

Odfjell Technology (OTL)

About Odfjell Technology

Odfjell Technology (Odfjell Technology or “the Company”) is a well-established company in the oil and gas energy industry that provides a wide range of services, including well services, drilling operations and projects & engineering. The Company offers its services to both onshore and offshore operations, with a focus on the offshore sector. Current operations is in Norway, United Kingdom, Europe and Asia.

Overweight

Target Price	NOK 75.6
Current Price	NOK 50.3
Upside	50.0%

Market Data, NOK

Exchange	OSE: OSLO		
Shares (m)	39.5		
MCAP (m)	2,234		
EV (m)	3,283		

Forecast, NOKm

	22A	23E	24E
Total revenue	3,528	4,082	4,723
Rev. growth	36.2%	15.7%	15.7%
Gross Profit	305	351	399
Net Margin	9.0%	8.6%	8.4%
EBITDA	540	780	903
EBITDA Margin	15.2%	19.0%	19.0%
EBIT	284	474	539
EBIT Margin	8.0%	11.5%	11.3%

Key Metrics

	22A	23E	24E
EV/EBITDA	4.2x	4.1x	4.0x
EV/EBIT	7.3x	7.2x	6.8x
ND/EBITDA	(0.0x)	(0.0x)	(0.0x)
P/E	7.6x	8.3x	4.9x
P/S	0.5x	0.5x	0.5x
EPS	6.41	6.69	7.41

ANALYSTS CONTACT INFORMATION

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Odfjell Technology – Drills, Thrills, and Profit Spills

Odfjell Technology is a dominant player in the offshore drilling sector, offering specialized equipment and services. Demonstrating resilience, it has maintained stable financial performance and a strong market position. With the ongoing conflict in Ukraine driving increased European oil demand, Odfjell Technology stands to gain significant advantages through these opportunities. As oil prices continue to rise and emerging markets in Asia drive revenue and margin growth, the Company is well-positioned for continued success and profitability in the evolving energy landscape. An equally weighted DCF and Peer valuation implies a target price of 75.6 NOK, indicating a 50.0% upside

Key takeaways

- **Strong market outlook driving revenue CAGR by 15.7% in 2023E-2027E**

Crude oil price is expected to increase over the coming years and is projected to increase by 15.3% in 2023 alone. Additionally, key regions are currently affected by the Russian invasion of Ukraine, increasing energy demand by possibly 40.0% in Europe. This fuels cash generation for oil and gas companies, which in turn is projected to increase their equipment and property spending by 16.0%, a segment Odfjell Technology excels within. The need for more complex wells to access remaining oil reserves motivates more spending and justifies a price increase of 15.0% by 2027E according to market research.

- **Exploiting renewable energy opportunities for impressive growth**

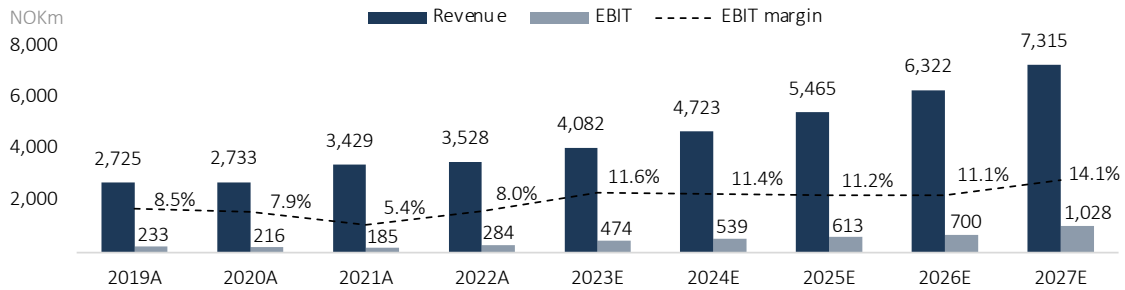
Odfjell Technology is a trusted partner and specialist that offers comprehensive end-to-end solutions, making customers dependent on Odfjell Technology’s services. This is evident through the consistent renewal of contracts and the establishment of robust, enduring relationships with customers. As Odfjell Technology already excels in providing equipment and services to offshore energy plants, the Company is now seeking to extend its reach to include wind power plants. This strategic expansion aligns with the growing demand for renewable energy solutions. The European Union has set a goal to increase wind power plant energy production by 100.0% by 2030, which is expected to drive a 6.0% CAGR in top-line revenue until 2027E.

