



DHT Holdings (DHT)

Updated November 9th, 2021 by Aristofanis Papadatos

Key Metrics

Current Price:	\$6.20	5 Year CAGR Estimate:	11.6%	Market Cap:	\$1.0 B
Fair Value Price:	\$6	5 Year Growth Estimate:	10.0%	Ex-Dividend Date:	11/15/2021
% Fair Value:	103%	5 Year Valuation Multiple Estimate:	-0.7%	Dividend Payment Date:	11/23/2021
Dividend Yield:	2.1%	5 Year Price Target	\$9.70	Years Of Dividend Growth:	0
Dividend Risk Score:	F	Retirement Suitability Score:	F	Last Dividend Increase:	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 26 very large crude carriers (VLCCs), which have total capacity of 8.04 million metric tons. DHT has a market capitalization of \$1.0 billion. 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 last year and hence the demand for transportation these products. Nevertheless, DHT posted 10-year high earnings in 2020 thanks to high tanker rates.

In early November, DHT reported (11/2/21) financial results for the third quarter of fiscal 2021. Revenue plunged -58% over last year's quarter and DHT posted a loss per share of -\$0.13 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. Due to poor freights, we now expect DHT to lose -\$0.10 per share instead of earning \$0.10 per share this year. DHT expects the poor freights to persist for a while and thus it will keep maintaining many of its vessels to render them fully available next year. On a positive note, 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 next year. Such a development is likely to provide a strong tailwind to DHT next year.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	-\$7.70	-\$7.83	-\$0.24	\$0.18	\$1.13	\$0.10	\$0.05	-\$0.33	\$0.51	\$1.69	-\$0.10	\$0.81
DPS	\$0.33	\$0.31	\$0.08	\$0.08	\$0.53	\$0.71	\$0.20	\$0.08	\$0.20	\$1.35	\$0.13	\$0.28
Shares¹	5.2	12.0	17.6	73.2	112.1	93.4	124.5	143.4	168.2	170.8	165.0	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 -60% 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
Avg. P/E	---	---	---	39.3	6.8	50.2	84.4	---	11.3	3.5	12.4	12.0
Avg. Yld.	0.8%	3.9%	1.7%	1.1%	6.9%	14.1%	4.7%	1.9%	3.5%	23.0%	2.1%	2.9%

¹ 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 cyclical nature of the stock, we assume a fair earnings multiple of 12.0. DHT is currently trading at 12.4 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 incur a -0.7% annualized drag in its returns due to the contraction 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%

