Shipyards & Oil Services

NOV suspends work on 16 Sete Brasil-related rigs; Yinson forms JV for FPSO vessel

Singapore/Malaysia Offshore & Marine News

- **Yinson Holdings and Italy’s Premuda form JV for FPSO vessel.** The joint venture company will purchase the FPSO for €60 million (US$66 million) from Four Vanguard Servicos E Navegacao. The double-hull Aframax tanker built in 1992, and converted to an FPSO in 2003 has storage capacity of just above 600,000 barrels. It will market the vessel as a potential candidate for small oilfield developments in West Africa and South-East Asia. (Upstream Vol.20 Week 31 July - 7 August 2015)

- **Scomi bags RM140 million worth of marine contracts.** Scomi Energy Services Bhd's Marine Services has won local contracts worth more than RM140 million in the past four months for providing transportation of coal and provision of offshore vessel services to clients in Indonesia, Malaysia and Thailand. Further, the offshore services unit is actively bidding for work in India, Myanmar, Indonesia, Malaysia, and the Middle East. (Bloomberg, August 10)

China/Korea News

- **South Korean giants feel heat.** Hyundai Heavy Industries, Samsung Heavy Industries, and Daewoo Shipbuilding & Marine Engineering post losses for second half of 2015 as cost overruns take their toll. Hyundai, the largest of the big South Korean construction trio, saw a net loss of 241.1 billion won ($206 million) in second quarter performing worse than the first quarter loss of 138.8 billion won. With revenues remaining relatively stable the company incurred losses due to high restructuring costs in overseas corporations, delayed projects increased overseas installation costs and delayed additional C/O contracts. Daewoo reported a 2.4 trillion won loss incurring 3 trillion won of losses on rig building and offshore projects. Samsung reported a loss of 1.1 trillion won in the second quarter attributed to increased costs for Nigerian and another job in Australia due to costly design changes. (Upstream Vol.20 Week 31 July - 7 August 2015)

- **Hyundai Heavy develops LNG ships with Gas Log.** (Bloomberg, August 7) Hyundai Heavy completes developing next-generation LNG ship together with Monaco’s GasLog, France’s GTT and Norway’s DNV GL. Completion of project may lead to Hyundai winning ship orders. (Bloomberg, August 7)

- **Daewoo Shipping to sell headquarters building and non-core assets.** CEO Jung Sung Leep announced measures to improve finances today. Company also plans to sell units unrelated to core shipbuilding or marine businesses. (Bloomberg, August 10)

See page 7 for analyst certification and important disclosures, including non-US analyst disclosures.

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Industry & Order News Flow

- **NOV suspends work on 16 drilling packages.** National Oilwell Varco (NOV) has suspended fabrication of 16 drilling packages that would equip ultra-deepwater drilling rigs being built at Brazilian shipyards for Sete Brasil. According to NOV chief executive Clay Williams, the company finally halted activity on the drilling packages during the second quarter, after three of the four shipyards it has contracts with suspended payments. NOV was hired to build drilling packages for a total of 22 rigs in Brazil. The delay in payments by Sete Brasil to the Shipyards has a domino effect. Sete Brasil is currently in the middle of a major restructuring, with sources suggesting that 10 rigs will be cancelled and only 19 units will ultimately be built. (Upstream Vol.20 Week 31 July - 7 August 2015)

- **Slump takes out offshore rigs.** The number of offshore rigs operating worldwide fell further in July to 299 units, compared with 309 in June, and has now been cut by about 25% compared with the tally of 395 at the same time last year, according to the latest monthly rig count from Baker Hughes. A plunge in oil prices combined with industry cost-cutting has severely curtailed exploration and development drilling work as oil companies put projects on hold due to a lack of profitability, leading to a dearth of contracts as well as charter cancellations that have hit rig utilization. The number of rigs working in the US Gulf of Mexico has been cut by 31 to 26 operational units last month, compared with a year-earlier figure of 57. In international waters outside of the US and Canada, the number of offshore units has dropped by about a fifth to 264 from 336 a year ago, with Asia Pacific seeing the biggest reduction in rigs at 25. The slump has also taken a toll on North America onshore drilling where the land rig count for the US and Canada totaled 1014 in July, having been more than halfed from 2167 a year ago. The overall worldwide rig count was at 2167 in July, which was up 31 units from the previous month but still down 40% on the tally of 3608 a year earlier. (Upstream, 7 August)

