

Odfjell SE

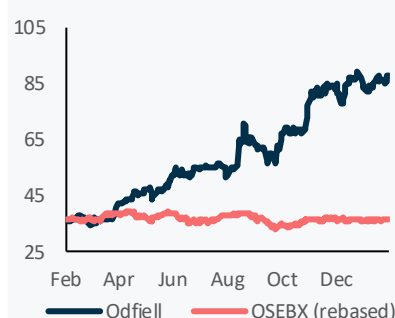
BUY

Key share data

Sector	Industrials
Reuters (for A sh.)	ODF.OL
Bloomberg (for A sh.)	ODF NO
Market Cap (NOKm)	6,878
Net debt (NOKm)	6,414
EV (NOKm)	13,292
Net debt / equity	100%
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	0%	27%	161%
OSEBX	0%	1%	0%

Upcoming events

4Q22 report February 8, 2023

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

Analyst

Mindaugas Čekanavičius

+370 620 973 76

mindaugas.cekanavicius@norne.no

Guidance suggests a very strong quarter

Odfjell reports its 4Q22 figures on Wednesday's evening. We have been waiting for the results from the main competitors to have our view towards the chemical tanker market reassured prior to issuing an update. And now we are even more confident about the guided very strong quarter for the company. Buy is reiterated under an unchanged NOK 100/sh Target Price as the turn in the cycle is yet to arise, but not in the nearest future in our view.

Improved quarter for Tankers guided

We follow the company's guidance and believe that 4Q22 could break the records again with slightly improved TCE earnings and stable Terminals. Swing tonnage impact is still expected to be reducing, while the shipping distances following the war in Ukraine are projected to remain on the higher levels compared to pre-war situation. Our confidence was also heightened following the main competitor's Stolt-Nielsen's strong results last week. We anticipate the bottom line to again exceed USD 50m and we do not differ from the overall consensus.

USDm		4Q21	3Q22	4Q22E	Consensus*	2021	2022E	2023E	
Segments	Tankers	Revenues	283	351	362	-	1,038	1,353	1,430
		EBITDA	69	104	112	-	234	368	361
	Terminals	Revenues	20	25	25	-	72	90	100
		EBITDA	10	10	10	-	33	38	40
		Net Profit	3	2	2	-	4	6	9
	Equity Method	Total	Revenues + JV	286	353	363	na	1,042	1,360
Adj. EBITDA			71	108	114	112	239	378	370
EBIT			35	71	73	69	47	223	202
Net Profit			15	50	51	52	(33)	143	124

*Bloomberg

Safe signals from competitors

With Stolt-Nielsen reporting an improvement in the chemical tanker rates and expecting a continued strengthening of the chemical tanker market following little growth in fleet, we suggest that the core chemical tanker operator Odfjell could benefit even more. 4Q should have marked the contract renewable period as well and we are eager to hear how the company succeeded in increasing the rates.

Record dividends ahead?

If the 4Q22 marks the same bottom line as the previous quarter, we are to witness the highest dividends for the company in 20 years. Combined with NOK 2.25/sh paid after 1H22, we anticipate an annual dividend yield surpassing 10%.

We stick to the symbolic NOK 100/sh Target Price for the stock and reiterate Buy recommendation. The cyclical downturn is not yet to be approached, in our view.

DCF model

USDm	4Q22E	2023E	2024E	2025E
Revenues	362	1,430	1,437	1,430
EBIT	73	202	186	161
Tax on EBIT	-4	-10	-9	-8
NOPLAT (+)	69	191	177	153
Depreciation & amortization (+)	41	168	175	182
Capital expenditure (-)	-41	-168	-175	-182
Change in working capital (- or +)	-3	3	1	1
Free Cash Flow to the Firm	66	195	177	154
NPV of FCFF (USD)	65	174	145	115
NPV of FCFF (NOK)	648	1,741	1,448	1,152

WACC calculation	
Debt ratio	60%
Cost of debt (after tax)	6%
Risk free rate	4.0%
Beta	1.7
Market risk premium	6.0%
Cost of equity	14.2%
WACC	9.4%

Valuation, NOKm	
Net debt	10,948
Minority interest	0
NPV cash flow	
4Q22E-2025E	4,988
2026E-	17,151
Total NPV cash flow	22,139
Equity value	11,191
Value per share, NOK	142

