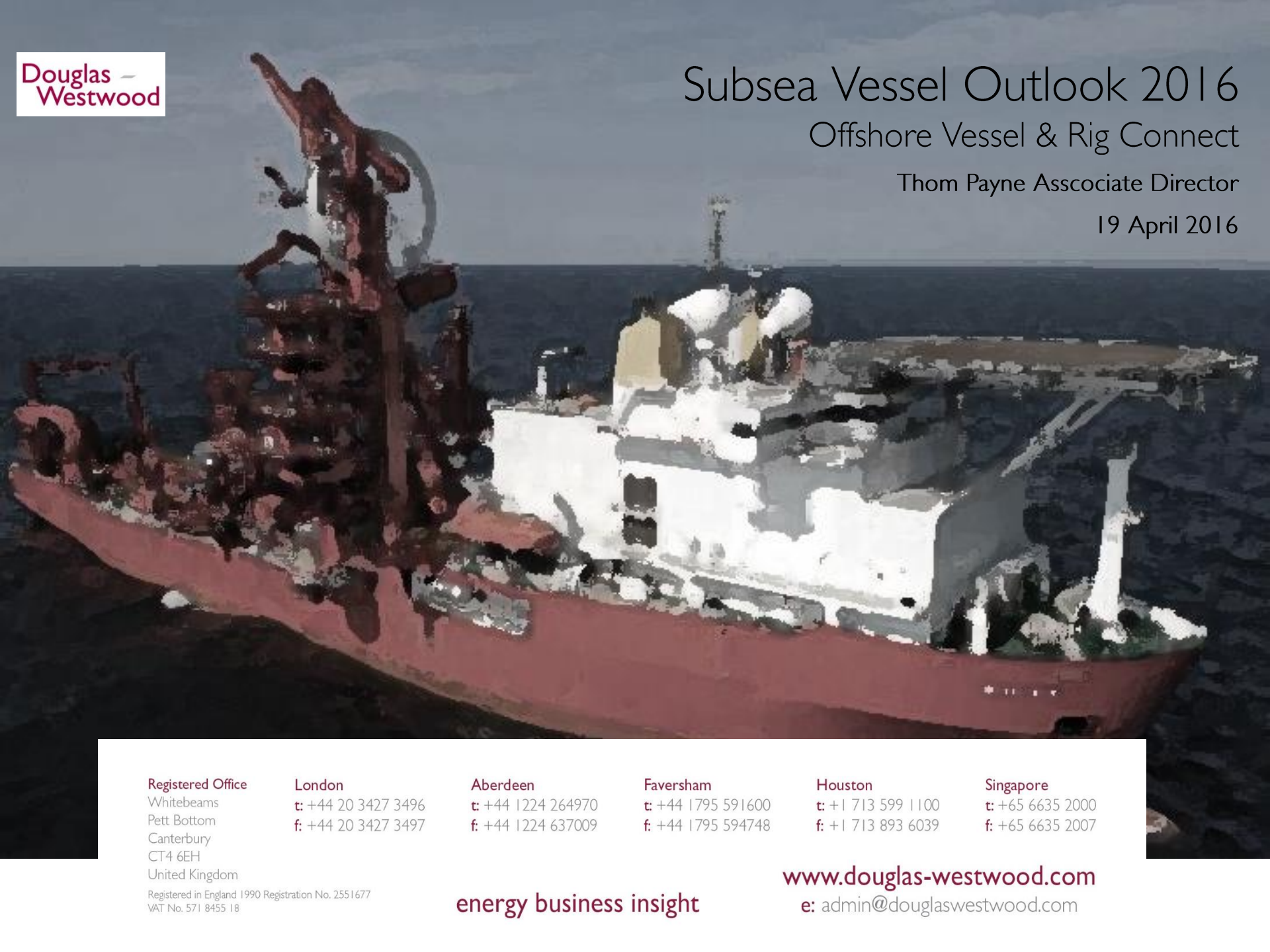


# Subsea Vessel Outlook 2016

## Offshore Vessel & Rig Connect

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19 April 2016



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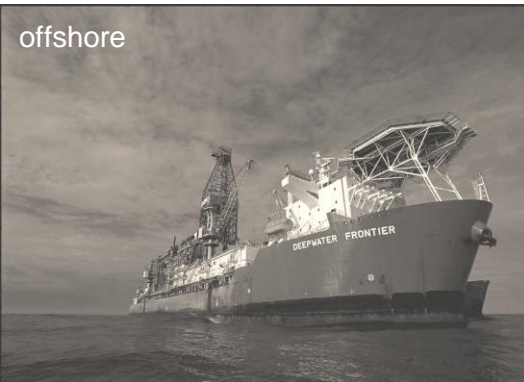
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energy business insight

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- Established 1990
- Aberdeen, Canterbury, London, Singapore & Houston

### Activity & Service Lines

- Business strategy & consulting
- Commercial due-diligence
- Market research & analysis
- Published market studies

### Large, Diversified Client Base

- 1100 projects, 800 clients, 70 countries
- Leading global corporates
- Energy majors and their suppliers
- Investment banks & PE firms
- Government agencies

### Douglas-Westwood Pte Ltd.

Since 2011 DW Singapore has provided transaction support services for over \$3 billion (USD) of committed capital.



