



- Jack-up utilization rates are increasing but the day rates are still low
- Over 70% of the cold stacked jack-ups are 30 years or older
- Given the high numbers of ready (warm) stacked and under construction jack-ups, there is a very high probability that most of the cold stacked jack-ups would be permanently retired next year
- The future of the jack-up market looks optimistic, but the market is still very unpredictable

Is the Jack-Up Market Self-Elevating?

Introduction

When we published our [May 2018 insight paper](#), the jack-up market was on a slow burn with no apparent sign of recovery on the horizon. However, we concluded that things could quickly change.

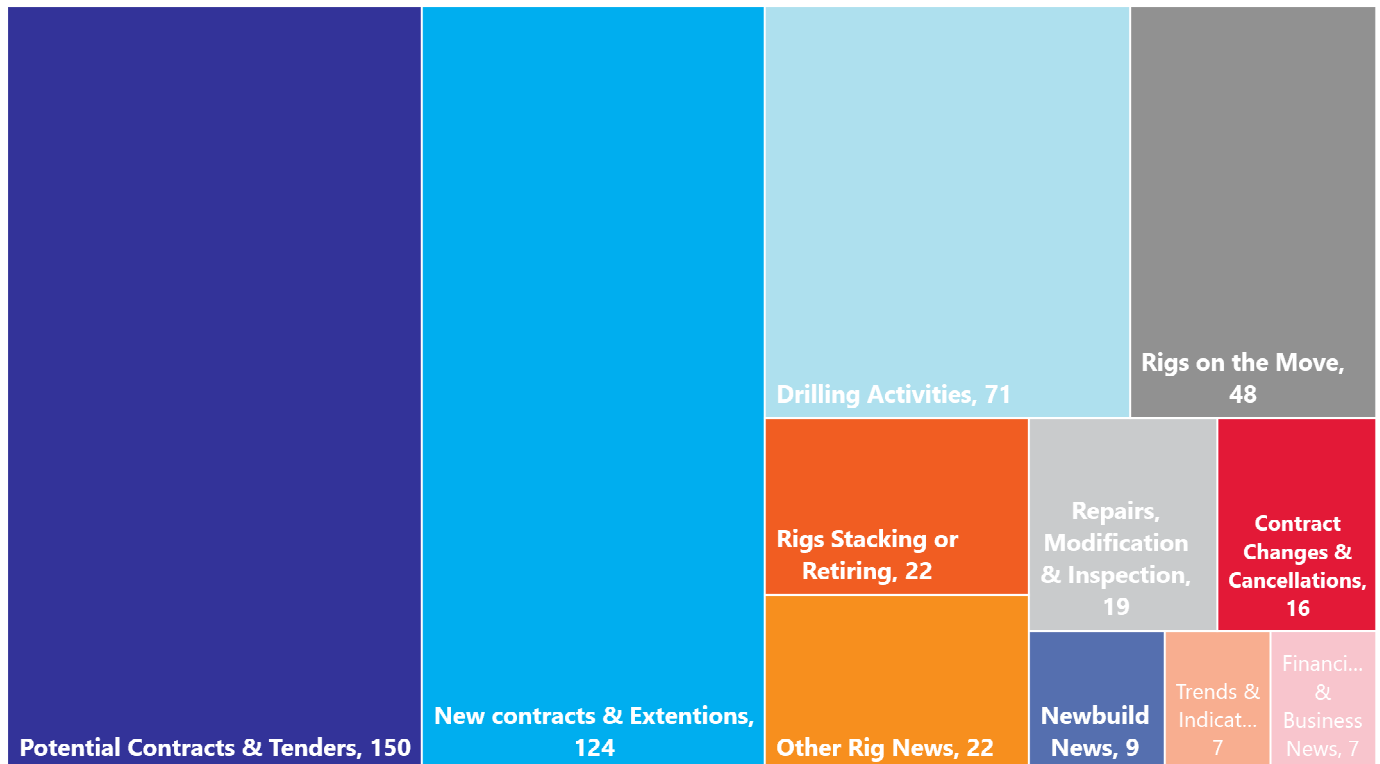
After four years of down turn, the nature and dynamics of the drilling industry calls for drilling contractors and field operators to be constantly on the lookout. Readiness is all for them to successfully plan their pick-up activities, should these arise.

