
Equity value	4,712
Value per share, NOK	31

Assumptions	
L.t. growth	2.5%
Tax rate	0%
USD/NOK	8.3
# shares, m*	153
*adj. for BW Kosan	

Profit & Loss (USDm)	2013	2014	2015	2016	2017	2018	2019	2020*	2021E	2022E	2023E
Operating revenues	78	117	130	130	140	156	170	183	274	337	366
Operating expenses	-66	-94	-101	-105	-111	-112	-125	-125	-202	-234	-247
EBITDA (adj)	13	23	30	25	29	44	45	58	73	103	119
Depreciation & Amortisation	-14	-19	-22	-25	-29	-30	-31	-32	-51	-58	-58
EBIT (adj)	-1	4	8	0	-0	14	15	26	22	46	62
Non-recurring items	2	-13	-10	-10	-15	0	-2	-5	-	-	-
EBIT	1	-9	-3	-9	-15	15	13	21	22	46	62
Net interest & other financial effects	-9	-15	-13	-14	-17	-17	-19	-15	-19	-21	-21
Pre-tax profit	-8	-23	-16	-23	-30	-2	-5	6	3	25	41
Minority interests	-	-	-	-	-	-	-	-	-	-	-
Taxes	-0	-	-0	-0	-1	-1	-0	-0	-	-	-
Profit after tax	-8	-23	-16	-23	-31	-3	-6	6	3	25	41
EPS rep. (USD)	na	na	na	-0.45	-0.44	-0.04	-0.05	0.06	0.02	0.16	0.27
EPS adj. (USD)	na	na	na	-0.26	-0.24	-0.03	-0.02	0.11	0.02	0.16	0.27
Margins											
Operating margin	-1%	4%	6%	0%	0%	9%	9%	14%	8%	14%	17%
ROE	na	-5%	-2%	-5%	-7%	-1%	-1%	4%	1%	7%	11%
ROCE	0%	1%	2%	0%	0%	3%	3%	4%	3%	6%	9%
Tax rate	0%	0%	-1%	-2%	-2%	nm	-5%	3%	0%	0%	0%
Growth rates (YoY)											
Operating revenues	na	50%	11%	0%	7%	11%	10%	8%	50%	23%	9%
EBIT (adj)	na	-613%	84%	-95%	-152%	nm	1%	81%	-17%	110%	35%
EPS (adj)	na	na	na	na	nm	nm	nm	nm	-84%	861%	64%

*Epic Gas until 2021, BW Epic Kosan further

Balance sheet (USDm)	2013	2014	2015	2016	2017	2018	2019	2020*	2021E	2022E	2023E
Goodwill	-	-	-	-	-	-	-	-	-	-	-
Deferred tax asset	2	1	0	0	-	-	-	-	-	-	-
Licences, property, plant & equipment	272	420	427	500	525	497	606	567	809	809	809
Other intangible assets	41	46	51	39	14	13	35	35	54	54	54
Non-current Assets	314	466	478	539	538	510	641	602	863	863	863
Inventory	1	3	2	3	4	3	5	3	3	3	3
Receivables	7	17	11	21	24	20	24	16	29	32	34
Other current assets	4	7	-	0	1	-	-	9	9	9	9
Cash and cash equivalents	39	31	44	10	7	17	41	47	52	62	88
Current Assets	51	58	57	35	36	40	71	75	93	105	134
Total assets	365	525	535	574	575	551	712	677	956	968	996
Shareholder's equity	180	229	263	241	244	243	295	296	364	373	399
Non-controlling interests	-	-	-	-	-	-	-	-	-	-	-
Total equity	180	229	263	241	244	243	295	296	364	373	399
Deferred tax liability	0	-	-	-	-	-	-	-	-	-	-
Long-term interest bearing debt	120	162	157	218	211	201	307	282	312	312	312
Other long-term liabilities	31	69	61	54	44	43	24	25	25	25	25
Non-current liabilities	150	230	218	272	255	245	331	307	337	337	337
Current interest bearing debt	17	41	23	28	32	27	31	31	181	181	181
Trade payables	13	18	16	19	25	23	29	16	34	37	40
Other current liabilities	3	8	15	14	19	14	26	26	40	40	40
Current liabilities	34	66	54	61	75	64	85	74	255	258	261
Total liabilities	184	296	272	333	331	308	416	381	592	595	598
Total liabilities and equity	365	525	535	574	575	551	712	677	956	968	996
Working capital	-5	2	-2	5	4	1	1	2	-3	-3	-3
Net IB debt	98	171	136	235	236	211	296	266	440	430	405
Capital employed	331	459	481	513	499	487	626	603	701	710	736
Net IB debt / equity	54%	75%	52%	98%	97%	87%	100%	90%	121%	115%	101%
Equity / total assets	50%	44%	49%	42%	42%	44%	41%	44%	38%	39%	40%

*Epic Gas until 2021, BW Epic Kosan further

Share data	2013	2014	2015	2016	2017	2018	2019	2020*	2021E	2022E	2023E
Shares outstanding, year end (mill.)	-	-	-	51.9	70.5	70.5	106.6	106.6	152.5	152.5	152.5
Share price, year end (NOK)	na	na	na	15.00	11.05	8.60	14.60	16.00	19.00	19.00	19.00
Market cap (NOKm)	-	-	-	779	779	606	1,557	1,706	2,898	2,898	2,898
Enterprise value (NOKm)	na	na	na	2,755	2,701	2,389	4,253	4,106	6,660	6,578	6,357
EPS rep. (USD)	na	na	na	-0.45	-0.44	-0.04	-0.05	0.06	0.02	0.16	0.27
EPS adj. (USD)	na	na	na	-0.26	-0.24	-0.03	-0.02	0.11	0.02	0.16	0.27
DPS. (USD)	na	na	na	-	-	-	-	0.14	0.10	0.10	0.15
Dividend pay-out ratio	na	na	na	0%	0%	0%	0%	254%	593%	62%	56%

