

Big hopes despite offshore operators' mixed results

Most listed drillers and service providers have now reported their third quarter figures, amid continued optimism



BARRY PARKER

BY NOW, nearly all the listed drillers and service providers have reported their third quarter results. The broad trend is one of contrasts — with mixed results against the bright backdrop of continued optimism on forward prospects.

Norwegian offshore support vessel operator Farstad Shipping has announced contracts to build four new platform supply vessels at STX OSV yards in Norway and Vietnam, with options on three additional vessels.

The order was announced around the time that a still profitable Farstad revealed that increased vessel operating costs, especially in its anchor handling tug supply fleet, had dragged down its third quarter results compared to the year earlier.

Geir Sandnes, an equity analyst at RS Platou Markets, which maintains a "Buy" recommendation on the stock, described the PSV order, with 2012-2013 deliveries, as a "necessary fleet rejuvenation".

"For some time, Farstad has been looking at acquiring PSVs with about 4,000 dwt," he told Lloyd's List.

"The company has not been able to find suitable candidates in the secondhand market, hence a vessel order became the best option."

Farstad put the value of the new contracts at an aggregate Nkr1.4bn (\$223m) for the non-option vessels.

Three of the vessels will be built to a



A computer-generated image of the UT 754 WP design: the Rolls-Royce wave piercer features in an order placed by Farstad with STX OSV.

new OSV design for Farstad subsidiaries, PSV o8 CD, with a deck area of 800 sq m. One vessel will be built according to a new Rolls-Royce wave piercing design. The new template, UT 754 WP, with approximately 1,000 sq m available deck space, will be built at STX's Langsten yard, in Tomrefjord.

The UT 754 WP wave piercer could provide an alternative to another design — the popular X-Bow from Ulstein. The Rolls-Royce design also offers dynamic positioning control of the vessel's five

thrusters, enabling work close to drilling rigs in harsh weather conditions.

Farstad's order represents a number of breakthroughs. Rolls-Royce, a stalwart in the OSV sector, has now contracted its first wave-piercer in the offshore sector. The

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order also represents the first transaction for the independent STX OSV — recently spun out of STX and listed in Singapore earlier this month.

A large portion of the S\$257m (\$196.6m) IPO proceeds will fund expansion in Brazil, with a second yard at Pernambuco, where construction of vessels to service Brazil's offshore oil boom is governed by local content rules.

Another Norwegian operator with a "Buy" rating from RS Platou, DOF, shows 68% contract coverage for 2011, with a dropoff to 49% coverage for 2012. Like Farstad, DOF also has a hefty newbuilding orderbook worth Nkr8.4bn, including seven being built in Brazil.

Just announced third quarter results showed an operating income and cash flow that was slightly above that of the comparable quarter in 2009. However, DOF's diminished bottom line, showing after-tax profit of Nkr174m versus Nkr497m the third quarter 2009, was due to hefty finance costs on bonds and bank debt funding newbuildings and possibly asset purchases.

One such bet, at the rumour stages now, concerns Deep Ocean, a subsea business that could potentially be jettisoned by foundering US operator Trico Marine — now operating under Chapter 11 bankruptcy.

In spite of its voracious appetite for cash to fund newbuildings and possibly asset purchases, clear evidence about its market sentiments comes from DOF's postponement of a share offering for Norskan, its Brazil based subsidiary — which would be a cash generator. DOF says: "DOF expects to achieve a higher price for Norskan by postponing the stock exchange listing and placing a focus on the 2012 estimates." ■

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European yards lead way in making complex vessels as Asia builds in bulk

STX OSV's prospectus provides a detailed overview of the increased dominance of Asian shipbuilding, building higher quantities of standardised vessels, writes Barry Parker.

At the same time, European yards have shifted their focus to more technically sophisticated vessels, as well as bigger units.

European yards have remained the shipbuilders of choice for the more powerful and larger vessels, namely anchor handling tug supply vessels greater than 20,000 bhp and platform supply vessels above 4,500 dwt, according to the prospectus.

The prospectus reveals that 96% of 250 AHTS of 4,000 bhp-16,000 bhp units under construction will be delivered from Asian yards. For vessels above 16,000 bhp, Asia's share drops to 66% (of 65 vessels on order).

For platform supply vessels, European yards' share of new construction rises with the size of the vessels, reaching 30% for those PSVs with deck areas above 900 cu m.

The prospectus outlines a trend towards integration of complex components into the shipbuilding process, often at an early stage.

One example is the new Rolls-Royce wave-piercing design to be built at STX's Langsten yard, in Tomrefjord (see main story). Rolls-Royce worked closely with the owner, Farstad Shipping, on the design.

Environmental considerations are also driving design changes.

Norwegian owners Solstad and Olympic Shipping have each ordered clean-burning liquefied natural gas-powered PSVs from STX Europe (now part of the newly listed STX OSV), with

deliveries in the fourth quarter 2011 and first quarter 2012 respectively.

