

## Belships

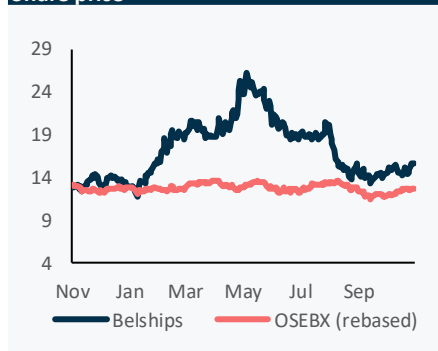
HOLD

### Key share data

Sector	Industrials
Reuters	BEL.OL
Bloomberg	BELCO NO

Market Cap (NOKm)	3,974
Net debt (NOKm)	4,882
EV (NOKm)	8,856
Net debt / equity	230%
Issued shares (mill.)	253

### Share price



Performance	1m	3m	12m
BELCO	10%	-20%	35%
OSEBX	7%	-5%	-3%

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

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## Next year covered by solid contracts, but we are concerned of the market's future

The cycle is turning in the drybulk shipping market. Thus, even very solid 3Q22 results from Belships posted last Thursday matter less than the outlook. Although there is no drama there at least for 4Q22 and 2023, which are significantly covered by contracts, but there is a huge uncertainty in the market with all signs pointing to the beginning of a struggle. All eyes are on China and Ukraine, but we now find the stock fairly valued and downgrade our recommendation to Hold.

### Solid figures reported

Belships reported very solid figures with adj. EBITDA and adj. EBIT around 15% above our estimates with the strength coming from the Shipping segment. Better results were driven by an increase in vessel days, while the operating expenses decreased YoY due to less Covid-19 related crewing expenses and vessel takeover costs. Lighthouse Navigation is more volatile, but still delivered another strong quarter with an EBITDA of USD 10.1m. The Board declared a dividend payment of USD 18.4m (NOK 0.75 per share).

### Strong contract coverage for 4Q22 and 2023

A few more time charter contracts have been entered into during the quarter increasing contract coverage for 2023 to 50% (90% for 4Q22) at around USD 21,900/d level (USD 22,900/d for 4Q22). Estimated cash breakeven for 2023 is USD 10,900 per vessel per day and the cash breakeven for the remaining open days in 2023 is below zero.

