

# Tullow aims to replicate African success in South America

TULLOW'S prospectus prepared in connection with its Ghana listing provides insights into its further plans and its next frontier, writes *Barry Parker in New York*.

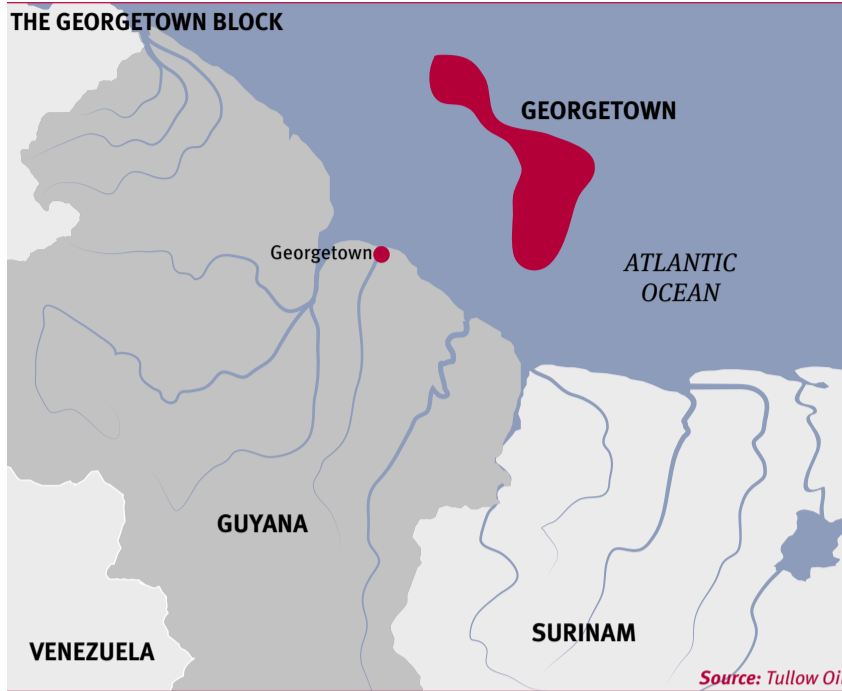
The company is "aiming to expand and replicate its African success in South America" as "the Jubilee play is pursued throughout the Equatorial Atlantic region".

Geologists at Tullow refer to a band of "late Cretaceous turbidite sweet spots" all connected via the "Atlantic Margin" across the ocean. Basin testing is under way at the Zaedyus prospect in French Guiana, and at another programme, nearby, in a Repsol-operated block in shallow waters off Guyana, at the Jaguar prospect.

Drilling in the region has not met with previous successes. Most recently, a consortium including the US independent Murphy Oil had drilled two dry holes offshore Surinam earlier this year.

Tullow characterised its opportunities at Zaedyus as being "bigger than the Ghana fan system", with numerous prospects mapped, and offering high risk with high reward potential.

The company, whose partners in the field include Shell and Total, has hired the 2010-built semi-submersible Enco 8503, on a sublet at a dayrate in the high \$430,000s.



The subcharter, drilling in approx 1,000 m water depth, comes in the wake of permitting difficulties encountered by private equity-backed Cobalt, which had

originally contracted the rig for Gulf of Mexico drilling. The rig is scheduled to mobilise back to the Gulf of Mexico after finishing its work in French Guiana.

An early June agreement between US regulators and Enco provided that US regulators move forward on permitting, with Cobalt's applications for drilling at two sites in the Garden Banks areas receiving expedited consideration if deficiencies need to be corrected.

The regulators required that the Enco 8503 be classed with the American Bureau of Shipping, which has now happened, and to be given a US Coast Guard Certificate of Compliance following an inspection to be conducted when the rig is mobilised back to the Gulf of Mexico.

At Jaguar, the Atwood Beacon, which had been working in Surinam in early 2011, has been hired at a dayrate of \$115,000 for work through March 2012.

