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Cash up or ship out: it's the big O&M squeeze post-Swiber

Deleveraging and improving cash flow are key for offshore and marine players - but time may be running out for some, say analysts

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The offshore support vessel (OSV) segment is still haunted by a supply glut from excessive newbuilding and demand destruction from a slump in offshore drilling and EPC activities. PHOTO: BLOOMBERG

O&M watch list

Singapore

CASH flow statements and debt refinancing plans of O&M (offshore and marine) counters have come under intense scrutiny, as analysts and stakeholders attempt to distinguish players more at risk than others.

It's a wake-up call triggered by the demise of the industry's once rising star, Swiber Holdings, which is now in the midst of a judicial management exercise.

A Business Times scan of small and mid-cap O&M companies - drawn from the watch lists of equity analysts - indicates a challenging patch ahead for many.

These O&M players face four key challenges: high debt-to-equity gearing of over 100 per cent; low or negative cash flows; short-term debt of above S$100 million; and/or medium-term-note redemption deadlines running through 2019.

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BT drew on data released as at Aug 19 on Bloomberg, latest company results, and analyst reports.

Of the 14 companies on the list, 12 have short-term debt of over S$100 million, 10 have negative/low cash flow, and nearly all are highly geared.

With recovery still eluding the sector, the key to survival depends on how far industry players have deleveraged or cashed up to last through an industry shake-up in the wake of Swiber, analysts said. However, time may just not be on the side of many small and mid-cap industry players even as enquiries for oilfield services have increased.

IHS principal researcher Ang Dingli noted that oil companies have grown more accustomed to lower (but more stable) oil prices and may issue more tenders for new field developments at the end of 2016 or early 2017 as they are also being pressed to replace depleting oil and gas reserves. But Mr Ang qualified that these tenders will be released at a more deliberate pace and for limited projects.

He also warned that only "a few fortunate O&M players" - primarily large- cap yard operators with established track records in executing engineering, procurement and construction (EPC) projects - may benefit from any uptick. The rest would have to tread water at least until the end of 2017.

Mr Ang noted that EPC contractors - primarily those with a yard presence - have "already done what they could to lower costs either through restructuring or retrenchments of non-core staff".

He sees a lack of demand for their services as the bigger setback. Adding to the woes of small and mid-cap EPC contractors is excess capacity, partly from overinvestment in the module fabrication sub-segment in the days of high oil prices.

These contractors also face challenges from higher local content requirements imposed by some national oil companies that could restrict participation in subcontract work for new EPC awards.

EPC awards would also take months to multiply into contracting opportunities for supporting services including those for offshore support vessels (OSV).

The OSV segment is still haunted by a supply glut from excessive newbuilding and demand destruction from a slump in offshore drilling and EPC activities. Pareto Securities chief executive David Palmer said: "There is a tsunami of newbuilding (OSVs) completed and ready for delivery that are sitting in the yards."

The key uncertainty, according to Mr Palmer, is that "the exact number of newbuilding OSVs is indeterminate" and that "most industry numbers are understated". He suggested the supply glut - though more prevalent among shipshape OSV assets - has also compromised demand for liftboats, which were once touted as an asset class still above water.

One estimate is that hundreds of OSVs have yet to be delivered from China. M3 Marine's managing director Mike Meade noted that Chinese shipbuilders have tried to link up with active OSV operators to offload the excess vessels (resulting from defaults on shipbuilding contracts). The result could be more vessels competing for work in an already oversupplied OSV market.

One of the world's largest OSV owner-operators, Tidewater, recently breached an interest covenant, sparking speculation that the New York-listed player may file for Chapter 11 bankruptcy protection if it cannot secure waivers from its lenders and noteholders. Tidewater is headquartered in New Orleans and operates as a private-owned entity in Singapore.

On the situation here, Gibson Dunn & Crutcher LLP partner Robson Lee warned: "Holders of unsecured bonds issued by a company that has become mired in dire financial straits (such as Swiber) will have very little recourse to recover their investments in the event of an insolvent winding up." He noted that in such a situation, there is certainly no chance of any redemption. Others noted that bonds or debts in the O&M sector would have to be restructured (which typically involves either a substantial haircut or conversion to equity) or their repayments deferred. Support from lenders will be crucial.

Regional maintenance, repair and overhaul (MRO) solutions provider Mencast has, for instance, secured loan and credit facilities of up to S$74.9 million from UOB that will go towards redeeming S$50 million of outstanding bonds due on Sept 12, refinance certain liabilities, and provide for its working capital needs.

In Swiber's case, the affidavit for its judicial management application indicated that it had taken up lending facilities from DBS to repay medium-term notes due in June and July. BT earlier reported major local banks have worked with Swiber as well as Pacific Radiance to extend repayment deadlines for their loans. However, Swiber's subsequent troubles prompted some to ask if those efforts had been adequate in the face of a major O&M meltdown.

Unlike Swiber, some Singapore-listed players may be able to tap their cash-rich anchor shareholders. Malaysian tycoon Yaw Chee Siew, who has bankrolled Otto Marine through the years, set out earlier this year to take the OSV-focused player private. His decision to delist Otto Marine came as depressed O&M stock prices limited the effectiveness of further equity injections.

For O&M players with no cash-rich anchor shareholders to lean on, Mr Palmer extended a glimmer of hope: that the needed cash could eventually enter the system from "some unconventional sources not previously in this sector". But this may "severely dilute existing equity".

He warned that under the current excess capacity conditions (particularly severe in the OSV segment), "we will need to see more 'blood' before more sustainable capital will come in to fund companies".

But for the brave, there could be bargain-hunting opportunities. "Investors . . . have to tolerate extreme volatility and uncertainty in the short term but those who can identify companies that will make it through stand to (reap) fantastic returns," Mr Palmer said.

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