- **Odfjell Technology's Resilience Overlooked: Potential 50% Upside**

The analysts implies that the market has currently overestimated the risk of a recession affecting Odfjell Technology. With little to no debt, Odfjell has reduced its exposure to high-interest rates and industry cyclicality, with a net cash position of NOKm 190. Moreover, its resilient business model allows for sustained profitability even in the face of declining oil prices and the analysts believe that Odfjell Technology can maintain a 17% ROIC even in the case of a recession. Despite this, the Company is trading at a P/E of 8.4x while the peer average is 14.3x, indicating that the market is severely undervaluing the Company. As a result, analysts anticipate a potential 50% upside based on 2027E estimates.

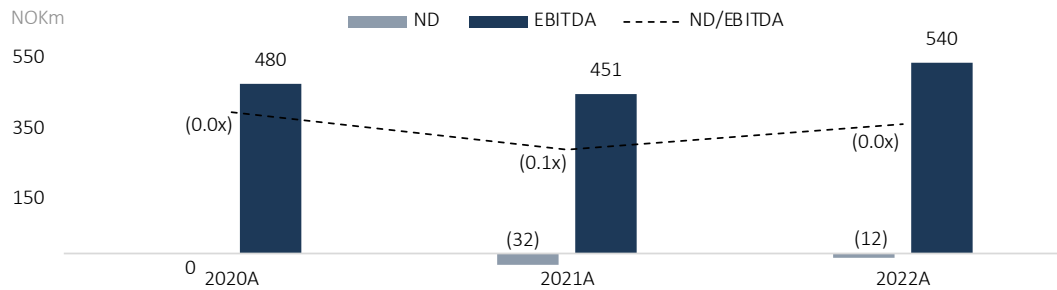
Investment thesis in charts

High increase in revenues and profitability 2019A-2027E



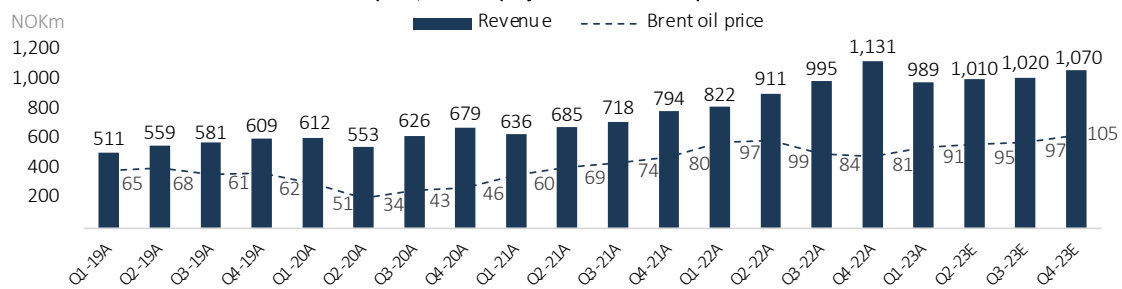
Sources: Bloomberg, the Company, Analyst estimates

Odffjell Technology is not exposed to high interest rates due to low net debt 2020A-2022A



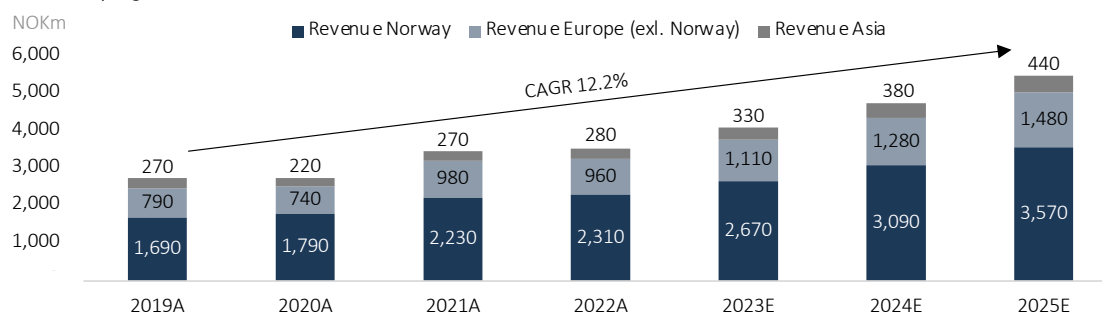
Sources: Bloomberg, the Company

Correlation between revenue and Brent oil price, which is projected to increase by 12.8% 2023A-2024E



