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SeaBird Exploration Plc (SBX.NO)

Q1 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Kurt M. Waldeland
Chief Executive Officer, Energy Holdings

Welcome to this presentation of the pro forma First Quarter Financial Results for Energy Holdings. My name is Kurt Waldeland, and I am the CEO of Energy Holdings. I am joined today by Viggo Pedersen, CFO of Energy Drilling; and Sveinung Alvestad, CFO of SeaBird Exploration. Before we start, I kindly ask you to have a look at the disclaimer slide regarding forward-looking statements in the presentation.

As announced earlier this week, the transaction between Energy Drilling and SeaBird Exploration formally closed on Monday, the 26th of May. We are very excited about the closing of the transaction and the successful creation of Energy Holdings. Energy Holdings will be an industrial holding company, uniquely positioned with a robust backlog and conservative capital structure. From the outset, the company will have to have a wholly-owned subsidiaries, Energy Drilling and SeaBird Exploration, both leaders in their respective fields and operating in what we view as highly attractive niches of the oil and gas service industry, with exposure primarily towards brownfield development.

Energy Holdings will have a strong focus on distributing available liquidity to our shareholders. We will also explore potential growth opportunities within the oil and gas service value chain, with a focus on opportunities that align with our distribution focus.

We are very pleased to present a strong quarter on a consolidated pro forma basis. Both Energy Drilling and SeaBird had all units operational during the quarter, reaching a healthy utilization of 96% for Energy Drilling and 86 for SeaBird. Revenue for the quarter was $59 million with an EBITDA of $32 million. This represents strong earnings growth year-over-year, strong earnings growth year-over-year, driven by both higher utilization and an increase in the day rates achieved during the quarter.

Pro forma net debt at the end of the quarter dropped to $24.3 million, corresponding to a debt-to-EBITDA ratio of 0.3 based on the EBITDA for the last 12 months. The company is now in the process of completing a refinancing of the two existing debt facility that currently sit in Energy Drilling and SeaBird.

Viggo will get back to some of the details on this, but we are very pleased to already be unlocking some of the financial and capital market synergies from our transaction, allowing us to improve both interest rate and debt repayment terms compared to the current facilities.

The revenue backlog as of the end of the quarter was $444 million, providing robust visibility for the group for 2025 and 2026 in particular. This is excluding any revenue from the LOI that was announced yesterday, which will increase our backlog significantly once the final contract is formalized.

On the back of the strong performance and solid outlook, the board has proposed a $40 million distribution for the first half of 2025. For the full year 2025, we expect to be able to distribute between $70 and $90 million. Based on current exchange ratio, the distribution for the first half of 2025 corresponds to NOK 0.56 per share.

The company is committed to distribute available liquidity to shareholders going forward. This is reflected in the board's proposed $40 million distribution for the first half of this year. As mentioned, we expect to be able to distribute between $70 million and $90 million for the full year of 2025. And we will be targeting quarterly distributions from Q3, which will be the first full quarter in operation for the combined company. The proposed distribution of NOK 40 million will be done through repayment of paid in capital and will therefore be subject to AGM approval. Payment is expected to be completed near the second half of 2025.

With that, I hand it over to Viggo to go through some of the details on Energy Drilling's performance during the quarter.

Viggo Pedersen

Chief Financial Officer, Energy Drilling

Thank you, Kurt. Pleased to announce that we've had a very good quarter for Energy Drilling with all six rigs fully operational. We saw quarter-on-quarter improvement in our utilization as the crew on T-16 and Vencedor continue to drive improvements in their operational efficiencies. Sorry about that. T-16 and Vencedor as you may know have just recently commenced contracts in November and December of 2024 respectively and has undergone significant reactivation work after we acquired the units from Seadrill.

