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**Anders Redigh Karlsen**  
 Head of shipping  
 +47 23 13 90 68  
 arkarlsen@keplercheuvreux.com

# Euronav Buy

Belgium | Transport

**Beta Profile:**

**MCap: EUR2.3bn**

**Target Price:** EUR 12.30  
**Current Price:** EUR 11.26  
**Up/downside:** 9.2%  
**Market data:** 05 May 2022

Bloomberg: EURN BB	Reuters: EUAV.BR
Free float	83%
Avg. daily volume (EURm)	38.5
YTD abs performance	44.4%
52-week high/low (EUR)	11.93/6.47

## Battling on with a clear message

### Key points:

- Euronav maintains a clear communication toward its shareholders to support the intended merger with Frontline, as the main shareholder CMB/Saverys has added to their holding. As per the last SEC filing, the holding stands at 17.48% of the outstanding shares. At the same time, Famatown Finance (associated with John Fredriksen) has increased its holding to 12.01% ahead of the AGM on 19 May. We understand the cut-off date for registering for the AGM was yesterday, 5 May. We still believe CMB will be unable to achieve its ambitions of changing the board and thus opposing the potential merger. Make a note of the date.
- Euronav's management and board are actively promoting the merger agreement towards its shareholders as the best way forward for the company as the alternative strategy promoted by CMB is suggested to be value-destructive. We believe they are right and see the proposed combination with Frontline as a huge step forward in terms of consolidating the crude tanker market and creating a leading company with a sizeable market capitalisation in the crude tanker space. The alternate strategy of moving away from its core business and making it into a cleantech company will not benefit shareholders, in our view.
- Euronav is at the same time actively working on its path towards lowering emissions. In a webinar yesterday, the company outlined what it sees as the way forward in terms of reducing emissions. What we like is that they present what we believe is a realistic scenario for the company. De-carbonising shipping is unfortunately not done by turning off a switch, and it will take time, but huge efforts and steps have been and are being taken to reach the goal of reaching net zero by 2050.

### Management is actively promoting against CMB's revised supervisory board proposal

- In a SEC filing on 5 May, the company is enclosing a presentation "AGM Roadshow", where it promotes the proposed merger with Frontline and clearly states that shareholders are advised that CMB's proposal is not (underlined in the presentation) attractive. Moreover, shareholders are invited to vote against the resolution put forward by CMB of appointing three alternative directors to the supervisory board.
- The presentation can be found via the following link: [0001193125-22-142309 \(investis.com\)](https://www.investis.com/0001193125-22-142309)
- The gloves are off in this battle and the AGM on 19 May is likely to prove interesting (or the days leading up to 19 May). We continue to believe that CMB is unlikely to succeed with its proposal.

### Webinar on Euronav's road towards decarbonisation

- Yesterday, Euronav hosted a webcast on the company's road towards decarbonisation.
- The company presented itself as a leading force in terms of working towards decarbonisation in the tanker space and underlined that having a transparent large public tanker company like Euronav may be the most efficient way of making sure that additional work is done in the sector to de-carbonise. Euronav strives to be ahead of the curve, both in terms of new regulations and setting ambitious targets for its emission standards.
- Euronav is working along multiple paths to reduce emissions. One is making alterations and modifications to its existing fleet. The fact that modern vessels pollute less than older vessels was also underlined. Furthermore, the company is actively looking at alternate fuels and currently sees ammonia as the most promising in a decarbonised scenario. However, there are other alternatives that are also being looked at.
- The company outlined some targets in terms of their path towards lower emissions. By 2030, the CO2 intensity for the fleet is to be 40% below the level in 2008 and it is to have commercially viable zero-emission vessels operating in the fleet. By 2040, the aim is for the CO2 intensity of the fleet to be at least 80% less CO2-intensive compared to 2008, while 80% of the fleet should be capable of running at competitively priced zero-emission fuels (likely requiring a carbon tax). Moreover, net zero should be in sight. By 2050, the company is committed to net zero emissions from its spot operations.
- The company also touched upon an important fact. The progress towards lowering emissions in the shipping segment is not driven by the shipping companies alone and it will not be done overnight. The technical solutions (engines etc.), fuel availability

and infrastructure are required and many other factors need to be in place in order for the global fleet to make a gradual transition towards lowering emissions.

- Meanwhile, optimising the existing assets and having a modern and fuel-efficient fleet will be key to securing the lowest emissions possible.

