

Pacific Drilling seals Total Nigeria contract

ONE company that will be receiving increasing attention from the drilling analysts is Pacific Drilling, an Oslo-listed player with majority ownership in the hands of companies controlled by the Ofer family, writes Barry Parker.

Since April, it has been quoted on the Norwegian Security Dealers "A" List with an indicated market capitalisation of Nkr9.45bn (approximately \$1.7bn).

The quotation comes in conjunction with a private placement that raised \$600m, for a 29% stake of the company.

Usually, this type of private offering, aimed at a small universe of energy-savvy institutions, forms the precursor of a later exchange listing.

Last week, Total announced a previous "letter of award" for the drillship *Pacific Scirocco* has been converted into a real contract, for work expected to start in the third quarter of this year, offshore Nigeria.

Pacific's announcement indicated a firm one-year contract would be followed by optional periods stretching four years further out. Such announcements are usually cryptic on precise rates, but the maximum dayrate on the sixth-generation drillship, capable of drilling down 40,000 ft, in water depths of 12,000 ft, works back to a rate exceeding \$500,000 per day. An earlier announcement, in connection with the letter of award, had indicated a dayrate of \$470,000, plus extras.

Pacific Scirocco is one of three wholly-owned drillships already delivered to the owner from Samsung. Two drillships, *Pacific Bora* and *Pacific Santa Ana*, both with 10,000 ft capability, are on charter to Chevron for work in Nigeria at \$470,000 per day for three years, with further options, and in the US Gulf of Mexico at \$487,000 per day for five years beginning in the first quarter of next year, following delivery in the last quarter of this year.

Charter arrangements for a third ship, *Pacific Mistral*, which has 12,000 ft capability, are expected to be announced shortly. Two other drillships, *Dhirubhai Deepwater KG1*, which delivered in 2009 and *Dhirubhai Deepwater KG2*, built in 2010, were built jointly with Transocean. Both are working five-year charters to Reliance, offshore India.

Pacific Santa Ana is being modified to support dual gradient drilling, which "removes the excess pressure generally encountered in ultra deepwater drilling", according to Pacific Drilling chief executive Chris Beckett.

Against the backdrop of a safety-conscious US Gulf and oil company interest in amortising investments in drilling, Mr Beckett cites as DGD advantages that it "improves well safety and drilling performance, while providing additional production options".

Proceeds from the spring 2011 private placement have been earmarked towards finance for two additional drillships ordered from Samsung with delivery expected in mid-2013. The equity fund raise came closely on the heels of the September 2010 closing of a \$1.8bn debt package, which earned the coveted Export Credit Agency Deal of the Year — West award at the recent Marine Money ship finance event in New York.

As explained at a conference presentation, a group of eight banks, led by DNB and Credit Agricole, and three export credit agencies provided the debt funding, which complemented the \$1.3bn equity contribution of Ofer affiliate Quantum Pacific.

Pacific Drilling holds an option to build a seventh drillship at Samsung. Late June, the expiry of this option was extended through to the end of October this year. If the option is declared, the company may again turn to the capital markets. ■

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Equipment choice pays off for drillship operators

In the wake of the Macondo oil spill, high-specification credentials have become an important differentiator



BARRY PARKER — NEW YORK

WE are into the season of quarterly earnings reports from listed energy businesses and predictions about the likely fortunes of the drilling companies abound.

The components incorporated in floating assets are important differentiators of the equipment, in marketing to potential customers.

From an investment perspective, component manufacturers or packagers of components may present share purchase opportunities in their own right.

Pacific Drilling, with its high-specification drillships, is a start-up company challenging competitors with decades-old track records.

Even though it is linked to the Ofer Group, with a respected position in the FPSO sector, its marketing effort must emphasise its high-quality credentials.

In its positioning, Pacific points to the derrick and drilling equipment in its rigs. It states: "Our vessels are all state-of-the-art, high-specification units... Construction is currently under way at Samsung Heavy Industries yard in Goeje, South Korea, using best-in-class drilling equipment from National Oilwell Varco."

This message has not been lost on US regulators, who have granted a permit to Chevron for drilling in the Gulf of Mexico, beginning next year, with *Pacific Santa Ana*.

A shipyard, in building a drilling rig, will contract with the provider of a drilling package, such as Aker Solutions, which in



Attention is on redundancy in the blowout preventers on rigs, in the wake of last year's Macondo spill.

turn will influence the choice of components.

Morgan Stanley analyst Ole Slorer explained the business dynamic driving equipment selection, in reviewing the prospects for two major component providers, Cameron International and National Oilwell Varco.

Mr Slorer referred to Vantage Drilling's order for a drillship, placed with Daewoo, in mid June. Mr Slorer, and others, have noted the attention placed by customers, and regulators, on redundancy in the blowout preventers on rigs, in the wake of last year's Macondo spill.

Mr Slorer's report said there has been an award of a drilling package to Aker, which corresponds to a blowout preventer stack for Cameron International, "and we expect Aker to book additional orders as NOV's capacity begins to fill up".

Aker Solutions revealed its contract with the Daewoo yard was worth Nkr540m (\$97m).

