



# Seafood sector presentation

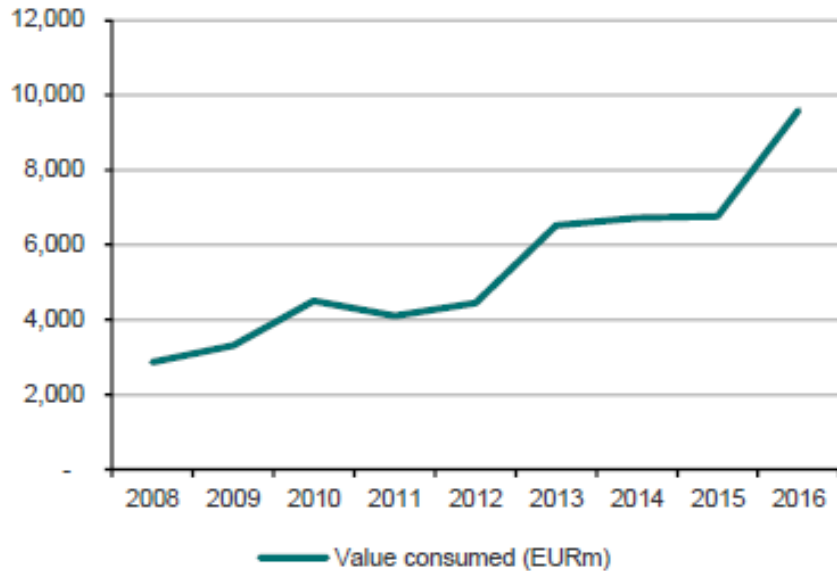
DNB Markets | September 2017

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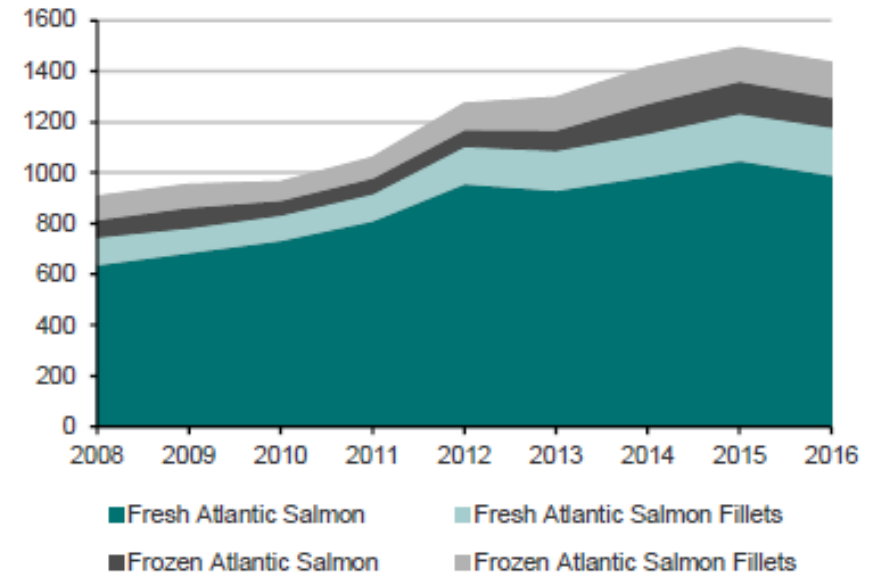
## Demand trends

Figure 27: Value consumed (EURm)



Source: DNB Markets, Kontali

Figure 28: Volume consumed (tonnes)

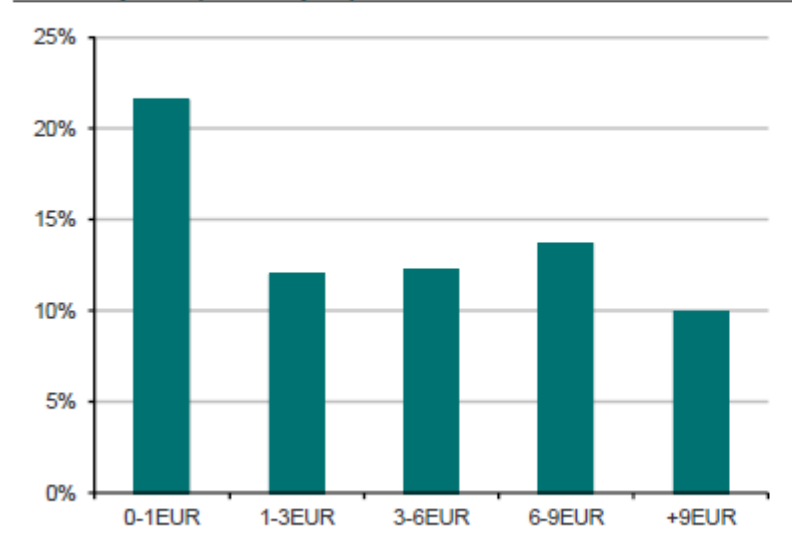


Source: DNB Markets, Kontali

Value consumed (EURm) keeps climbing as higher prices trumps lower volumes

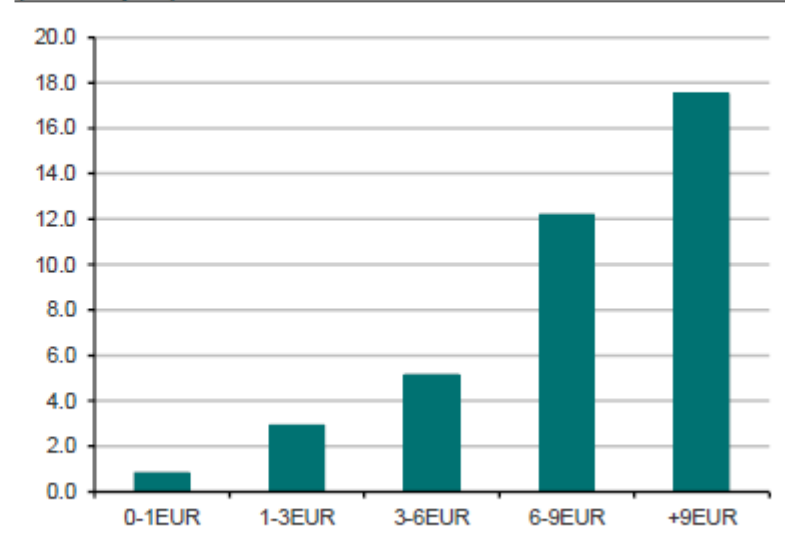
## Demand trends - Once you're hooked, you don't stop consuming

Figure 29: CAGR 2008–2016 based on 2008 starting base consumption (EUR/capita)



Source: DNB Markets, Kontali

Figure 30: Growth in EUR consumed per category (EUR/capita)

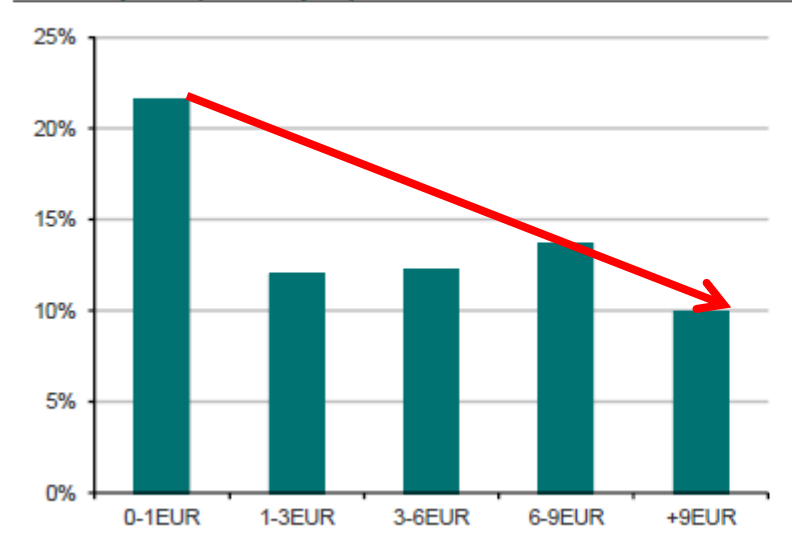


Source: DNB Markets, Kontali

- The growth trajectory in value consumed per capita (2008–2016) does not appear to change regardless of the starting base of consumption.
- In other words, consumers have increased the value they consume by about 10–15% pa regardless of whether they consumed at EUR1–3 or EUR6–9 to begin with

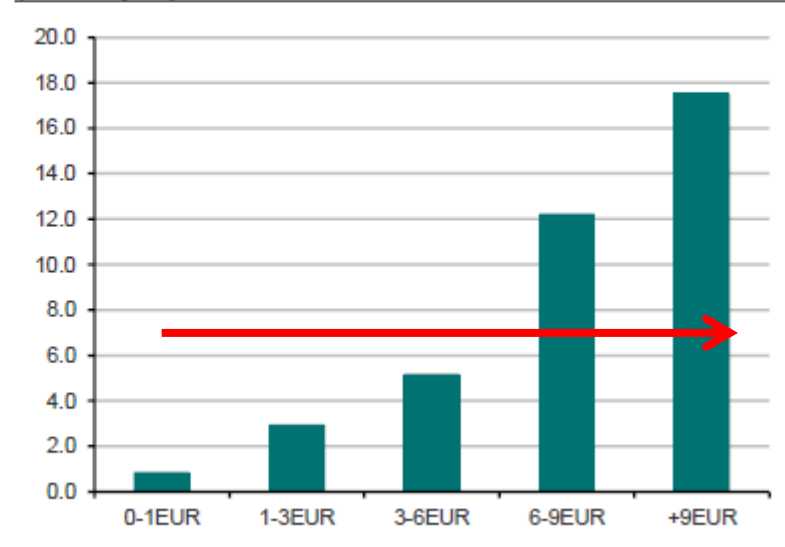
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Source: DNB Markets, Kontali

