

## Belships

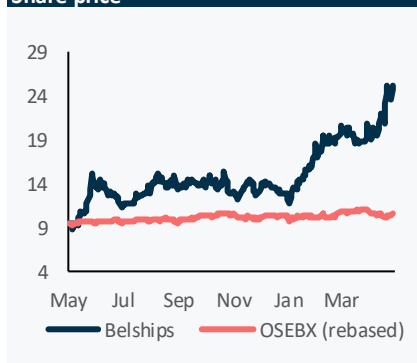
BUY

### Key share data

Sector	Industrials
Reuters	BEL.OL
Bloomberg	BELCO NO

Market Cap (NOKm)	6,392
Net debt (NOKm)	2,946
EV (NOKm)	9,338
Net debt / equity	136%
Issued shares (mill.)	253

### Share price



Performance	1m	3m	12m
BELCO	48%	71%	251%
OSEBX	-5%	3%	13%

### Upcoming events

2Q22 Results	August 17, 2022
3Q22 Results	November 10, 2022

**Norne Securities AS is a market maker in the shares of Belships**

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## Stronger than predicted adjusted figures, very high dividends and promising future

We are lacking positive adjectives when trying to be non-repetitive, but this was yet another strong report from Belships, especially knowing that 1Q is seasonally weaker and it almost has not felt this way. Furthermore, NOK 1.00/sh ordinary and NOK 1.25/sh extraordinary dividends were declared, much higher than we and consensus anticipated. Our estimates were upped seeing promising market fundamentals and war-resilient rates and we keep Buy recommendation at our-highest NOK 30/sh Target Price.

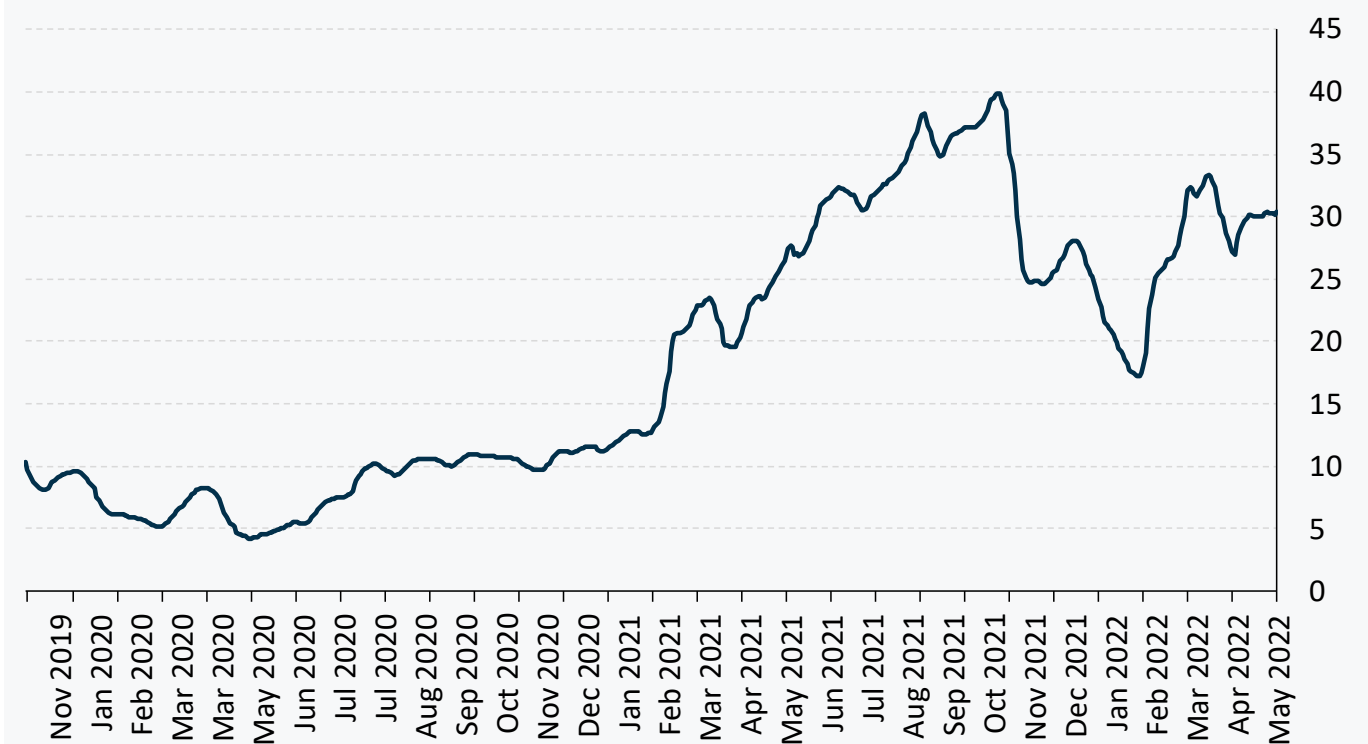
### Very strong results for the seasonally weaker quarter

