

Odfjell SE

BUY

Key share data

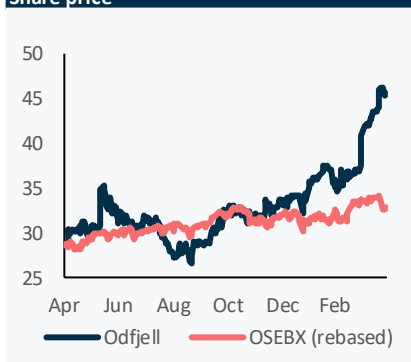
Sector	Industrials
Reuters (for A sh.)	ODF.OL
Bloomberg (for A sh.)	ODF NO

Market Cap (NOKm)	2,644
Net debt (NOKm)	11,081
EV (NOKm)	13,726
Net debt / equity	231%

Issued shares (A), m	60
Issued shares (B), m	19
Issued shares (Total), m*	79

*shares owned by Odfjell not included

Share price



Performance

	1m	3m	12m
ODF A	23%	32%	55%
OSEBX	-2%	4%	14%

Upcoming events

1Q22 report	May 4, 2022
2Q22 report	August 18, 2022
3Q22 report	November 3, 2022

Norne Securities AS is a market maker in A and B shares of Odfjell SE

Analyst

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Seasonally weaker quarter should not disappoint this year

Although Odfjell guided a seasonally lower first quarter to follow the superb 4Q21 results, we still anticipate the figures to beat the usual first quarter numbers. We agree that it is difficult to predict the outcome of the Ukrainian-Russian war for the chemical shipping market, but seeing the outperforming competitors, promising outlook and having dividends back on the table, we increase the Target Price for the stock to NOK 55/sh and reiterate Buy. We are also keen to see if any rumours about a potential merger with Stolt-Nielsen would be mentioned in the report.

Weaker quarter QoQ guided

Odfjell guided seasonally weaker first quarter numbers and we agree that it is hardly possible not to report smaller figures than we saw in 4Q21. Nevertheless, we anticipate the company to reach a breakeven bottom line, the achievement seen only once in the last decade's first quarters. Solid performance from the competitors strengthens our view towards the results.

USDm		1Q21	4Q21	1Q22E	Consensus*	2021	2022E	2023E	
Segments	Tankers	Revenues	243	283	274	-	1,038	1,142	1,194
		EBITDA	52	69	60	-	234	268	301
	Terminals	Revenues	16	20	18	-	72	72	73
		EBITDA	7	10	8	-	33	35	38
	Net Profit	0	3	1	-	4	7	11	
Equity Method	Total	Revenues + JV	243	286	276	270	1,042	1,149	1,205
		Adj. EBITDA	53	71	61	63	239	275	312
		EBIT	8	35	17	21	47	99	129
		Net Profit	(16)	15	0	1	(33)	28	57

*Bloomberg

Uncertainty towards the Russia-Ukraine conflict

In its annual report Odfjell communicates to be optimistic about 2022 and the next few years with the trends pointing in the right direction for the markets and for the chemical tanker segment. However, the outbreak of the war immediately created a global uncertainty leading to the rerouting of Russian cargoes. Russian exports largely supply Europe with methanol, caustic soda, benzene and styrene, and based on initial developments, these are very likely to be sourced elsewhere. As Russian exports are mainly short-haul, replacement volumes will add additional miles and therefore drive tonnage demand higher. In time, it is also likely that Russian cargoes will be shipped to other regions, again leading to incremental tonnage demand. Odfjell stated that the company will not ship Russian cargoes.

Dividends are back!

With the annual report approval Odfjell announced of the dividends of NOK 1.00/sh for 2021 (despite negative net profit in 2021). Last time dividends were paid for 2017. Also, Odfjell will pay out 50% of net income adjusted for extraordinary items semi-annually starting for 1H22. This might gradually lead to a solid dividend yields of 7-8% according to our estimates. All in all, the latter were raised as well as the Target Price for the stock and we stick to our Buy recommendation suggesting that the significant upside remains in our view.

