

STRATEGY & MACRO TEAM

Sektor og aksjetips

11 November, 2019

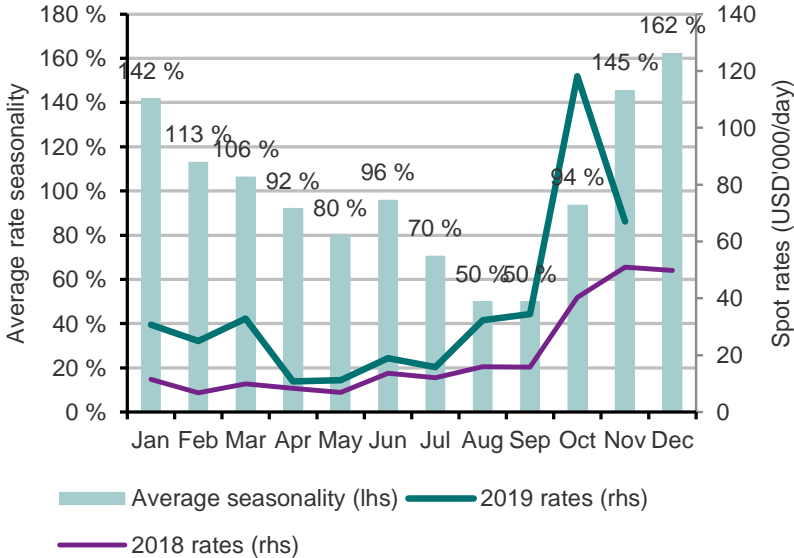
Strategy & Macro Team:

Paul Harper (Equity Strategist): +47 24 16 91 82; paul.harper@dnb.no

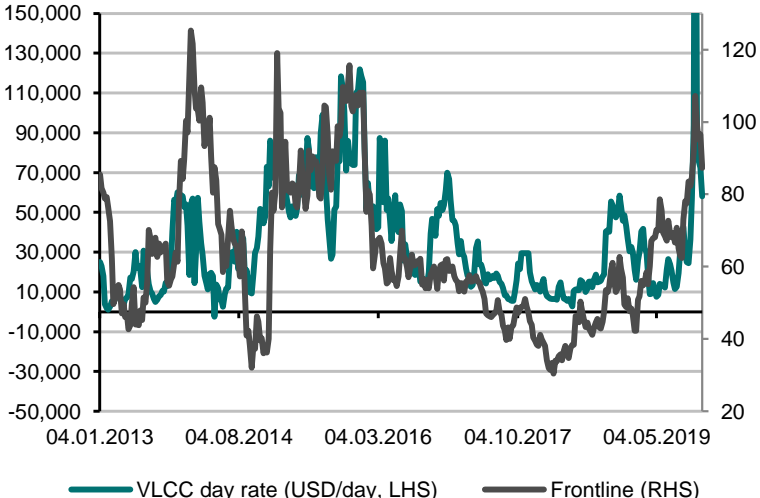
Crude tankers sector is entering high season

