The Coming Storm

Thursday, 7th May 2020

The Coming Storm

Agenda

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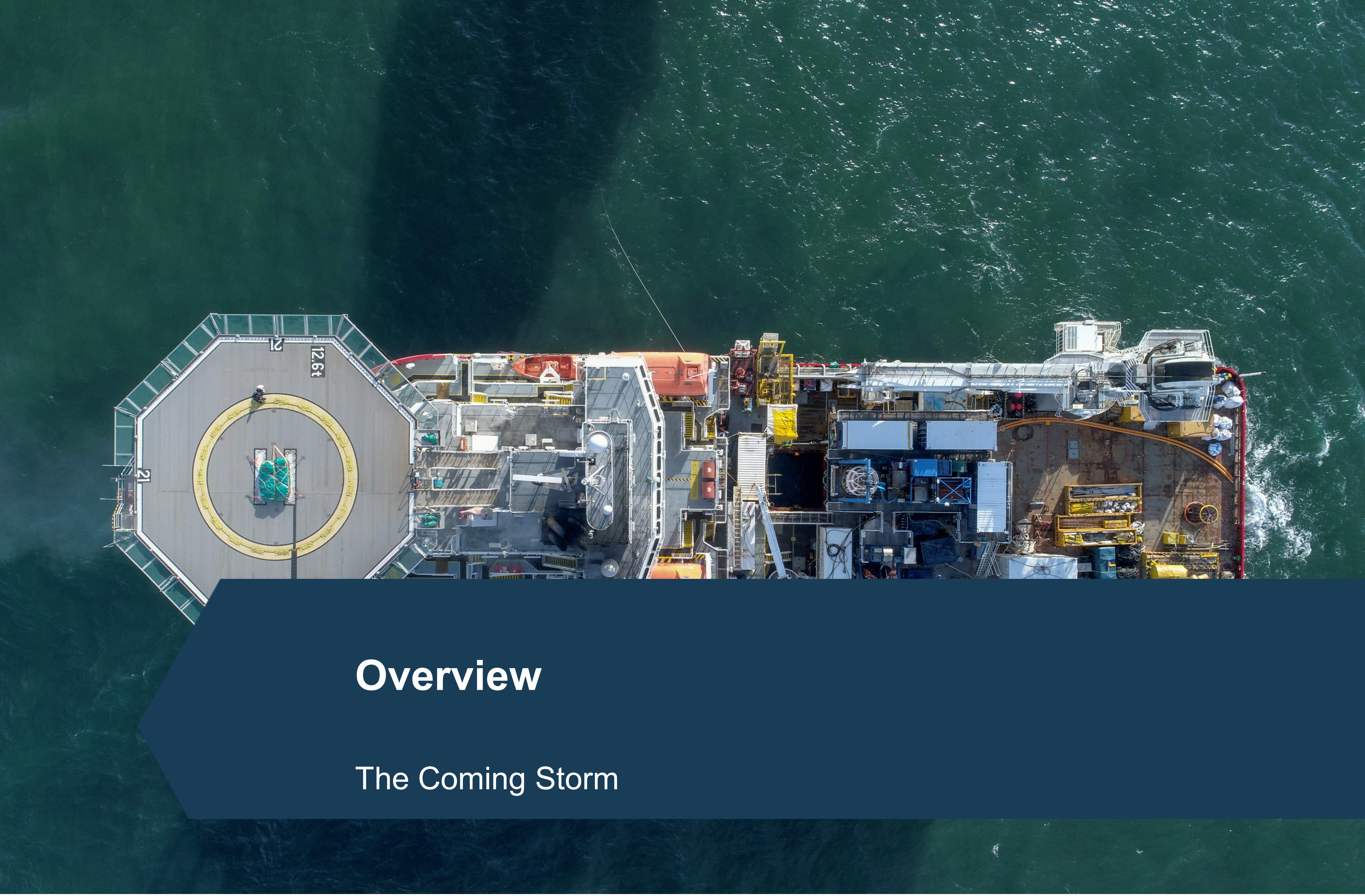

Overview

The Coming Storm

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The offshore sector is set for its second "once in a generation" downturn in six years

- The trifecta of the COVID-19 pandemic, oil price collapse and subsequent downwards revisions to oil company budgets represent an unprecedented challenge for the offshore industry
- Expect oil prices to remain depressed in 2020 as lack of demand outweighs the 9.7 Mn b/d cut to supply from OPEC++ through May and June
- The sector is set for its second "once in a generation" downturn in six years
  - Expect non-committed capex to be deferred, and also delays to committed projects
  - Frontier developments look particularly at risk
  - Increased well shut-ins likely, but set to gather pace in 2021. Decommissioning supply costs have potential to fall by ~20%
- Offshore contractors will face these challenges with weaker defences than in 2014/15
  - Backlogs offer less protection relative to last downturn
  - There are arguably fewer costs to cut in the supply chain
  - Preferred contractors have been selected for a number of pre-FID projects. Contract bookings are potentially at risk

