

3 aksjetips + 1 sektor




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Aksjestrateg



#Aksjekvelden

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# En sektor og tre aksjer og Aksje Norge

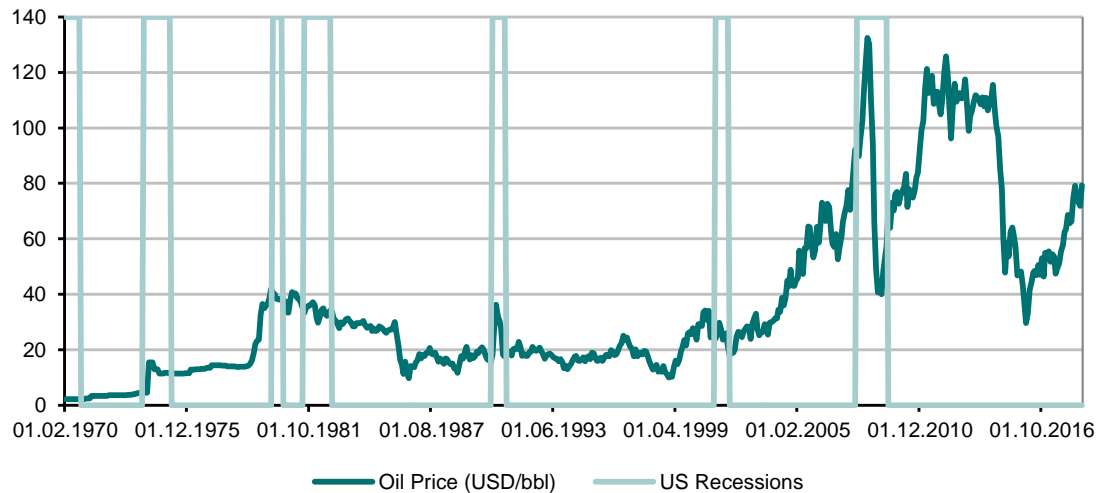
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## Sector Preference: Energy

- 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 Energy sector has been a strong outperformer this year, but valuation multiples have declined
- 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



### Nordic Energy Sector performance relative to MSCI Nordic



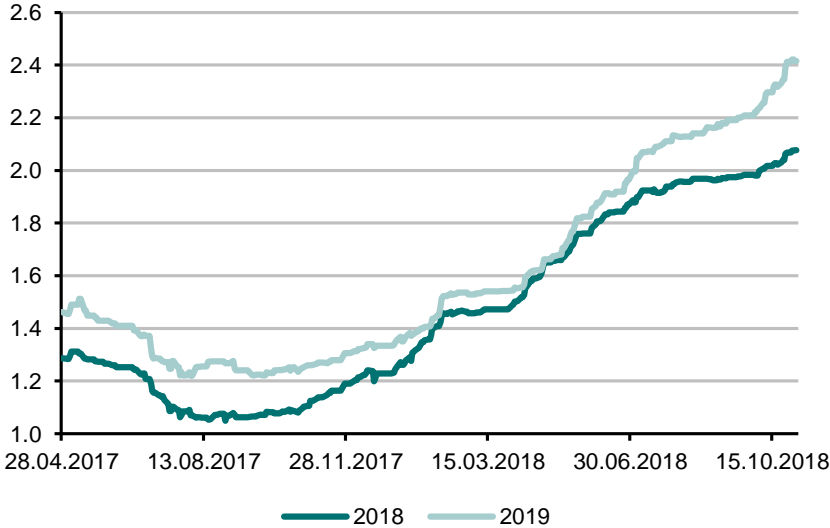
Source: Bloomberg (underlying data), DNB Markets (further calculations)

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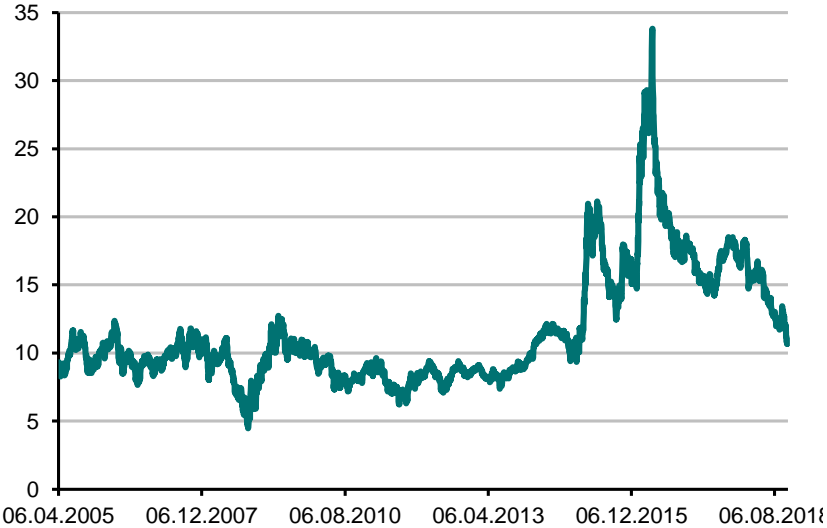
# Equinor: In the cash flow sweet spot

