

# Bonds Daily

## ABGSC Daily Report - Bonds

### NAS: unformal discussions among politicians in Norway how to save NAS, according to local news

Dagens Næringsliv (DN) mentions buying shares as an alternative to save the company. Key argument seems to be that NAS is important for critical infrastructure in Norway. ABGSC Equity Comment: We would be very surprised if the state helps NAS by buying / issuing shares. The Minister of Transport says they are continuing evaluating new measures to help the airline industry

### Zalaris: "to date we are delivering on our service levels as normal"

This morning, in an update to its customers, Zalaris provided some color on how they are navigating through the Covid-19 situation. The company is naturally following the policy set by the Norwegian Government in terms of travel –and event ban, no physical meetings, closed canteens, etc. Employees are also working from home when possible. Zalaris' service centre operates on one common IT platform, which in practice allows the company to change between locations and service teams (including home office), and service its customers as usual. The company is also freeing up capacity to support increased customer needs. This is one of the key positive aspects of operating a software company that doesn't necessarily need a physical presence to serve its customers. However, in our view, the main near-term risk revolves around its Professional Services segment that primarily consists of consulting/project-based services. Zalaris could very likely experience that their consultants are unable to work due to either being sick, in quarantine, or that the customers put off work for the same reasons. Some of the work could possibly be done from home, but we don't know to which extent. To put this into context, Zalaris had 2019 revenues of NOK 777m, EBITDA of NOK 104m, and personnel costs of NOK 437m in the PnL (+NOK 16m of investments in intangibles that likely is capitalized R&D expenses). That said, the company laid off 52 FTEs / 6% of its workforce ahead of the Covid-19 situation that should soften the effect somewhat. In other words, the 2019 figures include limited / no effect from the lay-off, in addition to extraordinary costs due to the use of external consultants. Zalaris had NOK 82m in cash as of Q4'19, which should serve as a good buffer (plus certain debt carve-outs). Professional Service is ~26% of sales. Reach out if you'd like to discuss more with us on Zalaris. [See the press release here.](#)

### Aker ASA: some thoughts on the dividend level

An article in today's DN in Norway focusses on the fact that Aker ASA has declared a NOK 1.7bn (all-time high, NOK 23.5/share) dividend which will be paid out while the Norwegian economy is in turmoil and some of the Aker group companies could be laying off large amounts of people. We believe, Aker management and board care about its political capital. However, currently the extreme economic environment alone warrants a reconsideration of the level of dividend payouts for many companies, including Aker ASA.

Stock market	Today	1D	1M	3M	YTD
OSEBX	638	-0.2%	-31%	-29%	-27%
SBX	896	-0.9%	-31%	-25%	-17%
OSX	24	-12.5%	-63%	-67%	-62%
VIX	83	43.0%	484%	427%	321%

High Yield Indices (Spread)	Today	1D	1M	3M	YTD
Itraxx Xover 5Y	607	-13bp	395bp	385bp	355bp
Itraxx Xover 3Y	527	12bp	375bp	373bp	303bp
BUHYEN	832	99bp	485bp	491bp	384bp
ABGSC HY index	624	43bp	152bp	148bp	117bp

Interest Rates Basis points	Today	1D	1M	3M	YTD
NIBOR 3M	137	-34.0bp	-40.0bp	-45.0bp	-32.0bp
NIBOR 3Y SWAP	84	-3.6bp	-95.1bp	-111.3bp	-80.8bp
NIBOR 5Y SWAP	98	-0.3bp	-78.3bp	-96.8bp	-59.6bp
STIBOR 3M	28	2.0bp	11.1bp	19.7bp	24.4bp
STIBOR 3Y SWAP	16	-1.5bp	-3.5bp	-6.4bp	28.9bp
STIBOR 5Y SWAP	24	-2.2bp	-1.3bp	-6.5bp	36.4bp
US L3M	84	9.3bp	-85.9bp	-105.4bp	-129.9bp
US LIBOR 3Y SWAP	50	1.2bp	-92.4bp	-117.0bp	-108.0bp
US LIBOR 5Y SWAP	63	2.2bp	-79.1bp	-107.6bp	-88.7bp

Currencies	Today	1D	1M	3M	YTD
USD/NOK	10.32	0%	11%	14%	16%
EUR/NOK	11.47	0%	14%	14%	15%
SEK/NOK	1.05	0%	10%	9%	13%

Commodities	Today	1D	1M	3M	YTD
Oil - Brent (USD/bbl)	30.5	1%	-47%	-53%	-48%

Shipping Rates	Today	1D	1M	3M	YTD
Baltic Dry Bulk	623	-1%	47%	-60%	-75%
Baltic Tank (Dirty)	1,518	6%	75%	15%	133%
Baltic Tank (Clean)	835	2%	25%	4%	78%

Source: Bloomberg



Source: ABG Sundal Collier

#### 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
Karl Fredrik S. Pedersen	+47 22 01 61 65	karl.schjott-pedersen@abgsc.no
Ludvig Kapanen	+46 8 566 286 91	ludvig.kapanen@abgsc.no

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We hence consider it prudent to lower or completely eliminate it, given the size of it compared to the NOK 3.7bn total cash position, and as some Aker companies may end up in a situation where it must ask lenders for waivers on loan covenants.

