

Offshore Drilling Market Outlook

Major challenges to face before recovery

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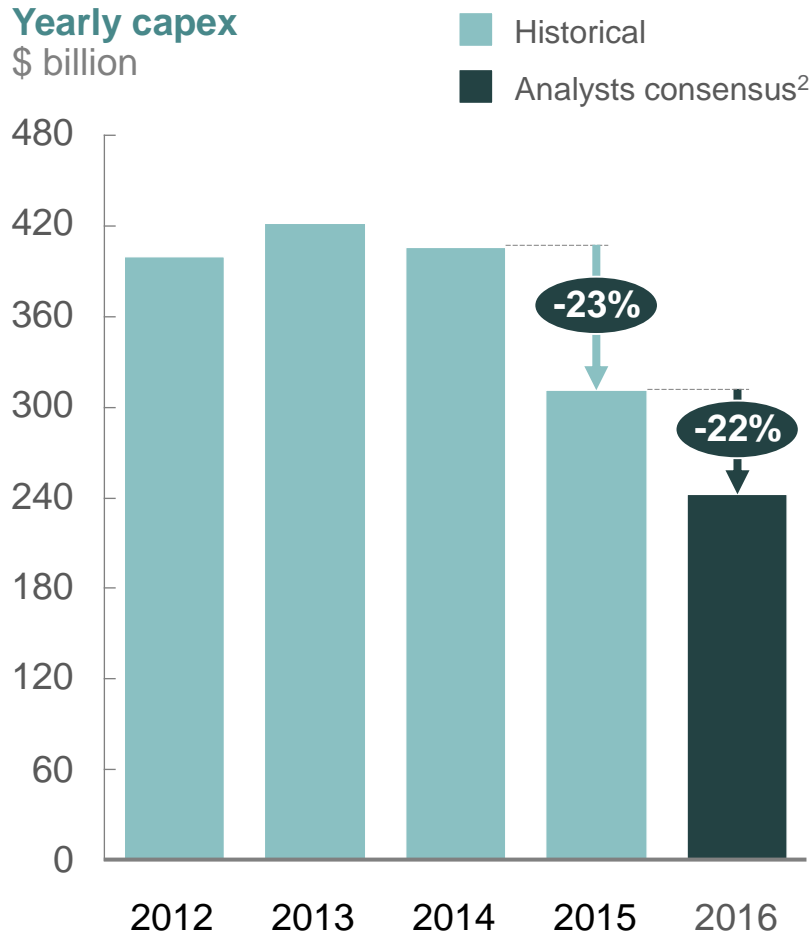
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Offshore Drilling Rigs & Vessels Asia

Singapore – April 19th, 2016

Total exploration and development capex have declined significantly since 2013 and is projected to decrease further in 2016

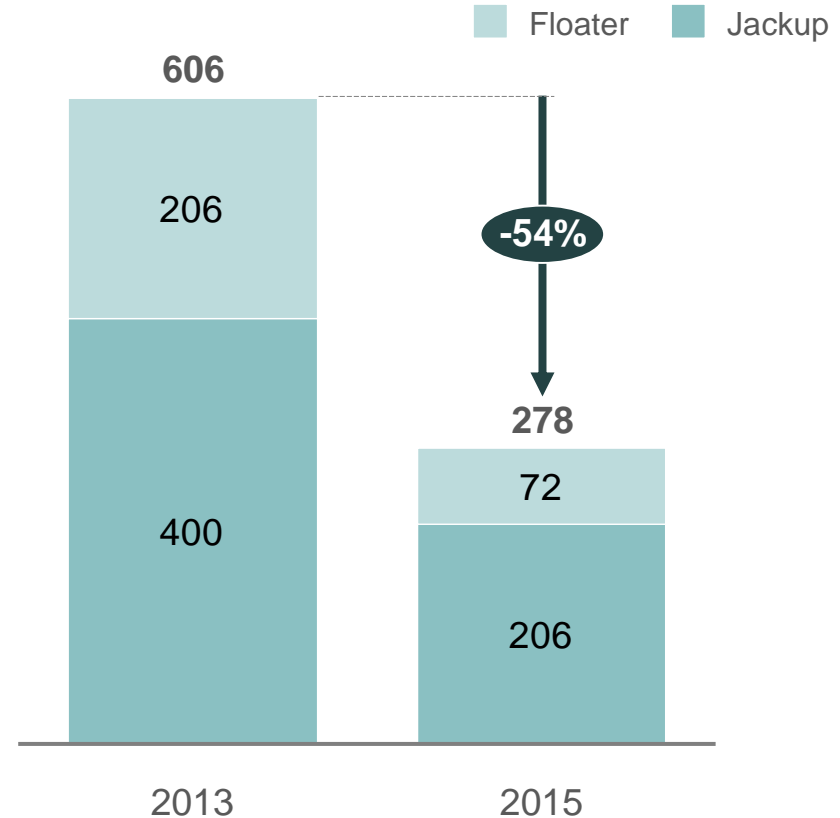
Yearly exploration and development capex¹



Rig contracting volume, 2013-15

New rig contracts signed annually

Number of contract fixtures



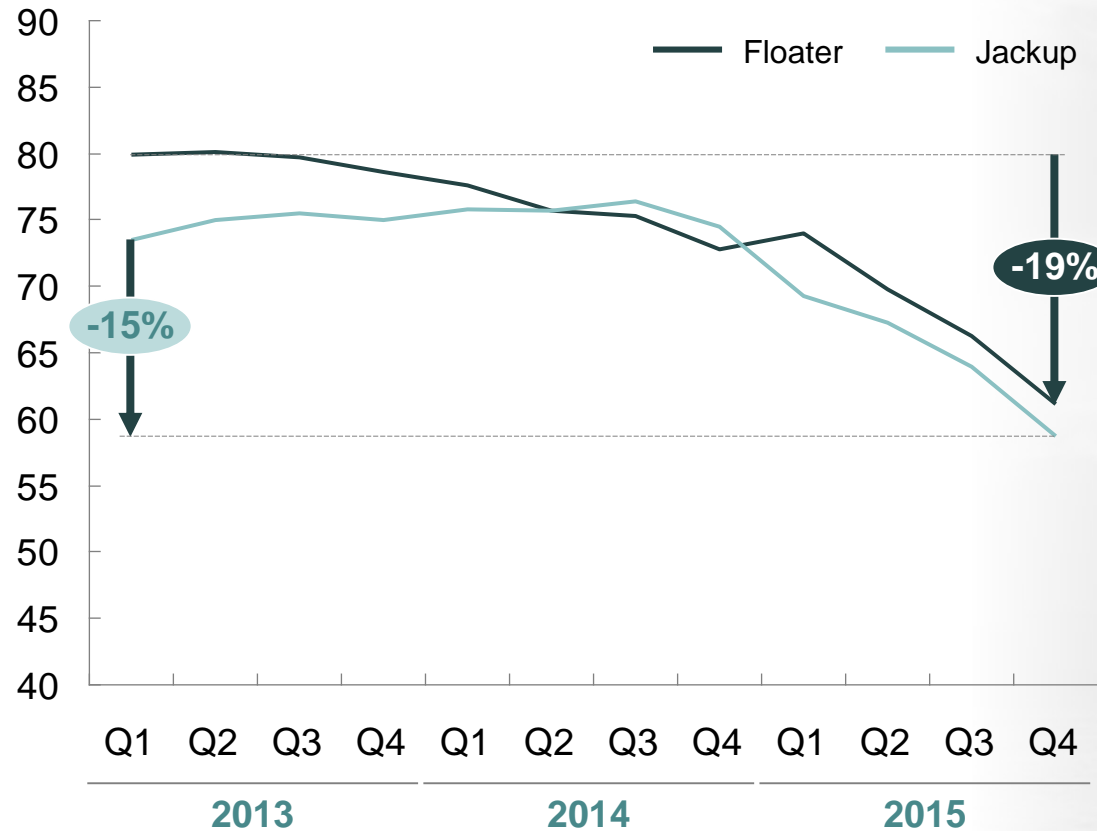
¹ Capex as announced by companies adjusted for different accounting/disclosure policies; includes 5 majors, 18 IOCs, 21 independents, and 10 NOCs