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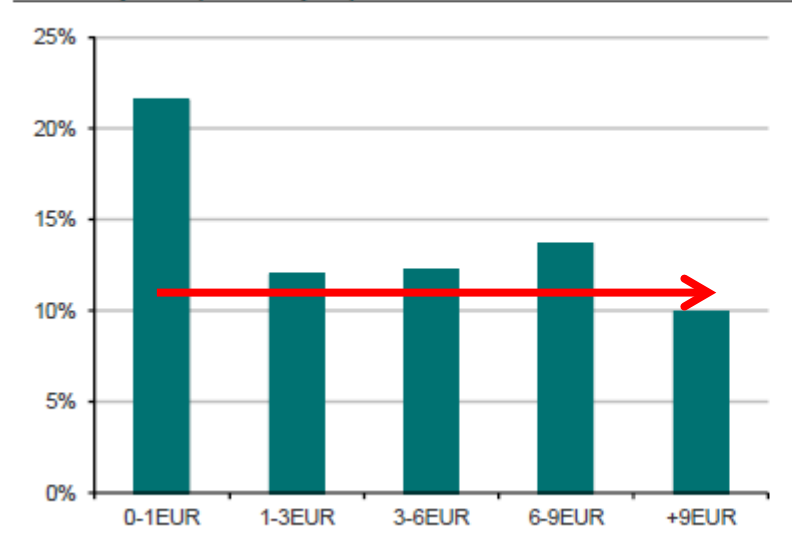


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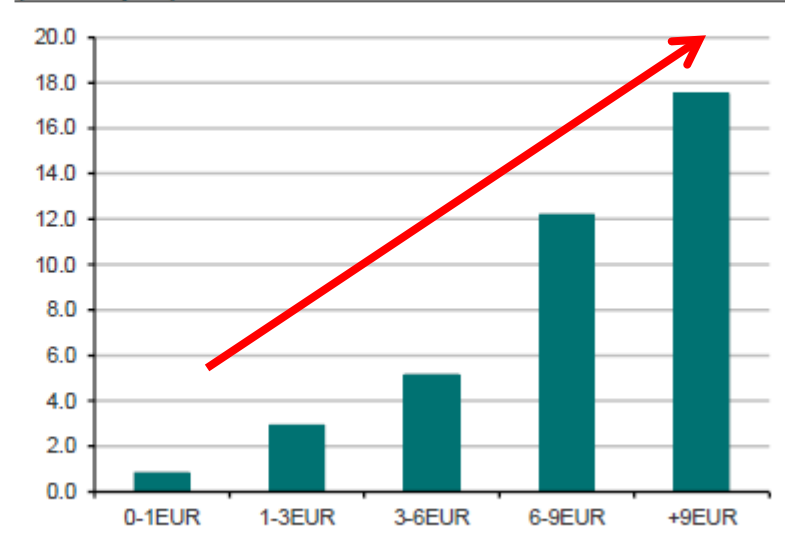
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Source: DNB Markets, Kontali

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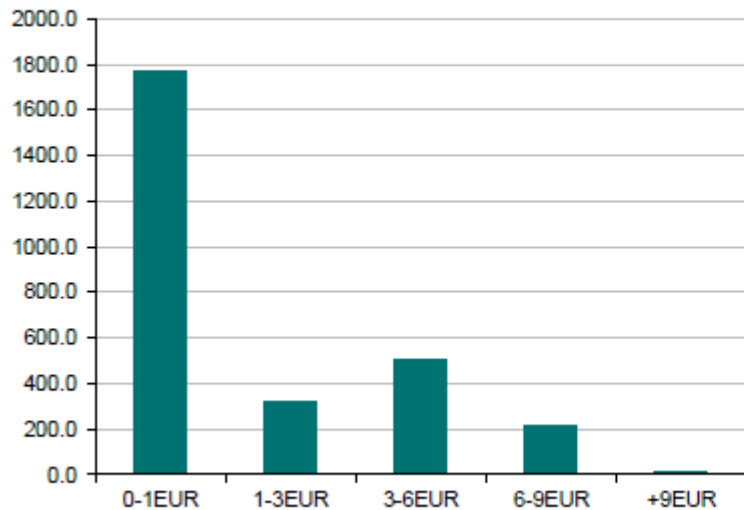


Source: DNB Markets, Kontali

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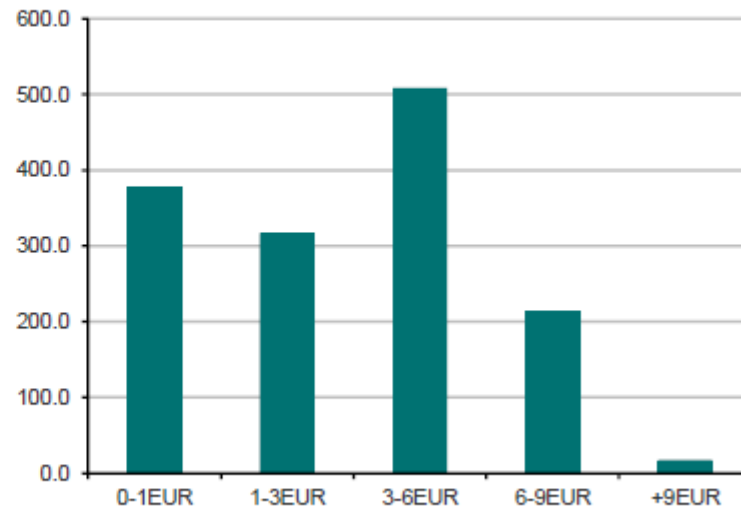
## Demand trends - Once you're hooked, you don't stop consuming

Figure 31: Total population within consumption categories (mill)



Source: DNB Markets, Kontali

Figure 32: Total population within consumption categories, excl. China (mill)



Source: DNB Markets, Kontali

More demand as large emerging markets becomes 'developed' salmon consumers?

## Demand trends - Once you're hooked, you don't stop consuming

Figure 33: Consumption per capita per annum (EUR/capita/annum)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	Population (m) 2008–2016	CAGR%
Sweden	16.0	17.0	20.0	23.0	25.0	26.0	31.0	32.0	36.0	10.1	11%
Finland	13.0	15.0	20.0	21.0	22.0	27.0	26.0	25.0	28.0	5.5	10%
France	9.0	10.0	13.0	13.0	12.5	15.0	14.5	14.5	18.0	67.2	9%
Hong Kong	7.0	9.0	12.0	15.0	12.0	14.0	17.0	15.0	14.0	7.4	9%
Poland	6.0	7.0	13.0	11.0	12.0	18.0	18.0	20.0	25.0	38.0	20%
Netherlands	6.0	7.0	10.0	9.0	8.0	13.0	15.0	17.0	22.0	17.1	18%
Germany	6.0	6.0	8.0	8.0	8.0	12.0	13.7	13.5	16.0	83.2	13%
Switzerland	5.9	6.0	7.2	8.1	8.1	9.5	10.1	10.5	12.0	8.4	9%
USA	3.2	3.5	4.0	4.1	4.2	5.0	6.0	6.5	8.0	325.7	12%
UK	3.2	3.3	3.6	3.1	3.5	4.5	5.5	6.5	7.8	66.1	12%
Spain	3.0	3.5	4.0	4.5	4.3	5.0	6.0	7.0	9.0	46.3	15%
Italy	3.0	3.0	3.5	3.5	3.6	4.5	5.2	6.0	8.2	60.9	13%
Portugal	2.1	2.6	3.0	3.7	4.6	5.5	7.0	8.8	9.1	10.3	20%
Canada	1.9	2.1	2.4	1.8	2.2	2.5	3.2	2.4	3.6	35.6	8%
Russia	1.4	1.5	2.2	2.8	3.5	4.5	3.3	2.7	2.7	143.4	9%
Japan	1.3	1.2	1.3	1.5	2.0	2.2	2.4	2.4	3.0	126.7	11%
Brazil	0.5	0.6	0.7	0.8	1.1	1.5	2.0	2.2	2.3	207.7	21%
Argentina	0.3	0.3	0.4	0.5	0.5	0.7	0.8	1.0	1.1	44.1	20%
Mexico	0.2	0.2	0.2	0.2	0.3	0.4	0.5	0.6	0.7	124.6	15%
China	0.0	0.1	0.6	0.1	0.1	0.2	0.2	0.2	0.3	1390.0	30%

Source: DNB Markets, Kontali

+EUR200m

Figure 34: Consumption per capita categorised (EUR/capita)

Categorised	2008	2009	2010	2011	2012	2013	2014	2015	2016	Population (m)	CAGR
0-1EUR	0.3	0.3	0.5	0.4	0.5	0.7	0.9	1.0	1.1	1766.3	22%
1-3EUR	1.7	1.9	2.2	2.5	3.1	3.7	4.0	4.1	4.6	316.0	12%
3-6EUR	3.1	3.3	3.8	3.8	3.9	4.8	5.7	6.5	8.3	507.4	12%
6-9EUR	6.8	7.8	11.2	11.2	10.5	14.4	15.6	16.0	19.0	212.8	14%
+9EUR	14.5	16.0	20.0	22.0	23.5	26.5	28.5	28.5	32.0	15.6	10%

