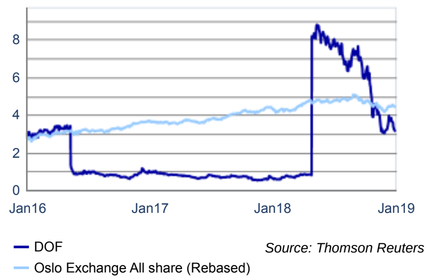
DOF

Oil Services
Norway

KEY DATA

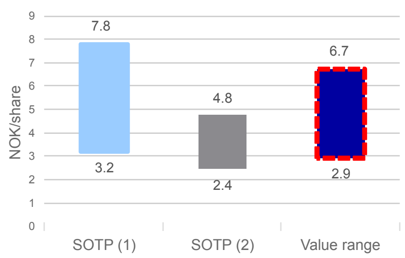
Stock country	Norway
Bloomberg	DOF NO
Reuters	DOF.OL
Share price (close)	NOK 3.17
Free Float	44%
Market cap. (bn)	EUR 0.10/NOK 1.00
Website	www.dof.no
Next report date	22 Feb 2019

PERFORMANCE



Source: Thomson Reuters

VALUATION APPROACH



Source: Nordea estimates

ESTIMATE CHANGES

Year	2018E	2019E	2020E
Sales	1%	1%	0%
EBIT (adj)	6%	1%	-2%

Source: Nordea estimates

Nordea Markets - Analysts
Even Mostue Naume
Analyst

Janne Kvernland
Senior Analyst

Positioned for increased subsea activity

DOF is well-positioned to take advantage of the recovery in the subsea market through DOF Subsea's versatile subsea fleet. Combined with the company's project and engineering capabilities, this means we expect it to continue securing utilisation for its vessels. We also favour DOF's high-quality fleet of supply vessels, many of which have local flag privileges in Brazil, although we do not expect the supply market to recover in the short to medium term. Based on our estimates, both DOF Supply and DOF Subsea should keep clear of their liquidity covenants. We argue, however, that DOF Supply's cash position may look somewhat tight if the markets turn out to be weaker than we anticipate.

Subsea: environment to improve ahead

The subsea market has been challenging in recent years, but we expect to see improvement ahead based on several factors: an expected increase in the number of sanctioned offshore projects and subsea tree awards this year; and higher activity among already sanctioned projects. Thanks to DOF Subsea's fleet and engineering capabilities, we argue that DOF is well positioned to benefit from this emerging subsea recovery.

Supply: Demand is improving, but oversupply is still an issue

Although the demand for supply vessels is slowly improving, we argue that the oversupply is preventing any meaningful recovery in the short to medium term. As such, we still expect muted earnings from this segment.

Liquidity: should keep clear of covenants

Both DOF Supply and DOF Subsea should keep clear of their liquidity covenants going forward, on our estimates. However, we argue that DOF Supply's cash position offers only a limited margin of safety if the market turns out to be weaker than we anticipate, yielding some liquidity risk.

Valuation range: NOK 2.9-6.7

Based on three different sum-of-the-parts valuation scenarios, we assign DOF ASA an equity value of NOK 2.9-6.7 per share. The low end of the range is based on assumptions of no material improvement in the subsea project market, while the high end is based on our expectations of a more prominent recovery. Furthermore, both ends of that range are risked to account for some liquidity risk in DOF Supply.

SUMMARY TABLE - KEY FIGURES

NOKm	2014	2015	2016	2017	2018E	2019E	2020E
Total revenue	10,196	10,291	8,134	6,666	6,257	7,007	8,238
EBITDA (adj)	3,027	3,030	2,449	1,796	1,747	2,155	2,543
EBITDA (adj) margin	29.7%	29.4%	30.1%	26.9%	27.9%	30.8%	30.9%
EPS (adj)	3.31	8.06	0.15	-0.14	-0.09	0.22	1.34
EPS (adj) growth	0.08	1.44	-0.98	-1.93	0.32	3.38	4.94
DPS	0.00	0.00	0.00	0.00	0.00	0.00	0.00
EV/EBITDA (adj)	8.3	8.5	9.4	10.8	11.3	8.8	7.0
EV/EBIT (adj)	13.2	13.2	15.6	26.9	45.4	23.4	16.3
P/E (adj)	3.7	0.5	6.6	n.m.	n.m.	14.1	2.4
P/BV	0.4	0.2	0.4	0.0	0.3	0.3	0.2
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Equity ratio	10.6%	6.0%	15.6%	17.2%	14.7%	15.6%	18.0%
Net debt	20,247	22,025	17,494	16,801	16,352	15,415	14,165
Net debt/EBITDA	5.8	6.6	6.7	9.3	9.4	7.2	5.6
ROIC after tax	7.3%	7.3%	5.2%	3.1%	3.0%	5.0%	6.9%
ROE after tax	3.5%	-13.2%	5.3%	-26.2%	-15.7%	1.8%	10.2%

Source: Company data and Nordea estimates

Oil companies' fundamentals remain solid

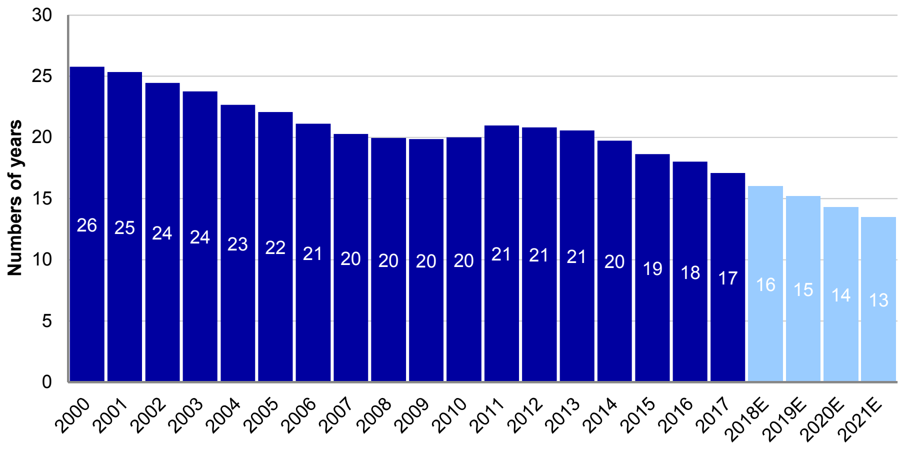
In spite of the recent drop in the oil price, we find that the fundamentals are still very strong for the oil companies. Solid expected cash flow generation in the coming years, coupled with shrinking reserves and low field breakevens, should bode well for increased exploration and development spending. However, the oil price setback may have postponed the recovery, as it is causing continued cautiousness among the oil companies because the margin of safety is now also lower. In our view, the key to the story going forward is more stability in the oil price, which should add credibility to the current operating environment. Taken together with the favourable fundamentals, this should eventually lead to increased exploration spending.

Shrinking reserves should force oil companies to take action...

If the current exploration activity and discovery rates continue, the number of years with remaining oil production will drop to 13 by 2021 for the oil majors and integrated oil companies, versus 16 years in 2018E (down from 21 in 2011). Such figures will clearly have a negative impact on the valuation of these oil companies, we argue. Furthermore, it creates a clear incentive for oil companies to increase their reserves.

Only 13 years of remaining oil production if oil majors and IOCs keep exploration activity at the current level and discoveries remain low

LIQUID RESERVES-TO-PRODUCTION RATIO*



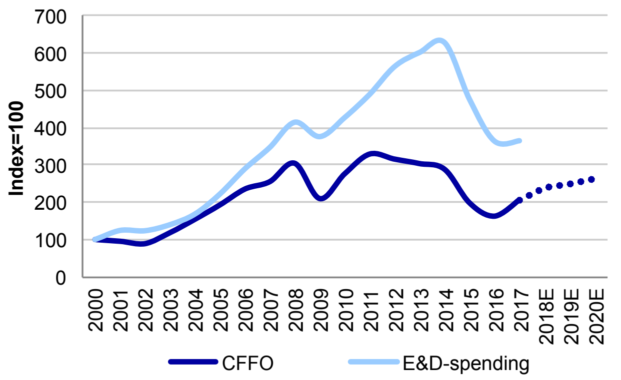
*Source: Rystad Energy and Nordea estimates *Includes only major and integrated companies. Estimates assume Rystad Energy's estimated production and 2017 discoveries (1.3 billion boe/year) going forward*

...and healthy cash flows bode well for exploration and development spending

Forecast CFFO should support increased spending

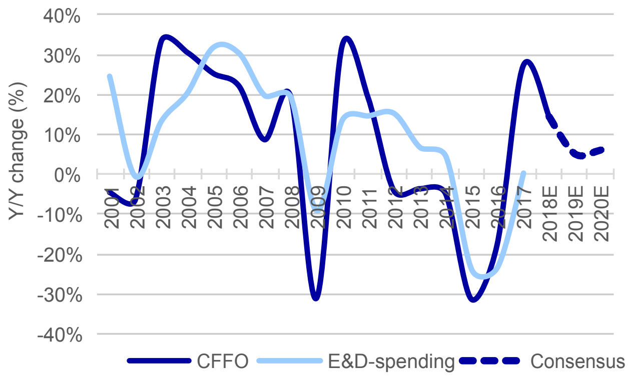
Oil companies protected cash flows during the downturn by cutting costs and maintaining production at existing fields. As a consequence, the oil majors are now in a position where they are expected by consensus to generate very healthy cash flows from operations (CFFO) ahead. Historically, we have seen that increased CFFO results in higher exploration and development spending.

CFFO* VS TOTAL E&D SPENDING (INDEX)



*Source: Rystad Energy, Thomson Reuters and Nordea *Aggregated cash flow from operations from Exxon, Chevron, BP, Total, ENI, Gazprom, Lukoil, Equinor, CNOOC, EOG, Suncor,Occidental and ConocoPhillips*

CFFO VS E&D SPENDING Y/Y, % CHANGE

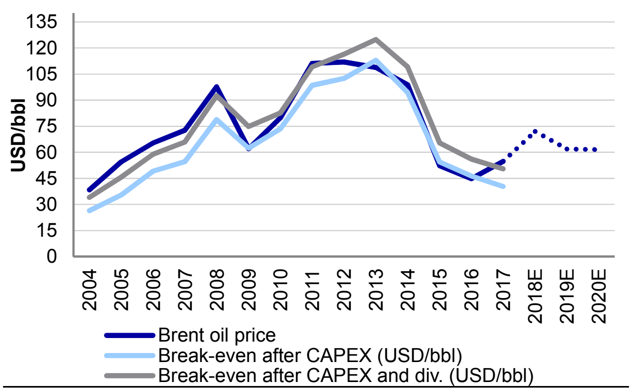


*Source: Rystad Energy, Thomson Reuters and Nordea *Aggregated cash flow from operations from Exxon, Chevron, BP, Total, ENI, Gazprom, Lukoil, Equinor, CNOOC, EOG, Sunco, Occidental and ConocoPhillips*

Oil companies need an oil price of USD 50/bbl to break even after capex and dividends, but only USD 40/bbl after capex

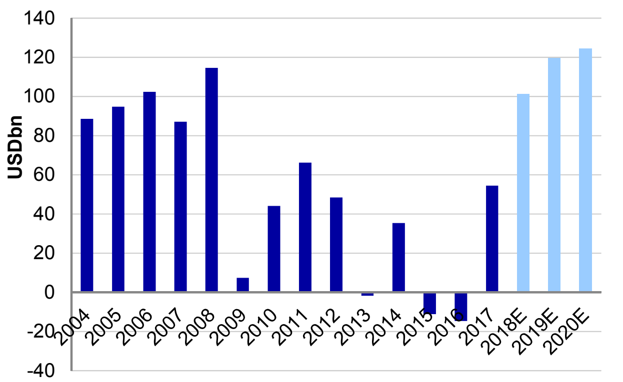
We estimate that the major oil companies only needed an oil price of USD 50/bbl to break even after capex and dividends in 2017. This is a substantial reduction compared with the price needed in 2013-14. As a consequence, consensus is also expecting a considerable uptick in free cash flow in the coming years. In light of this, we are convinced that at some point we will see increased investment and exploration activity. However, the timing of this remains uncertain due to a number of factors, including oil price volatility.

MAJOR OIL COMPANIES*: AVERAGE CASH BREAKEVEN**



*Source: Company data, Bloomberg and Nordea *XOM, COP, CVS, TOT, EQNR, ENI, RDSA, BP and REP. **Brent oil price estimates = forward prices*

MAJOR OIL COMPANIES*: FREE CASH FLOW



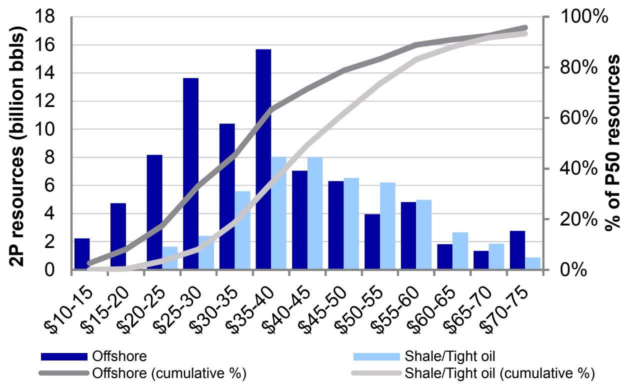
*Source: Company data, Bloomberg and Nordea *XOM, COP, CVS, TOT, EQNR, ENI, RDSA, BP and REP*

Undeveloped oil resources viable in current oil price environment

Offshore barrels more economically resilient in the current oil price environment

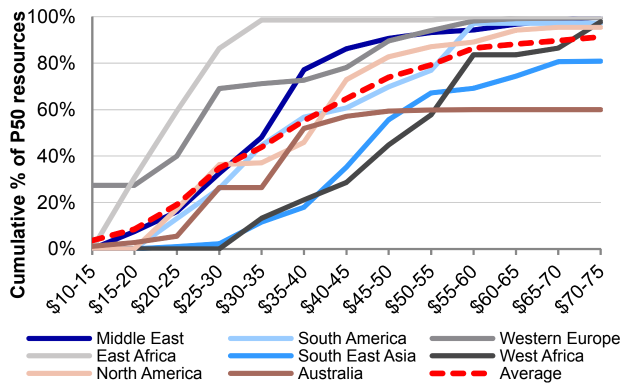
Despite the recent oil price drop, offshore projects are still deep in the money, as ~90% of the undeveloped resources are economical at a Brent oil price of USD 55-60/bbl and over 60% are viable at prices below USD 40/bbl, according to Rystad Energy. In comparison, approximately 60% of undeveloped shale oil resources are viable in the current oil price environment, with WTI trading close to USD 50/bbl. We also note that offshore projects are more resilient than shale at lower oil prices. Most offshore regions now have low field breakevens. Regions such as East Africa, Western Europe, the Middle East, South America and North America have breakevens at or below the average region. Australia, South East Asia and West Africa emerge as more expensive regions than average.

