UNIVERSITY OF STAVANGER BUSINESS SCHOOL

MASTER'S THESIS

STUDY PROGRAMME:	THIS THESIS HAS BEEN WRITTEN WITHIN THE FOLLOWING FIELD OF SPECIALISATION:
Master of Science: Business and Administration	Applied finance

TITLE:

Valuation of Hunter Group ASA

AUTHOR(S)		SUPERVISOR:
Candidate number: 2056 ……	Name: Rebekka Lyngnes Ramsland ……	Mads Holm

Executive summary

This thesis conducts a valuation of Hunter Group ASA (Hunter Group) in order to determine the company's intrinsic value to be able to give a buy, sell or hold recommendation of the stock related to the current market price. Hunter Group is an investment company currently operating within the crude tanker industry. Therefore, an introduction of the crude tanker industry following an introduction of Hunter Group was given. Thereafter, a strategic analysis was conducted as the company and its operating environment should be analysed to understand its strategic position. After this, an analysis of the financial statements was conducted.

Subsequently, the forecasting of cash flows could begin, as the strategic analysis and the analysis of financial statements previously conducted were the basis for the forecasts. This was combined with external sources of information to arrive at the best possible estimates. The suitable cost of capital was also estimated, using WACC and CAPM. The forecast of the cash flows and the cost of capital were then used to do a discounted cash flow analysis.

Hunter Group's calculated intrinsic value of equity was NOK 6,93 per share. The noted stock price on the 10th of May 2021 was NOK 3,09. Based on this, the stock of Hunter Group was estimated to be undervalued, and a buy recommendation of the stock was given. Nevertheless, as there is uncertainty related to future outcomes, a sensitivity analysis was conducted. It was the WACC and freight rates that were chosen as the subjects for the sensitivity analysis. The estimated stock price was not sensitive to changes in WACC, and a little sensitive to changes in freight rates. However, both of these would have to change substantially for the conclusion of the discounted cash flow analysis to change. Finally, a relative valuation was conducted. However, as this method has its limitations and Hunter Group does not have any good comparables, the method was only used as a supplement and to increase the understanding of the fundamental analysis already conducted. Looking at the different multiples and reviewing which were most relevant determining the value, this also concluded that the stock of Hunter Group was undervalued.

Consequently, the conclusion was maintained; the stock is undervalued, a buy recommendation of the stock is given. It was also discussed that the stock has significant upside potential over the target price, which further confirms the conclusion.

Table of contents

Table of figures

Table of tables

Table of equations

Preface

This thesis is written as the final part of my education to achieve a MSc in Business Administration at the University of Stavanger. My chosen specialization is within applied finance. Consequently, I found a thesis within valuation very interesting. In addition, it was a good opportunity to show much of what I have learned during the program.

I decided to do a valuation of Hunter Group. They define themselves as an investment company, but currently operate only as a crude tanker company, which can give an interesting perspective to a valuation. In Norwegian financial newspapers, their name appears on a regular basis and this poked my interest to learn more about the company and determine their intrinsic value. In addition, there did not appear to be any other published theses about Hunter Group, which I found intriguing as it would allow me to contribute with something new. In addition, it would allow me to build the analysis completely from scratch, using theory and combining it with own judgements.

Working with this thesis has taught me a lot. It was exciting to learn more about a business I did not know anything about before. In addition, it was inspiring to gain experience putting theory into practice for a real valuation of a company. Working with the thesis also gave me more confidence to trust my own judgements. I believe this makes me more ready for the job market, and I look forward to getting more practical experience, building on my theoretical foundation from the University of Stavanger.

I would like to thank my supervisor, Mads Holm, for his support and advice during this process.

Stavanger, 10th June 2021

Rebekka Lyngnes Ramsland

1 Introduction

The crude tanker industry is volatile, as crude tanker companies operate within the oil value chain and consequently are affected by the entire world economy. There have been a lot of changes in the crude tanker industry recently, especially with the implementation of IMO 2020. IMO 2020 is a regulatory demand for low sulphur emissions which came into force in 2020 (Kleiven & Segrov, 2019). This is a consequence of the environmental awareness, which will continue to make its mark on the industry.

Hunter Group ASA (Hunter Group) is an investment company currently operating within the crude tanker industry. Their name has been spotted in articles in Norwegian financial newspapers a lot over the last few years. Statements like "Best in class" (Segrov, 2021b), "Earns more than their competitors" (Segrov, 2021b), "All the money will be returned to the shareholders" (Kleiven & Segrov, 2019) and "Predicted rise" (Segrov & Strandli, 2020) arouse interest in the company. In addition, the fact that they define themselves first and foremost as an investment company and their philosophy of returning all surplus cash to shareholders contribute to this interest. Are they trading for the correct price? What is their strategic position? How are their future prospects? What drives their profit? Should one invest in this company?

The main purpose of this thesis will be to find Hunter Group's intrinsic value. This will make it possible to give a recommendation to buy, hold or sell the stock related to the current market price. As a result, the research question is defined as follows:

What is the intrinsic value of Hunter Group?

To answer the research question, the thesis will in chapter 2 start with an introduction to the crude tanker industry. Chapter 3 will give an introduction to Hunter Group and establish some general information about the company. Thereafter, a strategic analysis will be conducted in chapter 4 as the company and its operating environment should be analysed to understand its strategic position in order to do a valuation. The strategic analysis will be done using a PESTEL analysis, Porter's five forces analysis, and a SWOT analysis. After this, an analysis of the financial statements will be conducted in chapter 5. This will be done through a profitability analysis and an analysis of liquidity risk. Chapter 6 will deal with the forecasting of Hunter

Group's free cash flow. In chapter 7, the fundamental analysis will finally be conducted. Firstly, the proper cost of capital will be estimated, and thereafter the discounted cash flow analysis will be conducted using the forecasted free cash flow and the cost of capital. The result will be the estimated intrinsic per share value of equity, which can be compared to the current stock price to determine if the stock is undervalued, correctly priced or overvalued. Based on this a recommendation to buy, hold or sell can be given. Chapter 8 will conduct a sensitivity analysis of the estimated stock price to deal with some of the uncertainty related to the future outcomes. A relative valuation will be performed in chapter 9 as a supplement and to increase the understanding of the fundamental analysis already conducted. It is also useful to get a grasp of Hunter Group's value relative to its competitors. Finally, chapter 10 will conclude the findings, and contain a discussion on upside and downside potential related to the target price.

2 The crude tanker industry

This chapter will elaborate on the crude tanker industry in which Hunter Group operates. It will go through the organisation of the industry, regulations, its relation to the oil industry and key market drivers. This should give necessary information on how value is created in the sector and other elements that could affect the valuation of a company in this industry.

2.1 Organisation of the industry

The crude tanker sector is the industry consisting of oil tankers transporting large quantities of crude oil from its production point to refineries (Euronav, 2018, p. 11). In addition, they can also be utilised as floating storage for oil (Lian, Bye & Tryggvason Lanesskog, 2021, p. 43). Hence, they operate in a business-to-business environment, with the key customers being oil companies who consider shipping as an important part of their logistical chain (Euronav, 2018, p. 12). Crude tankers operate by trade routes. However, these are not static as they depend on oil flows, which will vary (Euronav, 2018, p. 16).

Crude tankers are often participating for both spot market contracts and time charter contracts. Getting a spot contract means getting a contract to transport crude oil between ports. Here you get paid per unit of cargo transported and the shipowner covers all costs associated with the voyage except cargo handling costs. On the other hand, the vessel can get time chartered. Here the ship owner is paid for chartering the vessel to a customer at a fixed payment (Euronav, 2018, p. 11). The customer to the crude tanker company is often referred to as the charterer of the vessel (Euronav, 2018, p. 13). The charterer covers all voyage costs. Earnings in this sector is often reported as “dollars per day”, also known as the “Time Charter Equivalent” (TCE) (Euronav, 2018, p. 11). When a charterer requires a tanker to ship oil, they often get in touch with a ship broker. The ship broker contacts a number of vessel owners to negotiate price, terms and conditions (Euronav, 2018, p. 13).

There are various sizes of tankers, in which the two largest are “Very Large Crude Carrier” (VLCC) and “Ultra-Large Crude Carrier” (ULCC) (U.S. Energy Information Administration, 2014). The largest tankers typically operate longer international trade routes, as it is most cost-efficient due to their size (Euronav, 2018, p. 16). In addition, the larger vessels are dependent on large ports that can physically accommodate their size (Euronav, 2018, p. 16). The VLCCs

take about 2 million barrels of crude oil per shipment, and ULCCs about 3 million barrels of crude oil per shipment (U.S. Energy Information Administration, 2014). VLCCs are responsible for most shipments of crude oil around the world (U.S. Energy Information Administration, 2014). ULCCs on the other hand are less common as there are very few docks that are large enough (U.S. Energy Information Administration, 2014).

Naturally, it takes some time constructing these large tankers, due to their size. Usually, it will take at least 2 years from the ordering of the tanker until it is delivered (Euronav, 2018, p. 11). Due to their size the vessels cannot be constructed anywhere, and the construction sites that are fitted are placed in Asia (Euronav, 2018, p. 11). The price for contracting a tanker newbuilding is highly variable, as it is influenced by among others the underlying price of energy, steel, labour costs and available construction finance (Euronav, 2018, p. 11). Another thing that influences the price is the relative demand for new vessels. This can influence both the price and time to delivery (Euronav, 2018, p. 11). The price of a new VLCC has ranged from around USD 80 million to USD 160 million over the last ten years (Euronav, 2018, p. 11). A new vessel is paid for gradually under the construction, but with most of the payment on delivery (Euronav, 2018, p. 11).

2.2 Regulation

The crude tanker industry is highly regulated to ensure safety for the crew, the cargo and the environment (Euronav, 2018, p. 16). One regulatory demand is IMO 2020, which will be elaborated on in chapter 3.1. Another large part of the regulations is associated with surveying the vessels in dry docks. Until the vessel is 15 years, it has to undergo a survey in dry dock every 5^{th} year (Euronav, 2018, p. 16). The vessels need to have certification of classification society, an independent organization that establishes and maintains technical standards for the operation of all ships (Euronav, 2018, p. 16). When the vessel is more than 15 years, it needs to get intermediate surveys between the 5 years special surveys, meaning they need a survey every 2,5 years in total (Euronav, 2018, p. 16). In addition to needing more surveys, the surveys become a lot more expensive the older the vessel (Euronav, 2018, p. 16). The first survey when the vessel is 5 years typically costs USD 1,5 million, and the survey of a 20-year-old vessel typically costs USD 4 million (Euronav, 2018, p. 16).

The older the vessel, the higher is the overall risk for carrying crude oil (Euronav, 2018, p. 16). As a result, some charterers do not use vessels over the age of 15 (Euronav, 2018, p. 16). However, most tankers find employment up until they are approximately 20 years, some trade for longer (Euronav, 2018, p. 16). Statistics for tankers that has been scrapped since 2009 shows that the average scrapping age for VLCCs has been around 20 years (Euronav, 2018, p. 16).

2.3 Connection with the oil industry

As the tankers are transporting crude oil it is self-explanatory that what happens in the oil market will impact the crude tanker industry. Consequently, the oil industry has a huge say for the tankers, as it takes part in the energy value chain where crude oil is a commodity. The greater the demand for a commodity, the greater the demand is for its transportation (Euronav, 2018, p. 14). Oil demand is highly price sensitive, and as a result, the demand can be very volatile (Euronav, 2018, p. 11). This results in a volatile demand for crude tankers as well. The understanding of the oil business and the oil price are crucial understanding the crude tanker industry. For example, low oil prices represent an opportunity for consumers of oil to stockpile. This increases demand and benefits the crude tanker sector (Seth, 2019). However, in the case of low oil demand, the negative effect on crude tanker demand is somewhat reduced as the vessels also can be utilised as floating storage for oil which increases when demand is low.

Historically, there has been spotted some seasonality in the tankers market (Euronav, 2018, p. 17). This can be explained by the crude tanker industry's connection with the oil market. The freight rates have tended to perform better during the first and fourth quarter of the year (Euronav, 2018, p. 17). As 90% of the world's population is living in the northern hemisphere, more oil is consumed during the cold months, resulting in this seasonality (Euronav, 2018, p. 17). However, this seasonality has been less apparent in recent years (Euronav, 2018, p. 17). This can be explained by an emerging market in Asia, where oil demand is less dependent on seasonal consumption patterns (Euronav, 2018, p. 17).

2.4 Key market drivers in the industry

Knowing the market drivers in an industry is crucial to understand the whole business. Understanding what impacts the market of the business and therefore what drives the potential value, is necessary to be able to analyse and value a company operating in that specific industry.

The key market drivers in the crude tanker industry are the demand of oil, supply of oil and the vessel supply (Euronav, 2018, p. 14-15). Firstly, the demand of oil is affecting the production of oil, which again affects the demand for transportation. Secondly, the supply of oil will affect the demand for transportation, as the supply of oil affects the price of oil, which again affects the demand of oil. Thirdly, the vessel supply is a very important market driver in the industry, in accordance with theory of price. If there is a shortage of ships available, the price will go up, and the other way around. In other words, the demand and supply of oil affects the demand for vessels and the supply of vessels is the number of vessels available. The supply of tankers is mainly affected by the capital flow in and out of the industry and the availability for financing (Euronav, 2018, p. 17).

3 Hunter Group

This chapter will introduce Hunter Group and establish general information about the company to best be able to analyse and value the company. First, some general information about the company will be given. Following are some information about their fleet and their part in Tankers International. Finally, the historical development of their stock price will be displayed.

3.1 General information and history

Hunter Group is a Norwegian investment company listed on the Euronext Expand. For now, their investment is in their wholly owned subsidiary, Hunter Tankers AS (Hunter Group ASA, 2020a, p. 4). This relationship is displayed in figure 1. Hunter Tankers is a shipping company, transporting crude oil. Consequently, Hunter Group operates within the crude tanker industry. Their fleet was built in South-Korea from 2018-2020, and hence they are a relatively young tanker company.

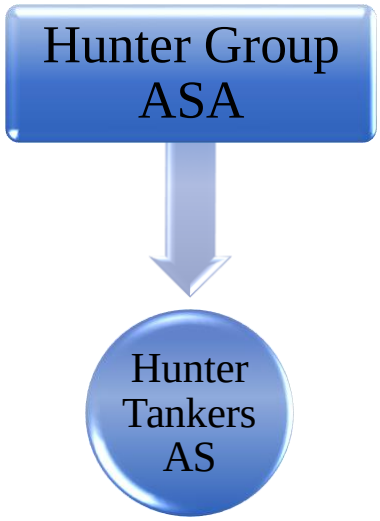

Figure 1: Company structure (Hunter Group ASA, 2021a, p. 4; own creation)

Hunter Group is a continuation of Badger Explorer ASA, a Norwegian oil service company, and they changed their name to Hunter Group while still being an oil service company. Hunter Group became a tanker company in April 2018 when an order of 4 VLCCs and an option for 3 more was placed (Hunter Group ASA, 2018a). The Badger explorer technology is organized in the subsidiary Indicator AS (Hunter Group ASA, 2020a, p. 4). This technology is for exploring and mapping of hydrocarbon resources (Hunter Group ASA, 2020a, p. 4). However, this

company has no employees and has zero activity in 2020 and the cash burn is close to zero (Hunter Group ASA, 2021a, p. 4). Consequently, this subsidiary will not be considered further.

Figure 2 displays the distribution between the three largest shareholders of Hunter Group and the remaining ones. Clearly, Apollo Asset Limited is the largest shareholder. Apollo Asset Limited is the investment company of Arne Fredly. Arne Fredly is also a board member of Hunter Group (Hunter Group ASA, 2021a, p. 7).

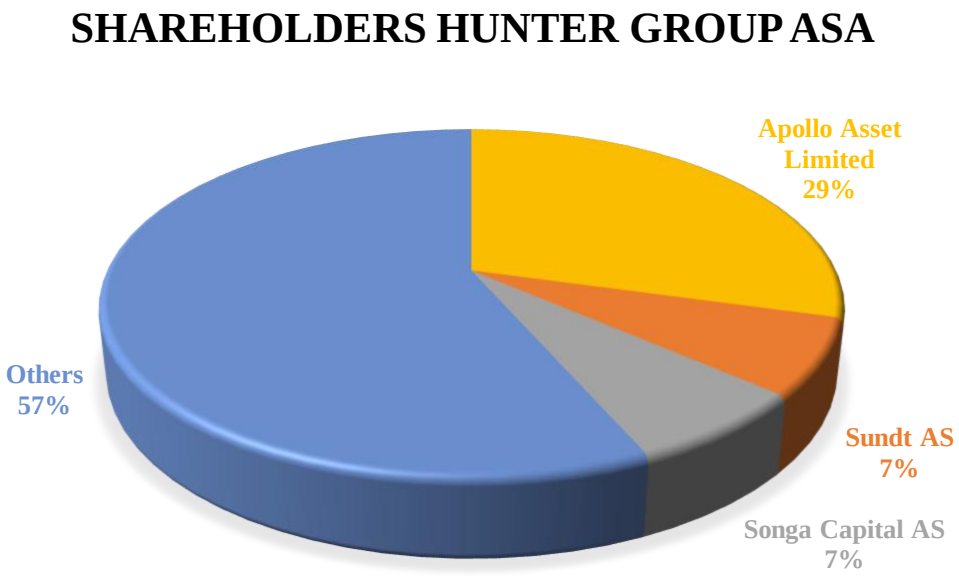

Figure 2: The distribution between the three largest shareholders and the remaining ones of Hunter Group (Hunter Group ASA, 2021a, p. 49; own creation)

Hunter Group's objective is to return all surplus cash to shareholders, either through dividends, buybacks or deleveraging (Hunter Group ASA, 2020b). The foundation of their business and value proposition is related to the cost of the vessels and IMO 2020. Firstly, when the VLCC newbuildings were ordered, VLCCs were historically undervalued, and the fleet of existing VLCCs was ageing (Jallal, 2019). Hence, it is a huge potential for capital appreciation within a few years. This was identified by fact that the value of ships in the industry was exceptionally low, yet that the underlying balance of supply and demand was beginning to improve (Jallal, 2019). Secondly, all their ships meet the criteria for IMO 2020 in the form of scrubbers, which is an upside of Hunter Group being a relatively young tanker company. IMO 2020 is a regulatory demand for low sulphur emissions which came into force in 2020 (Kleiven & Segrov, 2019). Either the vessels need to have scrubbers, which cleans the emissions, or they

have to use a much more expensive fuel with lower sulphur containment to meet the requirements (Kleiven & Segrov, 2019). This represents a competitive advantage as this allows for using much cheaper fuel for their tankers. This is one of the key elements in their business plan. As Jallal (2019) puts it; "The commoditisation of VLCCs made it difficult to tell a new story to potential investors – that is until IMO changed the rules on fuel". IMO disrupted the commoditization of VLCCs (Jallal, 2019). In addition, due to Hunter Group's modern VLCCs, they consume lower fuel on a like-for-like basis than older VLCCs (Jallal, 2019). Hence, in addition to the cheaper fuel due to the scrubbers, they also use lower fuel in general as their vessels are able to utilise the fuel more efficient. As a result, Hunter Groups TCE earnings can be nearly three times that of a 2002-built VLCC (Jallal, 2019).

3.2 Fleet

As mentioned, Hunter Group started their tanker business by ordering 4 VLCCs and placing an option for 3 more (Hunter Group ASA, 2018a). The board almost immediately decided to exercise the options (Hunter Group ASA, 2018b). Consequently, they started their crude tanker business having 7 vessels on the way, as seen in figure 3. They were delivered between September 2019 and August 2020 (Hunter Group ASA, 2020b).

