**VISTIN – COUNTDOWN**

At first glance, Vistin looks like a company in desperate need of a strategy consultant. Remarkably, the company consists of

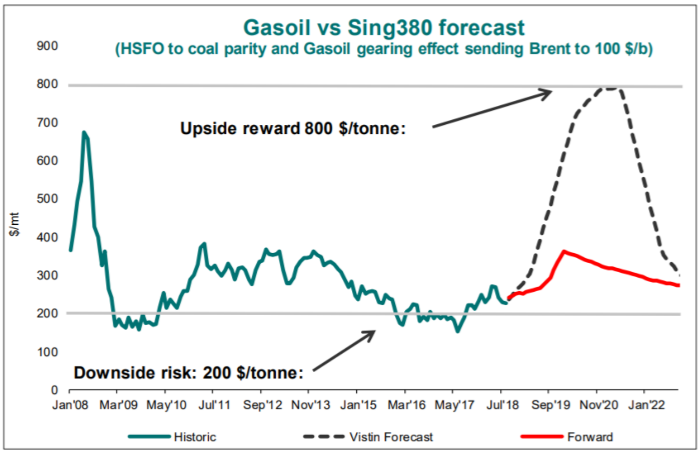
a) a huge 150,000mt position of the ICE gasoil vs Sing380 spread (ie MGO vs HFO), and
b) a 3200mt plant in Southern Norway producing metformin for the diabetes industry.

Go figure.

On closer inspection, though, it`s shares offer the cheapest and most straightforward way in the equity markets to play the introduction of IMO 2020 only 4 mths away.

The metformin business returned EBIT of NOK7m after SGA in 1H, which according to mgmt is a fairly representative level of profitability on 3200mt. Plans incl a creep up to 3800mt capacity (demand is there) and a possible step-up to 6400mt on approx NOK 100m capex pending approval. Other fine chemical businesses seem to trade at approx 14-16x EBIT and the STOXX600 chemicals group the same. Given the firm expansion plans in place 15x ought to be a conservative estimate for the pharma value, ie NOK 4,75/shr. That also corresponds well with the valuation of the company before last year's equity raise (approx 12/shr).

The remainder consists of the huge IMO 2020 MGO/HFO bet supported by the NOK 300m equity raise last spring. Values remaining are NOK 5/shr by 30/6, adjusting for an approx NOK 80m unrealized loss on the position. With the entire position still intact and IMO 2020 less than 4 mths away, the question is; what now?




*Source: Vistin*

The chart above explains the thinking by the man behind the initiative, Vistin Trading`s former head Torbjørn Kjus. He likened the IMO 2020 situation very much to the 2008 diesel-squeeze that drove Brent to $140/b and gasoil vs fuel oil to almost $700/t, seeing around 3mbd reduced HFO demand with scrubbers only able to pick up 1/3 to ½ of the slack, leaving the industry short of MGO thus driving the spread to 2008-levels or beyond. One year later - and Mr Kjus having left Vistin - we can conclude that spreads have been much later and slower to respond than he forecasted. So far. However, with the worlds largest tanker company Euronav just having bought 480,000mt of MGO (half its annual fuel consumption) and stored it on one of its ULCC`s as a reminder that now is the time for the ship owners to start ordering their clean fuel needs ahead of the 1/1 deadline, and the 2020 spread and its liquidity reacting up accordingly over the last couple of weeks, now may be the time to revisit Mr Kjus analysis.

On 150kmt every USD 100 change in the spread equals NOK 190m change for Vistin. Assuming the spread moves to 2008 levels that adds NOK 950m or NOK 21/shr to Vistin. However, Vistin intends to let the contracts expire at maturity, indicating half the position will be closed between Dec 19 and Apr 20 with the remainder due Dec 20. Assuming half the value uplift in a 2008-like scenario can be booked, fair value ends up somewhere around NOK 20/shr.

| **VISTIN** | **30.jun** | **2019** | | No of shrs | 44,3 | |
|---|---|---|---|---|---|---|
| | | | | | | |
| | **MNOK** | **/shr** | | **Sensitivities** | 150000 mt | |
| cash | 300 | 6,8 | | **usd/t** | **MNOK** | **/shr** |
| unrealised loss | 80 | 1,8 | | 100 | 190 | 4,3 |
| Net cash | 220 | 5,0 | | 2008 scenario | | |
| Pharma net of HQ | 210 | 4,7 | | 700 | 950 | **21,4** |
| **NAV** | **430** | **9,7** | | **SUM NAV 2008 scenario** | | **31,2** |

Other than recession risks and a number of oil and refinery market risks, the biggest risk in the stock is an unforeseen, erratic move by the largest shareholder leading to early closure of the position. That, and spending as much as a dime of the proceeds on anything else than a dividend back to the shareholders who funded this venture, would surely lead to a big discount in the stock. It is reasonable to assume the principal shareholder is fully informed.

In short, with the MGO/HFO spread finally on the move and investors scrambling to get exposure in various shipping names offering all sorts of other risks, the clean-cut IMO exposure in Vistin at a 10pc discount even before the latest spread widening looks attractive. Implicitly paying <$200/t 4 mths ahead of launch-date would have made a nice pay-off betting against the scrubberites 12-18 mths ago. Now, if ever, looks to be the time to play.


*Source: Bloomberg*

*Oslo 09092019*

*Ståle*