

Shipping

Company Update

Norway

10 March 2014

Recommendation Downgrade

IM Skaugen

Sell

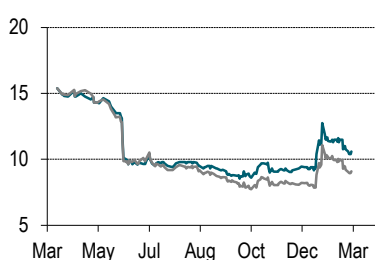
Key Data (2014E)

Price (NOK)	11.30
Target price (NOK)	8.00
- changed from (NOK)	17.00
Recommendation	Sell
- changed from	Buy
Risk	High
Reuters	IMSK.OL
Bloomberg	IMSK NO
Market cap (NOKm)	307
Market cap (USDm)	52
Market cap (EURm)	37
Net debt (USDm)	109
Net gearing	179%
Shares fully dil. (m)	27.2
Avg daily turnover (NOKm)	0.2
Free float	55%

Share Price Performance (%)

	-1M	-3M	-12M
IMSK.OL	(2)	22	(27)
Relative Norway	(3)	17	(38)
Relative sector	(7)	2	(52)

Share Price (12M)



Absolute performance (blue) / Relative to Norway (grey).

Analysts

Ole G. Stenhagen
(47) 2100 8527
ole.g.stenhagen@seb.no

Alexander Jost
(47) 2282 6712
alexander.jost@seb.no

Tian Tollefsen
(47) 2100 8649
tian.tollefsen@seb.no

Bright future, challenging hurdles

- Bond risks playing into the equity pricing – downgrade to Sell**
 We calculate an NAV of NOK 14.9/share. We are bullish on the prospects for petchem transport. But we fear that short-term difficulties, the resultant poor earnings and the probability that this would result in a credit event will hold back equity buyers. We have therefore downgraded our recommendation from Buy to Sell and change our share price target from NOK 17 to an option derived NOK 8/share. For the bonds we believe the shorter bond is better placed than the longer bond and believe the relative pricing should reflect this.
- Covenants and debt repayment over the next 15 months**
 I M Skaugen has two outstanding bond loans with an equity ratio covenant and its first bond repayment in February 2015. With the embargo of Iranian exports the spot market for petrochemical gases is weak. In 2013 the company ended a large cargo contract that was holding down utilisation – however, positioning vessels and increasing utilisation is difficult with a weak spot market. We therefore fear a breach of covenants, and in addition there is refinancing risks at today's earnings with regards to the February 2015 bond.
- Good demand forecast for petrochemical gases**
 The Middle East has the cheapest feed-stock in the world and the US is improving its position in shale gas. We have noted the increase in LPG exports and that chemicals production is increasing and we are confident that the demand for petrochemical gases will follow. The orderbook across the LPG/petchem shipping sector is challenging, but we believe manageable.

Financials (USD)

Year end: Dec	2012	2013	2014E	2015E	2016E
Revenues (m)	97	98	90	98	110
Operating profit (m)	(2)	(7)	(3)	4	15
Pre-tax profit (m)	(16)	19	(11)	(3)	9
EPS (reported)	(0.58)	0.68	(0.39)	(0.09)	0.33
EPS (adjusted)	(0.67)	(0.45)	(0.39)	(0.09)	0.33
DPS	0.00	0.00	0.00	0.00	0.00
Revenue growth (%)	(17.8)	1.7	(8.9)	8.9	12.5
Operating profit growth (%)	0.0	n.m.	n.m.	n.m.	240.8
EPS (adjusted) growth (%)	n.m.	n.m.	n.m.	n.m.	n.m.
Operating margin (%)	(2.3)	(7.4)	(4.1)	4.6	14.0
ROE (%)	(25.1)	29.0	(15.9)	(4.2)	14.1
ROCE (%)	0.1	1.8	0.3	3.9	9.2
PER (x)	n.m.	n.m.	n.m.	n.m.	5.8
Free cash flow yield (%)	(30.8)	(41.1)	5.4	13.1	39.4
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
P/BV (x)	1.71	0.59	0.85	0.89	0.77
EV/Sales (x)	2.48	1.59	1.89	1.57	1.21
EV/EBITDA (x)	57.2	17.1	26.3	10.9	5.3
EV/EBIT (x)	(197.3)	244.8	(46.0)	34.0	8.7
Operating cash flow/EV (%)	(15.5)	(11.3)	1.8	4.4	15.3
EV/Capital employed (x)	1.05	0.63	0.71	0.71	0.61

Source for all data on this page: SEB (estimates) and SIX/Thomson Reuters (prices)

Action summary

Although we are long-term positive towards both IM Skaugen and the market for small and medium sized LPG/petchem gas tankers, the investment case is dominated by two major hurdles over the next 12-15 months. In this period Skaugen is at risk of breaching its equity covenant (25%), and in February 2015 there is the refinancing of IMSK12.

Question 1: Will IM Skaugen breach its equity ratio covenant?

Answer: Yes, in our base case (USD 21,000/day @ 75% utilization) the company will breach in Q4 2014 as a result of the high interest expenses that burden the company.

Question 2: Will bondholders waive this covenant?

IMSK12 bondholders: Yes

IMSK13 bondholders have an incentive not to waive the covenant, unless they have a very strong conviction that the LPG/petchem gas tanker market will improve very soon.

Question 3: If Skaugen doesn't breach covenants, will it be able to refinance the bond maturity in February 2015?

Answer: We predict a funding shortfall of USD 10-15m at maturity. Given our 2015 forecast (USD 23,000/day @ 85% utilization) a full refinancing of all debt is possible, but debt investors would likely want to see yields close to equity returns or bank-like security. If the market does not improve according to our calculations, such a potential refinancing would require equity or quasi-equity debt that will be dilutive to existing shareholders.

Conclusions

Our base assumption suggests that the company will go into a breach prior to the maturity of IMSK12 and that the bondholders of IMSK13 will at that point force a restructuring. Based on this, we have the following recommendations on the company's securities:

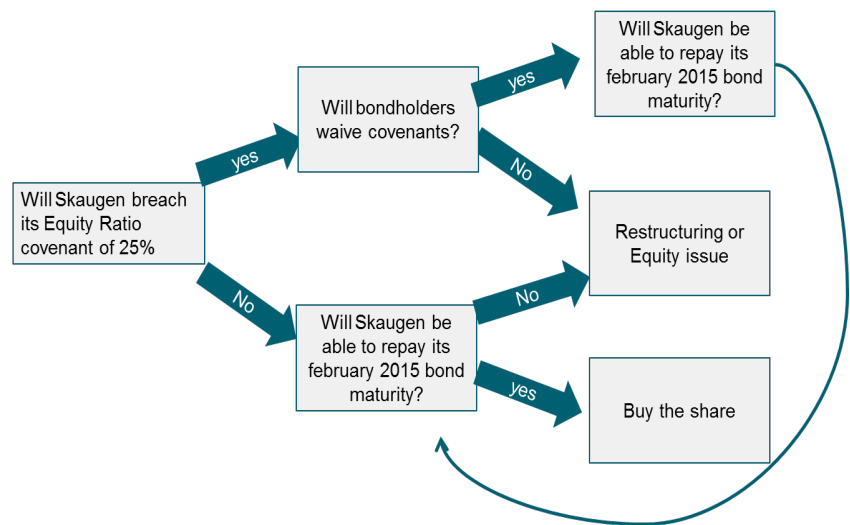
Bonds: Underweight

We reiterate our Underweight recommendation on both bonds, IMSK12 (trades at around par, +829bp) and IMSK13 (trades at 98.00, +981bp), due to a high risk of a restructuring and because the bonds offer relatively poor yields compared to other CCC peers with similar risks. With the current risk of a credit event, the bonds should be trading closer to equity returns. We note that IMSK12 has higher optionality (and that if the company is intending to buy back more bonds in the secondary market their interest will be in the short dated bond) and should be trading at a premium to IMSK13, even if the risk in the short term is equal for both bonds.

