

\$HUNT (#BUY,3.3): Initiation of new pure-play w/4+3 #VLCC NBs. Binary investment case, dependent on our view of improving cycle ahead

HUNT-NO BUY/TP 3.3

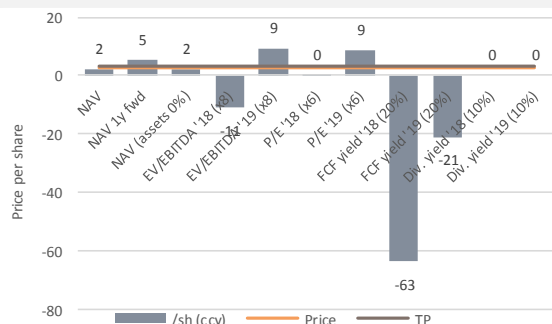
Initiation of New VLCC Pure-Play

Share price vs target price

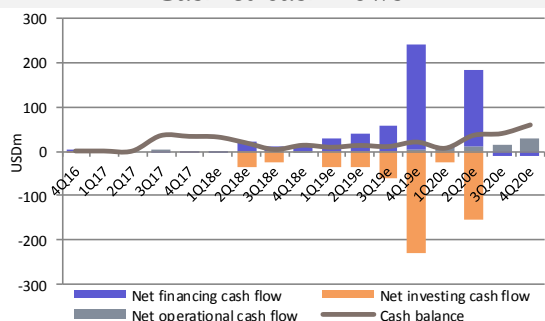


Source: Netfonds

Valuation matrix



Cash & cash flows



Gersemi Research / Analysts

Joakim Hannisdahl

Head of Research

research@gersemiresearch.com

Mr. Arne Fredly is in the process of re-branding failed Oslo listed oil service company Hunter Group (former Badger Explorer) into a VLCC pure-play, infusing four VLCC newbuilds plus three optional berths at DSME. Given our view of ~70% asset price appreciation by the scheduled delivery time of the last optional vessels in 2Q20, we initiated coverage with a BUY recommendation and NOK 3.3/sh target price.

Company overview: The company had a cash position of \$34m YE'18, positive NWC but few other tangible assets. The share count is currently 131m, but assuming max size from the announced private placement and including potential warrants to Mr. Fredly, the fully diluted share count should land at 219m. Based on today's [press release](#), Fredly will own 33.29% before a potential private placement.

Fundamentals: We [reiterate our view](#) that the cyclical inflection point for oil tankers is mid-'18, and forecast shares to trough in 2Q18. In addition to the link above, we are currently reviewing our forecast for 2H18 and beyond with delta skewed to the upside...

Valuation: There are many ways forward for HUNT to capitalize on improving fundamentals with the current setup. We assume full size NOK 173m from the announced private placement and all three berth options declared. We calculate a current NAV/sh of NOK 2.3 and a forward NAV of 5.4/sh. Weighted 70/30 to reflect that a number of actions have to be executed successfully to unlock the forward NAV, we arrive at our NOK 3.3 target price (+19%).

Key numbers

USDm	2018	2019	2020	2021
Net sales	-	9	116	138
EBITDA	-3	7	93	113
EBIT	-4	5	73	89
PTP	-3	0	41	57
Net earnings	-3	0	41	57
EPS	-0.02	0.00	0.19	0.26
DPS	-	-	-	-
USDm	2018	2019	2020	2021
Fwd NAV	152	308	449	495
Adj. equity ratio	87%	44%	45%	49%
FCF yield	-81%	-466%	-154%	106%
Dividend yield	0%	0%	0%	0%
EV/EBITDA		64.1	6.0	4.2
P/E (adj.)			1.8	1.3

Key numbers

USDm	2018	2019	2020	2021
Net operational cash flow	-2	2	61	81
Free cash flow	-62	-356	-118	81
Net cash flow	-21	8	40	46
TCE/day	#DIV/0!	#DIV/0!	51,788	55,804
Cash break-even	#DIV/0!	#DIV/0!	38,248	36,339
Liquidity	13	21	61	106
Property & Equip. (incl. NBs)	62	419	578	554
Total equity	70	70	111	168
Interest bearing debt	22	385	543	508
Net interest bearing debt	8	364	482	401
Market Cap.	76	76	76	76
Enterprise value	85	441	559	478
Capex	60	358	179	-