The first quarter of the year is seasonally the weakest period due to Chinese New Year and lower grain and iron ore shipments. In January we also saw Indonesia implementing the coal export ban for a couple of weeks, but as this passed, the market regained strength, and the rates climbed to USD 30k/d. The Baltic Supramax Index averaged 25,155 per day in 1Q22 and this was the highest start to a year since 2008. The freight market continues to display the advantages of the versatile Supramaxes/Ultramaxs compared to the larger vessels. Belships managed to report very strong operating income from the shipping segment of USD 54.3m (USD 52.9m expected by us), while the margins did not disappoint. Lighthouse Navigation's EBITDA was pre-announced for the first two months of the quarter, while the month of March was strong as well and the segment delivered USD 22.6m EBITDA for the quarter (USD 20.8m predicted). Solid results brought the bottom line to USD 59.5m and dividends (around half of the results) to NOK 1.0/sh. Belships previously said that there will be extraordinary dividends as well and added NOK 1.25/sh (NOK 1.0/sh predicted by us).

### Contract coverage solid, supply/demand promising

The sentiment in the market remains strong as the war in Ukraine simply adjusted the trade patterns and did not crush the drybulk shipping market as was feared by some. Surely, there are uncertainties towards the further development of the conflict, also the congestions in China related to Covid-19, but the contract coverage of Belships is more than solid. 90% of 2Q22 is covered @ USD 24.8k/d; 75% of 3Q @ USD 23.5k/d and gradually declining percentage going forward but at very solid USD 23k+ rates. Credit growth and economic stimulus are positive for the drybulk market and general consensus points towards the continued economic growth in 2022. The drybulk vessel supply is at historical lows at 6% helped by rising steel prices and high demand from other shipping segments, while the demand remains firm, thus, the longer-term prospects are very promising as well. We increased our estimates and anticipate at least 2022 and 2023 to be very strong for the company with aforementioned factors strengthening our view. This is also supported by the fact that the case is significantly de-risked with a highly profitable contract coverage. Strong USD/NOK also helps. With a higher NOK 30/sh (NOK 25/sh previously) Target Price, we keep Buy recommendation and hope to be in search of positive adjectives after several more reports.

## Supramax rate development USDk/d



## DCF model

DCF (USDm)	2Q-4Q22E	2023E	2024E	2025E
Revenues excl. JV	631	664	524	500
<b>EBIT</b>	<b>138</b>	<b>169</b>	<b>130</b>	<b>97</b>
Tax on EBIT	-28	-34	-26	-19
NOPLAT (+)	110	135	104	77
Depreciation & amortization (+)	27	38	38	38
Capital expenditure (-)	-34	-46	-45	-44
Change in working capital (- or +)	10	15	6	1
Free Cash Flow to the Firm	113	142	103	72
<b>NPV of FCF</b>	<b>106</b>	<b>124</b>	<b>82</b>	<b>53</b>
<b>NPV of FCF (NOK)</b>	<b>1,043</b>	<b>1,210</b>	<b>804</b>	<b>517</b>

WACC calculation	
Debt ratio	50%
Cost of debt (after tax)	5%
Risk free rate	2.0%
Beta	1.7
Market risk premium	6.0%
Cost of equity	12.2%
<b>WACC</b>	<b>8.5 %</b>

Valuation, NOKm	
Net debt*	3,132
Minority interest	395
NPV cash flow	
2Q-4Q22E - 2025E	3,574
2026E -	8,824
Total NPV cash flow	12,399
Equity value	8,872
<b>Value per share, NOK</b>	<b>35.0</b>