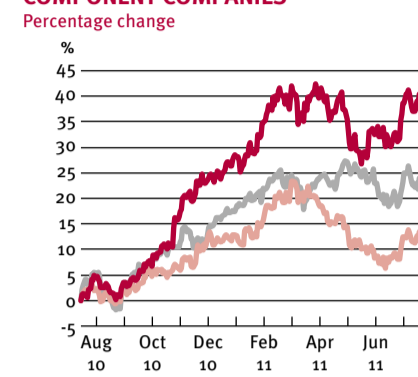
National Oilwell Varco, which has a market capitalisation exceeding \$33bn, has also been a beneficiary of the ongoing boom in rig ordering.

Dahlman Rose oil services analyst Jim Crandell, who is recommending the stock, told clients: "NOV has won over 50% of new blowout preventer stacks so far this cycle" and "we estimate over 90% of the rig equipment packages on floating rigs ordered since October 1, 2010" have been provided by NOV.

According to Morgan Stanley, Cameron International would be a beneficiary of "upcoming catalysts for rig and subsea equipment over the coming months".

The broker went on to focus on Petrobras's upcoming solicitation for

STOCK PERFORMANCE OF RIG COMPONENT COMPANIES



Source: Google finance

contracts on 21 newbuild drillships, saying the tender in Brazil is likely to bode positively for Cameron International, "which we expect to win its fair share of BOP/riser package".

Mr Slorer suggested both NOV and Cameron International could benefit from additional orders in the mid-water sector. The analyst hints that Songa's early July order of two mid-water semisubmersibles from Daewoo might be the harbinger of a new pocket of demand.

Aker Solutions will be providing the drilling package on these two "Category-D", or just "Cat-D", semisubmersibles, which will deliver in 2014 into eight-year contracts to Statoil, with further options.

Morgan Stanley said: "The 1980s vintage of most mid-water rigs in Norway, coupled with declining production, may create a market for fit-for-purpose mid-water rigs."

Holder of licences to explore in the Norwegian North Sea have sought to exploit new discoveries in fields near existing producers.

The two Cat-Ds, with capability to drill in waters of up to 500 m depth, will be deployed in Statoil's efforts at further production from the Troll field. ■

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BHP's Petrohawk deal demonstrates major interest in North American shale

LAST week, the Australian energy giant BHP Billiton announced an intention to pay more than \$12bn for Petrohawk Energy, which has holdings in the well-known Eagle Ford, Permian and Haynesville shale basins, writes Barry Parker.

The widely-publicised transaction is indicative of a trend in which oil majors and national oil companies are investing in North American shale deposits.

Morgan Stanley's Ole Slorer talked about investment in unconventional gas being a "multi-decade theme".

At this juncture, there is no explicit link to another theme: the US as a gas exporter. In broad terms, more gas production from shale, aided by injection of water at high pressures — "fracking" — means more gas, in the form of liquefied natural gas, could be available for export.

In contrast to investments such as BHP Billiton's, a very clear link between gas from shale and LNG export can be drawn north of the border, in Canada.

The possibility of LNG exports to Pacific Rim countries from Kitimat, in British Columbia, took a big step forward last week, with KM LNG Operating General Partnership — Kitimat LNG — purchasing a property that will be developed into a liquefaction plant, feeding an export terminal, at an overall cost of circa \$3bn.

Current plans envision an export capability of 5m tons per year, with shipments beginning in 2015.

Mr Slorer said: "The next catalyst (and challenge) for this project is Apache obtaining a 20-year export licence."

Apache Canada, which has a 40% stake in the project, is partnered with EOG Resources Canada, which has a 30% stake,



and Encana Corporation, which also has 30%. According to Kitimat LNG: "The partners expect to have firm sales commitments in place by the time a final investment decision is made."

An application for an export licence filed in December 2010 is pending with Canada's National Energy Board.

The drawing area for the terminal would include the Montney and Horn River shale deposits, both on the border of British Columbia and Alberta. The Pacific Trail Pipeline partnership, owned jointly by the three partners, is planning to build an almost 300-mile, 36-in diameter pipeline for transporting gas from the inland shale deposits to the terminal at the coast.

Apache would be responsible for LNG marketing, as well as operating the new pipeline, to be built at an estimated cost of \$1bn and intersecting the existing Spectra

Energy pipeline that connects with the Horn River and Montney gas fields.

Sales deals have not been inked yet; analysts have honed in on links between ExxonMobil, which has a big position in Horn River, and Petrochina, an off-taker of ExxonMobil gas from offshore Australia.

Korea Gas, which has invested alongside Encana in British Columbia, has also been mentioned as a probable customer for exports from Kitimat.

The local business press in the Horn River region of British Columbia had picked up rumblings, in the rumour stages only, that Shell was talking to China National Petroleum, Korea Gas and Mitsubishi regarding commitments to take gas from a floating LNG liquefaction plant that would be moored in British Columbia waters. ■

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Kirby proves to be surprise beneficiary of fracking

ANALYST Kevin Sterling, from BB&T Capital Markets, has looked beyond the Petrohawk deal and similar transactions, seeking to identify equipment providers who benefit from "fracking", a controversial method of injecting water to fracture rock and thereby free up gas.

One surprising stock mention in the fracking context was a familiar maritime name, Kirby Corporation. Kirby is best known as a leader in tank barging businesses on inland waterways — and, more recently, for its interest in US coastal shipping, with its purchase of the K-Sea partnership and rumoured interest in other entities.

In mid-April, Kirby announced the \$270m all-cash purchase of United Holdings, which has business lines complementing Kirby's diesel engine repair and maintenance business, in addition to its high pressure water injection business.

The engine repair business provided 18% of Kirby's overall 2010 revenues, with the balance derived from Kirby's marine transportation business. ■

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