Fortune favours the bold

Utilization in the global OSV market has stabilized at ~50%, and the downturn has seemingly bottomed. We do not expect any meaningful demand uptick in the short to medium term, but continue to expect that an adjustment of the supply overhang will be key to improve the market balance. There has also been a notable increase in resale transactions, and we expect an increase in M&A activity going forward. We initiate coverage on GulfMark Offshore (BUY, TP USD 41), MMA Offshore (BUY, TP AUD 0.34) and Tidewater (BUY, TP USD 44). We maintain our HOLD recommendation for Solstad Farstad ASA, but lower our TP to NOK 7 (8).

Global OSV utilization stabilizing at ~50%

Utilization in the global OSV market has stabilized at ~50%, in spite of the working fleet coming down the past months, in line with the seasonal pattern. Whilst the rig count remains depressed, a general increase in offshore activity has been positive, and OSV tender activity is slowly improving. This has yet to materialize in higher dayrates, but with utilization stabilizing, we expect the worst to be behind us.

Adjustments of cold stacked tonnage key to improve market balance

We continue to highlight supply side adjustments as the main catalyst for a market improvement. The cold stacked fleet continues in our view to be key, with ~30% of the global fleet cold stacked. A substantial part of this fleet is not expected to return to market, with a significant market improvement required to justify reactivation costs and deferred maintenance expenses. Furthermore, whilst we see some yards taking action to clear orderbook inventories, only ~50% of the orderbook is expected to enter service.

Vessel values picking up, albeit still at significant discounts

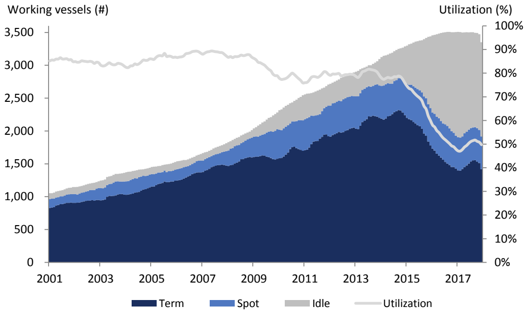
There has been a notable increase in resale transactions the past year, as both financial and industrial investors are looking to take advantage of the distressed market. This has resulted in that the bid ask spread seemingly has narrowed, and valuations have also picked up from the bottom, although marginally. We expect an increase in M&A activity going forward, although it is difficult to foresee meaningful industry consolidation.

Investment considerations

We initiate coverage on GulfMark Offshore (BUY, TP USD 41), MMA Offshore (BUY, TP AUD 0.34) and Tidewater (BUY, TP USD 44). GulfMark and Tidewater have both emerged from Chapter 11, with lean balance sheets and are trading on discounts to replacement values. MMA Offshore is a niche player in the OSV Australian market. We lower our TP for Solstad Farstad to NOK 7 (8), due to a lower NAV, and maintain our HOLD recommendation.

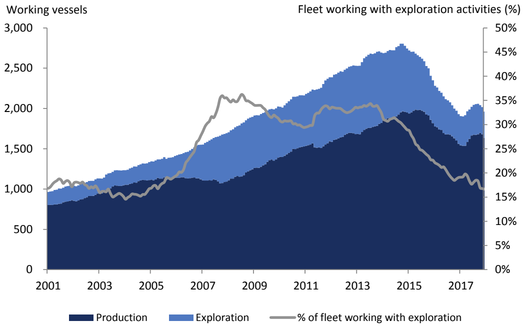
Sector OSV

OSV utilization



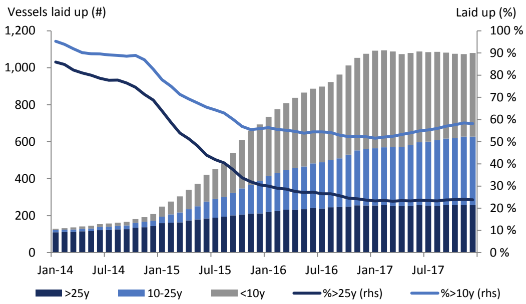
Source: Pareto Securities Equity Research

Allocation between production and exploration



Source: Pareto Securities Equity Research

Cold stacked fleet



Source: Pareto Securities Equity Research

Coverage

	Ticker	Local TP	Recommendation
GulfMark Offshore	GLF	USD 41	BUY
MMA Offshore	MRM	AUD 0.34	BUY
Solstad Farstad	SOFF	NOK 7 (8)	HOLD
Tidewater	TDW	USD 44	BUY

Analysts

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Investment considerations

GulfMark Offshore – GulfMark Offshore has emerged from Chapter 11, with a significantly leaner balance sheet and liquidity runway. The company is trading at a discount to firesale values, which we find unwarranted. We initiate coverage with a diluted TP of USD 41, in line with our NAV. This implies 46% upside from the current share price, and we initiate coverage with a BUY recommendation.

MMA Offshore – MMA Offshore is a leading player in the Australian OSV market. The company recently secured a liquidity runway through the downturn by raising equity and amending its bank debt facilities. The company is currently trading at a discount to replacement values and newbuilding parity, which we find unwarranted. We initiate coverage with a TP of AUD 0.34, in line with our NAV. This implies 17% upside to the current share price, and we initiate coverage with a BUY recommendation.

