May portfolio

Sector **Investment Strategy**

Our model portfolio was up 1.33% in April, while the OSE Benchmark index was up 1.43% during the same period. Year to date, our portfolio is up 1.5%, while the OSE benchmark index is up 2.0%. For May, we keep 5 of 10 stocks, replacing HLNG, KID, NAS, ODL and PROTCT with AKERBP, AMSC, MHG, TGS and XXL.

April portfolio

Our model portfolio was up 1.33% in April, while the OSE Benchmark index was up 1.43% during the same period. Four stocks beat the OSEBX, while six stocks underperformed. The best performers in our portfolio were PROTCT (15.7%), LSG (14.8%), NAS (3.0%) and KID (2.2%). PROTCT outperformed the benchmark index in April, following a strong Q1 report and increased premium growth guiding for 2017. LSG was up 14.8% in April, driven by stronger than expected salmon prices in combination with high volumes. NAS gained 3.0% in spite of weaker Q1'17 earnings, as management provided comfort on the financing of the fleet expansion. KID gained 2.2% as the company reported solid revenues for Q1'17. DNO, ODL and ARCHER declined with the lower oil price during the month. SCHB was down 2.04% in April with limited company-specific news-flow during the month. BWLPG declined 13.4% in April due to weakening propane spreads on the back of continued drawdowns of US propane inventories. Rates however remained healthy and strengthened towards the end of the month.

5 new shares in our May portfolio

We replace HLNG, KID, NAS, ODL and PROTCT with AKERBP, AMSC, MHG, TGS and XXL, and keep ARCHER, BWLPG, DNO, LSG and SCHB in our May portfolio.

Portfolio

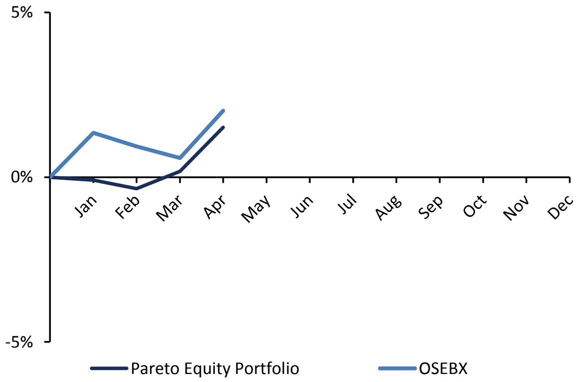
	Rec weight
AKERBP	10 %
AMSC	10 %
ARCHER	10 %
BWLPG	10 %
DNO	10 %
LSG	10 %
MHG	10 %
SCHB	10 %
TGS	10 %
XXL	10 %
Sum	**100 %**

Performance

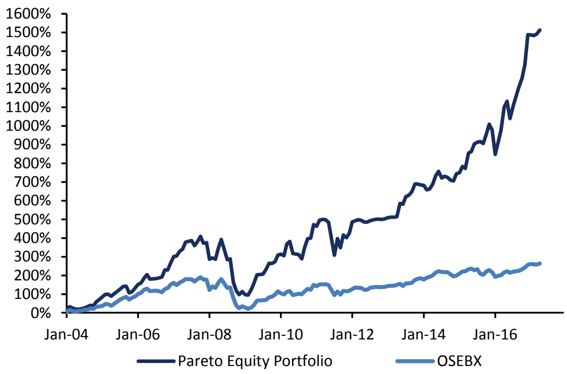
	Index Value 28.04.2017	Performance last period	Performance 2017 2)
Total Portfolio 1)	7707.1	1.3 %	1.5%
OSEBX	697.8	1.4 %	2.0%

1) Rebased to an index at 100 as at 04.01.94 2) From 01.01.17

Performance 2017 (YTD)



Performance 2004 – 2017 (YTD)



AKERBP – BUY, TP NOK 180

While the 2017 guidance was maintained for now at the Q1 report, we keep our production forecast of 141,000 boe/day unchanged and expect the current guided range of 128-135,000 boe/day to be increased at a later stage. We continue to see upside to the current dividend level (4.5% dividend yield vs 8.5% FCF yield) also prior to first oil at Sverdrup and expect higher oil prices as well as potential accretive M&A to trigger further share price appreciation.

AMSC – BUY, TP NOK 40

American Shipping Company has its entire US Jones Act tanker fleet on bareboat contracts to OSG, providing low market risk and a fixed revenue stream in the coming years. In addition, the company has upside exposure to the market through a profit-split agreement with OSG. With the oil price crash and subsequent production declines since 2014 combined with a growing supply side, dayrates have however plummeted. But as we are now approaching the end of the newbuild wave and US onshore production is on the rise, a tightening market is back on the agenda. As a recent positive, comments from East Coast refiners suggest that we could see more crude cargoes transported from the US Gulf to the East Coast in the near term – driven by the Dakota Access pipeline opening. We also highlight the attractive dividend yield of 10% and significantly reduced liquidity risk following the bond refinancing earlier this year. BUY, TP NOK 40

ARCHER – BUY, TP NOK 26

We calculate a post-restructuring SOTP of Archer of NOK 11 based on distressed valuation/current earnings and NOK 43 in a recovery scenario. With an improving outlook in most business areas, good valuation support and a revitalized balance sheet, more of the upside should be reflected in the share price in our view. A key trigger includes a successful sale/listing of its 36% stake in U.S. onshore service company QES, which at current peer pricing could lift the low end of our valuation range by NOK 8. BUY, TP NOK 26, reflecting mid-point of our SOTP valuation.

