



KNOT Offshore Partners LP (KNOP)

Updated March 11th, 2021 by Nikolaos Sismanis

Key Metrics

Current Price:	\$17.70	5 Year CAGR Estimate:	11.5%	Market Cap:	\$577 M
Fair Value Price:	\$18.20	5 Year Growth Estimate:	2.0%	Ex-Dividend Date¹:	04/30/2021
% Fair Value:	97%	5 Year Valuation Multiple Estimate:	0.5%	Dividend Payment Date¹:	05/14/2021
Dividend Yield:	11.8%	5 Year Price Target	\$20	Years Of Dividend Growth:	0
Dividend Risk Score:	F	Retirement Suitability Score:	C	Last Dividend Increase:	N/A

Overview & Current Events

KNOT Offshore Partners LP owns and operates shuttle tankers under long-term charters in the North Sea and Brazil. The company provides loading, transportation, and storage of crude oil under time charters and bareboat charters. The company's sponsor, Knutsen NYK Offshore Tankers AS (Knutsen NYK) is responsible for identifying, ordering and dropping down ships to KNOP. As of its latest filings, it had a fleet of sixteen shuttle tankers. As a result of its mostly passive operations, the company has only one employee and executive, its CEO Mr. Gary Chapman, who oversees the company and ensures that all tankers maximize their charter periods, maximizing their value through long-term contracts. The company was founded in 2013 and is headquartered in Aberdeen, the United Kingdom.

On March 10th, 2021, KNOT Offshore Partners LP reported its Q4 2020 results for the period ending December 31st, 2020. KNOT's fleet operated with 98.6% utilization for scheduled operations during the quarter, generating total revenues of \$69.9 million, which was 0.3% lower year-over-year, despite the ongoing pandemic. Consequently, distributable cash flow was also mostly stable, at \$28.6 million, just 1% lower than Q3. The marginally lower revenues and distributable cash flows were attributable to the slight reduction in KNOP's fleet utilization (previously 100%) due to the Windsor Knutsen tanker missing a few employment days during Shell's redelivery. On a per-share basis, quarterly DCFU² was \$0.85, vs. \$0.86 during the previous quarter.

As of Q4, the partnership's fleet of seventeen vessels had charters with an average remaining fixed duration of 2.9 years. In addition, the charterers of the partnership's time charter vessels have options to extend their charters by an additional 3.1 years on average. These durations extended from Q3 due to KNOT securing new, three-year fixed-time charter contracts for the vessels Tordis Knutsen, Vigdis Knutsen, and Lena Knutsen to commence in 2023. Additionally, the partnership completed Tove Knutsen's acquisition, which came with a fixed 7-year time charter with Equinor Shipping, further boosting the company's future contracted cash flows. Finally, the charterer of the Bodil Knutsen, Equinor, did not extend its chartering contract. Hence KNOT is looking elsewhere for reemployment, which could slightly reduce its revenues. However, due to its diversified portfolio of tankers, the partnership does not currently anticipate this expiration to have a material adverse effect on its financial position in 2021, even if no re-chartering occurs in the short term. Hence, we expect FY2021 DCFU almost similar to that of FY2020, at \$3.30.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
DCFU	---	---	\$3.07	\$4.15	\$4.49	\$2.81	\$2.53	\$3.15	\$3.18	\$3.36	\$3.30	\$3.64
DPS	---	---	\$1.19	\$1.85	\$2.06	\$2.08	\$2.08	\$2.08	\$2.08	\$2.08	\$2.08	\$2.08
Shares³	---	---	17.5	20.2	25.8	27.8	30.6	33.3	33.3	33.3	33.3	35.0

The company's DCFU has hovered between \$2.50 and \$4.50 based on the charter rates the company is able to negotiate upon every renewal. While we could use a higher earnings power in our future estimates, we are not, in order to price in

¹ Estimated dates.

² DCFU refers to Distributable Cash Flow per Unit.

³ Share count is in millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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the potential of Bodil Knutsen not getting re-charted post-Equinor's redelivery. While the company does not disclose individual charter rates based on the tanker's capacity, we are estimating it accounts for less than 10% of total revenues. Hence, as management mentioned, distributions should remain well-covered, with no major issues ahead. Unlike most of the shipping companies, which report wildly fluctuating financials, KNOT's performance has been relatively stable due to its ability to negotiate fixed contracts. Hence its historical distributions have been quite reliable and steady. We assume no distribution growth in the medium term as the company settles its charter gaps. We are estimating DCFU growth of around 2% in the medium term, as the company could renegotiate slightly higher contracts amid increased demand for tanker vessels.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
P/DCFU	---	---	7.86	6.35	4.37	7.47	9.32	6.5	5.8	4.5	5.4	5.5
Avg. Yld.	---	---	4.8%	6.6%	10.6%	13.0%	9.1%	10.0%	11.1%	11.1%	11.8%	10.4%

KNOT has historically traded with a valuation multiple in the mid-single digits. Units are currently offering a massive yield of around 11.8%. Despite its covered distributions, KNOT's long-term revenues are not guaranteed, as tankers have a limited life value. The risk of its sponsor not being able to drop down tankers in the future is great which results in the low valuation and massive yield to compensate investors who are willing to hold shares.