As the new year approaches we decided to revisit the Jack-up market. In this month’s insight paper, we are investigating if the jack-up market has self-elevated over the past six months.

Status of the Global Jack-up Market

We started off by analysing the jack-up headline news over the last six months. We searched for articles that had a keyword “jackup” and we found there had been about 495 individual articles. The volume of the articles isn’t only what’s particularly interesting, the themes caught our attention as well. As shown in *figure 1* below, the overall theme is optimism. Most of the news stories were highlighting an uptick of the jack-up segment. For instance, there were 150 news pieces on *potential contracts & tenders* and 124 headlines on *new contracts & extensions*.

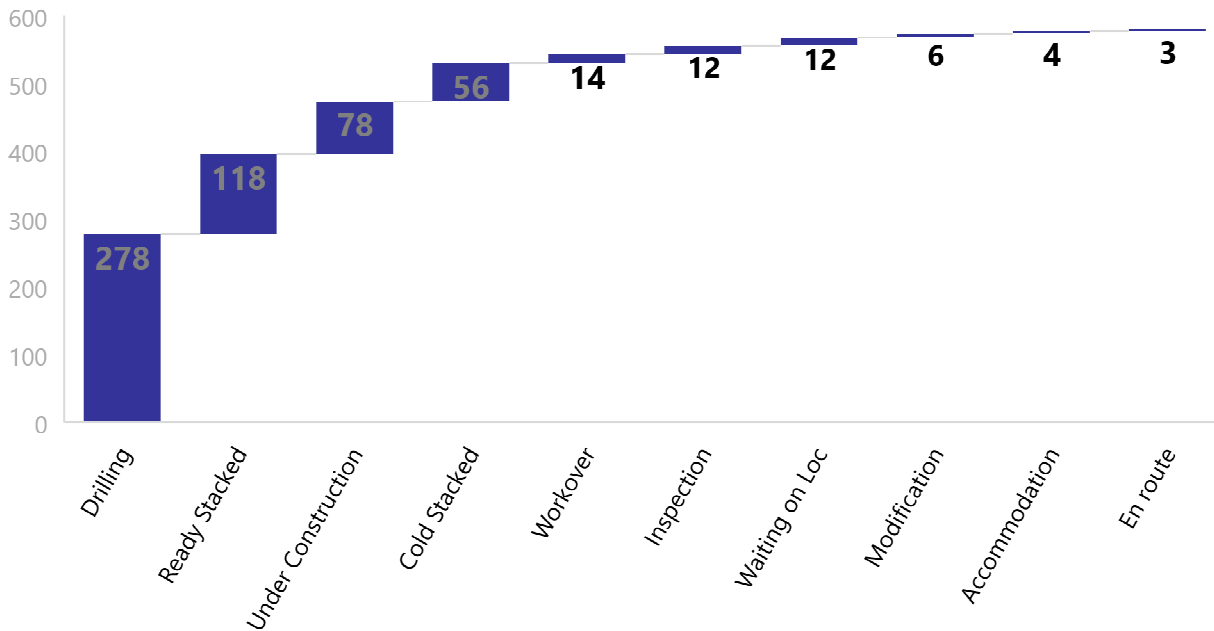
Figure 1: Daily Logix Notes per Activity Type (1st June - 6th December 2018)



Source: DailyLogix Data, Epeus Analysis (6th December 2018)

Currently there are about 581 jack-ups globally. *Figure 1* below shows the status of all the global supply of jack-ups. 48% of them are currently drilling meaning drilling activity has grown rapidly in the last six months. For instance, at the end of May 2018, there were 184 jack-ups drilling compared to 278 today, drilling activity has increased by 51%. The top five countries for the increase in activity are Saudi Arabia, China, UAE, India, and Mexico. The three “*en route*” jack-ups are heading to Egypt, Greece, and UAE.