- **Transocean reports 2Q15 profits, rises highest in 6 years.** Transocean Ltd., the world’s largest offshore rig owner, rose the most in more than six years as moves by new management to slash expenses led second-quarter profit to beat estimates. The company reported a net income of $342 million, or 93 cents a share down from $587 million or $1.61 a year earlier. Despite challenging operating environment the company realized revenues of $161 million in Q2 compared to $140 million in Q1. The performance was mainly driven by the strict cost controlling measures implemented by the management. Transocean realized a fleet revenue efficiency of 103% compared to 98% in previous quarter and fleet utilization of 100% compared to 93% in last quarter. Further focus of the company in the coming quarters will continue to be on cost control along with efficiency improvement. (Bloomberg, August 7)

- **Pacific Drilling reports 9% increase in EBITDA margin year on year.** Pacific Drilling announced net income $47.1 million ($0.22 per diluted share) for second-quarter 2015, compared to $51.7 million ($0.24 per diluted share) for first-quarter 2015 and $49.9 million ($0.23 per diluted share) for second-quarter 2014. Pacific delivered revenue efficiency ahead of targets and controlled costs well below historical trends. Key risks anticipated by the company in the coming period include the supply demand condition in the offshore market, its ability to secure and negotiate drilling contracts and shipyard rig construction delays. (Bloomberg, August 7)
• **Petrobras reports sharp fall in net income for 2Q 15 from a year ago.** The company reported net income of $150 million compared to $1408 million in same period last year, falling by a sharp 90% The Company reported BRL 1.28billion of impairment from dropped projects and BRL 245 million from impairment of oil fields. Oil drop contributes to significant drop in Petrobras 2Q costs. (Bloomberg, August 7)

• **Offshore drillers stay in profit despite low prices.** Global offshore players Diamond Offshore Drilling, Ensco, Noble Corporation and Atwood Oceanics managed to post profits for second quarter of 2015 despite lower levels of offshore drilling activity triggered by low oil and gas prices. Diamond Offshore reported a remarkable net income of $90 million in the last quarter almost unchanged from a year ago. Despite revenue drop of 8% yoy, the profit was attained by a 10% cut in operating cost yoy and the benefit attained from 73% surge in revenue from the ultra deep water rig business supported by an 11% increase in day rates that contribute to 50% of the revenue share. Noble reported $159 million of net profit by skillfully combining a considerable backlog with string contract coverage through excellent fleet performance and cost management. Fleet utilization was marginally down to 84% from 92% a year ago. (Upstream Vol.20 Week 31 July - 7 August 2015)

• **Mexico’s second phase of Round 1 bid attracts interest from 36 players.** Despite debate over bidding terms a total of 36 companies including global super majors Chevron and global majors Statoil, Eni of Italy, Galp of Portugal, Lukoil of Russia, ONGC and Ecopetrol. China's Sinopec, China National Offshore Oil Corporation, Petronas of Malaysia and PTTEP of Thailand have signed up to prequalify. Independent players include Sierra Oil, the sole winner of phase 1. Major European player BP and Total have brought data room access but have not requested to prequalify. The final list of prequalified companies will be published on 20 August. (Upstream Vol.20 Week 31 July - 7 August 2015)

• **Technip tops the estimates.** France’s Technip beat market estimates in the second quarter of 2015, despite posting a net loss of €329. Subsea segment outperformed with 26%, growth in revenue while the adjusted operating income from recurring activities of €250 million demonstrated a robust operating margin of 16.1%. Technip booked €1.5 billion of new orders, similar to the first quarter level, balanced between subsea, onshore and offshore. Technip’s second quarter order intake indicates positive outlook for 2017 and beyond. (Upstream Vol.20 Week 31 July - 7 August 2015)

• **Eni’s Coral contract award is imminent.** Italian player Eni could award a conditional engineering, procurement, construction, installation and commissioning contract for its Coral floating liquefaction vessel off Mozambique early this month. Houston-based KBR with South Korea’s Daewoo Shipbuilding & Heavy Engineering (KD consortium); Technip of France, Japan’s JGC and Korea’s Samsung Heavy Industries (Reef consortium); and Italy’s Saipem, Chiyoda of Japan and South Korea’s Hyundai Heavy Industries are the consortia of bidders for this project. (Upstream, 7 August)