Another owner, Island Offshore, ordered a pair of such vessels in a contract worth an aggregate Nkr900m (\$147.6m), for delivery in the second and third quarters 2012, based on a Rolls-Royce design with Rolls-Royce gas engines. In all cases, the hulls are being built at the STX OSV facilities in Romania, with final outfitting to be done in its Norwegian yards.

Over time, as the builder slides down the learning curve, design and equipment packages rapidly become standardised.

Wave piercing hulls and LNG burning engines are still exciting new concepts. As more are built, production will become more "commoditised", allowing the European yards to then move on to even newer technologies. ■

Talks fail to clarify new US drilling rules

THE political circus continues in the US Gulf offshore energy sector, writes Barry Parker.

One prominent sideshow sees Senator Mary Landrieu, who represents Louisiana — the epicentre of the US offshore drilling sector — backing down from her two-month long opposition to a political appointment in the Office of Management and Budget.

By holding up the OMB appointment, the Senator Landrieu had hoped to force the Bureau of Energy Resource Management to provide clarity around newly-issued offshore drilling regulations. The "hold" clearly got the Obama

administration's attention. Senator Landrieu's climbdown has led to a meeting between drilling industry representatives and Interior Secretary Ken Salazar and regulators from the Bureau of Energy Resource Management. Early reports emerging from the meetings, held on Monday at a platform fabricating facility in Houma, Louisiana, suggested an inconclusive outcome and what one offshore industry chief executive described pejoratively as "a photo opportunity".

Jim Noe, who serves as executive director of the Shallow Water Energy Coalition (composed of drillers and service

providers), thanked Mr Salazar and his deputies for their time, but said: "We are disappointed that the federal government gave us no commitments at this meeting."

Mr Noe, who has a day job as senior vice-president and general counsel at Hercules Offshore, added: "Time for discussion has passed for many of our most expert and productive drillers in the Gulf."

Senator Landrieu was more scathing. "I am extremely disappointed that Secretary Salazar's presentation failed to provide regulatory certainty and a clear path for speeding up the process of issuing drilling permits." ■

Stepping away from corporate umbrella yields rewards for STX OSV

BARRY PARKER

COMPANY spin-offs, where shares in an existing business unit are taken public as a new entity, are not unique to offshore energy.

When a self-sustaining business is removed from a larger corporate umbrella, the parent company can raise much needed cash, and will benefit from an increased valuation of the business unit now independent from the mother ship.

Examples from the offshore sector include STX OSV, which successfully spun out a minority stake, though the majority is still controlled by the STX industrial combine. Norskan Offshore, DOF ASA's Brazilian entity, has been considering a stock listing, while Dryships continues to express hopes of moving its Ocean Rig unit into the public domain.

Through a series of 2007-2009 transactions, STX Corporation, the shipbuilding behemoth based in South Korea, had acquired the old Aker Yards business, which, in turn, had absorbed many of the shipbuilding businesses of Kvaerner ASA.

In preparation for the share sale, STX restructured so that its yards producing offshore vessels (mainly in Norway, but also in Brazil, Romania and Vietnam) were all housed under the STX OSV banner. For 2009, top line revenue for yards comprising the new entity totalled Nkr11.9bn (\$2bn).

Following the early November spin-off, the S\$257m (\$196.6m) raised by outside investors from Asia and Europe bought them a 27.6% stake in the new entity.

In the true style of a business hoping to unlock values, STX had already spun off its Pan Ocean shipping subsidiary in Singapore in 2005, and then in Seoul at the height of the 2007 dry bulk boom (with the second tranche used, party, to acquire Aker).

The company has listing plans for its yards building cruiseships, including Chantiers de l'Atlantique in France and the Turku yard in Finland, which recently delivered Royal Caribbean's *Allure of the Seas*, and possibly for its STX Dalian shipyard in China.

Spin-offs make sense when equipment is employed and financing is in place. Norskan Offshore's announcement that it was contemplating a listing on the

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Brazilian exchange came in March this year, but was officially postponed in October, shortly after the huge Petrobras offering. Analysts noted that a listing might fare better after deliveries of 13 vessels on order (11 AHTS vessels and two PSVs) from yards in Brazil (including STX OSV's Promar yard).

Ocean Rig, the owner of two ultra deepwater semi-submersibles, was acquired by the listed company Dryships over an 18-month period beginning in late 2007. During this time, Ocean Rig gained control of building contracts on four drillships to be built at Samsung, with deliveries beginning in early 2011.

Even before the driller's acquisition was completed, Dryships was expressing its intentions to re-float Ocean Rig. A spin-off out of Ocean Rig could happen later in 2011, as the drillships are delivered from Samsung.

However, there are hurdles to overcome. Though one of the drillships is now fixed for a year, the company is focused on additional fixtures, and obtaining permanent financing, before Ocean Rig can float on its own.

These obstacles did not stop Ocean Rig from increasing its bets; this past week it announced an investment of \$100m in options on four additional drillships. ■

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Landrieu:climbdown over OMB appointment. AP