

Ocean Yield

Issuer profile

Ocean Yield is being acquired by A.P. Møller Holding, which strengthens its credit profile, a view echoed by the positive bond market's reaction. The resulting change of control provision makes refinancing the hybrid particularly incentivising for Ocean Yield, given the otherwise steep margin step-up. As a result, Ocean Yield is contemplating a USD100m hybrid bond issue, with proceeds intended to refinance the USD110m hybrid, OCY10, callable in 2029. As of Q2 26, its adj. EBITDA backlog stood at USD4.9bn, diversified across several shipping segments and counterparties, underpinning a high degree of cash flow visibility. Recent vessel sales have reduced its earnings-generating asset base and a higher share being in JVs, and we expect leverage to increase modestly as a result and range between 4.8-5.5x in 2026-28E, from 4.1x as of Q2, before the recent LNG investments contribute more meaningfully.

Ocean Yield's key credit strengths, in our view, are (i) a high degree of cash flow visibility through a fully contracted fleet on long-term bareboat charters, (ii) diversification across multiple commoditised shipping segments, and (iii) proven access to competitive sources of capital with an incentive to maintain a robust credit profile. Its key credit challenges, in our view, are (i) residual value risk (i.e. asset value and reemployment risk, partly mitigated by purchase options), (ii) counterparty risk (counterparty concentration mitigated by 59% of its backlog being with IG-rated counterparts), and (iii) funding risk (mitigated by the long presence in capital markets).

Key figures

USDm	2024	2025	2026E	2027E	2028E
Total sales	244	251	228	229	212
EBITDA (rep.)	223	227	201	206	190
EBITDA (adj.)	375	401	322	298	275
Net income	97	91	92	86	70
FFO (rep.)	260	277	241	196	177
FFO (adj.)	260	277	241	196	177
Equity	723	759	698	704	695
Net debt	1,389	1,486	1,447	1,432	1,415
Net debt (adj.)	1,464	1,596	1,557	1,542	1,525
Ratios	2024	2025	2026E	2027E	2028E
EBITDA-margin	91.5%	90.4%	88.1%	89.6%	89.5%
Net debt/EBITDA (x)	3.7	3.7	4.5	4.8	5.1
Adj. net debt/adj. EBITDA (x)	3.9	4.0	4.8	5.2	5.5
FFO/net debt	19%	19%	17%	14%	13%
Adj. FFO/adj. net debt	18%	17%	15%	13%	12%
Adj. total debt/total capital	71%	72%	74%	74%	74%
Net debt/total capital	62%	63%	64%	64%	64%

Source: Company data, Danske Bank Credit Research estimates

No recommendation

Shipping , Transportation

Corporate ticker: OCY

Equity ticker: OCY NO

Market cap (NOKm): 0

Ratings:

S&P: NR / NR

Moody's: NR / NR

Fitch: NR / NR

ESG rating:

Sustainalytics ESG Risk Rating: 22

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For further information about these bonds, refer to the preliminary prospectus. Once the subscription period ends, we will know the final details. These will be disclosed in the final prospectus prepared immediately after the transaction. If you have further questions, contact your investment adviser.

Strengths

- High earnings visibility through a sizeable and long-duration backlog
- Minimal operating risk through bareboat charters
- Modern and diversified fleet
- Purchase options/obligations reduce residual value risk
- Reputable owner and proven access to capital

Challenges

- Counterparty concentration
- Residual value risk
- Continuous need to secure contracts
- Ship-owning is capital intensive
- Regulatory risk (i.e. in relation to sustainability)

Source: Company data, Danske Bank Credit Research

Danske Bank is acting as Joint Lead Manager in connection with an upcoming offering of bonds by Ocean Yield.

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Important disclosures and certifications are contained from page 11 of this report.

General risks when investing in corporate bonds

Buying corporate bonds exposes investors to various risks, including the following.

