HAFNIA

INVESTMENT CASE

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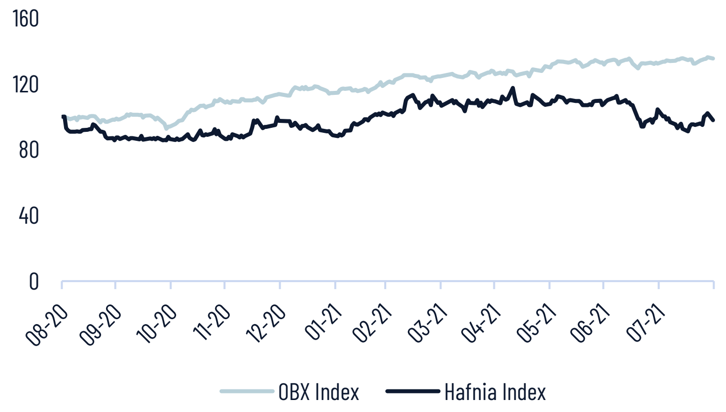
HAFNIA

Hafnia provides and operates transport vessels for refined oil products and easy chemicals. Hafnia was listed on the Oslo Stock Exchange (OSL) on 8/11/2019; after completing the merger between Hafnia Tankers and BW Tankers.

Ticker: HAFNI
Share price (NOK): 17.02
Market capitalization (NOK): 6.3bn



KEY FINANCIALS (USDm)

	2019	2020	2021 *(Consensus)*
Revenue	514	623	445
EBITDA	278	363	182
Net Profit	72	149	-33

INVESTMENT CASE

- **Investment case**: Hafnia differentiates itself from its closest direct competitors by focusing on a **low-cost structure** centred around vessel ownership and third-party vessel management. **Hafnia has the lowest break-even TCE** rate of its peers and **boasts a young fleet** compared to the industry average. Hafnia's pool management platform delivers **additional revenue through third parties' fees and commissions**, totalling USD 10m for H1 2021. Hafnia is committed to a **high dividend payout ratio of c.50% earnings**. The strong dividend case builds on Hafnia's **competitive advantage in funding cost and return on equity** compared to its peers.

- **Oil supply: is consolidated in a few nations.** Transporting oil products and easy chemicals from refineries to distribution centres requires the product tanker industry.

- **Oil demand:** Product tanker demand is guided by global oil demand. Decreased oil demand during the Covid-19 pandemic disrupted product tanker revenues. However, **as global lockdowns ended, oil demand increases and is expected to near pre-pandemic levels by the end of 2021**. Increased demand for oil and tankers creates upwards pressure on spot prices.

- **Tanker supply: Low order book values generates low tanker fleet growth projections** for the next 2-3 years. Higher steel prices are accelerating the recycling of older vessels, enabling low fleet growth. Further **favourable supply conditions exist from the completed unwinding of floating storage.** Total product fleet growth is projected to be low for the near future enabling expectations of higher spot prices.

- **Management:** CEO Mikael Skov founded Hafnia Tankers in 2010 and has over 37-yrs in the shipping industry. CFO Perry Van Echtelt has over 20 years of experience in investment banking and ship financing. EVP Thomas Andersen was vice president at Torm from 2005-2010 making his move to Hafnia Tankers when founded to join Mikael Skov. He is now EVP and head of investor relations, research and performance management.

KEY INVESTMENT REASONS

- The move away from fossil fuels is slow; global oil demand likely to remain strong.
- Market conditions create a positive outlook for demand and supply.
- Strong dividend case for the company with best commercial performance, financing cost and return on equity of its peer group.

KEY INVESTMENT RISKS

- The transition to green energy may decrease global oil demand. ESG investors may also avoid the stock for its fossil fuel association.
- Exposure to spot prices risks large revenue fluctuations, currently exacerbated by uncertainty associated with Covid-19 and geopolitics.
- An increase in new vessel orders could affect margins in the future.

DISCLAIMER

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MARKET OVERVIEW

Product Tanker Overview

Product tankers transport oil product and easy chemicals primarily from refineries to end user distribution centres. Product tankers often carry multiple different products simultaneously, requiring complicated pumping and piping systems to facilitate a separate handling process for each type of cargo.