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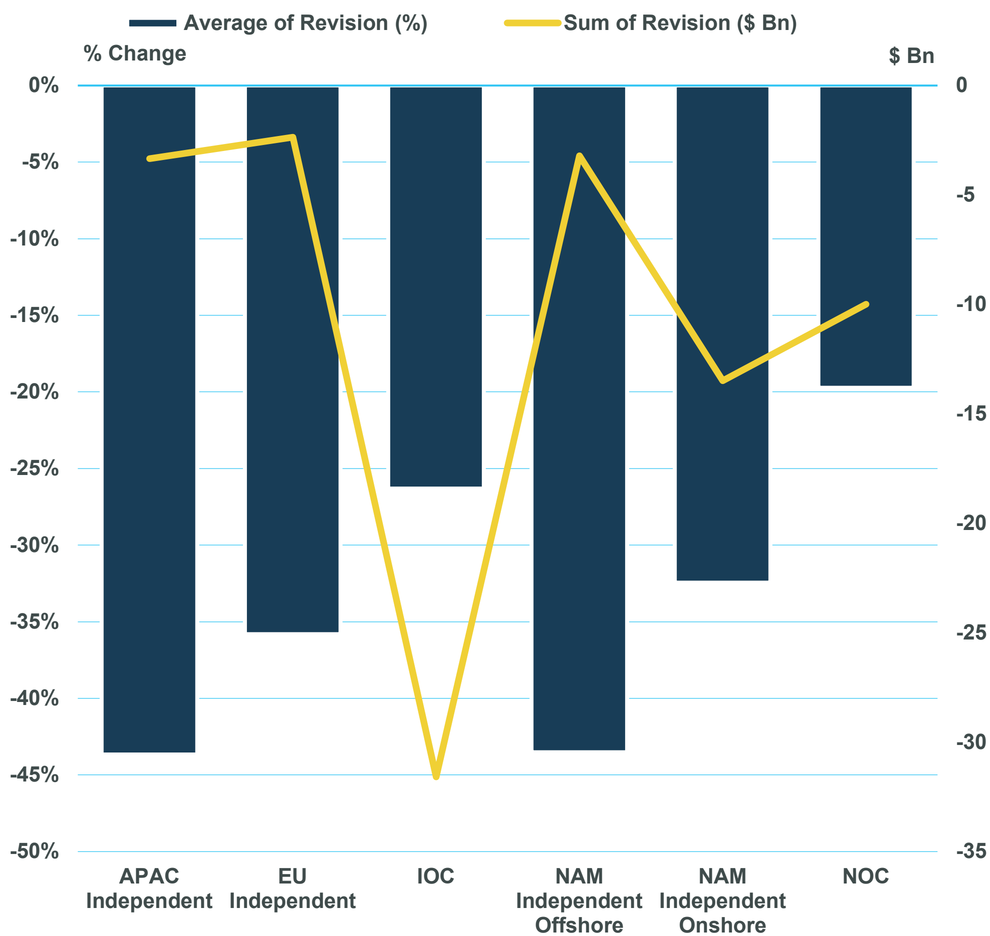
Expect more than $100 Bn of investment to evaporate as oil companies cut capex by ~35%

Aggregated Oil Company 2020 Capex Cuts vs. Prior Guidance



- >60 oil companies have reported revised 2020 capex budgets – cutting an average of 35% versus prior guidance
- We expect more than $100 Bn of investment to be removed from the Energy industry, and offshore is far from immune
- The implications are the cuts are stark. Projects will be delayed
- All discretionary activity not yet commenced will come under significant pressure. Many will be suspended or deferred. Others will be cancelled altogether

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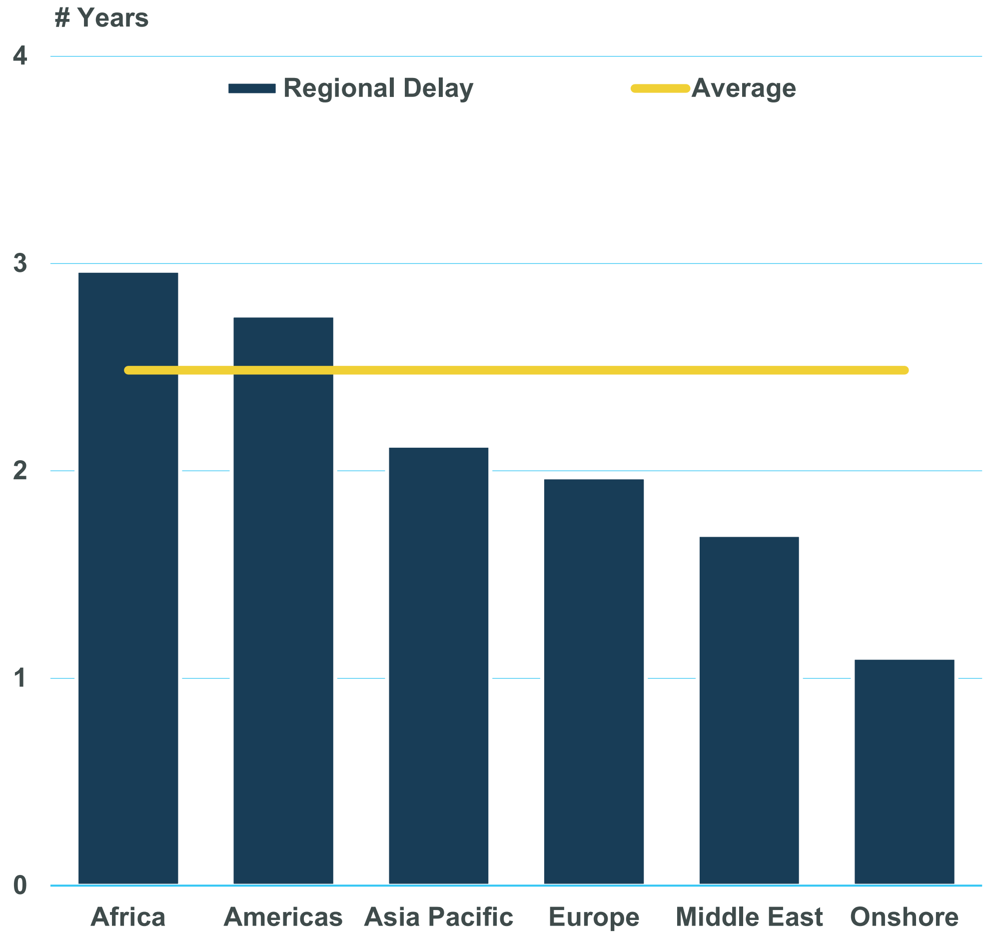
Project delays almost certain, with Africa worst hit and Middle East better positioned

Average Announced Delays



- As well as some projects which are likely to be axed entirely, we expect many developments up for FID this year to be pushed back
- Of those non-sanctioned projects that were due to move forward this year, we now expect an average delay of ~2.5 years.
- In the Middle East, tender deadlines for work off Qatar and Saudi Arabia have moved out, but the region as a whole is likely to be far stronger than the global average, particularly as a number of projects seek to sustain, rather than increase production.

