

Danaos Corporation (DAC-US)

University of Wisconsin–Milwaukee | Lubar College of Business | Investment Management Certificate Program

Analyst: Zach Spellman Recommendation: BUY As of: 10/03/2026

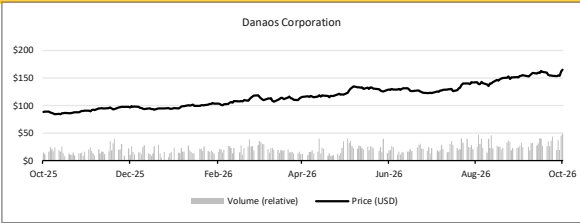
WISCONSIN VALUE FUND LENS — Maximize return by buying improving companies at reasonable valuations.

Performance level — ROIC (FY2026E) vs. ke 12.6% vs 7.9% → Above ke

Change in performance — ΔROIC -0.4 pts, FY2026E vs FY2025A → Declining

Lifecycle phase Phase IV — high expectations, declining

Valuation gap — target vs. price +15.0% → Price below our value



BUSINESS DESCRIPTION

Danaos Corp. provides seaborne transportation services to the containership sector. It operates through the following segments: container vessels and drybulk vessels segment. The container vessels segment owns and operates container vessels which are primarily chartered on multi-year, fixed-rate time charter and bareboat charter agreements. The drybulk vessels segment owns and operates drybulk vessels to provide drybulk commodities transportation services. The company was founded by Dimitris Coustas in 1972 and is headquartered in Piraeus, Greece.

INVESTMENT THESIS

Danaos owns 75 containerships and a Capesize drybulk fleet (11 ships fully delivered) and charters the container fleet to the largest liner companies on multi-year fixed-rate contracts. Its returns are locked in: a record \$4.6bn backlog covers 100% of 2026 container days, 93% of 2027 and 79% of 2028, so ROIC stays well above the cost of equity through the contract period even if spot rates fall. ROIC eases from about 13% in FY2025 mainly because \$1.5bn of newbuildings are being paid for before they start earning. The stock is up 87% in a year, but at about 5.7x earnings and 0.7x book it still values the fleet below book. Downside is protected: 78 of 87 vessels are debt-free, net debt is 0.3x EBITDA, liquidity is about \$1.5bn, and our two most conservative valuation methods (terminal P/E 4x and P/S 1.6x) land within about 10% of the price. We use consensus through FY2027E and then fade charter rates toward mid-cycle, and that still leaves value above the price. With limited downside and contracted cash flow, we are a modest buyer and keep the position overweight.

MARKET SNAPSHOT

Current Price	\$165.15	Market Cap (\$B)	\$3.0	Beta	0.75
52-Week Range	\$84 – \$165	Inst. Ownership	22.6%	Insider Own.	53.8%
Shares Out. (mm)	18.4	Short Interest (% float)	13.1%	Dividend Yield	2.4%
Consensus L-T Growth	#N/A	Payout Ratio	12.0%	Cost of Equity	7.9%
Price Target	\$190.00	Upside to Target	15.0%	Value Range	\$147 – \$250

VALUATION SUMMARY — equity DCF, FCFE discounted at ke

Method	Value / Share	Upside	Terminal Assumption
Equity DCF – terminal P/E	\$147.11	(10.9%)	4.0x P/E
Equity DCF – terminal P/S	\$154.55	(6.4%)	1.6x P/S
Equity DCF – terminal P/B	\$210.38	27.4%	0.5x P/B
Equity DCF – constant growth	\$249.52	51.1%	0.0% g, 7.9% ke
Average of methods	\$190.39	15.3%	Equal-weighted
Analyst price target	\$190.00	15.0%	Blue = analyst override

PHILOSOPHY FIT — Five pillars · Score: 4 / 5

	Fit?
1. Fundamental improvement & valuation discipline	ΔROIC -0.4 pts; price is 0.87x our average value No
2. Investing through company cycles	Phase IV; EBIT margin 47.8% → 47.0% Yes
3. Initial position sizing & risk limits	Overweight vs. benchmark inside ±7% band; review if rates break Yes
4. Capital allocation discipline	Net debt/invested capital -0.1%; net debt/EBIT 0.0x Yes
5. Identifiable catalysts & conservative underwriting	Q3 (Nov 9), dividend decision, Alaska LNG FID; fade after 2027 Yes

