Star Bulk Carriers Corp. (SBLK)

Updated February 13th, 2024 by Nikolaos Sismanis

Key Metrics

Current Price:	$21.75	**5 Year CAGR Estimate:**	13.6%	**Market Cap:**	$1.83 B
Fair Value Price:	$22.75	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	03/11/2024
% Fair Value:	96%	**5 Year Valuation Multiple Estimate:**	0.9%	**Dividend Payment Date:**	03/28/2024
Dividend Yield:	8.3%	**5 Year Price Target**	$30.44	**Years Of Dividend Growth:**	N/A
Dividend Risk Score:	D	**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 115 high-quality vessels on a fully delivered basis with an average age of around 11.8 years and a dwt (deadweight ton) capacity of 12.9 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 $949 million in revenues last year and is based in Marousi, Greece.

O on December 11th, 2023, Star Bulk entered into a definitive agreement with Eagle Bulk Shipping Inc. (EGLE). Each share of Eagle will be converted into the right to receive 2.6211 common shares of Star Bulk. The merger has received all necessary regulatory approvals, and is subject to Eagle Bulk shareholders' vote on April 5th, 2024.

On February 12th, 2024, Star Bulk Carriers posted its Q4 and full-year results for the period ending December 31st, 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 $265.5 million, a 10.6% decline year-over-year, with the company achieving an average TCE (Time Charter Equivalent) rate per vessel of $18,296 per day. This metric was $19,590 in the comparable period last year. In the meantime, operating expenses per vessel rose 11.7% to $4,991 per day. Lower revenues against higher expenses resulted in adjusted EPS falling from $0.90 to $0.73. The per-share metric was boosted by Star Bulk buying back a large chunk of $380 million worth of stock from Oaktree, an investor.

In 2024, the dry bulk market outlook is optimistic, driven by supply dynamics, trade inefficiencies (Suez Canal closure), and global infrastructure investment. Our FY2024 EPS estimate is $3.50, subject to change based on rate fluctuations and the Eagle Bulk acquisition, making the figure highly speculative.

Star Bulk Carriers also declared a $0.45/share dividend corresponding to Q4, 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	($1.00)	($11.71)	($3.24)	($0.16)	$0.76	($0.17)	$0.10	$6.71	$5.52	$1.76	***$3.50***	***$4.68***
DPS	---	---	---	---	---	$0.10	---	$4.25	$5.10	$1.42	***$1.80***	***$2.41***
Shares[1]	11.7	39.1	47.6	63.0	77.3	93.7	96.3	101.5	102.5	87.4	***96.1***	***95.0***

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 2022-2023, but have now recovered. Star Bulk now enjoys the best supply-side dynamics in decades with slowing fleet growth (order book at 25+ year lows as a percentage

[1] Share count is in millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

of the global fleet) and geopolitical tensions. 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.

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 2029, employing the same rationale used in EPS projections.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	---	---	---	---	15.1	---	---	3.0	4.3	10.6	***6.2***	***6.5***
Avg. Yld.	---	---	---	---	---	---	---	20.7%	21.3%	7.6%	***8.3%***	***7.9%***

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 a forward P/E of 6.2 based on our EPS projection for the year. We maintain our fair multiple at 6.5, where we believe the company is fairly valued in a broader context. The yield should remain attractive based on the company's dividend policy.

Safety, Quality, Competitive Advantage, & Recession Resiliency

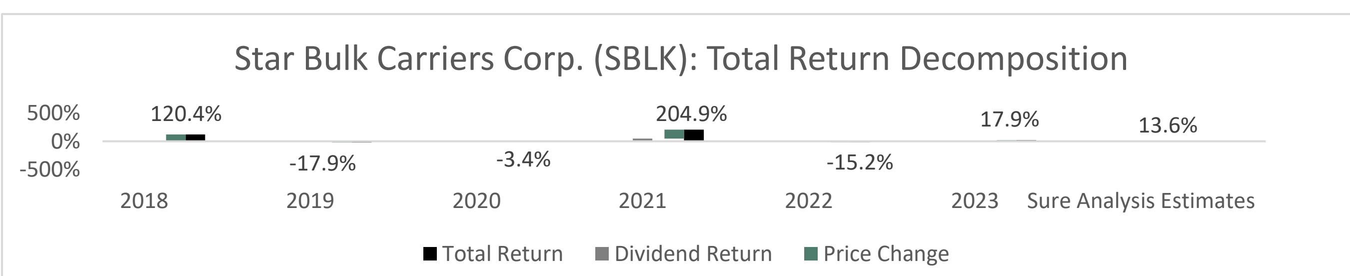
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	---	---	---	---	---	---	---	63%	92%	81%	***51%***	***51%***

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 rising, Star Bulk's earnings and dividends are set to rebound this year. The stock could produce to low-double-digit annualized total returns moving forward, mainly driven by a strong dividend outlook. Still, projected returns are unpredictable and could be swayed either way based on dry bulk rate shifts. The stock earns a buy rating today, but we stress that Star Bulk Carriers is best suited for investors with a strong understanding of the dry bulk space and who have a higher risk tolerance.

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.

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