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Ocean Yield (OCY NO, OYIEF)
Maintain NEUTRAL

We are maintaining our NEUTRAL rating on Ocean Yield. Two events seem to indicate that the company will reduce its dividend in 2020 in our opinion. The first is the extension deferring charter fees to Solstad Offshore on two vessels to October 31. Solstad is looking to restructure debt and boost liquidity as the speed of recovery for offshore oil drilling and support has been slower than expected. Given the seasonal nature of that industry in the North Sea, where much of Solstad's potential work is located (one of the Ocean Yield vessels is working in Indonesia), we doubt that payments would resume in the final two months of 2019. While we believe a plan that defers debt payments for a longer period of time will be reached, we believe Solstad may look for a grace period that covers all of 2019 and perhaps even the first half of 2020. There is more offshore work starting and there are agreements in place that as cash levels rise at Solstad – it will be paid out to deferred creditors. That makes it more likely that some cash will come back to Ocean Yield, but we think that will be in 2020 at this point.

Second, the FPSO appears ruled out of working the largest part of the Ghana project for Aker Energy at this point. Aker and Ocean Yield are looking to still use the FPSO on smaller parts of the project, but that sounds like shorter-term work to us. Aker extended its option for the vessel until September 1. As Aker owns almost 62% of Ocean Yield it has every incentive to find employment for Ocean Yield's largest asset. Ocean Yield is also pursuing a contract with another oil company at the same time. Per the CEO on the call, "We are working very closely with Aker Energy and we've put together a joint organization for basically the FPSO. The main Pecan field, they are looking at another development solution than our FPSO. We are focusing on one particular field and we are performing now a concept study which will then go to more field study and approval processes. So you are quickly going to 2020 before any decision can be made."

The company made it clearer that this issue of employment will be resolved one way or another by 1Q 2020. It expects to either have a contract in place or it is open to selling the vessel. If it does not have a contract in place, it will likely reduce the dividend from $0.191 per quarter to $0.15.

The market appears to be more than pricing in the dividend cut with the current yield at 12.7% and the lower dividend would still yield about 9.5%. The company's liquidity remains solid and it has covered all of its remaining capital spending for vessels that are being delivered. The balloon payment on the SBM Installer is in the process of being refinanced now and the bond due in 2020 is also planning to be refinanced as well. If the FPSO is sold, it will bring additional cash into the company to retire debt or reinvest in new assets. Having that situation resolved will likely help the stock bounce too as having that large of a debt-free asset produce only minimal cash flow on a series of short-term options is far from the best use of that capital.

The issue remains that there may be three more quarters to go before this is fully resolved and we remain Neutral.

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