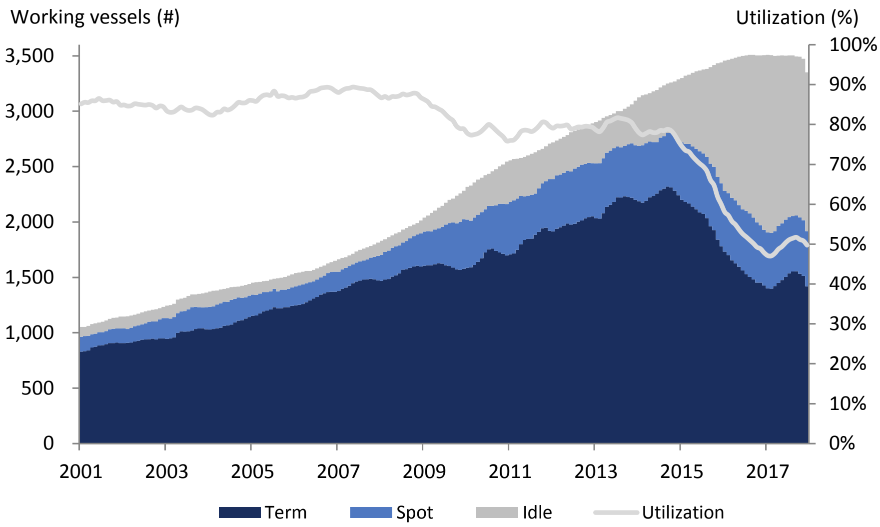
Solstad Farstad ASA – Solstad Farstad is the largest North Sea OSV operator, and holds the fourth largest OSV fleet globally. Whilst the company is highly leveraged, it is backed by two strong sponsors through Aker ASA and Hemen Holding (Mr. John Fredriksen). We lower our NAV to NOK 7 (8) on asset sales and lowered values for cold stacked assets, and subsequently lower our TP to NOK 7 (8). Whilst this implies some upside to the current share price, we maintain our HOLD recommendation to due high leverage.

Tidewater – Tidewater holds one of the largest OSV fleets globally, well positioned across all asset classes and regions. The company emerged from Chapter 11 last year, with zero net debt, and well positioned to take advantage of the current market downturn through M&A. We initiate coverage with a diluted TP of USD 44, in line with our NAV. This implies 58% upside from the current share price, and we initiate coverage with a BUY recommendation.

Sentiment improving as market bottoms

The downturn in the OSV market has seemingly stabilized, with global utilization now at ~50%. This obviously varies between asset classes and regions, but even utilization in the most supply riddled regions seem to have bottomed. In the current market, poor vessel economics do not justify vessel reactivations as dayrates remain largely at break-even levels. Reactivation costs and deferred maintenance hence make reactivations uneconomical, and these constrains has been further amplified by vessel owner's distressed balance sheets and liquidity issues.

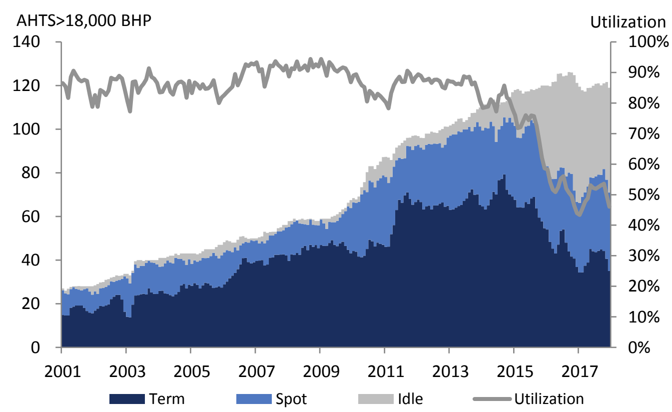
Global OSV (AHTS+PSV) fleet and utilization



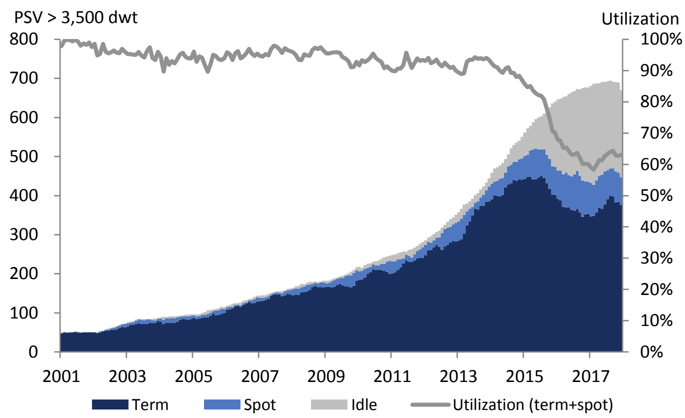
Source: Pareto Securities Equity Research, IHS Petrodata

The overcapacity in the market seems excessive, with ~1,500 idle vessels at present. We argue however that the overall market outlook does not look as gloomy, as we will outline later in this report. When adjusting for cold stacked vessels that will not return to service due to significant maintenance needs, distressed companies and vessels exceeding their 25y useful lifetime, average fleet utilization stands at 68%. We also note a clear bifurcation trend, in which larger and newer assets on average have 30-40% higher utilization than smaller and older assets. As can be seen below, the number of working vessels has been relatively flat for both large AHTS' and PSVs the past two years, whilst the overall number of working vessels has continued to decline through the same period.

AHTS >18.000 BHP, fleet development and utilization



PSV >3,500 dwt, fleet development and utilization



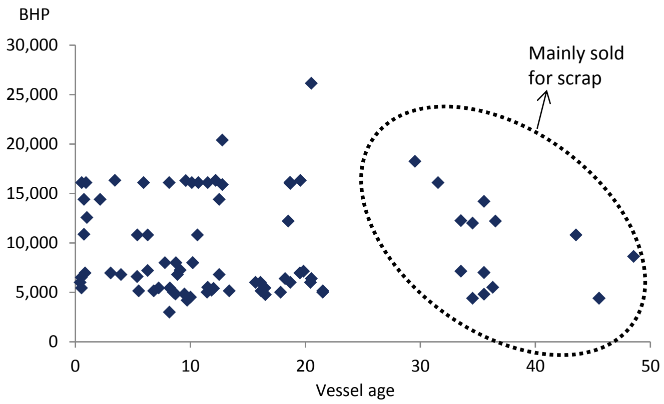
Source: Pareto Securities Equity Research, IHS Petrodata

Restructurings and liquidation processes have haunted the OSV industry the past three years, as several companies have been forced to refinance debt and secure additional liquidity. The majority of companies in the industry had highly leveraged balance sheets as the downturn commenced. As backlogs rolled off and cash flows came under pressure, leverage became unsustainable, with restructurings being the only viable option. This has also triggered some interest for industry consolidation, but the market remains highly fragmented.