² Average of latest company capex announcements for 2016 and analyst forecasts from news articles

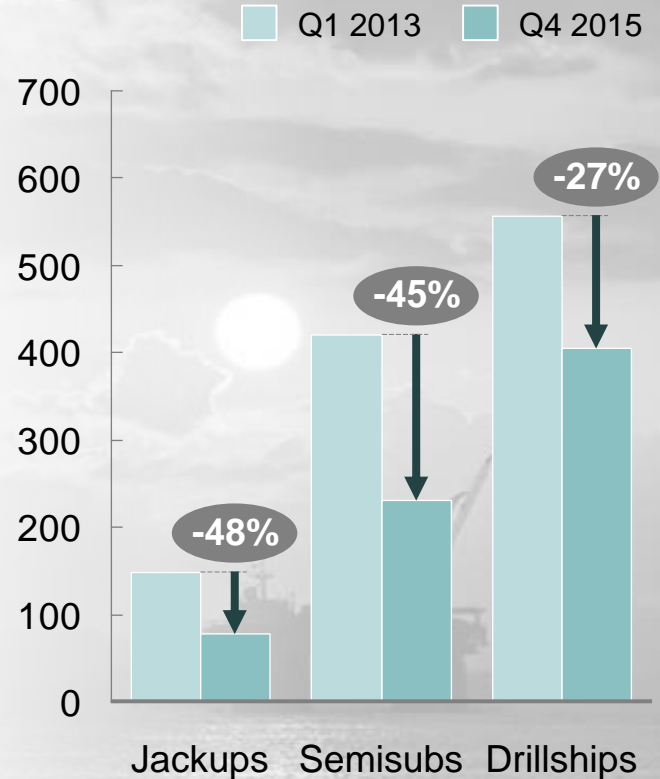
Current state of the offshore drilling market: Declining utilization and day rates as the commodity cycle is in full effect

2013-15 floater and jackup fleet utilization¹

Percent



Quarterly avg. day rates for new contracts, \$K/day



¹ Fleet size and utilization inclusive of cold stacked rigs, floaters include semisubmersibles and drillships

Our offshore drilling market perspective relies on demand and supply assumptions based on oil prices and market players' behaviour

Reference case supply-demand assumptions

Demand



- **“Slow recovery” oil price scenario:**
 - Bottom in 2016, begin recovery to \$45-55/bbl in 2017
 - \$65-75/bbl in the long term based on fundamentals
- **25-30% long-term capex deflation** in offshore compared to 2013

