# Pride finds cash to fund deepwater projects

## Houston-based driller renegotiates credit terms as it looks to make its mark in offshore exploration

Barry Parker

OIL exploration and production, along with the services to support it, requires a steady stream of capital.

It is a situation that Pride International knows only too well as it tries to make its mark in deep and ultra-deepwaters, and their experiences neatly illustrate the demands currently facing companies in this voraciously capital-intensive sector.

Pride's payments on remaining ultra-deepwater drillships under construction at Samsung totalled $427m in the first six months of 2010. At mid 2010, the Houston-based driller estimated that another $300m would be paid out during the year, and approximately $780m to be paid out in 2011. For comparison, the 2010 bottom line profit was $138.4m through end June, approximately half of the comparable 2009 figure.

*Pride International's experiences neatly illustrate the demands currently facing companies in this voraciously capital-intensive sector*

It achieved an investment grade credit rating earlier in early 2009, when Standard & Poor's raised its rating to the coveted category. The 'BBB-' rating means that deep pocketed (but closely regulated) pension funds, insurance companies and bond fund packagers are permitted to invest in such debt. Ratings, which also impact the borrowing cost on bank finance, must be jealously guarded.

In a late September report on the company, S&P pointed to the great industry-wide uncertainties facing drillers, and high capital requirements, and said: "We expect management will manage liquidity prudently and exercise restraint with regard to increasing debt to pursue further growth initiatives." The S&P analysts went on to add that: "The current 'BBB-' rating incorporates some tolerance for weaker credit measures during an industry downcycle." S&P then tied the rating to expectations that adjusted debt to earnings before interest, taxes, depreciation, and amortisation would not materially exceed 3x in a down-cycle environment. Credit analysts look for comfort that obligations are manageable, in comparison to cash flows — at a time that earnings are down.

Pride International's recent financial legerdemain centred on two transactions. Both reflect the transition from the massive capital outflows, to a cash generation, as the new drillships are deployed. The maturity of a $320m revolving bank credit originally due in 2011 was pushed back to 2013, while, simultaneously, its size was increased to $720m. As of mid 2010, the revolver (which could be used to fund yard payments, if necessary) was undrawn. In a capital markets transaction, $500m notes due in 2014 is to be refinanced with two bonds (technically 'senior notes') — $900m due in 2020, and $300m due in 2040. The 10-year senior notes will pay an interest rate of under 7% (less than the notes being retired), and the 30-year instrument will pay 7.75%.

As the nearly $1.2bn 'capex' morphs into cash flow, good news came in Pride's latest fleet update. *Deep Ocean Ascension*, a DP drillship delivered from Samsung earlier in the year and soon to go on to a five-year BP contract, presently on a 'standby' rate of $360,000 per day, will be employed at a dayrate of $540,183 once the ship is mobilised to its first job, while BP waits out the ongoing drilling moratorium. The rate is higher than the previously anticipated $488,600 announced by Pride. A sister drillship, *Deep Ocean Clarion*, was delivered in early October, is expected to begin operations in the US Gulf in early 2011 at $550,800 per day. ■

Transocean's semi-submersible drilling rig Paul B. Loyd, Jr, one of its 139 rigs: Transocean's new financing went off at a discount. *BP*

# Transocean and Sevan go to capital markets

PRIDE International is not the only driller active in finance markets — both Transocean and Sevan Marine have been making interesting moves of their own, *writes Barry Parker*.

Last month, Transocean, the largest in its peer group with 139 rigs, also went to the capital markets to refinance a portion of its debt. It sold $2bn of senior notes divided into two parts — $1.1bn of five year debt and $900m of 10 year notes, both rated 'BBB' by Standard & Poor's and Fitch. Transocean's new financing, which went off at a discount to reflect considerable uncertainties about Macondo-related oil spill liabilities, will be replacing just under $1.3bn in convertible bonds expected to be coming due in December 2010, and portions of funding likewise expected to be due in 2011 and 2012.

Convertible bonds, which allow holders to force a buy-back, have also led to a refinance by Norwegian driller and producer Sevan Marine. Some $48m issued in early 2009 (in two tranches) will be paid out ahead of an anticipated April 2011 redemption; the bond finance will be supplanted by bank finance.