- **Credit risk**, *i.e. the company's ability and willingness to repay its debt*. For long-term ('buy and hold') investors, credit risk is by far the most important risk when investing in corporate bonds. Credit risk relates to the likelihood of bankruptcy and the subsequent recovery rate and is often described via a credit rating (for more information see the [Credit rating definitions section later in this document](#)). The probability of bankruptcy is dependent on the general economic climate. At times, the frequency of bankruptcies tends to surge (as we saw, for example, during the financial crisis). Historically, the yearly bankruptcy rate for non-investment grade companies has been around 4%.
- **Recovery risk and subordination**. It is important to understand where a bond is positioned in the *capital structure* of a company, as this has a significant influence on investors' recovery rates in the event of default. Subordinated bonds, for example, tend to attract a lower recovery rate than senior bonds. Investors should also be aware of whether they are buying a bond in the operational company or in the holding company behind it. In the latter case, the investor may risk being *structurally subordinated* in a bankruptcy situation – even if the investor has bought senior debt – and the recovery rate will therefore be lower. A more detailed description of capital structure is given later in this document (see [Capital structure](#) later in this document).
- **Liquidity risk**. The corporate bond market is typically far less liquid than the government bond market. This is sometimes reflected in a substantial spread between quoted buying and selling prices. Moreover, corporate bond investors may, in certain periods, find it difficult to sell their bonds at all.
- **Market risk**. Corporate bond prices may fluctuate quite considerably at times, even when there is no company-specific news. The general trend in interest rates also affects bond prices.
- **Currency risk**. Corporate bonds denominated in foreign currencies are subject to price fluctuations relative to the investor's base currency. While a currency peg is frequently associated with low currency exchange risk, this scenario is still subject to currency exposure and related risks.
- **Documentation risk**. There are often substantial differences in the documentation under which corporate bonds are issued and this may influence pricing (e.g. in connection with a takeover by another company). Moreover, corporate bonds often come with various prepayment options.
- **Portfolio risk**. Portfolio credit risk arises from a concentration of credit bonds with similar characteristics. Diversification, for example, across companies and sectors, reduces default correlations in the corporate bond portfolio and minimises this risk.

Credit rating definitions

Credit ratings are assigned to corporate bonds by rating agencies as an opinion on credit risk. The credit rating describes the *ability* and *willingness* of the company to meet its financial commitments (i.e. an assessment of *default risk*) but may also incorporate relative *seniority* claims or *recovery* in the event of default. The intent of the credit rating is to be forward looking and incorporate known risks.

The credit rating definitions of the three largest rating agencies (Standard & Poor's, Fitch Ratings and Moody's) are described below and rank from 'AAA' or 'Aaa' (highest quality) to 'C' (lowest quality). Bonds with a credit rating in the top tier are usually referred to as 'investment grade' quality and bonds with a credit rating in the second tier are usually labelled 'speculative grade' or 'high yield'.

Credit rating overview

	Standard & Poor's <i>Long-term obligation</i>	Fitch Ratings <i>Long-term obligation</i>	Moody's <i>Long-term obligation</i>
Investment grade	AAA	AAA	Aaa
	AA+	AA+	Aa1
	AA	AA	Aa2
	AA-	AA-	Aa3
	A+	A+	A1
	A	A	A2
	A-	A-	A3
	BBB+	BBB+	Baa1
	BBB	BBB	Baa2
	BBB-	BBB-	Baa3
Speculative grade	BB+	BB+	Ba1
	BB	BB	Ba2
	BB-	BB-	Ba3
	B+	B+	B1
	B	B	B2
	B-	B-	B3
	CCC+	-	Caa1
	CCC	CCC	Caa2
	CCC-	-	Caa3
	CC	CC	Ca
	C	C	C
Misc.	D (in default)	D (in default)	D [PDR] (in default)
	WR (withdrawn)	WR (withdrawn)	WR (withdrawn)
	NR (not rated)	NR (not rated)	NR (not rated)

Source: Danske Bank Credit Research

The credit rating of a bond (i.e. the credit risk) tends to be closely correlated with the price/yield of the bond (compensation for credit risk). For a given maturity, bonds with higher credit risk (low credit rating) tend to offer a higher yield (low bond price). Similarly, bonds with low credit risk (high credit rating) tend to offer a lower yield (higher bond price).