\*adj. for recent vessel additions and sales

Assumptions	
L.t. growth	2.5%
Tax rate	20%
USD/NOK	9.8
# shares, m	253

<b>Profit &amp; Loss (USDm)</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
<b>Operating revenues</b>	<b>22</b>	<b>22</b>	<b>25</b>	<b>27</b>	<b>63</b>	<b>135</b>	<b>168</b>	<b>665</b>	<b>895</b>	<b>698</b>	<b>557</b>
Operating expenses	-14	-12	-14	-14	-47	-102	-144	-487	-670	-491	-389
<b>EBITDA</b>	<b>8</b>	<b>10</b>	<b>11</b>	<b>13</b>	<b>16</b>	<b>34</b>	<b>24</b>	<b>178</b>	<b>225</b>	<b>207</b>	<b>168</b>
Depreciation & Amortisation	-4	-5	-5	-5	-7	-21	-27	-29	-35	-38	-38
<b>EBIT (adj)</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>5</b>	<b>9</b>	<b>13</b>	<b>-3</b>	<b>150</b>	<b>190</b>	<b>169</b>	<b>130</b>
Non-recurring items	-3	-32	-15	3	14	5	-1	11	4	-	-
EBIT	1	-27	-9	8	23	18	-5	161	194	169	130
Net interest & other financial effects	-3	-3	-6	-5	-5	-11	-13	-19	-23	-20	-20
<b>Pre-tax profit</b>	<b>-2</b>	<b>-30</b>	<b>-14</b>	<b>7</b>	<b>18</b>	<b>7</b>	<b>-17</b>	<b>142</b>	<b>171</b>	<b>149</b>	<b>110</b>
Minority interests	-	-	-	-	-	-	-	-	-	-	-
Taxes	-0	-0	-0	-0	-0	-2	-1	-9	-23	-30	-22
<b>Profit after tax</b>	<b>-2</b>	<b>-30</b>	<b>-15</b>	<b>6</b>	<b>18</b>	<b>5</b>	<b>-18</b>	<b>133</b>	<b>148</b>	<b>119</b>	<b>88</b>
<b>EPS rep. (USD)</b>	<b>-0.03</b>	<b>-0.64</b>	<b>-0.31</b>	<b>0.14</b>	<b>0.10</b>	<b>0.02</b>	<b>-0.08</b>	<b>0.53</b>	<b>0.58</b>	<b>0.47</b>	<b>0.35</b>
<b>EPS adj. (USD)</b>	<b>0.03</b>	<b>0.04</b>	<b>-0.01</b>	<b>0.09</b>	<b>0.02</b>	<b>0.01</b>	<b>-0.07</b>	<b>0.47</b>	<b>0.53</b>	<b>0.47</b>	<b>0.35</b>
<b>Margins</b>											
Operating margin	19%	24%	25%	19%	14%	10%	-2%	22%	21%	24%	23%
Tax rate	-1%	-1%	-1%	4%	2%	25%	-3%	6%	14%	20%	20%
<b>Growth rates (YoY)</b>											
Operating revenues	-15%	0%	16%	7%	129%	116%	24%	295%	35%	-22%	-20%
EBIT (adj)	-18%	24%	23%	-17%	69%	47%	-126%	nm	27%	-11%	-23%
EPS (adj)	-40%	16%	nm	nm	-74%	-66%	-1048%	nm	nm	-11%	-26%

