

Tre aksjer og en sektor

Aksje Norge

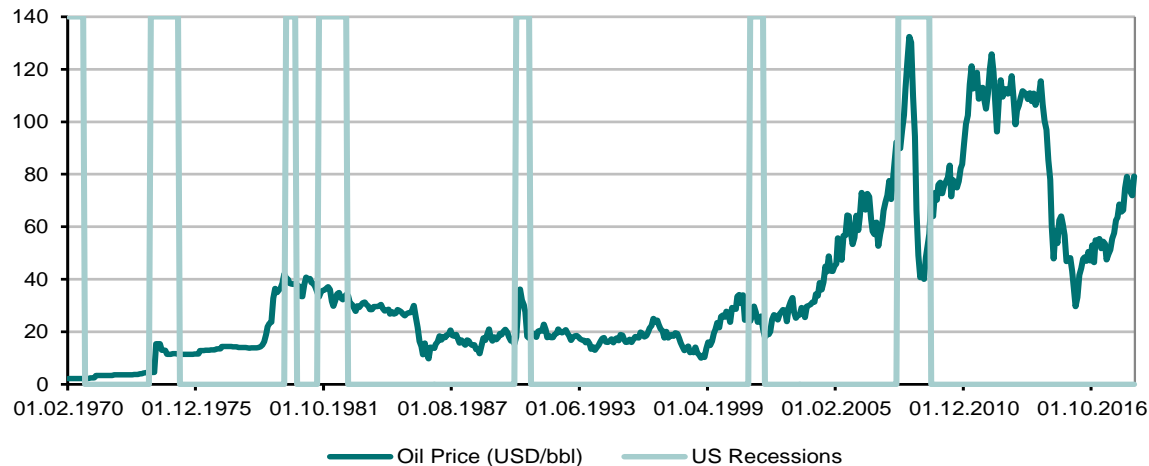
22 October 2018

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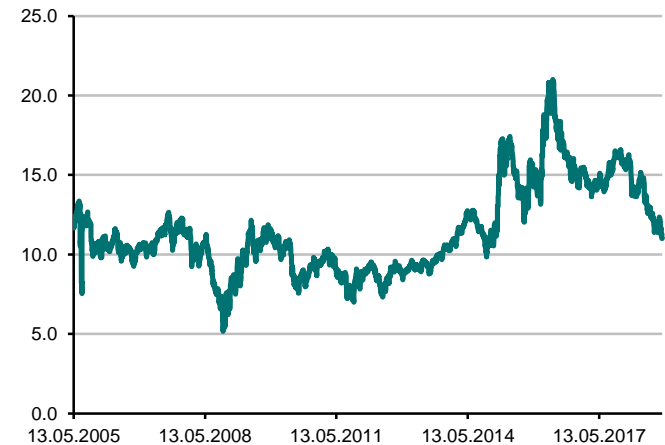
Sector Preference: Energy

- Energy is a sector that typically outperforms the market in the late cycle phase
 - Demand rises faster than supply can adjust while spare capacity has already been absorbed
- The sector has now grown into its valuation
- But late in the cycle, stock picking becomes more important
 - We prefer E&P relative to Oil Service due to better earnings revisions

Oil Price and US recessions



MSCI European Energy Sector P/E



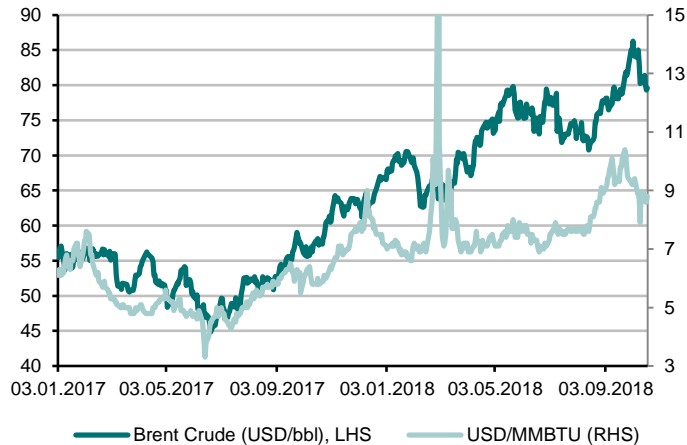
Source: Bloomberg (underlying data), DNB Markets (further calculations)

