

# Credits in focus - Investment Perspectives

Astrup Fearnley Shipping & Energy Conference

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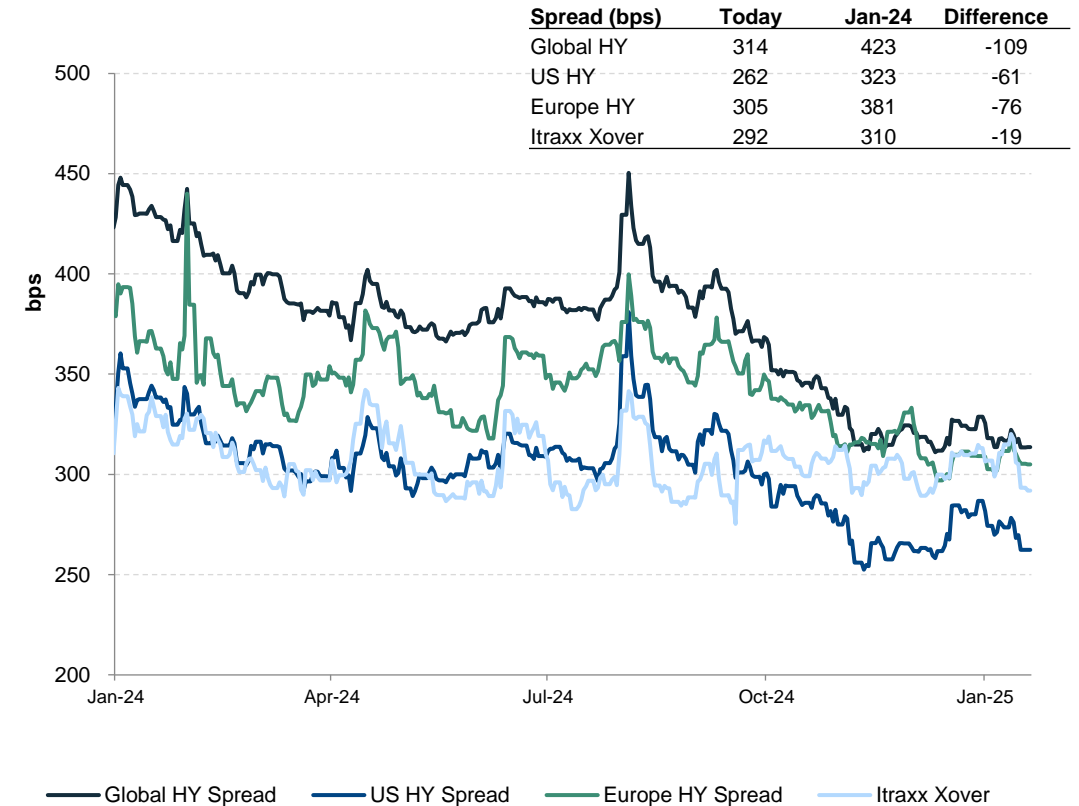
# Credit markets rallied in 2024, what will 2025 bring?



## Credit market overview

- **Our thesis is that rates will remain higher for longer**
- **We focus on the underlying credit quality for individual issuers – looking to mitigate the downside**
- **2024 inflows to HY funds will support the issuance in early 2025**
- **We expect the 2025 HY market to be more volatile than 2024**

## Global HY indices



Source: Bloomberg, Fearnley Securities

# US HY is at tight levels – only 33 bps above lowest level since 2002 (< 1.8% of days)...



## US HY since 2002



Source: Fearnley Securities, Bloomberg

...but on a yield basis the market is not at an all time low, as reference rates are higher



