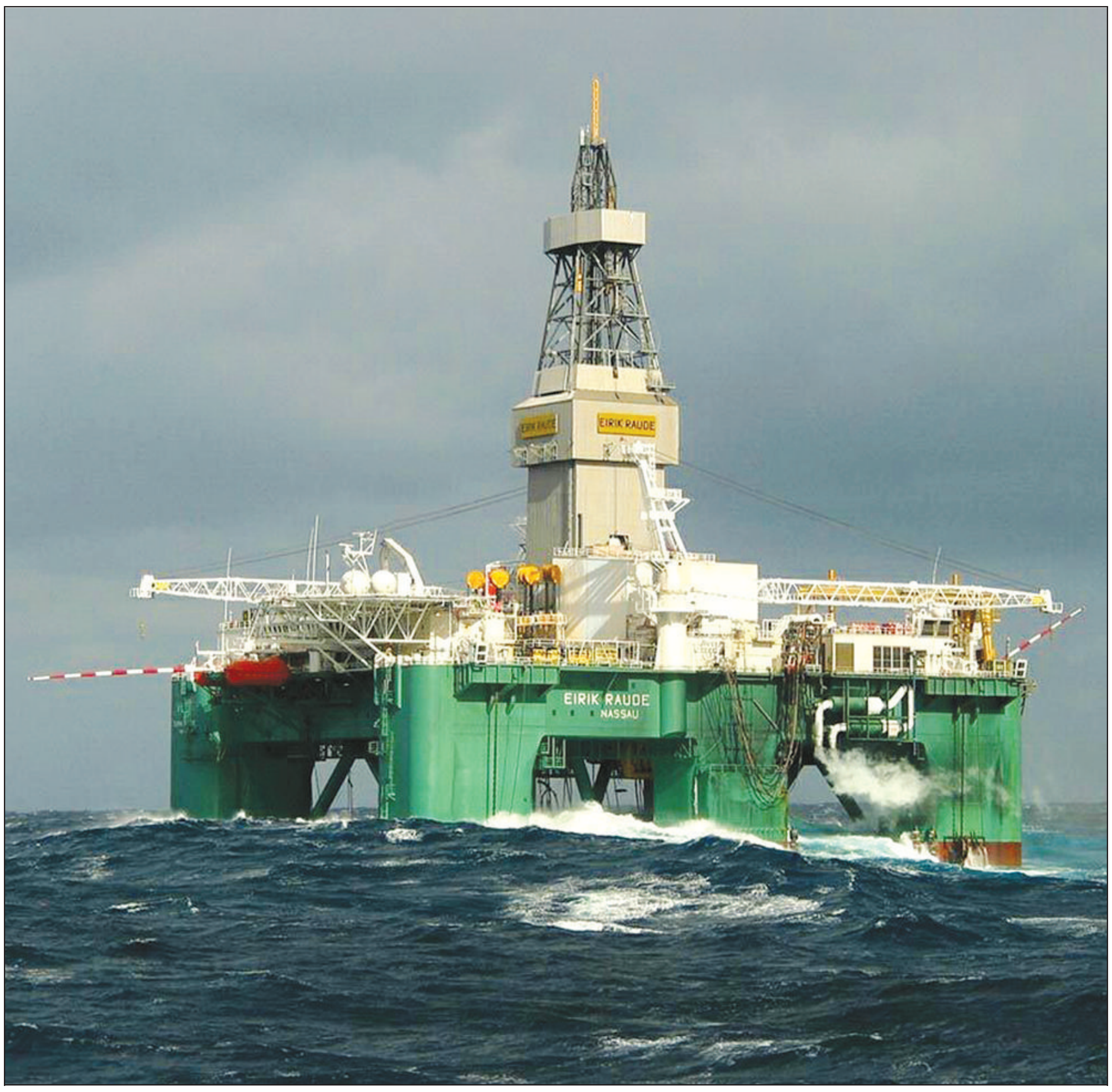
The Marine Money Conference in New York

# Heading for deeper water with modern vessels




Eirik Raude: OceanRig's strategy for the semi-submersible reflects a more optimistic view for the industry over the next 18 months.

**Growing demand for higher-specification ships and drilling rigs is forecast to balance the oversupply of tonnage feared earlier this year**

Barry Parker – New York

ANY doubts as to the vibrancy of the offshore drillers and support fleets were assuaged by the emphasis on the sector at the recent Marine Money conference in New York.