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

VLCC dayrate seasonality

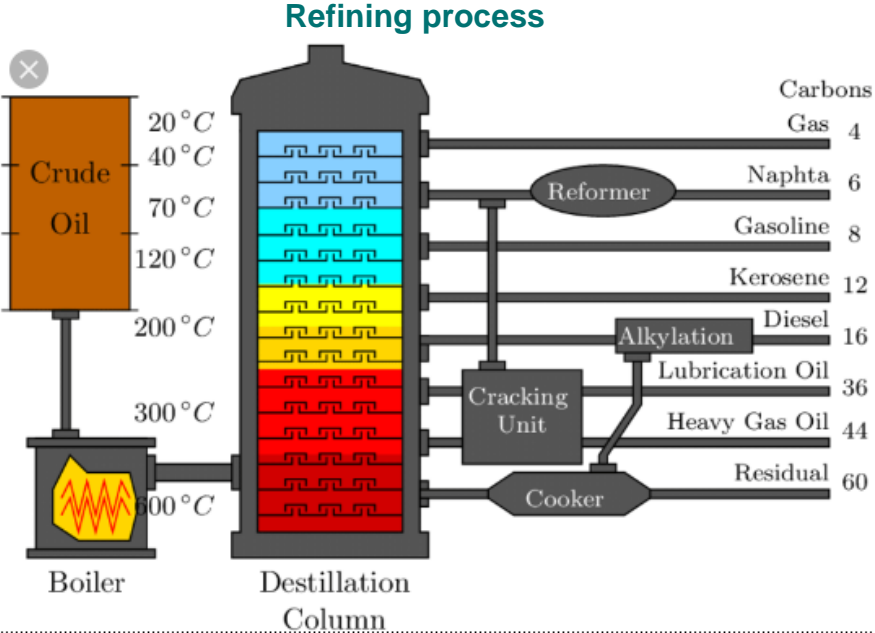


VLCC dayrate versus Frontline share price

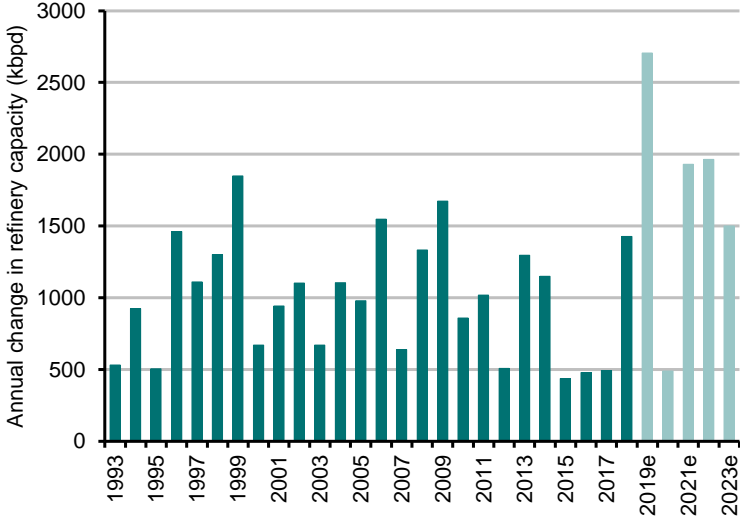


IMO 2020 regulations will increase refinery demand by ~1mbpd

- 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



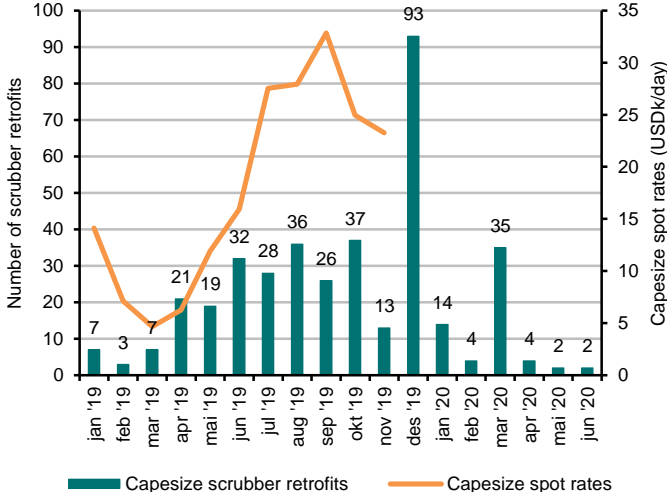
Annual change in refinery capacity



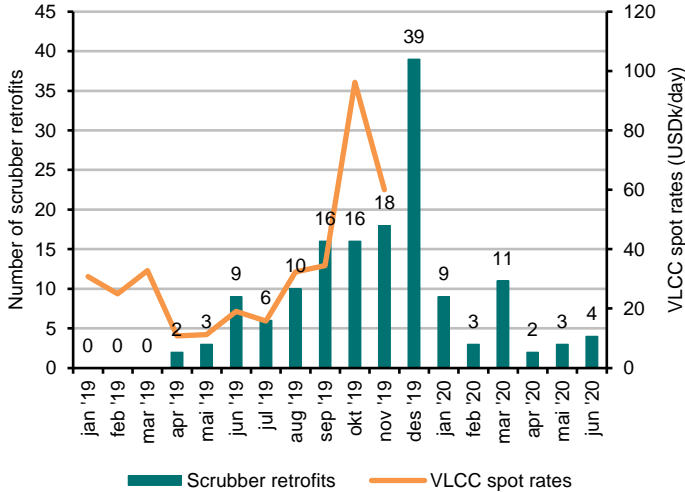
Scrubber retro-fitting is set to squeeze tanker supply this year

- Installation of scrubbers takes around 30 days and has created a supply squeeze for bulkers this year
- 74 VLCCs (7% 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)