BREAKEVENS OF UNDEVELOPED LIQUIDS*



*Source: Rystad Energy and Nordea *Only includes estimated 2P resources for offshore projects under development or in field evaluation phase. For shale assets, it includes drilled but not yet producing wells and locations to be drilled in the next three years*

BREAKEVENS: OFFSHORE LIQUIDS PER REGION



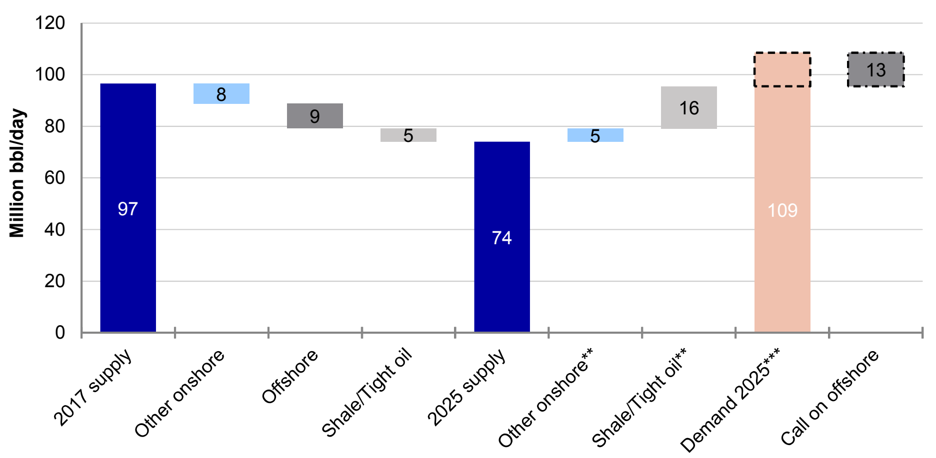
*Source: Rystad Energy and Nordea *Only includes estimated 2P resources for offshore projects under development or in field evaluation phase*

The world is dependent on offshore barrels and shale oil to meet future demand

Future demand must be met by both offshore and shale oil

If we look at the estimated oil supply compared with estimated oil demand until 2025, it is evident to us that we are dependent on both shale oil and offshore oil to meet future demand. Even in a scenario where we conservatively assume 100% commercialisation of all shale oil discoveries with breakeven below USD 65/bbl, the world must still develop new offshore barrels. As such, we should expect oil companies also to allocate investment dollars to offshore projects.

OIL SUPPLY* BRIDGE FOR 2017-25E

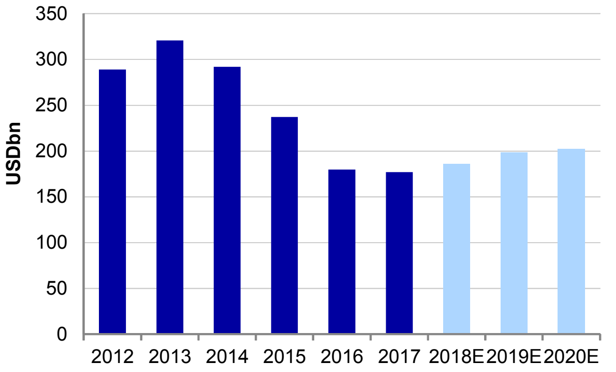


*Source: Rystad Energy, IEA and Nordea estimates *Liquids only. **Includes barrels under development and assumes 100% commercialisation of discovered barrels with breakeven below< USD 65. ***Based on avg. yearly growth rate of 1.3%*

Oil companies are still hesitant to put the pedal to the metal

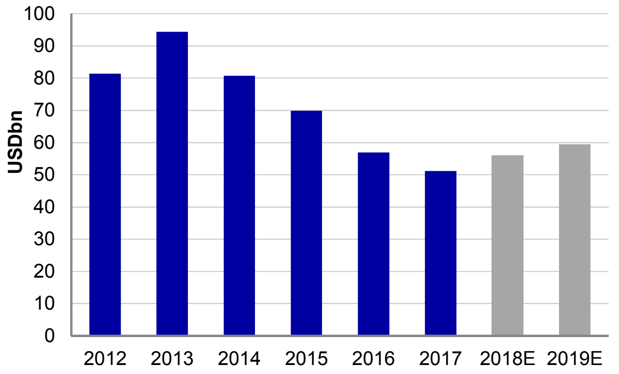
According to consensus estimates for 37 oil companies with exposure outside North America, capex spending is expected to increase by 7% in 2019 compared with estimates for 2018. Looking at the few majors that have issued guidance for 2019 capex so far, the y/y increase is expected to be 6% in 2019.

OIL COMPANIES EX NORTH AMERICA*: CAPEX SPENDING**



*Source: Company data, Bloomberg and Nordea *BP, CVE, CVX, ENI, XOM, HSE, REP, RDSA, EQNR, SU, FP, GALP, MOL, OMV, GAZP, LKOH, ROS, TATN, CNE, ENQ, LUPE, PMO, RDGZ, NVTK, AKERBP, FPM, PGN, GKP, MEDC, TGL, KOS, NBL, OPHR, OXC, SOL, TLWN **Bloomberg consensus*

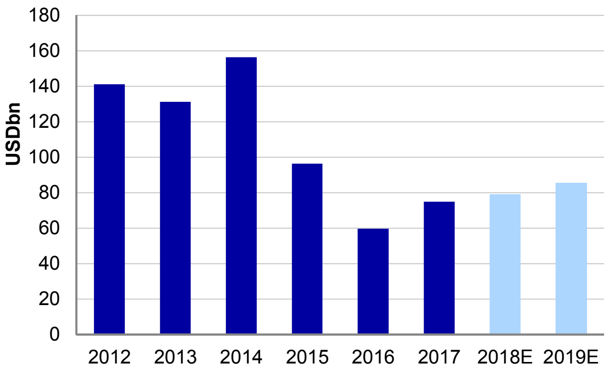
BP, SHELL AND TOTAL*: CAPEX GUIDANCE



*Source: Company data, Bloomberg and Nordea *BP, Shell and Total are the only majors that have released 2019 guidance so far*

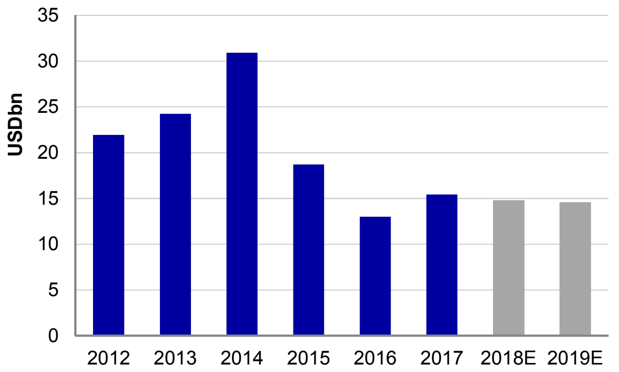
Oil companies with most of their exposure to North America are expected by consensus to increase spending by 8% y/y in 2019, while guidance from the seven companies that have so far issued expectations for 2019 points to a flat y/y trend.

OIL COMPANIES NORTH AMERICA*: CAPEX SPENDING**



*Source: Company data, Bloomberg and Nordea *APC, AR, APA, AREX, BCEI, COG, CRC, CRZO, CHK, XEL, CRK, CXO, COP, CLR, DNR, DVN, FANG, ECA, EOG, EPE, EQT, GPOR, HK, HES, LPI, MRO, MTDR, MUR, NFX, NBL,NOG, OAS, OXY, PDCE, PXD, QEP, RRC, REN, RSPP, SN, SD, SM, UPL, UNT, WTI, WLL and WPX **Bloomberg consensus*

OIL COMPANIES NORTH AMERICA*: CAPEX GUIDANCE



*Source: Company, Bloomberg and Nordea *Includes companies with 2019 guidance: APC, AR, APA, COG, EQT, PDCE and WPX*

Although capex is expected to increase in 2019, oil companies remain disciplined, prioritising debt reduction and dividends over increased exploration spending. Moreover, with the recent setback in the oil price in the middle of the budget season, we would expect oil companies to be more hesitant to pull the 'exploration trigger' in the near term, as the spot oil price renders projects less profitable.

However, oil prices around current levels are still very comfortable for most oil companies. Assuming that the oil price stabilises at current levels or above, this is likely to add more confidence to the operating environment for oil companies. Once oil companies adapt to the new environment, we expect the favourable fundamentals to eventually drive increased exploration spending. Furthermore, we highlight that oil companies' current attitude is very similar to what we saw at the beginning of the recovery phases of the past two upcycles (early 2000s and 2009-10). Following those periods, oil companies gained a renewed focus on growth opportunities and reserve replacement. We expect this to remain the case in the coming years as well.

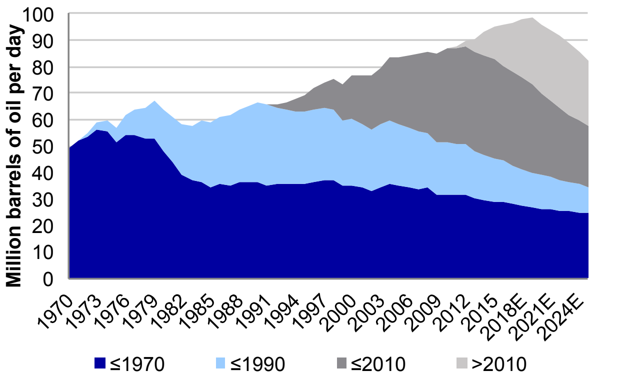
Natural oil field decline must be addressed

Oil companies must replace barrels produced in order to offset the natural decline prevalent in the oil reservoirs. Failure to do so will hurt production rates. Despite this, replacement of reserves is now at record lows and has been sidelined by the oil companies' need to protect cash flow during the downturn. Offshore investments have been hit particularly hard, but production rates have, surprisingly, shown resilience. However, the resilient production is not a result of a growing reserve base but is instead explained by oil companies producing existing wells harder, which is not a sustainable way to fight the natural decline of the oil fields.

Replacing production is the only means to fight Mother Nature...

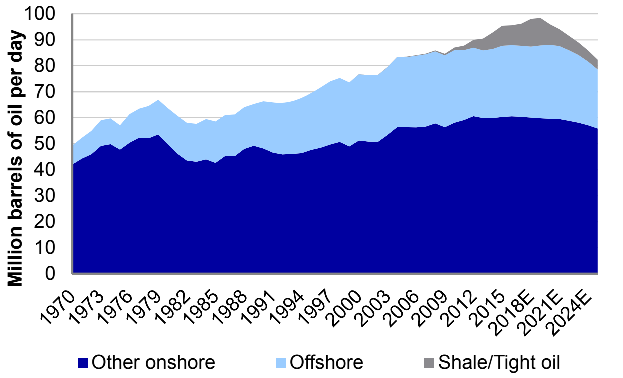
Oil companies work against Mother Nature when they produce oil, as they must replace barrels produced in order to offset the natural decline prevalent in the oil reservoirs. Failure to do so will eventually hurt production rates.

OIL PRODUCTION BY PRODUCTION STARTUP YEAR*



** Includes only producing barrels and barrels under development*
Source: Rystad Energy and Nordea

OIL PRODUCTION BY SOURCE*



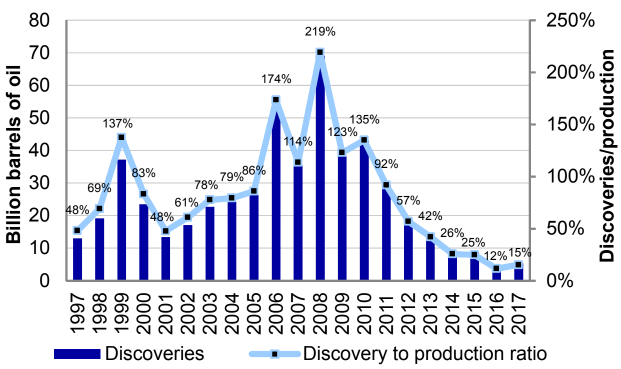
** Includes only producing barrels and barrels under development. Shale/tight oil includes estimated production from drilled-but-uncompleted wells.*
Source: Rystad Energy and Nordea

...but replacement of reserves is at record lows

Replacement of reserves has been sidelined by the need to protect cash flow

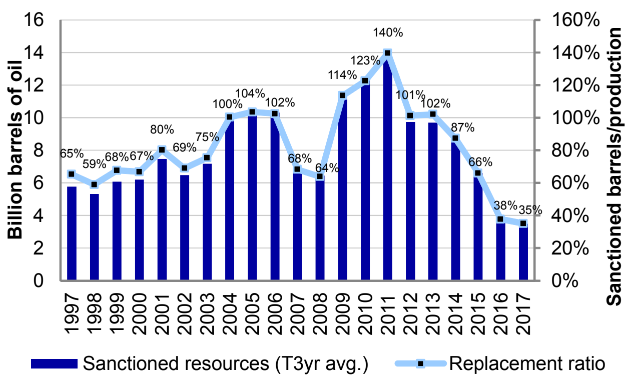
The replacement of reserves, however, has been sidelined by oil companies' need to protect cash flow during the downturn, as seen in previous down-cycles. As a consequence, new discoveries and sanctioned barrels are currently at rock-bottom levels, with oil companies only sanctioning about a third of barrels produced annually.

TOTAL: DISCOVERED BARRELS TO PRODUCTION*



** Includes crude oil, NGL and condensate*
Source: Rystad Energy and Nordea

OFFSHORE: SANCTIONED BARRELS TO PRODUCTION*



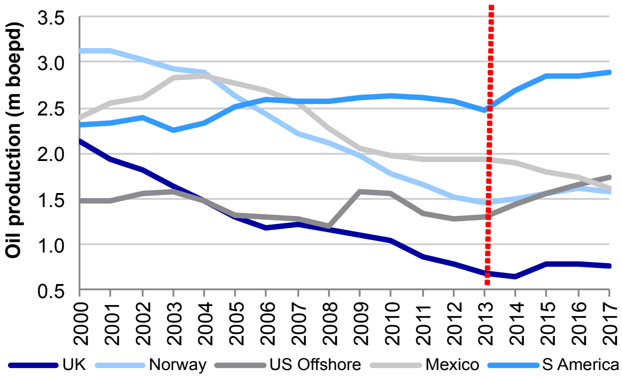
** Includes crude oil, NGL and condensate*
Source: Rystad Energy and Nordea

Harder production of existing wells is not sustainable

Depletion rates reveal unsustainable resilience in current offshore oil production

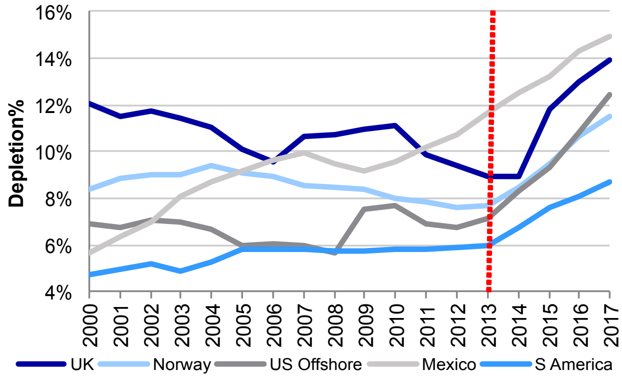
Despite the significant reduction in E&P spending and the lack of new additions to the reserves, production from the major offshore basins in the past few years has shown resilience. Production has flattened out or even increased in some cases, reversing the established negative decline rate trends. However, the simultaneous increase in depletion rates reveals that this is not sustainable. Low investments since 2014 have curtailed the addition of reserves and fuelled the depletion rate. As such, the resilient production is not a result of a growing reserve base but rather a result of oil companies producing the existing wells harder, which is not a sustainable way to fight the natural decline of the oil fields.

