Trends in the Global Offshore Industry

Marine Money China Ship Finance Conference

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Agenda

Introduction

The global rig market

Subsea

OSV & North Sea perspectives
The oil services market has bottomed

Schlumberger, Quarterly revenues, USDm

«All markets have now reached the bottom, including Sub-Saharan Africa and Asia”

Schlumberger CEO Paal Kibsgaard, 20 Jan-2017

Source: Schlumberger; Bloomberg; Clarksons Platou Offshore
What’s the shape of the recovery?

V-shaped?

“We need USD 700bn of upstream investment each year” (compared to 2016 USD ~430bn, IEA estimate)

IEA Executive Director Faith Birol, 30 Jan-2017

U-shaped?

L-shaped?

“We look at 2017 as the starting point of a new multiyear cycle, where the main challenge is actually going to be to reverse the effect of several years of global E&P underinvestment and then try to mitigate the pending supply shortage that we see unfolding”

Schlumberger CEO Paal Kibsgaard, 20 Jan-2017

Bathtub-shaped?
The oil market is rebalancing

Source: IEA; Clarksons Platou Offshore

Expect tightening market in H1/17. H2/17 depends on Opec compliance, Russia and shale response

*) Est. with Opec at 32.8 mbd
Global oil demand is robust. Increasingly non-OECD driven

Average demand growth 1965-present: 1.3 mbl/d p.a. The IEA recently revised 2015 and 2016 demand growth numbers to +2 mbl/d and +1.6 mbl/d respectively and now estimates average annual demand growth to 2022 of +1.2 mbl/d (+1.5 mbl/d for 2017)

Source: BP Statistical Review of World Energy 2016; The World Bank; Clarksons Platou Offshore
Sanctioning activity over the last couple of years: Dismal, and not enough to meet future demand growth and compensate for depletion.

Conventional crude oil resources receiving approval worldwide

This is not sustainable and everything points to a strong recovery, though timing remains uncertain.

At 96 mbl/d, the world consumes 35 bn. barrels p.a.

Source: IEA analysis based on Rystad Energy (from IEA WEO 2016 report, Nov-16); Clarksons Platou Offshore
Offshore is still relevant: ~27% of global oil supply, ~60% of Major’s production and ~55% of their 2P reserves

Relative cost compression vs. onshore also likely to have an impact forward

Offshore likely to increase relative competitiveness out of the trough as cost structure continues to compress relative to shale (Up to 50% of offshore costs are facilities/engineering, while well services dominate shale costs)

Note 1: Oil production illustrated here represents crude oil and NGL production only. Refinery gains and other liquids (biofuels) excluded (hence, data deviate somewhat from e.g. IEA numbers)

Note 2: NPD’s analysis is based on estimates from the operating companies for the following projects: Utgard, Oda, Zidane, Trestakk, Snilehorn, Johan Castberg, Snorre Expansion and Johan Sverdrup ph-2

Source: Clarksons Research Services (CRS); NPD (the Norwegian Petroleum Directorate), based on the operating companies’ own estimates; TechnipFMC; (WoodMack) Clarksons Platou Offshore
Global rig demand has been at record-low levels through 2015/16

JU-fixing at clear all-time low in our time series

Floaters: 2016 proves to be another miserable year

About 40 rig years fixed for JU’s globally first two months of 2017 → 240 rig years at “run-rate”. Not enough, but at least another indication market conditions are about to improve somewhat

Note: Other fixtures relate to Petrobras’ domestic newbuilds / SETE program (2011 & 2012) and NADL/Rosneft (2014)
Source: Clarksons Platou Offshore
Number of working rigs coming down hard across the world

Jackups – Number of active working rigs keeps coming down faster than we had estimated

- Latest actual demand (Dec-16), measured by units on contract, was 290 units. This has flattened lately. Summer-16 saw 300 JU’s on contract on average

Floaters – Currently down to 135 contracted units, further decline is likely

- Latest actual demand in terms of floaters on contract (Dec-16) was 135 units

Active fleet utilization is hovering around 70% for both the global floater and jackup fleet. Rates are largely around rig opex-levels, naturally with various nuances

Source: Clarksons Platou Offshore
Floater market: We need to go back to 2004 to see corresponding low floater demand (as measured by number of floaters on contract)

Source: IHS Petrodata; Clarksons Platou Offshore
Floaters: Dropping everywhere. Several regions likely to drop further during 2017 before leveling out and gradually increase again.
Jackups: 290 units on contract, same level as last trough in 2009 (293). Prior to that, need to go to 2002/03 to see corresponding low number.

Source: IHS Petrodata; Clarksons Platou Offshore
Jack-up overview: Middle East & Indian Ocean stable/increasing. W.Afr set to increase? Mexico and SE Asia stabilizing, set to increase forward?