During the quarter, we had very limited CapEx, although we do expect some of the normalized CapEx to come through the subsequent quarters and so there's no real change to that despite very limited in this quarter. We have certain upgrades to EDrill-1 and T-15 that we are doing throughout the year while the rigs are in operation on the field, so there is no downtime expected on these upgrades. Towards the end of the quarter GHTH, our semi that we are leasing in demobilized from the field and went and came to Singapore to prepare for its next contract that starts in Q4 this year. There will be some minor works done on GHTH while she's in Singapore but not anything major.

major. The EDrill-2, she had her contract, was supposed to expire in March. However, the contractor decided to exercise a well in progress clause and kept EDrill-2 busy until end of May.

Post the quarter, we also – as we alluded to, we signed a LOI for a significant contract for one of our rigs. We will come back to the market with details around this contract when we can. So out of the NOK 59 million of revenue that we generated as a group, NOK 50 million came from EDrill, and we'll come back to the split a bit later on in the presentation. But overall, a very good quarter for the fleet.

Moving on now to our backlog, which stands at about $433 million, excluding the significant contract that we've signed. As I said, all rigs were on contract during the quarter. The GHTH will have about five months off in between jobs and we'll – we will be compensated with a significant mobilization fee when we start up on the new contract. We are just awaiting a new wellhead platform to be installed on the field, and we'll mobilize as soon as it's ready to that field. But overall, our backlog stretches well into 2027. That secures our revenue and our dividends going forward and creates the stable platform for the group.

Moving on to the overall market in Southeast Asia, it still is a very healthy market activity in the region as people are still rushing to replace coal with natural gas in the energy mix. During the quarter, about 74 units were working. That is flat quarter-on-quarter. And there's quite a lot of new tenders and prospects ongoing for long-term work, with startup in 2026 and 2027. And we are looking at a couple of tenders coming up in the next month for long-term work, also for tender assisted drilling rigs.

So overall, the market for tender assist is pretty good at the moment, with all active work – active rigs working, and contracts are signed for multi-year work in most regions. We see high activity in Vietnam, Indonesia, Thailand and Malaysia over the next two years.

And with that, I'll hand it over to Sveinung.

Sveinung Alvestad

Chief Financial Officer, SeaBird Exploration Plc

Thank you, Viggo. So, let me just start with echoing the joy of having course this transformative merger for the companies. We firmly believe that this will benefit both existing SeaBird investors and the new shareholders from Energy Drilling in the years to come.

So turning to the SeaBird vertical, in short, for new investors, Seabird is a global provider of marine seismic acquisition. The company specializes in operation within the high-end source vessel and 2D market. The company owns and operates two vessels, both built in 2009 with substantial upgrades and done during the last years. More details about the SeaBird vertical is available on our webpage.

vertical is available on our web page. So let me jump into the quarter. The operational downtime for the quarter stood at 2.8%, slightly higher than the prior quarter of 1.2%, and the last 12 months at 1.9%, but still at the low level. We continue to work to minimize our downtime. And this low level is something we are recognized by our client.

Utilization for the quarter was 86%, up for 80% last year quarter, but down from the last 12 months at 93%. The quarter was impacted by our unscheduled yard-stay for the Eagle Explorer. She was previously scheduled for the yard-stay during Q3, but this was expedited and now completed. The vessel is back on contract and is commencing a project in South America as we speak. Revenues for the quarter for the first quarter was $8.5 million, down from $10.3 million the corresponding quarter last year. Adjusted EBITDA of $2.9 million was down from $4.6 million in Q1. And the decrease was due to the lower utilization, as discussed above.

Due to the yard stand scheduling of various projects, the CapEx for the quarter was high at $2.1 million. We continue to see normalized CapEx, annual CapEx in the range of $1.5 million to $2 million per vessel. And as such, we expect the capital CapEx profile for the year to be front end loaded.

Now turning to the backlog. The Eagle Explorer has, since April 2024, worked as a source vessel on OBN projects in the Gulf of Mexico for a repeat client. After the quarter end, we were awarded a 50 to 90 days extension to the current contract, giving her visibility until August, September this year. The Fulmar exploration has since 2022 worked as a source vessel on multiple OBN projects in the Gulf of Mexico and the current contracts and in September this year. The backlog as of first quarter was $11 million or $14 million to $16 million if including the contract award after quarter end. We are actively discussing contract renewals with both vessels with our existing clients and others, which brings us to the market outlook.

