

Concordia Maritime

Sweden | Transport | Mcap SEK 537.0m

02 February 2019

Buy

Target Price	SEK 20.00
Current Price	SEK 11.25
Up/downside	77.8%
Change in TP	none
Change in EPS	down nm 18E / down nm 19E

Strong 2020 outlook should outweigh short-term risks

Concordia beat our estimate in Q4 (EBITDA of SEK26m vs. our SEK16m), and Q1 will also be strong after the sharp appreciation in MR spot quotes in late 2018. Primarily driven by sharply increasing US crude exports, we believe seaborne transportation patterns will already change structurally from 2019E, which together with IMO 2020 could spike product tanker rates back to historically high levels. Given the deep discount in the share price and a bullish 2020 outlook, we reiterate our Buy rating. However, given its limited cash buffer relative to our crude tanker peers, Concordia has a somewhat elevated short-term risk in the event of a delay in recovery.

Q4 earnings beat due to higher product tanker premium

Concordia reported EBITDA of SEK26m versus our expectation of SEK16m in Q4, and the deviation is due to higher-than-anticipated product tanker freight rates. Concordia's fleet delivered a USD4,500/day premium to MR quotes versus our normal assumption of USD3,000/day.

MR rates to be stronger in Q1, but below expectations so far

With 44% of spot product tanker days fixed at USD18,500/day, Concordia's Q1 guidance signals a strong upcoming quarter. However, MR market quotes have fallen short of our estimates so far in January, and we cut our 2019E TCE for Concordia by -4%. With a currently low EBITDA margin and the sale of the four Suezmax charters in Q4, we lower our 2019E EBITDA by -20% from SEK223m to SEK176m.

Strong 2020 outlook should outweigh short-term risks

US supremacy in the production of hydrocarbons has structurally changed the seaborne transportation pattern for all hydrocarbons, and we now believe the US will turn overall net long seaborne crude in 2019E, measured in barrel-miles. Combined with IMO 2020, we forecast MR rates for 2020E of USD21,300/day, bringing Concordia back to profit territory. With a strong 2020E in sight, we remain positive on the stock due to its cheap long-term valuation. Although the company's cash position of SEK322m should be sufficient, the buffer is smaller than for our covered crude tanker peers, especially if 2019 turns out to be just as tough as 2018 (EBITDA of SEK6m vs. debt service estimated at SEK170m).

We have a Buy rating and SEK20 TP

Concordia currently trades at a P/NAV of 0.55x on our NAV (SEK20), assuming a 20% premium on the PMAX vessels. Based on our 2020E forecast, we see 40% upside in the ten-year-old MR value, lifting the NAV to SEK33.

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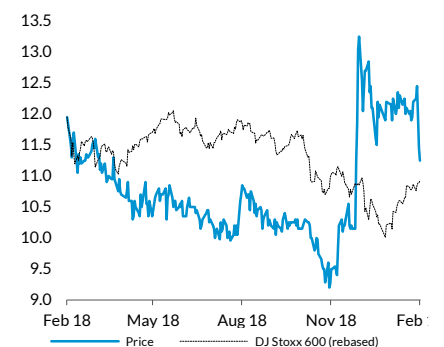
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Market data

Bloomberg: CCORB SS	Reuters: CCORb.ST
Market cap (SEKm)	537
Free float	52%
No. of shares outstanding (m)	48
Avg. daily volume (SEKm)	0.6
YTD abs performance	-7.8%
52-week high/low (SEK)	13.25/9.20

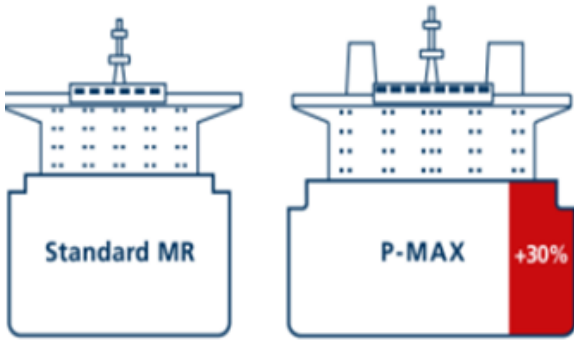
FY to 31/12 (SEK)	12/18E	12/19E	12/20E
Sales (bn)	1.1	1.1	1.3
EBITDA adj (m)	6.4	176.5	487.4
EBIT adj (m)	-180.5	-19.0	291.9
Net profit adj (m)	-232.4	-57.3	254.8
Net fin. debt (m)	1,315.3	1,213.4	968.5
FCF (m)	-119.4	101.9	414.0
EPS adj. and fully dil.	-4.87	-1.20	5.34
Consensus EPS	-3.81	0.41	5.51
Net dividend	0.00	0.50	3.74

FY to 31/12 (SEK)	12/18E	12/19E	12/20E
P/E adj and ful. dil.	na	na	2.1
EV/EBITDA	na	9.9	3.1
EV/EBIT	na	na	5.2
FCF yield	-22.2%	19.0%	77.1%
Dividend yield	0.0%	4.4%	33.2%
Net fin.debt/EBITDA	205.5	6.9	2.0
Gearing	123.9%	112.3%	83.1%
ROIC	-7.1%	-0.8%	12.6%
EV/IC	0.7	0.7	0.7