Figure 2: Current Status of global supply of jack-ups



Source: RigLogix Data, Epeus Analysis (4th December 2018)

22 of the “ready” or “warm” stacked jack-ups are newbuilds (five years old or under). Most of these rigs are owned by Borr Drilling.

About 90% of the jack-ups under construction were ordered when the market was buoyant. Only two of the 78 “under construction” jack-ups, have firm contracts. ARO-01 which was ordered in March 2018 has a contract with Saudi Aramco and the ENSCO 123 with Premier Oil.

Currently 41 out of 56 “cold stacked” jack-ups are 30 years old or older, which begs the questions; How many of these will ever come back to the market? Are they perhaps going to end up in scrapyards? Have drilling contractors started developing a scrapping approach for their old rigs?

Given the high numbers of “ready” stacked and “under construction jack-ups” and the prevailing market conditions, there is a very high probability that most of these “cold stacked” jack-ups won’t see the light of day again and will, in all likelihood, be permanently retired.

Drilling contractors, such as ENSCO and Borr Drilling, have already started removing some of their older jack-ups from their fleets. Borr Drilling, for example, has recently permanently retired some of the old, cold stacked jack-ups they acquired from Transocean.

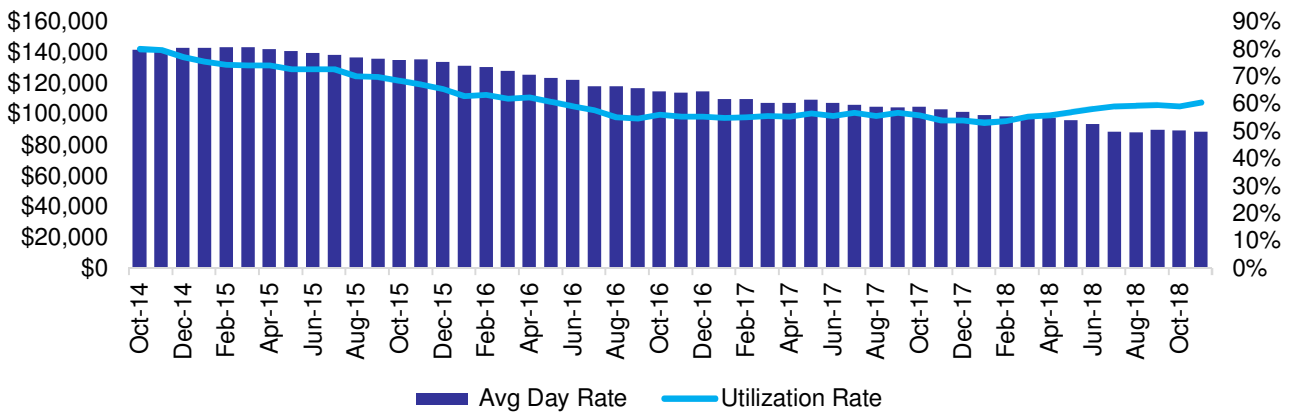
The merger between ENSCO and Rowan means they have self-elevated themselves to pole position in fleet size terms. The combined company will own 65 jackups.¹

Jack Up utilization rates started picking up from February 2018 onwards (*figure 2*). The increase in jack-up rig utilization is mainly in the premium jack-up rig segment. However, a corresponding uptick in day rates isn’t yet seen. In fact, year 2018 has recorded the lowest average day rates since the beginning of the downturn.