Credit ratings do not describe portfolio credit risk (i.e. concentration risk and default correlations), liquidity risk, market risk, currency risk, etc.

Capital structure

An important factor for corporate bond investors is the bond's position in the capital structure, as this will have a significant influence on pricing and the

investor's recovery rate in the event of default. After describing a typical capital structure for a company, we look specifically at hybrid bonds issued by non-financial companies and finally we take a more detailed look at the capital structure of banks.

Capital structure and recovery rates in the event of bankruptcy

The liabilities of a company can be ranked in the order in which creditors (investors) should receive what is owed to them in the event of the company no longer being able to meet its obligations (in this document we do not differentiate between the legal distinctions that exist between, for example, bankruptcy, receivership and liquidation). The higher the investor is placed in the capital hierarchy, the greater the probability of getting repaid all or part of what is owed. The figure below is a stylised example of the capital structure of a company (note that there may be several underlying layers; hence, this is not necessarily a complete picture). The figure is read such that, in the event of bankruptcy, the secured debt would be repaid first, while shareholders would be the last in line.

Stylised illustration of corporate capital structure



Source: Danske Bank Credit Research

As well as the position in the capital structure, the investor should also be aware of whether the purchased bond may be *structurally subordinated* to other debt. In practice, this means that even though the bond is secured, for example, it may nevertheless be subordinated to other debt if this is in a subsidiary. Debt issued by a holding company whose only activity is the ownership of a subsidiary that has issued debt will be structurally subordinated to all debt issued by the subsidiary concerned.

Recovery rates clearly tend to be lower during periods of multiple bankruptcies, as such periods tend to be associated with economic downturns in which asset values are often under pressure. If there is a simultaneous scarcity of liquidity and capital in the financial system, this tendency will be reinforced. Indeed, the early phase of the current financial crisis saw a scarcity of liquidity and capital.

Hybrid bonds issued by non-financial companies

Hybrid capital basically lies somewhere between equities and bonds. Hybrids share characteristics with bonds in that, under normal circumstances, they provide regular coupon payments and are redeemed at par on maturity. However, as certain features make hybrids riskier, hybrids are more comparable to equities in certain circumstances.

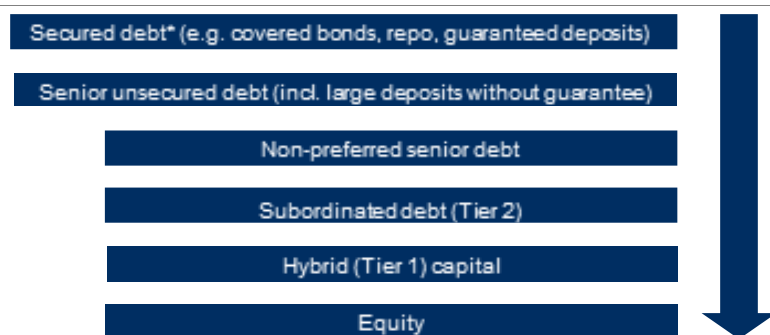
- First, hybrid capital is potentially perpetual, although all hybrids have a call date, which is usually 10 years from the issuance date. The issuer can elect to prepay the hybrid on this date at par. If the issuer defers redemption, the investor will receive a variable interest payment, plus a fixed-interest-rate premium (step-up) for the remainder of the lifetime of the hybrid. The step-up is basically set at a level that gives the issuer a financial incentive to prepay the hybrid. Once the call date has passed, the issuer can redeem the hybrid at any time.
- Second, the issuer can/may have to defer and/or cancel regular coupon payments. Deferral or cancellation of coupon payments is often determined by the issuer not meeting pre-defined solvency targets. Cancellation/deferral of coupon payments may happen only if no dividend is paid to the shareholders.
- Third, hybrids are subordinated to normal senior debt in the capital hierarchy. In the event of the issuer going bankrupt, investors will thus receive a dividend only if there is anything left after the senior creditors have been compensated. In practice, this means that recovery rates for hybrids are very low.

