ENVERUS

Oilfield Pulse

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DUC uptick hints frac shortage starting to drag on output

The nation's DUC inventory rose for the first time in more than two years as drilling rigs have become easier to find than pressure pumping spreads. Shortages of completion crews are also taking a toll on U.S. crude production, Enverus Intelligence® | Research reported in its latest FundamentalEdge report.

After 22 months of 100+ declines, DUC inventory dipped just 48 May to September.

The October increase in DUCs was minuscule—an increase of eight from September's record low of 4,400. Still, the DUC inventory has clearly reached a trough. After peaking at 8,797 in June 2020, the U.S. lost at least 100 DUCs every month from July 2020 to May 2022. However, the declines have slowed dramatically in recent months, with the inventory falling by just 48 DUCs overall between May and September.

The 2020 surge in DUCs came during the COVID crude price collapse as E&P companies kept rigs under contract but avoided completions to restrain production. When prices recovered, E&Ps targeted the DUC wells first to increase production while saving on capex. Now, with WTI front-month pricing above $85/bbl encouraging operators to produce, other factors must be in play. ***Read more...***

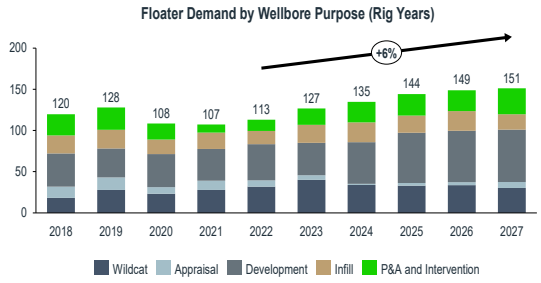
Valaris finds day rates rising but E&Ps avoiding long terms

Day rates for drillships reached roughly $400,000 in Q3 with some leading-edge rates above this level, Valaris executives said on a Nov. 1 earnings call. However, E&P clients are reluctant to sign on for multi-year fixtures, instead agreeing to contracts covering just a particular campaign.

"As we went through the beginning of the last down cycle, there were a lot of our customers who were caught [with very long rig contracts] and there was this significant amount of money that was spent on terminations," Valaris CEO Anton Dibowitz said on the earnings call. "I think there is a general reluctance from customers to contract for longer than they know they need a rig for the program that they have in place."

The higher day rates for drillships follow industry utilization rates around 90% for the past 12 months, Dibowitz said. Back in 4Q20, utilization rates were around 75%, and day rates were below $200,000. ***Read more...***

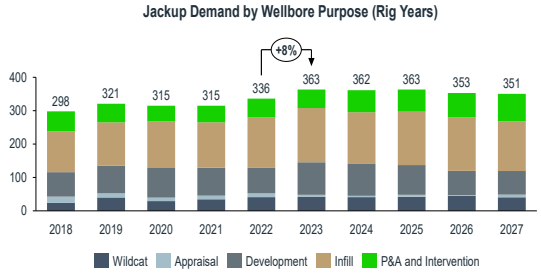
Offshore Drilling Demand to Rise Over Next Several Years



Floater demand is expected to increase at a compound annual growth rate (CAGR) of 6% over the next five years

Floater demand growth is primarily expected to be driven by development drilling

This is a strong signal of customers' conviction on the economics for deepwater projects and is positive for longer-term demand for these rigs



Jackup demand is anticipated to increase further in 2023 as operators with exposure to shorter cycle barrels are expected to ramp up production to benefit from high commodity prices

The primary driver of jackup demand is different than for floaters, with ~45% of all demand over the next five years expected to come from infill drilling

Source | Valaris 11/01/22 presentation via Enverus docFinder

Activity Index

Contracts & Projects

Aker Solutions locks up five-year subsea deal with Petrobras

Aker Solutions has been awarded a five-year frame agreement by Petrobras-led consortiums to provide subsea production systems and subsea lifecycle services for fields off Brazil that are operated by the state-run producer. In anticipation, Aker Solutions will book an order intake of NOK 1.5-2.5 billion ($140-240 million) in Q4 from the agreement; orders over the five years could reach NOK 2.5-4.0 billion.

Booking an order intake of NOK 1.5-2.5B in Q4 from the agreement.

The frame agreement will start in Q4 with a fixed period into 4Q27, and it will be managed from Aker Solutions' locations in Brazil. Work under the frame agreement will be call-off based.

The scope of the agreement covers the delivery of complete subsea production systems, including equipment such as subsea trees; Aker's latest generation of subsea controls, called Vectus; subsea distribution units; and spare parts. Over the duration of the frame agreement, the number of subsea trees to be called off could be up to 33 or more.

The scope also covers the full range of subsea lifecycle services for the Petrobras-operated fields. This will include intervention, preservation and maintenance, as well as installation services.