Source: Gersemi Research, Bloomberg, company data

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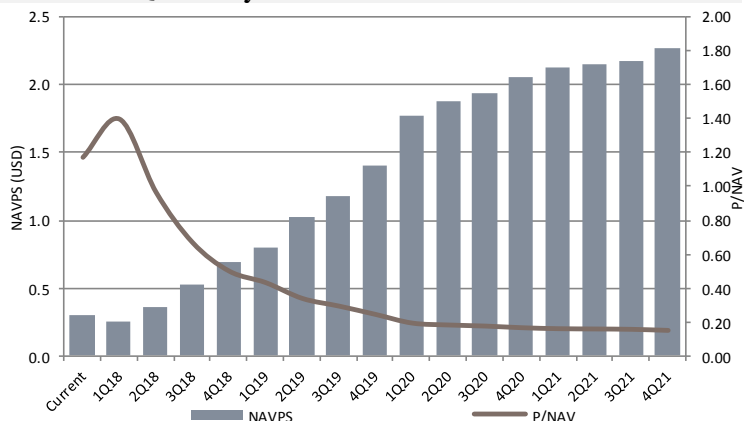


Valuation

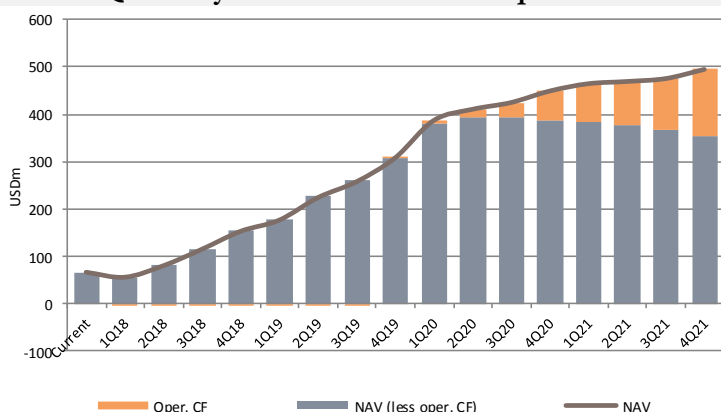
Valuation & target price

Net asset values			
USDm	4Q17	Fair value	Implied
Primary assets	3	601	612
Contract value	0	0	0
Other	4	9	9
GAV	8	610	621
Net debt	32	54	54
Capex	0	-597	-597
Other	-1	-1	-1
NAV	39	65	76
Shares	219	219	219
NAVPS	0.18	0.30	0.35
Share price	1.4	2.3	2.7
P/NAV	1.96	1.17	1.00
EV/GAV	81.41	1.02	1.00
Adj. Total Assets	55	652	663
Adj. Equity Ratio	71%	10%	12%
Target price	NOK	3.3	19%

