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Under the skin of Subsea, Engineering and Construction Contracting

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Money's too tight to mention

Even if some are seeing a little improved confidence in the industry, you still can't count on anything in the contemporary subsea market. Bar the need for money and flexible financing sources.

Companies are under intense strain. And without an exact forecast of when things will really change, producing turnaround plans are really only about finding ways to survive rather than having some improved market workload to capture. When contractors have high costs, or grabbed what they thought was easy money at the market peak - or both - then every day the issues get worse and can't be swept under the carpet. Banks have shown some willingness to kick the issue down the road like a can, but that's driven by fear about taking a hit rather than believing in something more substantial.

There's plenty of question-marks, and endless – sometimes turgid – speculation about if EMAS-Chiyoda will survive. No one really knows the answer to that, but the risk is high. Still, Japanese shareholders Chiyoda and NYK letting the contractor go down the drain when they are still pretty new investors, doesn't make much sense.

But, something's going to change. Already Chiyoda and NYK took impairments on the EMAS-Chiyoda holdings, now Ezra the original owner and remaining shareholder has warned of similar issues. Ezra is "assessing the impact of the write-downs" and already anticipates a "downgrade of investments" in the subsea contractor. Ezra has a $170 million intercompany loan outstanding to EMAS-Chiyoda and the suggestion is that might be written down to nothing. The group has $887.2 million of liabilities. Chiyoda has already noted that for EMAS-Chiyoda a "detailed review of the operating strategy" is being conducted and that "current and future profitability will be much lower than planned". Chiyoda anticipates writing down the value of loans to the contractor and "downgrading" the shareholding. The Japanese company puts the risk exposure at something like $333 million.

The problems at EMAS-Chiyoda are obvious and really sting. But, and it is a big but, the company is not backed by venture capitalists that are ready to cut and run. The owners have longer term positions. That's not to say they might pull out and let EMAS-Chiyoda sink, but they all seem to have more than just money invested. Not least for Chiyoda, the Japanese company's reputation. And, if they wanted to run away and forget about the subsea market, wouldn't they have already done? You might almost think someone is waiting for someone else to blink first. The bottom line is that EMAS-Chiyoda might survive, but there's a real chance it won't. And to survive the company might look radically different.

Vessel owners with boats on charter to EMAS-Chiyoda also were biding their time. There was little else they could do, as *FrontRunner* has discussed before. The charter on the Forland-owned Lewek Inspector remains in default. Forland seemed to have been going easy on EMAS-Chiyoda, but now apparently has tired of that process and wants paid. Forland has issued a statutory demand for the NKr 25.4 million owed by EMAS-Chiyoda under Ezra's parent company guarantee. The demand states that if not within three weeks paid, Forland will make a formal winding-up application.

The Lewek Connector's charter from Ocean Yield remains at a standstill. Ezra says restructuring discussions continue, but there are more issues there as April sees Ezra due to make interest payments on S$150 million 4.875% notes.

When companies start heading into financial distress, then things usually get messy in a hurry. Bibby and EMAS-Chiyoda are at loggerheads over work conducted for BHP in Trinidad. Neither party's execution was perfect on the job reportedly wiping out any profits.

Bibby claims EMAS-Chiyoda has invoices outstanding of $18.2 million for the work there with the Bibby Sapphire. Bibby has gone as far as arresting the Lewek Express and AMC Ambassador in an effort to recover the outstanding debts. Presumably variation orders are included, increasing the cost well beyond the original bid. EMAS-Chiyoda is understood to have offered to pay $13 million to Bibby to close the issue, but Bibby rejected that number and is now demanding an arbitration process. ⏮

McDermott gets Amazon flowing

With the deal to buy the Ceona Amazon in the process of formal completion, McDermott is getting the ship moving in double quick time.

The vessel has been renamed to just "Amazon" and is about to sail from Greenock with the destination understood to be the Middle East. The intention, for now, appears to be to conduct minimal modifications to the ship, and just use for general, and at that relatively simple, construction support tasks.

The longer term plan may be different. Market sources say McDermott has been looking at a heavy modification programme that could cost up to $100 million. That could include a deepwater flowline reel and more pipelay equipment besides.

McDermott can do that economically because the Amazon sale price is so cheap. As close to an out and out distress sale as this phase of the subsea market has seen. *FrontRunner* understands the sale price is somewhere between $50 million and $60 million.

The German banks that owned the ship had been looking for $80 million to $100 million, but no one was going to pay that even though the build budget had been as much as $350 million. Another major subsea construction contractor had been after the Amazon as well but was offering lower at someplace between $40 million and $50 million. McDermott is thought to have passed on taking the Amazon's never installed pipelay equipment.

Given that McDermott can apparently use the Amazon straight away on traditional offshore construction work, the deal looks better and better. Others would have only bought the ship and then for years had it sit idle while attempts to secure work were in progress. So McDermott can keep the ship working and earning some revenues while further plans for the ship are drawn up.