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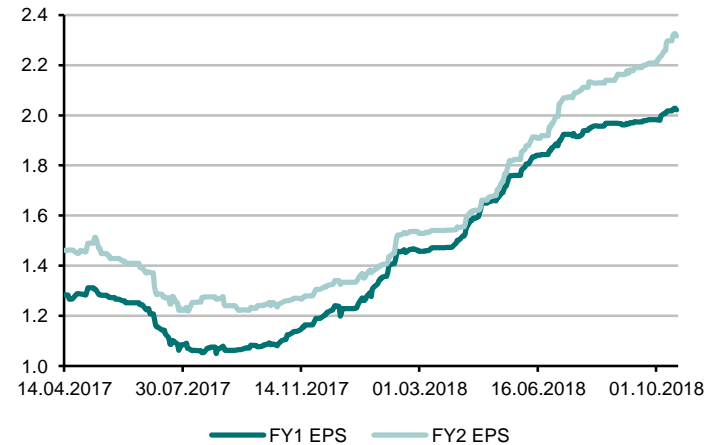
Equinor: In the cash flow sweet spot

- Positive earnings revisions set to continue
 - Consensus estimates for average 2019 Brent Crude price is currently USD76/bbl
 - Tax guidance looks too conservative (guide to 50-55% effective rate versus 30% in H1)
 - Upside potential for production guidance (we estimate 3.3% growth in 2018 versus guidance of 1-2%)
- 2018 capex on track to come in below guidance (H1 capex USD4.6bn versus FY guidance of USD11bn)
- Valuation looks more attractive now as EPS has outgrown the share price (11.8x fwd P/E)

Gas and Brent Crude price

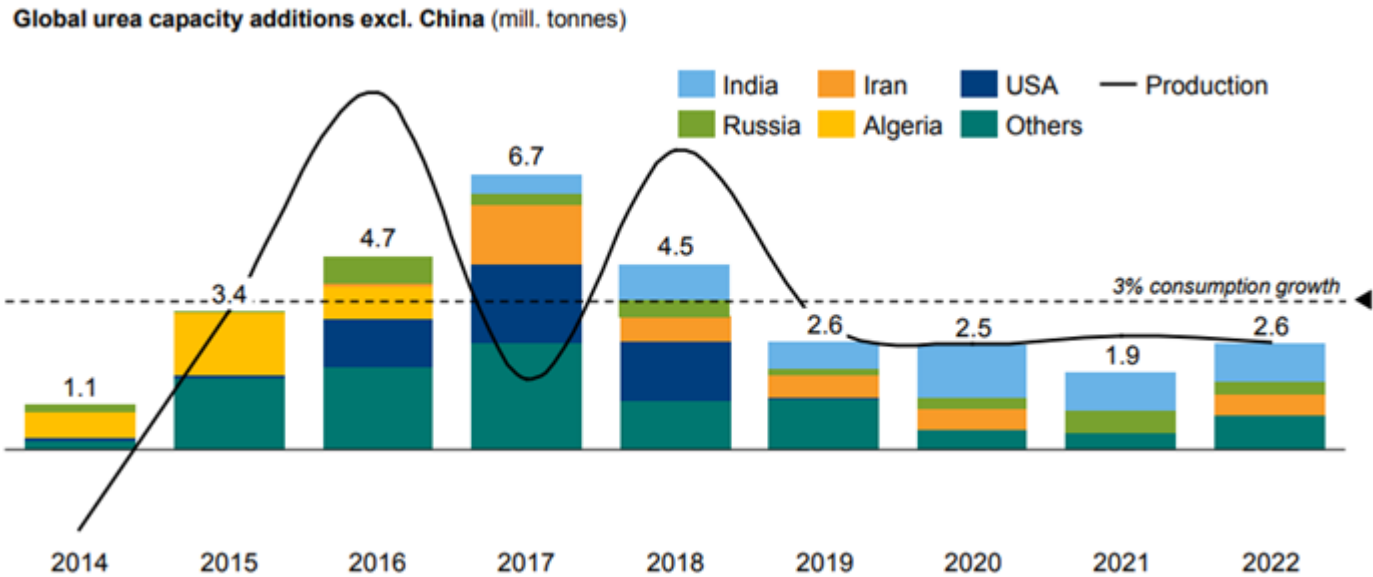


Equinor Consensus EPS estimates (USD)