The product tanker market requires use of smaller vessels than that of crude transportation because product volumes post refinery are smaller. Product tankers also typically cover smaller distances, however, consolidation of producers is increasing demand for longer duration vessels, primarily the LR2 vessels (*See ship size overview on page 8).*

Key Industry Terminology

Oil Spot Prices: are the rates attainable in the futures market for the transportation of oil.

Bunkering: is the process of refuelling tankers using the tanker fuel 'bunker'. Managing the cost of refuelling is an important component in the product tanker market.

Floating storage: is the act of using an oil tanker for storage purposes, this occurred at mass during the Covid-19 oil demand shock as onshore oil storage rapidly reached capacity. The market typically maintains floating storage capacity at around 3%* of global carry capacity.
**Figure from Hafnia Annual Report 2020*

DWT: stands for deadweight tonnes. DWT is the industry standard unit of measure for how much a tanker can carry

TCE: stands for Time Charter Equivalent. TCE is a shipping industry measure used to calculate the average daily revenue performance of a vessel.

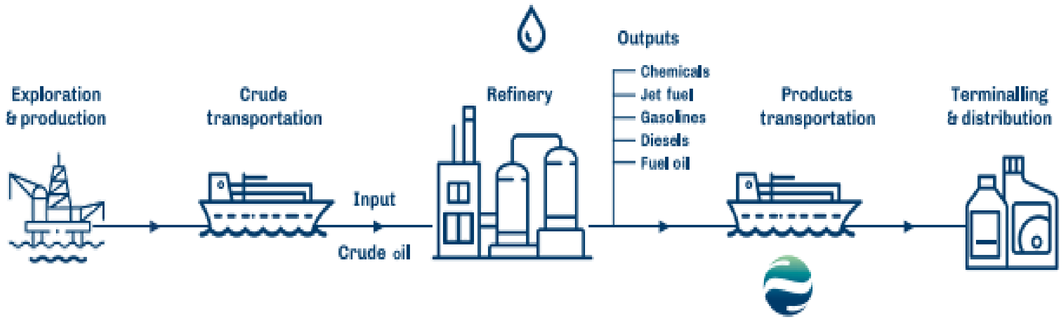
Market Dynamics

Hafnia primarily trades in the product spot market where it operates a fleet of owned and externally-managed vessels. All vessels are managed through operating pools which enables the benefits of economies of scale. Pool management allows participants to reduce risk through a revenue/loss sharing mechanism which Hafnia controls. The pool management is responsible for operations, finance & control and chartering of all vessels in the pool. Hafnia receives pool management commission as a fixed fee and a percentage of all net pool income.

The operations department involves managing vessel performance, compliance as well as the active management of voyage costs to optimise vessel earnings. A key feature of this process is the procurement of bunker - the fuel tankers use for propulsion. Hafnia's Bunker department is responsible for procuring bunker at competitive prices, Hafnia then charges a fixed fee commission to third parties per ton of bunker purchased.

Hafnia's ESG Strategy

Air: Hafnia aims to reduce its carbon emissions by outpacing the IMO's carbon intensity targets with ambitions to be two years ahead of the 2030 target. Their strategy involves continued investment in new vessels which are equipped to run on duel-fuels, enabling use of carbon neutral fuels like ammoniac. Hafnia's current trajectory is to reduce CO_2 intensity by 3% per year.
Land: Hafnia is committed to reducing plastic waste both at sea and at its on land facilities.
Sea: Hafnia is committed to zero spills at sea, protecting oceans from hazard.



SUPPLY SIDE DRIVERS

Supply Side Overview

- **The supply of tankers for oil transportation is one of the determinants of the spot price.** The tanker industry orderbook is at historically low levels, driven by lack of available shipyard space and by uncertainty surrounding the future of tanker propulsion technology.

- **Low fleet size growth** creates favourable price push conditions as oil demand increases. With ships typically taking 18-32 months to complete from order initiation there is little risk of unforeseen supply shocks. Total fleet growth for 2022 expected at 2.4%

- **Floating storage utilisation** reached historic highs during 2020, with almost 400m barrels (c.10% of tanker utilisation) of tanker capacity utilised for floating storage. The unravelling of excess floating storage created a supply shock to the tanker market, that has recently returned to pre-pandemic levels.