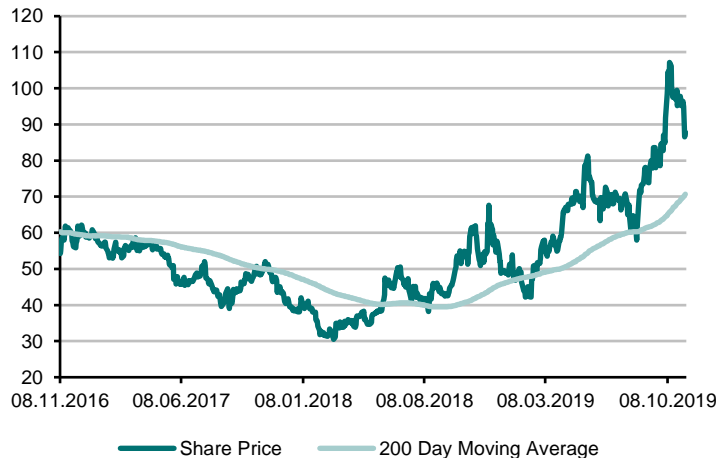
Scrubber installations and VLCC rates (USD/day)



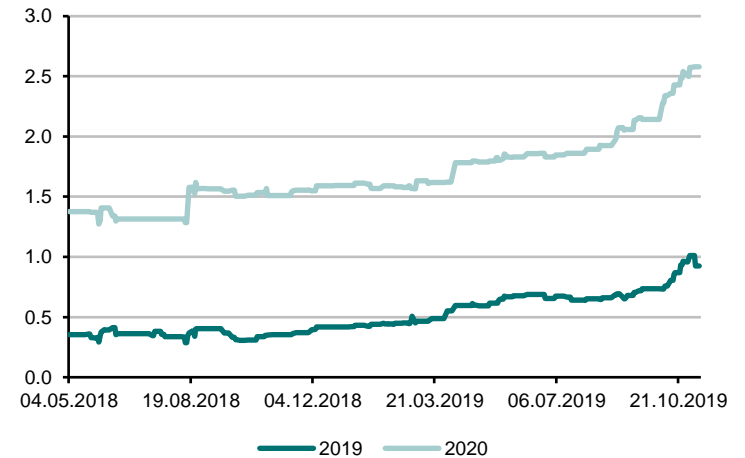
Frontline (BUY, TP NOK123)

- Analysts are still revising their earnings estimates up
- High payout ratio puts the shares on a 20% dividend yield for 2020
- Strong track record for delivering value-accretive M&A

Frontline Share price (NOK)



Frontline consensus EPS expectations (USD)

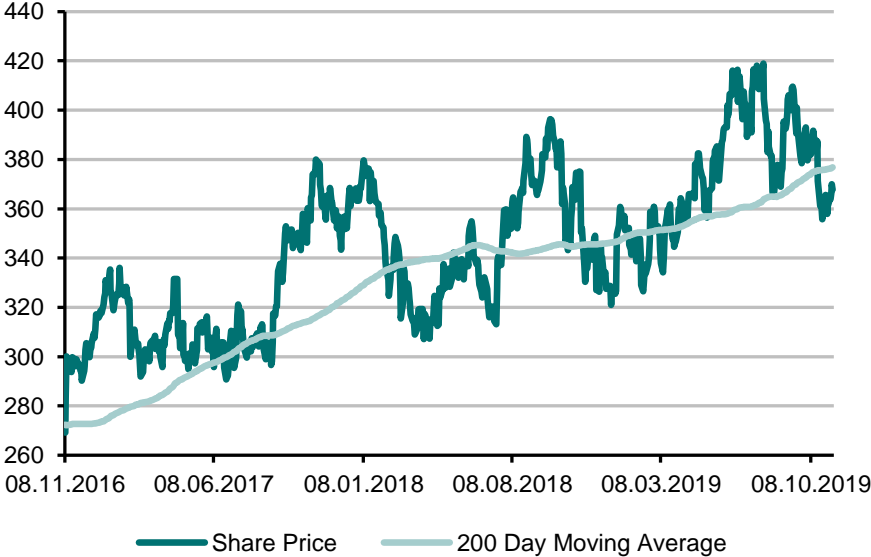


Source: Bloomberg (underlying data), DNB Markets (further calculations)

Yara (BUY, TP NOK500)