- Positive earnings revisions set to continue
  - Consensus estimates for average 2019 Brent Crude price is currently USD76/bbl (DNB estimate USD83/bbl)
- Focus on cost control – 2018 capex guidance cut to USD10bn from USD11bn at the Q3 results
- Valuation looks attractive as EPS has outgrown the share price (11x fwd P/E)

### Equinor Consensus EPS estimates (USD)



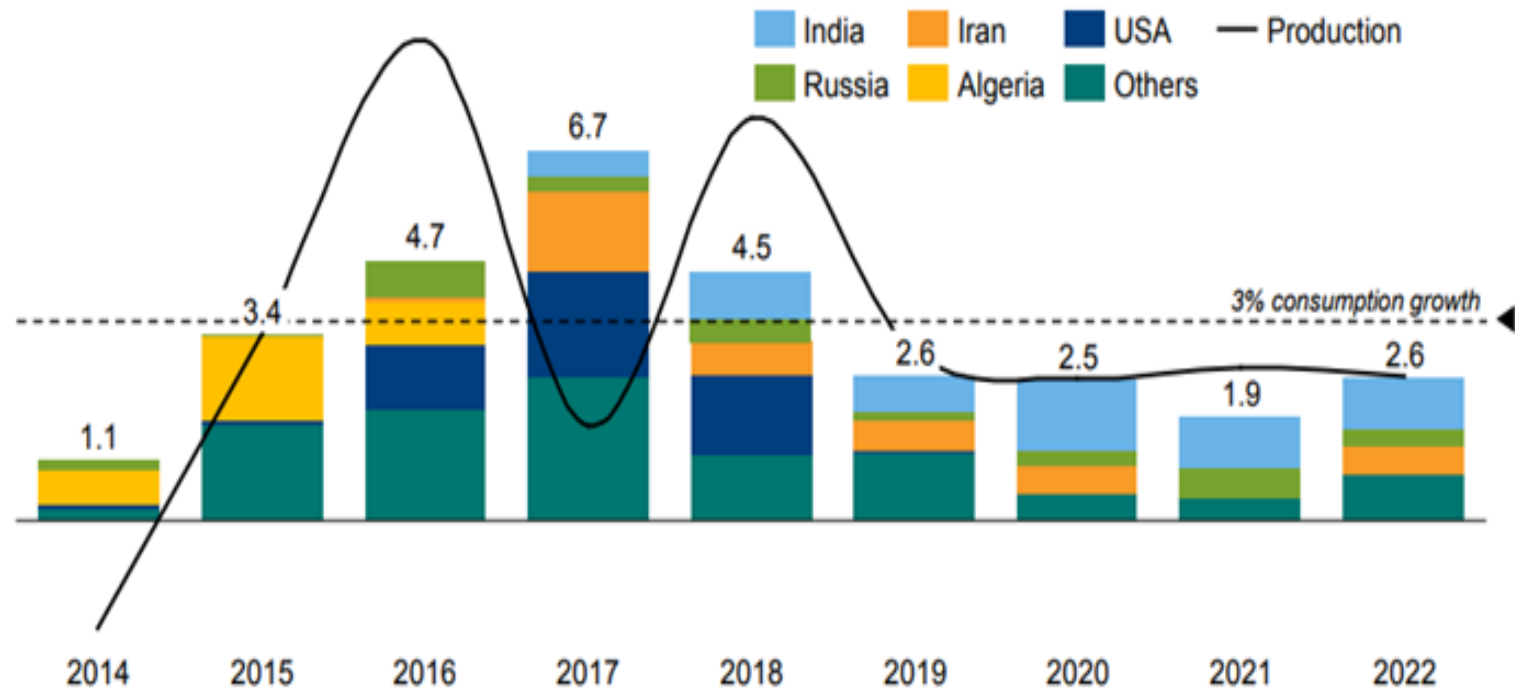
### Equinor 12 month forward P/E



## 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 USD4.8 compared to FY 2019 consensus of USD3.8/share

Global urea capacity additions excl. China (mill. tonnes)



