

Bonds Daily

ABGSC Daily Report - Bonds

Euronav Q2: beat on EBITDA – expects stronger market towards Q4'19

The company reported TCE revenues of USD 134m (+2.9% vs. consensus), while EBITDA came in at USD 65m (+4.4% vs. consensus). Average spot TC rates for the VLCC TI pool was USD 23kpd (+6.5kpd YoY, vs. ABGSCe of USD 24kpd), while average TC rate on charter was USD 27kpd (-7.8kpd). The Suezmax fleet generated average spot rates of USD 17kpd (+4kpd, vs. ABGSCe of USD 19kpd), while vessels on TC generated an average rate of USD 30kpd (+9.5kpd). As per quarter end, the company had liquidity of roughly USD 858m, and debt-to-EV of 53%.

The company CEO writes that the second quarter was soft as expected, due to longer than usual refinery maintenance program, OPEC production cuts, and vessel supply. That said, Euronav share our view of a strengthening recovery towards the end of 2019, as exemplified in the graphs and excerpt below. So far in Q3, the VLCC TI pool has earned average rates of USD 21kpd (vs. ABGSCe of USD 30kpd) and 65% of the fleet capacity has been booked. The Suezmax spot fleet has on average earned USD 15.8kpd (vs. ABGSCe of USD 22kpd) and 58 of the fleet capacity has been booked

[Read below an excerpt from the crude tanker equity report published last week explaining the reasoning behind the expected rate increase in H2'19 into 2020 \(the full report here\).](#)

Our recent estimate revisions for the oil market imply a substantial stock draw in Q3'19, which will cause short-term pressures in the tanker market. However, we expect this to reverse to a small build in Q4'19 in tandem with the seasonally strong winter months, with oil supply gaining momentum, as well as resulting in a substantial build and high rates in Q1'20. Most notably, Non-OPEC supply growth will exceed global demand growth, pushing substantial oil volumes onto the market and reducing Call-on-OPEC. Assuming continued OPEC cuts, incremental Non-OPEC volumes will have a ~138% longer haul than OPEC volumes from the MEG when heading to Asia. When adjusting for fleet supply growth, the net effect will be roughly a ~12 VLCC equivalent excess in 2019 (vs. our previous assumption of ~6 VLCC equivalent excess) while 2020 will have about a 24 VLCC equivalent shortfall. With over 65% of 2019's orderbook delivered, and up to ~17 VLCC equivalents out for scrubber retrofitting, we expect the tanker market to firm substantially in Q4'19.

Euronav will hold an earnings call later today, and a webinar and presentation on 5 September regarding their preparations for IMO 2020.

| Stock market | Today | 1D | 1M | 3M | YTD |
|--------------|-------|-------|------|------|------|
| OSE | 764 | -1.0% | -6% | -5% | 3% |
| OMX | 1,528 | 0.3% | -6% | -5% | 9% |
| SBX | 1,050 | 0.3% | -5% | -3% | 14% |
| OSX | 67 | 0.0% | -18% | -23% | -18% |
| VIX | 19 | 0.0% | 50% | 22% | -16% |

| High Yield Indices (Spread) | | | | | |
|-----------------------------|-----|------|------|------|-------|
| Itraxx Xover 5Y | 285 | 5bp | 39bp | 18bp | -76bp |
| HYG US | 482 | -3bp | 55bp | 74bp | -48bp |
| BUHYEN | 443 | 10bp | 69bp | 59bp | -88bp |

| Interest Rates Basis points | | | | | |
|-----------------------------|-----|--------|---------|---------|----------|
| NIBOR 3M | 162 | 0.0bp | 10.0bp | 17.0bp | 37.0bp |
| NIBOR 3Y SWAP | 162 | -5.5bp | -19.0bp | -21.0bp | 2.0bp |
| NIBOR 5Y SWAP | 153 | -7.5bp | -27.8bp | -37.0bp | -21.0bp |
| STIBOR 3M | -3 | 0.8bp | 2.2bp | 2.1bp | 9.7bp |
| STIBOR 3Y SWAP | -15 | -2.1bp | -18.5bp | -25.2bp | -31.5bp |
| STIBOR 5Y SWAP | -8 | -3.1bp | -24.9bp | -37.4bp | -52.2bp |
| US L3M | 219 | 0.0bp | -15.3bp | -34.1bp | -60.7bp |
| US LIBOR 3Y SWAP | 150 | 0.5bp | -31.0bp | -80.6bp | -106.4bp |
| US LIBOR 5Y SWAP | 147 | 0.9bp | -34.9bp | -83.4bp | -106.3bp |

| Currencies | | | | | |
|------------|-------|----|----|----|-----|
| USD/NOK | 8.95 | 1% | 4% | 3% | 3% |
| EUR/NOK | 10.03 | 1% | 4% | 2% | 1% |
| SEK/NOK | 0.93 | 0% | 2% | 3% | -4% |

| Commodities | | | | | |
|----------------------|------|-----|------|------|----|
| Oil - Brent (USD/bl) | 56.2 | -5% | -16% | -20% | 2% |

