

Offshore Drillers - Investment Perspectives

Offshore Drilling Seminar New York / London



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Remain constructive amid attractive valuations - oil add risk to downside though

Super-cycle thesis remains intact supported by strong long-term fundamentals



Supportive long-term fundamentals

- Multi-year under-investments
- Energy security & diversification + transition
- A finite supply side (no newbuilds)

Apparent oil risk higher than normal into 2024

- Oil prices likely rangebound, unless...
- Macroeconomic hard-landing → Downside risk
- Middle East escalation → Upside risk

Valuations remains attractive + mostly healthy balance sheets

- Avg. implied steel values c. USD 300m (7th gen equi.)
- Average c. 4x 2025 EV/EBITDA
- C. 3x EV / MTM EBITDA (assumes USD 450k dayrate)

Remain constructive amid attractive valuation - oil add risk to downside though

Super-cycle thesis remains intact supported by strong underlying fundamentals



Supportive long-term fundamentals

- Multi-year under-investments
- Energy security & diversification + transition
- A finite supply side (oil)

Capital returns are coming
Group at average 13% FCF yield in 2025e
Moving to 20%+ in 2026e

into 2024

SS...

Downside risk

- Middle East escalation → Upside risk

Valuations remains attractive + mostly healthy balance sheets

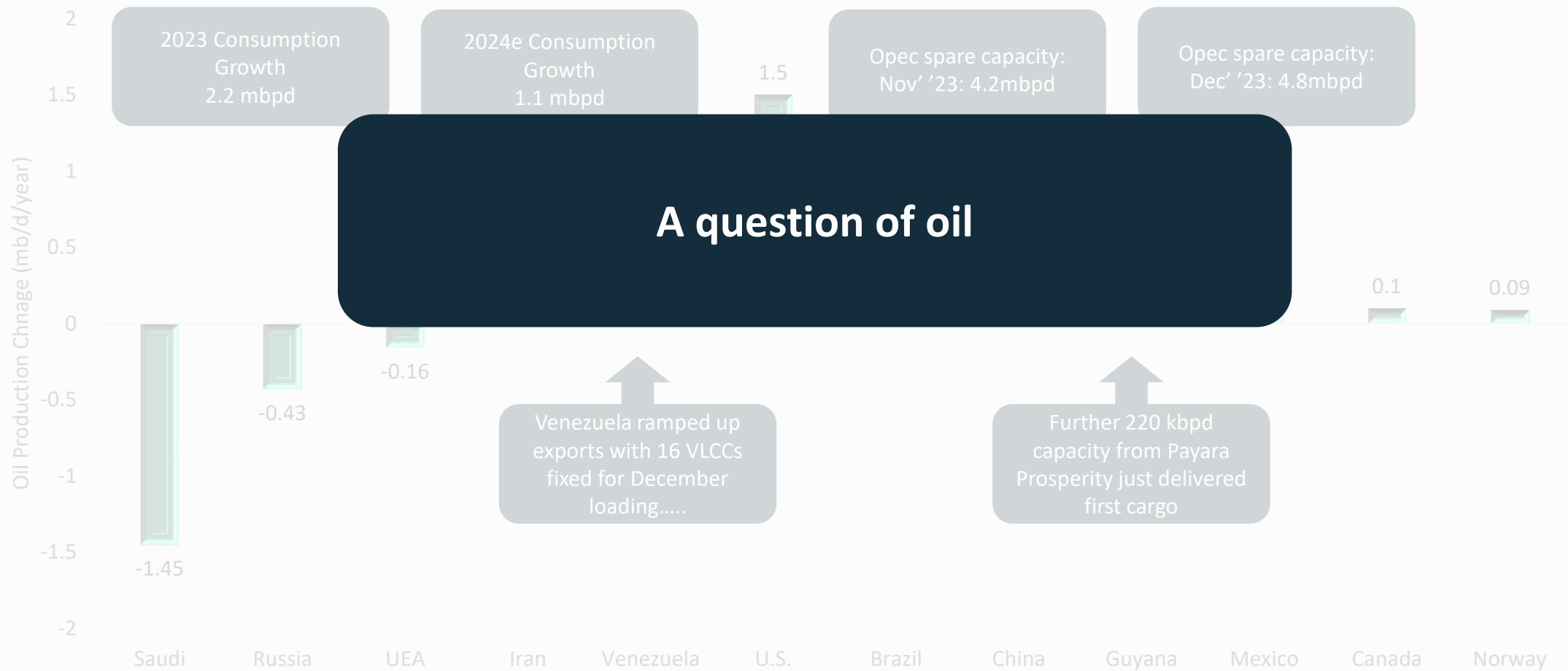
- Avrg. implied steel values c. USD 300m (7th gen equi.)
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Oil price downside risk going into 2024?

Saudi squeezed enough to launch another fight for market share?



Last 12mths change in oil/liquids production



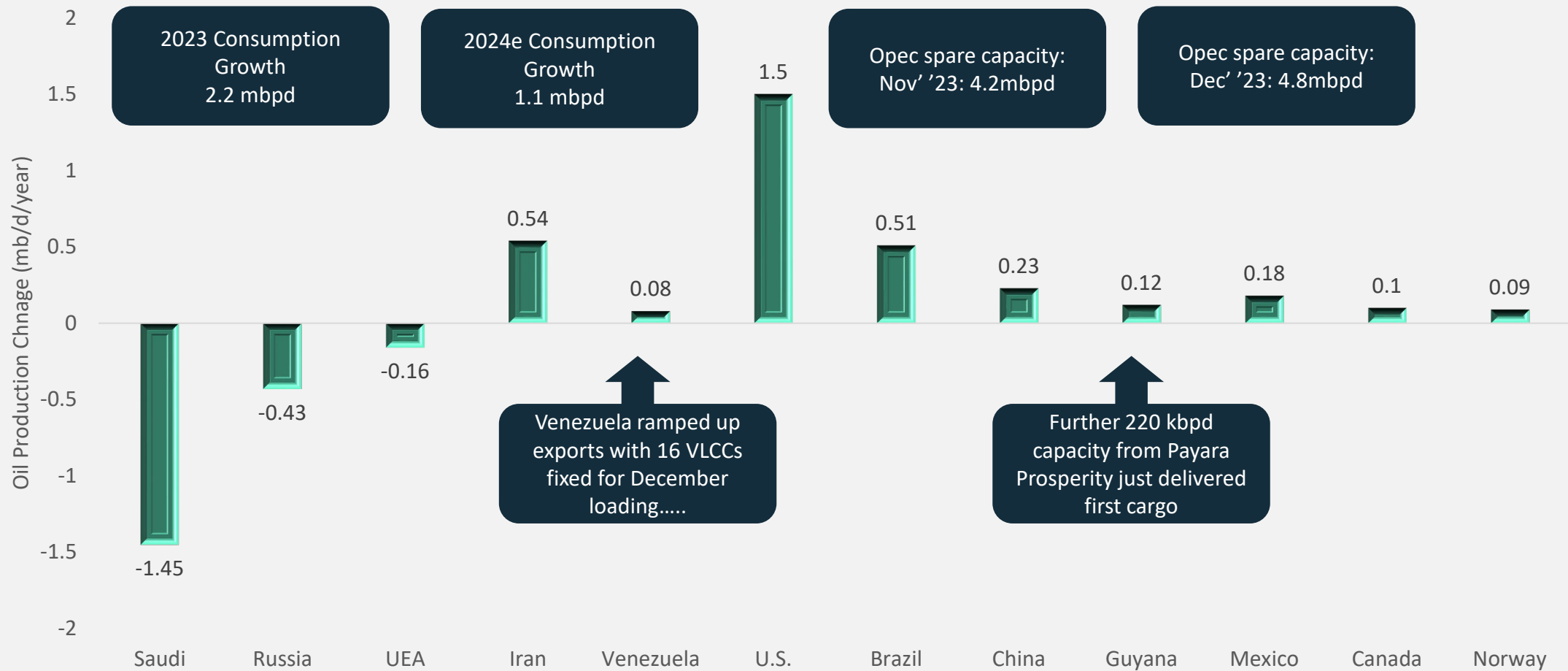
Source: EIA

Oil price downside risk going into 2024?

Saudi squeezed enough to launch another fight for market share?



