



# DHT Holdings (DHT)

Updated August 23<sup>rd</sup>, 2021 by Aristofanis Papadatos

## Key Metrics

<b>Current Price:</b>	\$5.30	<b>5 Year CAGR Estimate:</b>	15.1%	<b>Market Cap:</b>	\$893 M
<b>Fair Value Price:</b>	\$6	<b>5 Year Growth Estimate:</b>	10.0%	<b>Ex-Dividend Date:</b>	8/18/2021
<b>% Fair Value:</b>	88%	<b>5 Year Valuation Multiple Estimate:</b>	2.5%	<b>Dividend Payment Date:</b>	8/26/2021
<b>Dividend Yield:</b>	2.5% <sup>1</sup>	<b>5 Year Price Target</b>	\$9.70	<b>Years Of Dividend Growth:</b>	0
<b>Dividend Risk Score:</b>	F	<b>Retirement Suitability Score:</b>	F	<b>Last Dividend Increase:</b>	N/A

## 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 \$893 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 has also reduced the demand for oil and refined products and hence the demand for transportation of oil and its products. The demand for oil products has begun to recover thanks to the rollout of vaccines but DHT has not benefited yet, as a great portion of the extra demand has been met with drawdown of inventories. Nevertheless, DHT posted 10-year high earnings in 2020 thanks to high tanker rates.

In early August, DHT reported (8/9/21) financial results for the second quarter of fiscal 2021. Revenue plunged -73% over last year's quarter and DHT posted a marginal profit of \$0.8 million due to the collapse in tanker rates caused by the pandemic. The collapse of earnings is a stern reminder of the extremely volatile and unreliable performance of this business. DHT expects a gradual recovery from the pandemic but it also expects the poor tanker rates to persist for a while. Due to poor freights, we have lowered our forecast for the annual earnings-per-share from \$0.50 to \$0.10.

## Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
<b>EPS</b>	-\$7.70	-\$7.83	-\$0.24	\$0.18	\$1.13	\$0.10	\$0.05	-\$0.33	\$0.51	\$1.69	<b>\$0.10</b>	<b>\$0.81</b>
<b>DPS</b>	\$0.33	\$0.31	\$0.08	\$0.08	\$0.53	\$0.71	\$0.20	\$0.08	\$0.20	\$1.35	<b>\$0.13</b>	<b>\$0.28</b>
<b>Shares<sup>2</sup></b>	5.2	12.0	17.6	73.2	112.1	93.4	124.5	143.4	168.2	170.8	<b>174.0</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 -84% lower than it was 10 years ago. DHT posted record earnings last year but it has returned to poor results this year. We expect DHT to grow its earnings-per-share by approximately 10.0% per year on average over the next five years off its mid-cycle (6-year average) earnings-per-share of \$0.50. Nevertheless, investors should keep in mind that extremely high volatility is inevitable in this business.

## Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
<b>Avg. P/E</b>	---	---	---	39.3	6.8	50.2	84.4	---	11.3	<b>3.5</b>	<b>10.6</b>	<b>12.0</b>
<b>Avg. Yld.</b>	0.8%	3.9%	1.7%	1.1%	6.9%	14.1%	4.7%	1.9%	3.5%	23.0%	<b>2.5%</b>	<b>2.9%</b>

<sup>1</sup> Estimated forward dividend yield.

<sup>2</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 10.6 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 2.5% annualized gain in its returns thanks to the expansion of its price-to-earnings ratio.

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

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	---	---	---	44%	47%	710%	400%	---	39%	80%	26%	35%