VALUE CRITERIA — 10-Point Checklist · Score: 6 / 10

1. Catalyst / Investment Drivers	Pass?
Driver 1: Contracted Backlog	Yes
Driver 2: Newbuilds Without Leverage	Yes
Driver 3: Cautious at the Top	Yes
What does management say?	Yes

Danaos added \$683m of charters in Q2 2026, taking the backlog to a record \$4.6bn with a 4.7-year average duration: 100% of 2026 container days are fixed, 93% of 2027, 79% of 2028 and 61% of 2029. That keeps ROIC above the cost of equity through the contract period even if spot rates fall. Our model, set to consensus through FY2027E, has ROIC at 12.6% in FY2026E and 12.1% in FY2028E, against a 7.9% cost of equity.

25 vessels are under construction with \$1.55bn of payments left (\$502m in 2026, \$764m in 2027, \$239m in 2028), and deliveries support the consensus 10% revenue increase in 2027. The cost is a lower ROIC while ships are paid for but not yet earning. Management says it ordered when prices and charter rates were more attractive and has stopped adding orders at today's prices because growing accretively has become much harder. The program is funded with Japanese operating leases, Jolco financing and a \$132m facility, not equity.

78 of 87 operating vessels carry no debt, net debt was \$224.5m (0.3x EBITDA) at June 30 and liquidity is about \$1.5bn. Management is using the strong market to lengthen financing and build cash rather than chase growth, and has paused the buyback (\$235m spent since 2022 under a \$300m program). The quarterly dividend is \$0.90 and the CEO says the next increase is up to the board. This is the fund's cautious-at-the-top behavior, and it leaves Danaos able to buy ships if the cycle turns.

Q2 2026 call (Aug 4): rates across most shipping sectors are at multi-year highs on Gulf disruption, Bab el-Mandeb restrictions and US tariffs. Management sees more risk in new investment at elevated prices and is building a fortress balance sheet to be ready when opportunities arise. Drybulk, which is mostly spot, earned \$18.8m of adjusted EBITDA versus \$5.9m a year ago. LNG ships will only be ordered if tied to Alaska LNG production; FID was expected in September.

2. Low P/E Ratio

	FY2023A	FY2024A	FY2025A	FY2026E	FY2027E	FY2028E
EPS (model)	\$28.99	\$26.15	\$26.83	\$30.21	\$27.98	\$29.82
P/E at current price	5.7x	6.3x	6.2x	5.5x	5.9x	5.5x
Peer median P/E (FactSet, subject excl.)	6.0x	FY2026E P/E vs. peer median		(9%)		

3. Low Price / Cash Flow

FCFE / share	\$19.27	-\$1.77	\$19.13	\$8.24	-\$2.40	\$30.26
Price / FCFE	8.6x	NM	8.6x	20.0x	NM	5.5x
Peer median P/CF (FactSet, subject excl.)	5.1x	Price / FCFE (today) vs. peer median		+69%		

4. Low Price / Book Value

	FY2023A	FY2024A	FY2025A	FY2026E	FY2027E	FY2028E
Book value / share	\$151.73	\$177.30	\$205.92	\$235.19	\$259.16	\$284.81
Price / Book	1.1x	0.9x	0.8x	0.7x	0.6x	0.6x
ROE (EOY book)	19.1%	14.7%	13.0%	12.8%	10.8%	10.5%
Peer median P/B (FactSet, subject excl.)	0.8x	Price / book (today) vs. peer median		(5%)		

