



Star Bulk Carriers Corp. (SBLK)

Updated November 17th, 2022 by Nikolaos Sismanis

Key Metrics

Current Price:	\$19.64	5 Year CAGR Estimate:	12.5%	Market Cap:	\$2.01 B
Fair Value Price:	\$30.00	5 Year Growth Estimate:	-10.0%	Ex-Dividend Date:	11/29/22
% Fair Value:	65%	5 Year Valuation Multiple Estimate:	8.8%	Dividend Payment Date:	12/12/22
Dividend Yield:	24.4%	5 Year Price Target	\$17.71	Years Of Dividend Growth:	N/A
Dividend Risk Score:	F	Retirement Suitability Score:	B	Rating:	Buy

Overview & Current Events

Star Bulk Carriers Corp. is an international leading global shipping company that owns and operates a modern and diverse fleet of dry bulk vessels. Specifically, the company owns 128 high-quality vessels on a fully delivered basis with an average age of around 10.6 years and a dwt (deadweight ton) capacity of 14.1 million metric tons. The vessels are utilized to transport a broad range of major and minor bulk commodities, including iron ore, minerals, grain, bauxite, fertilizers, and steel products, along worldwide shipping routes. Star Bulk Carriers generated \$1.43 billion in revenues last year and is based in Marousi, Greece.

On November 16th, 2022, Star Bulk Carriers reported its Q3 results for the period ending September 30th, 2022. The company's performance reflected the worsening conditions in the dry bulk market following last year's euphoria. Voyage revenues came in at \$364.1 million, a 12.4% decline year-over-year, with the company achieving an average TCE (Time Charter Equivalent) rate per vessel of \$24,365 per day. This metric was \$30,626 in the comparable period last year. With expenses growing in the meantime, Star Bulk's net income margins were suppressed substantially. Specifically, net income came in at \$109.7 million or \$1.08 per share versus \$220.4 million, or \$2.16 per share last year, implying an increase of 50.2% and 50%, respectively.

Regardless, driven by relatively strong profits compared to historical levels, the company continued strengthening its balance sheet. Currently, the company's liquidity and net debt are standing at \$417 million and \$946 million, implying an improvement of 256% and 43%, respectively, compared to Q3-2020. Based on the current dry bulk rates and overall market conditions, we have adjusted our fiscal 2022 EPS estimate from \$7.20 to \$6.00 to be prudent.

Star Bulk Carriers also declared a \$1.20/share dividend corresponding to Q3, in line with its dividend policy (read below). We are using the annualized rate in our estimates, but DPS in FY2022 should easily exceed \$5.00, even with a lower Q4 DPS. Year-to-date, the company also repurchased \$20 million worth of stock. No stock was repurchased in Q3.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	(\$291.60)	\$0.65	(\$1.00)	(\$11.71)	(\$3.24)	(\$0.16)	\$0.76	(\$0.17)	\$0.10	\$6.71	\$6.00	\$3.54
DPS	---	---	---	---	---	---	---	\$0.10	---	\$4.25	\$4.80	\$2.83
Shares¹	1.1	2.8	11.7	39.1	47.6	63.0	77.3	93.7	96.3	101.5	102.5	98.0

The dry bulk shipping industry is cyclical in nature. Dry bulk rates remained rather depressed over the past decade for a number of factors, including a high order book which led to an oversupply of dry bulk vessels relative to the underlying demand. Following the supply chain crisis caused by the pandemic, TCE rates skyrocketed last year. Rates have now normalized. On the positive side, Star Bulk enjoys the best supply-side dynamics in decades with slowing fleet growth (order book at 25+ year lows as a percentage of the global fleet). That said, we expect an EPS CAGR of -10% in the medium-term, as we assume lower rates will be reflected in Star Bulk's bottom line, especially next year. Note that rates are largely unpredictable over several years. Star Bulk has now adopted a very clear dividend policy. Each quarter, the company is to distribute its total cash balance less a minimum cash balance equal to the number of vessels multiplied by

¹ Share count is in millions.

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\$2.10 million. Basically, whatever the company earns after meeting this parameter and its obligations and CAPEX needs, is to be paid out. Thus, the dividend is to vary substantially each quarter. We utilize a CAGR of -10% in DPS in the medium-term, employing the same rationale used in EPS projections.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	---	61.5	---	---	---	---	15.1	---	---	3.0	3.3	5.0
Avg. Yld.	---	---	---	---	---	---	---	---	---	20.7%	24.4%	16.0%

Star Bulk Carriers' valuation has been mostly non-meaningful over the years from a P/E perspective amid the company's depressed results. The stock is currently trading at what appears to be a very low forward P/E of 3.3. It is justified, however, as the market prices in possibly declining earnings over the medium-term. Under "normal" circumstances, we assign Star Bulk a fair multiple of 5. The yield is set to remain at high levels following the updated dividend policy.