Equity: down from Buy to Sell

For the equity, we note that the NAV is NOK 14.9/share. The 2015E earnings multiples at a PER of 5.7x and EV/EBITDA of USD 5.3x are attractive. However, potential equity buyers, enthusiastic about LPG and petchem transportation prospects, will probably shy away until the debt issue is resolved, creating downward pressure on the share price. We have therefore downgraded our recommendation from Buy to Sell, with a target price of NOK 8. We have outlined a scenario in which utilization and day rates improve: in this scenario, the 2015E earnings multiples of a PER 4.8x and EV/EBITDA of 4.3x are attractive, and the company will no longer have a leverage problem. However, for LPG and petchem exposure there are other companies with a lot less financial risk in the short term.

Decision tree for investment



Source: SEB

Q4 and 2013 wrap-up

Skaugen's Q4 results marked the end of a year filled with bad luck, disappointing volumes and low earnings. The company generated revenues of USD 20.7m in Q4, and an LBITDA of USD 2.3m. The Q4 results were hurt by fleet repositioning during Q4 in Norgas Carriers, we believe as a result the expiry of one of the CoAs, and this reduced income and increased expenses. Norgas delivered Q4 LBITDA of USD 2.1m.

Strong market outlook, but current leverage problems might prevent Skaugen from capitalising on this

The full-year results do not look as grim: EBIT was USD 23m but a USD 30m book gain from the restructuring of the JV with GATX was a main contribution and ex non-recurring income the LBIT was USD 7m. Net income for the year was USD 18m; ex non-recurring income there was a net loss of USD 12m. The full year 2013 results were impacted by accidents (Norgas Cathinka) and unfavorable contracts of affreightment, which did not provide the downside protection the company hoped they would, instead contributing to sub-optimal fleet positioning and therefore low utilization.

Combined with high and expensive leverage, this has resulted in poor earnings and a declining book equity ratio. Divestments and restructuring have temporarily alleviated the pressure on book equity and also created a decent cash position of USD 59m.

The Q4 underperformance can be explained by two factors, the spot market and Norgas Carriers' contractual obligations.

Weak spot market

The spot market for petrochemical gases from the Middle East Gulf region has suffered from reduced exports (particularly ethylene) since the 2012 tightening of the international embargo against Iran. The embargo reduced export volumes by as much as 30%. Exports from other regions were insufficient to compensate the shortfall.

The market for butadiene has also been relatively poor, as European supply was hurt by unplanned shutdowns of large naphtha based crackers, and US tyre-maker demand was reduced due to higher import of finished tires from China.

Contracts of affreightment

The company confirms the ending of one major contract. The fleet is now operating primarily in the spot market, but to reposition the fleet and establish new trades increased costs and hurt utilisation in Q4 and will probably put pressure on earnings at least through 2014. This is not made easier by the difficult spot market.

Outlook

In our base case, which is based on improvements in day rates and utilization over time, Skaugen will breach the equity covenant (minimum 25% equity ratio) in Q3 2014. If utilization picks up quicker, this will not be a problem.

Earnings revision

(USD)	2014E	2015E	2016E
Revenues (m)			
Old	108	117	117
New	90	98	110
Change (%)	(17)	(17)	(7)
Operating profit (m)			
Old	23	33	33
New	(3)	4	15
Change (%)	(115)	(86)	(53)
Pre-tax profit (m)			
Old	1	11	11
New	(11)	(3)	9
Change (%)	(1241)	(124)	(15)
EPS (reported)			
Old	0.03	0.38	0.39
New	(0.39)	(0.09)	0.33
Change (%)	(1279)	(124)	(15)
EPS (adjusted)			
Old	0.03	0.38	0.39
New	(0.39)	(0.09)	0.33
Change (%)	(1279)	(124)	(15)

Source: SEB

Financial consequences

As we are bullish towards LPG and petchem transportation and we believe the company is set for higher earnings. However, until the market tightens and rates increase, the company needs to address one pressing issue: IM Skaugen's debt service ability is poor, and both upcoming debt maturities and equity ratio covenants continue to be a threat to both equity and bondholders.

IM Skaugen continues to suffer from excessive leverage

Skaugen, despite being a profitable business, has had interest coverage below 1 (EBITDA is below interest expenses) since Q2 2009. Last year, Skaugen's share of the Norgas fleet delivered an EBITDA of USD 5.9m in 2013. Comparing this to annual interest costs of USD 17m, the company's internal cash flow generation does not cover interest costs. This hurts the company's bottom line, and in turn its equity ratio.

To combat this, the company has divested Shenghui (proceeds USD 42m) and sold all of its older, smaller vessels (Chief, Challenger, Carine and Patricia). In total, the company has received USD 105m in payments for divested assets over the year, resulting in a cash position of USD 59.3m. Some of the proceeds from the asset sales have gone to buy back bonds below par, not only reducing the company's leverage and refinancing risks, but also improving the equity ratio which currently stands at 27%.

Assets and value

Fleet overview (Norgas Carriers)

	Ships	Cooling	Build year	CBM cap	Type	Partner	Series	Market value	Ownership	IMSK share
Sold in Q1 2014	Norgas Patricia	-104	1991	8,238	LPG/Eth.			8	100%	8
	Norgas Sonoma	-104	2002	8,556	LPG/Eth.		Somargas	25	35	8.75
	Norgas Petalumna	-104	2002	8,720	LPG/Eth.		Somargas	25	100	25
	Norgas Napa	-104	2003	10,199	LPG/Eth.		Somargas	25	100	25
	Norgas Creation	-163	2010	10,000	LNG/LPG/Eth.		Multigas	45	100	45
	Norgas Invention	-163	2011	10,000	LNG/LPG/Eth.		Multigas	45	100	45
Bareboat ships	Norgas Pan	-104	Mar.09	5,820	LPG/Eth/Chem	TK LNG partner	Wintergas	21	100	21
	Norgas Cathinka	-104	Sep.09	5,820	LPG/Eth/Chem	TK LNG partner	Wintergas	21	100	21
	Norgas Camilla	-104	Mar.10	5,820	LPG/Eth/Chem	TK LNG partner	Wintergas	21	100	21
	Norgas Unikum	-163	Sep.10	12,000	LNG/LPG/Eth.	TK LNG partner	Multigas	45	100	45
	Norgas Vision	-163	Dec.10	12,000	LNG/LPG/Eth.	TK LNG partner	Multigas	45	100	45
GATX owned ships	Norgas Orinda	-104	2002	8,556	LPG/Eth.	GATX Third	Somargas	25	0	0
	Norgas Alameda	-104	2002	8,556	LPG/Eth.	GATX Third	Somargas	25	0	0
	Norgas Shasta	-104	2003	10,199	LPG/Eth.	GATX Third	Somargas	25	0	0
	Norgas Innovation	-163	2010	10,000	LNG/LPG/Eth.	GATX	Multigas	45	0	0
	Norgas Conception	-163	2011	10,000	LNG/LPG/Eth.	GATX	Multigas	45	0	0
Sum IM Skaugen's share of vessels in Gas activities										312.75