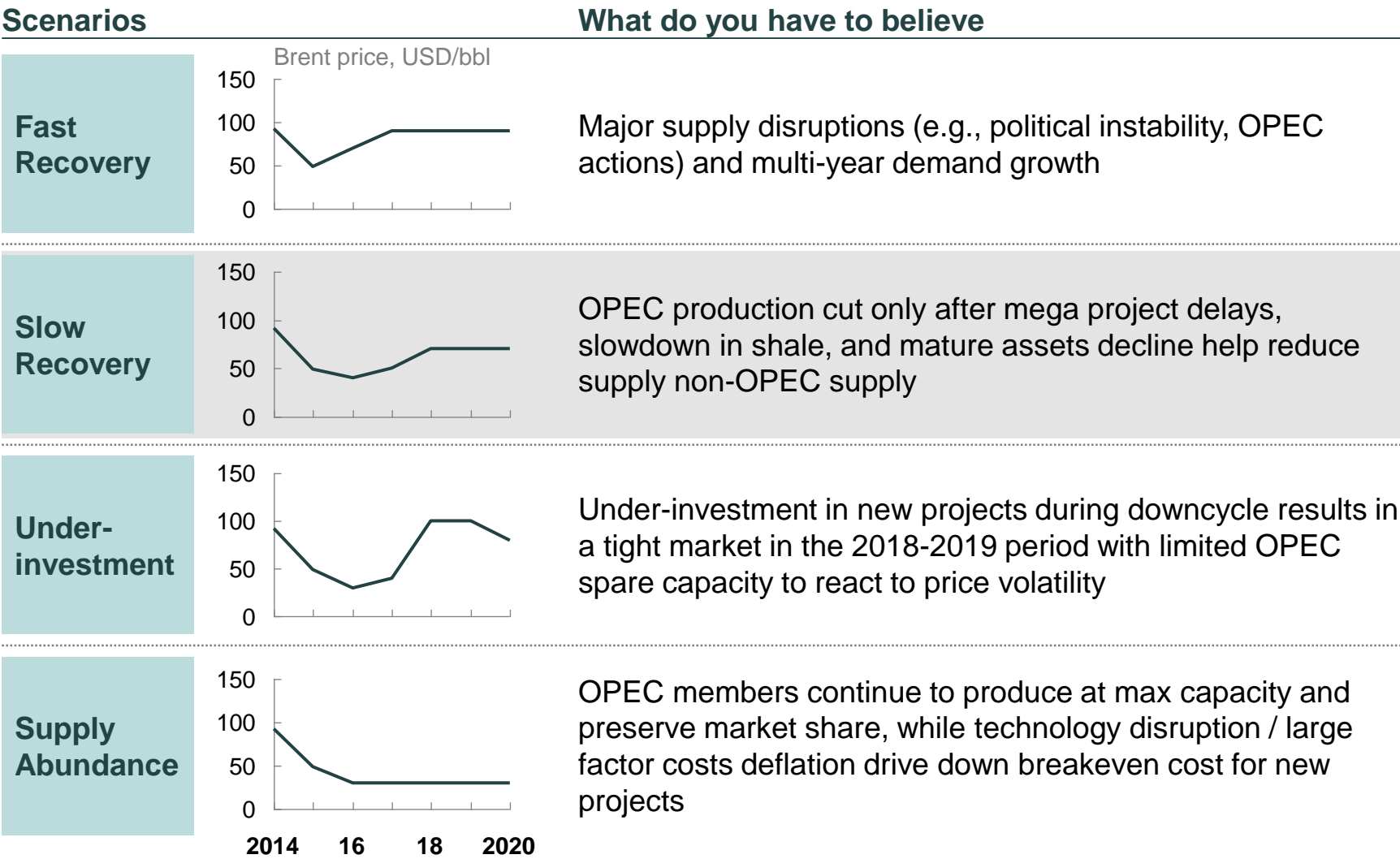
Supply



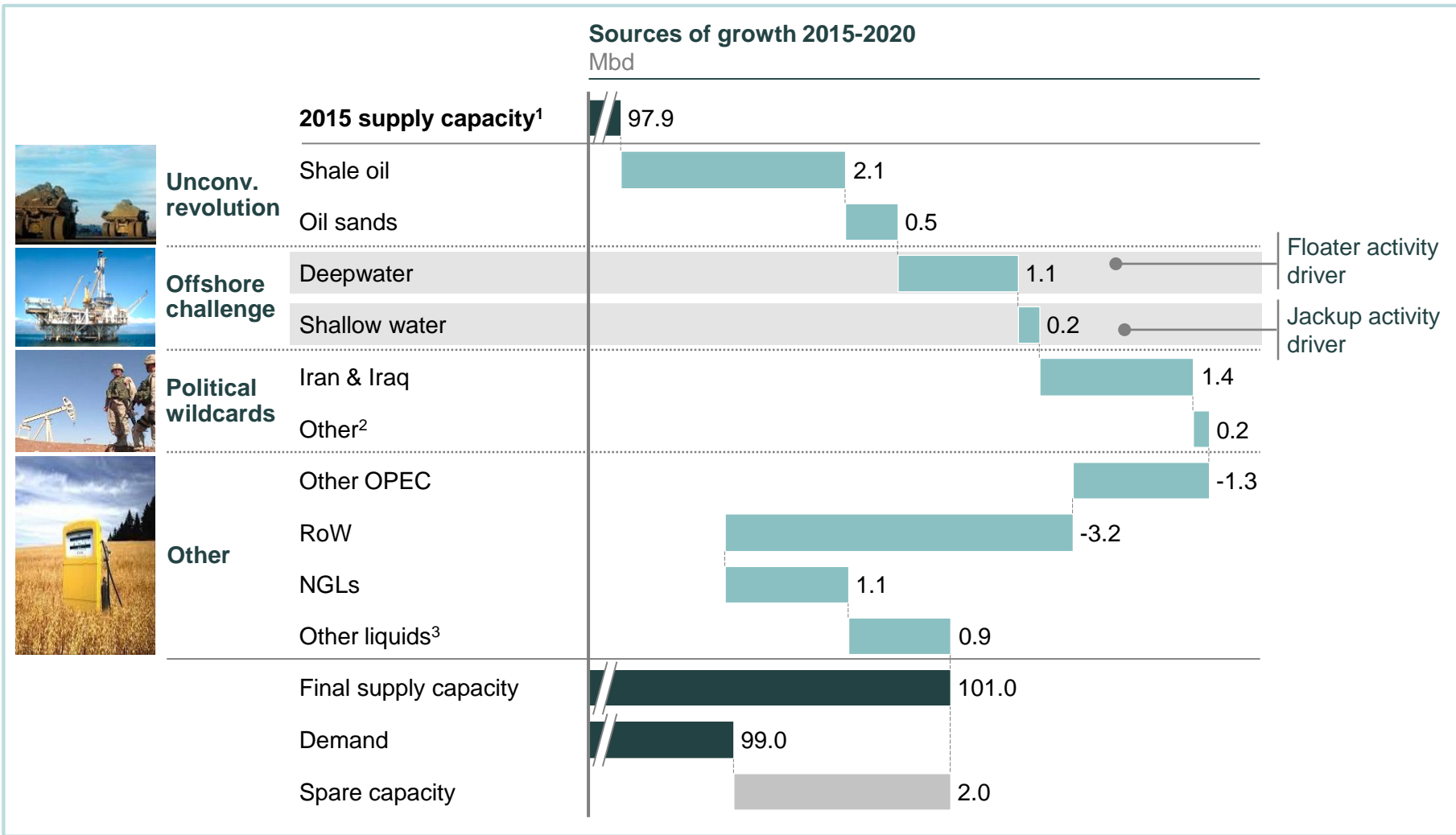
- **Floaters:** sustained cold-stacking through 2020 and retirement levels remain high through 2017 (10+ per year)
- **Jack-ups:** increasing number of jack-ups over 35yrs stacked and retired through 2025 (15-25 per year on average)
- **No order for new rig placed before 2020**, limited new builds from 2020-2025

Oil is going through a period of increased uncertainty with a range of feasible market scenarios

■ Focus for today



Under a slow recovery scenario deepwater and shale are expected to contribute significantly to supply growth through 2020