Balance sheet (USDm)	2014	2015	2016	2017	2018	2019	2020	2021	2022E	2023E	2024E
Goodwill	-	-	-	-	-	-	-	-	-	-	-
Deferred tax asset	-	-	-	-	-	-	-	-	-	-	-
Licences, property, plant & equipment	103	92	93	92	243	321	381	585	595	603	611
Other intangible assets	2	2	3	2	2	12	8	15	27	27	27
<b>Non-current Assets</b>	<b>105</b>	<b>94</b>	<b>96</b>	<b>94</b>	<b>245</b>	<b>333</b>	<b>389</b>	<b>600</b>	<b>622</b>	<b>631</b>	<b>638</b>
Inventory	-	-	-	-	4	6	5	16	27	27	27
Receivables	1	1	1	3	12	15	30	52	62	46	40
Other current assets	-	-	-	-	-	-	6	24	-	-	-
Cash and cash equivalents	8	8	8	5	32	44	34	105	166	230	268
<b>Current Assets</b>	<b>9</b>	<b>9</b>	<b>9</b>	<b>8</b>	<b>48</b>	<b>65</b>	<b>76</b>	<b>198</b>	<b>255</b>	<b>303</b>	<b>335</b>
<b>Total assets</b>	<b>114</b>	<b>103</b>	<b>106</b>	<b>102</b>	<b>294</b>	<b>398</b>	<b>464</b>	<b>798</b>	<b>877</b>	<b>934</b>	<b>973</b>
Shareholders equity	65	34	20	26	121	152	144	242	257	313	353
Non-controlling interests	0	0	0	0	3	4	6	31	40	40	40
<b>Total equity</b>	<b>65</b>	<b>35</b>	<b>20</b>	<b>26</b>	<b>124</b>	<b>156</b>	<b>150</b>	<b>273</b>	<b>297</b>	<b>354</b>	<b>394</b>
Deferred tax liability	-	-	-	-	-	-	-	-	-	-	-
Long-term interest bearing debt	41	58	74	64	133	202	247	413	437	437	437
Other long-term liabilities	2	3	2	2	3	3	3	2	2	2	2
<b>Non-current liabilities</b>	<b>42</b>	<b>60</b>	<b>76</b>	<b>66</b>	<b>137</b>	<b>205</b>	<b>250</b>	<b>415</b>	<b>439</b>	<b>439</b>	<b>439</b>
Current interest bearing debt	5	6	7	7	15	13	34	24	25	25	25
Trade payables	-	-	-	-	-	-	-	-	-	-	-
Other current liabilities	2	2	3	3	19	23	30	86	116	116	116
<b>Current liabilities</b>	<b>7</b>	<b>8</b>	<b>9</b>	<b>10</b>	<b>33</b>	<b>36</b>	<b>64</b>	<b>110</b>	<b>141</b>	<b>141</b>	<b>141</b>
<b>Total liabilities</b>	<b>49</b>	<b>68</b>	<b>85</b>	<b>76</b>	<b>170</b>	<b>242</b>	<b>314</b>	<b>525</b>	<b>580</b>	<b>580</b>	<b>580</b>
<b>Total liabilities and equity</b>	<b>114</b>	<b>103</b>	<b>106</b>	<b>102</b>	<b>294</b>	<b>398</b>	<b>464</b>	<b>798</b>	<b>877</b>	<b>934</b>	<b>973</b>
Working capital	1	1	1	3	16	20	36	69	89	73	67
Net IB debt	38	55	73	65	116	171	247	332	296	232	193
Capital employed	107	95	96	92	260	362	400	688	736	793	832
Net IB debt / equity	58%	161%	368%	251%	96%	113%	172%	138%	115%	74%	55%
Equity / total assets	56%	33%	19%	25%	41%	38%	31%	30%	29%	34%	36%

Share data	2014	2015	2016	2017	2018	2019	2020	2021	2022E	2023E	2024E
Shares outstanding, year end (mill.)	46.8	46.8	46.8	46.8	174.6	212.2	212.2	253.1	253.1	253.1	253.1
Share price, year end (NOK)	3.96	2.38	3.97	4.82	5.00	7.25	6.30	14.10	25.25	25.25	25.25
Market cap (NOKm)	185	111	186	226	873	1,539	1,337	3,569	6,392	6,392	6,392
Enterprise value (NOKm)	447	587	798	761	1,878	3,135	3,622	6,744	9,416	8,841	8,494
EPS rep. (USD)	-0.03	-0.64	-0.31	0.14	0.10	0.02	-0.08	0.53	0.58	0.47	0.35
EPS adj. (USD)	0.03	0.04	-0.01	0.09	0.02	0.01	-0.07	0.47	0.53	0.47	0.35
DPS. (USD)	0.007	-	-	-	0.003	0.005	-	0.21	0.41	0.24	0.17
Dividend pay-out ratio	nm	0%	0%	0%	3%	21%	0%	40%	70%	50%	50%

Valuation	2014	2015	2016	2017	2018	2019	2020	2021	2022E	2023E	2024E
EV/Sales	2.9	3.1	3.7	3.4	3.6	2.6	2.4	1.2	1.2	1.5	1.8
EV/EBITDA	7.7	7.0	8.4	7.0	14.1	10.2	16.8	4.3	4.7	4.7	5.6
EV/EBIT (adj)	15.5	13.3	14.9	10.8	25.0	26.4	neg	5.2	5.5	5.8	7.3
P/E (adj)	16.9	7.1	neg	6.9	26.3	>100	neg	3.5	5.3	6.0	8.1
P/B (excl. goodwill)	0.4	0.4	1.1	1.1	0.9	1.1	1.0	1.7	2.8	2.3	2.0

Growth (YoY)	2014	2015	2016	2017	2018	2019	2020	2021	2022E	2023E	2024E
Revenues	-15%	0%	16%	7%	125%	116%	25%	293%	32%	-23%	-21%
EBITDA	-9%	17%	14%	18%	19%	113%	-29%	643%	26%	-8%	-19%

