▸**WEATHERING THE STORM:** Solstad Offshore, which has an extensive fleet including the 6,400-dwt platform supply vessel (PSV) *Normand Skipper* (built 2005, pictured), is expected to lay up 13 vessels by the end of the year. **Photo:** SOLSTAD OFFSHORE

Rocky road for offshore ships set to stretch into 2017

Poor utilisation, low day rates, falling asset values and vessel impairments all look set to be the major theme for offshore vessels well into 2017

Darrin Griggs **Oslo**

Tough times in the offshore sector for shipowners now look set to continue throughout 2017 — at the least — and the "fire sales" of assets could start in the next six months, say analysts.

While numbers are down and some in the red, the latest batch of earnings results for Oslo-listed owners of offshore support vessels (OSVs) have still shown many companies to have either surpassed expectations or revealed good underlying performance and higher utilisation in some cases, according to offshore specialists at Pareto Securities.

Despite the stronger numbers, the OSV market could be coming to a tipping point for "fire sales" soon. The market is still faced with a huge oversupply of tonnage, while stalled drilling markets and delayed projects mean there is a persistent fall in demand for vessels.

As the lower demand has run head-on into high supply, OSV term rates are now down by 50% to 60% over the past 18 months for North Sea term charters and lower by 20% to 40% for other areas.

Counting vessel deliveries for this year, allowing for slippage of orders and calculating term demand, the analysts say the anchor handling tug supply (AHTS) segment could be looking at about 480 ships too many, which would give a global utilisation of 65% for 2016.

For platform supply vessels (PSVs), the outlook is also bad. The surplus of tonnage could amount to 435 units, which would give a global utilisation of 68% for 2016.

The Pareto analysts believe the market imbalance will persist well into 2017.

"The market continues to be supply driven, with the imbalance further worsened by a weakening demand side," wrote the analysts this week. "We expect no short-term improvement as there are few triggers for incremental demand and continued high supply growth even after adjusting for slippage.

"Solstad will lay up 13 vessels by year end [*see lead story, facing page*], being the first in our coverage universe to take such measures, and this clearly highlights the challenging market situation."

Because of this environment and few transactions, the analyst believe shipbrokers' vessel valuations are lagging the market.

"We expect to see a correction of this shortly, with, in general, very high leverage in the OSV space, which could force the most cash-restrained vessel owners to sell assets," wrote the analysts, pointing to the next six to 12 months as a time frame for "fire sales".

In Brief

FARSTAD SHIPPING'S NUMBERS SHOW FALLING ASSET VALUES IN TOUGH MARKET

Oslo-listed offshore owner Farstad Shipping, which has just turned in a loss of NOK 119.5m ($14.3m) for the second quarter, says "impairment tests" from independent shipbrokers point to a total decline in value of the 62-strong fleet by about 20% since 2012.

For the second quarter, Farstad booked NOK 170m in impairments on nine vessels because of declining asset values, which amounted to a fall of 9.7% for the quarter and puts the fleet value at NOK 18.5bn. It has seen a total cut of around one-fifth in three years — as Farstad says, these values fell by 1% in 2012, 3.9% in 2013 and 5.4% in 2014.

The fleet totals 62 vessels, broken down as 25 platform supply vessels (PSVs), 31 anchor handling tug supply (AHTS) vessels and six subsea vessels. One subsea newbuilding is set for delivery in November 2016.

Second-quarter revenue of NOK 1.04bn came in at about 4% below the market forecast and compares with NOK 1.05bn in the same quarter of last year.

Operating profit was a negative NOK 31m, compared with a positive NOK 179m last year, and the profit after tax was a negative NOK 119.5m this time, down from a positive NOK 47m in 2014.

The owner's earnings before interest, taxes, depreciation and amortisation (Ebitda) were NOK 365m, which was 2.8% of the consensus expectation for about NOK 355m.

Farstad's aggressive cost-cutting measures, including vessel layups, are behind the slight Ebitda beat, as operating expenses (opex) and general and administrative (G&A) costs came in about 8% lower than expected.