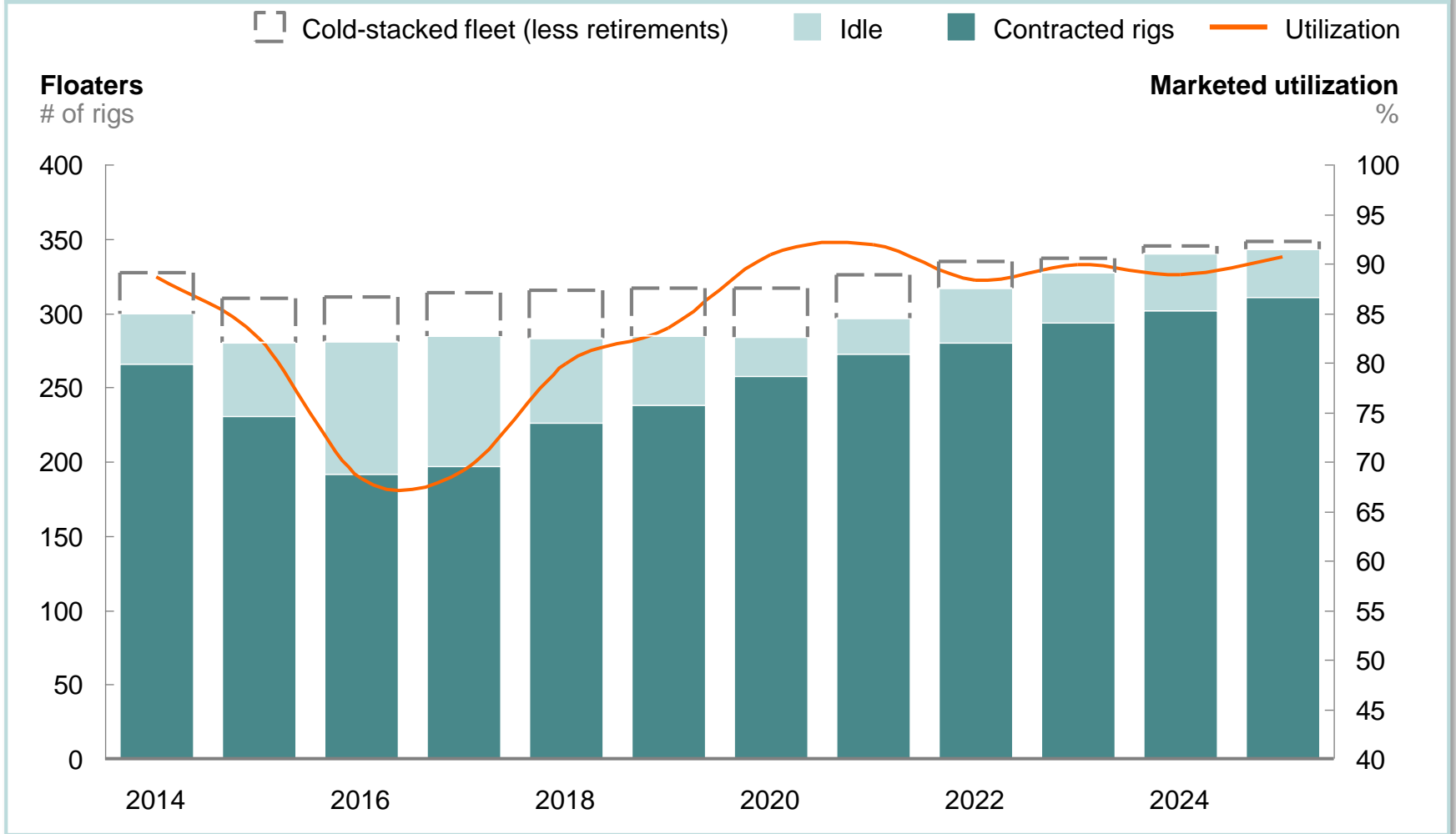
1 Includes crude, condensate, NGLs, other liquids, refinery gains and spare capacity

2 Includes Venezuela and Libya; 3 Includes biofuels, CTLs, GTLs and refinery gains

FLOATERS

The floater market should tighten starting in 2018 after 30+ floaters have been cold-stacked and recover to 2014 utilization levels by 2020

Floater supply demand balance and resulting utilization¹ in the long-term



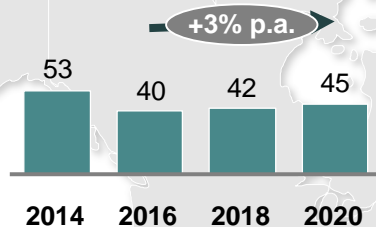
¹ Excluding cold-stacked rigs ² Includes 88% utilization to account for contracted rigs with other status than drilling

FLOATERS

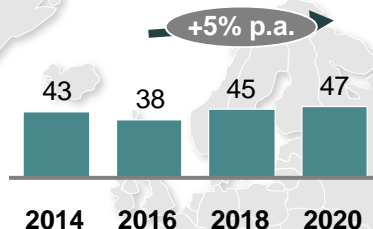
Asia and Africa are projected to realize the highest growth in floater demand through 2025

Annual floater demand, # of rigs

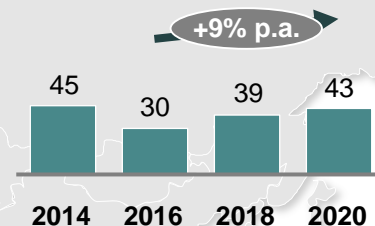
North America



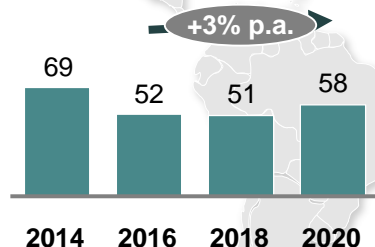
Western Europe



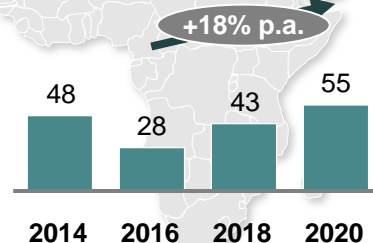
Asia



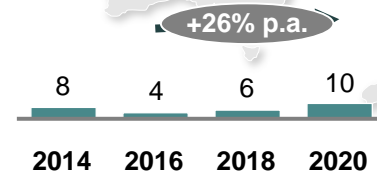
South America



Africa



Rest of World¹

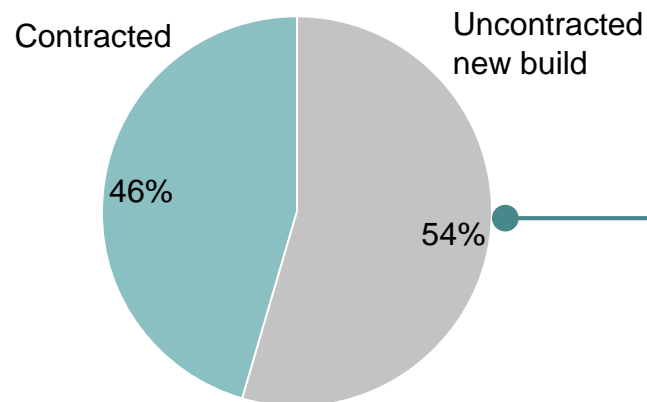


¹ Middle East, FSU, Southern Europe, and Central America

Rig contractors are deferring new build deliveries in order to manage uncontracted supply additions

Contract status¹ of new build floaters in current order book










100% = 57 rigs



Over half of new builds in the order book are being delivered without a contract

Rig owners are aggressively deferring delivery of those uncontracted new builds

NOT EXHAUSTIVE

Rig owner	Rig	Original delivery	Postponed delivery
 Atwood Oceanics	Atwood Admiral	Q1 2015	Q3 2017
 Atwood Oceanics	Atwood Archer	Q4 2015	Q2 2018
 ENSCO	DS-10	Q3 2015	Q1 2017
 OCEAN RIG	Ocean Rig Amorgos	Q2 2017	Q1 2019
 Pacific Drilling	Pacific Zonda	Q1 2015	Q1 2017 ²
 Seadrill	West Aquila	Q2 2016	Q2 2018
 Seadrill	West Dorado	Q4 2015	Q2 2017
 Seadrill	West Libra	Q2 2016	Q1 2019
 Transocean	Deepwater Poseidon	Q4 2016	Q1 2018