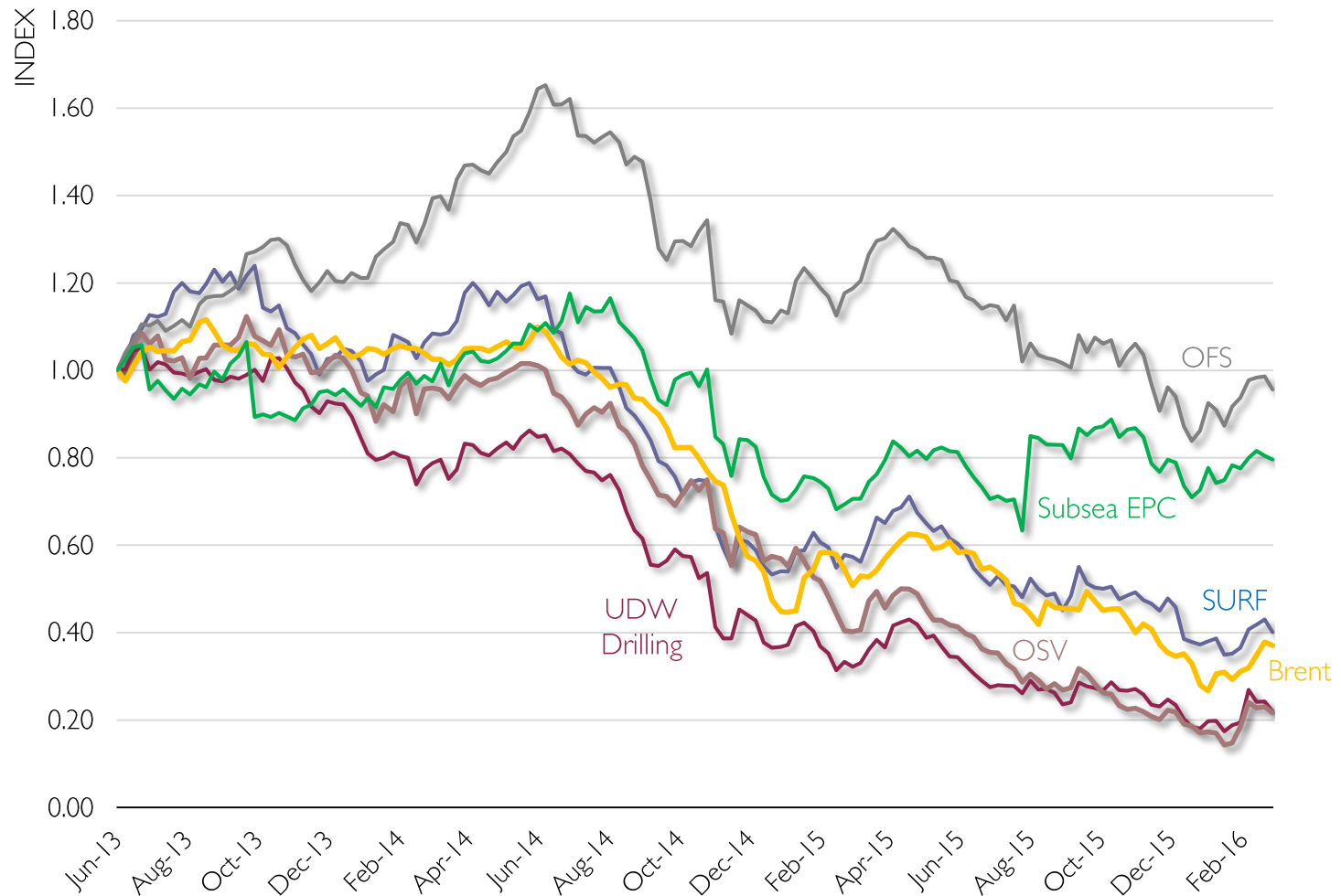


- O&G Industry Update
- Market Outlook
- Conclusions



## Where are we Today? Sector Performance

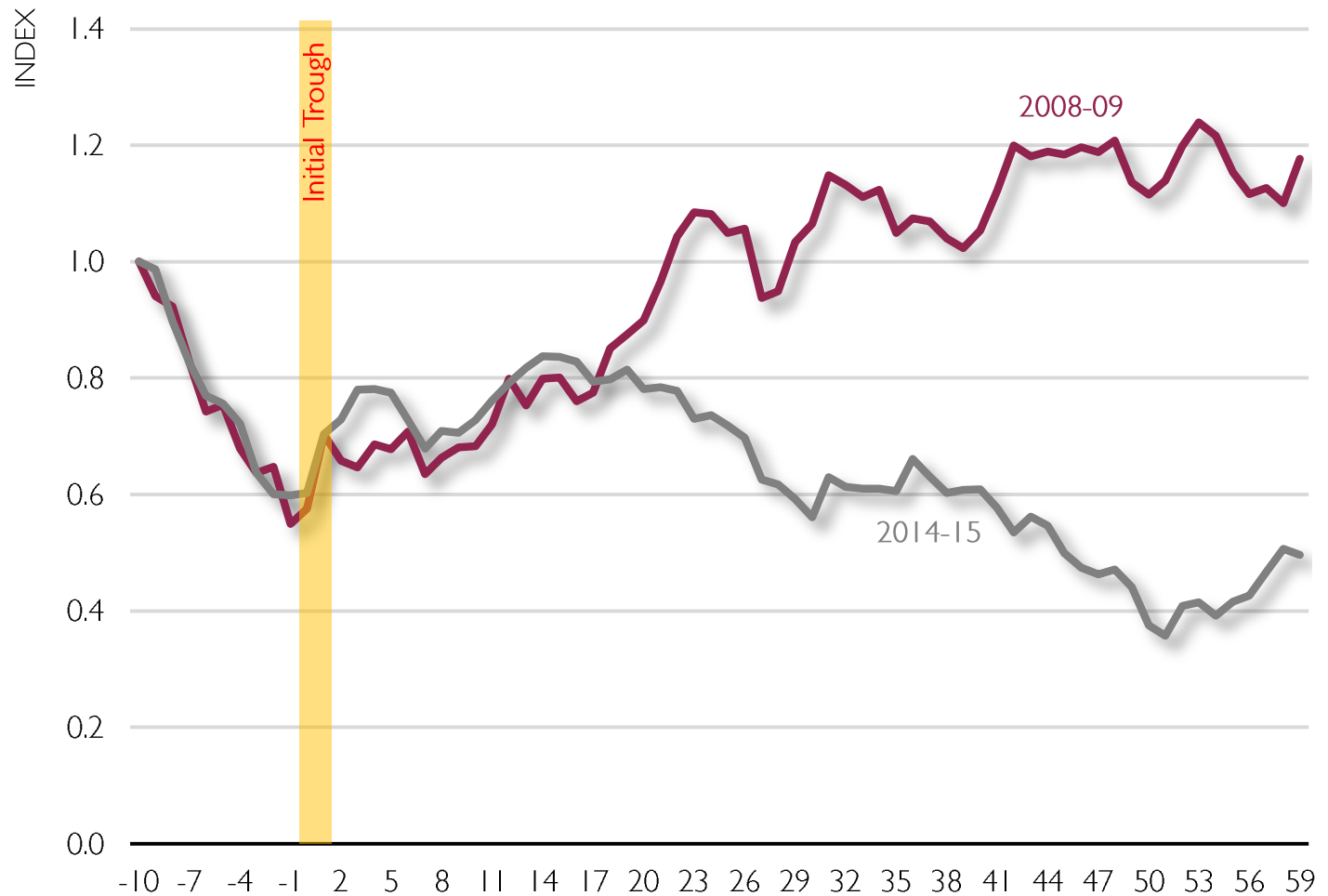
Asset focused players have seen the worst of the recent downturn...



INDEXED Share Performance of Various O&G Supply Chains

## 2014-16 versus 2008-9 A very different downturn

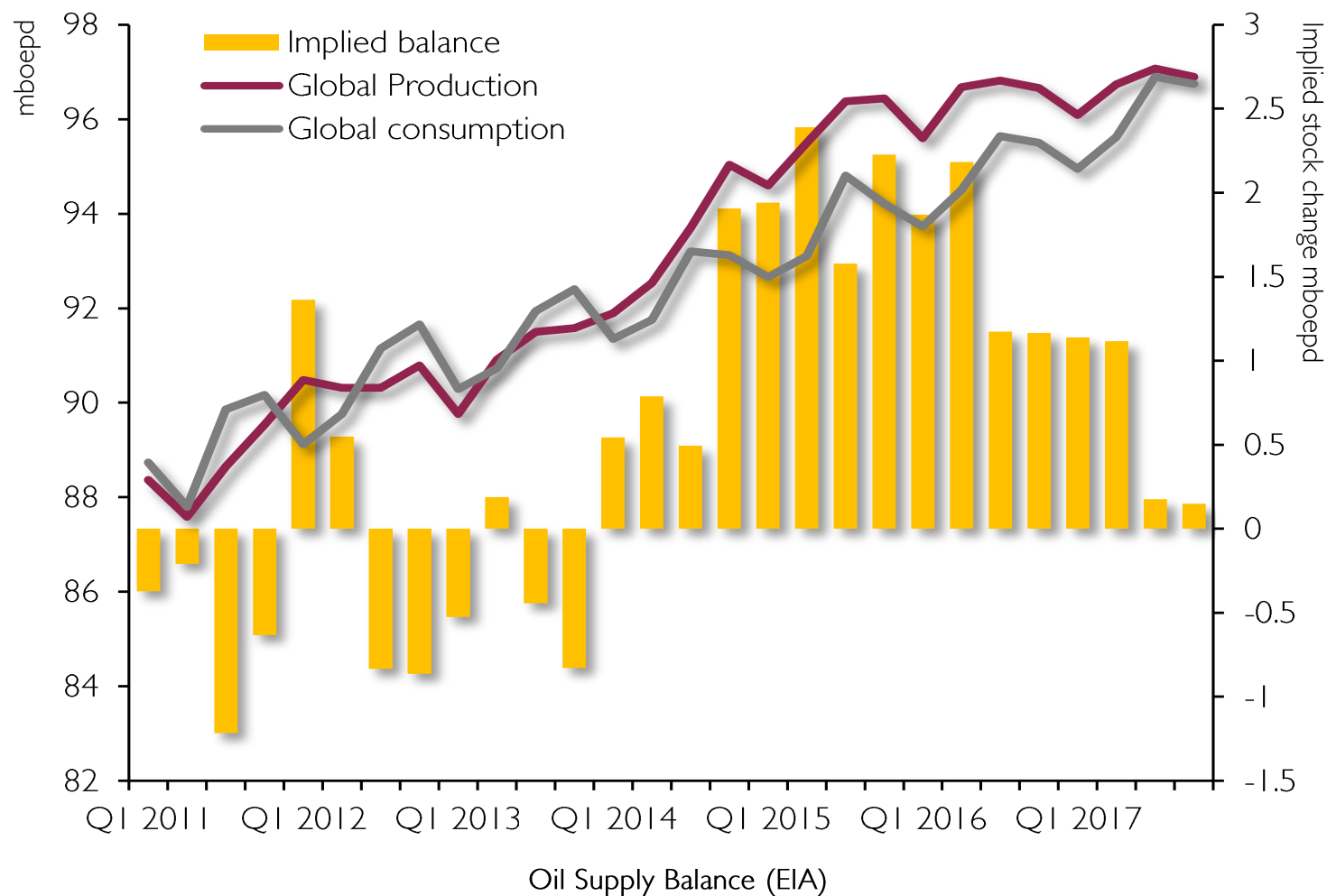
The recent downturn threatens to be considerably deeper than previous periods...