Safety, Quality, Competitive Advantage, & Recession Resiliency

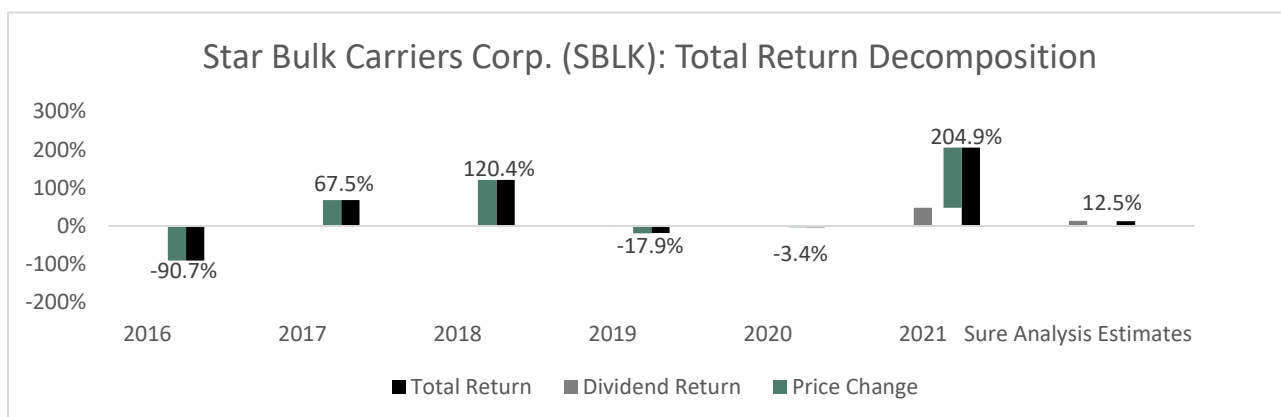
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	---	---	---	---	---	---	---	---	---	63%	80%	80%

Star Bulk has multiple competitive advantages. Its executive management team, which has extensive shipping industry expertise, is led by Mr. Petros Pappas, who has more than 40 years of shipping experience and has managed hundreds of vessel acquisitions and dispositions. Further, the company has (one of) the lowest OPEX per vessel in the industry. Additionally, its fleet is quite young, with ~94% of vessels equipped with scrubbers, providing leverage to increasing fuel price spread. However, while the underlying market conditions remain optimal, a small change in rates can have a major effect on underlying earnings (positive or negative). With the company mostly operating on short-term charters, earnings, as well as the underlying dividends should be very volatile too. A recession resulting in declining demand for dry bulk, could materially impact the underlying results. Income-oriented investors should not rely on the dividend.

Final Thoughts & Recommendation

With dry bulk rates normalizing, Star Bulk's earnings and dividends are set to decline moving forward. However, the market appears to have priced that in already in the stock, which, along with our projected, but speculative dividends, could lead to double-digit annualized total returns moving forward. That said, future returns are largely unpredictable and could be swayed either way based on various macroeconomic and industry factors. The stock earns a buy rating, but is likely best for speculative investors who comprehensively understand the dry bulk industry.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	86	70	147	234	222	332	652	821	693	1,427
Gross Profit	0	16	9	(58)	(42)	66	185	112	98	775
Gross Margin	0.0%	22.4%	6.3%	-24.7%	-18.8%	19.9%	28.4%	13.7%	14.2%	54.3%
SG&A Exp.	9	10	33	24	25	31	34	35	32	40
D&A Exp.	33	16	37	82	82	83	103	124	142	153
Operating Profit	(6)	10	(13)	(81)	(65)	38	150	78	69	737
Operating Margin	-6.7%	13.7%	-9.1%	-34.5%	-29.1%	11.5%	23.1%	9.5%	10.0%	51.6%
Net Profit	(315)	2	(12)	(458)	(154)	(10)	58	(16)	10	681
Net Margin	N/A	2.6%	-8.0%	-196%	-69.4%	-2.9%	9.0%	-2.0%	1.4%	47.7%
Free Cash Flow	19	(100)	(510)	(488)	(429)	(61)	(160)	(259)	98	637
Income Tax			-	-	0	0	0	0	0	0

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	355	468	2,062	2,149	2,012	2,146	3,022	3,239	3,192	3,755
Cash & Equivalents	13	54	86	208	182	258	205	118	183	450
Accounts Receivable	6	3	25	11	13	19	38	59	38	81
Inventories	4	2	14	14	15	19	27	51	47	75
Goodwill & Int. Ass.	14	8	12	0						
Total Liabilities	238	202	908	1,013	974	1,058	1,502	1,695	1,642	1,675
Accounts Payable	8	7	18	9	5	10	21	43	33	22
Long-Term Debt	224	190	862	896	792	797	835	1,160	1,133	1,089
Shareholder's Equity	117	266	1,154	1,135	1,037	1,088	1,520	1,544	1,550	2,080
LTD/E Ratio	1.92	0.72	0.75	0.79	0.76	0.73	0.55	0.75	0.73	0.52

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	-58.6%	0.4%	-0.9%	-21.8%	-7.4%	-0.5%	2.3%	-0.5%	0.3%	19.6%
Return on Equity	-114%	1.0%	-1.7%	-40.0%	-14.2%	-0.9%	4.5%	-1.1%	0.6%	37.5%
ROIC	-60.4%	0.5%	-0.9%	-22.6%	-8.0%	-0.5%	2.8%	-0.6%	0.4%	23.3%
Shares Out.	1.1	2.8	11.7	39.1	47.6	63.0	77.3	93.7	96.3	101.5
Revenue/Share	79.88	24.76	12.61	5.99	4.67	5.27	8.43	8.76	7.20	14.07
FCF/Share	17.53	(35.53)	(43.68)	(12.49)	(9.03)	(0.97)	(2.06)	(2.76)	1.02	6.28

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

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