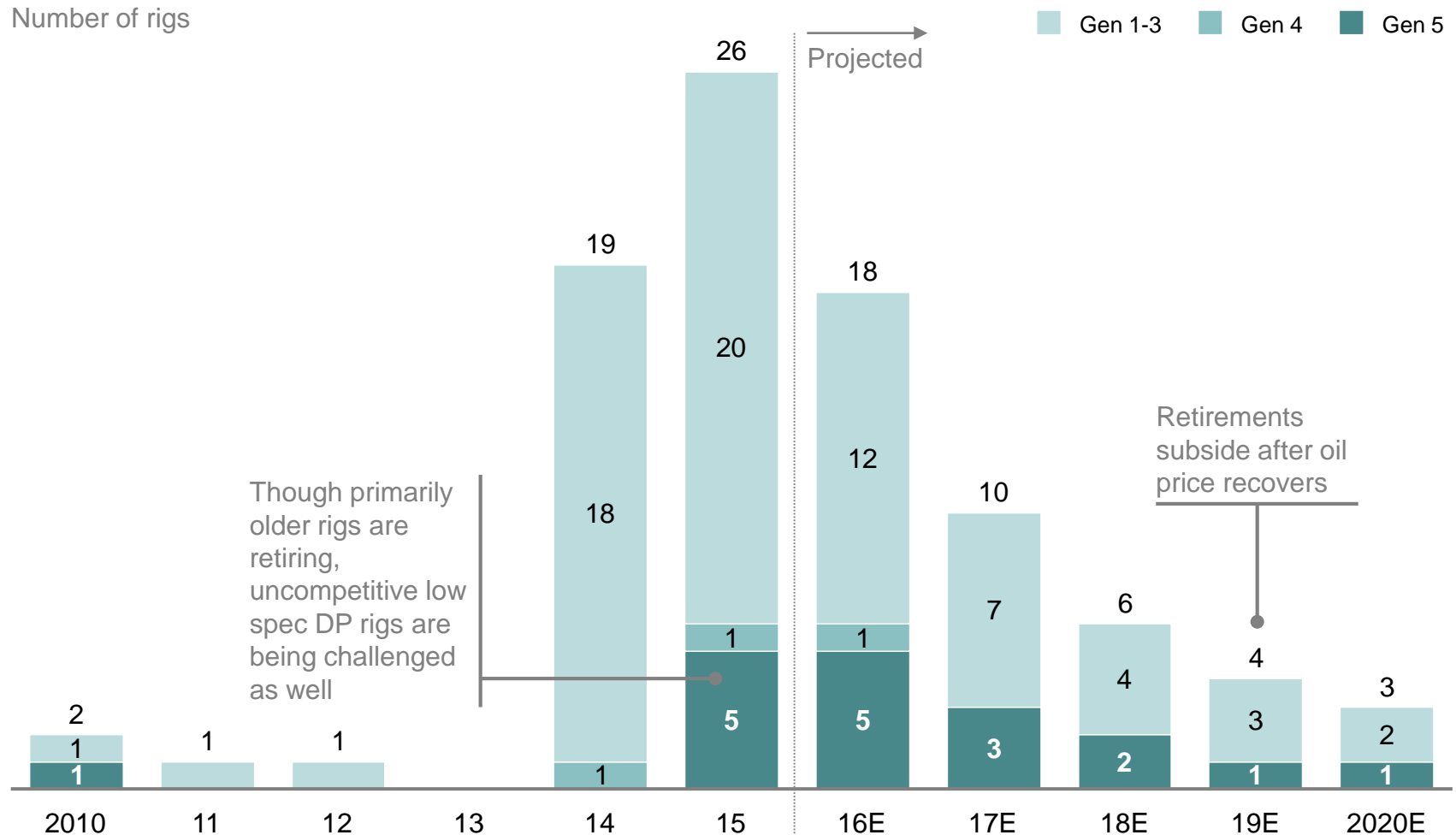
¹ As of April 1, 2016

² Rig completion date, Pacific Drilling cancelled contract and will now be marketed by SHI

A continued high rate of scrapping will be necessary to rebalance the market for at least 2016-17