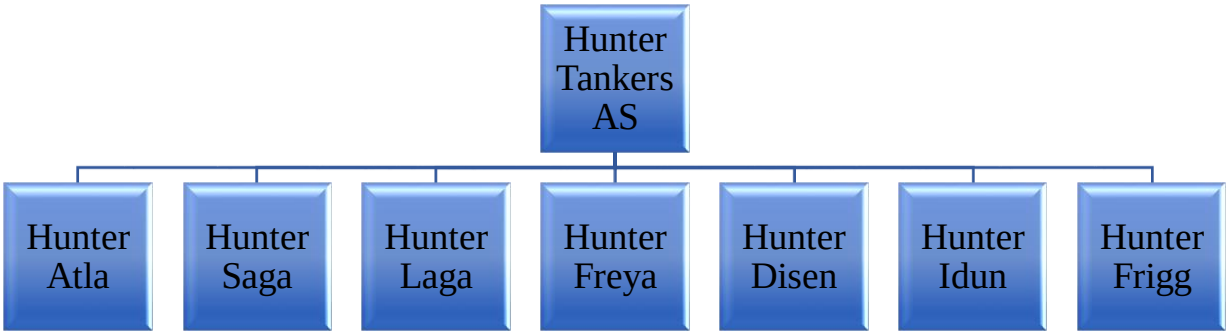

Figure 3: Hunter Tankers' original VLCCs (Hunter Group ASA, 2020b; own creation)

However, Hunter Tankers has sold some of their original VLCCs. They made an agreement to sell Hunter Saga and Hunter Laga in October 2020 for a total of USD 168,4 million and they were delivered shortly after (Hunter Group ASA, 2020c). In February 2021 it was announced that they also had made an agreement to sell Hunter Atla and the vessel is to be delivered soon (Hunter Group ASA, 2021b). It was sold for USD 84,5 million (Hunter Group ASA, 2021b). Hence, their current fleet is now consisting of 4 vessels, depicted in figure 4.

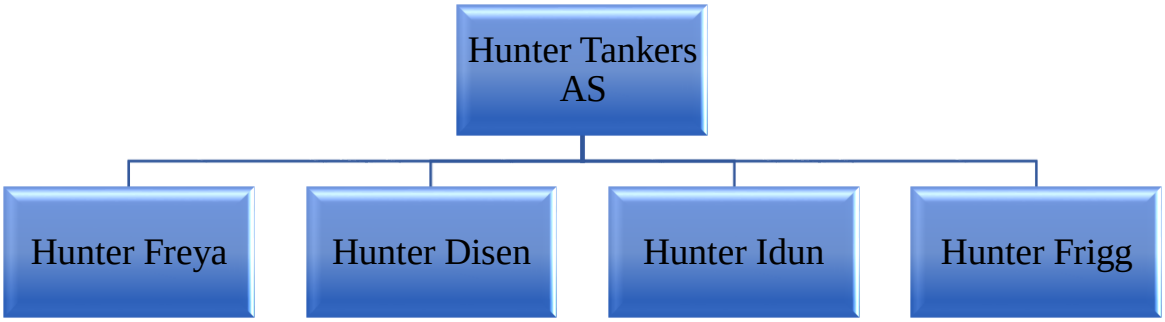

Figure 4: Hunter Tankers' current VLCCs (own creation)

3.3 Tankers International

Hunter Group's VLCCs take part in Tankers International where they are available in the spot market when they are not time chartered. Tankers International is a company that pools together VLCCs (Tankers International, 2020d). They started their business in year 2000 and have since then built their world leading fleet of modern crude carriers (Tankers International, 2020d). Their pool has a reputation of being professional, trustworthy, flexible and service minded (Tankers International, 2020d). As Tankers International (2020d) puts it; "All our participants have proven high standards of ship management and top-quality vessels that meet the essential safety requirements set for membership".

Internally, Tankers International has divided their pool into sub-pools (Tankers International, 2020c). This is due to the recent development in the market with more diverse VLCCs (Tankers International, 2020c). For example, one sub-pool is for scrubber fitted ships, one for non-scrubber fitted ships and one is for vessels aged 15 years and older (Tankers International, 2020c). These characteristics comes with different trading patterns and earnings potential, and by internally dividing into these sub-pools it ensures a fairer sharing of earnings and costs (Tankers International, 2020c).

Tankers International can be described as a commercial asset manager for Hunter Group's fleet. They provide a physical hedge for owners by ensuring a stable cash flow during volatile market conditions whilst still being able to take advantage of market upsides (Tankers International, 2020b). Tankers International trade the VLCCs on an equal basis, which results in all participating owners sharing the revenues (Tankers International, 2020b). The revenues are

shared based on their "Pool Pointing System" (Tankers International, 2020b). A vessel's share of the total earnings is set by its theoretical earnings potential relative to the rest of the fleet (Tankers International, 2020b). The "Pool Pointing System" is based on vessel specific data and market data, combined with a standardized calculation method (Tankers International, 2020b). Pool points is adjusted twice a year to account for changing trading patterns, fleet composition, market level and bunker prices to ensure a fair weighting (Tankers International, 2020b). Earnings is typically distributed to the participants twice per month depending on market conditions and working capital needs (Tankers International, 2020b). These revenues are presented as pool revenues in Hunter Group's income statement (Hunter Group ASA, 2020a, p. 30).

3.4 Historical development of share price

Figure 5 displays the historical development of the share price of Hunter Group. The graph indicates that the development of price has been relatively stable over the years, the trendline would almost be linear. However, there are some positive spikes. The largest boom is between September and December 2019. Over this period the 3 first vessels were delivered, and this could be contributing to the increased share price. In addition, it was in September 2019 they announced that Tankers International was selected as their commercial asset manager. However, future growth prospects and risk probably also affected the share price a lot.

Figure 5: Historical development of Hunter Group's share price based on daily adjusted close (Yahoo Finance, 2021; own creation)

4 Strategic analysis

In order to do a valuation, the company and its operating environment should be analysed to understand its strategic position. This chapter will therefore conduct a strategic analysis of Hunter Group. First, an analysis of the macroenvironment will be carried out, following an analysis of the microenvironment of Hunter Group.

4.1 Analysis of the macroenvironment

The environment is what gives a company their means of survival (Johnson, 2013, p. 33). To conduct a strategic analysis of Hunter Group the macroenvironment that impacts the company needs to be considered. This section will therefore discuss different macroenvironmental factors impacting Hunter Group and will be done through a PESTEL analysis. The analysis of the macroenvironment will also go one level deeper and analyse the industry that Hunter Group is part of using a Porter's five forces analysis.

4.1.1 PESTEL analysis

PESTEL is an acronym for political, economic, social, technological, environmental and legal (Johnson, 2013, p. 34). This framework categorises macroenvironmental elements into key types (Johnson, 2013, p. 34). These factors are often interconnected but going through each type helps highlighting potential issues and drivers of change (Johnson, 2013, p. 33-34). This is highly relevant for analysing potential opportunities and threats.

4.1.1.1 Political factors

Political factors concern the role of the state and other political forces affecting the company (Johnson, 2013, p. 34). The oil industry is often highly state regulated as it is a natural resource. As the crude tanker industry is in direct relation with the oil industry, this also affects the tanker business. Due to this, there are a lot of governmental regulation, trade restrictions, political stability issues and so on. One example is the U.S. sanctions on Iran, which in short leads to U.S., one of the largest oil importers, not importing oil from Iran because of its nuclear program (Seth, 2021). Several oil producers are limited by similar sanctions, and this affects the amount of oil to be transported and the trade routes for crude tankers. Other political impacts will be elaborated on in the section "Legal factors".

4.1.1.2 Economic factors

Economic factors concern different macroeconomic factors that the business should consider in order to understand how its markets are affected by the economy as a whole (Johnson, 2013, p. 36). The level of interest rates is one such factor Hunter Group will be greatly affected by. This is a consequence of the company being very capital intensive. The business requires expensive tankers, which need to be financed. A large amount is financed with debt, and as a result the company's performance will depend on the interest rate level which influences the cost of financing. The interest rate level will also have a say for the company's possible future investments. A higher interest rate level means that fewer investments become profitable, and vice versa.

As Hunter Group operates within the oil value chain, the oil price is also a macroeconomic factor affecting them. The oil price is affected by global supply and demand. For example, low demand for oil reduces the price, which leads to oil companies extracting less oil. Consequently, this reduces the demand for transportation of oil. The oil price is very volatile, and this causes volatility for Hunter Group as well (Euronav, 2018, p. 11). It is tankers operating in the spot market that get most affected by this. The overall state of the economy and the economic growth contributes to changes in the oil price and are consequently macroeconomic factors also affecting Hunter Group. When the economy is experiencing an upswing, more oil is demanded and consumed, resulting in an increased demand for crude tankers and giving an upswing in this specific market as well.

Hunter Group will also be exposed to fluctuations in exchange rates. The 1st of January 2019 Hunter Group changed its presentation currency from NOK to USD as the main transactions in 2019 and going forward will be in USD (Hunter Group, 2020a, p. 3). Despite of this, they still have some NOK transactions, for example related to tax as they are listed in Norway. This exposes them to risk of an unfavourable change in the exchange rates.

4.1.1.3 Social factors

Social factors concern changes in cultures and demographics (Johnson, 2013, p. 36). For Hunter Group it is especially demographic factors related to increased population and increased wealth in emerging markets that affects them. These factors increase demand for oil and result in increased demand for crude tankers. However, there is also a social factor affecting demand in

the other direction. This is the ongoing health consciousness which is continuing to increase. People are becoming more caring for the environment and also their own health. IMO 2020 is a result of this. IMO 2020 is likely to reduce strokes, asthma, lung cancer, cardiovascular and pulmonary diseases (International Maritime Organization, 2019). It will also help prevent acid rain and ocean acidification (International Maritime Organization, 2019). Other than IMO 2020, this changing social factor is making people shift to more environmentally friendly energy sources, also reducing demand for oil and consequently demand for crude tankers. One example is the increased use of electrical cars instead of fossil fuel cars.

4.1.1.4 Technological factors

Technological factors concern innovations in technology that may affect the operations of the industry and the market favourably or unfavourably (Business-to-you, 2016). Arne Fredly himself has said that other technologies will come allowing vessels to use liquified natural gas or hydrogen as fuel (Kleiven & Segrov, 2019). This aligns well with the increased focus on the environment and health in the society. Despite of this he talks optimistic about their decision to invest in VLCCs with scrubbers at the time; as the price of high-sulphur-containing fuel has declined, scrubbers will be the more profitable option in the short and medium term (Kleiven & Segrov, 2019). It is beneficial for a company to know what is going on technology-wise in the market, as this will allow the company to make more well-prepared decisions for the future and spending their money right.

4.1.1.5 Environmental factors

Environmental factors in the PESTEL analysis stands for "green" environmental issues such as climate change, pollution and waste (Johnson, 2013, p. 36). For Hunter Group, these factors are strongly related to the factors of the other categories. The increased focus on the environment and health have and will continue to create changes in the industry. This can impose additional costs, as Hunter Group needs to adapt. For example, a few are criticising that scrubbers only move the pollution from the air to the sea, as they are still using fuel containing a high amount of sulphur (Kleiven & Segrov, 2019). This could result in more pressure from environmental activists on developing other types of fuel.

One consequence of the increased pollution is global warming. This will likely increase the amount of extreme weather, which is another environmental factor affecting Hunter Group.

Extreme weather will make their voyages riskier. There are insurances that can protect them from economic losses, but if there are to be more extreme weather, the price for such insurances is very likely to go up (Seth, 2019).

4.1.1.6 Legal factors

Legal factors concern legislative and regulatory constraints or changes (Johnson, 2013, p. 36). IMO 2020 is one such regulatory constraint for the crude tanker sector. IMO 2020 is a regulatory demand for low sulphur emissions which came into force in 2020 (Kleiven & Segrov, 2019). Either the vessels need to have scrubbers, which clean the emissions, or they have to use a much more expensive fuel with lower sulphur containment to meet the requirements (Kleiven & Segrov, 2019). All the vessels of Hunter Tankers meet the criteria for IMO 2020 in the form of scrubbers. Aligned with the increased focus on the environment and health there can be new, more stringent requirements in the future.

Another legal factor affecting Hunter Group is the Norwegian shipping tax scheme. The scheme is voluntary, and shipping companies can choose between this tax scheme and the regular national one (KPMG, 2021). However, the shipping tax scheme will be the most profitable option for most shipping companies, aligning well with the purpose of the scheme. The reason for this special tax scheme is the industry's international and mobile character, and the purpose is to establish a competitive Norwegian shipping tax scheme (KPMG, 2021). Companies within the scheme have tax exemption for their shipping income but are taxable for financial income (KPMG, 2021). In addition, the companies pay a moderate tonnage tax (KPMG, 2021). Being part of this shipping tax scheme, the company must comply with a number of legal requirements. One example is the extensive registration of tonnage in order to get correct tax reporting. Another is the requirements that they cannot own operating assets other than ships and vessels (Skatteetaten, n.d.).

4.1.2 Porter's five forces analysis

Porter's five forces analysis helps identify the attractiveness of an industry in terms of five competitive forces: extent of rivalry between competitors, threat of entry, threat of substitutes, power of buyers and power of suppliers (Johnson, 2013, p. 41). An attractive industry is one with high profit potential (Johnson, 2013, p. 41). When these five forces are high, the industry

is not attractive to compete in, as the forces will all combine to squeeze profits (Johnson, 2013, p. 41).

4.1.2.1 Competition in the industry

Competition in the industry concerns rivalry between the existing players in the industry (Johnson, 2013, p. 41). The crude tanker sector is currently competitive. There is a large number of vessels globally, creating rivalry over being hired. However, it appears that the rivalry has not caused too aggressive price cuts, as there are still profits to collect, especially for the companies with low costs. Hunter Group is among those, as their vessels are fitted with scrubbers allowing them the cheapest fuel and the fact that they bought their vessels on a low in the market.

In the near future, it looks like competition may be reduced. Firstly, there is an all-time low order book for new VLCCs (Hunter Group ASA, 2020b). In addition, there are 181 VLCCs turning 15 years or more by 2022, which is approximately 22% of the current fleet (Hunter Group ASA, 2020b). Some charterers do not use vessels over 15 years (Euronav, 2018, p. 16). These factors will likely result in less competition for Hunter Group in the future and increase profit potential.

4.1.2.2 Threat of entry

Threat of entry concerns how easy it is for others to enter the industry (Johnson, 2013, p. 44). This is determined by different barriers to entry, which need to be overcome by new entrants if they are to participate in the competition (Johnson, 2013, p. 44). Firstly, in the crude tanker industry there are high investment requirements for entry. You need to have vessels to operate, and preferably more than one. Secondly, it can be hard for new entrants to get chartered. Hunter Group solved this issue becoming part of Tankers International, using them as a commercial asset manager. However, not everyone is allowed to take part in Tankers International. The participants need to have proven high standards of ship management and top-quality vessels that meet strict safety requirements (Tankers International, 2020d). These barriers result in a reduced amount of new competitors, and therefore higher profit potential. On the contrary, one factor lowering the barrier to entry is the small differentiation of service in the industry. The transportation of crude oil is pretty much the same no matter who gets hired, except if the charterer has some preferences of the age of the vessels or if it is fitted with a scrubber or not.

4.1.2.3 Threat of substitutes

Threat of substitutes concerns the threat that there might be developed products or services that offer a similar benefit, but have a different nature (Johnson, 2013, p. 45). Substitutes can reduce the demand, and even make the initial product or service completely obsolete (Johnson, 2013, p. 45). For the crude tanker industry, it is hard to imagine new innovations on the way to transport such large amounts of oil. One candidate is pipeline transport, but this has existed for many years already and are most used for transporting oil nationally and to nearby countries, not in the same international scale as VLCCs.

4.1.2.4 Power of buyers

Power of buyers concerns the immediate customers and their power (Johnson, 2013, p. 45). If the buyers are powerful, they can demand reduced prices (Johnson, 2013, p. 45). In the crude tanker sector, there seem to be sort of an equal power dynamic. When an oil company requires a tanker to ship oil, they often get in touch with a ship broker. The ship broker contacts a number of vessel owners to negotiate price, terms and conditions and acts as an intermediary (Euronav, 2018, p. 13). Tankers International (2020a) states that when someone is to hire their ships, they are entering a mutually beneficial partnership and that their customers already confirm extraordinary service levels, fair business practices and high ethics. Based on this the relationship between the oil companies and owners of the vessels seems to be relatively fair and respectful and are not associated with an abuse of power.

4.1.2.5 Power of suppliers

Power of suppliers concerns the suppliers and their power (Johnson, 2013, p. 46). If the suppliers' power is high, they can raise prices and capture potential profits from the company they are supplying (Johnson, 2013, p. 46). The most important suppliers of a crude tanker company are the shipbuilder and fuel provider. This power dynamic seems to be a lot like the one with buyers for crude tanker companies. In addition, low switching costs between suppliers and the fact that there are more than a few concentrated suppliers contribute to that they do not have too much power over the company. Hunter Group ordered the vessels at a low in the market, reducing the power of the shipbuilder. The shipbuilder's power could be larger when there is an upswing in the market.

To conclude, looking at all the competitive forces, it can be argued that there definitely are profit potential in this industry. All the competitive forces can be classified as moderate. Therefore, it can be argued that the industry is competitive, but there are potential for profits for the companies able to exploit their opportunities.

4.2 Analysis of the microenvironment

Elements in the macroenvironment are mostly the same for companies operating within the same industry, and cannot explain why some companies achieve success, while others fail (Johnson, 2013, p. 69). To understand this, one need to look at the company's microenvironment in the form of their company-specific strategic capabilities (Johnson, 2013, p. 69). An analysis of the microenvironment of the company contributes to a better understanding of the company and makes it easier to understand how capable they are dealing with potential risks and opportunities compared to their competitors. A SWOT analysis will be conducted as an analysis of the microenvironment in this chapter.

SWOT is an acronym for strengths, weaknesses, opportunities and threats (Johnson, 2013, p. 91). Hence, it analyses internal and external factors affecting the company. Strengths and weaknesses are current or backward-looking, whilst opportunities and threats are forward-looking. It is the internal factors, the strengths and weaknesses, that are used to analyse the company on a micro level. The opportunities and threats are created from the external environment and are therefore based on the macroenvironmental analysis. The objective with the SWOT analysis is to identify strengths and weaknesses that are relevant dealing with changes taking place in the external environment (Johnson, 2013, p. 92). This contributes to giving an overall picture of the company's strategic position and is summarized in figure 6 at the end of the chapter.

4.2.1 Strengths

One of Hunter Group's strengths is their modern vessels. They have eco-design and are all equipped with scrubbers, resulting in the possibility of using cheaper fuel. The fuel is one of the main costs for a tanker company, so this gives a tremendous competitive advantage. For example, in the financial market the cost is 290 dollars per tonne for fuel containing 0,5% sulphur for a January 2020 contract (Kleiven & Segrov, 2019). The other option, which has to be used by vessels without scrubbers, is to use fuel containing 0,1% sulphur, where the price

was a scant 400 dollars per tonne (Kleiven & Segrov, 2019). In addition, it is expected that this spread will keep increasing (Kleiven & Segrov, 2019). Due to Hunter Group's modern VLCCs, they also consume lower fuel on a like-for-like basis than older VLCCs (Jallal, 2019).

Related to the strength having modern vessels is also the age of the vessels. The crude tanker industry is known for age discrimination by the customers (Lian et al., 2021, p. 35). The older the vessel, the higher is the overall risk for carrying crude oil (Euronav, 2018, p. 16). Consequently, younger vessels get hired more often and are paid better, and this will be a sold strength for Hunter Group the next 5 to 10 years when their vessels are still young.

Another strength of Hunter Group is its investment in the VLCCs at an all-time low of VLCC prices (Jallal, 2019). Compared to companies with VLCCs bought at a different time, Hunter Group will have lower total financing costs as they paid less for the vessels. In addition, they are more likely to be able to sell vessels with a profit.

Hunter Group also gains a lot of advantages by being part of Tankers International. By pooling VLCCs, Tankers International has the largest fleet world-wide (Tankers International, 2020d). Their large size generates a lot of benefits for its participants in the fleet. For example, their revenue and cash flow are improved due to the regular distribution of income, participants achieve economies of scale reducing a lot of costs and get access to more customers because Tankers International has a global presence (Tankers International, 2020a).

