



Offshore Vessel Connect Middle East
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State of affairs – it's not looking good out there

Offshore Market Segments					
Supply - OSVs	Subsea & Construction	Accommodation	Seismic	Drilling	Floating Production
<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> Has turned very negative Only established operators with balance sheets have exposure TCs getting shorter Heavy demand cuts by Technip, Subsea 7++ 	<ul style="list-style-type: none"> Neutral to negative Limited speculation, contracts driven business TCs got shorter, 10-15% rate reductions Operations mostly linked to fields in production 	<ul style="list-style-type: none"> Very negative Market dominated by 5 players, consolidation ongoing; stacking, lay ups 	<ul style="list-style-type: none"> 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% 	<ul style="list-style-type: none"> Neutral No speculation, only future demand to be impacted
Supply & Anchor Handling	Seabed Installation	Crew Accommodation	Hydrocarbon Exploration	Drilling	Floating Production



Capital Sources - Current Financing Sentiment – who is really cyclical?

Ship finance banks	↓	▪ Banks are pulling back, if not out. Loan portfolios are shrinking; few banks look at new projects; strategies are reassessed
ECAs	↓	      
Bonds		▪ Markets are closed, this also applies to MLPs and Term loan Bs
Sale & Lease Backs	↓	▪ KS financings ? ▪ Chinese leasing  ▪ Lenders want to limit residual risks
PE funds		▪ May consider oversold (?) stocks, look for distressed cases, many are doing their homework, a bit premature?
Share issues		▪ Companies are forced to issue at rock bottom prices

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2

1980s v now – for what it's worth

Parameter	1980s	NOW
Cause to the rise in prices	Oil embargo mid 1970s. Saudi Arabia cuts supply causing high prices and over contracting of offshore NBs	Post oil price drop in 2008 China surges ahead, no shale oil and an industry overly relying on deep water oil resources – "cheap oil is history"
Instrumental in deflating the spike in oil prices	Saudi Arabia opening the pumps, oil price collapses to \$5 in 1985.	Irrational investment exuberance turn sober with excess supply of oil and collapse in values and rates, harsh economic realities kick in. This time Saudi Arabia is desperate to keep market share.
Orderbook/Fleet	High	All time high
Leverage of offshore companies	Moderate	High, highest among the Norwegians, lowest among the US companies
3m USD LIBOR	At 20%+ in 1980, falling	0.6% and probably not rising short term
Banks' position	<ul style="list-style-type: none"> ▪ Carry cost of non performing loans was prohibitive ▪ Bank mgt had more discretionary leverage to find solutions 	<ul style="list-style-type: none"> ▪ Low carry cost allows banks to find "soft" solutions/delaying the pain ▪ Bank mgt has less discretionary ability to find solutions caused by a new regulatory environment
Length of crisis	Around 8 years, a period reflected by Reaganomics, monetary easing lowering interest rates, rising GDP	Likely 7-8 years, a period reflected by sluggish economic growth, deflation risks – which in fact are the biggest downside risks to a medium term oil market recovery
Market characteristics	<ul style="list-style-type: none"> • Mostly shallow water E&P • Regional markets, less migration of vessels – larger inefficiencies 	<ul style="list-style-type: none"> • Mostly deep/ultra deep water E&P • Global markets, impacts feeding right through, enhanced migration arbitraging employment opportunities

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3

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
- 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

Bankruptcies and restructurings, a lot more to come..

Drilling



Subsea



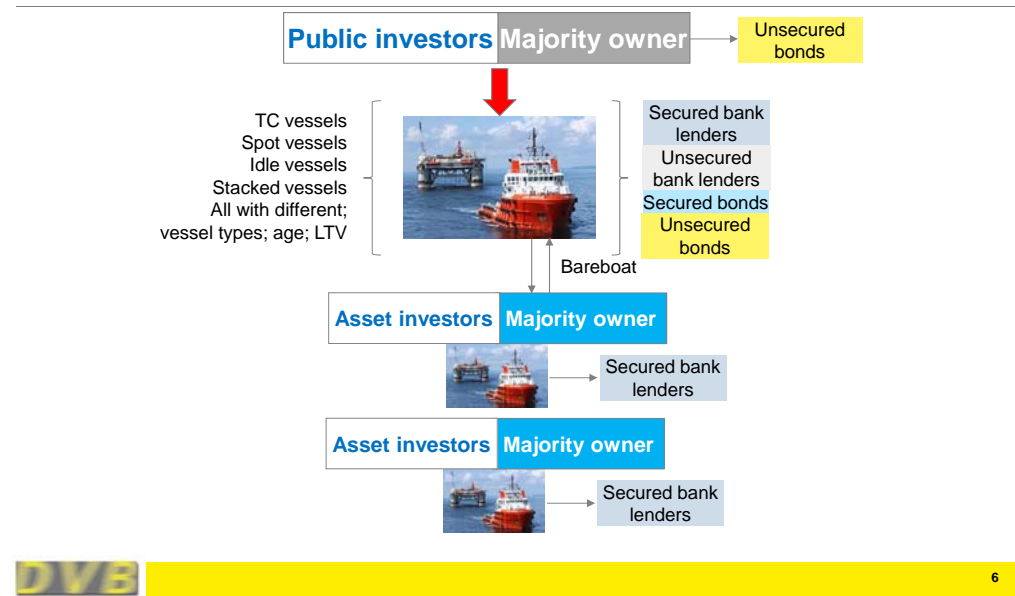
OSVs



In Restructuring



A typical work out case:



The market is adapting but more pain to come

Key take aways	Banks' behavior
<ul style="list-style-type: none"> 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 cabotage and protectionism And then Mexico, Petrobras; blocking..., the perfect storm Most need to be rebalanced to a 30-40% cost reduction level; less demand 	<ul style="list-style-type: none"> Focus on existing clients, how to serve their needs – extend and pretend? Younger vessels are key 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 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 Fewer new projects; difficult to attract finance

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How much leverage is too much?

Key Positives in current company restructurings

- Most companies are overleveraged and has always been
- Bonds converted to equity; bonds redeemed at large hair cuts; bond maturities extended beyond bank debt
- In many cases equity has been strengthened
- Bank debt not (yet) impacted except for deferrals, VMC waivers++
- Conclusion: Derisking and reduction in leverage

But still considerable Risks at hand

- Owners equity is basically lost
- Larger impairments are needed
- Few, if any vessels, are scrapped or leaving the market
- Debt levels still too high
- Insufficient amounts of new equity has been provided
- In several cases bank debt stand at a loss/may be swapped for equity
- Conclusion: We are buying time, if a further deterioration in key markets or a prolonged slump – the real clean up will to start which will have significant consequences

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
- Another 2-3 years correction is needed to clear oil & offshore equipment imbalances

The Offshore Companies

- Owners continue to face significant cash flow reductions, breaches in bank & bond financings, impairments, forced vessel sales; bankruptcies. **Outside capital is desperately needed**

Opportunities

- **Distressed companies/assets; consolidation, although patience and lots of add on capital is needed**

The Banks

- Demand is down, bank financing is contracting
- Concentration risks and stress testing are key issues; LLPs

Thank you for your attention!

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