Shipbuilding Capacity

Industry average product tanker fleet age is currently at two-decade highs. The potential for a significant overhaul of old vessels is therefore high. Capacity at shipyards is largely occupied by orders of LNGC/ULCV crude tankers. In addition, recent shipyard closures exacerbate the capacity problem resulting in little opportunity for a new order supply shock to the product market.

Floating Storage

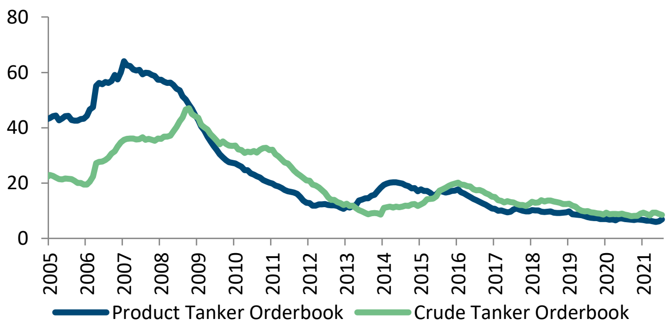
The Covid-19 demand shock initiated a surge in floating storage, which, at its peak, tied up c.10%* of product tanker fleet – an industry high. As floating storage was unravelled the liberated vessels created a supply shock placing downwards pressure on spot prices. Floating storage has since returned to pre-pandemic levels, removing the supply shock.

**Figure from Hafnia Annual Report 2020.*

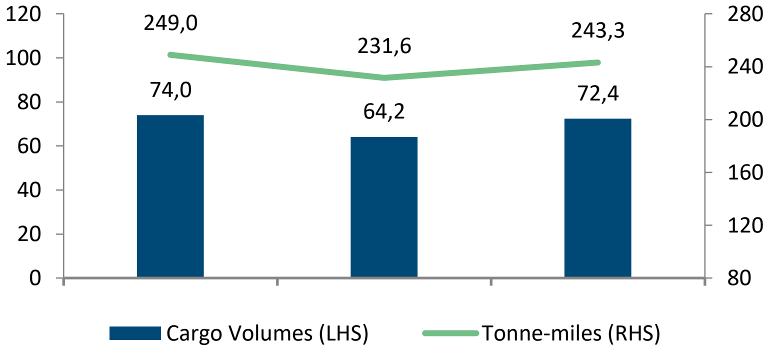
Uncertainty

The future of green propulsion technology is unknown. Risks associated with future regulation and alternative fuel availability creates uncertainty when commissioning newbuilds - deterring orders. Recent industry developments, such as A.P. Moller-Mærsk ordering eight methanol propelled container vessels, guides future 'green fuel' expectations. However, biofuel supply is currently low, and the scalability of alternative fuels is debated.

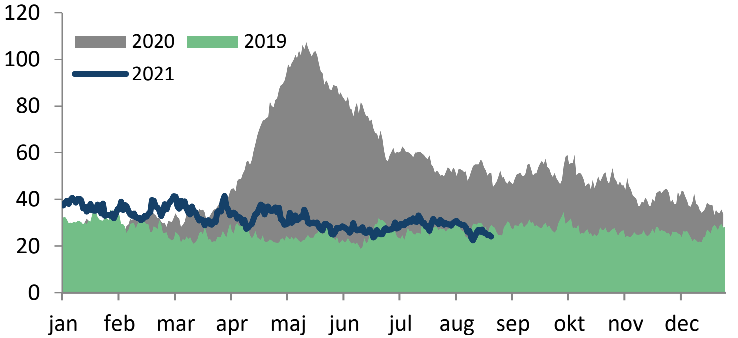
Orderbook % Fleet (DWT)



Clean Petroleum Products Cargo Volumes vs Tonne-Miles



Clean Petroleum Products Floating Storage



Graphs Source: Hafnia Q2 2021 Investor presentation

DEMAND SIDE DRIVERS

Demand Side Overview

- The demand for oil is a **key determinant of the spot price for oil transportation.** Increased global oil demand increases the demand for oil transportation.