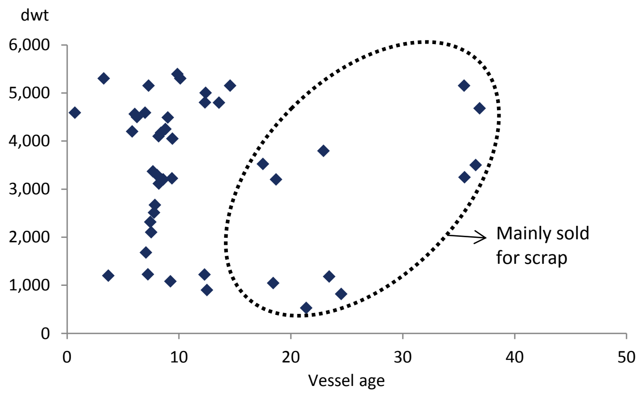
Whilst restructurings have improved the short term liquidity runway for most companies, few companies have emerged from these restructurings with significantly improved capital structures. The exception are the U.S. domiciled OSV companies that have undertaken U.S. Chapter 11 processes, and some companies with solid sponsors or which are operating in niche markets. The current market conditions have further attracted interest from both financial and industrial players, but widespread asset transactions and M&A have largely been hindered by high leverage relative to underlying asset values.

There has however been a significant uptick in second-hand asset transactions the past year, as vessel owners have been looking to divest older and non-core assets. There have also been a couple of firesale transactions of higher-end assets, in which creditors have enforced security packages. There is however a notable trend differentiating AHTS and PSV transactions. For AHTS' the majority of transactions have been for small and mid-sized vessels, but with a relatively even distribution between 0-20y old vessels. There is also a notable lack of transactions involving larger AHTS' (BHP >18,000), mainly as the majority of companies are reluctant to sell higher spec'ed assets. For PSVs the pattern is somewhat different, as the majority of transactions have been for 10y old vessels. The reason for this deviation is likely that there is somewhat limited age differentiation in bid quotes for PSVs, and vessel owners prefer to sell older tonnage.

AHTS – Size and age distribution S&P 2017



PSV – Size and age distribution S&P 2017



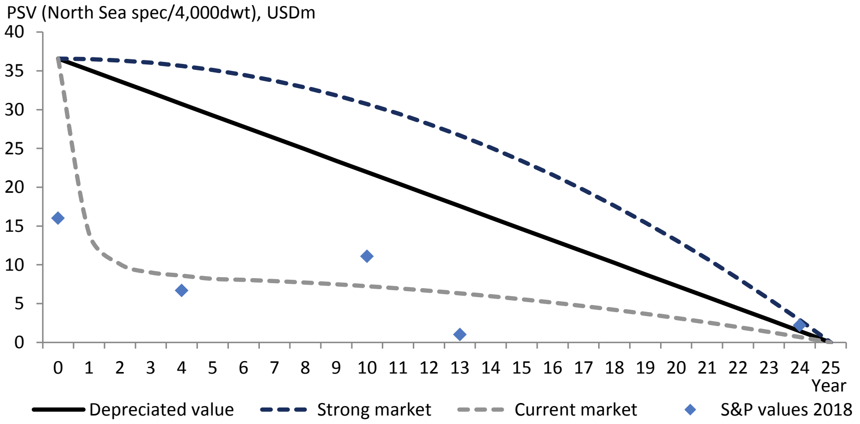
Source: Pareto Securities Equity Research

The current market conditions make the bid ask spread challenging, with the majority of transactions at significant discounts to newbuild cost and replacement values, as can be seen on the next page. We do however note that pricing seems to have picked up recently, evidenced by the recent JV established between SEACOR Marine and Chinese yard Cosco.

The JV, SEACOSCO, will acquire 8x PSVs from Cosco Guangdong (6x UT 771WP – 4,400 dwt/2x UT 771CD – 3,800 dwt). The total purchase price is USD 161.1m, including an installation of a battery storage energy system on six of the PSVs by Rolls Royce. As we estimate the value of the battery upgrade to be USD 5-6m, the implied acquisition value would be USD 15.6-16.4m per vessel (likely somewhat higher price for the UT771 WPs), and is higher than we had initially valued these vessels at. This compares with an original order price of USD 30m per vessel for the UT 771 WPs, and USD 26.25m for the UT 771 CDs. The JV will be funded 30% with equity and 70% with debt (non-recourse to equity owners). SEACOSCO will take delivery of seven of the vessels in 2018 and one in 2019, and thereafter Cosco will at its own cost stack the PSVs at its facilities for period ranging from six to 18 months.

We expect to see similar transactions being announced going forward, as yards try to reduce inventory. Some will likely be backed by financial investors, but we also expect that industrial players that have the capacity to fund such investments could try to take advantage of the current market downturn.

