

Offshore Drilling

Big drillers eye riches of Petrobras' Brazil finds

Chartered-in units to bridge gap until 2015 — when Petrobras' first drillships come online — as production is ramped up after new pre-salt discoveries in the Santos Basin



BARRY PARKER

THE earnings report season is in full swing with big listed drillers and vessel operators reporting their results for the end of 2010.

Listed companies, with reporting pressures, face mighty challenges in grinding out quarterly earnings, while — at the same time — budgeting for the future.

All eyes, including those of Transocean chief executive Steven Newman, are on Brazil, with Mr Newman's marketing executive, Terry Bonno, telling investors how Transocean sees Petrobras' chartering intentions over the next few years.

In the fourth-quarter 2010 earnings call, Ms Bonno talked about Petrobras' requirements for deep and ultra-deep capability units — where two tenders are in process, one for 1,500 m units and another for 3,000 m rigs — saying: "In Brazil, Petrobras recently announced the award of seven new wells from an initial tender of up to 28 units. In order to bridge the gap to the first Brazilian newbuilding delivery anticipated in 2015, we believe Petrobras will take multiple units under the long-term 1,500 m tender which is still outstanding."

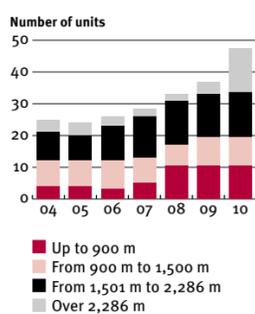
The second and more recent tender, for units capable of drilling into the new pre-salt finds in the Santos Basin, was described by Ms Bonno as "a further opportunity to further increase our market share in important ultra-deepwater markets".

Ms Bonno, when pressed about Petrobras' precise intentions to charter ultra-deepwater rigs, told the investor audience: "There are a lot of folks who think it could be up to four to eight — it's just going to have to be wait and see."

EnSCO chief executive Dan Rabun, discussing the two Petrobras tenders for chartered units, offered similar sentiments on his company's conference call, saying:

PETROBRAS DRILLING RIG FLEET

Units operating per year (2004-2010)



Source: Petrobras

"In the fourth quarter, Petrobras issued two tenders for work for both dynamically positioned and moored semis. This is an addition to their plans for 28 rigs to be built in Brazil and underscores Petrobras need for rigs on a near-term and medium-term basis."

In all facets of business, oil majors are continually positioning themselves to excel at core businesses, and to contract 'non-core' services from the outside. The construction and ownership of the 28 rigs, at prices that could exceed \$700m each (based on a line-up of recent bids), as well as supply boats and tankers, must still be viewed in the context of Petrobras' enormous capital budget that is now pegged at \$224bn through to 2014.

Even after Petrobras' 2010 world record \$70bn share offering, capital is not limitless. Indeed, after completing a \$6bn bond issue in early February, Petrobras estimates that it may still need to raise some \$30bn-\$40bn of debt to fund its capital expenditure programme.

Last month, Petrobras announced that a \$4.6bn contract for building seven drillships has been awarded to the Estaleiro Atlantico Sul yard in Ipojuca, Pernambuco, which is owned by local Brazilian construction giants in conjunction with Samsung Heavy Industries. From the perspective of efficient use of capital, chartering of drilling rigs — and oil tankers — is better than owning such equipment. Petrobras has created

"This ... underscores Petrobras' need for rigs on a near-term and medium-term basis"

Dan Rabun, EnSCO

Sete Brasil, a holding company that will own the seven units, which will then be chartered to Petrobras — instead of Petrobras owning them.

Petrobras is ramping up its production rapidly; in its own fourth-quarter 2010 conference call, plans for increasing production from present levels around 2.6 m bpd were discussed. Exploration of the pre-salt will be vital for Petrobras if it is to meet ambitious production goals of producing around 4m bpd by 2020. Yet the ability of the EAS yard to deliver the drillships in a timely manner, the first is now scheduled for 2015, is uncertain as is the timing of further awards to other bidders; Petrobras did say that another set of contracts, one of the chartering awards referred to by Transocean's Ms Bonno, could be forthcoming in a couple of weeks time.

Executives at Transocean, as well as EnSCO (set to acquire Pride), will be watching closely since further delays in the tender process will create incremental demand for chartered-in ultra-deepwater assets.

Petrobras continues to announce discoveries of oil far offshore. If more discoveries are made in the pre-salt area, demand for drillships may move well beyond the much bandied about 28 units, plus smaller craft to support them.

Late in 2010, Barclays Capital had said: "We believe the ultimate incremental rig needs for Petrobras in Brazil may reach 50 or more rigs." ■

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Fresh start US deepwater drilling resumes



DRILL company shares received a boost after US regulators issued the first permit for deepwater drilling issued since the official end of the moratorium in late October, writes Barry Parker.

Noble Energy, a natural resources 'independent' company that at one time owned the driller Noble Corporation, received the go-ahead from the Bureau of Ocean Energy Regulation and Enforcement to drill in 2,000 m of water off the Louisiana coast.