Source: DNB Markets, Kontali

## Demand trends - Once you're hooked, you don't stop consuming

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Poland	6.0	7.0	13.0	11.0	12.0	18.0	18.0	20.0	25.0	38.0	20%
Netherlands	6.0	7.0	10.0	9.0	8.0	13.0	15.0	17.0	22.0	17.1	18%
Germany	6.0	6.0	8.0	8.0	8.0	12.0	13.7	13.5	16.0	83.2	13%
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Mexico	0.2	0.2	0.2	0.2	0.3	0.4	0.5	0.6	0.7	124.6	15%
China	0.0	0.1	0.6	0.1	0.1	0.2	0.2	0.2	0.3	1390.0	30%

Source: DNB Markets, Kontali

+EUR375m

Figure 34: Consumption per capita categorised (EUR/capita)

Categorised	2008	2009	2010	2011	2012	2013	2014	2015	2016	Population (m)	CAGR
0-1EUR	0.3	0.3	0.5	0.4	0.5	0.7	0.9	1.0	1.1	1766.3	22%
1-3EUR	1.7	1.9	2.2	2.5	3.1	3.7	4.0	4.1	4.6	316.0	12%
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Netherlands	6.0	7.0	10.0	9.0	8.0	13.0	15.0	17.0	22.0	17.1	18%
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China	0.0	0.1	0.6	0.1	0.1	0.2	0.2	0.2	0.3	1390.0	30%

Source: DNB Markets, Kontali

+EUR1.500m!

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Source: DNB Markets, Kontali

# Global supply growth of 4.8% in 2017e, 6.7% in 2017e and 4.5% in 2019e

## Atlantic salmon supply (WFE '000 tonnes)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017e	2018e	2019e
Norway	723	741	856	945	1,006	1,183	1,144	1,199	1,234	1,171	1,206	1,254	1,305
UK	135	137	145	142	155	159	158	171	166	157	168	173	178
Ireland	16	11	15	18	16	16	11	12	16	16	17	18	19
Faroes	19	37	47	42	56	70	73	83	76	77	85	85	89
Iceland	2	1	1	1	1	3	3	4	4	6	9	14	19
<b>Total Europe</b>	<b>895</b>	<b>927</b>	<b>1,064</b>	<b>1,148</b>	<b>1,234</b>	<b>1,432</b>	<b>1,388</b>	<b>1,469</b>	<b>1,496</b>	<b>1,427</b>	<b>1,485</b>	<b>1,544</b>	<b>1,609</b>
Chile	356	403	239	117	249	421	532	634	638	518	549	621	652
Canada	110	119	115	118	110	137	115	101	135	143	144	150	156
USA	12	17	16	18	18	20	20	20	20	22	23	24	25
<b>Total Americas</b>	<b>478</b>	<b>539</b>	<b>370</b>	<b>253</b>	<b>377</b>	<b>577</b>	667	756	793	683	716	795	833
Australia/Other	24	26	32	33	36	45	49	53	57	63	76	91	95
<b>Total Atlantic (Harvest volumes)</b>	<b>1,397</b>	<b>1,492</b>	<b>1,466</b>	<b>1,434</b>	<b>1,647</b>	<b>2,054</b>	<b>2,105</b>	<b>2,277</b>	<b>2,346</b>	<b>2,173</b>	<b>2,277</b>	<b>2,429</b>	<b>2,538</b>
Change frozen salmon inventory	-4	-25	39	2	1	-9	-4	-20		50			
<b>Total supply Atlantic</b>	<b>1,393</b>	<b>1,467</b>	<b>1,505</b>	<b>1,436</b>	<b>1,648</b>	<b>2,045</b>	<b>2,101</b>	<b>2,257</b>	<b>2,346</b>	<b>2,223</b>	<b>2,277</b>	<b>2,429</b>	<b>2,538</b>

## Atlantic salmon growth YoY

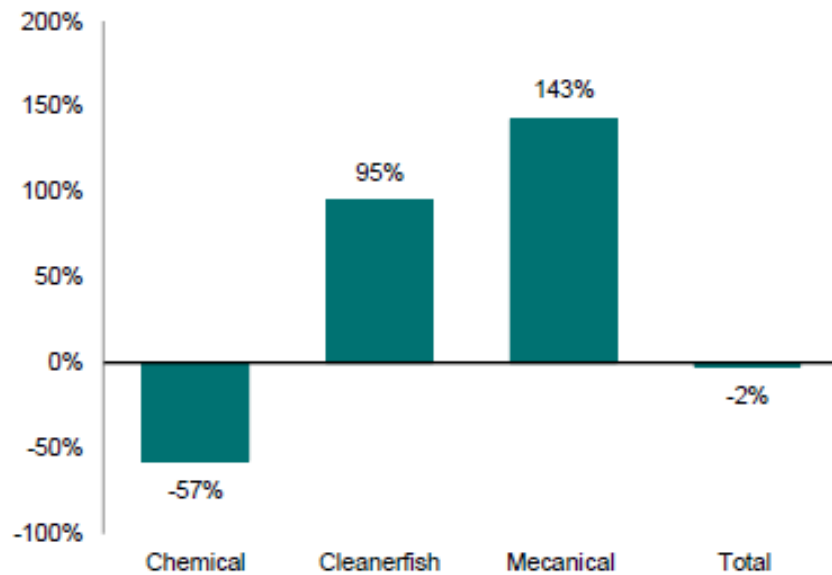
	2007	2008	2009	2010	2011	2012	2013	2014	2015e	2016e	2017e	2018e	2019e
Norway growth		2%	16%	10%	6%	18%	-3%	5%	3%	-5%	3%	4%	4%
UK growth		2%	6%	-2%	9%	3%	-1%	8%	-3%	-5%	7%	3%	3%
Ireland		-31%	36%	20%	-11%	0%	-34%	13%	33%	0%	5%	5%	5%
Faroes growth		93%	27%	-11%	33%	26%	4%	13%	-9%	2%	10%	0%	5%
Iceland		-50%	0%	0%	0%	200%	0%	33%	0%	50%	50%	50%	40%
<b>Total Europe</b>		<b>4%</b>	<b>15%</b>	<b>8%</b>	<b>7%</b>	<b>16%</b>	<b>-3%</b>	<b>6%</b>	<b>2%</b>	<b>-5%</b>	<b>4%</b>	<b>4%</b>	<b>4%</b>
Chile growth		13%	-41%	-51%	112%	69%	27%	19%	1%	-19%	6%	13%	5%
Canada growth		8%	-3%	3%	-7%	24%	-16%	-12%	34%	6%	1%	4%	4%
USA		42%	-6%	13%	0%	11%	0%	2%	-2%	10%	5%	5%	4%
<b>Total Americas</b>		<b>13%</b>	<b>-31%</b>	<b>-32%</b>	<b>49%</b>	<b>53%</b>	<b>16%</b>	<b>13%</b>	<b>5%</b>	<b>-14%</b>	<b>5%</b>	<b>11%</b>	<b>5%</b>
Australia/Other		8%	23%	3%	9%	25%	9%	8%	7%	11%	20%	20%	5%
<b>Total Atlantic (Harvest volumes)</b>		<b>7%</b>	<b>-2%</b>	<b>-2%</b>	<b>15%</b>	<b>25%</b>	<b>2%</b>	<b>8%</b>	<b>3%</b>	<b>-7%</b>	<b>4.8 %</b>	<b>6.7 %</b>	<b>4.5 %</b>

Source: Kontali, DNB Markets

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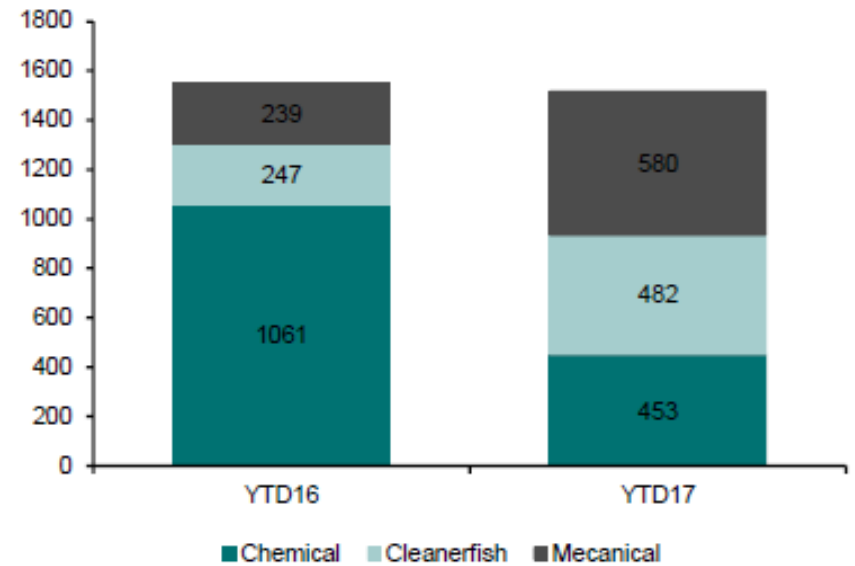
## Mechanical sea lice treatment taking its toll on growth..?