Source: SEB and Company

We estimate the company's gross asset value at USD 313m. When subtracting our estimated net present value of the operational leases (discounted at 10%) and net debt, we estimate the company has a net asset value of USD 67m.

Asset breakdown

(USDm)	Broker Estimates	Share Price
Gross asset value	312.8	328.8
Plus net working capital	18.4	18.0
Plus net other assets	0.0	
= Enterprise value	331.2	310.8
Less gross debt	170.2	170.2
Less leases	153.5	153.5
Plus cash	59.4	59.4
= Equity value	66.9	46.5
Divide by # shares	27.1	27.1
= Share price USD	2.5	1.7
NOK Share price	14.9	10.4

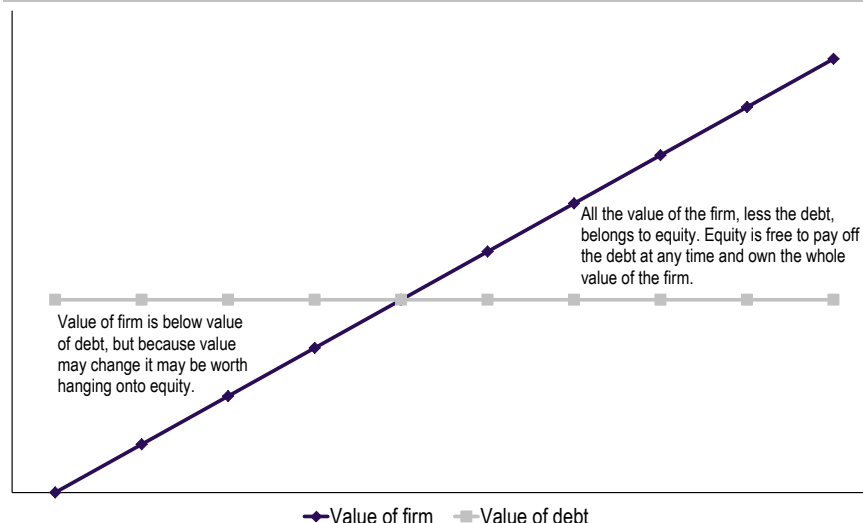
Source: SEB

Under a going concern assumption, NAV is a good starting point for a valuation discussion. And our forecast earnings multiples for 2015 are attractive. However, with the possible credit events over the next 15 months we believe there will be a lack of buyers.

Even if the credit events occur and bondholders decide to take action, it is possible that current equity is able to weather the difficulties without dilution. But the main thing is that it is not in equity's interest to take preemptive action: the events may not occur, bondholders may decide to waive or the market may improve sharply. All these events play in equity's favour. Knowing that, equity will sit back and wait, preparing for any eventuality but not acting. And for existing equity to act, a lower share price is better than to act at a higher share price.

To put an exact target or estimate on what a thinly traded share under threat of distress might be priced at is very difficult. We believe an option oriented approach is most relevant.

Illustration of rationale for using option valuation of equity



Source: SEB

When we run a binomial calculation with the enterprise value as the underlying security, 16% volatility, period until May 2015 and 4% risk free interest we get an option value of USD 36.8m, or USD 1.36/share or NOK 8.1/share. We use this as our new target price.

Covenants and IMSK12 repayment

The table below illustrates the company's leverage in terms of equity ratio and interest coverage. Skaugen has a book equity covenant of 25%. It's quite clear that unless utilization improves dramatically IM Skaugen will be unable to cover interest expenses through internally generated cash flow. As such, the equity ratio, at current market rates, will continue to fall. The poor interest coverage also means that a refinancing will have to be done through a quasi-equity debt instrument or equity as the company is unable to cover its interest expenses.

Equity ratio sensitivity on TCE and Utilization income

		Day Rates			
		17700	+10%	+20%	+30%
Utilization	100%	25.1%	27.1%	28.2%	28.4%
	95%	23.9%	25.2%	27.6%	28.1%
	90%	23.0%	24.6%	26.4%	27.8%
	85%	21.4%	23.3%	25.1%	26.7%
	80%	20.1%	21.9%	23.7%	25.3%
	75%	18.8%	20.5%	22.2%	23.8%

Table shows lowest Equity ratio over the next 5 quarters

Source: SEB

Interest coverage sensitivity on day rates and utilization

		Day Rates			
		17700	+10%	+20%	+30%
Utilization	100%	.7x	1.2x	1.7x	2.2x
	95%	.5x	.9x	1.4x	1.8x
	90%	.2x	.6x	1.1x	1.5x
	85%	-.1x	.3x	.7x	1.2x
	80%	-.3x	.1x	.4x	.8x
	75%	-.6x	-.2x	.1x	.5x

Table shows average interest coverage over the next 5 quarters

Source: SEB

Our base case predicts an equity ratio breach in Q3-14

Our base case scenario is based on a gradual improvement in the LPG market, and day rates improving to an average of 21,000 in 2014 and continuing to improve from there. In our base case, the company will breach its covenants during Q3 2014.

Key model assumptions

	Current	2014	2015	2016
USD/day	17,705	21,000	23,000	25,000
Utilization (%)		75	85	90

Source: SEB

In order to find out how the bondholders will react to this, we need to take a look at the assets and market outlook for the company.

We believe that the banks, which have a ring-fenced first lien position with an estimated loan-to-value (gross) of 49% will remain comfortable with their position. What the bondholders will do depends on two factors at that point in time, as outlined below.

The banks and loan-to-value

We have earlier described the two hurdles: the equity ratio and bond repayments. The company also has extensive bank borrowing where we assume loan-to-value is the easiest parameter to track.

