

HIGH YIELD CROSSES BORDERS - PUBLIC DEBT AWARD

With bank debt being a cheap source of funding, the public debt markets, particularly high yield, were relatively quiet in 2007. The exception was the Norwegian high yield market which continued to set record levels in 2007 even surpassing the prior year's award winning performance despite a slowdown in the

second half. As we have written on numerous occasions, these bonds have become attractive instruments given the speed and ease with which capital can be raised with the sole negatives being their generally shorter tenor and higher cost. But recently this has become a market primarily focused on the oil, offshore and oil service

industries with the shipping companies being noticeably absent. This should come as no surprise given their easy access to cheap bank debt as well the strong cash flows these companies have enjoyed over the past few years.

There was however one exception and it was unusual to say

the least. The third largest oil transportation company in Russia, Primorsk Shipping Company ("Prisco"), long financed through the international bank syndicates, made its introduction in the capital markets in February 2007. Through the intervention of Nordea Bank, Primorsk International Shipping Ltd.

■ Guts of the Deal

Issuer	Primorsk International Shipping Limited ("PISL")
Amount	Up to NOK 450 MM divided between one NOK tranche and one USD tranche
Borrowing Limit	Equivalent NOK 1,000 MM
Notes Offered	3 months LIBOR or NIBOR+3.60% Senior Unsecured Bonds
Issue Price	100%
Maturity Date	28-Feb-2011
Amortization	Bullet
Optional Redemption	None
Guarantees	100% unconditional guarantee from Prisco Tanker Limited to be released when 100% of the shares of Primorsk Sakhalin Shuttle Tanker ("PSST") limited are transferred to PISL. PSST controls 3 Aframax tankers on I-t charter to Exxon Neftegas.
Ranking	Senior unsecured.
Security	Unsecured.
Restrictive Covenants	During the term the book equity ratio will be 25%. No dividends, repurchase of shares or other distribution to shareholders to exceed 25% of net profit from prior year's accounts.
Change of Control	Bondholders will have the right of early redemption at 101.5% if Maritime Prospect Trust cease to control 100% of the shares in PISL.
Use of Proceeds	General corporate purposes including part funding of the newbuilding program.
Ratings	Nordea shadow ratings: Company BB stable; Unsecured Bonds B+ stable
Number of Vessels	9 tankers with 16 on order
Average Age of Fleet	4.4 years declining to 3 years when newbuildings deliver
Management Company	Prisco Singapore
Annual EBITDA	\$88 MM
Arranger	Nordea Bank Norge ASA
Incorporation	Cyprus
Listing	None initially. An application may be made for listing on the OSE or the OSE ABM at the discretion of the issuer.
Trustee & Paying Agent	Norsk Tillitsmann/Nordea Bank Norge

FIGURE 1

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("PISL"), a company with the same shareholders as Prisco, issued a senior unsecured NOK/USD bond of NOK 450 million, out of a total availability of NOK 1,000 million, in the Norwegian bond market. The major terms of the transaction are shown in Figure 1.

This issue is notable for many reasons but perhaps most importantly for being the first high yield bond issued for a Russian company in the Norwegian domestic bond market. Based upon a high degree of transparency as well as exceptional sales presentation, which clearly explained its corporate structure, finances and fleet replacement plans, the company was able to attract both Norwegian and international investors, enabling the bond to be issued in both USD and NOK. Timing, too, was fortuitous with pricing done at historic low levels. Finally, with a borrowing limit of NOK 1 billion, the company gained flexibility to meet its future funding needs. For these reasons, the Editors of Marine Money award Nordea, as sole lead arranger, and Investco Marine Agency and Tufton Oceanic, as advisors to the company, the award for Public Debt Deal of the Year.

Prisco operates primarily in the Russian Far East (Sakhalin) and Baltic areas, benefiting from the growth of the Russian economy, increased oil demand and its long established business presence in the Sakhalin area with its 14 billion barrels of oil and 96 trillion cubic feet of gas

(comparable to the North Sea) as well as its proximity to Asian Pacific markets. With its Russian roots, Prisco is uniquely positioned in this niche market, which has high barriers to entry. Its particular advantage is its fleet of ice-class built vessels together with well-trained crews with ice navigation skills. In addition, the establishment of a new international holding company, PISL, to which the bulk of Prisco's international fleet was transferred in 2006, allows the company to take advantage of Russian export opportunities while having an ownership structure remote from Russian political risk. The latter is accomplished through a Luxembourg trust.

Further comfort for the bondholders comes from the young fleet and the experienced management team that has managed through the cycles. And although unsecured, the bondholders hold a senior position on what is currently a very strong balance sheet. In the first half of 2006 (latest figures available), PISL had cash balances of \$111 million versus total debt of \$442 million. Modest leverage is forecasted through the life of the bond with gross debt/ capitalization anticipated to be approximately 54%. However Nordea's Credit Analysis, dated February 7, 2007, notes that PISL uses IFRS accounting where asset values are reported at market value in the balance sheet with any revaluation recorded against equity. It has benefited from the rising market but is

exposed should the market move against it. Finally, we would mention that the EBITDA/Interest coverage compared to its peers is a bit thin at 3.3 times. Although these concerns should be monitored, they are probably of little concern given the short term of the bonds, the protected trade and the organic growth as the vessels deliver with secured employment including time charters, Torm Pool employment, or trading in the dedicated Russian export business.

The competition for this award was stiff making the choice even more difficult. Among the other worthy transactions were Berlian Laju Tanker's inaugural

bond offering (Deutsche Bank & JPMorgan), Stena AB's two perfectly timed high yield offerings (JPMorgan, Deutsche Bank & Citi) and DP World's traditional and Islamic bond offering (Barclays Capital, Citi, Deutsche Bank & Dubai Islamic Bank).

At the end of the day however the scales leaned towards this transaction. It was a great deal for the PISL, which raised the capital it needed for the payments due the shipyards and for Nordea, and the company's advisors, which brought a "story" credit to the capital markets in a carefully structured cross-border transaction.



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