North Sea spec' PSV values and S&P values

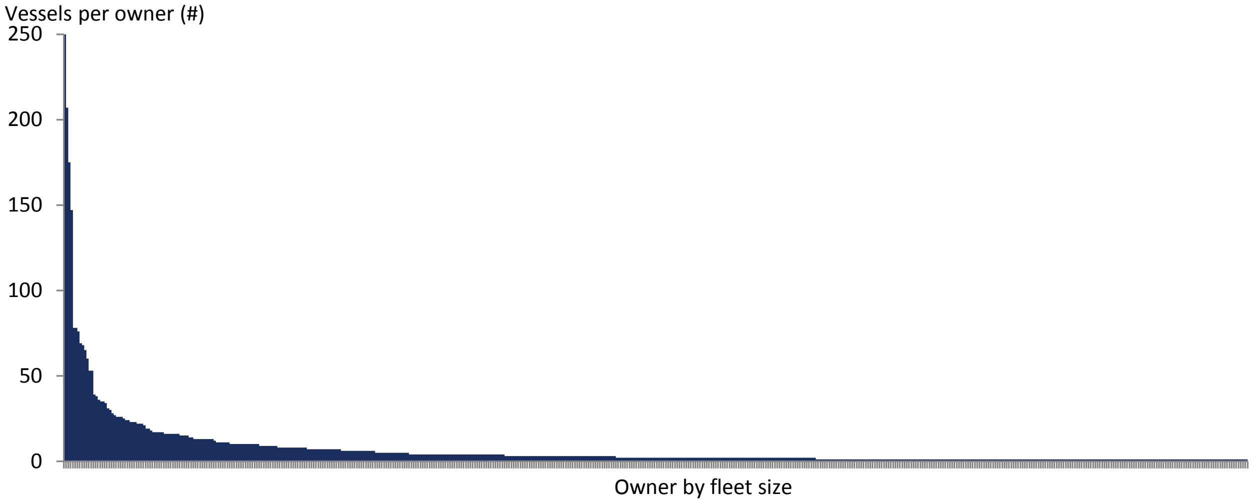


Source: Pareto Securities Equity Research

There have also been some older vessels that have been sold out of the market, or for scrap. The scrap value for an OSV is relatively limited, or in many cases zero. It is hence only the oldest and less competitive vessels that are sold for scrap. It is positive to see older vessels exiting the market, but the majority continue to operate as OSVs after being sold. We do however note an increasing number of cold stacked vessels that are assumed to be scrapped, although seemingly still in service. Whilst these vessels seem to be stacked, the actual condition of these vessels makes the likelihood of reactivation low.

Consolidation of the market would be positive for the market balance, as older vessels could be phased out, and with a more disciplined ordering activity. The market fragmentation makes it however a long way to go, with over 700 OSV owners globally.

Vessels per owner

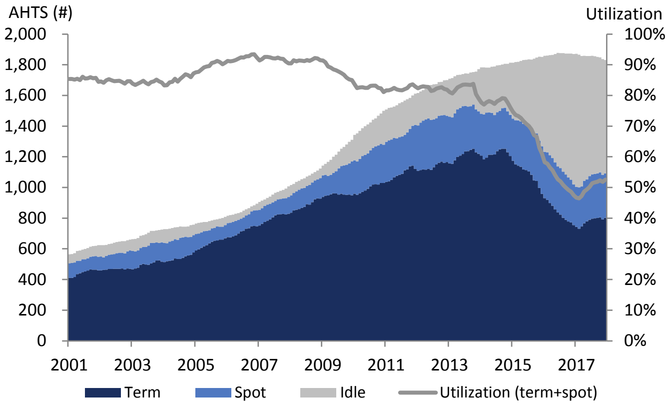


Source: Pareto Securities Equity Research, IHS Petrodata

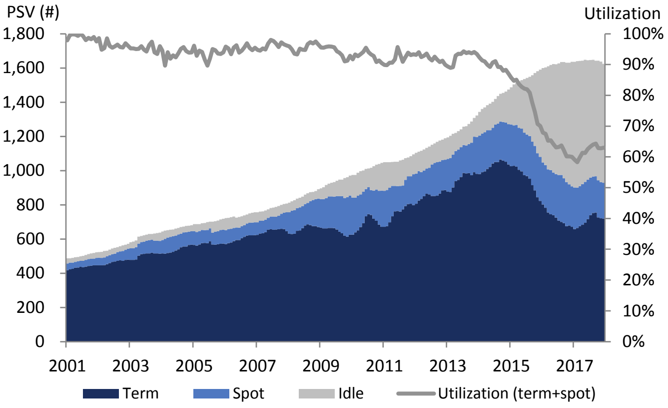
Market stabilizing, is this the bottom?

The summer season started to show an encouraging trend this year, with term demand seemingly picking up. This was largely driven by higher development drilling and seasonality, which has readjusted moving into the winter. Global utilization remains however at ~50%, implying that the market has bottomed out at the current level.

AHTS fleet utilization



PSV fleet utilization

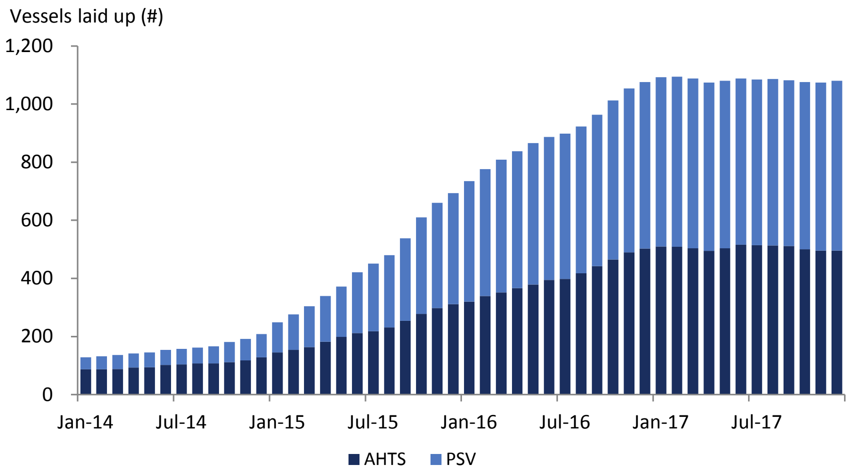


Source: Pareto Securities Equity Research, IHS Petrodata

The overall number of working vessels currently stands at ~2,000 vessels, out of a total fleet of ~3,500 vessels (1,831 AHTS/ 1,643 PSVs). This implies an overall utilization rate of ~50% (total utilization adj. for spot utilization) for the total market. We estimate current spot utilization at 45% for AHTS and 55% for PSVs, implying that although these vessels are working, spot utilization is not 100%. The overcapacity of ~1,500 vessels, of which ~1,100 are cold stacked, continues however to weigh on the market balance.

