

# Hornbeck in super-sized \$242m stock offering

Strong demand boosts number of shares to 8m



BARRY PARKER—NEW YORK

AT THE Marine Money "Americas" forum, held in New York last week, banker Mark Whatley from Evercore Partners offered attendees a snippet of the advice he gives client companies.

Whatley's game plan is simple: "Access capital when you can, as often as you can, when windows are open."

Evidence of a wide-open money-raising window in the offshore sector is an equity offering just concluded for Hornbeck Offshore Services. Hornbeck has now raised \$241.5m of fresh equity, in a stock offering that was completed earlier this

week through an underwriting group led by Barclays Capital, JP Morgan and Wells Fargo Securities. A group of regional firms and niche brokers rounds out the distribution team. Demand has been strong; the offering's size was increased to 7m shares, from the originally announced 6.75m. The final share count includes the underwriters' overallotment option.

The company has outperformed both the broader stock and sector indices since the market's near-term nadir in early October. Canaccord Genuity analyst Scott Burk, in a mid November report on the offshore services sector, wrote: "Since July 22, oil prices are down only 2%, while the OSX is still down 18%." Noting that oil services stock prices are typically tightly correlated with the West Texas Intermediate oil price, Burk expressed surprise that the sector's stock prices had not run up with the WTI price.

In contrast, the trajectory of Hornbeck shares has been upward — 10% above their July 22 closing price. Just prior to the



Many of Hornbeck's vessels are deployed offshore Latin America, mainly in Brazil. Shutterstock

offering being announced, the Hornbeck Offshore stock had reached its highest levels of the year, nearly \$36 per share. As typically happens in follow-on share issuances, the stock's price dipped (albeit from its highest prices for the year) as investors learned of the new offering, which was priced at \$30 per share.

At Barclays Capital, James West, who heads up its New York-based Oil Services and Drilling analyst team, described the stock as "one to own for the cyclical upturn". The mid November report reaffirmed his firm's "Overweight" rating on the stock.

The proceeds from the Hornbeck

offering will go towards partially funding a \$720m newbuilding programme for 16 US-built offshore support vessels, which will feature DP-2 capabilities. When the offering closed, Hornbeck said that it would be building eight vessels each, at Eastern Shipbuilding and at VT Halter where it had built previously.

The new vessels, expected to be delivered during 2013 and 2014, are described as OSVs of a new 300 class and likely "to command higher dayrates commensurate with their increased size and capabilities" compared to the workhorse 240 class vessels in Hornbeck's fleet deployed in both the Gulf of Mexico and offshore Latin America, mainly Brazil. The Barclays optimism stems from a belief that these deliveries, at "attractive prices relative to peers" will occur at a time of OSV shortages in the Gulf of Mexico and in Brazil.

The eight newbuilds from VT Halter (using a bespoke design) will provide 20,900 barrels of liquid mud capacity; the eight from Eastern (based on two designs from STX) will provide capacity for 20,000 barrels of liquid mud. In contrast, a series of 2,850 dwt 240 class vessels delivered from Leevac in 2002-2003 offer a liquid mud capacity of 8,300 barrels.

Hornbeck also envisions possible conversion of the newbuilds for work as deepwater construction vessels, or on subsea inspection, repair and maintenance, citing their length (300 ft) and high load capacity. ■

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The proceeds from the offering will go towards new offshore support vessels.

Dietmar Hasenpusch

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## Hornbeck announces detailed financing plans

WHEN Hornbeck announced its plans last week to buy 16 offshore support vessels it also set out its detailed financing proposals for the programme, writes Barry Parker in New York.

"Construction costs will be funded with cash on-hand, projected free cashflow from operations, other external financing and, if necessary, available capacity under the company's currently undrawn and recently expanded \$300 million revolving credit facility," it said.

The current equity offering, coinciding with two building contracts, fits into the "cash on hand" category - with Hornbeck's newly increased coffers.

Though Hornbeck's results showed losses of \$0.34 a share and \$0.26 a share during the first two quarters of 2011, the tide has turned, with the third quarter seeing only a slight loss, at \$0.05 a share. A consensus of analysts expects a modest profit in the fourth quarter 2011.

When the new vessels are delivered, they will make substantial contributions to operational cashflow. An earnings model in Barclays Capital's research report is based on a view that the new vessels will "command dayrates of \$35,000-\$45,000 versus current average new-generation OSV dayrates of \$20,000." The report's author, James West, cautions: "Our estimates for 300 Class vessel dayrates may prove conservative." Barclays looks for utilisation — a measure of on-hire days compared to available days — of new-generation OSVs to rise from current levels around 70%, to bull-market levels of 90%, by end 2013.

During the vessel construction phase in 2012-2013, debt service demands will require cash resources. The Barclays model estimates "free cashflow" (cash flow after debt servicing) approximating -\$60m in 2012 and -\$120m in 2013, before swinging to dramatically positive levels in 2014 and 2015. This part of the financial analysis reflects a substantial deleveraging after delivery of the new boats, supported by the outsized dayrates expected as the newbuilds begin work in the upward part of a cycle.