Another strength is their philosophy of paying out all profits to investors. Hunter Group's objective is to return all surplus cash to shareholders, either through dividends, buybacks or deleveraging (Hunter Group ASA, 2020b). This could attract a lot of potential investors and give them easier access to financing, so that they do not need to depend as much on bank financing. Of course, this depends on whether investors believe that Hunter Group is able to generate surplus cash and that they are best used being paid out and not to be reinvested in the company. For now, most of the distribution of funds to investors has been through dividend payments. Paying dividends can signal that they are expecting a steady income in the future, as well as surplus liquidity, and therefore it sends a positive signal to the market.

Yet another strength is a dedicated and resourceful owner. Arne Fredly, which owns 29,3% of Hunter Group's shares and is the largest owner, gave the company a loan from his own pockets

of NOK 26 million, with an interest rate of 5%, all costs included (Christensen, 2019). This is better terms than they would receive with any bank (Christensen, 2019). This indicated that the main owner of Hunter Group really believes in the company and its ability to generate profits from the financing (Christensen, 2019). This also sends a positive signal to the market.

4.2.2 Weaknesses

One weakness of Hunter Group is their little diversified business. Even though Hunter Group define themselves as an investment company, they only have investments in the crude tanker market, even more narrowed in the VLCC market. If it were to be less need for transport of the specific amount of oil and within the specific trade routes that VLCCs operate, Hunter Group would struggle. A lot of competitors are somewhat more diversified, for example owning vessels of various sizes and/or for transporting other various goods.

Another weakness is associated with being a small business. With this comes a lack of improved economies of scale. Larger tanker companies are able to negotiate better terms of for example fuel and agency costs and are also able to reduce administrative costs. However, this weakness is somewhat reduced by being part of Tankers International.

4.2.3 Opportunities

One of Hunter Group's opportunities is related to their young and modern fleet. The total global fleet of VLCCs are ageing, and in some years, there can be a low supply of these crude tankers. This is an opportunity for Hunter Group to make higher profits on their missions transporting crude oil. Of course, a lot can change before this happens, as more VLCCs can be ordered. However, as will be discussed below, the threat of a coming technological shift is causing a reluctance on ordering new ships (Kleiven & Segrov, 2019). This will give Hunter Group the opportunity to exploit a low supply of crude tankers. Historically, good times in the tanker market have led to a stream of new contracts at the shipyards, but this time it seems to be different, probably due to the technological uncertainty (Kleiven & Segrov, 2019).

Another opportunity is the continued increase in consumption of oil in emerging markets. Asia, among others, is in a period of increased production and wealth, which increases consumption of oil. This could increase demand for crude tankers and in addition give longer trade routes with higher profits.

4.2.4 Threats

A threat for Hunter Group is the risk of decrease in demand. This could be inflicted by the supply or demand for oil. If there is less oil available or less oil demanded, the total need for transportation decreases. This will cause lower prices, and possibly deteriorate profits from being chartered.

The environmental movement can also be a significant threat to Hunter Group. There is an increased awareness of the pollution of oil. This has given a greater focus on alternative energy sources that are polluting less. If other energy sources increase in the future, consumption of oil will decrease. If this gets signifiable low, this could reduce Hunter Group's potential voyages transporting crude oil, as well as drive prices for chartering down.

Another threat is related to possible technological shifts in the market. With IMO 2020 Hunter Group exploited such a technological shift and grasped this as an opportunity. However, if there is to be yet another shift, it could be more difficult to use this to their advantage, as their VLCCs are built before this potential shift. Arne Fredly, Hunter Group's largest shareholder, said to Kleiven and Segrov (2019) that there is great uncertainty about technological shifts, and one is a potential transition to the use of liquefied natural gas or hydrogen as fuel as the sector is likely to meet stricter emission requirements.

There are also threats related to their voyages. Risky routes include a risk of pirates seizing the tanker and demanding ransom. The vessels can also be damaged by bad weather or accidents. Insurance can cover some of the costs associated with this, but such insurance is rather expensive (Seth, 2019).

Strenghts

-Low fuel costs

-Young fleet

-Vessels bought at an all-time low of VLCC prices

-Part of Tankers International

-Philiosophy of paying investors

-Dedicated and resourceful owner

Weaknesses

-Low diversification

-Small size gives low economies of scale

Opportunities

-Low supply of VLCCs in the future

-Increased oil consumption in emerging markets

Threats

-Decrese in demand

-Increased environmental focus

-Technological shifts

-Bad weather

-Pirates

Figure 6: Summary of SWOT analysis (own creation)

5 Analysis of financial statements

In this chapter historical balance sheets and income statements will be thoroughly analysed. Firstly, the financial statements will be reformulated. Balance sheets and income statements give details on sources of profitability and growth (Penman, 2013, p. 292). Reformulating them gives a better starting point for analysing this, as the aim is to distinguish operating activities from financing activities (Penman, 2013, p. 292). Secondly, the reformulated financial statements will be used in further analysis to establish fundamental numbers and an understanding of Hunter Group's financials essential for performing a sound valuation of the company. Specifically, an analysis of profitability and liquidity will be conducted.

As Hunter Group is a relatively young tanker company, it is the statements from 2019 and 2020 that will be used. This is because they received their first vessels during 2019. Historical data from previous years will not contain relevant information, as it is before they began operating as a tanker company which is their current activity. Hunter Group operates with consolidated financial statements. This means that the numbers of the financial statements include numbers from their whole corporation, both parent company and subsidiary. These will be used as the valuation aim to find the value of the company as a whole.

5.1 Reformulated balance sheets

The balance sheet reports the company's assets and liabilities at the final day of the year. It also displays the equity, as this alongside with liabilities finances the company's assets. The balance sheet categorises assets and liabilities into current and non-current elements (Penman, 2013, p. 293). However, the reformulation is separating the assets and liabilities into operating and financial categories, as the aim is to identify different sources of profit (Penman, 2013, p. 293). Consequently, the reformulating readies the statements for analysis (Penman, 2013, p. 364). Hunter Group's reformulated balance sheets of 2019 and 2020 are displayed in table 1.

In USD 1000		
Reformulated balance sheet	**2019**	**2020**
Financial categories:		
Financial assets		
Cash and cash equivalents	$ 52 455	$ 95 146
Total financial assets	**$ 52 455**	**$ 95 146**
Financial liabilities		
Current portion of interest-bearing debt	$ 5 932	$ 16 605
Interest-bearing debt	$ 174 494	$ 237 954
Interest payable	$ 0	$ 1 024
Total financial liabilities	**$ 180 426**	**$ 255 583**
Net financial obligations	**$ 127 971**	**$ 160 437**
Operating categories:		
Operating assets		
VLCC vessels	$ 254 234	$ 427 249
VLCC vessels under construction	$ 79 663	$ 0
Other tangible assets	$ 217	$ 210
Trade and other receivables	$ 7 351	$ 5 416
Other short-term assets	$ 851	$ 1 539
Total operating assets	**$ 342 316**	**$ 434 414**
Operating liabilities		
Trade payables	$ 3 077	$ 2 124
Accrued public charges and indirect taxes	$ 15	$ 68
Unpaid vacation pay	$ 40	$ 56
Other accrued costs	$ 9	$ 115
Total operating liabilities	**$ 3 141**	**$ 2 363**
Net operating assets	**$ 339 175**	**$ 432 051**
Common shareholders' equity	**$ 211 204**	**$ 271 614**

Table 1: Hunter Group's reformulated balance sheets of 2019 and 2020 (own creation)

In the reformulated balance sheets one can clearly see financial assets and liabilities separated from operating assets and liabilities. Subtracting the total financial assets from the total financial obligations yields net financial obligations of USD 127 971 000 in 2019 and USD 160 437 000 in 2020. Subtracting the total operating liabilities from the total operating assets yields net operating assets of USD 339 175 000 in 2019 and USD 432 051 000 in 2020. Net operating assets minus net financial obligations yields the common shareholders' equity, in this

case the total equity as they do not have any preferred stock. This results in an equity of USD 211 204 000 in 2019 and USD 271 614 000 in 2020, which are corresponding with the equity listed in Hunter Group's consolidated balance sheets.

Reformulating the balance sheets, cash and cash equivalents are classified as financial assets as this amount clearly is a lot more cash than their working capital requirements. Their balance of cash and cash equivalents is more than double their total expenses in 2020. In addition, based on information from Hunter Group's annual report (2021a, p. 43) their inventory of cash is interest-bearing. Therefore, it is classified as a financial asset. Other current liabilities, which are reported in one line in the consolidated balance sheet, needed to be split up as it included interest payable, which is a financial liability, and unpaid vacation pay and other accrued costs which are operating liabilities.

5.2 Reformulated income statements

The income statement reports the profits and losses generated by the net operating assets and net financial assets (Penman, 2013, p. 303). The reformulated income statement groups the items of the income statement into operating and financial categories (Penman, 2013, p. 303). Consequently, the reformulating readies the statements for analysis (Penman, 2013, p. 364).

In addition to this regrouping, the reformulated income statement should be on a comprehensive basis, meaning it should include dirty-surplus items (Penman, 2013, p. 303). This results in the need of recognizing dirty-surplus items. Including this gives a more accurate and correct income statement, as an income statement without this does not give the complete picture. Dirty-surplus accounting is reporting income items as part of equity rather than in the income statement (Penman, 2013, p. 263). Typical items are unrealized gains and losses on securities available for sale, gains and losses on derivative instruments and foreign currency translation gains and losses. The first two are not relevant for Hunter Group. The latter could be relevant, as they have a subsidiary. However, as this subsidiary is not foreign, and does their accounting in the same currency as the parent company, neither this is relevant. Besides this, there could be hidden dirty-surplus items that need to be recognized (Penman, 2013, p. 268). The most typical hidden dirty-surplus item is related to the use of employee stock options. The use of this can cause shares to be issued below market value, and this inflicts a loss on shareholders (Penman, 2013, p. 268). The options are granted "at the money", and the options will only be

exercised if the stock is "in the money". If this happens a loss will be inflicted on the shareholders, and this should be recorded as an expense. Hunter Group has outstanding share options held by employees and management (Hunter Group ASA, 2021a, p. 45-47). They have recognized this cost as an employee benefits expense, using a valuation model (Hunter Group, 2021a, p. 31). However, no options were exercised in 2019 or 2020, and therefore there has not yet been an expense related to these options. If the share options expire without being exercised, there will never be any cost associated with the share options. Therefore, the dirty-surplus recognition will contain an add-back of these expenses to get a better picture of the current status. Hunter Group's reformulated income statements of 2019 and 2020 are displayed in table 2.

	In USD 1000		
	Reformulated income statement	**2019**	**2020**
	Pool revenues	$ 12 026	$ 48 567
	Time charter revenues	$ 0	$ 60 037
-	Vessel operating expenses	$ 1 442	$ 12 404
-	Voyage expenses	$ 1 968	$ 2 912
	Gross margin	**$ 8 616**	**$ 93 288**
-	Depreciation and amortisation expense	$ 1 915	$ 16 325
-	General and administrative expenses	$ 1 113	$ 1 649
	Operating income from sales (before tax)	**$ 5 588**	**$ 75 314**
-	Tax on operating income from sales	$ 0	$ 0
	Operating income from sales (after tax)	**$ 5 588**	**$ 75 314**
	Other income	$ 378	$ 0
	Net gain on sale of assets	$ 12 308	$ 2 492
-	Tax on other operating income	$ 0	$ 0
	Currency translation differences	$ 0	$ 0
	Add-back of hidden dirty-surplus	$ 230	$ 339
	Operating income (after tax)	**$ 18 504**	**$ 78 145**
	Financial income	$ 1 585	$ 505
-	Financial expense	$ 3 906	$ 15 228
	Net financial expense (before tax)	**$ 2 321**	**$ 14 723**
-	Tax	$ 0	$ 0
	Net financial expense (after tax)	**$ 2 321**	**$ 14 723**
	Comprehensive income	**$ 16 183**	**$ 63 422**

Table 2: Hunter Group's reformulated income statements of 2019 and 2020 (own creation)

From table 2, it is apparent that they received their vessels from September 2019 to August 2020. This yields low numbers in 2019, and higher numbers in 2020. For example, their financial expenses increased substantially as the debt increased to finance the vessels at delivery. The gross margin is the sales revenue a company is left with after incurring the direct costs linked to the goods they sell. The percentage gross margin is 72% for 2019 and 86% for 2020. This is a high gross margin, but not too unexpected as it is a capital-intensive business. However, both 2019 and 2020 had exceptional high freight rates which contributed heavily to the high gross margin. The freight rates are expected to be lower in the future, not making the high gross margins representable (Lian et al., 2021, p. 35). Further in the reformulated income statements, other operating related expenses are deducted. This yields the operating income from sales before tax. After this, the correct amount of taxes this generates should be allocated. However, in 2019 and 2020 Hunter Group has not been paying any income tax. This is due to a combination of the Norwegian shipping tax scheme and the fact that Hunter Group has a large tax loss brought forward (Hunter Group ASA, 2021a, p. 44). Consequently, there is not any tax to allocate between operating and financing items. Further, the final operating items are listed, included the add-back of the hidden dirty-surplus item, and this gives us the total operating income. Finally, the financial items are included, and this gives a net financial expense. The operating income minus the net financial expense yields the comprehensive income. The comprehensive income of 2019 was USD 16 183 000, and the comprehensive income of 2020 was USD 63 422 000.

5.3 Profitability analysis

The balance sheets and income statements have been reformulated for analysis. Firstly, an analysis of profitability will be conducted. For the valuation, forecasting is necessary, and this requires knowledge on what drives profitability (Penman, 2013, p. 364). The purpose of profitability analysis is to identify sources of value generation (Penman, 2013, p. 364). The profitability analysis will be conducted calculating different ratios of profitability. The return on common equity (ROCE) will be used as the starting point as this gives the return of the total capital employed in the business. As seen in figure 7 the other ratios will be breakdowns of the ROCE, meaning that any change within the system can be tracked back directly to ROCE (Penman, 2013, p. 381). In other words, the drivers of ROCE will be analysed.

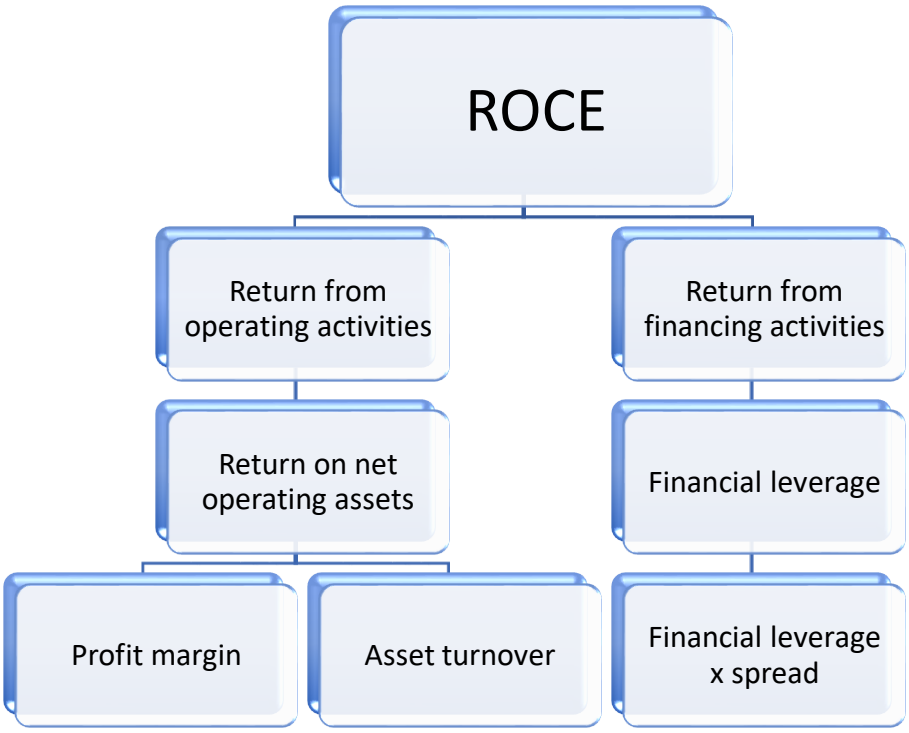

Figure 7: The breakdown of ROCE into its drivers (Penman, 2013, p. 366; own creation)

Mainly, ROCE can be broken down to distinguish the contribution of the return from operating and financing activities (Penman, 2013, p. 366). This involves the effect of leverage, as this "levers" the ROCE up or down through liabilities (Penman, 2013, p. 366). As a result, ROCE can be expressed as:

$$ROCE = return\ on\ net\ operating\ assets + (financial\ leverage * operating\ spread)$$

or

$$ROCE = RNOA + (FLEV * (RNOA - NBC))$$

Equation 1: ROCE (Penman, 2013, p. 366)

This formula makes it clear that ROCE is levered up over the return from operations if the company has financial leverage, and the return from operations is greater than the borrowing cost (Penman, 2013, p. 367). If net operating assets are financed with net financial obligations rather than equity, this will affect the return on equity (Penman, 2013, p. 366).

5.3.1 Return on common equity (ROCE)

Apart from equation 1, ROCE can be found by dividing comprehensive income by the average common stockholders' equity, as shown in equation 2. ROCE can be compared to the required rate of return. If ROCE exceeds the required rate of return, residual earnings will be generated for the owners (Penman, 2013, p. 148). The ROCE can be referred to as book rate of return (Penman, 2013, p. 147).

$$ROCE = \frac{Comprehensive\ income}{Average\ common\ stockholders'equity}$$

Equation 2: ROCE (Penman, 2013, p. 365)

In USD 1000	Comprehensive income	Average equity	**ROCE**
2019	$ 16 183	$ 163 851	9,88 %
2020	$ 63 422	$ 241 409	26,27 %

Table 3: ROCE of Hunter Group in 2019 and 2020 (own creation)

In table 3 Hunter Group's ROCE is calculated for 2019 and 2020. Hunter Group has more than doubled their ROCE from 2019 to 2020. This is a result of the fact that their first 3 vessels were delivered September, October and November 2019. As a result, they did not have a lot of operational activities in 2019. As ROCE needs to be compared to the required rate of return, one cannot fully conclude on Hunter Group's ability to generate residual earnings for their shareholders. However, as the ROCE for 2020 is relatively high, it is very likely that it exceeds the required rate of return and that residual earnings are created for their shareholders. Despite of this, both 2019 and 2020 had exceptional high freight rates which contributed to a large income. As it will be discussed later, the freight rates are one of the largest determinants of Hunter Group's revenue. The freight rates are forecasted to be lower in the future (Lian et al., 2021, p. 35). Consequently, Hunter Group cannot be expected to maintain this ROCE.

Using the average of common stockholders' equity, one need to be aware of inaccuracies as it is an approximation to use the average of the beginning and ending book value. Large share issues and repurchases in the beginning or ending of a year could result in significant errors (Penman, 2013, p. 147). This is not the case for Hunter Group, and the numbers are considered fairly accurate.

5.3.2 Return on net operating assets (RNOA)

The RNOA can be found by dividing operating income by average net operating assets, as shown in equation 3. RNOA is a measure of the operating part of the business, leaving out the financial activities, as it yields the operating income that is generated from net operating assets.

$$RNOA = \frac{Operating\ income}{Average\ net\ operating\ assets}$$

Equation 3: RNOA (Penman, 2013, p. 318)

In USD 1000	Operating income	Average net operating assets	**RNOA**
2019	$ 18 504	$ 197 885	9,35 %
2020	$ 78 145	$ 385 613	20,27 %

Table 4: RNOA of Hunter Group in 2019 and 2020 (own creation)

In table 4 Hunter Group's RNOA is calculated for 2019 and 2020. This shows that Hunter Group were able to create 9,35% operating income of their net operating assets in 2019 and 20,27% in 2020. There is a large difference, and this can be explained by the same reason as the difference in ROCE in 2019 and 2020; they had very little operational activities in 2019. This makes the numbers non-comparable. Also, as mentioned, one need to be aware of the numbers not being representative for years with lower freight rates, just like for the other income ratios.