The short-term market fundamentals are impacted by increased geopolitical volatility, which has resulted in delayed investment decision and cash flow preservation from our clients. This has impacted our overall exploration spending and consequently delayed contracting activity. That said, we believe OBN market will continue to experience structural growth in the years to come, driven by the fact that oil companies are allocating more resources to reserves near existing infrastructure to reduce cycle time.

OBN technology also provides a better understanding of the reservoirs, and oil companies use this to optimize the recovery rate and lifespans of field. And also, this is a cost-efficient technology to increase the value of information on oil and gas fields. As for the supply side, the active fleet currently counts 14 vessels, whereas 12 is contracted. The average age of the fleet is close to 20 years where our vessels are 16. We continue to see a low risk of influx of additional vessels to the market as the current rate environment does not provide sufficient economics to justify acquisition or conversion of vessels.

That said, in dialogues with our clients, it is apparent that securing critical resources such as source vessels is high on the agenda. And as such, our contract renewal discussions with both existing and potential new clients are based on longer-term basis.

So now turning to the consolidated [ph] pro forma 00:14:11 financials. I give it back to you Viggo.

Unverified Participant

Thank you, Sveinung. So on a consolidated pro forma basis, we generated about $59 million of revenue. That's driven primarily by having all rigs on contract during the quarter at significantly higher rates while we maintain cost control and pretty much flat OpEx.

I think the key one here is the SG&A that was higher that's primarily driven by the cost of the – combining the two companies and setting it all up. And we expect on a normalized basis going forward to stay in line with what we've guided around $12 million a year.

So EBITDA and – it was around $32 million, which is pretty decent for the quarter. I think we'll come back to the cash conversion in the company, but it remains solid. And you can see the year-over-year growth is significant, driven again by the higher activity across the fleet as we then had all rigs in operation following the reactivation from the [ph] Seadrill 00:15:25 acquisition.

Turning to the cash situation, we generated about $30 million of cash in the quarter. Again, real testament to the cash conversion of this fleet from an EBITDA of about from an EBITDA of about NOK 32 million.

We had some CapEx that was primarily related to [indiscernible] 00:15:50 vessels being in the yard, front-loading some of the work that they had planned for the year. And we've kind of back ended some of our work later for this year.

We made a significant debt repayment during the quarter. That was as per the existing facility agreement that we had in place. And we also then paid a cash distribution that was previously announced by SeaBird prior to the merger. So we maintain a healthy liquidity position for the group. We still need to hold some of the cash going forward but we think that, $30 million is above what we need for the group on a consolidated basis, on a go forward basis.

Moving on to our debt situation, we maintained a very good relationship with our banks. The company has throughout the years been supported by big commercial banks. And we have now just designed a new facility for $75 million where we are even increasing our syndicate. So, we're expecting the syndicate to be able to support additional accretive growth for the group as we go forward.

All in all, the interest rates that we're paying is in a downward trend and if we were to swap the existing facility, if you at an all in interest cost of about 7.5%, which we believe is pretty industry leading in this segment. Overall, we expect that as we draw down this new facility, we're kind of increasing our leverage metrics somewhat from about 0.3 to 0.55. But again, very, very limited debt in the group, supporting ongoing dividends, and enabling us to act on accretive transactions as we move forward. So I think that's one of the key points for us. We do intend to make sure that our debt profile remains conservative and that gives shareholders comfort that dividends will be coming on a go forward basis.

With that, I'll pass it back to Kurt.

Kurt M. Waldeland

Chief Executive Officer, Energy Holdings

Thank you, Viggo. So we believe that the very robust backlog, paired with a conservative debt level, puts us in a unique position compared to many of our peers when it comes to both visibility and risk. Based on the estimated cash flow from the existing backlog, we expect to be able to make significant distributions for 2025 and 2026 while also reducing the company's debt.