Figure 7: Growth in type of sea-lice treatment (YOY)



Source: DNB Markets, Directory of Fisheries

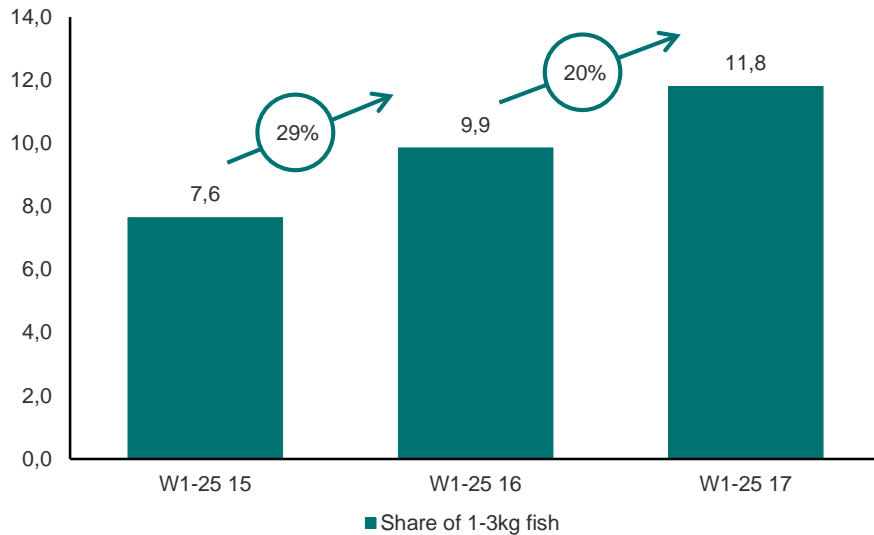
Figure 8: Type of sea-lice treatment (number of treatments)



Source: DNB Markets, Directory of Fisheries

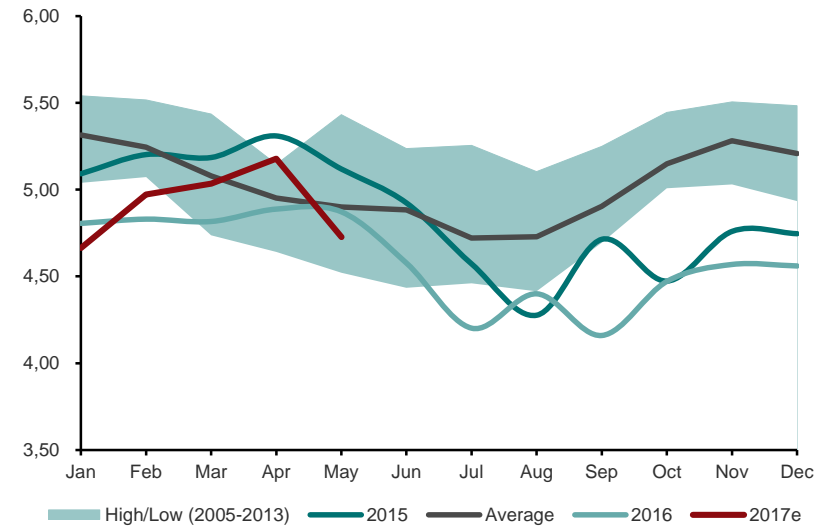
## YTD (week 1-25) share of 1-3kg fish harvested is up 20% suggesting lower volumes

Distribution of fish harvested fish between 1-3kg (Week 1-25 for the years 2015, 2016 and 2017)



Source: Fishpool, DNB Markets

Average harvest weight, Norway (WFE, kg)

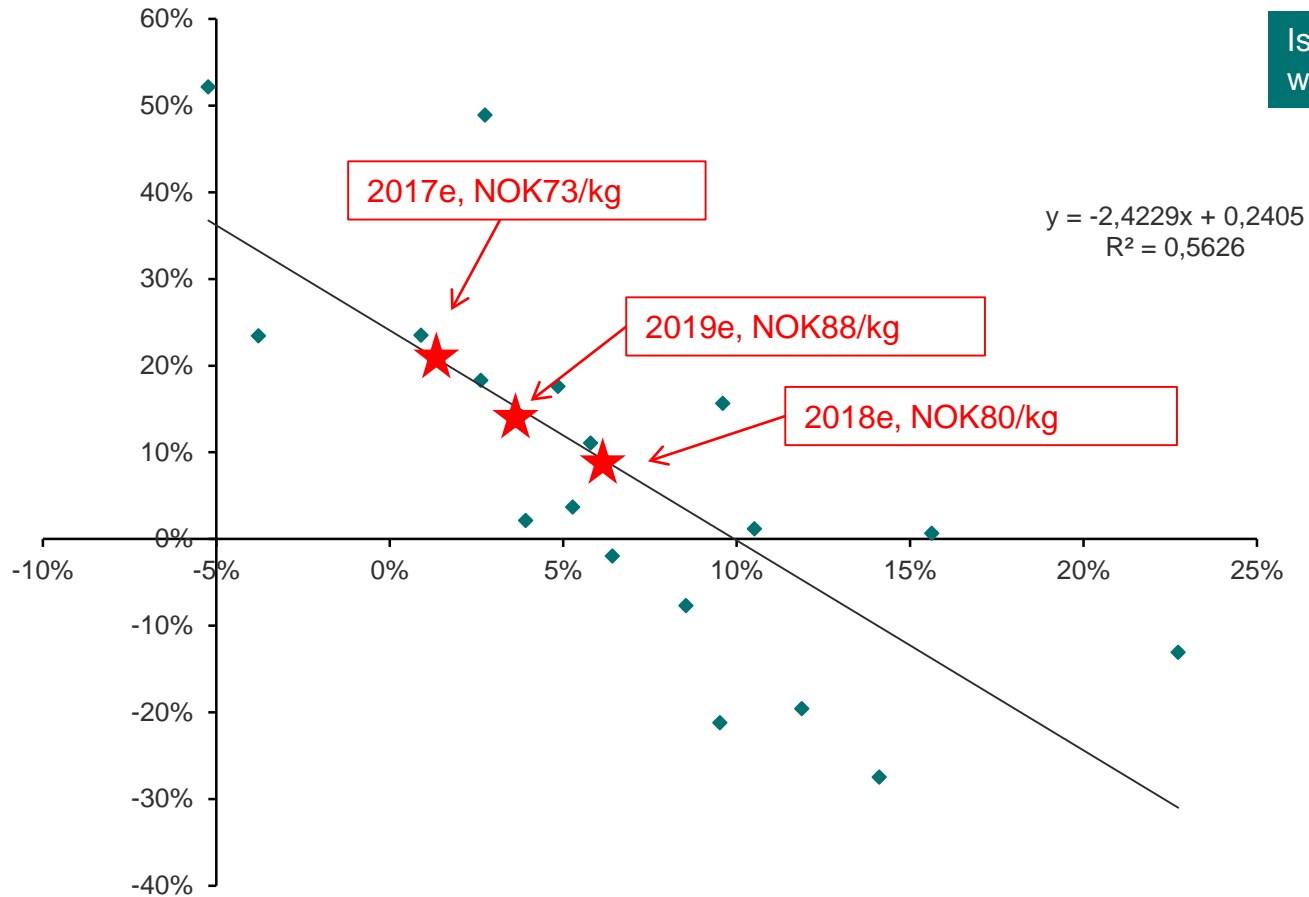


Source: Directory of Fisheries, DNB Markets

- Both Bakkafrost and SalMar trading updates suggest accelerated harvest
- Marine Harvest, reported lower volume due to poor growth
- If some take out fish early and other struggle with growth, volumes will disappoint.