### **SBB/Ilija Batljan Invest: SBB has repurchased all its senior unsecured bonds maturing within a year**

SBB announced yesterday that it has bought back most of the four senior unsecured bonds issued by SBB and its subsidiary Hemfosa maturing until May 2021. SBB has now bought back SEK 3 362.4m of the total issued amount of SEK 3 724m and, as a result, has no other outstanding senior unsecured bonds maturing in the next 12 months. "We have strong liquidity, backed by safe cash flows, and have continued to repurchase bonds in order to continue lowering SBBs long-term financial costs. Our clear focus is to achieve a BBB+ rating and these buy backs of bonds with shorter maturities are part of this", comments Ilija Batljan, CEO and Founder of SBB.

### **LEAX: Volvo Group provides update on the impact from Covid-19**

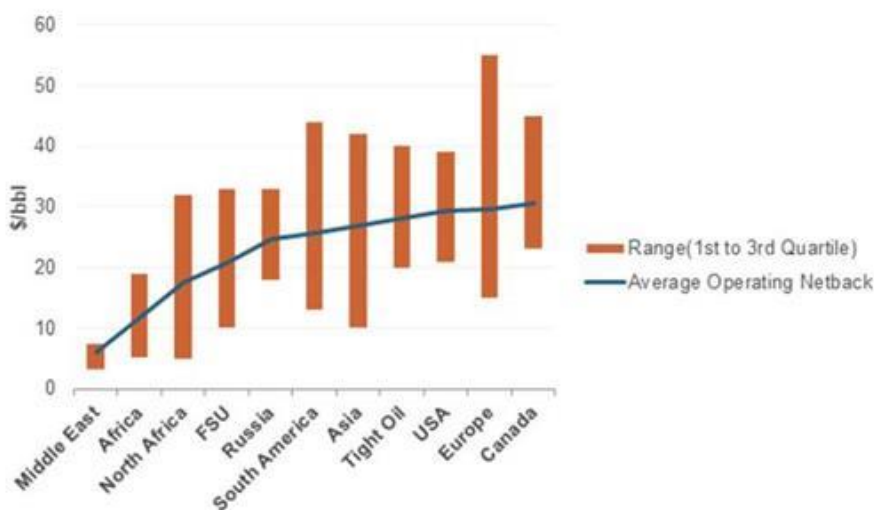
The consequences of the Covid-19 outbreak is affecting the Volvo Group, and there is a considerable risk of a material financial impact on the Group as from mid-March. The Volvo Group and its suppliers are continuously working to minimize any consequences for customers and mitigating the impact on the Group. The impact is related to the general situation and decisions made by local authorities resulting in among other things workforce shortage in the production and supply chain disruptions. There is also a potential impact on demand going forward, according to Volvo, and given the uncertain situation, it is not currently possible to predict the full potential impact on the Volvo Group. Volvo Group is one of LEAX's key customers within commercial vehicles and mining and construction, and as such, the press release reads negative for LEAX. The corona uncertainty/impact adds to an already weak end-market for LEAX in a time where it is committed for extra investments. Due to LEAX's already stressed financial situation (NIBD/adj. EBITDA 5.9x by Q4'19), we find it likely that LEAX will breach its maintenance covenant (NIBD/adj. EBITDA <6.0x) during 2020, if no equity cure is executed.

### **Serneke: building additional condominiums in Limhamn**

Serneke has signed a general contract with ELF Development for the new production of 54 apartments and townhouses in the Kajkanten project in Limhamn's lake city. The order amount is approximately SEK 135 million.

### **The oil price is approaching shut-in levels**

The chart below indicates that some fields are currently operating below "operating netback" (full production costs, transportation costs, etc.) levels. This should mean that the oil price is getting close to levels where production is likely to be shut-down. See slide 3-6 for more on this subject.



Source: FGE

### Massive capex cuts among E&Ps continue

Following the recent drop in oil price, we see several oil and gas companies are already announcing adjustments to capital programmes and distributions. Some data points are listed below.

