Star Bulk Carriers Corp. (SBLK)

Updated August 5th, 2023 by Nikolaos Sismanis

Key Metrics

Current Price:	$18.28	**5 Year CAGR Estimate:**	10.7%	**Market Cap:**	$1.88 B
Fair Value Price:	$15.60	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	08/21/2023
% Fair Value:	117%	**5 Year Valuation Multiple Estimate:**	-3.1%	**Dividend Payment Date:**	09/07/2023
Dividend Yield:	8.8%	**5 Year Price Target**	$20.88	**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 127 high-quality vessels on a fully delivered basis with an average age of around 11.4 years and a dwt (deadweight ton) capacity of 13.6 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 $1.44 billion in revenues last year and is based in Marousi, Greece.

On August 3rd, 2023, Star Bulk Carriers reported its Q2 results for the period ending June 30th, 2023. The company's performance reflected the worsening conditions in the dry bulk market following last year's euphoria. For the quarter, Voyage revenues came in at $238.7 million, a 43% decline year-over-year, with the company achieving an average TCE (Time Charter Equivalent) rate per vessel of $15,835 per day. This metric was $30,451 in the comparable period last year. Despite the year-over-year decline in operating expenses per vessel, Star Bulk's net income margins were significantly suppressed due to the substantial decrease in revenues. Specifically, net income came in at $44.3 million or $0.43 per share, versus $200.1 million, or $1.95 per share last year, implying a decline of about 78% in both metrics.

Regardless, driven by relatively strong profits compared to historical levels, the company continued strengthening its balance sheet. As of August 2nd, Star Bulk's liquidity and net debt are standing at $457 million and $725 million, implying an improvement of 18% and 28%, respectively, compared to Q2-2022. Based on the current market conditions, we maintain our FY2023 EPS estimate at $2.40, which will be adjusted over time based on the underlying changes in rates.

Star Bulk Carriers also declared a $0.40/share dividend corresponding to Q2, in line with its dividend policy (read below). We are using its annualized rate in our estimates. That said, it is impossible to accurately predict Star Bulk's future profits and, thus, dividends – especially given its current dividend policy.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$0.65	($1.00)	($11.71)	($3.24)	($0.16)	$0.76	($0.17)	$0.10	$6.71	$5.52	***$2.40***	***$3.21***
DPS	---	---	---	---	---	---	$0.10	---	$4.25	$5.10	***$1.60***	***$2.14***
Shares[1]	2.8	11.7	39.1	47.6	63.0	77.3	93.7	96.3	101.5	102.5	***102.9***	***100.0***

The dry bulk shipping industry is wildly 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, allowing Star Bulk to record massive profits in 2020 and 2021. Rates plummeted in 2022, and still remain rather soft to this day. That said, 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). Based on this, as well as the fact dry bulk rates should recover from here, we expect an EPS CAGR of 6% in the medium-term. Nevertheless rates are largely unpredictable over several years. Our estimates are guesswork, to a large extent.

[1] Share count is in millions.

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Star Bulk has 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 $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 each quarter. We utilize a CAGR of 6% in DPS through 2028, employing the same rationale used in EPS projections.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	61.5	---	---	---	---	15.1	---	---	3.0	4.3	***7.6***	***6.5***
Avg. Yld.	---	---	---	---	---	---	---	---	20.7%	21.3%	***8.8%***	***10.3%***

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 modest forward P/E of 7.6 based on our EPS projection for the year. We believe this is a more or less fair multiple, reflecting the uncertainty linked to Star Bulk's future earnings and dividends while also enabling the possibility of significant returns for investors who are willing to invest in such a highly volatile stock. That said, to be prudent, we have set our fair multiple at 6.5, where we believe the stock would offer a wider margin of safety. The yield should remain at high levels based on Star Bulk’s dividend policy.