#### **Actively managing the fleet composition**

- Last week Euronav announced that it had acquired two VLCCs built in 2019 and 2020, respectively. The two ships are sister vessels of existing vessels in the fleet, which is a positive from a maintenance and operational perspective. The purchase price was USD179m. The vessels were built at DSME (Korea) and are fitted with scrubbers.
- At the same time, Euronav has sold four 2011 and 2012-built VLCCs for a total of USD198m. The sale will lead to a minor book gain (USD1.2m).
- The move is part of the transitional journey towards modernising the fleet and improving the company's operational performance.

**Appendix 1: Research framework**

Last model update: 04 February 2022

**Investment case**

- The US crude seaborne balance going from net short to net long is by far the most important factor driving tanker transportation demand, and together with limited fleet growth caused by a low order book, this is the root cause of our structural optimism.
- We estimate that fleet growth will be in the region of 4-5% in 2021 and 2022. In 2023 growth is likely to be less than 3%.
- We expect 2022E VLCC spot rates of USD26,000/day and 2023E VLCC spot rates of USD45k/day.

**Catalysts**

- Spot rates recovering in 2022, together with a normalisation in oil demand.
- New ordering staying muted, while scrapping increases.
- Reduced risk of new lockdowns.

**Valuation methodology**

- With a high degree of standardisation of assets and frequent transactions, our preferred valuation methodology is net asset value (NAV).
- The current NAV is based on current broker quotes. Now a five-year old VLCC is quoted at USD72m.
- Our target price is based on our estimated 12M forward NAV, which again is based upon our forecast asset prices, and we see a five-year old VLCC at USD84m.

**Risks to our rating**

- The main risk is spot rates falling below cash breakeven for a long time. In the past 12 months, VLCC spot rates have varied between USD0/day to USD300,000/day while Euronav's cash-break-even is c. USD18,000/day.
- A resurgence of COVID-19 could reduce demand for oil and, in turn, transportation. A further escalation of the US-China "trade war" would also be bad.
- A 10% change in asset prices leads to a 17% change in NAV.

**Appendix 2: Company description**

Euronav is the World's largest listed crude tanker company, quoted on Euronext Brussels and the New York Stock Exchange. It owns/operates a fleet of approximately 70 vessels including two FSOs, with a primary focus on VLCC and Suezmax segments.

**Management**

Hugo De Stoop, CEO | Lieve Logghe, COO

**Key shareholders**

Free float: 82.64% | C.K. Limited: 9.02% | Euronav Nv: 8.34% | Saverys Marc: 5.00%

**Appendix 3: share price perf.**



**Appendix 4: SWOT analysis**

**Strengths**

- Simple structure with owned tonnage, spot exposure and a clear focus.
- Strong balance sheet capable of withstanding long-lasting weak rates
- One of the most liquid tanker stocks

**Opportunities**

- Levered towards an improved market with spot exposure on large vessels
- NAV value increases by c. 17% for each 10% rise in asset values.
- Substantial cash-balance can be used to grow opportunistically.

**Weaknesses**

- Exposed to a market with limited barriers to entry.
- Operating in a market with no long-term limitations on supply growth.
- Timing sensitive due to very high earnings volatility in oil tankers.

**Threats**

- Levered towards market fluctuations in case of a downturn
- NAV decreases by c. 17% for each 10% fall in asset values.
- Storage strategy has oil price and potential operational risks.
- Ample yard capacity makes over-contracting possible.