• **Petrobras firm on its divestment plan.** Petrobras CFO reports it has been very careful on capex and the car wash case has had an impact on the supply chain. CFO assures prioritization of generating value for shareholders. (Bloomberg, August 7)
• **Petrobras cleared by board to register fuel unit Share Sale.** Petrobras’ board authorized it to start the process for selling shares in its gasoline-station unit, as the Brazilian oil company seeks to ease the industry’s largest debt load. The company continues to study the possibility of taking its BR Distribuidora unit public as part of a cost-cutting and divestment strategy amidst falling oil prices. (Bloomberg, August 7)

• **Petrobras expects to connect 33 wells in second half of 2015.** Further company has announced the well connection plan to be ahead of schedule. Company connected 72 wells in the 1H, 2015. Petrobras cut investments to BRL36 billion in 1H vs 41 billion year ago. (Bloomberg, August 7)

• **Five interested in ONGC tender for Jack up repair.** Five offshore drilling contractors are in the frame to provide a pair of high-specification jack-up rigs to India’s state-owned ONGC on three-year charter terms, with the contracts together valued at more than $200 million. Five bidders offered a total of eight jack-up rigs to ONGC on 31 July. India’s Jindal Drilling, Dynamic Drilling, Greatship and Aban Offshore and UK’s Hallworthy Shipping are the five bidders. ONGC would qualify only those drilling units which are either under construction or have been built after 2004. (Upstream Vol.20 Week 31 July - 7 August 2015)

• **ONGC issues tender for additional rig.** India’s state ONGC has floated a tender for a three year charter of an additional high specification Jack up rig. With the bids for the previous other tender floated by ONGC were submitted recently submitted, this tender is expected to be highly competitive with aggressive bidding. Global major Transocean is targeting all these projects with highest priority. (Upstream Vol.20 Week 31 July - 7 August 2015)

• **OOG and Teekay secure funding for Libra FPSO.** Brazilian oil services provider Odebrecht Oil & Gas (OOG) and Norwegian floater specialist Teekay Offshore have secured $803.7 million in financing for the construction of the first FPSO vessel to be deployed at the giant Libra pre-salt field off Brazil. A pool of seven international banks from Europe, Asia and the US agreed to fund the construction of the Pioneiro de Libra FPSO. (Upstream Vol.20 Week 31 July - 7 August 2015)

• **Iran gears up for London roadshow.** Iran is all set to attract international investors through its promotional conference to be held in London in December. The Iran Petroleum Contracts (IPC) formula devised by the Contract Revisions Committee offers very long-term partnerships and arrangements similar to internationally-accepted production sharing agreements. These have been proposed to replace the current structure of 20-year-old buy-back formula for foreign investors. (Upstream Vol.20 Week 31 July - 7 August 2015)

• **Modec to revise its forecast for 2H 2015.** Modec has revised its financial forecast for the half-year ended 30 June 2015 due to the cost of repairs to one of its fleet, and deferred profit related to two Brazilian projects. The company incurred a 2 billion yen (US$16 million) expense for repairs and loss of revenue from the damaged internal turret on the FPSO vessel Modec Venture 11 leased to Santos. Due to its increased equity in affiliates Cernambi Norte MV26 and Carioca MV27 from 25% to 29.4 it has of deferred profit. (Upstream Vol.20 Week 31 July - 7 August 2015)
Financial screws tightening for US onshore producers. Banks will redetermine borrowing limits for onshore oil producers with continued low oil prices in autumn. The US Office of Consumer credit has also warned leaned on lenders to tighten the standards they use to calculate how much money operators can borrow against a portfolio of assets. Most producers have already drawn a major share of their credit facility with Swift Energy having drawn 94% of its $351 million credit facility. With sizable portion of the North American market dominated by small private and mid cap E&Ps, which have limited access to public markets bank debt is the only source for financing. (Upstream Vol.20 Week 31 July - 7 August 2015)

Saipem strategy shift. Saipem has taken action to downsize its fabrication capacity in Brazil, as it moves from a local content to a local supplier model to regain flexibility and cost competitiveness. The Italian contractor already has several big subsea installation projects for Petrobras on its books in Brazil. (Upstream Vol.20 Week 31 July - 7 August 2015)