- **Oil demand is expected to recover** to near pre-pandemic levels by the end of 2021, following large falls in oil demand during widespread global lockdowns.

- The structure of **oil supply is expected to shift towards export-oriented capacity** as inefficient local refineries increasingly close thus improving average tonne-mile demand.

- **Oil demand growth is expected to outpace oil supply growth** creating favourable market conditions for the tanker industry.

Increasing Oil Demand

The Covid-19 oil demand shock in 'black-April' reduced global demand by 22 million barrels per day (mb/d); total 2020 oil demand fell by 8.8% yoy. However, according to the International Energy Agency (IEA), demand is forecast to return to pre-pandemic levels by the end of 2022, rising 5.4 mb/d in 2021 and a further 3.1 mb/d next year. The IEA reported global refinery throughput declined 15% in Q2 2020. In January 2021, throughput remained 5-6% down yoy, contributing to a weak recovery for the tanker market.

Increasing Oil Supply

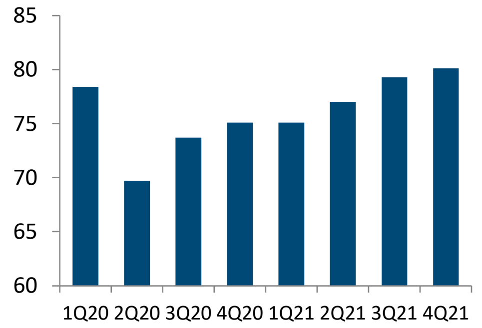
Seaborne products trade volumes are expected to grow 6% yoy; as oil demand improves. However, this remains below 2019 levels; trade in some fuels, e.g. jet fuel, is taking longer to recover fully. Total product tanker tonne-mile trade is projected to grow 7%* as continued disruption to trade flows raises the average haul length.

**Figure from Hafnia Annual Report 2020*

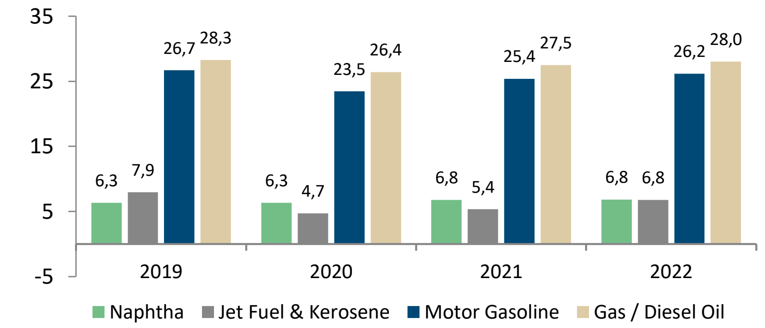
Export Refinery Capacity Increasing

Recently, outdated close-to-shore refineries (especially in Europe) have closed, favouring larger export-oriented alternatives. China and the Middle East are leading in refinery capacity additions and are projected to bring 1.3m barrels a day of new export-oriented trade to market. Adjusting refinery sector dynamics should lengthen the average tonne-miles for the product market.

