

SMART YIELD
INCOME FUND



Finding Efficient Frontiers



INVEST/STAY CONNECTED

INITIAL REPORT APRIL 24, 2023

LAST UPDATED APRIL 24, 2023

Common Shares; Recommendation: BUY, target \$70.00

DANAOS CORP

Danaos (DAC) is an international owner and lessor of [containerships](#). The company owns 68 Container Vessels ranging from 2,200 TEU to 13,100 TEU. TEU refers to the amount of 20 foot containers that fit on each ship. The global supply crisis caused a massive rise and drop in shipping rates in 2021 and 22 and in general, the shipping stocks trade at a large discount to the market due to the volatility in shipping prices (DAC trades at 2.16 PE ratio). But, as a lessor, DAC is insulated from the day to day container shipping price volatility, and we see continued strength for the company. The company's ships are 93% leased for 2023 and 63% for 2024, giving certainty to the financial outlook. Wall Street earnings estimates for 2024 are currently at \$25.50 per share. So, Danaos trades at a massive discount although our analysis (below) shows that the company's leases are not that far above historical averages and financial strength is projected to continue.

The company's balance sheet also improved dramatically in 2022. Debt was reduced by 60% from over \$1 billion \$400 million, which is low considering the book value of \$2.7 billion in vessels.

Our \$70 price target is based on the low debt, 5% dividend yield and low PE of Danaos. We consider the dividend to be well covered at 16% of free cash flow.

COMPANY STATS \$

Shares Out	20.3 mm
Equity Market Cap	1,187 mm
Total Debt	430 mm
Current Vessels	68
2023 Revenues Est.	1.013 mm
2023 Cash Flow Est.	416 mm
Current EV.	1,349 mm
2023 EBITDA Est.	732 mm
EV/EBITDA (2023 Est.)	1.8 X
Broxton 2023 GAAP EPS Est.	27.05
Dividend	\$3.00 (5.12%)
Book Value Per share	\$125.82

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Table below: comparing a few of Danaos's current leases versus the 10 year average. Not including Express Athens (an outlier) the average lease would be about 14% lower than the current lease rate.

SHIP	SIZE (TEU)	CURRENT LEASE RATE	10 YEAR AVERAGE *	CURRENT QUOTE	DAC BREAKEVEN
ZIM Kingston	4,253	\$ 25,500 / DAY	\$ 29,025 / DAY	\$ 24,000	\$ 9,772 / DAY
CMA CGM Moliere	6,500	\$ 55,000 / DAY	\$ 30,588 / DAY	\$ 36,000	\$ 11,161 / DAY
Niledutch Lion	8,626	\$ 47,500 / DAY	\$ 38,910 / DAY	\$ 44,000	\$ 19,936 / DAY
Express Athens	10,100	\$ 29,000 / DAY	\$ 45,748 / DAY	NA	\$ 24,267 / DAY
Hyundai Ambition	13,100	\$ 64,918 / DAY	\$ 58,820 / DAY	NA	\$ 25,156 / DAY

TEU: twenty foot container / SIZE (TEU): ship's TEU capacity/ quote: [Harper Peterson](#) / DAC Breakeven: provided by DAC

*Source: Yahoo finance April 2023

BROXTON CAPITAL ADVISORS Danaos as of 12/31/2022

Tuesday, April 25, 2023

share price \$58.57

PROJECTIONS IN MMs

2023 2024 2025

Income Statement

Revenue	\$1,013	\$917	\$825
Gross Profit	831	724	619
Operating Income	621	568	442
Pre-Tax Income	566	503	372
Net Income	548	484	354
EPS	\$27.05	\$23.90	\$17.45
Non-GAAP EPS	NA	NA	NA
Revenue growth	2.00%	-10%	-10%
EBITDA	\$732	\$685	\$580
Interest Exp	60	70	75
Capitalized Expense	200	200	200
Cash Flow	477	420	310
Equity Dividends	61	61	61
Cash Flow Dividend Coverage	784%	691%	510%
Retained Cash Flow	416	360	249
Retained Cash Flow Sum	416	776	1,025