The Sevan bond investor, Luxor Capital, is the same group that took a large equity position in then battered-Hornbeck Offshore Services (active in the US Gulf) shortly after the Deepwater Horizon accident. The take-out of the Sevan bonds, which paid 15% interest (and brought with it the implicit concern of a large potential Luxor stake), is explicitly tied to production from a particular asset. The security package in the new finance —- an $83m bank deal (including leader Investec, joined by Macquarie and Standard Chartered) includes "an assignment of certain contracted cash flows" as part of its security package.

The original Luxor bonds were tied to two Sevan FPSO units under construction in China. Presumably, the revenue stream securing the bank loan will be from the Sevan FPSO set to be installed at the Goliat field in the Barents Sea.

A comment from rating agency Fitch, in rating Transocean's offering, gets to the core of matching a driller's business profile with future financing obligations. After noting present levels for the big drillers are off from the peak, Fitch said: "Previously signed contracts are expected to mitigate the impact of declining market conditions for the company."

As of mid-September, Transocean estimated its backlog of free cash flow of $14.2bn, significantly in excess of debt of $9.2bn, due out through 2019. The loss of Transocean's Deepwater Horizon has had a big impact; $590m has been shaved from free cash. In future, a possibly litigious relationship with BP does indeed matter. Fine print in the $2bn notes prospectus reveals the overall contract backlog with BP and affiliates is $3.4bn. ■

# Tidewater finds the liquidity to exploit lower asset prices

CLOSE to a third of the overall anchor handling and platform supply fleet is at least 25 years old, so Tidewater's current focus on fleet modernisation and management of its balance sheet to support capital expenditures is hardly unusual. But it is vital, *writes Barry Parker*.

The New Orleans-headquartered offshore operator's portfolio includes 212 vessels built since 2000 (including 35 still under construction). Amid shifting customer requirements, well-timed asset sales have generated $665m of proceeds, and $276m of pre-tax gains during the decade.

Tidewater's executive vice-president Joe Bennett told Lloyd's List: "For the last five quarters, we've been in acquisition mode; typically buying vessels one or two at a time." He said that purchases of entire fleets or companies, though not ruled out, "have just not been practical". Cyclicality has profoundly affected its strategy, Mr Bennett said: "We had pulled back from buying boats two, three years ago. We thought that vessel prices had become too high, when we looked at the sustainability of day rates that would support paying high numbers for the boats." He added that: "After the financial crisis and the softer markets, the pricing of equipment has come down 25%-30%. With our clean balance sheet, and liquidity available, we are able to take advantage of it, where maybe some of our competitors could not."

New trend: *J Keith Lousteau*, Tidewater's 2009-built anchor-handler. *Dietmar Hasenpusch*

Historically, Tidewater has funded much of its expenditure from operations, and the proceeds of asset sales. Eased cash flows, and more investment opportunities, have led Tidewater to review its financing sources. "More recently, investment activity has exceeded our operating cash flow," Tidewater's chief financial officer, Quinn Fanning, told a New York conference in September.

For the second quarter 2010, $53m cash flow from operations was dwarfed by $141m of capital expenditures.

In Mr Fanning's words, "we decided to recharge the firepower, if you will, on the balance sheet". Tidewater, not a rated credit, went to the private placement debt markets, and raised $425m of notes in maturities ranging from five to 12 years. The weighted average coupon rate is around 4.25%, which Mr Fanning said "is consistent with our own views of our credit profile, which is that of a strong investment grade credit company".

After the new borrowing, the ratio of total debt to capitalisation would still be a very low 22%. If cash holdings are considered, then the ratio drops to a very conservative 7%.

Joe Bennett said: "We also have availability under a $450m revolver that's undrawn. That gives us more liquidity, as we examine opportunities."

Within a month of the private placement, Tidewater announced plans to build four deepwater platform support vessels of UT 755CDL design, signing a $100m contract with Drydocks World specifying delivery from its Indonesian yard, in 2012. Mr Bennett said that the private placement was not earmarked for this deal, but that the timing is indicative of Tidewater's "acquisition mode". He said: "Our equipment deployment reflects where customers are spending. One of our advantages is that we have mobile assets, available all over the world, not just in one region." ■