Estimates (USDm)	1Q22E		2022E		2023E		2024E	
	New	Old	New	Old	New	Old	New	Old
Operating revenues (incl. JV)	276	276	1,149	1,146	1,205	1,202	1,233	1,230
Adj. EBITDA	61	58	275	264	312	301	330	319
Adj. EBITDA Margin	22%	21%	24%	23%	26%	25%	27%	26%
EBIT (adj)	17	15	99	88	129	118	140	129
Op. EBIT margin	6%	5%	9%	8%	11%	10%	11%	10%
Non-recurring items	-	-	-	-	-	-	-	-
EBIT	17	15	99	88	129	118	140	129
Pre-tax profit	0	-3	30	19	60	49	70	60
Tax	-0	0	-1	-1	-3	-2	-4	-3
Tax rate	5%	5%	5%	5%	5%	5%	5%	5%
Minority interests	-	-	-	-	-	-	-	-
Profit after tax	0	-2	28	18	57	47	67	57

DCF model

USDm	2022E	2023E	2024E	2025E
Revenues	1,142	1,194	1,218	1,242
EBIT	99	129	140	141
Tax on EBIT	-5	-6	-7	-7
NOPLAT (+)	94	122	133	133
Depreciation & amortization (+)	176	183	190	198
Capital expenditure (-)	-176	-183	-190	-198
Change in working capital (- or +)	-8	-3	-2	-2
Free Cash Flow to the Firm	86	119	131	132
NPV of FCFF (USD)	79	101	102	95
NPV of FCFF (NOK)	734	941	950	881

WACC calculation	
Debt ratio	60%
Cost of debt (after tax)	6.2%
Risk free rate	2.0%
Beta	1.7
Market risk premium	6.0%
Cost of equity	12.2%
WACC	8.6%

Valuation, NOKm	
Net debt	12,070
Minority interest	0
NPV cash flow	
2022E-2025E	3,507
2026E-	14,844
Total NPV cash flow	18,350
Equity value	6,280
Value per share, NOK	79.80

Assumptions	
L.t. growth	2.5%
Tax rate	5%
USD/NOK	9.3
# shares, m	79

Peer comparison

USDm	Source	EV*	EV/EBITDA*		EV/EBIT*		P/E		P/B	Div. yield	Market Cap
			2022E	2023E	2022E	2023E	2022E	2023E			
Odfjell	Norne	1,476	6.2	5.4	25.1	14.9	neg	14.4	0.52	0%	253
Oil Tankers											
Frontline	Consensus**	3,954	10.3	6.2	18.2	8.3	11.4	4.4	na	5%	2,033
Product Tankers											
Scorpio Tankers	Consensus**	4,122	9.0	7.4	23.3	15.3	29.8	9.8	0.82	2%	1,540
Chemical Tankers											
Stolt-Nielsen	Consensus**	3,303	5.6	5.4	10.4	9.9	5.3	5.1	0.63	5%	522
Median			9.0	6.2	18.2	9.9	11.4	5.1	0.72	5%	
Discount/(premium) to peers			-31.0%	-13.5%	38.2%	50.3%	nm	184.4%	-28.5%		

* Calculated by applying the last reported Balance Sheet and last Market Capitalization