ExxonMobil calls dibs on SBM Offshore's next FPSO hull

ExxonMobil signaled its intent to buy a new FPSO from SBM Offshore for work off Guyana. The supermajor signed an MOU granting it exclusivity for SBM Offshore's seventh Fast4Ward multi-purpose floater hull, for use on an unnamed future project. The construction of this hull is expected to start in 1Q23.

SBM Offshore currently has two FPSOs working for Exxon at the Stabroek block off Guyana: the Liza Destiny, which began production in 2019, and the Liza Unity, which produced first oil in February. The Liza Unity was the first FPSO built based on SBM Offshore's Fast4Ward program, which incorporates the MPF hull combined with several standardized topsides modules, speeding up the design and construction process.

SBM Offshore is already building five other FPSOs, two of which are dedicated to Exxon's Guyana activities. The FPSO Prosperity is expected to produce oil before YE23. Construction just started in China and Singapore on the FPSO One Guyana, with first oil expected in 2025.

Click for More!

Exxon & Hess announce new finds on Stabroek, now at nine YTD

Keppel O&M finds work for fifth and sixth jackups

Keppel Offshore & Marine found work off Saudi Arabia for two more jackups that it originally built for clients but ended up marketing itself. A Saudi subsidiary of Egypt's ADES Group will employ the Cantarell III and Cantarell IV jackups, each for a five-year charter expected to commence in 1H23. The charters are projected to generate revenue of about S$155 million ($113 million) for Keppel O&M, which includes modification work to prepare the rigs for deployment.

The rigs, which will be renamed ADM685 and ADM686, are currently in Mexico and will be transported to Saudi Arabia for the modifications before commencing their charters for ADES. Both were originally delivered to Grupo R in 2019 on sale and leaseback deals, but Keppel has revoked both agreements, citing "unremedied events of default under the Grupo R Bareboat Charters arising from actions and omissions of the charterers."

These are the fifth and sixth charters secured by Keppel O&M this year. Two of the previous four also went to ADES while the others went to an unidentified drilling company in the Middle East.

New Petrobras award adds to Diamond's sparkling outlook

Diamond Offshore received a new drilling contract with Petrobras in Brazil for the ultra-deepwater semisubmersible Ocean Courage. The program will increase Diamond's backlog to just over $2 billion and enhance an already rosy forecast for 2023.

The firm portion of the Ocean Courage's contract covers four years with an unpriced option for an additional four years. Diamond said the total estimated value of the firm term is $429 million, which equates to a $294,000 day rate, although the total also includes a mobilization fee and the provision of certain additional services.

The driller expects to sign the new contract soon. The project will start in late 4Q23 after the 3Q23 conclusion of the rig's current contract with Petrobras and new contract preparations.

2023 revenue forecast of $950-990MM would be Diamond's highest since 2018.

Diamond already is looking at a strong 2023 with its rigs contracted for 75% of available days, excluding planned shipyard days. CFO Dominic Savarino placed preliminary revenue estimates for 2023 at $950-990 million, which would be Diamond's best since 2018's $1.06 billion. The Diamond fleet's expected average day rate for 2023 is $285,000 compared with $235,000 for Q3.

In its Q3 earnings, Diamond reported net income of $5.5 million, its first positive net since 1Q18 thanks to a non-recurring $23 million non-cash tax benefit. However, the company posted an operating loss of $7.6 million. Contract drilling revenue reached $190 million in Q3, its highest since 1Q20.

"With rig supply tightening in most markets, we saw direct negotiation opportunities double in the third quarter as compared to the second quarter," CEO Bernie Wolford said during the Nov. 8 earnings call. "In the U.S. Gulf of Mexico, where drillship capacity is nearly sold out, we are seeing opportunities emerge for direct negotiations on term work commencing in 2024."

Contracts & Projects

Shelf jackup going back to work in 1Q23 after idle 2022

Inactive for more than a year, the Shelf Drilling jackup Harvey H. Ward secured a five-year contract with an unidentified customer for operations in the Persian Gulf. The contract value for the firm period, including mobilization revenue, is about $192 million. The contract also includes a two-year option.

Prior to the startup of operations, scheduled for late March, the Harvey H. Ward will complete an upgrade and contract preparation project in the UAE. Built in 1981, the Harvey H. Ward was last upgraded in 2011.

The jackup worked for ONGC off India from February 2018 to May 2021 but has been idle since that contract ended. Shelf currently has 10 jackups off India: seven active, two out of service for a few months between ONGC contracts, and the Harvey H. Ward, the only one completely inactive.

Saipem collects another $800MM in offshore drilling contracts

Saipem received five new offshore drilling contracts—three in the Middle East and two in West Africa—valued at a total of $800 million, net of the leasing costs of the vessels used for the works. The company has now been awarded offshore drilling contracts totaling €1.6 billion ($1.66 billion) since the beginning of the year. At the end of Q3, offshore drilling accounted for €797 million of Saipem's €21.5 billion backlog, which is dominated by its energy and construction segments. Offshore drilling accounted for €80 million of its €81 million of EBIT for the first three quarters of 2022.