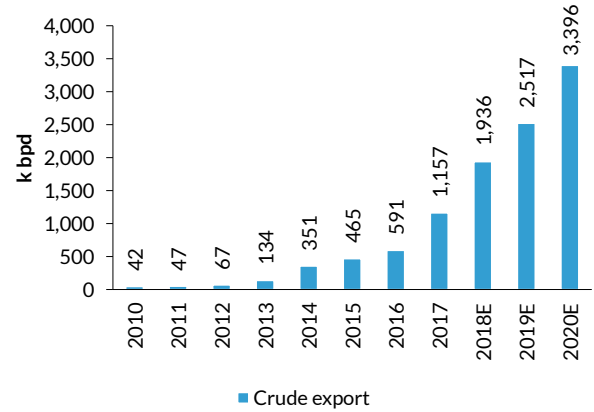
Investment case in six charts

Chart 82: CCOR is a player in the product tanker market, with ten owned P-MAX vessels (30% more capacity than MR)



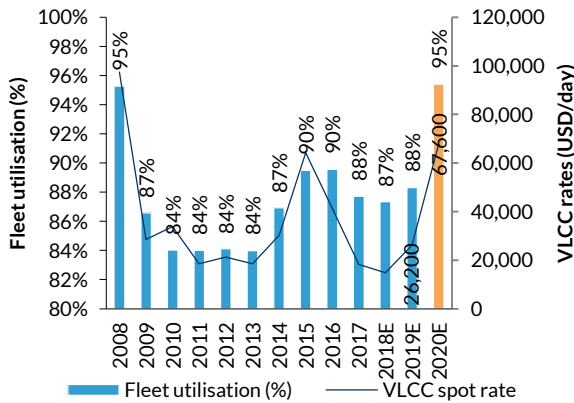
Source: Kepler Cheuvreux

Chart 83: US crude exports will probably pass 3m bpd this year, which is the most important driver of all oil tanker demand



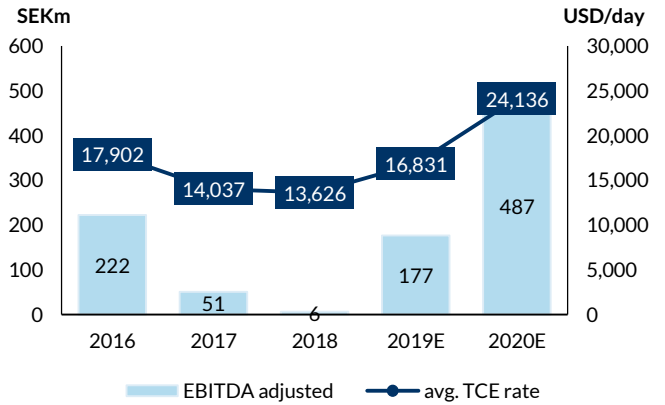
Source: Kepler Cheuvreux

Chart 84: Although 2019E will be volatile, we expect a strong tightening in the oil tanker market in 2020E



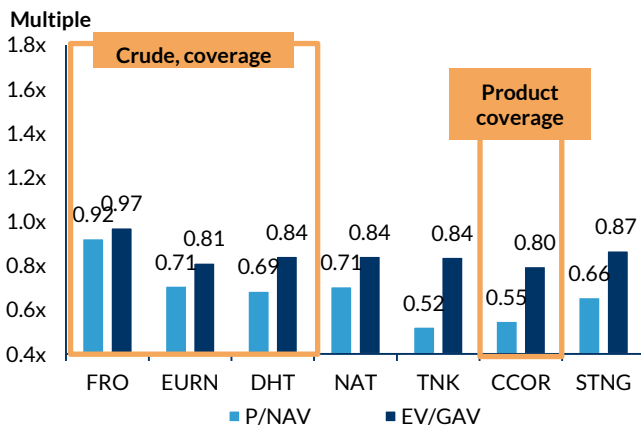
Source: Kepler Cheuvreux

Chart 85: ...due to swing tonnage, product tanker earnings will follow, bringing CCOR back to profit (debt service SEK170m)



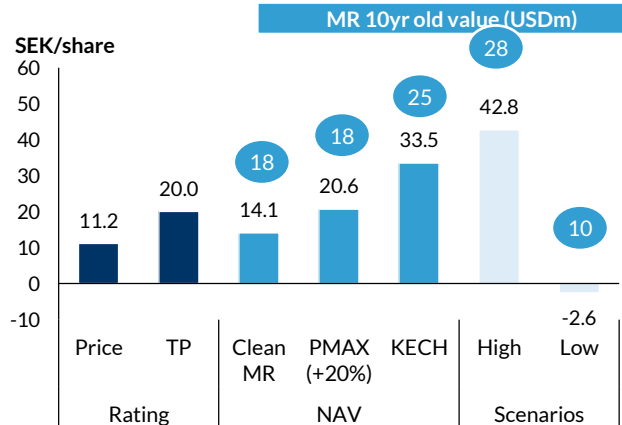
Source: Kepler Cheuvreux

Chart 86: Deep discount in CCOR (P/NAV of 0.6x), but we highlight higher cash flow risk in a delayed recovery