Safety, Quality, Competitive Advantage, & Recession Resiliency

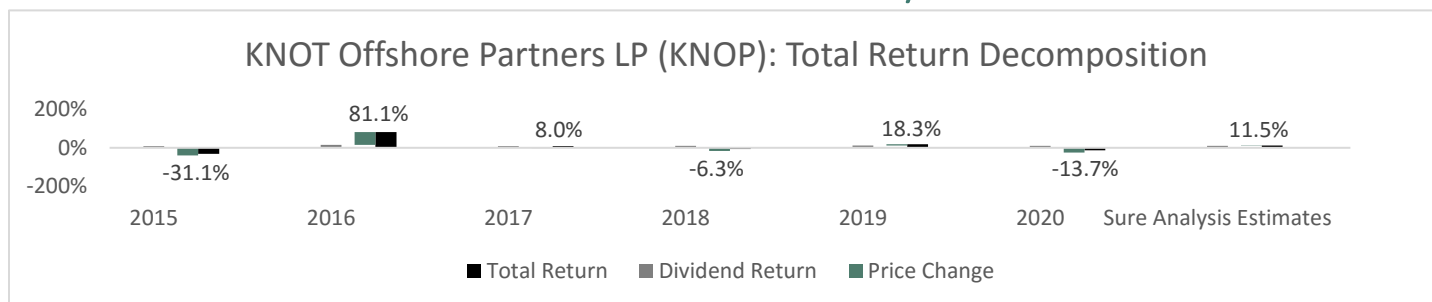
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	---	---	39%	45%	46%	74%	82%	66%	65%	62%	63%	57%

KNOT Offshore is one of the highest quality shipping companies, offering relative stability compared to its peers. We believe that the company's distributions remain safe in the next few years due to fixed contracts, even if Bodil Knutsen is not renewed. Due to the limited available supply of tankers, the company does not face significant competition, as its contracts are mostly based on the energy industry's performance. Despite the adverse effect on the energy sector during the pandemic, the company was able to deliver resilient results; hence we believe operations should remain steady under a potential recession. Still, massive risks remain in terms of the company's future lifetime value. Its fleet currently has an average age of 7 years. It should provide cash flows for the next couple of decades.

Final Thoughts & Recommendation

KNOT Offshore Partners is a trustworthy shipping company for income-orienting investors, featuring a massive, well-covered yield. We believe that the company should achieve steady revenues and distributions in the medium term. We estimate annualized returns of around 11.5%, though investors must be wary of the underlying risks. Shares earn a buy rating for investors with a higher tolerance for risk.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	44	66	73	113	155	174	219	279	283
Gross Profit	14	31	35	55	79	87	101	134	133
Gross Margin	32.4%	47.9%	48.2%	48.4%	50.7%	49.8%	46.0%	47.9%	46.9%
SG&A Exp.	1	5	5	4	4	4	6	5	5
D&A Exp.	16	20	22	33	47	55	70	88	89
Operating Profit	13	27	30	50	74	82	95	129	128
Operating Margin	30.3%	40.6%	40.8%	44.6%	48.0%	47.3%	43.5%	46.0%	45.2%
Net Profit	(16)	1	15	27	40	61	68	82	59
Net Margin	-37.2%	1.1%	20.5%	24.3%	26.1%	35.2%	31.1%	29.4%	20.9%
Free Cash Flow	(126)	19	44	59	88	108	154	149	166
Income Tax	(1)	1	3	0	(0)	(0)	(0)	(0)	0

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	535	512	660	1,071	1,220	1,292	1,793	1,837	1,738
Cash & Equivalents	3	1	29	31	24	28	46	42	44
Accounts Receivable	0	0	---	---	---	---	---	---	---
Inventories	0	1	1	1	1	1	2	2	2
Goodwill & Int. Ass.	6	6	6	6	---	---	2	2	1
Total Liabilities	467	415	378	651	699	771	1,064	1,105	1,026
Accounts Payable	1	0	1	2	2	2	5	5	3
Long-Term Debt	376	348	350	613	668	742	1,027	1,077	995
Shareholder's Equity	67	97	282	419	521	522	729	732	712

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	---	0.1%	2.6%	3.2%	3.5%	4.9%	4.4%	4.5%	3.3%
Return on Equity	---	0.9%	7.9%	7.8%	8.6%	11.7%	10.9%	11.2%	8.2%
ROIC	---	0.2%	4.3%	5.7%	6.3%	8.7%	7.7%	7.8%	5.7%
Shares Out.	---	---	17.5	20.2	25.8	27.8	30.6	33.3	33.3
Revenue/Share	2.56	3.83	4.28	5.71	6.13	6.39	6.68	7.68	8.64
FCF/Share	(7.34)	1.12	2.58	3.00	3.47	3.96	4.69	4.08	5.07

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

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