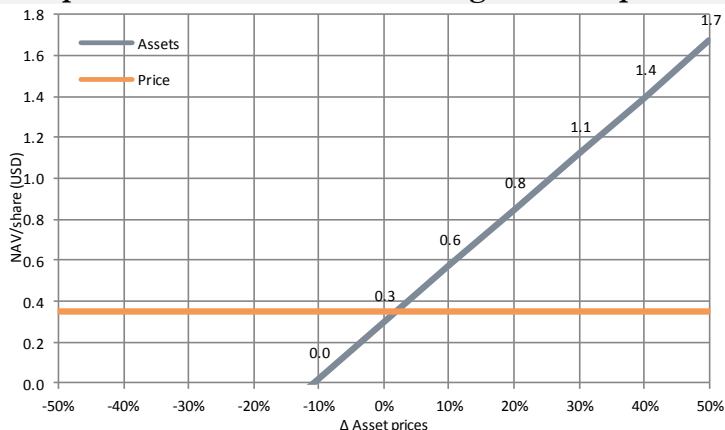
Quarterly forward NAV & P/NAV



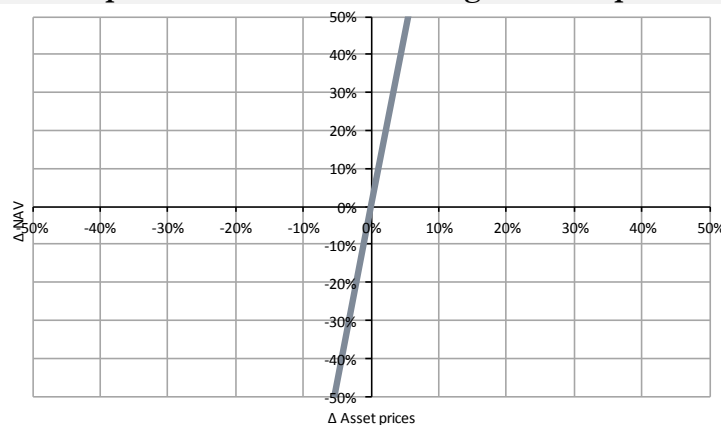
Quarterly forward NAV decomposition



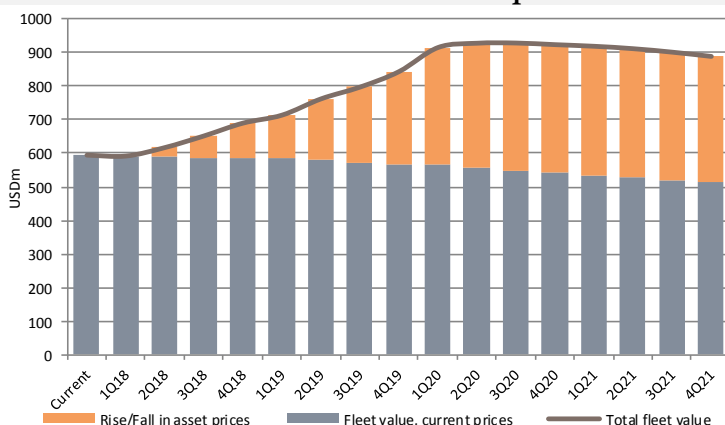
Impact on NAV/sh from % change in asset prices



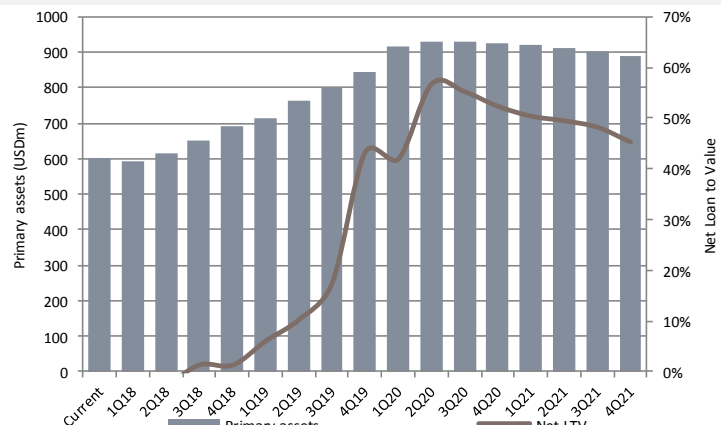
% Impact on NAV from % change in asset prices



Forward fleet valuation decomposition



Forward fleet value & net loan to value





Estimate Changes

Profit & Loss

Estimate changes USDm	New				Old				Change				
	2018	2019	2020	2021	2018	2019	2020	2021	2018	2019	2020	2021	
Net sales	-	9	116	138	-	9	116	138	-	-	-	-	
EBITDA	-3	7	93	113	-3	7	93	113	-	-	-	-	
EBIT	-4	5	73	89	-4	5	73	89	-	-	-	-	
PTP	-3	0	41	57	-3	0	41	57	-	-	-	-	
Net earnings	-3	0	41	57	-3	0	41	57	-	-	-	-	
EPS	-0.02	0.00	0.19	0.26	-0.02	0.00	0.19	0.26	-	-	-	-	
DPS	-	-	-	-	-	-	-	-	-	-	-	-	
									2018	2019	2020	2021	
									TCE revenue	-	-	-	-
									Opex & G&A	-	-	-	-
									Depreciation	-	-	-	-
									Net finance	-	-	-	-
									Taxes & Minorities	-	-	-	-