In the broadest context, keynote speaker Art Hogan, a highly regarded equity strategist with Jefferies & Co, highlighted the importance of commodities generally, and energy specifically, calling them "a huge long-term investment theme".

Oil's importance is fuelled by rising per capita demand in a rapidly-industrialising China. Speaking on a conference panel, DOF chief financial officer Hilde Drønen said: "We will continue to follow our clients into deeper waters. You could expect us to be active in high specification and new specification vessels."

Offshore service vessels were the focus of RS Platou Markets equity analyst Geir Sandnes, who described the sector as a "Screaming Buy".

Mr Sandnes, with a family background in vessel construction, offered a detailed view of the supply/demand dynamics of the sector.

His key point was that the overall fleet growth, an outgrowth of the boom years of 2005-2008, will be levelling off as newbuilding deliveries are pushed out into the future.

Importantly, the existing supply, 2,385 ships, though still rising by roughly 400 vessels in the orderbook, will flatten out around 2,800 units, as a number of existing vessels (concentrated in the platform support vessels of less than 2,000 dwt) are actually leaving the fleet.

Though Ms Drønen was on a different panel, her views coincided perfectly with the Platou presentation, which showed the push into new equipment.

Ms Drønen's co-panellist Todd Hornbeck, chief executive of listed support vessel operator Hornbeck Offshore Services, offered the perspective that: "older tonnage will be pushed out of the market".

The contours of the offshore vessel market described by Mr Sandnes, with an emphasis on new higher specification equipment, is similar to that for drilling rigs. What appeared to be an oversupply situation, earlier this year, now looks much more balanced. In the jack-up sector, there are around 460 units on the water.

With the existing book of newbuildings, including growing numbers of recently ordered high specification units, ODS Petrodata numbers show the fleet size levelling out, in 2012, at slightly above 500 rigs.

This contrasts with the larger overhang of orders in the 310 unit 'floater' category (semis and drillships), where 250 units will be joined by 60 newbuildings — half coming in 2011.

Mr Sandnes, in his presentation, made a case that "excess supply will quickly become undersupply" with resulting stronger dayrates.

An amplification of Mr Sandnes's viewpoint came from Vantage Drilling chief executive Paul Bragg, whose SeaDragon 1 ultradeepwater (Generation 6, DP3) rig is being mobilised to commence a five-year charter to Pemex at a dayrate of $503,000.

Mr Bragg, the one-time chief executive of another driller, Pride International, said that: "Pemex is saying, 'We want the modern units'. They want to cut the downtime from older units." ■

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# Contracts point to upturn in pipeline

FAR from the midtown New York conference, signs of strength continue to appear, *writes Barry Parker*.

Two days after the Marine Money event, the DryShips' OceanRig subsidiary announced a forward fixture on its 2002-built, Generation 5 semi-submersible Eirik Raude, to begin following the expiry of its three-year charter with Tullow in Ghana, at a dayrate of $637,000.

OceanRig has now signed a letter of intent with UK-based Borders & Southern Petroleum for exploratory drilling in the Falklands. Commencement is expected in the fourth quarter of 2011, with a stated term of 90 days (based on two wells), at a dayrate reported to be $550,000.

An option to drill three additional wells could extend the term by 135 days.

At a Connecticut Maritime Association luncheon in late October, OceanRig chairman George Economou stated an explicit view of the drilling market turning sharply upward in 2012. The company's strategy for the Eirik Raude reflects this view, as does the recent report of a charter on an OceanRig drillship to be delivered from Samsung. Its one-year contract with Vanco Drilling, for work in West Africa, commences in the second quarter of 2011.

Economou: predicted that drilling market would turn sharply upward in 2012.

The ownership of floating drilling rigs is still highly fragmented; the largest player, Transocean, controls 74 of the overall 310 units, followed by Diamond Offshore (33) and Noble (24). At the small company end, some 42 companies, including OceanRig with six units, control about 50% of the assets.

Consolidation was an issue for the Marine Money offshore drilling panel. Vantage Drilling chief executive Paul Bragg, whose company also controls six semi-submersibles, suggested that consolidation benefited customers by providing competition.

Mr Bragg opined that oil company customers would be unlikely to acquire drillers, saying that contractors' return on capital would not match Big Oil's high hurdle rates. ■

# Commodity price boom yields better relationship with banks

IN A week in which the continued commodity price boom was trumpeted in Wall Street Journal headlines, the relationship of financial markets with energy markets is favourable, *writes Barry Parker*.