Sources: Bloomberg, the Company

Revenue by region with a CAGR of 12.2% 2019A-2025E



Sources: Bloomberg, the Company

Investment thesis

Increasing oil prices from \$91.1 to \$105.0 2024E fuel growth by up to 7.7%

In recent years, Odfjell Technology has benefited from the increasing prices of oil, from 36.4 USD/Bbl 2021 to 73.3 USD/Bbl today. This has resulted in a demand increase by 20.0% for the Company's specialized equipment and services, particularly in the offshore drilling and production sector. The analysts foresee a parallel growth trajectory for the Company's other products, as historical data indicates a consistent revenue split across Odfjell's product portfolio. According to industry forecasts, global oil prices is expected to increase by 15.3% in 2023E alone, driven by growth in emerging markets and rising industrial activity. These trends are estimated to continue supporting higher oil prices, which will provide a favorable environment for Odfjell Technology's continued growth and profitability.

Steady growth with 5.4% CAGR through turbulent market conditions

Odfjell Technology's financial performance has been characterized by resilience, even amidst challenging market conditions such as the oil price crash in 2020. Odfjell Technology has maintained stable revenue growth, with an impressive top-line growth of 25% in 2021. Odfjell Technology has also demonstrated strong operating profitability development, as evidenced by its solid EBIT-margin growth, from 5.4% in 2021 to 8.0% in 2022. Furthermore, through disciplined cost management and a strategic reduction in inventory levels, the Company has successfully decreased inventory costs, leading to a 3.0% reduction in cost of goods sold. This initiative increased EBITDA margins, rising from 15.3% to 19.0%, enhancing overall bottom-line performance. Odfjell Technology's consistent financial performance underscores its robust business model and bodes well for future growth prospects with a 15.7% CAGR during 2023E-2027E.

Odfjell Technology benefits from increased European oil demand amid the Ukraine conflict

The ongoing conflict in Ukraine has significantly impacted the global energy market, resulting in a 29.0% drop in supply from key oil and gas producers based in Russia. This supply disruption has increased demand by 40.0% for oil- and gas from alternative sources, mainly from Europe. As an integrated supplier of offshore operations, well services technology, and engineering solutions, Odfjell Technology is well-positioned to benefit from this trend, as it can provide drilling services to oil and gas producers looking to increase their output. With the conflict in the region expected to continue and with destroyed infrastructure, the analysts anticipate a long-term sustained demand for Odfjell's services for up to ten years to come, with increased demand for all services by approximately 15.7% as Europe builds up its supply capacity

A strong market position and highly experienced management team

Odfjell Technology is strategically well-positioned in a market characterized by high entry barriers and a need for advanced technological expertise. The Company's competitive edge stems from its highly experienced management team, with a proven track record of delivering innovative and efficient solutions to clients. Odfjell's technological capabilities have helped it establish a strong reputation, making it a trusted partner for clients seeking cutting-edge solutions. The Company's focus on research and development shows by a R&D/sales of 11.3%. This ensures that the Company stays at the forefront of technological innovation and is well-positioned to capitalize on opportunities in a market that demands exceptional technical expertise. This favorably positions the Company to seize potential upcoming opportunities.

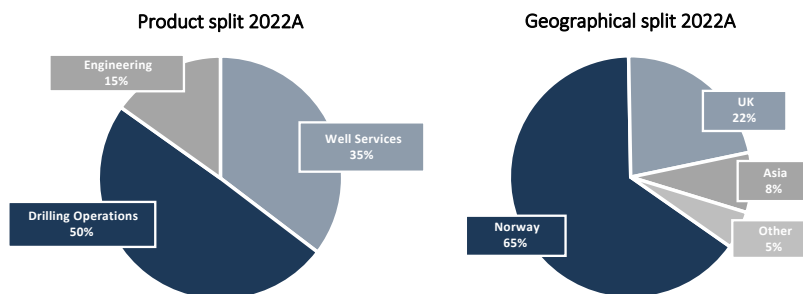
Company Overview

Odfjell Technology is a prominent provider of engineering, procurement, construction, and installation services for the offshore oil and gas industry. With a history dating back to 1973, the Company has established itself as a leader in the field, renowned for its quality and innovative product offering. Operating out of the Company's headquarters in Bergen, Norway, Odfjell Technology has a global presence, with offices located in key oil and gas hubs. The Company's product portfolio encompasses advanced drilling systems, wellhead solutions, and production equipment.