Danaos Corporation (DAC-US) — Value Criteria, continued

5. Financial Soundness	FY2023A	FY2024A	FY2025A	FY2026E	FY2027E	FY2028E	Yes
Total debt (\$mm)	404	735	1,155	1,410	1,760	1,660	
Net debt (\$mm)	46	221	-2	-55	100	-368	
Total debt / equity (gross)	13.4%	21.5%	30.4%	33.4%	37.8%	32.5%	
Total debt / assets (gross)	11.0%	16.9%	22.6%	24.3%	26.7%	23.9%	
Net debt / invested capital	1.4%	5.3%	-0.1%	-1.0%	1.6%	-5.5%	
Net debt / EBIT	0.1x	0.4x	0.0x	-0.1x	0.2x	-0.6x	
Tax rate	0.0%	Book equity (\$mm)	3,796				Deloitte; 78/87 ships debt-free

6. Positive Earnings Dynamics	FY2023A	FY2024A	FY2025A	FY2026E	FY2027E	FY2028E	No
Sales growth	(4.1%)	6.0%	3.3%	2.2%	9.9%	5.0%	
EBIT margin	60.8%	52.8%	47.8%	49.7%	48.4%	47.0%	
EPS growth	6.2%	(9.8%)	2.6%	12.6%	(7.4%)	6.6%	

7. Business Strategy & Segment Mix	Yes
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Strategy Containership lessor: owns ships and charters them to liner companies on multi-year fixed-rate time and bareboat charters, so earnings follow the contract book rather than freight rates. Since 2023 it has added a spot-exposed Capesize drybulk fleet, holds 6.3m Star Bulk shares and has invested in the Alaska LNG project. Ships are managed by Danaos Shipping, owned by the Coustas family. Customers are concentrated: six liner companies were 66% of 2025 revenue (CMA CGM 21%, MSC 16%).

Segment / geography mix FY25 revenue: container vessels 92%, drybulk 8%. Container fleet averages 15.2 years old; 25 newbuildings on order.

8. Capable Management & Insider Ownership					Yes
Insider ownership	53.8%	Inst. ownership	22.6%	Buybacks, % of NOPAT (FY1E)	21.7%

Insiders own 53.8%, almost all through CEO John Coustas's family trust, so alignment is strong. The trade-off is control: Danaos is a controlled company and pays a Coustas-owned manager a per-vessel daily fee plus 1.25% of charter hire, which minority holders have to accept.

Insider activity / governance						
9. Valuation — Value Creation (ROIC vs. ke)						Yes
ROIC (FY1E)	12.6%	Cost of equity (ke)	7.9%	EVA spread (ROIC – ke)	4.7%	
Price target / upside	\$190.00	15.0%		Value / share range (low-high)	\$147 – \$250	

10. Uses of Capital — allocation discipline	Yes
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Reinvests 71% of NOPAT in FY2026E on newbuildings, pays 12% as dividends and 9% in buybacks (now paused); leverage stays near zero.

VALUE FIT SCORE — criteria met	6 / 10
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FINANCIAL SUMMARY (\$mm except per share)	FY2023A	FY2024A	FY2025A	FY2026E	FY2027E	FY2028E	CAGR 2023–2028
Sales	952	1,010	1,042	1,066	1,172	1,230	5.3%
Gross margin	65.4%	58.1%	54.0%	54.0%	54.0%	54.0%	
EBIT	579	533	499	530	567	578	(0.0%)
Net income	576	505	495	542	502	536	(1.5%)
EPS (basic)	\$28.99	\$26.15	\$26.83	\$30.21	\$27.98	\$29.82	0.6%
Dividend / share	\$3.05	\$3.25	\$3.45	\$3.62	\$4.01	\$4.18	
FCFE / share	\$19.27	-\$1.77	\$19.13	\$8.24	-\$2.40	\$30.26	9.5%
Invested capital	3,428	4,149	4,875	5,557	6,338	6,698	14.3%
ROIC	18.3%	14.4%	13.0%	12.6%	11.8%	12.1%	
NOPAT margin	60.8%	52.8%	47.8%	49.7%	48.4%	47.0%	
Sales / NWC	-325.27x	43.90x	24.12x	24.10x	24.10x	24.10x	
Sales / NFA	0.30x	0.27x	0.27x	0.26x	0.25x	0.26x	
Sales / invested capital (ex cash)	0.30x	0.27x	0.27x	0.25x	0.24x	0.26x	