Comparing the 20,27% RNOA for 2020 to the 26,27% ROCE makes it clear that the substantial part of Hunter Group's return comes from their operating activities. This is essential knowledge as it is the operating activities that typically generate value, not the financing activities (Penman, 2013, p. 235). This indicates that it is a healthy company, generating profits from their core business activity.

5.3.3 Financial leverage (FLEV)

FLEV can be found by dividing average net financial obligations by average common stockholders' equity, as shown in equation 4. Financial leverage is the degree to which net operating assets are financed by borrowing with net financial obligations (Penman, 2013, p. 366).

$$FLEV = \frac{Average\ net\ financial\ obligations}{Average\ common\ stockholders'\ equity}$$

Equation 4: FLEV (Penman, 2013, p. 366)

In USD 1000	Average net financial obligations	Average equity	FLEV
2019	$ 34 182	$ 163 851	20,86 %
2020	$ 144 204	$ 241 409	59,73 %

Table 5: FLEV of Hunter Group in 2019 and 2020 (own creation)

In table 5 Hunter Group's FLEV is calculated for 2019 and 2020. Their FLEV has almost tripled from 2019 to 2020. This is due to taking on more debt to finance their vessels. As the FLEV is below 1, it indicates that Hunter Group should be able to cover all their net financial obligations with their equity. This says something about the risk for the shareholder, as the shareholders have the residual claim. As it requires about 60% of the equity to pay off all net financial obligations, the shareholders would in theory not lose their entire investment in case of liquidation of the company. This FLEV is considered to be good as it is a capital-intensive business requiring heavy investment in assets. Hunter Group (2021a, p. 3) states that they have zero remaining capital expenditures (CAPEX) commitments as of year-end 2020. Therefore, it is likely that the FLEV will remain relatively stable in the near future.

5.3.4 Operating spread

The operating spread can be found by subtracting net borrowing cost (NBC) from RNOA, as shown in equation 5. As a result, the operating spread shows the difference between the return on net operating assets and the net cost of borrowing. This is used to tell whether the company will increase their return by borrowing, which they do as long as RNOA is higher than the NBC. RNOA was found in chapter 5.3.2, but NBC needs to be calculated. NBC can be found by dividing net financial expense by average net financial obligations, as shown in equation 6.

$$Operating\ spread = RNOA - NBC$$

Equation 5: Operating spread (Penman, 2013, p. 366)

$$NBC = \frac{Net\ financial\ expense}{Average\ net\ financial\ obligations}$$

Equation 6: NBC (Penman, 2013, p. 367)

In USD 1000	Net financial expense	Average net financial obligations	**NBC**
2019	$ 2 321	$ 34 182	6,79 %
2020	$ 14 723	$ 144 204	10,21 %

Table 6: NBC of Hunter Group in 2019 and 2020 (own creation)

In table 6 Hunter Group's NBC is calculated for 2019 and 2020. They had an increase in NBC from 2019 to 2020 as a result of taking on more interest-bearing debt, yielding interest expenses.

In USD 1000	RNOA	NBC	**Operating spread**
2019	9,35 %	6,79 %	2,56 %
2020	20,27 %	10,21 %	10,06 %

Table 7: Operating spread of Hunter Group for 2019 and 2020 (own creation)

In table 7, the operating spread for Hunter Group in 2019 and 2020 has been calculated using RNOA and NBC. As Hunter Group has a RNOA greater than the NBC, they have a positive operating spread, and we can say that they have a favourable financial leverage. This results in RNOA being levered up yielding a higher ROCE (Penman, 2013, p. 367). In other words, having leverage makes them earn more on their equity as the return on their operating assets earn more than the cost of debt.

5.3.5 Profit margin (PM)

RNOA is an important driver of ROCE (Penman, 2013, p. 373). RNOA can be further broken down into operating profit margin (PM) and asset turnover (ATO) (Penman, 2013, p. 373). The PM can be found by dividing operating income by sales, as shown in equation 7. The measure yields the profitability of each dollars of sales.

$$PM = \frac{Operating\ income}{Sales}$$

Equation 7: PM (Penman, 2013, p. 373)

In USD 1000	Operating income	Sales	PM
2019	$ 18 504	$ 12 026	153,87 %
2020	$ 78 145	$ 108 604	71,95 %

Table 8: PM of Hunter Group in 2019 and 2020 (own creation)

In table 8 Hunter Group's PM is calculated for 2019 and 2020. In 2019 they had an abnormally large PM. They were able to generate more operating income than they had sales. This is a result of not being fully operative with their regular business activities in 2019. Their gain on sale of assets were larger than the sales, leading to a profit margin higher than 1. 2020 were a more normal operating year for Hunter Group, as they during 2020 received all their vessels, resulting in a more normal profit margin. The margin is considered to be good as it indicates that Hunter Group are able to generate over 70% operating income from their sales. However, it is not unexpected with a high profit margin for capital-intensive businesses, as a lot of their cost then will be related to financing.

5.3.6 Asset turnover (ATO)

The ATO can be found by dividing sales by average net operating assets, as shown in equation 8. The measure yields the sales revenue per dollar of net operating assets put in place (Penman, 2013, p. 373).

$$ATO = \frac{Sales}{Average\ net\ operating\ assets}$$

Equation 8: ATO (Penman, 2013, p. 373)

In USD 1000	Sales	Average net operating assets	ATO
2019	$ 12 026	$ 197 885	6,08 %
2020	$ 108 604	$ 385 613	28,16 %

Table 9: ATO of Hunter Group in 2019 and 2020 (own creation)

In table 9 Hunter Group's ATO is calculated for 2019 and 2020. The ATO for 2019 was low due to the low operating activities. On the other hand, the ATO for 2020 is higher. This ATO is more representative for a more normal operating year. However, this ATO is not very high as this ratio indicates that they were able to generate 28,16% sales from their net operating

assets. On the other hand, this is expected for a capital-intensive business as it requires a lot of assets to perform their business activities. As mentioned, one also needs to be aware of the numbers not being representative for years with lower freight rates, and that the ATO therefore can be even lower for Hunter Group.

5.3.7 Reverse breakdown of ROCE

$$RNOA = PM * ATO$$

Equation 9: RNOA broken down into PM and ATO (Penman, 2013, p. 374)

As stated previously, RNOA can be broken down into PM and ATO, as shown in equation 9. This decomposition of RNOA is known as the DuPont model (Penman, 2013, p. 374). The model illustrates that profitability in operations comes from two sources (Penman, 2013, p. 374). Firstly, RNOA is higher the more operating income the company is left with from sales (Penman, 2013, p. 374). This is a profitability measure (Penman, 2013, p. 374). Secondly, RNOA is higher the more sales net operating assets are able to generate (Penman, 2013, p. 374). This is an efficiency measure (Penman, 2013, p. 374).

	PM	ATO	RNOA
2019	153,87 %	6,08 %	9,35 %
2020	71,95 %	28,16 %	20,27 %

Table 10: Hunter Group's RNOA explained from PM and ATO (own creation)

Doing a reverse breakdown using equation 9, this yields the RNOA based on the PM and ATO. This is displayed in table 10. This reverse calculation of RNOA yields the same RNOA calculated in chapter 5.3.2 and proves that these are the correct breakdowns which explain RNOA. Looking at 2020, the most representative year, it becomes clear that Hunter Group's RNOA is a result of both good efficiency and profitability. However, their PM is larger, and this indicates that their strength in creating return is mainly due to profitability on their activities. Regardless, both 2019 and 2020 had exceptional high freight rates, as mentioned, which contributed to a large income. As will be discussed later, the freight rates are one of the largest determinants of Hunter Group's revenue. The freight rates are forecasted to be lower in

the future (Lian et al., 2021, p. 35). Consequently, Hunter Group cannot be expected to maintain this high profitability.

Looking back at equation 1, we are now able to calculate ROCE based on this equation, doing a reverse breakdown.

$$ROCE = RNOA + (FLEV * (RNOA - NBC))$$

	RNOA	FLEV	Operating spread	**ROCE**
2019	9,35 %	20,86 %	2,56 %	9,89 %
2020	20,27 %	59,73 %	10,06 %	26,27 %

Table 11: Hunter Group's ROCE explained from RNOA, FLEV and the operating spread (own creation)

Doing a reverse breakdown using equation 1, yields the ROCE based on RNOA, FLEV and the operating spread. This is displayed in table 11. This reverse calculation of ROCE yields the same ROCE calculated in chapter 5.3.1 and proves that these are the correct breakdowns which explain ROCE. ROCE is explained by RNOA, and as they have favourable financial leverage, the financial leverage gears up ROCE.

5.4 Analysis of liquidity risk

A company's liquidity is crucial for its success or failure. Even though a company is profitable, it can go bankrupt if they do not handle their liquidity well. In this chapter the liquidity will be analysed to make sure poor liquidity is not a too substantial risk for Hunter Group and that it is not standing in the way for achieving future profits.

If there is a need to finance current operations, short-term liquidity risk arises (Damodaran, 2012, p. 48). Financial ratios measuring the short-term liquidity risk are used to get an understanding of the risk the company is exposed to related to meeting short-term obligations (Damodaran, 2012, p. 48). The current ratio can be used to measure this risk. The current ratio is the ratio of the company's current assets to their current liabilities, as shown in equation 10 (Damodaran, 2012, p. 48).

$$Current\ ratio = \frac{Current\ assets}{Current\ liabilities}$$

Equation 10: Current ratio (Damodaran, 2012, p. 49)

In USD 1000	Current assets	Current liabilities	Current ratio
2019	$ 60 657	$ 9 073	6,69
2020	$ 102 101	$ 19 992	5,11

Table 12: Current ratio of Hunter Group in 2019 and 2020 (own creation)

Table 12 displays Hunter Group's current ratio for 2019 and 2020. Their current ratios are rather high. For example, the current ratio for 2020 indicates that they are able to pay all their current liabilities with current assets over 5 times. Their large current ratio is mainly due to a large cash balance. This indicates a very low short-term liquidity risk. However, having such a large current ratio can also be a sign of an inefficient firm (Damodaran, 2012, p. 49). Perhaps the large cash balance could be of better use to something generating more returns for the shareholders. If not, it could be used to repay debt or pay dividends to the shareholders.

Another ratio that can be used to measure short-term liquidity risk is the quick ratio, as shown in equation 11. The difference from the current ratio is that instead of taking all current assets and divide by current liabilities, it excludes inventory and accounts receivable. The calculation of this ratio is excluded as this would not yield a large difference for Hunter Group, as it is known that their large current ratio is due to a large cash balance.

$$Quick\ ratio = \frac{Cash + marketable\ securities}{Current\ liabilities}$$

Equation 11: Quick ratio (Damodaran, 2012, p. 49)

Looking at the current ratio, the short-term liquidity risk is low. To get a better understanding of the long-term liquidity risk, one should have a look at the overall leverage, as it is mainly the leverage generating Hunter Group's liabilities which can cause default and insolvency. The financial leverage was calculated in chapter 5.3.3, and Hunter Group's FLEV in 2020 was approximately 60%. This indicates that Hunter Group should be able to cover all their net financial obligations with their equity. As it requires about 60% of the equity to pay off all net financial obligations, the shareholders would in theory not lose their entire investment, in case

of liquidation of the company. This FLEV is considered to be good as it is a capital-intensive business requiring heavy investment in assets. The long-term liquidity risk is therefore also considered to be low. However, one need to be aware of the fact that these measures only look at numbers at one specific point in time and are therefore giving a static view. Things can quickly change in the future, causing changing ratios and different numbers for Hunter Group.

6 Forecasting

The next step doing the valuation is to forecast future cash flows Hunter Group is expected to generate. The concept is that the value of an investment is determined by the magnitude, timing and risk of the cash flows the investment is expected to generate (Titman & Martin, 2016, p. 18). It is the free cash flow to firm (FCFF), which is the cash flows available to both shareholders and creditors, which will be forecasted. The free cash flow is the sum of cash inflows and outflows. To arrive at Hunter Group's yearly free cash flow, each element affecting their cash flow will be forecasted. The basis for the forecast will be the strategic analysis and the analysis of financial statements previously conducted. This will be combined with external sources of information to arrive at the best possible estimates.

Normally, one would value companies as going concerns and therefore forecast the cash flows for a planning period, meaning specifically forecasting each cash in- and outflow for a few years, and then capture the rest of the cash flows in a terminal value with a constant growth rate. The terminal value is the value of all cash flows that follow the planning period (Titman & Martin, 2016, p. 315). A terminal value is used as information about the future is uncertain, and more uncertain the longer into the future. However, for Hunter Group, there are some specific information available for the years after a typical planning period making it possible to realistically forecast specific cash flows longer into the future. This will be elaborated on in the forecasting process of each element. In addition, Hunter Group will not fit under the assumption as a going concern the way they operate their business at this point. As will be discussed in detail later, there is not forecasted any CAPEX and it is assumed that they will continue to operate the 4 vessels they have at this point. Due to this, the forecasting will be done for 20 years, as the average scrapping age for VLCCs has been around 20 years (Euronav, 2018, p. 16). Consequently, the lifespan of Hunter Group's current operations is forecasted to be 20 years. A terminal value will not be used as this assumes a going concern.

6.1 Revenue

Value is primarily generated from sales revenue as this is the income from the company's core activity. Therefore, revenue will be one of the largest determinants of the forecasted free cash flow and forecasting this with precision is of the essence. Equation 12 shows how revenue will

be forecasted for Hunter Group. This equation is created after carefully considering what primarily affects Hunter Group's revenue.

$$Revenue = (freight\ rate + \ premium) * number\ of\ vessels * days\ hired$$

Equation 12: Calculation of forecasted revenue for Hunter Group (own creation)

The freight rate is the forecasted future price for hiring a VLCC. This rate is daily in USD, and the expected average rate over the year. This rate will be added with a premium, as Hunter Group's vessels have some features that can yield a higher hiring price. This will be multiplied with the number of vessels in Hunter Group's fleet and the expected number of days their vessels are hired over a year.

6.1.1 Freight rate

The first component in equation 12 is the freight rate, and this is the key driver of revenue. This valuation will use a forecast of spot freight rates estimated by multiple professionals, as forecasting freight rates is a complex process combining knowledge and experience from different fields. The forecasted freight rates are a combination of forecasts from different brokerage houses, included DNB Markets (Lian et al., 2021) which has an extensive research report on the crude tanker sector from April this year. Part of this report explains which factors are determining the expected future freight rate. The main determinants, as explained in chapter 2.4, are the demand of oil, supply of oil and the vessel supply. The report has divided these factors into subcategories that have been reviewed in detail to research the status of the industry and estimate future freight rates.

	2021	2022	2023	2024	2025	2026 - 2040
Freight rate	$ 18 000	$ 35 000	$ 38 000	$ 45 000	$ 35 000	$ 41 000 (increasing with inflation)

Table 13: Forecasted freight rates (Lian et al., 2021; own creation)

The forecasted future freight rates are displayed in table 13. The rates are daily in USD, and the expected average rate over the year. It does not exist specific yearly forecasts of the freight rates after 2025, as that would be very speculative in such a dynamic and volatile market. However, it is forecasted a forward-looking rate that on average will be USD 41 000 for the last 15 years of the vessels' lifetime and that this will increase with the expected inflation each year. The annual inflation rate target is set to be 2% in both Norway, Hunter Group's home country, and

the U.S., the country of their most used currency. Consequently, the expected forward-looking freight rate is set to increase with 2% each year from 2025.

The forecast shows very low expected freight rates in 2021. Lian et al. (2021, p. 1) explain that they expect 2021 to be a slow year due to a lagged effect of the Covid-19 pandemic. They have compared the crude tanker sector to the S&P 500 index and the crude tanker sector appears to be recovering slower than the overall market (Lian et al., 2021, p. 1). On the other hand, after 2021 they expect higher freight rates. Export of oil is, among other things, expected to improve based on an expected increase in demand for crude oil as vaccines are starting to roll out (Lian et al., 2021, p. 17). This is causing improved demand for crude tankers. They forecast the substantial middle east export to recover to 2019 levels in 2022 as the impact of the pandemic will be reversed (Lian et al., 2021, p. 14). This together with better export forecasts for other countries as well give expected improved freight rates in the years after 2021 (Lian et al., 2021, p. 19-32). In addition, these export changes will cause a changed dynamic resulting in more favourable trading routes for the vessels (Lian et al., 2021, p. 14). This is also contributing to increased expected freight rates from 2022.

The vessel supply is a very important market driver in the industry, in accordance with the theory of price. If there is a shortage of ships available, the price will go up, and the other way around. As a consequence, the vessel supply has a huge say for the competitiveness and therefore the price on freight. Understanding future supply is therefore crucial. Lian et al. (2021, p. 1) estimate that the fleet growth in the crude tanker market will be 0,7% for 2021, -0,9% for 2022 and -1,9% for 2023. The negative growth can contribute explaining the increased forecasted freight rates these years. It can also indicate a future advantage for Hunter Group, as less competition can lead to more contracts at better terms. However, it does not necessarily need to cause increased revenue. The decrease of the fleet could also be a consequence of poorer future outlook in the market, leading to fewer profitable investments in the business.

The forecasted freight rates are also based on expected utilisation of the fleet. It is expected a low utilisation in 2021, contributing strongly to the low freight rate forecast (Lian et al., 2021, p. 8). The utilisation is heavily connected with the amount of floating storage, as vessels sometimes can be used to store crude oil giving more utilisation. In 2020 floating storage was high, yielding higher freight rates than expected (Lian et al., 2021, p. 7). From 2021 floating

storage is expected to go down, following from OPEC's determination to draw down storage levels (Lian et al., 2021, p. 17).

6.1.2 Premium

The forecasted future freight rates are forecasted for VLCCs in general. However, there are some features about Hunter Group which make them eligible to earn a premium on these forecasted freight rates. This premium will be added to the forecasted freight rates for the revenue calculation. Firstly, the fact that their vessels have eco-design and are fitted with scrubbers make customers pay a higher price, as these vessels are more environmentally friendly and more cost-efficient. Secondly, their young fleet also generates higher prices. The crude tanker sector is known for age discrimination by the customers (Lian et al., 2021, p. 35). Tankers over the age of 15 will have much more trouble finding work and get paid less, as there is higher risk for carrying crude oil the older the vessel (Euronav, 2018, p. 16). Thirdly, the forecasted freight rates are spot rates. Having that said, Hunter Group's vessels are often time chartered which frequently yields better revenues than spot contracts. Being time chartered, the charterer covers all voyage cost such as fuel, and the charterer saves a lot of money by hiring a cost-efficient vessel such as Hunter Group's. In addition, in time charter contracts, all the market risk is on the charterer.

DNB Markets has estimated Hunter Group's premium to be an average of USD 8 000 a day relative to a standard VLCC (Lian et al., 2021, p. 108). This is a premium based on their eco-design and scrubber fitted vessels. The forecast seems reasonable based on historical data of such vessels. However, it does not include possible premium for the age of the vessels and the fact that they often get time charter contracts rather than spot contracts. Therefore, an additional premium of USD 1 000 is added for the forecasted premium. This gives a total premium of USD 9 000 to be added to the freight rate. Although, it is forecasted that Hunter Group is only able to maintain this premium for the next 5 years. Looking ahead, it is assumed that the premium will be lower, as the vessels get older and will not generate a premium based on their age anymore. In addition, there is a risk that new technology could have evolved, making customers prefer other vessels and not care about eco-design and scrubbers anymore. Ergo, the premium for year 2026 to 2035 is forecasted to have decreased to USD 5 000. For the last 5 years of the vessels' lifetime, the premium is expected to have evaporated. The forecasted premium is displayed in table 14.

