

Bonds Daily

ABGSC Daily Report - Bonds

Shelf Drilling: Q2 EBITDA below consensus, while average daily rates are up 4% QoQ

The company reported revenues of USD 137m (-1.5% vs. Bloomberg consensus), while EBITDA came in roughly 12% below consensus at USD 34m. During the quarter, average daily rates was USD 66kpd which is up USD 2.7kpd (+4%) since last quarter, while utilization decreased 9pp to 66%. The decrease in effective utilization is explained by completion of five contracts, idle time on Adriatic I, and planned out of service for High Island V2 during the quarter. Total backlog amounted to USD 846m (USD -30m QoQ) after adding USD 343m since April 2019. As of Q2, the liquidity in Shelf Drilling was USD 287m including available credit under its RCF, and net leverage ended at 4.0x. In terms of outlook, the company remains positive for global jack-up activity in 2019, despite the recent volatility in the oil price.

Borr: secures another contract with Pemex

Borr has contracted another jackup in Mexico with Pemex, with expected duration of 18-months and start-up in Q4'19. We think the contracted rig is Galar, which is currently activated in a shipyard in Singapore. Borr says that the project economics are similar to its two previous awards with Pemex; we estimate EBITDA contribution of ~USD 50kpd, implying dayrate of ~USD 100kpd. With more demand from Pemex going forward, we estimate there might be additional contract opportunities for Borr in Mexico.

SeaBird: provides some more details on recent vessel issue

After close yesterday, SBX sent out a press release that provided some details about the recent Q2 PW. SBX says that Q2 EBITDA will be about USD-1.7m including an USD1.3m loss provision. This is basically in line with our estimate – we had USD1m in EBITDA excluding the USD1.3m in provision. SBX provided some more details on the reasons for the operational issues on the “Harrier Explorer” and “Nordic Explorer” vessels – basically blaming longer lead time than expected from sub-suppliers. Read more about it here:

<https://newsweb.oslobors.no/message/482305>

Ekornes Initiation of Coverage: To recline or not to recline

- **A global supplier of high-end furniture**

Ekornes is a global high-end furniture player, mainly producing furniture in Norway, with roots dating back to 1934. Products include chairs, sofas, beds, mattresses and accessories. Its brands are strong, especially with “Stressless”, which is recognised by 85 million people worldwide. Other than being dependent on few brands (especially its “Stressless” brand constituting 78% of sales), we argue Ekornes offers decent diversification.

- **Chinese potential but structural concerns**

In August 2019, Qumei and Huatai closed the acquisition of Ekornes. Qumei is a leading furniture group in China, with ~1,000 stores throughout China and with aggressive growth plans.

Stock market	Today	1D	1M	3M	YTD
OSE	771	0.4%	-5%	-4%	4%
OMX	1,523	-0.8%	-7%	-5%	8%
SBX	1,047	-0.7%	-6%	-3%	13%
OSX	69	0.0%	-14%	-22%	-17%
VIX	20	-0.2%	43%	26%	-13%

High Yield Indices (Spread)	Today	1D	1M	3M	YTD
Itraxx Xover 5Y	280	-6bp	33bp	14bp	-81bp
HYG US	484	-26bp	54bp	77bp	-46bp
BUHYEN	433	-7bp	58bp	49bp	-97bp

Interest Rates Basis points	Today	1D	1M	3M	YTD
NIBOR 3M	162	1.0bp	11.0bp	17.0bp	37.0bp
NIBOR 3Y SWAP	168	-0.3bp	-11.3bp	-15.5bp	7.5bp
NIBOR 5Y SWAP	160	0.0bp	-17.8bp	-29.5bp	-13.5bp
STBOR 3M	-4	1.4bp	1.2bp	1.3bp	8.9bp
STBOR 3Y SWAP	-13	1.1bp	-14.5bp	-23.1bp	-29.4bp
STBOR 5Y SWAP	-5	0.3bp	-19.4bp	-34.3bp	-49.1bp
US L3M	221	0.0bp	-13.2bp	-31.9bp	-58.5bp
US LIBOR 3Y SWAP	150	1.6bp	-36.8bp	-81.1bp	-107.0bp
US LIBOR 5Y SWAP	146	1.5bp	-38.9bp	-84.3bp	-107.2bp

Currencies	Today	1D	1M	3M	YTD
USD/NOK	8.91	0%	3%	2%	2%
EUR/NOK	9.98	0%	3%	2%	1%
SEK/NOK	0.93	0%	2%	3%	-4%

