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Jeff Middleswart
jmiddleswart@btnresearch.com

Bill Whiteside, CFA
bwhiteside@btnresearch.com

Ocean Yield (OCY NO, OYIEF) Update

As noted after last quarter's earnings, one of Ocean Yield's charter customers, Solstad, is looking to negotiate better terms with creditors and ship charter partners to add liquidity for 2019. Solstad was formed by large marine-asset investors Aker and Hemen merging Solstad, Rem Offshore, Farstad, and Deep Sea Supply. The goal was to recapitalize all these companies suffering from excessive debt and too many ships in a downturn for off-shore oil drilling and production. All parties now agree that the market is starting to turn for the better, but they were too early in thinking the large merger and recapitalization deals would get Solstad fully out of all trouble. The company has announced the sale of one vessel and four new charter contracts in the last month.

Aker owns 20% of Solstad and also owns 62% of Ocean Yield. Hemen owns 16% of Solstad and 26% of Ship Finance. We noted that Ocean Yield already reworked terms of its charters with Solstad for the Far Statesman and Far Senator in early 2017. Both ships are on sub-charter now but will be free in early 2019. Ship Finance announced in its 3Q18 call that it has also reworked charters with Solstad:

> ***"Ship Finance also has five offshore support vessels on long-term charters to a non-recourse subsidiary of Solstad Offshore ASA.*** *The market for offshore support vessels remains challenging and the vessels are currently not employed on sub-charters. In light of the depressed market,* ***the company and other financial creditors entered into restructuring agreement in July where we will receive 50% of the agreed charter hire for the two vessels, Sea Cheetah and Sea Jaguar, until the end of 2019. All other payments under the respective charters will be deferred until the end of 2019.***
> *The offshore support vessels only represent approximately 2% of our charter backlog and our financial commitments is limited to a corporate guarantee of $30 million under the related bank financing of the five vessels."*

Solstad announced it reached a deal to create liquidity in July with the creditors of its subsidiary Solship Invest 3. This is the former Deep Sea Supply unit and that is where Hemen and Ship Finance were largely focused.

It is important to note that the various subs of Solstad do not have parent company guarantees and are financially independent. One of the other units here is Farstad Shipping AS – which is where the two Ocean Yield vessels are chartered. One of the issues noted in 3Q18's results for Solstad is that a large portion of Farstad Shipping debt is classified as current because of the unit breaching financial covenants.

There have been no updates on where negotiations are at this point. It seems likely that a similar plan will be proposed on the other units of Solstad like the one already reached with Solship Invest 3. That would be deferred charter payments and debt principal payments for part or all of 2019. There are deep pockets involved here from investors who have large stakes in both Solstad, Ocean Yield, and Ship Finance and generate large dividend income from Ocean Yield and Ship Finance.

We would not be surprised if Ocean Yield sees cash flow impaired in 2019 with lower payments from Solstad. It could defer the full $8.8 million in charter fees next year. That does not appear to be a problem in sustaining the current dividend at Ocean Yield. We noted that EBITDA should come in about $300 million – this would make it closer to $290 million if the deferral happens. There is essentially $250 million in cash at Ocean Yield and cash needs including the dividend will be about $400 million from September 2018 – September 2019.

We still consider resolving the FPSO vessel at Ocean Yield a bigger catalyst for 2019. While we are concerned with the outcome of Solstad's creditor negotiations, if the Ship Finance negotiation provides a map for a future result, this may not be a crushing blow.

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