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Editor: Ian McIntosh

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FrontRunner
Under the skin of Subsea, Engineering and Construction Contracting

STRATEGIC OFFSHORE RESEARCH

EMAS/Ezra demolition derby

EMAS and Ezra continue to look like car-crash TV stars. EMAS-Chiyoda is under Chapter-11 administration and thanks to parent company guarantee commitments, now so is Ezra Holdings. Ezra appears to have had a swift US registration process with the aim of US bankruptcy protection being preferable to doing the same in Singapore.

How any of the companies in the group can emerge from the process is distinctly murky. Subsea 7 and Chiyoda are already providing short-term financing to EMAS-Chiyoda, but that seems to be about cherry-picking off what they might want rather than providing a definitive long-term solution.

That's even clearer as the Chapter-11 court is proceeding with a bidding process to sell the EMAS-Chiyoda pipeline spoolbase at Ingleside in Texas. That facility was originally owned by Helix that had provided seller finance to the Singapore outfit. June 7th is the deadline for the Ingleside bids for an end of June sale completion.

Obviously, Subsea 7 wants the spoolbase and is acting as a "stalking horse" bidder for the sales process. Subsea 7's bid is already recorded as $14.85 million. That bid can still be increased.

The problems for EMAS-Chiyoda have got so deep, and the sums involved so vast, that parent company Ezra is in a deep, dark hole as well. Ezra has exposure to $900 million of parent company guarantees from EMAS-Chiyoda and has had to go the Chapter-11 route as well to have any measure of protection from unpaid debts. Those owed now only stand the prospect of getting back a fraction of what is outstanding. And there's plenty of them besides just the parent company guarantees. At the Ezra level, some $272 million of unsecured loans are held with DBS, OCBC

Ezra puts a brave face on the bankruptcy situation, even making it sound normal. In internal memos, Ezra says the move has "no immediate impact on day-to-day operations" and just says the move is simply to allow "financial and operational restructuring". Of course it is.

Court actions are stacking up against EMAS-Chiyoda. Ezra notes the VT Halter Marine yard has commenced a civil action for a $3.3 million claim. Welding company Serimax is also claiming $4.4 million. Both are pursuing the Ezra guarantees too.

EMAS-Chiyoda's Chapter 11 process is all about trying to find a way to survive. As such the contractor has asked the bankruptcy court to terminate several charter arrangements in an effort to save at least $342 million in charter payment commitments. EMAS-Chiyoda wants to cancel arrangements on the Lewek Champion barge, support vessel AMC Ambassador, and Lewek Express flowline spread.

The current Lewek Constellation charter would also be cancelled but "alternative chartering arrangements" are agreed to keep that vessel in the EMAS-Chiyoda camp.

EMAS-Chiyoda also had a contract with Noble Israel for use of the Lewek Falcon cancelled as that deal is now seen as "burdensome". That's caused some headaches for the operator involved, as the Deep Cygnus from Canyon has had to mobilise from the North Sea for the latest phase of work, even though only one week is the actual on location duration.

Also applied for cancellation was a subcontract from Hyundai/SL for pipeline and fibre optic cable installation for the Al Zour refinery in Kuwait.

The now cut loose Lewek Champion was scheduled for that work, and EMAS-Chiyoda can no longer provide the required parent company guarantee. If that wasn't bleak enough, the Lewek Champion had already been arrested in China by crane supplier Huisman for unpaid bills. The barge owner Hai Jiang-1401 has demanded $194.5 million of payments from the Ezra parent company guarantee for the cancellation. Charters on the DP vessel Lewek Toucan and AHTS Lewek Pelican have also been cancelled.

With Ezra in big trouble, another former darling of the Singapore stock market, looks to have had a great fall. The Singapore government might have earlier offered some support, but there's no

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Petrobras puts boats off

Petrobras really went for it when the market was hot. Newbuild construction and flowline installation spreads were ordered like they were going out of fashion. Thanks to multiple orders and build times, only now are the last of those ships being delivered, or at least getting ready. With the market in a very different condition, Petrobras is doing everything possible to delay contract starts and release what can be jettisoned.

There's not much vessel owners and contractors can do about that. They just have to grin and bear it and push ships back. Petrobras has an agreement in place to delay the start of contracts on the Technip/DF jointly owned, Brazilian-built newbuild flexible flowline installation spreads Skandi Olinda and Skandi Recife.

Originally the second half of this year was due to see both vessels on hire. The revised arrangement sees June 2018 one vessel due on hire, and February 2019 the second. More positively, the Norwegian-built newbuild Skandi Buzios has been officially imported into Brazil and has commenced pipelay and sea trials. Mid-April is due to see the vessel commence a long-term Petrobras contract. The start date is later than expected, but is still within Petrobras' contracted mobilisation window.