INDEXED 2014 Downturn vs 2008

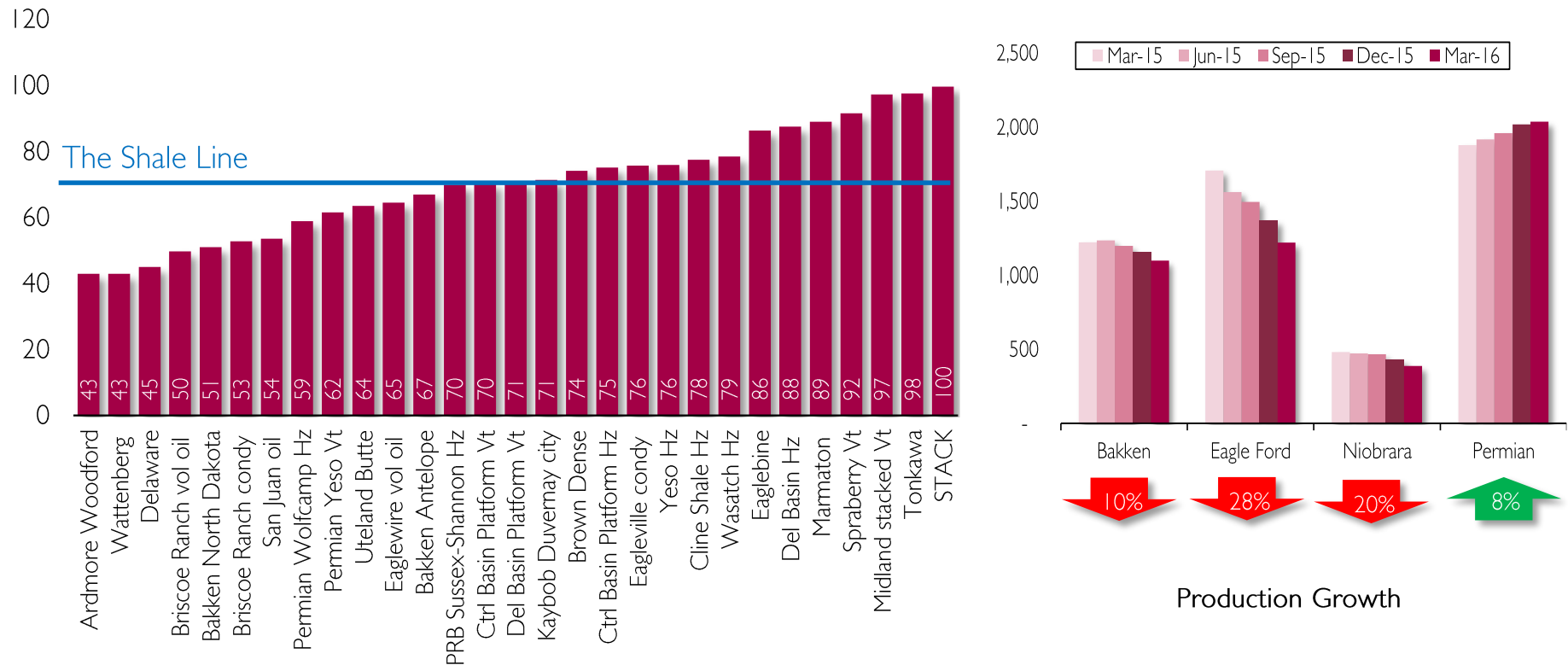
# Oil Market Equilibrium

Market recovery is now estimated for 2018 by which time global demand/supply will reach equilibrium...



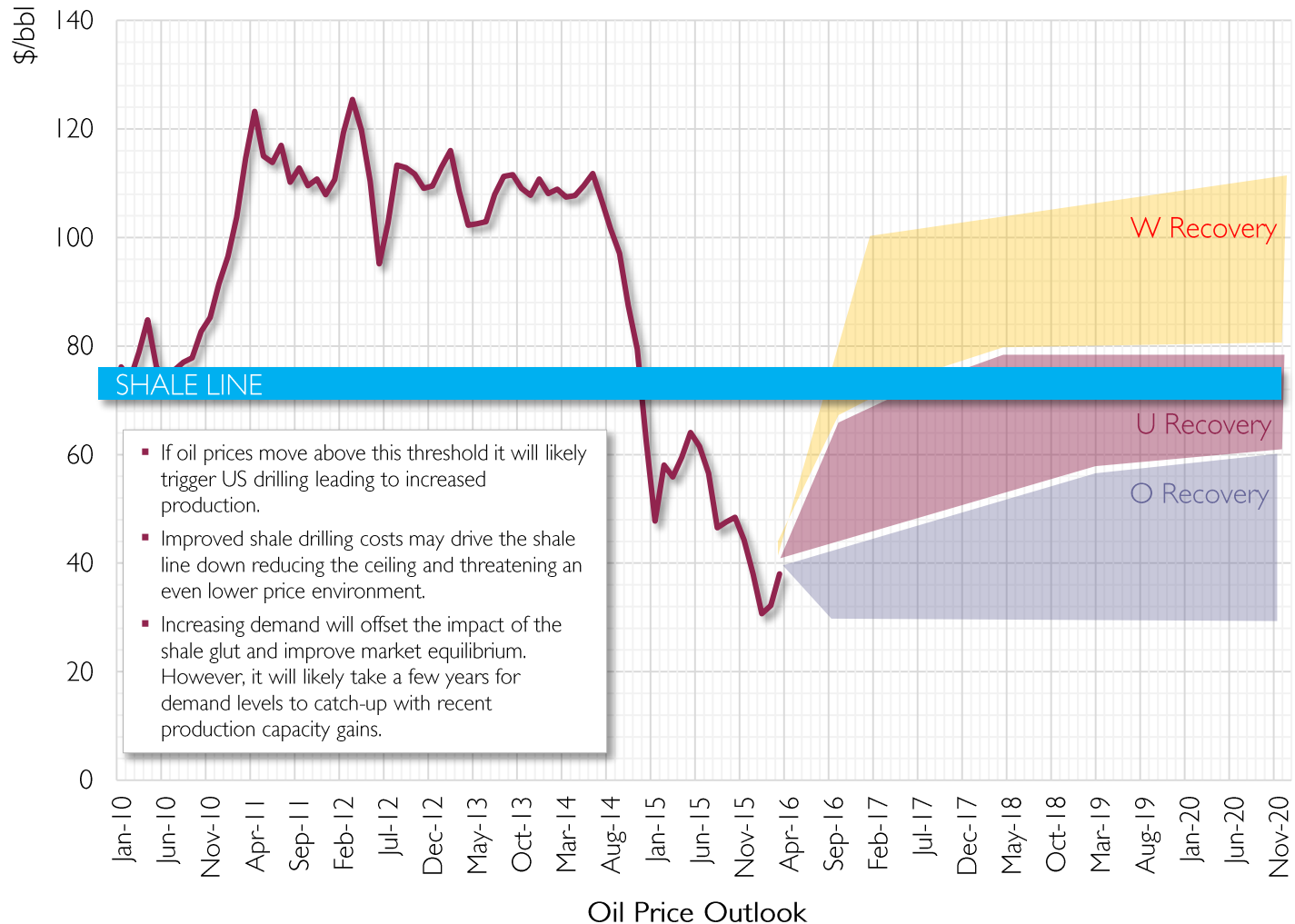
## How did we get Here? US Shale

Shale has struggled in a sub \$75/bbl environment. Around 600 kboepd already off the market...