# 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

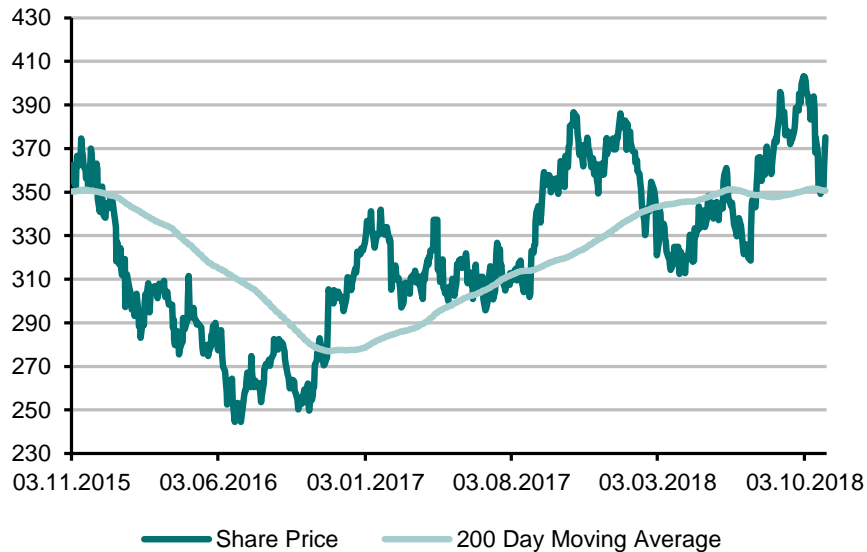
	Base Chemicals	Environmental Solutions	Mining Applications	Gas and Industrial applications
<b>Key product and service offering</b>	Chemical applications for food, feed, automotive, space, pharmaceutical and construction industries	Abatement of emissions from heavy duty vehicles NO <sub>x</sub> and SO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

Sold to Praxair for EUR218m (10x EBITDA)

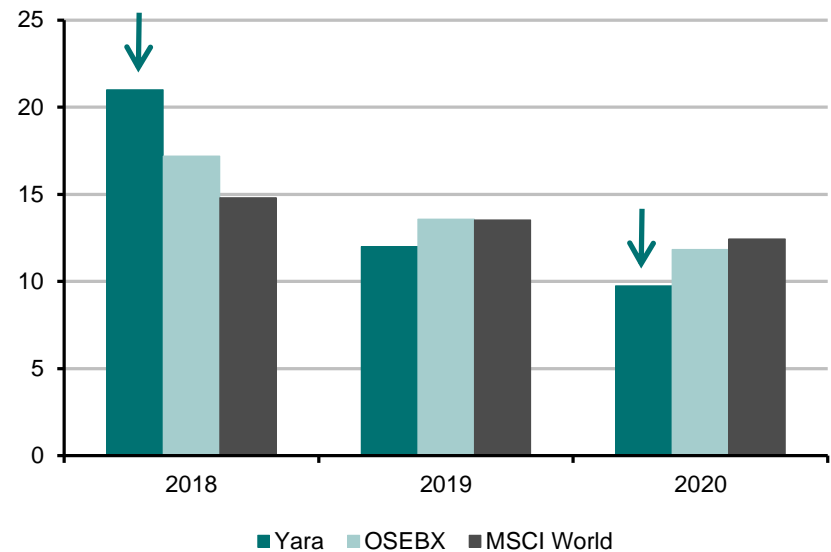
## Yara: Quantitative rank improvement should generate buying interest

- 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 21x in 2018e to 10x in 2020e