The number of cold stacked vessels has remained stable through 2017, in spite of market conditions in some regions like the North Sea improving over the summer. This is likely due to the negative short term market sentiment, as the majority of vessel owners expect any rate uptick to be short lived, hence limiting reactivations. We expect however that there is limited upside on further stacking activity, as the remaining idle fleet largely comprises newer vessels. Whilst the on-paper reactivation cost of a vessel is low, clients are hesitant towards chartering previously stacked vessels, making this a less desirable option for vessel owners if they can avoid it.

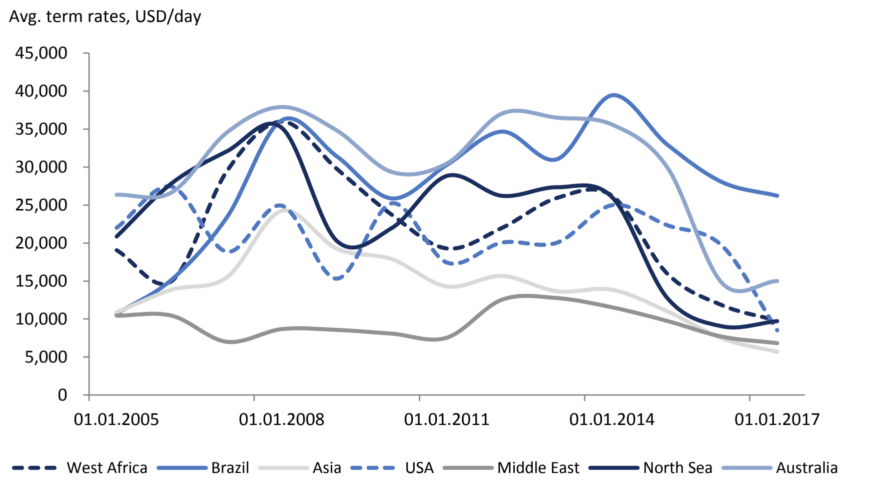
Cold stacked vessels (#)



Source: Pareto Securities Equity Research

Average dayrates (term) continue to be at break-even levels across all regions, although fixture activity has picked up recently. The high market fragmentation challenges market discipline, as the majority of vessel owners are looking to secure utilization rather than earnings.

Global dayrates (term)*

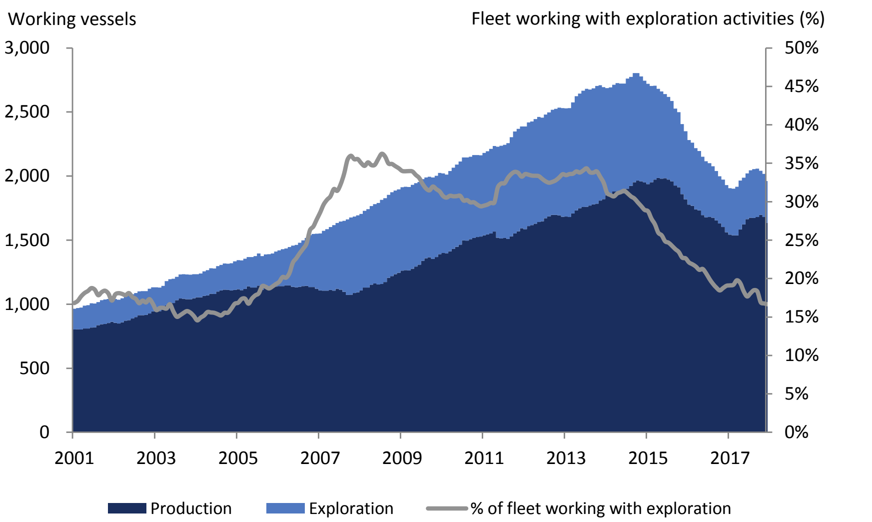


**IHS MarineBase data; based on actual fixtures with disclosed dayrates, fixtures with undisclosed dayrates omitted*

Source: Pareto Securities Equity Research, IHS Petrodata

Whilst the number of working vessels has come down the past months, the number of vessels working with production support has picked up. There is nothing that fundamentally supports this, as OSVs working with production related activities are a long lead item in the oil services supply chain. It is however worth noting that oil companies have been cutting back significantly on production spending the past years, and this can also be somewhat explained by a normalization of production spending. This can also be evidenced by an increase in e.g. platform drilling.

 # working vessels and % allocation towards exploration

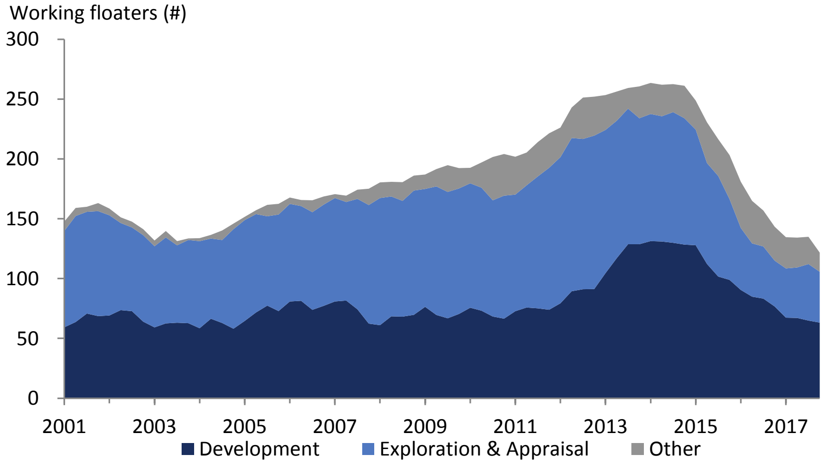


Source: Pareto Securities Equity Research, IHS Petrodata

The number of OSVs working with exploration/rig support is down 64% from peak in 2013, which compares with the rig floater count being down 50% during the same period. This implies that the number of OSVs working with exploration support should increase longer term. We do however expect that the normalized number of vessels required for rig and exploration support will be impacted by higher vessel efficiency and more use of dynamic positioning (DP) in the future.

