Noble weighs spinning off jack-up rigs

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Barry Parker — New York

IN RECENT months, the strength percolating in the floating rig segment — semi-submersibles and drillships — has attracted considerable attention.

A number of the major drillers also maintain fleets of jack-ups, which can be attached to the seabed in shallow waters, to depths of up to 450 ft. Though market dynamics for deep and shallow waters are very separate, analysts and investors are continually looking at whether "the rising tide will lift all boats". Asked another way, will strength in the floating segment be transmitted into the jack-up market?

On its recent investor call, a lively conversation ensued between David Williams, chief executive of Noble Corp, and analyst James West from Barclays Capital, on the subject of a spin-off into a separate company of Noble's jack-up rigs.

Mr Williams has described the jack-up segment of Noble's fleet, with some units built in the 1980s but many built or refurbished during the 2000s, as "the new commodity rigs going forward".

Its fleet numbers 79 rigs, with 43 jack-ups on the water, in total, including 11 newbuildings of which five are floating and six high-specification jack-ups. The six newbuildings are Friede Goldman designed 400-IC types, being delivered from Jurong between late 2012 through 2014. Costs on the last two rigs in the series are estimated to be around $245m each.

From a financial viewpoint, Noble faces the dilemma of whether to keep its jack-up units within the company and benefit from their strengthening cash generation capabilities, or sell them off — the subject of the Barclays analyst's query.

In its recent financial report, released just prior to the earnings call, it touted the improved utilisation earnings capabilities of its jack-up fleet.

The company said that three rigs working for Pemex in the Bay of Campeche, the jack-ups Noble Eddie Paul, Noble Bill Jennings and Noble Leonard Jones, were put into contracts of two-three years' duration, at dayrates described as "improved to $112,000 from $100,000 previously". In the North Sea, Noble saw jack-up utilisation at 100% in the fourth quarter of 2011; it commented that "customers aggressively moved to secure rig commitments through 2012 and into 2013. The company currently has four of its eight jack-up rigs committed into 2013, with the remaining units committed to late 2012."

One jack-up, the Noble Byron Welliver, saw its agreed dayrate upped to $122,000, compared with its prior rate of $91,000, on a one-year deal that will keep it employed through the summer of 2013 with Centrica.

The Middle East/India region also saw improvement for Noble, with fourth-quarter 2011 utilisation climbing to 89% from 83% in the third quarter. Two jack-ups able to work at 300 ft depths, Noble Gene House and Noble Joe Beall, went back to work at improved dayrates; Saudi Aramco took both, each on three-year charters at rates estimated to be around $90,000 per day. Another jack-up, with a 250 ft. capability, Noble Charles Copeland, got a three-year charter, also from Saudi Aramco, at $95,000 per day.

Clearly, the climate for shallow water rigs has improved. Tempting as it might be to rake in the cash flows, the spin-off alternative, or another form of asset disposition, if timed right, would have the potential to bring in outsized amounts of cash.

A one-time windfall from an asset sale could fund Noble's obligations on the handful of ultradeepwater drillships — one Bully type with topside work now under way at Huisman in the Netherlands, and four Gusto types from Hyundai. The fourth unit, to be delivered in late 2014 after Noble's exercise of an option, will cost around $630m all in. A similar unit, ordered by competitor Rowan, also through an option exercise tied to a previous firm order, has a price tag of $650m, once owner-furnished items are factored in.

On the investor call, Mr Williams waxed philosophical on the subject of divesting the jack-up unit, saying that "you've got to pick your times if you want to monetise these things — and of course the rising market is when your time is and it gets to the top — it's hard to do, if it rolls over you can't get more. And so our timing is critical, we've been looking at this for a long time and I'll be really honest, and I've said it before, the market has just outrun us and I don't take that."

In explaining that Noble's board of directors would be looking at the spin-off issues, Mr Williams added: "I am not trying to set any expectations one way or the other of what the outcome is going to be."

At present, requirements for capital expenditures, mainly for the newbuildings, are huge, even after considering Shell's contributions for the Bully rigs which came to Noble with its 2010 acquisition of Frontier Drilling.

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Noble's quarterly regulatory filing for the third quarter of 2011 stated: "Our total capital expenditure estimate for 2011 is approximately $2.7bn. In connection with our 2011 and future capital expenditure programmes, as of September 30, 2011, we had outstanding commitments, including shipyard and purchase commitments, for approximately $3.4bn, of which $1.1bn is anticipated to be spent within the next 12 months." By comparison, Noble said: "Net cash from operating activities was... $759m for full-year 2011".

Within its recent regulatory statement, the driller noted: "We currently expect to fund these cash flow needs with cash generated by our operations, cash on hand and borrowings under our existing bank credit facilities. However, given the level of expenditures we expect to incur through the end of 2012, a significant portion of which relates to our newbuild programme, we may require capital in excess of the amount provided through these sources."

Noble's investment grade rating of Baa1 from Moody's is due, in part, to moderate leverage; its year-end 2011 long term liabilities stood at $4.6bn, on a $13.5bn balance sheet, after a $1.1bn debt raising early in the year.