In describing a ratio of outstanding debt to cashflow anticipated at Hornbeck, Barclays says: "We expect net debt/ebitda [earnings before interest, taxes, depreciation and amortisation] will fall to levels close to 0.2x from roughly 4.2x today." ■

## Prospectus gives insight into strategic thinking

THE language of the supplemental prospectus surrounding Hornbeck's \$120m equity offering signifies an important inflection point in the company's thinking, and presumably that of peer companies based in the Gulf of Mexico, writes Barry Parker in New York.

In the Gulf of Mexico, one sign of improvement concerns plans for breaking out a group of stacked vessels; the company says: "Given the recent improvement in market conditions, our five stacked vessels are expected to be re-activated for service in the Gulf of Mexico by the end of the first quarter of 2012, after re-crewing and any required drydocking activities." Barclays Capital, in a recent report on Hornbeck, estimates that these re-activated vessels would fetch dayrates of \$11,000-\$15,000, when they return to service, double the hires at the market's nadir. The five vessels are 200 class, 1,600 dwt and 3,900 bhp, suitable for shallow water trades, with liquid mud capacity of 3,100 barrels and DP-1 capability.

In describing the sharply improved Gulf of Mexico market dynamics, the company's prospectus reveals: "Leading-edge spot market OSV [offshore support vessel] dayrates in the Gulf of Mexico for our 240 class DP-2 equipment have been in the \$28,000 to \$32,000 range, which is roughly double the levels experienced in early 2011." These hires are comparable to levels experienced by Hornbeck boats working offshore Brazil. A late 2010

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Petrobras tender saw several Hornbeck OSVs hired for similar dayrates, through the medium of a charter into a local Brazilian company, a mechanism for bringing non-Brazilian flag vessels into its trades.

Against the backdrop of a quickened pace for issuance of new drilling permits, Hornbeck is looking beyond the Gulf. In the months following the Deepwater Horizon accident and subsequent moratorium on new drilling permits, Hornbeck chief executive Todd Hornbeck was very vocal, on behalf of the Shallow Water Energy Security Coalition along with EnSCO, Hercules Offshore and others. It was Hornbeck Offshore Services that filed a lawsuit against the Secretary of the Interior, Ken Salazar, challenging the legality of the drilling moratorium.

In late 2010 and into early 2011, the coalition sought to educate politicians about shallow water drilling. A year later, amid improved conditions, the company's actions now point full speed ahead towards deep and ultra deepwater sectors.

In a news release announcing its 16-

vessel newbuilding programme, Hornbeck Offshore explained that the new vessels could be deployed in three core areas, the Gulf of Mexico, in Mexican waters, and offshore Brazil. At the end of September, the company's 45 offshore support vessels and four multi-purpose platform support vessels were deployed mainly in US waters (17 in the Gulf, five elsewhere), Brazil (14 vessels), and Mexico (nine vessels). By early November, when the prospectus was released, the company was projecting that: "We believe that floating rig activity should return to pre-2010 levels by the end of 2013 with approximately 30 floating rigs expected to be drilling in the Gulf of Mexico, up approximately 50% from the 20 rigs drilling as of November 1, 2011."

The carefully parsed language of regulatory filings in connection with the stock offering explicitly ties the possible successes of the business to the delivery of floating rigs, both semis and drillships, as well as high-specification jack-ups. The investment case is buttressed the increasing OSV-intensity of deeper and remote drilling. The language in the stock prospectus suggests, "based on the historical data for the number of floating rigs and OSVs working, we believe that two to four OSVs per rig are required in the Gulf of Mexico and even more OSVs are necessary per rig in Brazil where greater logistical challenges result in longer vessel turnaround times to service drill

sites."

Another positive for OSV demand is the great surge in exploratory drilling hundreds of miles from coasts, where "more OSVs are required to supply drilling mud, drill pipe and other materials than at later stages of the drilling cycle. In addition, generally more OSVs are required the farther a drilling rig is located from shore."

The importance of Brazil to the tightening demand side of the OSV equation is stated starkly: "They often measure transit time for a new generation vessel to some of the newer, more logistically remote deepwater drilling rig locations in days, not hours."

The commitment to the market thousands of miles from the Gulf of Mexico is underscored by the comment: "We continue to actively bid additional

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vessels into Brazil. We recently acquired a Brazilian navigation company (EBN) and have increased our physical presence there with additional shore-side support personnel in Macae and Rio de Janeiro." An EBN is a local shipping company with regulatory approvals to work offshore Brazil, somewhat analogous to the Jones Act applying to US coastal trades.

The language of the documents shows that the move to bigger vessels will offer very specific advantages favouring the larger newbuildings; in a prospectus section on macro drivers, the company reminds investors: "Deeper wells require more drill pipe and exponentially greater liquid and dry bulk volumes." ■

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