

STRATEGY & MACRO TEAM

Sektor og aksjetips

14 October, 2019

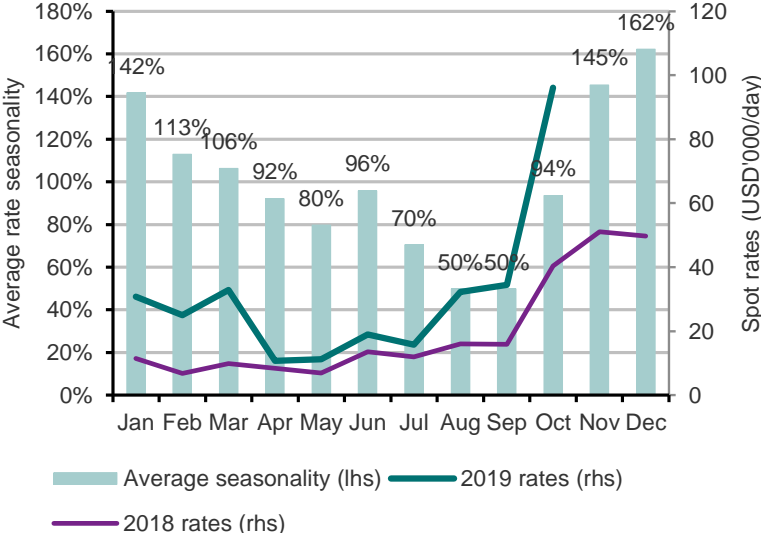
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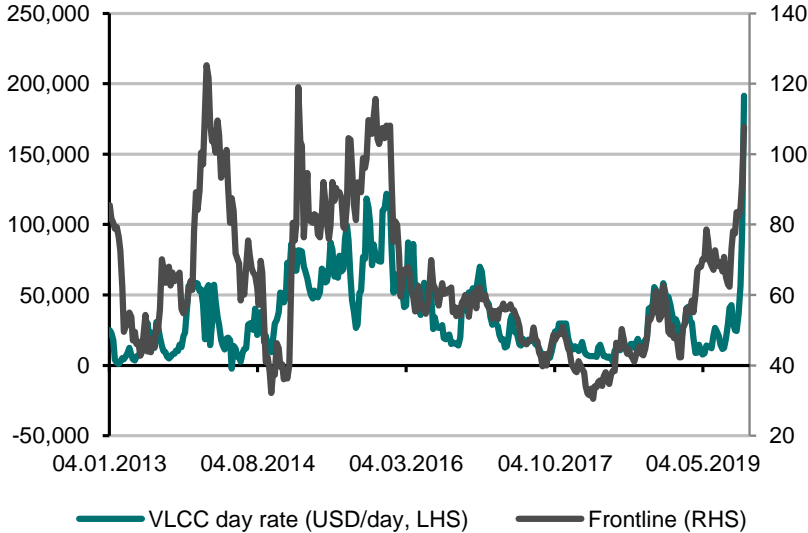
Crude tankers sector is entering high season

- Crude tanker dayrates typically increase significantly from September until November/December