¹ including the fourteen owned by ARO Drilling

Figure 3: Day rates & utilization rates of jack-ups between 2014 and 2018

Source: RigLogix data, Epeus Analysis

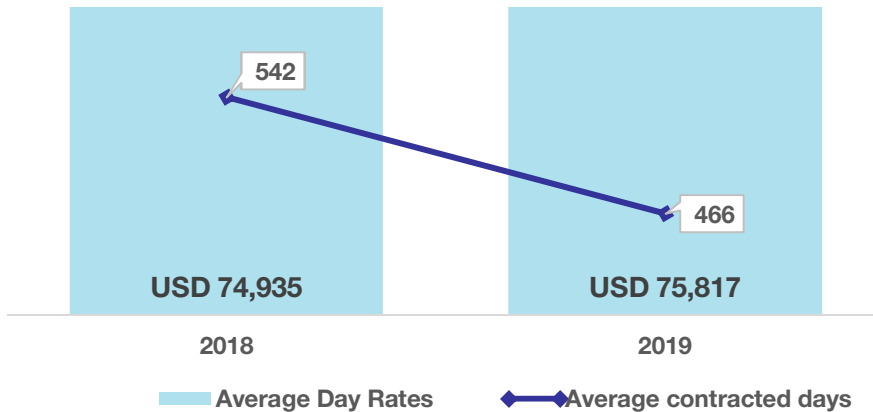


Are the day rates going to increase anytime soon?

We compared the average day rates for 2018 and contracted rates for 2019 to see if there is any sign of day rates recovery. 2019 is portraying a better picture for day rates. So far, the day rate average of the awarded contracts for 2019 is slightly higher than 2018, but still well below where it has been. As it stands, the average contracted days are lower for 2019 compared to 2018 (figure 3), although only time will tell what the actual utilization comparison will be, at the moment it is below 2018 levels.

Figure 4: Average Day Rates and Contracted Days of Awarded Contracts

Source: RigLogix Data, Epeus Analysis



Future Demand

The Middle East² has been and continues to be a driver of global jack-up contracting activity. Currently about 41% of the global jack-ups that are drilling, are in the Middle East.

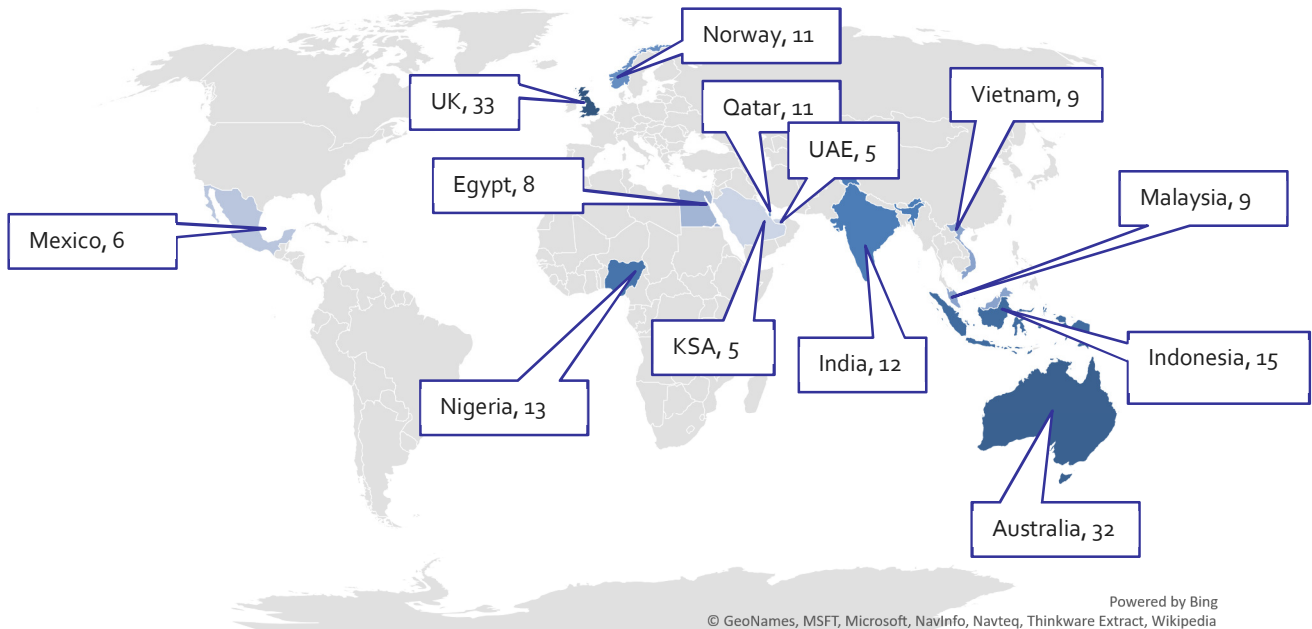
Field operators are increasingly preferring and demanding modern units. In September 2018, the industry publication, Upstream reported that Noble Corp had bought a new jack-up rig (a Gusto