Yara: Upside to earnings estimates

- Industry capacity growth is set to decline to ~2.5% in 2019/20 compared to an average of 5% in 2015-18
 - Sanctions against Iran could limit the supply growth even further
- Yara has launched various projects to remove production bottlenecks, increase capacity and reduce costs
 - The programme has been running ahead of schedule in recent quarters
- Run-rate EPS is currently USD4.3 compared to FY 2019 consensus of USD3.2/share



Yara: Structural improvement potential

- Activist investor Magni Partners should be a catalyst for crystallising shareholder value
 - Magni disclosed a 1% stake and is likely to get board representation in our view
- This should keep pressure on the company to increase the scope of the current efficiency programme
- Divestments could unlock shareholder value

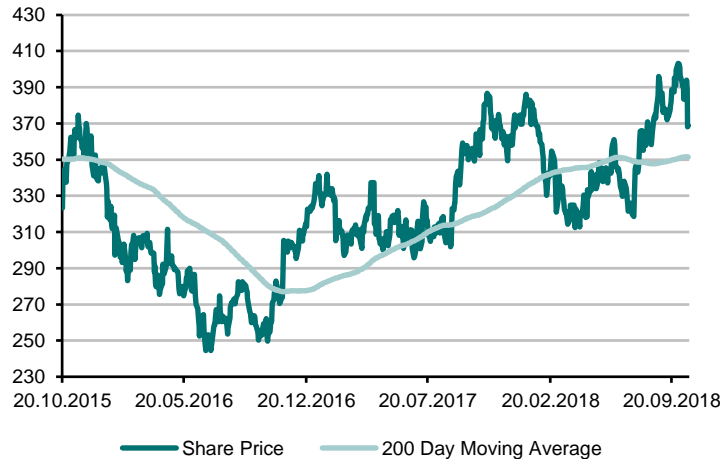
	Base Chemicals	Environmental Solutions	Mining Applications	Gas and Industrial applications
Key product and service offering	Chemical applications for food, feed, automotive, space, pharmaceutical and construction industries	Abatement of emissions from heavy duty vehicles NO _x and SO _x abatement for maritime sector	Solutions to the Civil explosives industry Based on Technical nitrates for mining and construction	CO ₂ as gas, liquid and Dry Ice CN for Industrial Applications Animal nutrition
Strategic fit	Optimization of Upstream assets	Utilize technology, logistic advantage and infrastructure footprint	Handling, storage and economies of scale	Monetize secondary products into primary markets applications
Geographical market	Europe	Global	Global	Global
Market drivers	GDP growth	Legislations, GDP growth	GDP growth, infrastructure projects, supply security	GDP growth, standards of living
EBITDA 2011-2015 (MNOK)				
Market CAGR 2014-2020	5% ¹	16% ²	2.1% ³	5% ¹

Sold to Praxair for EUR218m (10x EBITDA)

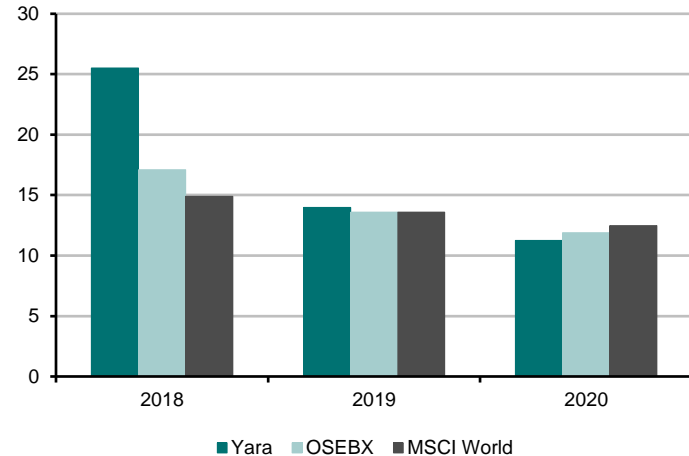
Yara: Quantitative rank improvement should generate buying interest