OFFSHORE CRUDE OIL* PRODUCTION PER DAY



** Crude oil only*
Source: Rystad Energy and Nordea

OFFSHORE CRUDE OIL DEPLETION RATES*

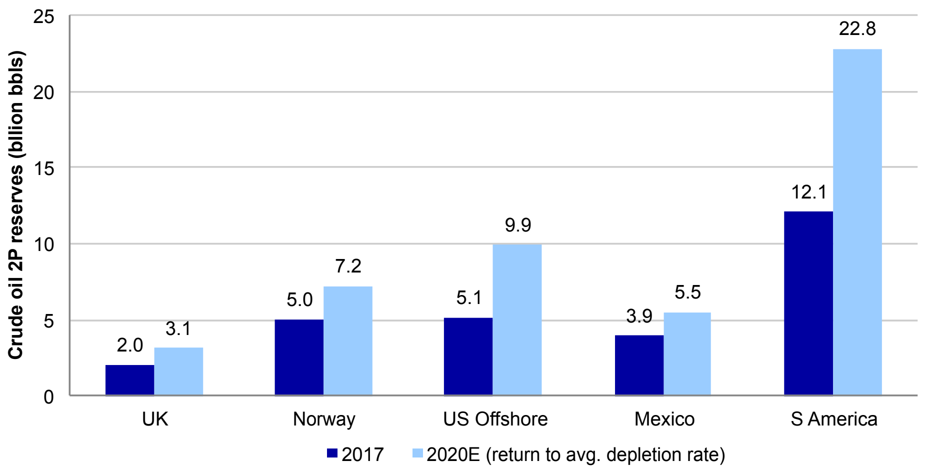


**Annual crude oil production divided by developed 2P reservoirs at the end of the same year*
Source: Rystad Energy and Nordea

If depletion rates are to return to more normal levels, ie the average level seen from 2000 to 2013, almost 20 billion barrels must be added to the reserves of these major offshore basins given Rystad Energy's estimated production in 2020.

20 billion barrels must be added to reserves if depletion rates are to return to more normal levels

IMPLIED 2020E CRUDE OIL RESERVES BASED ON AVERAGE DEPLETION RATES, 2000-13*



** Estimates based on Rystad Energy's production in 2020; only account for offshore produced barrels*
Source: Rystad Energy and Nordea

Subsea: Environment to improve ahead

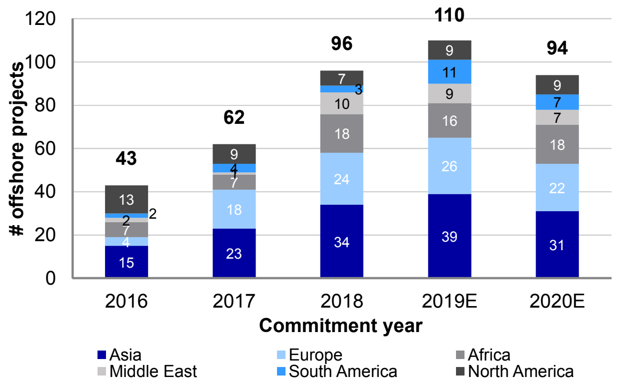
The subsea market has been challenging in recent years. However, with expectations of yet another year with an increase in the number of sanctioned offshore projects and subsea tree awards, coupled with lead times bringing higher activity among projects already sanctioned, we expect to see an improvement in the coming years. This should materialise in the form of decent order intake for subsea companies and, eventually, improved vessel utilisation for subsea vessel companies with engineering capabilities, in our view. In addition, Rystad Energy forecasts a marked rise in subsea services spending, which should support demand for subsea vessels and project/engineering capabilities. Given a more reasonable supply side, we are more positive on the subsea vessel market than the supply vessel market.

FIDs and subsea tree awards continue to increase

At least 100 offshore projects should be sanctioned in 2019

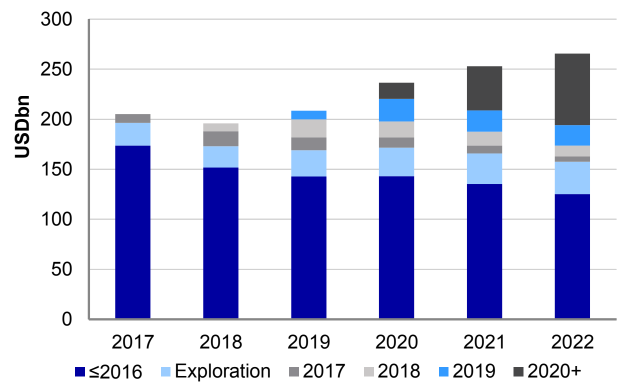
Oil and gas companies plan to sanction at least 100 offshore projects in 2019, according to data from Rystad Energy. By comparison, around 62 and 96 offshore projects reached final investment decision (FID) in 2017 and 2018, respectively. Although the number of FIDs troughed in 2016, investments in offshore projects are spread across several years. As such, we should expect increased offshore spending to materialise from projects already sanctioned in the coming years. Multiple upcoming offshore FIDs and increased activity among projects already sanctioned, coupled with brownfield work, should bode well for both subsea vessel utilisation and order books.

NUMBER OF OFFSHORE PROJECTS BY COMMITMENT YEAR



Source: Rystad Energy and Nordea

OILFIELD SERVICE SPENDING* BY COMMITMENT YEAR

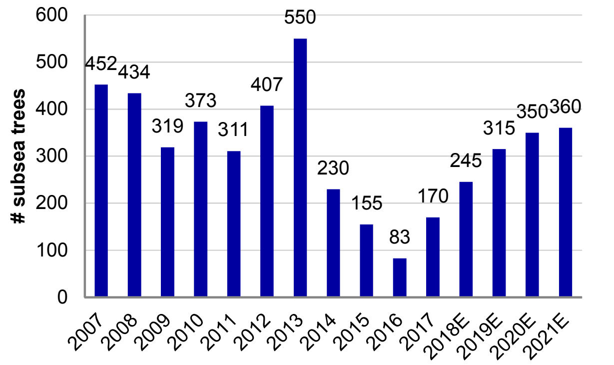


* Offshore
Source: Rystad Energy and Nordea

Subsea tree awards expected to increase further in number

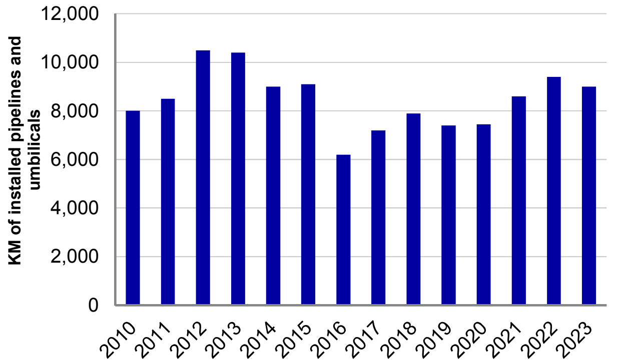
The number of expected subsea tree awards in the coming years will be a key indicator of short- and medium-term demand. According to industry data, the number of subsea tree awards should continue increasing, suggesting a favourable impact on subsea order intake. Moreover, pipeline and umbilical installation activity is expected to increase in the next few years, according to Wood Mackenzie, driving demand for pipelaying and support vessels.

SUBSEA TREE AWARDS BY AWARD YEAR



Source: Quest Offshore, Rystad Energy, Wood Mackenzie and Nordea estimates

PIPELINE AND UMBILICAL INSTALLATION ACTIVITY, KM

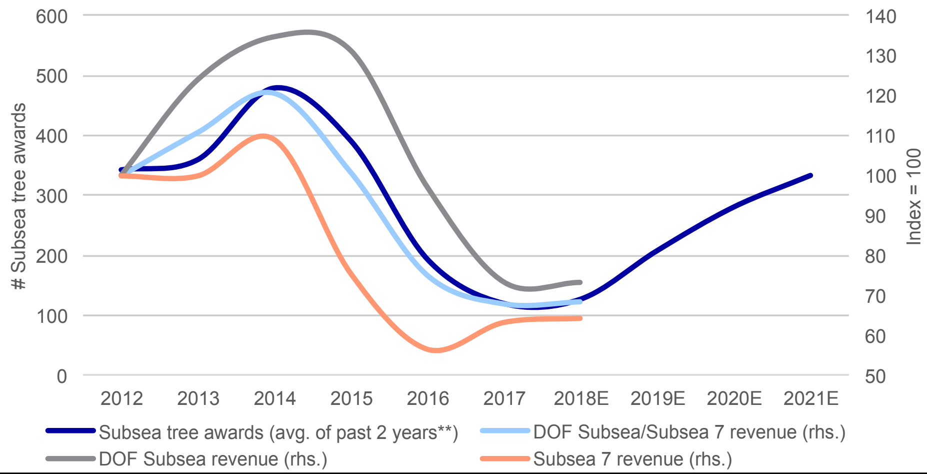


Source: Wood Mackenzie, GC Rieber and Nordea

We have compared DOF Subsea's and Subsea 7's revenue each year from 2012 to 2018 with the average number of subsea trees awarded in the past two years. The lag in the subsea tree awards average represents the lead time between award and installation. As seen in the chart below, the increase in subsea tree awards seen in 2017 and 2018 bodes very well for subsea activity going forward, given the historical relationship.

Lead time between subsea tree awards and installation suggests increased activity going forward

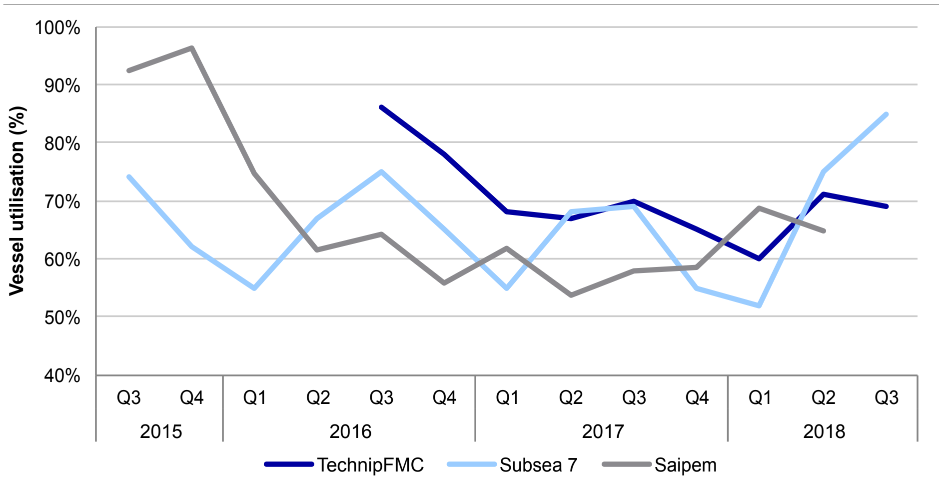
PAST TWO-YEAR AVERAGE NUMBER OF SUBSEA TREE AWARDS VS INDEXED SUBSEA REVENUE*



*Source: Company data, Quest Offshore, Rystad Energy, Wood Mackenzie and Nordea estimates *Subsea revenue here represented by DOF Subsea and Subsea 7's revenue **ie the number of tree awards in 2012 is equal to the average number of trees awarded in 2010 and 2011*

Although demand is set to increase, it will not necessary benefit all companies with subsea vessels. In fact, the largest subsea players have available subsea vessel capacity. We expect these to employ their own vessels before entering into long-term charters with other vessel-owning companies. Since vessel owners without engineering capabilities cannot market their services directly to the oil companies, we would thus expect these companies to be the last to benefit from a rise in the subsea activity level.

SUBSEA VESSEL UTILISATION: SUBSEA 7, TECHNIPFMC AND SAIPEM



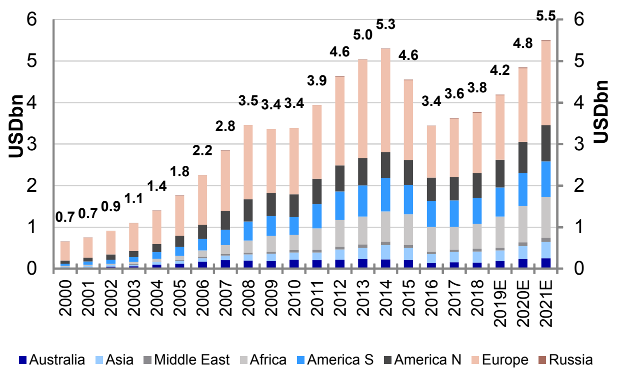
Source: Company data and Nordea

Underinvestment and low spending on maintenance should eventually force an increase in spending

Subsea services spending set to grow in 2019

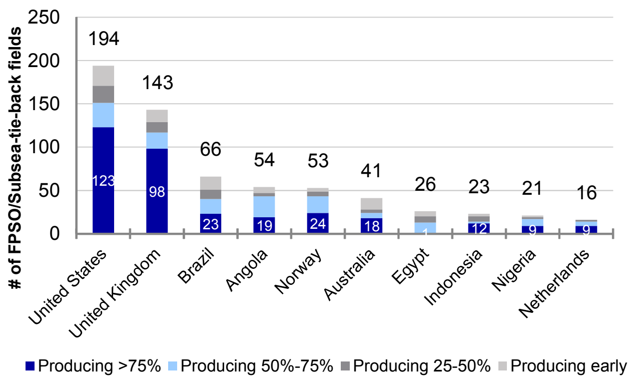
After several years of underinvestment and low spending, Rystad Energy expects spending on subsea services (including subsea inspection, maintenance and repair, ROV drill support and flow assurance services) to increase. Rystad Energy estimates that subsea services spending in 2019 will be up markedly from 2018, with further growth in 2020-21. In general, ageing subsea infrastructure and focus on increased oil recovery should trigger higher investments in the IMR (subsea inspection, maintenance and repair) segment. The chart below to the right gives an overview of the maturity of the resources left in FPSO/subsea tie-back fields for a selected group of countries. The US and the UK stand out as having the most mature subsea fields and should thus be key takers of IMR services in the coming years, followed by Brazil, Angola, Norway and Australia.

SUBSEA SERVICES SPENDING PER CONTINENT



Source: Rystad Energy and Nordea

FPSO/SUBSEA FIELDS PER RESOURCE MATURITY*



** Top ten countries based on number of fields with a FPSO/subsea tie-back facility*
Source: Rystad Energy and Nordea

PSV/AHTS: Still too much capacity

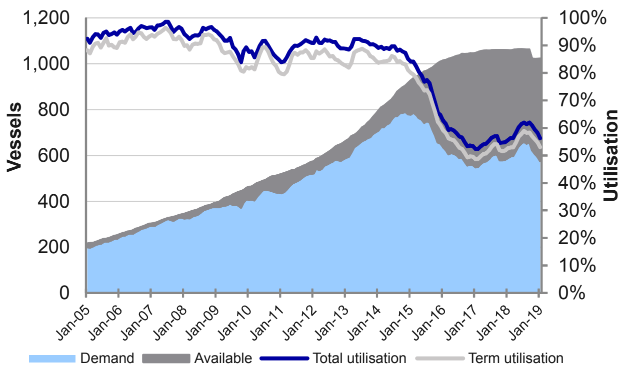
We are seeing some signs that demand for PSV and AHTS vessels is gradually coming back or at least reaching a trough. Since the fundamentals for oil companies are still strong at the current oil price, we expect this to continue. However, the pace of the recovery is too slow to saturate the oversized supply side. Moreover, vessel owners have reportedly been reactivating cold-stacked vessels in anticipation or on the back of higher day rates, which increases the competition and puts a cap on any long-term sustainable day rate potential. Based on an oversized supply side and a lack of discipline among vessel owners, we do not expect any significant uptick in global day rates in the short to medium term.