VLCC dayrate seasonality

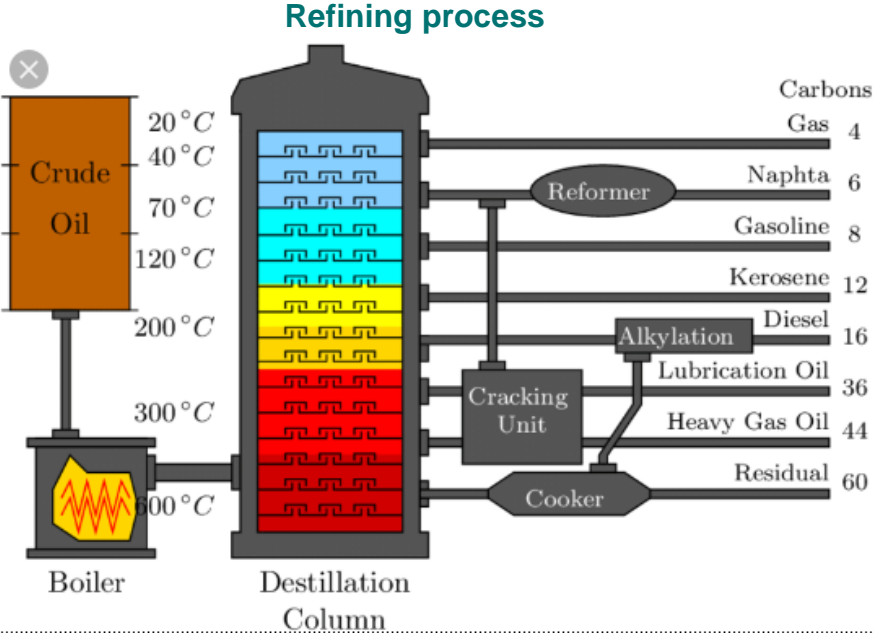


VLCC dayrate versus Frontline share price

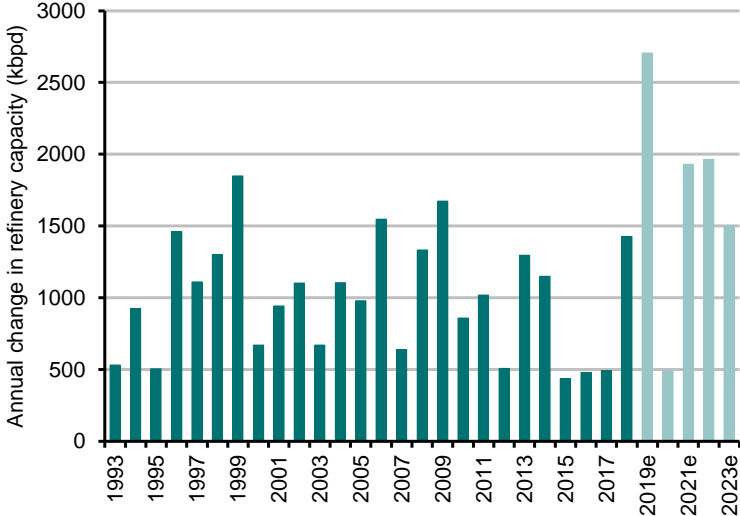


IMO 2020 regulations will increase refinery demand by ~1mbpd

- Vessels that do not have scrubbers installed can no longer use residual bunker fuel
 - Must use cleaner distillate fuel instead to reduce pollution
- Refineries will need an additional 1m barrels per day to produce the required distillate fuel for the shipping industry
 - Refinery capacity has been ramped up to meet the incremental demand