Retirement of floaters

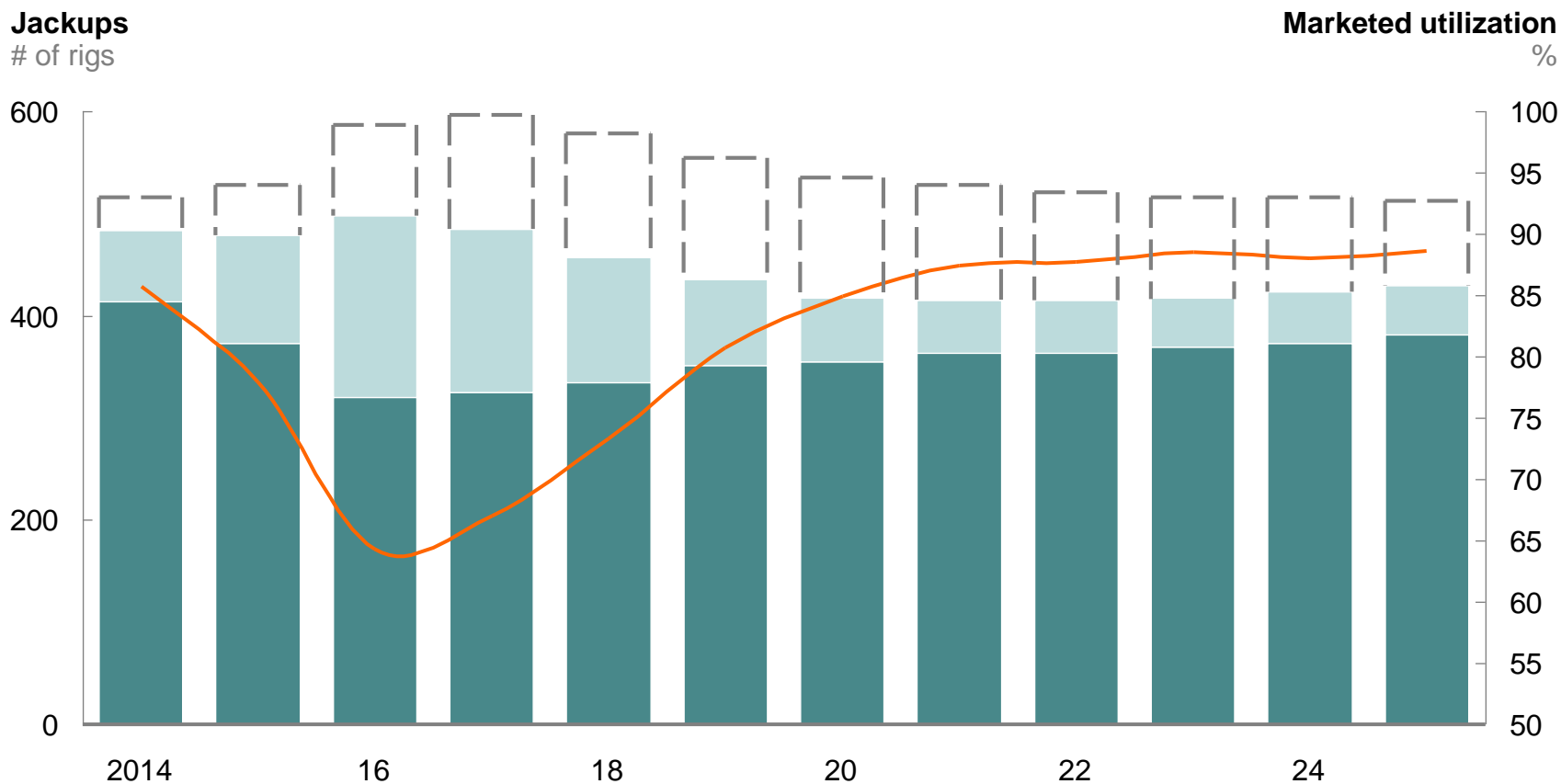
Number of rigs



We expect jackup fleet utilization to take until 2021 to return to 2014 levels after more than 140 jackups have been removed from the fleet

Jackup supply demand balance and resulting utilization¹ in the long-term

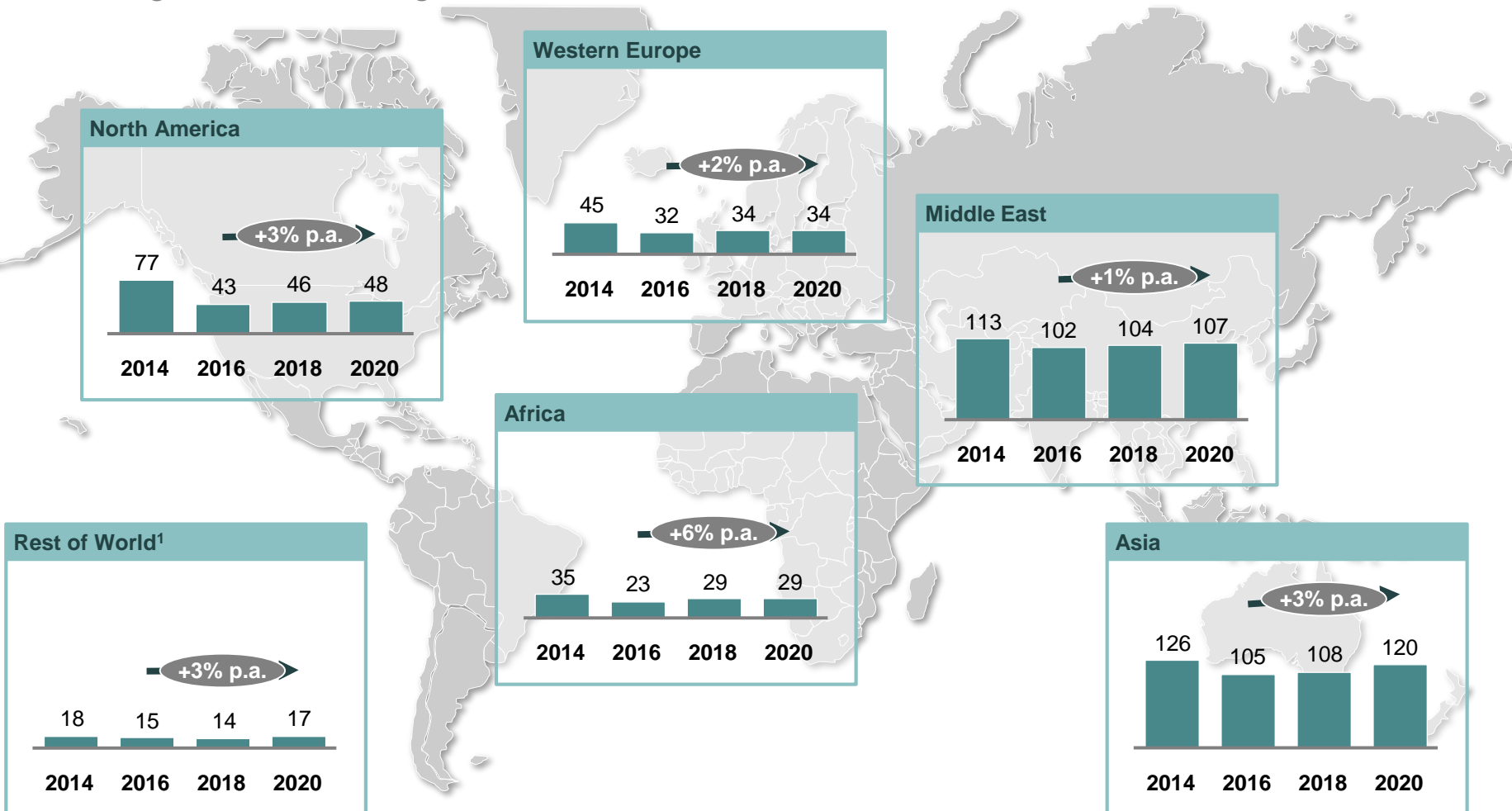
□ Cold-stacked fleet (less retirements) ■ Idle ■ Contracted rigs — Utilization



¹ Excluding cold-stacked rigs; ² Includes 83% utilization to account for contracted rigs with other status than drilling