Cash Flows & Balance Sheet

Estimate changes USDm	New				Old				Change			
	2018	2019	2020	2021	2018	2019	2020	2021	2018	2019	2020	2021
Net operational cash flow	-2	2	61	81	-2	2	61	81	-	-	-	-
Free cash flow	-62	-356	-118	81	-62	-356	-118	81	-	-	-	-
Net cash flow	-21	8	40	46	-21	8	40	46	-	-	-	-
TCE/day	#DIV/0!	#DIV/0!	51,788	55,804	#DIV/0!	#DIV/0!	51,788	55,804	#DIV/0!	#DIV/0!	-	-
Cash break-even	#DIV/0!	#DIV/0!	38,248	36,339	#DIV/0!	#DIV/0!	38,248	36,339	#DIV/0!	#DIV/0!	-	-
Liquidity	13	21	61	106	13	21	61	106	-	-	-	-
Property & Equip. (incl. NBs)	62	419	578	554	62	419	578	554	-	-	-	-
Total equity	70	70	111	168	70	70	111	168	-	-	-	-
Interest bearing debt	22	385	543	508	22	385	543	508	-	-	-	-
Net interest bearing debt	8	364	482	401	8	364	482	401	-	-	-	-
Market Cap.	76	76	76	76	76	76	76	76	-	-	-	-
Enterprise value	85	441	559	478	85	441	559	478	-	-	-	-
Capex	60	358	179	-	60	358	179	-	-	-	-	-

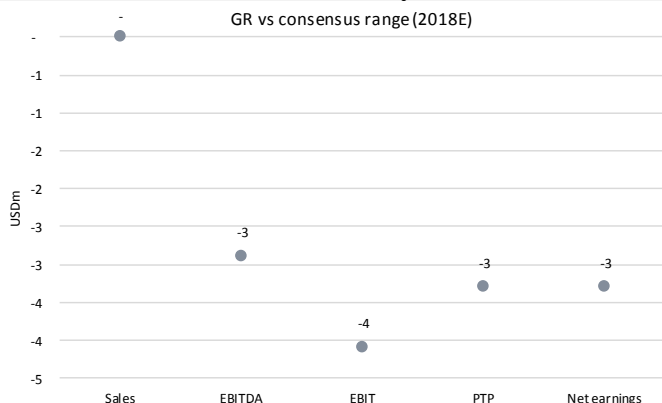
Valuation

USDm	2018	2019	2020	2021	2018	2019	2020	2021	2018	2019	2021
Fwd NAV	152	308	449	495	152	308	449	495	-	-	-
Adj. equity ratio	87%	44%	45%	49%	87%	44%	45%	49%	0%	0%	0%
FCF yield	-81%	-466%	-154%	106%	-81%	-466%	-154%	106%	0%	0%	0%
Dividend yield	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
EV/EBITDA		64.1	6.0	4.2		64.1	6.0	4.2	#VALUE!	-	-
P/E (adj.)			1.8	1.3			1.8	1.3	#VALUE!	#VALUE!	-