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Saipem have several projects in backlog that look likely to be deferred

Project	Operator	Committed	Contract Status	Contractor	Details
Payara	ExxonMobil	No	**Booked**	Saipem – SURF TechnipFMC - SPS Noble Corp – Development Drilling SBM Offshore - FPSO	Saipem booked ~$600 Mn package in Q4 2019
Rovuma	ExxonMobil	No	Pending	Saipem/Subsea 7 – SURF Baker Hughes – SPS TechnipFMC / Fluor / JGC – Onshore LNG	FID delayed, contractors were performing early stage work
Scarborough	Woodside	No	Engineering Booked	Saipem – Export pipeline Subsea/OneSubsea – SURF/SPS McDermott – semi-sub platform	FID pushed to 2021, FEED contracts awarded in Jan-19 with options to convert
Barossa	Woodside	No	**Booked**	Aker Solutions – Umbilicals Modec – FPSO Subsea 7 – SURF TechnipFMC - SPS NOV – Flexible pipe Allseas – Export pipeline	Pre-FID contracts awarded in 2019, Subsea 7 booked $400 Mn SURF package in Q120
Greater Tortue Phase 1	BP	Yes	**Booked**	Saipem – Breakwater Golar LNG – FLNG TechnipFMC – FPSO McDermott/Baker Hughes – SURF/SPS	Force majeure claimed in April 2020, delays to breakwater and FPSO
Pecan	Aker Energy	No	Pending	Aker Solutions – SPS Subsea 7 – SURF Yinson – FPSO	Yinson's letter of award cancelled
Cambo	Shell/Siccar Point	No	Pending	Baker Hughes – SPS Sembcorp Marine – FPSO	FID deferred until H2 2021

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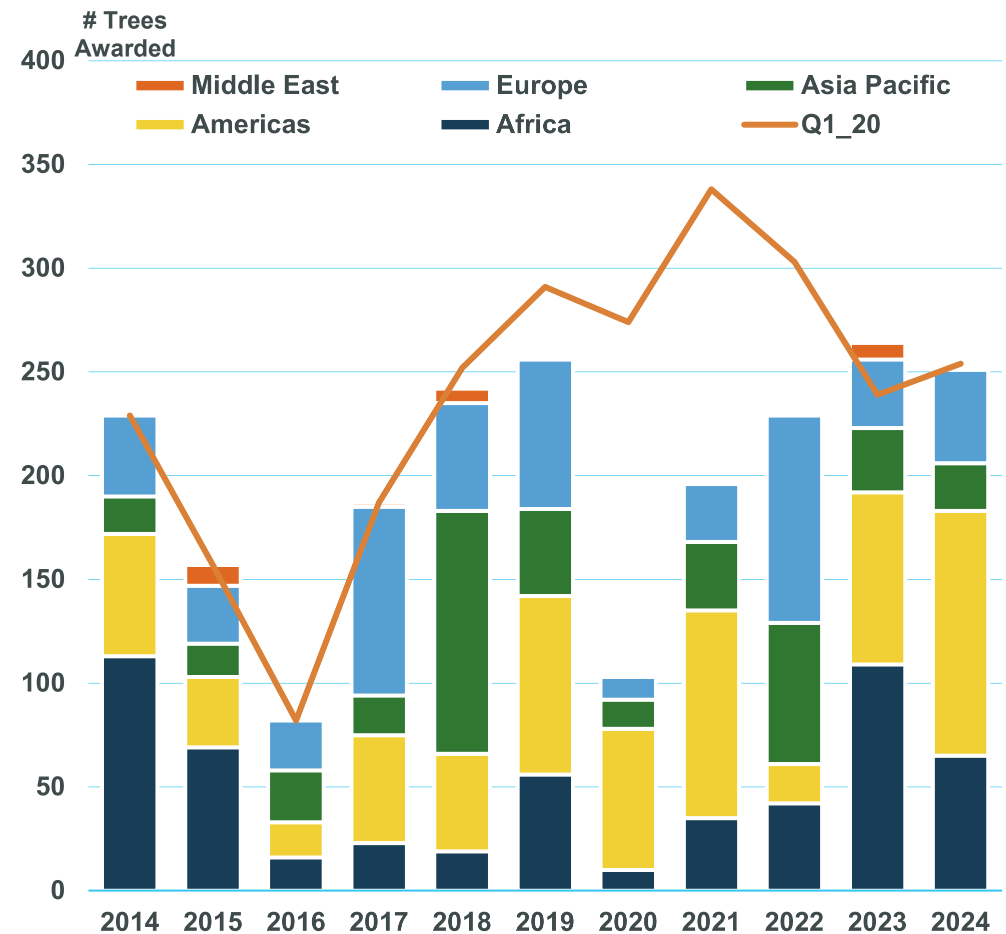
If Payara goes ahead, expect order intake to return to 2015 levels

- We had already been expecting to see a marginal softening in the subsea market in 2020.
- However, rather than a small step back, the market is now facing the possibility of a return to 2016 levels of activity (Exxon pushing Payara to the right would reduce 2020 subsea tree awards to close to 2016)
- 2021/22 will see a recovery, but only by 2023 will award levels return to those in our previous forecast