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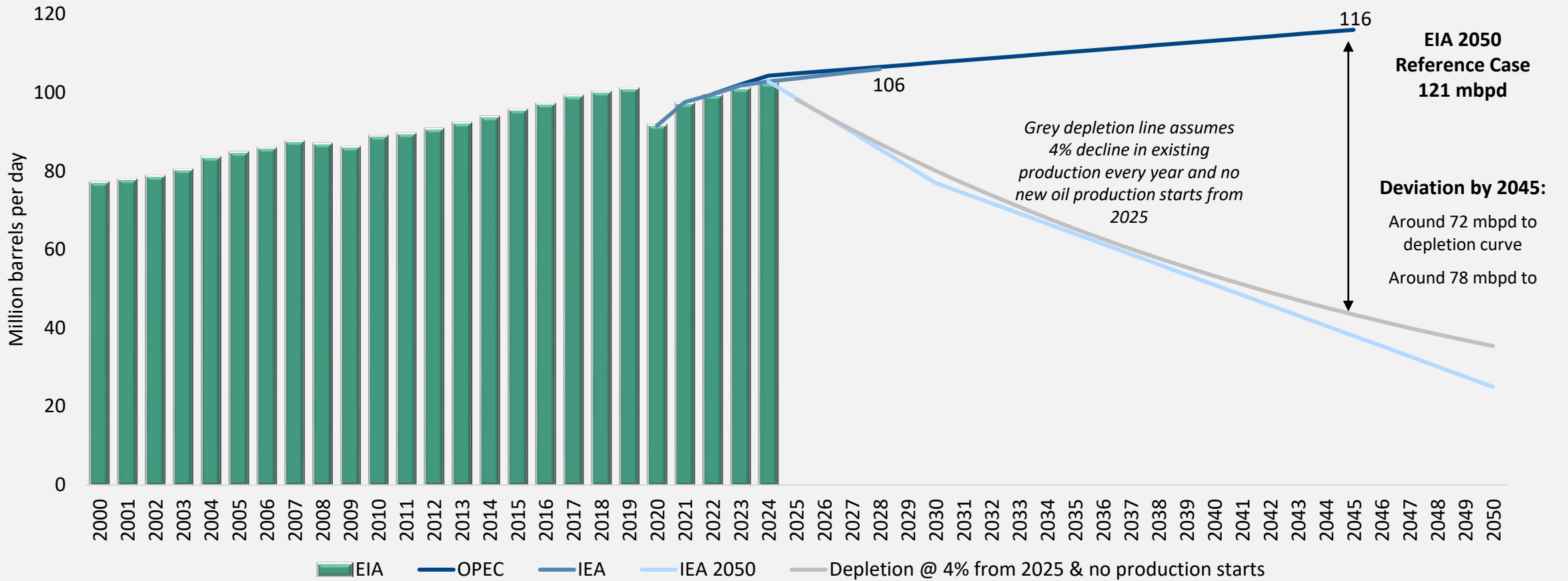
Source: EIA

More is needed, much more to meet forecasts

Do not confuse scenarios & forecasts...not even the IEA forecast is aligning with its 2050 scenario



IEA 2050 versus OPEC & EIA forecast – two different world's by 2050.....



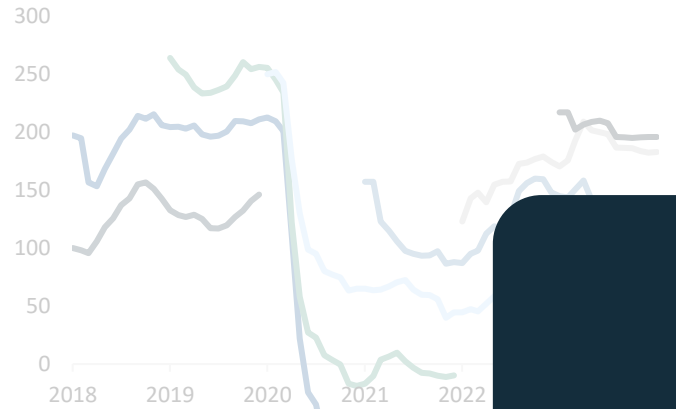
Source: EIA, OPEC

Earnings revisions turning negative again vs. positive development last years

Dayrate momentum waning while inflation is relentlessly pushing costs upwards...



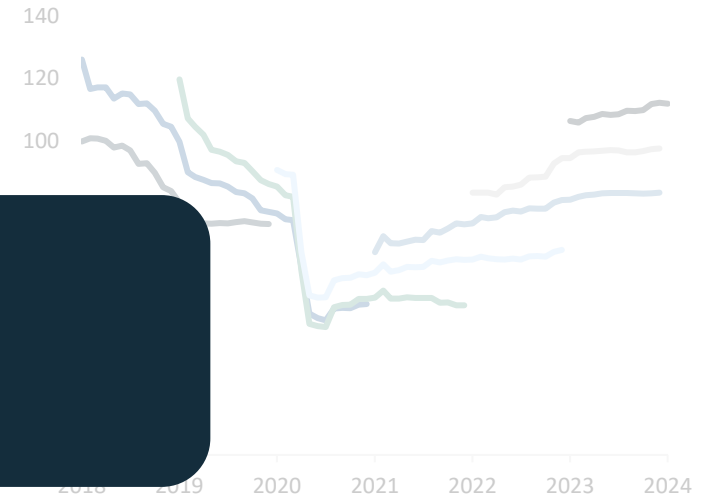
Seismic - CS EBIT



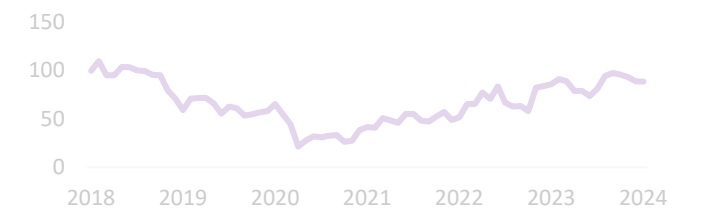
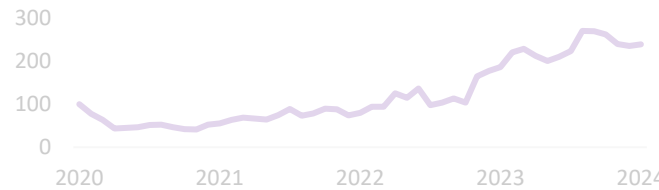
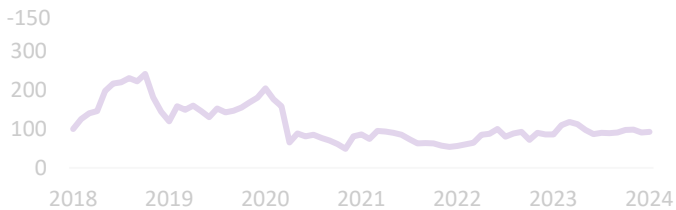
Drillers - CS EBITDA (Since 2020)



