



# DHT Holdings (DHT)

Updated May 23<sup>rd</sup>, 2022 by Aristofanis Papadatos

## Key Metrics

<b>Current Price:</b>	\$5.70	<b>5 Year CAGR Estimate:</b>	13.1%	<b>Market Cap:</b>	\$956 M
<b>Fair Value Price:</b>	\$6	<b>5 Year Growth Estimate:</b>	10.0%	<b>Ex-Dividend Date:</b>	6/18/2022
<b>% Fair Value:</b>	95%	<b>5 Year Valuation Multiple Estimate:</b>	1.0%	<b>Dividend Payment Date:</b>	5/26/2022
<b>Dividend Yield:</b>	1.4%	<b>5 Year Price Target</b>	\$9.70	<b>Years Of Dividend Growth:</b>	0
<b>Dividend Risk Score:</b>	C	<b>Retirement Suitability Score:</b>	F	<b>Rating:</b>	Hold

## Overview & Current Events

DHT Holdings (DHT), which was founded in Bermuda in 2005, is an owner and operator of crude oil tankers. Its fleet consists of 26 very large crude carriers (VLCCs), which have total capacity of 8.05 million metric tons. DHT has a market capitalization of \$956 million. Just like all its peers, DHT is extremely sensitive to the boom-and-bust cycles of the shipping industry, which are caused by the dramatic swings of tanker freight rates.

DHT is currently facing a headwind due to the pandemic, which has made it harder to change crews due to strict transit and quarantine procedures and thus it has forced some of the company's vessels to remain at ports longer than intended. The pandemic also reduced the demand for oil and refined products in 2020 and hence the demand for the transportation of these products. Nevertheless, DHT posted 10-year high earnings in 2020 thanks to high tanker rates.

In early May, DHT reported (5/9/22) financial results for the first quarter of fiscal 2022. Revenue decreased -12% over last year's quarter and DHT posted a loss per share of -\$0.10 due to low tanker rates. The collapse of earnings is a stern reminder of the extremely volatile and unreliable performance of this business. On a positive note, DHT took advantage of the poor freight rates in 2021 and maintained half of its vessels to render them fully available in 2022. In addition, global oil consumption is recovering strongly from the pandemic. DHT has not benefited yet due to the drawdown of inventories but demand for transportation of oil and its products is likely to recover later this year. Such a development is likely to provide a strong tailwind to DHT. Nevertheless, due to the poor results of DHT in the first quarter and weak trends in the second quarter, we have lowered our annual forecast of earnings-per-share from \$0.50 to \$0.25.

## Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
<b>EPS</b>	-\$7.83	-\$0.24	\$0.18	\$1.13	\$0.10	\$0.05	-\$0.33	\$0.51	\$1.69	-\$0.07	<b>\$0.25</b>	<b>\$0.81</b>
<b>DPS</b>	\$0.31	\$0.08	\$0.08	\$0.53	\$0.71	\$0.20	\$0.08	\$0.20	\$1.35	\$0.13	<b>\$0.08</b>	<b>\$0.28</b>
<b>Shares<sup>1</sup></b>	12.0	17.6	73.2	112.1	93.4	124.5	143.4	168.2	170.8	166.6	<b>165.0</b>	<b>250.0</b>

The above table clearly reflects the extreme cyclicity of the shipping industry. DHT incurred devastating losses in 2011-2012 due to depressed tanker rates. Consequently, it diluted its shareholders to the extreme and its stock is now more than -90% lower than it was in early 2011. DHT posted record earnings in 2020 but it has returned to poor results due to suppressed freight rates. We expect DHT to grow its earnings-per-share by approximately 10.0% per year on average over the next five years off mid-cycle earnings-per-share of \$0.50. Nevertheless, investors should keep in mind that extremely high volatility is inevitable in this business.

## Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
<b>Avg. P/E</b>	---	---	39.3	6.8	50.2	84.4	---	11.3	3.5	---	<b>11.4</b>	<b>12.0</b>
<b>Avg. Yld.</b>	3.9%	1.7%	1.1%	6.9%	14.1%	4.7%	1.9%	3.5%	23.0%	2.2%	<b>1.4%</b>	<b>2.9%</b>

<sup>1</sup> In millions.