Subsea Tree Awards by Region, and Relative to our Q1 Forecast

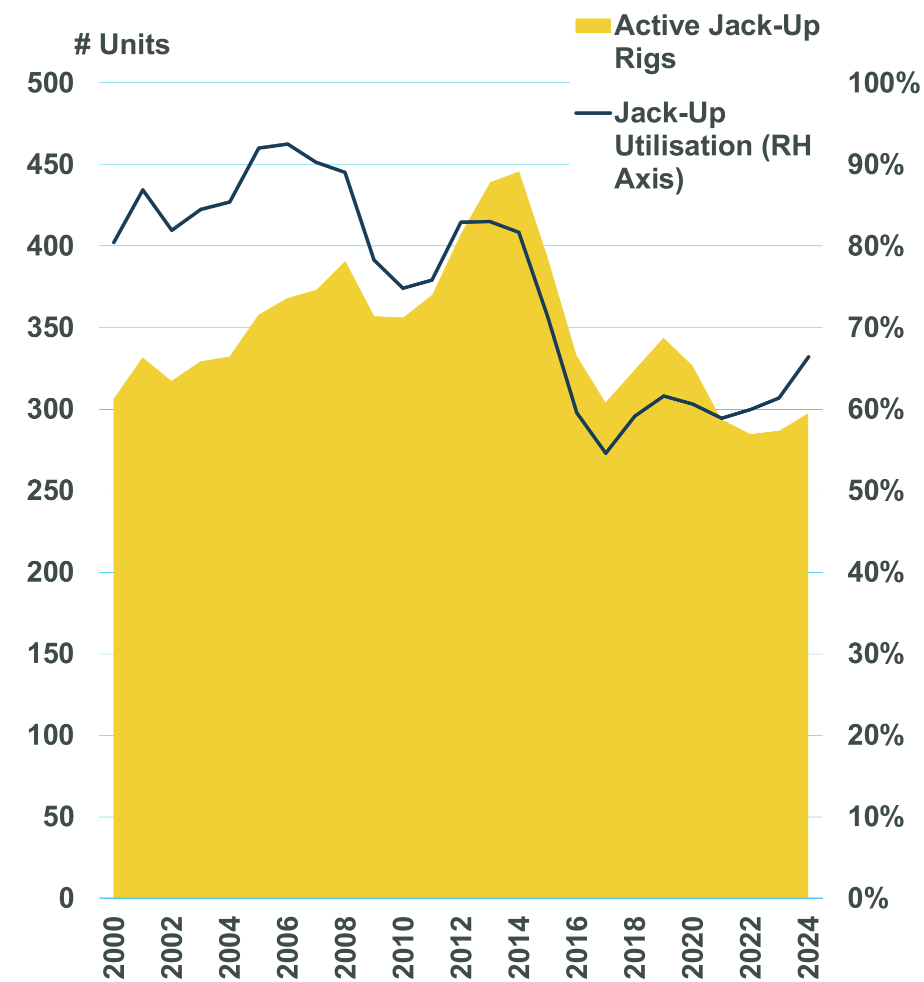


Jack-Up Rig Demand – A Recovery Lost

Active Jack-up rig demand will drop to levels only seen once since 1987

- Heading into 2020, global jack-up utilisation had continued to improve. Contracted rigs had moved from 350 in early 2019 to around 395 by February 2020.
- The number of rig years awarded for new jack-up fixtures had increased by 50% over the course of 2019 and earnings had started to move higher.
- This momentum has been destroyed by the collapse in the oil price. The number of active jack-up drilling rigs will fall below 300 for only the second time since 1987 (with 1999 being the other slump year). Demand will continue to fall through to 2022, before 2023 sees the beginning of a recovery which gathers strength in 2024

Jack-Up Rig Demand and Utilisation

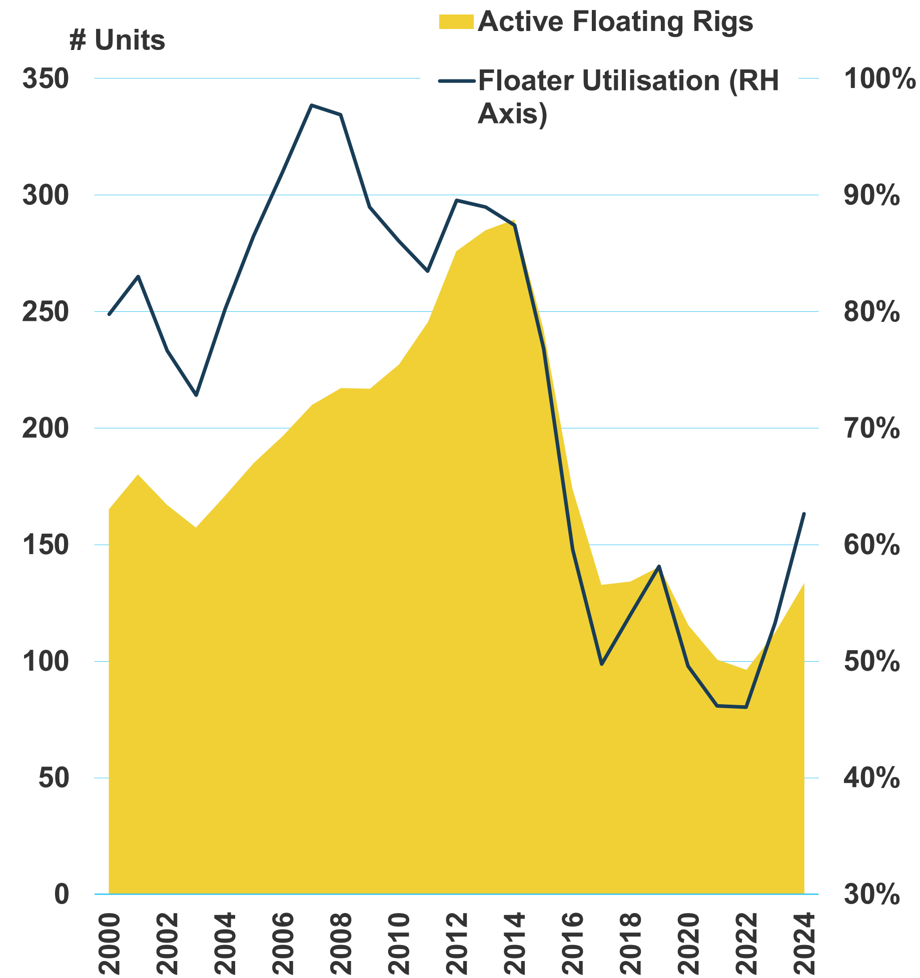


Floating Rigs – This Will Not Be Pleasant

MSI's projected demand for floating rigs is lower than at any point since our records began