Services - CS EBITDA



As estimate goes – so goes shares



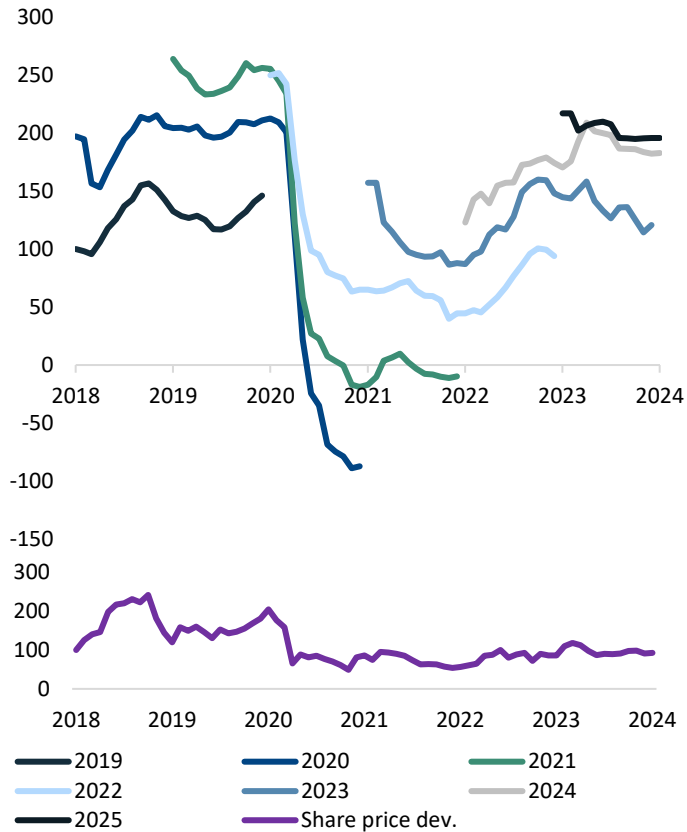
Source: FactSet, Fearnley Securities

Earnings revisions turning negative again vs. positive development last years

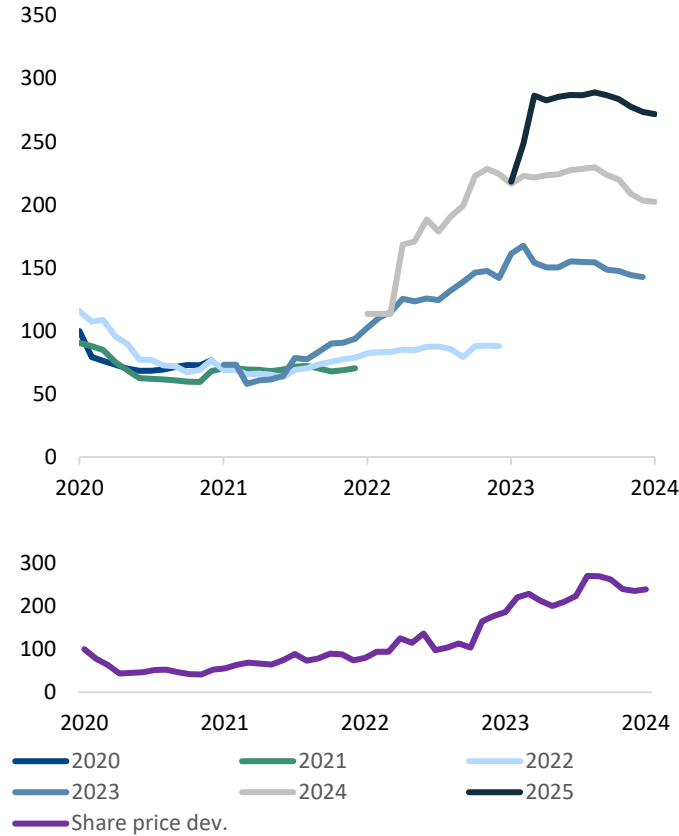
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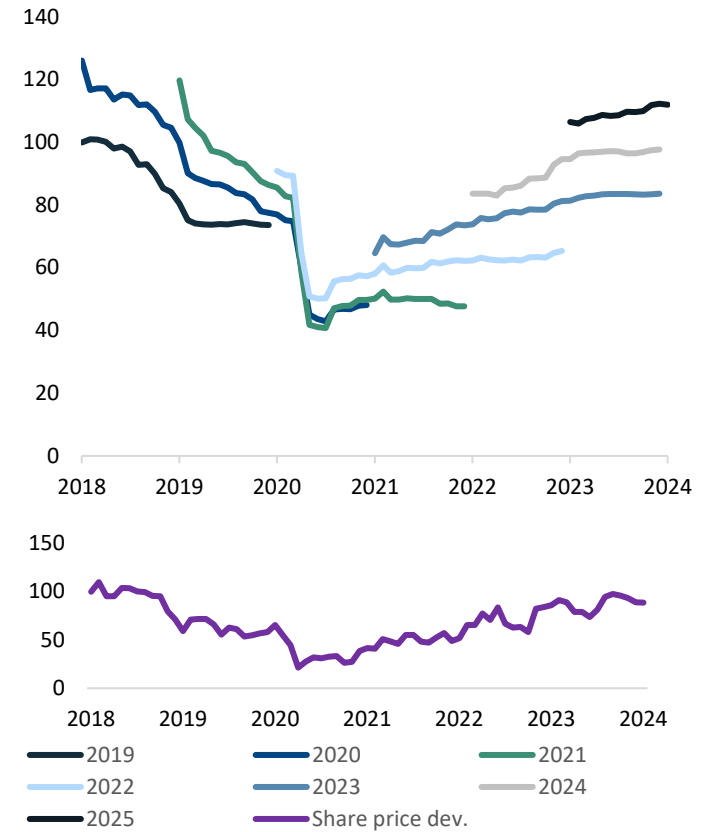
Seismic – CS EBIT



Drillers – CS EBITDA (Since 2020)



Services – CS EBITDA



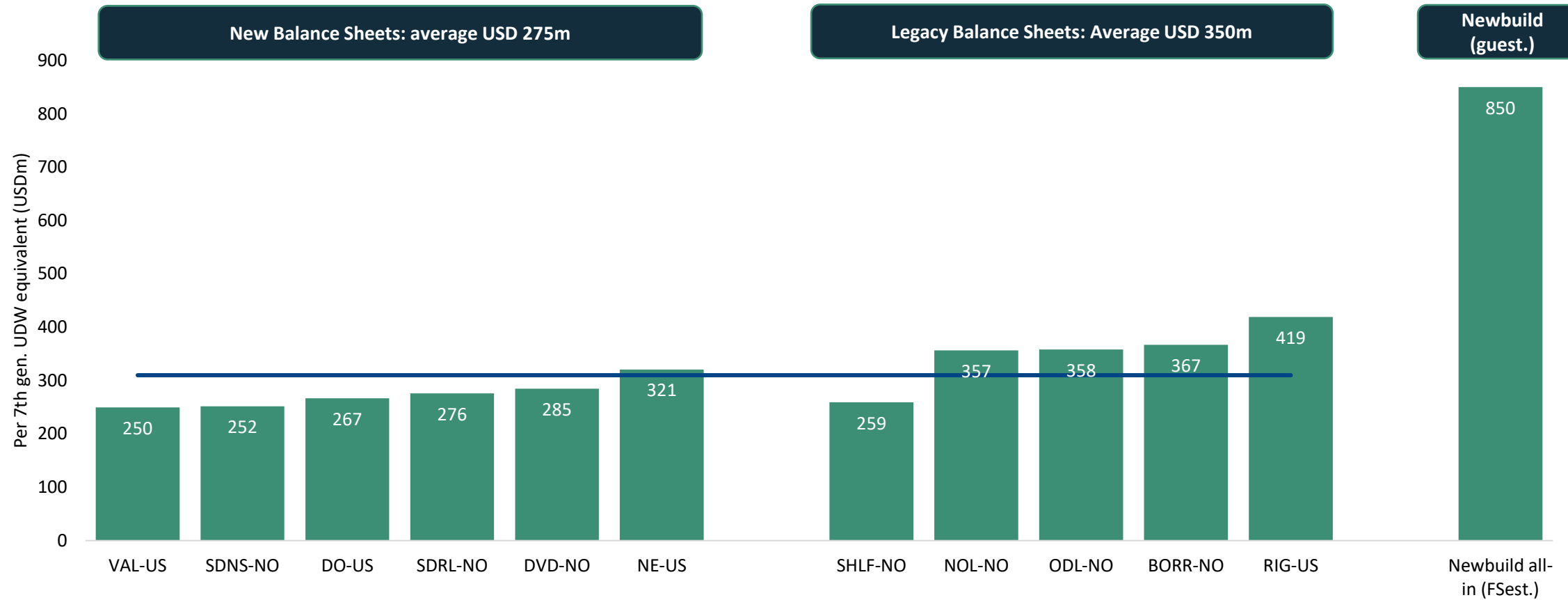
Source: FactSet, Fearnley Securities

Steel values remain very attractive: Average implied at c. USD 310m across the group

Range of USD 250-420m. Newbuild guesstimated at USD 850m+...