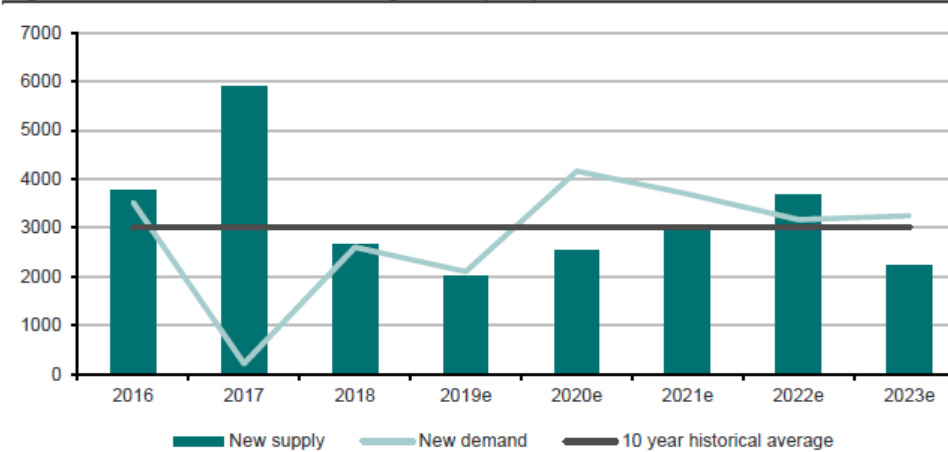
- Demand growth for urea set to exceed supply for the next three years

Yara share price NOK (dividend adjusted)



Urea market Supply and Demand

Figure 1: Market balance excluding China (kmt)

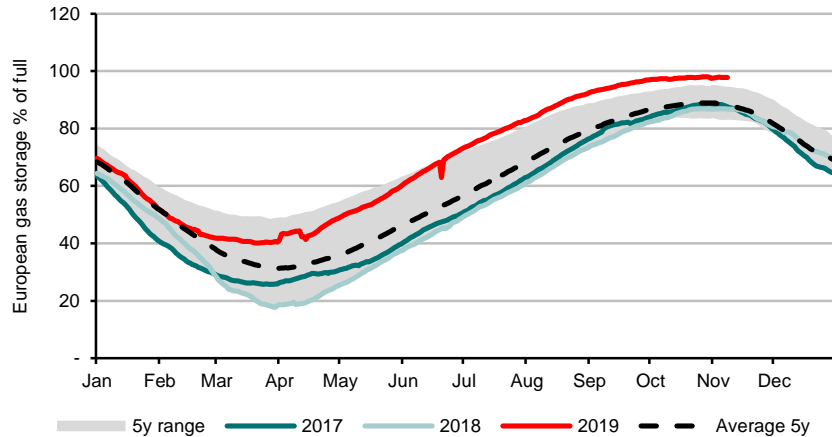


Source: DNB Markets (forecasts), Argus (historical data)

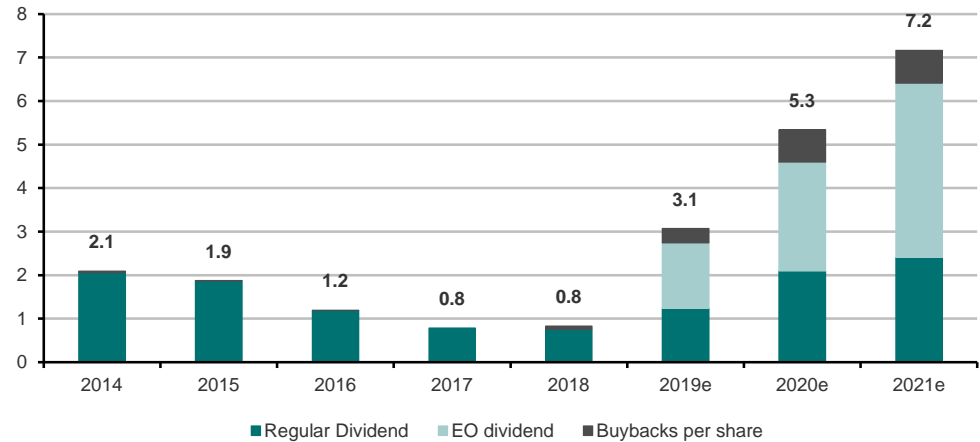
Yara (BUY, TP NOK500)

- 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 (2020e: 13% yield)
 - Announced a small share buyback at the Q3 results (0.8% of shares outstanding)
 - Sales of non-core assets could release more cash to shareholders

EU Natural Gas Storage capacity utilisation (%)