Source: Kepler Cheuvreux

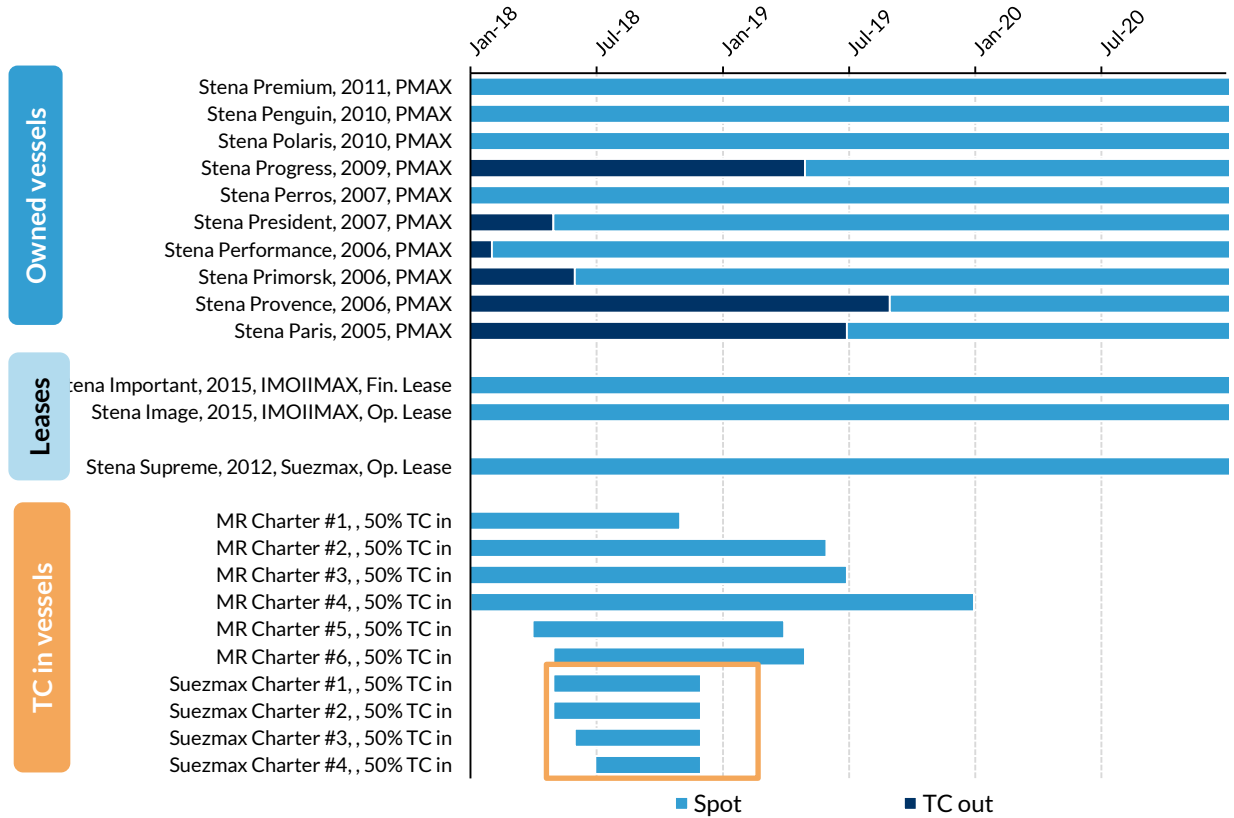
Chart 87: We have a Buy rating and SEK20 TP, seeing ten-year-old MR up by 40% from current low levels



Source: Kepler Cheuvreux

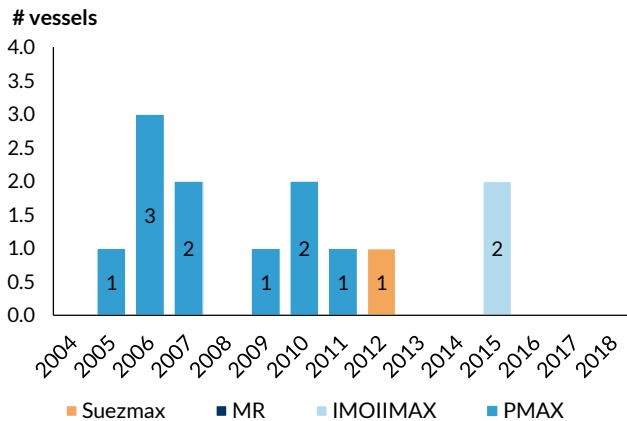
Concordia Maritime in brief

Chart 88: Fleet employment



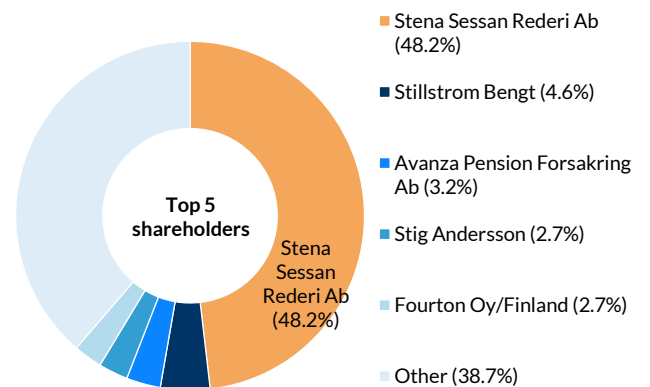
Source: Kepler Cheuvreux

Chart 89: Owned/leased fleet by year (weighted 11 years)



