Overview of the Norwegian high yield market and comparison to other markets

Peter Behncke
Global Head of Investment Banking Division, DNB Markets
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Key driver for growth in bond issues: Borrowers look to new financing sources

**Europe looks to the U.S.**
- Bonds replace traditional bank loans

**Traditional European split**

- Bonds: 20%
- Bank loans: 80%

**U.S. split**

- Bonds: 70%
- Bank loans: 30%

**The bond market is growing**
- Bonds have surpassed syndicated loans in 2013

**European issue volumes**

<table>
<thead>
<tr>
<th>Year</th>
<th>Corp. Bonds (m)</th>
<th>Syndicated loans (m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>1,004</td>
<td>211</td>
</tr>
<tr>
<td>2005</td>
<td>1,339</td>
<td>1,129</td>
</tr>
<tr>
<td>2006</td>
<td>1,310</td>
<td>1,014</td>
</tr>
<tr>
<td>2007</td>
<td>1,597</td>
<td>1,327</td>
</tr>
<tr>
<td>2008</td>
<td>922</td>
<td>242</td>
</tr>
<tr>
<td>2009</td>
<td>1,070</td>
<td>522</td>
</tr>
<tr>
<td>2010</td>
<td>1,067</td>
<td>760</td>
</tr>
<tr>
<td>2011</td>
<td>1,155</td>
<td>876</td>
</tr>
<tr>
<td>2012</td>
<td>1,001</td>
<td>561</td>
</tr>
<tr>
<td>2013 YTD</td>
<td>659</td>
<td>291</td>
</tr>
</tbody>
</table>

**Corp bonds in % of total issue volumes**

- 2004: 21%
- 2005: 16%
- 2006: 23%
- 2007: 17%
- 2008: 26%
- 2009: 49%
- 2010: 29%
- 2011: 24%
- 2012: 44%
- 2013 YTD: 56%

Source: DNB Markets, Thomson Reuters LoanConnector
Overview of Norwegian and Swedish bond markets

Norway – Total market
- Financials: 59%
- Non-financial corporates: 19%
- Public sector: 22%

Norway – Non-financial corporates
- Utilities: 25%
- Offshore: 23%
- Real Estate: 13%
- Other: 12%
- Industries: 9%
- Fishery: 6%
- E&P: 2%

Sweden – Total market
- Financials: 62%
- Non-financial corporates: 6%
- Public sector: 32%

Sweden – Non-financial corporates
- Real Estate: 48%
- Industries: 28%
- Services: 25%
- Transportation: 19%
- Shipping: 13%
- Other: 6%
Norwegian High Yield bond market overview

**2008-2013 HY issue volume**

**Issue volume by tenor**

**YTD 2013 - Security breakdown**

Secured: 44%
Unsecured: 56%

**YTD 2013 - Rating breakdown**

BB: 63%
CCC: 2%
B: 35%

Source: Stamdata and DNB Markets

1 as a % of total rated issues by DNB Markets
Norwegian bond market attracting international issuers

The Norwegian market is used by issuers worldwide

Select non-Scandinavian issuers in the Norwegian HY bond market

Currency breakdown of YTD 2013 issue volume

- 60% NOK
- 40% USD

Sources: Stamdata, DNB Markets
Case study: Bluewater Holding B.V.
Attracting funds globally for a company without any Nordic link

**Transaction details**
- Privately held Dutch company operating in the FPSO industry
- Issue size USD 400 mill senior unsecured bond used to refinance existing debt
- 6 years tenor
- Coupon 10.0%
- DNB Markets acted as Joint Lead Manager

**Investor geography**
- **Americas**: 28%
- **Sweden**: 14%
- **Rest of Nordics**: 12%
- **EMEA**: 15%
- **UK**: 19%
- **Asia-Pacific**: 8%

**Extensive global roadshow**
- **Scandinavia**: Oslo, Bergen, Stockholm, Helsinki and Copenhagen
- **United Kingdom**: London
- **United States**: New York, Connecticut
- **Asia**: Singapore, Hong Kong

Close to 150 investors were met during a 2 weeks roadshow
Norwegian primary market activity link to oil price is still strong

Sector distribution of issuance 2006/2007
- E&P: 60%
- Offshore: 13%
- Shipping: 2%
- Property: 10%
- Industry: 3%
- Fishery: 10%
- Other industries: 2%

Sector distribution of issuance 2012/2013
- E&P: 40%
- Offshore: 12%
- Shipping: 6%
- Property: 5%
- Industry: 11%
- Fishery: 4%
- Other industries: 22%

High yield primary volumes and oil price

Sources: Stamdata, Bloomberg, DNB Markets
Significant refinancing needs going forward

Norwegian bond market (non-financial corporate high yield) – Outstanding amounts

Sources: Stamdata, DNB Markets
With a relatively small and homogeneous market, default rates will be higher than in other markets in down-turns.

LTM Default rate increasing towards 7%

Norwegian Bond Market (Non-Financial Corporations) - High Yield Defaults

% of Amount Outstanding

Latest credit events:
Norwegian Energy Company ASA: NOK 3.10bn (~USD 510m)
Songa Offshore SE: NOK 2.15bn (~USD 350m) (anticipated)
OSX 3 Leasing B.V.: USD 500m (~NOK 3.05bn) (anticipated)

Sources: DNB Markets, Stamdata
Default rate includes missed payments, restructuring and liquidation
Special feature in the Norwegian market – Shadow ratings

What is a shadow rating?

- Issuers can either have an official rating or a shadow rating assigned by the arranger(s), some issuers have both
- The shadow rating is normally based on S&P’s or Moody’s methodology
- The shadow rating will not be subject to any additional costs for the issuer, i.e. no initial payment or maintenance costs
- DNB Markets has a leading credit research team within the Norwegian bond market. The analysis is exclusively based on available public information
- Note that the Credit Research division is completely independent of Investment Banking Division (Chinese walls)

DNB Markets service

- DNB Markets provides rating estimates (shadow ratings) for more than 150 issues in the Norwegian bond market
Although small in size, the Nordic markets remains competitive in an international context

**Issued high yield amount 2013 (USDbn)**

- **Norway**: 9
- **Sweden**: 3
- **Euro**: 88
- **US**: 292

**Key advantages for issuing in the Norwegian market:**
- Full access to investors
- Flexible structures
- Swift execution process
- Rating and documentation requirements
- Involvement of Trustee

Sources: Standard & Poor’s, Stamdata, DNB Markets
THANK YOU!

3rd Nordic High Yield Bond Conference, 11th -12th December 2014, Hotel Clarion Hotel Royal Christiania, Oslo, Norway

To find out more about this year’s event, visit the website, or contact victoria.bale@euromoneyplc.com