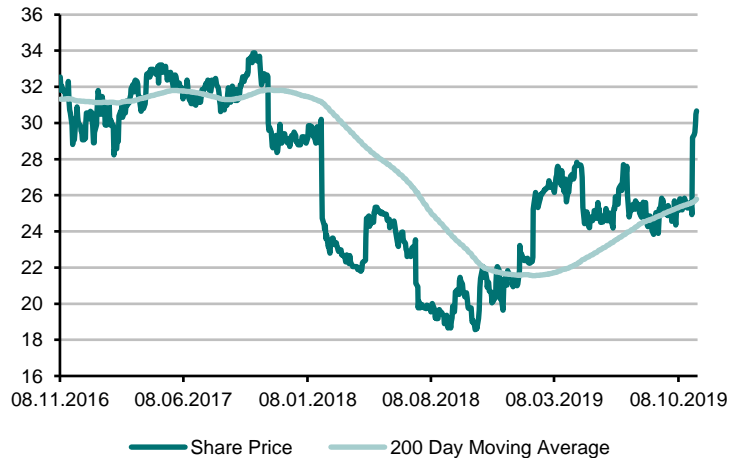
Total remuneration per share (USD)



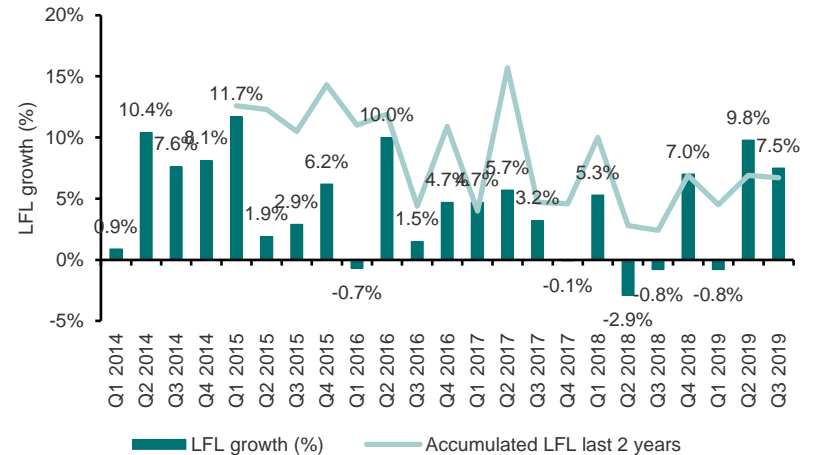
Europris (BUY, TP NOK31)

- Solid underlying like-for-like growth trends
 - Broad variety discount retail has been among the most resilient segments in a challenged sector
- Q3 results confirm that higher than expected warehouse costs that affected results in H1 have been addressed
- P/E multiple of around 11x 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



DISCLAIMER

This note must be read in conjunction with published research notes and/or DNB Analyst Communication of DNB Markets.

This note (the "Note") must be seen as marketing material and not as an investment recommendation within the meaning of the Norwegian Securities Trading Act of 2007 paragraph 3-10 and the Norwegian Securities Trading Regulation 2007/06/29 no. 876. The note has been prepared by DNB Markets, a division of DNB Bank ASA. DNB Bank ASA is a part of the DNB Group. The Note is based on information obtained from public sources that DNB Markets believes to be reliable but which DNB Markets has not independently verified, and DNB Markets makes no guarantee, representation or warranty as to its accuracy or completeness. Any opinions expressed herein reflect DNB Markets' judgement at the time the Note was prepared and are subject to change without notice. The Note should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. No DNB Party is acting as fiduciary or investment advisor in connection with the dissemination of the Note. Any use of non-DNB logos in this Note is solely for the purpose of assisting in identifying the relevant issuer. DNB is not affiliated with any such issuer. The Note is for clients only, and not for publication, and has been prepared for information purposes only by DNB Markets.

The Note is the property of DNB Markets. DNB Markets retains all intellectual property rights (including, but not limited to, copyright) relating to the Note Sell-side investment firms are not allowed any commercial use (including, but not limited to, reproduction and redistribution) of the Note contents, either partially or in full, without DNB Markets' explicit and prior written consent. However, buy-side investment firms may use the Note when making investment decisions, and may also base investment advice given to clients on the Note. Such use is dependent on the buy-side investment firm citing DNB Markets as the source.

The Note shall not be used for any unlawful or unauthorized purposes. The Bank, its affiliates, and any third-party providers, as well as their directors, officers, shareholders, employees or agents (individually, each a "DNB Party"; collectively, "DNB Parties") do not guarantee the accuracy, completeness, timeliness or availability of the Note. DNB Parties are not responsible for any errors or omissions, regardless of the cause, nor for the results obtained from the use of the Note, nor for the security or maintenance of any data input by the user. The Note is provided on an "as is" basis. DNB PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE NOTE'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE NOTE WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall DNB Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of the Note, even if advised of the possibility of such damages.