The rig, also working other wells in the Georgetown block, where Tullow's partners include Repsol (the operator), YPF and CGX, was the subject of questions on Atwood Oceanic's early August investor call.

Atwood president Robert Saltiel explained: "The Beacon is in South America right now. As you know, the Americas is really not the hottest place for high-specification jack-ups. There are some opportunities in the Americas that we are looking at that are close to home.

"We are seeing a lot of opportunities on the other side of the Atlantic as well, so we're going to take a broad look at the market for Beacon follow-on opportunities."

Equities analysts are sharing some of this optimism. Economic models for Atwood Oceanic's income statement assume a dayrate of \$160,000, following

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*Robert Saltiel, Atwood president*

expiry of the present charter, in a Morgan Stanley report authored by Ole Slorer.

Dahlman Rose analyst Omar Nokta, pointing to Atwood's fixture of a different jack-up, in Thailand said: "The announcement underscores management's view that the jack-up market has been improving internationally." ■

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# DryShips holders gain dividend of partial Ocean Rig spin-off

**Payout will be a combination of Ocean Rig shares and cash**



Barry Parker — New York

NEARLY four years after DryShips' initial foray into the offshore energy sector, the long-planned partial spin-off of shares in ultra-deepwater driller Ocean Rig has gathered additional momentum as DryShips will pay a dividend to its shareholders — a combination of Ocean Rig shares and cash working back to \$50m, or 2% of the drillers' shares.

Ocean Rig has been listed in the illiquid Oslo private placement markets since late November 2010 following a private placement with a small coterie of Norwegian investors. At that time, 22% of Ocean Rig shares, valued then at \$500m, were sold in Norway.

Typically, trading of privately held issues, when it does occur, is very thin, making determination of a company's true value a matter of considerable guesswork.

A further impediment to an informed valuation at the time of the private placement was Ocean Rig's fleet status — at that time, two semi-submersibles were on the water with contracts; there was no visibility on future revenue streams of four drillships on order.

The announcement of the dividend, which will be paid in late September following the listing, comes only a few weeks after DryShips announcement that it would be using Ocean Rig shares as currency in its buyout of another listed company, Ocean Freight.

This had the impact of creating a modest amount of liquidity in Ocean Rig requisite for the Nasdaq listing. Nasdaq rules require that companies desiring a global select listing have at least 450 shareholders, which vastly exceeds the number of holders following the Ocean Rig private placement.

By paying holders of Ocean Freight, a fleet specialising in capesize and ore carriers, with Ocean Rig shares, it was possible to satisfy the Nasdaq requirement.

As explained by the company, shares will start trading on a "when issued" basis starting in mid September, just prior to the

dividend, a technique not uncommon for spin-offs that will happen at a future date.

By mid-October, when a listing application has hopefully been approved by US securities regulators, shares in Ocean Rig will begin trading in the normal way through the Nasdaq marketplace.

Liquidity and share trading are critical for DryShips/Ocean Rig now; in the announcement of the partial spin-off, company management asserts that: "The intrinsic value of Ocean Rig is substantially higher than what has been used to determine the number of shares that will be distributed."

Only through trading in the open market will that belief be borne out.

In the past few months, Ocean Rig has put some, but not all, of the building blocks for a proper valuation into place. In this reckoning, the certainties include fixtures on all four of its drillships with a 10,000 ft drilling capability.

These had been ordered from Samsung in 2008, one pair by Ocean Rig and the other pair by a private George Economou company that was subsequently absorbed into Ocean Rig.

This past spring, two of the drillships, one already working — *Ocean Rig Corcovado* — and one set to deliver in the fourth quarter 2011 — *Ocean Rig Mykonos* — were both fixed for delivery later this year into lucrative three-year deals with

Petrobras with rates approaching \$500,000 per day for work in Brazilian pre-salt blocks.