# Correlation analyses suggest NOK73/kg in 2017, NOK80-88/kg in 2018-19e....

## Supply/price correlation

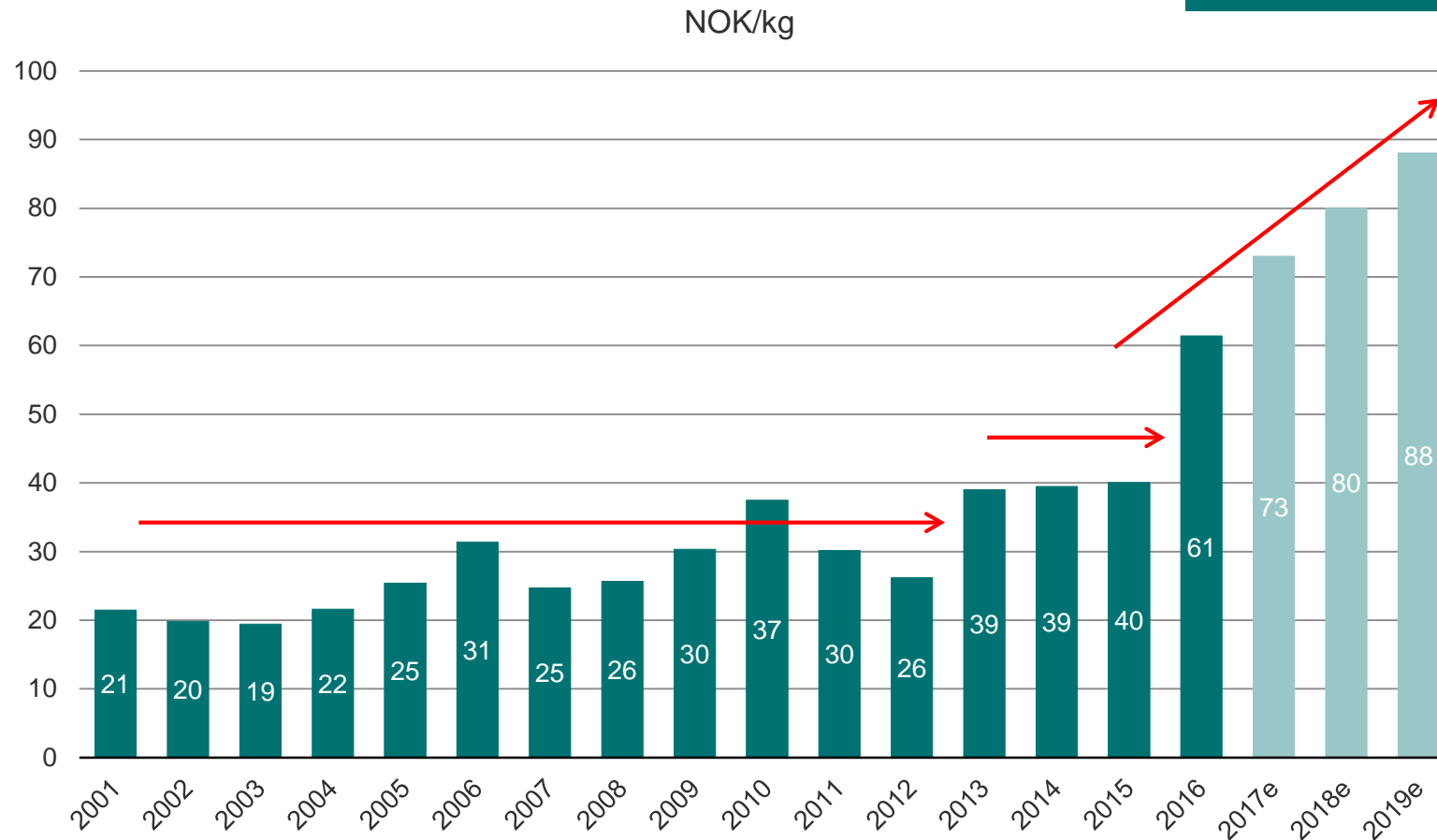


Is the market still way to conservative with regards to salmon price???

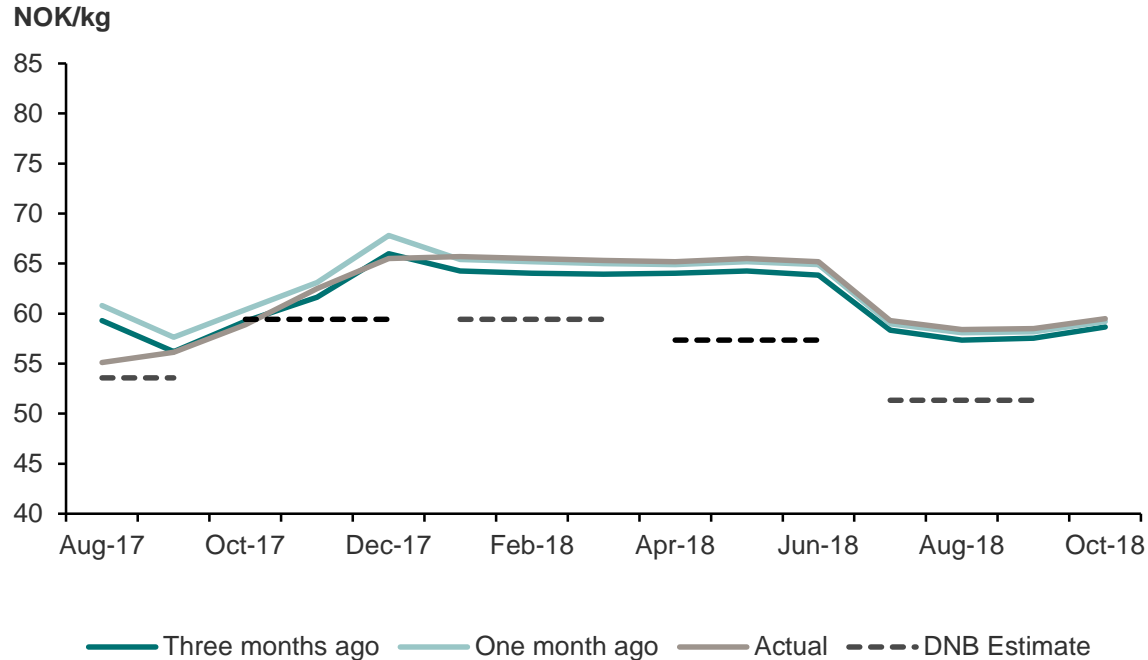
## Correlation analyses suggest NOK73/kg in 2017, NOK80-88/kg in 2018-19e

### Salmon price based on supply/price correlation

Is this the new normal? Can the market absorb these prices?



## Fishpool forward contracts for 2018 at NOK62.4/kg (EUR6.6/kg)



NOK/kg	Actual	Last		
		Last week	month	3 months
Q3 2017e	58.3	58.1	61.2	59.4
Q4 2017e	62.3	62.3	63.8	62.3
Q1 2018e	65.5	65.6	65.2	64.1
Q2 2018e	65.3	65.4	65.0	64.1
<b>Next 12m</b>	<b>62.8</b>	<b>62.8</b>	<b>63.1</b>	<b>61.9</b>
2017e	64.1	63.9	64.5	65.2
2018e	62.4	62.5	62.1	61.3
2019e	58.0	58.0	58.5	57.8

### DNB Estimates:

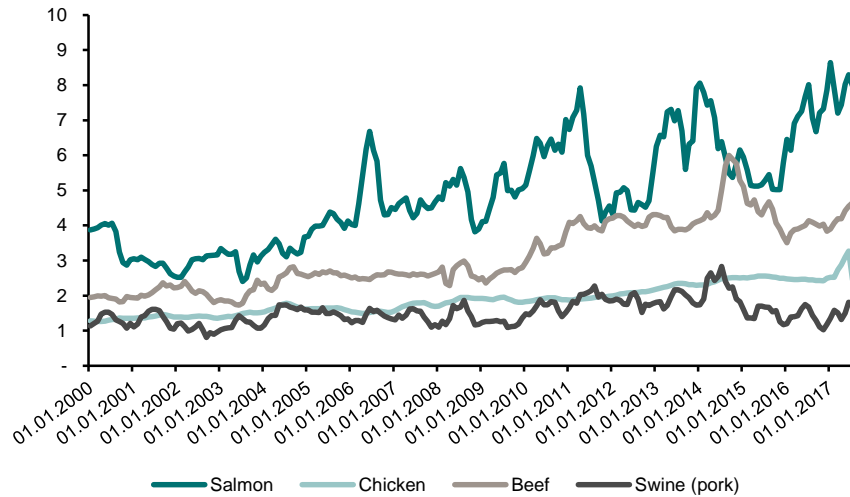
- 2017e: EUR6.6/kg, NOK61/kg
- 2018e: EUR6.2/kg, NOK56/kg
- 2018e: EUR6.2/kg, NOK56/kg

Source: Fishpool, DNB Markets

Note: From 2015, Fishpool forward prices include a trading/exporter margin of NOK0.75/kg. In order to get the old NOS price delivered Oslo, NOK0.75/kg must be deducted from the forward price. In order to get price back to farmer, one must deduct another NOK0.5-1.0/kg for freight cost. Hence a forward price of NOK40/kg corresponds to a price back to farmer of NOK38.25-38.75/kg

# Salmon – Salmon price vs. other protein peers

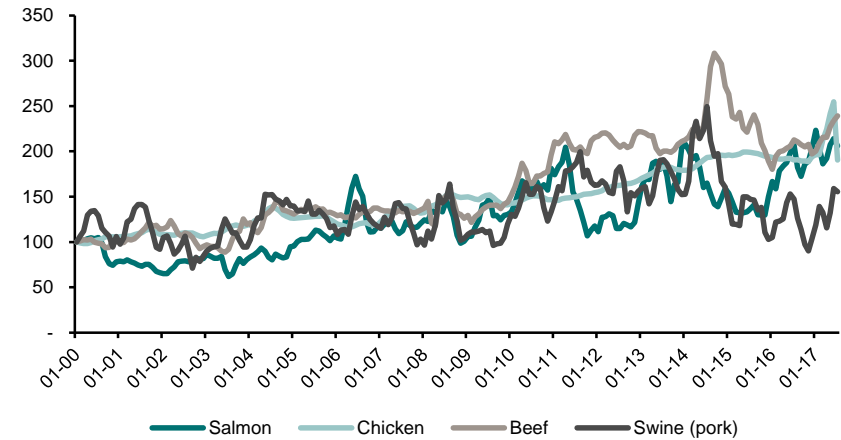
## Prices of different proteins (USD/kg)



Source: Index Mundi, DNB Markets

- Salmon price passed beef and is the most expensive in USD/kg
- Note that prices are not measured in the same markets