Loan to value calculation

	Today	Q3/14	Q1/15	10% Hair cut (Q1/15)
Loan to value secured (%)	49	42	40	50
Loan to value bonds (%)	58	58	27	34
Loan to value (net) (%)	107	100	67	83
Estimated cash position	59	49	-5	-5
Total Net Loan To value (%)	69	70	71	87

Source: SEB

**It the LTV is on the right side of 100%,
IMSK12 holders should probably not
rock the boat**

If loan-to-value is way above 100%, the covenant is highly likely to be waived. The bondholders would likely look at it as a deeply out of the money put option – there is no value by calling it today so an investor might as well waive the covenant and hope for better times. As long as LTV is below 100% (after haircuts for legal expenses and asset values) bondholders could be tempted to force a restructuring if they believed that waiving a covenant breach would reduce their expected recovery. For the shorter bond, IMSK12, the bondholders are likely to waive as these owners have a good chance of getting repaid at maturity (USD 5m shortfall in cash).

**IMSK13 could be harder to convince as
loan to value today consists of easily
recoverable cash**

Repayment and strategy, IMSK13

For the longer bonds, IMSK13, the bondholders have incentives to seek an immediate restructuring. As they wait, cash at hand is being eaten, and their recovery position weakens. Even though the net LTV is only slightly worse in percentage terms after IMSK12 is repaid – the potential recovery worsens dramatically. In Q3, we estimate there will be USD 49m (USD 4m restricted for minimum cash covenant in the bank facility) in cash which would give the bondholders 53% recovery from cash at hand alone – in addition to whatever is left after the banks have repossessed and liquidated the vessels. After IMSK12 is repaid, the recovery is much more dependent on what the realized value of the vessels will be, less legal fees etc. and the banks being paid off. In order to waive such a covenant breach, the bondholders would have to be very bullish on the market outlook.

**The long term outlook for LNG and
LPG transportation is positive, but the
market is currently soft**

Skaugen today has a cash balance of USD 59m. The IMSK 13 bond has roughly USD 49m outstanding. In our base case scenario is that it will continue to burn cash until maturity (due to high interest expenses). Our base case scenario implies that the company will enter into a breach of covenants in Q3, but there is always the chance that Skaugen will be able to revalue some assets to avoid the breach (a book gain not cash). If that is the case, the company will have a cash position of USD 44m at the bond maturity date. Assuming that the company needs USD 5-10m in cash balances to be able to operate, this implies a funding shortfall of USD 10-15m at maturity.

As the chart below indicates, the company is dependent on a significant improvement in utilization or day rates for it to be able to repay IMSK12 through internal cash flow. In terms of refinancing, net loan to value will be in 70-80% range for most reasonable utilization and day rate estimates. It is possible to obtain financing at such high leverage (secured if one takes out the banks as well), but we expect that it will need to a form of “equity kicker” – otherwise the company’s interest coverage will remain a problem.

Estimated cash position as of Q1 2015 vs day rates and utilization

USDm		Day rates			
		17700	+10%	+20%	+30%
Utilization	100%	50	57	64	70
	95%	47	53	59	65
	90%	43	49	55	61
	85%	39	45	50	56
	80%	35	41	46	51
	75%	32	37	41	46

Source: SEB (USDm)

Estimated Net Loan-To-Value as of Q1 2015 vs day rates and util'

		Day rates			
		17700	+10%	+20%	+30%
Utilization	100%	75%	71%	67%	63%
	95%	77%	73%	70%	66%
	90%	80%	76%	72%	69%
	85%	82%	79%	75%	72%
	80%	84%	81%	78%	75%
	75%	87%	84%	81%	78%

Source: SEB

To conclude, Skaugen has a leverage problem that will present two major hurdles over the next year. In the worst case there could be a restructuring in 2014. It could also have a refinancing problem once IMSK12 matures, and that will require more funding. This funding, unless the market improves faster than we anticipate, will either be very expensive debt or equity. In any case, until the market improves, the short term risks are likely to play a factor both in the pricing of the bonds and in the pricing of the equity.

Market outlook

The key input, particularly for the IMSK13 bondholders is the market outlook. In a rapidly rising market, everybody will be inclined to "go soft" while in a flat to deteriorating market all parties are more likely to act preemptively.

We have published extensively on the VLGC market (most recently on BW LPG 7 February 2014 *Big waves from biggest player in VLGC*) and believe 2013-2016 demand growth for LPG tankers will be significant. We have published extensively on chemical tanker (most recently on Stolt-Nielsen 3 February 2014 *Shipping finally reports a positive quarter*) and believe the feed-stock based cost advantage enjoyed by producers of organic chemicals in the USA and the Middle East will lead to above trend increases trade in liquid chemicals.

The market for small and medium sized LPG/petchem gas tankers is at the intersection of these two views and we expect significant demand growth for Skaugen's ships over the next five years.

However the spot market is currently soft and as a near term recovery is somewhat dependent on Iran exports we expect it to be soft for the rest of this year. The current orderbook for small size vessels (handy and coasters) in the LPG space is relatively large, with handy size set to increase by 24% over the next three years and coasters by 14%. Furthermore, looking at Clarksons' fleet and orderbook for ethylene-capable ships the results, even if on a small fleet, seem even more dramatic.

We believe there will be demand for these vessels. If were demand was slower to pick up, a large number of old vessels might be scrapped. However, a market so poor that ships are scrapped is an unpleasant market for a levered company and the recovery might not come soon enough for Skaugen.

LPG fleet profile including orderbook, in mCBM

	1988 & before	1989-1993	1994-1998	1999-2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total fleet	Total orderbook	2014	2015	2016	2017
VLGC	0.47	2.02	0.63	2.09	0.16	0.23	0.57	0.90	2.20	0.98	0.73	0.24	0.16	1.07	12.47	4.52	0.75	2.68	1.09	0.00
LGC	0.04	0.23	0.00	0.24	0.24	0.12	0.00	0.00	0.18	0.18	0.00	0.00	0.00	0.00	1.23	0.12	0.00	0.18	0.00	0.00
MGC	0.82	1.23	1.04	1.19	0.35	0.21	0.37	0.53	0.66	0.75	0.58	0.44	0.25	0.39	8.81	0.64	0.69	0.80	0.48	0.13
Handy	0.16	0.25	0.17	0.24	0.05	0.00	0.03	0.06	0.17	0.22	0.20	0.18	0.02	0.04	1.78	0.44	0.21	0.22	0.12	0.00
Coaster	0.60	0.45	0.55	0.53	0.03	0.02	0.12	0.19	0.24	0.14	0.18	0.19	0.19	0.21	3.62	0.50	0.30	0.20	0.06	0.01
Grand Total	2.09	4.19	2.39	4.28	0.83	0.58	1.09	1.68	3.45	2.27	1.69	1.04	0.63	1.71	27.91	6.22	1.94	4.08	1.74	0.14

Source: Clarksons, SEB

LPG fleet profile including orderbook, total in CBM, all others in % of current fleet

