

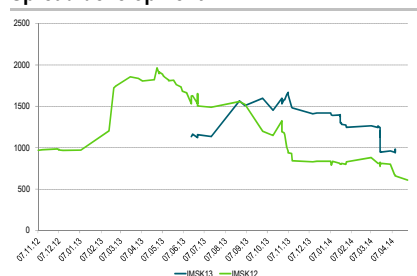
IM Skaugen

Corporate rating: **CCC+/Negative**

Public ratings

Moody's: N.R.
 S&P: N.R.
 Fitch: N.R.
 Market cap (NOKm) 239

Spread development



Source: SEB and Bloomberg

Share price development



Source: SEB and Bloomberg

Analyst

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The estimates in this research report have been produced in collaboration with SEB equity research analysts

Q1 is a repositioning quarter

- Market situation needs to improve**
 We maintain our CCC+ credit rating and Negative outlook. We believe there is a risk of a covenant breach in 2014, unless the market conditions improve significantly. Even if Skaugen manages to avoid this, the company now has USD 85m in debt that matures within one year, compared to a cash balance of USD 62m. As such, the company needs to at least refinance the IMSK12 (due Q1 2015) in order to avoid running out of cash. We estimate that the company has a net loan to value of around 70%. With operational cash flow not being able to cover interest rates, we believe the company's liquidity position will worsen over the year.
- Underweight maintained but IMSK12 retains more options**
 We maintain our Underweight recommendation on the bonds. However, we note that the shorter dated IMSK12 retains more options, and we prefer this over IMSK13 – which is completely dependent on an upturn in the markets. The company needs to at least refinance IMSK12 (due Q1 2015) in order to avoid running out of cash.
- Fleet repositioning gives poor results**
 The cancellation of the contract with Saudi Aramco towards the end of Q4 2013 increased the company's spot rate exposure, while lowering the idle time in Q1 as the fleet was repositioned. While we expected Q1 to be poor, due to low utilisation, day rates were also lower than expected. We believe that Skaugen's actual utilisation was approximately 72% during the quarter, while we estimated 75%. This resulted in an LBITDA from the Norgas segment of USD 4.3m, compared with our EBITDA estimate of USD 0.3m. As a result of the poor performance, there was a USD 8.5m net outflow from operations, and the company still struggles to cover interest payments through operational cash flow. On a positive note, cash flow from investments was USD 9.5m, higher than our estimate of USD 8m, due to the sale of Norgas Patricia. Skaugen now has USD 62m in cash balance, and a net debt of USD 112m. During the quarter, the company repurchased USD 12m of bonds, primarily in IMSK 12 which now has NOK 237m outstanding. We maintain our negative view of the overcapacity in the market due to the continued shutdown of Iran, and the resulting low export volumes of ethylene. The order book for long haul semi-refrigerated and ethylene capable vessels in the 8,000cbm size is 31% of the fleet, and a significant portion of these orders will enter the market during the next two years. As such, unless export volumes improve, we expect overcapacity, low rates and poor utilisation to continue over the next quarters.

Key credit metrics & ratios

	2010	2011	2012	2013	2014E	2015E	2016E
Revenue growth	-4.6%	14.0%	-28.6%	14.8%	-17.2%	19.4%	12.9%
Adjusted EBITDA margin	-4.8%	-3.1%	2.8%	1.2%	1.5%	14.5%	22.9%
Adjusted EBIT margin	-11.3%	-7.9%	-2.0%	-7.2%	-5.5%	8.2%	17.4%
Adjusted EBITDA net int. cover. (x)	-0.4	-0.2	0.2	0.1	0.2	1.9	3.8
Adjusted net debt to EBITDA (x)	-29.7	n.m.	43.8	91.1	86.4	7.7	3.5
Adjusted net debt to capital	65%	58%	69%	61%	65%	64%	55%
Adjusted FFO / Net debt	-11%	-19%	-12%	-10%	-5%	6%	21%

Source: SEB

Credit strengths

- Modern and versatile fleet strongly positioned to take advantage of improved market conditions.
- Limited committed future capex requirements.
- Strong market position in niche shipping segments with low order book to fleet size.

Credit concerns

- Exposure to a highly cyclical and capital intensive industry with limited transparency.
- High leverage and weak cash flow profile following years of large investments to renew its fleet.
- Event risk related to accidents and political decision.