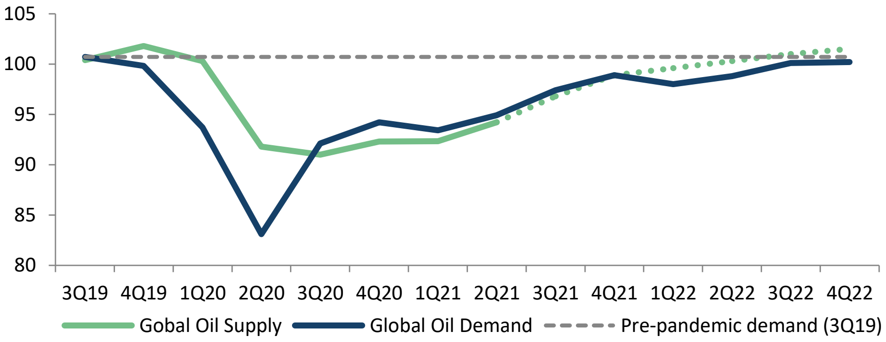
Global Refinery Crude Throughput



Demand of oil products 2019-2022



Supply and demand of global oil



Graphs Source: Hafnia Q2 2021 Investor presentation

FINANCIALS

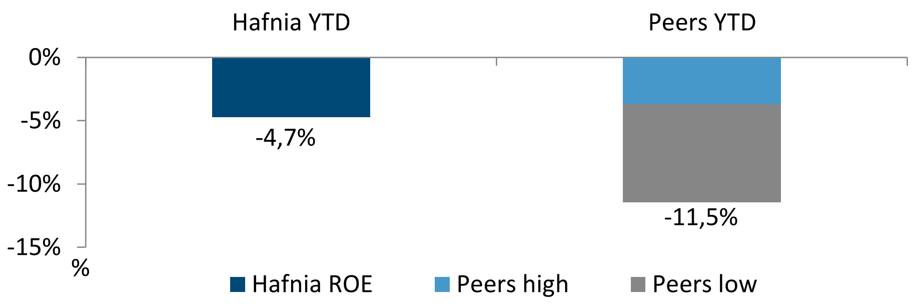
Hafnia have developed a low cost structure which allows them to maintain a positive expected EBITDA figure despite facing negative market conditions for much of 2021.

Hafnia stress the importance of targeting a dividend pay-out ratio of around 50%. Hafnia believes when they are successful, their shareholders should also enjoy notable returns.

Hafnia's low cost structure came as growth through acquisition enabled economies of scale. The strategy explains its high debt-EBITDA. However, this figure is competitive with industry norms.

Hafnia's Return on Equity is strong compared to its peers, however, the industry as a whole has struggled to yield gains thus far in 2021.

YTD Return on Equity



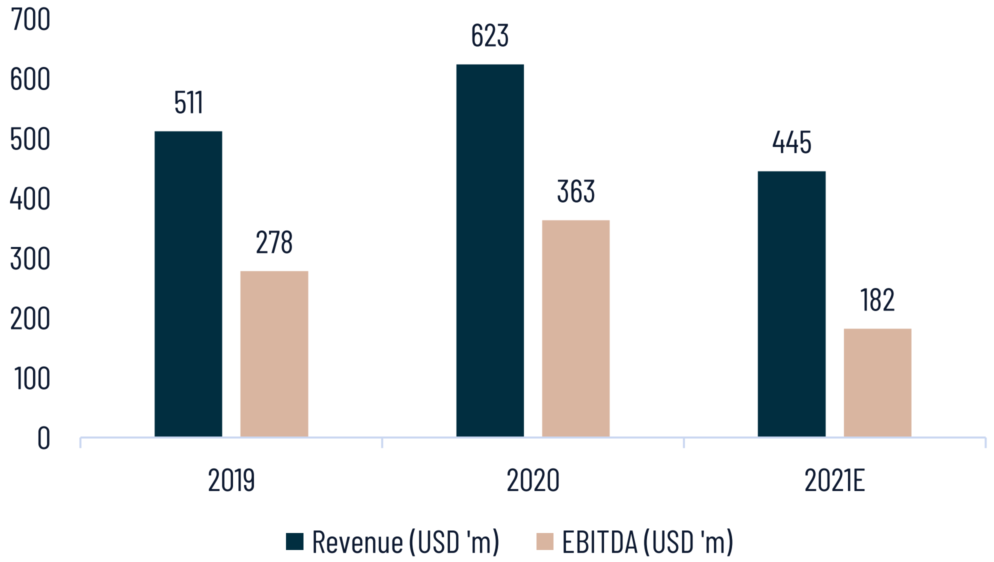
Source: Hafnia Q2 2021 Investor presentation

Financial (USD)

Revenue	623.2m
EBITDA	362.8m
EBIT	193.6m
Net Asset Value (NAV)	0.57x
Dividend Pay-out Ratio	51.8%
Net Debt-to-EBITDA	333%

Financials from 31 December 2020

Revenue & EBITDA



PEER GROUP ANALYSIS

Hafnia identifies Torm, Scorpio Tankers Inc and Ardmore Shipping Corp as its closest competitors.

