

NAVIGATOR

October 2017

THE WESTSHORE NORTH SEA REPORT

NEW MONEY

PE firms filling the gaps
the majors have left

SPOT MARKET

Our view on the months to come

BOA JARL

Out of layup and back on spot



WESTSHORE
SHIPBROKERS AS

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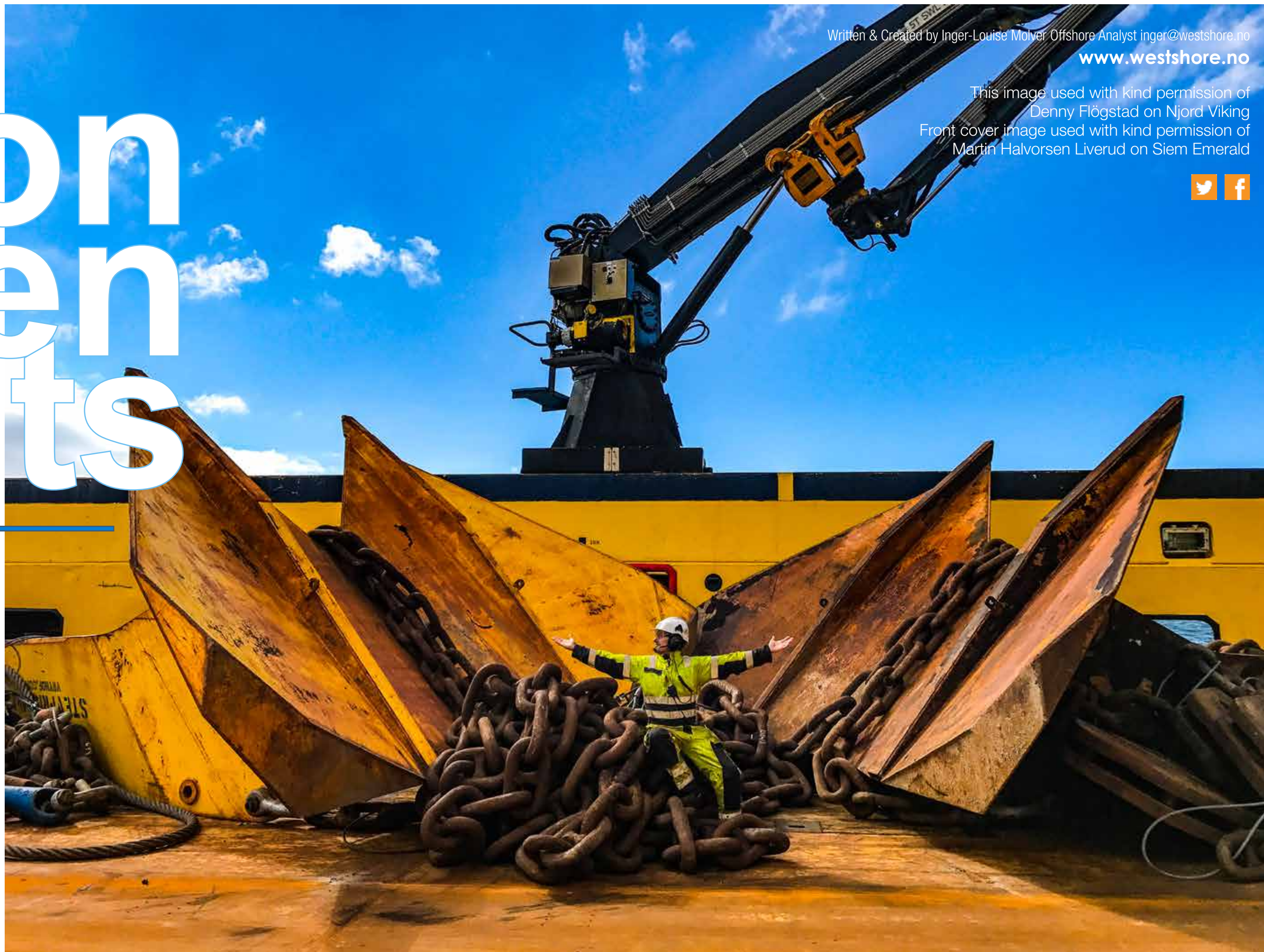
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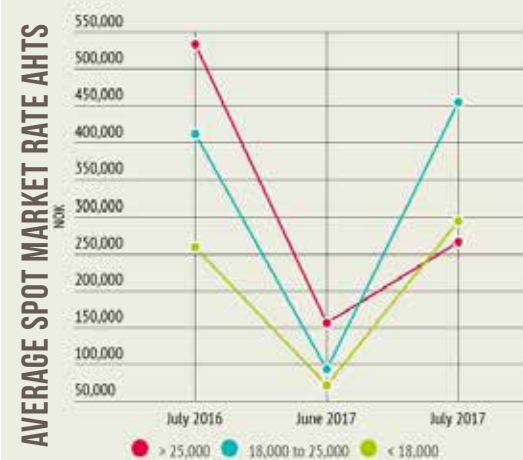
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▲ **69.5%**

