

Seadrill to make early move towards Brazilian spin-off

Prospectus filed with Brazilian regulators for an initial public offering of shares in new entity



Barry Parker — New York

SEADRILL, by many measures among the leaders in the offshore drilling space, has announced that it will be making early moves towards a restructuring and minority spin-off of its Brazilian business.

In mid-December, a preliminary prospectus was filed with Comissão de Valores Mobiliários, the Brazilian regulators, for the future initial public offering of shares in the newly formed entity, Seabras Serviços de Petróleo, in Brazil.

The Seabras prospectus does not include any information on timing and money of a proposed IPO. However, the broad parameters of the transaction are spelled out, and 2011 provided a handful of precedents for similar deals in the offshore energy sector, including the North Atlantic Drilling transaction, in which Seadrill created a separate company specialising in harsh environment drilling rigs.

In such deals, hard cash comes in from investors in the spun-off entity. The parent, which retains the majority of shares in the new company when things go right, hopes to reap valuation benefits as the new company moves to a valuation worth more, as a separate entity, than it was when part of the parent.

The two main offshore rig spin-offs last year were NADL and Aker Drilling, according to Swedbank First Securities' senior analyst Bjorn Thoresen.

In NADL, money was raised through a \$425m private placement with approximately 1,200 investors, plus an allocation of \$1.25bn from Seadrill. After the February, 2011, placement, Seadrill remained the holder of 75% of NADL; later in the year, it stopped short in its efforts to



The newly formed Seabras will acquire the equity interests in the company that owns and charters West Taurus, which works for Petrobras.

offer public shares on the Oslo Bourse. Around the same time, Aker Drilling, operating two harsh environment semi submersibles, with two drillships under construction, was spun out of Aker Solutions.

Aker Capital, a related company, and a group of major hedge fund holders, together held approximately 60% of the shares, which moved steadily downward following its late February 2011 offering. Six months later, Transocean swooped in and acquired the company for \$1.4bn.

"Aker Drilling was delisted [after its acquisition by Transocean] at a price 33% above its initial trading level," Mr Thoresen said.

He contrasted this performance with the overall relevant benchmarks, which he said were off 30%-35% compared to end January, 2011.

In a less successful transaction, Sevan Drilling was spun out of Sevan Marine — raising \$363m to fund the parent's floating production, storage and offshore business, plagued by hefty leverage and severe over-runs on asset upgrades.

The parent's stake was significantly diluted, as more shares were issued at a lowered price, in order to achieve the intended proceeds, which went towards financing of two drilling units at Cosco.

The parent, Sevan Marine, ultimately restructured through sales of three floating production, storage and offloading units including the cash-draining *Sevan Voyageur* to Teekay Corporation, in October. After the dust settled in the complicated financial

juggling, Teekay also emerged with a 40% ownership stake in Sevan Marine.

One putative spin-off has not yet made it down the slipway. Odfjell Drilling pulled back an intended spin-off its rig-owning business, Odfjell Offshore, waiting for more opportune timing in the equity markets.

Initially, Odfjell had targeted raising more than \$600m. In public statements, Odfjell Drilling has indicated an intention to revisit the idea of listing the "Offshore" unit. Analysts continue to point to strength in the ultra-deepwater segment, where Odfjell Drilling owns two latest-generation semi-submersibles, a 71% stake in a 1983-built unit.

The Odfjell fleet also includes two 2011-built drillships, with the Norwegian driller (40% owner) partnered with Metrostar. ■

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Sevan Marine ultimately restructured but lost *Sevan Voyageur* to Teekay Corporation.

What the analysts say

SEB Enskilda analyst Lukas Daul: The 'base case' for a listing would be the first half of 2012 "given that things fall into place as far as administrative procedures and market development".

Morningstar analyst Stephen Ellis: "The timing of the spin-off definitely sounds like a 2012 event. Seadrill does not like to sit around on its hands."

Swedbank First Securities senior analyst Bjorn Thoresen: "My expectation would be for a near term timing — ie within the next one to three months."

Investment Management managing partner Erik Hannisdal: "Based on previous attempts of initial public offering for foreigners in Brazil, I think the listing probably will be delayed a bit. "Still, I consider the timing to be good, and even though the market in

Brazil is still learning about oil and offshore listings and IPOs, I would definitely say that the climate is positive for the segment."

Carnegie head of energy and utilities Frederik Lunde: "Seadrill has been very good at using the capital markets, and would be very pragmatic and opportunistic with regard to Seabras. I think that they would be quick to tap the market when they consider a market window attractive."

