

TORM

Market: OMXC Large Cap

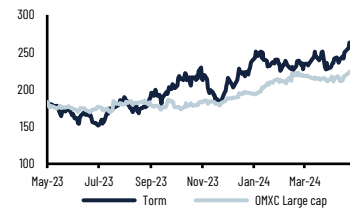
Ticker: TRMD A

Share price (DKK): 262.8

Market cap (DKK): 24.6bn

Net debt (DKK): 5.3bn

Enterprise value (DKK): 30.0bn

Share information

Ytd: 28.7% 1 year: 41.9%
1 month: 2.8% 3 year: 374.4%

Note: *We apply the closing price from 20 May 2024
Index rebased to 22 May 2023. Source: Refinitiv

Financials

(USDm)	2022	2023	2024E*
TCE Income	981.5	1,084	1,100-1,350
TCE growth	159.2%	5.3%	1% - 25%
EBITDA	743.0	847.9	800-1,050
EBITDA margin	75.7%	78.2%	73% - 78%
Net income	562.6	648.0	N/A
Net income margin	57.3%	59.8%	N/A
Cash	323.8	295.6	N/A
Interest-bearing debt	973.8	1,069	N/A

Note: *Based on company guidance. Margins calculated against TCE income, rather than total revenue. Guidance bottom taken out following Q1 2024 from TCE income USDm 1,000-1,350, and EBITDA USDm 700-1,050, previously

Valuation multiples

	2022	2023	2024E*
P/S (x)	1.6	1.7	2.8
EV/Sales (x)	2.1	2.2	3.7
EV/EBITDA (x)	4.0	4.0	4.5
EV/EBIT (x)	5.0	4.9	5.5
P/E (x)	4.2	4.0	5.0
P/NAV (x)**	1.0	0.9	N/A
Div yield (%)	16.2	19.1	19.3

Note: Multiples for 2022 and 2023 are based on historical numbers. *Multiples in 2024 are based on consensus estimates from S&P Capital IQ. **P/NAV based on TORM's self reported NAV

Company description

TORM is a leading international owner and operator of product tankers, transporting refined oil products. TORM is listed on Nasdaq Copenhagen and on the Nasdaq US, with a wholly owned fleet of approx. 90 vessels (mostly scrubber-fitted), spanning all large product tanker vessel segments with a focus on LR2, LR1, and MR. TORM has a majority shareholder in Oaktree Capital Management (54%). TORM engages in vessel trading to ensure fleet renewal and pursue secondary market opportunities that are accretive to NAV.

Investment case

Product tanker markets have structurally shifted following the war in Ukraine, as altered trade flows increased industry ton-miles. Ton-miles remain elevated, with the market also supported by increased refinery dislocations, a low order book net of expected scrapping, low clean petroleum products (CPP) inventories, and the Red Sea and Panama Canal disruptions.

TORM operates in the spot market and tactically via longer-term coverage contracts, currently retaining its spot positioning given a supportive market outlook. The longevity of market conditions is supported by a net low orderbook, with the current orderbook at 15% of fleet, with an aging industry fleet 12% >20yrs (age of elevated scrapping). New orders are scheduled 2024-2027, ~3-4% annualised, and yard capacity remains constrained until 2027/28.

TORM has paid/proposed significant quarterly dividends since 2022 (over USD 1.0bn Q2 2022- Q1 2024), which can continue, as analysts expect dividend yields of 19% and 15% for 2024E and 2025E. The company manages its commercial, technical, sale and purchase, and support divisions in-house via its "One TORM" operating platform, which brings efficiencies and aligns management and shareholder interests. The platform contributed to TORM's fleet expansion with 23 acquisitions and 12 sales in 2023 and Q1 2024.

Analyst estimates forecast best-in-class dividend yields for TORM, with forward P/E multiples trading slightly below its peer average.

Key investment reasons

TORM generates large cash flows as strong market conditions, and best in class TCE earnings have supported earnings and, in turn, strong dividends in recent years. TORM has realised among the highest return on invested capital (ROIC) of peers and can maintain a sizeable dividend payout ratio in continued strong markets.

Product tanker rates remain significantly above historical averages, and while rates remain volatile, due to high utilisation, the market structure remains supportive. TORM has grown its fleet to capture strong markets, partly financed by new share issues at a P/NAV>1.0x, which has been accretive to shareholders.

Product tanker vessel supply conditions are constrained due to limited shipyard capacity until at least 2027/28. Additionally, TORM expects scrapping to keep pace with oncoming supply due to the aging fleet. Uncertainty regarding future green-fuel availability further reduces incentives to order new vessels.

