# Bonds Daily

## ABGSC Daily Report - Bonds

### Songa Container Q4: Softer market, but '19 story remains

Songa Container Q4 numbers were largely in line with estimates. Utilization was 89.9% in line, in line with ABGSCe at 90%. Rate where slightly softer than we expected, resulting in revenues of USD 9m (-5% vs ABGSCe), while vessel opex at USD 5.4m is -2% vs ABGSCe. SG&A was USD 1.3m, USD 1m above our estimate driven by EO costs related to the refinancing (we had capitalized these expenses and included them in the cash flow). EBITDA was USD 2.3m (vs ABGSCe of USD 3.7m) in line with our expectations when adjusting for the EO costs. Since the issuance of the bond in November, the container market has experienced a correction, with rates fallen some 5-17% while second hand prices have declined by some ~9%. We have adjusted rate estimates for '19 down by 7% on the back of this development, which still leads to a moderate improvement in the feeder market for '19. This is underpinned by expected net fleet growth of 2.9% and expected trade growth of 4-5%. Based on broker quotes, and valuing the scrubbers at par, we estimate a GAV of USD 215m down ~10%. Since bond issue, resulting in Gross LTV of 60% (vs 54% at issue), while we estimate net LTV at 56%. The LTV changes are in line with key peers.

### Master Marine merging with Crossway Holdings

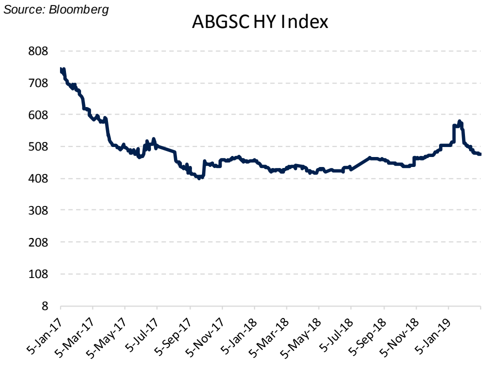
Master Marine, owning the jack-up accommodation rig Haven, has announced a merger with Crossway Holdings. Crossway Holdings owns one jack-up accommodation rig Eagle (contracted to Total) and has one unit under construction at Dalian expected completed in '19. The merger will be executed through formation of a new holding company owned by Nordic Capital and Paragon Outcomes Management as a significant minority owner. Master Marine's management will become the new management of the combined company. The merger is expected to be completed during Q2'19. We have not seen the financials/funding requirement of Crossway and we need to analyse this more closely to evaluate the impact on outstanding Master Marine/Jacktel credit.

### Borr Drilling: Fleet update

Borr Drilling revealed one 6M LOI in North Sea and four rigs being in advanced negotiations for multi-year contracts with start-up in mid-19 and early '20.We have previously highlighted 6-10 contract opportunities for Borr over the next 6-12M – In Qatar, Mexico and Kuwait – these negotiations relates most likely to the Qatar tender. As highlighted on conf call last week, Borr expects all of its premium jackups available in'19 to be contracted by year end, leaving in with 7 newbuilds available in '20. This is positive for visibility and cash flow.