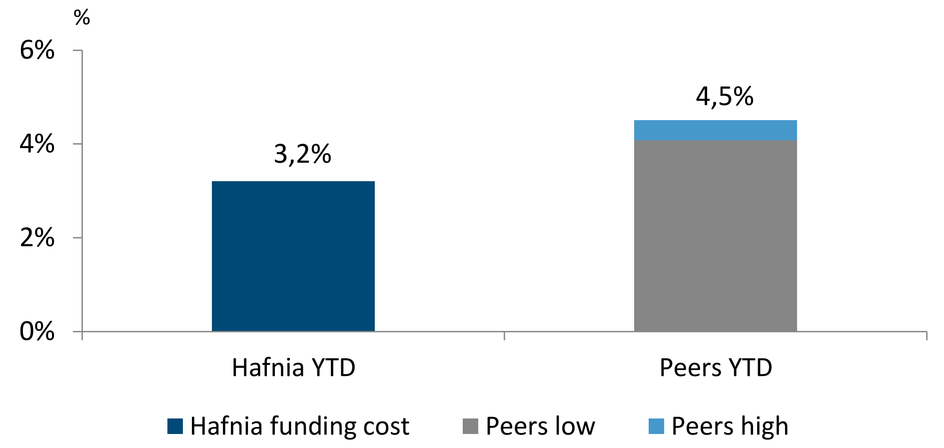
As can be seen in the peer group table below the Product Tanker companies are characterized by having a relatively high debt compared to their market capitalisation. Hafnia and Torm are those that can best cover their debt with current earnings. Additionally, Hafnia mitigates its corporate debt and high leverage ratio by having a low cost of funding.

Hafnia's trades with near identical NAV multiples as Torm whilst Scorpio Tankers and Ardmore trade at a discount in comparison.

When considering EV/EBITDA ratio, Hafnia, seems to be trading at a discount against its peers. As of 2021 Hafnia had the lowest EV/EBITDA ratio, but numbers are projected to align in 2022.

Hafnia offers a very attractive estimated yield for 2021 with only Scorpio Tankers also expected to offer some cash return in 2021.

YTD Funding Cost[1]



Source: Hafnia Q2 2021 Investor presentation

Product Tanker Peer Group

Company	Currency	Price (local)	Market Cap. (USDm)	Debt (USDm)	P/NAV 2020	Net Debt/EBITDA 2020	EV/EBITDA 2021E	EV/EBITDA 2022E	Yield 2020	Yield 2021E
Scorpio Tankers Inc	USD	17.29	1,009	2,879	0.49	5.67	17.65	7.84	0.02	0.02
Torm PLC	DKK	50.05	646	883	0.64	2.99	10.88	6.44	0.12	0.00
Ardmore Shipping Corp	NOK	3.61	124	324	0.39	6.38	17.08	7.86	0.01	0.00
Average			***593***	***1,362***	***0.50***	***5.01***	***15.21***	***7.38***	***0.05***	***0.01***
Hafnia Ltd	**NOK**	**17.02**	**725**	**1,192**	**0.63**	**3.19**	**12.27**	**7.25**	**0.05**	**0.04**

Note: Data from 2/9-2021 **Source: Refinitiv**

FLEET ANALYSIS

Ownership

Hafnia differentiates itself through its pool management. Hafnia have the largest fleet under management through operation of their four shipping pools. By leveraging expertise and economies of scale, Hafnia derive additional profit from commercially managing vessels on behalf of third-party owners. In 2020, Hafnia generated USD 23m from pools and other fee generating streams, of which USD 13m were profit.

Vessel Age & ESG

Hafnia has a young fleet and is operating below IMO's carbon intensity target. In 2020, across Hafnia's owned fleet, carbon intensity as measured by Annual Efficiency Ratio was 5.6% below the IMO's 2020 target. Hafnia is well positioned to meet future emissions targets and therefore reduces the risk of future penalties related to emissions.