BWLPG – BUY, TP NOK 55

Falling US propane inventories have put pressure on the US – Asia price spread, which means that the arbitrage is not working at the moment. Still, rates have been relatively strong in our view, and we see upside to Q2 estimates. The rig count in North America continues to increase, and we expect US LPG production to start increasing again soon. However, more newbuilds will arrive into late Q2 and Q3, and 2017 is still expected to be a weak year for VLGC shipping. Despite all this, we find BWLPG attractive at a P/NAV of 0.75x – with a solid balance sheet and enough COA/TC coverage to manage through the year with only a minimal net loss. Reiterate BUY TP NOK 55

DNO – BUY, TP NOK 14

With 2017 payments for oil exports received in line or ahead of expectations, DNO is on track to generate over USD 150m or NOK 1.3/share of FCF this year. Further, we estimate that KRG for the first time in more than two years are running a budget surplus on the back of significant cost reductions and Brent oil prices recovering to above USD 50/bbl. This positions KRG to deliver on their promise of regular export payments and recovery of the receivables, which should trigger a repricing of DNO that still trades at a low P/NAV multiple of 0.5x

LSG – BUY, TP NOK 571

Lerøy has been among the farmers in Norway achieving the highest all-inclusive margins, both because of good operations and strong focus on downstream business. However, LSG is today priced with margins below peers. We think this is unjustified given the diversified operations and find significant upside in the pricing of LSG. We believe that LSG 2017e margins will be stronger than 2016 especially driven by a significant lift in contract prices and improvement in trout prices, which now again are higher than salmon prices. We also argue that the recent acquisition of the whitefish companies Havfisk and Norway Seafoods will give positive long term synergies and impact LSG earnings positively. We think the Q1 result that will be released on May 11th will be a positive trigger. We estimate an all-time high EBIT adj. of NOK 1,123m, which is 4% above consensus.

MHG – BUY, TP NOK 180

Marine Harvest is the world's largest salmon farmer, with production in Norway, Scotland, Ireland, The Faroes, Canada and Chile. In addition to the geographical diversification, MHG is fully integrated throughout the value chain. On this and next year's earnings, we do not find the share to be priced at a premium to peers, as we believe it should be, given MHG's size, integration, diversification and dividend policy. Driven by a significant increase in contract prices in Europe, combined with a recovery in the Chilean operation, we estimate MHG to deliver a significantly stronger result in 2017e compared to 2016. MHG has already reported high level Q1 17 numbers, which showed an EBIT adj. of EUR 215m, almost twice as high as in Q1 16. MHG will report the full Q1 17 result on May 10th, and we believe comments on continued strong demand on the higher price level we now are seeing will be a positive trigger.

SCHB – BUY, TP NOK 260

After declining ~15% since September 2016, we do not find the earnings momentum into 2017e reflected in the current share price. In our opinion, supportive trends in France, Spain and other Online Classifieds (OLC) International de-risk the growth outlook going forward. Furthermore, management has indicated that investments will come significantly down in 2017 as investment cycles in several emerging markets are approaching the end. From tending to trade at a premium, the Schibsted share at EV/EBITDA’18e ~15x still trades at a discount to less diversified peers. We have a buy recommendation and a target price of NOK 260 for SCHA, but include SCHB in the portfolio as the price discount relative to the A-share now is at all-time high.

TGS – BUY, TP NOK 245

Q1 is the first quarter since Q1’16 that the company has not issued a positive PW ahead of the earnings report. We do not read too much into this, as Q1 is normally a weak quarter for late sales, and with analyst expectations picking up lately. The company has announced three additions to the investment schedule since the CMD in February, and we estimate USD ~200m of committed investments for 2017. This implies some upside on the USD 220m MC investment target for 2017 (excl. investments from risk sharing agreements). We expect the dividend to remain stable at USD 0.15/share throughout 2017, which should be supported by current cash flow, with an estimated FCF of USD ~90m in 2017. Although higher MC investments will impose some pressure on this due to the 40-45% prefunding target, the cash balance remains solid and supports a countercyclical investment strategy. We continue to value the company in line with historical amortization at 3.4x EV/BV MC library'17e. BUY, TP NOK 245

XXL – BUY, TP NOK 135

Although XXL trades at a premium to sport retailer peers on 2017-18e earnings multiples, we consider this to be well justified by the company’s convincing growth story in Europe. Supported by store roll-outs in Austria, Southern Germany, Switzerland as well as selective e-Commerce launches in other European countries, we believe XXL can sustain double-digit annual revenue growth for the next decade. With the weak winter of 2017 behind us, we expect XXL’s revenue growth to revert to ~20% y/y already from Q2’17 and the focus to shift to the company’s attractive growth opportunities. We have a Buy recommendation and target price of NOK 135 for XXL.