| Stock market | Today | 1D | 1M | 3M | YTD |
|---|---|---|---|---|---|
| OSE | 803 | 0.4% | 3% | 3% | 8% |
| OMX | 1,588 | 0.5% | 4% | 9% | 13% |
| SBX | 1,047 | 0.6% | 4% | 11% | 13% |
| OSX | 96 | 0.0% | -3% | -2% | 17% |
| VIX | 15 | 0.1% | -7% | -37% | -37% |
| **High Yield Indices (Spread)** | | | | | |
| Itraxx Xover 5Y | 277 | -3bp | -35bp | -68bp | -84bp |
| HYG US | 394 | 6bp | -23bp | -62bp | -136bp |
| BUHYEN | 379 | 2bp | -34bp | -62bp | -151bp |
| ABG HY index | 483 | -1bp | 70bp | n.a. | n.a. |
| **Interest Rates Basis points** | | | | | |
| NIBOR 3M | 129 | 0.0bp | 3.0bp | 1.0bp | 4.0bp |
| NIBOR 3Y SWAP | 168 | -0.9bp | 0.4bp | -0.4bp | 8.3bp |
| NIBOR 5Y SWAP | 183 | -2.0bp | 0.1bp | -5.0bp | 9.0bp |
| STIBOR 3M | -7 | -0.3bp | 1.1bp | 23.3bp | 5.4bp |
| STIBOR 3Y SWAP | 23 | -0.7bp | 4.3bp | 5.3bp | 6.7bp |
| STIBOR 5Y SWAP | 48 | -1.3bp | 3.6bp | -1.7bp | 4.2bp |
| US L3M | 260 | 0.0bp | -13.6bp | -17.3bp | -19.5bp |
| US LIBOR 3Y SWAP | 258 | -2.2bp | -5.1bp | -24.5bp | 1.8bp |
| US LIBOR 5Y SWAP | 258 | -3.0bp | -4.8bp | -23.2bp | 4.3bp |
| **Currencies** | | | | | |
| USD/NOK | 8.65 | 1% | 2% | 2% | -1% |
| EUR/NOK | 9.80 | 0% | 1% | 1% | -1% |
| SEK/NOK | 0.93 | 0% | 0% | -2% | -4% |
| **Commodities** | | | | | |
| Oil - Brent (USD/bl) | 65.7 | 1% | 5% | 6% | 20% |
| **Shipping Rates** | | | | | |
| Baltic Dry Bulk | 669 | 1% | -47% | -51% | -48% |
| Baltic Tank (Dirty) | 762 | -2% | -39% | -44% | -24% |
| Baltic Tank (Clean) | 581 | 1% | -29% | -58% | -13% |

*Source: Bloomberg*




*Source: ABG Sundal Collier*

**ABGSC Credit Research**

| | | |
|---|---|---|
| Alexander Jost | +47 22 01 60 88 | alexander.jost@abgsc.no |
| Haakon Amundsen | +47 22 01 60 25 | haakon.amundsen@abgsc.no |
| Rikard M. Braaten | +47 22 01 60 86 | rikard.braaten@abgsc.no |
| Andreas Johannessen | +47 22 01 60 31 | andreas.johannessen@abgsc.no |
| Eric Wahlström | +46 8 566 286 25 | eric.wahlstrom@abgsc.se |

**Siccar Point Energy: Mariner delayed to Q4 2019**

According to Reuters, start-up of Equinor's Mariner heavy oilfield in the UK is to be delayed until Q4 2019. Previously Equinor has guided for start-up in H1 2019, after delaying from initial plans to see first oil in H2 2018.

**More on BWO's contemplated Brazil acquisition**

BWO disclosed limited information about the potential acquisition of the 100% stake in Maromba heavy-oil field offshore Brazil, as it appears the announcement was sent out fear from leaks. According to Rystad's Ucube, NPV of the field is USD 271m at USD 65 with accumulated capex of USD 1.9bn and 2P reserves of ~100mmboe. After discussing with the company, we get the impression that BWO does not plan to raise any capital to finance the transaction and we expect that it will use the idle Berge Helene FPSO to produce form the field. In Q4'18 it had USD 144m in cash, and when the refinancing of the fleet facility is completed, we estimate that it has USD ~170m undrawn on the new 5y RCF. Until we know more about the economics, it is hard to determine the implication on valuation. We expect more news within a week or two.

**Pacific Drilling: Adds ~180days of work across three drillships**

Yesterday, Pacific Drilling published its fleet status report. In the announcement, the company has secured 180days worth of new contract (three wells) in addition to options for five additional wells at undisclosed dayrates. In addition, the Pacific Khamsin is said to be transitioning from ''Smart stacked'' to Hot Stacked. Although we long for more revenue visibility, we find the announcement positive as it will reduce cash burn short term.

