OFFSHORE VESSEL & RIG CONNECT Asia

DVB

Singapore 20 April 2016

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Financing risks, options and opportunities in the low oil price environment

FEARN SHORE

SUPPLY- AND SPECIAL SHIPS SECTION

MARKET REPORT DECEMBER 24, 1986

Once again it is time to look back at a year gone by, and, regrettfully, once again this means looking back at a year worse than anyone had expected.

The second-hand value of the supply vessel fleet is today not even close to the total outstanding debt, and a great number of the vessels are today controlled by the banks. Few bankruptcies have been seen, however, this is probably more due to the fact that there are virtually no buyers at the minimum level interesting to the creditors than to anything else.

Agenda

Financing risks, options and opportunities in the low oil price environment

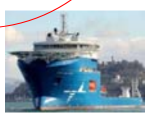
- Assessing financier's appetite
- Financing risks and strategies in Asia
- Refinancing of vessels
- Distressed asset sales – Risks and benefits for operators, shipowners and financiers
- Opportunities for newcomers in the market
- Should the industry invest counter-cyclically?
- Views for the future – How can we expect investors to behave?

- **No appetite**
- **There's only one strategy**
- **Sure**
- **This is not shipping**
- **Yes but maybe no**
- **No**
- **We can't**

Asset Coverage – Offshore sub segments

OSVs	Subsea	Seismic	Accomm	Drilling	FPSOs
• Anchor Handling Tug (AHT) • Anchor Handling, Tug & Supply (AHTS) • Platform Supply Vessel (PSV) • Stand-by Vessel • Emergency Response Rescue Vessel (ERRV) • Multifunction Vessel	• Diving Support Vessel (DSV) • Lay Support Vessel • ROV Support Vessel • Multifunction serv • Construction vsl • Well Intervention Vessels • Derrick Barge • Pipe Carrier	• Seismic Survey Vessel (SSV) • Electro Magnetic Survey Vessel	• Jack-up Platforms • Semisubmersible Platforms • Mono-hull Vessels • Accommodation Barges	• Tender • Jack-ups • Semi subs • Drillships	• FPSO • FSO • FPU


Supply & Anchor Handling


Seabed Installation


Hydrocarbon Exploration


Crew Accommodation

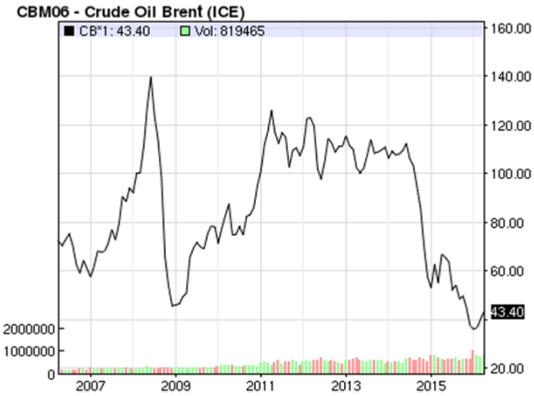

Drilling

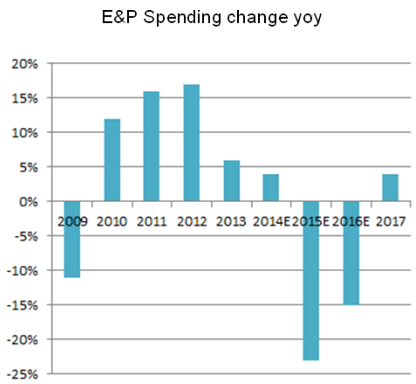

Production

By LOUISE STORY
Published: May 21, 2008
Arjun N. Murti (of Goldman Sachs) remembers the pain of the oil shocks of the 1970s. But he is bracing for something far worse now: He foresees a “super spike” — a price surge that will soon drive crude oil to **$200 a barrel**

GOLDMAN SACHS: Oil prices are on the verge of plunging to $20 per barrel
11 September 2015

The Oil Price v Oil Companies’ E&P Spending – current situation





Is It Different This Time?

Looking back

- 2013 - Change in E&P spend (slowing down) started when oil price was $115
- 2013 - US shale production started to show impressive growth rates
- 2013 – first signs of slowdown in demand from China
- 2014 – Oil companies start to lay off people
- STILL – established operators, start ups accelerated NB contracts in PSVs, subsea, JUs, drillships – and shipyards continued their own building frenzy
- A significant portion of above financings needs was covered by bonds, Term Loan B and MLP structures

Is it different this time?