At the Marine Money event, RS Platou equity analyst Geir Sandnes presented several cases for buying offshore vessels, using the example of a 4,000 dwt platform supply vessel purchased for $32m, a cyclical low point, from an Asian yard (versus $43m-$47m if built in Norway). Using dayrates of $20,000 rising to $30,000, after the first year, the case showed a very healthy return of 26%. Pareto Securities managing director Niels Lyng-Olsen described the booming Norwegian bond market, benefiting from the rising worldwide issuance of high yield debt generally.

DOF chief finance officer Hilde Drønen described an improved banking situation, with the return of banks absent in 2008-2009, saying: "We are now being approached by banks that want to do business with us."

The reality is that bank lending is still constrained, with Mr Lyng-Olsen calling the bond market "an important source of refinancing and capex funding for the shipping and offshore sectors".

Mr Lyng-Olsen described three recent Pareto placements, for Seadrill in US dollars, Ship Finance in Norwegian kroner and Panoro Energy, divided into US dollars and Norwegian kroner portions to meet investor requirements.

Vantage Drilling chief executive Paul Bragg said: "There's money readily available — though maybe not on the scale of what we did," referring to Vantage's $1bn high yield bond, yielding 12.5%, issued in a private placement this past summer. Some $548m of this five-year secured debt was used to complete Vantage's purchase of Mandarin Drilling, an entity tied to TMT chief executive Nobu Su, who is also a leading shareholder in Vantage, with another $290m used to retire other debt. Mandarin has now completed construction of the *Platinum Explorer* at Daewoo. The drillship, capable of working in depths of 12,000 ft, is expected to head to India, where it will begin a five-year charter to Oil & Natural Gas Corp at $590,500 per day.

*"We are now being approached by banks that want to do business with us."*
*DOF chief financial officer Hilde Drønen*

Seadrill, which raised $650m through the Pareto offering, has put its newly raised capital to work on yard deposits. The Fredriksen-linked entity moved up in the league of deepsea rig owners.

Seadrill has placed a speculative order for two ultra-deepwater drillships, with 2013 delivery, with options for two more, from Samsung, costing "less than $600m" each. Seadrill says that its new drillship order will be funded by banks and Export Credit Agencies. Noteworthy in the rigs' specifications, post Macondo, is the seven ram configuration on the blowout preventer.

As Seadrill rides the top-end jack-up wave, it also announced a new order for two units based on a Friede Goldman design, with 2013 delivery, at an aggregate cost of $380m, from Dalian Shipbuilding. ■

# Drilling permit delays threaten US Gulf recovery

THE regulatory aspects of offshore energy were discussed alongside business and financing, *writes Barry Parker*.

In contrast to RS Platou's presentation, which focused on the North Sea markets, a far more cautionary view was offered by Todd Hornbeck and fellow panellist John Rynd, chief executive of Hercules Offshore, an owner of shallow-water jack-ups.

Both Mr Rynd and Mr Hornbeck, who was instrumental in legal efforts that overturned the shallow-water provisions of the US Gulf drilling moratorium in May, lamented the slow pace of issuance of new drilling permits.

Washington-based lawyer Marjorie Krumholz, a partner with Thompson Colburn, expressed concern that the US regulator might not have enough money to enforce its new rules, which include drilling permits.

Mr Hornbeck told the conference: "Once the industry gets a fix on how to get a permit, it will rally quickly." He cautioned, after raising the spectre of more lawsuits, that: "If the administration does not see permits issued within 90 days, rigs and ships will move."

Mr Rynd expressed concern that the US Gulf deepwater sector, with the moratorium having ended in late October, would also see a sluggish pace of permitting activity.

A less discussed outgrowth of the Deepwater Horizon tragedy, in which Transocean has claimed that it is entitled to full indemnity from BP, is the potential for changing the traditional practice where the field operator indemnifies a drilling contractor.

Holland & Knight law partner Nancy Hengen, a panellist alongside Mr Hornbeck and Mr Rynd, said that the traditional template could possibly be challenged in the future: "Contractors may consider themselves to be more at risk than previously thought."

Vantage Drilling chief executive Paul Bragg countered with the view that if the predicted shift occurred "...it's going to put our industry out of business", adding that the risk could not be priced into dayrates. ■

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