

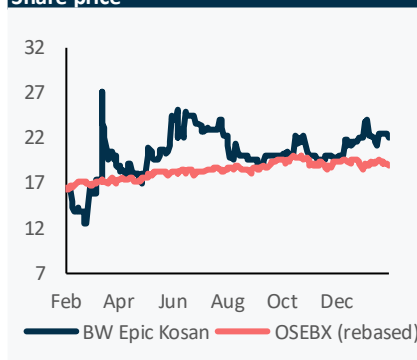
## BW Epic Kosan

**HOLD**

### Key share data

Sector	Transportation
Bloomberg	BWEK NO
Market Cap (NOKm)	3,508
Net debt (NOKm)	3,612
EV (NOKm)	7,120
Issued shares (mill.)	156

### Share price



### Performance

	1m	3m	12m
BWEK	0%	8%	35%
OSEBX	-2%	-4%	16%

### Upcoming events

1Q22 report	May 24, 2022
2Q22 report	August 23, 2022
3Q22 report	November 29, 2022

**Norne Securities AS is a market maker in the shares of BW Epic Kosan**

## Analyst

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## Slightly stronger than expected figures and stable future ahead

**BW Epic Kosan posted solid 4Q21 results yesterday, again with record revenues and EBITDA, somewhat higher than we expected, as well as the impairment-adjusted bottom line. However, nothing too exciting was presented and although the outlook remains positive, we have already taken this into account and made only limited changes to our estimates post the report. NOK 25/sh Target Price is left intact and with little share movement Hold recommendation is reiterated.**

### Slightly better than anticipated adjusted figures

BW Epic Kosan once again reported the highest-ever USD 95.5m revenues compared to our USD 93.0m estimate and USD 92.3m in 3Q. The margins were also slightly higher than anticipated with a Covid-19 related costs of modest USD 0.8m and EBITDA came in at USD 25.7m vs. USD 22.9m our expectations. BW Epic Kosan recognized a provision for vessel impairment on some of its smaller ships in the fleet and a loss on sale of vessels of USD 18.7m combined. Adjusted for this, the bottom line came in at a solid USD 5.0m level vs. USD 3.3m our expectations. The company also communicated to be in the process of changing the accounting standard to IFRS to reduce compliance costs, but the impact should not be material.

### Scrapping should offset the fleet supply growth

The further strengthening in the market continues and combined with the fundamentals for 2022 is projected to keep up at least through this year. Covid-19 and inflation are two risks for the global economy, but the supply/demand balance is promising. Currently there are orders for 11/10/4 small gas carriers, including semi-refs, to be delivered in 2022/23/24, representing a 1.9%/2.4%/0.8% increase in the existing fleet cubic capacity. A scrapping pool of 22 older than 30 years vessels might offset the supply growth. Notably, a majority of smaller newbuilding orders are placed for dual fuel LPG or LNG, while BWEK highlights its operational focus and capital discipline, meaning not glancing to the LNG space. On the demand's side of the scales, we see the expectations of the 2022 global LPG seaborne trade growth of 3.8%, surpassing even the unadjusted-for-scrapping supply growth projections.

### Hold reiterated with a stable future ahead but little upside

In addition to all the usual business, we still find it very positively that the company puts some efforts into improving the environmental presence and continues working with partners on projects for carbon capture and storage. All combined, this was a solid report and we should see a gradual growth in figures, but with small changes in estimates we reiterate NOK 25/sh TP and, seeing limited upside, Hold recommendation.

## DCF model

USDm	2022E	2023E	2024E	2025E
Revenues	402	426	445	455
<b>EBIT</b>	<b>46</b>	<b>67</b>	<b>72</b>	<b>78</b>
Tax on EBIT	0	0	0	0
NOPLAT (+)	46	67	72	78
Depreciation & amortization (+)	63	63	63	63
Capital expenditure (-)	-63	-63	-63	-63
Change in working capital (- or +)	2	-2	0	0
Free Cash Flow to the Firm	48	65	71	78
<b>NPV of FCFF (USD)</b>	<b>44</b>	<b>54</b>	<b>55</b>	<b>55</b>
<b>NPV of FCFF (NOK)</b>	<b>394</b>	<b>484</b>	<b>489</b>	<b>487</b>

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%
<b>WACC</b>	<b>9.1 %</b>

Valuation, NOKm	
Net debt	3,758
Minority interest	0
NPV cash flow	
2022E-2025E	1,854
2026E-	7,537
Total NPV cash flow	9,391
Equity value	5,633
<b>Value per share, NOK</b>	<b>35</b>