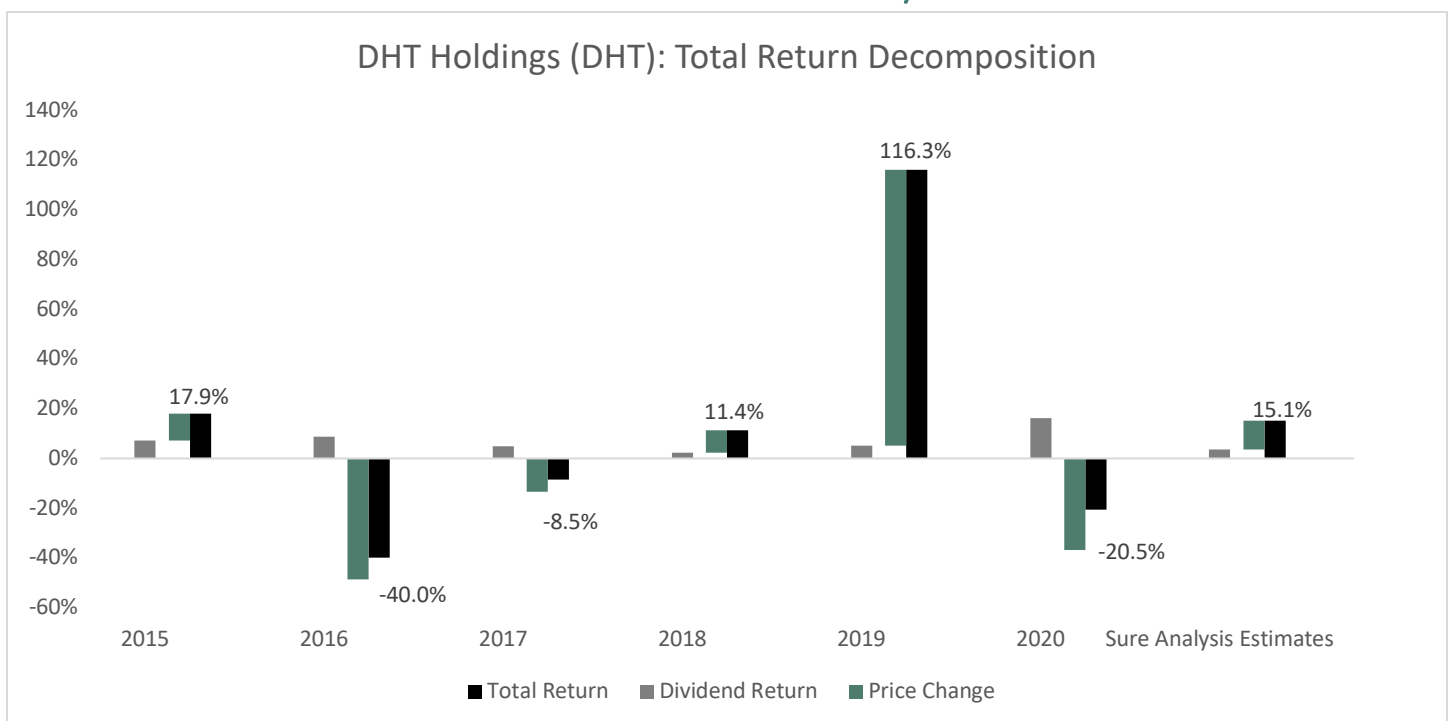
Based on the last three quarterly dividends, which totaled \$0.11, DHT's annualized dividend yield is 2.8%. However, investors should be aware that the dividend and the earnings of DHT are extremely sensitive to the swings of tanker rates and hence they are dramatically volatile. In contrast to most dividend-paying companies, DHT pays a different dividend every quarter, based on its actual results. Moreover, the -84% 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 \$498 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 last year thanks to high tanker rates but it has greatly decelerated in recent months due to lower tanker rates. Nevertheless, the stock is reasonably valued in our view and could offer a 15.1% 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 and the great patience required.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Revenue</b>	100	97	87	151	365	356	355	376	535	691
<b>Gross Profit</b>	32	23	11	14	158	144	73	35	154	344
<b>Gross Margin</b>	31.6%	23.7%	12.1%	9.0%	43.2%	40.6%	20.4%	9.3%	28.7%	49.8%
<b>SG&amp;A Exp.</b>	9	10	9	18	22	19	17	15	15	18
<b>D&amp;A Exp.</b>	31	32	27	45	79	84	97	103	116	124
<b>Operating Profit</b>	22	13	2	(4)	136	125	55	20	139	326
<b>Operating Margin</b>	22.4%	13.6%	1.9%	-3.0%	37.3%	35.1%	15.6%	5.2%	26.0%	47.2%
<b>Net Profit</b>	(40)	(94)	(4)	13	105	9	7	(47)	74	266
<b>Net Margin</b>	-40.2%	-96.8%	-4.7%	8.5%	28.8%	2.6%	1.9%	-12.5%	13.8%	38.5%
<b>Free Cash Flow</b>	(79)	17	(15)	(265)	37	(42)	(197)	(181)	102	502

## Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Total Assets</b>	505	400	447	1,378	1,424	1,404	1,730	1,864	1,827	1,622
<b>Cash &amp; Equivalents</b>	43	71	126	167	167	109	77	95	67	69
<b>Accounts Receivable</b>	5	14	17	29	40	34	42	60	108	30
<b>Inventories</b>	---	4	3	16	9	8	24	32	34	12
<b>Total Liabilities</b>	298	219	162	703	686	719	805	1,002	895	513
<b>Accounts Payable</b>	0	2	---	4	2	4	---	11	8	---
<b>Long-Term Debt</b>	281	212	156	661	662	701	786	967	851	450
<b>Shareholder's Equity</b>	206	181	285	675	738	685	926	862	932	1,109
<b>D/E Ratio</b>	1.36	1.17	0.55	0.98	0.90	1.02	0.85	1.12	0.91	0.41

## Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Return on Assets</b>	-8.2%	-20.8%	-1.0%	1.4%	7.5%	0.7%	0.4%	-2.6%	4.0%	15.4%
<b>Return on Equity</b>	-20.0%	-48.6%	-1.8%	2.7%	14.9%	1.3%	0.8%	-5.3%	8.2%	26.1%
<b>ROIC</b>	-8.5%	-21.4%	-1.0%	1.5%	7.7%	0.7%	0.4%	-2.7%	4.1%	15.9%
<b>Shares Out.</b>	5.2	12.0	17.6	73.2	112.1	93.4	124.5	143.4	168.2	170.8
<b>Revenue/Share</b>	19.14	8.09	4.96	2.06	3.26	3.81	2.85	2.62	3.18	4.06
<b>FCF/Share</b>	(15.1)	1.44	(0.87)	(3.61)	0.33	(0.44)	(1.58)	(1.26)	0.61	2.95

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

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