

TORM

Market: OMXC Large Cap

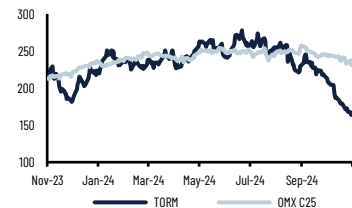
Ticker TRMD A

Share price (DKK): 164.7

Market cap (DKK): 15.9bn

Net debt (DKK): 5.3bn

Enterprise value (DKK): 21.2bn

Share information

YTD -19.3% 1 year: -23.7%
 1 month: -23.9% 3 years: 198.6%

Note: *We apply the closing price from 13 November 2024
 Index rebased to 14 November 2023. Source: S&P Capital IQ

Financials

(USDm)	2022	2023	2024E*
TCE Income	981.5	1,084	1,110-1,160
TCE growth	159.2%	5.3%	2% - 7%
EBITDA	743.0	847.9	810-860
EBITDA margin	75.7%	78.2%	70% - 77%
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 reduced following Q3 2024 from TCE income USDm 1,150-1,350, and EBITDA USDm 850-1,050, previously

Valuation multiples

	2022	2023	2024E*
P/S (x)	2.4	2.4	1.8
EV/Sales (x)	3.2	3.2	2.4
EV/EBITDA (x)	4.3	4.1	3.5
EV/EBIT (x)	5.3	5.0	4.6
P/E (x)	4.2	4.0	3.8
P/NAV (x)**	1.0	0.9	0.7**
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 consensus estimates from S&P Capital IQ. **P/NAV based on TORM's self reported NAV, using latest Q3 2024 NAV for 2024E.

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 (42%). 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 persisting sanctions on Russia, the Red Sea situation, and low clean petroleum products (CPP) inventories.

TORM operates in the spot market and tactically via longer-term coverage contracts with best-in-class incomes in markets still significantly above their historical average. The tanker orderbook has risen, with the orderbook standing at 22% of the fleet, but is low net of expected scrapping with 14% aged over 20 years where scrapping typically increases. New orders are scheduled for 2024-2028, with yard capacity constrained until around 2028.

While the awaited winter market has yet to materialize, prompting TORM to downgrade its guidance (see financials), analysts still expect higher winter rates, supporting strong shareholder returns. TORM announced a Q3 2024 dividend of USD 1.2/share, with a 5% quarterly dividend yield, and 85% payout ratio. Analysts project dividend yields of 18% for 2025E. TORM's "One TORM" in-house operating platform manages its commercial, technical, sale, purchase, and support divisions, to bring efficiencies and align management and shareholder interests, and contributes to TORM's strong operating performance vs peers.

Analyst estimates forecast among the highest dividend yields for TORM, with forward EV/EBIT and P/E multiples slightly below peers.

Key investment reasons

TORM generates large cash flows as strong market conditions and TCE income have supported earnings and, in turn, large dividends since 2022. TORM has realized among the highest return on invested capital (ROIC) of its 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 utilization, the market structure remains supportive. Ongoing ton mile growth can be driven by returning Chinese demand growth, refinery closures in Europe, and rising overall oil and CPP supply in 2025.

While the product tanker orderbook has grown, limited shipyard capacity delays new deliveries to 2027/2028, slowing fleet growth in the coming years. Increased scrapping could materialize if rates decline, and as tighter environmental regulations reduce the feasibility of older vessels, which could limit downside risk.

Key investment risks

TORM operates in volatile markets with spot rates prone to significant fluctuations. Analysts still expect a stronger winter market, however, this has not yet materialized. A demand shock or shift in the market, such as an end to the Russian-Ukraine war and sanctions on Russia or the re-opening of the Red Sea would likely reduce forward analyst estimates.

A dirty-clean switch in 2024 where larger crude tankers cannibalize part of the product tanker market may continue if the crude market does not strengthen. This trend may reverse as Saudi plans to ramp up crude exports from December, however, a continuation acts as a supply shock on the product tanker industry.

There is a risk that an orderbook in excess of expected scrapping leads to vessel supply growth outpacing demand growth. Environmental regulations and aging fleets should increase scrapping from low levels, however, it is not guaranteed.

Peer group

Company	Price (local)	Total return YTD	Market cap (USDm)	Latest net debt (USDm)	EV/EBITDA		EV/EBIT		P/E		Div yield	
					FY2024	FY2025	FY2024	FY2025	FY2024	FY2025	FY2025	FY2026
Scorpio Tankers Inc.	USD 54.2	-9.4%	2,561	612	4.7	5.1	6.1	6.8	5.9	5.9	3.0%	3.0%
Hafnia Limited	NOK 57.6	-6.8%	2,649	758	4.7	5.6	5.9	7.4	4.4	5.7	18.4%	17.0%
Ardmore Shipping Corporation	USD 11.9	-11.2%	502	-18	4.2	4.3	5.3	5.5	5.2	5.2	6.2%	5.9%
International Seaways, Inc.	USD 42.5	1.8%	2,090	510	4.0	4.8	4.9	6.3	4.4	5.6	14.3%	14.2%
d'Amico International Shipping	EUR 4.4	-19.2%	556	87	3.8	5.7	4.9	8.6	4.0	7.4	5.9%	4.8%
Median		-9.4%	2,090	510	4.2	5.1	5.3	6.8	4.4	5.7	6.2%	5.9%
TORM plc	DKK 164.7	-8.2%	2,250	798	4.2	4.1	5.1	5.2	4.2	4.7	16.6%	14.0%
Premium (+) / Discount (-) to peers					0.0%	-19.6%	-3.6%	-23.5%	-4.5%	-17.5%		

Note: Data from 13/11/2024

Source: CapitalIQ



Disclaimer: HC Andersen Capital receives payment from TORM for a Digital IR/Corporate Visibility subscription agreement. The authors, Rasmus Køjborg and Philip Coombes do not own shares in TORM. This is not a piece of advice to buy, not to buy, sell, or not to sell shares. HC Andersen Capital assumes no responsibility for the correctness of the contents of the material. Published 09:00 14.11.2024, by Rasmus Køjborg and Philip Coombes, HC Andersen Capital.

Investment Case
One-page

1

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 S&P Capital IQ. HC Andersen Capital assumes no responsibility for the correctness of the numbers in the peer group; however, considers S&P Capital IQ 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 utilization. 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.