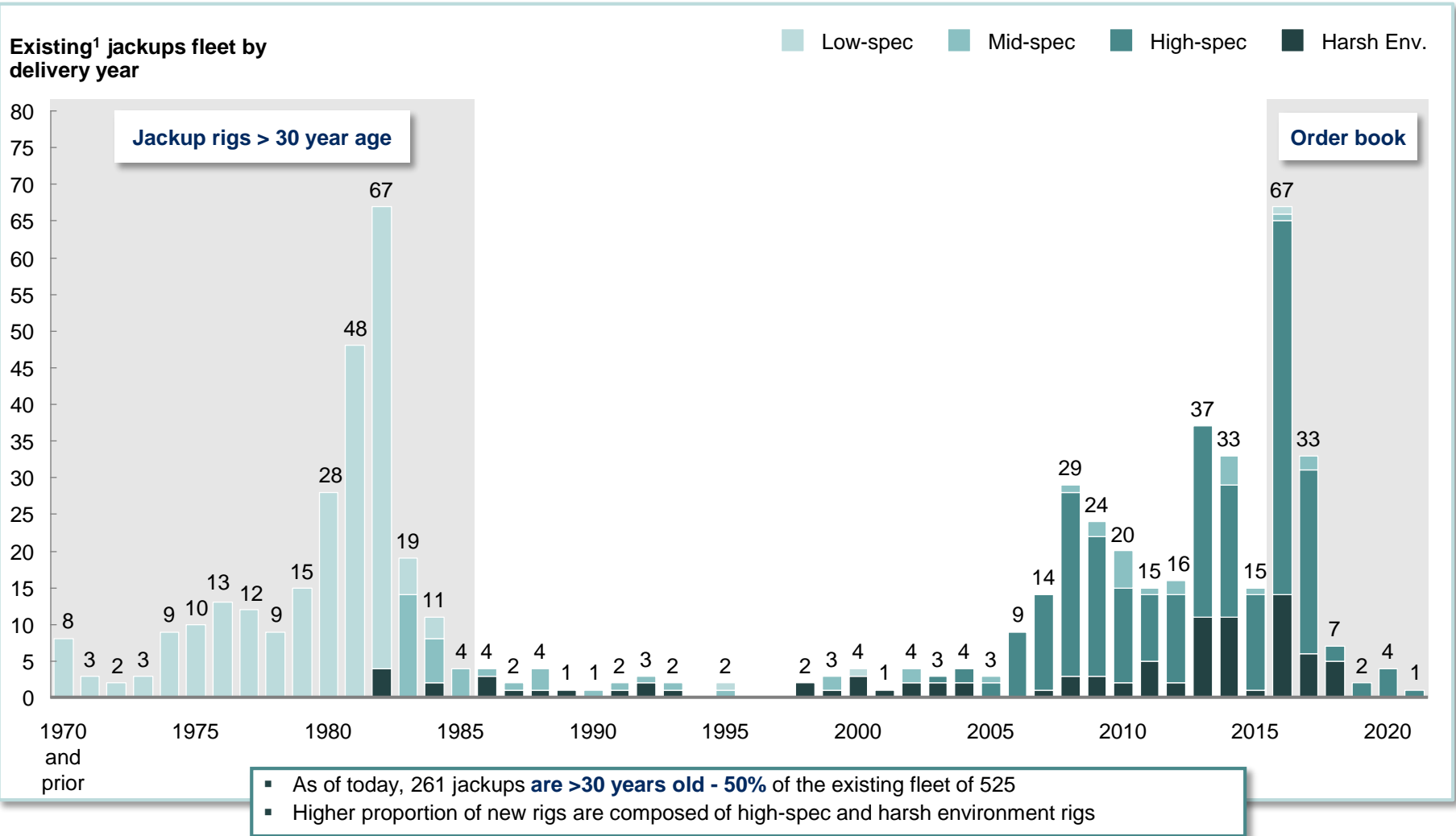
Jackup demand will see only modest growth across the major shallow water regions

Annual rig demand, # of rigs



1 FSU, Southern Europe, Central America, and South America

Current jackup fleet is polarized, with ~52% of available rigs today built over 30 years ago which would be targeted by cold-stacking

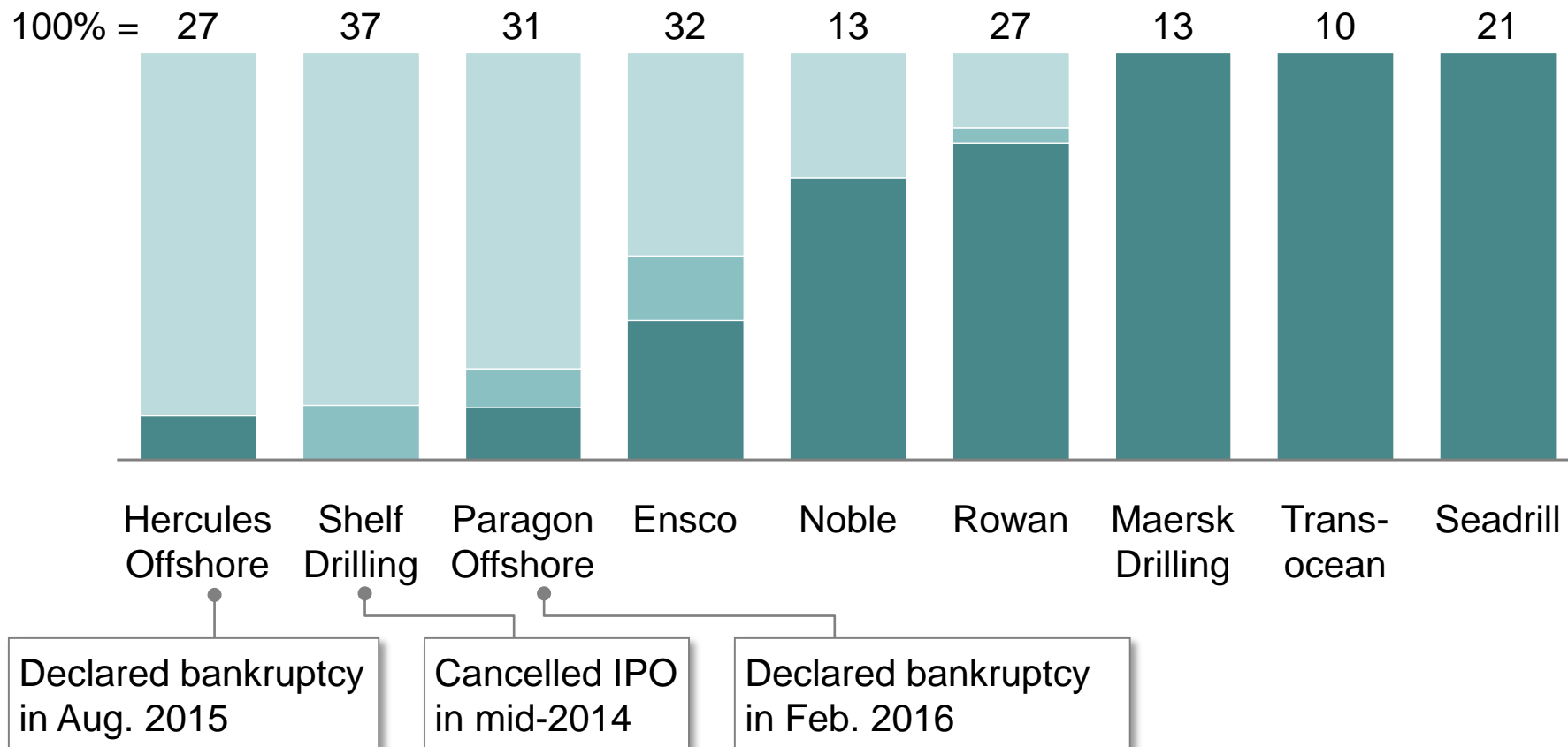


¹ Including cold-stacked, excluding retired rigs; as of April 1, 2016

Rig owners with mostly tier 2 and 3 jackups would likely be the first to cold-stack or scrap the low spec assets to upgrade their portfolio