Average AHTS utilisation in July

▲ **90%**

Average PSV utilisation in July

	June 2016	June 2017	June 2017	July 2017
Number of supply spot fixtures	49	70	78	53
Number of AHTS fixtures	55	72	38	61

💧 **26**

Rig moves in July 2017

💧 **26**

Rig moves in July 2016



Infogram



JULY

Rig move activity and AHTS fixtures were comfortably up in July as owners were able to secure day rates that were on average above OPEX and in some instances well above that level. As July drew to a close the market tightened significantly allowing a handful of vessels to secure the most lucrative rates for those in the right place at the right time. Magne Viking took the prize for the month's highest rate at GBP 80000. July 2016 saw a bumper number of fixtures and rig moves but this was followed on by one after another after another rigs coming off contract and into layup. Activity this July compared to last year is still down, but the difference is we are hopefully not on the verge of a market crash like we were last year.

For the PSVs, rates were also up though the number of fixtures was down slightly. No fewer than 10 new term fixtures were announced in July and this impacted the tightening supply of PSVs available for spot work. There were several points in the month where the market was sold out and the market was kept tight consistently.



▲ **65.3%**

Average AHTS utilisation in August

▲ **91.7%**

Average PSV utilisation in August

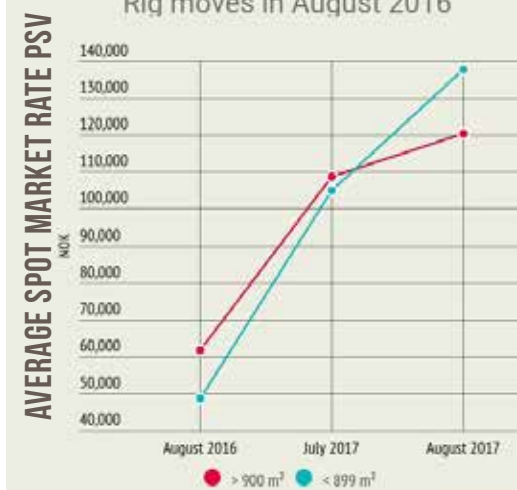
	July 2016	August 2016	July 2017	August 2017
Number of supply spot fixtures	70	81	53	59
Number of AHTS fixtures	72	54	61	67

💧 **17**

Rig moves in August 2017

💧 **22**

Rig moves in August 2016



Infogram



AUGUST

While rig moves slowed down a little in August the activity did not slow as several of the rig moves under taken required three to four vessels a piece. Just what the market needs, large jackup or semi rig moves requiring a decent bit of tonnage to get them shifted. The start of the month saw several vessels secure rates upwards of GBP 40000 as the market stayed tight just long enough for rates to be impacted but things tailed off as August drew to a close.

Utilization for the month stayed upwards of 90% and although the number of fixtures was down on the previous month, in general charterers were opting to secure vessels on longer spot jobs. Statoil for one kept extending its spot tonnage up to its maximum allowable period of 90 days – meaning that for some of those PSVs on hire for spot work to Statoil they were out of the market for months. As a result of the longer spot jobs and tighter market rates went up, the average rate for the PSVs not being this high since September 2013! Surely things are on the up.