(%)	1988 & before	1989-1993	1994-1998	1999-2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total fleet	Total orderbook	2014	2015	2016	2017
VLGC	3.8	16.2	5.1	16.8	1.3	1.9	4.6	7.2	17.7	7.8	5.9	1.9	1.3	8.6	12.472	36.2	6.0	21.5	8.7	0.0
LGC	3.6	18.6	0.0	19.3	19.4	9.7	0.0	0.0	14.7	14.7	0.0	0.0	0.0	0.0	1.228	9.8	0.0	14.7	0.0	0.0
MGC	9.3	13.9	11.8	13.5	4.0	2.4	4.2	6.0	7.5	8.5	6.6	4.9	2.8	4.5	8.811	7.3	7.8	9.0	5.4	1.4
Handy	8.9	14.1	9.7	13.2	2.6	0.0	1.8	3.2	9.3	12.6	11.1	9.9	1.2	2.3	1.779	24.7	11.6	12.4	6.6	0.0
Coaster	16.4	12.5	15.1	14.7	0.9	0.5	3.2	5.1	6.7	3.8	4.8	5.2	5.4	5.7	3.624	13.8	8.3	5.6	1.5	0.3
Grand Total	7.5	15.0	8.6	15.3	3.0	2.1	3.9	6.0	12.4	8.1	6.0	3.7	2.2	6.1	27.914	22.3	7.0	14.6	6.2	0.5

Source: Clarksons, SEB

Ethylene fleet in CBM, by size and build year

	Before 1989	1989-93	1994-98	1999-03	2004-08	2009-13	Total	Orderbook	2014	2015	2016	
<6000		23,350	59,031	3,008	22,000	18,254	34,020	159,663	9,400	9,400	0	0
6000-15999		59,234	97,832	69,019	115,296	191,876	228,556	761,813	198,328	78,328	108,000	12,000
16000-25999		0	0	0	110,425	100,000	68,536	278,961	307,000	118,000	155,000	34,000
26000 and above		0	0	0	0	0	0	35,000	0	0	0	35,000
Grand Total		82,584	156,863	72,027	247,721	310,130	331,112	1,200,437	549,728	205,728	263,000	81,000

Source: Clarksons, SEB

Ethylene fleet in CBM % of current fleet, by size and build year

(%)	Before 1989	1989-93	1994-98	1999-03	2004-08	2009-13	Total	Orderbook	2014	2015	2016	
<6000		15	37	2	14	11	21	159663	6	6	0	0
6000-15999		8	13	9	15	25	30	761813	26	10	14	2
16000-25999		0	0	0	40	36	25	278961	110	42	56	12
26000 and above								0				n.m.
Grand Total		7	13	6	21	26	28	1200437	46	17	22	7

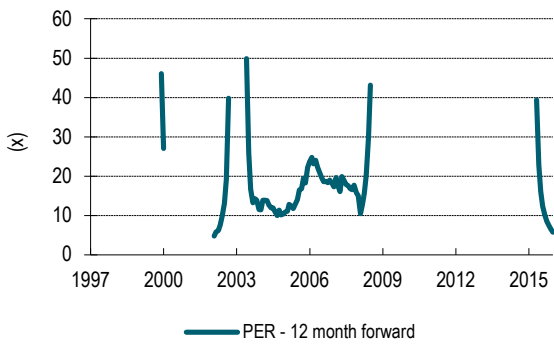
Source: Clarksons, SEB

Ethylene fleet in ships, by size and build year

	Before 1989	1989-93	1994-98	1999-03	2004-08	2009-13	Total	Orderbook	2014	2015	2016	
<6000		10	17	1	4	4	7	43	2	2	0	0
6000-15999		7	11	8	13	23	28	90	17	7	9	1
16000-25999		0	0	0	5	6	4	15	16	6	8	2
26000 and above		0	0	0	0	0	0	1	0	0	0	1
Grand Total		17	28	9	22	33	39	148	36	15	17	4