US HY yields since 2002

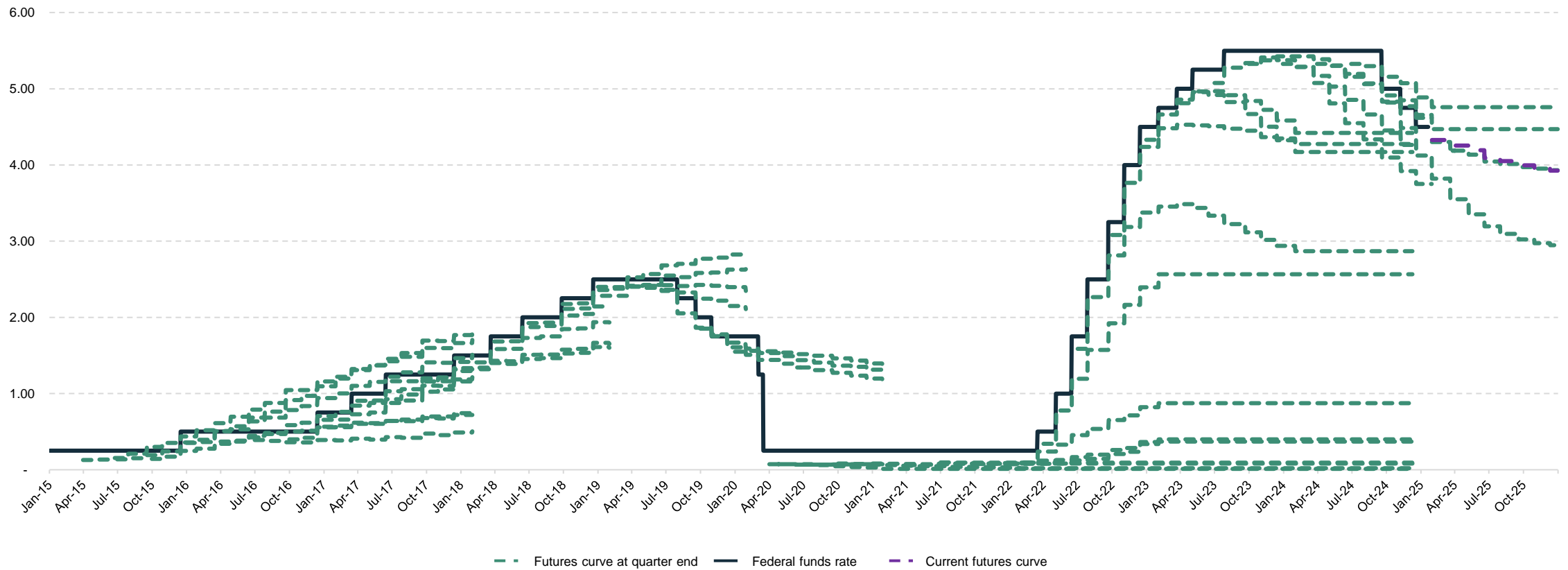


Source: Bloomberg, Fearnley Securities

# The future market is more cautious toward further rate cuts from Fed in 2025



Fed Fund Rate vs future market (%)

