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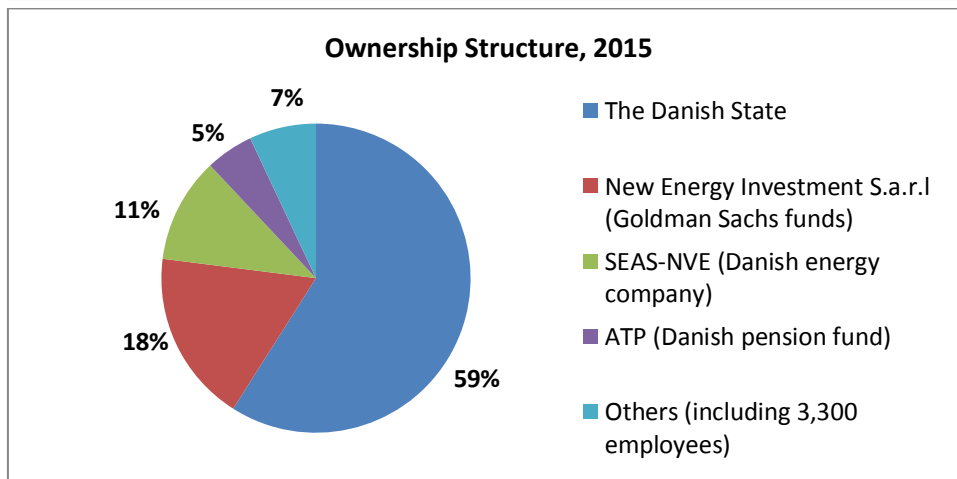
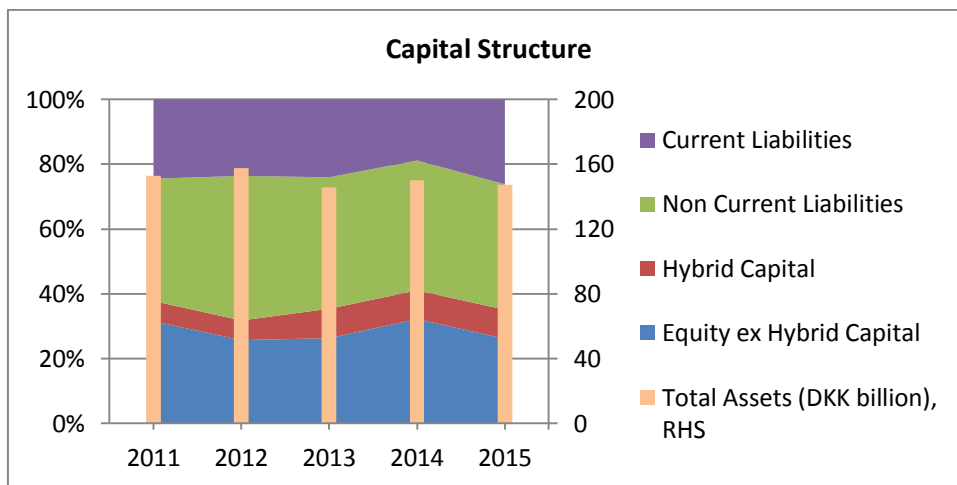
February 2016