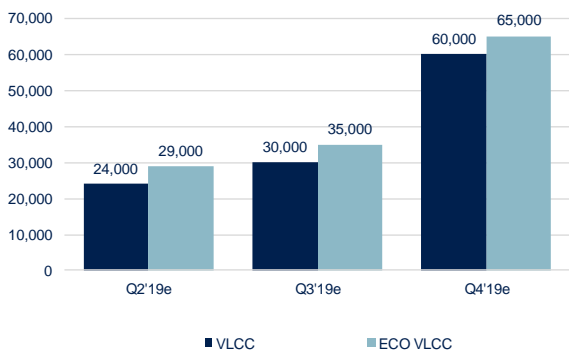
| Shipping Rates | | | | | |
|---------------------|-------|-----|-----|------|------|
| Baltic Dry Bulk | 1,712 | -1% | -4% | 69% | 34% |
| Baltic Tank (Dirty) | 626 | 1% | -1% | -38% | -38% |
| Baltic Tank (Clean) | 498 | -1% | -5% | -51% | -25% |

Source: Bloomberg

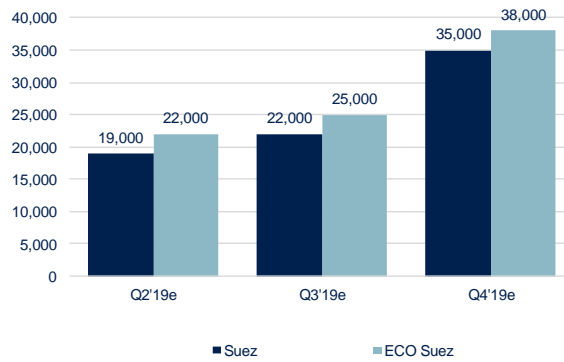
ABGSC Credit Research

| | | |
|---------------------|------------------|------------------------------|
| 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 |

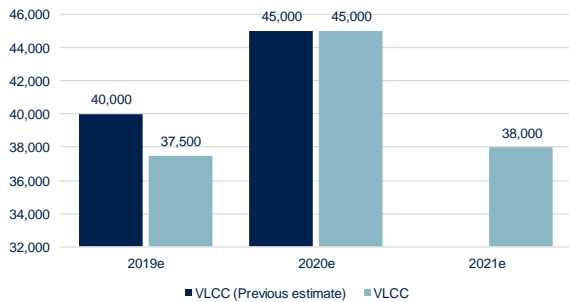
VLCC Quarterly Rate Assumptions



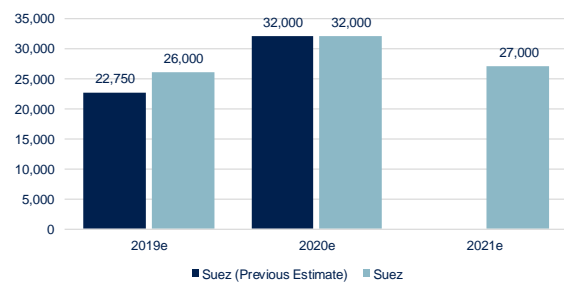
Suezmax Quarterly Rate Assumptions



VLCC Annual Rate Revisions



Suezmax Annual Rate Revisions



Borealis: sale of another vessel

Last night, the company announced that it has sold and delivered the 2006-built vessel Verdi (previously Chiloe Island, 2.824teu) for a sales price of USD 10.7m. This is the second vessel Borealis has sold and delivered this summer. Per the term sheet, the transaction value will be pledged at a disposal account, and the company must employ the funds within 24 months towards either mandatory prepayment or acquisition of replacement vessels. The latter alternative being the most likely, in our view.

Archer Q2 (relevant for SDRL '25s asset-backing): somewhat behind expectations

Archer reported Q2 EBITDA of USD 23.5m vs expectations around USD 25m. The main deviation was within Land Drilling, which a bit lower utilisation and higher costs than expected. The NIBD was further reduced to USD 580m in the quarter. Archer is guiding H2'19 to be similar to H1, vs. previously stronger so our USD 105m FY '19 EBITDA estimate may drop towards USD 100m, possibly spilling over to 2020 estimates as well. Note that the recently awarded modular rig contract will have a positive impact on our '21 estimates. While the financial results are somewhat weaker than expected, it appears that the operational performance is stable. Also, while estimates are coming down somewhat the improved financial performance should still be able to support a refinancing in our view, albeit the current capital market environment implies some risk to how that process can be executed in the near term. There are no comments to this pending refinancing of the main facility (Q3'20 maturity), but we expect more colour on this on the call at 0900 CET.