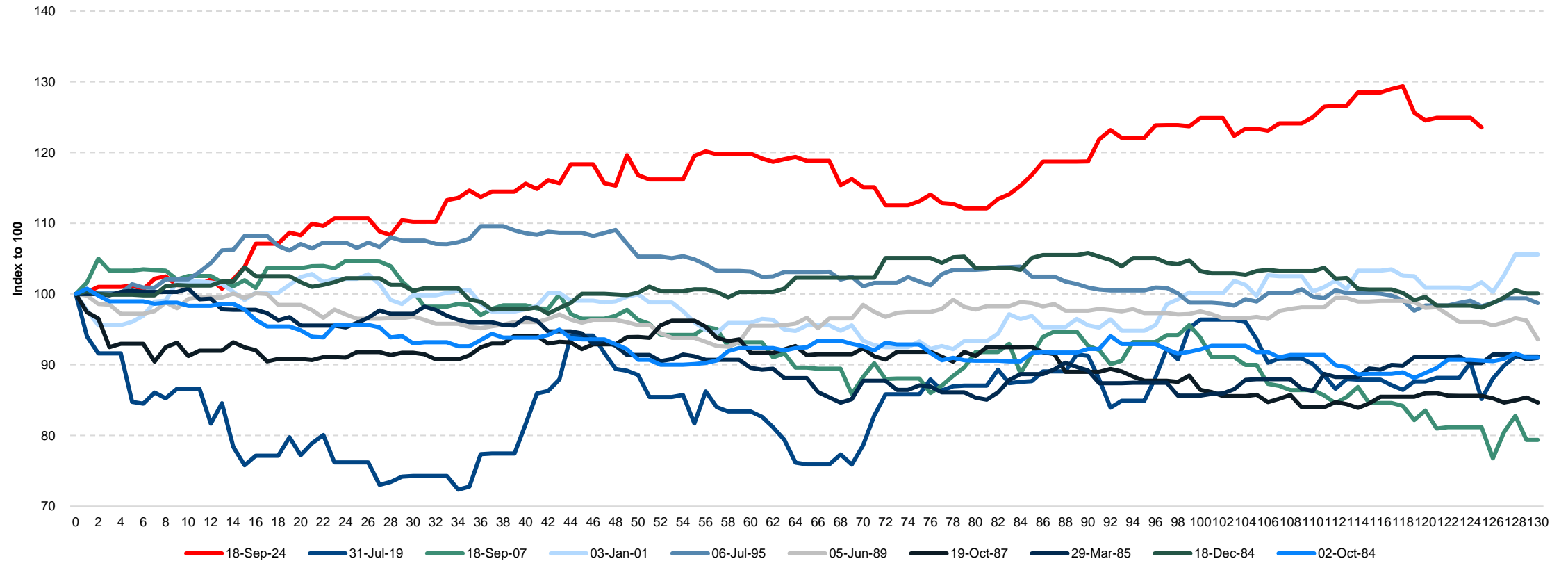


Source: Bloomberg, Fearnley Securities

# US Govt bond yield have strengthened since first Fed cut in September -> less likely to see further deep cuts



Change in 10yr US Govt bond yield since first Fed cut in days

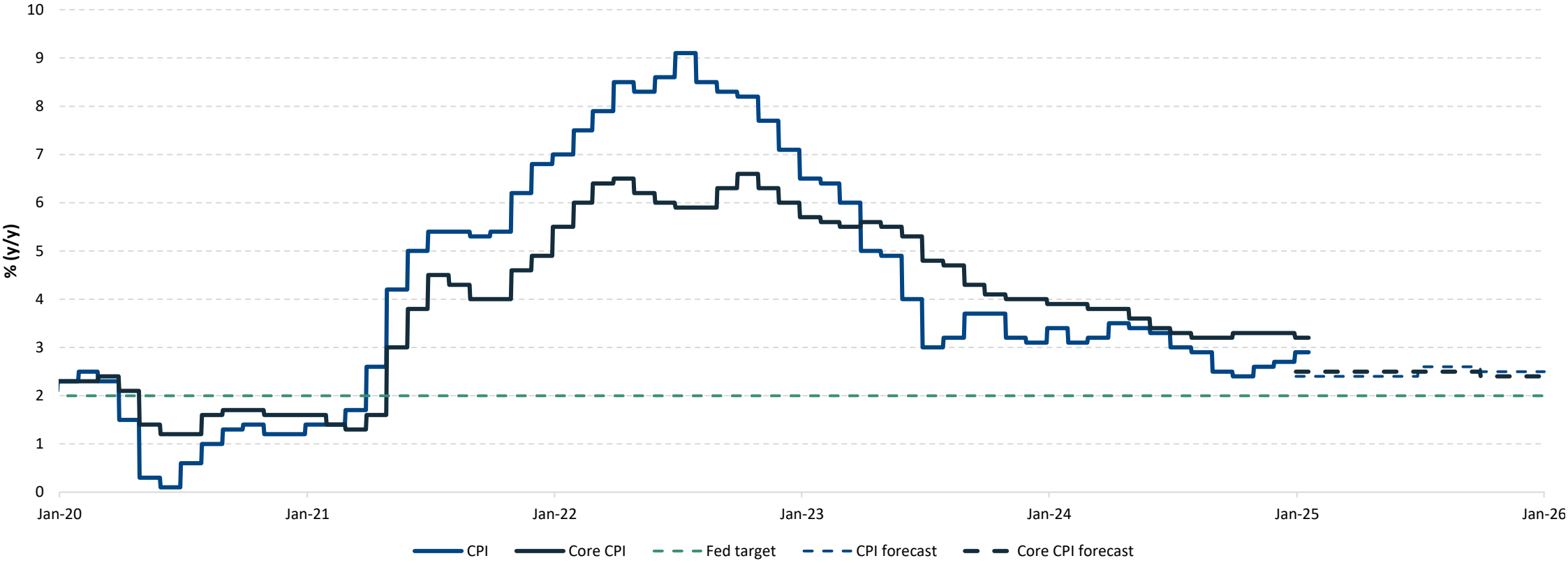


Source: Bloomberg, Fearnley Securities