# Oil Price Update

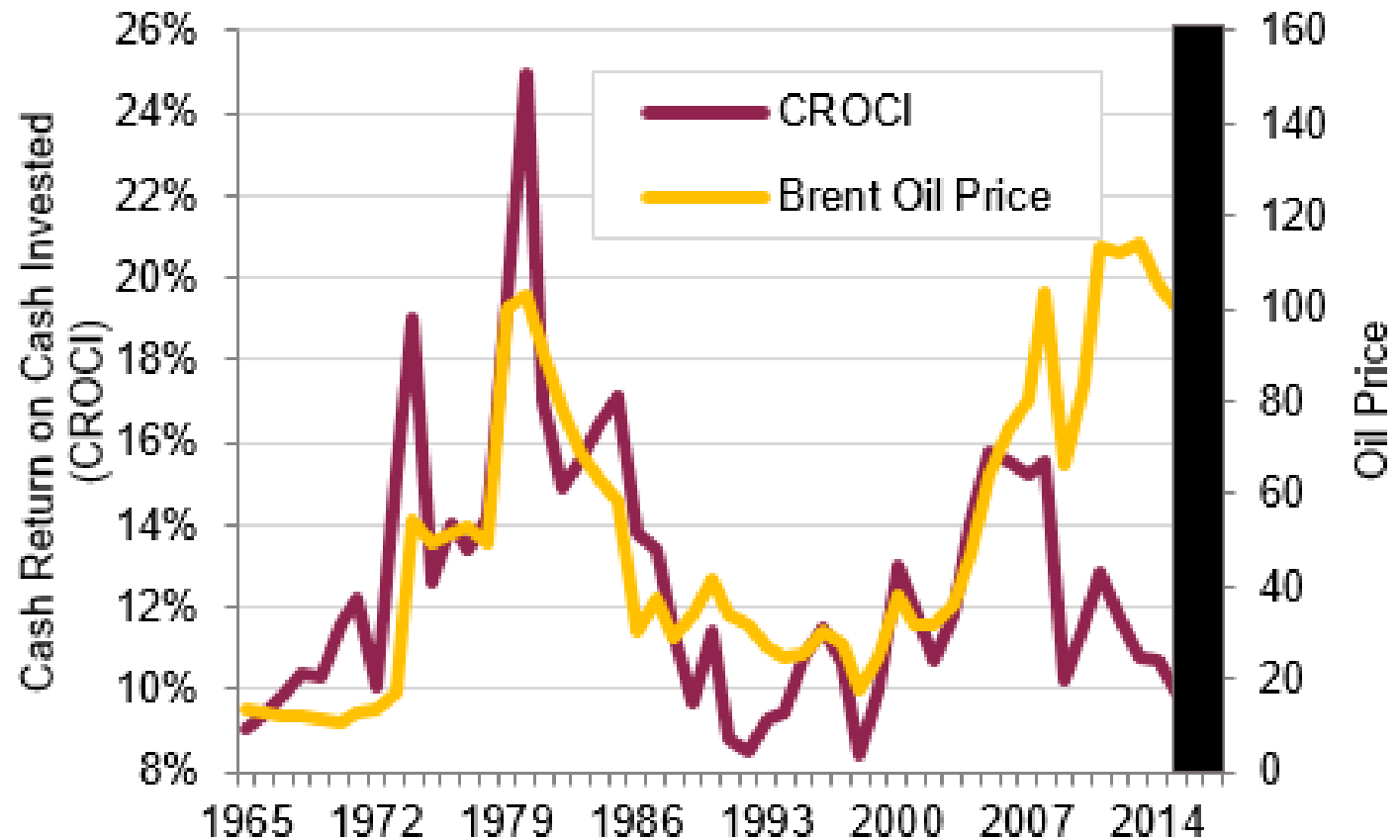
Oil prices expected to remain suppressed through 2017 before recovery in 2018 – albeit prices not expected to exceed \$100/bbl over the next five years





## Do We Need \$100/bbl? Cost Inflation

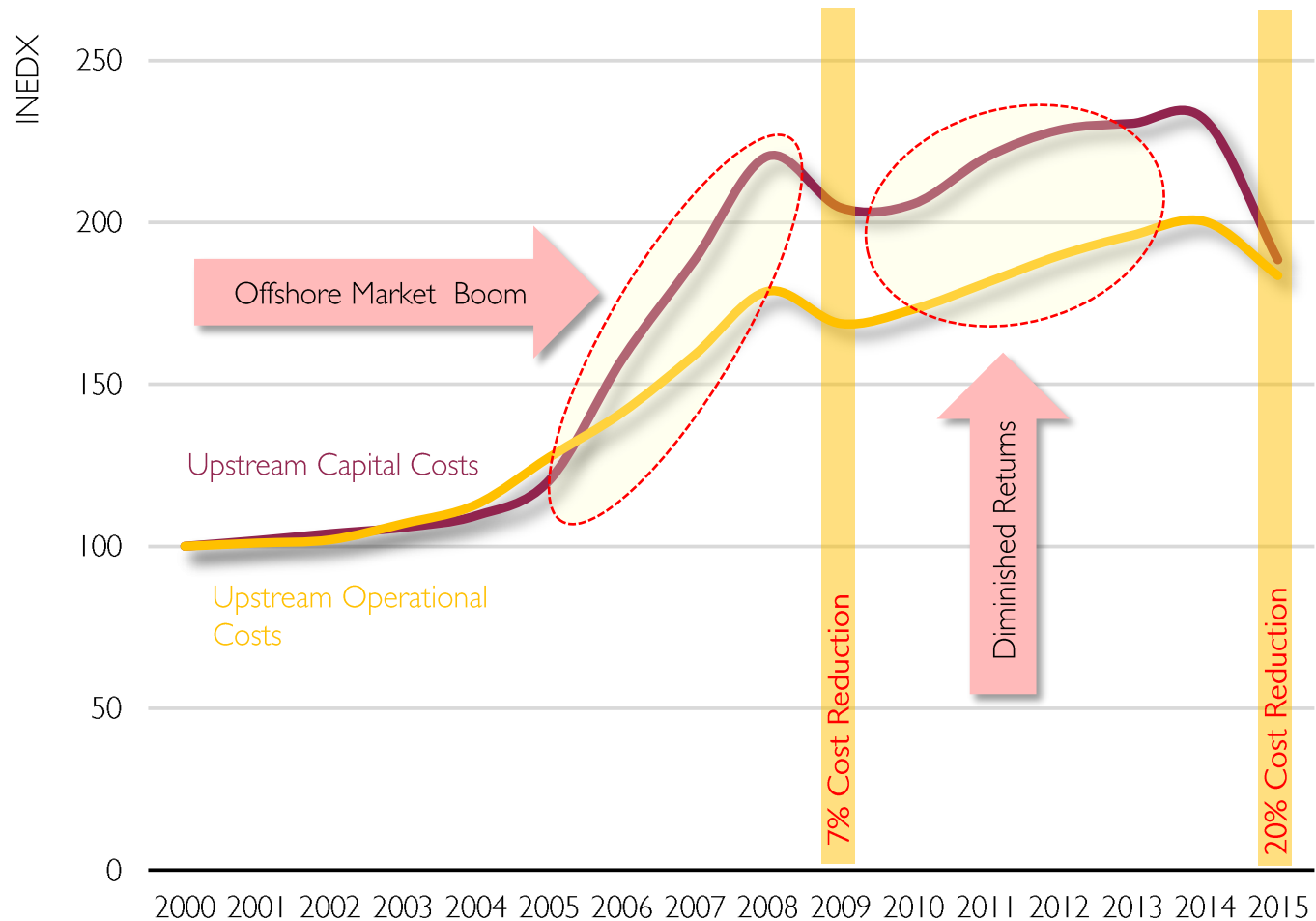
Even at \$100/bbl the industry was struggling to make returns in the “good days”...



CROCI for Supermajors vs Oil Price

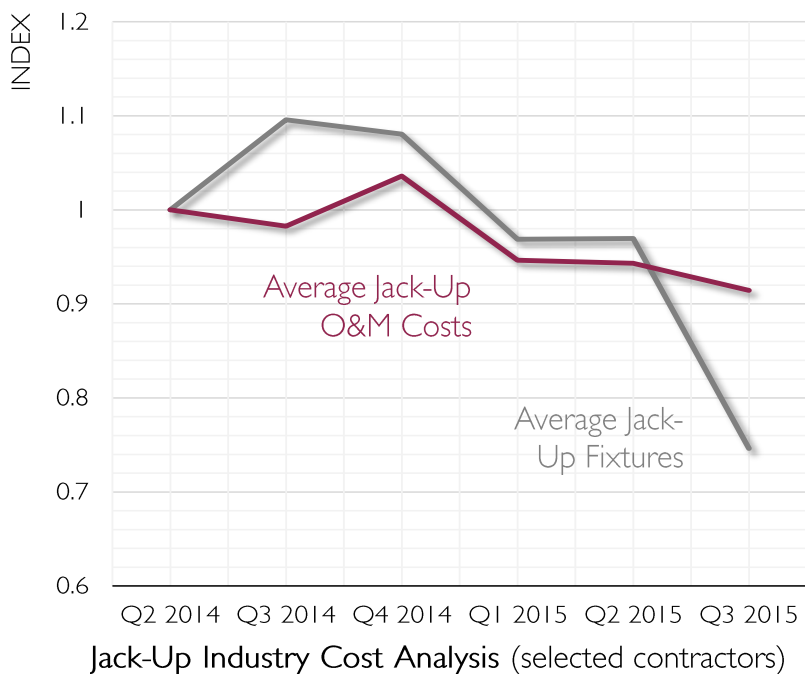
## Do We Need \$100/bbl? Market Correction

Development costs are 20% down from 2014 highs alleviating need for high oil prices...