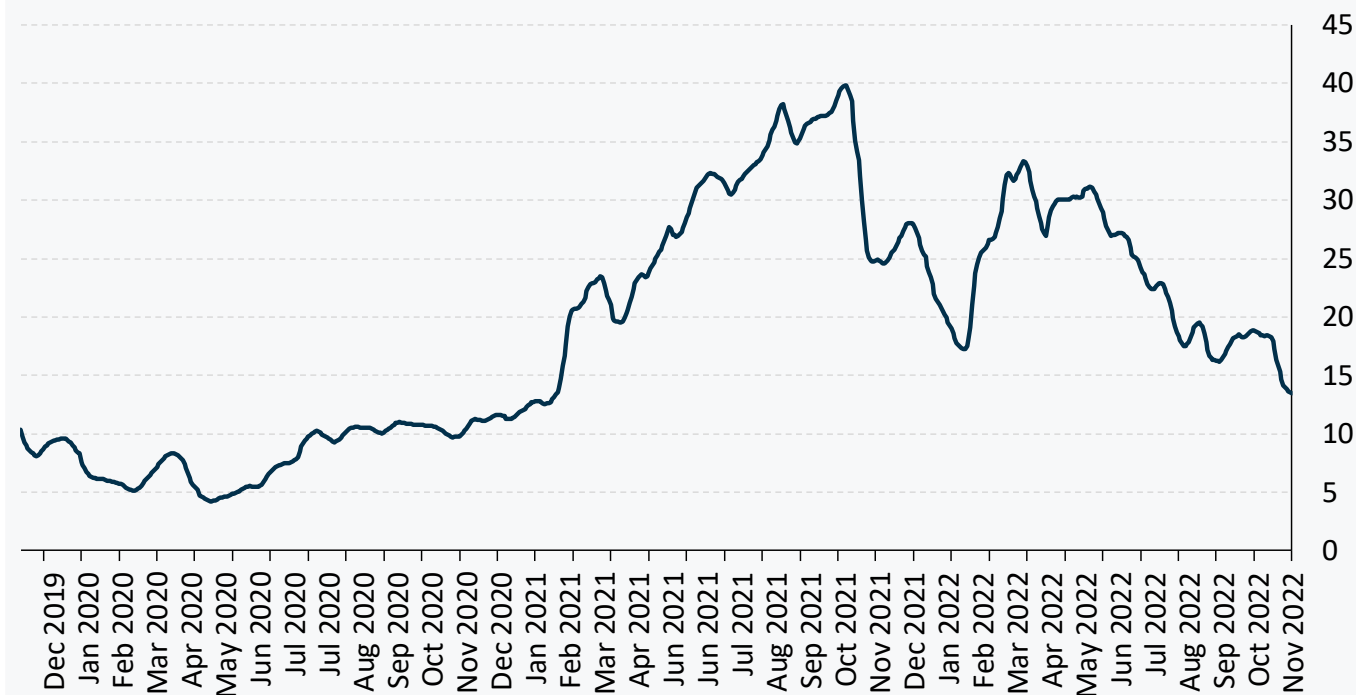
### Supply/demand prognosis

Regarding the market, the short-term prognosis is for the rates to weaken. Port congestions reversed and are close to pre-Covid normalized levels, adding the pressure to shipping rates. China's economy is slowing down and as a result, the IMF cut the country's projected GDP growth forecast to 3.2% in 2022 and 2.7% in 2023. We should also keep in mind that the zero-Covid policy was not altered, and continuous uncertainty remains. The war in Ukraine exposed the shortages of energy and commodities and looks far from over as well. On the vessel supply side, the orderbook for Supramaxes and Ultramaxs is at historically low levels (7% of the existing fleet), lower even than the 20+ year vessels approaching recycling.

### Downgrade to Hold on all the uncertainty

Belships has done a great job signing the contracts at the higher levels of the rate curve. Still, all is about the future, which, for the drybulk market overall looks somewhat uncertain. Therefore, we suggest taking profit and downgrade our recommendation to Hold for the stock.

## Supramax rate development USDk/d



## DCF model

DCF (USDm)	4Q22E	2023E	2024E	2025E
Revenues excl. JV	139	477	426	469
<b>EBIT</b>	<b>34</b>	<b>91</b>	<b>54</b>	<b>86</b>
Tax on EBIT	-7	-18	-11	-17
NOPLAT (+)	27	73	43	69
Depreciation & amortization (+)	12	48	48	48
Capital expenditure (-)	-13	-53	-53	-48
Change in working capital (- or +)	6	16	1	-1
Free Cash Flow to the Firm	32	83	39	68
<b>NPV of FCFF</b>	<b>32</b>	<b>75</b>	<b>32</b>	<b>51</b>
<b>NPV of FCFF (NOK)</b>	<b>313</b>	<b>738</b>	<b>313</b>	<b>503</b>

WACC calculation	
Debt ratio	50%
Cost of debt (after tax)	5%
Risk free rate	4.0%
Beta	1.7
Market risk premium	6.0%
Cost of equity	14.2%
<b>WACC</b>	<b>9.5 %</b>

Valuation, NOKm	
Net debt*	4,717
Minority interest	320
NPV cash flow	
4Q22E - 2025E	1,867
2026E -	7,366
Total NPV cash flow	9,233
Equity value	4,196
<b>Value per share, NOK</b>	<b>17</b>

\*adj. for recent vessel additions and sales

Assumptions	
L.t. growth	2.5%
Tax rate	20%
USD/NOK	9.9
# shares, m	253

NAV	
<b>Vessel values USDm</b>	<b>961</b>
Lighthouse Navigation USDm	135
Net Debt USDm	476
Minority interest USDm	32
<b>NAV USDm</b>	<b>588</b>
USDNOK	10
<b>NAV/share NOK</b>	<b>23</b>

Profit & Loss (USDm)	2014	2015	2016	2017	2018	2019	2020	2021	2022E	2023E	2024E
<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>748</b>	<b>509</b>	<b>457</b>
Operating expenses	-14	-12	-14	-14	-47	-102	-144	-487	-537	-370	-355
<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>211</b>	<b>139</b>	<b>102</b>
Depreciation & Amortisation	-4	-5	-5	-5	-7	-21	-27	-29	-40	-48	-48
<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>172</b>	<b>91</b>	<b>54</b>
Non-recurring items	-3	-32	-15	3	14	5	-1	11	25	-	-
EBIT	1	-27	-9	8	23	18	-5	161	197	91	54
Net interest & other financial effects	-3	-3	-6	-5	-5	-11	-13	-19	-27	-28	-28
<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>170</b>	<b>63</b>	<b>26</b>
Minority interests	-	-	-	-	-	-	-	-	-	-	-
Taxes	-0	-0	-0	-0	-0	-2	-1	-9	-8	-13	-5
<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>162</b>	<b>50</b>	<b>21</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>0.64</b>	<b>0.20</b>	<b>0.08</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>0.46</b>	<b>0.20</b>	<b>0.08</b>
<b>Margins</b>											
Operating margin	19%	24%	25%	19%	14%	10%	-2%	22%	23%	18%	12%
Tax rate	-1%	-1%	-1%	4%	2%	25%	-3%	6%	4%	20%	20%
<b>Growth rates (YoY)</b>											
Operating revenues	-15%	0%	16%	7%	129%	116%	24%	295%	12%	-32%	-10%
EBIT (adj)	-18%	24%	23%	-17%	69%	47%	-126%	nm	15%	-47%	-41%
EPS (adj)	-40%	16%	nm	nm	-74%	-66%	-1048%	nm	nm	-57%	-59%