## Salmon – relative price basis (indexed)



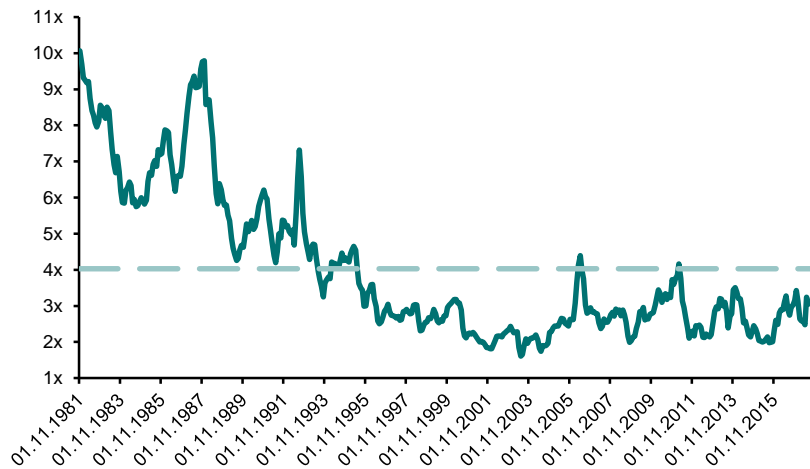
Source: Index Mundi, DNB Markets

- Beef prices is relatively speaking the most expensive protein indexed back to 2000



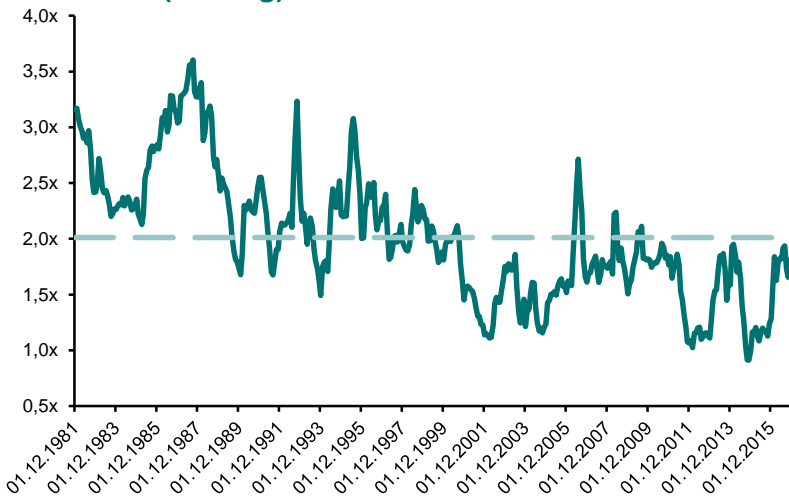
# Salmon still expensive compared to other proteins

Salmon/Poultry (USD/kg)



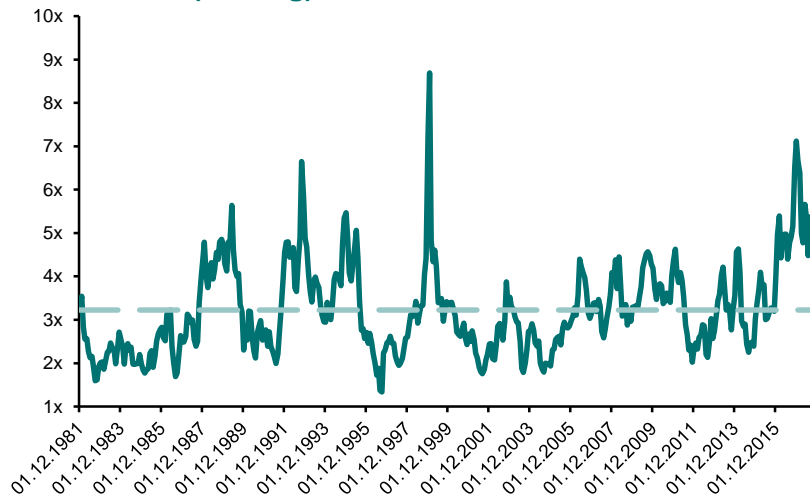
Source: Index Mundi, DNB Markets

Salmon/Beef (USD/kg)



Source: Index Mundi, DNB Markets

Salmon/Pork (USD/kg)



Source: Index Mundi, DNB Markets

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- Poultry: Salmon is 3.0x the price of poultry
- Pork: Salmon is 5.3x the price of pork
- Beef: Salmon is 1.7x the price of beef
  
- Note that prices are not measured in the same markets

Different markets react differently, but some signs of reduced consumption visible

# Sterk nedgang i det norske sjømatkonsumet

Nyheter av **Aslak Berge** - 14 februar 2017

– Norge har de siste ti årene hatt et stabilt høyt sjømatkonsum på om lag 90.000 tonn om året. I 2016 gikk sjømatkonsumet tilbake med syv prosent til 84.000 tonn. Dette er et alvorlig signal, sier administrerende direktør Renate Larsen i Norges Sjømatråd. Vi må ta på alvor, sier administrerende direktør Renate Larsen i Norges Sjømatråd.

**Fersk filet ned 23 prosent**

## Nordmenn spiser mindre fisk: – Dramatisk

Nordmenn spiser 13 prosent mindre fisk nå enn for fem år siden. Det er særlig den yngre delen av befolkningen som kutter ut fisken.



**Cathrine Elnan**  
@cathrineelnan  
Journalist



**Eline Buvarp Aardal**

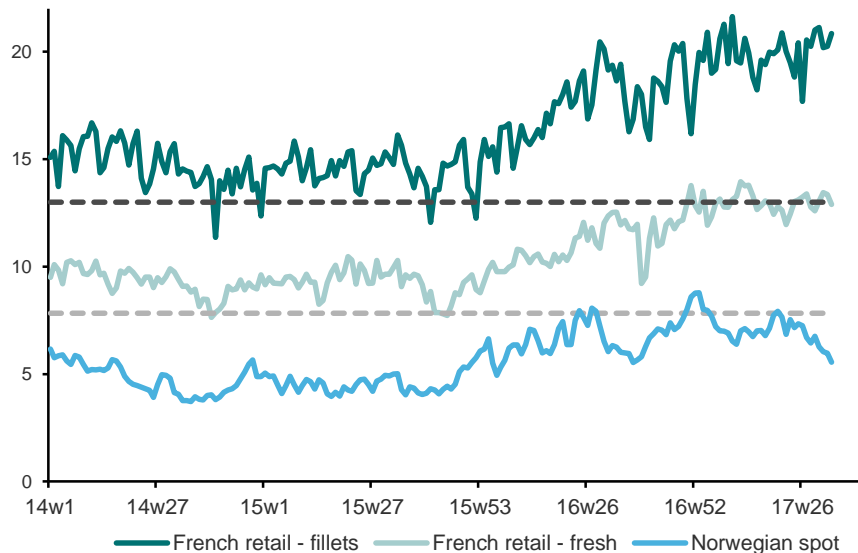
© Publisert 13.02.2017, kl. 20:05

# Spiser mindre laks

I 2016 falt konsumet av norsk laks. Tendensen til at folk er mindre betalingsvillige for norsk laks grunnet høye priser begynner å vises, sier analytiker Paul Aandahl i Norges Sjømatråd til [kyst.no](http://kyst.no).

## French retail mark-up – Prices on high level

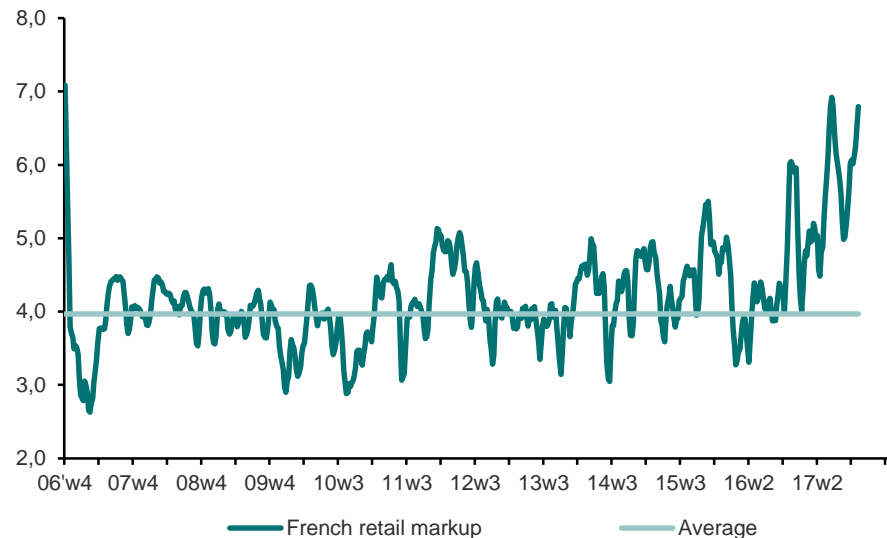
French retail prices – fresh salmon and salmon fillets (EUR/kg)



Source: Kontali, DNB Markets, The black whole lines shows the moving average of the series.