Source: Kepler Cheuvreux

Chart 90: Largest shareholder controls 48%



Source: Bloomberg

Q4 earnings beat due to higher product tanker premium

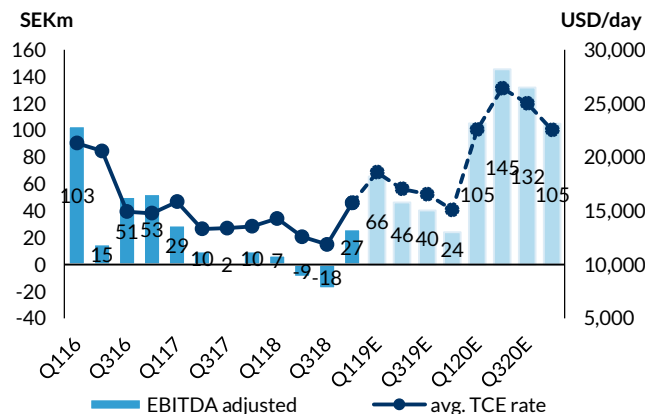
Concordia reported EBITDA of SEK26m versus our expectation of SEK16m in Q4, and the deviation is due to higher-than-expected product tanker freight rates. Concordia's fleet delivered a USD4,500/day premium to MR quotes versus our normal assumption of USD3,000/day.

Table 19: Quarterly figures: Kepler Cheuvreux versus Bloomberg consensus

Reported figures (SEKm)	Reported figures				Reported Q4 2018	Estimates		Deviation, SEKm	
	Q4 2017	Q1 2018	Q2 2018	Q3 2018		KECH	Cons.	KECH	Cons.
Operating revenues	193.8	199.6	227.0	258.6	367.8	271.6		96.2	
Operating costs incl. charter hire	-168.9	-179.0	-223.7	-265.8	-275.5	-240.7		-34.8	
SGA	-14.9	-13.6	-12.6	-10.7	-15.2	-14.9		-0.3	
EBITDA reported	10.0	7.0	-9.3	-17.9	77.1	16.1	17.5	61.0	59.6
EBITDA adjusted	10.0	7.0	-9.3	-17.9	26.6	16.1	17.5	10.5	9.1
Depreciation	-43.0	-43.4	-46.2	-48.4	-48.9	-49.1		0.2	
Operating profit	-33.0	-36.4	-55.5	-66.3	28.2	-33.0	-34.0	61.2	62.2
EBIT adjusted	-33.0	-36.4	-55.5	-66.3	-22.3	-33.0	-28.5	10.7	6.2
Net financial interest	-9.1	-2.3	-1.6	-0.5	-47.5	-12.0		-35.5	
Other financial items	0.0	0.0	0.0	0.0	0.0	0.0		0.0	
Profit before tax	-42.1	-38.7	-57.1	-66.8	-19.3	-45.0		25.7	
Taxes	0.0	0.0	0.0	-0.1	-0.1	0.0		-0.1	
Net profit reported	-42.1	-38.7	-57.1	-66.9	-19.4	-45.0	-43.0	25.6	23.6
Net profit adjusted	-42.1	-38.7	-57.1	-66.8	-69.8	-45.0	-41.6	-24.8	-28.3
EPS adj. (SEK)	-0.88	-0.81	-1.20	-1.40	-1.46	-0.94	-0.87		
DPS (SEK)	0.00	0.00	0.00	0.00	0.00	0.00			
Operating assumptions:									
Product tank -TCE rate (USD/day)	13,200	14,400	12,400	11,200	13,700	12,347		11%	
Suezmax -TCE rate (USD/day)	18,300	12,700	14,200	15,300	25,800	25,567		1%	
Avg. TCE rate (USD/day)	13,560	14,287	12,598	11,883	15,736	14,571		8%	
EBITDA margin (USD/day)	922	639	-706	-1,208	1,793	1,078		66%	
USDSEK	8.32	8.12	8.68	8.95	9.04	9.08		0%	

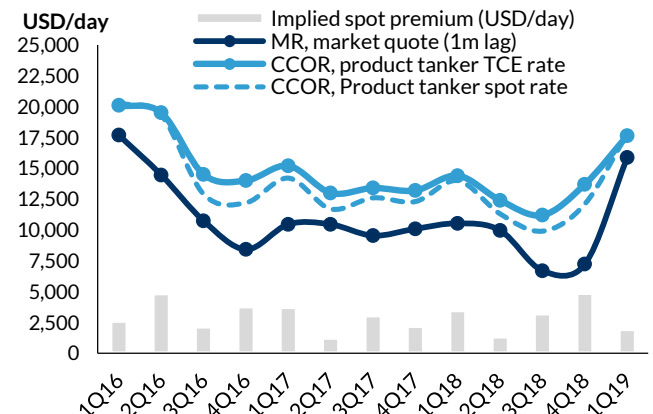
Source: Bloomberg consensus, Kepler Cheuvreux