Longer term the number of working rigs is expected to increase, with current exploration spending unsustainable. A rig floater count of ~190-200 in a normalized market will imply demand for ~650 OSVs, rather than the ~330 vessels working with drilling support/exploration today.

Floater fleet development



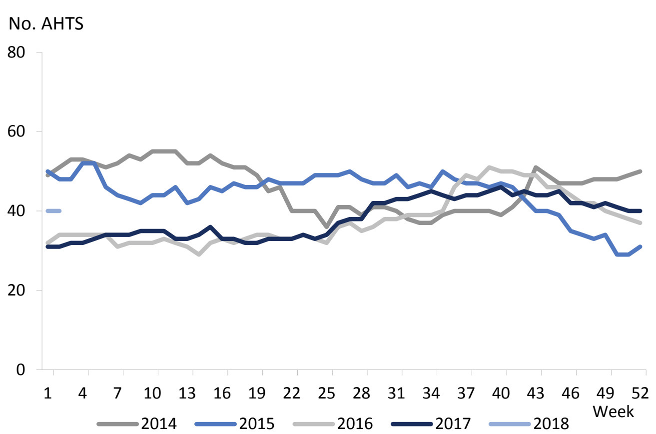
Source: Pareto Securities Equity Research

Seasonality weighing on North Sea activity

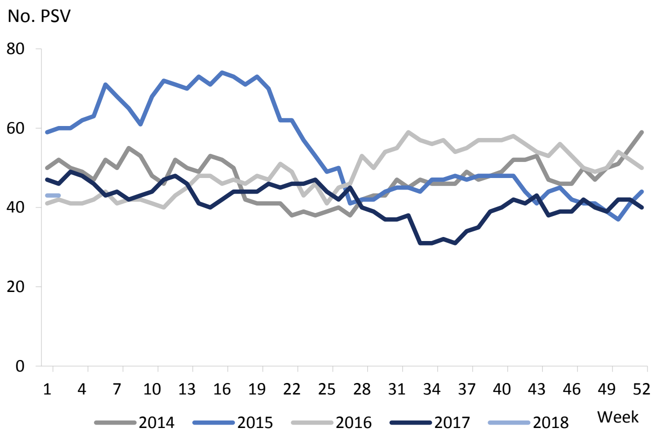
The North Sea is the largest spot market for OSVs, making it a good indicator for overall market activity. The North Sea spot market was surprisingly tight this summer, particularly for PSVs. Whilst this could largely be explained by bad weather for AHTS', the PSV market was helped by lower spot availability as vessels were taken out on shorter term commitments.

The number of PSVs trading spot remained largely in line with previous years until early summer, but term charters and seasonality resulted in that the spot count came down to 5y low levels in late July. This did however normalize as the winter season started, although the current spot count remains below previous year's levels. The number of AHTS trading in the North Sea spot market remains in line with the seasonal pattern, but vessels returning from commitments has resulted in a somewhat higher spot count at the end of the year.

AHTS' trading in the North Sea spot market (#)



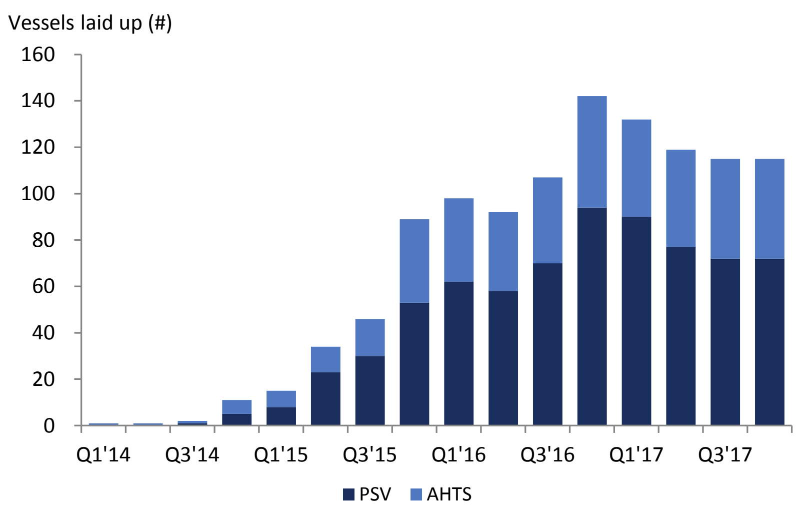
PSVs trading in the North Sea spot market (#)



Source: Pareto Securities Equity Research

At present, ~35% of the total North Sea fleet remains in lay-up, with the majority of vessels being laid up in Norway. As the spot market tightened this summer, some vessels were reactivated, mainly for term commitments. Whilst the lay-up cost is limited at USD 500-1,000/day, reactivation costs do not justify reactivations for a short period of time, and hence few vessels are reactivated for the spot market. There has however been a notable trend of cold stacked vessels that have been sold out of the North Sea region, primarily older vessels.