- EOG revises capex down 31%**  
 EOG reduced yesterday its 2020 capital budget by 31% from USD 6.5bn to USD 4.3-4.7bn, representing a 30% Y-o-Y reduction.
- Whiting reduces capex by 31%, indicates Y-o-Y growth of -48%**  
 Whiting Petroleum is reducing 2020 capex budget by 31% from USD 603m to USD 400-435m, in line with the preliminary average capex revisions from US shale companies of 35%. Capex in 2020 is now set to decline 48% Y-o-Y.
- EQT Corporation cuts capex by 6%, down 37% Y-o-Y**  
 EQT Corporation announced yesterday that the company will reduce its 2020 capex budget from USD 1,200m to USD 1,125m, down USD 75m (-6%), representing a Y-o-Y growth of -37%.
- Pioneer revises capex down 46%**  
 Pioneer announced yesterday that the company will reduce its 2020 capital budget by 46%, from USD 3,150m to USD 1,600-1,800m, somewhat more than the preliminary average capex revisions from other US shale players. The company now expects capex to decline 47% Y-o-Y.
- Exxon evaluates significant near-term cost reductions**  
 ExxonMobil is looking to significantly reduce spending as a result of market conditions caused by Covid-19 and the resulting oil price collapse.

### Capex revisions from E&Ps following the oil price collapse

Date	Company	Region	2019 capex (USDm)	Original 2020 budget (USDm)	Revised 2020 budget (USDm)	Capex revision (%)	Y-o-Y (%)
10/03/2020	Cenovus	Canada	1,176	1,400	1,025	-27%	-13%
10/03/2020	Marathon Oil	Canada	2,407	2,400	1,900	-21%	-21%
11/03/2020	Seven Gen.	Canada	1,230	1,100	900	-18%	-27%
11/03/2020	MEG Energy	Canada	198	350	280	-20%	41%
11/03/2020	Birchcliff	Canada	300	350	285	-19%	-5%
12/03/2020	Husky	Canada	3,432	2,710	1,825	-33%	-47%
12/03/2020	Pipestone	Canada	148	150	60	-60%	-60%
12/03/2020	Bonterra	Canada	54	70	25	-64%	-53%
13/03/2020	Arc Resources	Canada	692	500	300	-40%	-57%
12/03/2020	Ovintiv	Canada	2,875	2,700	2,400	-11%	-17%
	<b>Total</b>	<b>Canada</b>	<b>12,512</b>	<b>11,730</b>	<b>9,000</b>	<b>-23%</b>	<b>-28%</b>
14/03/2020	Gran Tierra	Other	379	210	70	-67%	-82%
10/03/2020	Occidental	Other	6,355	5,300	3,600	-32%	-43%
12/03/2020	Apache	Other	2,366	1,750	1,100	-37%	-54%
12/03/2020	Murphy Oil	Other	1,344	1,450	950	-34%	-29%
15/03/2020	Saudi Aramco	Other	32,800	37,500	27,500	-27%	-16%
13/03/2020	Premier Oil	Other	273	470	370	-21%	36%
	<b>Total</b>	<b>Other</b>	<b>43,518</b>	<b>46,680</b>	<b>33,590</b>	<b>-28%</b>	<b>-23%</b>
11/03/2020	Talos	US GOM	463	533	408	-23%	-12%
09/03/2020	Parsley	US shale	1,373	1,700	n.a.	n.a.	n.a.
09/03/2020	Diamondback	US shale	2,921	2,900	n.a.	n.a.	n.a.
11/03/2020	PDC Energy	US shale	877	1,050	814	-23%	-7%
11/03/2020	Matador	US shale	748	815	n.a.	n.a.	n.a.
12/03/2020	Devon	US shale	1,986	1,800	1,300	-28%	-35%
16/03/2020	Whiting	US shale	806	603	418	-31%	-48%
16/03/2020	EOG	US shale	6,423	6,500	4,500	-31%	-30%
16/03/2020	EQT	US shale	1,773	1,200	1,125	-6%	-37%
16/03/2020	Pioneer	US shale	3,220	3,150	1,700	-46%	-47%
	<b>Total</b>	<b>US shale</b>	<b>15,832</b>	<b>15,118</b>	<b>9,856</b>	<b>-35%</b>	<b>-38%</b>

Source: ABG Sundal Collier, company data

## Analyst certification

I/We, Andreas Johannessen, Glenn Kringhaug, Haakon Amundsen, Karl Fredrik Schjøtt-Pedersen, Ludvig Kapanen, 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.

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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

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  
 Karl Fredrik Schjøtt-Pedersen +47 22 01 61 65  
 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  
 Viktor Sundberg +46 8 566 286 41  
 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

### 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

Fredrik Ivarsson +46 8 566 286 95  
 Ludvig Kapanen +46 8 566 286 91

### Seafood

Martin Kaland +47 22 01 60 67

### Services

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