### Yara Share Price



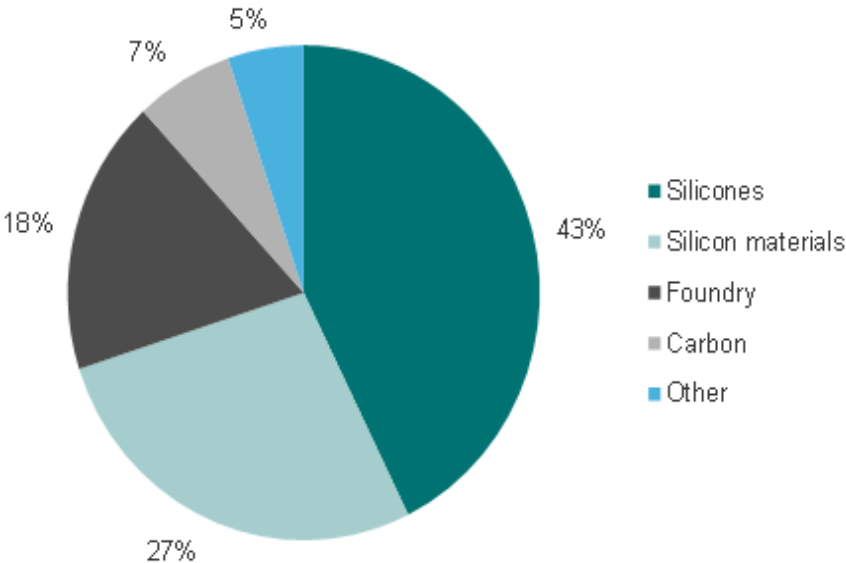
### P/E: Yara versus OSEBX and MSCI World



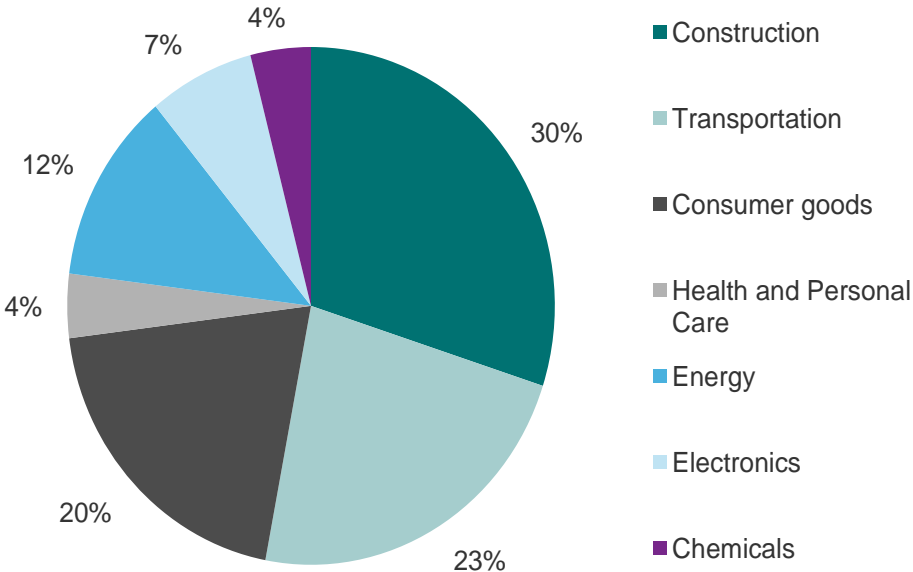
# Elkem: Third largest producer of silicones globally

