

Ticker: DAC  
Price (as of 2/11): \$98.89  
Target Price: \$120.00  
Market Capitalization: \$2B

**Date:** February 11, 2022

**Sector:** Industrials

**Company:** Danaos Corporation (DAC)

**Sector Team:** Abigail Sneddon, Kyle Gregor

**BUY: DAC**

## Investment Thesis:

Danaos Corporation (NYSE: DAC) is a shipping company that owns containerized vessels and charters out their vessels to lessors. The original catalysts of supply and demand imbalance for ships, worsened by port congestion, leading to high charter rates for longer leases, DAC's investment in ZIM Shipping and investments in technological innovation are still in play. Shipping rates are at all time highs and are not projected to fall in the medium term. This is evident in DAC's strong fourth quarter 2021 earnings report, when they beat expectations by 25%. DAC's strong charter backlog to leading containership lessors creates highly visible long-term cash flow. DAC also has a conservatively managed balance sheet. Given the underlying market conditions, we rate DAC a BUY.

## Catalysts:

- **Supply and Demand Imbalance:** There has been significant supply and demand imbalances for containerized vessels. Demand is driven by an increase in spending on goods throughout the pandemic, while spending on services is still below pre-pandemic levels. Retail stores are scrambling to bring products to their shelves, and many are utilizing smaller and intermediate sized ships, which comprises the largest segment of DAC's fleet, to use canals and avoid longer routes. Supply of ships is slow to grow to match demand, as it takes approximately 18-24 months to build a new vessel. Moreover, a large portion of the global fleet is idle due to delays at shipping ports, namely the Port of Los Angeles, which have persisted for nearly 18 months and will continue for the foreseeable future.
- **High Shipping Rates:** Shipping rates are at all times high, and this is projected to only grow. DAC has successfully locked in long-rate charters at these elevated rates, creating highly visible future cash flow. Spot rates for shipping charters and for containers are up 400% since the beginning of the pandemic. DAC has also purchased more vessels, all of whom already have charters at these high rates. This increase in long duration charters in the current market situation minimizes DAC's spot risk exposure. Moreover, DAC has a large investment in ZIM Integrated Shipping, which is an Israeli containerized ship lessor. ZIM has outperformed in recent months, and this investment gives DAC more spot rate exposure while minimizing any potential risk of lower future shipping rates.
- **Technological Innovation:** Danaos Corporation has developed WAVES, a data analysis tool which allows DAC to increase operational efficiency. This focus on technology has put DAC at the forefront of the shipping industry, especially in meeting environmental and emission standards for shipping companies. This minimizes a very common risk for shipping companies as they struggle to meet the IMO, or International Maritime Organization, standards for transitioning from High Sulfur Fuel to Low Sulfur Fuel. DAC met the IMO 2030 standards in 2019, 11 years before required, and continue to cut emissions on an annual basis.

## Q4 Earnings Report:

- Revenue of \$192M, up 80% YoY and beating estimates by 12.5%.
- Diluted EPS of \$6.10, beating the analyst estimates of \$4.95 by 25%.

- DAC had an average of 70.9 containerships in Q4 2021, compared to 58.5 in Q4 2020.
- Fleet utilization was up to 98.2% in FY 2021 from 96.4% in FY 2020.
- DAC's investment in ZIM Shipping saw gains of \$68.4 million in Q4 2021.

## **Downside Risks:**

DAC has some risk if ports clear earlier than expected or market conditions causing the elevated shipping prices change. A significant downturn in the container shipping industry could negatively affect DAC's ability to service their debt and other obligations, or to refinance, and adversely affect the results of operations and financial conditions. The shipping industry is also highly reliant on consumer demand for shipping, which is reliant on demand for goods, and as such, global economic conditions. The ocean-going container shipping industry is both cyclical and volatile in terms of charter hire rates and profitability.

## **Valuation:**

- Price Target: \$120.00
- Potential Upside: 23%
- EV/EBITDA Multiple: 8x
- Current P/E (FY 2021): 5.6x
- Implied Target P/E (FY 2021): 6.9x