Low spec Mid spec Harsh & high spec

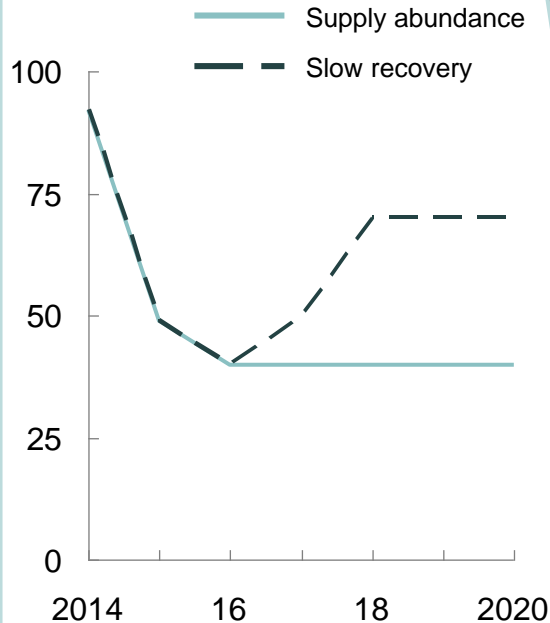
Jackup fleet breakdown by category for select rig owners of 15+ assets



Under a downside scenario of persistent ~\$40/bbl pricing floater demand is 14% lower by 2020 vs. our reference case and below 2015 level

What if current oil price persists?...

Brent price, USD/bbl

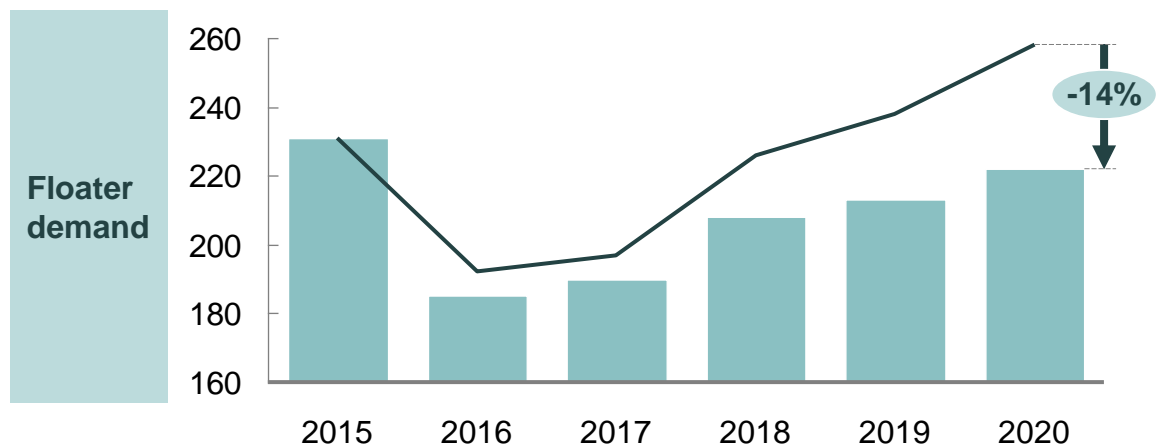
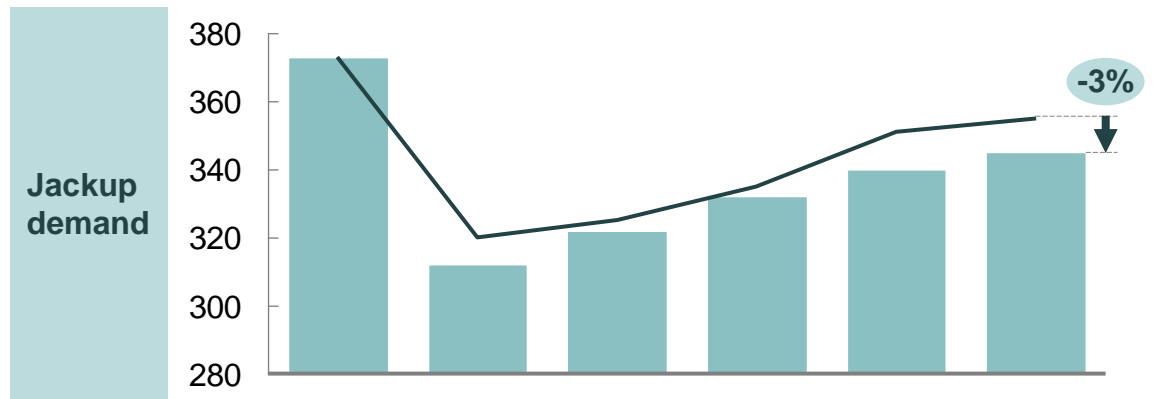


- Under a “supply abundance” oil price stabilizes long-term around \$40/bbl
- Rig supply behavior would be more conservative with aggressive retirements and no new builds

Under an extended low price environment floater demand will be substantially impacted while jackup demand remains consistent

Avg. rig demand

Number of active rigs



Recap of key takeaways for the offshore drilling market

- **The offshore drilling market has deteriorated** in line with falling oil prices as E&Ps reduce exploration and development activity in offshore
- Under a “slow recovery” scenario, **floater demand and utilization are projected to reach the bottom of the current cycle in 2016** with utilization recovering to 2014 levels by 2020
 - Asia and Africa will see the highest growth in demand
 - Supply side management will be critical as uncontracted new builds enter the market
- **The jackup market is similarly likely to see only modest growth** in demand and require extensive retirements/cold stacks before utilization recovers
 - Retirements will focus on the glut of older rigs; rig owners with lower specification fleets are at greater financial risk
- If a continued low price environment with significant offshore cost compression were to materialize, floater demand would be 14% lower vs. reference case

Additional information: Energy Insights Offshore Drilling Outlook to 2025 now available



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Demand outlook for offshore jackup and floater rig markets through 2025, including fleet utilization and timing for market recovery

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The recent uncertainty in oil price has challenged the offshore rig market. Fleet utilization continues to drop as drilling activity declines due to project deferrals and cancellations at the same time new builds are providing additional capacity to the market. As a result, rig operators, offshore producers, and investors alike must have a clear understanding of the dynamics at play and conditions necessary to re-balance the market.

Those who do so will be best positioned to manage the down cycle and effectively position themselves to capture the upside as the market recovers. To help navigate and understand the current cycle in the offshore rig market, the Offshore Drilling Outlook provides a reference case for the evolving offshore jackup and floater rig markets through 2025 – providing a view on the evolving decline in fleet utilization and timing for market recovery.

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