** Bloomberg

Profit & Loss (USDm)	2016	2017	2018*	2019	2020	2021	2022E	2023E	2024E
Operating revenues	828.0	839.7	828.6	871.7	940.6	1,043.2	1,148.9	1,205.1	1,232.9
Operating expenses	-640.0	-717.2	-637.9	-689.4	-684.1	-804.3	-873.7	-893.4	-903.1
EBITDA (adj)	188.0	122.5	190.7	182.3	256.5	238.9	275.1	311.7	329.8
Depreciation & Amortisation	-89.0	-86.0	-181.8	-146.4	-152.4	-180.2	-176.1	-182.8	-190.2
EBIT (adj)	99.0	36.5	8.9	35.9	104.1	58.7	99.0	128.8	139.6
Non-recurring items	31.0	100.0	-119.1	14.2	11.3	-11.6	-	-	-
EBIT	130.0	136.5	-110.2	50.1	115.4	47.1	99.0	128.8	139.6
Net interest & other financial effects	-23.0	-50.5	-99.4	-83.6	-83.9	-77.3	-69.2	-69.2	-69.2
Pre-tax profit	107.0	86.0	-209.6	-33.5	31.5	-30.2	29.8	59.6	70.4
Minority interests	-	-	-	-	-	-	-	-	-
Taxes	-8.0	-2.9	-4.8	-2.9	-3.5	-3.4	-1.5	-3.0	-3.5
Profit after tax	99.0	83.1	-214.4	-36.4	28.0	-33.6	28.3	56.7	66.9
EPS rep. (USD)	1.26	1.06	-2.72	-0.46	0.36	-0.43	0.36	0.72	0.85
EPS adj. (USD)	0.57	-0.17	-0.90	-0.58	0.24	-0.22	0.36	0.72	0.85
Margins									
Operating margin	12%	4%	1%	4%	11%	6%	9%	11%	11%
ROE	7%	-2%	-10%	-8%	3%	-3%	5%	10%	11%
ROCE	6%	2%	1%	2%	6%	3%	6%	7%	8%
Tax rate	7%	3%	-2%	-9%	11%	-11%	5%	5%	5%
Growth rates (YoY)									
Operating revenues	-10%	1%	-1%	5%	8%	11%	10%	5%	2%

*IFRS 16 standards applied

Balance sheet (USDm)	2016	2017	2018*	2019	2020	2021	2022E	2023E	2024E
Goodwill	-	-	-	-	-	-	-	-	-
Deferred tax asset	-	-	-	-	-	0.9	0.9	0.9	0.9
Licences, property, plant & equipment	1,228	1,294	1,548	1,620	1,784	1,622	1,622	1,622	1,622
Other intangible assets	361	373	195	176	209	184	184	184	184
Non-current Assets	1,589	1,667	1,743	1,796	1,993	1,806	1,806	1,806	1,806
Inventory	18	21	28	29	25	39	39	39	39
Receivables	81	83	88	89	92	117	126	129	131
Other current assets	31	15	3	4	7	37	37	37	37
Cash and cash equivalents	164	207	168	101	103	74	82	111	144
Current Assets	294	326	286	223	227	267	284	316	351
Total assets	1,883	1,992	2,030	2,018	2,220	2,073	2,090	2,122	2,157
Shareholders equity	719	808	601	551	576	549	565	597	632
Non-controlling interests	-	-	-	-	-	-	-	-	-
Total equity	719	808	601	551	576	549	565	597	632
Deferred tax liability	-	-	-	-	-	-	-	-	-
Long-term interest bearing debt	838	845	1,050	1,141	1,269	1,142	1,142	1,142	1,142
Other long-term liabilities	40	10	19	27	33	24	24	24	24
Non-current liabilities	878	855	1,068	1,168	1,302	1,165	1,165	1,165	1,165
Current interest bearing debt	204	239	261	205	238	230	230	230	230
Trade payables	13	24	14	11	8	9	9	9	10
Other current liabilities	69	67	86	84	95	120	120	120	120
Current liabilities	286	329	361	300	342	359	360	360	360
Total liabilities	1,164	1,184	1,429	1,467	1,644	1,525	1,525	1,525	1,525
Total liabilities and equity	1,883	1,992	2,030	2,018	2,220	2,073	2,090	2,122	2,157
Working capital	86	81	102	107	109	147	155	158	160
Net IB debt	878	877	1,143	1,245	1,405	1,298	1,290	1,260	1,228
Capital employed	1,597	1,663	1,669	1,719	1,878	1,714	1,730	1,763	1,797
Net IB debt / equity	122%	109%	190%	226%	244%	237%	228%	211%	194%
Equity / total assets	38%	41%	30%	27%	26%	26%	27%	28%	29%