PSV and AHTS utilisation: Still at suppressed levels

PSV utilisation currently at 56%, while AHTS utilisation stands at 39%

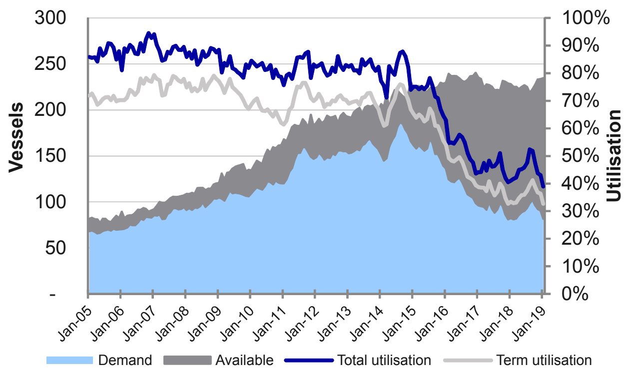
Global demand for PSVs (3,000+ DWT) has improved somewhat from the trough in January 2017. The increase, however, is not enough to saturate the large supply side. As such, we estimate that global PSV utilisation is currently 56%. Looking at the AHTS vessels (15,000+ BHP), the picture is even gloomier. Utilisation continues to decrease, with no clear demand improvement and an oversized supply side. These factors leave current total estimated utilisation at only 39% for AHTS vessels. We note that many of the vessels that are in lay-up will probably never return to the market, so actual utilisation is higher for both vessel types.

PSV (3,000+ DWT): GLOBAL UTILISATION



Source: IHS-Petrodata, Seabrokers and Nordea estimates

AHTS (15,000+ BHP): GLOBAL UTILISATION



Source: IHS-Petrodata, Seabrokers and Nordea estimates

Regional development

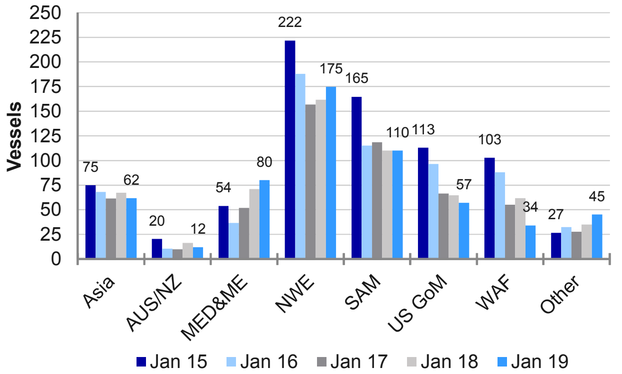
North Sea is continuing to trend in the right direction in terms of utilisation

Although most regions are suffering from low utilisation, there were some positive developments in 2018, at least if we look at the regional utilisation for PSVs. Among the key takers of PSV tonnage, the market in the North Sea has continued to trend in the right direction in terms of utilisation. This is due to increased rig demand in the region. We expect rig activity in the North Sea to remain high in 2019, which should be supportive for PSV demand this year as well. The Mediterranean and the Middle East region has also shown a steady increase in PSV utilisation. Thanks to increased offshore investments in the coming years, we should expect this region to continue demanding PSVs.

Brazil could be exciting in the coming years

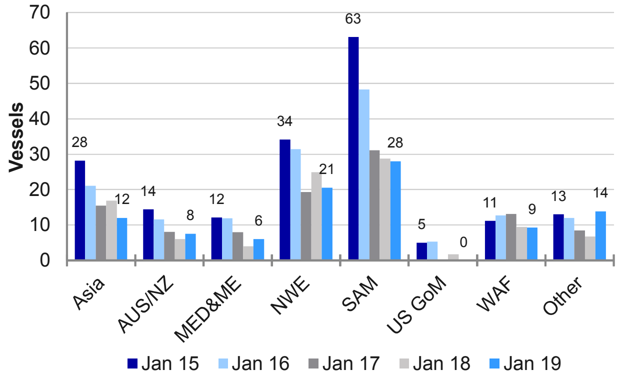
By contrast, the US GoM and West Africa have not yet experienced any significant increase in utilisation, and we do not expect to see a meaningful uptick here in the short to medium term, although longer-term demand prospects look better. Despite not yet showing any improvement, we argue that we could see improved demand in South America. This stems from our expectation of more rigs being employed in Brazil in 2019 owing to increased investments to develop the pre-salt resources and due to the entry of international oil companies.

PSV: (3,000+ DWT): DEMAND DEVELOPMENT



Source: IHS-Petrodata, Seabrokers and Nordea

AHTS (15,000+ BHP): DEMAND DEVELOPMENT

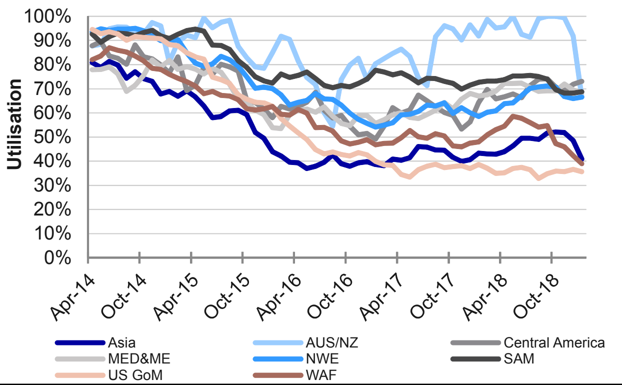


Source: IHS-Petrodata, Seabrokers and Nordea

AHTS utilisation flat or down in most regions

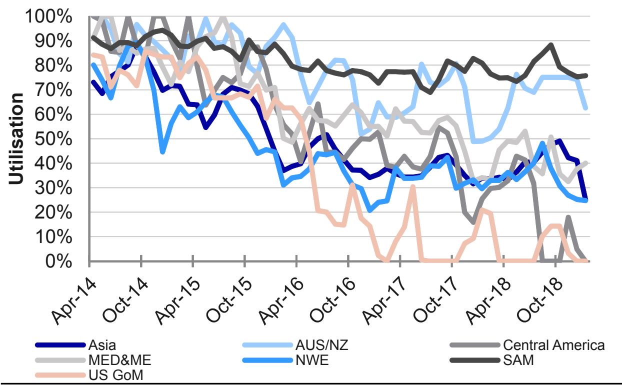
AHTS demand has yet to show improvement. Utilisation is flat or down in most regions. However, South America stands out. The region has delivered more stable and higher utilisation than the other regions throughout the downturn. We expect this to continue, in line with our expectations of increased offshore activity in Brazil. We also expect high rig activity in the North Sea to benefit the demand side in North Western Europe, but it should not result in sustainable higher day rates unless vessels mobilise to other regions, because the region remains heavily oversupplied. Moreover, vessel owners have reportedly been reactivating cold-stacked vessels in anticipation or on the back of higher day rates, which caps any long-term day rate potential.

PSV (3,000+ DWT): REGIONAL TOTAL UTILISATION



Source: IHS-Petrodata, Seabrokers and Nordea

AHTS (15,000+ BHP): REGIONAL TOTAL UTILISATION



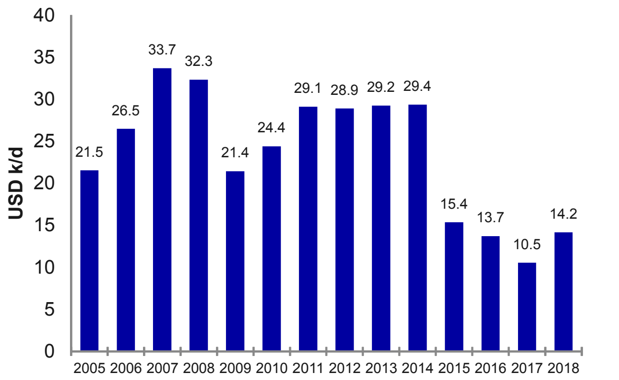
Source: IHS-Petrodata, Seabrokers and Nordea

Day rates remain low

Day rates still far from previous highs

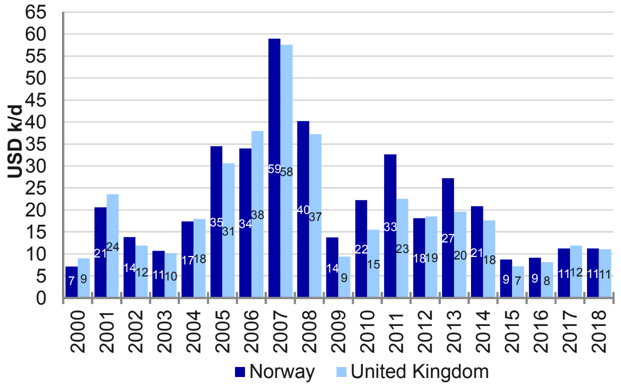
Global term rates (contracts lasting more than 30 days) for PSVs (4,000+ DWT) improved during 2018. The average achieved term rate increased from USD ~10,500 per day in 2017 to USD ~14,200 per day in 2018. This is above opex levels of around USD ~8,000 per day for PSVs, but significantly below the pre-crisis level. Rates have remained low in the North Sea spot market as well, with an average rate in 2018 of USD ~11,000 per day. We expect rates to remain depressed compared with historical levels owing to the poor market balance and lack of discipline among vessel owners.

PSV (4,000+ DWT): GLOBAL TERM RATES (EXCL. BRAZIL)



Source: IHS-Petrodata and Nordea

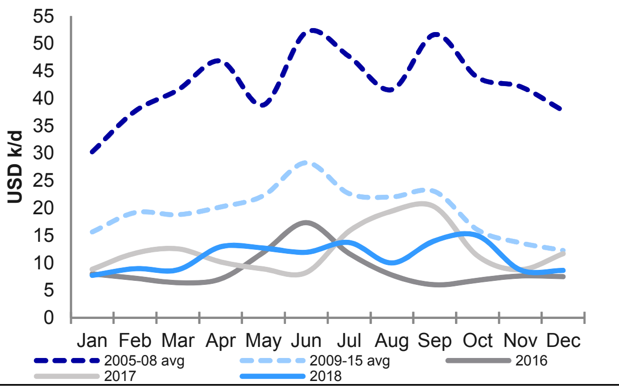
PSV (4,000+ DWT): NORTH SEA AVERAGE SPOT RATES



Source: IHS-Petrodata and Nordea

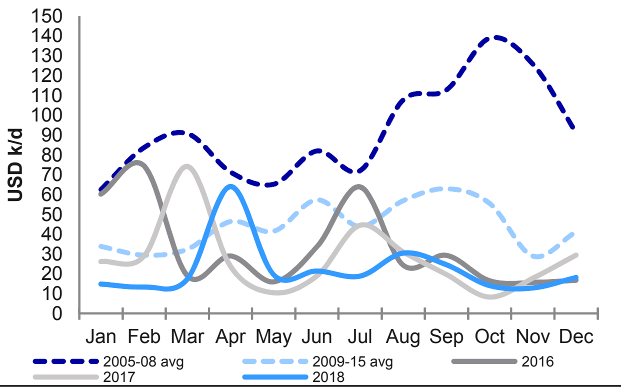
There is limited information on global term rates for AHTS vessels (18,000+ BHP). Some contracts, however, point to day rates in the range of USD 17,000-22,000 per day for contracts signed in 2018. The North Sea spot market also remains weak. At an average spot rate in 2018 of USD ~22,000 per day, we are still far from previous highs. As with the PSV rates, we expect the oversupply to keep AHTS rates low.

PSV (4,000+ DWT): NORTH SEA SPOT RATES BY YEAR



Source: IHS-Petrodata and Nordea

AHTS (18,000+ BHP): NORTH SEA SPOT RATES BY YEAR

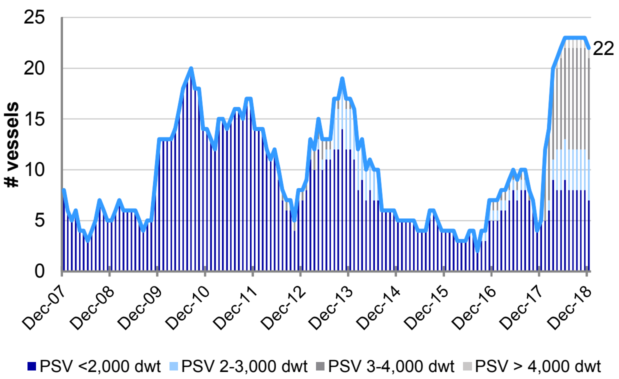


Source: Company data and Nordea estimates

Scrapping at record-high levels

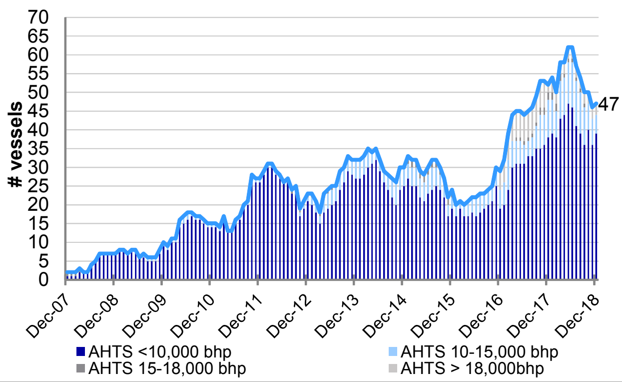
The supply side is the major issue for the supply vessel market. As such, the market is dependent on increased scrapping or retirement of vessels in order to achieve higher day rates. Based on stats from IHS-Petrodata, we calculate that the current attrition rate for PSVs is 22 vessels per year, while the AHTS rate is 47 vessels per year. These are record-high levels but still not high enough to make a material difference.

PSV: ATTRITION BY VESSEL CATEGORY (T12M)



Source: IHS-Petrodata and Nordea

AHTS: ATTRITION BY VESSEL CATEGORY (T12M)

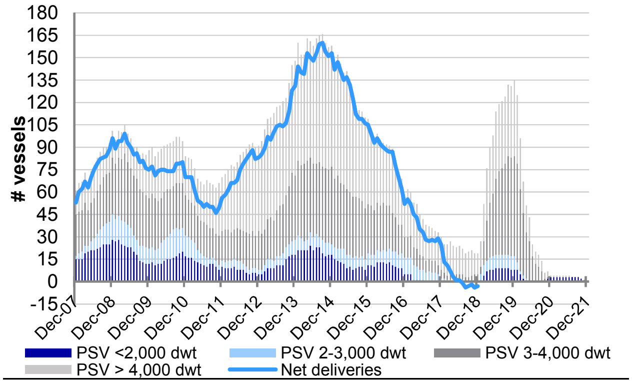


Source: IHS-Petrodata and Nordea

Fewer newbuilds are hitting the water

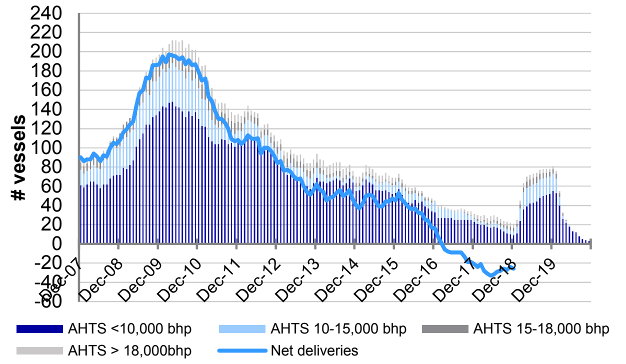
High attrition rates, combined with fewer newbuilds hitting the water, have resulted in negative fleet growth for both the PSV and AHTS fleets. We note that multiple vessels are scheduled for delivery in the coming years, but we argue that most of these newbuilds will be delayed or cancelled. This is because owners will likely postpone the order date or cancel, and as delays will arise because many of the units are being built at inexperienced yards.