# Inflation expectations are still above the 2% CPI target



CPI and Core CPI inflation

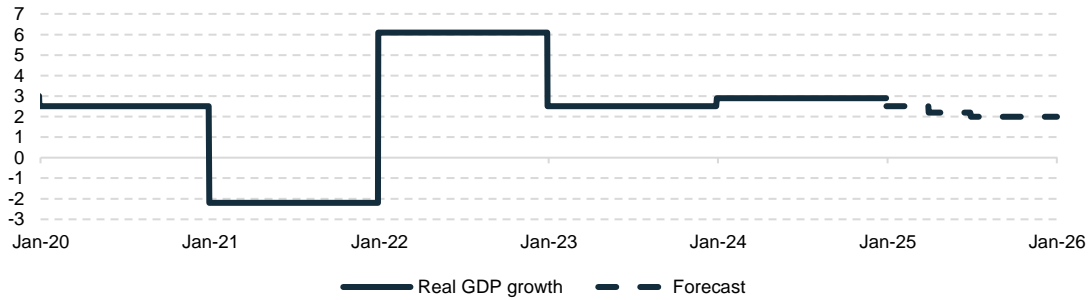


Source: Bloomberg, Fearnley Securities

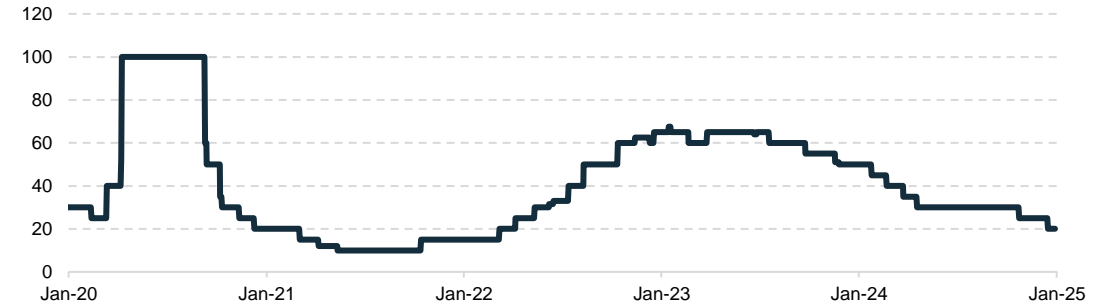
# Other key economic indicators does not support lower interest rates in the near term



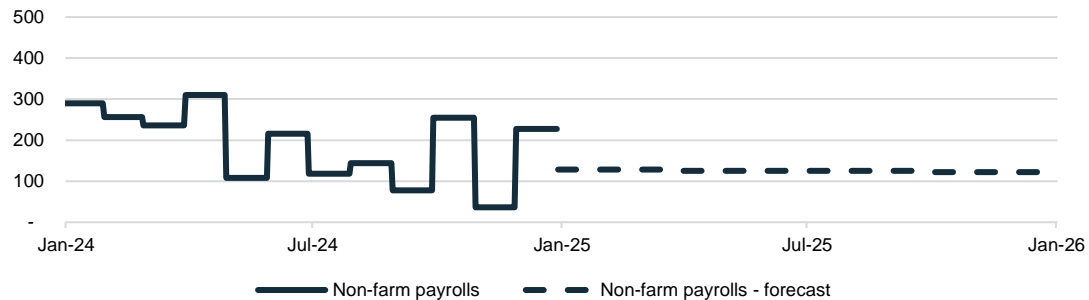
GDP Growth (y/y in %)