▼ **62.4%**

Average AHTS utilisation in September

▼ **90.3%**

Average PSV utilisation in September

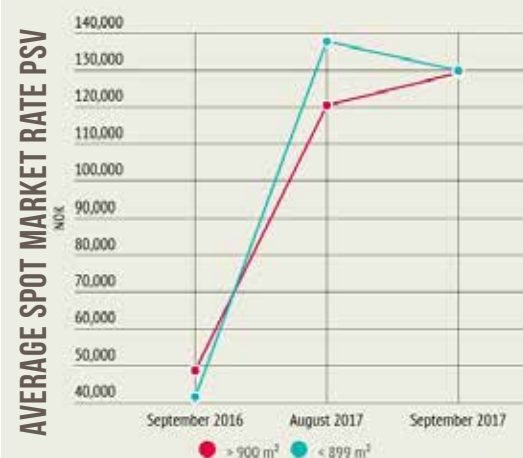
	September 2016	September 2017
Number of supply spot fixtures	62	58
Number of AHTS fixtures	64	44

💧 **18**

Rig moves in September 2017

💧 **24**

Rig moves in September 2016



Infogram



SEPTEMBER

The decent activity we saw in July and August due to several one to two well campaigns initiated by a large spread of operators both new and old are now drawing to a conclusion and the impact on the spot market is starting to be felt. For the AHTS vessels the slowdown in drilling activity coupled with the conclusion of other offshore projects requiring AHTS tonnage meant the market went down several notches. Evident in the reduction in the number of rig moves, the number of fixtures, the rates and also the number of AHTS available to pick up the jobs. Owners will need to keep a cool nerve; this is going to get worse before it gets better.

For the PSVs the solid market on the Norwegian side was evident through most of the month. On the UK side the picture was more mixed as availability grew at points leading rates to drop. It is expected that the slowdown in offshore activity will impact the PSVs too although the impact will likely hit them a little further on down the line.

New Navigator format

Our regular readers may have noticed that our sister publication Brazilian Wave has been changed to Navigator Brazil. The report is available through all the usual channels, Issuu.com and our website but will now be written under the name of Navigator Brazil.

Meanwhile our North Sea publication will soon be published in a blog format. Articles written for our regular North Sea readers will be available via our website and through our social media channels. For the traditional amongst us, the articles will then be collected up and sent out as part of the regular Navigator sent out via email. More details to come, we thank you for your continued feedback and readership.

IMAGE - DENNY FLÖGSTAD
INSTAGRAM - @DENNYFLOEGSTAD

ONE LAST PUSH..

What lies ahead as winter closes in

The market over the past three to four months has been relatively OK. Which is to say there has been a sufficient number of jobs available for the vessels that are currently trading the spot market and the rates that have been paid have been respectable. The pessimism that plagued the market during the worst of this crisis which meant that even when the market tightened momentarily, owners were apprehensive to push rates upwards for fear that market collapse was just round the corner again, seems to have passed. Owners have once again steadied their nerve and are offering their vessels in line with the market dynamics of the day, supply vs demand – bid accordingly. The question is, are we over the worst of this crisis or are we being lulled into a false sense of security soon to be followed by another harsh winter?

Personally I have some serious concerns about parts of the North Sea this winter. While the Norwegian sector continues to prosper albeit gradually, with more contracts being

added to the backlog consistently – we could be in for a shock this winter on the UK side. By the end of December 2017 there will be just five semisubmersible rigs drilling on the UK side. That's a more dramatic drop in the rig count than we saw last year. Though the vessel market is never directly correlated to the rig count, it is a good indicator for the amount of work that will be available for the vessels. The situation looks like it could quickly be reversed as we head into the spring months as requirements for rigs increases significantly and other offshore projects will lead to a quick upturn in demand. But the period between November 2017 and March 2018 could be tough.