Assumptions	
L.t. growth	2.5%
Tax rate	5%
USD/NOK	10.0
# 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			
Odffjell	Norne	1,329	3.5	3.6	6.2	6.6	5.2	5.6	1.11	10%	236
Oil Tankers											
Frontline	Consensus**	5,189	8.5	5.4	11.4	6.4	7.6	4.7	na	7%	2,033
Product Tankers											
Scorio Tankers	Consensus**	4,998	4.2	4.7	6.0	6.8	4.2	5.1	1.31	1%	1,540
Chemical Tankers											
Stolt-Nielsen	Consensus**	3,694	5.2	4.9	8.5	8.0	5.1	4.7	0.88	6%	522
Median			5.2	4.9	8.5	6.8	5.1	4.7	1.09	6%	
Discount/(premium) to peers			-32.3%	-27.0%	-27.0%	-3.6%	1.5%	18.4%	1.6%		

* 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	1,363.4	1,439.0	1,446.5
Operating expenses	-640.0	-717.2	-637.9	-689.4	-684.1	-804.3	-985.2	-1,069.3	-1,085.7
EBITDA (adj)	188.0	122.5	190.7	182.3	256.5	238.9	378.2	369.7	360.8
Depreciation & Amortisation	-89.0	-86.0	-181.8	-146.4	-152.4	-180.2	-162.9	-168.2	-175.0
EBIT (adj)	99.0	36.5	8.9	35.9	104.1	58.7	215.3	201.5	185.8
Non-recurring items	31.0	100.0	-119.1	14.2	11.3	-11.6	8.0	-	-
EBIT	130.0	136.5	-110.2	50.1	115.4	47.1	223.3	201.5	185.8
Net interest & other financial effects	-23.0	-50.5	-99.4	-83.6	-83.9	-77.3	-76.0	-71.2	-71.2
Pre-tax profit	107.0	86.0	-209.6	-33.5	31.5	-30.2	147.3	130.3	114.6
Minority interests	-	-	-	-	-	-	-	-	-
Taxes	-8.0	-2.9	-4.8	-2.9	-3.5	-3.4	-4.8	-6.5	-5.7
Profit after tax	99.0	83.1	-214.4	-36.4	28.0	-33.6	142.5	123.8	108.9
EPS rep. (USD)	1.26	1.06	-2.72	-0.46	0.36	-0.43	1.81	1.57	1.38
EPS adj. (USD)	0.57	-0.17	-0.90	-0.58	0.24	-0.22	1.68	1.57	1.38
Margins									
Operating margin	12%	4%	1%	4%	11%	6%	16%	14%	13%
ROE	7%	-2%	-10%	-8%	3%	-3%	22%	18%	15%
ROCE	6%	2%	1%	2%	6%	3%	13%	12%	11%
Tax rate	7%	3%	-2%	-9%	11%	-11%	3%	5%	5%
Growth rates (YoY)									
Operating revenues	-10%	1%	-1%	5%	8%	11%	31%	6%	1%

*IFRS 16 standards applied

Balance sheet (USDm)	2016	2017	2018*	2019	2020	2021	2022E	2023E	2024E
Goodwill	-	-	-	-	-	-	-	-	-
Deferred tax asset	-	-	-	-	-	0.9	1.7	1.7	1.7
Licences, property, plant & equipment	1,228	1,294	1,548	1,620	1,784	1,622	1,538	1,538	1,538
Other intangible assets	361	373	195	176	209	184	174	174	174
Non-current Assets	1,589	1,667	1,743	1,796	1,993	1,806	1,713	1,713	1,713
Inventory	18	21	28	29	25	39	43	43	43
Receivables	81	83	88	89	92	117	120	120	120
Other current assets	31	15	3	4	7	37	17	17	17
Cash and cash equivalents	164	207	168	101	103	74	129	178	228
Current Assets	294	326	286	223	227	267	309	358	407
Total assets	1,883	1,992	2,030	2,018	2,220	2,073	2,022	2,071	2,121
Shareholders equity	719	808	601	551	576	549	663	708	757
Non-controlling interests	-	-	-	-	-	-	-	-	-
Total equity	719	808	601	551	576	549	663	708	757
Deferred tax liability	-	-	-	-	-	-	-	-	-
Long-term interest bearing debt	838	845	1,050	1,141	1,269	1,142	945	945	945
Other long-term liabilities	40	10	19	27	33	24	29	29	29
Non-current liabilities	878	855	1,068	1,168	1,302	1,165	974	974	974
Current interest bearing debt	204	239	261	205	238	230	249	249	249
Trade payables	13	24	14	11	8	9	39	42	43
Other current liabilities	69	67	86	84	95	120	97	97	97
Current liabilities	286	329	361	300	342	359	386	389	389
Total liabilities	1,164	1,184	1,429	1,467	1,644	1,525	1,359	1,363	1,363
Total liabilities and equity	1,883	1,992	2,030	2,018	2,220	2,073	2,022	2,071	2,121
Working capital	86	81	102	107	109	147	123	120	119
Net IB debt	878	877	1,143	1,245	1,405	1,298	1,065	1,016	967
Capital employed	1,597	1,663	1,669	1,719	1,878	1,714	1,637	1,682	1,731
Net IB debt / equity	122%	109%	190%	226%	244%	237%	161%	143%	128%
Equity / total assets	38%	41%	30%	27%	26%	26%	33%	34%	36%

