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Norske Skog to Sell Assets to Avoid Default

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Oct. 10 (Bloomberg) -- Norske Skogindustrier ASA, the second-largest newsprint producer, is planning to sell assets and issue debt backed by its accounts receivable to stave off a default that credit markets judge is a 93 percent certainty.

The Norwegian papermaker is in talks with potential buyers of at least 200 million kroner ($35 million) of assets it considers non-core and plans to raise as much as 125 million euros ($169 million) from the securitized debt transaction, Norske Skog Chief Financial Officer Audun Roeneid said in a telephone interview.

"We are continuing the program we have on fixed-cost reduction," Roeneid said. "We are continuing the sale of non- core assets. We are running a project to improve cash flow. We are also working on additional financing to have even more liquidity."

Norske Skog is grappling with an 8.4 billion-kroner debt burden amid too much supply in the newsprint market, competition from online media and rising raw-material prices that forced NewPage Corp., the largest North American maker of coated papers, to file for the year's biggest bankruptcy last month.

Lysaker, Norway-based Norske Skog risks losing the ability to tap a revolving credit if it doesn't meet the facility's conditions, which may put a 655 million-kroner bond repayment in March 2012 in jeopardy.

Loan Covenants

The terms of Norske Skog's undrawn 140 million-euro revolving credit line arranged in May capped debt at 6.5 times earnings before interest, taxes, depreciation and amortization, or Ebitda. The limits tightened to 5.75 times debt to cash flow on Sept. 30 and will be 5.5 times by year-end, according to the bond offering memorandum. Norkse Skog's debt was 5.99 times cashflow as of its last quarterly report on Aug. 4.

"It's a high risk that they may come into breach of those covenants," Maria Granlund, a credit analyst at ABG Sundal Collier in Oslo, said. "The problem is that the results are so weak."

The price of newsprint has risen 2 percent over the last three years, while the cost of wood pulp surged 22 percent and recycled newspaper increased 33 percent, according to FOEX Indexes Ltd. data. Norske Skog's stock has plunged 47 percent since the day before it reported second-quarter Ebitda of 248 million kroner on Aug. 4, the lowest since 2008.

Credit-default swaps insuring Norske Skog's debt cost 4.6 million euros in advance and 100,000 euros a year, signaling a
93 percent chance of default within five years, according to CMA prices. The contracts pay the buyer face value in exchange for the underlying securities or the cash equivalent should a borrower fail to adhere to its debt agreements.

Bonds Plunge

Norske Skog's 150 million euros of 11.75 percent bonds due 2016 have fallen by almost half to 56.25 percent of face value since they were priced in June, Bloomberg Bond Trader prices show. The securities yield 29.6 percent.

Norske Skog, which means Norwegian forest, was established in 1962 and has mills in more than 10 countries from Europe to Asia. It plans to lay off 56 staff and halt one of its three paper machines until the end of October, it said last month.

The company can honor its loan covenants and March 2012 bond maturity solely through a turn-around in fourth-quarter income and asset sales, and the deal to package accounts receivable into debt sold to investors would provide an extra cushion, Roeneid said.

Demand typically increases in the fourth quarter for products including Christmas catalogs, Roeneid said. Prices for European newsprint are expected to increase 5 percent for the second half of 2011, the company said in August.

'In Compliance'

"With the guidance we have given we should be able to be in compliance with the covenants," Roeneid said.

Talks have begun with potential buyers of the company's assets, he said, declining to identify the assets or bidders.

Of the securitized debt issue, "according to our timeline, we should conclude that by the end of this year, if we are doing it," he said.

Norske Skog's ratings are at risk of falling further below investment grade. Standard & Poor's said Sept. 20 it may cut its B- rating, citing a "material risk" of a covenant breach in the next two quarters. Moody's Investors Service downgraded the company by two steps in August to Caa1. High-yield bonds and loans are rated below Baa3 by Moody's and BBB- by S&P.

The company's forecasts for the fourth quarter are too optimistic, according **to Alexandre Dray, a Lyon, France-based analyst at Spread Research** Ltd., who warned of a covenant breach on the revolving credit in a Sept. 1 note to clients.

Companies looking to cut costs will reduce their marketing budgets first, "and what will happen is they will use less paper to send to clients or prospects," Dray said. "The rebound expected in the second half will be less substantial than the company expects," he said.

NewPage Bankruptcy

NewPage of Miamisburg, Ohio filed for bankruptcy on Sept. 7, six years after being bought by Cerberus Capital Management LP. The company had $3.4 billion in assets and $4.2 billion of debt as of June 30, according to the Chapter 11 filing. It has been unprofitable since 2006.

Investors are avoiding European high-yield issuers such as Norske Skog amid speculation a Greek default will plunge Europe into a recession and make it harder for companies to pay their debts. Redemptions from junk bond funds in Europe the week of Sept. 30 were $1.49 billion, representing 2.3 percent of assets, according to Bank of America Merrill Lynch.

“We are talking about a very distressed security at the moment,” said Teemu Perala, a fund manager at Alfred Berg Asset Management in Helsinki, while adding that Norske Skog should be able to meet loans and bonds until 2014. Alfred Berg holds about
1.13 percent of the company’s shares, Bloomberg data show.

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