Petrobras also appears to have let Subsea 7's Seven Seas go. Since August 2013 that vessel has been working for Petrobras, originally on a relatively short-term deal. The Seven Seas is now en-route Mobile. Where the vessel will be stationed next is to be confirmed. Also in Brazil, the Technip-controlled, Brazilian built and flagged Skandi Niteroi appears to have completed what was an eight-month contract. The Niteroi is now available from Rio and no doubt awaiting a contract "blocking" opportunity to displace an international vessel with Petrobras. One of Subsea 7's vessels is expected to be pushed out by the Niteroi just as the, now heading to lay-up, Seven Mar was.

Back at DOF, the fourth quarter result was a loss of NKr 400 million on NKr 1.13 billion revenues. A year earlier a NKr 53 million profit on NKr 1.6 million revenues were reported. In the latest period DOF says the Geosund and Geosea ROV support vessels were refinanced. In the subsea market in general, DOF sees "an oversupply of vessels and several vessels in lay-up" while there is also a need for the "number of contractors to be reduced". There's some irony in that. DOF Subsea now appears looking at the market as just a contractor. Before, the number of contractors reducing would be very bad news for DOF as it would be a reduction in the potential number of vessel charter clients. DOF obviously now doesn't expect to be doing too much chartering out of ships to other players.

DOF has been able to raise some fresh cash though. For some time the financial markets have been fretting about refinancing May 2018 maturing NKr 1.3 billion worth of bonds. DOF has issued a new $175 million bond. The cost to do that has been substantial. March 2022 is the maturity of the new bond and the interest rate is fixed at 9.5%. That's much more expensive that the previous bond which had a lower interest rate of NIBOR (Norwegian Interbank Offered Rate, currently about 1%) plus an extra 5%.

DOF finds costly new cash

DOF is staying active on vessel fixing. The Skandi Seven has gone to West Africa and is understood on a 16 month firm field support contract for ENI in Angola. Further options are thought included in the contract that could add a further year to the commitment. That contract is thought to cover a wide range of services right from carrying cargo through to light subsea construction work. The crucial thing is the utilisation provided. Since the Skandi Seven was unceremoniously dumped by Subsea 7, the only work the ship had done was accommodation support in the Gulf of Mexico.

Coming back to the North Sea is the Skandi Skansen after construction support in West Africa. That's driven by a, for this summer, FPSO moorings installation award in the UK Sector. The Skansen will lead that with several an-

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Amo, Amas, Emas

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easy way to put things back together without lots of associated carnage and maybe some bloodletting.

That must really rock the Singapore stock market so soon after Swiber blew up in their faces. Swiber has just applied for a further extension to delay releasing long overdue financial results. Swiber "does not have the financial resource and manpower to prepare and update the financial statements". The contractor remains under court administration. To July 21st the Singapore authorities have approved extending the deadline for the Swiber administration to publish creditor proposals.

However, market sources suggest a deal may be in place with an investor group to buy part of the Swiber operations. Then a new operation would be launched when the debt restructuring and administration process is complete. The same group could also be looking to make further acquisitions that could be combined with that new version of Swiber.

Whether a new, smaller, free of finanicial headaches EMAS-Chiyoda can really emerge from a similar process is looking more and more questionable. Already EMAS' ability to win new work is completely and utterly destroyed. What's just as bad is the capability to undertake existing backlog seems with every passing day to just drain away too.

If someone really wants to do a deal on EMAS, just buying equipment wouldn't be that attractive, but having some backlog coming with it might be. And that's slipping away. Right now Subsea 7 can pick off anything that takes the corporate eye. The spoolbase might be enough to have on that shopping-list, unless someone was really confident in a market upturn and not satisfied that the right equipment was already controlled. Where EMAS-Chiyoda is right now is, maybe indefinitely, going to put off any new players coming to the subsea construction arena. ⏮

Fugro looking for sensible subsea strategy

Recent years have seen Fugro's subsea strategy all over the place and looking like a never-ending soap opera. But the hanging in limbo position appears finally over.

Selling the Asian subsea interests to Shelf is already off. Fugro will just hold on to the division, albeit in some sort of scaled down form. Scaled down at least in target market terms. Overall Fugro has reduced overheads by releasing long-term chartered ships and looks likely to keep on re-leasing ships wherever possible.

Next up for the Fugro chop appears the Fugro Saltire. That ship is owned by Forland, who's already got to deal with EMAS-Chiyoda defaulting on the Lewek Inspector charter. Fugro confirms the plan to release the Saltire. The end of March 2018 is the current charter expiration date. However, Fugro notes the potential to early release as soon as October or November, at a "discounted" fee. If not released at that point, then Fugro would just release in March next year when the charter naturally expires. For now the Salite has wind-farm trenching work in the North Sea. For most of the season that should run.

Back in Asia, Fugro says a decision has already been taken to not extend the charter on the Bourbon/Oceanteam owned Southern Ocean. End 2018 sees that charter expire and the vessel will be returned to the owner. Fugro notes that the Asia Pacific subsea operations are now concentrating on production support and IRM, while the Southern Ocean is a larger vessel more suited for construction tasks.