PSV: NEWBUILDS BY DELIVERY DATE (T12M)



Source: IHS-Petrodata and Nordea

AHTS: NEWBUILDS BY DELIVERY DATE (T12M)



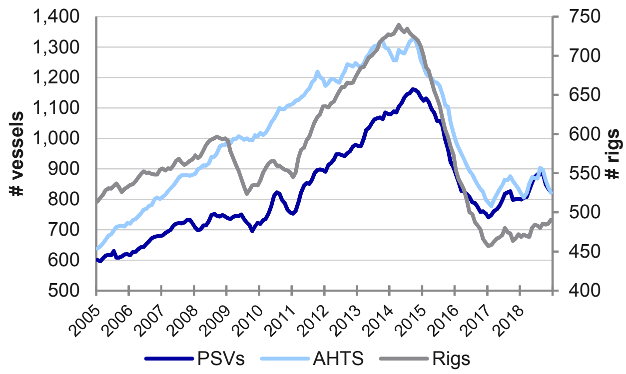
Source: IHS-Petrodata and Nordea

Rig demand heading in the right direction

Rig demand is recovering

Offshore drilling demand is one of the major demand drivers for both PSVs and AHTS vessels. As seen below, rig demand has slowly recovered since the trough. We expect this trend to continue in line with the growing tendering and contracting activity we are currently seeing in the rig market. Therefore, we also expect that demand for supply vessels will continue recovering.

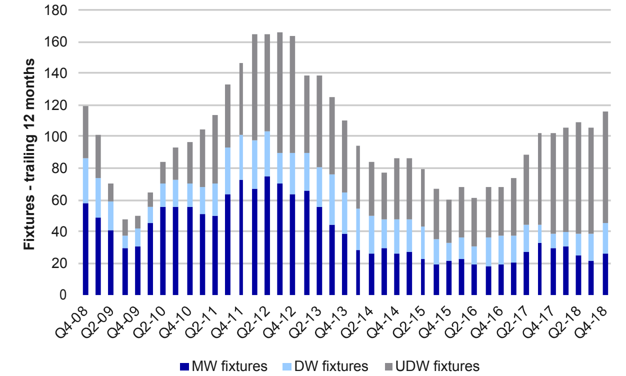
PSV/AHTS* DEMAND VS RIG DEMAND**



** Includes all vessel categories. ** Floaters and jack-ups*

Source: IHS-Petrodata and Nordea

NUMBER OF RIG CONTRACTS (PAST 12 MONTHS)*

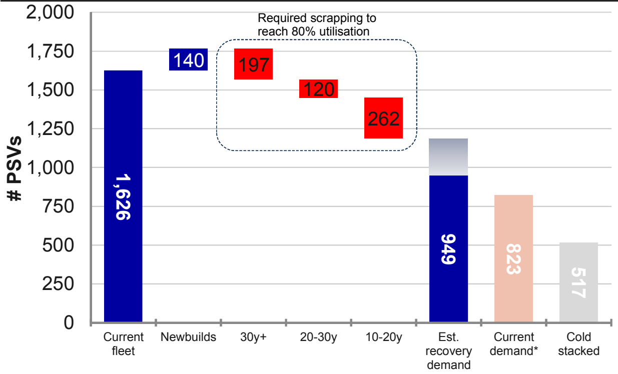


*Source: IHS-Petrodata and Nordea estimates *The chart shows the number of contracts awarded to floating rigs. We have also seen an increase in the number of jack-ups contracts*

Market balance: ~1,200 vessels must be retired to reach 80% utilisation

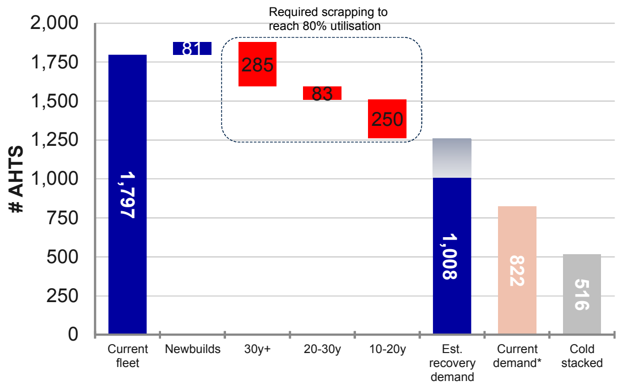
If we assume offshore drilling demand eventually returns to 80% of the peak of the previous up-cycle, we estimate total demand of 949 PSVs and 1,008 AHTS vessels, given a vessel-to-rig ratio in line with the historical average. In such a scenario, we calculate that 579 PSVs and 618 AHTS vessels must be removed from the fleet, including newbuilds, for utilisation to return to 80%. In other words, all vessels older than 20 years must be removed from the fleet, in addition to ~50% and ~40% of the PSVs and AHTS vessels aged between ten and 20 years, respectively. Alternatively, all cold-stacked vessels must be retired, in addition to 163 vessels. However, around 60% of the cold-stacked fleet is aged below 20 years, which reduces the likelihood of retirement.

PSV*: SUPPLY/DEMAND BRIDGE (80% UTILISATION)



** Includes all vessel categories*
Source: Company data and Nordea estimates

AHTS*: SUPPLY/DEMAND BRIDGE (80% UTILISATION)



** Includes all vessel categories*
Source: Company data and Nordea estimates

Estimates

We reduce our 2019 estimates owing to longer idle times for Skandi Niteroi and Skandi Vitoria. However, we still expect 2019 full-year EBITDA (management reporting) to increase substantially from 2018. The increase will largely be driven by full-year effects from Skandi Recife and Skandi Olinda, the latter being scheduled to embark on an eight-year contract with Petrobras on 13 February 2019.

Estimate changes

Our new estimates account for the latest contract awards and longer idle times between contracts for Skandi Niteroi and Skandi Vitoria, as well as smaller adjustments related to our assumptions for vessels on contracts, day rates and utilisation.

MANAGEMENT REPORTING: ESTIMATE REVISIONS

	2018E	2019E	2020E
Revenue	1%	-2%	0%
EBITDA	2%	-5%	-1%

Source: Company data and Nordea estimates

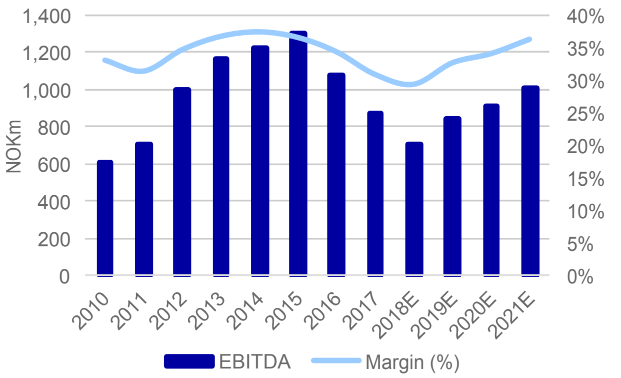
The majority of the changes to our 2019 estimates can be explained by Skandi Niteroi and Skandi Vitoria. We had previously assumed utilisation from Q2 2019, but we now expect these vessels to be idle for most of 2019. As such, we cut 2019E management reported EBITDA by 5%.

DOF ASA: HISTORICAL FIGURES AND ESTIMATES

	Quarterly				Yearly				
IFRS:	**Q1-2018**	**Q2-2018**	**Q3-2018**	**Q4-2018E**	**2017**	**2018E**	**2019E**	**2020E**	**2021E**
DOF ASA									
Total operating revenue	1,468	1,583	1,530	1,676	6,666	6,257	7,007	8,238	9,386
Operating expenses	-1,160	-1,199	-1,173	-1,244	-4,932	-4,776	-5,158	-6,098	-7,014
Gross profit	**308**	**384**	**357**	**432**	**1,734**	**1,481**	**1,849**	**2,140**	**2,372**
Associates and JVs	69	87	51	59	62	266	306	403	402
Gain / (loss) on sale of assets	1	0	0	0	2	1	0	0	0
EBITDA	**378**	**471**	**408**	**491**	**1,798**	**1,748**	**2,155**	**2,543**	**2,774**
Depreciation	-274	-252	-260	-260	-1,009	-1,046	-1,040	-1,040	-1,040
Impairment of assets	-150	-93	-117	0	-1,146	-360	0	0	0
EBIT	**-46**	**126**	**31**	**231**	**-357**	**342**	**1,115**	**1,503**	**1,734**
Interest income	17	17	21	7	57	62	38	28	24
Interest expenses	-210	-225	-234	-232	-967	-901	-927	-858	-799
Other financial items	281	-468	-107	0	148	-294	0	0	0
PTP	**42**	**-550**	**-289**	**6**	**-1,119**	**-791**	**226**	**674**	**959**
Taxes	4	44	20	-10	-236	58	-40	-40	-40
Net income (incl. EOI)	**46**	**-506**	**-269**	**-4**	**-1,355**	**-733**	**186**	**634**	**919**
Minorities	-69	102	35	-17	113	51	-114	-211	-278
Net income to equity holders	**-23**	**-404**	**-234**	**-22**	**-1,242**	**-683**	**71**	**423**	**642**
Management reporting:									
DOF ASA									
Revenue	1,689	1,804	1,739	1,874	7,390	7,106	8,043	9,605	10,749
EBITDA	479	560	534	570	2,284	2,143	2,607	3,212	3,441
EBITDA-%	28%	31%	31%	30%	31%	30%	32%	33%	32%
DOF Supply									
Revenue	636	601	555	615	2,841	2,407	2,568	2,683	2,772
EBITDA	175	188	158	185	876	706	839	916	1,009
EBITDA-%	28%	31%	28%	30%	31%	29%	33%	34%	36%
DOF Subsea									
Revenue	1,053	1,203	1,184	1,259	4,549	4,699	5,476	6,922	7,977
EBITDA	304	372	376	386	1,408	1,438	1,768	2,296	2,433
EBITDA-%	29%	31%	32%	31%	31%	31%	32%	33%	30%

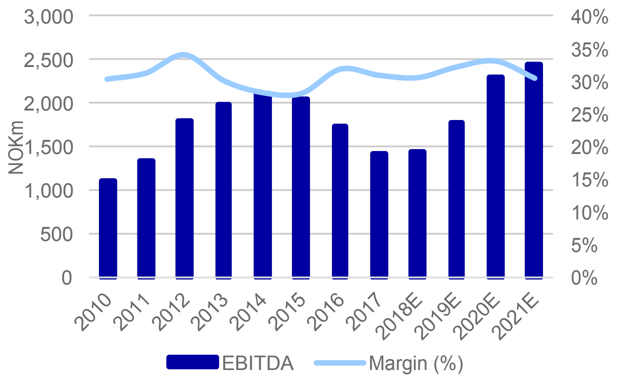
Source: Company data and Nordea estimates

DOF SUPPLY: EBITDA, NOKm, AND EBITDA MARGIN, %



Source: Company data and Nordea estimates

DOF SUBSEA: EBITDA, NOKm, AND EBITDA MARGIN, %

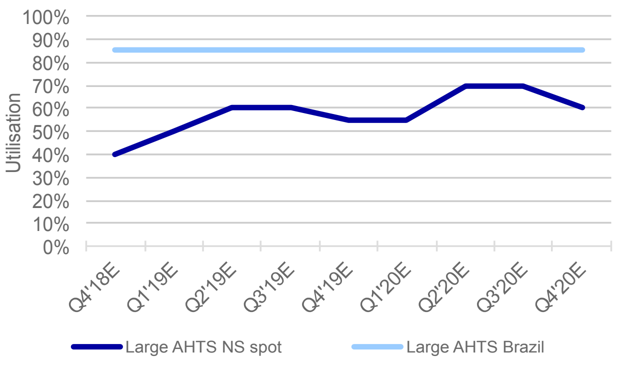


Source: Company data and Nordea estimates

DOF Supply: Day rates and utilisation assumptions

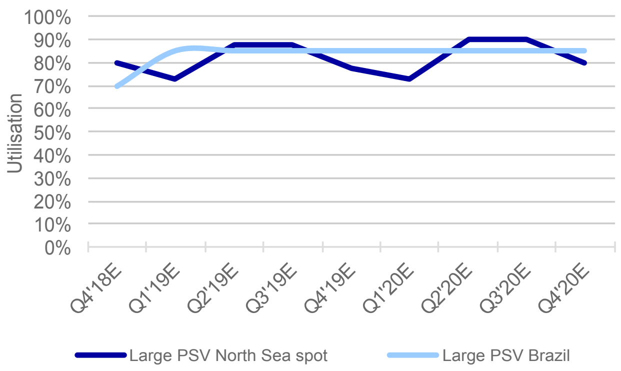
Below, we show our assumptions for day rates and utilisation for the AHTS and PSV vessels. In general, these assumptions apply to vessels rolling off contracts or vessels operating in the spot market. DOF's high utilisation in Brazil is due to local flag privileges versus owners of international tonnage. Note that we expect several of DOF's vessels to obtain extensions on different terms due to different vessel capabilities.

AHTS: UTILISATION ASSUMPTIONS



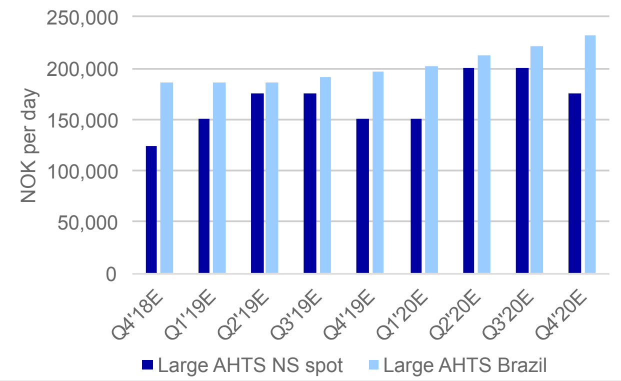
Source: Company data and Nordea estimates

PSV: UTILISATION ASSUMPTIONS



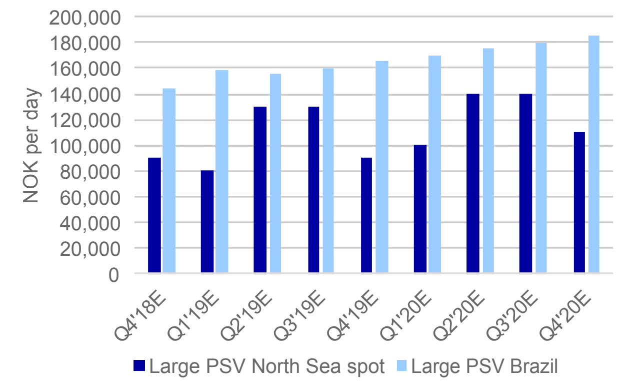
Source: Company data and Nordea estimates

AHTS: DAY RATE ASSUMPTIONS



Source: Company data and Nordea estimates

PSV: DAY RATE ASSUMPTIONS

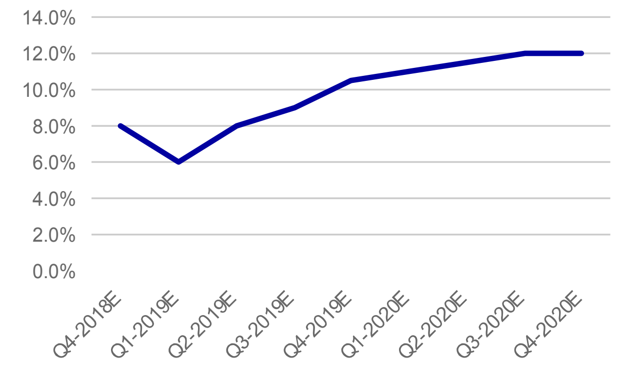


Source: Company data and Nordea estimates

DOF Subsea: Project margins and utilisation assumptions

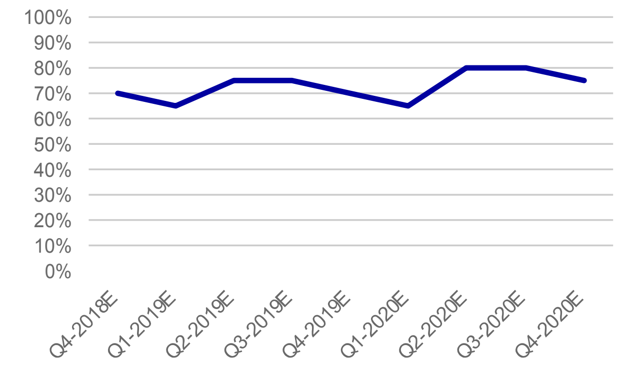
In the following graphs, we show our margin and utilisation expectations for DOF Subsea's project fleet working in the spot market.