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Due to the collapse in earnings in some years, DHT has traded at an average price-to-earnings ratio of 32.6 over the last decade. Due to the high cyclicality of the stock, we assume a fair earnings multiple of 12.0. DHT is currently trading at 11.4 times its mid-cycle earnings-per-share of \$0.50. If the stock trades at our assumed fair valuation level in five years, it will enjoy a 1.0% annualized gain in its returns thanks to the expansion of its price-to-earnings ratio.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	---	---	44%	47%	710%	400%	---	39%	80%	---	16%	35%

Based on the last four quarterly dividends, which totaled \$0.08, DHT's dividend yield is 1.4%. However, investors should be aware that the dividend and the earnings of DHT are extremely sensitive to the swings of tanker rates and hence they are dramatically volatile. In contrast to most dividend-paying companies, DHT pays a different dividend every quarter, based on its actual results. Moreover, the approximate -90% plunge of the stock since early 2011 is a stern reminder of the vulnerability of the company to its business cycles.

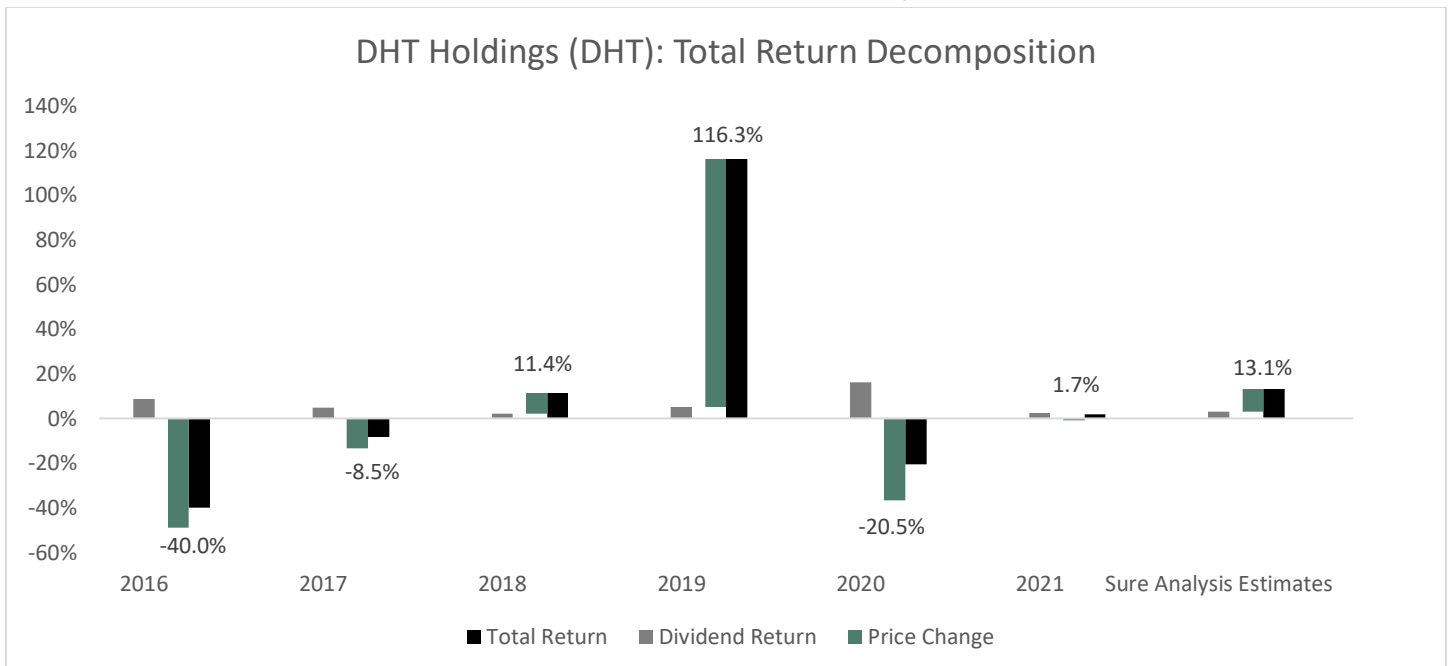
On the bright side, DHT's management is much more prudent than the managements of most other shipping companies. DHT has net debt of \$468 million, which is only about 6 times mid-cycle earnings. In other words, DHT has a healthy balance sheet in order to be able to endure the inevitable downturns of its business. This is in sharp contrast to the practice of most of the peers of DHT, which are highly leveraged and thus more vulnerable to downturns.