**Appendix 5: Key financials**

Last model update: 04 February 2022

Market data date: 05 May 2022

FY to 31/12 (USD)	12/15	12/16	12/17	12/18	12/19	12/20	12/21	12/22E	12/23E	na
<b>Income Statement (USDm)</b>										
Sales	782.7	631.7	456.2	463.4	797.8	1,115.4	325.7	605.7	965.5	na
% Change	113.2%	-19.3%	-27.8%	1.6%	72.2%	39.8%	-70.8%	86.0%	59.4%	na
EBITDA adjusted	556.9	409.7	227.8	180.2	515.2	831.3	48.4	360.0	706.4	na
EBITDA adj. margin (%)	71.1%	64.9%	49.9%	38.9%	64.6%	74.5%	14.8%	59.4%	73.2%	na
EBIT adjusted	346.7	182.0	-2.1	-90.5	177.7	511.6	-296.6	133.9	479.7	na
EBIT adj. margin (%)	44.3%	28.8%	-0.5%	-19.5%	22.3%	45.9%	-91.1%	22.1%	49.7%	na
Net financial items & associates	4.0	-4.7	-13.4	-58.5	-83.4	-59.6	-58.0	-36.9	-45.0	na
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	na
Tax	-5.6	0.2	1.3	-0.2	0.4	-1.9	0.4	0.0	0.0	na
Net profit from continuing operations	350.3	203.8	1.2	-110.2	118.9	472.8	-339.2	110.5	434.7	na
Net profit from discontinuing activities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	na
Net profit before minorities	350.3	203.8	1.2	-110.2	118.9	472.8	-339.2	110.5	434.7	na
Net profit reported	350.3	203.8	1.2	-110.2	118.9	472.8	-339.2	110.5	434.7	na
Net profit adjusted	345.0	177.5	-14.3	-149.2	94.7	450.1	-354.2	97.0	434.7	na
<b>Cash Flow Statement (USDm)</b>										
Levered post tax CF before capex	445.3	412.0	195.8	-40.5	217.6	886.4	-118.0	268.9	630.1	na
Capex	-351.6	-342.5	-176.7	-237.5	-7.0	-224.9	-413.1	-147.3	-242.0	na
Free cash flow	93.7	69.5	19.1	-278.0	210.6	661.5	-531.0	121.6	388.1	na
Acquisitions & divestments	104.4	222.9	95.7	166.5	209.7	77.6	55.6	13.5	0.0	na
Dividend paid	-138.0	-216.8	-44.1	-22.6	-26.0	-352.0	-24.2	-47.5	-320.0	na
Others	250.6	8.4	34.9	254.9	-75.1	-96.3	-0.2	0.0	0.0	na
Change in net financial debt	-310.7	-83.9	-105.5	-120.8	-319.1	-290.7	499.9	-87.5	-68.1	na
<b>Balance Sheet (USDm)</b>										
Intangible assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	na
Tangible assets	2,406.1	2,469.4	2,335.2	3,562.1	3,089.7	3,072.4	3,149.1	3,070.3	3,085.6	na
Financial & other non-current assets	23.9	20.0	34.6	47.3	191.7	105.5	102.6	102.6	102.6	na
Total shareholders' equity	1,905.7	1,887.7	1,846.2	2,260.3	2,318.5	2,311.3	1,960.2	1,969.0	2,052.4	na
Pension provisions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	na
Liabilities and provisions	1,135.0	1,159.0	964.5	1,866.9	1,821.6	1,375.5	1,817.4	1,708.2	1,730.1	na
Net debt	920.8	878.9	755.1	1,595.4	1,415.3	1,111.9	1,559.7	1,472.1	1,404.0	na
Net financial debt	920.8	878.9	755.1	1,595.4	1,247.9	1,045.0	1,520.6	1,433.0	1,365.0	na
IFRS 16 debt	0.0	0.0	0.0	0.0	167.5	66.9	39.1	39.1	39.1	na
Net working capital	399.6	280.7	236.0	256.3	465.5	261.4	279.4	279.4	279.4	na
Invested capital	2,805.7	2,750.0	2,571.1	3,818.3	3,555.2	3,333.8	3,428.5	3,349.7	3,365.1	na
<b>Per share data (\$)</b>										
EPS adjusted	2.53	1.12	-0.09	-0.68	0.44	2.22	-1.76	0.48	2.16	na
EPS adj and fully diluted	2.53	1.12	-0.09	-0.68	0.44	2.22	-1.76	0.48	2.16	na
% Change	+chg	-56.0%	-chg	-chg	+chg	403.9%	-chg	+chg	348.0%	na
EPS reported	2.57	1.28	0.01	-0.50	0.55	2.33	-1.68	0.55	2.16	na
Cash flow per share	3.27	2.59	1.23	-0.18	1.01	4.37	-0.58	1.33	3.12	na
Book value per share	13.99	11.86	11.60	10.29	10.78	11.40	9.72	9.76	10.18	na
Dividend per share	1.44	0.77	0.12	0.12	0.06	1.40	0.12	0.65	1.72	na
Number of shares, YE (m)	155.87	159.21	159.21	219.48	215.08	201.68	201.68	201.68	201.68	na
<b>Ratios</b>										
ROE (%)	20.4%	9.4%	-0.8%	-7.3%	4.1%	19.4%	-16.6%	4.9%	21.6%	na
ROIC (%)	12.7%	6.6%	-0.1%	-2.8%	4.8%	14.9%	-8.8%	4.0%	14.3%	na
ND(F+IFRS16) / EBITDA (x)	1.7	2.1	3.3	8.9	2.7	1.3	32.3	4.1	2.0	na
Gearing (%)	48.3%	46.6%	40.9%	70.6%	53.8%	45.2%	77.6%	72.8%	66.5%	na
<b>Valuation</b>										
P/E adjusted	5.4	8.4	na	na	20.7	4.2	na	24.6	5.5	na
P/E adjusted and fully diluted	5.4	8.4	na	na	20.7	4.2	na	24.6	5.5	na
P/BV	1.0	0.8	0.7	0.8	0.8	0.8	0.9	1.2	1.2	na
P/CF	4.2	3.6	6.5	na	9.0	2.2	na	8.9	3.8	na
Dividend yield (%)	10.5%	8.2%	1.5%	1.4%	0.7%	14.9%	1.3%	5.5%	14.5%	na
Dividend yield preference shares (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	na
FCF yield (%)	4.4%	4.7%	1.5%	-14.7%	10.7%	34.8%	-29.1%	5.1%	16.2%	na
EV/Sales	3.9	3.7	4.4	7.5	4.2	2.7	10.4	6.4	3.9	na
EV/EBITDA adj.	5.5	5.8	8.9	19.4	6.6	3.6	70.0	10.7	5.4	na
EV/EBIT adj.	8.8	13.0	na	na	19.0	5.9	na	28.8	7.9	na