Chart 91: Quarterly EBITDA



Source: Kepler Cheuvreux

Chart 92: CCOR implied TCE rate versus market quote



Source: Clarkson, Kepler Cheuvreux

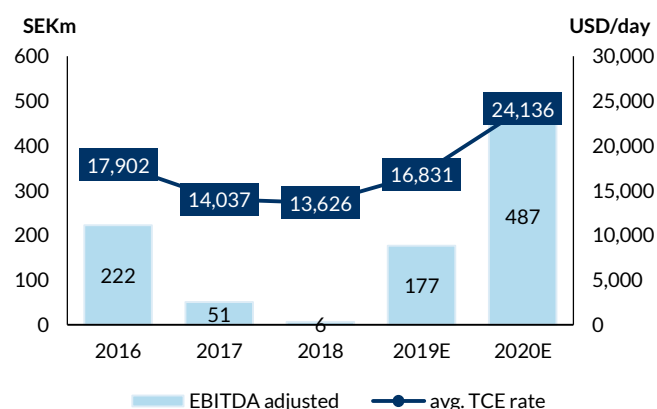
Strong 2020 outlook should outweigh short-term risks

With 44% of spot product tanker days fixed at USD18,500/day, Concordia's Q1 guidance signals a strong upcoming quarter. However, MR market quotes have fallen short of our estimates so far in January, and we cut our 2019E TCE for Concordia by -4%. With a currently low EBITDA margin and the sale of the four Suezmax charters in Q4, we lower our 2019E EBITDA by -20% from SEK223m to SEK176m.

US supremacy in the production of hydrocarbons has structurally changed the seaborne transportation pattern for all hydrocarbons, and we now believe the US will turn overall net long seaborne crude in 2019E, measured in barrel-miles. Combined with IMO 2020, we forecast MR rates for 2020E of USD21,300/day, bringing Concordia back into profit territory. With a strong 2020E in sight, we remain positive on the stock due to its cheap long-term valuation.

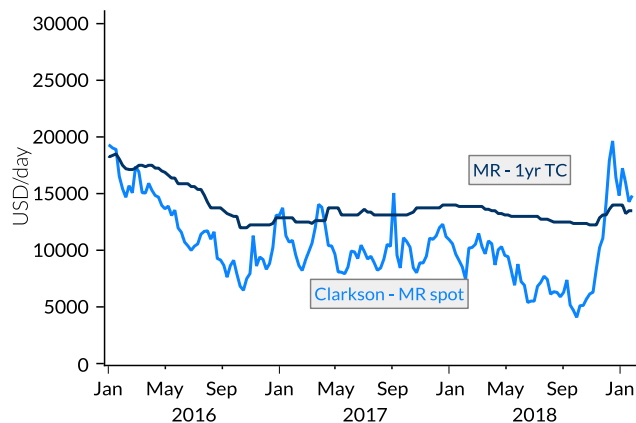
However, we highlight the downside risk should 2019 turn out to be just as tough as 2018 (EBITDA of SEK6m versus annual debt service estimated at SEK170m). Although the company's cash position of SEK322m should be sufficient, the buffer is smaller than for our covered crude tanker peers.

Chart 93: EBITDA versus average TCE rate



Source: Bloomberg, Kepler Cheuvreux

Chart 94: MR market quotes



Source: Clarkson, Kepler Cheuvreux

Table 20: Changes to estimates

Changes to estimates (SEKm)	2018E			2019E			2020E		
	New	Old	Change	New	Old	Change	New	Old	Change
EBITDA adjusted	6.4	-4.1	n/a	176.5	223.0	-21%	487.4	489.3	0%
Net profit adjusted	-232.4	-207.6	n/a	-57.3	-6.8	n/a	254.8	263.5	-3%
EPS adj (SEK)	-4.87	-4.35	n/a	-1.20	-0.14	n/a	5.34	5.52	-3%
DPS (SEK)	0.00	0.00	0%	0.50	0.50	0%	3.74	3.86	-3%
Avg. TCE rate (USD/day)	13,626	13,335	2%	16,831	17,591	-4%	24,136	24,136	0%
EBITDA margin (USD/day)	119	-77	n/a	3,708	4,379	-15%	11,283	11,283	0%
Vessel days (calendar)	6,164	6,164	0%	5,260	5,607	-6%	4,774	4,774	0%

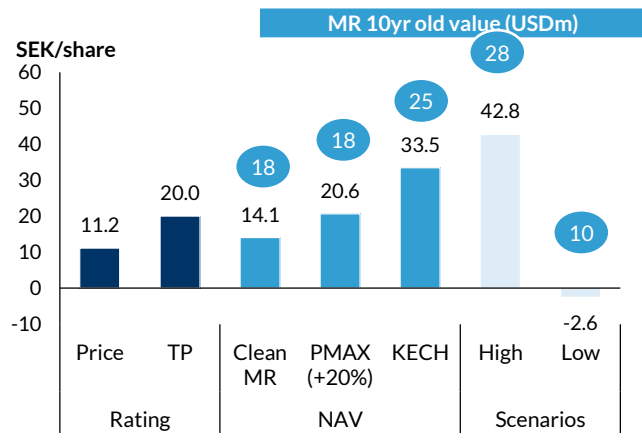
Source: Kepler Cheuvreux

We have a Buy rating and SEK20 TP

A ten-year MR is now quoted at USD18m, and with an average fleet age of 9.8 years for PMAX vessels (value weighted), our valuation for Concordia tracks close to the ten-year-old quote. We estimate a current NAV of SEK20 for Concordia, and on the back of our 2020E estimate, we see the ten-year MR value increasing to USD25m, lifting the NAV to SEK33.