Business Model

Odfjell Technology's business model is founded on offering high-quality and cost-effective solutions to the offshore oil and gas industry. The Company offers a diverse range of services, ranging from engineering and design to installation and commissioning. The Company's products and services are tailored to meet the requirements of customers in several segments, including drilling, production, and subsea. Odfjell Technology places a considerable emphasis on sustainability, and the Company's products and services are designed to minimize the customers' environmental impact. The Company generates revenue from three principal sources: drilling operations, projects & engineering, and well services. Drilling operations account for approximately 50% of the Company's revenue, well services account for 35%, and projects & engineering for the remaining 15%. With a highly skilled workforce encompassing a range of disciplines, including engineering, project management, and operations, the Company's employees constitute its most valuable asset. Accordingly, Odfjell Technology invests heavily in training and development to ensure the Company's workforce is equipped with the skills and knowledge required to provide top-tier products and services. The need for continuous service and highly specialized knowledge leads to long-term customer contracts.

Revenue split for services and geographical presence



Source: the Company

Market Overview

Odfjell Technology operates in a highly competitive market characterized by rapid technological evolution, fluctuating demand, and regulatory requirements. The offshore oil and gas industry has experienced considerable volatility in recent years due to fluctuations in commodity prices, geopolitical instability, and shifting demand patterns. Despite these challenges, Odfjell Technology has retained a strong position in the market thanks to its commitment to quality, innovation, and sustainability. The need for deeper oil rigs has increased as oil reserves become more challenging to access. Odfjell technology benefits from this trend by providing advanced drilling technology and services, including deepwater drilling rigs and well engineering solutions.

Valuation

The market fails to recognize growth-promoting trends

Since its IPO in March 2022, Odfjell Technology has demonstrated a consistent growth trajectory, which is expected to persist in the foreseeable future. To project and evaluate future growth, a combination of a DCF analysis and peer valuation has been conducted. Both valuation methods have been accorded equal weight in the assessment process. The peer analysis indicates a potential upside of 61.0%, while the DCF valuation suggests an upside of 39.0%. Consequently, a target price of NOK 75.6 is motivated, implying a projected upside of 50.0%.

Undervalued gem with excellent outlook among peers

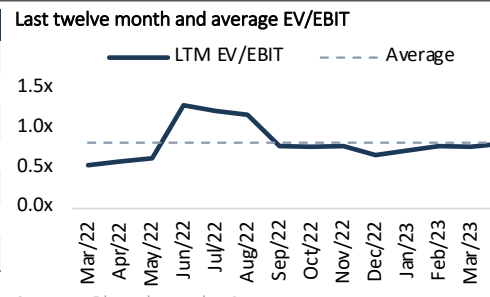
Odfjell Technology excels in financial performance, surpassing industry peers across key metrics. With a remarkable ROIC of 17.0% compared to peer median of 10.1% and a solid EBIT margin of 9.9% compared to peer median of 6.0%, the Company solidifies its frontrunner position. Additionally, its attractive valuation is evident with a P/E multiple of 4.9x for 2024E, significantly lower than the peer median of 8.0x. This indicates a discounted market price relative to industry peers, presenting a compelling investment opportunity. Odfjell Technology's exceptional financial performance and appealing valuation underscore its competitive advantage and growth potential.

Peer valuation Company name	Market data (NOKm)		Financials			Valuation	
	MCAP	EV	ROIC	ND/EBIDTA	EBIT margin	P/E	EV/EBITDA
	2022A		2022A			2024E	
Archer	1,170	6,280	21.3%	6.5x	3.6%	9.4x	4.9x
Noram Drilling	2,632	2,491	3.2%	(0.5x)	7.2%	5.9x	3.6x
Aker Solutions	19,706	18,825	16.2%	(0.4x)	4.7%	10.3x	5.0x
SBM Offshore NV	2,473	9,903	3.9%	7.0x	20.3%	6.6x	8.9x
Median	2,553	8,092	10.1%	3.1x	6.0%	8.0x	4.9x
Average	6,495	9,375	11.2%	3.2x	9.0%	7.5x	5.6x
Odfjell Technology	2,130	3,038	17.0%	1.3x	9.9%	4.9x	4.0x

