

## BCP Research: Scorpio Tankers (STNG -/-/-) 4Q20 Earnings - Weak, downgrade to Neutral after rally

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*Summary: Scorpio Tankers (STNG), one of the world's largest oil-product tankers, reported weak 4Q20 earnings. TCE revenue decreased by 37% y/y in line with similar declines in day rates as renewed lockdown measures resulted in lower product demand. Additionally, land-based inventories being used also reduced demand for floating storage. As a result, EBITDA decreased by 64% y/y with stable vessel opex despite the lower revenue. FCF burn was US\$11 mm from breakeven WK and lower drydock capex. In January 2021, STNG sold and leased back four vessels increasing liquidity by US\$32 mm. The LTM net leverage stands at 5.3x.*

*4Q20 EBITDA was lower than our estimates from a larger contraction in TCE rates. As such, we have updated our base case taking more conservative rates in 2021. Though EBITDA would be lower vs 2020, we continue to see positive FCF with an implied 17% yield on the stock. FCF would be sufficient to cover the scheduled scrubber and drydock capex, yet STNG will need to continue to complete refinancings - 15 vessel refinancings are underway. We estimate STNG's fleet market value at US\$4.5 bn per the reported long-term avg. sale price for five-year old second-hand coated tankers, an implied 147% coverage on the total US\$3.0 bn debt (incl. leases and the convert). We continue to see upside on the stock through conservative FCF multiples and the fleet value well above debt, yet neither case would be sufficient to reach the US\$37/share strike price resulting in STNG 22s remaining "busted." With bonds rallying to par since our upgrade at 87c, we downgrade STNG 22s to "Neutral" as a HY bond trading at 3.0%. We note the bonds continue to have a "free" equity option.*

Description	Coupon	Maturity	Amt Out (US\$ MM)	Mid Price	Mid YTM	Conv. Price	STNG Price
STNG	3.00%	5/15/2022	151	100.00	3.00%	37.76	\$14.76

\* Prices sourced from BBG as of February 26, 2020

- 4Q20 TCE revenue decreased by 37% y/y to US\$138 mm, decreasing by 22% q/q despite seasonal stronger 4Q's
  - LR2 revenue was 36% lower y/y at US\$60 mm, from lower floating storage demand as land-based storage levels decrease
  - MR revenue was 35% lower y/y at US\$56 mm, in line with lower product demand given stricter lockdowns in 4Q
  - STNG's consolidated TCE was US\$11.6k/day, 42% lower y/y driven by lower LR2 and MR rates
- EBITDA decreased by 64% y/y to US\$45 mm, decreasing by 45% q/q as well
  - Both y/y and q/q EBITDA decline were from stable vessel opex despite the lower TCE revenue
  - As a result, the EBITDA margin contracted to 33% vs 57% in 4Q19
- FCF burn was US\$11 mm, driven by lower EBITDA and partially offset by lower drydock capex and breakeven WK
- Total debt decreased to US\$3,048 mm, with cash decreasing to US\$188 mm
  - The issuer has US\$20 mm in available credit lines, as well as an agreement to re-tap the unsecured 25s for up to US\$75 mm
  - STNG is also negotiating US\$61 mm in additional liquidity, primarily through 15 vessel refinancing's
- The LTM gross and net leverage ratios are 16.9x and 15.8x, respectively
- Recent highlights:
  - In January 2021, STNG sold and leased back 3 MRs and 1 LR increasing liquidity by US\$32 mm after debt repayment

- Link to results [here](#)

#### **Thoughts on Convert & Updated Base Case:**

- 4Q20 day rates were well below our estimates, as renewed lockdown measures resulted in lower product demand
  - As well as depletion in land-based inventories, reducing demand for floating storage
- As such, we have updated our base case assuming conservative day-rates in 2021
  - Despite the positive outlook as demand is expected to outgrow fleet growth, as new build order book is currently at 7% of the total world tanker fleet
    - For reference, the 10-yr average is 17% and the 5-yr average is 14%
  - Additionally, refining capacity closures across the globe will result in longer routes and higher ton-mile demand for product tankers
- Using STNG’s guidance for 1Q21 day rates and assuming quarterly rates stabilize at 2019 levels
  - An implied 50% y/y reduction in 1Q21, 49% in 2Q21, 11% in 3Q21 and a rebound by 82% in 4Q21
- Maintaining 4Q20’s higher vessel opex flat through the year
- We see 2021 EBITDA decreasing to US\$326 mm, yet generating US\$156 mm in positive FCF
  - FCF would be sufficient to cover the scheduled scrubber and drydock capex
  - Yet, the current debt and leases maturity schedule is elevated at around US\$75 mm per quarter
  - We suspect STNG will continue doing recurrent refinancings, as such we assume a US\$22 mm quarterly amortization
- Our estimated US\$156 mm in FCF would imply a 17% FCF yield on the current stock price
  - Should day rates increase further, FCF could be materially higher
  - A 7.0x FCF multiple would result in a 28% upside for the stock
    - Yet, still well below the US\$37 conversion ratio
  - The 2022 convert would remain “busted”
- Per the FY19 20-F, the long-term avg. sale prices for 5-yr old, coated product tanker vessels depends on DWT
  - Our estimated market value for STNG’s 128 owned and leased vessels would be US\$4.5 bn
  - Total debt (incl. leases and the convert) stands at US\$3.0 bn – an implied **147% coverage**
  - STNG equity would be US\$1.6 bn should all vessels be sold at market, an implied 90% upside on the stock
  - Despite the stock upside, it would also not be sufficient to reach the conversion ratio
  - The 2022 convert would remain “busted”

