BOND EQUITY
THE NORWEGIAN BOND DEAL OF THE YEAR

Transaction: Ocean Yield ASA $125 Million Perpetual Hybrid Callable Bond Issue

Winner: Arctic Securities, DNB Markets, Nordea Bank, Pareto Securities and SEB

When it comes to shipping all roads lead to Oslo and its bond market, in particular. As a result, there is typically never any shortage of nominations in this category. This year was different. Transaction volume was down and what nominations we received coalesced around two transactions, Ocean Yield's Perpetual Bond and Teekay Shuttle's Senior Unsecured Green Bond, both new types of issuance and each a winner in its own right. The latter shines later in its own category.

Our title suggests an oxymoron of sorts, but the bond is, in fact, the Norwegian version of the perpetual callable preferred shares popular in the US. It is a hybrid which is neither fish nor fowl. Whatever you call it, the instrument provides needed capital with favorable accounting treatment as equity, but at a price, reflecting its nature.

Ocean Yield ASA successfully issued a $125 million perpetual non-call 5 hybrid bond with a coupon of 3-month LIBOR + 6.50%. The rationale for the company to issue a subordinated bond was to strengthen its credit profile in order to enable future growth and dividend capacity. The hybrid bond will receive 100% equity treatment under the company's IFRS accounts, the coupons will be tax deductible and certain features provide the company with flexibility to call the bonds should they issue new shares or if the hybrid ceases to be treated as equity. The hybrid product is attractive to Ocean Yield as it enabled the company to tap into a complementary investor base while adding an equity buffer on the balance sheet. And not to be forgotten, the company secured additional liquidity to pursue new investment opportunities.

The company conducted an extensive roadshow across the Nordics and London and received positive interest from several accounts. Under volatile circumstances in the financial market, the book was opened with an expected size of $100 million and initial price talk of 3-month LIBOR + 625-675 bps. The book built rapidly, and the arrangers were able to set the pricing to the midpoint of the initial price talk and upsize the transaction to $125 million. The final pricing represented a pick-up in the area of 250 bps above Ocean Yield's existing senior unsecured curve. Compared with the company's existing senior unsecured bonds, the new structure and higher pricing attracted several accounts that had not invested in Ocean Yield prior to this offering. The fact that a non-real estate hybrid was well received in the Nordic high yield market, representing a buy-in from investors in a challenging market backdrop, is a testament to the company's business model.

This bond is a different product for a different animal. If you are going to invest in a shipping company, particularly from a credit perspective, diversified tonnage providers, like Ship Finance and Ocean Yield, should be at the top of your list, based upon their strategy of building a diversified portfolio of assets with long-term charters. As a strong counterparty, tonnage providers have access to deals from the strongest shipowners. Access to competitive funding is inherently essential to Ocean Yield's business, both in terms of being able to offer competitive financing solutions to its clients as well as to ensure its own profitability.

As a finance provider, high leverage is critical to obtaining the necessary returns and is made possible by having long-term visible cash flows from a stable of strong counterparties. The company has access to the cheapest capital, bank funding, from a large diversified group of the major shipping banks at attractive terms. As a preferred borrower, the company has been able to leverage its lenders to lower its costs, extend tenors and achieve higher gearing. It is also a serial issuer of Norwegian bonds with four issues totaling NOK 2.4 billion outstanding. The hybrid bond is a nice addition, offering incremental funding capacity with favorable accounting and tax treatment – leverage without leverage.

Guts Of the Deal

Issuer	Ocean Yield ASA
Amount	$125,000,000
Borrowing Limit	$200,000,000
Notes Offered	Perpetual Hybrid Callable Bond Issue
Coupon	3-Month LIBOR + 6.50%
Margin Step-Up	500 bps after 5.5 years
Issue Price	100.00%
Interest Deferral	At Issuer's discretion subject to 3 month dividend look-back
Maturity Date	Perpetual (no fixed maturity date)
Amortization	Not subject to any mandatory installments and may not be redeemed otherwise than in accordance with the Bond Terms.
Call Option	First call after five years at 100%.
Conditional Call Option-Early Redemption	Call at 101% upon accounting event, substantial repurchase event, tax event or witholding tax event
Replacement Capital Call	Call at 103% with net proceeds from an equity issue
Ranking	Subordinated debt, parri passu amongst themselves and with parity obligations. and senior to to all classes of shares. Junior to unsubordinated creditors
Security	Unsecured
Undertakings	Compliance with laws. Reporting.
No Events of Default	No express event of default provisions.
Financial Covenants	None
Dividends	No dividends prior to settling any deferred coupon
Change of Control	Issuer can i) Call the notes at 101% ii) Obtain Investment-grade rating or iii) increase coupon by 500bps
Use of Proceeds	General corporate purposes
Managers	Arctic Securities, DNB Markets, Nordea, Pareto Securities, SEB
Governing Law	Norwegian
Incorporation	Norway
Listing	Application will be made for a listing on the Oslo Bors
Trustee	Nordic Trustee