Net Implied Steel Values – 7th gen equivalent UDW, YE 23e

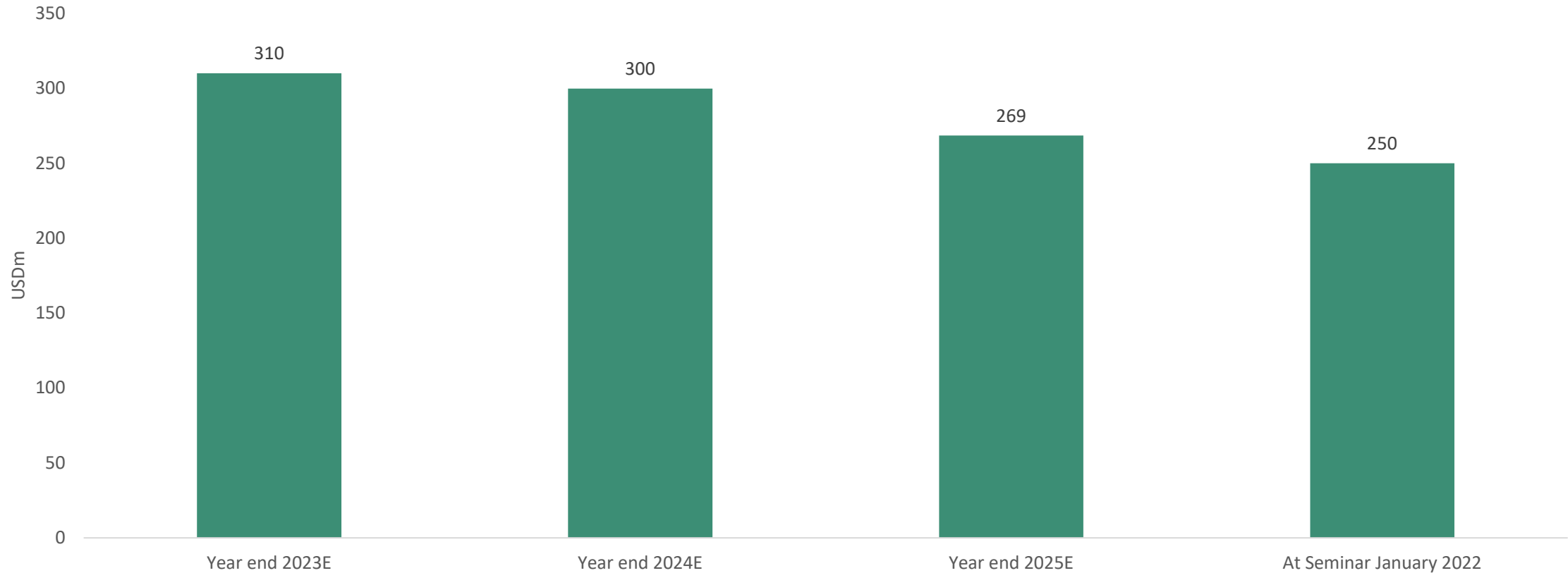


Source: Fearnley Securities, Company reports, Factset, Bloomberg

And the offshore drillers looks increasingly attractive on steel as FCF starts to build



Net Implied Steel Values – 7th gen equivalent UDW

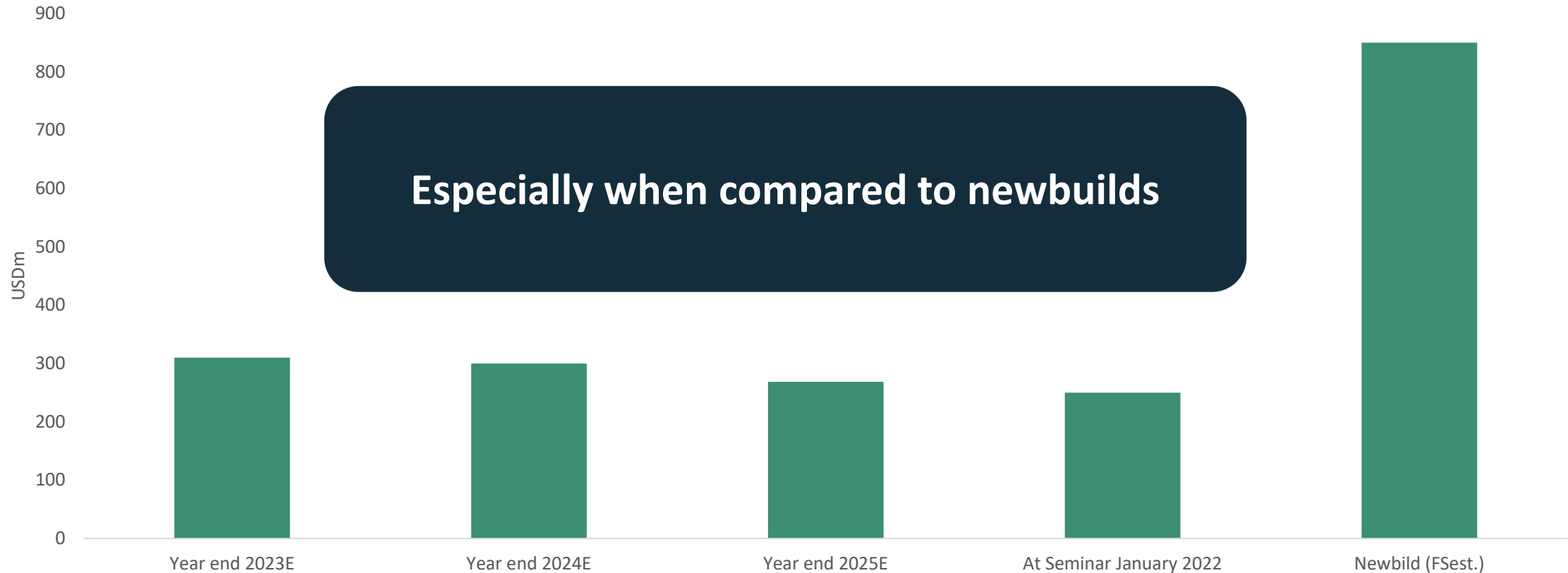


Source: Fearnley Securities

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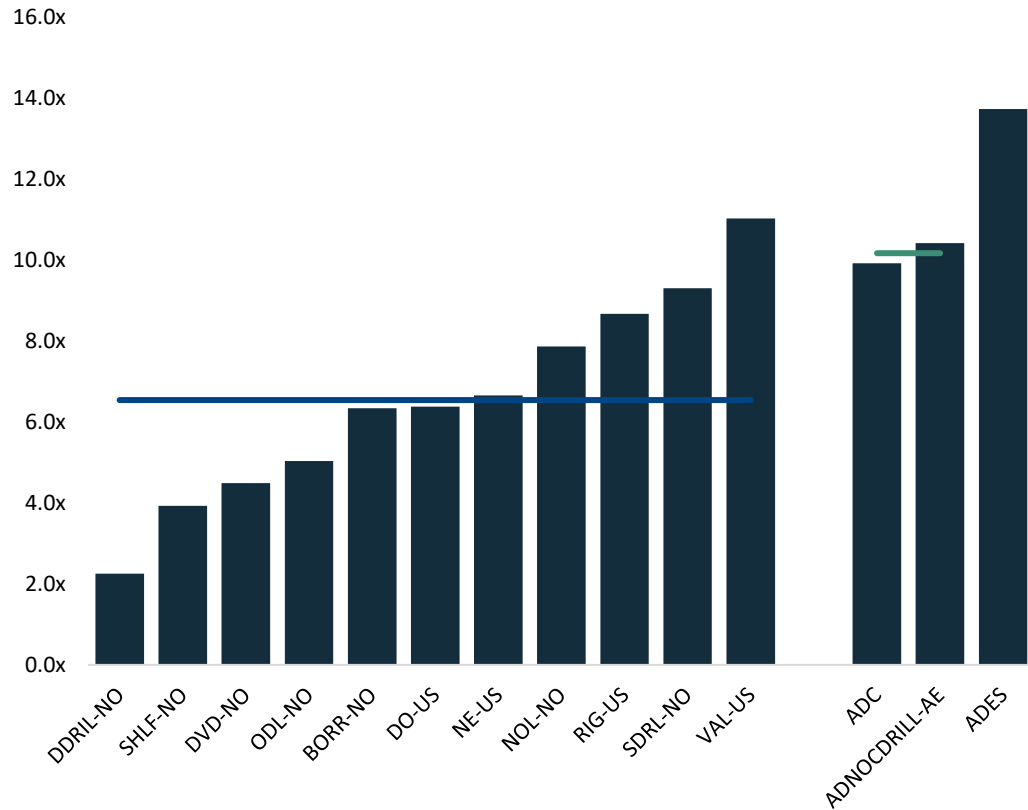
Source: Fearnleys Securities