Key investment risks

TORM operates in volatile markets with spot rates prone to significant fluctuations. While structural market factors can support spot rates, a global "hard-landing" recession would likely impact product tanker markets.

The product tanker market is affected by geopolitics, including the war in Ukraine and the conflict in the Middle East. An escalation in the Middle East that negatively impacts oil product supply or sudden removal of sanctions on Russia could negatively affect product tanker rates. In addition, recent attacks on Russian refineries may reduce CPP supply to the market.

There is a risk that a rush of new vessel orders could cloud the long-term earnings profile as it would signal a less favourable long-term supply outlook. However, yard capacity ensures deliveries would be 3+ years out even if orders dramatically increased.

Peer group

Company	Price (local)	Total return YTD	Market cap (USDm)	Latest net debt (USDm)	Net Debt/EBITDA		EV/EBITDA		P/E		Dividend yield	
					2024E	2025E	2024E	2025E	2024E	2025E	2024E	2025E
Scorpio Tankers Inc	USD 82.4	36.3%	4,375	1,005	0.4	0.1	5.3	6.2	6.0	7.6	2.1%	2.8%
Hafnia Ltd	NOK 89.1	31.3%	4,262	979	0.7	0.7	4.9	5.9	5.2	6.6	16.2%	13.9%
Ardmore Shipping Corp	USD 22.7	63.0%	946	18	-0.4	-1.3	5.1	6.8	6.5	8.4	5.7%	5.2%
d'Amico International Shipping SA	USD 6.9	26.8%	934	221	0.5	0.0	4.3	6.1	5.5	9.2	6.4%	4.1%
International Seaways Inc	USD 64.0	44.5%	3,161	477	0.6	0.5	5.0	5.4	6.0	6.5	10.6%	11.0%
Average		40.4%	2,736	540	0.4	0.0	4.9	6.1	5.8	7.6	8.2%	7.4%
Torm PLC	DKK 262.8	34.0%	3,616	762	0.8	0.9	4.6	5.6	4.9	6.6	18.8%	14.8%
Premium (+) / Discount (-) to peers							-6%	-7%	-16%	-14%	130%	101%

Note: Data from 21/05/24

Estimates and assumptions: The data in the peer group concerning the peer companies has not been calculated by HC Andersen Capital but is instead consensus analyst estimates (Mean estimates) from Refinitiv. HC Andersen Capital assumes no responsibility for the correctness of the numbers in the peer group; however, considers Refinitiv a credible source of information.

Selected product tanker peers overview:

Peer group overview: TORM's peer group consists of peers engaged in the ownership and operation of product tankers. The selected peers operate at a similar scale to TORM, with Hafnia also listed in the Nordics.

Scorpio Tankers: Scorpio Tankers is an international owner and operator of product tankers, carrying refined oil products and chemicals worldwide. Scorpio Tankers' owns a combination of LR2, MR, and Handymax tankers, with a greater share of its vessels fixed with or plans to be fitted with scrubbers. Scorpio Tankers is listed on the New York Stock Exchange (NYSE), and operates its vessels through commercial pools, together with other shipowners, to benefit from greater vessel utilisation. Activities are primarily positioned towards the spot market.

Hafnia: is an international owner and operator of product tankers, carrying refined oil products and chemicals worldwide with a focus on the LR2, LR1, MR, Handy, and chemical tanker vessel segments. Hafnia is listed in Oslo, Norway, and is pursuing a listing in the US. Hafnia also operates a number of commercial shipping pools aggregating earnings across pool participants.

International Seaways Inc: is an international owner and operator of crude tanker and product tanker vessels, transporting dirty and clean petroleum products globally. The company owns or operates a fleet of over 70 vessels across crude tanker and product vessel segments, including, crude tankers: VLCC, Suezmax, Aframax, product tankers: LR2, LR1, and MR. International Seaways is listed on the New York Stock Exchange (NYSE).

Ardmore Shipping Corp: is an international owner and operator of product tankers, carrying refined oil products and chemicals worldwide. Ardmore Shipping is listed on the New York Stock Exchange (NYSE) and focuses on the MR vessel segment, also operating its vessels in commercial shipping pools.

d'Amico International Shipping SA: is an international owner and operator of product tanker vessels, transporting refined crude products globally. The company is listed on the Milan Stock Exchange and owns and charters vessels, operating over 30 vessels, across product tanker vessel segments, including LR1, MR, and Handysize.