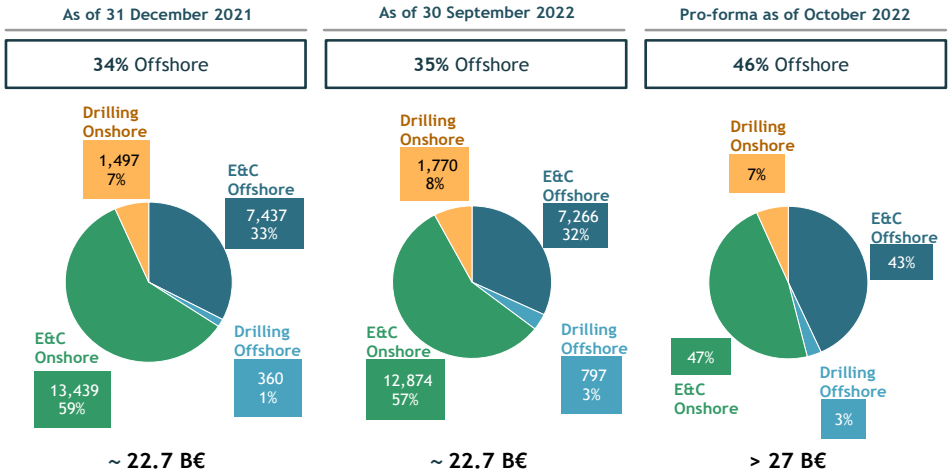
Offshore drilling is just 4% of Saipem's backlog but nearly all of 2022 EBIT.

In the Middle East, Saipem's Perro Negro 12 and Perro Negro 13 jackups were chartered for drilling and workover activities on specific projects. One project will have a five-year firm duration plus two optional years, while the other will involve three firm years of work plus one optional year. Both projects are scheduled to start during 2H23. The third award extends for five years an existing contract for the Sea Lion 7 jackup.

In West Africa, Saipem won two ultra-deepwater contracts for the sixth-generation drillship Saipem 12000. The first award is from Eni for drilling operations off Ivory Coast, which are expected to start in Q4 and extend the rig's activities in the area for about six months.

The second contract was awarded by Azule Energy for drilling, completion and testing of 12 firm development and exploration wells off Angola in Eni-operated Block 15/06. The work should take about 26 months. The project is scheduled to start in 2023, in continuity with the rig's previous assignments in West Africa, and includes an extension option.

Backlog Portfolio Evolution Shows Shift Toward Offshore



Source | Saipem 10/27/22 presentation via Enverus docFinder

■ Aker Solutions will continue to serve as supplier of maintenance and modification services on the Equinor-operated Johan Sverdrup field in the Norwegian North Sea. The contractor will book an order intake around NOK 0.5-1.0 billion ($49-97 million) in Q4 in connection with the award. Since production started in 2019, the company has delivered M&M services under an existing frame agreement that lasts until February 2026. Aker Solutions has delivered several offshore platforms and has been involved in all project development stages of Johan Sverdrup.

■ ExxonMobil will hire the sixth-generation semisubmersible Hercules, which is owned by SFL Corp. Ltd. and managed by Odfjell Drilling, for about 135 days off Canada and an extension option of 60 days. The new contract has an estimated value of around $50 million and is the rig's first since SFL switched its management from Seadrill to Odfjell in May. Formerly known as the West Hercules, the Hercules is expected to return to Norway in December for a scheduled special periodic survey before mobilization to Canada in 2Q23.

■ Dubai-based engineering firm Kent plc received a three-year framework contract to provide structural integrity analysis modeling services for Ineos. Kent will support the safe and sustainable structural integrity management of existing offshore facilities at the Breagh Alpha and Clipper South platforms in the southern U.K. North Sea. The contract will be led by Kent's Aberdeen office.

■ SLB entered a binding MOU to deliver core services for the wells on Orcadian Energy's Pilot project on the U.K. Continental Shelf. The company until recently known as Schlumberger and London-listed E&P firm Orcadian now plan to develop a comprehensive project agreement to detail the terms and conditions. The Pilot development plan currently calls for 34 wells. Orcadian selected Petrofac as the well operator in July.

Contracts & Projects

TGS to conduct seismic on eastern edge of Midland Basin

TGS will conduct a new onshore seismic program on the eastern edge in the Midland Basin. The Beyond Far East 3D will encompass 59 square miles primarily in the northwest corner of Mitchell County, Texas, an area that has historic production from the Clear Fork, Strawn, Sprayberry and Upper Wolfcamp intervals.