- In terms of supply & demand no. Too much oil and too much offshore equipment need to rebalance
- Shale is the game changer – and it will not go away, production will increase with a higher oil price, and more countries will progress it
- "Tight oil" is no longer the only future
- Need for ultra deep water/arctic exploration and equipment may be reconsidered
- Geopolitically, Saudi Arabia is pursuing a different "not lose market share" strategy
- And demand is not what it used to be

State of affairs – it's not looking good out there

Offshore Market Segments

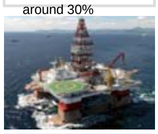
Supply - OSVs	Subsea & Construction	Accommodation	Seismic	Drilling	Floating Production
• AHTSs – **neutral** to **negative** • PSVs – **very negative**; fall in utilisation; rates, over capacity; values down 30% from end 2014 • However, large differences among regional markets • A segment also driven by **speculation**	• **Has turned very negative** • Only established operators with balance sheets have exposure • TCs getting shorter • Heavy demand cuts by Technip, Subsea 7++	• **Neutral** to **negative** • Limited speculation, contracts driven business • TCs got shorter, 10-15% rate reductions • Operations mostly linked to fields in production	• **Very negative** • Market dominated by 5 players, consolidation ongoing; stacking, lay ups	• Drillships – **very negative** • Oversupply of NBs; values, rates down 50%; stacking, lay up; stronger corporate credits though • Semi subs – **neutral** to negative • Jack-Ups – **very negative** • A segment driven by **speculation**, oversupply; value and rates fall of around 30%	• **Neutral** • No speculation, only future demand to be impacted


Supply & Anchor Handling


Seabed Installation


Crew Accommodation


Hydrocarbon Exploration


Drilling


Floating Production

Measures Taken by Owners to Adapt to New Reality

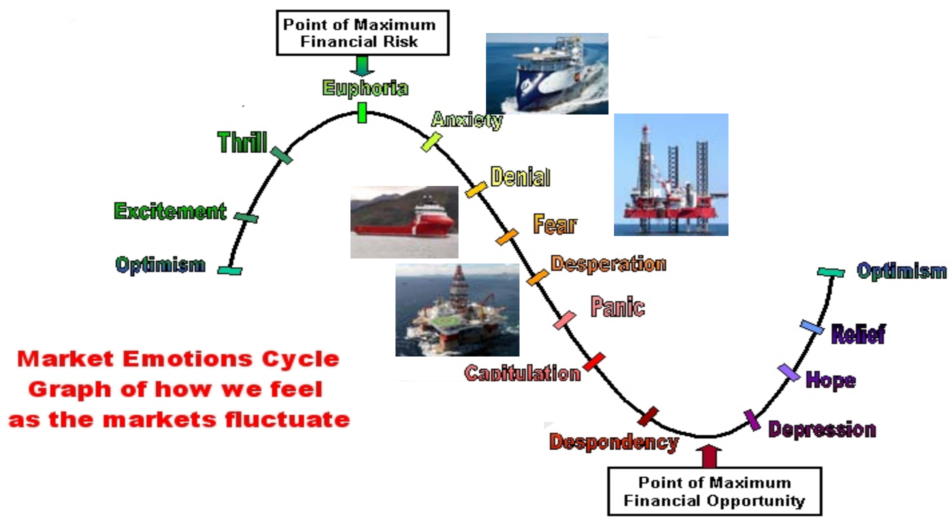
Operational measures

- Heavy cost reductions across the value chain
- Laying up vessels and letting people go
- Cancelling NB contracts, deferring NB deliveries
- Scrapping vessels/rigs
- Back to basic services offered to oil companies
- Keep utilisation up, compromise on rates
- Technology drive to develop/offer low cost solutions
- Sales of businesses, vessels
- Ultra deep water equipment at risk?
- Old vessels at risk
- Derisking, deleveraging