Terra Markets head of offshore drilling research Kim André Uggedal: "We expect the spin-off of Seabras to be a 2012 event, potentially in the first half, with the award of the rigs to Sete Brasil as a catalyst. Seadrill has submitted bids for three newbuilds through Sete."

He added that "the shape of the capital markets" will weigh heavily on timing. ■

Seabras is a potential competitor with parent company

THE proposed Seabras listing differs from the spate of 2011 spin-offs in that the new entity is a potential competitor with its parent, Seadrill, writes Barry Parker.

A mechanism is described in the prospectus whereby Seabras would have the right of first refusal on business opportunities for which it is qualified.

Likewise, the door is open for Seabras to participate in projects outside of Brazil; Seadrill has the right to look first at non-Brazilian drilling projects identified by

Seabras. There is also the potential for joint Seabras/Seadrill projects, as well.

The prospectus calls for a broader service company, including subsea engineering, procurement and project management, as well the installation of pipes.

The marquee customer will, of course, be Petrobras, but the prospectus suggests that services might be offered to other companies engaged in exploration and production offshore Brazil.

"[Through] Seadrill, we believe that we can benefit [ourselves] from the relationships with other potential customers who may want to expand its activities in Brazil, including Statoil, BP, BG, Total and Shell."

Seabras also intends to piggy-back on existing Seadrill relationships, with a roster of names including Cameron, Aker, Kongsberg and Rolls-Royce cited as contributing to improved operational efficiency and reduced costs.

Seadrill recently invested \$65.5m in Sevan Drilling, gaining a 28.5% stake.

Terra Markets analyst Kim André Uggedal suggested that Seadrill's 28.5% ownership in Sevan Drilling could be transferred to Seabras. He added that Sevan Drilling has two rigs on long term charters with Petrobras.

Implicitly, the prospectus paints Seabras as a hub for Fredriksen group activities in Brazil. Investment Management's Erik Hannisdal told Lloyd's

Seabras restructured ready for IPO

PREPARATIONS are being made for the Seabras listing in Brazil, with a separate US offering likely to take place in parallel, and pre-offer restructuring is now underway, writes Barry Parker.

The IPO will allocate 25%-30% of Seabras to outside investors. The company will comprise three rig-owning entities.

Morningstar's Stephen Ellis told Lloyds List: "I believe Seadrill's main motivation here... is to create shareholder value for somewhat illiquid investments in deepwater rigs. The spin-off gives Seadrill stock that it can immediately sell, if needed, to build new rigs, and the likely rich valuation of the spin-off will make Seadrill's stake more valuable than if it just retained them under the Seadrill umbrella."

The newly formed Seabras, incorporated on July 1, 2011, will acquire the equity interests in the companies that own and charter three modern semi-submersibles, West Taurus, West Orion, and West Eminence, that work for Petrobras.

The West Taurus is on charter to Petrobras at \$650,000 per day until February, 2015. West Eminence and West Orion are both on at \$618,500 per day to July 2015 and July 2016. All three are working in the pre-Salt fields in Santos Basin.

A fourth Seadrill unit West Polaris, not part of Seabras, previously worked for Exxon Mobil in the Santos Basin. It is listed as working for Statoil in the Camamu Basin off Bahia.

Two Seadrill jack-ups are working in Brazil: Offshore Mischief and Offshore Defender, chartered by Anadarko at \$119,000 per day and Petrobras at \$131,000 per day. Both charters expire in early 2012. Analyst estimates suggest such rigs could earn dayrates of \$140,000-\$150,000.

Since January, the rig-owning companies have been housed in a company called Seabras Rig.

Terra Markets head of offshore drilling Kim André Uggedal said: "Seadrill is expected to keep an ownership of between 50.1%-75%, with new equity in the range of \$1.5bn-\$2bn. In our Seabras valuation we have included the three semis on long-term charter with Petrobras, plus the two jack-ups working in Brazil."

Regarding three possible newbuildings being discussed for the Sete Brasil deal, Mr Uggedal expected Seadrill to have an equity stake of 15%-40% through Sete, giving the rigs associate status.

SEB Enskilda analyst Lukas Dual told Lloyds List: "Seadrill is bidding on the Petrobras tender. Petrobras is now negotiating directly with several parties."

In announcing the Seabras IPO, Seadrill also announced plans for a joint venture with Malaysia-based SapuraCrest Petroleum, in which it holds a 23.6% stake.

The joint venture company, to be 50% owned by Seadrill and 50% by SapuraCrest, will build three pipelayer support vessels, to be chartered to Petrobras on delivery between the third quarter of 2014 and the fourth quarter of 2015.

Ordered by SapuraCrest, the vessels will command dayrates of \$243,624 for the two being built outside Brazil and \$262,720 for the one being built in Brazil. ■

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