It is important to note that the above points are generalisations and may vary from one hybrid to another. The risk associated with investing in hybrid issues is considerably higher than for traditional bond issues. As a result, hybrids often offer a substantially higher yield.

Capital structure of a bank

The capital structures of banks are generally more complicated than those of other types of companies, as banks have to a much greater extent issued subordinated bonds that are covered by different sets of rules. Subordinated capital can be divided into several classes (see chart below). Note that under CRD IV (with effect from 1 January 2014), subordinated debt in the form of Tier 2 issuance is 'merged' into one class (Tier 2 instead of former Lower Tier 2 and Upper Tier 2). See more about CRD IV below.

Stylised capital structure of a bank



*The part of a bank's assets that is placed as security, for e.g. covered mortgage bonds and short term repo loans is not accessible for the bank's other creditors until the obligations associated with these assets are met. Small bank deposits <EUR100,000 are typically guaranteed by deposit insurance schemes and are ultimately government guaranteed.

Source: Danske Bank Credit Research

Historically, the recovery risk on secured financial debt and senior financial debt has been low, whereas an investor in bank-subordinated capital needs to be much more on the ball for several reasons. One reason is that senior debt ranks equal to deposits (beyond any deposit guarantee) in a bankruptcy situation. Historically, governments have often elected to guarantee senior debt obligations out of fear that the bank in

trouble could suffer a bank run. Moreover, many banks are key elements in the economic system, i.e. of major importance for the local and/or regional economy, so a bank collapsing could have a damaging effect on other companies and banks. Basically, it is important for investors to realise that the risk associated with investing in subordinated bank bonds is considerably higher than the risk on senior bonds.

However, senior debt is no longer *pari passu* with deposits since the new Bank Recovery & Resolution Directive (BRRD) was implemented in the EU (2015). BRRD is part of the EU's directive for a single resolution mechanism, which means the EU is trying to create common ground for unwinding distressed banks, while limiting the use of taxpayer money to support banks in crisis. The directive entails bailing in senior creditors, which means that the likelihood of senior bonds being written down fully or partially will increase significantly.

With subordinated capital, the investor has less loss protection, meaning that all subordinated capital is very likely to be lost when a bank goes into distress. Furthermore, documentation risks (for example, issuers' rights to pre call a bond if certain clauses are met; for example, the instruments are no longer eligible as regulatory capital – 'regulatory call risks') have increased due to the implementation (and adjustments) of new comprehensive regulatory rules.

Below, we provide a more detailed description of a number of key characteristics of the various types of subordinated capital. We would point out that the legislation varies considerably from country to country and that the authorities adopt a variety of approaches when it comes to intervening with banks experiencing problems. What appears below should therefore be considered solely a description of general characteristics.

Resolution

In the past, there has not existed a single common framework for dealing with banks in crisis. The new EU directive mentioned above (the US has similar new legislation in place) introduces a comprehensive method for regulators to deal with distressed banks: resolution. When put in resolution, authorities have an extensive toolbox at their disposal which lets them split up a bank, install new management, take various strategic decisions, and mostly importantly for investors, write down the bank's debt.

For this reason, banks' capital structures have also been adjusted to make sure there is enough debt available to cover the expected losses of a bank when is in a crisis. The bank (and its regulators) make sure that the bank has equity instruments and debt that it is possible to write down. In addition to the decision to place a bank in resolution, the regulator can also at its discretion conclude that the bank has reached the 'point of non-viability'.

Point of non-viability (PONV)

In order to provide relevant authorities with common tools and powers to address banking crises pre-emptively so as to safeguard financial stability

and minimise taxpayers' exposure to losses, CRD IV has introduced a non-viability loss-absorption feature: PONV. These powers include write down/conversion powers to ensure capital instruments absorb losses fully at the point of non-viability of the issuing institution. Accordingly, the resolution authorities will be able to write down such capital instruments in full on a permanent basis, or convert them in full into common equity tier 1 instruments ('equity'), before any resolution action is taken.