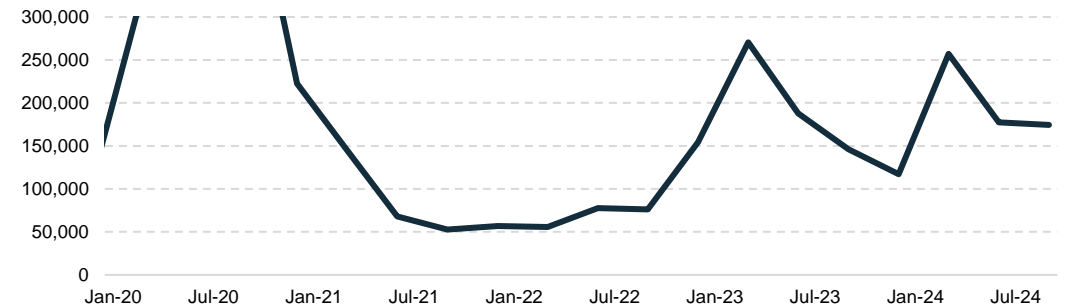
Probability of a recession (%)



Non-Farm Payrolls ('000)



Number of job-cuts



Source: Bloomberg, Fearnley Securities



# Rate cut started in September - How low will the Fed go this time?



Months from first cut to last cut for FED

Difference top-bottom

0.4%

5.4%

2.1%

8.25%

10.5%

11.5%

5.9%

7.0%

0.75%

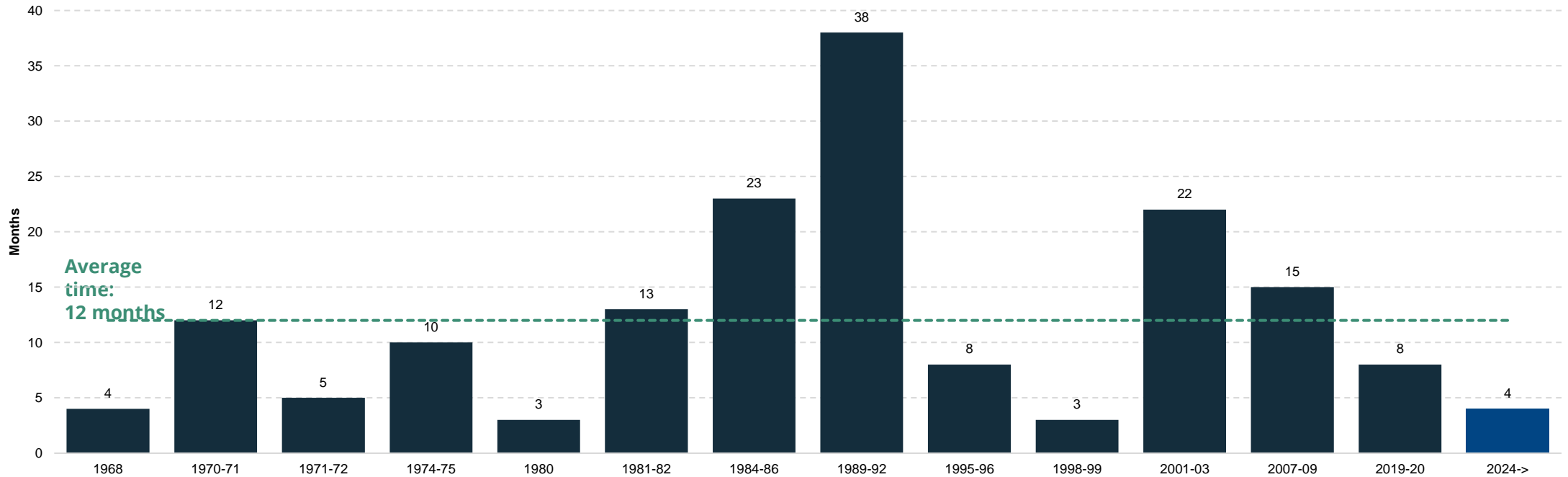
0.75%

5.5%

5.0%

2.25%

[1.00%]



Average time: 12 months

Bottom Fed rate