USES OF CAPITAL — full range, as % of cash generated (NOPAT)	FY2023A	FY2024A	FY2025A	FY2026E	FY2027E	FY2028E	Avg 2023–2028
NOPAT before reinvestment (\$mm)	579	533	499	530	567	578	
Uses, as % of NOPAT							
CapEx, R&D & content (Δ NFA)	22.7%	96.4%	24.4%	70.5%	102.6%	(1.8%)	52.5%
Working capital (Δ NWC)	11.3%	4.9%	4.1%	0.2%	0.8%	0.4%	3.6%
Dividends	10.5%	11.8%	12.7%	12.3%	12.7%	13.0%	12.2%
Share buybacks	10.3%	6.3%	12.1%	9.4%	0.0%	0.0%	6.4%
Debt repaid (neg. = borrowing)	16.9%	(62.1%)	(84.3%)	(48.1%)	(61.8%)	17.3%	(37.0%)
Cash & securities build	15.6%	29.4%	129.0%	58.1%	34.3%	63.7%	55.0%
Interest & other (residual)	12.7%	13.3%	2.0%	(2.3%)	11.3%	7.4%	7.4%
Total uses of capital	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Discipline — reinvestment, % of NOPAT	34.1%	101.3%	28.5%	70.6%	103.4%	(1.4%)	56.1%
Dividends + buybacks, % of NOPAT	20.8%	18.1%	24.8%	21.7%	12.7%	13.0%	18.5%

Framework: the full range of capital allocation — CapEx/R&D/brand, dividends, buybacks, cash and debt. Cautious at the top of the cycle; invest for the future at the bottom, without over-levering. Total ties to 100% by construction, with interest and unallocated items in the residual.

COMPS OVERVIEW (current multiples, FactSet)						
Ticker	Company	P/E	P/S	P/B	P/CF	EV/EBIT
DAC-US	Danaos Corporation	5.6x	2.9x	0.7x	4.3x	3.5x
GSL-US	Global Ship Lease, Inc. Class A	4.4x	2.1x	0.8x	3.2x	3.7x
LPG-US	Dorian LPG Ltd.	7.6x	4.2x	2.0x	10.3x	8.1x
CMRE-US	Costamare Inc.	5.9x	2.3x	0.8x	5.1x	7.0x
NMM-US	Navios Maritime Partners LP	6.0x	1.8x	0.7x	4.8x	7.8x
DHT-US	DHT Holdings, Inc.	8.0x	5.3x	2.9x	8.4x	13.6x
Median	Peer median (subject excluded)	6.0x	2.3x	0.8x	5.1x	7.8x
DAC-US	Subject, at current price	6.2x	2.9x	0.8x	8.6x	6.1x
Premium / (discount) to peer median		+2%	+29%	(5%)	+69%	(21%)

Note: DAC-US appears in its own peer list (AutoTearSheet-SPageID4:DI9). It is excluded from the median, but replace that slot with a real peer to use all six.

KEY RISKS
1. Charter cycle turns. Rates are at multi-year highs on Gulf and Red Sea disruption and tariffs, and industry newbuilding orders keep growing. If routes normalize, open container days (21% in 2028, 39% in 2029) reprice lower. Our model already cuts the EBIT margin to 38.0% by 2032.
2. Customer concentration. Six liner companies were 66% of 2025 revenue (CMA CGM 21%, MSC 16%). A fixed-rate charter is only as good as the charterer, and a liner downturn could put contracts at risk.
3. Control and capital allocation. The Coustas family owns about half the company and the manager. Management has moved beyond containers (drybulk, Star Bulk shares, Alaska LNG); a large LNG commitment or another share investment would test the discipline we rely on.
Exit discipline. Sell if contract cover for the next two years falls below 75%, if net debt rises above 1.5x EBITDA, if ROIC falls below the 7.9% cost of equity, or if the position breaches the fund's sector-relative drawdown limit.

Sources: model outputs linked to AutoFinandVallInfo and AutoTearSheet-SPage (FactSet). Information for educational purposes only. Not a recommendation to buy or sell any security.