- The price for fresh salmon fillets in France was EUR20.9/kg in week 32 vs. EUR20.3/kg in week 32
- Fresh salmon price in France was EUR12.9/kg in week 32, vs. EUR13.4/kg in week 32

Calculated retail mark-up for French retailers (EUR/kg)

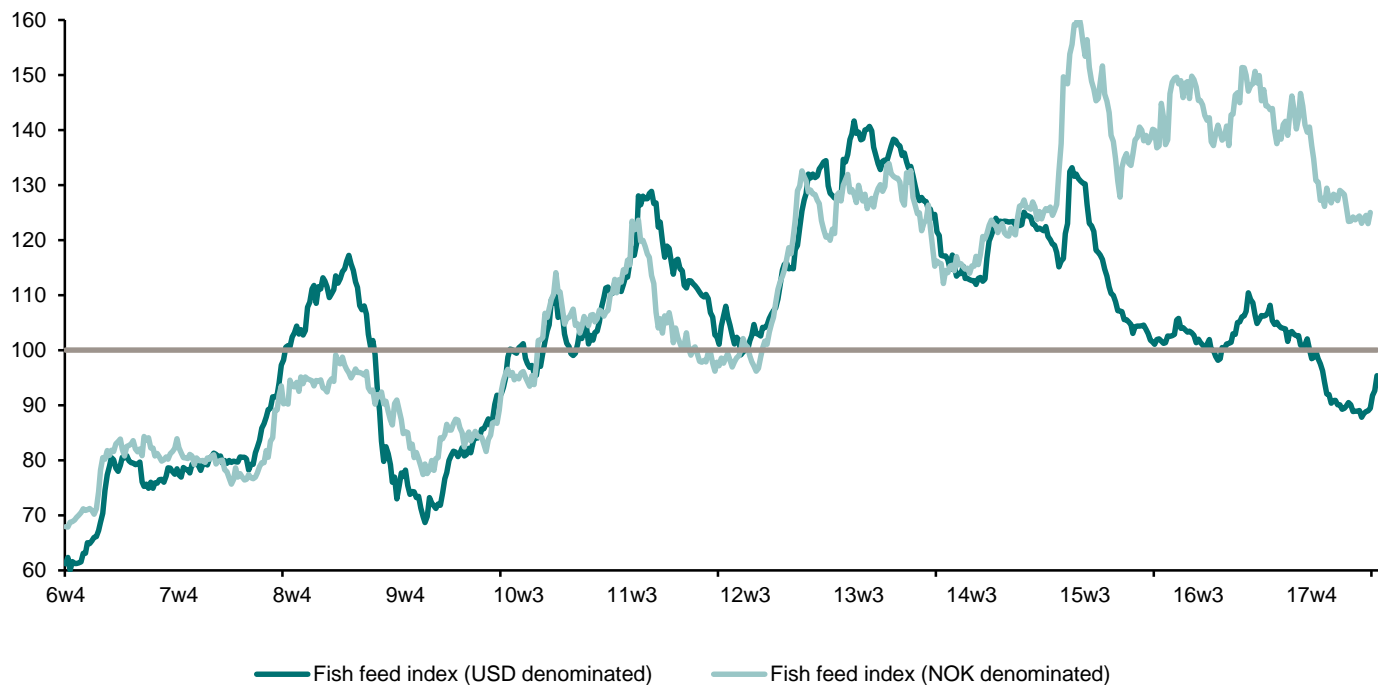


Source: Kontali, DNB Markets

- The chart shows 4-week rolling average retail mark-up for fresh salmon
- Calculated 4-week average mark-up for French retailers was EUR6.8/kg in week 33 vs EUR6.5/kg in week 32

## Fish-feed price index – Most input factors at historically low levels

### Estimated trend in fish-feed prices (indexed from January 2012)



- Feed prices are based upon changes in raw material prices.
- We have estimated the development for feed prices based on changes in raw material prices.
- The chart does not adjust for the substitution effect that occurs when feed prices rise too much.

Source: Kontali, Bloomberg, DNB Markets

# Owning seafood stocks from September to December has worked well in the past...



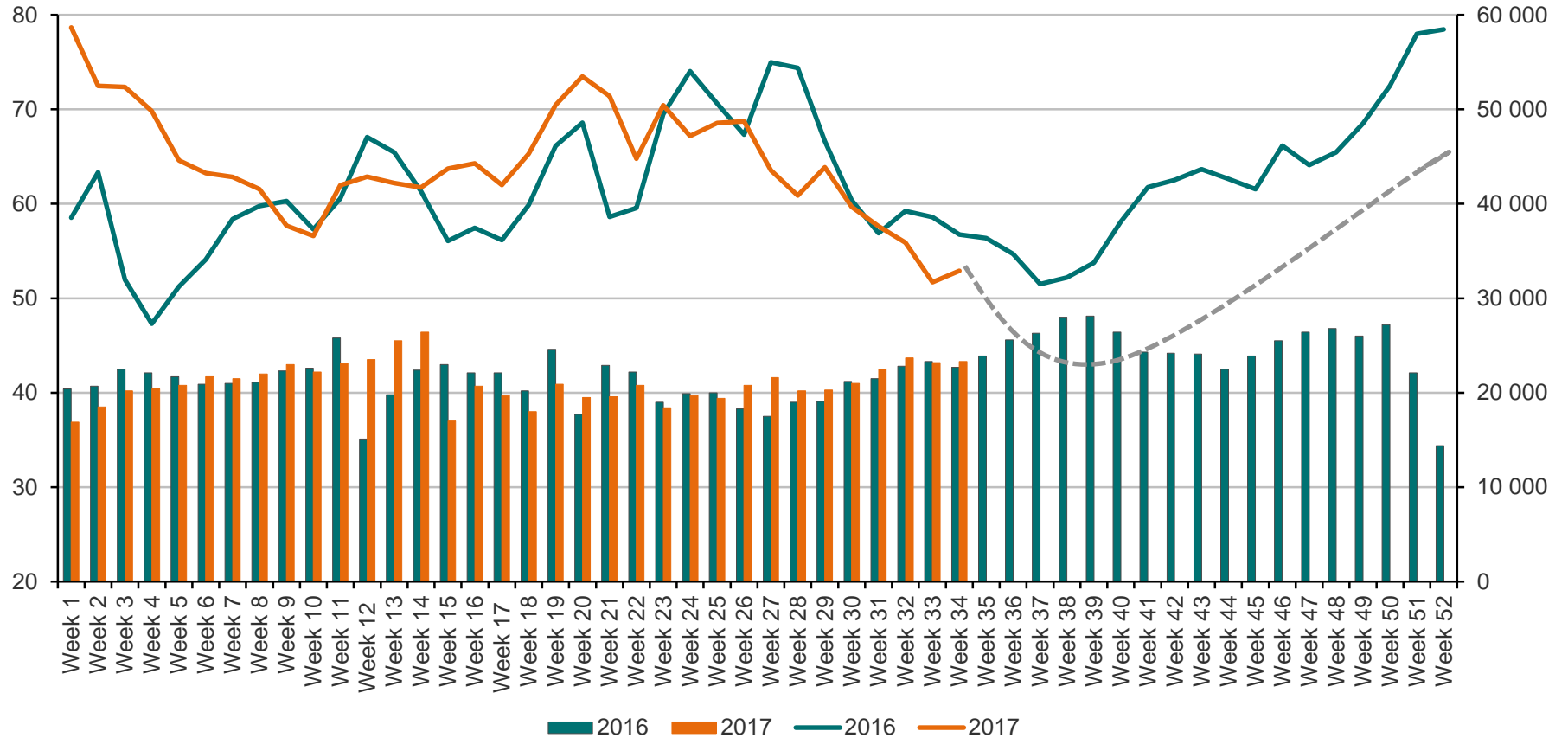
The Heat Map show monthly % returns for the Oslo Seafood Index.

Source: Bloomberg, DNB Markets



# Fast approaching the season bottom in spot prices...

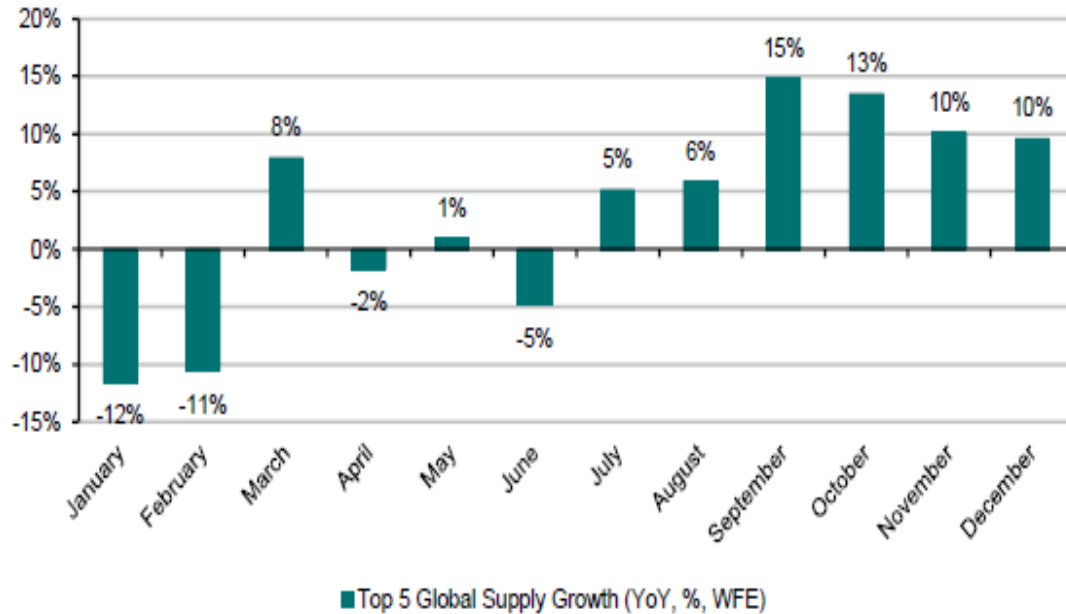
## Norwegian export volume (bars) Norwegian export price (graphs)