	2021	2022	2023	2024	2025	2026 - 2035	2036 - 2040
Premium	$ 9 000	$ 9 000	$ 9 000	$ 9 000	$ 9 000	$ 5 000	$ 0

Table 14: Forecasted premium to freight rates for Hunter Group (own creation)

6.1.3 Number of vessels

Hunter Group originally had 7 vessels. Today, they have 4 left. Knowing whether they plan to sell more or not is of importance forecasting their future performance. It is central to remember that Hunter Group defines itself as an investment company, rather than a traditional tanker company. Hunter Group's objective is to return all surplus cash to shareholders, and hence create the highest possible return for the shareholders (Hunter Group ASA, 2020b). As CFO of Hunter Group states:

> *The vessels we have sold so far have given a total return on equity of approximately 30% and were sold after an assessment of future expected return and risk. Despite this, we are positive about the tanker market and envisage an equally good return on the rest of the fleet in the long run. We have stated from the start that we are not a long-term shipping company, but it will be the market development that determines the timing of more sales. Until further notice, we operate the vessels as normal. When it comes to other investments, we are constantly working on various opportunities that may be relevant when the tanker project ends.* (Lars Brynildsrud, personal communication, April 23rd 2021)

It is therefore uncertain how many vessels the company will have at a given time in the future, and if they may pursue other investment opportunities at a later point. However, for the analysis it is assumed that Hunter Group will continue to operate their 4 vessels over the lifetime of the vessels, and that it is a finite project. Assuming otherwise is not possible to anchor to something fundamental and will be speculation. As the CFO states above, Hunter Group are willing to sell off more vessels at the right price, and if not achieving a price that generates better returns for the shareholder, they are operating the vessels as normal. Assuming that they will continue to operate their 4 vessels are based on the fact that the forecasted freight rates for the next years are not as high as last year when they sold vessels at a premium. Lower freight rates make fewer investments profitable, decreasing the possibility for high-paying buyers of the vessels. In addition, there may not be a lot of buyers now no matter the freight rates, as there is high

uncertainty related to the technological development in the business. Looking further into the future, the freight rates are very uncertain. They may increase, and this could increase the amount of interested buyers of second-hand vessels. However, Hunter Group's vessels would be older then, making them less likely to sell at a premium. The vessels are most likely to sell at a premium the first few years, as the buyers are avoiding the construction time of approximately 2 years. The vessels not selling at premium will give the same true intrinsic value either operating the vessels or selling them. Therefore, the valuation will assume that they operate the 4 vessels they have left for the expected lifespan of 20 years. In addition, for 2021 they had a fifth vessel for a few months, before it was delivered to new owners (Hunter Group ASA, 2021b). They had this vessel for 96 days as part of their fleet, which translates to a 0,263 vessel on a yearly basis. This is added to the number of vessels in 2021. The number of vessels the final year is expected to be zero as the vessels should be scrapped early in the year to avoid mandatory survey on the vessels as they pass 20 years of age. The forecasted number of vessels are displayed in table 15.

	2021	2022	2023	2024	2025	2026 - 2039	2040
Number of vessels	4,263	4	4	4	4	4	0

Table 15: Forecasted number of vessels for Hunter Group (own creation)

6.1.4 Days hired

Another important element of calculating Hunter Group's future revenue is their coverage rate, meaning how many days a year they are expected to be hired. In 2020, Hunter Group's vessels were booked 98% of the year (Hunter Group ASA, 2021a, p. 3). 2020 was an exceptional year, with lots of vessels used for floating storage, giving other vessels better terms for getting hired. For 2021 on the other hand, the forecasted freight rate is very low. This reflects poor times in the market. However, based on Hunter Group's competitive advantages, they should be able to maintain a relatively high coverage rate. For the next 5 years, the coverage rate is estimated to be 90% which translates to 329 days a year. For the rest of the lifespan of the vessels, it is assumed that their coverage rate will go down to 80%, closer to the business average. This translates to 292 days a year. The decrease is due to an expected loss of their competitive advantages over time, as well as when the vessels are aging, they will have unavailable days as a consequence of surveys and repairs. The forecasted number of days hired per vessel is displayed in table 16.

	2021	2022	2023	2024	2025	2026 - 2040
Days hired	329	329	329	329	329	292

Table 16: Forecasted days hired per vessel of Hunter Group (own creation)

6.1.5 Comments on growth

There is not calculated a general growth rate for Hunter Group's revenue. As Hunter Group did not receive their final vessel until August 2020, there is not a satisfying amount of historical data to calculate a growth estimate. More importantly, for Hunter Group, using such a general growth estimate in the forecasting would not give a correct result. This is because Hunter Group's potential revenue growth will be highly dependent on the freight rates, which are very volatile due to market forces. On the other hand, Hunter Group could experience growth by increased investments. For example, more vessels would yield more revenues. However, Hunter Group (2021a, p. 3) states that they have zero remaining CAPEX commitments as of year-end 2020. In other words, there does not seem to be any nearby investment plans causing them growth.

As there is no general growth rate estimate, the possible growth is taken into account in the different elements of the revenue forecast. Hunter Group have a forecasted premium to their revenue. There is not expected any increases in the premium over the years, but rather that it will decrease over time. Hence, there is not any growth to collect from the premium. The number of vessels is also assumed to remain constant, yielding zero growth. The coverage rate will neither increase. From this it becomes clear that Hunter Group may already have experienced their largest growth in returns, especially assuming no new emerging opportunities, and that their revenues have stabilized. Instead, their future performance will be largely dependent on the crude tanker market, as their revenue will follow the freight rates closely, which are assumed to on average increase with inflation in the long run.

6.1.6 Forecasted revenue

Table 17 displays the forecasted revenue for Hunter Group based on the elements from equation 12.

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Freight rate	$ 18 000	$ 35 000	$ 38 000	$ 45 000	$ 35 000	$ 41 000	$ 41 820	$ 42 656	$ 43 510	$ 44 380
Premium	$ 9 000	$ 9 000	$ 9 000	$ 9 000	$ 9 000	$ 5 000	$ 5 000	$ 5 000	$ 5 000	$ 5 000
Number of vessels	4,263	4	4	4	4	4	4	4	4	4
Days hired	329	329	329	329	329	292	292	292	292	292
Revenue	**$ 37 868 229**	**$ 57 904 000**	**$ 61 852 000**	**$ 71 064 000**	**$ 57 904 000**	**$ 53 728 000**	**$ 54 685 760**	**$ 55 662 675**	**$ 56 659 129**	**$ 57 675 511**
	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040
Freight rate	$ 45 267	$ 46 173	$ 47 096	$ 48 038	$ 48 999	$ 49 979	$ 50 978	$ 51 998	$ 53 038	$ 54 099
Premium	$ 5 000	$ 5 000	$ 5 000	$ 5 000	$ 5 000	$ 0	$ 0	$ 0	$ 0	$ 0
Number of vessels	4	4	4	4	4	4	4	4	4	0
Days hired	292	292	292	292	292	292	292	292	292	292
Revenue	**$ 58 712 222**	**$ 59 769 666**	**$ 60 848 259**	**$ 61 948 424**	**$ 63 070 593**	**$ 58 375 205**	**$ 59 542 709**	**$ 60 733 563**	**$ 61 948 234**	**$ 0**

Table 17: Forecasted revenue for Hunter Group (own creation)

6.2 Operating expenses

Looking at 2020, the so far most representative operating year, the operating expenses (OPEX) were 14,1% of revenue. This is very low, even for a capital-intensive business where most costs are related to interest expenses and depreciation. However, in 2020 revenues were unusual high due to record breaking high freight rates. High revenue for a crude tanker company does not mean higher OPEX, as long as their coverage rate is the same. Consequently, operating expenses cannot be measured as a constant percentage of revenues. Rather, the operating expenses should be constant for every vessel per voyage day.

I 2020, Hunter Group's vessels were booked 98% of the year (Hunter Group ASA, 2021a, p. 3). Two quarters of the year were fully booked, while the two others had a few off-hire days. These days still generated almost the same operating expenses, so the forecast of operating expenses will assume that there is operating expenses generated for all the days of the year. OPEX are incurred on off-hire days because these days are often used to position the vessels for the start of a new voyage. Based on Hunter Group both receiving and selling vessels during 2020, the total number of days with vessels for hire were 1866 days. Dividing the OPEX of USD 15 316 000 in 2020 by these days, it results in OPEX per vessel per day of almost USD 8 208. Multiplying this with the days of the year and 4 vessels, gives OPEX of USD 11 983 580. This number is assumed to remain constant for the first 5 years, just increasing with inflation of 2% each year from the start. In addition, for 2021 they had a fifth vessel for a few months, before it was delivered to new owners. This generated OPEX by 96 additional days.

As the coverage rate is expected to decrease from 2026, it is not as likely that OPEX will accrue on every day of the year anymore. When the number of hiring days goes down to this level, they are likely to have some days not operating at all, and the OPEX are expected to be closer to OPEX just for hiring days. As a result, the forecasted OPEX are multiplied with the coverage rate of 80% after the first 5 years. However, the OPEX should continue increasing with inflation of 2% a year. For 2040, the final year, OPEX are expected to be practically zero as the vessels are forecasted to be sold early in the year. The forecasted OPEX are displayed in table 18.

	2021	2022	2023	2024	2025	2026 - 2039	2040
OPEX	$ 13 026 972	$ 12 467 717	$ 12 717 071	$ 12 971 412	$ 13 230 841	$ 10 796 366 (increasing with inflation)	$ 0

Table 18: Forecasted OPEX for Hunter Group (own creation)

6.3 Survey costs

Survey costs are also important costs related to VLCCs, especially as the vessels get older. The vessels need to have their first survey at the age of 5. This survey costs about USD 1,5 million, the 10-year survey costs about USD 2 million, the 15-year survey costs about USD 2,5 million and the 17,5-year survey costs about 3,25 million (Euronav, 2018, p. 16). This results in survey costs of USD 6 million in 2025, USD 8 million in 2030, USD 10 million in 2035 and USD 13 million in 2038. Survey costs after this is forecasted to be zero as the vessels will be scrapped early in 2040 to avoid mandatory survey on the vessels as they have passed 20 years of age. The forecasted survey costs are displayed in table 19. The years without survey costs are not displayed.

	2025	2030	2035	2038
Survey costs	$ 6 000 000	$ 8 000 000	$ 10 000 000	$ 13 000 000

Table 19: Forecasted survey costs for Hunter Group (own creation)

6.4 Sale of assets

Hunter Group sold the vessel Hunter Atla in 2021, and it was delivered to new owners the 7th of April (Hunter Group ASA, 2021b). This causes a cash inflow of the sales price of USD 84,5 million in 2021 (Hunter Group ASA, 2021b). For the rest of the years, no more sale of assets is expected, as it is expected and assumed that they will continue operating the 4 vessels they have

left for the expected lifespan of the vessels. However, it is expected a cash inflow when the vessels are being scrapped, as the materials of the vessel still carries value. The scrapping price has historically been very volatile, but based on statistics from 1998 (Lian et al., 2021, p.51) the average scrapping price per VLCC is USD 14 million. This will be used as the forecasted scrapping price. Table 20 displays the forecasted sale of assets.

	2021	2022 - 2039	2040
Sale of assets	$ 84 500 000	$ 0	$ 56 000 000

Table 20: Forecasted sale of assets for Hunter Group (own creation)

6.5 General and administrative expenses

The general and administrative (G&A) expenses are also expected to be constant, as these neither should change with the changing revenues. The G&A expenses were USD 1 113 000 in 2019 and USD 1 649 000 in 2020 (Hunter Group ASA, 2021a, p. 20). This indicates that the number of vessels to manage probably has a say for these costs. Taking the G&A expenses for 2020 and dividing them by 1866, the total number of days with vessels for hire in 2020, yields about 884. This is multiplied with the number of days in a year, the number of vessels and the inflation rate. Looking ahead, the number should keep increasing by the expected inflation rate of 2% per year. Although the vessels are expected to be scrapped early in 2040, it is assumed that there will still be G&A expenses this year as the administration of sales and liquidation will incur costs. Table 21 displays the forecasted G&A expenses.

	2021	2022	2023	2024	2025	2026-2040
G&A expenses	$ 1 402 547	$ 1 342 339	$ 1 369 186	$ 1 396 570	$ 1 424 501	$ 1 452 991 (increasing with inflation)

Table 21: Forecasted G&A expenses for Hunter Group (own creation)

6.6 Change in net working capital

Net working capital is the difference between a company's current assets and current liabilities (Fernando, 2021). To forecast a company's free cash flow, the change in net working capital is necessary, as this shows the changes of how much money that is tied up in the operating activities. An increased amount of money tied up, reduces the free cash flow to firm and vice versa. The change in operating net working capital ($\Delta ONWC$) will therefore be forecasted. As it is forecasted that Hunter Group will not make any new investments in their operations, an

increase in ONWC will not occur due to growth, requiring more money tied up in operations. However, there will still be changes in accounts receivable and accounts payable despite of this, which will affect the working capital. Both accounts receivable and accounts payable are expected to be a constant percentage of revenues and OPEX, based on the 2020 numbers. Both revenues and OPEX are forecasted to change all over the forecasting period. Firstly, there will be a large change in 2021, as one of the vessels were sold and delivered to new owners. This reduces the operating activities, reducing the amount of money tied up in the business. Secondly, the revenues will swing from year to year as the underlying factors affecting revenue changes. The same for OPEX. Table 22 displays the calculation of the $\Delta ONWC$.

In USD 1000	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Revenue	$ 108 604	$ 37 868	$ 57 904	$ 61 852	$ 71 064	$ 57 904	$ 53 728	$ 54 686	$ 55 663	$ 56 659	$ 57 676
% accounts receivable	5 %	5 %	5 %	5 %	5 %	5 %	5 %	5 %	5 %	5 %	5 %
Accounts receivable	$ 5 416	$ 1 893	$ 2 895	$ 3 093	$ 3 553	$ 2 895	$ 2 686	$ 2 734	$ 2 783	$ 2 833	$ 2 884
OPEX	$ 15 316	$ 13 027	$ 12 468	$ 12 717	$ 12 971	$ 13 231	$ 10 796	$ 11 012	$ 11 233	$ 11 457	$ 11 686
% accounts payable	14 %	14 %	14 %	14 %	14 %	14 %	14 %	14 %	14 %	14 %	14 %
Accounts payable	$ 2 124	$ 1 824	$ 1 745	$ 1 780	$ 1 816	$ 1 852	$ 1 511	$ 1 542	$ 1 573	$ 1 604	$ 1 636
NOWC	$ 3 292	$ 70	$ 1 150	$ 1 312	$ 1 737	$ 1 043	$ 1 175	$ 1 193	$ 1 211	$ 1 229	$ 1 248
Change in NOWC		**$ 3 222,4**	**$ -1 080,1**	**$ -162,5**	**$ -425,0**	**$ 694,3**	**$ -132,0**	**$ -17,7**	**$ -18,0**	**$ -18,4**	**$ -18,7**

In USD 1000	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040
Revenue	$ 58 712	$ 59 770	$ 60 848	$ 61 948	$ 63 071	$ 58 375	$ 59 543	$ 60 734	$ 61 948	$ 0
% accounts receivable	5 %	5 %	5 %	5 %	5 %	5 %	5 %	5 %	5 %	0 %
Accounts receivable	$ 2 936	$ 2 988	$ 3 042	$ 3 097	$ 3 154	$ 2 919	$ 2 977	$ 3 037	$ 3 097	$ 0
OPEX	$ 11 920	$ 12 158	$ 12 402	$ 12 650	$ 12 903	$ 13 161	$ 13 424	$ 13 692	$ 13 966	$ 0
% accounts payable	14 %	14 %	14 %	14 %	14 %	14 %	14 %	14 %	14 %	0 %
Accounts payable	$ 1 669	$ 1 702	$ 1 736	$ 1 771	$ 1 806	$ 1 842	$ 1 879	$ 1 917	$ 1 955	$ 0
NOWC	$ 1 267	$ 1 286	$ 1 306	$ 1 326	$ 1 347	$ 1 076	$ 1 098	$ 1 120	$ 1 142	$ 0
Change in NOWC	**$ -19,1**	**$ -19,5**	**$ -19,9**	**$ -20,3**	**$ -20,7**	**$ 270,9**	**$ -21,5**	**$ -22,0**	**$ -22,4**	**$ 1 142,1**

Table 22: Forecasted change in $\Delta ONWC$ in USD 1000 for Hunter Group (own creation)

The $\Delta ONWC$ shows a large cash inflow in 2021. Firstly, this is caused by the sale of a vessel early in the year, as mentioned above. Secondly, this is caused by a substantial decrease in freight rates leading to a lower amount of accounts receivable compared to the previous year. These effects cause less money tied up in the business, contributing positively to the FCFF. The years after 2021, the $\Delta ONWC$ yields negative cash flows most years, which are an increase in net working capital. This is due to the changes in accounts receivable mostly being larger than the changes in accounts payable, and consequently more money is tied up. The final year of the forecasting period the $\Delta ONWC$ is going to be positive as there is not forecasted any more revenue or OPEX, freeing the money tied up in operations.

6.7 Forecasted free cash flow

The general equation for calculating free cash flow to firm is shown in equation 13.

$$FCFF = (revenues - cost\ of\ goods\ sold - operating\ expenses - depreciation) * (1 - tax\ rate) + depreciation - \Delta ONWC - CAPEX$$

Equation 13: Free cash flow to firm (Titman & Martin, 2016, p. 28)

The revenues and costs have been forecasted. However, depreciation is left out. Equation 13 shows that depreciation should be subtracted from revenues before forecasting the taxes, and then added back afterwards as the depreciation not itself is a cash outflow. However, it is forecasted that Hunter Group will not be paying taxes. This is due to a combination of the Norwegian shipping tax scheme and the fact that Hunter Group has a large tax loss brought forward with no maturity date (Hunter Group ASA, 2021a, p. 44). In 2019, the tax loss brought forward was USD 37 641 000. The special Norwegian shipping tax scheme caused them no taxes in 2020, even though it was a very profitable year for Hunter Group. In fact, they got to increase their tax loss brought forward by USD 718 000. It is therefore safe to say that as long as Hunter Group is part of the Norwegian shipping tax scheme, which is expected, they will not need to pay taxes. This results in not getting tax deductibility from the depreciation cost, and depreciation is therefore not forecasted as it is not relevant for the FCFF. Looking further at equation 13, the $\Delta ONWC$ is also forecasted. However, the last element, CAPEX, is not forecasted as it is expected to be zero. Hunter Group (2021a, p. 3) states that they have zero remaining CAPEX commitments as of year-end 2020 and has not released any information on possible future investments. Based on this, the most likely future outlook is that they will continue operating their 4 vessels without any additional CAPEX, as previously mentioned. Assuming otherwise is not possible to anchor to something fundamental and will be speculation. Table 23 shows the forecasted FCFF.