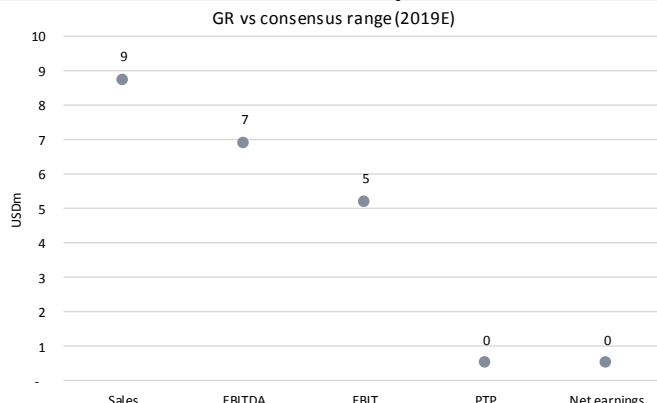


Our Estimates vs Consensus

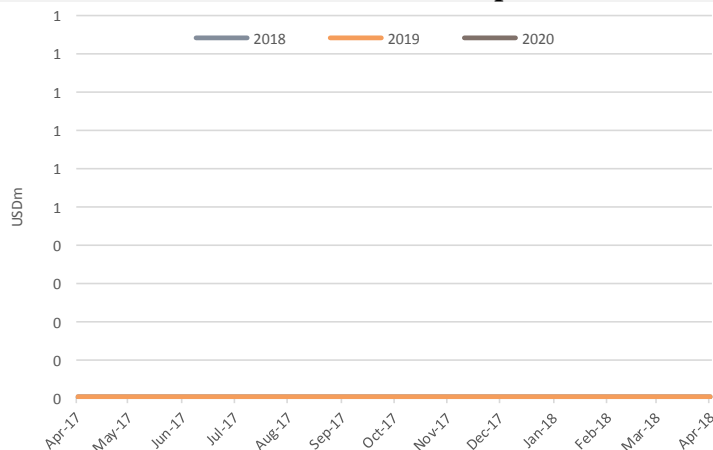
Profit & Loss, year I



Profit & Loss, year II



Consensus EBITDA development



Target price vs share price

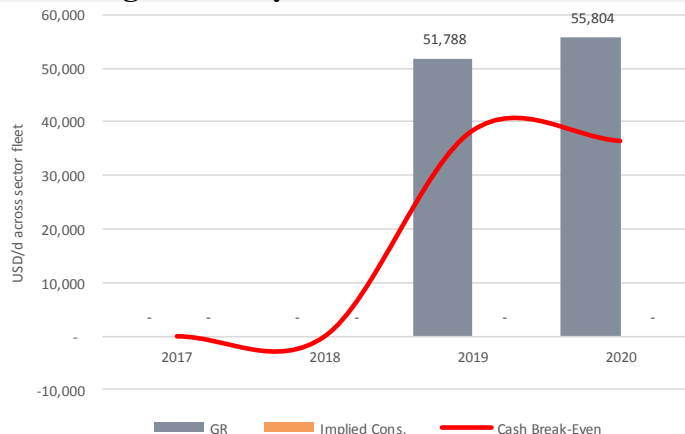


GR vs consensus: P&L break-down

	2018	GR	Consensus	Diff.	Diff.
TCE revenue	0	#N/A	N/A	#VALUE!	#VALUE!
Opex + G&A	3	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Depreciation	1	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Net finance	-1	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Taxes & Minorities	0	#VALUE!	#VALUE!	#VALUE!	#VALUE!

	2019	GR	Consensus	Diff.	Diff.
TCE revenue	9	#N/A	N/A	#VALUE!	#VALUE!
Opex + G&A	2	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Depreciation	2	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Net finance	5	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Taxes & Minorities	0	#VALUE!	#VALUE!	#VALUE!	#VALUE!