Assumptions	
L.t. growth	2.5%
Tax rate	0%
USD/NOK	8.9
# shares, m	159

Profit & Loss (USDm)	2015	2016	2017	2018	2019	2020*	2021	2022E	2023E
<b>Operating revenues</b>	<b>130</b>	<b>130</b>	<b>140</b>	<b>156</b>	<b>170</b>	<b>183</b>	<b>329</b>	<b>402</b>	<b>426</b>
Operating expenses	-101	-105	-111	-112	-125	-125	-236	-293	-297
<b>EBITDA (adj)</b>	<b>30</b>	<b>25</b>	<b>29</b>	<b>44</b>	<b>45</b>	<b>58</b>	<b>93</b>	<b>109</b>	<b>129</b>
Depreciation & Amortisation	-22	-25	-29	-30	-31	-32	-54	-63	-63
<b>EBIT (adj)</b>	<b>8</b>	<b>0</b>	<b>-0</b>	<b>14</b>	<b>15</b>	<b>26</b>	<b>39</b>	<b>46</b>	<b>67</b>
Non-recurring items	-10	-10	-15	0	-2	-5	-19	-	-
EBIT	-3	-9	-15	15	13	21	20	46	67
Net interest & other financial effects	-13	-14	-17	-17	-19	-15	-19	-19	-19
<b>Pre-tax profit</b>	<b>-16</b>	<b>-23</b>	<b>-30</b>	<b>-2</b>	<b>-5</b>	<b>6</b>	<b>1</b>	<b>27</b>	<b>48</b>
Minority interests	-	-	-	-	-	-	-	-	-
Taxes	-0	-0	-1	-1	-0	-0	-1	-	-
<b>Profit after tax</b>	<b>-16</b>	<b>-23</b>	<b>-31</b>	<b>-3</b>	<b>-6</b>	<b>6</b>	<b>1</b>	<b>27</b>	<b>48</b>
<b>EPS rep. (USD)</b>	<b>na</b>	<b>-0.45</b>	<b>-0.44</b>	<b>-0.04</b>	<b>-0.05</b>	<b>0.06</b>	<b>0.00</b>	<b>0.17</b>	<b>0.30</b>
<b>EPS adj. (USD)</b>	<b>na</b>	<b>-0.26</b>	<b>-0.24</b>	<b>-0.03</b>	<b>-0.02</b>	<b>0.11</b>	<b>0.13</b>	<b>0.17</b>	<b>0.30</b>
<b>Margins</b>									
Operating margin	6%	0%	0%	9%	9%	14%	12%	12%	16%
ROE	-2%	-5%	-7%	-1%	-1%	4%	5%	6%	10%
ROCE	2%	0%	0%	3%	3%	4%	5%	5%	7%
Tax rate	-1%	-2%	-2%	nm	-5%	3%	64%	0%	0%
<b>Growth rates (YoY)</b>									
Operating revenues	11%	0%	7%	11%	10%	8%	80%	22%	6%
EBIT (adj)	84%	-95%	-152%	nm	1%	81%	47%	20%	44%
EPS (adj)	na	na	nm	nm	nm	nm	18%	36%	75%

\*Epic Gas until 2020, BW Epic Kosan further

Balance sheet (USDm)	2015	2016	2017	2018	2019	2020*	2021	2022E	2023E
Goodwill	-	-	-	-	-	-	-	-	-
Deferred tax asset	0	0	-	-	-	-	-	-	-
Licences, property, plant & equipment	427	500	525	497	606	567	859	859	859
Other intangible assets	51	39	14	13	35	35	39	39	39
<b>Non-current Assets</b>	<b>478</b>	<b>539</b>	<b>538</b>	<b>510</b>	<b>641</b>	<b>602</b>	<b>898</b>	<b>898</b>	<b>898</b>
Inventory	2	3	4	3	5	3	5	5	5
Receivables	11	21	24	20	24	16	42	43	46
Other current assets	-	0	1	-	-	9	19	19	19
Cash and cash equivalents	44	10	7	17	41	47	42	71	103
<b>Current Assets</b>	<b>57</b>	<b>35</b>	<b>36</b>	<b>40</b>	<b>71</b>	<b>75</b>	<b>108</b>	<b>138</b>	<b>172</b>
<b>Total assets</b>	<b>535</b>	<b>574</b>	<b>575</b>	<b>551</b>	<b>712</b>	<b>677</b>	<b>1,006</b>	<b>1,036</b>	<b>1,070</b>
Shareholder's equity	263	241	244	243	295	296	455	482	516
Non-controlling interests	-	-	-	-	-	-	-	-	-
<b>Total equity</b>	<b>263</b>	<b>241</b>	<b>244</b>	<b>243</b>	<b>295</b>	<b>296</b>	<b>455</b>	<b>482</b>	<b>516</b>
Deferred tax liability	-	-	-	-	-	-	-	-	-
Long-term interest bearing debt	157	218	211	201	307	282	406	406	406
Other long-term liabilities	61	54	44	43	24	25	14	14	14
<b>Non-current liabilities</b>	<b>218</b>	<b>272</b>	<b>255</b>	<b>245</b>	<b>331</b>	<b>307</b>	<b>419</b>	<b>419</b>	<b>419</b>
Current interest bearing debt	23	28	32	27	31	31	59	59	59
Trade payables	16	19	25	23	29	16	35	38	38
Other current liabilities	15	14	19	14	26	26	38	38	38
<b>Current liabilities</b>	<b>54</b>	<b>61</b>	<b>75</b>	<b>64</b>	<b>85</b>	<b>74</b>	<b>131</b>	<b>134</b>	<b>134</b>
<b>Total liabilities</b>	<b>272</b>	<b>333</b>	<b>331</b>	<b>308</b>	<b>416</b>	<b>381</b>	<b>550</b>	<b>553</b>	<b>554</b>
<b>Total liabilities and equity</b>	<b>535</b>	<b>574</b>	<b>575</b>	<b>551</b>	<b>712</b>	<b>677</b>	<b>1,006</b>	<b>1,036</b>	<b>1,070</b>
Working capital	-2	5	4	1	1	2	13	11	13
Net IB debt	136	235	236	211	296	266	422	393	362
Capital employed	481	513	499	487	626	603	875	902	936
Net IB debt / equity	52%	98%	97%	87%	100%	90%	93%	82%	70%
Equity / total assets	49%	42%	42%	44%	41%	44%	45%	47%	48%