Margins	2014	2015	2016	2017	2018	2019	2020	2021	2022E	2023E	2024E
EBITDA	38.3 %	44.9 %	44.4 %	48.6 %	25.2 %	24.8 %	14.2 %	26.8 %	25.1 %	29.7 %	30.1 %
EBIT (adj)	19.0 %	23.6 %	25.1 %	19.3 %	14.2 %	9.6 %	-2.0 %	22.5 %	21.2 %	24.3 %	23.3 %
Pre-tax profit	nm	nm	nm	24.3 %	29.0 %	5.0 %	-10.2 %	21.4 %	19.1 %	21.4 %	19.7 %
Net profit	nm	nm	nm	23.2 %	28.4 %	3.8 %	-10.5 %	20.1 %	16.5 %	17.1 %	15.7 %

Profitability	2014	2015	2016	2017	2018	2019	2020	2021	2022E	2023E	2024E
ROE	2.4 %	3.7 %	-2.2 %	17.6 %	5.4 %	1.2 %	-10.6 %	61.3 %	53.7 %	41.8 %	26.3 %
ROCE	3.8 %	5.1 %	6.7 %	9.2 %	5.0 %	4.2 %	-0.9 %	27.5 %	26.7 %	22.2 %	16.0 %
Dividend yield	1.3 %	0.0 %	0.0 %	0.0 %	0.6 %	0.6 %	0.0 %	13.0 %	14.5 %	8.4 %	6.2 %

## Recommendation, valuation, risk and sources

### Recommendation and target price

Recommendation history for Belships during the last 12 months:

Date	Recommendation	Target price (NOK)
20/05/2022	BUY	30.00
06/05/2022	BUY	25.00
03/03/2022	HOLD	22.00
15/02/2022	BUY	19.00
18/11/2021	BUY	19.00
04/11/2021	BUY	18.00
23/08/2021	BUY	17.00
08/07/2021	BUY	16.00
27/05/2021	BUY	12.00
18/05/2021	BUY	11.00

### Valuation

To arrive at our share price target, we have used the DCF model and applied 15% discount.

### Risks

The main risks to our recommendation on Belships are the following:

- Highly cyclical and volatile nature of the shipping industry and freight market may have a material adverse effect on the Group's business, financial condition, operating result and liquidity.
- A deterioration in global economic conditions or an over-supply of dry bulk capacity may lead to reduction in charter rates and vessel values which could materially adversely affect the Group's business, financial condition and results of operations
- Increases in bunker fuel prices and other operating costs may significantly increase the Group's voyage expenses relating to the operation of its vessels on the spot market
- The Group transports cargoes and commodities across a wide variety of national jurisdictions, which exposes the Group to risks inherent in operating internationally and in politically unstable regions.
- The Group may not be able to implement its business strategy successfully or manage its growth effectively
- The Group derives a significant portion of its revenues from a limited number of customers
- Over time, vessel values may fluctuate substantially and this may result in impairment charges and the Group could also incur a loss if these values are lower at a time when the Group is attempting to dispose of a vessel
- The ageing of the fleet or unexpected repairs may result in increased operating costs in the future
- The Group is subject to international safety and environmental regulations
- Changes in taxation law or the interpretation of taxation law may impact the business, results of operations and financial condition of the Group

### Sources

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

# DISCLOSURES AND DISCLAIMER

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Norne Securities' general recommendations – Buy, Hold and Sell – are based on the expected absolute return on the financial instrument within the next 12 months, which equals to an upside to the target price, in combination with a risk profile. The target price represents the price level which the analyst expects the financial instrument to trade at within the coming 12 months. The table below shows the ranges of returns under different risk levels, based on which the recommendation is being determined:

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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Target prices may be based on one or several valuation methods, for instance, the discounted cash flow (DCF) analysis or applying “fair” pricing multiple(s) based on historical valuation or peer pricing level. Target price may not necessarily equal to the “fair value” of the financial instrument – certain discount or premium is possible due to various reasons, depending on the analyst’s view of what the price may be within the 12 months period. Norne Securities plans to update the recommendation based on the following events: the target price is achieved; new accounting figures are released; any significant news on the company or its industry is announced.

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## POTENTIAL CONFLICTS OF INTEREST

### Norne Securities AS is a market maker in the shares of Belships.

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

Share holdings of Norne employees in Belships:

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 March 31, 2022:

	Buy	Hold	Sell
Total	74	37	3
% of total	65%	32%	3%
Corporate clients*	41	19	2
% of corporate clients*	66%	31%	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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