In USD 1000	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Revenue	$ 37 868	$ 57 904	$ 61 852	$ 71 064	$ 57 904	$ 53 728	$ 54 686	$ 55 663	$ 56 659	$ 57 676
- OPEX	$ 13 027	$ 12 468	$ 12 717	$ 12 971	$ 13 231	$ 10 796	$ 11 012	$ 11 233	$ 11 457	$ 11 686
- Surveys	$ 0	$ 0	$ 0	$ 0	$ 6 000	$ 0	$ 0	$ 0	$ 0	$ 8 000
- G&A expenses	$ 1 403	$ 1 342	$ 1 369	$ 1 397	$ 1 425	$ 1 453	$ 1 482	$ 1 512	$ 1 542	$ 1 573
+ Sale of assets	$ 84 500	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
+ Change in NOWC	$ 3 222	$ -1 080	$ -162	$ -425	$ 694	$ -132	$ -18	$ -18	$ -18	$ -19
- CAPEX	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
FCFF	**$ 111 161**	**$ 43 014**	**$ 47 603**	**$ 56 271**	**$ 37 943**	**$ 41 347**	**$ 42 174**	**$ 42 900**	**$ 43 642**	**$ 36 398**

In USD 1000	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040
Revenue	$ 58 712	$ 59 770	$ 60 848	$ 61 948	$ 63 071	$ 58 375	$ 59 543	$ 60 734	$ 61 948	$ 0
- OPEX	$ 11 920	$ 12 158	$ 12 402	$ 12 650	$ 12 903	$ 13 161	$ 13 424	$ 13 692	$ 13 966	$ 0
- Surveys	$ 0	$ 0	$ 0	$ 0	$ 10 000	$ 0	$ 0	$ 13 000	$ 0	$ 0
- G&A expenses	$ 1 604	$ 1 636	$ 1 669	$ 1 702	$ 1 736	$ 1 771	$ 1 807	$ 1 843	$ 1 880	$ 1 917
+ Sale of assets	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 56 000
+ Change in NOWC	$ -19	$ -19	$ -20	$ -20	$ -21	$ 271	$ -22	$ -22	$ -22	$ 1 142
- CAPEX	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
FCFF	**$ 45 169**	**$ 45 955**	**$ 46 758**	**$ 47 576**	**$ 38 411**	**$ 43 714**	**$ 44 291**	**$ 32 176**	**$ 46 080**	**$ 55 225**

Table 23: Forecasted FCFF in USD 1000 for Hunter Group (own creation)

The forecasted FCFF shows that Hunter Group are expected to only have positive cash flows. This is a result of revenue always being higher than the costs and that there is no forecasted CAPEX. The forecasted FCFF also shows that Hunter Group will have a large free cash flow in 2021. The large cash flow in 2021 is due to the revenue of a sold vessel and the fact that having one less vessel frees some working capital tied up in the business. This represents an opportunity for the company to pay back a lot to creditors and/or shareholders. There is a substantial positive cash flow in 2040, despite the fact that the vessels are assumed to be scrapped early in the year. This is a consequence of the vessels still carrying value due to the material, and as a result Hunter Group gets paid for scrapping them.

There will be uncertainty related to the forecast, as it is impossible to predict the future. However, it is aimed to be the best estimates based on available data and information. Overall, the forecast is considered rather conservative, as it does not account for possible investment opportunities in the future which can generate a higher return and a longer existence for Hunter Group. As this is uncertain and not grounded on specific information, it cannot be forecasted soundly. It could be possible that they will have CAPEX in the future for new investment opportunities or investments in new equipment for the vessels. For example, when IMO 2020 was implemented, many vessels that did not have scrubbers invested in the fitting of these. Based on the technological uncertainty, there could be something in the future requiring similar CAPEX, but this is also very uncertain and will be speculation.

7 Fundamental analysis

In this chapter a fundamental analysis of Hunter Group will be conducted. Firstly, there will be a brief introduction on the theory behind fundamental analysis. Secondly, the cost of capital necessary for the valuation will be estimated. Finally, the valuation will be conducted using the forecasted FCFF from chapter 6 and the cost of capital.

7.1 The method of fundamental analysis

Fundamental analysis is the method of analysing information, forecasting payoffs from that information, and arriving at a valuation based on those forecasts (Penman, 2013, p. 84). This definition makes it clear that forecasting is of the essence. The most common numbers to forecast can be dividends, excess returns or free cash flow. The decision on which to choose should be based on which best aligns with the value drivers. For Hunter Group, the forecasting of FCFF would yield the most correct picture, and this was done in the previous chapter. The discounted cash flow analysis, the most common approach of fundamental analysis, will be used to value the cash flows. The concept is that the value of an investment is determined by the magnitude, timing and risk of the cash flows the investment is expected to generate (Titman & Martin, 2016, p. 18). It is the cost of capital that reflects the risk of the cash flows (Titman & Martin, 2016, p. 99).

7.2 Cost of capital

As it is the FCFF that is forecasted, the cost of capital for the firm's different sources of capital needs to be accounted for. This is done using a discount rate. A discount rate is necessary to value the cash flows, as this is used to calculate present values of the future cash flows (Titman & Martin, 2016, p. 99-100). The cost of capital will also reflect the risk of the cash flows (Titman & Martin, 2016, p. 99). To find the appropriate discount rate the weighted average cost of capital (WACC) will be used, as this yields the appropriate discount rate when valuing an entire firm (Titman & Martin, 2016, p. 99). The WACC is the weighted average of the expected after-tax rates of return of the company's sources of capital, which includes capital raised through the issuance of interest-bearing debt and equity (Titman & Martin, 2016, p. 100-102). The WACC assumes that the capital structure and risk will remain relatively stable, as the input in the formula is constant and the same discount rate is applied for the whole forecast. For most firms, this will be a simplification and inaccurate as the numbers will change in the future.

However, this will not have too much say for the result, as long as it is small and gradual changes, and not large, planned changes in the near future. The WACC is used for the estimation of Hunter Group's cost of capital as their risk and capital structure are assumed to remain relatively stable. In 2021, they had a FLEV based on book values of about 60%. This is assumed to remain relatively stable, just paid down gradually. In addition, this FLEV appears to be the business average, and supports the assumption of this being a sustainable capital structure. The formula for the WACC is displayed in equation 14.

$$WACC = k_d\,(1 - T)\,w_d + k_e w_e$$

Equation 14: WACC (Titman & Martin, 2016, p. 102) where

k_d = *cost of debt*
w_d = *proportion of debt*
T = *Tax rate*
k_e = *cost of equity*
w_e = *proportion of equity*

Using the WACC to calculate the discount rate requires calculating the cost of debt, the cost of equity and the capital structure.

7.2.1 Cost of debt

Being one of the company's sources of capital, the cost of debt is necessary. Hunter Group does not have any debt securities, only a standard loan facility given by a syndicate of banks. This debt is interest-bearing and secured (Hunter Group ASA, 2021a, p. 3). It carries 275bps margin over LIBOR and has a 16-year repayment profile (Hunter Group ASA, 2021a, p. 3). As they only have this loan, the interest rate for the loan is used as the cost of debt. The newest interest rate should be used, as the WACC should be an estimate of the firm's opportunity cost of capital today (Titman & Martin, 2016, p. 102). As of today, the LIBOR USD 12 months is 0,271%. This gives an interest rate of 3,021%.

7.2.2 Cost of equity

Being a company's other source of capital, the cost of equity is necessary. The shareholders are the residual claimants of the firm's earnings. Ergo, there is no promised return. Hence, the cost of equity is the return that the investors expect given the risk. The capital asset pricing model

(CAPM) can be used to estimate the return an investor can expect from his or her investment. This model is built on several tenets of finance. Mainly, it is the assumption that investors are risk-averse and expects a higher return for taking on additional risk (Titman & Martin, 2016, p. 113). The foundation of CAPM is that investors are most concerned about how the risk of an investment contributes to the volatility of their total portfolio, which is assumed a well-diversified market portfolio (Titman & Martin, 2016, p. 113). Consequently, the investor should only be concerned with the systematic risk, as the unsystematic risk could easily be diversified away. Equation 15 displays the CAPM formula.

$$k_e = k_{rf} + \beta_e(k_m - k_{rf})$$

Equation 15: CAPM (Titman & Martin, 2016, p. 114) where

k_e *= the expected return on the investment (cost of equity for the firm)*
k_{rf} *= the risk-free rate*
β_e *= beta of the investment*
k_m *= the expected return on the overall market portfolio*
$k_m - k_{rf}$ *= the expected market risk premium*

Hence, it is necessary to determine the risk-free rate, beta and the market risk premium to calculate the cost of equity.

7.2.2.1 Risk-free rate

Firstly, the risk-free rate is necessary. The risk-free rate is a rate one should expect to receive from a totally risk-free investment. In other words, the risk-free rate represents the time value of money. The closest thing to a risk-free investment is government bonds of a stable government, as it is highly unlikely that such a government will default on their debt. A Norwegian government bond is chosen, as the risk-free rate should correspond to the country where the investment is made. As Hunter Group is listed in the Norwegian market, most investors are assumed to be Norwegians comparing the stock to other Norwegian stocks. The maturity of the risk-free rate should be matched with the maturity of the investment of interest. The forecasted lifespan of Hunter Group is 20 years. However, the longest maturity of a Norwegian government bond is 10 years. As of today, the risk-free rate using a 10-year Norwegian government bonds is 1,44% (Norges Bank, 2021). Looking further into the maturity issue, U.S. treasury securities can be investigated, as these exist for 20- and 30-year maturities

as well. For U.S. treasury bonds the 10-year rate is 1,63%, the 20-year rate is 2,18% and the 30-year rate is 2,30% (U.S. Department of the Treasury, 2021). This indicates an expected increase in the risk-free rate further into the future. In addition, PwC's (2020, p. 7) latest research reported that there are 25% of the members of The Norwegian Society of Financial Analysts that use a normalized risk-free rate. Most of the analysts that use a normalized risk-free rate use a risk-free rate of 3% (PwC, 2021, p. 7). An argument for using a normalized risk-free rate is that when interest rates are as low as now, they do not account for expected inflation and are probably incorrect to use for long-term analysis. Consequently, the risk-free rate used for the CAPM will be a bit upward adjusted, from 1,44% to 2% based on PwC's research and to account for a longer horizon than the maturity of the Norwegian government bond available.

7.2.2.2 Beta

Secondly, the beta of the investment needs to be estimated. The beta of the firm represents the sensitivity of its equity returns to variations in the rates of return on the overall market portfolio, in other words its correlation (Titman & Martin, 2016, p. 115). A beta of 1 indicates that the asset is perfectly correlated with the overall market, and a beta of -1 indicates that the asset is perfectly negatively correlated with the overall market. A beta greater than 1 indicates that the asset is even more volatile than the market, and a beta of 0 indicates that the asset does not vary together with the overall market at all but varies independently. The beta of Hunter Group will be estimated using regression. Doing an industry approach to find the beta will not give a satisfying and trustworthy result for Hunter Group, as betas of tanker companies have been observed to be of wide ranges, both below 0 and above 1. This indicates large differences among crude tanker companies. Some of the difference may be due to different capital structure, as this affects beta. In addition, as Hunter Group defines itself as an investment company, not a standard crude tanker company, this probably also affects their beta compared to other crude tanker companies. Therefore, the beta is chosen to be estimated using regression of historical data. It is chosen to use the monthly returns from the 26th of April 2018, the date they ordered their tankers and announced it to the public.

A stock's beta should be estimated by regressing the company's stock returns on the returns of the market portfolio (Titman & Martin, 2016, p. 115). The Nasdaq Composite index is chosen as a proxy for the market portfolio, as this is an index consisting of over 2 500 companies and therefore a good proxy for the movements in the overall market indicating the systematic risk.

In addition, it is suitable for a company like Hunter Group which operates multinational. The beta has been estimated regressing monthly returns of Hunter Group against monthly returns of the Nasdaq Composite index. Monthly returns were chosen as daily returns can give a lot of noise in the regression. Consequently, using monthly data gives a better view on the overall trend for the covariation Hunter Group has with the market. For further details on the regression see appendix 1. Hunter Group's estimated beta using regression is 0,269. Estimating beta using historical returns assumes that the variation with the overall market will be the same based on the historical covariation. This is not necessarily completely correct, especially for young companies. Although there are not forecasted any large changes in Hunter Group's operations, there are evidence that suggests that betas tend to regress toward the average beta of 1 over time (Berk & DeMarzo, 2020, p. 475). Using a beta that adjusts for this aims to be a better prediction of a future beta. Consequently, an adjusted beta will be calculated using the Bloomberg model. This is displayed in equation 16.

$$Adjusted\ beta\ for\ security\ i = \frac{2}{3} * \beta_i + \frac{1}{3} * 1$$

Equation 16: Adjusted beta (Berk & DeMarzo, 2020, p. 476)

Based on equation 16 the adjusted beta is 0,513. This beta is still a rather low and shows that Hunter Group only move with the market to some degree. Interpreting this beta, Hunter Group has little systematic risk and would yield little additional risk to a well-diversified portfolio. However, this does not sound correct for a company operating within the petroleum sector. This is a volatile and cyclical business heavily affected by the overall economy, and it does not make sense for them to have such a low beta. Looking at industry betas for other parts of the oil value chain, these are most often calculated to be just above 1. Even though Hunter Group operates as a crude tanker company, they are part of the same value chain and share several market drivers. Due to this, their beta should be closer to 1. However, it is arguable that they do not have quite as high betas as other parts of the oil value chain. This is due to the fact that crude tankers can get time chartered for longer periods, where the payment is fixed, and the market risk lies on the charterer. In addition, crude tankers can be used for floating storage when storage of oil is high. This reduces some of the negative effects of low oil demand on freight rates. Based on this, Hunter Group's beta will be adjusted upwards to 0,9. The regressed beta may be low due to the fact that Hunter Group has only operated as a crude tanker company for a short period of time. In addition, this period has been affected by receiving and selling vessels, which

may have caused unrepresentable changes in their stock returns. It is forecasted that they will have more stabilized operations from now on, and that their performance will be mainly dependent on the freight rates, which are in close relation with the overall market.

7.2.2.3 Market risk premium

Lastly, the market risk premium is necessary. From equation 15, one can see that the market risk premium is the difference between the return from the market portfolio and the risk-free rate. PwC's (2020, p. 4) latest research reported that the market risk premium in Norway is 5%. The Norwegian market risk premium is chosen as it should correspond to the country where the investment is made. As Hunter Group is listed in the Norwegian market, most investors are assumed to be Norwegians comparing the stock to other Norwegian stocks.

7.2.2.4 CAPM calculation

The input for CAPM is ready; risk-free rate of 2%, beta of 0,9 and market risk premium of 5%. Using equation 15, this gives us a cost of equity of 6,5%.

$$k_e = 2\% + 0{,}9(5\%) = 6{,}5\%$$

Consequently, an investor's expected return of Hunter Group given its risk is 6,5%. This is based on the risk-free return of 2% and risk compensation of 4,5%. The compensation for risk is based on expected 90% covariance with the overall market as the beta is 0.9, meaning it should be compensated 90% of the market risk premium of 5%.

7.2.3 Capital structure

The capital structure is the relative proportions of debt and equity that a firm has outstanding to fund its operations (Berk & DeMarzo, 2020, p. 525). It is important that the capital structure components used in the WACC reflect the current importance of each source of financing to the firm (Titman & Martin, 2016, p. 102). Consequently, market values should be used. However, as market prices for corporate debt are hard to obtain, book values are often used. From Hunter Group's latest annual report, the value of interest-bearing debt is USD 237 954 000 (Hunter Group ASA, 2021a, p. 22). The value of equity is calculated using market values, multiplying the price of the shares by the number of shares outstanding (Titman & Martin, 2016, p. 107-108). Hunter Group has 575 362 013 shares outstanding (Hunter Group

ASA, 2021a, p. 22). The price on the 10th of May is KR 3,088. This gives a market value of NOK 1 776 717 896 and USD 216 581 912. This gives Hunter Group a 52,35% proportion of debt and 47,65% proportion of equity.

7.2.4 Calculated WACC

The input for calculating WACC is ready; the cost of debt is 3,021%, the proportion of debt is 52,35%, the cost of equity is 6,5% and the proportion of equity is 47,65%. Using equation 14 yields a calculation of:

$$3{,}021\% * 0{,}5235 + 6{,}5\% * 0{,}4765 = 4{,}68\%$$

The input yields a WACC of 4,68% for Hunter Group. This rate is the opportunity cost of capital, meaning the expected rate of return which can be earned from alternative investment opportunities with equivalent risk. It is the weighted average of the expected return of both creditors and shareholders. Calculating the WACC, the reduction of the cost of debt with the tax rate is excluded as it is forecasted that Hunter Group will not be paying taxes, as discussed in chapter 6.7. This results in not getting tax deductibility from the cost of debt. The discount rate from the WACC will be used for the whole forecasting period, as Hunter Group's risk and capital structure are not expected to have any large changes.

7.3 Valuation

The input for doing the discounted cash flow analysis to derive the value of Hunter Group is now in place. Firstly, the present values of Hunter Group's forecasted FCFF are calculated. This is displayed in table 24. Secondly, the discounted cash flow analysis is conducted using the present values. This is displayed in table 25.

In USD 1000	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Revenue	$ 37 868	$ 57 904	$ 61 852	$ 71 064	$ 57 904	$ 53 728	$ 54 686	$ 55 663	$ 56 659	$ 57 676
- OPEX	$ 13 027	$ 12 468	$ 12 717	$ 12 971	$ 13 231	$ 10 796	$ 11 012	$ 11 233	$ 11 457	$ 11 686
- Surveys	$ 0	$ 0	$ 0	$ 0	$ 6 000	$ 0	$ 0	$ 0	$ 0	$ 8 000
- G&A expenses	$ 1 403	$ 1 342	$ 1 369	$ 1 397	$ 1 425	$ 1 453	$ 1 482	$ 1 512	$ 1 542	$ 1 573
+ Sale of assets	$ 84 500	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
+ Change in NOWC	$ 3 222	$ -1 080	$ -162	$ -425	$ 694	$ -132	$ -18	$ -18	$ -18	$ -19
- CAPEX	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
FCFF	$ 111 161	$ 43 014	$ 47 603	$ 56 271	$ 37 943	$ 41 347	$ 42 174	$ 42 900	$ 43 642	$ 36 398
Discount factor	0,955	0,913	0,872	0,833	0,796	0,760	0,726	0,694	0,663	0,633
Present value	**$ 106 192**	**$ 39 254**	**$ 41 501**	**$ 46 865**	**$ 30 188**	**$ 31 426**	**$ 30 621**	**$ 29 757**	**$ 28 918**	**$ 23 040**

In USD 1000	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040
Revenue	$ 58 712	$ 59 770	$ 60 848	$ 61 948	$ 63 071	$ 58 375	$ 59 543	$ 60 734	$ 61 948	$ 0
- OPEX	$ 11 920	$ 12 158	$ 12 402	$ 12 650	$ 12 903	$ 13 161	$ 13 424	$ 13 692	$ 13 966	$ 0
- Surveys	$ 0	$ 0	$ 0	$ 0	$ 10 000	$ 0	$ 0	$ 13 000	$ 0	$ 0
- G&A expenses	$ 1 604	$ 1 636	$ 1 669	$ 1 702	$ 1 736	$ 1 771	$ 1 807	$ 1 843	$ 1 880	$ 1 917
+ Sale of assets	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 56 000
+ Change in NOWC	$ -19	$ -19	$ -20	$ -20	$ -21	$ 271	$ -22	$ -22	$ -22	$ 1 142
- CAPEX	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
FCFF	$ 45 169	$ 45 955	$ 46 758	$ 47 576	$ 38 411	$ 43 714	$ 44 291	$ 32 176	$ 46 080	$ 55 225
Discount factor	0,605	0,578	0,552	0,527	0,504	0,481	0,460	0,439	0,419	0,401
Present value	**$ 27 314**	**$ 26 547**	**$ 25 804**	**$ 25 082**	**$ 19 345**	**$ 21 031**	**$ 20 356**	**$ 14 128**	**$ 19 328**	**$ 22 128**

Table 24: Present values of Hunter Group's FCFF (own creation)

Sum of present values	$ 628 823 794
+ Cash	$ 95 146 000
- Debt	$ 237 954 000
Equity value	$ 486 015 794
Number of shares outstanding	$ 575 362 013
Value per share USD	$ 0,845
Value per share NOK	**kr 6,931**

Table 25: Discounted cash flow valuation of Hunter Group (own creation)

The forecasted FCFF from chapter 6 is discounted using the WACC estimated in chapter 7.2.4. The present values are summed together to the enterprise value. To get the equity value, net interest-bearing debt is subtracted. The equity value is divided by the number of shares outstanding, to get the per share value. Hunter Group's calculated intrinsic value of equity is USD 0,85 per share. This translates to a per share value of NOK 6,93. The noted stock price on the 10th of May 2021 was NOK 3,09. Hence, based on the discounted cash flow analysis the stock of Hunter Group is estimated to be undervalued, and a buy recommendation of the stock is given.