Another unit, *Ocean Rig Poseidon*, is on charter to Petrobras through late 2013, but in offshore Tanzania (Block 6). The fourth drillship, *Ocean Rig Olympia*, has been working in West African waters variously for Lukoil and Vanco. One of the two semi-submersibles, *Leiv Eiriksson*, is currently on charter to Cairn in Greenland and will work in the Falklands for Borders &

**"The intrinsic value of Ocean Rig is substantially higher than what has been used to determine the number of shares that will be distributed"**

*DryShips/Ocean Rig*

Southern; it will come off in the third quarter 2012.

In the valuation exercise, there are moderate uncertainties; the second semi-submersible, *Eirik Raude*, working off Ghana for Tullow, will be coming off charter in October.

Two additional drillships, with capability to drill in 12,000 ft of water, are scheduled for 2013 delivery, and a third is



Moderate uncertainties: Ocean Rig's semi-submersible rig Eirik Raude, which is working off Ghana for Tullow Oil, comes off charter in October.

scheduled for 2014. These new orders, all so far unfixed, are the result of declarations on options taken late last year from Samsung; a fourth option has not yet been declared.

Uncertainty does not always portend a negative result. In the case of the deepwater and ultra-deepwater floating equipment, unemployed high-specification units to be chartered into a marketplace with high dayrates could be viewed positively.

DryShips, which will still maintain 76% ownership of Ocean Rig, could see its own price boosted if investors take a favourable view of Ocean Rig's prospects. By way of analogy, positive performance of Teekay Corp, which outpaced broader market averages earlier in the year, has been attributed in part, to its majority holdings of two daughter companies — Teekay Offshore Partners and Teekay LNG Partners.

Both daughters, valued through separate listings of partnership units, have gained value from investor enthusiasm for the offshore and liquefied natural gas sectors.

At Teekay's annual meeting in mid June, president and chief executive Peter Evensen told investors: "This also had a beneficial impact for Teekay, which saw the value of its daughter company holdings increase by over \$400m resulting in an additional \$5.50 to Teekay's sum-of-the-parts value per share. A significant component of Teekay's sum-of-the-parts value comes from our general partnership interest in Teekay Offshore and Teekay LNG."

Mr Evensen added that positions in the offshore and gas companies "are expected to represent an increasingly important component of Teekay's underlying value going forward".

Strategists at DryShips are hoping for an analogous "sum of the parts" impact accruing from the holding in Ocean Rig which, post-listing, will be visibly valued in the market. ■

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# Eirik Raude rig benefits from Tullow Oil's growth mode

THE Ocean Rig-owned semi-submersible Eirik Raude, on contract to Tullow Oil for the past three years, has been operating in the Jubilee Field, which has been producing oil since December, 2010, writes *Barry Parker in New York*.

The rig, soon to end a lucrative charter booked at the height of the market's previous boom, has been working at West Cape Three Points, operated by Kosmos Energy, alongside another rig, Atwood Hunter, on new exploratory drilling in the southern part of the block.

Seven months after the initial output from Jubilee, production guidance from the Modec-owned floating production storage

and offshore vessel *Kwame Nkrumah MV21* to investors was 90,000-96,000 barrels of oil equivalent per day, on the way to an eventual 120,000 bpd.

Tullow, with a primary listing in the UK and a secondary listing in the Irish Republic, has now completed a \$72m fund-raising in Ghana. Trading in the new shares denominated in the Ghanaian Cedi, but also tradeable in London or Dublin, began at the end of last month.

In a round of presentations given in conjunction with the listing, Tullow emphasised the "repeatability" of its strategy, in which exploration, production and financial characteristics — debt,

equity and cash from operations — are all carefully balanced.

At present, Tullow's growth mode, including investments elsewhere in Africa, and South America, necessitates continued funding. In 2010, capital investment of \$1.2bn exceeded cash flow generated from operations of \$762m.

For 2011, the presentation revealed a planned \$1.5bn expenditure, \$850m of which would go towards production and development and the balance for exploration and appraisal, the category encompassing spending on Ocean Rig's Eirik Raude. ■

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