Analyst certification

I/We, 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.

Important Company Specific Disclosure

For company specific disclosures including employee, partner and ABGSC holdings, Corporate Finance services market making, conflicts of interest of each company mentioned in this report for which ABG Sundal Collier provides coverage (unless it is initiating coverage), please refer to the research section of our website located at www.abgsc.com.

All prices are as of market close on 07 August, 2019 unless otherwise noted.

Disclaimer

This document has been prepared by ABG Sundal Collier which is the marketing name referring to all or any of ABG Sundal Collier ASA, ABG Sundal Collier AB or ABG Sundal Collier Partners LLP and any of their affiliated or associated companies and their directors, officers, representatives and employees.

This report is provided solely for the information and use of professional investors, who are expected to make their own investment decisions without undue reliance on this report. The information contained herein does not apply to, and should not be relied upon by, retail clients. This report is for distribution only under such circumstances as may be permitted by applicable law. Research reports prepared by ABG Sundal Collier are for information purposes only. The recommendation(s) in this report has (have) no regard to specific investment objectives and the financial situation or needs of any specific recipient. ABG Sundal Collier accepts no liability whatsoever for any losses arising from any use of this report or its contents. This report is not to be used or considered as an offer to sell, or a solicitation of an offer to buy. The information herein has been obtained from, and any opinions herein are based upon, sources believed reliable, but ABG Sundal Collier makes no representation as to its accuracy or completeness and it should not be relied upon as such. All opinions and estimates herein reflect the judgment of ABG Sundal Collier on the date of this report and are subject to change without notice. Past performance is not indicative of future results.

The compensation of our research analysts is determined exclusively by research management and senior management, but not including investment banking management. Compensation is not based on specific investment banking revenues, however, it is determined from the profitability of the ABG Sundal Collier Group, which includes earnings from investment banking operations and other business. Investors should assume that ABG Sundal Collier is seeking or will seek investment banking or other business relationships with the companies in this report. The research analyst(s) responsible for the preparation of this report may interact with trading desk and sales personnel and other departments for the purpose of gathering, synthesizing and interpreting market information. From time to time, ABG Sundal Collier and its affiliates and any shareholders, directors, officers or employees thereof may (I) have a position in, or otherwise be interested in, any securities directly or indirectly connected to the subject of this report, or (II) perform investment banking or other services for, or solicit investment banking or other services from, a company mentioned in this report. ABG Sundal Collier relies on information barriers to control the flow of information contained in one or more areas of ABG Sundal Collier, into other areas, units, groups or affiliates of ABG Sundal Collier.

Norway: ABG Sundal Collier ASA is regulated by the Financial Supervisory Authority of Norway (Finanstilsynet); Sweden: ABG Sundal Collier AB is regulated by the Swedish Financial Supervisory Authority (Finansinspektionen); UK This report is a communication made, or approved for communication in the UK, by ABG Sundal Collier Partners LLP, authorised and regulated by the Financial Conduct Authority in the conduct of its business. US: This report is being distributed in the United States in accordance with FINRA Rule 1050(f)(3)(B) by ABG Sundal Collier Inc., a FINRA member which accepts responsibility for its content. Research analysts are not registered/qualified as research analysts with FINRA or the NYSE, and are not associated persons of ABG Sundal Collier Inc. and therefore not subject to FINRA Rule 2241, the research analyst conflict rules. Research reports distributed in the U.S are intended solely for "major institutional investors," as defined under Rule 15a-6 of the Securities Exchange Act of 1934. Each U.S major institutional investor that receives a copy of this research report by its acceptance represents that it agrees it will not distribute this research report to any other person. Any U.S. major institutional investor receiving this report who wishes to effect transactions in any securities referred to herein should contact ABG Sundal Collier Inc., not its affiliates. Further information on the securities referred to herein may be obtained from ABG Sundal Collier Inc., on request.

Singapore: This report is distributed in Singapore by ABG Sundal Collier Pte Ltd, which is not licensed under the Financial Advisers Act (Chapter 110 of Singapore). In Singapore, this report may only be distributed to institutional investors as defined in Section 4A(1)(c) of the Securities and Futures Act (Chapter 289 of Singapore) ("SFA"), and should not be circulated to any other person in Singapore.

This report may not be reproduced, distributed or published by any recipient for any purpose whatsoever without the prior written express permission of ABG Sundal Collier.

Additional information available upon request. If reference is made in this report to other companies and ABG Sundal Collier provides research coverage for those companies details regarding disclosures may be found on our website www.abgsc.com.

© Copyright 2019 ABG Sundal Collier ASA

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