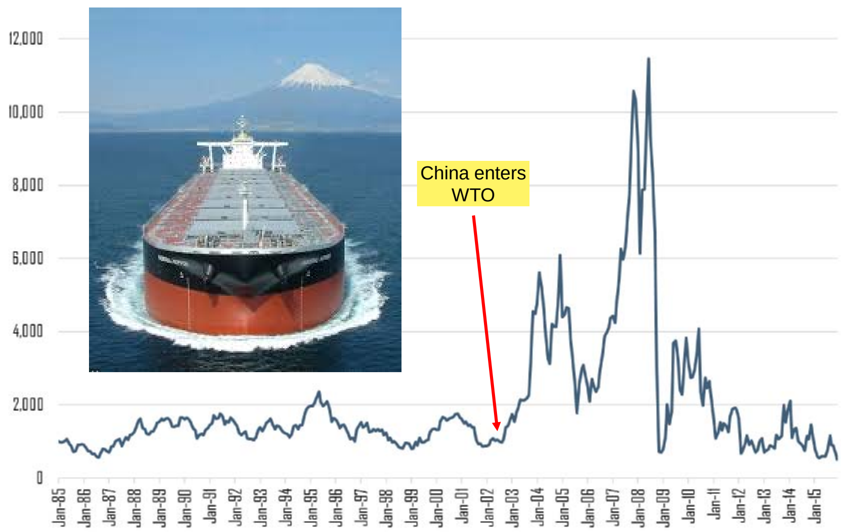
Financial measures

- Covenant waivers
- Debt instalment deferrals
- Bonds expiry deferrals
- Junior bonds converted to equity
- Large impairments are needed
- Shareholders' support with new cash/equity
- Outside equity to increase their presence in the market
- Sale of vessels
- Large, well capitalised corporate Offshore balance sheets to take advantage?
- Bankruptcies
- Consolidation over time
- Many of last 5 years start ups to disappear
- Not unlikely if 1/5 of the industry players disappear – too many players, too much capacity

Where are we in the cycle?



Cycles and cycles.. (BDI)



Bankruptcies and restructurings, a lot more to come..

Drilling	Subsea	OSVs	In Restructuring
Hercules Offshore	Dolphin geophysical	Fletcher	Polarcus
Vantage	Cecon Contracting	World Wide Supply	Havila
	Ceona	PRM	Atlantic Offshore
	Reef Subsea		Island Offshore
	Cal Dive International		GOL Offshore
			Viking Supply Ships
			Volstad
			Songa Offshore
			E.R.
			Perdana Petroleum
			Deep Sea Supply Plc
			Hellespont

Oil & Gas

Houston and Norway: Sisters in Suffering

Our city isn't the only one feeling the strong effects of the price-drop for oil. Just ask Stavanger.

•By Katharine Shilcutt

•3/2/2016 at 3:13pm

	HOUSTON	NORWAY
POPULATION	6,313,158	5,109,059
TOTAL OIL & GAS JOBS	288,300	250,000
O&G AS A % OF TOTAL EMPLOYMENT	9.9%	9.4%
ESTIMATED O&G LAYOFFS (2015)	30,000	>20,000
UNEMPLOYMENT RATE	4.5%	3.5%
WORLDWIDE RANK (CRUDE OIL EXPORT)	n/a*	3
OIL EXPORTS (2014)	$53 billion	$64 billion
O&G AS A % OF TOTAL EXPORTS (2014)	40.5%	46%
GDP (2014)	$533 b	$517 b
O&G AS A % OF GDP	19.3%	22%
GDP PER CAPITA (2014)	$70,097	$100,178
NO. OF BBQ-RELATED DEATHS (2015)	1	1

Capital Sources - Current Financing Sentiment

Ship finance banks
- Banks buying market share last 2-3 years are pulling back, if not out. Banks are reassessing their portfolios

ECAs

GIEK Gjør Norge større · EKSPORTKREDITT Export Credit Norway · SINOSURE 中国出口信用保险公司 CHINA EXPORT & CREDIT INSURANCE CORPORATION · Korea Eximbank · Ksure · atradius dutch state business