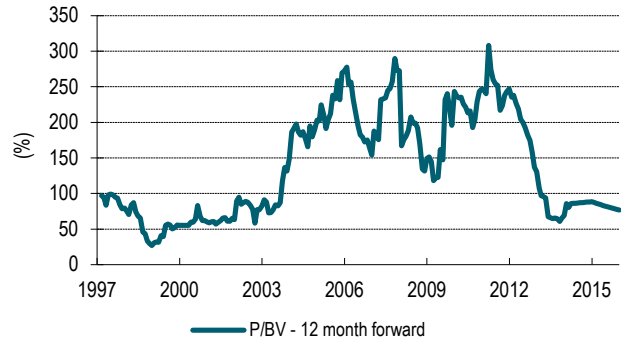
Source: Clarksons, SEB

PER - 12 month forward



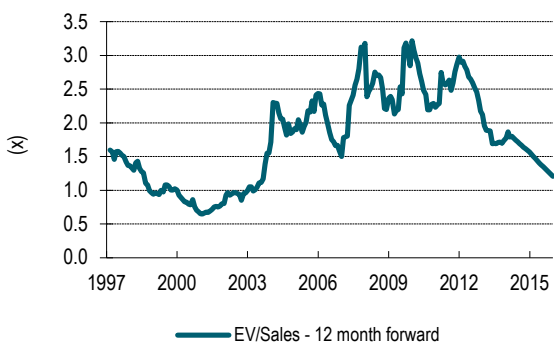
Source: SEB

P/BV - 12 month forward



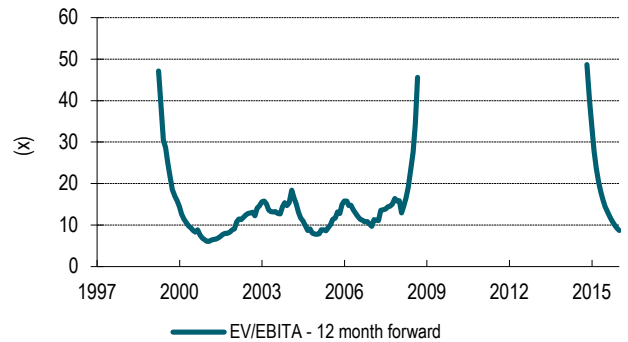
Source: SEB

EV/Sales - 12 month forward



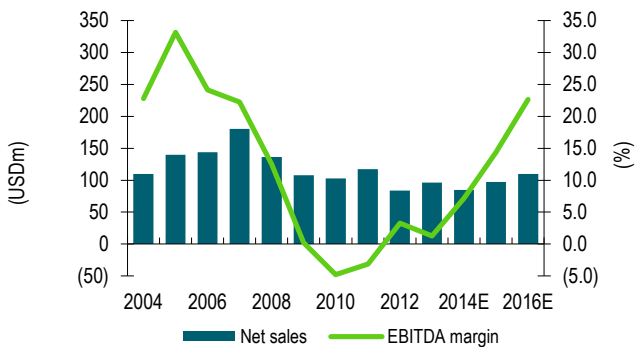
Source: SEB

EV/EBITA - 12 month forward



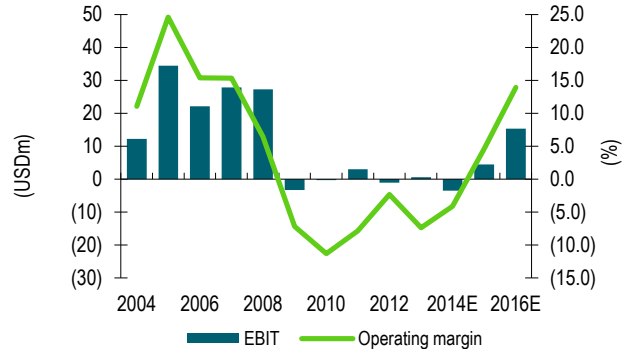
Source: SEB

Net sales & EBITDA margin



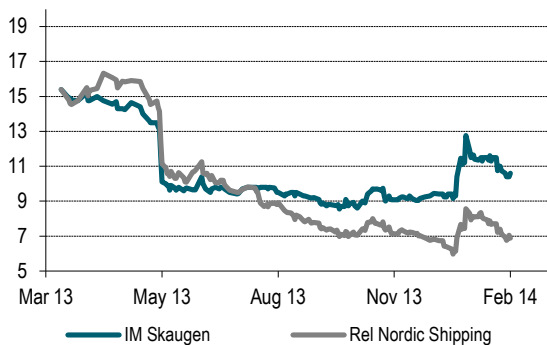
Source: SEB

EBIT & Operating margin



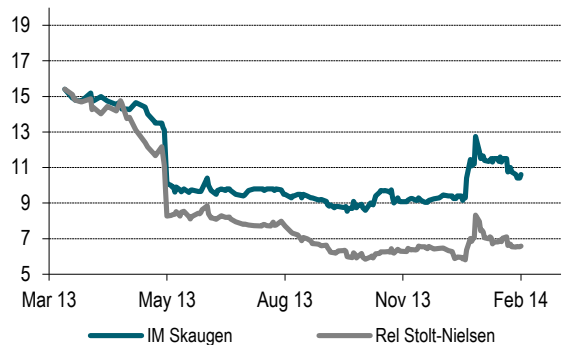
Source: SEB

Comparison with sector index - 1 year



Source: SIX

Comparison with Stolt-Nielsen - 1 year



Source: SIX

Profit & loss statement - IM Skaugen

(USDm)	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014E	2015E	2016E
Net Sales	110	140	144	180	136	108	103	117	84	96	85	98	110
Other revenues	0	0	0	0	0	0	0	0	13	2	5	0	0
Total revenues	110	140	144	180	136	108	103	117	97	98	90	98	110
Total expenses	(85)	(93)	(109)	(140)	(119)	(108)	(108)	(121)	(94)	(97)	(83)	(83)	(85)
Profit before depreciation	25	46	35	40	17	0	(5)	(4)	3	1	6	14	25
Depreciation - Fixed assets	(13)	(12)	(13)	(12)	(8)	(8)	(7)	(6)	(5)	(8)	(10)	(10)	(10)
Depreciation - Other assets	0	0	0	0	0	0	0	0	0	0	0	0	0
Amortisation - Goodwill	0	0	0	0	0	0	0	0	0	0	0	0	0
Amortisation - Other intangibles	0	0	0	0	0	0	0	0	0	0	0	0	0
Operating profit	12	34	22	28	9	(8)	(12)	(9)	(2)	(7)	(3)	4	15
Associated companies	0	0	0	0	19	4	11	12	1	8	0	0	0
Net interest expenses	(9)	(9)	(12)	(11)	(16)	(13)	(13)	(17)	(17)	(14)	(7)	(7)	(6)
Foreign exchange items	1	1	1	0	(2)	6	1	1	0	1	0	0	0
Other financial items	0	2	1	0	0	0	0	0	0	0	0	0	0
Value changes - Fixed assets	1	(8)	0	4	0	0	1	1	2	0	0	0	0
Value changes - Financial assets	0	0	0	0	0	0	0	0	0	31	0	0	0
Value changes - Other assets	0	0	0	0	0	0	0	0	0	0	0	0	0
Reported pre-tax profit	5	20	11	21	9	(10)	(11)	(11)	(16)	19	(11)	(3)	9
Minority interests	0	(1)	(1)	(2)	0	(0)	0	(0)	(0)	(0)	(0)	0	0
Total taxes	6	0	0	(4)	(0)	(0)	0	0	0	(1)	0	0	(0)
Reported profit after tax	11	19	11	15	9	(10)	(11)	(11)	(16)	18	(11)	(3)	9
Discontinued operations	0	0	0	0	0	0	0	0	0	0	0	0	0
Extraordinary items	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Profit	11	19	11	15	9	(10)	(11)	(11)	(16)	18	(11)	(3)	9
Adjustments:													
Discontinued operations	0	0	0	0	0	0	0	0	0	0	0	0	0
Interest on convertible debt	0	1	0	0	0	0	0	0	0	0	0	0	0
Minority interests (IFRS)	0	0	0	0	0	0	0	0	0	0	0	0	0
Value changes	(1)	8	0	(4)	0	0	(1)	(1)	(2)	(31)	0	0	0
Goodwill/intangibles amortisations	0	0	0	0	0	0	0	0	0	0	0	0	0
Restructuring charges	0	0	0	0	0	0	0	0	0	0	0	0	0
Other adjustments	0	(3)	(1)	1	10	1	(1)	(1)	(0)	0	0	0	0
Tax effect of adjustments	0	0	0	0	0	0	0	0	0	0	0	0	0
Adjusted profit after tax	11	16	10	11	19	(10)	(13)	(13)	(18)	(12)	(11)	(3)	9
Margins, tax & returns													
Operating margin	11.1	24.6	15.4	15.3	6.4	(7.2)	(11.3)	(7.9)	(2.3)	(7.4)	(4.1)	4.6	14.0
Pre-tax margin	4.6	14.5	8.0	11.5	6.6	(9.3)	(11.0)	(9.7)	(18.8)	19.8	(12.9)	(2.7)	8.4
Tax rate	n.m.	0.0	0.0	20.0	3.0	(2.3)	3.0	3.0	0.7	3.6	3.0	3.0	3.0
ROE	13.2	21.8	12.2	14.0	7.7	(10.4)	(12.7)	(14.9)	(25.1)	29.0	(15.9)	(4.2)	14.1
ROCE	6.9	15.5	9.2	10.6	9.3	(1.0)	0.1	1.4	0.1	1.8	0.3	3.9	9.2
Growth rates y-o-y (%)													
Total revenues	n.a.	27.1	2.8	25.6	(24.4)	(20.8)	(4.6)	14.0	(17.8)	1.7	(8.9)	8.9	12.5
Operating profit	21.7	182.8	(35.7)	25.0	(68.2)	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	240.8
Pre-tax profit	(75.2)	299.4	(43.7)	81.9	(56.6)	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
EPS (adjusted)	0.0	26.5	(37.7)	10.6	69.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Cash flow