Upstream Cost Inflation Indices - CERA

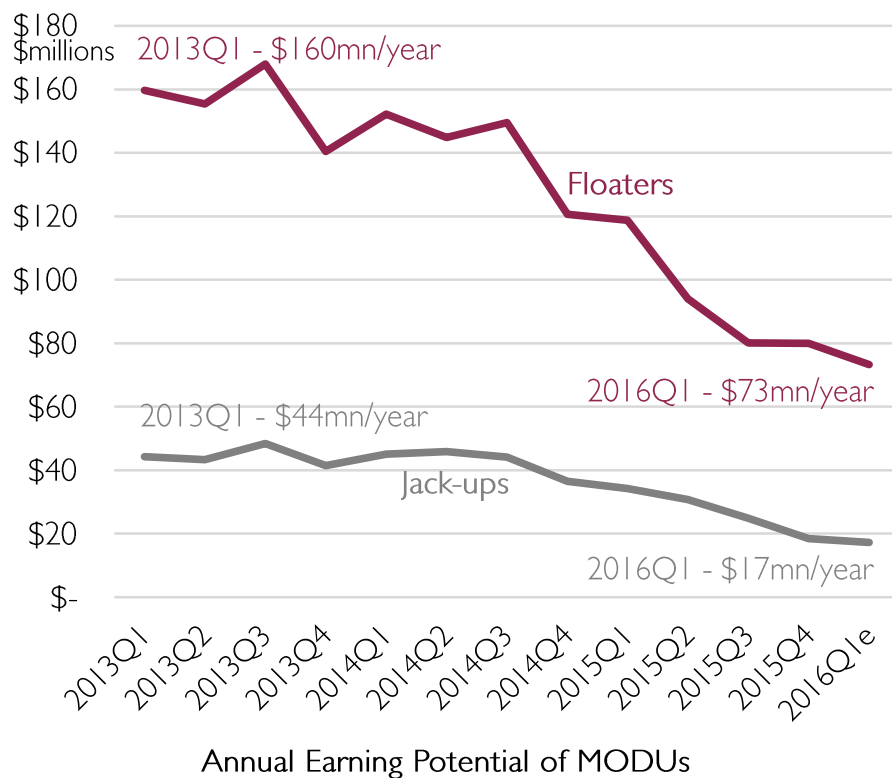
E&P have been successful in pushing down supply chain costs... Contractors are struggling...



- Supply chain costs have typically mirrored E&P costs historically with regards to inflation.
- However, The current environment has shown greater ability for E&P to cut costs as compared to their suppliers.
- Jack-Up fixtures have shrunk by 30% on average over the past year but O&M costs have typically fallen by just 10-15%.
- A major discrepancy is labour. Offshore marine contractors are often left footing the labour bill.
- Labour costs for rig contractors have fallen by just 10% compared to 20-25% for R&M and SG&A.



Impairments have been widespread, but now is the time to make tough decisions...



- Impairments are occurring throughout all asset-related O&G supply chains.
- How much is an offshore asset worth?
- The reality... assets were over priced and likely won't work as long or for as much money as previously thought.
- Today, the average annual earning potential for a jack-up is 61% down from 2013 – 54% for floaters.
- Mild recovery expected in 2017/18 but not close to 2013/14 levels.
- Further write-downs are likely for any <10 year old asset not on contract.
- BUT... realigning assets with the market should position contractors well for the recovery.

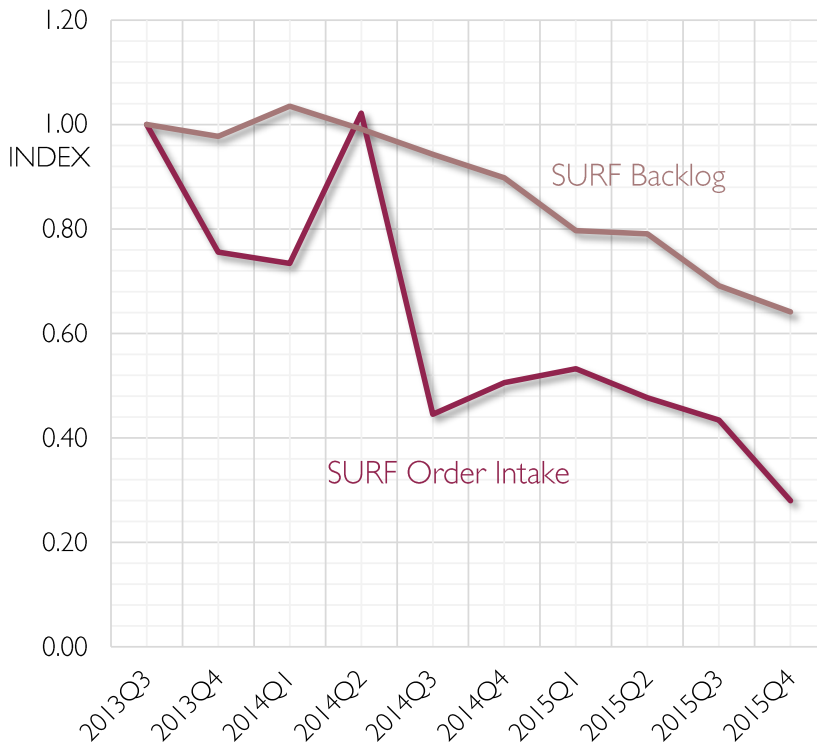




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## Subsea Vessel Industry Current State

Contractors still working through record backlogs but order intake at 25% of 2013 levels...

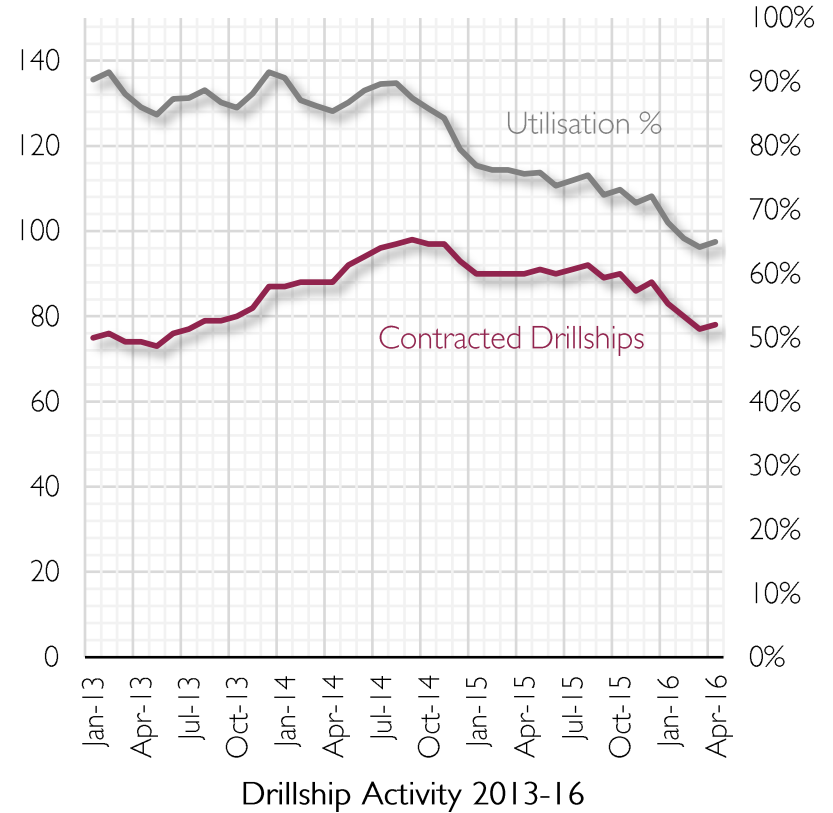
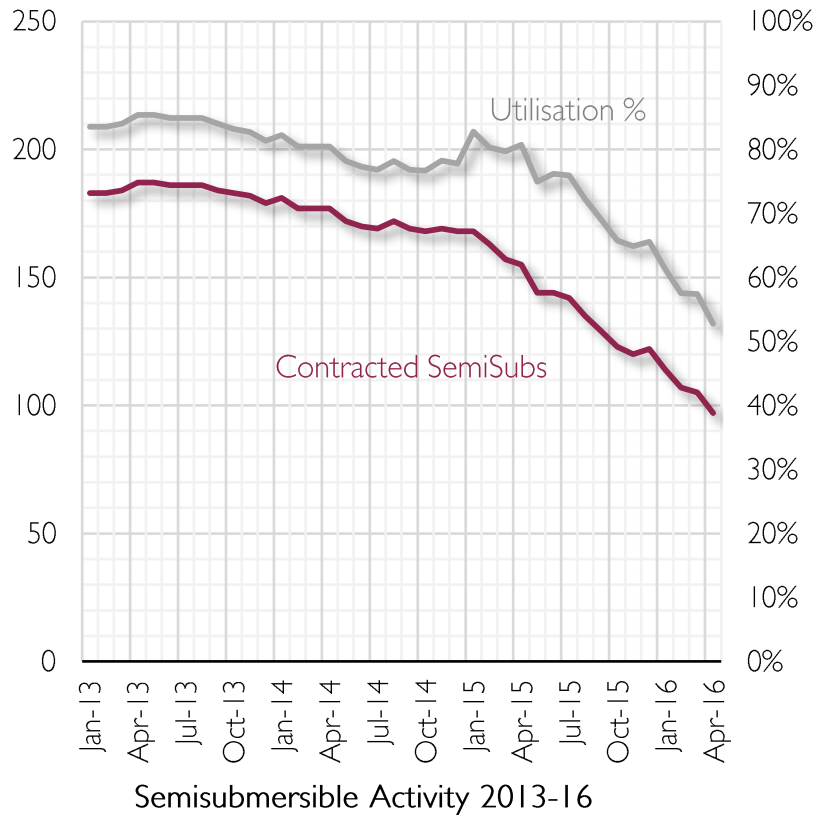


SURF Sector Quarterly Performance

- SURF contractors still working through record backlogs up to H12017.
- Order intake at 30-40% of 2013 levels. Major projects such as Vashistha and West Nile Delta still being sanctioned.
- Order levels expected to remain suppressed for the next 12-18 months with timing of major awards very uncertain.
- At current rates backlogs will be empty by Q32017 creating a critical situation for the industry.
- Introduction of new tonnage is driving down utilisation across all vessel segments.