- Deepwater floating rigs look challenged. Similar to jack-ups, the positivity that was evident in the early parts of the year has evaporated.
- While leading rates had moved to the $250 k/day mark, but options will now be cancelled and contract durations will shortened.
- To put the scale of floating rig demand destruction in perspective, by the 2022 trough, we expect less than 100 floating rigs to be working. This is less than a third of the number working in 2014, and represents the lowest number of floating rigs working since MSI's records began in 1980
- By 2023 a stronger recovery will begin, but even by 2024 the market will not have recaptured 2019 levels

Floating Rig Demand and Utilisation

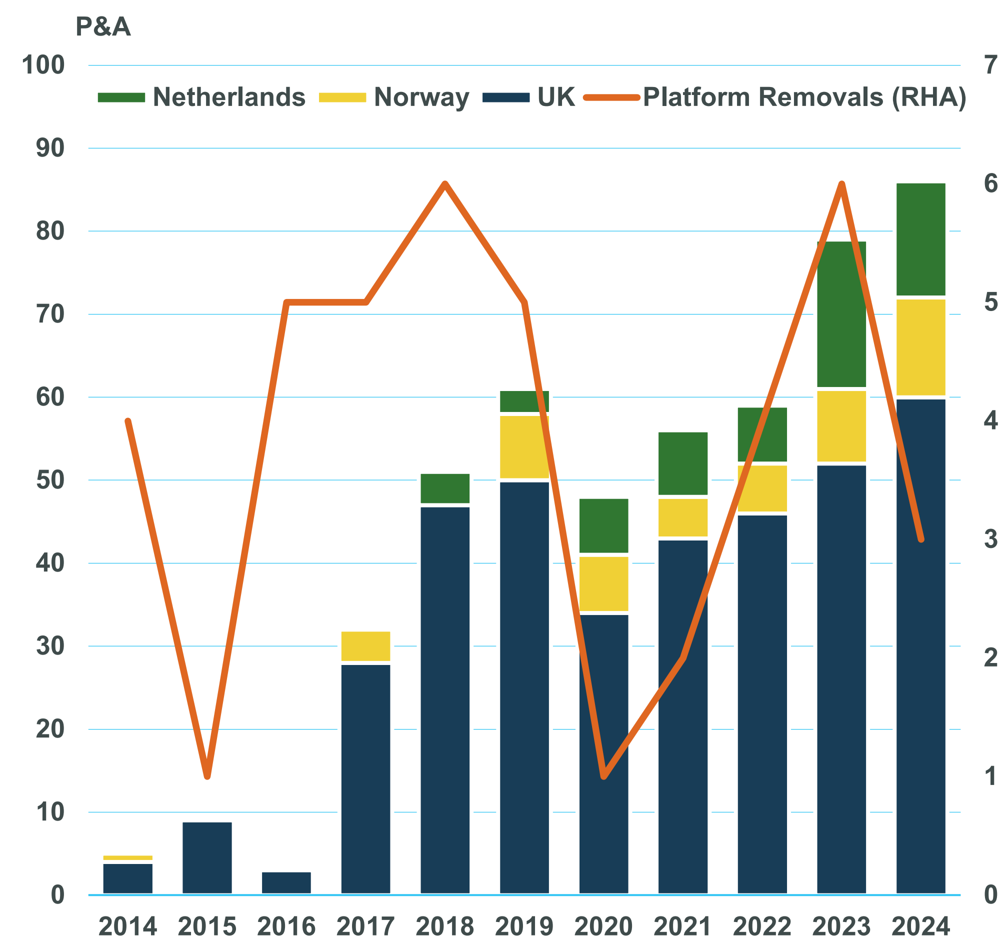


Decom – Shut-ins in sight

Activity set to moderate in 2020, before considerable increase

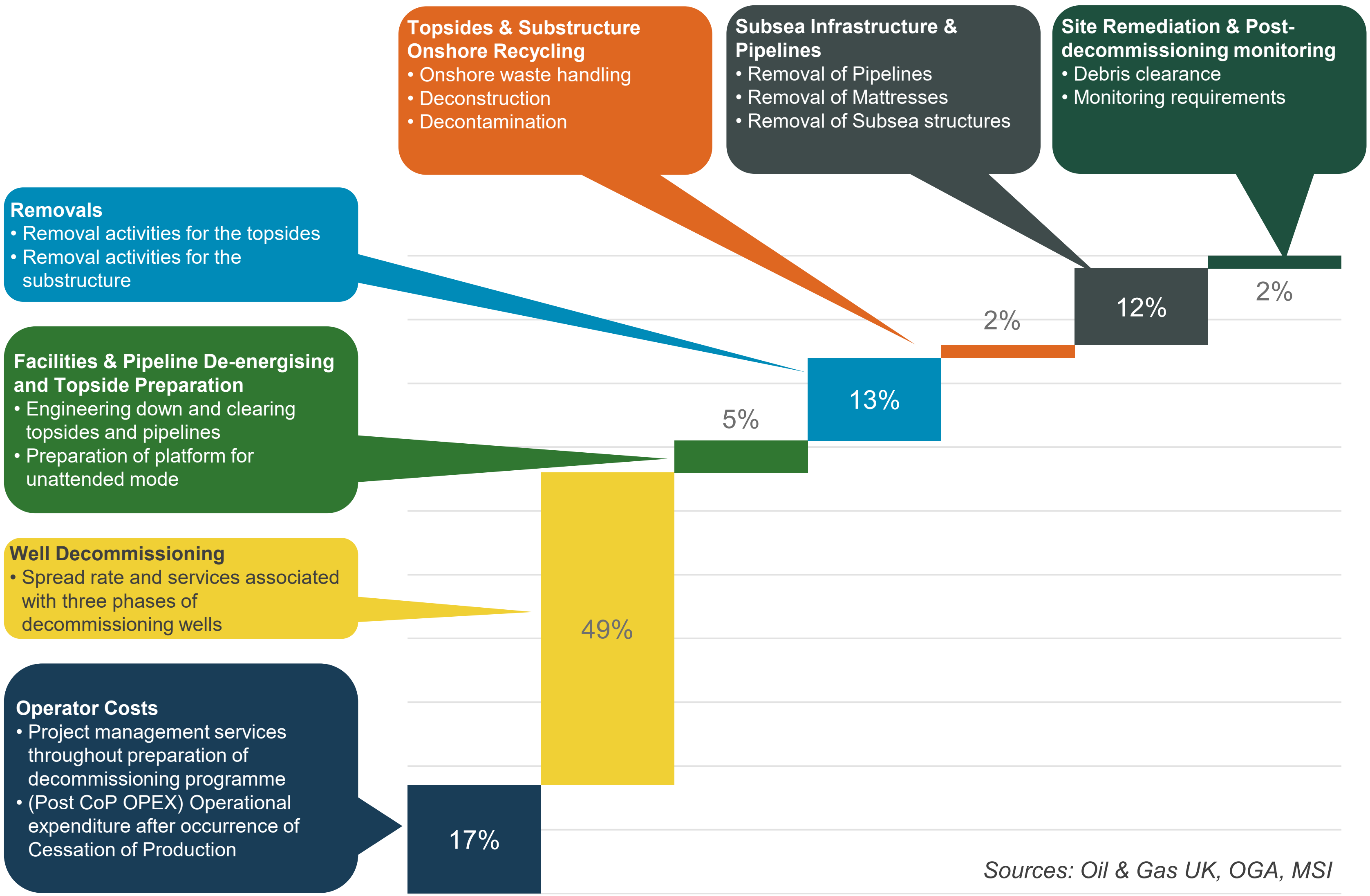
- Despite near-term softening, we expect the UK decommissioning market to report stronger volumes through to 2024
- Larger questions surround the well shut-in market. Production near-term is hedged at prices in excess of current strip, and there is little cause to shut-in, particularly given high cost of safely shutting production
- Medium-term activity likely to increase considerably (including work associated with the Forties shutdown in 2021)
- Higher volumes should be reflected with higher supply chain input costs, but…