(USDm)	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014E	2015E	2016E
Net profit	11	19	11	15	9	(10)	(11)	(11)	(16)	18	(11)	(3)	9
Non-cash adjustments	7	13	13	13	(10)	4	(5)	(8)	2	(30)	10	10	10
Cash flow before work cap	18	32	24	28	(1)	(7)	(16)	(19)	(14)	(12)	(1)	7	18
Ch. in working capital / Other	(7)	(0)	3	(49)	(74)	44	(17)	52	(18)	(6)	4	(0)	2
Operating cash flow	11	32	27	(21)	(76)	38	(34)	34	(32)	(17)	3	7	20
Capital expenditures	0	(5)	(39)	(18)	1	(7)	(6)	3	3	(0)	0	0	0
Asset disposals	1	0	0	0	0	0	0	0	0	106	0	0	0
L/T financial investments	0	(4)	0	0	0	0	0	0	0	0	0	0	0
Acquisitions / adjustments	0	(22)	0	0	(34)	0	(5)	0	0	0	0	0	0
Free cash flow	11	1	(13)	(39)	(109)	31	(45)	37	(29)	88	3	7	20
Net loan proceeds	(25)	74	20	80	(2)	19	(12)	(38)	9	(51)	(7)	(7)	(7)
Dividend paid	(6)	(16)	(8)	(8)	(8)	0	0	0	0	0	0	0	0
Share issue	0	(1)	4	0	0	(0)	0	0	0	0	0	0	0
Other	(0)	0	0	0	47	0	0	(0)	0	0	0	0	0
Net change in cash	(20)	57	4	33	(71)	50	(57)	(1)	(20)	38	(4)	(0)	13
Adjustments													
C/flow bef chng in work cap	18	32	24	28	(1)	(7)	(16)	(19)	(14)	(12)	(1)	7	18
Adjustments	0	0	0	0	(0)	(0)	(0)	0	0	0	0	0	0
Int on conv debt net of tax	0	1	0	0	0	0	0	0	0	0	0	0	0
Cash earnings	18	33	24	28	(1)	(7)	(16)	(19)	(14)	(12)	(1)	7	18
Per share information													
Cash earnings	0.76	1.18	0.88	1.04	(0.05)	(0.24)	(0.59)	(0.69)	(0.52)	(0.43)	(0.04)	0.26	0.68
Operating cash flow	0.45	1.18	0.99	(0.78)	(2.78)	1.38	(1.23)	1.24	(1.18)	(0.63)	0.1	0.25	0.75
Free cash flow	0.47	0.04	(0.46)	(1.45)	(3.99)	1.14	(1.65)	1.35	(1.06)	3.25	0.1	0.25	0.75
Investment cover													
Capex/sales (%)	0.0	3.9	27.5	10.1	(0.4)	6.0	6.1	(2.5)	(4.1)	0.0	0.0	0.0	0.0
Capex/depreciation (%)	0	46	314	145	(7)	82	93	(53)	(74)	0	0	0	0

Source for all data on this page: SEB

Balance sheet - IM Skaugen

(USDm)	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014E	2015E	2016E
Cash and liquid assets	24	81	80	102	31	96	40	41	23	59	55	54	67
Debtors	24	36	37	54	32	22	23	32	30	30	30	32	36
Inventories	0	0	0	63	92	52	49	0	0	0	0	0	0
Other	0	0	0	0	0	5	0	0	13	10	10	10	10
Current assets	48	117	117	219	154	176	113	73	65	99	95	96	113
Interest bearing fixed assets	0	0	0	19	10	1	4	7	5	0	0	0	0
Other financial assets	3	12	12	60	71	113	116	112	109	13	13	13	13
Capitalized development cost	0	0	0	0	0	0	0	0	0	0	0	0	0
Goodwill	6	6	6	0	0	0	0	0	0	0	0	0	0
Other intangibles	0	0	0	5	5	3	3	3	3	3	3	3	3
Fixed tangible assets	154	148	175	43	57	51	41	38	27	139	130	120	111
Other fixed assets	0	5	5	0	0	0	0	0	4	9	9	9	9
Fixed assets	163	170	197	127	143	167	163	160	147	164	154	145	135
Total assets	211	288	315	346	297	343	276	233	212	263	249	241	249
Creditors	17	13	14	21	2	8	0	0	14	14	14	15	17
Other trade financing	0	0	0	0	0	0	(3)	10	0	0	0	0	0
S/T interest bearing debt	0	13	0	0	4	27	71	69	11	11	13	13	13
Other	0	0	4	0	(2)	28	15	14	2	0	0	0	0
Current liabilities	17	26	17	21	4	63	82	93	26	25	27	28	30
L/T interest bearing debt	94	156	189	200	189	185	115	70	132	159	150	143	136
Other long-term liabilities	0	16	16	0	0	0	0	0	0	7	11	12	16
Convertible debt	10	5	0	0	0	0	0	0	0	0	0	0	0
Pension provisions	0	0	0	0	0	0	0	0	0	0	0	0	0
Other provisions	0	0	0	0	0	0	0	0	0	0	0	0	0
Deferred tax	0	0	0	0	0	0	0	0	0	0	0	0	0
Long term liabilities	104	177	205	200	190	186	116	71	132	166	162	155	152
Minority interests	3	4	5	1	1	1	1	1	0	0	0	0	0
Shareholders' equity	86	81	87	124	103	94	78	69	55	71	61	58	67
Total liabilities and equity	211	288	315	346	298	343	276	233	213	263	249	241	249
Net debt (m)	81	93	109	80	153	116	142	91	115	111	109	102	82
Working capital (m)	7	23	20	96	123	44	61	9	27	26	26	27	30
Capital employed (m)	193	258	281	325	298	307	265	210	197	242	224	214	216
Net debt/equity (%)	91	110	119	64	147	123	181	130	210	156	179	175	121
Net debt/EBITDA (x)	3.2	2.0	3.1	2.0	4.3	24.9	22.1	10.7	31.6	12.4	17.9	7.3	3.3
Equity/total assets (%)	42	29	29	36	35	28	28	30	26	27	24	24	27
Interest cover	1.3	3.5	1.7	2.1	0.6	(0.6)	(0.8)	(0.5)	(0.0)	(0.2)	0.1	0.8	1.9