Selected outstanding bonds

Issuer	Ticker	Our view	Sector	Issue date	Maturity date	Coupon	Outst. Amount	ASW	Recommendation
Im Skaugen Se	IMSK13	CCC+/ CCC	Shipping	11.04.2012	11.04.2017	Nibor + 900	NOK 271m	1,158	Underweight
Im Skaugen Se	IMSK12	CCC+/ CCC	Shipping	27.02.2012	27.02.2015	Nibor + 825	NOK 326m	845	Underweight

Source: Bloomberg and SEB

Interest coverage



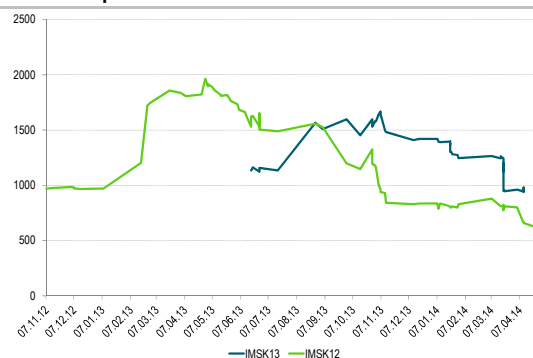
Source: SEB

Financial statement summary (USDm)

	2012	2013	2014E	2015E
Income statement				
Adjusted revenues	96.6	98.3	84.7	95.1
Adjusted EBITDA	2.7	1.2	1.3	13.8
Adjusted EBIT	-1.9	-7.1	-4.7	7.8
Cash flow statement				
Funds from operations (FFO)	-14.1	-11.7	-5.9	6.4
Change in working capital	-18.1	-5.5	4.7	-0.1
Operating Cash Flow	-32.2	-17.2	-1.1	6.2
Free Operating cash flow	-28.7	-17.2	-1.1	6.2
Balance sheet				
Adjusted cash (and equivalents)	22.6	59.0	50.6	49.6
Adjusted total debt	142.8	170.5	163.3	156.0
Adjusted net debt	120.1	111.5	112.6	106.4
Adjusted equity	54.7	71.3	59.5	59.9
Key credit metrics & ratios				
Adjusted net debt to EBITDA (x)	43.8	91.1	86.4	7.7
Adjusted net debt to capital	69%	61%	65%	64%
Adjusted FFO / Net debt	-12%	-10%	-5%	6%
Adjusted RCF / Net debt	-12%	-10%	-5%	6%
Equity ratio	26%	27%	24%	25%

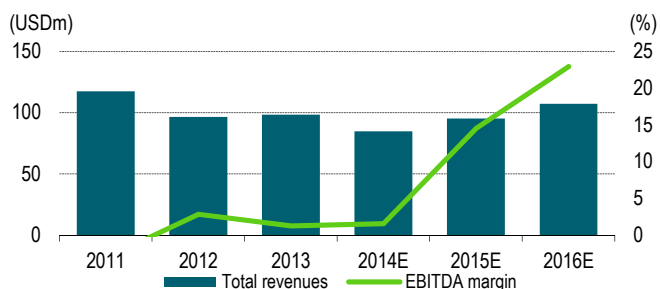
Source: SEB and IM Skaugen financial reports

Spread development

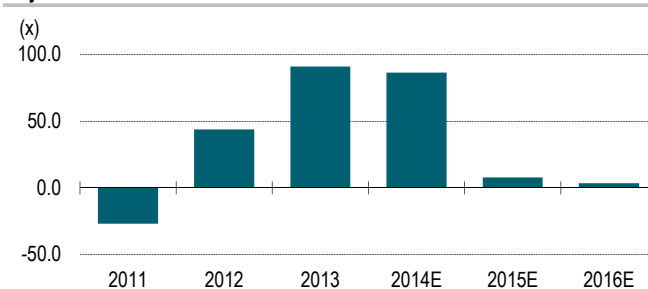


Source: SEB and Oslo Stock Exchange

Revenues and EBITDA margin



Adjusted net debt / EBITDA



Source: SEB and IM Skaugen financial reports

Profit & loss statement

(USDm)	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014E	2015E	2016E
Total revenues	110	140	144	180	136	108	103	117	97	98	85	95	107
Total expenses	-85	-93	-109	-140	-119	-108	-108	-121	-94	-97	-83	-81	-83
EBITDA	25	46	35	40	17	0	-5	-4	3	1	1	14	25
Depreciation	-13	-12	-13	-12	-8	-8	-7	-6	-5	-8	-6	-6	-6
Intangibles amortisation	0	0	0	0	0	0	0	0	0	0	0	0	0
EBIT	12	34	22	28	9	-8	-12	-9	-2	-7	-5	8	19
Associated companies	0	0	0	0	19	4	11	12	1	8	0	0	0
Net interest expenses	-9	-9	-12	-11	-16	-13	-13	-17	-17	-14	-8	-7	-6
Value changes	1	-8	0	4	0	0	0	1	2	31	0	0	0
Other financial items	1	3	1	0	-2	6	1	1	0	1	0	0	0
Reported pre-tax profit	5	20	11	21	9	-10	-11	-11	-16	19	-12	0	12
Minority interests	0	-1	-1	-2	0	0	0	0	0	0	0	0	0
Total taxes	6	0	0	-4	0	0	0	0	0	-1	0	0	0
Net profit	11	19	11	15	9	-10	-11	-11	-16	18	-12	0	12
EBITDA margin	22.8	33.2	24.2	22.3	12.6	0.2	(4.8)	(3.1)	2.8	1.2	1.5	14.5	22.9
EBIT margin (%)	11.1	24.6	15.4	15.3	6.4	(7.2)	(11.3)	(7.9)	(2.3)	(7.4)	(5.9)	8.2	17.4
Tax rate (%)	(115.3)	0.0	0.0	20.0	3.0	(2.3)	3.0	3.0	0.7	3.6	3.0	3.0	3.0
Growth rates y-o-y (%)													
Total revenues	(28.1)	27.1	2.8	25.6	(24.4)	(20.8)	(4.6)	14.0	(28.6)	14.8	(17.2)	19.4	12.9
EBITDA	n.a.	84.9	(25.1)	15.7	(57.4)	(98.7)	(2,400.5)	25.5	174.7	(55.3)	6.5	958.9	78.4
EBIT	21.7	182.8	(35.7)	25.0	(68.2)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	138.3
Pre-tax profit	(75.2)	299.4	(43.7)	81.9	(56.6)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2,758.9