Also screens attractive on earnings multiples

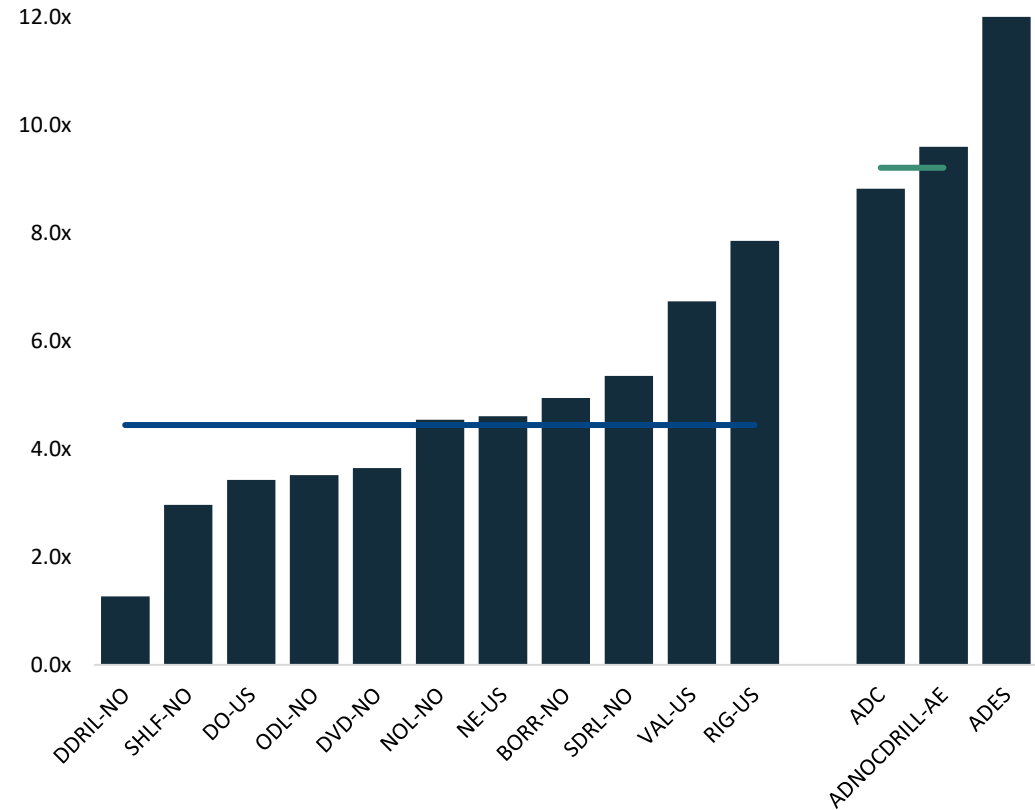
Trading at average 6.5x 2024e EV/EBITDA and 4.4x 2025



2024 EV/EBITDA



2025 EV/EBITDA



Source: Bloomberg, Factset, Fearnley Securities

Also screens attractive on earnings multiples

Trading at average 6.5x 2024e EV/EBITDA and 4.4x 2025

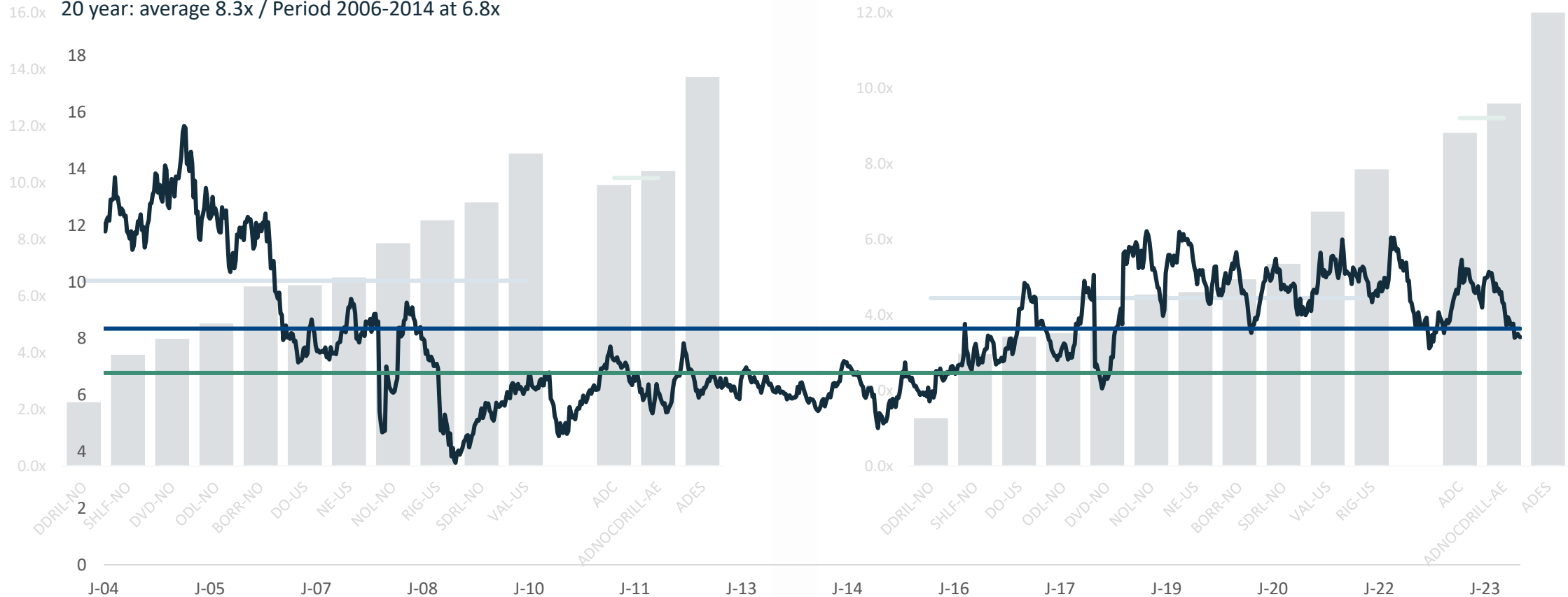


2024 EV/EBITDA

2025 EV/EBITDA

Historical 12mths FWD EV/EBITDA

20 year: average 8.3x / Period 2006-2014 at 6.8x



Source: Bloomberg, Factset, Fearnley Securities

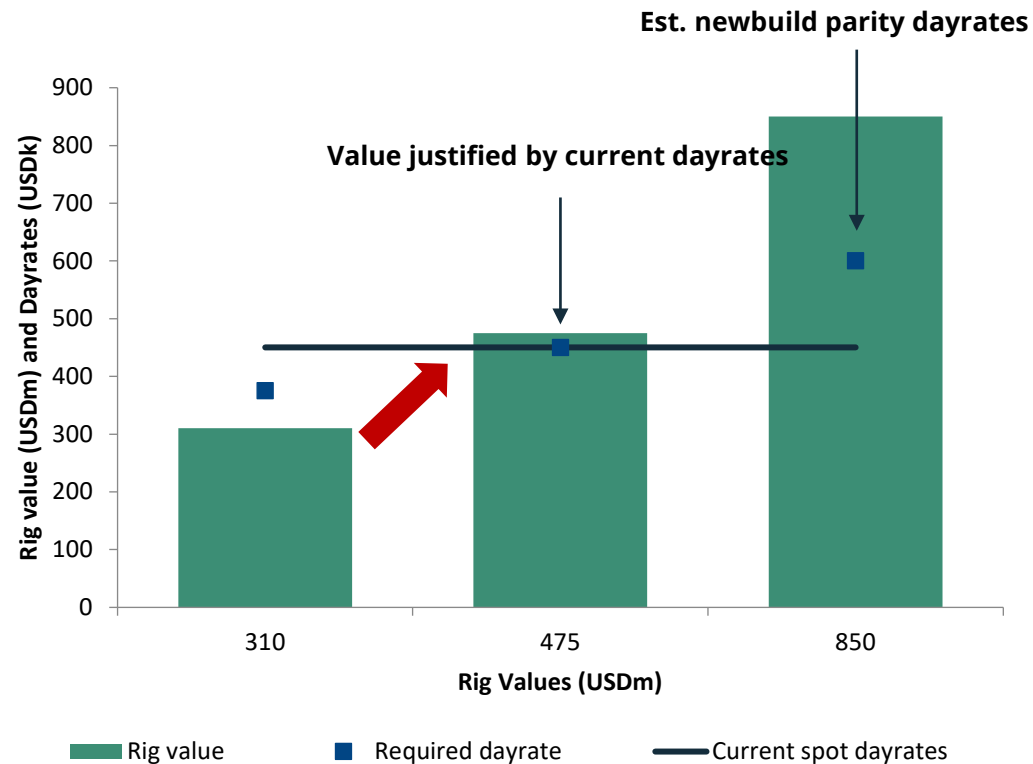
Dayrates at current levels makes plenty upside

And forget about newbuilds given current market and environment



UDW: Current dayrates implies USD 475m value → 50% average EV upside...