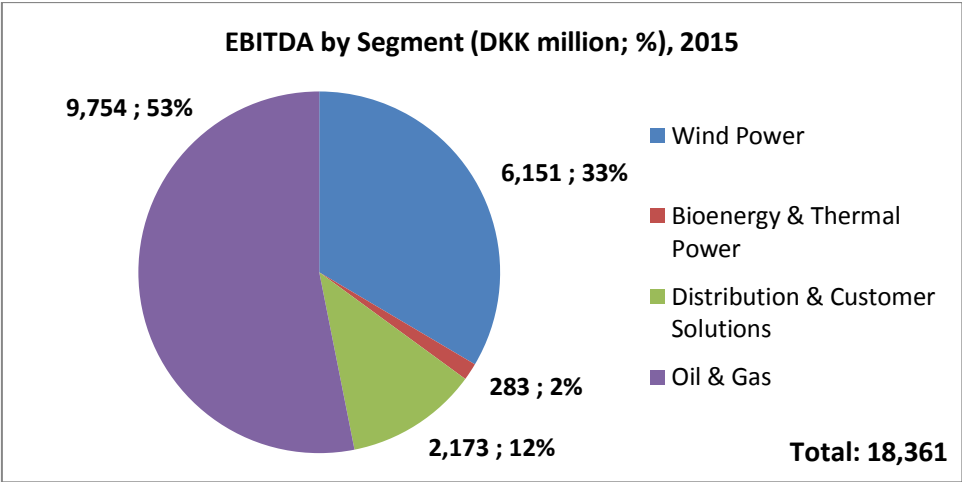
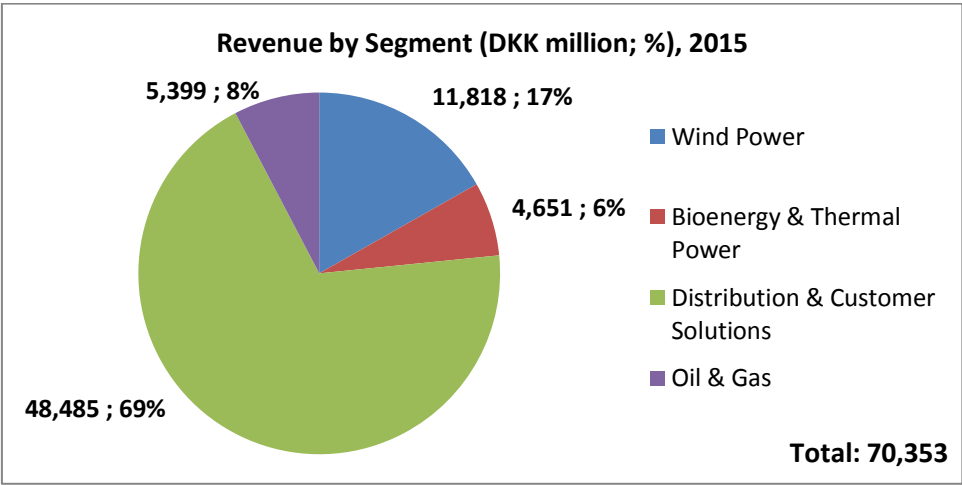
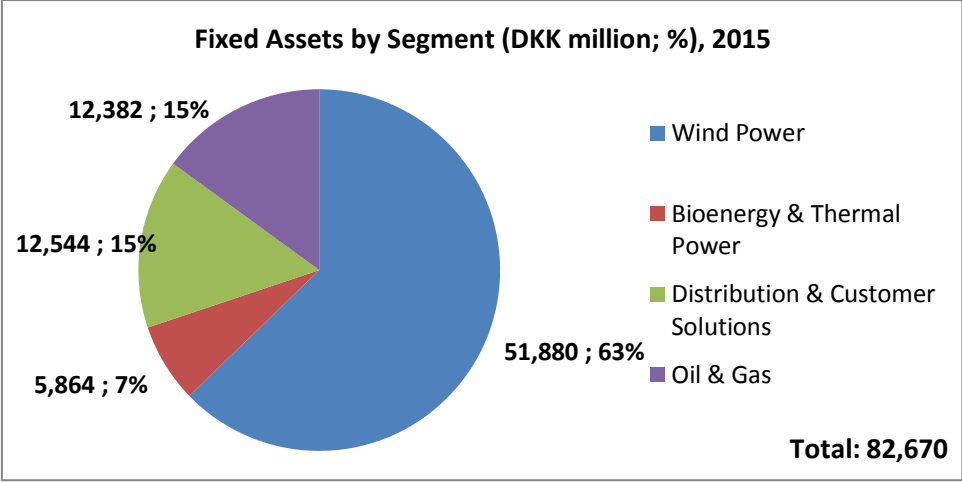
**DONG Energy Hybrid Bond**

