

## Frontline-Euronav merger: Countercyclical transaction to create long-term value for shareholders

12 April 2022

On 7 April 2022, Frontline Limited (FRO) and Euronav NV (EURN) announced that the companies are in the process of a merger that would create a global leader in the tanker shipping market. FRO will acquire all 201.7mn of issued and outstanding EURN shares with 292.4mn FRO shares (1.45 FRO shares for each share of EURN). As a result of the transaction, existing shareholders of EURN and FRO will own nearly 59% and 41% respectively of the merged entity, which will continue under the name Frontline. It is expected that EURN will pay total cash dividends of nearly USD 0.12 per share before the closing of the transaction, with no impact on the exchange ratio.

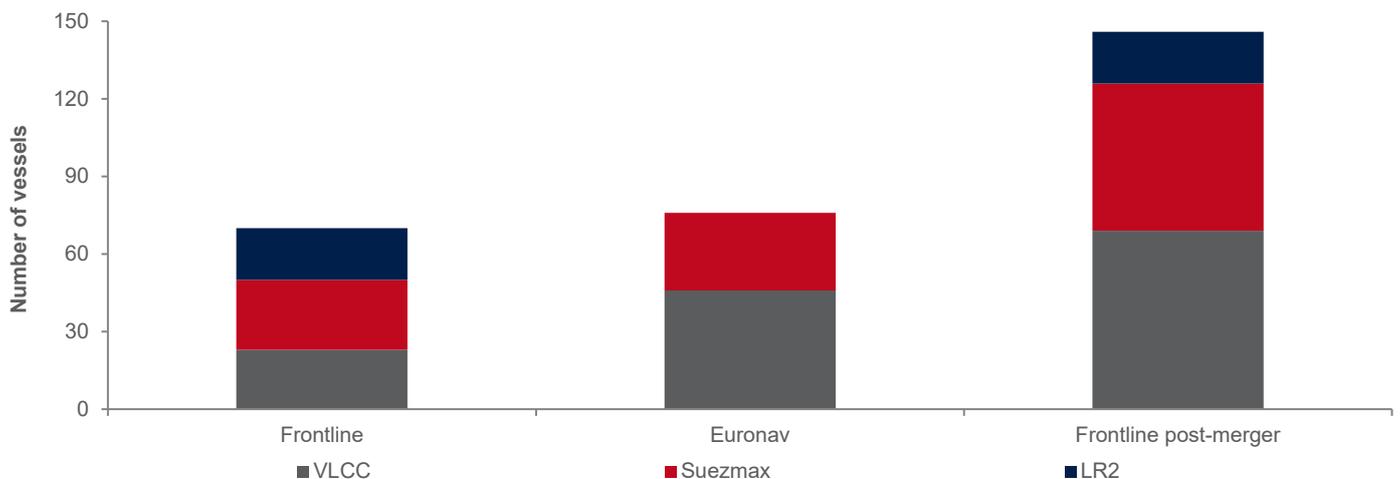
Post the merger, the company will be headed by Hugo De Stoop as the Chief Executive Officer. The Board of Directors of the combined group will consist of seven members, including three independent Directors of the Euronav Supervisory Board, two nominated by Hemen Holding (Frontline’s largest shareholder) and two additional new independent directors. Presently, the Saverys family (13%) and John Fredriksen (10%) are the largest shareholders in EURN. Frederiksen who controls FRO through Hemen Holding (~39%) will emerge as the biggest single investor in the new combined entity.

### Transaction to create a giant in the tanker shipping market

EURN’s fleet comprises 46 VLCCs and 30 Suezmaxes, with an average age of 8.7 years. FRO owns a fleet of 23 VLCCs, 27 Suezmaxes and 20 LR2s with an average age of 5.8 years. The transaction will expand FRO’s fleet to 146 vessels, including 126 crude tankers (69 VLCCs and 57 Suezmaxes), and 20 product tankers (LR2) with an average age of 7.3 years. On completion, this transaction will create the world’s largest tanker fleet with a carrying capacity of over 32.4 mdt. The combined entity will have an enterprise value of ~USD 8,400mn (~98.5% more than FRO and 101.6% more than EURN).

Post-merger, FRO will control about 8.3% of the fleet in its vessel class and will be nearly four times larger in terms of the market cap than its US peer DHT Holdings. Following the acquisition, we estimate that the fair market value of FRO’s fleet will increase from USD 3,385.7mn to USD 6,943.8mn. EURN’s stock changed hands at USD 11.24 per share on 6 April. The offer from FRO valued EURN’s stock at USD 13.70 per share, which represents a premium of 21.9% over EURN’s stock closing stock price. The share closed 6.8% higher at USD 12.00 per share on 7 April after touching a 52-week high of USD 12.53 per share, and is currently trading at USD 12.81 per share, 14% higher than the price prior to the merger announcement.