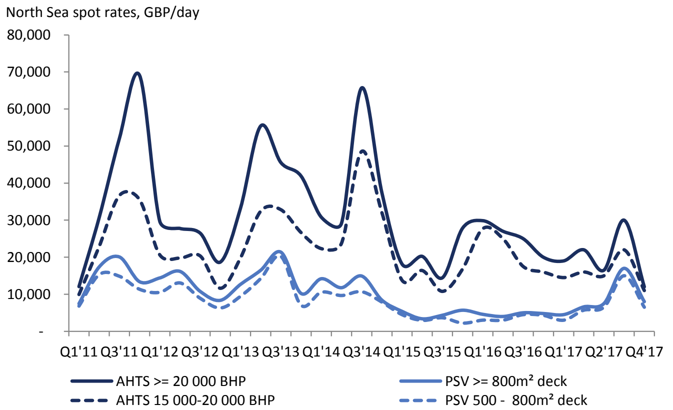
Vessels cold stacked in the North Sea



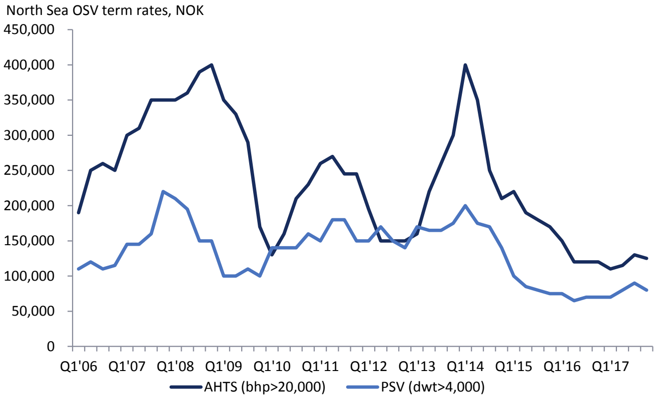
Source: Pareto Securities Equity Research

Until this summer, average spot rates in the North Sea spot market had been at or below break-even levels since 2015, albeit with some occasional spikes. Term rates had been at break-even. Due to a relatively fragmented market with more than 60 vessel managers and an even higher number of vessel owners, discipline has been limited. Whilst the spot market has normalized in line with the seasonal pattern the past months, the term market has improved somewhat. This was evident in the most recent Statoil PSV tender, in which 5+5y charters were awarded at NOK 125k/day, implying a ~32% EBITDA margin. Vessel owners have however locked in these rates for up to 10y, with historical peak dayrates at NOK 190k/day, and with options priced even higher.

North Sea spot rates; GPB/day



North Sea term rates; NOK/day



Source: Pareto Securities Equity Research, Pareto Shipbrokers

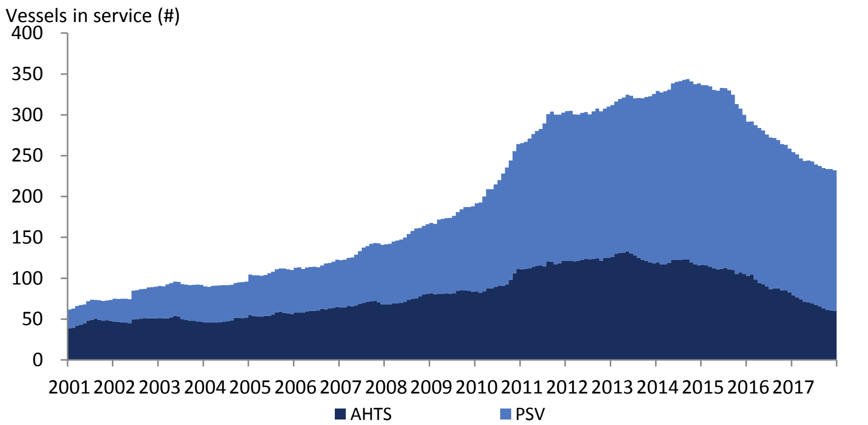
Whilst dayrates have picked up recently, there is limited upside from current levels, following the high overcapacity of tonnage. Although reactivation costs are hindering reactivations into the spot market in the current state of the market, a further improvement of the term market would likely trigger vessel reactivations.

Brazil challenging, local vessels dominating activity

Brazil is one of the largest OSV regions, with NOC Petrobras being the single largest client in the global OSV market. The number of OSVs operating offshore Brazil is down 32% from peak in 2014, following a significant decline in Petrobras activity over the past years. This decline has been driven by high company leverage and a shortfall in liquidity, in addition to the “car wash” corruption scandal.

The abovementioned factors have resulted in that the number of OSVs in Brazil has come down to 2010 levels, after rapid growth in 2010-2014. The majority of the decline has been for AHTS’, with the number of AHTS’ down ~55% from peak. The PSV fleet is down “only” 22% from peak, being less exposed towards rig and exploration activity. This overall OSV fleet has however stabilized the past months, driven by a stable PSV fleet. As PSVs are primarily used for production related activities, we expect that the PSV fleet count has bottomed at the current levels.

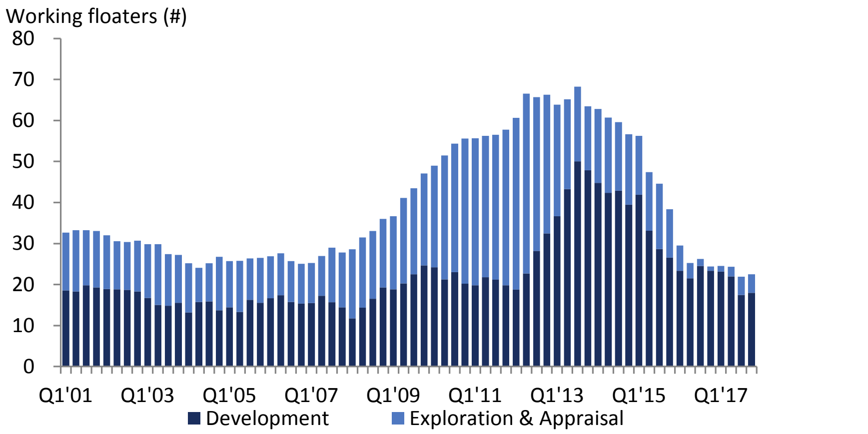
Vessels in service; Brazil



Source: Pareto Securities Equity Research, IHS Petrodata

Petrobras has reduced the number of floaters from 78 in 2012 to 27 today, with the number of rigs allocated for exploration also coming significantly down. The main reason for that the AHTS fleet in Brazil has had less of a decline than the overall floater fleet, is that AHTS’ are also used as standby vessels for offshore production facilities. What could be supportive for OSV demand in the region in the short term could be the number of floating installations that are currently under construction, as the number of floating drilling rigs is expected to decline also in 2018. 11 FPSOs are under construction for Brazilian waters, with tenders expected for an additional five over the coming two years.