## Final Thoughts & Recommendation

DHT posted decade-high earnings in 2020 thanks to high tanker rates but it has greatly decelerated in recent quarters due to lower tanker rates. However, the stock is attractively valued in our view. We expect it to offer a 13.1% average annual return over the next five years, mostly thanks to the recovery expected in its business later this year.

Nevertheless, due to the dramatic cyclicality of the stock and its poor dividend yield compared to inflation, we rate it as a hold. Investors should always be aware of the risks associated with the business and the great patience required.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Revenue</b>	97	87	151	365	356	355	376	535	691	296
<b>Gross Profit</b>	23	11	14	158	144	73	35	154	344	(3)
<b>Gross Margin</b>	23.7%	12.1%	9.0%	43.2%	40.6%	20.4%	9.3%	28.7%	49.8%	-1.0%
<b>SG&amp;A Exp.</b>	10	9	18	22	19	17	15	15	18	17
<b>D&amp;A Exp.</b>	32	27	45	79	84	97	103	116	124	129
<b>Operating Profit</b>	13	2	(4)	136	125	55	20	139	326	(15)
<b>Operating Margin</b>	13.6%	1.9%	-3.0%	37.3%	35.1%	15.6%	5.2%	26.0%	47.2%	-5.1%
<b>Net Profit</b>	(94)	(4)	13	105	9	7	(47)	74	266	(12)
<b>Net Margin</b>	-96.8%	-4.7%	8.5%	28.8%	2.6%	1.9%	-12.5%	13.8%	38.5%	-3.9%
<b>Free Cash Flow</b>	17	(15)	(265)	37	(42)	(197)	(181)	102	502	(114)

## Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Total Assets</b>	400	447	1,378	1,424	1,404	1,730	1,864	1,827	1,622	1,609
<b>Cash &amp; Equivalents</b>	71	126	167	167	109	77	95	67	69	61
<b>Accounts Receivable</b>	14	17	29	40	34	42	60	108	30	30
<b>Inventories</b>	4	3	16	9	8	24	32	34	12	33
<b>Total Liabilities</b>	219	162	703	686	719	805	1,002	895	513	562
<b>Accounts Payable</b>	2	---	4	2	4	---	11	8	3	11
<b>Long-Term Debt</b>	212	156	661	662	701	786	967	851	450	522
<b>Shareholder's Equity</b>	181	285	675	738	685	926	862	932	1,109	1,047
<b>LTD/E Ratio</b>	1.17	0.55	0.98	0.90	1.02	0.85	1.12	0.91	0.41	0.50

## Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Return on Assets</b>	-20.8%	-1.0%	1.4%	7.5%	0.7%	0.4%	-2.6%	4.0%	15.4%	-0.7%
<b>Return on Equity</b>	-48.6%	-1.8%	2.7%	14.9%	1.3%	0.8%	-5.3%	8.2%	26.1%	-1.1%
<b>ROIC</b>	-21.4%	-1.0%	1.5%	7.7%	0.7%	0.4%	-2.7%	4.1%	15.9%	-0.7%
<b>Shares Out.</b>	12.0	17.6	73.2	112.1	93.4	124.5	143.4	168.2	170.8	166.6
<b>Revenue/Share</b>	8.09	4.96	2.06	3.26	3.81	2.85	2.62	3.18	4.06	1.75
<b>FCF/Share</b>	1.44	(0.87)	(3.61)	0.33	(0.44)	(1.58)	(1.26)	0.61	2.95	(0.67)

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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