The project, using EnSCO's dynamically positioned semi submersible EnSCO 8501, will open up a well started just prior to the Deepwater Horizon disaster — and subsequently closed down by the moratorium.

Politics loom large in the permitting discussions. A judge had told BOEMRE that it could not hold up permits, though BOEMRE insists its decision was arrived at independently.

As gasoline prices have ratcheted upwards, two US House

of Representatives groups are set to hold hearings on the slow pace of issuing permits.

Meanwhile, a group of pro-business Senators is launching a Bill that could streamline the approval process for drillers that had received permits, but had not begun drilling, prior to the imposition of the moratorium.

Pictured above is oil floating on the sea in the Gulf of Mexico near Orange Beach, Alabama, last June after the Deepwater Horizon disaster. ■

Bloomberg

Sete Brasil takes its inspiration from oil asset plays

THE creation of Sete Brasil, a holding company that will own drillships to be built for Petrobras, offers slight parallels — with an equity slant — to the special purpose entities that were created to own maritime transportation assets for oil companies, writes Barry Parker.

For example, Chevron, active in off-balance sheet financings in the tanker space, has created bond-like arrangements that pay interest to institutional holders over lengthy terms, in conjunction with off-balance sheet leases of very large crude carriers.

Sete Brasil will source 10% of its equity from Petrobras. The remaining 90% will come in from Brazilian investment banks and pension funds, with their shares packaged into a closed-end private investment fund to be managed by the Caixa Econômica Federal, a government owned bank.

Debt finance to fund Sete Brasil will come in from the Brazilian Development Bank (BNDES), supporting Brazilian built portions of rig construction. BNDES is no stranger to maritime finance; its 20-year funding has supported the ongoing tanker newbuilding programmes of Transpetro, including more than a dozen suezmaxes and aframaxs being built at the Estaleiro Atlantico Sul yard in Ipojuca, Pernambuco.

Export credit agency finance — likely to include the Export Import Bank of Korea — will also play a role, providing finance for imported portions of the drillships, complemented by finance from commercial banks.

Petrobras said that it will be paying dayrates of \$430,000-\$475,000. For comparison, Transocean's latest investor presentation shows the average dayrate of its high specification 'floater' category to be \$459,000 in the first quarter of this year, and Noble Corp's Noble Jim Day — a

90%

Percentage of equity Sete Brasil will source from banks and pension funds

3,500 m capable semi-submersible — will go on charter to Shell, subject to resolution of permitting issues, at \$485,000 per day for exploratory drilling in the US Gulf in the Auger Field.

Sete Brasil will consider an initial public offering once revenues from the Petrobras charters begin flowing in. An executive at one equity investor, Previ, which manages pension investments at the Banco do Brazil, was quoted in the financial press discussing an exit strategy for what is effectively a private equity deal.

This type of structure, which eases the financing burden on Petrobras — originally anticipated to be the owner of the drillships — may also be applicable as additional units are contracted.

Brazilian-built rigs may follow the pre-salt eastward across the Atlantic. Petrobras has been increasingly active in West Africa, most recently with its acquisition of a 50% stake for a block to be explored (at depths of up to 3,000 m) in offshore Benin alongside field operator Compagnie Beninoise des Hydrocarbures.

Over the past few years, the Brazilian giant has reported a steady string of discoveries in offshore Angola.

Thus, assets owned by Sete Brasil, or similar closed-end equity plays created to own additional Brazilian built rigs, may be exploring in West Africa as well. ■

Transocean takes hit on jack-ups

IN CONTRAST to the ebullient nature of the deepwater market, the failure of older jack-ups to rebound has been problematical, writes Barry Parker.

Transocean, in its earnings announcement, took a widely anticipated impairment charge of slightly more than \$1bn — basically a one-time writedown on the carrying value, which is then charged against company equity — on a fleet of jack-ups that had been acquired in the late 2007 acquisition of Global SantaFe.

Management made a determination that the lower asset values, correlating with reduced

earning power, are a permanent situation — as contrasted with a cyclical slump.

After slicing away layers of complicated accounting rules, the net impact of the writedown, which does not involve any cash expenditure, was to push Transocean's overall earnings down to a loss of nearly \$800m in the fourth quarter 2010, compared to a profit of \$723m in the year-earlier quarter.

Transocean's utilisation data showed dramatic slippage in utilisation for both its high specification jack-ups and its standard jack-ups, which were the subject of the writedown.

The standard units worked 46% of available days, down from 52% in the previous quarter.

Terry Bonna, the Transocean marketing executive, told investors at its fourth-quarter 2010 earnings call that "we acknowledge the fact that customers will continue to prefer newbuilding high spec units" even where a standard unit would be workable; and she added: "We believe this bifurcation of the jack-up market will continue for some time."

Transocean's investor presentations show that average dayrates for the jack-up category are \$111,000 — for both the first and second quarters of 2011. ■