One should not be fooled by the number of vessels in layup however. Though it's easy to grab headlines with '150 OSVs still in layup' – it's not true to say that all of these vessels are alike and could return to the market immediately. Of the AHTS vessels in layup (currently 40), 15 of these are out of class and the average time in layup for these 40 vessels is nearly 500 days. Reactivation costs and the costs involved in classing a vessel can run into tens of millions, not all owners are in a position to take that hit.

A challenging winter could push owners to layup more tonnage but I do not think this will be a long term measure for any vessels heading in to lay up, more a temporary solution until spring 2018. Rates will drop over the whole of the North Sea as vessels struggling for work in the UK could head to Norwegian waters which will dilute the possibility of high rates in Norway. Weather always plays a part in the winter months, it will be interesting to see if when weather winds open it is enough to push rates up. My gut feeling is this is the last major hurdle we have to face during the course of this crisis, but we need to brace ourselves because it might not be pretty.





BOA JARL, BACK IN THE MARKET

IMAGES - ANDREAS AASEN,
INSTAGRAM - @AAASEN95

Boa has taken the decision to take the 2015-built Boa Jarl out of lay up to once again trade her on the spot market. For Boa this has been a decision taken in light of an improving spot market and a confidence that the market will continue in a similar trajectory. With a fleet of AHTS vessels of two, having both in layup represents a major strategic decision for the company which it now feels it can alter by having 50% of the fleet out trading. This allows them to build relationships with the operators in the North Sea that have emerged since the downturn and to continue building upon the experience gained since the vessel delivered.

39 still in layup

With Boa Jarl out of layup our list of AHTS vessels still in layup stands at 39 vessels. The average age of these vessels is 12 years old and the average time spent in layup is 501 days. Of the 39 vessels still in layup it is understood that 24 are still in class and 15 have class certificates expired. Only five of the AHTS currently in layup are above 25000 bhp, with 41% below 18000bhp. Mid-sized vessels unsurprisingly comprise the biggest segment with 46% of the layup vessels being between 18000 and 25000 bhp.



New Money

The rise of private equity in the North Sea & the growing list of companies fighting to find their niche.

Asset sales and exits from the region has left the North Sea with a few glaring holes where once the majors presided. The tumultuous few years in the industry has however thrown up opportunities for some companies looking to invest and extract a return from assets that were previously firmly on the back burner for the larger operators. The burning question is however, most of these companies will be looking for an exit strategy at some point down the road. That may be sale of field or asset pre production, thereby avoiding potential for cost and time over runs associated with production projects which have plagued the North Sea historically – although there have been some excellent examples of this being avoided and projects coming in under budget and ahead of time (Wintershall's Maria field being one of them). It could mean sale of field once it is on stream, or further still down the road an IPO could be considered. The past 18 months have resulted in a few but very welcome requirements from the likes of Zennor, Hurricane, Alpha and Wellesley Petroleum seeking rigs, vessels and other services – but are these companies here to stay or should efforts be focused on the majors and mid caps that are still around?

UK

The UK's Oil & Gas Authority has been carefully encouraging investment from newer PE backed entities as a way of maximizing recovery. The decline of what is already a very mature basin may be inevitable in the long run, but maximizing the recovery between now and the transition to a lower carbon economy is possible. It is estimated that by the end of 2018, one third of all UK production will come from post-2016 start-ups. While the majors (across the globe, not just the North Sea) have focused investment in large, proven fields – the appetite to invest in new and unproven reserves has not been there, that's where the PE backed firms can make an impact. In addition, late life field acquisitions have been made more possible by taking a more flexible approach to decommissioning liabilities. The Shell/Chrysaor deal is an



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IMAGE - DENNY FLÖGSTAD
INSTAGRAM - @DENNYFLOEGSTAD

cont...

example of this whereby the previously Shell-owned Armada Hub and J-Area will be further developed to extend production from the field but as part of the deal Shell retains a fixed liability of USD 1bn of the decommissioning costs (post tax).