Subsea Well P&A Activity and Platform Removals in the North Sea



Expensive Breakdown – Significant Savings to be Had

Well decommissioning represents nearly half of total spend. Expect costs to fall



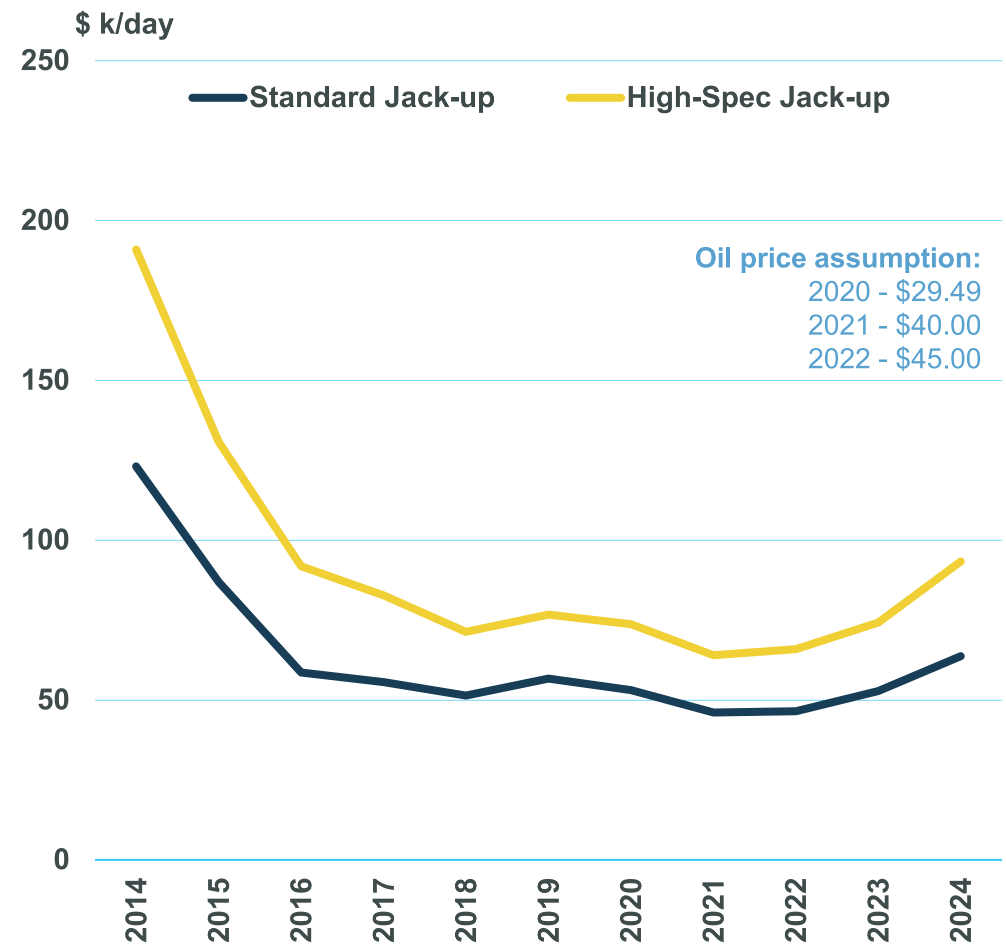
Sources: Oil & Gas UK, OGA, MSI

Expenditure Breakdown – Jack-up rates to fall more than 20%

Owners have little recourse against contract renegotiations

- The key cost driver for decommissioning is set to fall considerably
- At sub-$40 oil, earnings across asset classes are likely to fall below the trough of the prior cycle across drilling types, with OSVs similarly impacted
- We expect jack-up rates to fall around 20% from 2019 levels by 2021, with only anaemic recovery prospects through to 2024.
- We expect similar margin erosion for EPCI contractors, with all sub-sectors of the offshore supply chain set to face significant pricing and activity headwinds near-term