It is very important to stress that PONV is not a quantitative feature (i.e. there is no numerical trigger) but is fully dependent on the discretion of the regulatory authorities. The point of non-viability is the point at which the national resolution authority determines if the institution meets the condition for resolution, which is defined as: the institution is failing or likely to fail, which means that the institution has incurred/is likely

to incur losses depleting all or substantially all of its own funds in the near future and/or the assets are/will be in the near future less than its liabilities. Furthermore, if the institution is/will be in the near future unable to pay its obligations; and/or the institution requires public financial support. Moreover, if there is no reasonable prospect that a private action would prevent the failure and a resolution action is necessary in the public interest.

Non-preferred senior

In addition to loss-absorbing equity and capital instruments (see Tier 2 and Tier 1 below), large banks will now be required to fund themselves with senior debt that can absorb losses in a crisis, or specifically if the banks are put into resolution by authorities. This new class of senior debt has been preliminarily called 'non-preferred senior', as it has lower priority in insolvency/bankruptcy. The EU would like to see EU countries implement legal support for this new type of debt, but it has not been implemented fully yet.

While EU law is not yet finalised, banks in some countries have already begun issuing non-preferred senior. Notably, France has already created legal support for a new class of non-preferred senior debt and we expect other EU countries including the Nordics to take similar steps. UK and Swiss banks issue this type of loss-absorbing senior debt from their holding companies, which creates a structural subordination, i.e. leaves the buyers of such debt further away from the actual business and assets of the bank and thus with lower priority in the case of insolvency.

It is worth noting that non-preferred senior bonds are senior unsecured bonds. That means they have quite straightforward features apart from the write-down feature in resolution. They pay coupons which are non-cancellable, usually have a fixed maturity (or possibly a short call period) and pay a simple fixed rate or floating rate coupon.

Tier 2

Tier 2 bonds issued in compliance with bank capital rules (Basel III/CRD IV) rank prior to Tier 1 (AT1) and equity capital. T2 typically has a final maturity date (minimum five years) and coupon payments cannot be cancelled or deferred to a later date (except when regulators declare a PONV – see more above). The bonds may be prepaid, usually after five years, but documentation must not contain any incentives to call for the issuer (i.e. in

contrast with legacy Tier 2 instruments, these instruments contain no 'step-up' of coupons at the call date).

T2 bonds are amortising issues, i.e. that part of the issue that may be included in the capital adequacy calculation falls as the final maturity date approaches. The rule is that the capital element amortises 20 percentage points a year over the five years prior to maturity.

Additional Tier 1 (CRD IV eligible)

Additional Tier-1 (AT1) CRD IV eligible instruments (also termed hybrid bonds or 'perps' due to their perpetual maturity) rank prior to only equity capital and are the most complex and risky bonds banks can issue. To fulfil CRD IV eligibility (put another way, to count as capital in solvency calculation), AT1 must be perpetual, have a call option after a minimum five years and have no incentives to call (for example coupon step-up at the call dates are not allowed). Furthermore, coupon payments must be fully discretionary and not accumulating. Thus, coupons are treated similar to dividends (the bank decides discretionarily whether it chooses to pay coupons or not) and if they are not paid at the coupon date, payments are lost. This is a significant distinction to legacy hybrid instruments and not investor friendly.

Moreover, although probably unlikely, if a bank pays dividends to shareholders for a given year, it does not have to make coupon payments on its AT1 issues. All else being equal, a bank would be likely to make coupon payments – even though strictly speaking it is not forced to do so – to avoid a negative reaction in capital markets.

AT1 instruments are by nature so-called 'CoCos' (contingent convertibles). CoCo bonds are similar to ordinary convertible bonds in that they are a form of bonds that is convertible into shares, or written down sharply or fully in value under certain predefined conditions (trigger events). Unlike normal convertibles, it is not the bond owner who decides whether the bonds will be converted into shares or not. Instead, this conversion is dependent (contingent) on whether a specific event occurs. This event is usually either that an event of default occurs, the bank's common equity capital falls below a certain level (minimum common equity tier 1 trigger is 5.125%, according to CRD IV) or the resolution authorities believe the bank has reached the PONV. If this event occurs, the CoCo bonds will automatically be converted into equity or written down substantially or entirely in value. The specific events that trigger a conversion and the exact conditions for a conversion vary from instrument to instrument.