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Company Name	ISIN	Disclosure
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Rating Breakdown	A	B
Buy	61%	67%
Hold	30%	23%
Reduce	6%	0%
Not Rated/Under Review/Accept Offer	3%	10%
Total	100%	100%

Source: Kepler Cheuvreux

A: % of all research recommendations

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	13/08/2021 05:18	Equity Research	Buy	12.20	6.68
	05/11/2021 05:43	Equity Research	Buy	11.90	8.97
	01/02/2022 07:31	Equity Research	Buy	11.80	7.28
	04/02/2022 06:55	Equity Research	Buy	12.30	7.50

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# Local insight, European scale.



## Europe

 **Amsterdam**  
Kepler Cheuvreux Benelux  
Johannes Vermeerstraat 9  
1071 DK Amsterdam  
**+31 20 563 2365**

 **London**  
Kepler Cheuvreux UK  
5th Floor  
95 Gresham Street  
London EC2V 7NA  
**+44 20 7621 5100**

 **Paris**  
Kepler Cheuvreux France  
112 Avenue Kleber  
75016 Paris  
**+33 1 53 65 35 00**

 **New York**  
Kepler Capital Markets, Inc.  
Tower 49  
12 East 49th Street, Floor 36  
10017 New York, NY USA  
**+1 212 710 7600**

 **Brussels**  
Kepler Cheuvreux Belgium  
Rogier Tower  
Place Rogier 11  
1210 Brussels  
**+32 11 491460**

 **Madrid**  
Kepler Cheuvreux Espana  
Paseo de la Castellana, 52  
28046 Madrid  
**+34 914 36 5100**

 **Stockholm**  
Kepler Cheuvreux Sweden  
Malmskillnadsgatan 23  
11157 Stockholm  
**+46 8 723 51 00**

 **Frankfurt**  
Kepler Cheuvreux Germany  
Taunusanlage 19  
60325 Frankfurt  
**+49 69 756 960**

 **Milan**  
Kepler Cheuvreux Italia  
Via C. Cornaggia 10  
20123 Milan  
**+39 02 8550 7201**

 **Vienna**  
Kepler Cheuvreux Austria  
Schottenring 16/2  
1010 Vienna  
**+43 1 537 124 147**

 **Geneva**  
Kepler Cheuvreux SA  
Route de Crassier 11  
1262 Eysins  
Switzerland  
**+41 22361 5151**

 **Oslo**  
Kepler Cheuvreux Norway  
Filipstad Brygge 1  
Pb. 1671 Vika  
0120 Oslo  
**+47 23 13 9080**

 **Zurich**  
Kepler Cheuvreux Switzerland  
Stadelhoferstrasse 22  
8001 Zurich  
**+41 43 333 66 66**