Closing the gap

Down turns are often followed by a wave of aggressive acquisitions but until the gap closes between what buyers are willing to pay and sellers are willing to sell for, few deals happen. That gap has been closing and is evident through the raft of deals done so far in 2017. Chrysaor picked up USD 3bn of Shell's UK assets at the start of the year while in Norway HitecVison's Point Resources bought up ExxonMobil's Norwegian assets and claimed it had a further NOK 20 billion to invest over the next five years in other offshore projects.

When to jump in

Exit strategies differ, as do strategies concerning what to buy and when to jump in. Wellesley Petroleum and Fortis Petroleum are two companies focusing on the exploration side via geophysical data processing on the Norwegian Sector, both PE-backed. Wellesley emerged on the scene having secured the Deepsea Bergen to drill a well earlier in 2017, the well was declared dry. Azinor Catalyst is in a similar trough but focusing on UK plays. Semisubmersible Ocean Guardian completed a well for the company early September but found no hydrocarbon. An appraisal well will be drilled in Q2 2018 at the Agar Discovery and Plantain Prospect – a rig has yet to be secured.

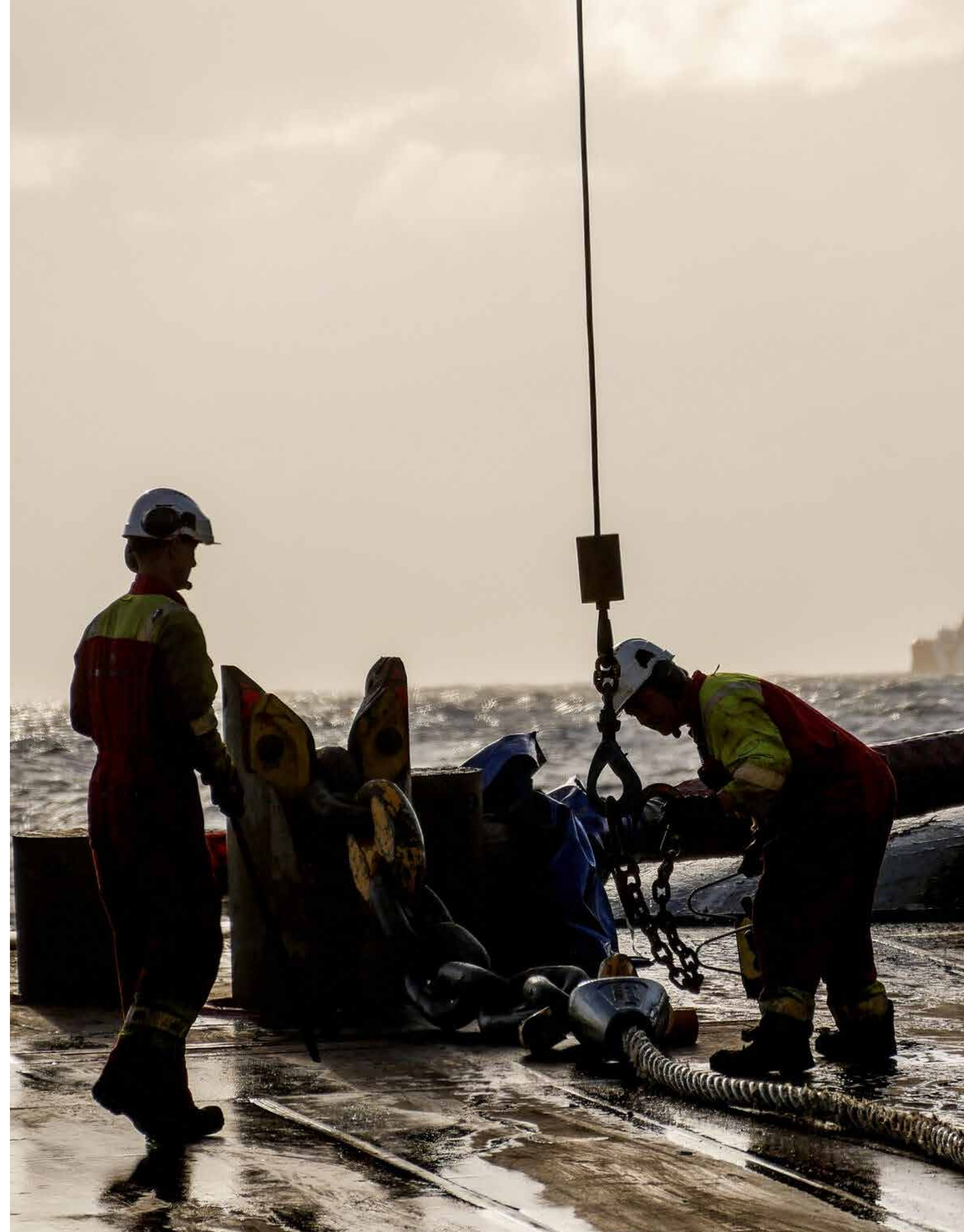
Appraisal, development and production focused companies include OKEA, Zennor Petroleum, Alpha Petroleum, Mime Petroleum and Pandion Energy. These companies are expected to focus on maximizing potential from existing assets by taking advantage of lower costs in the market and developing resources through industry experience. Alpha Petroleum has recently secured the WilPhoenix rig for a lengthy campaign on the Cheviot field starting second half of next year. The field is reported to be one of the largest undeveloped fields on the UK sector. Zennor is out for a semisubmersible to undertake a two well plus options contract at Finlaggan (development wells) commencing mid-2017, Paul B Loyd Jr is a possible candidate. The last category concerns those companies interested in the full upstream cycle. Those companies include Siccar Point, Point