- 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

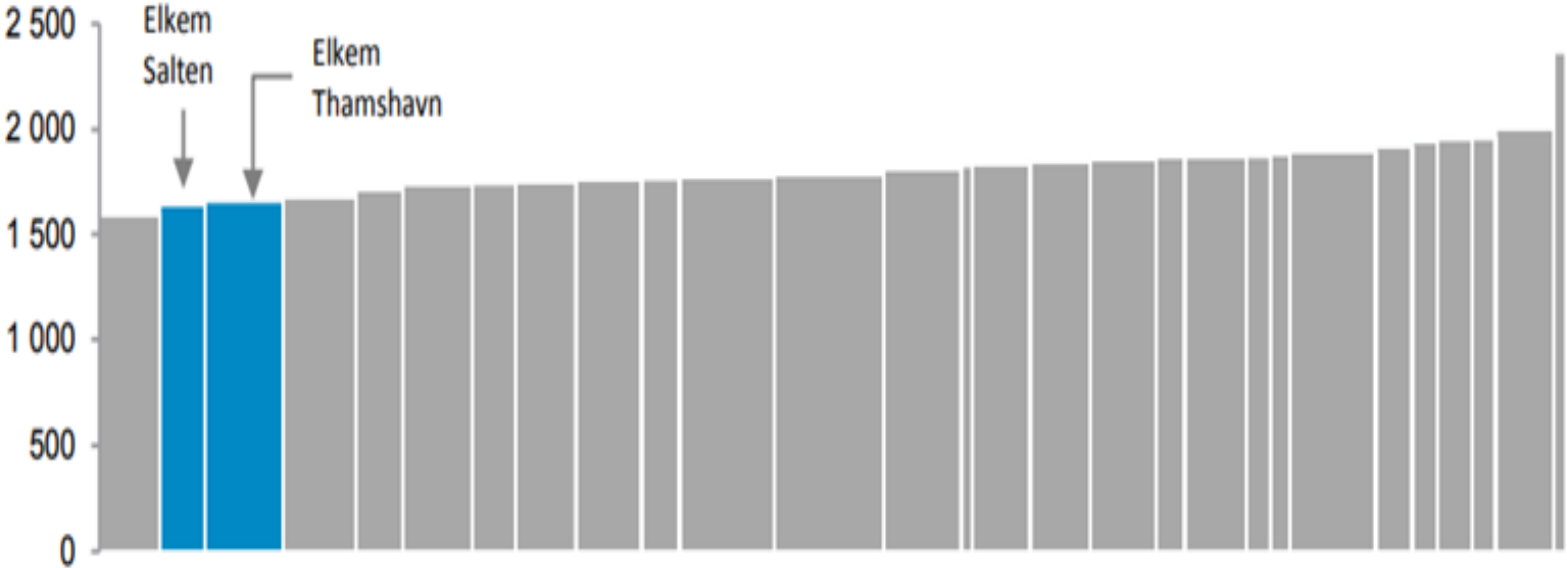




# Elkem: Leading upstream assets and improving downstream revenue mix

- Elkem is one of the most cost-efficient silicon producers globally
- Production facilities in Europe and China reduce 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 2/3<sup>rd</sup>s of sales ex-China and 1/3<sup>rd</sup> of China sales

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

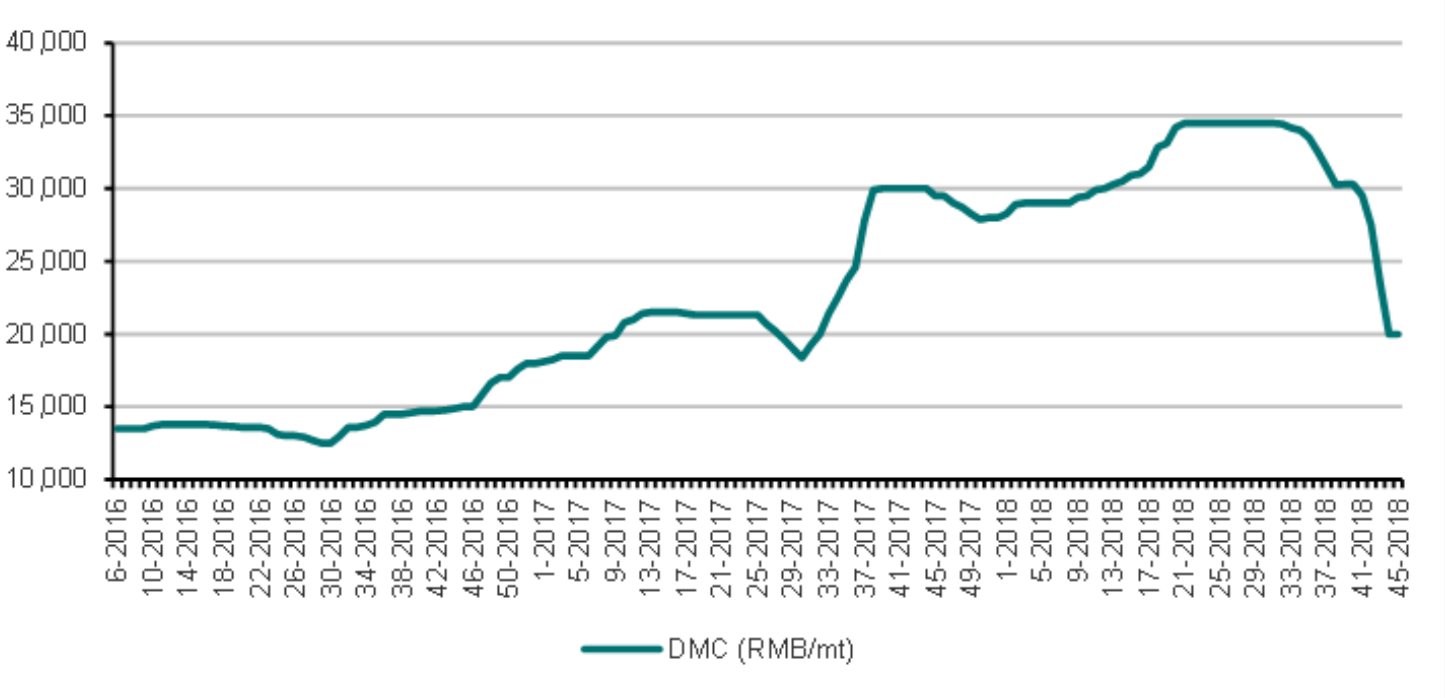


Source: Bloomberg (underlying data), DNB Markets (further calculations)