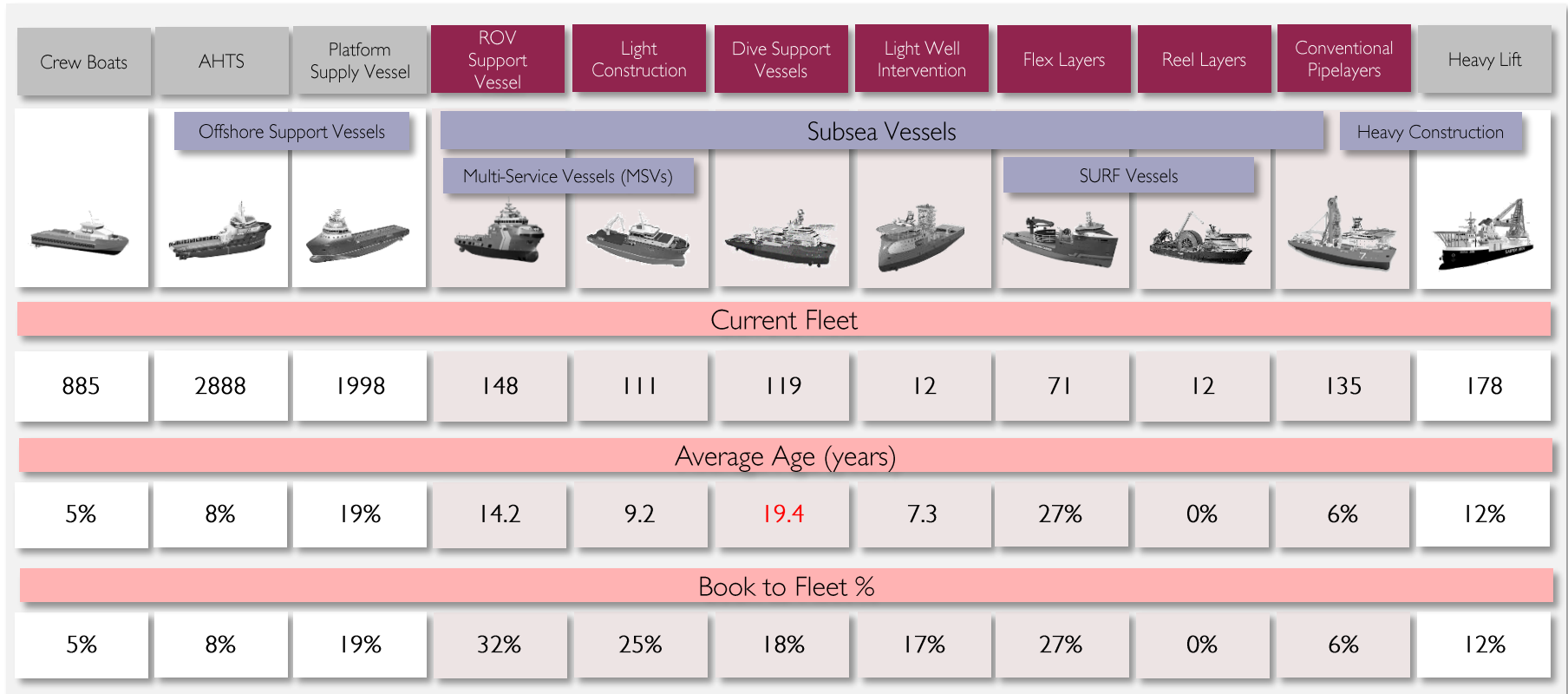


Rig activity has fallen sharply – slowdown in E&A to have longer term knock on effect...



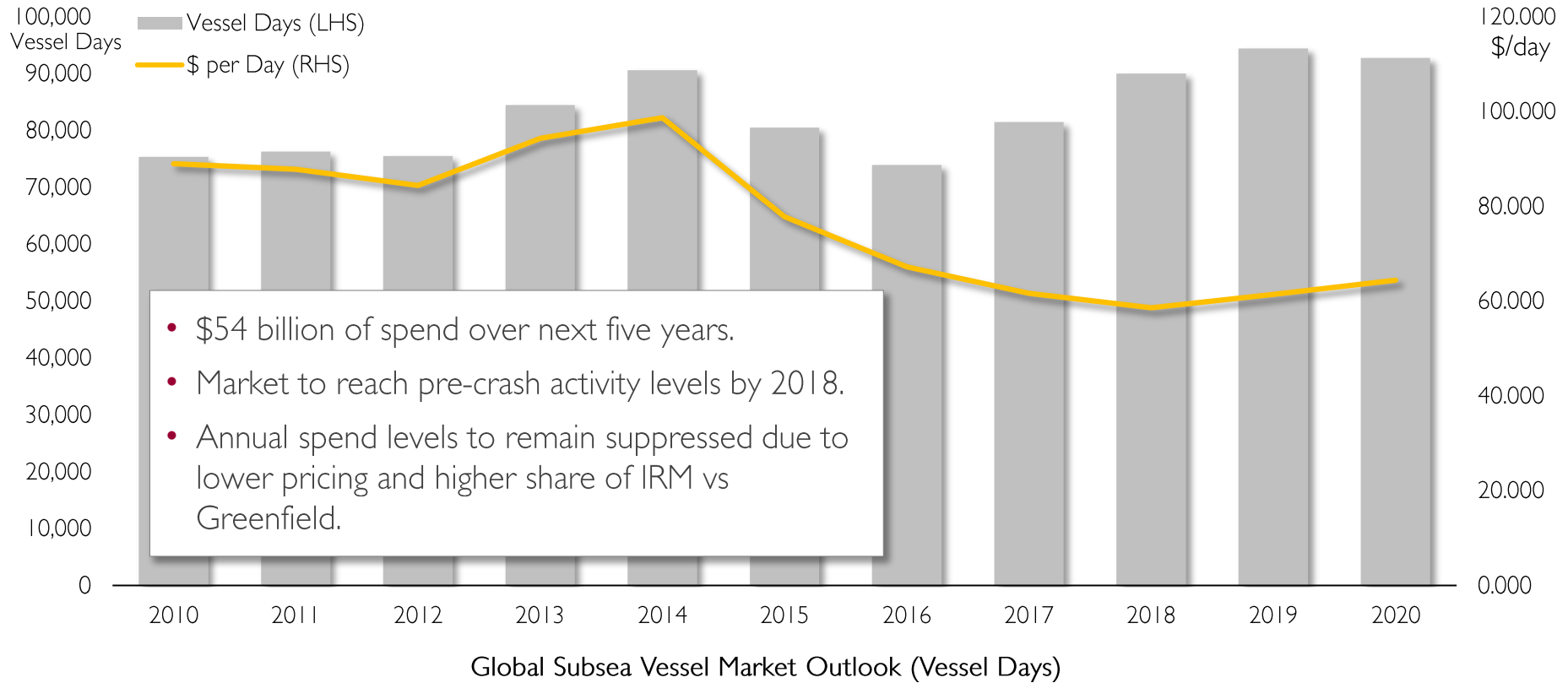
# Current Fleet Snapshot

New orders have come to a standstill but substantial new capacity yet to enter the market...