- Has had a low quant ranking on P/E, share price momentum and earnings revisions in H1 2018
- Share price rebound in Q3 has already resulted in an improvement in momentum rankings
- Consensus earnings estimates bottomed out after the Q2 results
- The normalising of EPS results in the P/E multiple falling from 26x in 2018e to 11x in 2020e

Yara Share Price



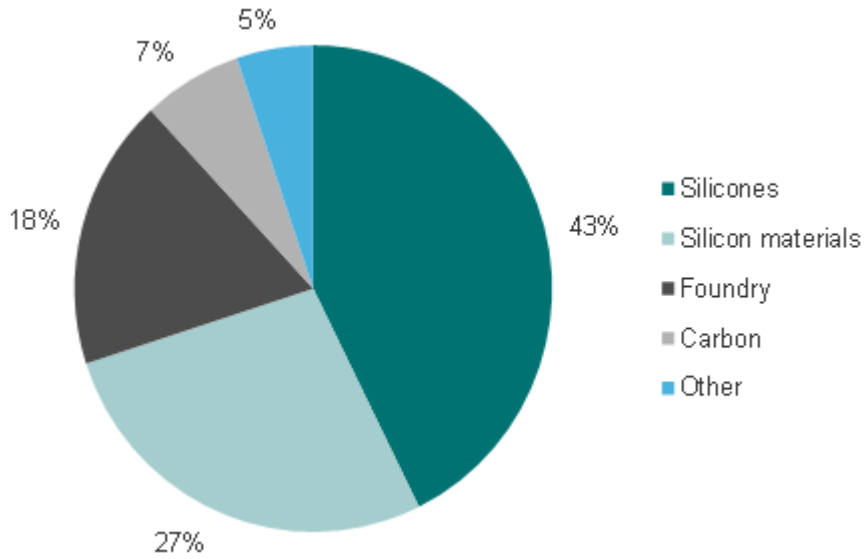
P/E: Yara versus OSEBX and MSCI World



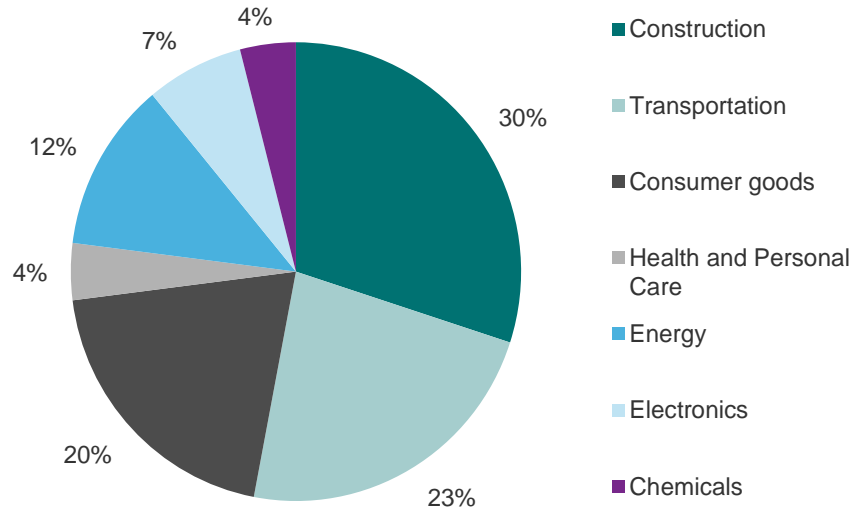
Elkem: Third largest producer of silicones globally

- Established in 1904, acquired BSI and Xinghuo Silicones in 2015 and is a fully integrated silicone company
- Largest geographic markets are Europe and China
- Wide range of uses with largest end markets in construction, transportation and consumer goods