5.75%

3.75%

3.50%

4.75%

9.50%

8.50%

5.88%

3.0%

5.25%

4.75%

1.0%

0.25%

0.25%

[4.50%]

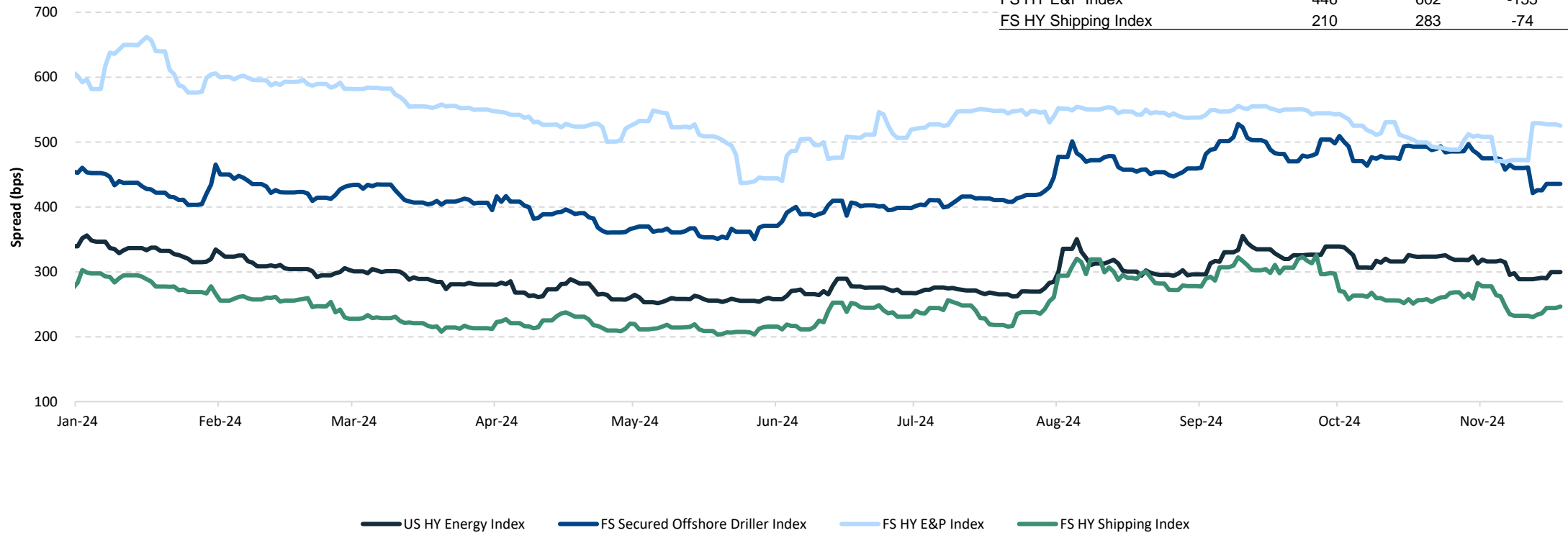
Source: Bloomberg, Federal Reserve, Fearnley Securities

# FS Bonds Indices - Last year was bumpy, especially for offshore drillers



## FS Bonds Indices

FS HY Indices (bps)	Today	Jan-24	Difference
US HY Energy Index	274	339	-65
FS Secured Offshore Driller Index	485	453	32
FS HY E&P Index	446	602	-155
FS HY Shipping Index	210	283	-74