Commodities	Today	1D	1M	3M	YTD
Oil - Brent (USD/bl)	58.9	-1%	-8%	-17%	7%

Shipping Rates	Today	1D	1M	3M	YTD
Baltic Dry Bulk	1,734	-2%	-1%	71%	35%
Baltic Tank (Dirty)	617	0%	-4%	-39%	-39%
Baltic Tank (Clean)	501	2%	-5%	-51%	-25%

Source: Bloomberg

ABGSC Credit Research

Rikard M. Braaten	+47 22 01 60 86	rikard.braaten@abgsc.no
Glenn Kringhaug	+47 22 01 61 62	glenn.kringhaug@abgsc.no
Andreas Johannessen	+47 22 01 60 31	andreas.johannessen@abgsc.no
Haakon Amundsen	+47 22 01 60 25	haakon.amundsen@abgsc.no
Eric Wahlström	+46 8 566 286 25	eric.wahlstrom@abgsc.se

We argue the combination offers a significant growth opportunity in China for Ekornes. However, producing furniture in Norway (where most of Ekornes' production is) for sale in China will arguably come on expense of profitability for Ekornes. Another concern is the role of the private equity company Huatai, which owns 9.5% of the shares in Ekornes. The NOK 2,000m bonds that are issued in Ekornes QM Holding AS (100% owned by Qumei), which again owns 90.5% of Ekornes, are dependent on dividends from the operating companies, implying some cash leakage to Huatai. Furthermore, Huatai has the right to put its shares on the Issuer, i.e. has the right/potential to subordinate the bonds. With high leverage in Qumei, we argue this could be problematic and critical in a downside scenario.

- **Not attractive at the current levels**

The bonds (matures in 2023) are indicated at 103.875% (+592bps). Given a relatively high net LTV of 66% and the structural considerations (including significant credit facilities in the operating company), we argue that the bonds are deemed not to present an attractive risk/reward at the current indicated levels.

Analyst certification

I/We, Andreas Johannessen, Eric Wahlström, Glenn Kringhaug, Haakon Amundsen, Rikard Magnus Braaten, the author(s) of this report, certify that notwithstanding 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.

Analyst valuation methods

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 06 August, 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

Construction & Real Estate

Tobias Kaj +46 8 566 286 21
 Bengt Jonassen +47 22 01 60 98
 Laurits Louis Kjaergaard +45 35 46 30 12

Consumer Goods

Andreas Lundberg +46 8 566 286 51
 Petter Nyström +47 22 01 61 35
 Morten Raunholt Eismark +45 35 46 30 16
 Ludvig Kapanen +46 8 566 286 91

Credit Research

Rikard Magnus Braaten +47 22 01 60 86
 Andreas Johannessen +47 22 01 60 31
 Haakon Amundsen +47 22 01 60 25
 Glenn Kringhaug +47 22 01 61 62
 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

Morten Raunholt Eismark +45 35 46 30 16

Healthcare

Rickard Anderkrans +46 8 566 286 73
 Daniel Thorsson +46 8 566 286 82
 Victor Forssell +46 8 566 286 92
 Jannick Lindegaard Denholt +45 35 46 30 13

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
 Jesper Birch-Jensen +46 8 566 286 13

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
 Jesper Birch-Jensen +46 8 566 286 13

Pulp & Paper

Martin Melbye +47 22 01 61 37
 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
 Morten Raunholt Eismark +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
 Laurits Louis Kjaergaard +45 35 46 30 12

Norway

Pb. 1444 Vika
 NO-0115 OSLO
 Norway
 Tel: +47 22 01 60 00
 Fax: +47 22 01 60 60

Sweden

Box 7269
 SE-103 89 STOCKHOLM
 Sweden
 Tel: +46 8 566 286 00
 Fax: +46 8 566 286 01

Denmark

Forbindelsesvej 12,
 DK-2100 COPENHAGEN
 Denmark
 Tel: +45 35 46 61 00
 Fax: +45 35 46 61 10

United Kingdom

10 Paternoster Row, 5th fl
 LONDON EC4M 7EJ
 UK
 Tel: +44 20 7905 5600
 Fax: +44 20 7905 5601

USA

850 Third Avenue, Suite 9-C
 NEW YORK, NY 10022
 USA
 Tel: +1 212 605 3800
 Fax: +1 212 605 3801

Germany

Schillerstrasse 2, 5. OG
 DE-60313 FRANKFURT
 Germany
 Tel +49 69 96 86 96 0
 Fax +49 69 96 86 96 99

Singapore

10 Collyer Quay
 Ocean Financial Center
 #40-07, Singapore 049315
 Tel +65 6808 6082