Bonds
- Also applicable to MLPs and Term loan Bs

Sale & LBs
- KS financings ?
- Chinese leasing

ICBC

- Lenders want to limit residual risks

PE funds
- May reconsider or buy oversold (?) stocks, look for distressed cases

IPO/ share issue
- Some companies may be forced to issue at low prices

The market is adapting but more pain to come

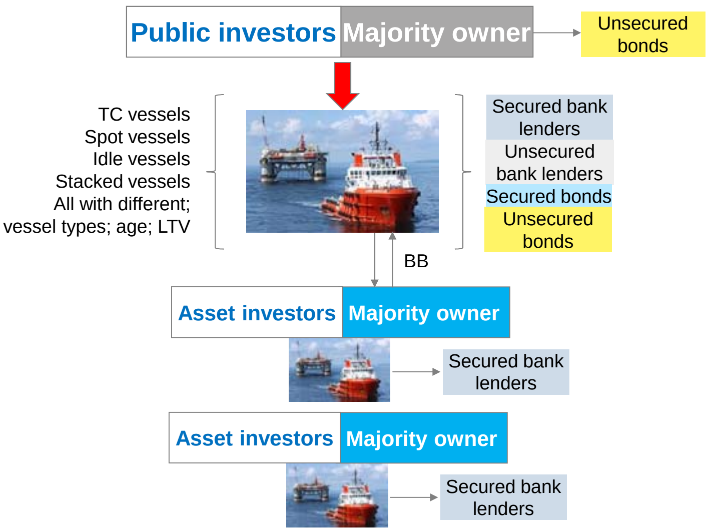
Key take aways

- Capacity needs to be taken out of the market, temporary stackings are insufficient
- Still NB over supply of drillships, JUs, PSVs and Subsea vessels to hit markets in 2016-2017, create more pressure
- Shipyards scramble to find takers
- A not unsurprising step up in cabbotage and protectionism
- And then Mexico, Petrobras; blocking.., the perfect storm
- Most need to be rebalanced to a 30-40% cost reduction level; less demand

Banks' behavior

- Focus on existing clients, how to serve their needs
- Very few banks look at new business
- Emphasis on refinancings; restructurings
- A first soft then tougher approach to restructure companies
- A 2-3 years' horizon standstill; banks reluctant to force vessel sales
- Offshore lending is already shrinking
- Banks to exit the market
- Recession shows banks' risk return ratios don't stack up v increased regulatory control and increased capital necessary to support the business
- In general a significant reduction in demand for financing
- Less new projects; difficult to attract finance
- Few, if any new start ups

A not unlikely work out case:



Consolidation?

subsea 7 SIEM OFFSHORE

"I think is also important that the banks contribute now to this structural change that the industry really needs, rather than just giving a band-aid to the short-term solutions for all the financial problems that we see and read about daily," said Siem.

"The other thing to keep in mind is that there is less margin for error now, so predictability is more important than ever. This is something particularly for the banks to think about and it is important that the banks don't sit on their high horse and say this is what we want. You know the banks think in a certain way and this 'box thinking' in banks has become more boxed in over the last few years than it used to be, so there is less judgment by the bank officers."

He added: "We are missing an opportunity if the banks don't think out of the box now. First, they need to take decisions quicker, so that we can get the show on the road and avoid more damage than necessary in the downturn."

Buy companies or assets

- Nobody wants to use CASH to buy anything – irrespective of the price
- At best apply stock to pay

Many want to MANAGE fleets

- There are offers on the table from many to manage other companies' vessels or fleet – ON BEHALF OF BANKS

Navig8 RK Offshore

- Enter offshore MGT – buying RK Offshore mgt as platform to create POOLS

A "Side Car" vehicle

- Some are considering setting up an outside vehicle funded by PE, to acquire vessels to be MANAGED by the sponsor company

Investors have multiple options..

Distressed vessels

- 50% of broker values achievable
- Need additional WC and a platform to stack or operate
- You want to acquire YOUNGER vessels
- Patience

Buy into very low priced bonds

- Plenty of opportunities, around 30 companies available
- Hope for CH11 filing, restructuring, then convert to equity
- Very time consuming, Patience

Invest in equity with key sponsor

- Several opportunities, existing majority holder/sponsor need outside equity
- Condition wipe out /hair cuts to unsecured bonds or part conversion

Take company private with sponsor

- Restructure, prepare for recovery and relist
- Require additional capital injections; deleverage

Start ups?

- Backed by PE yes, but for purpose of consolidation – and not contracting NBs? What can it really offer?

In Summary – More pain to come

The oil price	▪ Even if an end 2016 $50-60/b consensus comes true, it will not alter the E&P spending cuts for 2016-2017 ▪ An over time sustainable $60/b+ needs to be verified
The oil producers	▪ Current E&P cuts may be larger, and takes 18-24 months to filter through, significant cost reductions are essential (30%+)
The Market	▪ It will continue to deteriorate, and so will values ▪ A minimum 2-3 years correction is needed to clear oil & offshore equipment imbalances
The Offshore Companies	▪ Owners face significant cash flow reductions, breaches in bank & bond financings, impairments, forced vessel sales; bankruptcies ▪ Cash preservation, no new capex, measures to reduce debt, cost savings key to maintain position, equity is needed
Opportunities	▪ Distressed companies/assets will appear, consolidation ▪ Good projects may not attract financing
The Banks	▪ Demand is down, bank financing is contracting ▪ Concentration risks and stress testing are key issues

Thank you for your attention!

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