Avg. TCE/day across fleet vs consensus





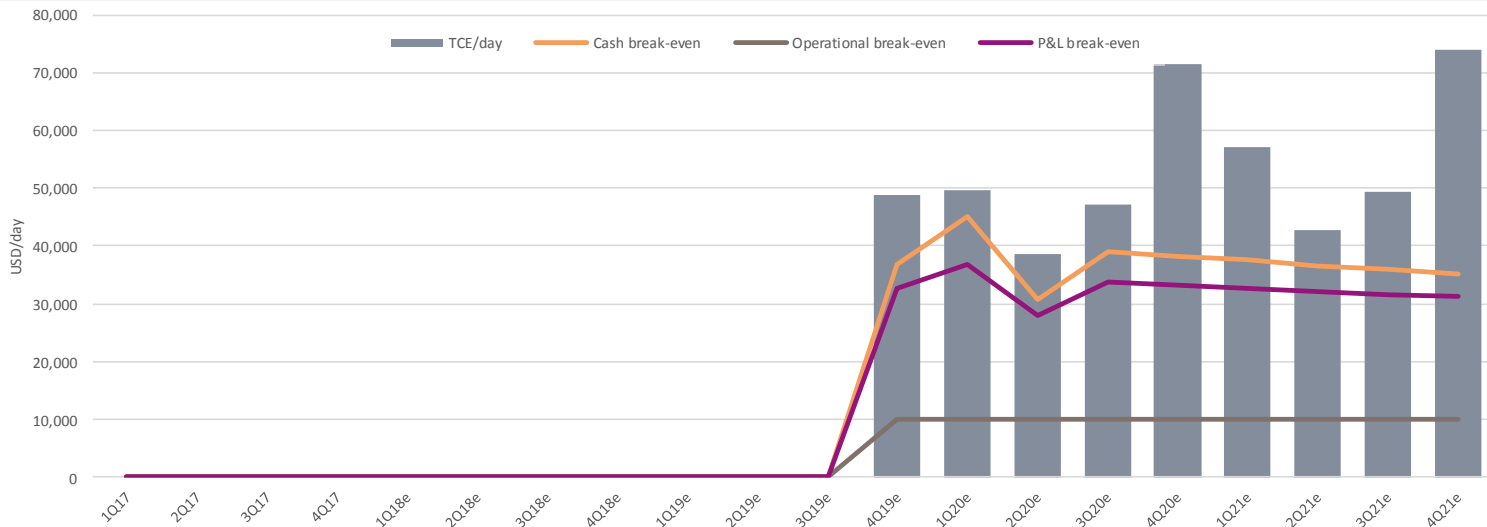
Profit & Loss (USDm)	2013	2014	2015	2016	2017	2018E	2019E	2020E	2021E
Net sales						0	9	116	138
Operational costs						-3	-2	-23	-26
EBITDA				-1	-12	-3	7	93	113
Depreciation/Amortization				0	-1	-1	-2	-20	-24
EBIT	-3	-3	-2	-1	-13	-4	5	73	89
Net financials	0	0	0	0	0	1	-5	-31	-32
PTP	-3	-4	-2	-1	-13	-3	0	41	57
Taxes/Minorities	-1	0	0	0	2	0	0	0	0
Net earnings	-4	-4	-2	-1	-11	-3	0	41	57
Non-recurring items	0	0	0	0	0	0	0	0	0
Net earnings (adj.)	-4	-4	-2	-1	-11	-3	0	41	57
EPS	-0.53	-0.48	-0.21	-0.39	-0.08	-0.02	0.00	0.19	0.26
EPS (adj.)	-0.53	-0.48	-0.21	-0.39	-0.08	-0.02	0.00	0.19	0.26
DPS	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Balance Sheet (USDm)	2013	2014	2015	2016	2017	2018E	2019E	2020E	2021E
Cash & short-term investments	4	1	0	0	34	13	21	61	106
Other current assets	1	1	0	0	6	6	6	6	6
Total current assets	5	1	0	0	40	19	27	67	112
Property & equip. (incl. NBs)	0	0	0	0	3	62	419	578	554
Other non-current assets	22	19	17	17	12	12	12	12	12
Total non-current assets	22	19	17	17	15	74	430	590	566
TOTAL ASSETS	27	20	17	18	55	93	457	656	678
Total equity	17	11	7	7	51	70	70	111	168
Short-term debt	0	0	1	1	0	0	1	1	1
Other current liabilities	2	1	1	0	2	2	2	2	2
Total current liabilities	2	1	1	1	3	3	3	3	3
Long-term debt	0	0	0	0	1	21	385	542	507
Other non-current liabilities	9	9	8	9	0	0	0	0	0
Total non-current liabilities	9	9	8	9	1	21	385	542	507
TOTAL EQUITY & LIABILITIES	27	20	17	18	55	93	458	657	678
Working capital, receivables				0	5	5	5	5	5
Working capital, payables	1	0	0	0	1	1	1	1	1
Net working capital				0	4	4	4	4	4
Interest bearing debt	0	0	1	1	2	22	385	543	508
Liquidity	4	1	0	0	34	13	21	61	106
Net interest bearing debt	-4	-1	1	1	-32	8	364	482	401
Cash Flow (USDm)	2013	2014	2015	2016	2017	2018E	2019E	2020E	2021E
Net income	-4	-4	-2	-1	-11	-3	0	41	57
Depreciation				0	1	1	2	20	24
Other				0	6	0	0	0	0
Cash earnings	-4	-3	-2	-1	-4	-2	2	61	81
Changes in working capital	1	-1	0	0	1	0	0	0	0
Net operational cash flow	-3	-4	-2	-1	-3	-2	2	61	81
Capex	—	—	—	0	-8	-60	-358	-179	0
Other investments	0	0	0	0	0	0	0	0	0
Proceeds from sales	0	0	0	0	—	0	0	0	0
Other	-4	-4	-2	0	0	-3	0	0	0
Net investing cash flow	-4	-4	-2	0	-8	-60	-358	-179	0
Repayment of debt	—	0	1	0	-1	0	-5	-31	-35
Proceeds from debt	—	—	—	0	—	20	369	189	0
Dividends paid	0	0	0	0	0	0	0	0	0
New equity	—	—	—	—	47	22	0	0	0
Other	9	4	2	1	-2	-3	0	0	0
Net financing cash flow	9	4	3	1	43	41	364	158	-35
Currency effect	—	—	—	0	—	0	0	0	0
Net cash flow				0		-21	8	40	46
Cash balance	4	1	0	0	34	13	21	61	106
Free cash flow	-7	-7	-3	-1	-11	-62	-356	-118	81



