

Order boom boosts value of rig builders

Prices for newbuilding jack-up rigs and drillships are edging closer to 2007 peaks



Barry Parker — New York

THE growing supply of rigs is a topic addressed by Canaccord Genuity's analyst team.

A central thesis of its latest report 'Digging deeper into offshore rig shipyards' is that "new capacity will be absorbed as long as oil prices remain above \$80 per barrel".

As detailed in its report, rig deliveries during 2003-2007 averaged 11 per year. Following the commodity price boom, and resultant ordering, deliveries increased to an average of 53 per year in 2008 to 2010.

For 2011, some 61 rigs are expected to be handed over to new owners. Then, according to the report, 36 rigs are anticipated to be delivered in 2012, and 49 in 2013 (not including the Vantage order for a drillship to be built by Daewoo in South Korea).

From an investment point of view, beneficiaries of the new ordering boom have included yards that are producing drillships (Daewoo, Hyundai and Samsung in South Korea) and high-specification jack-up rigs (Jurong, Keppel and PPL in Singapore).

The analysts note that prices for rigs retreated in 2009, but are now up near 2007 peaks at \$247m for jack-ups and \$619m for drillships. Funding availability makes newbuildings preferable to upgrading older units.

On a recent conference call, Diamond Offshore's president Lawrence Dickerson said "we're attracted by the low capital costs of new equipment in Korea".

Mr Dickerson continued describing Diamond Offshore's deliberations on newbuildings versus upgrades, telling investors: "I don't see a significant kind of upgrades as we've done in the past where, say a [Ocean] *Monarch* or [Ocean] *Endeavor* will take a less than 2,000 ft unit and put it out to 10,000 ft with modern



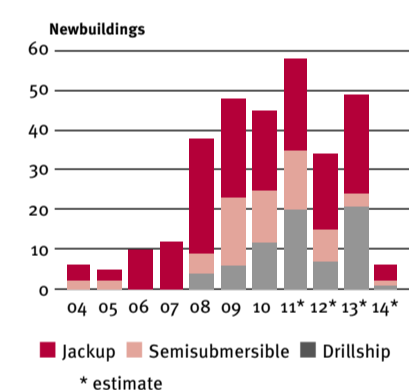
A jack-up drilling rig built at Jurong Shipyard in Singapore: funding availability makes newbuildings preferable to upgrading older units.

quarters and modern drilling equipment. You are better off, I think, going to Korea or Singapore to build something new."

A different slant on the valuation of rig builders was evident from Rowan's announcement that it was selling jack-up manufacturer LeTourneau to Joy Global — a manufacturer of cranes and mining equipment — for \$1.1bn, in an all-cash transaction.

This sale was hardly a surprise. The

OFFSHORE RIG NEWBUILD DELIVERIES 2004 to 2014



Source: Riglogix Canaccord

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Vantage Drilling orders \$590m deepsea drillship from Daewoo

THE ordering boom for offshore vessels continues unabated, with financial engineering integrally tied to expansive business strategies, writes Barry Parker.

This month, a new order was announced by Vantage Drilling for a drillship expected to cost \$580m-\$590m.

The DP-3 unit, to be named *Tungsten Explorer* and due for delivery in the second quarter of 2013, will have the capability to work in water depths of 12,000 ft. It will be built at Daewoo in South Korea.

Vantage emphasised the relatively prompt delivery of the new vessel. The views of analysts such as Canaccord Genuity's Scott Burk are not lost on the strategists at Vantage and other listed companies. He has "buy" recommendations on both Ensco and Atwood Oceanics, stressing their "growing fleets of premium rigs".

Vantage, listed on the American Stock Exchange, also announced an 18-month contract for one of its four high-specification jack-ups, Emerald Driller, currently working offshore Thailand, in continuation of an earlier contract, at \$132,000 per day.

Meanwhile, two other Vantage jack-ups (all the jack-ups are Baker Marine Pacific Class 375 rigs built at PPL in Singapore) have been redeployed. Its Aquamarine Driller has remobilised from the Philippines to Malaysia, where it will be drilling well for Petronas Carigali at \$130,000 per day.

Sapphire Driller has redeployed to Cameroon, where it is drilling in the Sapele Basin off Cameroon for Bowleven, along with a Noble Corp rig, Noble Tommy Craighead.

Sapphire Driller's previous contract, with Foxtrot International, was terminated because of unrest in the Ivory Coast, where it had been drilling.

Bowleven, listed on London's AIM market, has reported promising test results at its Sapele-2 well several months after finding oil at an adjacent field. Bowleven's management had suggested that "Block 5" offshore Cameroon may hold reserves of 1bn barrels of oil.

Vantage's other drillship, *Platinum Explorer*, also built by Daewoo, has begun a five-year contract with Oil and Natural Gas Corp at \$590,500 per day drilling offshore India.

With the ONGC contract in-hand, generating cash flow, and new drilling contracts in place for the jack-ups, Vantage is now set to issue an additional \$225m of high-yield debt with the objective of consolidating its ownership of the Aquamarine Driller, and also paying off a high-interest (15%) term 2009 loan tied to the rig.

When "payment in kind" interest, in addition to the cash interest component, is figured in, some \$140m would be outstanding when the loan matures in September, 2014.