- *Pacific Sharav* has secured an extension with Chevron in the US GoM for one firm well, and three additional wells on option.
- *Pacific Bora* has secured an extension with Eni in Nigeria for 60days (one additional well) with an option for another well.
- *Pacific Santa Ana* has secured a short-term contract with Total in Senegal between April '19 to May '19 (one firm well + one option well) before it will go on its 1y contract with Petronas in Mauritania.

**Nova Austral: conf.call takeaway – the 2019 credit story is weaker in our view**

Nova Austral held a global conference call yesterday, where we got some more colour on the Q4 report. Regarding the revised volume guidance of 10-15%, the company states that the higher mortality rate due to BKD (Bacterial Kidney Disease) in three of its sites was found to stem from one specific third-party hatchery. Nova Austral states that none of the other farming sites has smolt from that particular hatchery. This is a type of business risk related to the biological condition of salmon that Nova Austral should have better control over to mitigate once their own hatchery facility is up and running towards the end of this year. Moreover, to our understanding, the H1'19 volume guidance of 9k mt WFE is back-end loaded, meaning that 1/3 of the volume will be sold in Q1'19, while 2/3 in Q2'19. We had closer to 50/50 in our estimates, meaning that adjusted for this, our Q1'19 EBITDA will be USD 9m (vs. USD 12m), and Q2'19e EBITDA USD 11m (vs. USD 8m). This have, however, limited impact on our FY'19 estimates, but it does increase the dependency on a fewer quarters in order to reach the estimates. Finally, the company reiterated the previously stated guidance on maintenance capex, while shared that capex for the new licenses should be roughly USD 2-3m (below our estimate). Overall, the credit story in 2019 is weaker in our view, although the company is still set to deleverage sharply on our estimates.

**NOC lifts force majeure at the 315kb/d Sharara field**

The Libyan National Oil Corporation (NOC) announced yesterday that force majeure on operations at the Sharara field has been lifted after ~3months following the removal of an armed group that had occupied the site. Production is expected to resume shortly and normal output should be reached "over the coming days". El Sharara normally produces ~315kb/d, paving the way for Libya to boost production to more than 1mill b/d for the first time since early Dec. The field is ran by NOC, Repsol, Total, OMV and Equinor.

**ABGSC Credit Research Q4 reporting**

**LEAX Q4 report: no covenant breach – but it will be tight**

- EBITDA miss – but no covenant breach
- Headwinds in Q1'19
- Q1'19 is the most critical quarter in 2019

**Småkraft Q4 report: dry summer, wet autumn, and EBITDA spot on**

- Operational performance in line with expectations
- Three technicalities from the report worth highlighting
- Bond prices should be unaffected by this report

## Reported corporate HY bonds traded in Oslo at Monday 4 March 2019

| Issuer | Ticker | Volume | Price 04/03/2019 | Credit spread | Time to maturity | Yield | change |
|---|---|---|---|---|---|---|---|
| American Tanker Inc. 17/22 9,25% USD C | AMTI01 | 0.4m | 100.75 | 636 | 3.0 | 9.1% | 1.5% |
| Höegh LNG Holdings Ltd. 17/22 FRN C | HLNG03 | 6.0m | 100.00 | 500 | 2.9 | 6.3% | 0.0% |
| Color Group AS 18/23 FRN | COLG15 | 75.0m | 100.75 | 303 | 4.7 | 4.3% | 0.4% |
| Havilafjord AS 18/23 FRN C | HAVFJR01 | 12.0m | 101.00 | 474 | 4.3 | 6.0% | 0.3% |

*Source: ABG Sundal Collier, company data*

## Analyst certification

I/We, Alexander Jost, Andreas Johannessen, Eric Wahlström, Haakon Amundsen, Rikard Magnus Braaten, the author(s) of this report, certify that not withstanding the existence of any such potential conflicts of interests referred to below, the views expressed in this report accurately reflect my/our personal view about the companies and securities covered in this report. I/We further certify that I/We have not been, nor am/are or will be, receiving direct or indirect compensation related to the specific recommendations or views contained in this report.