Updated September 2016.
Source: IHS Petrodata; Clarksons Platou Sec.
Jackup rigcount (rigs on contract) has started flattening

Jackups – Number of active working rigs (on contract), monthly since 2012 – flattening out last 3-5 months

Comments

- More than 50% of the contracted JU’s are in the Middle East and Indian Ocean – regions that have seen stable/increasing demand and continue to do so
- Several other regions have seen JU-count drop ~50% from peak. Further drop unlikely
- Majority of JU-drilling is development and re-development/intervention = stable
- Also, quite a bit of the JU’s are used for gas fields = usually more stable than oil
- Oil price +50% since trough will lead oil companies to increase short lead-time investments again = use more JUs
- We are seeing positive market indications (RFIs etc.)

Source: IHS Petrodata; Clarksons Platou Offshore
Subsea displays signals of bottoming out. Backlogs will start to build again as oil companies increase sanctioning activity, likely late-17.

Leading Subsea equipment manufacturer backlog stabilizing last 3-4 quarters...

...and the same is visible in the combined backlog for the world’s three leading Subsea contractors

Global Subsea fleet utilization is currently below 50% and subsea vessel operators are experiencing significant pressure.

Source: Subsea 7; Technip; Saipem; FMC Technologies; International Oil Daily; Clarksons Platou Offshore
Subsea construction outlook: Tree awards estimated to bottom out in 2016, pipe installations in 2018. Strong installation/construction rebound 2019+

Quest X-mas tree awards outlook scenarios:
Tree awards estimated to bottom out in 2016

• Strong recovery in 2018+ naturally dependent on continued oil price recovery
• FPU awards display same picture as equipment awards
  — Three awards in 2015, zero in 2016. YTD-17, we have seen two firm awards, full-year likely to end at 5-6
  — FPU construction/conversion takes 2-3Y → installation offshore in 2019/20

Source: Quest Offshore; Clarksons Platou Offshore
30%+ of the global OSV fleet is now stacked...

Source: Clarksons Research Services; Clarksons Platou Offshore
Proper data capture is challenging in the OSV-segment, but nevertheless, other sources seem roughly in line with our data.

Graphs and data from recent IHS Petrodata presentation

Total 1500+ vessels...

...corresponding to ~40% of the fleet

Source: IHS Petrodata; Clarksons Platou Offshore
Global OSV utilisation overview

Source: IHS Petrodata; Clarksons Platou Offshore
OSV term rates are at or close to opex levels. Likely to remain low as long as overcapacity persists.

North Sea PSV average term rates

Brazil PSV average term rates

West Africa PSV average term rates

US Gulf PSV average term rates

Source: Clarksons Platou Offshore
AHTS term rates are at or close to opex levels. Likely to remain low as long as overcapacity persists.

North Sea AHTS average term rates

West Africa AHTS term rates

Brazil AHTS average term rates

South-East Asia AHTS average term rates

Source: Clarksons Platou Offshore
North Sea spot rates are bottoming out

Source: Clarksons Platou Offshore
Time to consolidate...

1999: Worldwide, PSVs > 2,000 DWT (top) and AHTS > 10,000 BHP

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2016: PSVs > 2,000 DWT and AHTS > 10,000 BHP

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No of vessels

- AHTS = 512 vessels
- PSV = 1100 vessels
- Newbuilds = 354 vessels

Source: Farstad Shipping – Presentation at Pareto conference Sept-99 and Q2/16-presentation; Clarksons Platou Offshore
Rebalancing? Provided significant vessel attrition, the OSV market *could* be back in reasonable balance in 2020 (modeled scenario from CP Securities)

Note that there are multiple moving parts and numerous assumptions made to attempt to analyze the market-balance in the OSV market. Estimates and timing thus remain highly uncertain

Source: Clarksons Platou Offshore
Some other interesting aspects starting to play out in the OSV space, constituting big question marks...

Charterer: “We are not going to take stacked boats”

Owner: “We are not going to take boats out of lay up unless at least 6 months charter and compensated”

Charterer: “I’m not willing to look at anything which is less than 3Y at opex”

Broker: “How many of these large stacked PSVs have their 5Y SPS coming up during next 1-2 years?”

Everyone: “What’s going to happen to all these stacked boats? How fast will they deteriorate?”

Charterer: “At the current pace, all these established owners are going out of business, and that’s bad for me! I rely on these companies”

Everyone: “How large percentage of the order book will eventually hit the market?”

“What is the viability of the traditional owners’ operating model in a world where Standard/Fletcher Shipping type of companies increasingly operate vessels?”
Summary and conclusions

• The oil services market has bottomed out

• There is a future for Offshore

• Shape and pace of the recovery still uncertain

• Activity is starting to pick up (seismic late-sales, jackup tendering ++)

• All asset-heavy segments (Rig, OSV, Subsea) hampered by significant overcapacity
  — Utilization and dayrates will take long to recover
  — Substantial attrition needed. If carried out, segments can be rebalanced by 2020
  — We will still see a lot of restructuring, refinancing and consolidation

• Now and the coming 12-24 months likely good time to act on asset transactions for those aiming to build a solid longer term position
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