DOF SUBSEA: PROJECT SPOT EBITDA MARGINS



Source: Company data and Nordea estimates

DOF SUBSEA: PROJECT FLEET UTILISATION



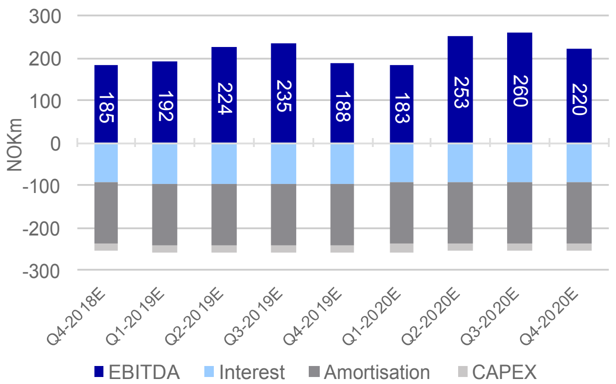
Source: Company data and Nordea estimates

Liquidity situation

With heavy debt repayments and limited improvement in the supply vessel market in 2019, we expect DOF Supply's cash position to weaken in 2019. However, the company has NOK 400m of available liquidity through a revolving credit facility, which should allow it to avoid breaching the minimum liquidity covenant. Despite this, we argue that its cash position going forward offers a limited margin of safety. Thus, if the supply market in 2019 is more sluggish than we expect, we acknowledge the possibility of an equity issue that may be dilutive for current shareholders. DOF Subsea will also keep clear of its minimum liquidity covenant, on our estimates. Although the cash position looks somewhat tight in early 2020, we expect DOF Subsea to refinance vessels at more reasonable repayment terms going forward. This could improve the liquidity in the company without the need for further cash injections from DOF ASA or a possible sale of vessels.

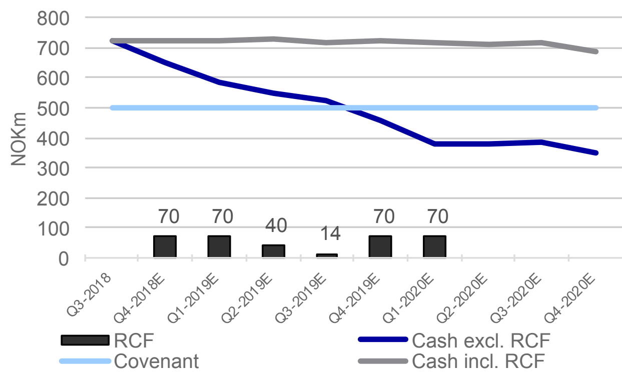
DOF Supply: Able to keep clear of the minimum liquidity covenant
As of Q3 2018, the cash position in DOF Supply was NOK 720m. Based on our estimates, we project the cash balance to weaken further to below NOK 500m by Q4 2019. However, DOF Supply has flexibility in its debt structure through a NOK 400m revolving credit facility (RCF) with maturity in June 2021. We expect it to utilise this facility in the coming quarters in order to avoid a covenant breach. More specifically, we would expect the company to at least try to maintain the current cash position, which should imply NOK ~340m to be drawn on the RCF. Although DOF Supply will be able to keep clear of the covenant, we do not believe the estimated cash position going forward offers much comfort. If the market turns out to be even weaker than we anticipate, we find it possible that DOF Supply will need additional cash injections.

DOF SUPPLY*: CASH FLOW CALCULATION



*Source: Company data and Nordea estimates *Management reporting*

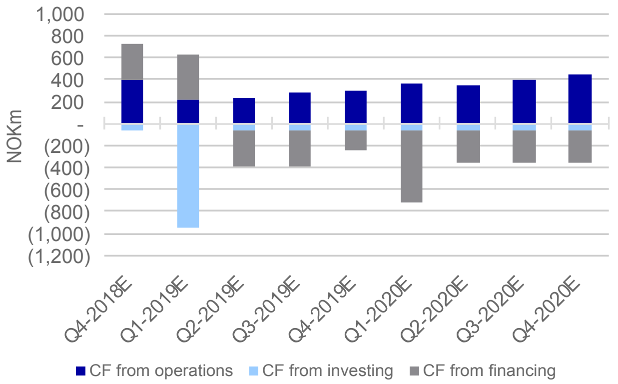
DOF SUPPLY*: ESTIMATED CASH DEVELOPMENT**



*Source: Company data and Nordea estimates *Management reporting **We assume refinancing of the balloon payment on Norskan's bank debt in Q3 2019. Moreover, the grey line assumes that DOF Supply utilises NOK 340m of its credit facility in total from Q4 2018*

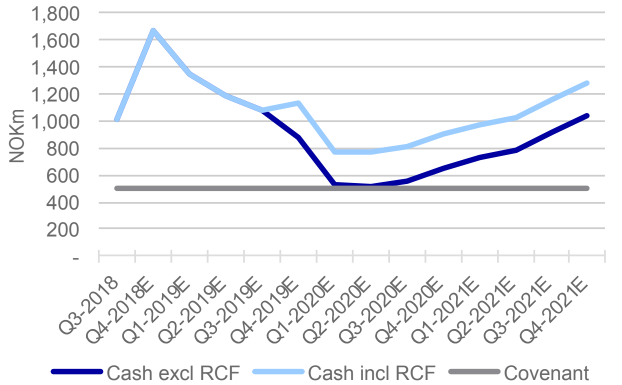
DOF Subsea: Cash position looks somewhat tight in early 2020
Based on our estimates, DOF Subsea's cash position will decline from Q1 2019. This is in spite of a projected improvement in EBITDA prompted by full-year effects from vessels and a gradual recovery in the project segment. The decline can thus be largely explained by heavy debt repayments, capex related to the delivery of Skandi Olinda in Q1 2019 and a bond maturity in March 2020. DOF Subsea also has some flexibility in its debt structure through a NOK 250m RCF with maturity in June 2020. We argue that DOF Subsea will utilise this facility at the end of 2019 in order to keep clear of the minimum liquidity covenant of NOK 500m. The cash position in early 2020, however, is still somewhat tight, in our view.

DOF SUBSEA*: ESTIMATED CASH FLOW DEVELOPMENT**



*Source: Company data and Nordea estimates *Management reporting **We assume refinancing of the bank debt balloons in Q2 2019, Q4 2019 and Q4 2020. Moreover, we assume that DOF Subsea utilises NOK 250m of its RCF in Q4 2019, which is refinanced/extended beyond the maturity date in June 2020*

DOF SUBSEA*: ESTIMATED CASH DEVELOPMENT**

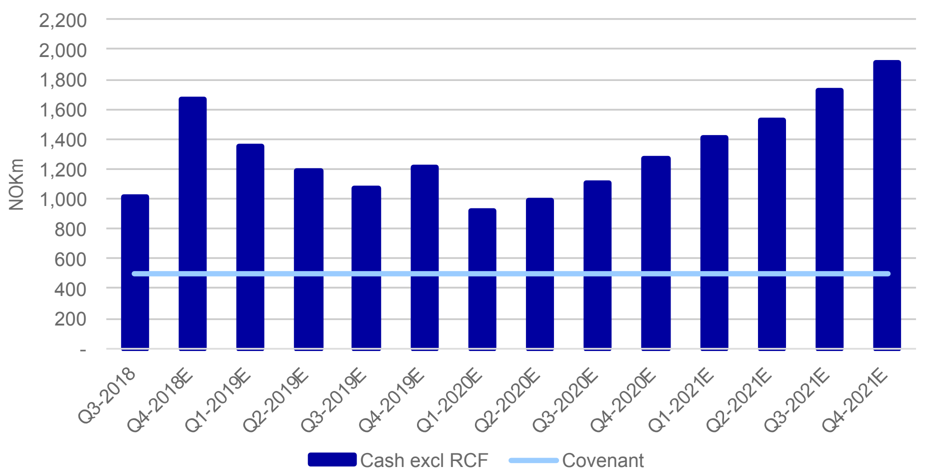


*Source: Company data and Nordea estimates *Management reporting **We assume refinancing of the bank debt balloons in Q2 2019, Q4 2019 and Q4 2020. In our base case scenario, where DOF Subsea utilises NOK 250m of its RCF in Q4 2019, we also expect the company to be able to extend/refinance the RCF to avoid maturity in June 2020*

We do not think DOF Subsea is very comfortable with the cash development we project, as it offers a limited margin of safety in 2020, and we thus expect the company to closely monitor the situation.

Although not in our estimates, we expect the repayment profile on DOF Subsea's bank debt to improve in line with refinancing of vessels in the coming years. The company has historically been able to free up cash in connection with refinancing of vessels, as the repayment profile on some of its vessels is very strict. For instance, if we look at DOF Subsea's current bank debt repayment profile, we estimate it to be around seven years. This is high given today's challenging market. Should DOF Subsea's banks be willing to refinance the bank facility at a more reasonable repayment profile, say for instance 12 years, we argue that DOF Subsea's liquidity situation will improve significantly. The reduction in amortisation will, however, not be as substantial as assumed in the chart below, but it will be a gradual improvement affecting the liquidity positively for every vessel refinanced on better terms.

DOF SUBSEA: ESTIMATED CASH POSITION GIVEN 12-YEAR REPAYMENT PROFILE*



*Source: Company data and Nordea estimates *Assuming DOF Subsea is able to refinance its bank debt at a 12 -ear repayment profile from Q1 2019*

Other means to improve liquidity could be a sale of vessels or another equity injection from DOF ASA to DOF Subsea. Should the latter alternative be employed, we would expect DOF ASA to issue equity which would be invested in DOF Subsea, thus increasing DOF ASA's ownership in the company.

Valuation

Based on three different sum-of-the-parts valuation scenarios, we assign DOF ASA an equity value of NOK 2.9-6.7 per share. The low end of the range is based on the assumption of no material improvement in the subsea project market, while the high end is based on our expectation of a more pronounced recovery. Furthermore, both ends of that range are risked to account for some liquidity risk in DOF Supply. More specifically, we apply a 35% probability in a scenario where DOF Supply is injected with NOK 500m in cash through an equity issue.

Scenario 1: Improved subsea project market

In the following valuation scenario, we assume a slow recovery in the offshore supply vessel market. We factor in an improvement in utilisation and in AHTS and PSV day rates in the next few years, with a normalisation from 2021. Although we assume an improvement, our day rate assumptions still reflect the weak fundamentals prevalent in the supply market. For DOF Subsea, we assume a recovery in both project margins and day rates in 2019. However, we pencil in a more significant improvement in 2020. In our normalisation year, we assume an EBITDA margin of 12% and day rates of NOK 1.6m for DOF Subsea's project fleet. This is in line with our expectation of an improvement in the subsea market.

SCENARIO 1: ASSUMPTIONS

DOF Supply:	**2019**	**2020**	**2021→**
Utilisation:			
Large AHTS, Brazil	85%	85%	85%
Large AHTS, NS	56%	64%	64%
Large PSV, Brazil	85%	85%	85%
Large PSV, NS	81%	83%	86%
Avg. day rates (NOK per day)			
Large AHTS, Brazil	190,750	217,000	300,000
Large AHTS, NS	162,500	181,250	187,500
Large PSV, Brazil	159,425	177,500	200,000
Large PSV, NS	107,500	122,500	127,500
DOF Subsea	**2019**	**2020**	**2021→**
Project fleet, avg. day rates (NOK per day)	925,000	1,237,500	1,600,000
Project EBITDA margin	8.4%	11.6%	12.0%
Project utilisation	71%	75%	75%

Source: Company data and Nordea estimates

DISCOUNTED CASH FLOW ANALYSIS OF DOF REDERI AND NORSKAN, NOKm*

DOF SUPPLY	**Q4-2019E**	**Q1-2020E**	**Q2-2020E**	**Q3-2020E**	**Q4-2020E**	**Q1-2021E**	**Q2-2021E**	**Q3-2021E**	**Q4-2021E**
FCF	178	150	267	253	175	162	289	263	204
Terminal value	-	-	-	-	-	-	-	-	6,983
Debt	8,489								
Cash	703								
Net debt	7,786								
NPV	7,306								
Equity	**(480)**								

*Source: Company data and Nordea estimates *We assume 10% WACC and 0% terminal growth as well as 15 years of remaining life in the terminal period*

DISCOUNTED CASH FLOW ANALYSIS OF DOF DEEPWATER, NOKm*

DOF Deepwater	**Q4-2019E**	**Q1-2020E**	**Q2-2020E**	**Q3-2020E**	**Q4-2020E**	**Q1-2021E**	**Q2-2021E**	**Q3-2021E**	**Q4-2021E**
FCF	10	17	23	26	22	30	37	38	31
Terminal value	-	-	-	-	-	-	-	-	1,041
Debt	710								
Cash	-								
Net debt	710								
NPV	1,054								
Equity	**344**								
DOF ASA (50%)	**172**								

*Source: Company data and Nordea estimates *We assume 10% WACC and 0% terminal growth as well as 15 years of remaining life in the terminal period*

DISCOUNTED CASH FLOW ANALYSIS OF DOF SUBSEA EXCLUDING DOF CON, NOKm*

DOF Subsea excl. DOF CON	Q4-2019E	Q1-2020E	Q2-2020E	Q3-2020E	Q4-2020E	Q1-2021E	Q2-2021E	Q3-2021E	Q4-2021E
FCF	210	206	190	235	281	255	238	297	301
Terminal value	-	-	-	-	-	-	-	-	9,289
Debt	8,695								
Cash	1,066								
Net debt	7,629								
NPV	9,406								
Equity	**1,778**								
DOF ASA (65%)	**1,155**								

*Source: Company data and Nordea estimates *We assume 10% WACC and 0% terminal growth as well as 20 years of remaining life in the terminal period*

DISCOUNTED CASH FLOW ANALYSIS OF DOF CON, NOKm*

DOCON (Brazil PLSVs) JV 50%	Q4-2019E	Q1-2020E	Q2-2020E	Q3-2020E	Q4-2020E	Q1-2021E	Q2-2021E	Q3-2021E	Q4-2021E
Niteroi/Vitoria	0	60	60	60	60	60	60	60	60
Skandi Acu	55	55	55	55	55	55	55	55	55
Skandi Buzios	55	55	55	55	55	55	55	55	55
Skandi Olinda	55	55	55	55	55	55	55	55	55
Skandi Recife	55	55	55	55	55	55	55	55	55
EBITDA	220	280	280	280	280	280	280	280	280
Capex	-30	-36	-36	-36	-36	-36	-36	-36	-36
Taxes	-49	-67	-67	-68	-68	-69	-69	-69	-70
FCF	141	177	177	176	176	175	175	175	174
Terminal value (10% WACC, 0% growth)									**5,958**
EV	7,073								
Niteroi/Vitoria	986								
Skandi Acu	832								
Skandi Buzios	849								
Skandi Olinda	988								
Skandi Recife	936								
Debt	**4,591**								
Equity	**2,481**								
DOF ASA's portion (65%)	**1,613**								

*Source: Company data and Nordea estimates *We assume 10% WACC and 0% terminal growth as well as 20 years of remaining life in the terminal period*

Our base case points to an equity value of NOK 7.8 per share

Based on our assumptions in Scenario 1, we value the equity in DOF at NOK 7.8 per share on a fully diluted basis. We note that DOF Subsea is the major value driver behind our valuation, as it represents most of the equity value in our sum-of-the-parts valuation.