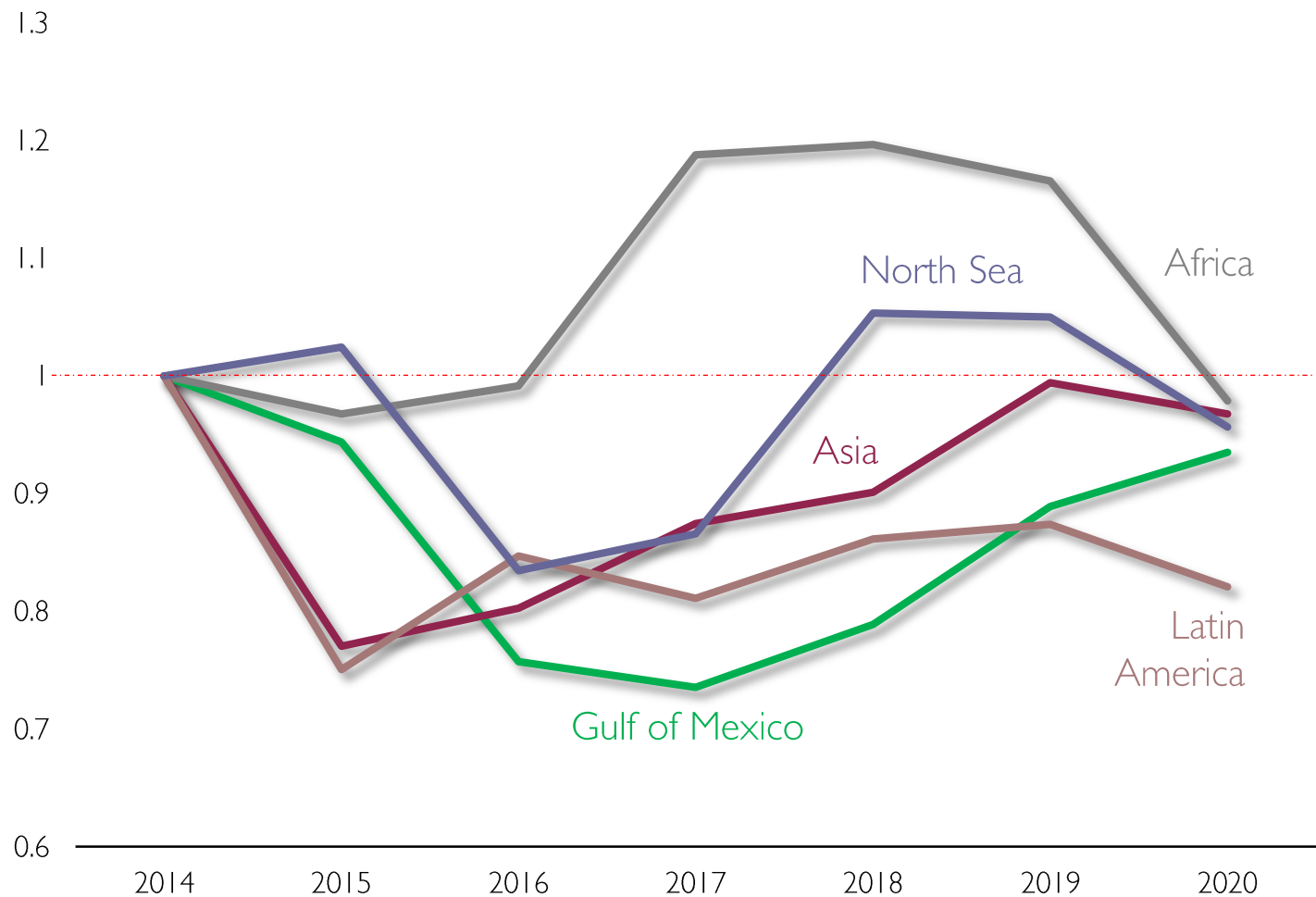


Market set to return to pre-crash levels by 2018 but weaker pricing in the medium to long term...



## Movers &amp; Losers Regions

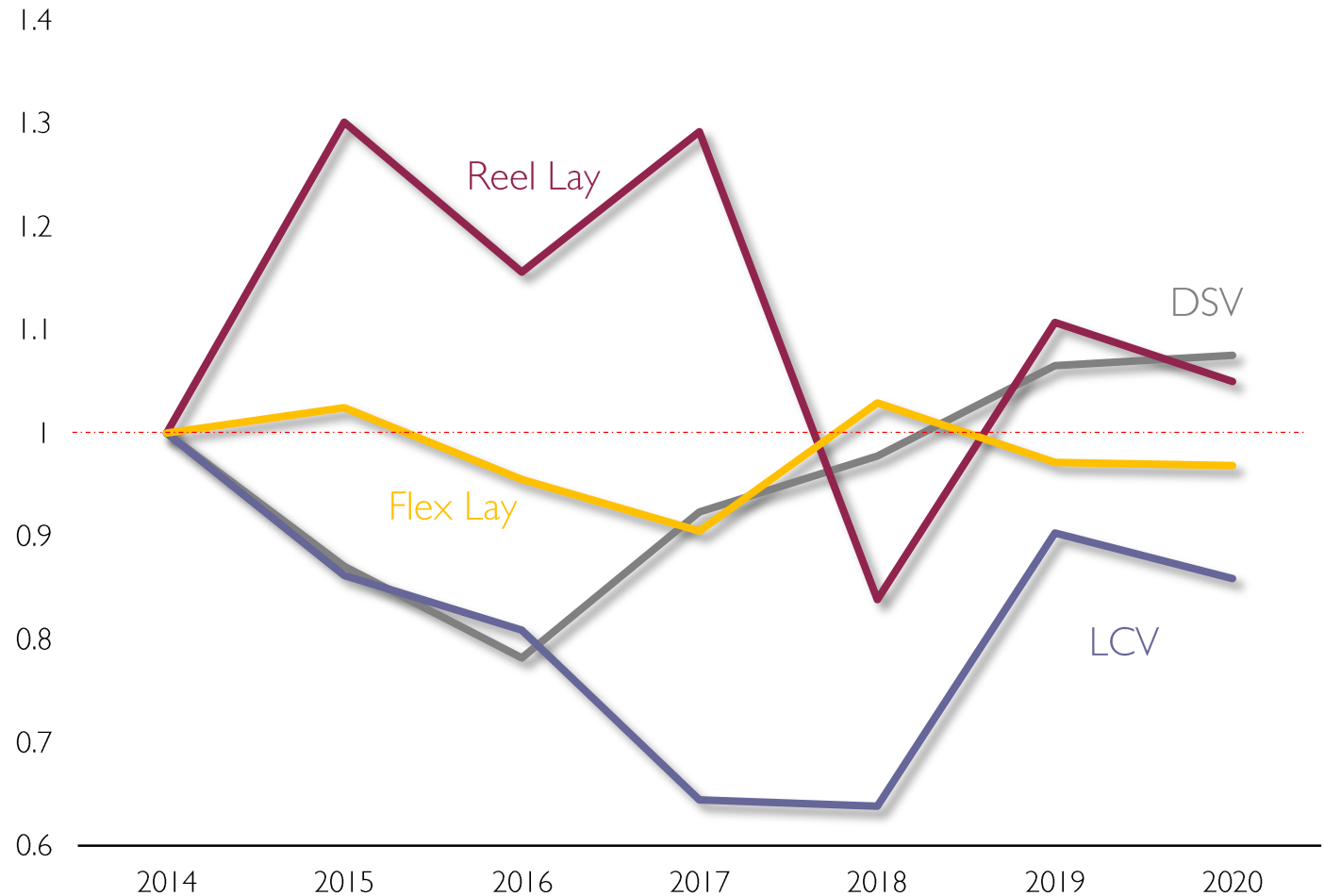
Asian market to reach pre-crash levels by 2019. Latin America to remain suppressed.



INDEXED: Subsea Vessel Market Outlook by Region

## Movers &amp; Losers Vessel Types

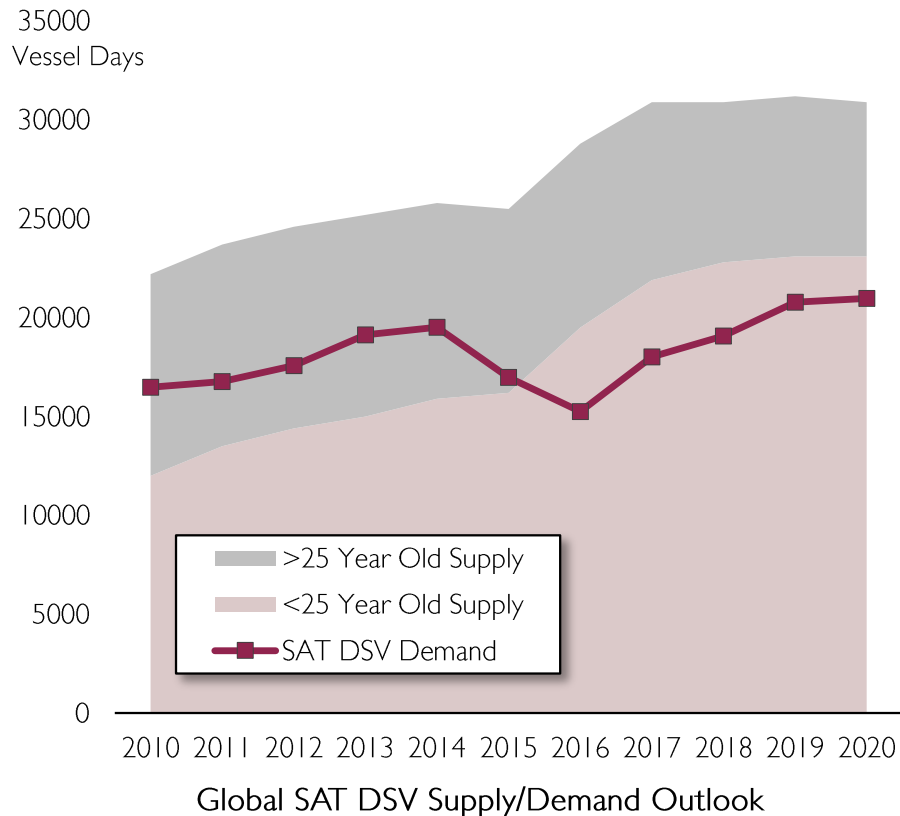
DSV to recover post-2017. Flex-Lay stagnating due to Brazilian market issues.