8 Sensitivity analysis

Based on the discounted cash flow analysis, the stock of Hunter Group is estimated to be undervalued, and hence it is recommended to buy the stock. The estimated value is based on forecasts of future performance. However, there will be uncertainty related to future outcomes. In this chapter a sensitivity analysis will be conducted to deal with some of this uncertainty, as the elements that are both most uncertain and critical for the valuation will be investigated. Firstly, some information about sensitivity analysis will be given. Secondly, the elements from the discounted cash flow analysis that are to test their effect on the estimated stock price must be selected. Finally, the sensitivity analysis on the chosen factors will be conducted.

8.1 The method of sensitivity analysis

Sensitivity analysis is a way of incorporating uncertainty in forecasts of future cash flows (Titman & Martin, 2016, p. 54). A sensitivity analysis does this by testing how a valuation changes as inputs to the model change, and therefore how the valuation is sensitive to alternative forecasts of the future (Penman, 2013, p. 491). This will not eliminate uncertainty but helps understand the relative sensitivity of the calculated intrinsic value to different key variables (Titman & Martin, 2016, p. 56). A sensitivity analysis can be used to monitor an investment, by knowing which critical value drivers it is important to keep an eye on. This way, one is able to take corrective actions quickly, if some of the numbers were to change. However, the method has an important limitation which is that it only considers changes in one factor of the discounted cash flow analysis at a time. Often, two or more critical value drivers can be correlated with one another. However, the chosen elements that are to test their effect on the estimated stock price are not considered likely to change in direct relation, so a sensitivity analysis is considered a good enough method to investigate the uncertainty. It is the WACC and freight rates that are chosen as the subjects for the sensitivity analysis. These are the two parameters that are forecasted with most uncertainty as they are very volatile, plus they have a lot to say for the estimated value. In addition, these are factors to a large degree determined by external factors, and Hunter Group has limited control over them. The chosen subjects will be tested on their effect on the estimated stock price. This will determine if they are critical areas of the estimated value from the discounted cash flow analysis. In addition, it will determine if the conclusion of the valuation is reliable or if there are only required small changes in the variables before the stock is no longer estimated to be undervalued.

8.2 Changes in WACC

The WACC is of importance when valuing a firm using a discounted cash flow analysis. It is composed of the cost of debt, the capital structure, the risk-free rate, beta and the market risk premium. The WACC will be different for changes in one or more of these variables, and as a result the WACC is very exposed to changes. As all these variables are based on different assumptions, there is also high uncertainty related to the WACC. In addition, given the historical low level of interest rates, it is a great risk of changes in the WACC in the future. The estimated stock price's sensitivity to changes in WACC is displayed in figure 8. It is the changes in the estimated stock price for different values of WACC that is analysed.

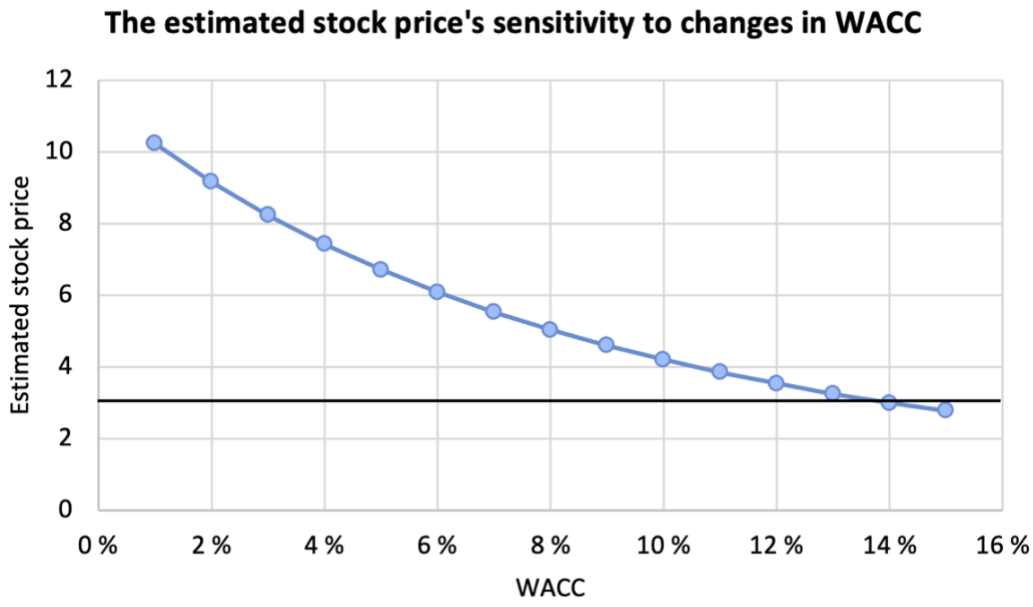

Figure 8: The estimated stock price's sensitivity to changes in WACC (own creation)

The black line in figure 8 marks the noted stock price on the 10th of May 2021 which was NOK 3,09. Based on this, the graph clearly shows that even large changes in the WACC does not change the conclusion on the valuation. The WACC would have to go from 4,68% to almost 14% for the stock not to be undervalued, which is very unlikely. However, changes in the WACC does change the upside potential a bit, as the estimated value of course changes with WACC. If the WACC was to double, the estimated stock price would decrease with NOK 2,48. Based on this, the estimated stock price is not too sensitive to change in the WACC. Consequently, the uncertainty related to the WACC in the discounted cash flow analysis is not a reason to question the conclusion of the fact that the stock of Hunter Group is undervalued.

8.3 Changes in freight rates

The freight rates are the main determinant of Hunter Group's revenue and are also the most volatile part of the revenue. It is forecasted freight rates that are used, and hence it is very possible that these turn out differently than forecasted. In addition, they are affected by a lot of underlying factors, making them very volatile and hard to predict in the long run. The estimated stock price's sensitivity to changes in freight rates is displayed in figure 9. It is tested on how the estimated stock price changes as the freight rates each year changes, from a decrease of 50% to an increase of 20%, respectively.

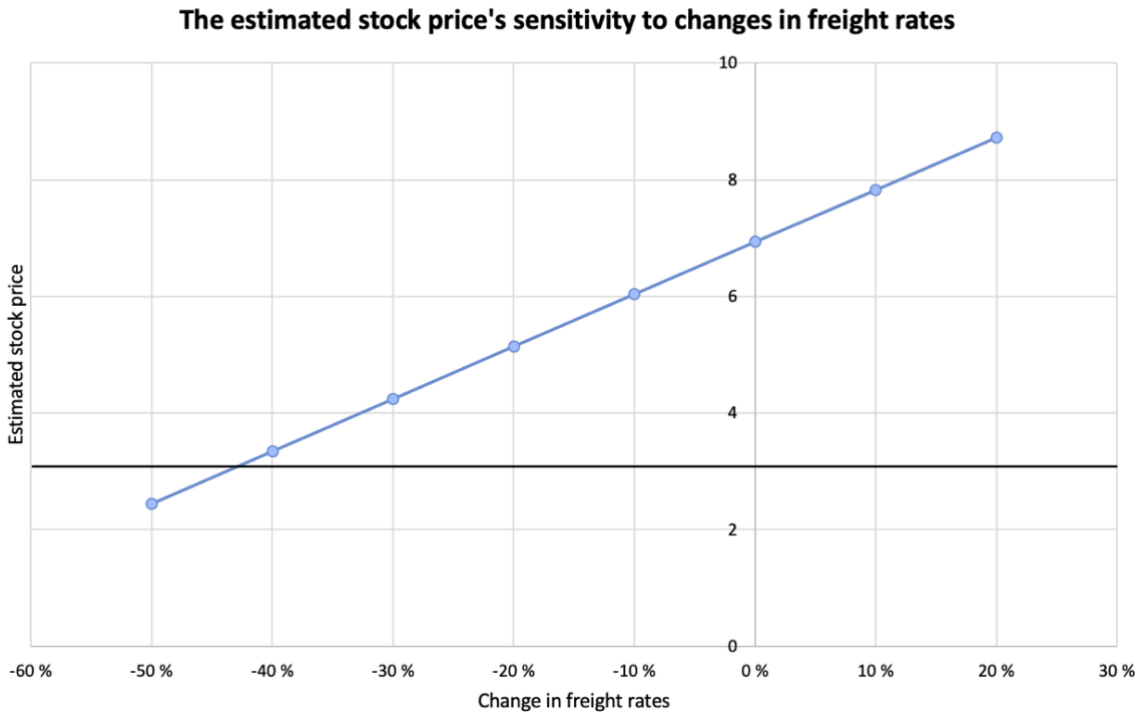

Figure 9: The estimated stock price's sensitivity to changes in freight rates (own creation)

The black line in figure 9 marks the noted stock price on the 10th of May 2021 which was NOK 3,09. Based on this, the graph clearly shows that even large changes in the freight rates does not change the conclusion on the valuation. The freight rates would have to decrease with almost 43% for the stock not to be undervalued, and it is rather unlikely that the freight rates will deviate from the forecast with this amount each year. However, changes in the freight rates do change the upside potential, as the estimated value of course changes with the freight rates, as well as for WACC. If the freight rates each year were to deviate by -20%, the estimated stock price would decrease to NOK 5,138. Based on this, the estimated stock price does have some sensitivity to changes in the freight rates, but there would have to be dramatic changes for the

conclusion of the valuation to change. Consequently, the uncertainty related to the freight rates in the discounted cash flow analysis is not a reason to question the conclusion of the fact that the stock of Hunter Group is undervalued.

9 Relative valuation

In this chapter a relative valuation by using multiples will be performed. This is another way of valuing a company. Firstly, the theory behind relative valuation will be discussed. Secondly, the comparable companies will be selected. Data from these selected comparables will then be used to calculate multiples which will be used to estimate a value for Hunter Group.

9.1 The approach of valuation using market comparables

Relative valuation is valuation using market comparables (Titman & Martin, 2016, p. 260). Calculating multiples of comparable companies can be used to find the value of a target company. A multiple is the ratio of the stock price or enterprise value to a particular number in the financial statements (Penman, 2013, p. 76). Discounted cash flow analysis and relative valuation are two approaches that should be seen as complements, as the discounted cash flow analysis can be viewed as the conceptual basis for most relative valuation criteria (Titman & Martin, 2016, p. 260). Nevertheless, multiple analysis is the easier approach, as it uses minimal information (Penman, 2013, p. 76). It does not require all the forecasting and estimation a discounted cash flow analysis needs, but instead uses available information. However, this causes some limitations and fundamental flaws. Firstly, the analysis is not anchored on something fundamental that tells us about value independently of market prices (Penman, 2013, p. 77). Consequently, it assumes that the market is efficient and prices the comparables correctly, but do not trust the market price for the target company (Penman, 2013, p. 76). Secondly, relative valuation uses numbers from the financial statements directly in the ratios, and past performance does not have to signal future behaviour. Finally, the different multiples often give different values, and there is no way of knowing which is the correct value. Due to this, the relative valuation will only be used as a supplement and to increase the understanding of the fundamental analysis already conducted.

For valuation using market comparables one first has to identify comparable firms. These should have similar operations to those of the target firm (Penman, 2013, p. 76). Secondly, one has to identify measures for the comparable firms in their financial statements (Penman, 2013, p. 76). Based on the measures, multiples are calculated. Then an average or median of the multiples are applied to the corresponding measures of the target firm to find the firm's value (Penman, 2013, p. 76).

9.2 Comparables

The comparables should be aimed to match with industry, product, size, growth and risk (Penman, 2013, p. 78). Consequently, they should share similar operating cost structures and capital structures (Titman & Martin, 2016, p. 288). However, no firms are exactly alike. Increasing the number of comparables could average out errors, giving a better estimate, but the more comparables that are included the less alike they are likely to be (Penman, 2013, p. 78).

Hunter Group does not have any good comparables. Firstly, Hunter Group are identifying themselves as an investment company rather than a traditional crude tanker company, and this is something that can affect their stock price. Hunter Group is forecasted to have a lifespan of 20 years the way they operate now, but other tanker companies are investing in new vessels and are expected to be going concerns. Despite of this, as Hunter Group for now operates only within the crude tanker industry, crude tanker companies will still be the closest comparables, as these should be relatively similar in the manner of value creation. These companies have mostly the same sorts of revenues and expenses, giving similar operating leverage which affects the risk. More specific, the comparables from the industry should be companies also operating VLCCs, as these operate with similar customers, similar trade routes and so on. Secondly, there is another important reason for why crude tanker companies are not good comparables for Hunter Group. It is related to the fact that even companies that operate VLCCs are very different. Most of the companies operating VLCCs have a lot of other types of vessels as well and/or a lot more VLCCs than Hunter Group. Hunter Group is a small company within the industry. However, some of the downside related to being a small company are eliminated by being part of Tankers International. In addition, the different betas observed for crude tanker companies, both below 0 and above 1, also confirms likely large differences in capital structure and risk.

It is clear that the validity of a relative valuation of Hunter Group is not the best, as there is a lack of proper comparable companies. However, as mentioned the relative valuation will only be used as a supplement and to increase the understanding of the fundamental analysis already conducted. It is also useful to get a grasp of Hunter Group's value relative to its competitors. Based on the absence of good comparables, an increased number of comparables will be used

to try to average out large differences. The companies that are chosen are companies that operate more than one VLCC in their fleet. The comparable companies chosen are:

- Frontline Ltd (FRO)
- DHT Holding Inc (DHT)
- Euronav NV (EURN)
- Tsakos Energy Navigation Ltd (TNP)
- International Seaways Inc (INSW)
- Okeanis Eco Tankers Corp (OET)
- Navios Maritime Acquisition Corporation (NNA)

9.3 Valuation using market comparables

There is a distinction between enterprise value ratios and price ratios for relative valuation of a company. Enterprise value ratios yield the enterprise value of the company, and one has to subtract net interest-bearing debt to arrive at the equity value. Price ratios yield the value of the firm's equity directly. It is important to select a valuation metric that is closely related to the investment's ability to generate cash flows or other benefits (Titman & Martin, 2016, p. 264).

9.3.1 Enterprise value ratios

Using enterprise value ratios, the EV/EBITDA ratio, the EV/EBIT ratio and the EV/R ratio are chosen as these should be good measures to compare Hunter Group to its peers. The EV/EBITDA ratio is the enterprise value divided by earnings before interest, taxes, depreciation and amortization. The EV/EBIT ratio is the enterprise value divided by earnings before interest and taxes. The EV/R ratio is the enterprise value divided by revenue. The enterprise value used for the comparables is the market capitalization plus net interest-bearing debt. Appendix 2 displays the numbers used to calculate the enterprise value ratios. It would have been desirable to also use a ratio related to the average achieved freight rate of the different companies, but unfortunately this was not obtainable for all the peers.

EBITDA is a popular metric for a multiple as it can be viewed as a crude measure of a firm's cash flow (Titman & Martin, 2016, p. 272). However, EBITDA, as opposed to FCFF, only measures the earnings of the firm's assets already in place and therefore ignores the value of potential new investments (Titman & Martin, 2016, p. 275). The EBITDA multiple is therefore

only correct if one assumes that the firm's investments have zero net present values on average (Titman & Martin, 2016, p. 275). This may be correct for mature firms, but not for all firms as some have several growth opportunities. Looking at the EV/EBIT ratio, this ratio is very useful for capital-intensive businesses, as depreciation will be a large amount of the costs. The EV/EBITDA and EV/EBIT multiples look on the company's ability to generate operating cash flows, and hence takes both revenues and costs into account. On the other hand, the EV/R multiple only looks at a company's ability to generate revenues. The EV/EBITDA, EV/EBIT and EV/R multiples to the comparables together with the valuation of Hunter Group based on those multiples are displayed in table 26.

Comparable company	EV/EBITDA	EV/EBIT	EV/R
FRO	5,74	7,32	3,05
DHT	3,32	3,32	2,10
EURN	3,65	5,84	2,47
TNP	6,49	13,77	2,68
INSW	4,36	22,21	2,32
OET	6,83	8,89	4,27
NNA	6,33	11,12	3,48
Average	5,24	10,35	2,91
Corresponding measure HUNT	$ 94 000 000	$ 78 000 000	$ 109 000 000
Enterprise value HUNT	$ 492 987 832	$ 807 542 471	$ 317 229 051
Debt	$ 237 954 000	$ 237 954 000	$ 237 954 000
Cash	$ 95 146 000	$ 95 146 000	$ 95 146 000
Equity value	$ 350 179 832	$ 664 734 471	$ 174 421 051
Number of shares	575 362 013	575 362 013	575 362 013
Price HUNT USD	$ 0,61	$ 1,16	$ 0,30
Price HUNT NOK	**kr 4,99**	**kr 9,48**	**kr 2,49**

Table 26: Valuation of Hunter Group based on EV/EBITDA, EV/EBIT and EV/R multiples (own creation)

Looking at the different multiples, these are of wide range within each of the different types of ratios. This confirms some of the large variations among companies in the business. However, using the strategy of using an increased number of comparables as an attempt to average out large differences, the multiples of the different ratios are used as an average multiple. The enterprise value ratios yield how many times EBITDA, EBIT or revenue one has to pay to acquire the entire business. Multiplying the average ratios to Hunter Group's corresponding measures therefore yield the enterprise value. To be able to compare the calculated value derived from the comparables to the trading price, one has to calculate the equity value from the enterprise value. The equity value is then divided by the number of shares to get the per share value. The valuation of Hunter Group based on the EV/EBITDA average multiple of

comparables yields a price per share of USD 0,61. This translates to a price of NOK 4,99. Comparing this to their noted stock price on the 10th of May 2021, NOK 3,09, the stock of Hunter Group is estimated to be undervalued based on the relative valuation using EBITDA. Based on Hunter Group's ability to generate EBITDA relative to their peers, they should trade for a higher price.

The valuation of Hunter Group based on the EV/EBIT average multiple of comparables yields a price per share of NOK 9,48. Comparing this to their noted stock price, the stock of Hunter Group is estimated to be undervalued based on the relative valuation using EBIT. However, as this multiple is affected by depreciation, this may cause it to be unrepresentative for 2020 as Hunter Group's depreciation will be affected by both receiving and selling vessels during this year. In addition, Hunter Group depreciate their vessels over 25 years, although the average scrapping age for VLCCs has been around 20 years (Euronav, 2018, p. 16). As a result, the abnormally high value using this ratio is likely to be a bit lower if adjusting for this.

The valuation of Hunter Group based on the EV/R average multiple of comparables yields a price per share of NOK 2,49. Comparing this to their noted stock price, the stock of Hunter Group is estimated to be overvalued based on the relative valuation using revenues. This could indicate that one of Hunter Group's competitive advantages lies within their costs, as the ratios including the costs shows that their stock is undervalued. The cost levels for crude tanker companies are likely to differ, and consequently the ratios accounting for this are assumed to be more representable.

9.3.2 Price ratios

Using price ratios, the P/E ratio and P/B ratio are chosen as these should be good measures to compare Hunter Group to its peers. The P/E ratio is the stock price divided by earnings per share. It is the trailing P/E that is used. The P/B ratio is the stock price divided by the per share book value of equity. The multiples are collected from Nordnet who have already calculated these ratios of the chosen companies. The P/E and P/B multiples to the comparables together with the valuation of Hunter Group based on those multiples are displayed in table 27.

Comparable company	P/E	P/B
FRO	3,79	0,95
DHT	4,65	0,91
EURN	12,11	0,85
TNP	7,66	0,13
INSW	28,9	0,58
OET	5,42	0,91
NNA	1,82	0,16
Average	9,19	0,64
Corresponding measure HUNT	0,11	0,47
Price HUNT USD	$ 1,01	$ 0,30
Price HUNT NOK	**$ 8,30**	**$ 2,48**

Table 27: Valuation of Hunter Group based on P/E and P/B multiples (own creation)

Looking at the different multiples, these are also of wide range, and yet again confirm some of the large variations among companies in the business. However, using the strategy of using an increased number of comparables as an attempt to average out large differences, the multiples of the different ratios are used as an average multiple. Multiplying the average P/E ratio by Hunter Group's earnings per share yields a stock price of USD 1,01. This translates to a price of NOK 8,3. Comparing this to their noted stock price on the 10th of May 2021, NOK 3,09, the stock of Hunter Group is estimated to be undervalued. The P/E ratio shows how many dollars an investor is willing to pay per dollar earnings. A high P/E ratio could indicate expected high growth rates in the future. The difference among the multiples is extremely large, but this is expected due to the large differences among these companies.