Sources: Bloomberg, the Company

DCF implies a share price of NOK 72.6

The DCF model extends over a ten-year period, with revenue anticipated to increase by 15.7% for the coming five years, and thereafter an increase of 9% is expected. A terminal growth rate of 3.43% is assumed, and a WACC of 12.6% is calculated. This implies an enterprise value of NOKm 3,130 and a market cap of NOKm 2,289 with a target share price of NOK 72.6 and an implied upside of 39.0%

DCF valuation breakdown		Last twelve month and average EV/EBIT	
WACC	12.55%		<p>— LTM EV/EBIT - - - Average</p>
Terminal growth rate	3.43%		
Forecast value (NOKm)	207,3		
Terminal value (NOKm)	872		
Net debt (NOKm)	-12		
Market cap (NOKm)	2,289		
No. shares (m)	39,464		
Value per share (NOK)	72.6		

Sources: Bloomberg, the Company

Appendix

NOKm	2018A	2019A	2020A	2021A	2022A	2023E	2024E	2025E	2026E	2027E
Net revenue	2,704	2,725	2,732	3,429	3,528	4,082	4,723	5,464	6,322	7,315
Other income	22	25	15	7	22	25	29	34	39	45
Revenue	2,726	2,750	2,747	3,436	3,550	4,107	4,752	5,498	6,361	7,360
OPEX										
Personnel costs	1,685	1,630	1,661	2,206	2,187	2,404	2,781	3,218	3,723	4,307
Other expenses	673	645	605	779	823	923	1,068	1,236	1,430	1,655
EBITDA	368	475	480	451	540	780	903	1045	1209	1399
<i>EBITDA-margin</i>	<i>13.5%</i>	<i>17.3%</i>	<i>17.5%</i>	<i>13.1%</i>	<i>15.2%</i>	<i>19.0%</i>	<i>19.0%</i>	<i>19.0%</i>	<i>19.0%</i>	<i>19.0%</i>
D&A	249	243	264	266	257	307	364	431	509	370
EBIT	120	233	216	185	284	474	539	613	700	1028
<i>EBIT-margin</i>	<i>4.4%</i>	<i>8.5%</i>	<i>7.9%</i>	<i>5.4%</i>	<i>8.0%</i>	<i>11.5%</i>	<i>11.3%</i>	<i>11.2%</i>	<i>11.0%</i>	<i>14.0%</i>
Interest income	13	28	11	20	27	9	10	12	13	20
Interest expenses	3	9	6	0	7	33	37	42	48	71
EBT	130	252	221	205	305	450	512	583	665	977
<i>EBT-margin</i>	<i>5.8%</i>	<i>9.2%</i>	<i>8.1%</i>	<i>6.0%</i>	<i>8.6%</i>	<i>11.0%</i>	<i>10.8%</i>	<i>10.6%</i>	<i>10.5%</i>	<i>13.3%</i>
Tax expense	(45)	(32)	(4)	(11)	0	99	112	128	146	215
Net income	175	283	225	216	305	351	399	455	519	762
<i>Net margin</i>	<i>6.4%</i>	<i>10.3%</i>	<i>8.2%</i>	<i>6.3%</i>	<i>8.6%</i>	<i>8.6%</i>	<i>8.4%</i>	<i>8.3%</i>	<i>8.2%</i>	<i>10.4%</i>

WACC	Terminal Growth Rate							
	2.8%	3.0%	3.2%	3.4%	3.6%	3.8%	4.0%	4.2%
12.0%	68.4	69.3	70.3	71.2	72.2	73.3	74.4	75.6
12.2%	66.5	67.3	68.1	69.1	70.0	71.0	72.0	73.1
12.4%	64.5	65.3	66.1	67.0	67.9	68.8	69.8	70.8
12.6%	62.7	63.5	64.2	65.0	65.8	66.7	67.6	68.6
12.8%	61.0	61.7	62.4	63.1	63.9	64.7	65.6	66.5
13.0%	59.3	60.0	60.6	61.3	62.1	62.8	63.6	64.5
13.2%	57.7	58.3	59.0	59.6	60.3	61.0	61.8	62.5
13.4%	56.2	56.7	57.3	58.0	58.6	59.3	60.0	60.7

Source: Analyst estimates

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Other

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