**Figure 1** Expanded fleet to enhance Frontline’s market share



Source: Frontline, Euronav, Drewry Maritime Financial Research

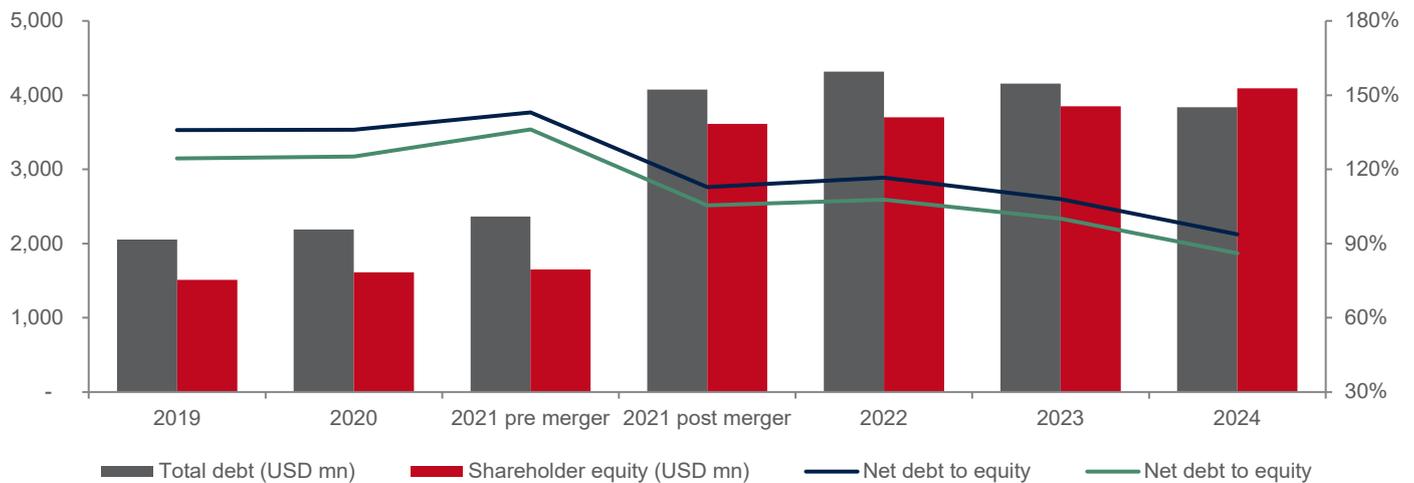
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### Leverage to improve post-merger

As of 31 December 2021, FRO's net leverage (net debt/equity) stood at 136%, a minor uptick because of increased debt during the year. However, post-merger, the net leverage will decline to ~105% as EURN's current net leverage is at ~80%. We estimate post-merger, FRO's net leverage to improve gradually over the next three years as a potential recovery in tanker market will facilitate scheduled debt repayments and increase in shareholders equity because of high retained earnings.

