



# Nordic American Offshore



Offshore Support Vessels – Equity Research

Company Update

01-Oct-18

## N-A-O Canada! Consolidation is in the cards

NAO announced this morning the signing of an MOU to combine with Horizon Maritime of Canada. Should the deal be finalized as announced, NAO shareholders would take 48% of the combined equity and Horizon shareholders would claim the remaining 52%. The deal appears to provide a new source of liquidity for NAO, which had \$12m in cash as of the end of 2Q18. Based on the information provided in the press release, we see the transaction as a win-win for both parties. NAO gets a larger fleet and market cap, a share in cost synergies, access to a new market and a source of liquidity. Meanwhile, Horizon gains a high-spec fleet and a public listing at a time when macro conditions are rapidly improving, yet ship values remain subdued.

### The deal: more scale, more markets, more vessel types

NAO announced this morning the signing of an MOU to combine with Horizon Maritime of Canada. The deal would see NAO grow its fleet from 10x vessels to 17x vessels. Public databases indicate that Horizon controls 2x MPSVs (*Tidewater Enabler* and *Horizon Star*), 2x chartered-in PSVs from Tidewater and 3x workboats. Horizon also owns a vessel crewing & management business as well as a supply base in Nova Scotia. The 2x MPSVs appear to be a key element of the value in Horizon; we estimate these 2x vessels could be worth well north of \$100m in total. NAO's CEO and Chairman Herbjørn Hansson will retain his roles in the combined company. Meanwhile Horizon will retain local management in Canada, and bring along the backing of John Risley, a well-known Canadian investor and businessman.

### Gaining access to the protected Canadian market

An important element of the deal for NAO is access to Horizon's home market of Canada, where competition is tempered by Canadian flag requirements. For context, the top 4 players in Canada have a combined market share of 90% with the largest player, Atlantic Towing, controlling 41% of the 29 PSVs, AHTS and MPSVs in the country. As a result of local regulations and a comparatively restrained competitive landscape, rates in Canada are known to be well above the North Sea market, where NAO operates nearly exclusively today. A look at NAO's fleet suggests 2x of 10x existing vessels that have ice-class could be candidates for importation to Canada at some stage.

### A win-win for both parties

The Horizon deal appears to provide a new source of liquidity for NAO which could have run short of cash without with this deal. The combined company plans to continue growing the fleet going forward, and with the financial backing of Horizon, this ambition appears within reach. In our view the deal appears roundly positive for both parties. We currently rate NAO at Buy with a \$2.00 Target Price, which equates to ~1x NAV at newbuild parity values in 2020E. We expect to provide an update on valuation as more details around the transaction become available.

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Clarksons Platou Securities AS was retained to act as a financial advisor to both parties in the contemplated merger by Nordic American Offshore and Horizon Maritime.

## RATING



BUY



NEUTRAL



SELL

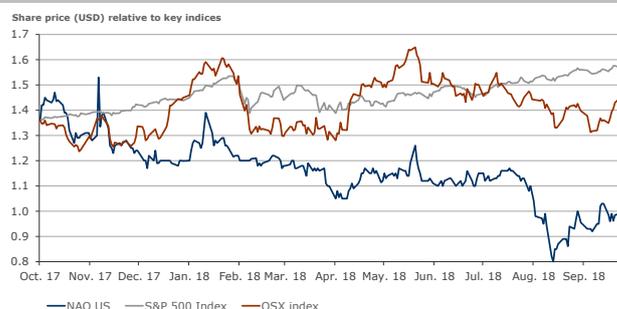
## Nordic American Offshore

Bloomberg Symbol	NAO US
Price (USD)	0.97
Target Price (USD)	2.00
Avg Daily Vol	154,464
Free Float	83.9%

## Market Data

52-wk Range (USD)	0.80-1.53
No. of Shares (m)	62.0
Market Cap (USDm)	60
Net Debt YE (USDm)	133
EV (USDm)	194

## One year price history for Nordic American Offshore



## Key Financials (USD mill.)

FYE Dec.	2018E		2019E		2020E	
	Curr	Prior	Curr	Prior	Curr	Prior
Oper. revenue	22	29	48	45	68	68
EBITDA, adj.	-9	-2	14	12	35	35
EBIT, adj.	-25	-18	-1	-3	20	20
Net Profit, adj.	-32	-22	-7	-7	14	16
CFO	-24	-10	-3	3	20	24
EPS, adj. (USD)	-0.52	-0.35	-0.12	-0.11	0.22	0.26
Dividend/share (USD)	0.04	0.08	0.04	0.08	0.04	0.28

## Valuation

FYE Dec.	2015A	2016A	2017A	2018E	2019E	2020E
EV/EBITDA, adj. (x)						
EV/EBIT, adj. (x)						
P/E, adj. (x)	n.m.	n.m.	n.m.	n.m.	n.m.	4.3
EV/FCF (x)	n.m.	n.m.	n.m.	n.m.	n.m.	9.3
P/Book (x)	0.4	0.2	0.3	0.3	0.3	0.3
Net debt/EBITDA, adj.	6.9	-10.8	-12.2	-14.8	9.9	3.6
Dividend yield (%)	11.6	10.2	6.7	4.1	4.1	4.1

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Neutral	16	18%	1%
Sell	6	7%	1%
Total	88	100%	30%

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