INDEXED: Subsea Vessel Market Outlook by Vessel Type

## Supply &amp; Demand DSVs

Drop off in demand compounded by new supply additions. Equilibrium expected post 2020...

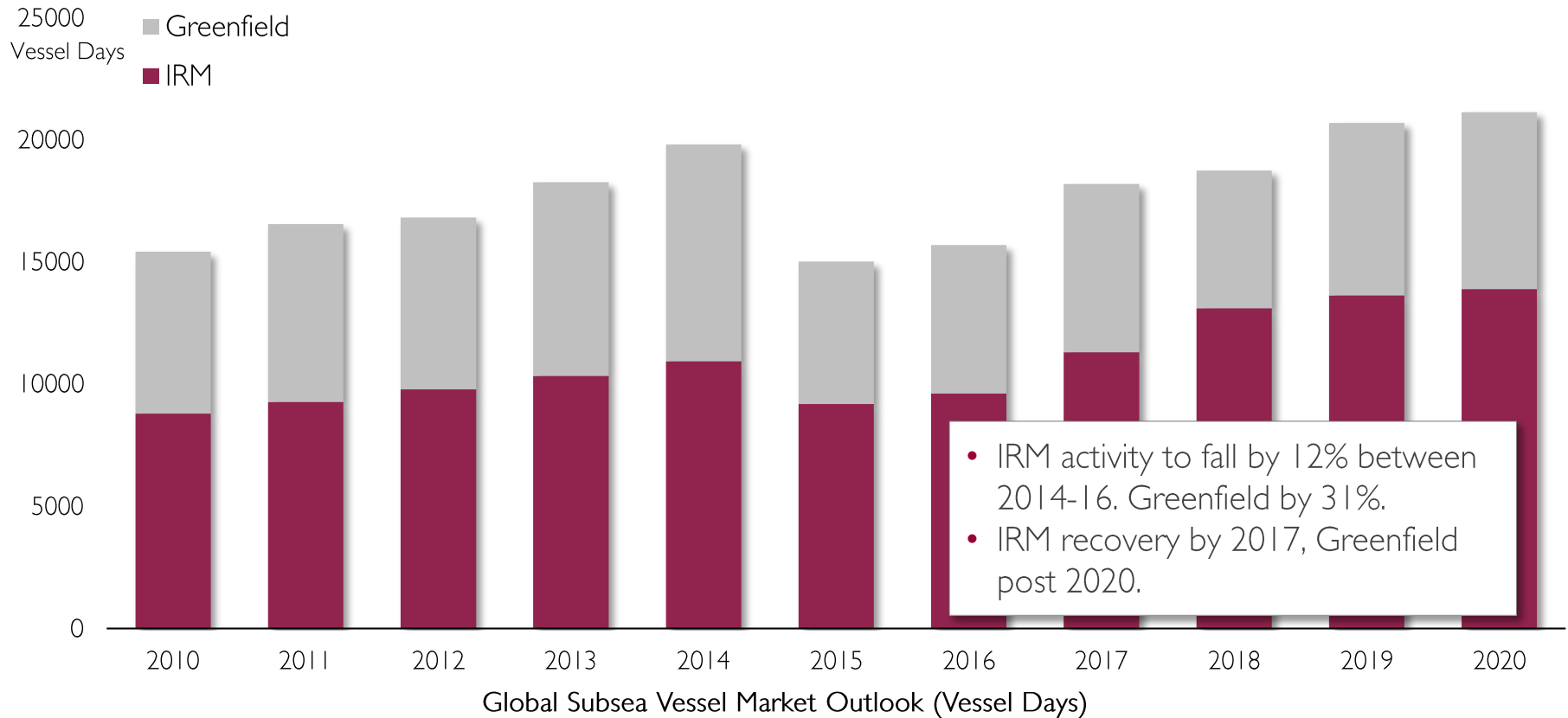


- Global SAT DSV demand expected to fall by 22% between 2014-16. A combination of delayed greenfield projects and slowdown in ad-hoc IRM jobs.
- **Poor timing.** Drop in demand coincides with 23% increase in new capacity, compounding supply/demand overhang.
- Surplus expected to tighten beyond 2019 but significant recovery dependent on continued acceptance of older vessels by customers.
- **Fit for Purpose?** Most newbuilds are very high spec (>100m LOA). Most older vessels are smaller and less capable.



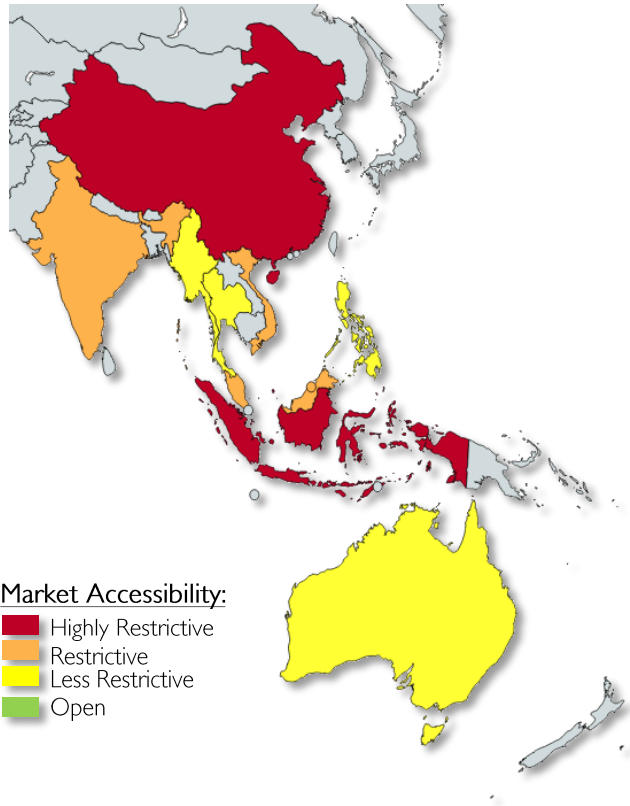


Asian activity down 21% in 2016. Overall recovery not expected till 2019...



## Increasing Protectionism

Increasing levels of protectionism is pushing international contractors to smaller fringe markets...



- Increasing protectionism across Asia for DSV/MSV markets.
- Major markets such as Malaysia/Indonesia now served almost exclusively by local flagged vessels.
- International contractors are increasingly pushed to servicing IOCs in more niche markets such as Brunei or Philippines – many have now left SEA altogether.
- Significant challenge for larger newbuild DSVs to displace local contractors in protected markets.
- IOCs in SEA also putting increasing emphasis on non-Chinese built vessels.
- Contractors will likely need to consider more country-specific strategies on an asset-by-asset basis to optimise utilisation.



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## Conclusions Subsea Vessel Market

1. **On the rebound?** Oil markets appear to be turning the corner... albeit a slow recovery is expected, not likely comparable with 2009/10.
2. **Do we need \$100 oil?** Prices unlikely to reach \$100/bbl over the next five years but cost-cutting is improving project efficiency.
3. **Getting back into gear!** The market is still working through record backlogs but lower order intake and job cuts are threatening the rate of the recovery.
4. **A new price environment?** Structural oversupply throughout offshore marine sectors has driven significant pricing cuts, E&P contractors are expected to prioritize keeping costs low.
5. **Global activity to recover by 2018!** Subsea vessel demand down 18% on 2014 levels. Recovery led by DSVs in the North Sea, Asia and GoM.
6. **Supply overhang to persist throughout the next five years!** Equilibrium could be accelerated by stricter age requirements, further bankruptcies or market consolidation.
7. **Evolution of current business models?** Increasingly challenging commercial environment will drive innovation in contracting, supply chain management and force greater focus on longer-term asset strategies.