As illustrated in the chart on the left-hand side, the estimated residual value after distributions from our current backlog or the forward enterprise value will be significantly reduced. As illustrated on the right-hand side, the company has significant EBITDA and cash flow capacity with an estimated run rate annual EBITDA of NOK 130 million based on the day rates we are currently observing in the market.

And of course, there is significant upside to this when day rates increase from current levels. As mentioned, the backlog at the end of the quarter was $444 million with strong coverage for 2025 and 2026 in particular. We are currently working to fill the order books for 2027 and beyond. And the LOI announced yesterday, which is not included in this chart, will add significantly to the backlog once the contract is formalized.

This creates a very strong foundation for continued distributions beyond 2025.

So to summarize the key highlights. The strong backlog, high cash conversion from operation and robust balance sheet enable significant distributions to shareholders for the full-year of 2025 and beyond. We will continue to optimize the balance sheets and realize financial synergies to further increase strategic flexibility and distribution capacity. In addition, we are exploring accretive strategic opportunities within the broader oil and gas service value chain. However, we will remain disciplined and focused on opportunities that support the company's distribution capacity. Thank you for your attention so far. I think with that, we will start to go through any questions that have been submitted.

QUESTION AND ANSWER SECTION

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So first one, what determines the level of the range of $70 million to $90 million for distribution guidance? I think as is evident in the backlog earnings and cash flow from operations, part of the distribution equation is fairly stable and we have good visibility on that. What led us to provide a range for the guidance is that, as Viggo mentioned we have two rigs now between contracts that are going through very limited modification work. While we don't expect any large increase in the budget for those modifications. There is some uncertainty to that and we wanted to provide a range for the distribution capacity for the full year. In addition, there is still open days for the SeaBird vessels for the remainder of the year that could further – could have – would have an impact on the actual total distribution for the full year.

Then I'll move on as a question regarding our non-owned rigs and whether or not we hold fixed price options on these assets and a potential strategy for taking them out. I think GHTH, which is the semi we do not hold a fixed price purchase option. We have fixed price purchase options for two barges, MTR-3 and MTR-4 in China. I think our strategy there is to secure a long-term contract that supports taking those out of the yard. And we do not intend to cannibalize our own market without having significant accretive contracts that will contribute to the distribution potential. I think that's fair to say.

Next question. How sensitive is the energy drilling to the oil price? In particular, is there an oil price level where there's risk that the options will not be declared? So I think it's – we got to differentiate a little bit here because our rigs are primarily involved in drilling natural gas wells on existing fields that deliver piped natural gas straight into combined cycled power plants. So, this basically means that the natural gas that was produced is used to generate electricity in countries like Thailand and Malaysia, Indonesia and so on and so forth. So for them, these are existing fields. The cash breakeven for them to operate and produce is around 7 to 8 barrels equivalent. So, yes, of course, there is pressure if oil and gas prices are extremely low. But I think over the last two decades, you've seen that tender rigs have been in activity in drilling most of the time even when oil price was $10.

So, the need for – to maintain output from the existing reservoirs that these are operating is there. These are long-term take-or-pay offtake agreements with the natural gas. So, the oil majors all have to deliver gas. Yes, there are risks because people may change their budgets and so on and so forth. And you may end up in a situation where you're actually renegotiating instead of options. But I think it's less sensitive than other segments in the offshore drilling space.

Next question is, other than Southeast Asia, are you also looking at other potential markets? Are tender rigs viable for other geographical areas, Middle East, etcetera? The short answer is yes, we do. We are looking at West Africa. That traditionally had been a big tender assist drilling market. And we were also looking at a few other places as we speak. Historically, Middle East has not been a target market. That's been the jack-up market, but certainly in West Africa. But, for us, with the additional political risk and cost to operate in West Africa, we would need a significant long-term contract for us to mobilize one of our assets to West Africa. So we will remain very disciplined before we do so.

Unverified Participant

I think as there are no further questions, we will conclude today's presentation. Thank you all for your attention and we look forward to presenting to you again in about three months' time. Thank you.