Last December Moody's changed Noble's rating outlook to negative, expressing concern about debt required to fund rig construction. In explaining the shifting view, a Moody's executive stated: "While the company's leverage metrics should still decline in 2012, they are likely to be higher than we had been anticipating. The negative outlook reflects our concern that Noble's earnings may not increase sufficiently in 2012 to reduce leverage metrics to levels more consistent with its Baa1 rating."

In mid-February, 2012, Noble announced plans to raise an additional $1.2bn of debt, with proceeds earmarked for a paydown of a revolving credit facility, with the company also reserving the right to fund its capital investment program with a portion of the funds. The debt, described as "senior unsecured notes", will be made up of three tranches, with $300m of 2.5% senior five-year notes, $400m of 3.9% senior ten-year notes and $500m of 5.3% senior notes with a thirty-year tenor.

The rating agencies, not surprisingly, were not thrilled with the prospect of additional debt. Standard & Poors, which assigned a BBB+ rating, said: "The ratings reflect our belief that the company is pursuing a more aggressive financial policy, because it will likely need to partially finance its heavy capital spending program with additional debt, whereas in the past, it has largely spent within its cash flow generation."

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Shortly after the debt issue was priced, equity analysts at Goldman Sachs were turning positive on Noble and Ensco, citing anticipated strength in the jack-up realm.

No doubt that Noble's Board will be weighing such considerations, alongside prognostications on future dayrates for jack-ups, as it evaluates a spin-off of its non-floating rigs. Given the rating agencies' concerns, and the increasingly positive views about jack-ups, Mr Williams and his team will need to sharpen their pencils when this topic comes up. ■

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Noble is benefiting from the improved utilisation of its jack-up rig fleet.

The strength of Hercules

A LATE January report by Dahlman Rose oil services analyst Doug Garber highlighted positive prospects for Hercules Offshore, whose single business focus is increasingly on shallow-water drilling units, *writes Barry Parker.*

The report opens with Dahlman Rose's view that Hercules continues to benefit from its strength in the Gulf of Mexico. It then recounted a lengthy list of charters at improved rates in a region that most drillers and analysts say has come back to life.

According to the New York based brokerage, which cited its proprietary supply-demand model, utilisation rates for jack-ups in the Gulf of Mexico are around 96%.

Last year brought an important step towards consolidation, when Hercules took over 20 older jack-ups, mainly US built, from now defunct Seahawk Drilling, a company created in 2009 as a spin-off from Pride International. Pride was acquired by Ensco in 2011.

Fixtures named in Mr Garber's report included the rigs Hercules 150 and Hercules 212 that were fixed at $60,000 per day and $58,000 per day, both above DR's forecasts.

Hercules 350 was booked in the Gulf of Mexico for $105,000 a day, also well above the broker's expectations.

Tellingly, however, Hercules' good news did not lead to a buy recommendation. Instead, Dahlman Rose kept a hold rating, "due to the longer-term capital structure concerns and the aging international fleet".

Dahlman Rose forecast that the five 250 ft Hercules units trading internationally would earn dayrates between approximately $60,000-$100,000 during 2012 and 2013. The 1980-built Hercules 208 is working in Indonesia at the top end of the scale.

While more modern high-spec independent leg rigs can drill down as far as 35,000 ft, the Hercules units are rated only for 20,000-25,000 feet. ■

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Jack-up drills test near-term highs

IN EARLY February, Seadrill announced a clutch of jack-up deals for units able to drill at 30,000 ft, providing insight into the market's current state, *writes Barry Parker.*

Two modern units will receive dayrates that work back to the mid $130,000s and one, on a shorter charter, has attained a sharply higher level.

In a sign of a possible breakout in the sector, the Fredriksen-linked driller booked Offshore Mischief, to Equion Energia, the company 51% owned by Ecopetrol and 49% by Talisman, to drill off Colombia for six months.

The dayrate on the short-term contract for work at Block RC5 in the Caribbean, equates to a level around $175,000, in line with highs for jack-ups booked during 2007 - 2008. The rig is now working in Brazil's Campos Basin at $119,000 per day.

In two fixtures more indicative of the term market, Seadrill's West Leda, now finishing a PTT Exploration & Production charter offshore in Thailand, received a nod from ExxonMobil to shift to a new contract, with a firm period of 18 months, at a rate of approximately $136,000 per day.

Seadrill's Offshore Defender, chartered to Petrobras in the Campos Basin, has been hired by Shell on a four-year deal, following mobilisation to Brunei. The dayrate, after backing out an estimated $9m for shifting and modifications, equates to roughly $137,000 per day, a bump up from the $131,000 per day that Petrobras paid.

Jack-ups able to drill to 30,000 ft in non-harsh conditions have seen market "resistance" around $150,000 per day, and analysts wonder whether rates can go above that level.

One Norwegian analyst taking part in the fourth-quarter 2011 Atwood Oceanics investor call mentioned that a jack-up had been booked at $170,000 per day. This may very well refer to Seadrill's Offshore Mischief.

Atwood president Robert Saltiel said: "Our anticipation is that the fixtures we get on our jack-ups are going to continue to proceed northward.

"The most recent deal that we did on the Atwood Aurora involves $134,000 with an option at $139,000... We're offering our rigs going forward... north of $140,000 range... But the question is, can we break through $150,000? We could certainly envision that happening." ■

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