Valuation

(USD)	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014E	2015E	2016E
No of shares, fully dil. (y/e)	7.1	6.9	27.2	27.2	27.2	27.2	27.2	27.2	27.2	27.2	27.2	27.2	27.2
No of shares, fully dil. avg.	5.9	6.9	27.3	27.2	27.2	27.2	27.2	27.2	27.2	27.2	27.2	27.2	27.2
Share price, y/e	38.6	58.9	44.0	56.0	36.0	40.4	36.9	29.8	19.1	9.5	11.3	11.3	11.3
Share price, high	42.0	62.5	63.5	65.0	57.0	43.5	40.2	45.0	30.0	19.2	14.0		
Share price, low	32.5	38.8	40.5	40.0	27.0	20.0	27.0	25.0	18.6	8.5	9.0		
Share price, avg	37.3	48.9	49.3	51.7	43.5	31.2	34.1	33.0	25.6	11.3	10.8		
EPS (reported)	0.47	0.71	0.39	0.55	0.32	(0.38)	(0.40)	(0.41)	(0.58)	0.68	(0.39)	(0.09)	0.33
EPS (adjusted)	0.47	0.59	0.37	0.41	0.69	(0.36)	(0.46)	(0.49)	(0.67)	(0.45)	(0.39)	(0.09)	0.33
Cash earnings/share	0.76	1.18	0.88	1.04	(0.05)	(0.24)	(0.59)	(0.69)	(0.52)	(0.43)	(0.04)	0.26	0.68
Dividend/share	0.31	0.39	0.28	0.32	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Enterprise value/share	8.9	11.9	11.0	13.3	10.7	11.2	11.5	8.3	7.6	5.6	5.9	5.6	4.9
Book value/share	3.6	3.2	3.2	4.6	3.8	3.4	2.9	2.6	2.0	2.6	2.2	2.1	2.5
Adjusted equity/share	(2.6)	3.2	3.2	4.6	3.8	3.4	2.9	2.6	2.0	2.6	2.2	2.1	2.5
PER (adjusted)	13.7	14.7	19.1	25.4	7.5	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	5.8
CEM	8.5	7.4	8.0	10.0	(103.0)	(29.0)	(10.6)	(7.3)	(6.6)	(3.6)	(51.3)	7.3	2.8
Dividend yield	4.8	4.4	4.0	3.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EV/EBITDA	10.0	7.1	8.6	8.9	8.2	65.6	48.6	26.4	57.2	17.1	26.3	10.9	5.3
EV/EBIT	20.5	9.5	13.6	12.9	10.7	(92.1)	(1,029.1)	75.3	(197.3)	244.8	(46.0)	34.0	8.7
EV/Sales (x)	2.28	2.35	2.09	2.00	2.14	2.83	3.04	1.92	2.48	1.59	1.89	1.57	1.21
Price/Book value	1.78	2.76	2.20	2.27	1.36	2.03	2.19	1.95	1.71	0.59	0.85	0.89	0.77
Price/adjusted equity	(2.42)	2.76	2.20	2.27	1.36	2.03	2.19	1.95	1.71	0.59	0.85	0.89	0.77
Free cash flow/Market cap (%)	7.0	11.0	(6.6)	(14.0)	(53.7)	16.3	(23.3)	27.2	(30.8)	(41.1)	5.4	13.1	39.4

Main shareholders

Main shareholders			Management			Company information		
Name	(%)	Votes	Capital	Title	Name	Contact		
Skaugen Family		36.0	36.0	COB	Erik Eik	Internet		www.skaugen.com
SES		10.5	10.5	CEO	Morits Skaugen Jr	Phone number		(47) 2312 0400
Odin Norge		7.3	7.3	CFO	Bente Flø	Fax number		0
				IR	Bente Flø			

Source for all data on this page: SEB

Target prices and risks

Target price definition and associated risks

Our target price is the analyst's assessment of what total return an investor should expect over the coming six to 12 months. The target is based on fundamental equity research and other factors at the analyst's discretion.

Our current target price of NOK 8 was set today (10 Mar 2014). The main risk to our target price on IM Skaugen is as follows. A quicker than anticipated increase in Iran ethylene exports or more successful repositioning of the fleet will rapidly lift earnings in which case the 2015 earnings forecasts will make this a very attractive buy.

Risk levels

The risk level is the analyst's view of the uncertainty in the earnings forecasts based on an assessment of the company's business model, operating risk as well as financial risk. We use two risk levels with the following explanations:

- **Normal risk:** All forecasts involve uncertainty and we view companies in this risk level to have normal forecast risks
- **High risk:** The earnings forecasts are more uncertain than for an average listed company due to business model, operating risk, financial risk or any other reason at the analyst's discretion. All companies with shorter track record than 12 months as a listed company are by definition classified as high risk according to SEB.

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Current recommendation for IM Skaugen - Sell - was set on 7 Mar 2014, changed from Buy. The dates of previous recommendation changes in relation to IM Skaugen can be found on our Research Online website.

SEB's standardised recommendation structure

		Consolidated distribution as per 31 Dec 2013 (%)	Investment banking clients last 12M
Buy	Attractive risk/reward - at least 10% upside to target price.	47.2	6.7
Hold	Fairly valued - the shares are trading close to target price.	43.7	6.0
Sell	Unattractive risk/reward - the shares are trading above target price.	9.1	1.1
Unrated	Company not covered, or we are not allowed to have a recommendation for compliance reasons		

Source: SEB

Please note, in the chart to the right:

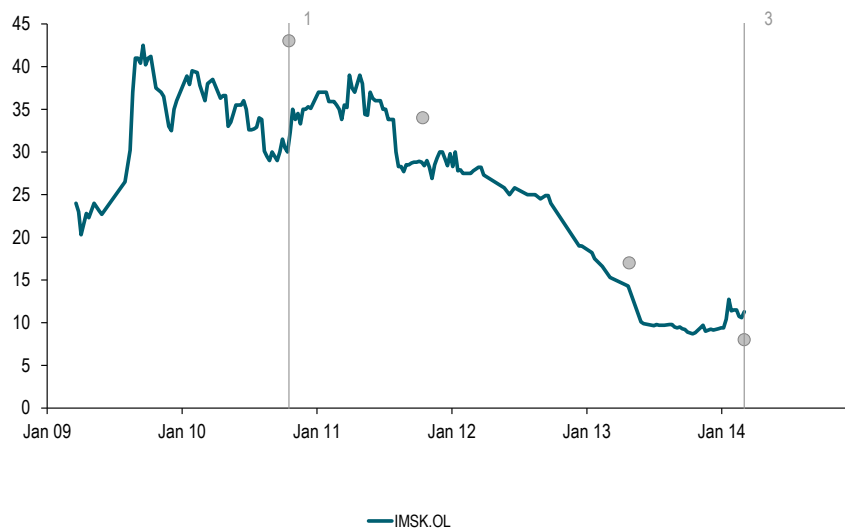
1=Buy

2=Hold

3=Sell

The grey spots mark the point where target prices have been changed. The price chart is not adjusted for dividends paid, whereas our recommendations are based on expected return including dividends

Target price and recommendation revision history



Source: Thomson Reuters / SIX / SEB

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Copenhagen

Bernstorffsgade 50
P.O. Box 100
DK-1577 Copenhagen V

Telephone: (45) 3328 2828

London

Scandinavian House
2 Cannon Street
London, EC4M 6XX

Telephone: (44) 20 7246 4000

Tallinn

Tornimäe 2
EE-Tallinn 15010

Telephone: (372) 665 7762

Frankfurt

Stephanstrasse 14-16
D-60313 Frankfurt am Main

Telephone: (49) 69 9727 7740

New York

245 Park Avenue, 33rd Floor
New York
NY 10167

Telephone: (1) 212 692 4760

Helsinki

Unioninkatu 30
P.O. Box 630
FIN-00101 Helsinki

Telephone: (358) 9 616 28700

Oslo

Filipstad Brygge 1,
P.O. Box 1363 Vika
NO-0113 Oslo

Telephone: (47) 2100 8500

Hong Kong

17/F Jardine House
1 Connaught Place
Central, Hong Kong Island
Hong Kong

Telephone: (852) 3919 2600

Stockholm

Kungsträdgårdsgatan 8
S-106 40 Stockholm

Telephone: (46) 8 522 29500