TCE Rate and breakeven

Hafnia has the lowest cost structure of its peers experiencing the lowest breakeven average TCE rate of USD 13,625. The low cost structure is a key feature of Hafnia's competitiveness and generates significant cash flow potential from an increase in spot prices.

Vessel Distribution

Hafnia operates a diverse fleet operating four categories of vessels: Handy, MR, LR1 and LR2. Having a diverse portfolio of vessels ensures Hafnia can service their customers across all transportation distances.

- * Age recorded as of 31 December 2020
- **C02 emission in grams per ton nautical mile
- ***All four companies are within IMO emissions guidelines

Source: All information included in the fleet analysis is publicly available in the companies financial reports.

Fleet Analysis	**Hafnia**	**Torm**	**Scorpio Tankers**	**Ardmore**
Vessels Under Management	184 (88 Owned)	72 (64 Owned)	135 (113 Owned / Leased)	26 (26 Owned)
Average Vessel Age* (Years)	7.3	10	5.2	7.6
TCE Breakeven Average ($)	13,625	15,100	17,100	N/A
TCE Realised Average $)	18,090	19,800	19,655	15,355
Emissions (gmsCO$_2$ / T-NM)**	5.7	5.24	N/A	N/A
Handy 35-37,000 dwt	13	2	18	4
MR 45-50,000 dwt	41	52	63	22
LR1 70-75,000 dwt	28	9	12	0
LR2 90-120,000 dwt	6	10	42	0

MANAGEMENT TEAM AND MEMBERS OF THE BOARD OF DIRECTORS

CEO Mikael Skov was co-founder of Hafnia Tankers and has more than 37yrs experience in the shipping industry

Mikael Skov
CEO

Perry Van Echtelt
CFO

Thomas Andersen
EVP, IR, Research and Performance Management

CEO Mikael Skov assumed the CEO role in 2019 after the merger between Hafnia Tankers and BW Tankers. Mr Skov was the founder of Hafnia Tankers and has more than 37 years of experience in the shipping industry. Prior to establishing Hafnia Tankers, he held various positions over his 25-year career at Torm, of which the last two years he served as CEO.

CFO Perry Van Echtelt has over 20 years of experience in investment banking and ship financing. Prior to Hafnia, Mr Van Echtelt was CFO of BW Tankers from 2017, a role he took after leaving ABN AMRO Bank as Head of Transportation and Logistics Asia Pacific & Middle East. For 17 years Mr Van Echtelt had held various positions in the corporate finance and capital markets group of ABN AMRO.

EVP Thomas Andersen was vice president at Torm from 2005-2010 making his move to Hafnia Tankers when founded in 2010 to join Mikael Skov. He is now EVP and head of investor relations, research and performance management.

Hafnia's Major Shareholders
Hafnia's majority shareholder is BW Group LTD (66.5%) which has a wealth of experience and knowledge in the shipping industry, controlling over 400 vessels across many different niches.

Hafnia's Board of Directors
Board Chairman, Andreas Sohmen-Pao is also Chairman of BW Group and its other listed entities, including BW Offshore, BW LPG, Epic Gas and BW Energy. He also serves as Chairman of the Singapore Maritime Foundation and a trustee of the Lloyd's Register Foundation. Mr Sohmen-Pao was previously Chief Executive Officer of BW Group.

Director, Erik Bartnes was co-founder of holding company Pareto Securities AS and senior partner from 1988 to 2010. He was also a co-founder of the original Hafnia Tankers in 2010 where he was executive chairman until 2018.

Director, Donald John Ridgway was CEO of BP Shipping from 2008 to 2015. He is a Chartered Marine Technologist and a Fellow of the Institute of Marine Engineering, Science and Technology, and is currently Chairman of Tindall Riley Ltd, a leading marine liability insurer.

Director, Ouma Sananikone is currently a non-executive director of Innergex (Canada), Ivanhoe Cambridge (Canada), and Macquarie Infrastructure Corporation (U.S.). She also acted as an honorary Australian Financial Services fellow for the U.S. on behalf of the Australian government.

Director, Peter Graham Read is currently the non-executive Chairman of Welbeck Publishing Group Limited. He is also a non-executive director and Chairman of the audit committees of QMM Holdings Limited.

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