\*Epic Gas until 2020, BW Epic Kosan further

Share data	2015	2016	2017	2018	2019	2020*	2021	2022E	2023E
Shares outstanding, year end (mill.)	-	51.9	70.5	70.5	106.6	106.6	159.5	159.5	159.5
Share price, year end (NOK)	na	15.00	11.05	8.60	14.60	16.00	20.00	22.00	22.00
Market cap (NOKm)	-	779	779	606	1,557	1,706	3,189	3,508	3,508
Enterprise value (NOKm)	na	2,755	2,701	2,389	4,253	4,106	6,878	6,954	6,675
EPS rep. (USD)	na	-0.45	-0.44	-0.04	-0.05	0.06	0.00	0.17	0.30
EPS adj. (USD)	na	-0.26	-0.24	-0.03	-0.02	0.11	0.13	0.17	0.30
DPS. (USD)	na	-	-	-	-	0.14	0.00	0.09	0.15
Dividend pay-out ratio	na	0%	0%	0%	0%	254%	50%	50%	50%

Valuation	2015	2016	2017	2018	2019	2020*	2021	2022E	2023E
EV/Sales	na	2.5	2.4	1.8	2.7	2.5	2.4	2.0	1.8
EV/EBITDA	na	13.1	11.4	6.4	10.4	7.8	8.5	7.3	5.9
EV/EBIT (adj)	na	>100	neg	19.6	32.2	17.3	20.3	17.1	11.4
P/E (adj)	na	neg	neg	neg	neg	16.6	18.2	14.7	8.4
P/B (excl. goodwill)	na	0.4	0.4	0.3	0.6	0.6	0.8	0.8	0.8

Growth (YoY)	2015	2016	2017	2018	2019	2020*	2021	2022E	2023E
Revenues	11%	0%	7%	11%	10%	8%	80%	22%	6%
EBITDA	29%	-16%	17%	51%	2%	30%	59%	17%	19%

Margins	2015	2016	2017	2018	2019	2020*	2021	2022E	2023E
EBITDA	22.7 %	19.2 %	20.8 %	28.3 %	26.4 %	31.9 %	28.2 %	27.1 %	30.4 %
EBIT (adj)	5.8 %	0.3 %	-0.1 %	9.3 %	8.5 %	14.3 %	11.8 %	11.5 %	15.7 %
Pre-tax profit	-12.1 %	-17.6 %	-21.8 %	-1.4 %	-3.2 %	3.3 %	0.4 %	6.8 %	11.2 %
Net profit	-12.2 %	-17.8 %	-22.1 %	-1.8 %	-3.4 %	3.2 %	0.2 %	6.8 %	11.2 %

Profitability	2015	2016	2017	2018	2019	2020*	2021	2022E	2023E
ROE	-2.2 %	-5.3 %	-7.0 %	-0.9 %	-0.6 %	3.9 %	5.4 %	5.8 %	9.6 %
ROCE	1.6 %	0.1 %	0.0 %	2.9 %	2.6 %	4.3 %	5.2 %	5.2 %	7.3 %
Dividend yield	na	0.0 %	0.0 %	0.0 %	0.0 %	7.9 %	0.1 %	3.4 %	6.0 %

\*Epic Gas until 2020, 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)
23/02/2022	Hold	25.00
17/02/2022	Hold	25.00
12/11/2021	Hold	25.00
05/11/2021	Buy	25.00
18/08/2021	Hold	27.00
10/08/2021	Buy	27.00
14/05/2021	Buy	25.00
06/05/2021	Buy	22.00
19/02/2021	Buy	20.00

### 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.

Share prices used in the report are as of market close on the last trading day if the report is being published before the stock market opening, or market price within 15 min. before the publication if the report is published during the trading hours of the Oslo Stock Exchange.

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### Norne Securities AS is a market maker in the shares of BW Epic Kosan

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

Share holdings of Norne employees in BW Epic Kosan:

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

The overview of share holdings is updated continuously. A list of total share holdings of the Norne Securities' employees and the date of last overview can be found on [Compliance | Norne Securities](#). Shareholdings that Norne Securities AS owns as a result of own-account trading that is part of its investment services operations (such as market making) are not included in the table above.

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

	Buy	Hold	Sell
Total	69	27	1
% of total	71%	28%	1%
Corporate clients*	36	13	1
% of corporate clients*	72%	26%	2%

\* 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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