Resources, Chrysaor, Neptune Oil & Gas, DEA and Hurricane Energy. Hurricane will take the Paul B Loyd Jr for two wells at the Lancaster field from April 2018. Chrysaor has a tender out for a two well campaign on the UK sector starting later this year, a rig has yet to be secured. Siccar Point will take West Hercules on a one well campaign at the Cambo field starting April next year.

The majority of the rig contracts (and resultant vessel support contracts) are short in duration, this echoes the tendency amongst most operators at the moment. The days of lengthy contracts are at least on hold. But the spread of operators requiring services is providing a much-needed boost to the industry. Whether all these companies will still be active in the market in ten years time seems unlikely, but for the time being the demand from this new money is more than welcome.

....Down turns are often followed by a wave of aggressive acquisitions but until the gap closes between what buyers are willing to pay and sellers are willing to sell for, few deals happen. That gap has been closing....

IMAGE - DENNY FLÖGSTAD
INSTAGRAM - @DENNYFLOEGSTAD



OSV

Values have remained stable in both the AHTS/AHT and PSV sector this month.

This table shows the monthly % change in value from 1st to the 31st August 2017 for OSV vessels, by year of build.

YEAR OF BUILD	LARGE PSV	MEDIUM PSV	SMALL PSV	SUPER AHTS	MEDIUM AHTS	SMALL AHTS
	DWT	DWT	DWT	BHP	BHP	BHP
2017	+1.8% 5.2k	+1.8% 3.6k	+1.8% 1.7k	+1.4% 24k	+2.2% 8.2k	+2.2% 5.5k
2016	+1.8% 5.2k	+1.8% 3.6k	+1.9% 1.7k	+1.4% 24k	+1.9% 8k	+1.8% 5.2k
2015	+1.7% 5.2k	+1.6% 3.6k	+1.6% 1.7k	+1.4% 24k	+1.3% 8k	+1.3% 5.2k
2014	+1.6% 5.2k	+1.5% 3.4k	+1.5% 1.7k	+1.3% 24k	+0.9% 8k	+0.9% 5.2k
2013	+1.4% 5.1k	+1.5% 3.3k	+1.5% 1.7k	+1.3% 24k	+0.4% 8k	+0.6% 5.2k
2012	+1.4% 4.8k	+1.4% 3.3k	+1.4% 1.7k	+1.3% 24k	+0.3% 8k	+0.0% 5.2k
2011	+1.3% 4.8k	+1.3% 3.3k	+1.3% 1.6k	+1.3% 24k	+0.0% 8k	+0.0% 5.2k
2010	+1.2% 4.8k	+1.2% 3.3k	+1.2% 1.6k	+1.2% 24k	+0.0% 8k	+0.0% 5.1k
2009	+1.1% 4.8k	+1.2% 3.3k	+1.0% 1.6k	+1.2% 24k	+0.0% 8k	+0.0% 5.1k
2008	+1.0% 4.8k	+1.0% 3.3k	+1.2% 1.6k	+1.2% 24k	+0.0% 8k	+0.0% 5.1k
2007	+1.0% 4.8k	+1.0% 3.3k	+0.9% 1.6k	+1.2% 24k	+0.0% 8k	+0.0% 5.1k
2006	+1.0% 4.8k	+0.9% 3.3k	+1.0% 1.6k	+1.1% 24k	+0.0% 8k	+0.0% 5.1k
2005	+1.0% 4.8k	+0.8% 3.3k	+1.2% 1.6k	+1.3% 24k	+0.0% 8k	+0.0% 5k
2004	+1.0% 4.8k	+0.9% 3.3k	+1.4% 1.6k	+1.2% 24k	+0.0% 8k	+5.0% 5k
2003	+0.9% 4.8k	+0.7% 3.3k	+0.8% 1.6k	+1.2% 24k	+0.0% 8k	+0.0% 5k
2002	+0.8% 4.7k	+0.8% 3.3k	+0.9% 1.6k	+1.2% 24k	+0.0% 8k	+0.0% 5k