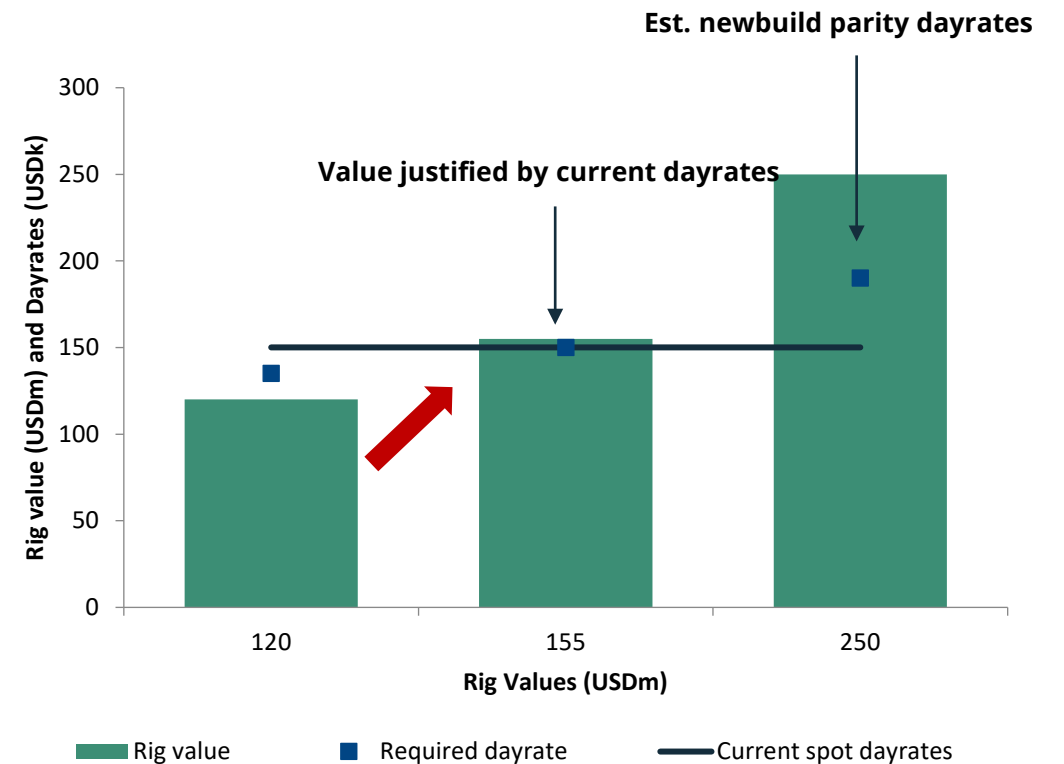
Values vs. Required dayrates



Assumptions: 90% utilization, opex & SG&A of USD 180k, Capex of USD 50m across a SPS cycle, 12% WACC

JU: Current dayrates implies USD 155m value → 30% average EV upside...

Values vs. Required dayrates



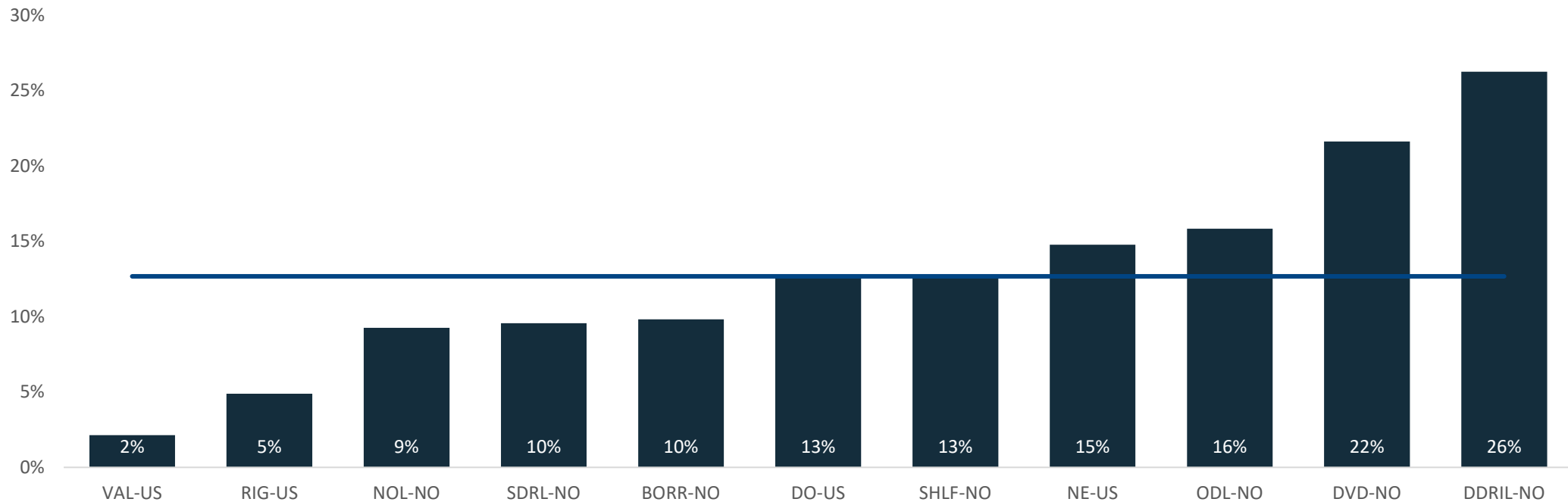
Assumptions: 90% utilization, opex & SG&A of USD 62k, Capex of USD 20m across a SPS cycle, 12% WACC

And comes with increasing FCF yields – paving the way for healthy capital returns

FCF increasing to 13% average for 2025, up from 5% in 2024 and growing to 20%+ for 2026



FCF Yield to EV (2025E)



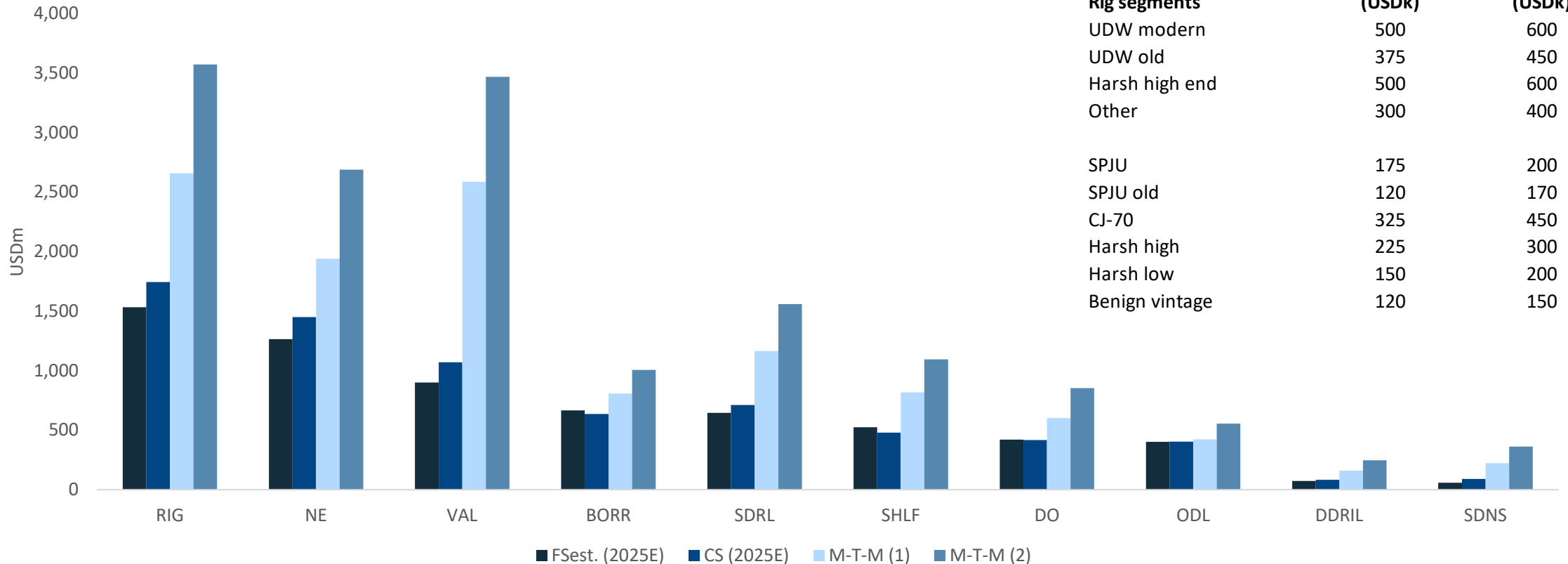
Source: Bloomberg, Factset, Fearnley Securities