Divisional Sales Split



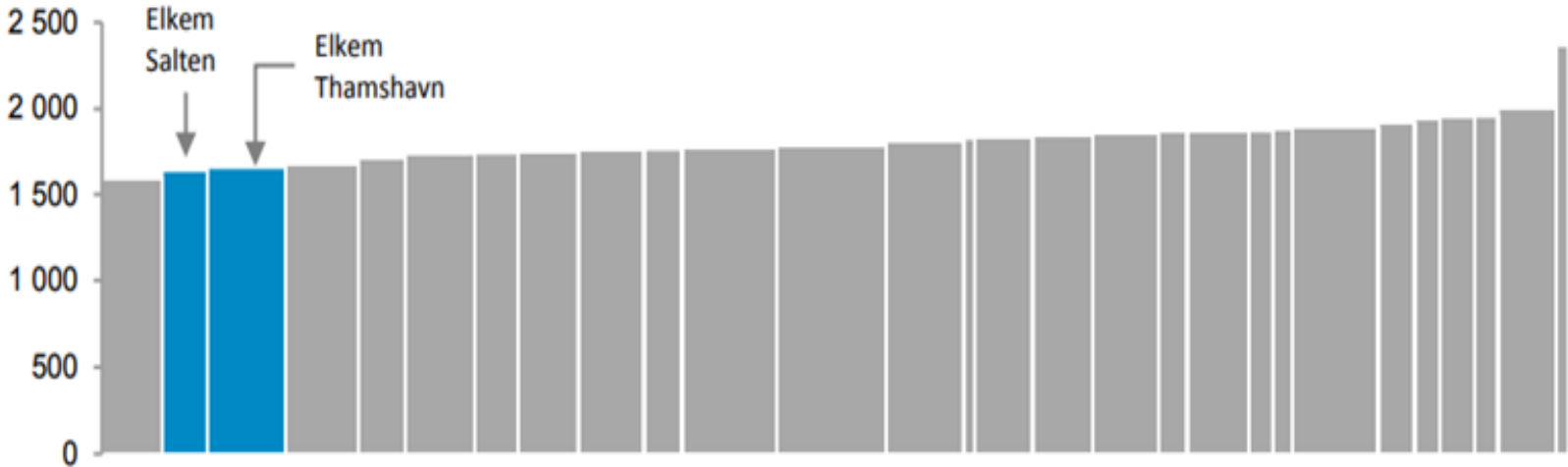
End-Market Sales Split



Elkem: Leading upstream assets and improving downstream revenue mix

- Elkem is one of the most cost-efficient silicon producers globally
- Production facilities in Europe and China limit the consequences of a trade war and tariff increases
- Increased revenue share of speciality silicones which have better margins than commodity products
 - Speciality silicones are 2/3rds of sales ex-China and 1/3rd of China sales

Elkem: Net Operating costs (ex-China), USD/tonne



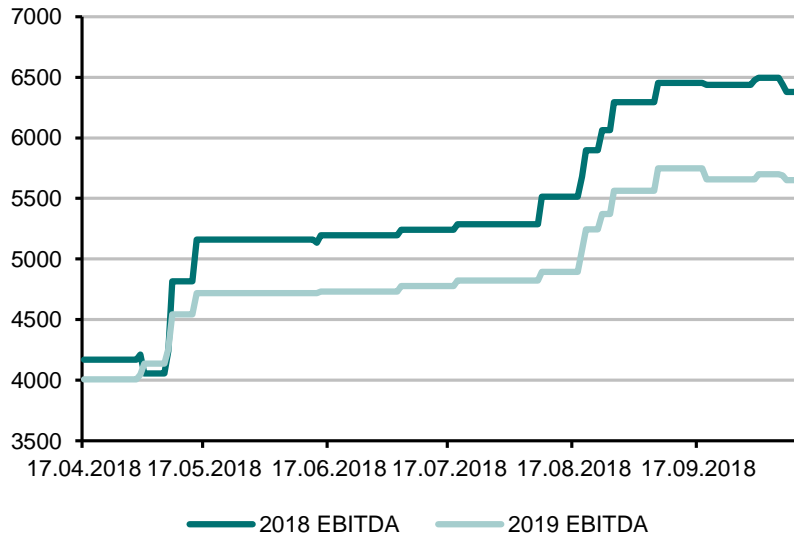
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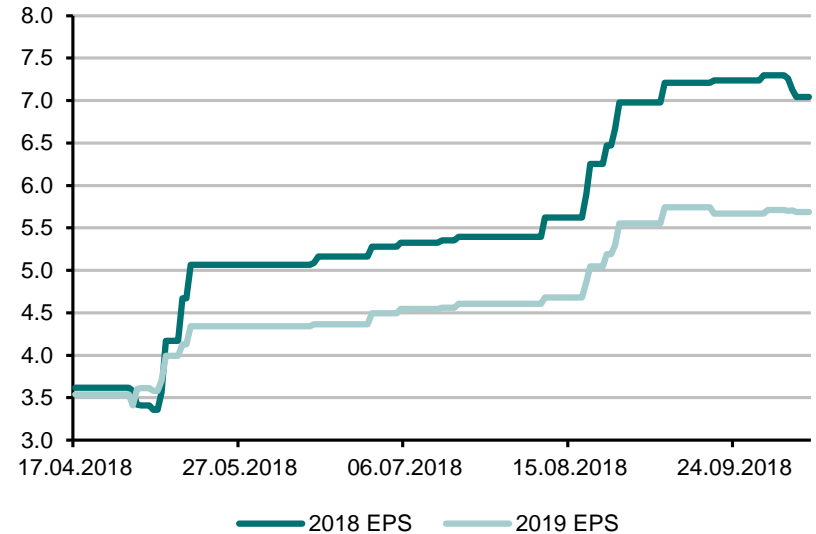
Elkem: Positive consensus estimate revisions