Fugro's renewed presence in the life of field, production support market is heavily Australian orientated. A new three-year seasonal IRM call-off contract in Asia Pacific is in hand with an expected annual value of €80 million. While further details have not been formally confirmed, the client is understood to be Woodside Australia replacing the current year-round arrangement with Subsea 7 and the Nor Australis as the support vessel. As soon as the end of March, the Australis could be off that job.

Fugro is also confirmed for the five years plus options production support and IRM for Inpex on the banner Ichthys project off Australia. The contract does not involve a permanent support vessel and on paper is "call out". However, around 200 days of vessel work are expected each year. The vessels Fugro will deploy are to be firmed up, but a mixture of the Rem Etive and Atlantis Dweller us understood very likely. Fugro recently bought the Etive as a more cost-effective option than keeping the vessel on charter.

Fugro remains trying to sell the North Sea-based trenching interests, but wanted to bundle in the directly-owned Fugro Symphony with that sale too. That's a little immaterial when no sale deal appears close to be concluded. Attempts to sell the geotechnical drilling well intervention vessel Fugro Synergy, meanwhile, have been abandoned. The vessel will now concentrate on a geotechnical role and is back in the North Sea working on wind-farms. The sale has only been abandoned because no one was prepared to offer what Fugro thought the ship was worth, which was way out of step with market sentiment.

In a normal market, Fugro releasing so many ships would flag up a forthcoming big drop in revenues. Cash coming in from the subsea side can still, and will, drop thanks to market pricing and Fugro not having any more big-ticket construction jobs to complete. Yet, not long-term controlling ships is not a problem in this market. Vessels of opportunity are available at the drop of a hat with no minimum level of commitment. Already Fugro has kept via short-term charter the very cost effective Skandi Olympia in the North Sea alongside the veteran Skandi Carla which is thought on year-by-year options. With the way that rates have fallen, the Carla is not that cheap an option, and the ship is both small and low-spec compared to where the contemporary fleet sits.

Boskalis no longer waiting in wings

Fugro has also released full year 2016 results. The bottom line is a €308.9 million loss on €1.78 billion revenues. That's better than 2015 when €372.5 million was lost on €2.4 billion revenues. Fugro sees "strong price pressure" in the market and in the second half of 2016 had €75.5 million impairment charges on "onerous contract provisions". The Subsea Services division, in particular, struggled and had a negative EBIT margin of as much as 27.2%.

Ahead, for the first half of 2017 Fugro still expects a "significant decline in revenue" but "less severe than 2016 with on-going margin pressure". Later in the year, Fugro sees things improving but only to the degree that revenue decline is expected to "bottom out".

Also now removed from the Fugro mix of issues, is the potential for Boskalis to attempt a takeover. Boskalis has sold up the remaining 9.38% interest held in Fugro. The shares were sold to "institutional investors" for €115 million. That Boskalis gave up on Fugro quite so easily is surprising. But perhaps that shows how many issues of its own Boskalis has to sort out in terms of reducing costs.

At some point Fugro is going to have to do more than just trim operations, releasing ships and giving up on parts of the subsea business seemingly not understood by top management. At some point the company will have to define what the market presence is really expected to be, and what growth prospects that position is expected to have. For now that's been forgotten about. ⏮

STRATEGIC OFFSHORE RESEARCH
1 Queen's Lane South
Queen's Cross
Aberdeen, AB10 6XW
Scotland, UK

Phone: +44 (0) 1224 498020
Fax: +44 (0) 1224 318333
Email: info@StrategicOffshore.com

www.StrategicOffshore.com

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.

For further details contact Jo Slade at jo@strategicoffshore.com or telephone +44 (0) 1224 498020. ⏮

DOF mulls North Sea diving ideas

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chor-handlers also deployed. When no official details have been released, Strategic Offshore Research's *first-hand Subsea newswire* revealed Dana's Western Isles development is the project involved.

One vessel where things are a little less clear is the single-bell, North Sea class DSV Skandi Achiever. DOF still appears reviewing plans for that one. For now, the Achiever remains in the Gulf of Mexico and after a big chunk of idle time has short-term work on Shell's NaKika field. Whether the intended return for the 2017 season in the North Sea still goes ahead is to be confirmed, but looks questionable. DOF had been planning to directly provide diving services on board and recruited staff to build up that capability. In any case, the Achiever is being bid on a global basis.

Of the two boats DOF recently acquired from Olympic, the Olympic Commander will become the Skandi Darwin and go to the Inpex field support contract in Australia. The Olympic Hera DP AHTS, now Skandi Hera, will be spruced up. DOF will add a 150 tonne crane the company already had in storage, on board. That is intended to make the ship more suitable for subsea roles with moorings and installation work seen as particularly well suited. During build, Olympic had originally prepared the Hera for the installation of a 250 tonne crane, though that didn't happen. ⏮

