The Offshore Rig Market: A Whole New Ballgame

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Agenda

The good news
The bad news
A lesson from the past?
What’s different this time
What to expect
Finally some good news:

- Demand for all types of offshore rigs appears to have stopped falling
- Backlogs have stabilized
- New fixture day rates have (?) reached a plateau
- No more rigs are being ordered
- Newbuild deliveries have slowed to a trickle
- At most a handful of the ‘Sete Brasil Rigs’ will be completed
Looks like an uptick for rigs under contract!

Rigs under contract (jackups, semis, drillships, tenders)

Source: IHS Markit

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…and more importantly for rigs at work

![Graph showing working rigs (jackups, semis, drillships, tenders) from Jan 2012 to Jan 2017](image)

Source: IHS Markit

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Good News

Floater backlog has stabilized

On order and under construction rigs are counted

Source: IHS Markit

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As has jackup backlog

Global jackup backlog days - per rig - by rated water depth

Source: IHS Markit

© 2017 IHS Markit
The day rate decline seems to have ended

New Fixture Rates

Source: IHS Markit

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But unfortunately there’s also some bad news:

- The huge over-supply of all rig types persists
- Attrition is not solving the problem (at least not yet)
  - Jackup attrition never really got going for IC rigs
  - Floater attrition has slowed
- Hard to believe that earned day rates have stopped falling
Almost half the fleet is uncontracted

Current Status of the Global Offshore Rig fleet (jackups, semis, drillships and tenders)

- Under Contract, 447
- Hot stacked, 38
- Warm stacked, 172
- Cold stacked, 157
- Yard, 19
- Other, 23

Total of 856 rigs

Source: IHS Markit

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Do contractors really expect to put more than 170 (warm-stacked) rigs back to work in the near future?

Source: IHS Markit
…while the pile of cold-stacked rigs keeps growing
Floater attrition has slowed and for IC jackups it is still negligible

Offshore Rig Attrition

Source: IHS Markit

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Average earned rate for deepwater rigs still appears high, but falling

Average Earned Rate - Deepwater Floaters*

*Rated water depth > 3,000 ft

Source: IHS Markit

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For jackups the available data may be misleading....

Average Earned Rate - All Competitive Jackups

Source: IHS Markit
A Lesson from the past?

How many of these names do you recognize?

Contractors managing at least ten rigs in January 1985

- Penrod
- ODECO
- Global Marine
- Sedco/Sedco Forex
- Sonat
- Santa Fe
- Reading & Bates
- Rowan
- Zapata Offshore
- Transworld
- Western Oceanic
- Marine Drilling
- Forex Neptune
- Foramer
- Atwood
- Dixilyn-Field
- Diamond M
- Loffland Brothers
- Maersk Contractors
- Key Drill

Source: IHS Markit

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### As we don’t have unlimited time...

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Source: IHS Markit

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Dangerous to think it’s just another industry cycle

- Oil and gas are finite commodities
  - There’s less out there than before
  - Look what has happened to the US Gulf jackup market when oil was at $100
- Imagine the impact of another Macondo
- Or an arctic spill of almost any magnitude
- Is peak demand now just around the corner?
Operators now have a choice

- Shale oil and gas is soaking up operator discretionary investments
  - Limited exploration risk
  - Predictable costs
  - No longer just for the independents
- In the US particularly attractive
  - Zero political risk
  - Likely decreasing environmental issues under current administration
- And now signs of spreading internationally to a significant degree
  - Argentina says $6-8 billion will be invested in Vaca Muerta this year...
  - …rising to $20 billion per year from 2020
But some good news

- Most majors are exiting from oil sands
- Falling discovery volumes must eventually cause supply problems
- Offshore fracking could be a game changer
- Costs will probably never be this low again so no better time for
  - Commitment wells
  - Exciting exploration prospects
- P&A work
A whole new ball game

- Rig Contracts – “firm” is not an appropriate adjective
- Construction contracts – completion no longer means payment and delivery but looking for a place to stack the rig
- Forget day rates for now – it’s all about utilization
- New entrants will have an ‘unfair’ advantage
- Expect more local content requirements
- Longer term the outlook for day rates is challenging horrendous for two reasons
  - Far too much competition (do we really need 173 players?)
  - Operators can’t/won’t pay more unless oil prices rise
Thank you