



DHT Holdings (DHT)

Updated December 8th, 2020 by Aristofanis Papadatos

Key Metrics

Current Price:	\$5.40	5 Year CAGR Estimate:	11.2%	Market Cap:	\$945 M
Fair Value Price:	\$7.20	5 Year Growth Estimate:	0.0%	Ex-Dividend Date:	2/12/2020 ¹
% Fair Value:	75%	5 Year Valuation Multiple Estimate:	5.9%	Dividend Payment Date:	2/23/2020
Dividend Yield:	7.4% ²	5 Year Price Target	\$7.20	Years Of Dividend Growth:	2
Dividend Risk Score:	D	Retirement Suitability Score:	B	Last Dividend Increase:	100%

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 27 very large crude carriers (VLCCs), which have total capacity of 8.36 million metric tons. DHT has a market capitalization of \$945 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 and thus it has forced some of the company's vessels to remain at ports longer than intended. The pandemic has also greatly reduced the demand for oil and refined products and hence the demand for transportation of oil and its products. Nevertheless, DHT has exhibited great performance thanks to high tanker rates and it is on track to post 10-year high earnings in 2020.

In early November, DHT reported (11/9/20) financial results for the third quarter of fiscal 2020. It grew its revenue 36% over last year's quarter and switched from a loss per share of -\$0.07 to a profit per share of \$0.31 thanks to much higher tanker rates. DHT achieved an average rate of \$48,100 per day for its vessels in the quarter. The company will decelerate in the fourth quarter, as it has booked 79% of its available VLCC days at an average rate of \$38,400 per day.

Nevertheless, we still expect DHT to post earnings-per-share of \$1.80 this year.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$1.57	-\$7.70	-\$7.83	-\$0.24	\$0.18	\$1.13	\$0.10	\$0.05	-\$0.33	\$0.51	\$1.80	\$0.60
DPS	\$0.34	\$0.33	\$0.31	\$0.08	\$0.08	\$0.53	\$0.71	\$0.20	\$0.08	\$0.20	\$1.35	\$0.40
Shares³	4.1	5.2	12.0	17.6	73.2	112.1	93.4	124.5	143.4	168.2	170.9	250.0

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 -90% lower than it was 10 years ago. DHT is poised to report record earnings this year but we have used its mid-cycle earnings-per-share of \$0.60 and dividend of \$0.40 (approximately the average in 2015-2020) as a base for our calculations for the expected 5-year return of the stock. Due to the high sensitivity of the earnings of DHT to the prevailing tanker rates, which are beyond the control of the company, we expect its earnings-per-share to remain around their mid-cycle level in the long run. Nevertheless, investors should be aware that extremely high volatility is inevitable in this business.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	31.6	---	---	---	39.3	6.8	50.2	84.4	---	11.3	9.0	12.0
Avg. Yld.	0.7%	0.8%	3.9%	1.7%	1.1%	6.9%	14.1%	4.7%	1.9%	3.5%	7.4%	5.6%

¹ Estimated date.

² Estimated forward dividend yield.

³ 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 37.3 over the last decade. Due to the high cyclicality of the stock, we assume a fair earnings multiple of 12.0 for this stock. DHT is currently trading at 9.0 times its mid-cycle earnings-per-share of \$0.60. If the stock trades at our assumed fair valuation level in five years, it will enjoy a 5.9% annualized gain in its returns thanks to the expansion of its price-to-earnings ratio.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	22%	---	---	---	44%	47%	710%	400%	---	39%	67%	67%