Share Data & Valuation (USDm)	2013	2014	2015	2016	2017	2018E	2019E	2020E	2021E
Shares outstanding, end	8	8	8	2	131	219	219	219	219
Share price, avg (USD)	2	2	1	0	1	0	0	0	0
Share price, end (USD)	3	1	0	1	0	0	0	0	0
Market Cap.	26	10	2	2	39	76	76	76	76
NIBD	-4	-1	1	1	-32	8	364	482	401
Minorities	0	0	0	0	0	0	0	0	0
Enterprise value	22	9	3	2	7	85	441	559	478
Key Figures & Ratios	2013	2014	2015	2016	2017	2018E	2019E	2020E	2021E
P/E (reported)								1.8	1.3
P/E (adj.)								1.8	1.3
P/CE	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
P/Sales							8.8	0.7	0.6
EV/Sales							50.6	4.8	3.5
EV/EBITDA							64.1	6.0	4.2
EV/EBIT							85.2	7.7	5.4
P/B	1.6	0.9	0.3	0.2	0.8	1.1	1.1	0.7	0.5
FCF yield	-28%	-75%	-162%	-86%	-28%	-81%	-466%	-154%	106%
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Return on equity (ROE)	-24.2%	-35.3%	-22.0%	-12.3%	-22.0%	-4.7%	0.7%	37.1%	33.8%
Return on capital employed (ROCE)	-26.2%	-34.2%	-19.5%	-10.4%	-72.9%	-5.3%	1.2%	12.3%	15.6%
Return on assets (ROA)	-14.8%	-18.5%	-9.6%	-4.8%	-20.3%	-3.6%	0.1%	6.3%	8.4%
Sales growth								1226%	20%
EBITDA margin							79%	80%	82%
EBIT margin							59%	63%	64%
Net margin							6%	36%	41%
Net interest rate	0.0%	0.0%	0.0%	0.0%	-0.3%	-9.8%	1.3%	6.5%	8.0%
Tax rate	0.0%	0.0%	0.0%	0.0%	16.3%	0.0%	0.0%	0.0%	0.0%
Equity ratio	61%	52%	43%	39%	92%	75%	15%	17%	25%
Leverage ratio	39%	48%	57%	61%	8%	25%	85%	83%	75%
NIBD / EBITDA (past 1y)				-1.0	2.7	-2.8	53.0	5.2	3.6
Operating cash flow/NIBD	0.7	6.3	-2.3	-1.3	0.1	-0.3	0.0	0.1	0.2
Net interest coverage ratio (EBITDA)					-140.0	3.6	1.5	3.0	3.5
Current ratio	3.0	1.9	0.4	0.1	14.7	6.9	9.2	23.2	39.9
Adj. equity ratio					94%	87%	44%	45%	49%
Operating assets	23	20	17	17	21	79	436	595	571
Operating liabilities	11	10	9	10	2	2	2	2	2
Net operating assets	13	10	8	8	18	77	434	593	569

Source for financial items: Historical numbers primarily gathered from Bloomberg and company data. Forecast from Gersemi Research

Break-even levels vs TCE revenue (USD per fleet day)





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