



SFL Corporation Ltd (SFL)

Updated August 21st, 2022 by Nikolaos Sismanis

Key Metrics

Current Price:	\$11.14	5 Year CAGR Estimate:	11.2%	Market Cap:	\$1.53 B
Fair Value Price:	\$12.00	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	09/14/22
% Fair Value:	93%	5 Year Valuation Multiple Estimate:	1.5%	Dividend Payment Date:	09/29/22
Dividend Yield:	8.3%	5 Year Price Target	\$13.91	Years Of Dividend Growth:	1
Dividend Risk Score:	F	Retirement Suitability Score:	C	Rating:	Buy

Overview & Current Events

Ship Finance International Ltd is an international shipping and chartering company. The company's primary businesses include transporting crude oil and oil products, dry bulk and containerized cargos, as well as offshore drilling activities. It owns 18 oil tankers, 15 dry bulk carriers, 34 container vessels, 6 car carriers, and 2 ultra-deep water drilling units. Ship Finance International operates primarily in Bermuda, Cyprus, Malta, Liberia, Norway, the United Kingdom, and the Marshall Islands. The \$1.53 billion company was founded in 2003 and is based in Hamilton, Bermuda.

On August 17th, 2022, SFL reported its Q2-2022 results for the period ending June 30th, 2022. The company achieved total revenues of \$153.3 million during the quarter, \$0.9 million more compared to the previous quarter. This figure is lower than the cash received as it excludes approximately \$11.7 million of charter hire, which is not identified as operating revenues pursuant to U.S. GAAP.

Net income came in at \$57.4 million, or \$0.45 per share, compared to \$47 million, or \$0.37 per share, in the previous quarter. The increase was due to a \$13.2 million gain on the sale of assets and termination of charters, as well as lower vessel operating expenses.

As of June 30th, 2022, and adjusted for subsequent transactions, the estimated fixed-rate charter backlog from the company's fleet of 75 vessels and new buildings under construction was approximately \$3.7 billion. The vessels feature a weighted remaining charter term of 6.8 years. SFL also declared its 74th consecutive quarterly dividend, which increased by another 4.5% on top of last quarter's 10% raise. The current annualized DPS stands at \$0.92 as a result. During the quarter, SFL agreed to acquire four modern Suezmax tankers in combination with 6-year charters to a subsidiary of Koch Industries, a world-leading industrial conglomerate. We now expect FY2022 EPS of around \$1.20 based on the company's current fleet employment profile and charter rates.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$2.22	\$0.99	\$1.24	\$1.88	\$1.50	\$1.03	\$0.69	\$1.01	\$0.98	\$1.35	\$1.20	\$1.39
DPS	\$1.56	\$1.57	\$1.65	\$1.77	\$1.80	\$1.50	\$1.40	\$1.40	\$0.80	\$0.68	\$0.92	\$1.07
Shares¹	86	95	117	119	108	103	108	108	109	122	127	135

As a shipping firm with exposure to spot rates, contracts that are locked in at various rates based on the condition of the underlying economy/industry, earnings can be volatile for SFL. Overall, though, the company has a sizable exposure to time charters which provide more stable cash flows. EPS has been quite volatile historically; however, this is most of the time attributable to SFL's high depreciation and amortization, as well one-off impairments. While dividends seem uncovered for some of the years, they are, in fact, covered, excluding these non-cash items. The past dividend cuts are mostly the result of the company financing its fleet growth further, which is common in the industry. SFL successfully committed close to \$850 million towards accretive investments in 2021, whose benefits already appear in the bottom line. Looking forward, dry bulk rates remain healthy, which along with the SFL's acquisitions and resilient contracted backlog, should also help grow profitability. We are forecasting an EPS growth rate of 3% going forward. In regards to

¹ In millions

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the dividend, last year's cut was a prudent move that saved the company enough cash to allow for greater financial flexibility this year. We are already seeing a strong earnings recovery, and the most recent sequential DPS hikes confirmed our expectations of resumption in dividend growth. We have utilized a DPS CAGR of 3% going forward.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2026
Avg. P/E	4.3	17.1	13.1	7.6	10.9	14.5	22.5	13.9	7.9	5.9	9.3	10.0
Avg. Yld.	15.4%	6.9%	10.0%	12.2%	11.0%	10.7%	9.0%	10.7%	9.2%	8.5%	8.3%	7.7%

SFL's 10-year average price-to-earnings multiple is 11.8, reflecting the risks associated with the shipping industry's cyclical nature while accounting for the company's long-term fixed revenues. Based on our FY2022 estimate, the forward P/E currently stands at 9.3. To account for the risks arising from a rising-rates environment on SFL's \$1.20 billion long-term debt position, we have set our fair multiple at 10. This implies the potential for valuation tailwinds ahead. Further, higher investor confidence amid the four sequential dividend hikes could reasonably spur such a multiple expansion.