Valuations

Cash Flow Yield Vs. Equity	40.2%	35.4%	26.1%
EV/EBITDA	1.8	2.0	2.3
P.E Ratio	2.2	2.5	3.4
Enterprise Value	1,349		
Net Total Debt	162		
Equity Market Cap	1,187	1,187	1,187

Debt Ratios

EBITDA/Interest Coverage ratio	12.2	9.8	7.7
Net Debt/EBITDA	0.2	0.2	0.3

Liquidity

	Dec. 31 2022
Cash	268
Borrowing Availability est.	300 mm+
Total Current Assets	372
Total Current Liabilities	228

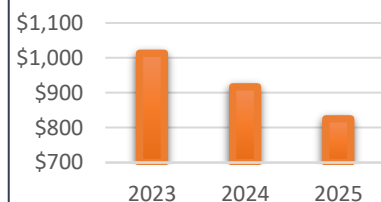
Current Ratio 163%

Debt

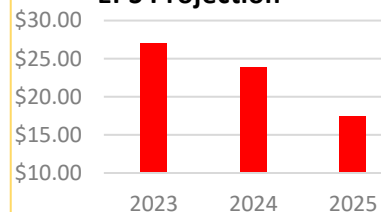
Borrowings	\$430
Borrowings Net	\$162

NOTES:

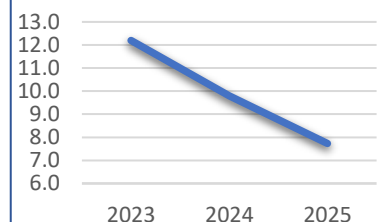
Revenue Projection



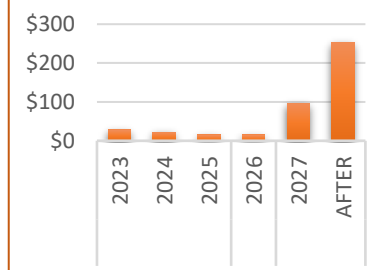
EPS Projection



EBITDA / Int. Coverage



Debt Amortization Schedule in MM



Disclosures

Previous reports are available upon request. Smart Yield Fund targets a mix of different security classes that contain the risk of loss. Investors should carefully consider the Fund's investment objectives and risk factors before investing. Investing involves risk, including possible loss of principal. Investors should consider the loss of principle and targeted returns are not guaranteed. Individual investors in Smart Yield are generally required to be accredited investors. Smart Yield is a fund operated through individual accounts creating the composite. Smart Yield Fund is a new product with an inception date of September 30, 2020, and as such does not have historical data. Asset Mix Projections on page 2 and 6, Smart Yield Portfolio Metrics on page 5 are estimated or targets of the fund. Asset class mix and targets may change based on the direction of the managers. Portfolio allocation projected annual return and beta assumption for each asset class on pages 7-10 are estimated. Beta for the fund and each asset class is estimated versus the S&P 500. The average beta for the entire fund is projected to be .32. Beta is a measure of the fund's volatility in relation to S&P 500 Index. This index has a beta of 1.0. The fund targets a total gross return before fees and expenses of 9.24%. The fund projects a blended return based on income securities and capital gains. Smart Yield attempts to continuously improve the value of investment portfolios by investing in corporate bonds, convertible bonds, other types of bonds (investment grade and sub-investment grade, [which may also have limited liquidity]), dividend paying equities, non-dividend paying equities, ETFs, including leveraged ETFs, and other securities. Fixed income risks include interest-rate and credit risk. Typically, when interest rates rise, there is a corresponding decline in bond values. Credit risk refers to the possibility that the bond issuer will not be able to make principal and interest payments. All securities types mentioned in this brochure have the risk of loss. Long term strategies purchase securities which are underpriced according to our appraisal methodologies. Broxton uses regression analysis to obtain an average appraisal value for an individual company and places a priority on the securities of companies with improving financial performance and or additional catalysts that provide for increases in earnings and valuation. We use financial modeling, technical analysis, proprietary and third-party research. Smart Yield does not have any capitalization (market size), sector or industry allocation mandates. Asset class allocation percentages may be changed without notice. Broxton deploys technical analysis and momentum as indicators of movement for shorter term strategies, that may not involve deep fundamental analysis. Shorting (selling and then buying) of securities can be used for hedging and as a long term or short-term strategy. 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