In June 2010, when it acquired the majority of the company that was building *Platinum Explorer*, it had issued \$1bn of 11.5% senior secured notes coming due in August, 2015.

These high-yield notes were issued last year, with proceeds used, in part, to refinance a \$135m issue paying 13.5%. That earlier high-yield debt had been issued in 2009 to finance a payment at delivery from PPL of another one of the Pacific Class 375s — Topaz Driller — now drilling for Phu Quy off Vietnam at \$107,000 per day.

A downpayment of \$100m on the new drillship order will come from the expected proceeds of the new financing. Company chairman and chief executive Paul Bragg noted that: "The addition of *Tungsten Explorer* to our fleet will add substantial additional earnings power to Vantage by the second half of 2013."

Vantage also hopes to gain bondholders' permission to issue up to \$125m of convertible debt. The objective of the seemingly complex financial architecture is simple — to push repayment obligations farther out into the future. With solid cash flows coming in two years out in the future, Vantage could then be in a position to rejig a likely \$1.1bn of the high-yield debt.

In the past two years, the high yield bond market has gone from strength to strength, with a number of examples from both energy and shipping where bond debt has been able to take out "high risk" (and therefore, high priced) bank debt.

Drillships such as *Platinum Explorer* and *Tungsten Explorer* are ideally suited for such deals, once contracts with multi-year tenors are in place. ■

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US Gulf loses appeal as interest switches to Latin America

ONE place where high-specification drillships are failing rapidly to regain a foothold is in the US Gulf of Mexico, writes Barry Parker.

Interest in deepwater oil exploration has turned elsewhere — including southward, to Latin America.

US-based environmentalists had been deeply concerned about plans for exploration off Cuba, less than 100 miles south of Florida.

This summer, Repsol YPF, along with consortium members Statoil and ONGC, will continue earlier exploration efforts with the Saipem-owned Scarebeo 9 — a DP3 semi-submersible being completed at Keppel FELS, after moving over from Yantai Raffles — booked at around \$403,000 per day.

Offshore Brazil has entered a new phase, with BP finally gaining an approval from Brazilian regulators for its \$3.2bn purchase of Brazilian offshore and onshore assets from US-based Devon. The Brazilian deal is part of a larger transaction between BP and Devon, which decided to exit the offshore business in March 2010 — devoting attention, instead, to North American onshore activities.

Approval by Brazil's Agência Nacional do Petróleo was slow. Reports had BP also expressing an interest in expanding its offshore portfolio, through farm-ins from other licensees, beyond the 10 blocks being acquired from Devon — including several in the Campos Basin still up for exploration.

Sete Brasil, a holding company that will raise money to build seven drilling rigs Petrobras will then charter for its

drilling in the pre-salt regions, has now been officially formed.

The seven rigs — the first of 28 drillships to be built in Brazil — will be built at the Estaleiro Atlantico Sul yard in Pernambuco, near Recife, at a cost working back to roughly \$662m each. The ships will then be chartered to Petrobras at day rates reported to range from \$435,000 to \$470,000.

Petrobras has a stake in Sete Brasil described as less than 10%, with the majority of the equity held by Brazilian investment and pension funds. Caixa Economica Federal, a state-run bank, will hold the balance of the equity, packaging the investments of various institutional investors — some of whom are tied to the Brazilian government.

Debt will be sourced from BNDES, the Brazilian National Development Bank. But Petrobras must still charter from the outside.

Ocean Rig announced two of four drillships ordered from Samsung will be going on to Petrobras, both under three-year contracts. *Ocean Rig Corcovado* will mobilise to Brazil after completing work in Greenland for Cairn Energy; while *Ocean Rig Mykonos*, the last of four deliveries from the initial Samsung order, will begin work for Petrobras when it is delivered in the third quarter of 2011.

Dayrates on each rig work back to around \$500,000, based on the \$1.1bn value announced for the two-rig deal.

Further to the south, in the Falklands, exploration continues by UK independent exploration specialist Rockhopper, which announced it has now begun an appraisal



Ocean Rig Corcovado will mobilise to Brazil to begin work for Petrobras under a three-year contract.

Bloomberg

well located near its Sea Lion oil discovery. Rockhopper has contracted additional drilling slots for Diamond Offshore's semi-submersible Ocean Guardian, in the North Falklands Basin.

The exploration company is also conducting 3D seismic work using two vessels with 12-stream capability: the 2011-built *Polarcus Asima*, an ice-class Ulstein SX133 design; and the 2010-built *Polarcus Nadia*, an ice-class SX124 design.

Polarcus' recent corporate results acknowledge the Falklands seismic work has seen downtime, due to "extreme weather conditions".

The drilling programme after Sea Lion will be finalised following the results of the ongoing seismic work. Rockhopper also has a 7.5% interest in the Ninky prospect, operated by Desire Petroleum, which has also been splitting time on Ocean Guardian.

In the South Falklands Basin, Borders and Southern Petroleum is substituting Ocean Rig's semi-submersible Leiv Eriksen for the Erik Raude.

After finishing its stint in Greenland drilling, also for Cairn Energy, the Leiv Eriksen will mobilise to the Falklands to drill two wells over roughly 90 days, with possible extensions if options are declared. ■

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