- Management was careful to moderate investor expectations after the strong Q2 results
 - Consensus Q3 EBITDA expectations are 25% below the level reported in Q2
- Consensus 2019 EBITDA estimates have risen by 60% since April

Elkem: Consensus EBITDA (NOKm)



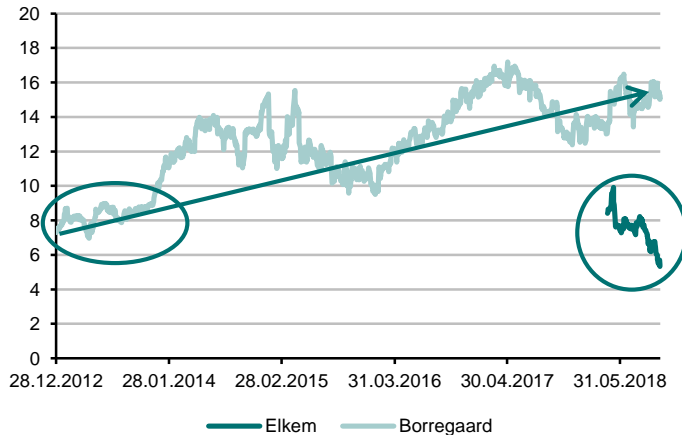
Elkem: Consensus EPS (NOK)



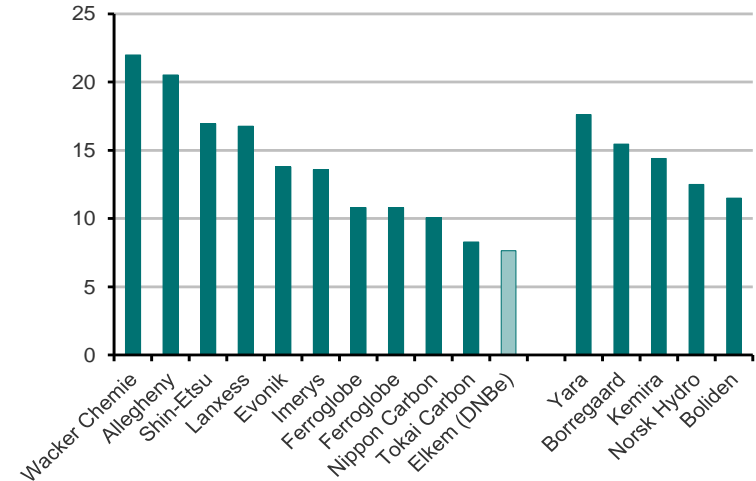
Elkem: Re-rating potential as the market becomes more familiar with the story

- Is trading at a low multiple because investors are still unfamiliar with the company
 - Has only published two sets of quarterly results since the IPO in March this year
- Current valuation looks similar to Borregaard after its spin-off from Orkla in 2012
 - When investors became more familiar with the Borregaard investment case, the valuation multiples expanded

Elkem and Borregaard P/E



Elkem P/E versus peer group



Source: Bloomberg (underlying data), DNB Markets (further calculations)

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