*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	89.00	87.40	87.40
Market cap (NOKm)	2,302	2,506	2,322	2,086	2,156	2,644	7,004	6,878	6,878
Enterprise value (NOKm)	9,668	9,664	11,977	13,417	14,813	13,980	17,858	16,932	16,442
EPS rep. (USD)	1.26	1.06	-2.72	-0.46	0.36	-0.43	1.81	1.57	1.38
EPS adj. (USD)	0.57	-0.17	-0.90	-0.58	0.24	-0.22	1.68	1.57	1.38
DPS. (USD)	0.18	0.19	-	-	-	0.11	0.88	0.79	0.69

Valuation	2016	2017	2018*	2019	2020	2021	2022E	2023E	2024E
EV/Sales	1.40	1.41	1.67	1.69	1.75	1.54	1.30	1.20	1.16
EV/EBITDA	6.13	9.67	7.43	8.09	6.41	6.70	4.63	4.63	4.61
EV/EBIT (adj)	11.64	32.45	>100	41.06	15.79	27.27	8.14	8.50	8.95
P/E (adj)	6.1	neg	neg	neg	12.6	neg	5.2	5.6	6.4
P/B (excl. goodwill)	0.38	0.38	0.46	0.42	0.42	0.55	1.04	0.98	0.92

Growth (YoY)	2016	2017	2018*	2019	2020	2021	2022E	2023E	2024E
Revenues	-11.0 %	2.0 %	0.9 %	2.5 %	7.6 %	10.6 %	30.3 %	5.7 %	0.5 %
EBITDA	-0.3 %	-34.8 %	55.7 %	-4.4 %	40.7 %	-6.9 %	58.3 %	-2.3 %	-2.4 %

Margins	2016	2017	2018*	2019	2020	2021	2022E	2023E	2024E
EBITDA	22.7 %	14.6 %	23.0 %	20.9 %	27.3 %	22.9 %	27.7 %	25.7 %	24.9 %
EBIT (adj)	12.0 %	4.3 %	1.1 %	4.1 %	11.1 %	5.6 %	15.8 %	14.0 %	12.8 %
Pre-tax profit	12.9 %	10.2 %	-25.3 %	-3.8 %	3.3 %	-2.9 %	10.8 %	9.1 %	7.9 %
Net profit	12.0 %	9.9 %	-25.9 %	-4.2 %	3.0 %	-3.2 %	10.5 %	8.6 %	7.5 %

Profitability	2016	2017	2018*	2019	2020	2021	2022E	2023E	2024E
ROE	6.6 %	-1.8 %	-10.0 %	-7.9 %	3.4 %	-3.1 %	21.8 %	18.1 %	14.9 %
ROCE	5.9 %	2.2 %	0.5 %	2.1 %	5.8 %	3.3 %	12.9 %	12.1 %	10.9 %
Dividend yield	5.1 %	4.9 %	0.0 %	0.0 %	0.0 %	3.0 %	10.1 %	8.9 %	7.8 %

*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)
03/02/2023	BUY	100
08/11/2022	BUY	100
27/10/2022	BUY	85
23/08/2022	BUY	80
11/08/2022	BUY	65
10/05/2022	BUY	55
29/04/2022	BUY	55
14/02/2022	BUY	45
19/01/2022	BUY	40

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	3,710	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 December 31, 2022:

	Buy	Hold	Sell
Total	61	46	6
% of total	54%	41%	5%
Corporate clients*	28	31	2
% of corporate clients*	46%	51%	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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