Safety, Quality, Competitive Advantage, & Recession Resiliency

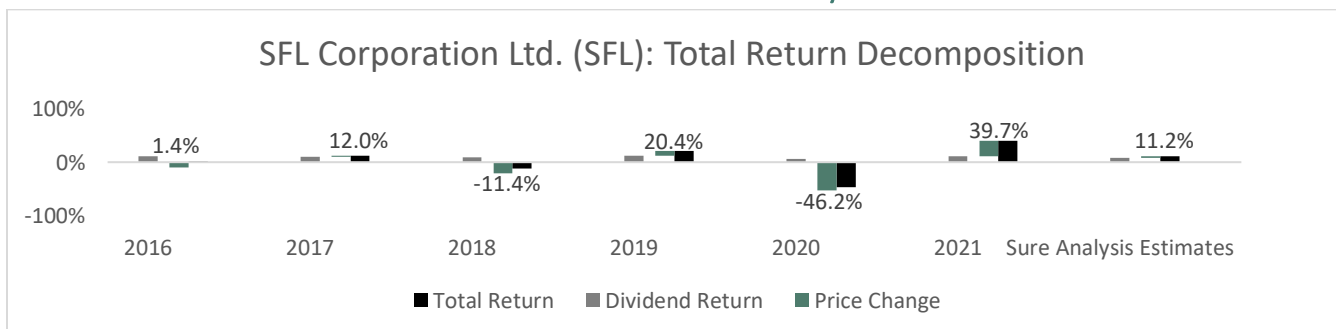
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	96%	66%	118%	132%	93%	120%	155%	203%	149%	61%	77%	77%

SFL lacks any meaningful competitive advantage and is a fairly volatile and risky investment. However, management has successfully increased exposure to long-term contracts in order to de-risk cash flows, thus facilitating dividend growth. The payout is relatively comfortable currently, which could make for a great opportunity for SFL to deleverage. Its long-term debt/equity currently stands at 157.6%. On the one hand, it has been declining over the past couple of years amid frequent debt repayments. On the other hand, creditors seem to continue to be very demanding of the company. In April of 2021, SFL placed \$150 million in senior unsecured sustainability-linked bonds due 2026. The bond pays a coupon of 7.25% per annum, reflecting the company's expensive financing. The company remains one of the highest qualities in the industry, nonetheless, with an experienced management team and an extended backlog. We expect revenues to remain stable under a recession due to their contractual nature.

Final Thoughts & Recommendation

Ship Finance International's dividend yield is very attractive, and the recent hikes should reassure investors of its coverage despite the high payout ratio. We expect a stable and potentially further improving performance going forward, powered by contractually-locked revenues and the current favorable environment in the containership market. We forecast annualized returns of around 11.2% going forward, powered by the stock's hefty dividend yield and the potential for slight growth in financials, further boosted by potential valuation tailwinds. Accordingly, shares earn a buy rating. Still, very conservative dividend growth investors should look elsewhere due to the shipping industry's risks.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	318	269	323	405	410	379	417	459	471	513
Gross Profit	167	105	136	206	180	159	184	208	204	218
Gross Margin	52.6%	39.0%	42.2%	50.9%	43.9%	42.0%	44.2%	45.3%	43.3%	42.5%
SG&A Exp.	9	8	8	7	9	7	9	10	11	13
D&A Exp.	56	58	67	78	94	88	104	130	127	152
Operating Profit	160	99	133	201	174	154	177	198	193	205
Operating Margin	50.4%	37.0%	41.2%	49.7%	42.3%	40.5%	42.4%	43.1%	40.9%	40.0%
Net Profit	186	89	123	201	146	101	74	89	(224)	164
Net Margin	58.5%	33.2%	38.0%	49.6%	35.7%	26.7%	17.7%	19.4%	-47.6%	32.0%
Free Cash Flow	(81)	31	(263)	(238)	42	96	(937)	(1)	156	(288)

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	2,973	3,046	3,042	3,033	2,937	3,012	3,878	3,885	3,093	3,459
Cash & Equivalents	61	59	51	70	62	153	211	200	215	146
Accounts Receivable	8	8	3	2	4	13	3	5	---	11
Inventories	3	7	7	5	5	5	9	8	---	10
Total Liabilities	1,978	1,854	1,888	1,791	1,803	1,817	2,698	2,779	2,298	2,477
Accounts Payable	1	4	2	1	1	0	2	3	---	2
Long-Term Debt	1,831	1,737	1,732	1,634	1,553	1,504	1,437	1,608	1,649	1,889
Shareholder's Equity	995	1,192	1,153	1,242	1,134	1,195	1,180	1,106	796	982
LTD/E Ratio	1.84	1.46	1.50	1.32	1.37	1.26	1.22	1.45	2.07	1.92

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	6.3%	3.0%	4.0%	6.6%	4.9%	3.4%	2.1%	2.3%	-6.4%	5.0%
Return on Equity	20.1%	8.2%	10.5%	16.8%	12.3%	8.7%	6.2%	7.8%	-23.6%	18.5%
ROIC	6.6%	3.1%	4.2%	7.0%	5.3%	3.8%	2.8%	3.3%	-8.7%	6.2%
Shares Out.	86	95	117	119	108	103	108	108	108	127
Revenue/Share	3.70	2.82	2.77	3.40	3.80	3.68	3.87	4.26	4.32	4.05
FCF/Share	(0.94)	0.32	(2.25)	(2.00)	0.39	0.93	(8.71)	(0.01)	1.44	(2.27)

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

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