Valuation	2013	2014	2015	2016	2017	2018	2019	2020*	2021E	2022E	2023E
EV/Sales	na	na	na	2.5	2.4	1.8	2.7	2.5	2.8	2.3	2.0
EV/EBITDA	na	na	na	13.1	11.4	6.4	10.4	7.8	10.7	7.4	6.2
EV/EBIT (adj)	na	na	na	>100	neg	19.6	32.2	17.3	35.7	16.8	12.1
P/E (adj)	na	na	na	neg	neg	neg	neg	16.6	>100	13.7	8.3
P/B (excl. goodwill)	na	na	na	0.4	0.4	0.3	0.6	0.6	0.9	0.9	0.9

Growth (YoY)	2013	2014	2015	2016	2017	2018	2019	2020*	2021E	2022E	2023E
Revenues	nm	50%	11%	0%	7%	11%	10%	8%	50%	23%	9%
EBITDA	nm	81%	29%	-16%	17%	51%	2%	30%	25%	42%	15%

Margins	2013	2014	2015	2016	2017	2018	2019	2020*	2021E	2022E	2023E
EBITDA	16.2 %	19.6 %	22.7 %	19.2 %	20.8 %	28.3 %	26.4 %	31.9 %	26.5 %	30.6 %	32.6 %
EBIT (a dj)	-1.0 %	3.5 %	5.8 %	0.3 %	-0.1 %	9.3 %	8.5 %	14.3 %	8.0 %	13.6 %	16.9 %
Pre-tax profit	-9.8 %	-19.7 %	-12.1 %	-17.6 %	-21.8 %	-1.4 %	-3.2 %	3.3 %	0.9 %	7.3 %	11.1 %
Net profit	-9.9 %	-19.7 %	-12.2 %	-17.8 %	-22.1 %	-1.8 %	-3.4 %	3.2 %	0.9 %	7.3 %	11.1 %

Profitability	2013	2014	2015	2016	2017	2018	2019	2020*	2021E	2022E	2023E
ROE	na	-5.1 %	-2.2 %	-5.3 %	-7.0 %	-0.9 %	-0.6 %	3.9 %	0.8 %	6.7 %	10.5 %
ROCE	-0.5 %	1.0 %	1.6 %	0.1 %	0.0 %	2.9 %	2.6 %	4.3 %	3.3 %	6.5 %	8.5 %
Dividend yield	na	na	na	0.0 %	0.0 %	0.0 %	0.0 %	7.9 %	4.5 %	4.5 %	6.8 %

*Epic Gas until 2021, BW Epic Kosan further

Recommendation, valuation, risk and sources

Recommendation and target price

Recommendation history for BW Epic Kosan (Epic Gas previously) during the last 12 months:

Date	Recommendation	Target price (NOK)
06/05/2021	Buy	22.00
19/02/2021	Buy	20.00
10/02/2021	Buy	19.00
13/11/2020	Buy	19.00
04/11/2020	Buy	19.00
26/08/2020	Buy	19.00
05/08/2020	Buy	18.00
14/05/2020	Buy	18.00
06/05/2020	Buy	17.00

Valuation

To arrive at our share price target we have used a rounded result of DCF model with a 30% discount.

Risks

The main risks to our target price on BW Epic Kosan are the following:

- LPG vessel demand might be affected by:
 - Supply and demand of LPG and petrochemicals
 - Global, regional economic and political conditions
 - Changes in laws and regulations
 - Currency exchange rates
 - Changes in marine and other transportation patterns
- The number of newbuilding deliveries might change
- The scrapping rate of older vessels might change
- The market rates might fluctuate
- Increases in bunker costs may increase operating expenses
- Increased competition might affect the results
- Insurance coverage for operational risks may not be adequate
- Acts of piracy could affect BW Epic Kosan's business
- Weather and natural disasters, including earthquakes and hurricanes, might occur

Sources

The sources used in the preparation of this report were: BW Epic Kosan, Oslo Stock Exchange, Bloomberg and Infront.

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Risk	Total return next 12 months (upside to target price)		
	Buy	Hold	Sell
Low	> 10%	2% - 10%	< 2%
Medium	> 15%	3% - 15%	< 3%
High	> 25%	5% - 25%	< 5%

Our risk assessments range from “high risk” to “medium risk” and “low risk” and are based on a subjective assessment of the following factors: 1) volatility in the share price, 2) liquidity in the share, 3) strength of the balance sheet, 4) absolute earnings level and trend and 5) estimate risk.

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This report has not been presented to the issuer before dissemination for a check of factual information.

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Responsible analyst(s)	0
All Norne analysts	0
Other Norne employees	0
Norne Securities AS	0

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Distribution of Norne Securities' recommendations during three months up till March 31, 2021:

	Buy	Hold	Sell
Total	60	37	3
% of total	60%	37%	3%
Corporate clients*	26	11	1
% of corporate clients*	68%	29%	3%

* Includes publicly disclosed not immaterial investment banking services or issues of financial instruments where Norne Securities AS has been lead manager or co-lead manager, and market making clients during the 12 months prior to the overview date.

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