The Beyond Far East 3D survey is designed to assist in evaluating and developing the area's multi-zone potential including the Wolfcamp D, which presents itself on the eastern edge of the Midland Basin. Data acquisition is expected to begin in 1Q23, with final data available to clients in early 3Q23.

"The data will be processed by TGS utilizing its modern land imaging technology to provide clients with greater reservoir understanding," TGS Western Hemisphere EVP David Hajovsky said. Beyond Far East 3D is complemented by TGS's extensive geologic products database with interpretive products and data from more than 250,000 wells in the basin. This project is supported by industry funding.

Valaris finds day rates rising, E&Ps avoiding long terms From PG.1

Valaris still has some stacked vessels, but to make reactivations economical, the company will need a program with day rates at least in the high $300,000s and an 18-month or two-year contract. The company did better than that for its last reactivation. In July, it unstacked the drillship DS-17 after five years for Equinor off Brazil in exchange for a 540-day contract for a backlog value of $241 million—roughly equivalent to a $446,000 day rate—plus $86 million up front for mobilization costs, reactivation costs and capital upgrades.

The company also has options to take delivery of two newbuild drillships, the DS-13 and the DS-14, by YE23. Otherwise, new offshore drilling rigs will be scarce.

Newbuild orders unlikely on high build costs, long lead times & shipyard limits.

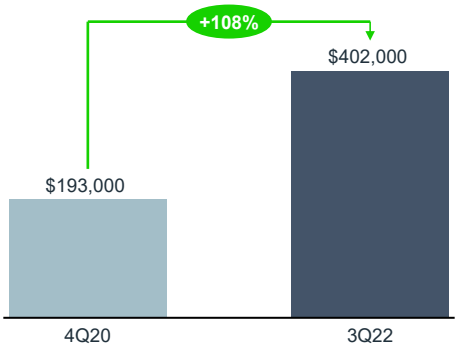
"It is unlikely that we will see another flow to newbuild cycle, given high build costs, long lead times and limited shipyard availability. Therefore, we anticipate that the current rig fleet will form the basis of supply for the foreseeable future," Dibowitz said.

Activity and day rates for benign-environment jackups are increasing as well, but demand remains soft in the North Sea. Jackup rig years awarded over the last 12 months are more than double those of the previous 12 months, and rig years of open demand at the tender or pre-tender stage were 20% higher at the end of Q3 than six months earlier, primarily because of demand from the Middle East.

Harsh-environment jackups are not doing as well. Valaris has three jackups capable of working off Norway, but one had already moved to the U.K. to find work, and another should relocate after its current contract ends in Q4. The third will complete its contract in 1Q23 with "limited" prospects for further work off Norway, Dibowitz said. Valaris expects improved demand off Norway in 2024. Even off the U.K., utilization will be "somewhat challenging" in 1H23, but work should commence in 2H23, he said.

Higher utilization and higher day rates sent revenue to $437 million in Q3, up from $413 million in Q2. Net income fell sequentially to $78 million in Q3 from $113 million, although Q2's results were inflated by a $135 million gain on the sale of three jackups.

Average Day Rates for Drillship Fixtures Signed



Source | Valaris 11/01/22 presentation via Enverus docFinder

Valaris deepwater drillship will work for BP off Egypt

BP has awarded the Valaris Ltd. drillship Valaris DS-12 a four-well contract off Egypt. The contract is expected to start in late 3Q23 or early 4Q23 and has an estimated duration of 320 days and value of $136.4 million including a mobilization fee, just under a day rate of $375,000.

The vessel is expected to be used for BP's development drilling campaign at the deepwater Raven field, the third and final development phase of the supermajor's West Nile Delta project. Additional work may include an exploration well on the nearby North King Mariout Offshore block, for which BP won natural gas exploration rights in June.

The Valaris DS-12 is engaged in an eight-month campaign for BP off Mauritania and Senegal that ends in December and then will work in 1Q23 for an undisclosed customer off Angola.

■ Denmark-based Semco Maritime will provide five years of manpower and construction services on offshore installations in the Danish North Sea for TotalEnergies. The new contract started Nov. 1 and runs through October 2027. The contract establishes a framework for extended collaboration in existing projects and for the provision of manpower in ad hoc projects. Semco Maritime expects the contract to cover more than 1 million work hours.

■ TGS commenced the Tannat 3D PSDM Repro reprocessing program covering 25,000 sq km of 3D seismic data off Uruguay. The data will be regionally integrated and reprocessed using advanced techniques, including de-ghosting, improved velocities and pre-stack merge and migration to depth. This enhanced data, combined with TGS's existing 23,000 km of 2D seismic coverage in the area, will assist in defining of play fairways, leads and exploration targets in Uruguay's active licensing round. Early-out PSDM data will be available in 1Q23, with final products to be delivered in 3Q23.

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