Cash flow

(USDm)	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014E	2015E	2016E
FFO	18	32	24	28	-1	-7	-16	-19	-14	-12	-6	6	18
Changes in working capital	-7	0	3	-49	-74	44	-17	52	-18	-6	5	0	2
Operating cash flow	11	32	27	-21	-76	38	-34	34	-32	-17	-1	6	20
Net capital expenditures	0	-5	-39	-18	1	-7	-6	3	3	0	0	0	0
Free operating cash flow	11	27	-13	-39	-75	31	-40	37	-29	-17	-1	6	20
Dividend paid	-6	-16	-8	-8	-8	0	0	0	0	0	0	0	0
Acquisitions, divestments net	5	-16	-21	-47	-69	31	-45	37	-29	88	-1	6	20
Pre-financing cash flow	5	-16	-21	-47	-69	31	-45	37	-29	88	-1	6	20
Net loan proceeds	-25	74	20	80	-2	19	-12	-38	9	-51	-7	-7	-7
Share issue	0	-1	4	0	0	0	0	0	0	0	0	0	0
Net change in cash	-20	57	4	33	-71	50	-57	-1	-20	38	-8	-1	13
Capex/sales (%)	0.0	3.9	27.5	10.1	-0.4	6.0	6.1	-2.5	-4.1	0.0	0.0	0.0	0.0

Balance sheet

(USDm)	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014E	2015E	2016E
Cash and liquid assets	24	81	80	102	31	96	40	41	23	59	51	50	62
Other current assets	24	36	37	117	123	80	73	32	42	40	38	41	45
Fixed tangible assets	157	165	191	122	138	164	161	157	145	161	155	149	143
Intangibles	6	6	6	5	5	3	3	3	3	3	3	3	3
Total assets	211	288	315	346	297	343	276	233	212	263	247	243	253
Interest bearing debt	104	174	189	200	194	213	186	140	143	170	163	156	149
Other liabilities	17	30	33	21	0	36	11	24	15	21	24	27	33
Minority interests	3	4	5	1	1	1	1	1	0	0	0	0	0
Shareholders' equity	86	81	87	124	103	94	78	69	55	71	59	60	72
Total liabilities and equity	211	288	315	346	298	343	276	233	213	263	247	243	253
Net debt (m)	81	93	109	80	153	116	142	91	115	111	113	106	87
Net debt/equity (%)	90.9	109.6	119.0	64.1	146.9	122.8	180.6	130.4	210.4	156.3	189.3	177.6	121.0
Equity/total assets (%)	42.2	29.4	29.2	36.0	34.9	27.5	28.5	30.0	25.7	27.1	24.1	24.7	28.3
Net debt/EBITDA (x)	3.2	2.0	3.2	2.0	8.9	541.8	(28.9)	(24.9)	42.0	91.1	86.4	7.7	3.5
EBITDA Interest cover	2.4	4.7	2.4	2.6	1.0	0.0	(0.4)	(0.2)	0.2	0.1	0.1	1.2	2.3

Main shareholders

Name	(%)	Votes	Capital	Title	Name	Contact
Skaugen Family		36.0	36.0	COB	Erik Eik	Internet www.skaugen.com
SES		10.5	10.5	CEO	Morits Skaugen Jr	Phone number (47) 2312 0400
Odin Norge		7.3	7.3	CFO	Bente Flø	

Management**Company information**

Company description: IM Skaugen operates petrochemical gas carriers. The gas carriers are in the 10,000cbm size and are mostly ethylene capable. This means these ships can cool the cargo more than regular LPG tankers, and that the tanks can hold the highly corrosive ethylene. Growth in demand for petrochemical transportation is driven by the strong production growth of ethylene in the Middle East and continued strong demand in China.

Please note: The data in several tables and charts in this document have been adjusted in line with common practice in the field of credit research. This mainly refers to adjustments of operating leases, pensions, derivatives and other contingent liabilities. For a detailed breakdown of the adjustments, please contact the author of this report.

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Recommendation History

Instrument	Recommendation	Date
I.M. Skaugen 11 Apr 2017 N3M+900	Underweight	17 Oct 2012
I.M. Skaugen 27 Feb 2015 N3M+825	Underweight	17 Oct 2012

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