**Figure 2** Leverage expected to improve gradually

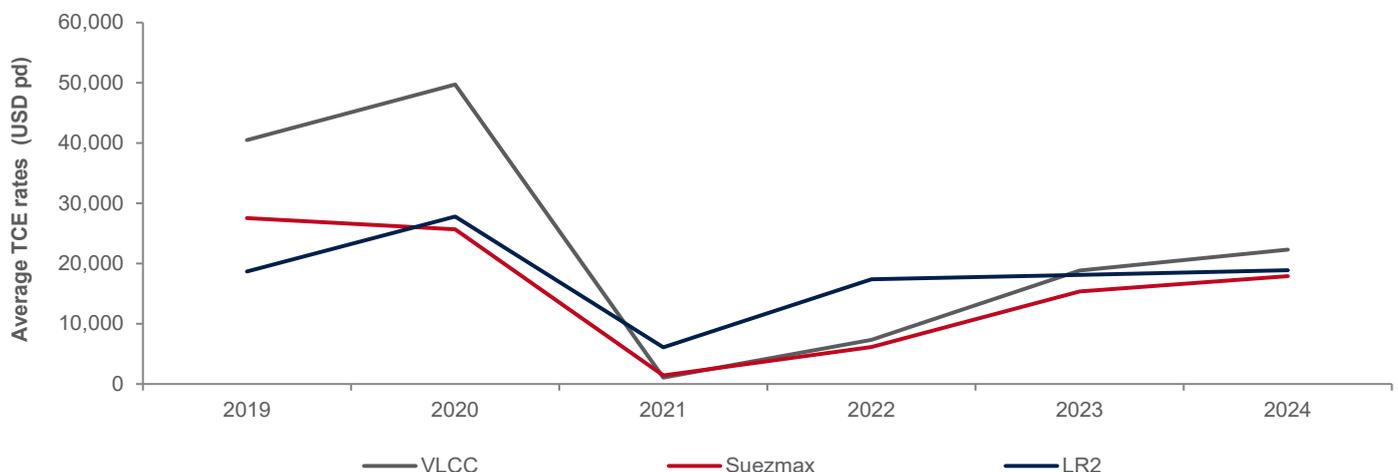


Source: Frontline, Euronav, Drewry Maritime Financial Research

### Countercyclical transactions to create shareholders' value in the long term

We believe the proposed merger is a well-timed move and in line with EURN's countercyclical investments, similar to the acquisition of AP Moller-Maersk VLCC fleet in 2014 and the merger with Gener8 Maritime (GNRT) in 2018. Although the timelines are a tad difficult to predict, history tells us these transactions were closed at the cyclical lows right before a recovery in the tanker market. We believe the proposed merger between FRO and EURN is another countercyclical investment to create a global leading tanker giant ahead of a potential post-pandemic recovery in the market. We believe the market is at its cyclical lows and vessel earnings, as well as asset prices, will recover over the next three years, indicating a consolidation ahead of the potential recovery in the tanker market.

**Figure 3** Rising average TCE rates to support earnings and profitability

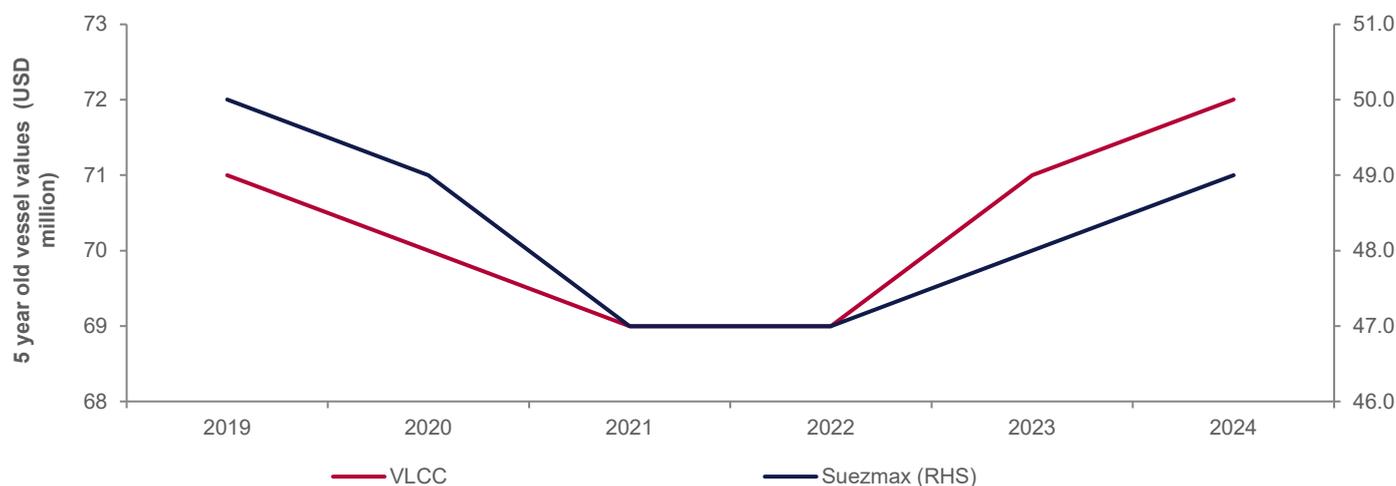


Source: DMR, Drewry Maritime Financial Research

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**Figure 4** Historically low asset prices offer consolidation opportunities in tanker shipping



Source: DMR, Drewry Maritime Financial Research

### Resistance from key shareholders could hinder the merger

Although the proposed merger is unanimously approved by the independent members of Frontline's Board of Directors and Euronav's Supervisory Board, Compagnie Maritime Belge (CMB) – the largest shareholder (13.22%) in EURN - indicated that it does not support the proposed merger. The main reason cited by CMB is that this merger will prevent the company's plan to shift EURN's business to clean energy. CMB believes that Euronav should move away from the transport of crude oil and focus on greening and decarbonising shipping and heavy industry. Given the resistance from the largest shareholder of EURN, we believe the completion of the transaction will not be a smooth ride.

**Table 1** Key shareholders of Euronav

Key shareholders of Euronav	Shares held (mn)	Ownership (%)
Compagnie Maritime Belge (CMB)	26.7	13.2%
John Fredriksen	20.2	10.0%
FMR LLC	7.4	3.7%
Vanguard Group Inc	6.4	3.2%
Norges Bank	4.8	2.4%
Others	136.2	67.5%

Source: Star Bulk

We believe the transaction, once completed, would create long-term value to FRO's common shareholders as the expanded fleet capacity will substantially boost FRO's operating leverage, customer base and its market share in the global tanker shipping market ahead of a potential recovery.

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