PSV

Values remained stable this month.

- No PSV sales have taken place this month.

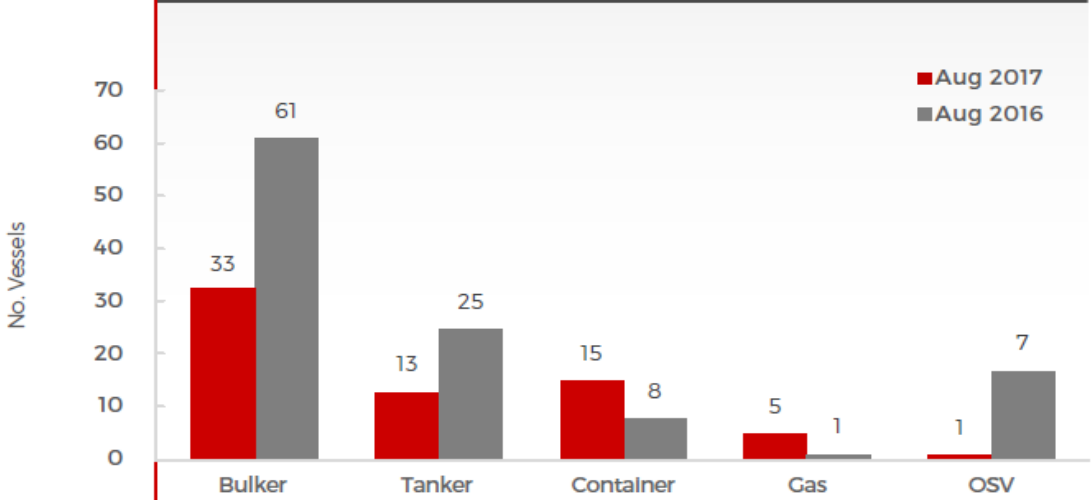
AHTS & AHT

Values remained stable this month.