# Elkem: China is a key swing factor

- Silicone prices in China have declined sharply but have now stabilised at break-even levels
  - Elkem is still profitable at the industry average break-even level
  - We estimate a 2019 average price of RMB22,500/mt while current share price implies RMB10,000/mt
- Just under half of Elkem’s total silicone volumes are sold in the spot market in China

### China Silicone price



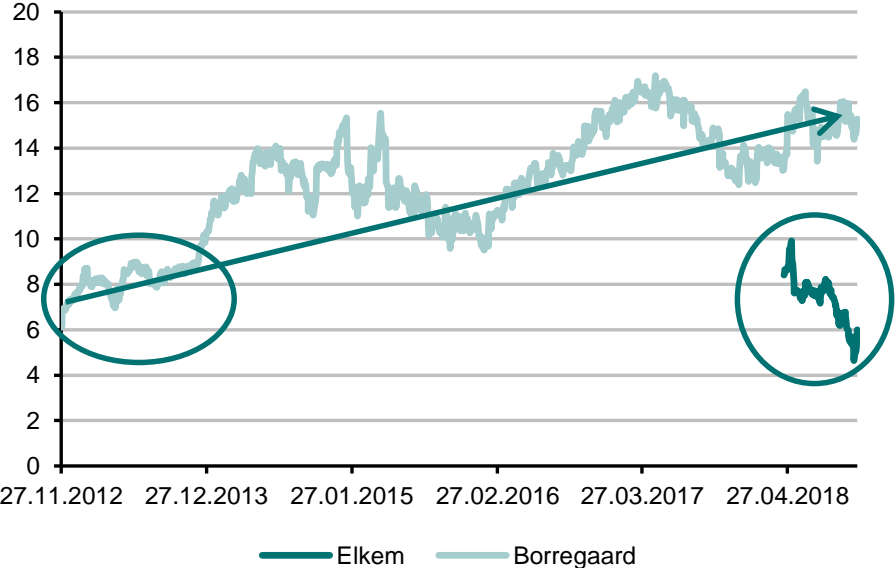
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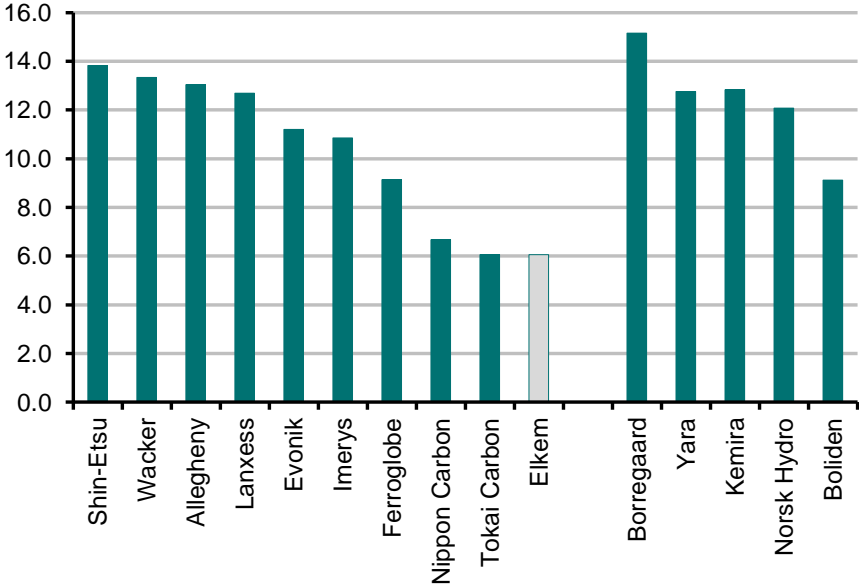
# Elkem: Re-rating potential as the market becomes more familiar with the story

- It is trading at a low multiple because investors are still unfamiliar with the company
  - Has only published three 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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