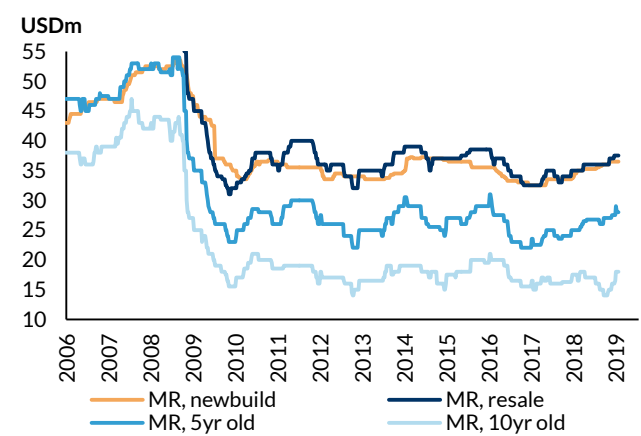
Given the steep share price discount, we set our TP at SEK20.

Chart 95: Valuation scenarios



Source: Kepler Cheuvreux

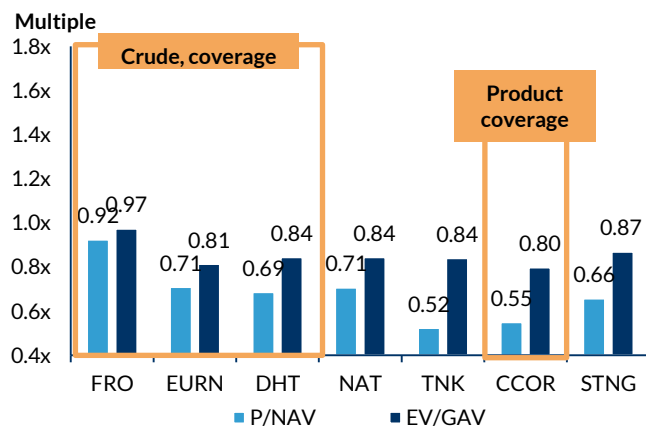
Chart 96: Historical MR vessel values



Source: Kepler Cheuvreux

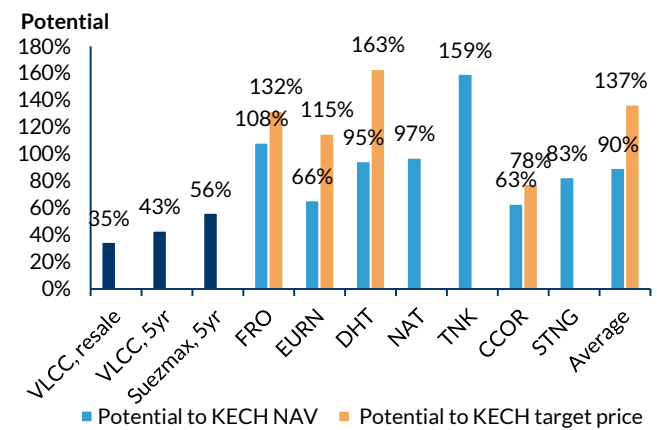
Concordia is currently trading at a P/NAV of 0.55x.

Chart 97: P/NAV and EV/GAV relative to current asset values



Source: Kepler Cheuvreux

Chart 98: Potential to KECH NAV and target price



Source: Kepler Cheuvreux

Valuation breakdown

Table 21: Valuation breakdown

NAV (USDm)	# vessels	Age (avg.)	Current NAV		1Y forward NAV		
			MR Premium		Base	Low	High
Fleet:							
PMAX	10	10.4	173	207	266	102	307
IMOIIIMAX	1	3.3	31	31	40	15	49
Fleet on water	11	7.7	204	239	307	116	356
Newbuilds	0	n/a	0	0	0	0	0
Total fleet value (USDm)	11	7.7	204	239	307	116	356
MtM contract portfolio			4	4	3	3	3
1Y cash-flow					2	-1	6
GAV (USDm)			208	242	310	120	359
NIBD (relative last report):							
Cash and cash equivalents			25	25	25	25	25
Bank debt			-174	-174	-174	-174	-174
Net working capital			15	15	15	15	15
Other adjustments			0	0	0	0	0
Future capex			0	0	0	0	0
NIBD incl. off-balance commitments			-133	-133	-133	-133	-133
NAV (USDm)			74	109	177	-14	226
# shares (fully delivered)			47.7	47.7	47.7	47.7	47.7
NAV/share (SEK)			14.1	20.6	33.5	-2.6	42.8
Share price (SEK)			11.2	11.2	11.2	11.2	11.2
P/NAV			0.79x	0.54x	0.33x	n/a	0.26x
EV (USDm)			192	192	192	192	192
EV/GAV			0.93x	0.79x	0.62x	1.61x	0.54x

Source: Kepler Cheuvreux

We include the following items in our valuation:

- **PMAX vessels valued at a 20% premium to standard MR vessels.**
- **Net interest bearing debt:** We include cash and interest bearing debt from the latest quarterly report.
- **Other assets/liabilities:** We include the book value of net working capital items.
- **Off-balance sheet adjustments:** We make no other adjustments.