Given that many of the current McDermott top men came from Technip, and particularly Technip in the Gulf of Mexico, one can imagine that they'd like a like-for-like competitor to Technip's Deep Blue ultra deepwater installation spread. And don't forget these days the Deep Blue is hardly a spring chicken. As long ago as 2001 the Deep Blue came into service and sources that were close to the scene then suggest corners were cut during the delivery process.

Even then the price of the Deep Blue was put as high as $193 million, but again sources that should know say the real price was much more like $236 million. In any case, the Deep Blue isn't far off 20 years old, and McDermott could come up with a brand-new version at a bargain basement price.

In the background to all that, McDermott seems to be back thinking that looking at the North Sea market, yet again, might be worthwhile. The contractor is believed to have visited several operators and suggested that it might look at North Sea construction work if the job was right. And, the DLV-2000 seems to have been mentioned as a potential support spread for decommissioning work.

North Sea back to two

That's a nice enough idea, but McDermott has teased North Sea clients so often that few will be ready to accept it this time, unless the presence is ramped up and appears both serious and committed. Plus, there's been an interesting effect of the North Sea market's softness. All the rigid flowline work in the North, what there is of it, has consolidated back to Subsea 7 and Technip.

When all the prices are on the floor, there's no need for clients to go with something different. If all the prices are the same, and incredibly low, then clients will go for the biggest, most established players. There's no need to support competition, but clients will still like to have as many on the bid list as possible, to keep the perception of competition high, and therefore the prices and margins right down. Contractors can't just always be bidding work for no results. All tendering exercises have significant costs associated. ⏮

Topaz polished

Bibby's keeping the Volstad-owned DSV Bibby Topaz. No real surprise there. Taking a decision to release the vessel would likely have been too bold a decision for a well-regarded ship, and playing the field for the replacement not as easy as it sounds.

However, the new deal on the Topaz is very different. More like a seasonal or semi charter. Previously, Bibby was paying for the vessel on a year-round basis. The time-charter rate was something like $45,000 a day with a separate bareboat charge for the dive system so that Bibby provided the system maintenance personnel.

Conceivably if the vessel had been released Bibby might have been able to ask for the dive system to be removed. Volstad was responsible for the original integration of the system, but Bibby had covered some, or even most of the cost, of the original equipment purchase.

The new deal is not year-round. Rather Bibby says the charter is "based on mutual sharing of risk and reward". That's a polite way to say Bibby won't be paying every day. The reward for Volstad would be that if Bibby finds additional work, then Volstad will get more dayrate paid.

Effectively, Bibby is thought paying for a guaranteed 200 or 250 days a year with first right of refusal on the vessel outside of that period. The new arrangement means to the end of 2019 Bibby has the vessel under firm control with to the end of 2024 more options available.

The rate is dressed up as "reflecting the current market environment". While that could mean anything, *FrontRunner* understands the new rate is somewhere in the $35,000 to $40,000 range.

Volstad and the associated bondholders had little choice but to accept whatever deal Bibby threw on the table. Any attempt to play hardball would have just left the ship idle, and possibly un-

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Toisa goes for Chapter-11 route in restructuring move

Being an independent vessel owner in the current soft subsea market is tough. Even more tough if you're an owner with a reputation for being litigious and have been in fights with many of the market players. That leads to lots of boats sitting idle and contractors not having "difficult" owners at the top of the list to fix when there are requirements to be filled.

Toisa fits that description better than any other offshore vessel owner. Therefore, the news of apparent financial distress at Tosia has been met with glee from some corners of the market. Other parts of the market were stunned by the news that Tosia had entered Chapter-11. Even with lots of ships idle, and an extremely wealthy final owner in Gregory Calimanopolous, the move is a surprise.

Maybe that misses the point. Toisa's principle has been through all sorts of changes in all sorts of parts of the shipping markets. Toisa grew out of a bankrupt shipping company and started all over again with just one ship. So, that's a much deeper experience of distressed shipping market than probably anyone else in the offshore market has. And a much more cogent understanding of what has to be done with financing to survive. Going for bankruptcy could be the way to force all lenders to the table and accept harsh reality, and Toisa could well end up effectively buying back the fleet at distressed prices.

For now the Toisa Ltd and Toisa Horizon companies have filed for voluntary Chapter-11 bankruptcy protection. Management company Sealion is not affected although still 100% Toisa owned. All the Toisa ships are covered by the move. Both the offshore ships, tankers and bulk carriers. Two Gulfstream private jets are thrown in for good measure.

Total Toisa liabilities are indicated as $1.05 billion. The major creditors include $121.9 million to Danish Ship Finance secured on three supply vessels, two tankers and two bulkers; $115 million to DnB secured on three tankers; $114.6 million to ING secured by the ROV support vessel Toisa Warrior, two PSVs and five bulkers; $99.5 million to Citibank secured on three supply boats and ROVSV Toisa Wave; and $82.3 million due to BNP Paribas secured by the DSVs Toisa Pegasus and Toisa Paladin.

The Sealion Amazonia Brazilian-built and flagged ROV support vessel is not included. That ship is owned by Sealion Brazil. Originally, that was 50% owned with Petroserv, but that is also now 100% Toisa controlled. Unpaid principle on the Amazonia is still involved , but is $8.4 million.

