

TORM

Market: OMXC Large Cap

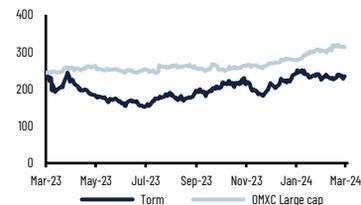
Ticker: TRMD A

Share price (DKK): 234.2

Market cap (DKK): 21.6bn

Net debt (DKK): 5.3bn

Enterprise value (DKK): 26.9bn

Share information

Ytd: 14.7% 1 year: 2.8%
1 month: -1.8% 3 year: 312.3%

Note: *We apply the closing price from 22 March 2024
Index rebased to 23 March 2023. Source: Refinitiv

Financials

(USDm)	2022	2023	2024E*
TCE Income	981.5	1,084	1,000-1,350
TCE growth	159.2%	5.3%	-8% - 25%
EBITDA	743.0	847.9	700-1,050
EBITDA margin	51.5%	78.2%	70% - 78%
Net income	562.6	648.0	N/A
Net income margin	39.0%	59.8%	N/A
Cash	323.8	805.1	N/A
Interest-bearing debt	973.8	1,069	N/A

Note: *Based on company guidance
Margins calculated against revenue, rather than TCE income

Valuation multiples

	2022	2023	2024E*
P/S (x)	1.6	1.7	2.3-3.1
EV/Sales (x)	2.1	2.2	2.9-3.9
EV/EBITDA (x)	4.0	4.0	3.7-5.6
EV/EBIT (x)	5.0	4.9	N/A
P/E (x)	4.2	4.0	N/A
P/NAV (x)**	1.0	0.6	N/A
Div yield (%)	16.2	19.1	N/A

Note: Multiples for 2022 and 2023 are based on historical numbers. **Multiples in 2024 are based on year-end 2024 market prices and consensus estimates from Refinitiv. **P/NAV based on TORM FY 2023 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 (55%). 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, and currently retains 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 13% of fleet, against an aging industry fleet 11% >20yrs (suggesting elevated scrapping). New orders will be delivered 2024-2027, ~3% annualised, and yard capacity remains constrained until c. 2027.

TORM has paid significant quarterly dividends since Q2 2022 (USD 876m Q2 2022- FY 2023), which can continue, as analysts expect dividend yields of 20% and 16% 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 renewal with 23 acquisitions as 11 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 has generated large cash flows in recent years as strong market conditions have supported earnings and, in turn, strong dividends. TORM has realised among the highest return on invested capital (ROIC) of peers in recent years and can maintain a sizeable dividend payout ratio in continued strong markets.

Product tanker rates remain significantly above historical averages, despite having fallen from 2022 extreme highs. Rates will likely remain volatile, but the market is supported by a low orderbook, low CPP inventories, and elevated ton miles from Russian sanctions and the Red Sea and Panama Canal disruptions.

Product tanker vessel supply conditions are constrained until 2027 and beyond due to shipyard capacity. Additionally, TORM expects scrapping to keep pace (at a minimum) with oncoming supply due to the aging fleet. Future green-fuel availability uncertainty 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 72.5	19.9%	3,850	1,233	0.5x	0.5x	5.3x	6.2x	5.8x	6.5x	2.2%	2.3%
Hafnia Ltd	NOK 74.6	10.0%	3,567	1,070	0.7x	0.5x	4.5x	5.4x	4.5x	5.6x	16.1%	13.6%
Ardmore Shipping Corp	DKK 16.4	17.6%	679	43	-0.5x	-1.4x	4.5x	5.5x	5.5x	6.9x	6.5%	5.7%
d'Amico International Shipping SA	EUR 6.7	18.2%	896	221	0.4x	-0.2x	5.3x	6.8x	6.7x	9.9x	4.7%	4.1%
International Seaways Inc	USD 52.8	19.1%	2,583	536	0.5x	0.5x	4.6x	4.6x	5.3x	5.3x	10.0%	12.0%
Average		17.0%	2,315	621	0.3x	0.0x	4.8x	5.7x	5.6x	6.8x	7.9%	7.5%
Torm PLC	DKK 234.2	14.7%	3,126	794	0.7x	1.0x	4.5x	5.2x	4.9x	6x	19.9%	15.5%
Premium (+) / Discount (-) to peers												
Note: Data from 25/03/24												

Source: Refinitiv



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Investment Case
One-pager

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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.