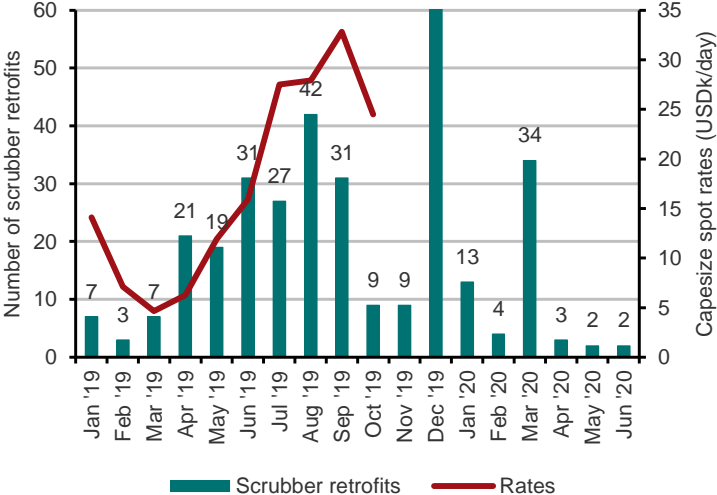
Annual change in refinery capacity



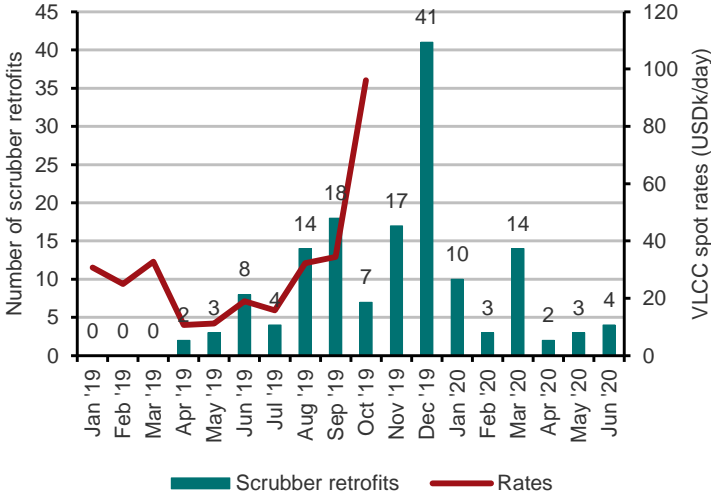
Scrubber retro-fitting is set to squeeze tanker supply this year

- Installation of scrubbers takes around 30 days and has created a supply squeeze for bulkers this year
- 74 VLCCs (9% of the fleet) are set to have scrubbers installed by year-end reducing available vessels in this peak season

Scrubber installations and Capesize rates (USD/day)



Scrubber installations and VLCC rates (USD/day)



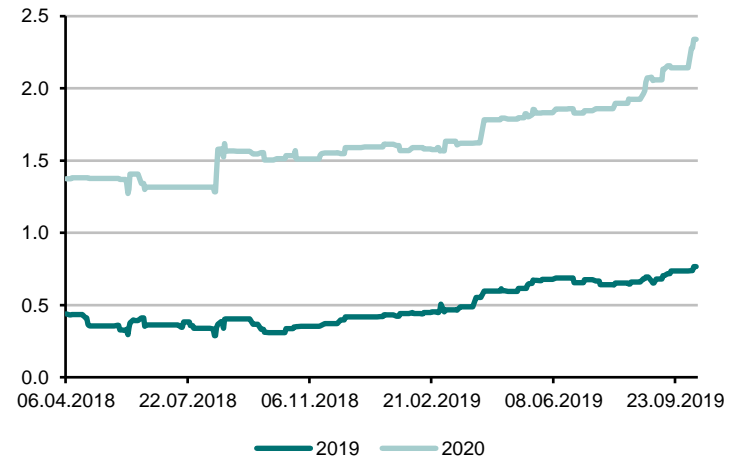
Frontline (BUY, TP NOK123)

- Analysts are still revising their earnings estimates up
- High payout ratio puts the shares on a 14% dividend yield for 2020
- Strong track record for delivering value-accretive M&A

Frontline Share price (NOK)



Frontline consensus EPS expectations (USD)

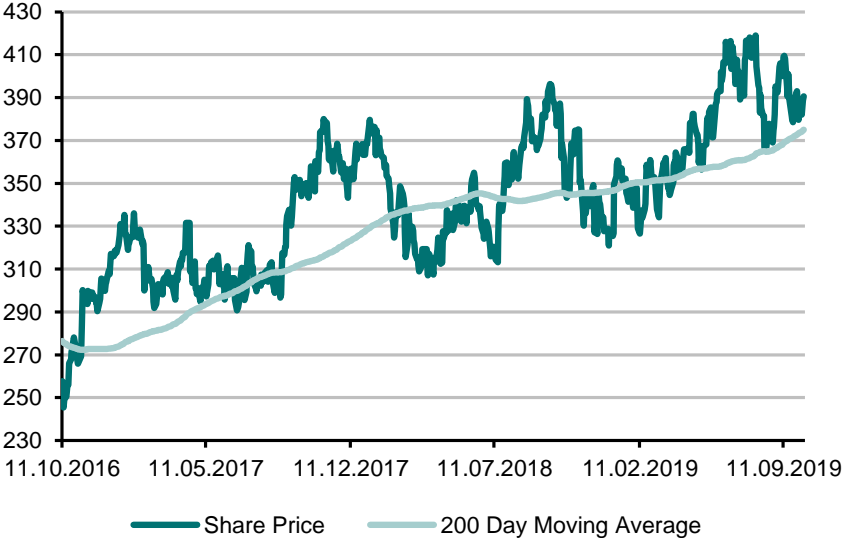


Source: Bloomberg (underlying data), DNB Markets (further calculations)