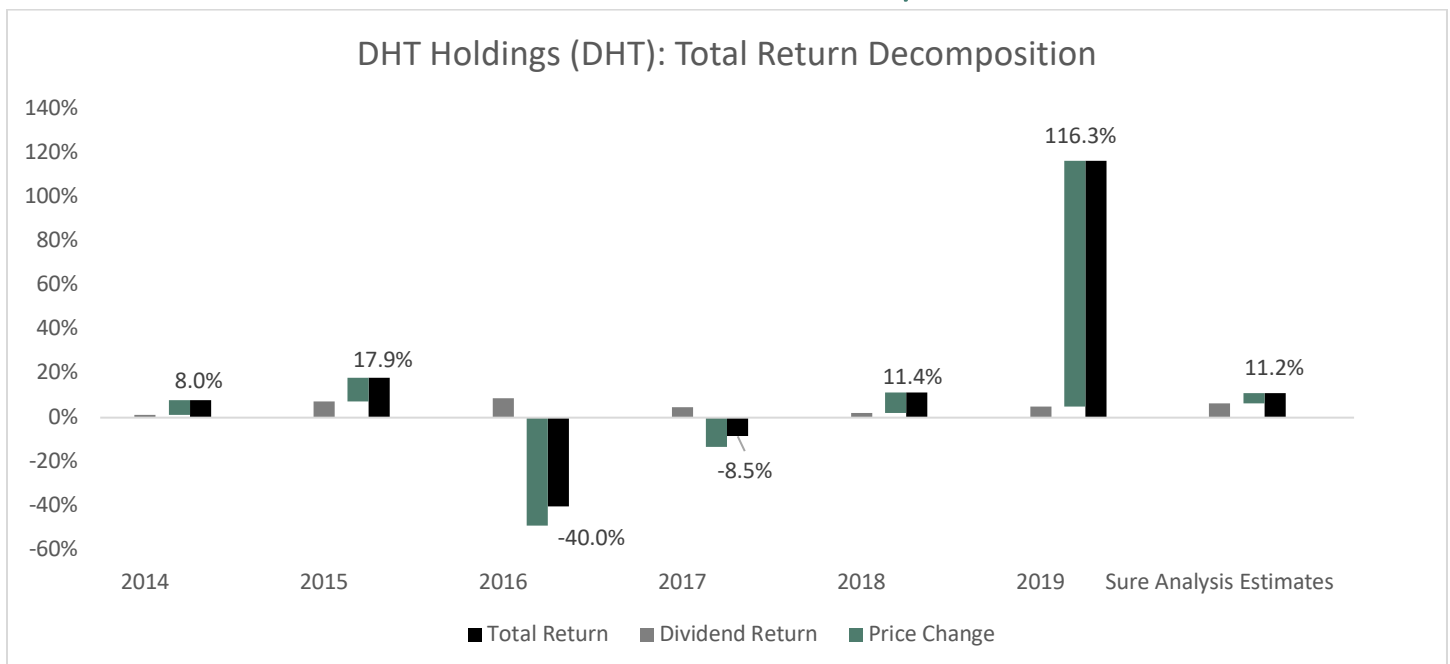
Based on the latest quarterly dividend of \$0.20 of DHT, its annualized dividend yield is 15.0%. Such an extraordinary yield is likely to entice many income-oriented investors. However, investors should be aware that the dividend and the earnings of DHT are extremely sensitive to the swings of tanker 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 -90% plunge of the stock over the last decade 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 \$414 million, which is worth less than 2 years' 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 the downturns of this business.

Final Thoughts & Recommendation

DHT has posted decade-high earnings this year thanks to high tanker rates. However, the company is about to see deceleration in its business performance due to lower forward tanker rates. Nevertheless, the stock is cheaply valued in our view and could offer an 11.2% average annual return over the next five years. We thus rate it as a buy. However, investors should note the many risks associated with the business.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	90	100	97	87	151	365	356	355	376	535
Gross Profit	31	32	23	11	14	158	144	73	35	154
Gross Margin	34.6%	31.6%	23.7%	12.1%	9.0%	43.2%	40.6%	20.4%	9.3%	28.7%
SG&A Exp.	8	9	10	9	18	22	19	17	15	15
D&A Exp.	28	31	32	27	45	79	84	97	103	116
Operating Profit	23	22	13	2	(4)	136	125	55	20	139
Operating Margin	25.9%	22.4%	13.6%	1.9%	-3.0%	37.3%	35.1%	15.6%	5.2%	26.0%
Net Profit	6	(40)	(94)	(4)	13	105	9	7	(47)	74
Net Margin	7.1%	-40.2%	-96.8%	-4.7%	8.5%	28.8%	2.6%	1.9%	-12.5%	13.8%
Free Cash Flow	34	(79)	17	(15)	(265)	37	(42)	(197)	(181)	102

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	481	505	400	447	1,378	1,424	1,404	1,730	1,864	1,827
Cash & Equivalents	59	43	71	126	167	167	109	77	95	67
Accounts Receivable	---	5	14	17	29	40	34	42	60	108
Inventories	---	---	4	3	16	9	8	24	32	34
Total Liabilities	285	298	219	162	703	686	719	805	1,002	895
Accounts Payable	0	0	2	---	4	2	4	---	11	8
Long-Term Debt	265	281	212	156	661	662	701	786	967	851
Shareholder's Equity	196	206	181	285	675	738	685	926	862	932
D/E Ratio	1.35	1.36	1.17	0.55	0.98	0.90	1.02	0.85	1.12	0.91

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	1.3%	-8.2%	-20.8%	-1.0%	1.4%	7.5%	0.7%	0.4%	-2.6%	4.0%
Return on Equity	3.3%	-20.0%	-48.6%	-1.8%	2.7%	14.9%	1.3%	0.8%	-5.3%	8.2%
ROIC	1.3%	-8.5%	-21.4%	-1.0%	1.5%	7.7%	0.7%	0.4%	-2.7%	4.1%
Shares Out.	4.1	5.2	12.0	17.6	73.2	112.1	93.4	124.5	143.4	168.2
Revenue/Share	22.06	19.14	8.09	4.96	2.06	3.26	3.81	2.85	2.62	3.18
FCF/Share	8.40	(15.1)	1.44	(0.87)	(3.61)	0.33	(0.44)	(1.58)	(1.26)	0.61

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

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