Table 22: Trading multiples and forecasts

Summary figures and valuation		2017	2018	2019E	2020E
Key P&L estimates, SEKm:					
EBITDA adj.	KECH	51	6	177	487
	Consensus		18	251	462
	Deviation		-64%	-30%	5%
EBIT	KECH	-625	-181	-19	292
	Consensus		-155	47	258
	Deviation		nm.	nm.	13%
Net profit adjusted	KECH	-660	-232	-57	255
	Consensus		-185	17	232
	Deviation		nm.	nm.	10%
DPS (SEK)	KECH	0.00	0.00	0.50	3.74
	Consensus		n/a	n/a	n/a
	Deviation		nm.	nm.	nm.
Valuation:					
EV/EBITDA (w. fully delivered EV)	KECH	32.1x	261.1x	9.9x	3.6x
	Consensus		94.8x	6.9x	3.8x
EV/EBIT (w. fully delivered EV)	KECH	n/a	n/a	n/a	6.0x
	Consensus		n/a	37.3x	6.8x
P/E	KECH	n/a	n/a	n/a	2.1x
	Consensus		n/a	31.2x	2.3x
Div. yield	KECH	0.0%	0.0%	4.5%	33.5%
	Consensus		n/a	n/a	n/a
P/B	KECH	0.44x	0.50x	0.49x	0.46x
Balance sheet items:					
Current share price, SEK		11.2	11.2	11.2	11.2
Market cap, SEKm		503	511	532	532
Net interest bearing debt	Reported	1,169	1,315	1,213	968
	Fully delivered (SOP)	1,139	1,160	1,207	1,207
Enterprise value, SEKm	Reported NIBD	1,672	1,827	1,746	1,501
	Fully delivered	1,642	1,671	1,739	1,739
Book value per share (SEK)		25.6	22.2	22.6	24.4
Profitability					
ROIC (%), avg.		-21.7%	-7.6%	-0.8%	13.2%
ROE (%), avg.		-39.9%	-20.4%	-5.4%	22.7%

Source: Kepler Cheuvreux

Table 23: Historical figures and forecasts

Key financials (SEKm)	2015	2016	2017	2018	2019E	2020E	Q3 2018	Q4 2018	Q1 2019E	Q2 2019E
Operating revenues	810.0	1,038.2	827.5	1,053.0	1,093.3	1,331.9	258.6	367.8	307.2	283.0
Operating costs incl. charter hire	-322.1	-579.6	-718.2	-944.0	-852.6	-786.2	-265.8	-275.5	-224.5	-220.0
SGA	-64.0	-138.7	-58.1	-52.1	-64.3	-58.3	-10.7	-15.2	-17.0	-16.7
EBITDA reported	423.9	319.9	51.2	56.9	176.5	487.4	-17.9	77.1	65.6	46.3
EBITDA adjusted	423.8	222.3	51.2	6.4	176.5	487.4	-17.9	26.6	65.6	46.3
Depreciation	-214.2	-237.2	-675.8	-186.9	-195.5	-195.5	-48.4	-48.9	-48.9	-48.9
EBIT	209.7	82.8	-624.7	-130.0	-19.0	291.9	-66.3	28.2	16.8	-2.5
EBIT adjusted	209.6	-14.9	-624.7	-180.5	-19.0	291.9	-66.3	-22.3	16.8	-2.5
Net financial items	-35.4	-25.9	-35.6	-51.9	-38.4	-37.2	-0.5	-47.5	-10.1	-9.7
Tax	-0.5	12.7	0.0	-0.2	0.0	0.0	-0.1	-0.1	0.0	0.0
Net profit reported	173.8	69.5	-660.3	-182.1	-57.3	254.8	-66.9	-19.4	6.7	-12.3
Net profit adjusted	174.2	-40.8	-660.3	-232.4	-57.3	254.8	-66.8	-69.8	6.7	-12.3
EPS adj. (SEK)	3.65	-0.85	-13.83	-4.87	-1.20	5.34	-1.40	-1.46	0.14	-0.26
DPS (SEK)	0.50	0.50	0.00	0.00	0.50	3.74	0.00	0.00	0.00	0.00
Operating assumptions:										
Product tank -TCE rate (USD/day)		17,025	13,700	12,925	16,272	22,353	11,200	13,700	17,640	16,433
Suezmax -TCE rate (USD/day)		28,425	18,200	17,000	24,553	45,605	15,300	25,800	32,551	25,747
Avg. TCE rate (USD/day)		17,902	14,037	13,626	16,831	24,136	11,883	15,736	18,602	17,054
EBITDA margin (USD/day)		5,471	1,207	119	3,708	11,283	-1,208	1,793	5,200	3,750
Vessel days (calendar)		4,745	4,960	6,164	5,260	4,774	1,656	1,641	1,395	1,365