Yara (BUY, TP NOK500)

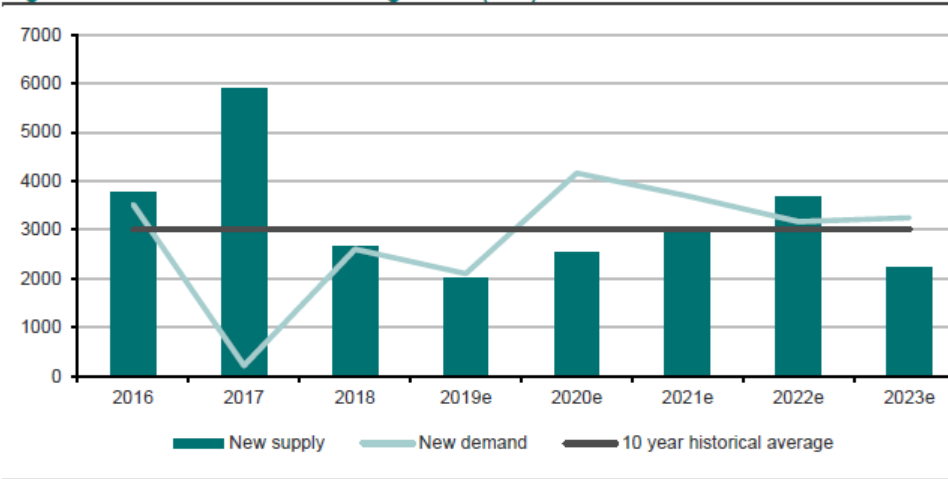
- Demand growth for urea set to exceed supply for the next three years

Yara share price NOK (dividend adjusted)



Urea market Supply and Demand

Figure 1: Market balance excluding China (kmt)

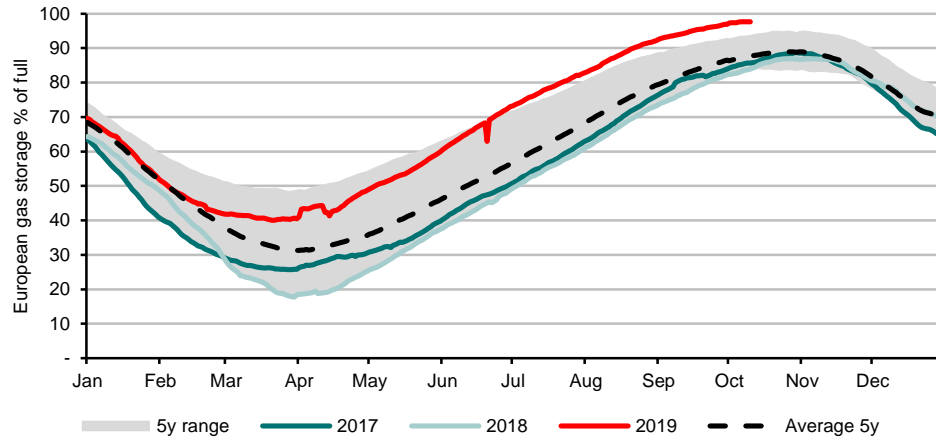


Source: DNB Markets (forecasts), Argus (historical data)