SCENARIO 1: SUM-OF-THE-PARTS VALUATION OF DOF ASA

Equity value (NOKm)	
DOF Rederi / Norskan Offshore	-480
DOF Deepwater AS (50%)	172
Equity value DOF Supply	**-308**
DOF Subsea excl. JVs	1,155
DOFCON (Brazil PLSVs)	1,613
Equity value DOF Subsea (65%)	**2,768**
Equity DOF ASA	**2,460**
Shares outstanding (fully diluted)	316
Per share	**7.8**

Source: Company data and Nordea estimates

Scenario 2: No significant improvement in the subsea project market

In the following scenario, we assume only a marginal improvement in the subsea project market from today's level, while we keep our AHTS/PSV assumptions unchanged. We assume a normalised day rate of NOK ~1m from 2019 for DOF Subsea's project fleet, equal to the average level from Q2 2016 until Q3 2018, and an EBITDA margin of 9.5%.

SCENARIO 2: ASSUMPTIONS

DOF Supply:	2019	2020	2021→
Utilisation:			
Large AHTS, Brazil	85%	85%	85%
Large AHTS, NS	56%	64%	64%
Large PSV, Brazil	85%	85%	85%
Large PSV, NS	81%	83%	86%
Avg. day rates (NOK per day)			
Large AHTS, Brazil	190,750	217,000	300,000
Large AHTS, NS	162,500	181,250	187,500
Large PSV, Brazil	159,425	177,500	200,000
Large PSV, NS	107,500	122,500	127,500
DOF Subsea	**2019**	**2020**	**2021→**
Project fleet, avg. day rates (NOK per day)	1,006,473	1,006,473	1,006,473
Project EBITDA margin	9.5%	9.5%	9.5%
Project utilisation	71%	71%	71%

Source: Company data and Nordea estimates

Applying these assumptions yields a negative equity value for DOF Subsea, excluding DOF Con.

DISCOUNTED CASH FLOW ANALYSIS OF DOF SUBSEA EXCLUDING DOF CON, NOKm*

DOF Subsea excl. DOF CON	Q4-2019E	Q1-2020E	Q2-2020E	Q3-2020E	Q4-2020E	Q1-2021E	Q2-2021E	Q3-2021E	Q4-2021E
FCF	209	198	191	210	211	197	192	211	211
Terminal value	-	-	-	-	-	-	-	-	6,903
Debt	8,695								
Cash	1,141								
Net debt	7,555								
NPV	7,117								
Equity	**(437)**								
DOF ASA (65%)	**(284)**								

*Source: Company data and Nordea estimates *We assume 10% WACC and 0% terminal growth as well as 20 years of remaining life in the terminal period*

Our low case points to an equity value of NOK 3.2 per share

As a consequence, the equity value of DOF ASA in Scenario 2 drops to NOK 3.2 per share.

SCENARIO 2: SUM-OF-THE-PARTS VALUATION OF DOF ASA

Equity value (NOKm)	
DOF Rederi / Norskan Offshore	-480
DOF Deepwater AS (50%)	172
Equity value DOF Supply	**-308**
DOF Subsea excl. JVs	-284
DOFCON (Brazil PLSVs)	1,613
Equity value DOF Subsea (65%)	**1,329**
Equity DOF ASA	**1,021**
Shares outstanding (fully diluted)	316
Per share	**3.2**

Source: Company data and Nordea estimates

Scenario 3: Equity issue to improve DOF Supply's liquidity

To showcase the impact of a potential equity issue to improve DOF Supply's liquidity, we calculate the impact of a NOK 500m equity issue

While DOF Supply has enough liquidity to keep clear of the minimum liquidity covenant in the coming years, we argue that the cash position going forward offers a limited margin of safety. Thus, if the supply market in 2019 is more sluggish than we expect, we acknowledge the possibility that DOF ASA will have to issue equity to improve the liquidity in DOF Supply. Should this be the case, we think the company may issue equity worth at least NOK 500m to reach a more sustainable cash position, ie above NOK 1bn.

To account for this possibility, we calculate the potential impact of such an equity issue on our valuation scenarios above. Note that the calculation below assumes that DOF ASA issues equity at a subscription price equivalent to a 50% discount to the share price as of 25 January 2019, which is the average discount applied to the last two equity issues carried out by the company.

Based on our assumptions, this narrows and lowers our valuation range to NOK 2.4-4.8 per share

SCENARIO 3: VALUATION GIVEN EQUITY ISSUE AT 50% DISCOUNT TO SHARE PRICE*

Funding needed (NOKm)	500
Share price as of 25.01.2019 (NOK per share)	3.3
Discount to share price	50%
Subscription price per share	**1.64**
Shares to be issued (#)	304
Current outstanding number of shares (fully diluted)	316
New share count	**621**
Scenario 1:	
Equity value DOF ASA (NOKm), improved subsea market	2,460
+ cash injection	500
New equity value	**2,960**
Total outstanding shares	621
NOK per share	**4.8**
Scenario 2:	
Equity value DOF ASA (NOKm), no significant subsea recovery	1,021
+ cash injection	500
New equity value	**1,521**
Total outstanding shares	621
NOK per share	**2.4**

*Source: Company data and Nordea estimates *As of 25 January 2019*

Given this scenario, we arrive at an equity value between NOK 2.4 and 4.8 per share.

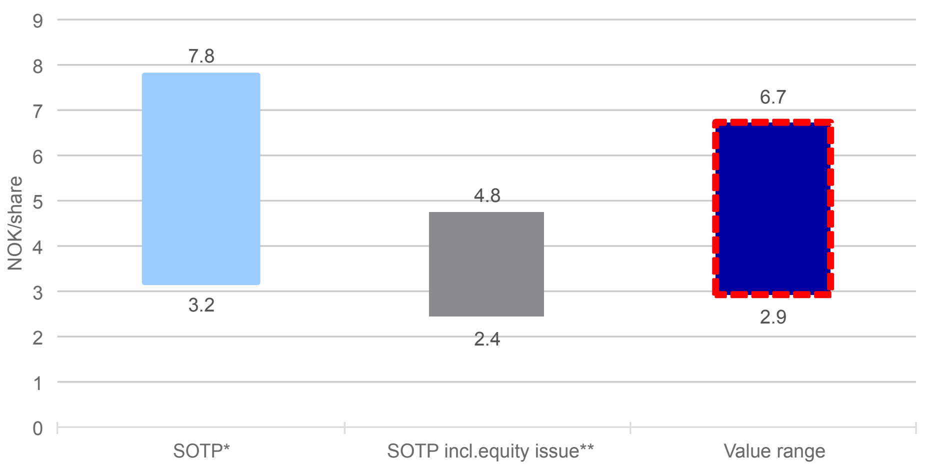
We assign a 65% probability to the value ranges provided by Scenarios 1 and 2, and 35% to the range calculated in Scenario 3...

Valuation range: NOK 2.9-6.7 per share

Based on our sum-of-the-parts valuations above, we value DOF ASA at NOK 2.9-6.7 per share. We arrive at our new valuation range by applying a 65% probability to the value range provided by Scenarios 1 and 2 and a 35% probability to the range provided by Scenario 3 to account for some liquidity/refinancing risk.

...which translates into a value range of NOK 2.9-6.7 per share

VALUATION RANGE, NOK/SHARE



*Source: Company data and Nordea estimates *Sum-of-the-parts valuation **Sum-of-the-parts valuation adjusted for a potential NOK 500m equity issue at a 50% discount to the share price as of 25 January 2019*

Factors to consider when investing in DOF

DOF is well-positioned to take advantage of the emerging upturn in the subsea market through DOF Subsea's versatile subsea fleet. This, combined with the company's project and engineering capabilities, means we expect it to continue securing utilisation for its vessels. We also favour DOF's high-quality fleet of supply vessels, many of which have local flag privileges in Brazil, although we do not expect the supply market to recover in the short to medium term. Furthermore, DOF's backlog provides earnings visibility, which, in combination with our expectation of increased subsea activity, should allow the company to reduce its adjusted net debt by NOK ~3bn between 2018 and 2020 and lower NIBD/EBITDA to 5.5x in 2020, on our estimates. However, we acknowledge the liquidity risk in both DOF Supply and DOF Subsea if the markets prove weaker than we anticipate.

We identify a number of key factors in DOF ASA's investment case

Key factors to consider when evaluating an investment in DOF ASA:

- We expect the subsea market to improve in the coming years. Through DOF Subsea's fleet and engineering capabilities, we argue that the company is well-positioned to benefit from this recovery.
- DOF has a solid backlog which, in combination with improved earnings from the subsea segment, should allow it to reduce adjusted net interest-bearing debt by ~14% over the next two to three years. As such, we estimate that NIBD/EBITDA will come down from ~9.5x in 2018 to ~5.5x in 2020.
- DOF offers exposure to a recovery in the AHTS vessel/PSV market, although we do not expect this recovery to materialise in the short to medium term due to an oversupply of vessels.

Key risk factors:

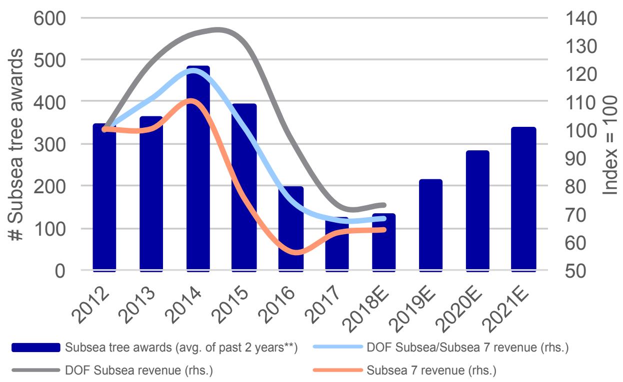
- There is liquidity risk in both DOF Supply and DOF Subsea if the markets prove weaker than we anticipate. This may result in a potentially dilutive equity issue.
- Both DOF Supply and DOF Subsea are dependent on successful refinancing of bank debt.
- As leverage is high, the share price is highly sensitive to underlying movements in asset values and operational performance.

Geared exposure to a recovery in the subsea market

Well-positioned to take advantage of the nascent upturn in the subsea market

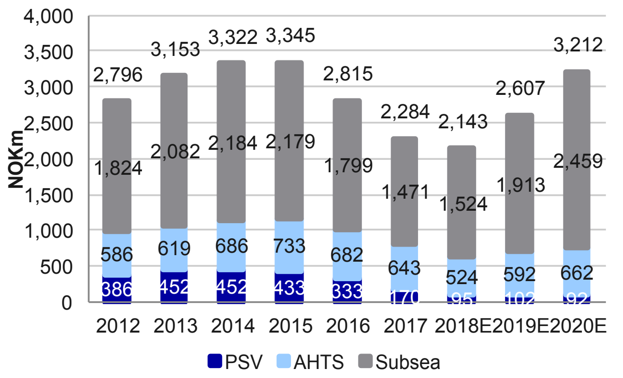
We are seeing an upturn emerging in the subsea market as several years of underinvestment draw to an end and field developments keep on hitting the market, prompted by the reduced field breakeven and improved financials for oil companies. This, in combination with increased activity from projects already sanctioned, should bode well for subsea support services and subsea vessel utilisation in the coming years. Through its subsidiary, DOF Subsea, we believe DOF is well-positioned to take advantage of this upturn thanks to its mix of subsea project and engineering capabilities and timechartering of subsea vessels.

SUBSEA TREE AWARDS BODE WELL FOR SUBSEA ACTIVITY*



** Subsea activity here represented by DOF Subsea and Subsea 7's revenue*
***ie the number of tree awards in 2012 is equal to the average number of trees awarded in 2010 and 2011*
Source: Company data, Quest Offshore, Rystad Energy, Wood Mackenzie and Nordea estimates

DOF'S SUBSEA SEGMENT DRIVING SOLID EBITDA* GROWTH



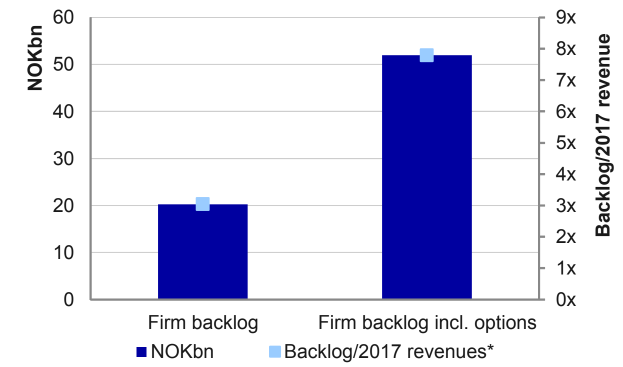
** Management reporting*
Source: Company data and Nordea estimates

Solid backlog supports deleveraging

Solid backlog supports deleveraging

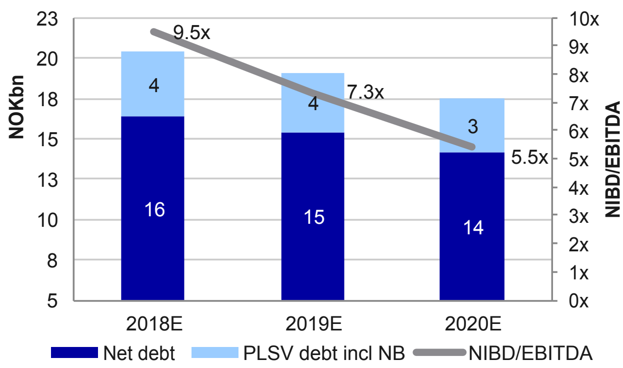
As of Q3 2018, DOF's total firm backlog stood at NOK ~20.3bn, equivalent to 3x revenue reported for 2017. If we include options attached to current contracts, this number increases to ~8x 2017 revenue.

STRONG BACKLOG*



** Group revenue*
Source: Company data and Nordea estimates

REDUCTION IN NET INTEREST-BEARING DEBT*



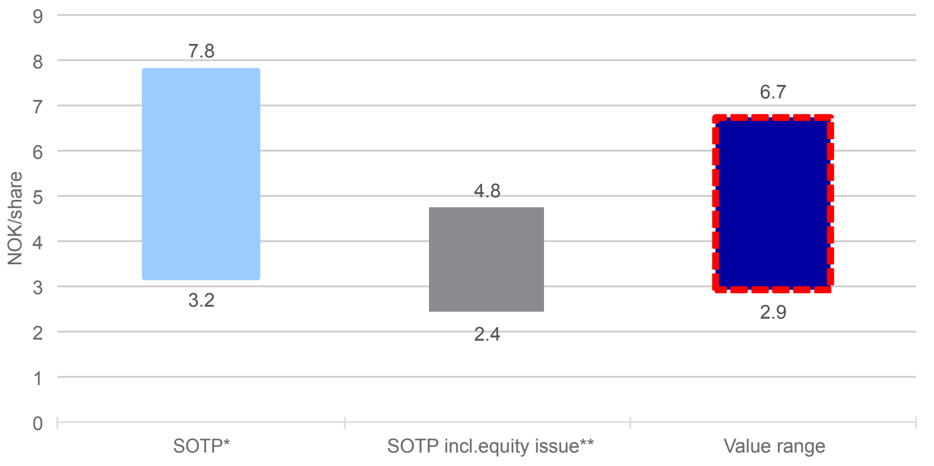
** Management reporting*
Source: Company data and Nordea estimates

This, in combination with our expectation of an improved subsea market, should enable DOF to reduce its adjusted net debt by NOK ~3bn between 2018 and 2020 and consequently NIBD/EBITDA to ~5.5x in 2020 from 9.5x in 2018, on our estimates. However, we acknowledge the liquidity risk in DOF Supply and DOF Subsea if the markets prove weaker than we anticipate, which could trigger a potentially dilutive equity issue for current shareholders.