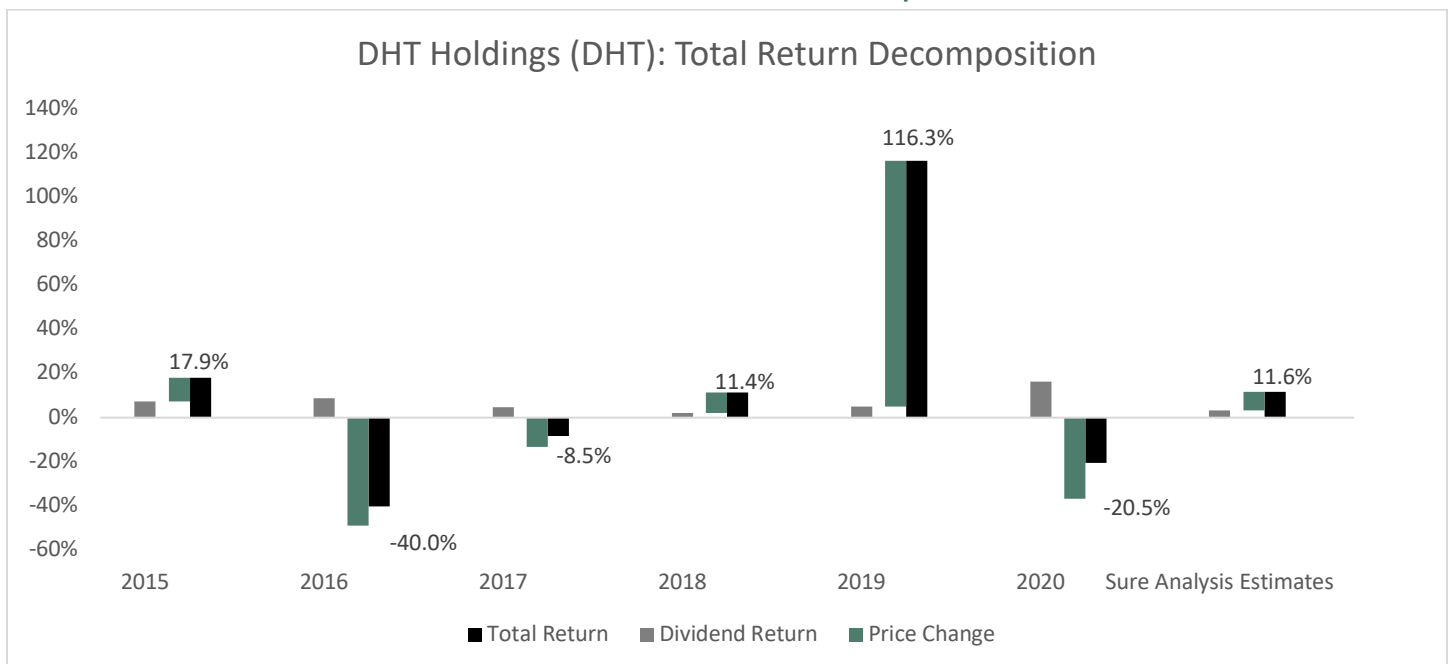
Based on the last four quarterly dividends, which totaled \$0.13, DHT's dividend yield is 2.1%. However, investors should be aware that the dividend and the earnings of DHT are extremely sensitive to the swings of tanker rates and hence they are dramatically volatile. In contrast to most dividend-paying companies, DHT pays a different dividend every quarter, based on its actual results. Moreover, the -60% 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 \$480 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. DHT has rallied 17% since our last research report, in August, but it could still offer an 11.6% average annual return over the next five years, mostly thanks to the recovery expected in its business from next year. We thus maintain our buy rating. 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
Revenue	100	97	87	151	365	356	355	376	535	691
Gross Profit	32	23	11	14	158	144	73	35	154	344
Gross Margin	31.6%	23.7%	12.1%	9.0%	43.2%	40.6%	20.4%	9.3%	28.7%	49.8%
SG&A Exp.	9	10	9	18	22	19	17	15	15	18
D&A Exp.	31	32	27	45	79	84	97	103	116	124
Operating Profit	22	13	2	(4)	136	125	55	20	139	326
Operating Margin	22.4%	13.6%	1.9%	-3.0%	37.3%	35.1%	15.6%	5.2%	26.0%	47.2%
Net Profit	(40)	(94)	(4)	13	105	9	7	(47)	74	266
Net Margin	-40.2%	-96.8%	-4.7%	8.5%	28.8%	2.6%	1.9%	-12.5%	13.8%	38.5%
Free Cash Flow	(79)	17	(15)	(265)	37	(42)	(197)	(181)	102	502

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	505	400	447	1,378	1,424	1,404	1,730	1,864	1,827	1,622
Cash & Equivalents	43	71	126	167	167	109	77	95	67	69
Accounts Receivable	5	14	17	29	40	34	42	60	108	30
Inventories	---	4	3	16	9	8	24	32	34	12
Total Liabilities	298	219	162	703	686	719	805	1,002	895	513
Accounts Payable	0	2	---	4	2	4	---	11	8	---
Long-Term Debt	281	212	156	661	662	701	786	967	851	450
Shareholder's Equity	206	181	285	675	738	685	926	862	932	1,109
D/E Ratio	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
Return on Assets	-8.2%	-20.8%	-1.0%	1.4%	7.5%	0.7%	0.4%	-2.6%	4.0%	15.4%
Return on Equity	-20.0%	-48.6%	-1.8%	2.7%	14.9%	1.3%	0.8%	-5.3%	8.2%	26.1%
ROIC	-8.5%	-21.4%	-1.0%	1.5%	7.7%	0.7%	0.4%	-2.7%	4.1%	15.9%
Shares Out.	5.2	12.0	17.6	73.2	112.1	93.4	124.5	143.4	168.2	170.8
Revenue/Share	19.14	8.09	4.96	2.06	3.26	3.81	2.85	2.62	3.18	4.06
FCF/Share	(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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