Confidentiality rules and internal rules restrict the exchange of information between different parts of the Bank and this may prevent employees of DNB Markets who are preparing the Note from utilizing or being aware of information available in DNB Markets/the Bank that may be relevant to the recipients of the Note. Please contact DNB Markets at 08940 (+47 915 08940) for further information and inquiries regarding this Note, including an overview on all recommendations from DNB Markets over the last 12 Months according to Market Abuse Regulations.

The Note is not an offer to buy or sell any security or other financial instrument or to participate in any investment strategy. Distribution of material like the Note is in certain jurisdictions restricted by law. Persons in possession of the Note should seek further guidance regarding such restrictions before distributing the Note.

The note has been prepared by DNB Markets, a division of DNB Bank ASA, a Norwegian bank organized under the laws of the Kingdom of Norway and under supervision by the Norwegian Financial Supervisory Authority, The Monetary Authority of Singapore, and on a limited basis by the Financial Conduct Authority and the Prudential Regulation Authority of the UK, and the Financial Supervisory Authority of Sweden. Details about the extent of our regulation by local authorities outside Norway are available from us on request.

Information about DNB Markets can be found at www.dnb.no/markets.

Additional information for clients in Singapore

The Note has been distributed by the Singapore Branch of DNB Bank ASA. It is intended for general circulation and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. You should seek advice from a financial adviser regarding the suitability of any product referred to in the Note, taking into account your specific financial objectives, financial situation or particular needs before making a commitment to purchase any such product.

You have received a copy of the Note because you have been classified as an accredited investor, an expert investor, or an institutional investor, as these terms have been defined under Singapore's Financial Advisers Act (Cap. 110) ("FAA") and/or the Financial Advisers Regulations ("FAR"). The Singapore Branch of DNB Bank ASA is a financial adviser exempt from licensing under the FAA but is otherwise subject to the legal requirements of the FAA and of the FAR. By virtue of your status as an accredited investor or as an expert investor, the Singapore Branch of DNB Bank ASA is, in respect of certain of its dealings with you or services rendered to you, exempt from having to comply with certain regulatory requirements of the FAA and FAR, including without limitation, sections 25, 27 and 36 of the FAA. Section 25 of the FAA requires a financial adviser to disclose material information concerning designated investment products that are recommended by the financial adviser to you as the client. Section 27 of the FAA requires a financial adviser to have a reasonable basis for making investment recommendations to you as the client. Section 36 of the FAA requires a financial adviser to include, within any circular or written communications in which "he/she" makes recommendations concerning securities, a statement of the nature of any interest that the financial adviser (and any person connected or associated with the financial adviser) might have in the securities.

Please contact the Singapore Branch of DNB Bank ASA on +65 6212 6144 in respect of any matters arising from, or in connection with, the Note.

The Note is intended for and is to be circulated only to those classified as an accredited investor, an expert investor, or an institutional investor. If you are not an accredited investor, an expert investor, or an institutional investor, please contact the Singapore Branch of DNB Bank ASA on +65 6212 6144.

We, the DNB group, our associates, officers and/or employees may have interests in any products referred to in the Note by acting in various roles including as distributor, holder of principal positions, adviser or lender. We, the DNB group, our associates, officers and/or employees may receive fees, brokerage or commissions for acting in those capacities. In addition, we, the DNB group, our associates, officers and/or employees may buy or sell products as principal or agent and may effect transactions that are not consistent with the information set out in the Note.

Additional Information, including for Recipients in the United States:

The Note does not constitute an offer to sell or buy any financial instrument and does not provide opinions or recommendations with respect to securities of an issuer or an analysis of a security or an issuer. This Note is intended solely for Major U.S. Institutional Investors within the meaning of Rule 15a-6 under the U.S. Securities Exchange Act of 1934 and to such other U.S. Institutional Investors as DNB Markets, Inc. may determine. Distribution to non-Major U.S. Institutional Investors will be made only by DNB Markets, Inc., a separately incorporated subsidiary of DNB Bank that is a U.S. broker-dealer and a member of the Financial Industry Regulatory Authority ("FINRA") and the Securities Investor Protection Corporation ("SIPC"). Any U.S. recipient of this Note seeking to obtain additional information or to effect any transaction in any security discussed herein or any related instrument or investment should contact DNB Markets, Inc., 200 Park Avenue, New York, NY 10166-0396, telephone number +1 212-551-9800.