Source: Kepler Cheuvreux

Key financials

FY to 31/12 (SEK)	12/13	12/14	12/15	12/16	12/17	12/18E	12/19E	12/20E
Income Statement (SEKm)								
Sales	467.6	531.2	810.0	1,038.2	827.5	1,053.0	1,093.3	1,331.9
% Change	-13.9%	13.6%	52.5%	28.2%	-20.3%	27.3%	3.8%	21.8%
EBITDA adjusted	144.5	140.5	423.8	222.3	51.2	6.4	176.5	487.4
EBITDA margin (%)	30.9%	26.5%	52.3%	21.4%	6.2%	0.6%	16.1%	36.6%
EBIT adjusted	0.2	-4.2	209.6	-14.9	-624.7	-180.5	-19.0	291.9
EBIT margin (%)	0.0%	-0.8%	25.9%	-1.4%	-75.5%	-17.1%	-1.7%	21.9%
Net financial items & associates	-39.4	-39.9	-35.4	-25.9	-35.6	-51.9	-38.4	-37.2
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tax	10.2	-7.8	-0.5	12.7	0.0	-0.2	0.0	0.0
Net profit from continuing operations	-28.8	8.7	173.8	69.5	-660.3	-182.1	-57.3	254.8
Net profit from discontinuing activities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net profit before minorities	-28.8	8.7	173.8	69.5	-660.3	-182.1	-57.3	254.8
Net profit reported	-28.8	8.7	173.8	69.5	-660.3	-182.1	-57.3	254.8
Net profit adjusted	-39.2	-44.1	174.2	-40.8	-660.3	-232.4	-57.3	254.8
Cash Flow Statement (SEKm)								
Cash flow from operating activities	36.4	85.6	377.5	244.7	45.9	-116.4	138.1	450.2
Capex	-64.7	-87.9	-459.3	-89.5	-78.0	-3.0	-36.2	-36.2
Free cash flow	-28.3	-2.3	-81.8	155.2	-32.1	-119.4	101.9	414.0
Acquisitions & Divestments	0.0	237.6	0.0	826.2	307.4	2.0	0.0	0.0
Dividend paid	-23.9	0.0	0.0	-23.9	-23.9	0.0	0.0	-169.1
Others	12.1	90.2	0.0	-256.8	29.9	121.6	0.0	0.0
Change in net financial debt	-40.1	325.5	-81.8	700.7	281.3	4.2	101.9	244.9
Balance Sheet (SEKm)								
Intangible assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tangible assets	3,016.1	3,335.5	3,809.0	3,165.5	2,305.7	2,303.0	2,144.9	1,985.6
Financial & other non-current assets	9.4	0.8	0.5	20.5	0.1	14.6	14.6	14.6
Total shareholders' equity	1,292.3	1,574.7	1,868.7	2,089.8	1,221.9	1,061.5	1,080.1	1,165.8
Pension provisions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Liabilities and provisions	2,114.2	2,141.1	2,485.8	2,052.4	1,746.6	1,733.5	1,534.3	1,410.0
Net financial debt	1,806.3	1,817.7	2,008.1	1,267.0	1,169.1	1,315.3	1,213.4	968.5
Working capital requirement	193.3	158.4	165.9	276.7	196.2	253.5	253.5	253.5
Invested Capital	3,209.4	3,493.9	3,974.9	3,442.2	2,501.9	2,556.5	2,398.4	2,239.1
Per share data								
EPS adjusted	-0.82	-0.92	3.65	-0.85	-13.83	-4.87	-1.20	5.34
EPS adj and fully diluted	-0.82	-0.92	3.65	-0.85	-13.83	-4.87	-1.20	5.34
% Change	-chg	-chg	+chg	-chg	-chg	+chg	+chg	+chg
EPS reported	-0.60	0.18	3.64	1.46	-13.83	-3.82	-1.20	5.34
Cash flow per share	0.76	1.79	7.91	5.13	0.96	-2.44	2.89	9.43
Book value per share	27.08	32.99	39.15	43.78	25.60	22.24	22.63	24.42
Dividend per share	0.00	0.00	0.50	0.50	0.00	0.00	0.50	3.74
Number of shares, YE (m)	47.73	47.73	47.73	47.73	47.73	47.73	47.73	47.73
Ratios								
ROE (%)	-3.0%	-3.1%	10.1%	-2.1%	-39.9%	-20.4%	-5.4%	22.7%
ROIC (%)	0.0%	-0.1%	5.6%	-0.4%	-21.0%	-7.1%	-0.8%	12.6%
Net fin. debt / EBITDA (x)	12.5	12.9	4.7	5.7	22.9	205.5	6.9	2.0
Gearing (%)	139.8%	115.4%	107.5%	60.6%	95.7%	123.9%	112.3%	83.1%
Valuation								
P/E adjusted	na	na	4.7	na	na	na	na	2.1
P/E adjusted and fully diluted	na	na	4.7	na	na	na	na	2.1
P/BV	0.4	0.4	0.4	0.4	0.5	0.5	0.5	0.5
P/CF	14.4	7.2	2.2	3.1	13.7	na	3.9	1.2
Dividend yield (%)	0.0%	0.0%	2.9%	3.1%	0.0%	0.0%	4.4%	33.2%
Dividend yield preference shares (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FCF yield (%)	-5.4%	-0.4%	-10.0%	20.3%	-5.1%	-22.2%	19.0%	77.1%
EV/Sales	5.0	4.6	3.5	2.0	2.2	1.8	1.6	1.1
EV/EBITDA	16.1	17.3	6.7	9.1	35.2	na	9.9	3.1
EV/EBIT	na	na	13.5	na	na	na	na	5.2