Demand for Offshore Supply Vessels Will Drop 10 Percent Through 2017, Following Oil Price Decline and E&P Spending Cuts, IHS Markit Says

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New IHS Markit analysis says massive scrapping of older offshore vessels is necessary to rebalance market

HOUSTON (Oct. 31, 2016) – Demand for the global oil and gas offshore supply vessel (OSV) market has declined an average of 10 percent annually since 2014 and will continue to fall at approximately this same rate through 2017, according to new analysis from IHS Markit (Nasdaq: INFO), a world leader in critical information, analytics and solutions.

“Despite a significant decline in operator demand for offshore supply vessels, such as platform supply vessels (PSV) and anchor handling tug supply vessels (AHTS), the global OSV fleet continues to grow,” said Erik Simonsen, CFA, senior manager of energy costs and technology at IHS Markit, and lead author of the analysis entitled, IHS Energy: When Will the AHTS and PSV Market Recover? “This growth comes as a result of excessive new OSV orders placed during several years of growth before the oil and gas industry went into decline. As a result, we expect overall utilization for these vessels will stay below 60 percent through 2020, which is extremely low.”

A PSV is a ship specially designed to supply offshore oil and gas platforms. The primary function for most of these vessels is logistic support and transportation of goods, tools, equipment and personnel to and from offshore oil platforms and other offshore structures.

AHTS vessels are mainly built to handle anchors for oil rigs so the rigs can be towed to their location, to anchor them, and occasionally, to serve as an emergency response and rescue vessel. These vessels also transport supplies to and from offshore drilling rigs, especially in the North Sea.

Simonsen further believes that, although demand for OSV’s, which includes PSV’s and AHTS is expected to increase from 2018, this will not result in improved market terms, which along with day rates, will not recover until after 2020. The OSV market has more than 400 managers, the IHS Markit report said, and is over-ripe for consolidation, although consolidation alone will not solve the capacity problem.

“While some OSV managers may consider cold-stacking vessels as a means of buying time while they wait for a better future market, we (at IHS Markit) believe that to bring the market back into balance for both day rates and fleet utilization requires a massive scrapping plan that eliminates older vessels at levels previously not seen in the industry,” Simonsen said.

IHS Markit said that vessels built before 2000 will struggle to achieve term contracts, while spot rates in an oversupplied market will most likely only equal daily operational expenses for these older vessels, and with utilization in the spot market significantly below 50 percent of the fleet, EBITDA will remain negative.

“These older vessels will not survive until the next up-cycle,” Simonsen said. “The scrapping of these vessels, along with our IHS Markit expectation that many vessels currently under construction or those on order will not be delivered, could reduce the current fleet significantly. We believe as many as 1,000 vessels need to be scrapped or permanently removed from the fleet, including vessels under construction or on order, to achieve market balance by 2020.”
This implies that as many as 200 vessels per year for the next 5 years would need scrapping compared with an average of 25 vessels per year scrapped in recent years. IHS Markit believes cold stacking of vessels will not have the same effect as scrapping and will actually delay industry recovery and balance.

“The question remains whether the industry, with such a fragmented ownership structure, will be willing to scrap older vessels to address overcapacity in the market, which may benefit other managers with more modern fleets,” Simonsen said. “However, most oil and gas companies are not willing to enter term contracts with vessels older than 15-20 years, so those vessels will have to compete on the spot market, and that will prove increasingly difficult for those vessels when newer vessels are available at attractive rates.”

To speak with Erik Simonsen, please contact Melissa Manning at melissa.manning@ihsmarkit.com. For more information on the IHS Energy: When Will the AHTS and PSV Market Recover?, please contact sheana.hamill@ihsmarkit.com.

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