Safety, Quality, Competitive Advantage, & Recession Resiliency

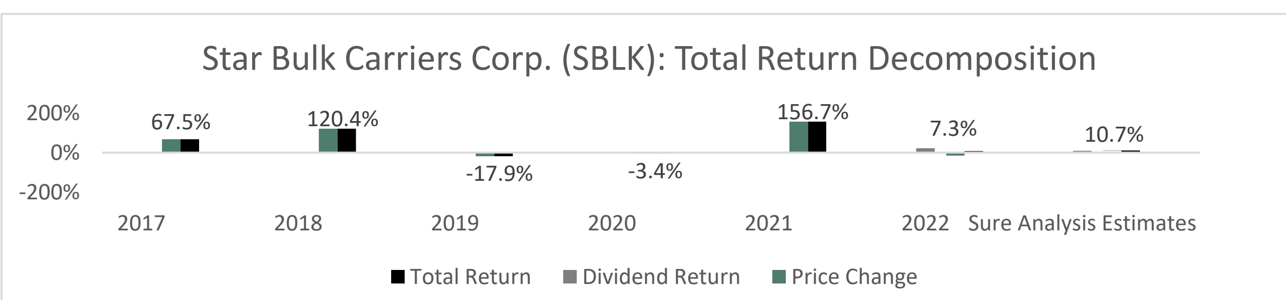
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	---	---	---	---	---	---	---	---	63%	92%	***67%***	***67%***

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 almost all 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 plummeting, Star Bulk’s earnings and dividends are set to decline this year. However, the market appears to have priced that in already in the stock, which, along with our projected, but speculative dividends, could lead to low-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 holding Star Bulk Carriers is intended for investors who comprehensively understand the dry bulk industry.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	70	147	234	222	332	652	821	693	1,427	1,437
Gross Profit	16	9	(58)	(42)	66	185	112	98	775	660
Gross Margin	22.4%	6.3%	-24.7%	-18.8%	19.9%	28.4%	13.7%	14.2%	54.3%	45.9%
SG&A Exp.	10	33	24	25	31	34	35	32	40	57
D&A Exp.	16	37	82	82	83	103	124	142	153	167
Operating Profit	10	(13)	(81)	(65)	38	150	78	69	737	612
Operating Margin	13.7%	-9.1%	-34.5%	-29.1%	11.5%	23.1%	9.5%	10.0%	51.6%	42.6%
Net Profit	2	(12)	(458)	(154)	(10)	58	(16)	10	681	566
Net Margin	2.6%	-8.0%	-196%	-69.4%	-2.9%	9.0%	-2.0%	1.4%	47.7%	39.4%
Free Cash Flow	(100)	(510)	(488)	(429)	(61)	(160)	(259)	98	637	745
Income Tax		-	-	0	0	0	0	0	0	0

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	468	2,062	2,149	2,012	2,146	3,022	3,239	3,192	3,755	3,434
Cash & Equivalents	54	86	208	182	258	205	118	183	450	270
Accounts Receivable	3	25	11	13	19	38	59	38	81	84
Inventories	2	14	14	15	19	27	51	47	75	67
Goodwill & Int. Ass.	8	12	0	---	---	---	---	---	---	---
Total Liabilities	202	908	1,013	974	1,058	1,502	1,695	1,642	1,675	1,414
Accounts Payable	7	18	9	5	10	21	43	33	22	32
Long-Term Debt	190	862	896	792	797	835	1,160	1,133	1,089	1,095
Shareholder's Equity	266	1,154	1,135	1,037	1,088	1,520	1,544	1,550	2,080	2,019
LTD/E Ratio	0.72	0.75	0.79	0.76	0.73	0.55	0.75	0.73	0.52	0.54

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	0.4%	-0.9%	-21.8%	-7.4%	-0.5%	2.3%	-0.5%	0.3%	19.6%	15.8%
Return on Equity	1.0%	-1.7%	-40.0%	-14.2%	-0.9%	4.5%	-1.1%	0.6%	37.5%	27.6%
ROIC	0.5%	-0.9%	-22.6%	-8.0%	-0.5%	2.8%	-0.6%	0.4%	23.3%	18.0%
Shares Out.	2.8	11.7	39.1	47.6	63.0	77.3	93.7	96.3	101.5	102.5
Revenue/Share	24.76	12.61	5.99	4.67	5.27	8.43	8.76	7.20	14.07	14.02
FCF/Share	(35.53)	(43.68)	(12.49)	(9.03)	(0.97)	(2.06)	(2.76)	1.02	6.28	7.26

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