² GCC countries plus Iran and Egypt

CJ46) for \$93.75 million from PaxOcean. The jack-up immediately got work in the GCC. The contract is due to kick off in early 2019 and run for three years.

However, it looks like the future market demand for jack-ups over the next couple of years won't be led by the GCC. As shown in *figure 4*, the United Kingdom, with 33 open tenders has the most tenders with Australia coming in a close second with 32 open tenders.

Figure 4: Current tenders by Country with estimated start year 2019 to 2022



Source: RigLogix Data, Epeus Analysis (6th December 2018)

Conclusion

If the drilling contractors actively address the oversupply of the jack-ups by retiring old assets (30+ year old jack-ups) during 2019, the jack-up market could balance earlier than most people predicted. For instance, McKinsey & Company, in 2015, predicted a slow recovery for the jack-up market and that it would balance around 2021.

Undoubtedly, pressure on the supply chain capacity and capability, especially the drilling contractors will increase if the jack-up market balances earlier than that predicted by most analysts. Drilling contractors would have to simultaneously handle multiple reactivation projects. Under such circumstances, project risks abound for Field Operators, Drilling Contractors and their supply chains. Rig reactivation and redelivery are projects that require a range of management skills and competencies and due to large scale, across industry downsizing during the downturn, it will be challenging for drilling contractors and field operators to secure the services and personnel required to meet any significant increase in demand.

The outlook for the jack-up market looks brighter and next year could be the year, where the jack-up day rates start to increase. Thus, Field Operators who move first will benefit from the lower day rates and better selection of rigs. However, oil price uncertainty remains, as we enter a new year.

The Epeus Group

We are an independent Project Risk Management Firm providing Advisory, Assurance, Technical Support and Project Rescue services to our clients in the Oil and Gas Industry. We help our clients to feel more certain about their investments and projects and to manage their financial and reputational risks. Our clients include those organizations that invest, own, operate, and manage large and complex projects.

For more details visit our website at www.epeusconsulting.com

Contacts

Mark Thompson
+44 7734 874749
mthompson@epeusconsulting.com

Andrea Petrone
+44 7904 190425
apetrone@epeusconsulting.com

Claudette Gaius
+44 7519 116339
cgaius@epeusconsulting.com

Information, opinions, and analysis contained herein are based on sources believed to be reliable, but no representation, expressed or implied, is made as to their accuracy, completeness or correctness. The opinions contained herein reflect our current judgment and are subject to change without notice. We accept no liability for any losses arising from an investor's, lender's or any other person's reliance on or use of this publication. This publication is for information purposes only, and is neither a solicitation to buy nor an offer to sell securities. Certain information included herein may be forward-looking, including, but not limited to, statements concerning construction, utilization rates, cost and rate increases, and the like. Such forward-looking information and associated comments involve important risks and uncertainties that could affect actual results and cause them to differ materially from expectations expressed herein. We do not have a financial relationship with any company whose stock is mentioned in this release, unless otherwise disclosed. We are not a registered investment advisor, and nothing in this publication is intended as a solicitation in connection with the making of any investment or lending decision, including without limitation buying or selling any security.