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	743	748	752
Other intangible assets	2	2	3	2	2	12	8	15	25	25	25
<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>768</b>	<b>773</b>	<b>778</b>
Inventory	-	-	-	-	4	6	5	16	15	15	15
Receivables	1	1	1	3	12	15	30	52	69	54	53
Other current assets	-	-	-	-	-	-	6	24	-	-	-
Cash and cash equivalents	8	8	8	5	32	44	34	105	125	154	158
<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>209</b>	<b>223</b>	<b>227</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>977</b>	<b>995</b>	<b>1,004</b>
Shareholders equity	65	34	20	26	121	152	144	242	253	271	280
Non-controlling interests	0	0	0	0	3	4	6	31	32	32	32
<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>285</b>	<b>303</b>	<b>312</b>
Deferred tax liability	-	-	-	-	-	-	-	-	-	-	-
Long-term interest bearing debt	41	58	74	64	133	202	247	413	517	517	517
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>518</b>	<b>518</b>	<b>518</b>
Current interest bearing debt	5	6	7	7	15	13	34	24	69	69	69
Trade payables	-	-	-	-	-	-	-	-	-	-	-
Other current liabilities	2	2	3	3	19	23	30	86	105	105	105
<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>174</b>	<b>174</b>	<b>174</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>692</b>	<b>692</b>	<b>692</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>977</b>	<b>995</b>	<b>1,004</b>
Working capital	1	1	1	3	16	20	36	69	85	69	69
Net IB debt	38	55	73	65	116	171	247	332	461	432	428
Capital employed	107	95	96	92	260	362	400	688	803	821	830
Net IB debt / equity	58%	161%	368%	251%	96%	113%	172%	138%	182%	160%	153%
Equity / total assets	56%	33%	19%	25%	41%	38%	31%	30%	26%	27%	28%

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	15.70	15.70	15.70
Market cap (NOKm)	185	111	186	226	873	1,539	1,337	3,569	3,974	3,974	3,974
Enterprise value (NOKm)	447	587	798	761	1,878	3,135	3,622	6,744	9,057	8,758	8,712
EPS rep. (USD)	-0.03	-0.64	-0.31	0.14	0.10	0.02	-0.08	0.53	0.64	0.20	0.08
EPS adj. (USD)	0.03	0.04	-0.01	0.09	0.02	0.01	-0.07	0.47	0.46	0.20	0.08
DPS. (USD)	0.007	-	-	-	0.003	0.005	-	0.21	0.42	0.10	0.04
Dividend pay-out ratio	nm	0%	0%	0%	3%	21%	0%	40%	66%	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	1.8	2.0
EV/EBITDA	7.7	7.0	8.4	7.0	14.1	10.2	16.8	4.3	4.2	6.1	8.3
EV/EBIT (adj)	15.5	13.3	14.9	10.8	25.0	26.4	neg	5.2	5.1	9.4	15.7
P/E (adj)	16.9	7.1	neg	6.9	26.3	>100	neg	3.5	3.3	7.7	18.7
P/B (excl. goodwill)	0.4	0.4	1.1	1.1	0.9	1.1	1.0	1.7	1.5	1.4	1.4

Growth (YoY)	2014	2015	2016	2017	2018	2019	2020	2021	2022E	2023E	2024E
Revenues	-15%	0%	16%	7%	125%	116%	25%	293%	10%	-33%	-11%
EBITDA	-9%	17%	14%	18%	19%	113%	-29%	643%	19%	-34%	-27%

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 %	28.3 %	27.3 %	22.3 %
EBIT (adj)	19.0 %	23.6 %	25.1 %	19.3 %	14.2 %	9.6 %	-2.0 %	22.5 %	22.9 %	17.8 %	11.8 %
Pre-tax profit	nm	nm	nm	24.3 %	29.0 %	5.0 %	-10.2 %	21.4 %	22.7 %	12.3 %	5.7 %
Net profit	nm	nm	nm	23.2 %	28.4 %	3.8 %	-10.5 %	20.1 %	21.7 %	9.9 %	4.5 %

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 %	46.9 %	19.2 %	7.5 %
ROCE	3.8 %	5.1 %	6.7 %	9.2 %	5.0 %	4.2 %	-0.9 %	27.5 %	23.0 %	11.2 %	6.5 %
Dividend yield	1.3 %	0.0 %	0.0 %	0.0 %	0.6 %	0.6 %	0.0 %	13.0 %	27.9 %	6.5 %	2.7 %

## Recommendation, valuation, risk and sources

### Recommendation and target price

Recommendation history for Belships during the last 12 months:

Date	Recommendation	Target price (NOK)
14/11/2022	HOLD	17.00
03/11/2022	BUY	22.00
22/08/2022	BUY	24.00
11/08/2022	BUY	26.00
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

### Valuation

To arrive at our share price target, we have used the DCF model and NAV valuation with 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.

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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	4,000
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 September 30, 2022:

	Buy	Hold	Sell
Total	69	42	0
% of total	62%	38%	0%
Corporate clients*	31	32	0
% of corporate clients*	49%	51%	0%

\* 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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