Thus, AT1 bonds are potentially loss absorbing, i.e. in certain circumstances the principal may be written down or converted to equity (the structures vary from bond to bond). The usual trigger for writing down/converting the principal is if the bank has come into conflict with the trigger requirement (typically a 5.125% common equity tier 1 ratio [CET1]). Nordic regulators have generally set a higher trigger level than the EU minimum of 5.125%.

Like new-style Tier 2 bonds, AT1 also has a qualitative trigger, i.e. the PONV (see above).

The purpose of having an automatic conversion when a specific event occurs is that a troubled bank's capital base will be strengthened at the very moment when the bank is under financial pressure and in need of additional capital.

The disadvantage for the holders of CoCo bonds is that they are likely to suffer significant capital losses as the conversion from bonds into shares takes place (or a writedown occurs). By introducing an automatic conversion that could be triggered before a default has technically occurred, this has raised criticism that this is a departure from the normal order of priority that applies in a normal bankruptcy process. Normally, it is the shareholders who should have the lowest priority ranking and who suffer the first loss in a default scenario rather than the bondholders. In a CoCo structure, CoCo instrument holders risk losses before shareholders. As the regulatory authorities in different countries present their guidelines for what type of instruments they accept in their capital calculations for banks, it is likely that more, and smaller, banks will choose to issue CoCos.

For further assistance regarding buying and selling corporate bonds, the latest prices and other information on corporate bond investments, contact your local investment adviser.

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Major risks connected with recommendations or opinions in this research report, including a sensitivity analysis of relevant assumptions, are stated throughout the text.

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Issuer research reports will be updated at least quarterly following results announcements and in response to credit updates arising from issuer news, ad hoc credit publications or sector thematic research.

Completion and first dissemination

The completion date and time in this research report mean the date and time when the author hands over the final version of the research report to Danske Bank's editing function for legal review and editing.

The date and time of first dissemination mean the date and estimated time of the first dissemination of this research report. The estimated time may deviate up to 15 minutes from the effective dissemination time due to technical limitations.

See the back page of this research report for the date and time of first dissemination.

Financial models, valuation and/or methodology used in this research report

Calculations and presentations in this research report are based on standard econometric tools and methodology as well as publicly available statistics for each individual security, issuer and/or country.

We base our bond valuation conclusion on an estimation of a fair business and financial risk profile of the issuing entity. By combining these risk profiles with market technical and bond-specific issues such as documentation and structuring, we arrive at an overall bond risk profile. We compare the bond spread to those of peers with similar risk profiles and against this background we estimate whether the bond is attractively priced in the market. We express this view with either an Overweight, Marketweight or Underweight recommendation. This signals our opinion of the bond's performance potential compared with relevant peers in the coming six months.

More information about the valuation and/or methodology and the underlying assumptions is accessible via <https://danskeci.com/ci/research/disclosures-and-disclaimers>. Select Credit Research Methodology.

Recommendation structure

Investment recommendations are based on the expected development in the credit profile as well as relative value compared with the sector and peers.

As of 30 June 2026, Danske Bank Credit Research had investment recommendations on 189 corporate bond issuers. The distribution of recommendations is represented in the distribution of recommendations column below. The proportion of issuers corresponding to each of the recommendation categories above to which Danske Bank provided investment banking services in the previous 12 months ending 30 June 2026 is shown below.

Rating	Anticipated performance	Time horizon	Distribution of recommendations	Investment banking relationships
Overweight	Outperformance relative to peer group	6 months	26%	50%
Marketweight	Performance in line with peer group	6 months	60%	62%
Underweight	Underperformance relative to peer group	6 months	13%	44%

Changes to recommendation in the past 12 months:

Date	Old rec.	New rec.
New	Marketweight	No recommendation
27 Mar 2026	No recommendation	Marketweight
26 Feb 2026	Marketweight	No recommendation
19 Sep 2025	No recommendation	Marketweight
19 Aug 2025	Marketweight	No recommendation

Validity time period

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