Source: Bloomberg, Federal Reserve, Fearnley Securities

# Top Picks for 2025 – We like issuers with revenue visibility, net cash, or discount to peers



## Top bond picks

								
<b>Amount</b>	USD 300m	USD 400m	USD 75m	USD 1,058m	USD 250m	USD 165m	USD 300m	USD 150m
<b>Rank</b>	Sr. Unsecured	Sr. Unsecured	Secured	Secured	Sr. Unsecured	1 <sup>st</sup> Lien	Sr. Unsecured	Sr. Unsecured
<b>Coupon</b>	9.500%	9.250%	9.125%	9.625%	10.375%	10.00%	7.75%	3mN+325 bps
<b>Maturity</b>	July 2029	June 2029	May 2028	April 2029	July 2028	2027	October 2029	January 2030
<b>Spread/YTW</b>	374 bps / 8.1%	405 bps / 8.4%	300 bps / 6.5%	997 bps / 14.3%	360 bps / 7.9%	455 bps / 8.8%	348 bps / 7.9%	355 bps / 7.9%
<b>Comments</b>	<ul style="list-style-type: none"> <li>Sector top pick</li> <li>Production to double in 2025</li> </ul>	<ul style="list-style-type: none"> <li>Increasing North Sea presence</li> <li>Solid cash flows from Kurdistan</li> </ul>	<ul style="list-style-type: none"> <li>NOK 0.4bn net cash position</li> <li>NOK 200m FCF 25-26</li> </ul>	<ul style="list-style-type: none"> <li>Contract coverage at 90%/50% (25/26)</li> <li>Steep repricing potential</li> </ul>	<ul style="list-style-type: none"> <li>FSest LTV 15%</li> <li>FCF of USD 1.1bn in 25-26 covers USD 650m GIBD</li> </ul>	<ul style="list-style-type: none"> <li>Sector top pick</li> <li>All rigs on contract till 2q26</li> <li>Debt amort reduces residual risk</li> </ul>	<ul style="list-style-type: none"> <li>USD 11.0 bn in backlog</li> <li>USD 0.7bn in net debt</li> </ul>	<ul style="list-style-type: none"> <li>USD 4.7bn in backlog</li> <li>USD 2.8bn in net debt</li> </ul>

Please note that Fearnley Securities acted as joint bookrunner in the recent SFL USD 150m sr. unsecured bond issue

Source: Bloomberg, Federal Reserve, Fearnley Securities

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Issued by Fearnley Securities on March 17, 2023.

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Last updated 30. November 2024	Analyst's holding		Others	
	Equities	Bonds	Equities	Bonds
Company Name				
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DNO ASA	600	-	-	-
Equinor ASA	20	-	-	-
Green Minerals	40	-	-	-
Northern Ocean	2.000	-	-	-
Odfjell Drilling Ltd	3.000	-	-	-
Proximar Seafood AS	4.026	-	-	-
Reach Subsea	1.541	-	-	-
SeaBird Exploration	226	-	-	-
TGS ASA	34	-	-	-
Ventura Offshore	54	-	-	-
Vår Energi ASA	290	-	-	-

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Last updated 31 December 2024