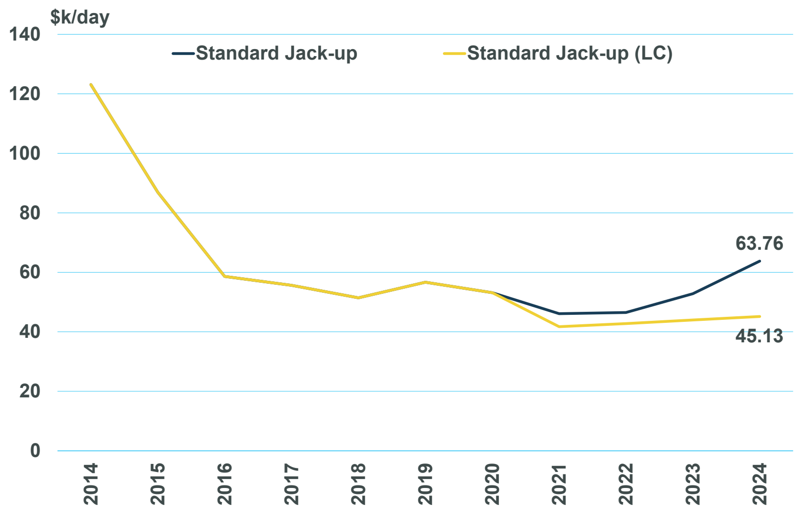
Jack-Up Rig Earnings – Global Average



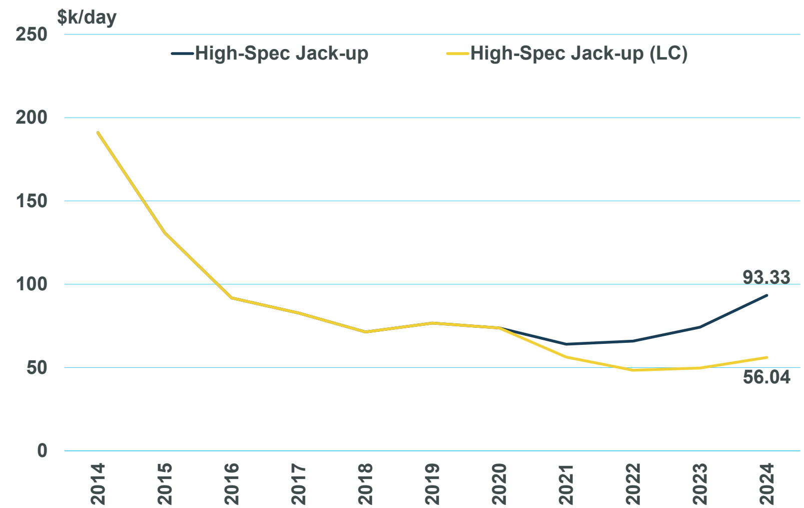
Earnings Sensitivity

If oil prices stay below $40/b, the implications are significant

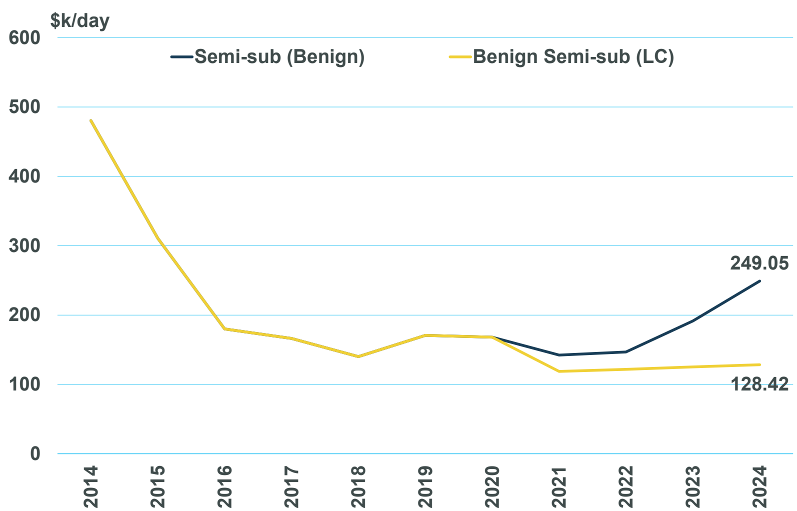
Standard Jack-up Dayrate Sensitivity



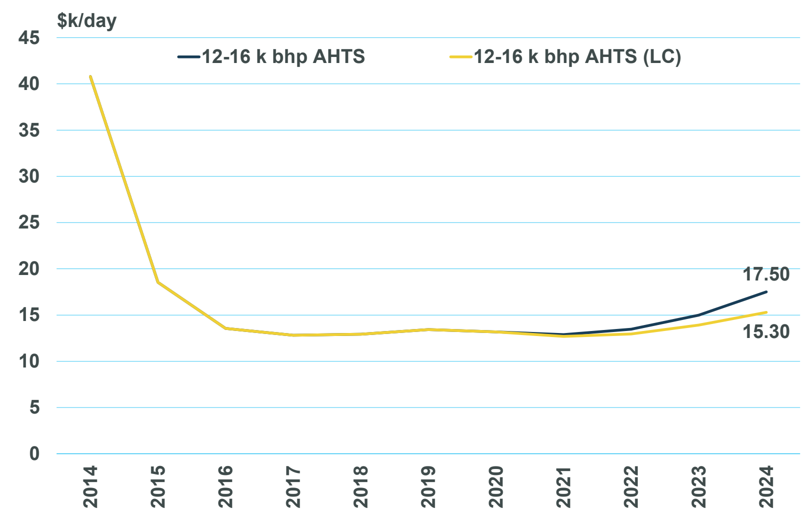
High Spec Jack-up Dayrate Sensitivity



Semi-sub Dayrate Sensitivity



12-16 k bhp AHTS Dayrate Sensitivity



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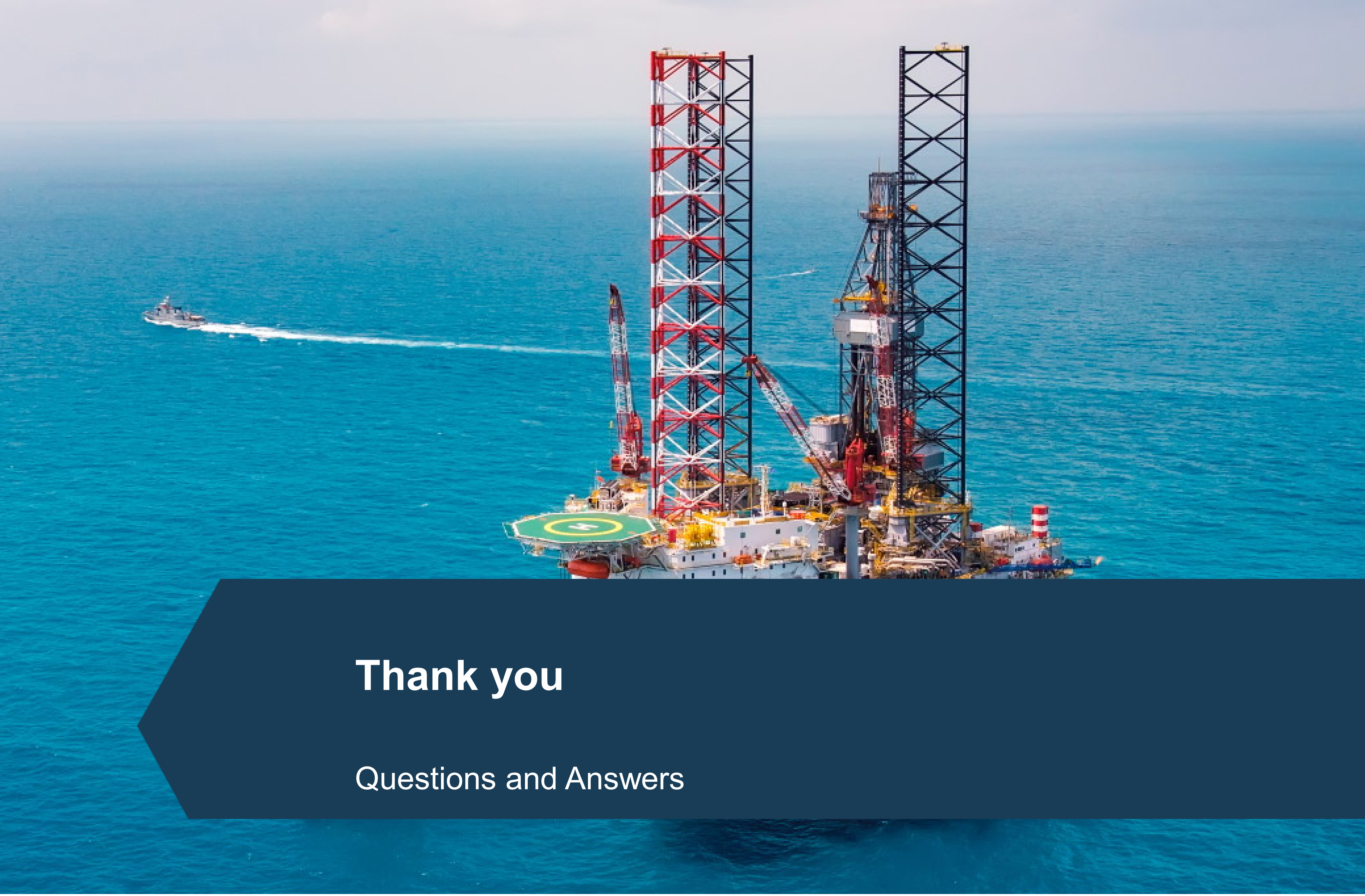

Thank you

Questions and Answers

MSI Offshore Team

James Frew

Director of Consultancy

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- James Frew has more than ten years experience of analysing maritime markets, and takes overall responsibility for MSI's analysis of the container shipping and offshore oil and gas markets. In addition, James takes a lead role in larger bespoke consultancy and research projects across shipping sectors.
- James holds an M.Sc. in International Trade, Finance and Development from the Barcelona Graduate School of Economics, a Graduate Diploma in Economics from Birkbeck College, London and an M.A. in Modern History from the University of Oxford. He is a member of the Baltic Exchange.

Gregory Brown

Associate Director

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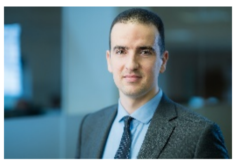
- Gregory leads the development of the Oil and Gas Project Tracker, as well as delivering market consultancy, analysis and commercial modelling to MSI's offshore client base of contractors, operators and the financial community.
- Prior to joining MSI, Gregory led Credit Suisse's European Oilfield Services Equity Research team, having previously covered the sector at HSBC Global Research. In 2008 he received his degree from the University of Surrey's School of Management and was admitted to Association of Surrey with Distinction. He holds Part 4A permission under the FSMA, 2000 and is a member of the Society of Petroleum Engineers.