Of the negative NOK 31m in operating profit, the fleet contribution breaks down as a positive NOK 33.8m from the AHTS vessels, a positive NOK 24.4m from the subsea side but a negative NOK 86.3m from the PSVs for the quarter.

Farstad's contract coverage is about 65% for the second half of 2015 (or 57% excluding options) and about 54% for 2016 (or 36% excluding options).

The total firm backlog is at NOK 6.8bn.

REM OFFSHORE STAYS IN THE BLACK WITH $7.7M PROFIT AS SECTOR DOWNTURN BITES

Oslo Axess-listed owner Rem Offshore confirms in its latest earnings release to have struck agreements with lenders to reduce loan payments this year and next, while also keeping its second-quarter figures in the black.

The Fosnavaag-based company, founded by chief executive Aage Remoy, chalked up no major surprises for analysts. It cut back costs with layups and was able to rely on the performance of its subsea vessels, although details of relaxed loan payments are not known.

Rem had a net profit of NOK 64.3m ($7.7m), which is a 39% fall from a net profit of NOK 105.8m in 2014. Second-quarter revenue came in at NOK 292m, which was a 14.7% decline from NOK 335m in the same period of last year.

Earnings before interest, taxes, depreciation and amortisation (Ebitda) amounted NOK 155m, down from NOK 195m last time. This quarter's figures still resulted in an Ebitda margin of 53.1%.

During the three months, 19 ships were in operation — six construction support vessels (CSVs), 12 platform supply vessels (PSVs) and one offshore construction vessel (OCV). One OCV is under construction for delivery in 2017.

Rem says its six CSVs saw 100% utilisation on charters of various periods during the quarter. The 12 PSVs saw 74% utilisation, with six on fixed contracts, four on spot and term markets, and two in layup. The one OCV had utilisation of 81% in the quarter.

Its coverage for the rest of 2015 stands at around 62% — or 66% if options are included.

Rem calls its cash position "satisfactory" at a total of NOK 520m, which corresponds to about 10.5% of its interest-bearing debt but no loans or bonds mature this year.

With confirmation of the reduced loan payments, analysts at Swedbank say Rem is "positioned to remain with a healthy cash position during a weaker 2016".

But they add that a key focus will be on contract renewals for two CSVs next year.

Cemre delivers first of two seismic support vessels to Norway

▸**DELIVERED:** The *Ocean Dolphin* has been handed over to operator Vestland Offshore and immediately started a five-year charter to Dolphin Geophysical. **Photo:** CEMRE SHIPYARD

Gillian Whittaker **Athens**

Turkey's Cemre Shipyard continues to turn out specialised vessels, in particular for Northern European owners, with the latest delivery being the first of a pair of ships in the extreme niche for seismic support.

The 3,000-dwt *Ocean Dolphin*, delivered earlier this month, is a purpose-built, high-capacity seismic support vessel (SSV) developed by Norwegian company Salt Ship Design and compatriot owner Vestland Offshore.

The ships were ordered by Norwegian owner Norfield for operation by related company Vestland.

Norwegian offshore veteran Tor Ostervold is chief executive of Norfield and chairman of the Vestland board, which includes two other well-known industry veterans, Hans Gravdal and Per Saevik.

The 70-metre *Ocean Dolphin* has 500 square metres of deck space, a bollard pull of 55 tons and accommodation for 35 personnel.

Classed by Bureau Veritas (BV), it has an array of winches for handling seismic equipment, such as streamers. The design has evolved to allow seismic ships they support to remain in the field continuously for one or two years at a time.

Immediately on its delivery from Cemre, the *Ocean Dolphin* started a five-year time charter with Oslo-listed Dolphin Geophysical and headed for Malta its first assignment, says Vestland.

Also this month, Cemre launched another newbuilding for the Havyard group of Norway. The platform supply vessel (PSV) is the 35th ship built for Havyard group by Cemre.

The yard is one of the clutch of start-up facilities established on the Yalova side of Izmit Bay, across from the longer-established Tuzla Bay shipbuilding and repairing facilities. Some of these have proved especially successful in breaking into niche markets and in particular attracting Nordic owners.