Current dayrate more than justifies Buy – and comes with explosive potential

Mark-to-Market at various dayrate scenarios



EBITDA sensitivity to higher dayrates (M-t-M) vs. FStest/CS 2025E



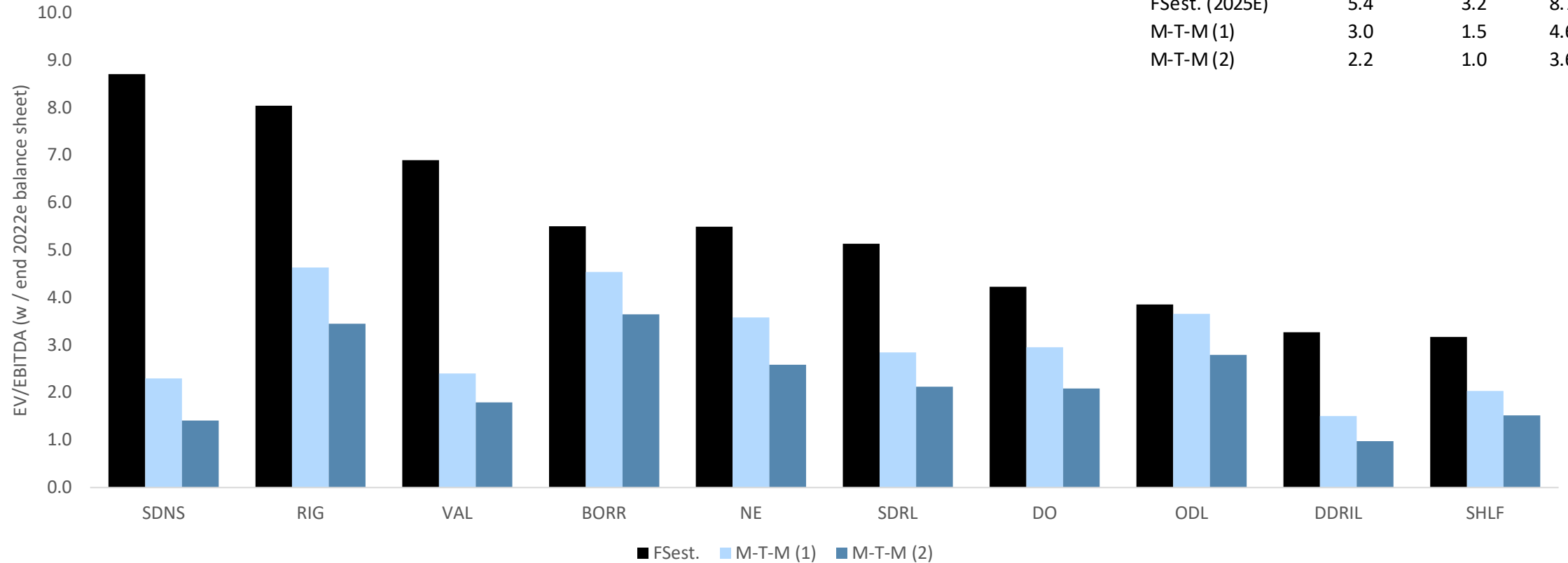
Source: Fearnley Securities; Companies filings, FactSet

Making for very attractive long-term plays – with multi-bag upside potential

EV/EBITDA multiples at the various dayrate levels



EV/EBITDA sensitivity to higher dayrates (M-t-M) vs. F Sest. 2025E (based on year end 2023e balance sheets)



EV/EBITDA	Average	Low	High
F Sest. (2025E)	5.4	3.2	8.7
M-T-M (1)	3.0	1.5	4.6
M-T-M (2)	2.2	1.0	3.6

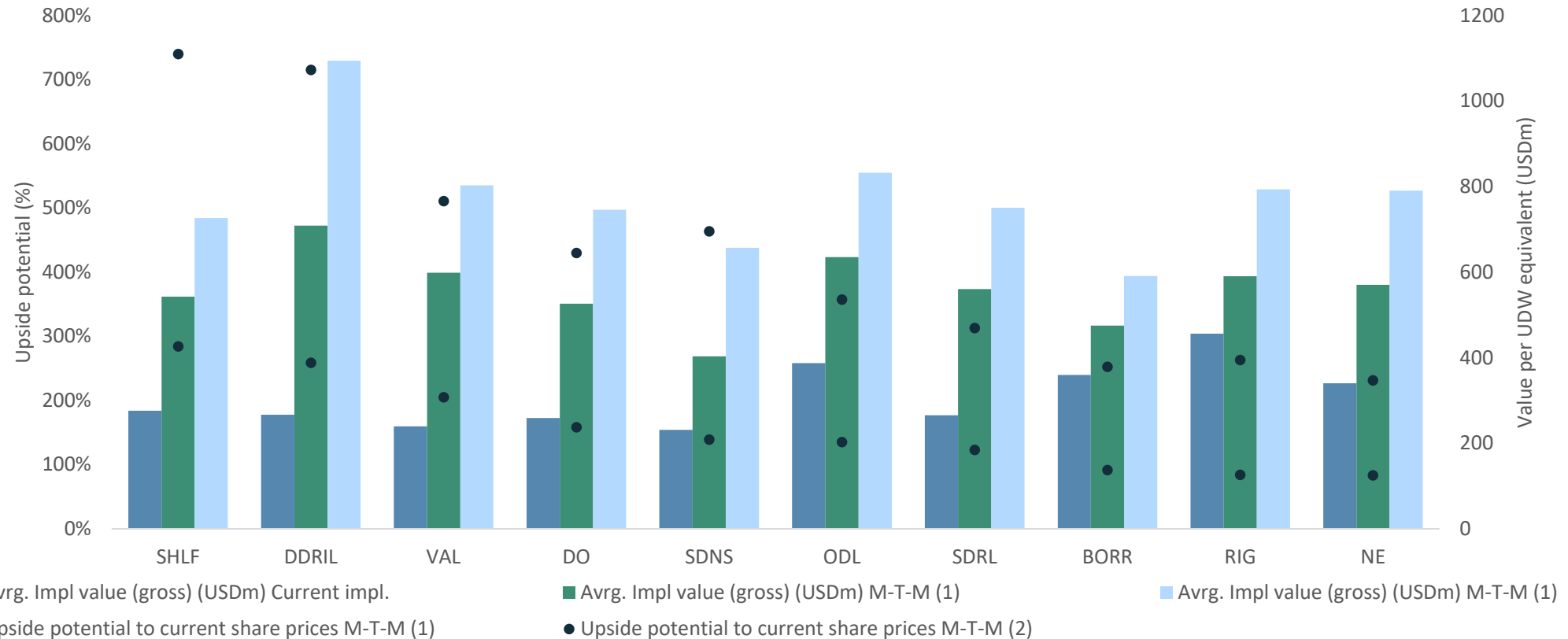
Source: Fearnley Securities; Companies filings, FactSet

Multi-bag upside potential on multiple repricing: Average c. 150-300%. For starters

Applying 6x EV/EBITDA to M-T-M scenarios (4x to SHLF and SDNS)



Upside potential through multiple repricing and corresponding 7th gen UDW equivalent value



Source: Fearnley Securities; Companies filings, FactSet

Summary: Remain Overweight

Dayrates at USD 450k+ for UDWs and USD 150k+ for JUs leaves plenty upside potential



Remain positive to the outlook

- Still believing that we are in the early phase of a multi-year upcycle
- Robust long-term Oil & Gas Environment
- BE prices generally below USD 40bbl + high discipline among Oil Co's

Supply side more concentrated

- Overhang greatly reduced, but continued discipline important

Valuation remains attractive

- Avrg. implied steel values c. USD 300m (7th gen equivalent)
- Average c. 4x 2025 EV/EBITDA

Triggers:

- Capital returns, fixture activity, dayrates and increasing contract duration (and M&A)

Summary: Remain Overweight

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Remain positive to the outlook

- Still believing that we are in the early phase of a multi-year upcycle
- Robust long-term Oil & Gas Environment
- BE prices generally below USD 40bbl + high discipline among Oil Co's

Favorite plays: BORR, NE, ODL, SHLF

Triggers:

- capital returns, fixture activity, dayrates and increasing contract duration (and M&A)

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DISCLOSURES AND DISCLAIMERS FOR RECOMMENDATIONS



EQUITY AND FIXED INCOME

10. Previous Recommendations

Please contact fondsweb@fearnleys.no to receive additional information about Recommendations in the financial instruments of the issuing company the last 36 months, including data on changes in Recommendations. Please be aware that certain informal Recommendations may be excluded.