Dr. Ferenc Pasztor

Senior Offshore Analyst

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- Ferenc is responsible for analysing the offshore oil & gas industry and the related vessel markets and has been developing MSI's offshore support vessel and drilling rig market forecast models. He is involved in bespoke research and consultancy projects and provides valuations for specialised offshore vessels.
- Before taking this role at MSI, Ferenc worked as a post-doctoral researcher at the Commission of Atomic and Alternative Energy (CEA) in France. Ferenc has a Ph.D. in Natural Resources from BOKU, Vienna.

Tom Hurst

Analyst

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- Tom's role covers both offshore market analysis and providing valuations for a range of vessel sectors. He assists in the maintenance of MSI's vessel databases and contributes to the development of offshore models and monitoring S&P activity. He also contributes to ad-hoc consultancy projects.
- Prior to working at MSI, Tom was a data analyst for an electricity distribution company. Tom holds a BSc (Hons) in Mathematics from the University of Warwick.

MSI Background and Disclaimer

For over 30 years, MSI has developed integrated relationships with a diverse client base of financial institutions, ship owners, shipyards, brokers, investors, insurers and equipment and service providers.

MSI's expertise covers a broad range of shipping sectors, providing clients with a combination of sector reports, forecasting models, vessel valuations and bespoke consultancy services.

MSI's team is comprised of professionals with extensive academic credentials, deep industry knowledge and many years experience of delivering successful client projects.

MSI balances analytical power with service flexibility, offering a comprehensive support structure and a sound foundation on which to build investment strategies and monitor/assess exposure to market risks.

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