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- BlueNord ASA
- Borr Drilling Ltd
- BW Energy Limited
- Cavendish Hydrogen ASA
- d'Amico International Shipping SA
- Diana Shipping Inc
- Dorian LPG
- Golar LNG Limited
- Gram Car Carriers ASA
- Hav Group ASA
- Navigator Holdings Ltd
- NEL ASA
- Noble Corporation Plc
- M Vest Water AS
- MPC Container Ships ASA
- Odfjell Drilling
- Paratus Energy Services
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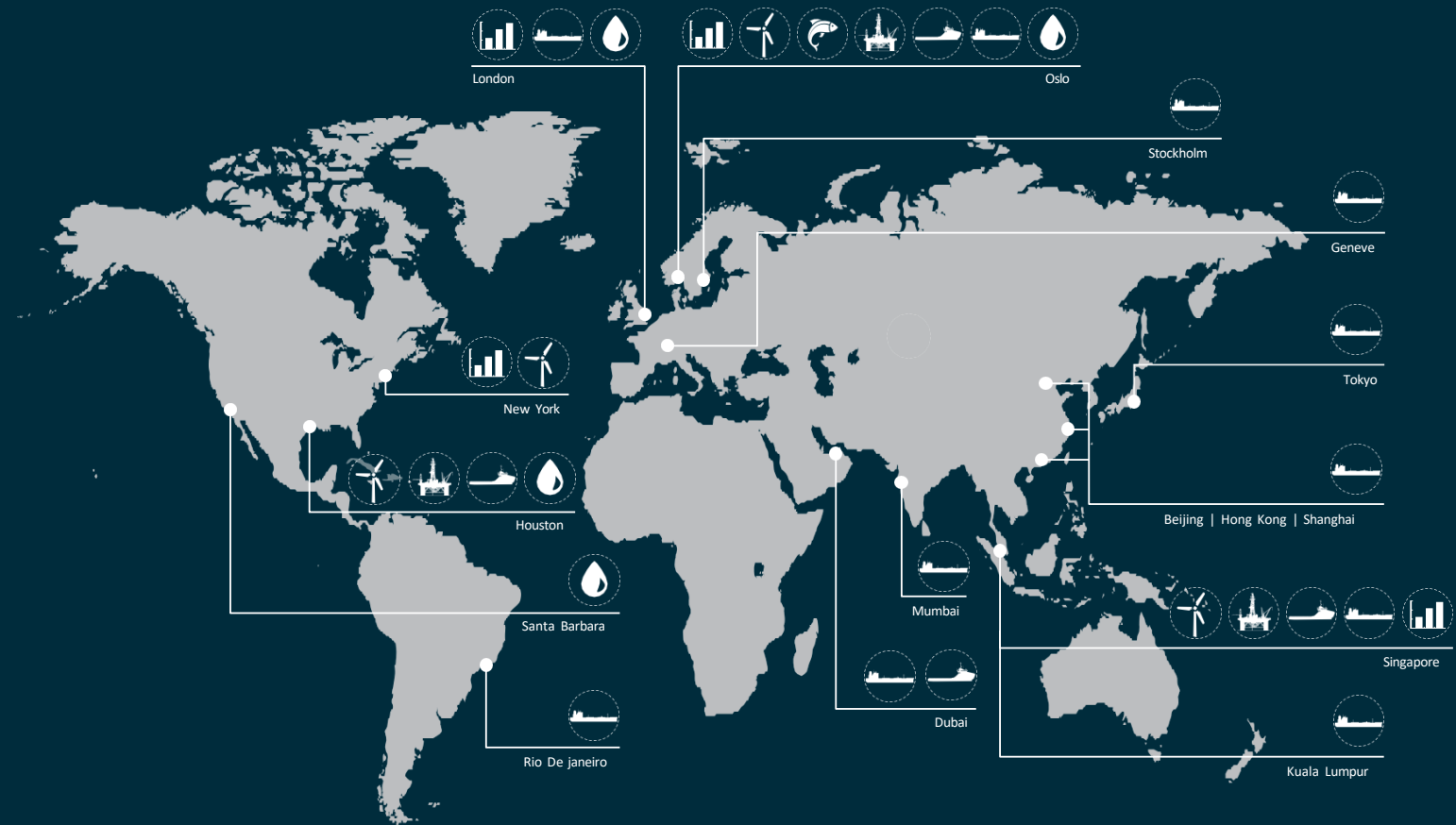
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Last updated 31 December 2024

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-  Aquaculture
-  Shipping
-  Offshore Rig
-  Offshore Supply
-  Energy Broking



- |         |           |              |                |               |       |
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| Beijing | Hong Kong | London       | Stockholm      | Shanghai      |       |
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