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When evaluating the credit risk of the issuer, we look at credit ratios, management and corporate strategy, business risk, industry risk and management risk appetite. Further, we look at dividend and financial policies. From this analysis and after an assessment of the asset values as well as any potential structural subordination, ABG Sundal Collier also estimates the company's default probability and the bond's recovery rate.

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All prices are as of market close on 01 March, 2019 unless otherwise noted.

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# ABGSC Research Department

**Joint Global Head of Research**

| | |
|---|---|
| John Olaisen | +47 22 01 61 87 |
| Christer Linde | +46 8 566 286 90 |

**Strategy**

| | |
|---|---|
| Christer Linde, Quant/Technical | +46 8 566 286 90 |
| Derek Laliberte | +46 8 566 286 78 |
| Bengt Jonassen | +47 22 01 60 98 |

**Capital Goods**

| | |
|---|---|
| Anders Idborg | +46 8 566 286 74 |
| Olof Cederholm | +46 8 566 286 22 |
| Karl Bokvist | +46 8 566 286 33 |

**Chemicals**

| | |
|---|---|
| Martin Melbye | +47 22 01 61 37 |
| Bengt Jonassen | +47 22 01 60 98 |
| Petter Nyström | +47 22 01 61 35 |
| Glenn Kringhaug | +47 22 01 61 62 |

**Construction & Real Estate**

| | |
|---|---|
| Tobias Kaj | +46 8 566 286 21 |
| Bengt Jonassen | +47 22 01 60 98 |
| Philip Hallberg | +46 8 566 286 95 |
| Glenn Kringhaug | +47 22 01 61 62 |
| Laurits Louis Kjaergaard | +45 35 46 30 12 |

**Consumer Goods**

| | |
|---|---|
| Andreas Lundberg | +46 8 566 286 51 |
| Petter Nyström | +47 22 01 61 35 |
| Michael Vitfell-Rasmussen | +45 35 46 30 16 |
| Ludvig Kapanen | +46 8 566 286 91 |

**Credit Research**

| | |
|---|---|
| Alexander Jost | +47 22 01 60 88 |
| Rikard Magnus Braaten | +47 22 01 60 86 |
| Andreas Johannessen | +47 22 01 60 31 |
| Haakon Amundsen | +47 22 01 60 25 |
| Eric Wahlström | +46 8 566 286 25 |

**Financials**

| | |
|---|---|
| Magnus Andersson | +46 8 566 294 69 |
| Mads Thinggaard | +45 35 46 30 18 |
| Patrik Brattelius | +46 8 566 286 64 |
| Jan Erik Gjerland | +47 22 01 61 16 |
| Jonas Bru Lien | +47 22 01 61 71 |

**Food & Beverages**

| | |
|---|---|
| Michael Vitfell-Rasmussen | +45 35 46 30 16 |

**Healthcare**

| | |
|---|---|
| Sten Gustafsson | +46 8 566 286 93 |
| Christopher W. Uhde | +46 8 566 286 39 |
| Daniel Thorsson | +46 8 566 286 82 |
| Glenn Kringhaug | +47 22 01 61 62 |
| Ole Henrik Bang-Andreasen | +45 35 46 30 11 |

**Investment Companies**

| | |
|---|---|
| Derek Laliberte | +46 8 566 286 78 |

**IT**

| | |
|---|---|
| Aksel Øverland Engebakken | +47 22 01 61 11 |
| Daniel Thorsson | +46 8 566 286 82 |
| André Thormann | +45 35 46 30 19 |
| Simon Granath | +46 8 566 286 32 |

**Media**

| | |
|---|---|
| Aksel Øverland Engebakken | +47 22 01 61 11 |
| Derek Laliberte | +46 8 566 286 78 |
| Andreas Lundberg | +46 8 566 286 51 |