Historically, Toisa is thought to have maintained low gearing. Some of the Toisa ships have very low lending outstanding, if any. However, as recently as 2014, many of the Toisa boats have been refinanced. In recent weeks the pressure on finance, either what Toisa can or wants to pay on loans, has obviously built up. In December, Citi Group arrested the bulk carrier United Journey for unpaid loans and other financiers have issued acceleration and demand notices.

Toisa hopes the Chapter-11 process will allow for a "single forum" to complete the lender discussions while "sufficient liquidity" is in hand to support on-going day-to-day operations. The owner hopes to "emerge expeditiously from Chapter-11 as a strong and viable business".

Toisa still has the matter of the Toisa Patrokolos newbuild to sort out. That boat is 100% complete and sitting unloved at Hyundai's yard. Tosia refused to take delivery. The get-out-of-jail card played was late delivery. But the dispute remains on-going and has gone to arbitration. Toisa believes some $90 million is available as a refund on the Patrokolos.

Hyundai obviously thinks otherwise. While the built cost of the Patrokolos was never formally confirmed, the vessel is big at 150 metres long and chunky with a 900 tonne crane. *FrontRunner* understands the order value there was a considerable $240 million. So no wonder the dispute is intense as the yard has a lot to lose. That would have been the cost of the ship at the peak of the market. Now the build number would be at least 30% or more lower, and the yard would likely have to discount much further to get the vessel sold.

Fight with Hyundai rumbles on

The vessel being late is normally not seen as a strong enough reason for an order being cancelled, especially if the hull is floating and the ship is considered in an outfitting stage. Often in that scenario the arbitration will side with the yard. How the Toisa and Hyundai situation shakes out could be particularly interesting. Especially as plenty of other owners are looking to walk away from late newbuild deliveries.

Toisa still has three other subsea support newbuilds. One is a North Sea class DSV in China. Originally, that was expected to be a 2017 delivery – now 2019 seems to have been pencilled in. Effectively completion has been slowed down as the ship is well advanced. Then there's also two ROV support newbuilds in China. The delivery dates there have also slipped, but what the new schedules are is unclear. How the newbuilds will be dealt with under the Chapter-11 scheme as yet isn't clear. ⏮

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New Study: Looking for headache cure

There's always tidying up to do. After the mother and father of all bender parties, in the morning someone must tidy up. What looks great when the glasses were clinking, looks very different in the hard light of a new day when the house is trashed. Especially when someone must find an emergency glazier and figure out who the guy asleep in the garden-hedge is.

The subsea market still has the thumping headache of a biblical proportioned hangover. That has immediate consequences, more than just trying to find the Alka-Seltzer. The drivers of the next market swing are already set.

The recovery will take a long time though. There's no easy switch that can be flicked that fixes this industry. Putting on your favourite music will not just get everyone dancing.

It's always darkest before dawn. The subsea market is easy to apply clichés to, but then the immediate issues of the industry are clichés in themselves.

An oil price spike is inevitable. The question is when. That will mean subsea market demand does turn, but demand alone will not be enough to turn the industry's frown upside down. Oversupply runs so deep and is so overbearing, that a demand hike won't be enough, something must happen on the supply side too. More demand would help, and the signs of green shoots maybe germinating are there.

For contractors and vessel owners, survival is the immediate focus. Money is paramount. Money to keep going. And accounting for all the money already spent on assets that are now worth much less than expected. Get ready for that to mean all sorts of changes are forced on the market.

Even if the market hasn't quite bottomed-out, confidence and attitude can still change. All that takes is a few big projects out to bid, and oil companies starting to move back into a mode where spending is committed to. In the meantime, utilisation is at historically low levels, and things couldn't look much more glum and grim. Yet, oil companies will have to replace falling production and shrinking reserves. Come time, spending will kick into gear again.

Strategic Offshore Research's definitive annual Global Subsea Market to 2021 report tells you what you really need to know about the market.

All the needless noise and wailing of the industry is stripped away for straight to the point answers. The report gives you the brass-tacks of where the market is, and is going. With the market tougher than ever before, being aware of what the issues and risks are has never been more vital.

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Immediate DSV market is bleak

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marketable if Bibby had started playing tricks over the dive system. Even with that said, sources close to the scene suggest that Volstad has a termination clause if worries about Bibby's financial situation emerge.

The parent company Bibby Line is understood to always flatly refuse to give any parent company guarantees as well. The boat might have a home, but Volstad still has a good deal of associated risk. In this brave new subsea world, no company is safe.

The thing is though, is there enough work for the vessel. Bibby already has both the Polaris and Topaz working in the North Sea. The Bibby Sapphire is idle in the Gulf of Mexico and might end up being forced back to the North Sea due to a lack of international opportunities. For now locating the vessel in US waters is really about fleet management. Both demand and the rates available there do not justify a vessel of that quality being in the region.

In this market, finding work for two DSVs when Subsea 7 and Technip are being aggressive would be hard enough, three would be very tough. Especially with the former Harkand DSVs still skulking around wanting to get back in the game, and Boskalis nibbling away at sat diving too. ⏮