Bonds Daily

ABGSC Daily Report - Bonds

Zalaris Q2: focus is on sales and profitability – sees a strong pipeline

Zalaris reported a relatively credit-neutral second quarter report, with revenues of NOK 188m (-3% vs. ABGSCe), and an EBITDA of NOK 26m (vs. ABGSCe of NOK 30m). Operational cash flow was NOK -1.2m (vs. ABGSCe of NOK 20m – deviation primarily driven by working capital movements vs. our expectations). At quarter end, the company had cash balance of NOK 60m resulting in net leverage of 3.9x (Q1'19: 4.3x). Ahead of the report, our main focus was on the implemented cost reduction program, that is aimed at raising the EBIT-margin to 10% by the start of 2020. At Q2'19, the margin was 2.4% (vs. 0.8% during the same period last year), and Zalaris writes that the levels naturally is expected to improve from Q2 and H1 2019. We should observe visible margin-expansion through the forthcoming 2-3 quarter. The company lists up several undertaken measures, which is expected to reduce the cost base with NOK 4.7m per month compared to Q1-baseline. That said, the tangibility of the measures vary, and we are more conservative with L-T margins closer to 7-8%. During the quarter, Zalaris signed new customers such as Frankfurt Airport, Gasnetz Hamburg, and Universität Siegen. The scope and value of these are not disclosed though. In terms of outlooks, the pipeline looks promising with Zalaris being in the bid phase and renewal discussions for "several large deals across all business regions". From a credit perspective, we hope that this implies long-term HRO contracts that will add to the recurring revenue base and mitigate potential QoQ earnings volatility. Overall, a relatively credit neutral report in our view, while it is positive to note the full focus on underlying profitability and potential growth.

Volati Q2: better performance in all segments

Revenue was SEK 1,776m (+4% vs Bloomberg consensus of SEK 1,715m, 24% y-o-y), EBITDA was SEK 229m (+11% vs. Bloomberg consensus of SEK 207m, +38% y-o-y adjusted for IFRS 16). The improvement in the quarter was driven by contributions from acquired operations and good development in existing operations. The Trading business area had a good quarter, increasing EBITA by 10 percent (SEK 589 in revenue and SEK 59m in EBITA), while Akademibokhandeln also saw a positive development, increasing EBITA by SEK 8m (SEK 328m in revenue and SEK -26m in EBITA). The improvements in earnings for the trading operations were explained by strengthening of operations, cost efficiencies and price increases given the SEK depreciation. For Akademibokhandeln, Volati state that it is still experiencing positive effects from work with cost efficiencies and purchasing. The industry segment increased its EBITA by 59 percent (SEK 612m in revenue and SEK 60m in EBITA). The figures were affected by the acquisition of S:t Eriks, which was consolidated with effect from 1 September 2018. Consumer reported EBITA growth of 11 percent (SEK 248m in revenue and SEK 46m in EBITA), explained by better market conditions.

Stock market	Today	1D	1M	3M	YTD
OSE	754	-0.4%	-5%	-7%	2%
OMX	1,496	-0.3%	-5%	-7%	6%
SBX	1,029	-0.2%	-5%	-5%	12%
OSX	60	0.0%	-21%	-30%	-27%
VIX	21	0.0%	57%	33%	-9%
High Yield Indices (Spread)					
Itraxx Xover 5Y	289	-4bp	35bp	7bp	-73bp
HYG US	510	-6bp	65bp	82bp	-20bp
BUHYEN	447	6bp	59bp	52bp	-84bp
Interest Rates Basis points					
NIBOR 3M	163	-2.0bp	8.0bp	17.0bp	38.0bp
NIBOR 3Y SWAP	156	-5.1bp	-25.5bp	-29.0bp	-4.0bp
NIBOR 5Y SWAP	145	-5.3bp	-34.5bp	-44.0bp	-28.5bp
STIBOR 3M	-2	0.5bp	3.2bp	0.5bp	10.3bp
STIBOR 3Y SWAP	-19	-2.7bp	-18.0bp	-29.0bp	-35.3bp
STIBOR 5Y SWAP	-15	-5.2bp	-27.5bp	-43.4bp	-59.3bp
US L3M	217	0.0bp	-10.9bp	-35.4bp	-62.6bp
US LIBOR 3Y SWAP	141	-7.4bp	-31.6bp	-77.4bp	-115.2bp
US LIBOR 5Y SWAP	136	-6.2bp	-38.7bp	-82.4bp	-117.0bp
Currencies					
USD/NOK	9.02	0%	6%	3%	3%
EUR/NOK	10.02	0%	4%	2%	1%
SEK/NOK	0.94	0%	2%	3%	-3%
Commodities					
Oil - Brent (USD/bl)	58.2	-2%	-6%	-19%	6%
Shipping Rates					
Baltic Dry Bulk	2,047	5%	-4%	97%	60%
Baltic Tank (Dirty)	631	1%	1%	-39%	-37%
Baltic Tank (Clean)	458	-1%	-7%	-56%	-31%

Source: Bloomberg

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In Q2, the Company had a net debt of SEK 1,404 excluding IFRS 16, which combined with a rolling 12 months EBITDA implies a 2.4x leverage ratio.

Seadrill sets up JV with Gulf Drilling International

Following Qatar Petroleum's five jackup awards in May, Seadrill and GDI have entered into a 50:50 joint venture, GulfDrill, which will initially manage and operate five premium jackups in Qatar commencing contracts throughout 2020. The well based contracts will have staggered commencements throughout 2020 with initial terms concluding in 2023 & 2024 respectively. The total contract value is expected to be $656 million (including mobilization fees). Each contract has 5 single well options (equalling 13.7 rig-years and USD 700m in value, implying dayrate of USD 140kpd). GulfDrill will initially bareboat charter jackups West Telesto and West Castor from Seadrill and 3 additional units from a third-party shipyard. While the dayrate for the initial term is probably lower than in option period, the JV provides visibility for at least 2 jackups from SDRL and potential for incremental work opportunities in Qatar.

Tobii: liquidity relief ahead

The UK Competition and Markets Authority (CMA) requires Tobii to divest its acquired company Smartbox (bought in Oct 2018 for SEK 130m). We had feared that this could happen (see our last equity post-result), and it will drag down estimates by ~5-10%. However, this also means that Tobii's liquidity risk decreases, as the transaction amount will return. The news also imply lowered expectations for further M&As.

Modec: USD 1.1bn Project Bond issue for a FPSO Charter project

An affiliate of the Japanese offshore contractor has concluded the issue of an USD 1.1bn bond to refinance FPSO project financing from Japanese banks ahead of schedule. The FPSO in question is the Cidade de Mangaratiba MV24 that is deployed and in operation for the TUPI consortium led by Petrobras in Brazil until 2034. Modec says the bond issue is aimed at diversifying its financing sources. The bond will have a term of 14.8 years (2034), carry an interest rate of 6.748%, and is rated BB by S&P and Fitch. Furthermore, the company says the deal was more than 2x oversubscribed with primarily investors from the US and Europe.

Siccar Point: Mariner on stream

Equinor announced yesterday first oil from the Mariner field in the UK North Sea which is expected to produce annual average plateau rates of ~55kboe/d and up to 70kboe/d.

ABGSC Credit Research: Q2 reporting

GIG: Halfway through a tough transition year

- Q2'19 below expectations
- 2019 is a transition year – GiG executes on strategy
- Tighter bond terms with mandatory step down

Analyst certification

I/We, Andreas Johannessen, Eric Wahlström, Glenn Kringhaug, 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.

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 12 August, 2019 unless otherwise noted.

Disclaimer

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