**Metals & Mining**

| | |
|---|---|
| Martin Melbye | +47 22 01 61 37 |
| Bengt Jonassen | +47 22 01 60 98 |
| Petter Nyström | +47 22 01 61 35 |

**Oil & Gas**

| | |
|---|---|
| John Olaisen | +47 22 01 61 87 |
| Karl Fredrik Schjøtt-Pedersen | +47 22 01 61 65 |

**Oil Service**

| | |
|---|---|
| John Olaisen | +47 22 01 61 87 |
| Haakon Amundsen | +47 22 01 60 25 |
| Lukas Daul | +47 22 01 61 39 |
| Karl Fredrik Schjøtt-Pedersen | +47 22 01 61 65 |

**Online Gaming**

| | |
|---|---|
| Aksel Øverland Engebakken | +47 22 01 61 11 |
| Erik Moberg | +46 8 566 286 87 |
| Stefan Knutsson | +46 8 566 286 37 |

**Pulp & Paper**

| | |
|---|---|
| Martin Melbye | +47 22 01 61 37 |
| Glenn Kringhaug | +47 22 01 61 62 |
| Øystein Elton Lodgaard | +47 22 01 60 26 |

**Renewable Energy**

| | |
|---|---|
| Casper Blom | +45 35 46 30 15 |
| Petter Nyström | +47 22 01 61 35 |

**Retail**

| | |
|---|---|
| Andreas Lundberg | +46 8 566 286 51 |
| Ludvig Kapanen | +46 8 566 286 91 |

**Seafood**

| | |
|---|---|
| Martin Kaland | +47 22 01 60 67 |

**Services**

| | |
|---|---|
| Andreas Lundberg | +46 8 566 286 51 |
| Michael Vitfell-Rasmussen | +45 35 46 30 16 |
| Victor Forssell | +46 8 566 286 92 |

**Shipping & Transport**

| | |
|---|---|
| Dennis Anghelopoulos | +47 22 01 60 37 |
| Casper Blom | +45 35 46 30 15 |
| Lukas Daul | +47 22 01 61 39 |

**Telecom Operators**

| | |
|---|---|
| Peter Kurt Nielsen | +44 207 905 5631 |

**Utilities**

| | |
|---|---|
| Martin Melbye | +47 22 01 61 37 |
| Petter Nyström | +47 22 01 61 35 |

**Small Caps**

| | |
|---|---|
| Daniel Thorsson | +46 8 566 286 82 |
| Johan Nilsson Wall | +46 8 566 286 41 |
| Laurits Louis Kjaergaard | +45 35 46 30 12 |


| Norway | Sweden | Denmark | United Kingdom | USA | Germany | Singapore |
|---|---|---|---|---|---|---|
| Pb. 1444 Vika | Box 7269 | Forbindelsesvej 12, | 10 Paternoster Row, 5th fl | 850 Third Avenue, Suite 9-C | Schillerstrasse 2, 5. OG | 10 Collyer Quay |
| NO-0115 OSLO | SE-103 89 STOCKHOLM | DK-2100 COPENHAGEN | LONDON EC4M 7EJ | NEW YORK, NY 10022 | DE-60313 FRANKFURT | Ocean Financial Center |
| Norway | Sweden | Denmark | UK | USA | Germany | #40-07, Singapore 049315 |
| Tel: +47 22 01 60 00 | Tel: +46 8 566 286 00 | Tel: +45 35 46 61 00 | Tel: +44 20 7905 5600 | Tel. +1 212 605 3800 | Tel +49 69 96 86 96 0 | Tel +65 6808 6082 |
| Fax: +47 22 01 60 60 | Fax: +46 8 566 286 01 | Fax: +45 35 46 61 10 | Fax: +44 20 7905 5601 | Fax. +1 212 605 3801 | Fax +49 69 96 86 96 99 | |