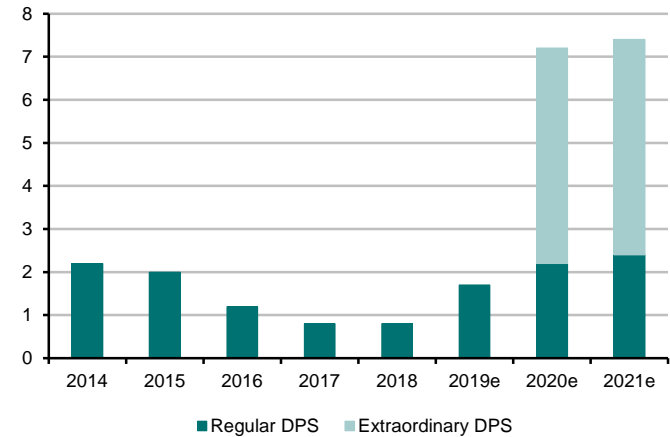
Yara (BUY, TP NOK500)

- Gas prices to remain lower for longer
 - Room for further operational cost improvements
- Shareholder returns could be significantly increased from next year with extraordinary dividends (16% yield)
 - Sales of non-core assets could release more cash to shareholders

EU Natural Gas Storage capacity utilisation (%)



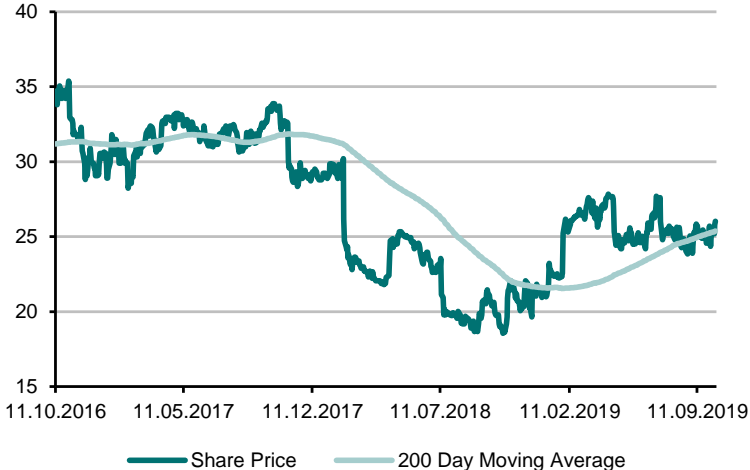
Yara Dividend Estimates (USD/share)



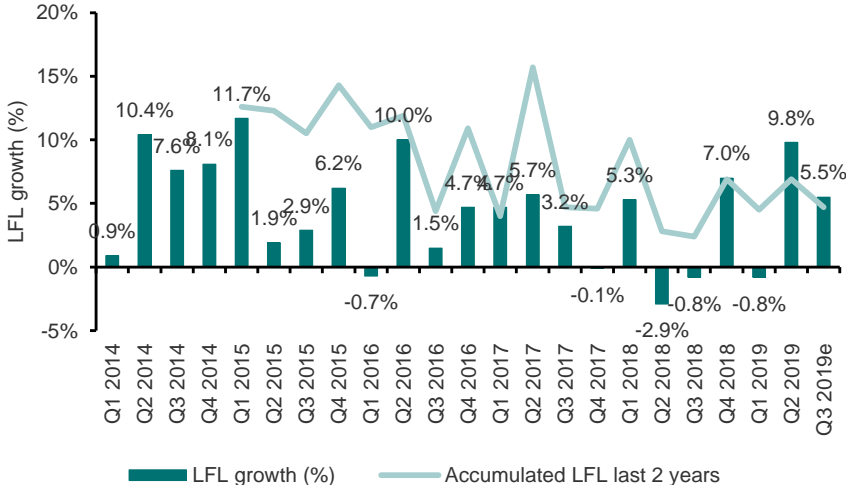
Europris (BUY, TP NOK29)

- Solid underlying like-for-like growth trends
 - Broad variety discount retail has been among the most resilient segments in a challenged sector
- Higher than expected warehouse costs that affected results in H1 should start to improve in H2
- P/E multiple of around 10x indicates the market is pricing in further estimate cuts
 - Dividend yield of ~7%

Europris share price NOK (Dividend adjusted)



Europris Like-for-Like revenue growth



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