*IFRS 16 standards applied

Share data	2016	2017	2018*	2019	2020	2021	2022E	2023E	2024E
Shares outstanding, year end (mill.)	78.556	78.556	78.700	78.700	78.700	78.700	78.700	78.700	78.700
Share price, year end (NOK)	29.30	31.90	29.50	26.50	27.40	33.60	45.40	45.40	45.40
Market cap (NOKm)	2,302	2,506	2,322	2,086	2,156	2,644	3,573	3,573	3,573
Enterprise value (NOKm)	9,668	9,664	11,977	13,417	14,813	13,980	14,870	14,614	14,327
EPS rep. (USD)	1.26	1.06	-2.72	-0.46	0.36	-0.43	0.36	0.72	0.85
EPS adj. (USD)	0.57	-0.17	-0.90	-0.58	0.24	-0.22	0.36	0.72	0.85
DPS. (USD)	0.18	0.19	-	-	-	0.11	0.18	0.36	0.42

Valuation	2016	2017	2018*	2019	2020	2021	2022E	2023E	2024E
EV/Sales	1.40	1.41	1.67	1.69	1.75	1.54	1.49	1.40	1.34
EV/EBITDA	6.13	9.67	7.43	8.09	6.41	6.70	6.17	5.35	4.96
EV/EBIT (adj)	11.64	32.45	>100	41.06	15.79	27.27	17.14	12.95	11.72
P/E (adj)	6.1	neg	neg	neg	12.6	neg	14.4	7.2	6.1
P/B (excl. goodwill)	0.38	0.38	0.46	0.42	0.42	0.55	0.72	0.68	0.65

Growth (YoY)	2016	2017	2018*	2019	2020	2021	2022E	2023E	2024E
Revenues	-11.0 %	2.0 %	0.9 %	2.5 %	7.6 %	10.6 %	10.0 %	4.6 %	2.0 %
EBITDA	-0.3 %	-34.8 %	55.7 %	-4.4 %	40.7 %	-6.9 %	15.2 %	13.3 %	5.8 %

Margins	2016	2017	2018*	2019	2020	2021	2022E	2023E	2024E
EBITDA	22.7 %	14.6 %	23.0 %	20.9 %	27.3 %	22.9 %	23.9 %	25.9 %	26.8 %
EBIT (adj)	12.0 %	4.3 %	1.1 %	4.1 %	11.1 %	5.6 %	8.6 %	10.7 %	11.3 %
Pre-tax profit	12.9 %	10.2 %	-25.3 %	-3.8 %	3.3 %	-2.9 %	2.6 %	4.9 %	5.7 %
Net profit	12.0 %	9.9 %	-25.9 %	-4.2 %	3.0 %	-3.2 %	2.5 %	4.7 %	5.4 %

Profitability	2016	2017	2018*	2019	2020	2021	2022E	2023E	2024E
ROE	6.6 %	-1.8 %	-10.0 %	-7.9 %	3.4 %	-3.1 %	5.1 %	9.7 %	10.9 %
ROCE	5.9 %	2.2 %	0.5 %	2.1 %	5.8 %	3.3 %	5.8 %	7.4 %	7.8 %
Dividend yield	5.1 %	4.9 %	0.0 %	0.0 %	0.0 %	3.0 %	3.5 %	6.9 %	8.2 %

*IFRS 16 standards applied

Recommendation, valuation, risk and sources

Recommendation and target price

Recommendation history for Odfjell A share during the last 12 months:

Date	Recommendation	Target price (NOK)
29/04/2022	BUY	55.00
14/02/2022	BUY	45.00
19/01/2022	BUY	40.00
05/11/2021	BUY	40.00
27/10/2021	BUY	40.00
20/08/2021	BUY	40.00
12/08/2021	BUY	40.00
07/05/2021	BUY	40.00
29/04/2021	BUY	40.00

Valuation

To arrive at our share price target we have used an average of rounded discounted result of peer P/BV valuation applied on the last reported BV and DCF valuation with a discount.

Risks

The main risks to our target price on Odfjell are the following:

- Operating – projected revenue growth might not be achieved;
- Estimates – our and the company's estimates might not be reached;
- Competition – new competitors might rise due to the increasing demand of chemical products;
- Market situation – the demand growth of chemical products might be lesser than expected;
- Ships suppliers risk – yards might not deliver vessels on time.

Sources

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

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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 A and B shares of Odfjell SE.

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

Share holdings of Norne employees in Odfjell:

	A shares	B shares
Responsible analyst(s)	0	0
All Norne analysts	117	0
Other Norne employees	0	0
Norne Securities AS	0	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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