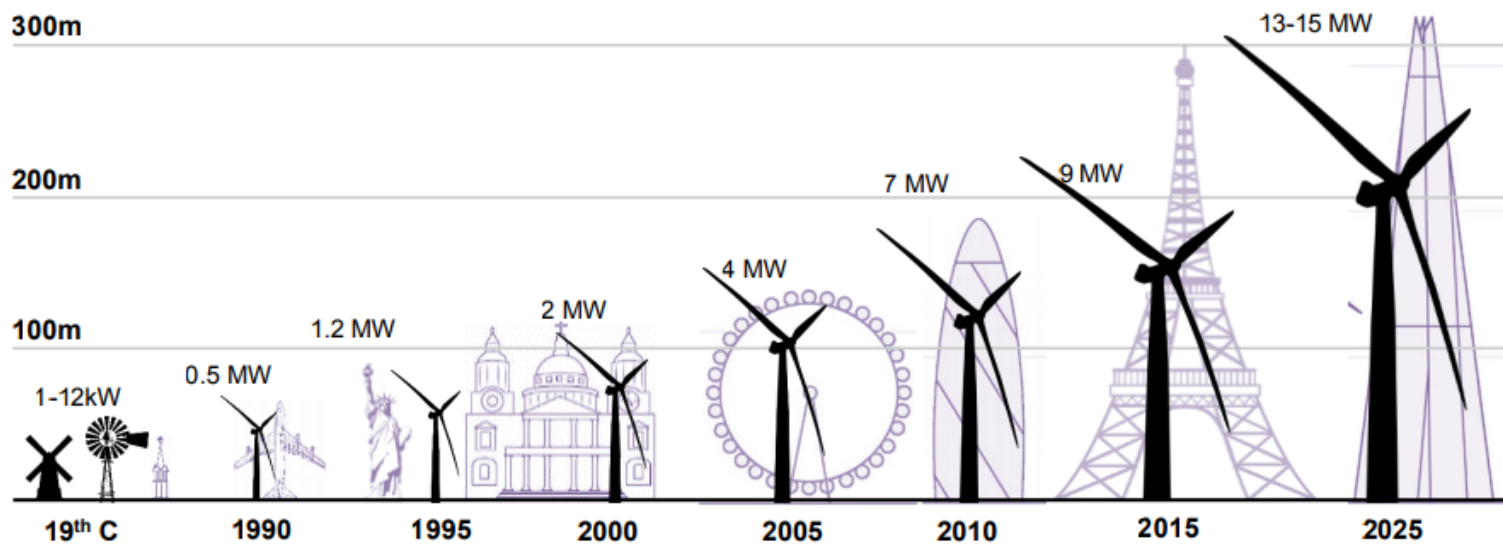
- 1 small AHT sale has taken place this month.
- Lydia D (3,872 BHP, Nov 2011, Neptune Shipyard) sold for an undisclosed price, VV value USD 2.11 mil.

S&P No.

Number of 2nd hand sales taken place in August 2017 vs August 2016.



- Total sales by number count are 67% lower for August 2017 at a total of 67 compared to a total of 112 sales for August 2016.
- Bulker sales are down by 90% for this August.
- Tanker sales are just over half the number this August at 13 sales compared to last August with 25 sales.
- Both Container and Gas sales are higher for August 2017 compared to August 2016.



Did you know that the current wind turbines being installed offshore are bigger than the London eye?

How Big?

Technology advancements in offshore wind are showing no signs of slowing. Latest news from Siemens Gamesa reports that an 8MW turbine will be installed in offshore projects off the coast of France. Siemens joins MHI Vestas with its 8MW turbine which is reported to be able to power up to 8000 homes and in some specific site conditions can generate up to 9MW. The first 8MW turbines were installed offshore UK earlier in 2017 by DONG at the Burbo Bank extension. Commercially, it makes sense to build fewer, larger turbines than several smaller ones. Though the turbines themselves are now gigantic in size, the foundations and shore connections remain similar in scope regardless of the size of the structure on top of it.

For this reason changing out smaller turbines for larger modern ones has become increasingly attractive and will have an impact of vessel demand for vessels capable of supporting installation and maintenance of these substantial structures.

At a recent summit, Bloomberg New Energy Finance estimated that by 2025 technology could have advanced to a point where turbines could generate as much as 13-15 MW of power. With targets being so consistently met and exceeded, perhaps that day will come even sooner.

IMAGE COURTESY OF BLOOMBERG NEW ENERGY FINANCE



FACTS FROM THE FIELD:

- Turbines - 6MW each
- Weight - 12000 tonnes each
- Blades - 154 meter
- Location - 25km off Peterhead
- Can withstand 20 meter waves
- 78 meter below the surface and 253 above
- Will supply 22000 British homes with electricity

IMAGE COURTESY OF CAMILLA VÅGEN SIVERTSEN - CAMMILAVS

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