11. Previous Reports

[Link to previous reports](#)

12. Disclosure of Positions

The following table presents holdings in financial instruments under the Norwegian Securities Trading Regulations section 3-10 (2) and section 3-11 (1), as well as Section 13(d) of the U.S. Securities Exchange Act of 1934. Fearnley Securities AS - consolidated with related companies and associated persons - has the following holdings of (a) equities of the Recommendation Subject that exceed 1% of the total share capital of the Recommendation Subject and (b) bonds of the Recommendation Subject in a nominal amount that exceeds 1% of the total outstanding bonds of such Recommendation Subject. The aggregate of all Fearnley analyst holdings are disclosed)

Last updated 31 December 2023	Analyst's holding		Others	
	Equities	Bonds	Equities	Bonds
Aker ASA	6	-	-	-
DNO ASA	600	-	-	-
Euronav NV	500	-	-	-
Green Minerals	40	-	-	-
Måsøval AS	1.000	-	-	-
Northern Ocean	2.000	-	-	-
SeaBird Exploration	226	-	-	-
Siem Offshore Inc	550	-	-	-

13. Disclosure of Assignments and Mandates

The following list presents information regarding any:

- (i) participation by any Fearnley party as manager or co-manager of a public offering relating to a Recommendation Subject in the preceding twelve months;
- (ii) receipt of compensation by a Fearnley party for investment banking services from a Recommendation Subject in the preceding twelve months;
- (iii) expectation that a Fearnley party will receive, or intends to seek, compensation for investment banking services from the Recommendation Subject in the following three months; and
- (iv) receipt of compensation by a Fearnley party for products or services other than investment banking services in the preceding twelve months, as well as identification of all categories of services offered (investment banking, non-investment banking securities-related, or non-securities services).

Last updated 31 December 2023








- Agilyx ASA
- Biofish Holding AS
- Borr Drilling Ltd
- d'Amico International Shipping SA
- Diamond Offshore Drilling Inc
- Edda Wind ASA
- Havila Kyrstruten AS
- Himalaya Shipping Ltd
- Hunter Group ASA
- Kyoto Group AS
- Maha Energy AB
- Odfjell Drilling Ltd
- Okea ASA
- Reach Subsea ASA
- Seadrill Limited
- Seenergy Maritime Holdings Corp.
- SFL Corporation Ltd
- Shelf Drilling Ltd
- Stainless Tankers ASA
- Subsea 7 S.A
- Tidewater Inc
- Transocean Limited

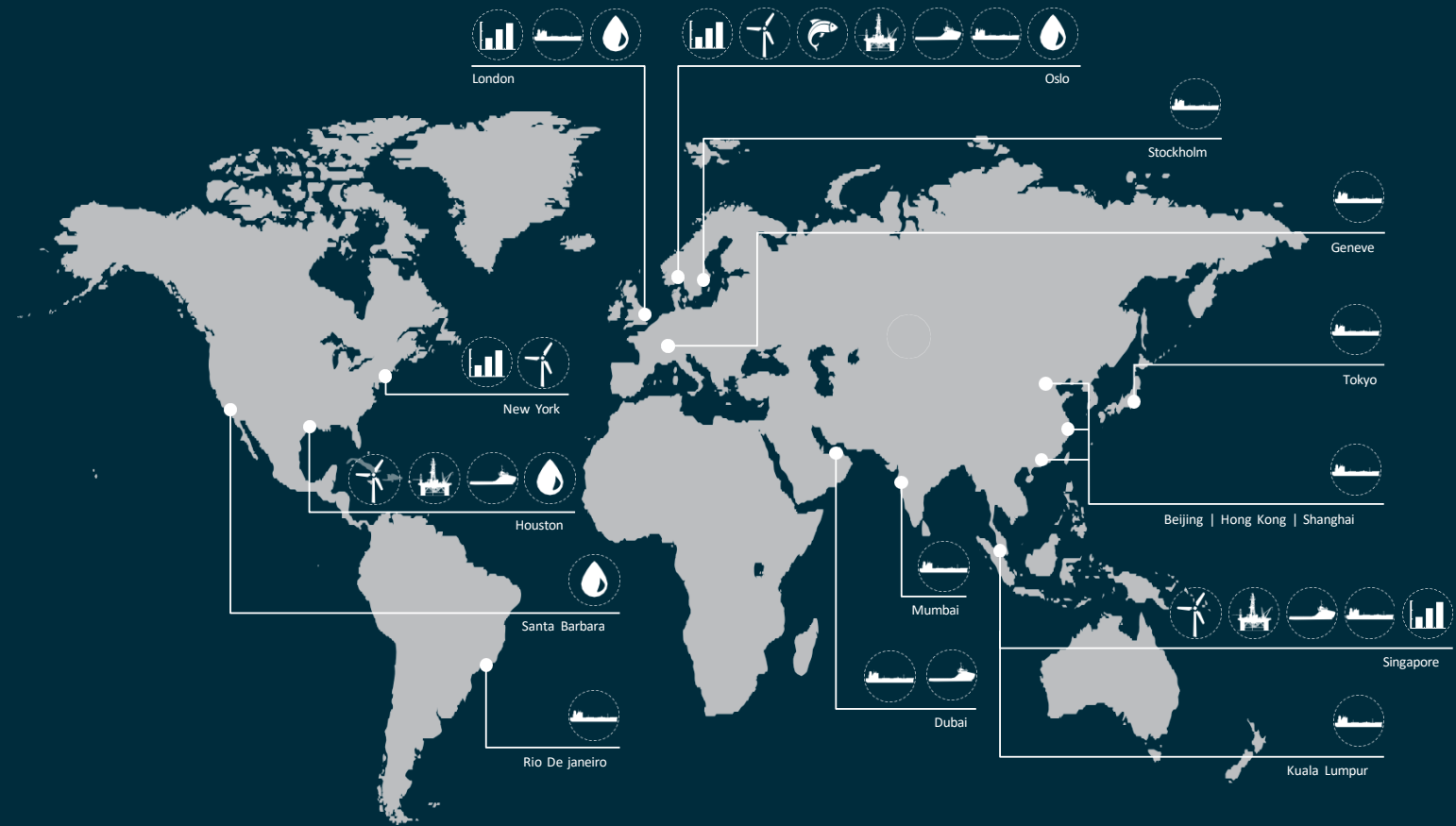
14. Statistics

The following table presents information pursuant to Commission Delegated Regulation (EU) 2016/958, including quarterly statistics regarding the ratio of Recommendation categories issued by Fearnley Securities AS, as well as the corresponding ratio of Recommendation categories issued with respect to Recommendation Subjects for which Fearnley Securities AS provided investment banking services during the preceding twelve months.

Last updated 31 December 2023

Rating distribution			Investment banking relationship		
Buy	Hold	Sell	Buy	Hold	Sell
84%	12%	4%	95%	5%	0%

-  Investment Banking | Direct Investments
-  Renewable Energy & Cleantech
-  Aquaculture
-  Shipping
-  Offshore Rig
-  Offshore Supply
-  Energy Broking



- | | | | | | |
|---------|-----------|--------------|----------------|---------------|-------|
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| Beijing | Hong Kong | London | Stockholm | Shanghai | |
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