Multiplying the average P/B ratio by Hunter Group's per share book value of equity yields a stock price of NOK 2,48. Comparing this to their noted stock price, the stock of Hunter Group is estimated to be overvalued. The P/B ratio compares the companies' market price to the book value of tangible assets minus liabilities. Typically, the market value is higher than the book value. However, looking at the P/B ratios of the comparables, all are below 1. In general, a P/B ratio below 1 could indicate an undervalued stock, as it trades for less than the book value of its equity. Anyhow, given the fact that all the comparables have such a low P/B ratio, it may seem that the market itself places values on these companies that are less than the book value of their assets. It may be due to an expected plunge in earnings power. However, for crude tanker companies the most likely explanation is that they bought their vessels, which is the majority of their assets, when the business was experiencing strong market conditions. If these

market conditions have deteriorated since then, the book value of the vessels will overstate the true value. This will give a low P/B ratio without meaning that the stock actually is undervalued. Consequently, the P/B ratio appears not to be the best fit for valuing a crude tanker company, and the P/E ratio is considered more representative determining the value.

10 Conclusion

The aim for this thesis was to find the intrinsic value of Hunter Group, to be able to give a buy, sell or hold recommendation of the stock related to the current market price. The main findings relevant to understanding the company are that they bought their vessels when historically undervalued and that their vessels have some features generating a premium to their revenue compared to others. In addition, the fact that Hunter Group define themselves as an investment company rather than a traditional crude tanker company gave an interesting perspective to the analysis. Hunter Group's objective is to return all surplus cash to shareholders, either through dividends, buybacks or deleveraging (Hunter Group ASA, 2020b). This resulted in only forecasting for a 20-year lifespan and not assuming Hunter Group to be a going concern as most other companies. For now, they have not announced any details on future investment plans and forecasting for this would be speculative. Due to this, their cash flows are forecasted only over the lifetime of the vessels they currently hold. This also results in an expectation that one will be distributed returns shortly by investing in this company. The forecasting of cash flows was based on a strategic analysis and an analysis of financial statements conducted in the thesis. The knowledge from this was combined with external sources of information to arrive at the best possible estimates. The suitable cost of capital was also estimated, using WACC and CAPM. The forecasted cash flow and the cost of capital were then used to do a discounted cash flow analysis of Hunter Group.

Hunter Group's calculated intrinsic value of equity is NOK 6,93 per share. The noted stock price on the 10th of May 2021 was NOK 3,09. Based on this, the stock of Hunter Group is estimated to be undervalued, and a buy recommendation of the stock is given. Nevertheless, as there is uncertainty related to future outcomes, a sensitivity analysis was conducted. It was the WACC and freight rates that were chosen as the subjects for the sensitivity analysis. These are the two parameters that are forecasted with most uncertainty as they are very volatile, plus they have a lot to say for the estimated value. The estimated stock price was not too sensitive to change in WACC, and a little sensitive to changes in freight rates. However, both of these would have to change substantially for the conclusion of the discounted cash flow analysis to change. Finally, a relative valuation was also conducted. As this method has its limitations and Hunter Group does not have any good comparables, the method was only used as a supplement and to increase the understanding of the fundamental analysis already conducted. Looking at the different multiples and reviewing which were most relevant determining the value, these

also supported the conclusion of the stock of Hunter Group being undervalued. Consequently, the conclusion is maintained; the stock is undervalued, and a buy recommendation of the stock is given. The target price is set at the estimates intrinsic value of NOK 6,93.

Overall, the forecast is considered rather conservative, as it does not account for possible investment opportunities in the future which can generate a higher return and a longer existence for Hunter Group. As this is uncertain and not grounded on specific information, it cannot be forecasted soundly and will be speculation. However, it is likely that they will grasp other business opportunities eventually. They have a lot of cash available, and the fact that they have not paid this out to investors or creditors could signal that they are withholding this for future investments. Arne Fredly has hinted that Hunter Group may have plans to enter a new business area within shipping that will be able to provide a solid return to shareholders, as they have built up a lot of knowledge and experience that can be utilized (Segrov, 2021a). Based on this, it can be argued that the stock has a lot of upside potential over the estimated target price. This strengthens the buy recommendation.

Despite of this, there is also some downside potential to the estimated target price of Hunter Group. There will be uncertainty related to the forecasts, as it is impossible to predict the future. However, it is aimed to be the best estimates based on available data, available information and personal judgement, and aimed not to be speculative. Anyhow, there is a possibility that the future within the oil value chain may be limited, as there is a risk of completely phasing out fossil energy sources as a consequence of the environmental awareness. The uncertainty related to future oil supply and demand may have larger effects on the market than the personal judgements made in this thesis. Depending on when this happens, this could erase Hunter Group's foundation of operations. However, their possible plan to enter a new business area within shipping may be related to moving away from shipping crude oil and ship other goods instead. This would be a smart move to diversify and assure a longer lifespan of their operations. Nevertheless, it is clear that there is some downside potential to the estimated target price of Hunter Group as well. Despite of this, the upside potential is considered to be more likely as well as larger than the downside potential. Consequently, the conclusion is maintained; the stock is undervalued, a buy recommendation of the stock is given.

The estimated intrinsic value is rather high, as it is over double the market price. This is somewhat strange, as the forecast is considered rather conservative. However, Arne Fredly

himself states that the stock is traded far below slaughter value (Segrov, 2021a). Further, he states, “We get no credit for good performance, low costs, transparency, zero fees and an extremely shareholder-friendly policy” and argues that Hunter Group should be traded to a premium relative to other crude tanker companies due to these features (Segrov, 2021a). One example is that when the spot rates were zero for older vessels, Hunter Group has been able to achieve USD 20 000 in rates (Segrov, 2021a). Based on the analysis in this thesis, they definitely should trade at a premium based on these features and are forecasted with this. This generates the result of the stock being undervalued. It will be exciting to keep an eye the stock and see if the market agrees.

Bibliography

Berk, J., & DeMarzo, P. (2020). *Corporate Finance* (5th ed.). London: Pearson Education

Business-to-you. (2016). Scanning the Environment: PESTEL Analysis. Retrieved from https://www.business-to-you.com/scanning-the-environment-pestel-analysis/

Christensen, J. (2019, May 2). Hunter Group fikk låneavtale med Arne Fredly: - Det ville ikke vært mulig å oppnå så bra vilkår med noen banker. *Dagens Næringsliv.* Retrieved from https://www.dn.no/shipping/hunter-group/arne-fredly/erik-frydendal/hunter-group-fikk-laneavtale-med-arne-fredly-det-ville-ikke-vart-mulig-a-oppna-sa-bra-vilkar-med-noen-banker/2-1-596409

Damodaran, A. (2012). *Investment Valuation* (3rd ed.). New Jersey: John Wiley & Sons, Inc.

Euronav. (2018). The basics of the tanker shipping market. Retrieved from https://www.euronav.com/investors/company-news-reports/special-reports/basics-of-the-tanker-shipping-market/

Fernando, J. (2021). Working capital (NWC). *Investopedia.* Retrieved from https://www.investopedia.com/articles/investing/072715/dummies-guide-iran-nuclear-deal.asp

Hunter Group ASA. (2018a, April 26). *Hunter Group ASA – Enters Into Definitive Vlcc Contract Transfer Agreements With Apollo Asset Ltd* [Press release]. Retrieved from https://www.huntergroup.no/press-release/2897055-e

Hunter Group ASA. (2018b, May 11). *Hunter Group ASA –Market Update* [Press release]. Retrieved from https://www.huntergroup.no/press-release/2915343-5

Hunter Group ASA. (2020a). *Annual report for Hunter Group ASA 2019.* Retrieved from https://uploads-ssl.webflow.com/5b06a89af9e393ba01c3e0ea/5e7dfd3c60bd8b3808857001_Release%20(7).pdf

Hunter Group ASA. (2020b). Company presentation for Hunter Group ASA September 2020. Retrieved from https://uploads-ssl.webflow.com/5b06a89af9e39366b4c3e118/5f635151be4fa470836ee987_2020-09-09%20Company%20Presentation.pdf

Hunter Group ASA. (2020c, October 29). *Hunter Group ASA - Memorandum Of Agreement* [Press release]. Retrieved from https://www.huntergroup.no/press-releases/3814722

Hunter Group ASA. (2021a). *Annual report for Hunter Group ASA 2020.* Retrieved from https://mb.cision.com/Main/1339/3313837/1392508.pdf

Hunter Group ASA. (2021b, February 23). *Hunter Group ASA - Memorandum Of Agreement* [Press release]. Retrieved from https://www.huntergroup.no/press-release/3900231

International Maritime Organization. (2019). IMO 2020 – cleaner shipping for cleaner air. Retrieved from https://www.imo.org/en/MediaCentre/PressBriefings/Pages/34-IMO-2020-sulphur-limit-.aspx

Jallal, C. (2019, April 3). Financial engineering drives VLCC newbuilding project. *Riviera Maritime Media.* Retrieved from https://www.rivieramm.com/opinion/financial-engineering-drives-vlcc-newbuilding-project-53939

Johnson, G. (2013). *Exploring Strategy* (10th ed.). London: Pearson Education.

Kleiven, N. E., & Segrov, B. (2019, December 2). - Alle pengene skal tilbake til aksjonærene. *Finansavisen.* Retrieved from https://finansavisen.no/nyheter/shipping/2019/12/02/7478888/fredly-alle-pengene-skal-tilbake-til-aksjonaerene

KPMG. (2021). Rederiskatteordningen. Retrieved from https://verdtavite.kpmg.no/rederiskatteordningen.aspx

Lian, J., Bye, M. & Tryggvason Lanesskog, M. (2021, April 11). *Crude Tankers.* DNB Markets: Research report

Norges Bank. (2021). Statsobligasjoner daglige noteringer. Retrieved from https://www.norges-bank.no/tema/Statistikk/Rentestatistikk/Statsobligasjoner-Rente-Daglige-noteringer/

Penman, S. H. (2013). *Financial Statement Analysis and Security Valuation* (5th ed.). New York: McGraw-Hill Education.

PwC. (2021). *Risikopremien i det norske markedet 2020.* Retrieved from https://www.pwc.no/no/publikasjoner/pwc-risikopremie-2020.pdf

Segrov, B. (2021a, February 23). Fredly: - Aksjen handles langt under slakteverdi. *Finansavisen.* Retrieved from https://finansavisen.no/nyheter/shipping/2021/02/25/7632874/fredly-sier-hunter-aksjen-handles-langt-under-slakteverdi?fbclid=IwAR0uuYiRWfvbClMulfQjQtwX1WCY0UFI6IU7x4JeCq7dxIEQmDD_gn_Vcy4

Segrov, B. (2021b, February 25). Tjener mer enn konkurrentene. *Finansavisen.* Retrieved from https://finansavisen.no/nyheter/shipping/2021/02/25/7633104/hunter-group-mener-det-verste-er-over?fbclid=IwAR2Zg-ag--2IXSOZttSnS6ZwdpsS6P7f5n4zRTVmeAlgXxOEI-Ja8h1NKKA#Echobox=1614284848

Segrov, B. & Strandli, A. (2020, October 9). - Veldig fair å selge et par-tre skip nå. *Finansavisen.* Retrieved from https://finansavisen.no/nyheter/shipping/2020/10/09/7575494/pareto-tror-hunter-selger-to-tre-skip

Seth, S. (2019). Crude Tankers: The Business of Transporting Oil. *Investopedia.* Retrieved from https://www.investopedia.com/articles/investing/012316/crude-tankers-business-transporting-oil.asp

Seth, S. (2021). A Guide to the Iran Nuclear deal. *Investopedia.* Retrieved from https://www.investopedia.com/articles/investing/072715/dummies-guide-iran-nuclear-deal.asp

Skatteetaten. (n.d.). Rederi. Retrieved from https://www.skatteetaten.no/bedrift-og-organisasjon/rapportering-og-bransjer/bransjer-med-egne-regler/rederi/

Tankers International. (2020a). Benefits of Pooling with TI. Retrieved from https://tankersinternational.com/pools/#benefits_of_pooling_with_ti

Tankers International. (2020b). How the pools work. Retrieved from https://tankersinternational.com/pools/#how_the_ti_pools_works

Tankers International. (2020c). Our Sub-Pools. Retrieved from https://tankersinternational.com/pools/#our_sub_pools

Tankers International. (2020d). Tankers International Pioneers of VLCC Pooling. Retrieved from https://tankersinternational.com/about/#intro

Titman, S., & Martin, J. D. (2016). *Valuation: The art and science of corporate investment decisions* (3rd ed.). London: Pearson Education.

U.S. Department of the Treasury. (2021). Daily Treasury Yield Curve Rates. Retrieved from https://www.treasury.gov/resource-center/data-chart-center/interest-rates/pages/textview.aspx?data=yield

U.S. Energy Information Administration. (2014). Oil tanker sizes range from general purpose to ultra-large crude carriers on AFRA scale. Retrieved from https://www.eia.gov/todayinenergy/detail.php?id=17991

Yahoo Finance. (2021). Hunter Group ASA (HUNT.OL). Retrieved from https://finance.yahoo.com/quote/HUNT.OL/history?p=HUNT.OL

Appendix

Appendix 1: Beta estimation

The beta has been estimated using linear regression. The beta was estimated regressing monthly returns of Hunter Group against monthly returns of the Nasdaq Composite index. Firstly, the historical stock prices from the 26th of April 2018 to the 6th of May 2021 of Hunter Group and Nasdaq Composite were downloaded from Yahoo Finance. As the stock prices of Hunter Group were in NOK, they had to be translated to USD to match the currency of Nasdaq Composite index. Consequently, monthly exchange rates from NOK to USD were also downloaded from Yahoo Finance and used to translate the NOK stock prices to USD stock prices. Missing and non-corresponding dates were removed to ensure correct matching. The last day of the month with available data for both Hunter Group, Nasdaq Composite and the exchange rates were used. The final step in the data preparation was to calculate the monthly returns from the monthly stock prices for both Hunter Group and Nasdaq Composite. Using the data analysis tool in excel, the returns of Hunter Group were regressed against the returns of the Nasdaq Composite, yielding a beta of 0,27. The summary of the data using the regression tool and the prepared data are shown below.

SAMMENDRAG (UTDATA)								
Regresjonsstatistikk								
Multippel R	0,1441							
R-kvadrat	0,0208							
Justert R-kvadrat	-0,0072							
Standardfeil	0,1119							
Observasjoner	37							
Variansanalyse								
	fg	*SK*	*GK*	*F*	*Signifkans-F*			
Regresjon	1	0,0093	0,0093	0,7422	0,3948			
Residualer	35	0,4386	0,0125					
Totalt	36	0,4479						
	Koeffisienter	*Standardfeil*	*t-Stat*	*P-verdi*	*Nederste 95%*	*Øverste 95%*	*Nedre 95,0%*	*Øverste 95,0%*
Skjæringspunkt	0,0086	0,0194	0,4441	0,6597	-0,0308	0,0480	-0,0308	0,0480
X-variabel 1	0,2693	0,3126	0,8615	0,3948	-0,3653	0,9040	-0,3653	0,9040

Date	Nasdaq Composite Adj Close USD	Hunter Group Adj Close USD		Nasdaq Composite Returns	Hunter Group Returns
30.04.2018	7066,270	0,262			
31.05.2018	7442,120	0,248		0,053	-0,054
29.06.2018	7510,300	0,271		0,009	0,095
31.07.2018	7671,790	0,274		0,022	0,009
31.08.2018	8109,540	0,249		0,057	-0,089
28.09.2018	8046,350	0,262		-0,008	0,052
31.10.2018	7305,900	0,286		-0,092	0,093
30.11.2018	7330,540	0,248		0,003	-0,135
28.12.2018	6584,520	0,228		-0,102	-0,080
31.01.2019	7281,740	0,226		0,106	-0,010
28.02.2019	7532,530	0,252		0,034	0,116
29.03.2019	7729,320	0,234		0,026	-0,070
30.04.2019	8095,390	0,257		0,047	0,099
31.05.2019	7453,150	0,253		-0,079	-0,017
28.06.2019	8006,240	0,261		0,074	0,030
31.07.2019	8175,420	0,241		0,021	-0,074
30.08.2019	7962,880	0,253		-0,026	0,047
10.09.2019	8084,160	0,266		0,015	0,055
31.10.2019	8292,360	0,316		0,026	0,187
29.11.2019	8665,470	0,328		0,045	0,036
31.12.2019	8972,600	0,384		0,035	0,172
31.01.2020	9150,940	0,308		0,020	-0,198
28.02.2020	8567,370	0,243		-0,064	-0,212
31.03.2020	7700,100	0,255		-0,101	0,049
30.04.2020	8889,550	0,241		0,154	-0,056
29.05.2020	9489,870	0,228		0,068	-0,052
30.06.2020	10058,770	0,199		0,060	-0,126
31.07.2020	10745,270	0,219		0,068	0,099
31.08.2020	11775,460	0,244		0,096	0,112
30.09.2020	11167,510	0,210		-0,052	-0,139
30.10.2020	10911,590	0,215		-0,023	0,023
30.11.2020	12198,740	0,244		0,118	0,138
30.12.2020	12870,000	0,250		0,055	0,024
29.01.2021	13070,690	0,255		0,016	0,019
26.02.2021	13192,350	0,343		0,009	0,345
31.03.2021	13246,870	0,334		0,004	-0,026
30.04.2021	13962,680	0,351		0,054	0,051
06.05.2021	13632,840	0,351		-0,024	0,001

Appendix 2: Numbers used to calculate the enterprise value ratios

	FRO	DHT	EURN	TNP	INSW	OET	NNA	HUNT
Price per share	kr 66,840	$ 5,890	$ 9,440	$ 9,280	$ 20,010	kr 93,700	$ 3,670	kr 3,088
Number of shares	197 692 321	171 499 004	201 677 981	18 195 810	28 087 011	32 375 917	16 559 481	575 362 013
Market cap NOK	kr 13 213 754 736					kr 3 033 623 423		kr 1 776 717 896
Market cap USD	$ 1 610 756 702	$ 1 010 129 134	$ 1 903 840 141	$ 168 857 117	$ 562 021 090	$ 369 798 695	$ 60 773 295	$ 216 581 912
Debt	$ 2 306 668 000	$ 513 049 000	$ 1 375 453 000	$ 1 730 457 000	$ 614 497 000	$ 862 500 000	$ 1 239 140 000	$ 237 954 000
Cash	$ 198 123 000	$ 68 641 000	$ 161 478 000	$ 171 771 000	$ 199 390 000	$ 23 000 000	$ 41 357 000	$ 95 146 000
Enterprise value	$ 3 719 301 702	$ 1 454 537 134	$ 3 117 815 141	$ 1 727 543 117	$ 977 128 090	$ 1 209 298 695	$ 1 258 556 295	$ 359 389 912
EBITDA	$ 648 167 000	$ 437 837 000	$ 854 073 000	$ 266 352 000	$ 224 262 000	$ 177 000 000	$ 198 955 000	$ 94 000 000
EBIT	$ 507 795 000	$ 313 592 000	$ 534 322 000	$ 125 470 000	$ 43 999 000	$ 136 000 000	$ 113 162 000	$ 78 000 000
Revenue	$ 1 221 187 000	$ 691 039 000	$ 1 263 590 000	$ 644 135 000	$ 421 648 000	$ 283 000 000	$ 361 438 000	$ 109 000 000