STNG (US\$ MM)	4Q20	Vessel Size	Avg. Sale Price (5-yr old Coated Vessel)	Est. Vessel Value
LR2	42	95k DWT	44	1,840
LR1	12	75k DWT	36	433
MR	60	45k DWT	31	1,848
Handymax	14	37k DWT	26	368
<b>Total Vessels</b>	<b>128</b>			<b>4,489</b>
Credit & Lease Financing	2,868			
Bonds	28			
Convert	151			
<b>Total Debt</b>	<b>3,048</b>			
Cash	188			
<b>Current Market Cap.</b>	<b>856</b>			

STNG (US\$ MM)	4Q20	Vessel Size	Avg. Sale Price (5-yr old Coated Vessel)	Est. Vessel Value
Current EV	3,716			
EV / LTM EBITDA	6.9x			
<b>Est. Vessel Value / Total Debt</b>	<b>147%</b>			
Est. Equity Value if Vessels Sold	1,629			
Est. Equity Upside	90%			
Vessel Book Value + Leased Assets	4,810			
<b>Vessel Book Value / Total Debt</b>	<b>158%</b>			

STNG (US\$ MM)	FY18	FY19	FY20	1Q21	2Q21	3Q21	4Q21	FY21
	<i>Reported</i>	<i>Reported</i>	<i>Reported</i>	<i>BCP Est.</i>	<i>BCP Est.</i>	<i>BCP Est.</i>	<i>BCP Est.</i>	<i>BCP Est.</i>
LR2	189	261	414	58	65	61	96	280
LR1	47	66	94	12	16	14	19	61
MR	225	262	371	66	77	78	99	320
Handymax	83	103	106	11	19	16	32	78
Other Revenue & Voyage Expenses	36	6	-	-	-	-	-	-
<b>TCE Revenue</b>	<b>580</b>	<b>698</b>	<b>908</b>	<b>141</b>	<b>170</b>	<b>162</b>	<b>235</b>	<b>708</b>
<b>EBITDA</b>	<b>212</b>	<b>364</b>	<b>538</b>	<b>46</b>	<b>74</b>	<b>66</b>	<b>140</b>	<b>326</b>
Interest expense	(155)	(183)	(155)	(35)	(35)	(35)	(34)	(139)
Capex	(53)	(207)	(174)	(21)	(7)	(10)	(6)	(44)
Working capital	(13)	0	15	7	11	1	(6)	13
Tax expense	-	-	-	-	-	-	-	-
<b>FCF</b>	<b>(9)</b>	<b>(26)</b>	<b>223</b>	<b>(3)</b>	<b>44</b>	<b>23</b>	<b>93</b>	<b>156</b>
Debt Raised (Amortized)				(22)	(22)	(22)	(22)	(86)
Bank Facilities & Leases	2,451	2,865	2,868	2,847	2,825	2,804	2,782	2,782
Bonds	111	54	28	28	28	28	28	28
Convertible Bonds	349	204	151	151	151	151	151	151
<b>Total Debt</b>	<b>2,910</b>	<b>3,122</b>	<b>3,048</b>	<b>3,026</b>	<b>3,005</b>	<b>2,983</b>	<b>2,962</b>	<b>2,962</b>
Cash	594	202	188	163	185	186	258	258
<b>Net Debt</b>	<b>2,317</b>	<b>2,920</b>	<b>2,860</b>	<b>2,864</b>	<b>2,820</b>	<b>2,797</b>	<b>2,704</b>	<b>2,704</b>
Gross Leverage	13.7x	8.6x	5.7x					9.1x
Net Leverage	10.9x	8.0x	5.3x					8.3x
Interest Coverage	1.4x	2.0x	3.5x					2.4x
EBITDA Margin %	37%	52%	59%	32%	44%	41%	59%	46%

STNG (US\$ MM)	4Q20	3Q20	4Q19	q/q	y/y
TCE Revenue	138	177	219	(22%)	(37%)
EBITDA	45	82	124	(45%)	(64%)
EBITDA margin	33%	46%	57%	-	-

STNG (US\$ MM)	4Q20	3Q20	4Q19	q/q	y/y
Total Debt (incl. leases)	3,048	3,069	3,122	(1%)	(2%)
Cash & Equivalents	188	218	202	(14%)	(7%)
Net Debt	2,860	2,851	2,920	0%	(2%)
Total Debt / LQA EBITDA	16.9x	9.3x	6.3x	7.5x	10.6x
Net Debt / LQA EBITDA	15.8x	8.7x	5.9x	7.1x	10.0x

STNG (US\$ MM)	4Q20	3Q20	4Q19	q/q	y/y
EBITDA	45	82	124	(45%)	(64%)
Interest paid (incl. leases)	(36)	(35)	(47)	(2%)	24%
Capex	(22)	(33)	(78)	33%	72%
Working capital	2	58	(14)	(97%)	-
Taxes paid	-	-	-	-	-
<b>FCF</b>	<b>(11)</b>	<b>72</b>	<b>(15)</b>	<b>-</b>	<b>(31%)</b>

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