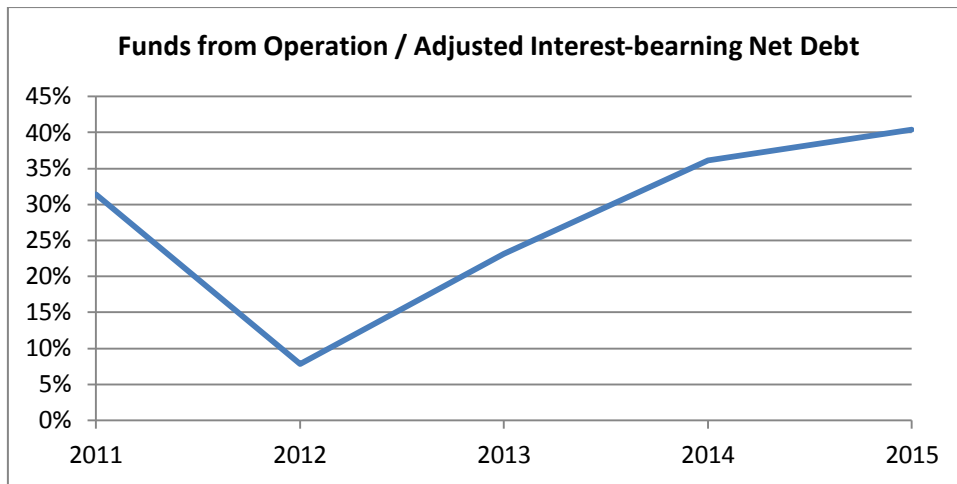
**DONG Energy A/S – 6.25% Perp with 2023 call at 100 (XS0943370543)**

Currency: EUR    Amount Outstanding: EUR 700 million    Coupon: Annual (26<sup>th</sup> June)  
 Moody's: Baa3-    S&P: BB+    Fitch: BBB-

DONG Energy A/S is a 58.8% Danish state-owned company, initially established as the country's state gas and oil company. It is Denmark's largest integrated energy group providing heat and power to around one million customers, the largest builder of offshore wind farms in Europe and one of the 10 largest owners of oil and gas assets in the North Sea.







**Results:** The continued decline in oil and gas prices, reduced reserve estimates and continued challenges with the Hejre project led to an impairment loss in the Oil & Gas business of DKK 15.8 billion. As a result of the impairment losses, the Group posted a net loss of DKK -12.1 billion. Due to an active hedging policy, the declining oil and gas prices led to an increase in the value of its oil and gas hedges, which amounted to DKK 6.8 billion at the end of the year. However, operating profit (EBITDA) was up 13% at DKK 18.5 billion, which was within the guided range.

**Strategy:** Management has concluded on the strategic role of the Oil & Gas business and decided to keep O&G as part of the planned IPO and use its cash flows as part of the funding of DONG Energy's investments in renewable energy. Demanding but necessary actions have been taken to de-risk the O&G portfolio and focus on cash generation within the new market reality. The ongoing restructuring of the O&G business in response to the sharp drop in commodity prices will lead to a further shift in the investment mix of DONG Energy towards renewables. Offshore wind and bioenergy is targeted to account for more than 80% investments towards 2020 and further reinforce DONG Energy's position as a global leader in renewables. The strategic shift in business mix will also reduce DONG Energy's exposure to commodity price risk as a higher share of revenue will be regulated and contract-based.

**IPO Plan:** On 18 September 2015, the Danish State announced plans to launch an IPO within 18 months, subject to market conditions. After the IPO, the Danish State is expected to retain at least 51% of the shares.

**Rating:** DONG Energy is currently under review for downgrade by Moody's. The significant decline in oil and gas prices will be mitigated in the short term by the company's conservative hedging policy; oil is hedged at USD80/boe and gas at around EUR20/MWh for 2016 and 2017. There is a lower level of hedges in 2018. Nonetheless, Moody's expects that the cash flows will fall significantly from O&G in the longer term absent off-setting measures. Any downgrade as a result of the review would be limited to a maximum of one notch. However, Fitch reported on 28 January 2016 that there is no rating impact on the

company's Issuer Default Rating of 'BBB+' / Stable from the asset write-down. Even after a downgrade by Moody's, the company still stays within the investment-grade universe and management has committed to this.

**Pricing:** The bond is currently trading around 99 (98.6/99.5 – yielding 6.4%), which seems reasonably attractive after the correction.

Your Helvetic Team Singapore

Sources: DONG Energy 2015 Annual Report; Bloomberg; Moody's; Fitch

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