Valuation

Based on three different sum-of-the-parts valuation scenarios, we assign DOF ASA an equity value of NOK 2.9-6.7 per share. The low end of the range is based on the assumption of no material improvement in the subsea project market, while the high end is based on our expectation of a more pronounced recovery. Furthermore, both ends of that range are assessed to account for some liquidity risk in DOF Supply. More specifically, we apply a 35% probability to a scenario where DOF Supply is injected with NOK 500m in cash through an equity issue.

VALUATION RANGE: NOK 2.9-6.7 PER SHARE



** Sum-of-the-parts valuation*
*** Sum-of-the-parts valuation adjusted for a potential NOK 500m equity issue at a 50% discount to the share price as of 25 January 2019*
Source: Company data and Nordea estimates

Reported numbers and forecasts

INCOME STATEMENT

NOKm	2010	2011	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E
Net revenue	**5,403**	**6,503**	**8,136**	**9,289**	**10,196**	**10,291**	**8,134**	**6,666**	**6,257**	**7,007**	**8,238**
Revenue growth	24.6%	20.4%	25.1%	14.2%	9.8%	0.9%	-21.0%	-18.0%	-6.1%	12.0%	17.6%
of which organic	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
of which FX	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
EBITDA	1,709	2,048	3,000	2,865	3,494	3,362	2,620	1,798	1,748	2,155	2,543
Depreciation and impairments PPE	-1,166	-897	-1,110	-1,113	-1,045	-1,540	-2,824	-2,155	-1,406	-1,040	-1,040
EBITA	543	1,151	1,890	1,752	2,449	1,822	-204	-357	342	1,115	1,503
Amortisation and impairments	0	0	0	0	0	0	0	0	0	0	0
EBIT	543	1,151	1,890	1,752	2,449	1,822	-204	-357	342	1,115	1,503
of which associates	0	0	0	67	78	64	-86	62	266	306	403
Associates excluded from EBIT	-5	0	1	0	0	0	0	0	0	0	0
Net financials	-738	-1,842	-1,626	-1,820	-1,990	-2,233	561	-762	-1,133	-889	-830
Changes in value, net	0	0	0	0	0	0	0	0	0	0	0
Pre-tax profit	**-200**	**-691**	**265**	**-68**	**459**	**-411**	**357**	**-1,119**	**-791**	**226**	**674**
Reported taxes	-15	186	85	16	78	95	-158	-236	58	-40	-40
Net profit from continued operations	-215	-505	350	-52	537	-316	199	-1,355	-733	186	634
Discontinued operations	0	0	0	0	0	0	0	0	0	0	0
Minority interests	75	149	-237	-139	-419	-35	-26	113	51	-114	-211
Net profit to equity	-140	-356	113	-191	118	-351	173	-1,242	-683	71	423
EPS	**-1.54**	**-3.69**	**1.02**	**-1.72**	**1.06**	**-3.16**	**0.16**	**-0.70**	**-2.19**	**0.22**	**1.34**
DPS	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
of which ordinary	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
of which extraordinary	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Profit margin in percent											
EBITDA	31.6%	31.5%	36.9%	30.8%	34.3%	32.7%	32.2%	27.0%	27.9%	30.8%	30.9%
EBITA	10.0%	17.7%	23.2%	18.9%	24.0%	17.7%	-2.5%	-5.4%	5.5%	15.9%	18.2%
EBIT	10.0%	17.7%	23.2%	18.9%	24.0%	17.7%	-2.5%	-5.4%	5.5%	15.9%	18.2%
Adjusted earnings											
EBITDA (adj)	1,650	2,015	2,790	2,857	3,027	3,030	2,449	1,796	1,747	2,155	2,543
EBITA (adj)	484	1,125	1,680	1,744	1,982	2,008	1,386	787	701	1,115	1,503
EBIT (adj)	484	1,125	1,680	1,744	1,982	2,008	1,386	787	701	1,115	1,503
EPS (adj)	-3.26	4.40	3.06	3.06	3.31	8.06	0.15	-0.14	-0.09	0.22	1.34
Adjusted profit margins in percent											
EBITDA (adj)	30.5%	31.0%	34.3%	30.8%	29.7%	29.4%	30.1%	26.9%	27.9%	30.8%	30.9%
EBITA (adj)	9.0%	17.3%	20.6%	18.8%	19.4%	19.5%	17.0%	11.8%	11.2%	15.9%	18.2%
EBIT (adj)	9.0%	17.3%	20.6%	18.8%	19.4%	19.5%	17.0%	11.8%	11.2%	15.9%	18.2%
Performance metrics											
CAGR last 5 years											
Net revenue	28.3%	18.0%	19.3%	18.2%	18.7%	13.8%	4.6%	-3.9%	-7.6%	-7.2%	-4.4%
EBITDA	17.5%	9.6%	19.5%	13.0%	23.1%	14.5%	5.0%	-9.7%	-9.4%	-9.2%	-5.4%
EBIT	6.0%	5.6%	22.0%	13.9%	62.2%	27.4%	n.m.	n.m.	-27.9%	-14.6%	-3.8%
EPS	n.m.	n.m.	-13.5%	n.m.	-33.6%	n.m.	n.m.	n.m.	n.m.	-26.7%	n.m.
DPS	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
Average last 5 years											
Average EBIT margin	16.3%	14.9%	16.6%	16.5%	19.7%	20.4%	16.7%	12.3%	9.8%	7.1%	6.6%
Average EBITDA margin	35.1%	32.9%	33.6%	32.2%	33.2%	33.3%	33.3%	31.7%	31.3%	30.5%	29.9%

VALUATION RATIOS - ADJUSTED EARNINGS

NOKm	2010	2011	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E
P/E (adj)	n.m.	4.0	7.2	8.4	3.7	0.5	6.6	n.m.	n.m.	14.1	2.4
EV/EBITDA (adj)	13.2	12.0	9.3	9.1	8.3	8.5	9.4	10.8	11.3	8.8	7.0
EV/EBITA (adj)	45.0	21.6	15.5	14.9	12.6	12.8	16.6	24.8	28.2	17.0	11.9
EV/EBIT (adj)	45.0	21.6	15.5	15.5	13.2	13.2	15.6	26.9	45.4	23.4	16.3

VALUATION RATIOS - REPORTED EARNINGS

NOKm	2010	2011	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E
P/E	n.m.	n.m.	21.6	n.m.	11.4	n.m.	6.0	n.m.	n.m.	14.1	2.4
EV/Sales	4.03	3.73	3.20	2.79	2.46	2.50	2.82	2.92	3.16	2.70	2.17
EV/EBITDA	12.7	11.8	8.7	9.3	7.3	7.8	8.5	11.2	13.3	10.2	8.4
EV/EBITA	40.1	21.1	13.8	15.4	10.6	14.6	n.m.	n.m.	260.1	23.4	16.3
EV/EBIT	40.1	21.1	13.8	15.4	10.6	14.6	n.m.	n.m.	260.1	23.4	16.3
Dividend yield (ord.)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FCF yield	-119.8%	-215.3%	-43.1%	-2.7%	86.8%	14.8%	63.4%	-118.6%	28.2%	93.4%	124.6%
Payout ratio	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company data and Nordea estimates

BALANCE SHEET

NOKm	2010	2011	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E
Intangible assets	478	401	409	418	418	436	330	324	317	317	317
of which R&D	0	0	0	0	0	0	0	0	0	0	0
of which other intangibles	0	0	0	0	0	0	0	0	0	0	0
of which goodwill	478	401	409	418	418	436	330	324	317	317	317
Tangible assets	21,632	25,687	26,602	23,889	23,867	23,188	22,199	20,667	18,588	17,779	16,971
Shares associates	71	65	73	1,172	1,246	513	808	1,021	1,390	1,352	1,432
Interest bearing assets	0	0	0	0	0	0	0	0	0	0	0
Deferred tax assets	29	211	295	328	655	1,353	951	715	923	923	923
Other non-IB non-current assets	0	0	0	0	0	0	0	0	0	0	0
Other non-current assets	214	277	314	283	512	905	1,152	1,129	1,182	1,182	1,182
Total non-current assets	22,424	26,641	27,693	26,090	26,698	26,395	25,440	23,856	22,399	21,553	20,825
Inventory	28	51	56	70	91	77	57	60	54	58	71
Accounts receivable	1,266	1,534	1,393	1,832	2,240	2,112	1,506	1,580	1,286	1,440	1,693
Other current assets	691	562	466	525	710	512	535	340	372	372	372
Cash and bank	2,644	2,040	2,145	2,219	2,609	2,056	2,192	2,239	2,108	1,769	1,237
Total current assets	4,629	4,187	4,060	4,646	5,650	4,757	4,290	4,219	3,819	3,639	3,373
Assets held for sale	0	0	0	0	0	477	0	0	0	0	0
Total assets	**27,053**	**30,827**	**31,754**	**30,736**	**32,348**	**31,629**	**29,731**	**28,075**	**26,219**	**25,191**	**24,198**
Shareholders equity	3,978	4,037	3,796	3,381	3,414	1,904	4,626	4,837	3,851	3,923	4,345
Of which preferred stocks	0	0	0	0	0	0	0	0	0	0	0
Of which equity part of hybrid debt	0	0	0	0	0	0	0	0	0	0	0
Minority interest	2,750	2,633	2,953	2,965	3,455	3,281	3,520	2,505	2,408	2,522	2,734
Total Equity	6,728	6,670	6,749	6,346	6,869	5,185	8,146	7,342	6,260	6,445	7,079
Deferred tax	402	219	161	78	59	42	1	16	12	12	12
Long term interest bearing debt	16,107	19,463	20,756	19,182	17,220	20,701	18,025	16,943	15,590	14,532	10,241
Pension provisions	0	0	0	0	0	0	0	0	0	0	0
Other long-term provisions	0	0	0	0	0	0	0	0	0	0	0
Other long-term liabilities	422	329	655	451	469	314	186	126	115	115	115
Convertible debt	0	0	0	0	0	0	0	0	0	0	0
Shareholder debt	0	0	0	0	0	0	0	0	0	0	0
Hybrid debt	0	0	0	0	0	0	0	0	0	0	0
Total non-current liabilities	16,931	20,011	21,572	19,711	17,748	21,057	18,212	17,085	15,717	14,659	10,368
Short-term provisions	0	0	0	0	0	0	0	0	0	0	0
Accounts payable	415	603	683	1,040	1,192	1,439	1,061	874	785	848	1,002
Other current liabilities	972	1,292	750	491	903	568	650	677	587	587	587
Short term interest bearing debt	2,007	2,251	2,000	3,147	5,636	3,380	1,661	2,097	2,871	2,652	5,161
Total current liabilities	3,394	4,146	3,433	4,678	7,731	5,387	3,372	3,648	4,243	4,087	6,751
Liabilities for assets held for sale	0	0	0	0	0	0	0	0	0	0	0
Total liabilities and equity	**27,053**	**30,827**	**31,754**	**30,735**	**32,348**	**31,629**	**29,730**	**28,075**	**26,219**	**25,191**	**24,198**
Balance sheet and debt metrics											
Net debt	15,470	19,674	20,611	20,110	20,247	22,025	17,494	16,801	16,352	15,415	14,165
Working capital	598	252	482	896	946	694	387	429	340	434	546
Invested capital	23,022	26,892	28,176	26,986	27,644	27,089	25,828	24,285	22,739	21,987	21,371
Capital employed	23,659	26,681	28,321	26,058	24,617	26,242	26,359	24,427	21,976	21,104	17,447
ROE	-3.5%	-8.9%	2.9%	-5.3%	3.5%	-13.2%	5.3%	-26.2%	-15.7%	1.8%	10.2%
ROIC	2.3%	4.5%	6.1%	6.3%	7.3%	7.3%	5.2%	3.1%	3.0%	5.0%	6.9%
ROCE	2.3%	4.3%	6.7%	6.7%	9.9%	6.9%	-0.8%	-1.5%	1.6%	5.3%	8.6%
Net debt/EBITDA	9.1	9.6	6.9	7.0	5.8	6.6	6.7	9.3	9.4	7.2	5.6
Interest coverage	0.7	n.m.	n.m.	n.m.	n.m.	n.m.	-0.1	-0.3	0.4	n.m.	n.m.
Equity ratio	14.7%	13.1%	12.0%	11.0%	10.6%	6.0%	15.6%	17.2%	14.7%	15.6%	18.0%
Net gearing	229.9%	295.0%	305.4%	316.9%	294.8%	424.8%	214.8%	228.8%	261.2%	239.2%	200.1%

Source: Company data and Nordea estimates

CASH FLOW STATEMENT

NOKm	2010	2011	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E
EBITDA (adj) for associates	**1,709**	**2,048**	**3,000**	**2,798**	**3,417**	**3,298**	**2,706**	**1,736**	**1,482**	**1,849**	**2,140**
Paid taxes	-73	-64	-43	-29	-10	-215	-58	-62	-32	-40	-40
Net financials	-769	-890	-1,186	-1,288	-1,282	-1,212	-1,028	-897	-900	-889	-830
Change in provisions	-72	0	0	0	0	0	0	0	0	0	0
Change in other LT non-IB	-110	-338	204	-206	-538	-1,246	27	199	n.a.	0	0
Cash flow to/from associates	0	0	0	0	0	0	0	0	n.a.	n.a.	n.a.
Dividends paid to minorities	0	0	0	0	0	0	0	0	0	0	0
Other adj to reconcile to cash flow	140	71	-628	226	124	719	-255	-228	-174	343	323
Funds from operations (FFO)	**824**	**827**	**1,347**	**1,501**	**1,711**	**1,344**	**1,392**	**748**	**375**	**1,263**	**1,594**
Change in NWC	260	95	-165	-216	-457	674	292	-3	302	-95	-112
Cash flow from operations (CFO)	**1,084**	**922**	**1,182**	**1,285**	**1,254**	**2,018**	**1,684**	**745**	**677**	**1,168**	**1,482**
Capital expenditure	-5,812	-5,447	-3,052	-1,448	-2,163	-3,911	-1,975	-985	-397	-231	-232
Free cash flow before A&D	**-4,728**	**-4,525**	**-1,870**	**-163**	**-909**	**-1,893**	**-291**	**-240**	**281**	**937**	**1,250**
Proceeds from sale of assets	460	341	819	87	2,082	1,953	1,531	32	2	0	0
Acquisitions	0	0	0	0	0	0	0	0	0	0	0
Free cash flow	-4,268	-4,184	-1,051	-76	1,173	60	1,240	-208	283	937	1,250
Dividends paid	0	0	0	0	0	0	0	0	0	0	0
Equity issues / buybacks	0	591	0	0	0	0	1,044	494	191	0	0
Net change in debt	4,648	2,889	1,170	432	-859	-619	-2,053	-230	-509	-1,276	-1,782
Other financing adjustments	51	99	-14	-77	76	6	-96	-8	-66	0	0
Other non-cash adjustments	-1	1	0	-205	0	0	1	-1	0	0	0
Change in cash	430	-604	105	74	390	-553	136	47	-131	-339	-532
Cash flow metrics											
Capex/D&A	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	69.9%	45.7%	28.2%	22.2%	22.3%
Capex/Sales	n.m.	-83.8%	-37.5%	-15.6%	-21.2%	-38.0%	-24.3%	-14.8%	-6.3%	-3.3%	-2.8%
Key information											
Share price year end (/current)	39	18	22	26	12	4	1	1	3	3	3
Market cap.	3,561	1,943	2,441	2,866	1,351	405	1,957	175	1,003	1,003	1,003
Enterprise value	21,781	24,250	26,005	25,941	25,053	25,711	22,971	19,481	19,764	18,940	17,902
Diluted no. of shares, year-end (m)	91.0	111.1	111.1	111.1	111.1	111.1	1,994.6	282.8	316.5	316.5	316.5

Source: Company data and Nordea estimates

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