Source: SSB, Fishpool, DNB Markets

## 2H 2017 volumes to be back end loaded

Figure 20: 2017 supply growth development Top-5 producing regions (YOY %)

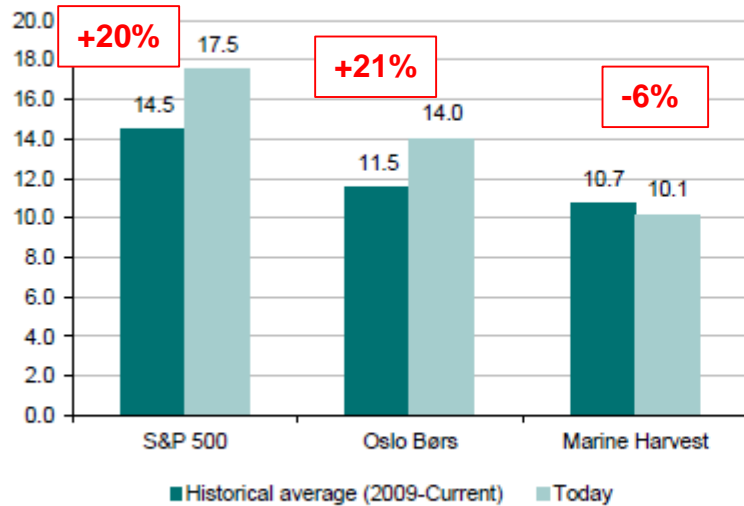


Source: DNB Markets, Kontali, Aquabench

- Historically, demand has been estimated at 7–10% pa, hence in theory H2 2017 supply growth of 10% should correspond to flattish prices YOY.
- In Q3–Q4 2016, salmon prices averaged NOK59/kg and NOK66/kg respectively vs our current estimate of NOK53–59/kg

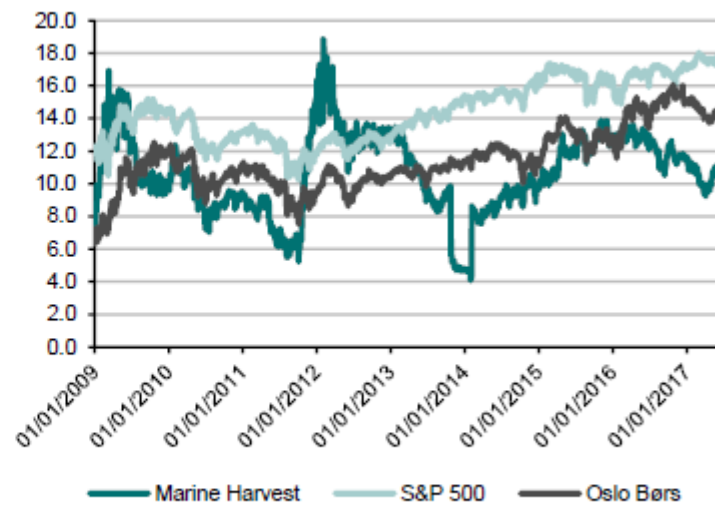
## Valuation – Market trades at a premium, seafood at a discount

Figure 35: 12-month forward P/E



Source: Bloomberg consensus

Figure 36: Historical 12-month forward P/E



Source: Bloomberg consensus data

Historically, salmon stocks have been more cyclical than the market and should trade at a lower multiple at peak earnings, but the difference in valuation versus the market and its own historical average is still worth highlighting



## Valuation – Protein peers still trading at a premium

Figure 37: Peer group valuation

Company	Mcap (USDm)	P/E		EV/EBIT		EV/EBITDA		P/B TR12M
		2018e	2019e	2018e	2019e	2018e	2019e	
<b>Seafood</b>								
Marine Harvest	8.241	10.2x	10.1x	9.1x	8.5x	7.7x	7.3x	3.1x
Lerøy Seafood Group	3.242	8.6x	9.2x	7.9x	7.6x	6.6x	6.5x	2.1x
SalMar	2.782	9.5x	9.1x	8.4x	7.7x	7.4x	6.9x	3.3x
Bakkafrost	1.805	12.1x	10.9x	9.7x	8.5x	8.2x	7.5x	3.2x
Grieg Seafood	778	7.5x	6.4x	6.8x	5.6x	5.6x	4.9x	2.1x
The Scottish Salmon Company	213	7.7x	7.4x	7.0x	6.7x	5.4x	5.2x	1.8x
Norway Royal Salmon	665	8.7x	7.6x	7.0x	6.3x	6.3x	5.8x	2.9x
<b>Average</b>		<b>9.2x</b>	<b>8.7x</b>	<b>8.0x</b>	<b>7.3x</b>	<b>6.7x</b>	<b>6.3x</b>	<b>2.7x</b>
<b>Other protein producers</b>								
Tyson Foods	24.019	12.3x	12.2x	9.7x	9.7x	7.9x	7.8x	2.3x
Pilgrims Pride	5.428	9.8x	9.8x	8.2x	8.2x	6.4x	6.4x	5.9x
Sanderson Farms	2.658	11.0x	12.3x	6.5x	7.3x	5.1x	5.5x	2.1x
LDS S.A	1.901	14.5x	14.3x	11.5x	11.2x	6.9x	6.7x	2.0x
BACHOCO	2.853	13.7x	12.6x	8.6x	8.1x	7.0x	6.5x	1.6x
Scandi Standard	1.082	17.6x	11.4x	16.4x	10.9x	9.7x	7.3x	3.6x
JBS	2.034	5.5x	4.4x	7.6x	6.9x	5.0x	4.5x	0.6x
Cranswick	1.835	20.9x	19.9x	17.1x	16.1x	12.4x	11.7x	3.4x
<b>Average</b>		<b>13.2x</b>	<b>12.1x</b>	<b>10.7x</b>	<b>9.8x</b>	<b>7.6x</b>	<b>7.0x</b>	<b>2.7x</b>
<b>Protein peer premium</b>		<b>44%</b>	<b>40%</b>	<b>34%</b>	<b>35%</b>	<b>12%</b>	<b>11%</b>	<b>1%</b>

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

Land based protein's trade at 1-44% premium to seafood based protein's...?

## Valuation overview

\*TP in NOK

Company	Marine Harvest	SalMar	Lerøy Seafood	Grieg Seafood	Norway Royal Salmon	Bakkafrost	Scottish Salmon Company	Austevoll
<b>Recommendation</b>	<b>BUY</b>	<b>BUY</b>	<b>BUY</b>	<b>BUY</b>	<b>BUY</b>	<b>HOLD</b>	<b>BUY</b>	<b>BUY</b>
Target Price (NOK)	165	250	53	80	185	360	13	91
Upside potential	8%	12%	3%	2%	5%	-1%	19%	13%
Market Cap (EUR/NOKm)	8,058	25,277	30,653	8,749	7,647	17,799	2,109	16,319
Enterprise Value (EUR/NOKm)	8,610	27,677	34,798	9,978	8,281	18,358	2,489	30,853

2017e - DNB	MHG	SALM	LSG	GSF	NRS	BAKKA	SSC	AUSS	Average
PE	11.1x	10.4x	10.3x	10.2x	13.8x	14.6x	7.2x	10.2x	11.0
EV/EBITDA	8.2x	8.2x	7.8x	7.5x	8.8x	9.9x	5.3x	6.5x	7.8
EV/EBIT	9.6x	9.3x	9.0x	8.8x	9.5x	11.1x	6.5x	7.9x	9.0
DVD yield	8.3 %	5.4 %	3.3 %	3.8 %	5.1 %	4.1 %	3.7 %	4.3 %	4.8 %

2018e - DNB	MHG	SALM	LSG	GSF	NRS	BAKKA	SSC	AUSS	Average
PE	10.8x	10.5x	10.5x	8.8x	11.1x	13.3x	10.0x	11.8x	10.8
EV/EBITDA	7.7x	8.3x	7.7x	6.4x	8.8x	9.3x	6.9x	6.6x	7.7
EV/EBIT	9.0x	9.4x	9.0x	7.4x	9.5x	10.3x	9.2x	8.3x	9.0
DVD yield	8.2 %	5.4 %	3.5 %	5.1 %	5.7 %	4.1 %	3.7 %	5.0 %	5.1 %

2019e - DNB	MHG	SALM	LSG	GSF	NRS	BAKKA	SSC	AUSS	Average
PE	10.8x	10.0x	9.9x	7.8x	10.6x	12.7x	11.1x	10.9x	10.5
EV/EBITDA	7.5x	8.1x	7.5x	5.9x	8.4x	9.0x	6.7x	6.4x	7.4
EV/EBIT	8.7x	9.1x	8.7x	6.7x	9.1x	9.9x	8.7x	8.0x	8.6
DVD yield	8.0 %	5.4 %	3.7 %	6.4 %	5.7 %	4.5 %	3.7 %	4.9 %	5.3 %

Source: Bloomberg

Analysts: Alexander Aukner (+47 24 16 90 79; alexander.aukner@dnb.no) ; Tone B. Hanstad (+47 41 62 94 46; tone.bjornstad.hanstad@dnb.no)

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