BP puts Hopkins find on ‘extreme fast track’. UK super major BP is gearing up for a fast-track development of a closely guarded discovery in the deep-water Gulf of Mexico off the US, using a standalone floater concept based on a previous design. BP wants to replicate a previously successful development model, with a preference for a semi-submersible “clone” solution to save time. Estimated recoverable reserves at Hopkins are said to be about 160 million barrels, and BP wants the proposed floater to have throughput capacity of around 60,000 barrels per day. The concept is said to call for between four and six wells with a single drill centre. BP is not expected to issue a tender for the project but will likely go to market with a request for information later this month and use the responses to determine the EPCI winner. (Upstream Vol.20 Week 31 July - 7 August 2015)

Pemex in farm-down request. Pemex has submitted its request to Mexico’s Energy Ministry to farm down three key offshore heavy oil projects. Few details have emerged about what stake Pemex intends to offer up, and how the farm-outs may be structured. The company has already also requested farm-outs for shallow-water and onshore acreage. (Upstream Vol.20 Week 31 July - 7 August 2015)

Ramba Energy Limited-Request for lifting of trading HA. Ramba to start oil output from Lemang Block in early 2016. It is also seeking approval of plan of development for Akatara oil. (Bloomberg, August 10)

Maersk Drilling Wins $16 Million Contract in Danish North Sea. Maersk Drilling wins contract for jack-up rig Maersk Giant with Dong Energy. The contract covers 150 days of work at Nini, Siri field in Danish North Sea, with relatively low dayrate of around $107,000 for the ultra-harsh environment unit. (Bloomberg, August 10)

Petrobras plan to develop CID. Entre Block approved by ANP. (Bloomberg, August 10)

Petrobras to review 2030 Strategic Plan. (Bloomberg, August 10)

Prosafe SE: New Chief Financial Officer. Mr Christiansen, the newly appointed CFO, has assumed office. (Bloomberg, August 10)
• **DOF wins Argentina job.** Oslo-listed offshore vessel player DOF has secured a charter with Total Austral off Argentina for its anchor-handler Skandi Pacific. The vessel will carry out work under a firm nine-month contract with three optional extensions of one month each, with start-up scheduled early next month. The contract value is not disclosed. (Upstream, Aug 10)

• **Lundin in Alta 'hold-up'.** Lundin Petroleum has been forced to halt drilling of a third appraisal at its Alta prospect in the Barents Sea off Norway due to a well incident. Drilling work being carried out by semi-submersible Island Innovator has been suspended for more than a week after the 1 August incident in which there was a loss of drilling fluids circulation. The incident occurred when the drill bit had reached a depth of 1950 meters and Lundin has since been pumping material into the hole to plug the leak in an effort to re-stabilise the well; however exact date of resuming work is still unknown. The latest well is part of a back-to-back appraisal drilling effort at Alta in order to boost the find’s existing resource estimate of between 125 million and 400 million barrels of oil equivalent, as well as gain more information about the reservoir. (Upstream, August 10)

**ASEAN Energy & Upstream**

• **Odfjell kicks off Vietnam work.** Odfjell Drilling’s ultra-deepwater drillship Deepsea Metro I has kicked off drilling work under a short-term charter off Vietnam. The unit has been contracted by state-owned PetroVietnam to drill in offshore blocks 130 and 131 for a period of 20 weeks, with two optional well tests of 90 days duration each. The contract carries a value of around $40 million, yielding a relatively low day rate of $286,000 for the drillship that is owned jointly by Odfjell, which also manages the vessel. (Upstream, August 10)

• **Sonatrach Starts Proceedings vs Technip on Refinery.** Company has launched international arbitration proceedings against Technip on project to upgrade and expand Algiers refinery. (Bloomberg, August 10)

**J.P. Morgan View**

• **Global Oil & Gas Daily**: Algeria sees a possibility of emergency OPEC meet, BP looking to fast-track Hopkins development and more. ([Link to full note](#))

• **Oil Market Monthly**: Weaker Asian demand growth and higher production warrant lower, flatter price path through 2016. ([Link to full note](#))

• **Container Shipping**: Asia Europe rate hikes prove short-lived; potential merger of China Shipping and Cosco Group. ([Link to full note](#))
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