Contracted rigs (floaters), Brazil

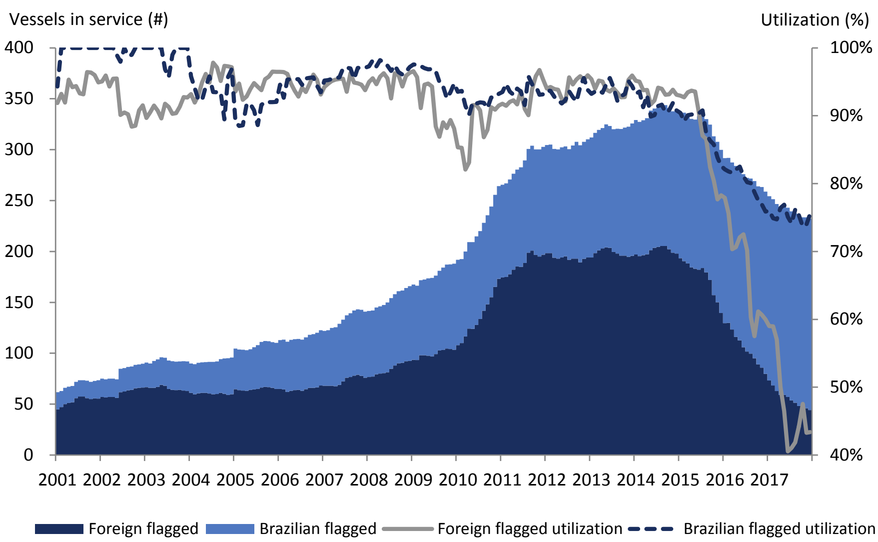


Source: Pareto Securities Equity Research

What has worsened matters further for OSV owners in Brazil, are strict local content requirements. Brazilian flagged OSVs have preferential rights over foreign flagged vessels when operating in Brazilian waters. This means that Brazilian flagged vessels can "block" foreign flagged vessels that are on charter, under a regulatory scheme called circularization. The foreign flagged vessel will then lose its CAA license, which allows it to operate in Brazilian waters. Without a license, it can no longer fulfil its commitments under the term charter, and the Brazilian flagged vessel can thus replace the vessel under its existing charter. Hence, utilization for foreign flagged vessels operating in Brazil has dropped rapidly from 2015, in spite of the foreign-flagged fleet also being down ~79% during the same period.

There are ways in which vessel owners can re-flag a foreign flagged vessel to Brazil, and this is one of the main reasons for the increase in the number of Brazilian flagged vessels operating in Brazil the past years. Non-Brazilian vessel owners seem however increasingly reluctant towards mobilizing vessels to the region in current market, given high local content requirements and hence opex, and pressure on dayrates.

Brazil OSV fleet and utilization; foreign flagged vs Brazilian flagged vessels



Source: Pareto Securities Equity Research

A rebound in activity in Brazil will be an important demand catalyst for the OSV market, given the relatively high OSV/rig ratio in the region. The floater count in Brazil should continue to come down through 2018, before an uptick is expected in 2019, driven by the entry of international oil companies as operators of pre-salt blocks. This should hence result in a continued challenging OSV market in the region also in the short term, but with a gradual recovery expected.

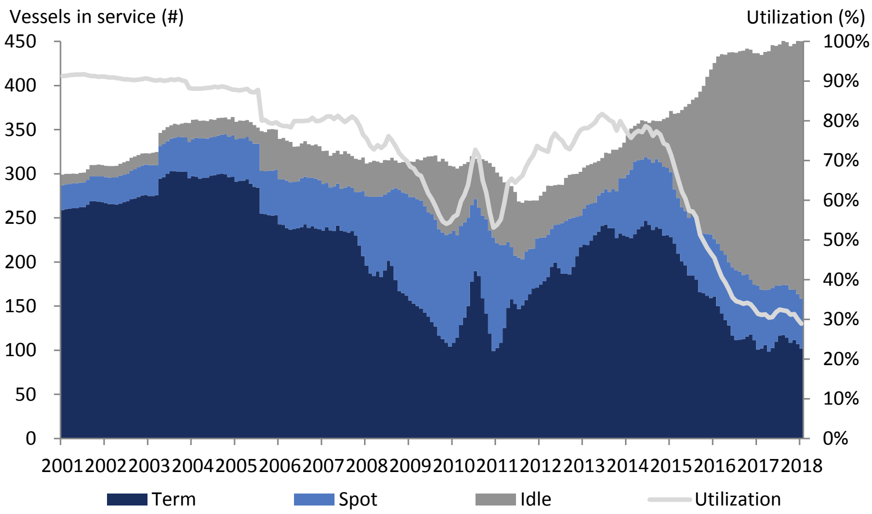
We do however note that the funding situation for Petrobras has improved over the past year, driven by asset divestments, new partnerships and new funding from Chinese banks. In addition, the entry of international oil companies as operators of pre-salt blocks will be supportive for activity.

Still oversupply in GoM, in spite of relatively closed markets

The GoM OSV market comprises the U.S. GoM and the Mexican side. These are two relatively different markets, but both are dominated by local players. The U.S. OSV market is a closed market due to the Jones Act. The Jones Act requires vessels operating between two U.S. ports or offshore installations to be U.S. built,-owned and -flagged. In addition, this excludes foreign flagged vessels from mobilizing to the U.S. GoM. The Mexican market is also relatively closed, in general requiring a local partner to operate vessels in the region. This is however not as absolute as the Jones Act, as has been evidenced by several recently announced fixtures in the region.

In the U.S. GoM, the decline in OSV activity has been close to perfectly correlated with the decline in rig activity the past years. Meanwhile, the fleet count continues to stand at historically high levels, driven by a number of newbuilds delivered through the downturn. In addition, Jones Act flagged vessels have also mobilized from other regions, although this has had less of an impact on the overall supply side. This has resulted in that overall utilization currently stands at ~30%, well below the global average.

Jones Act OSV fleet development and utilization

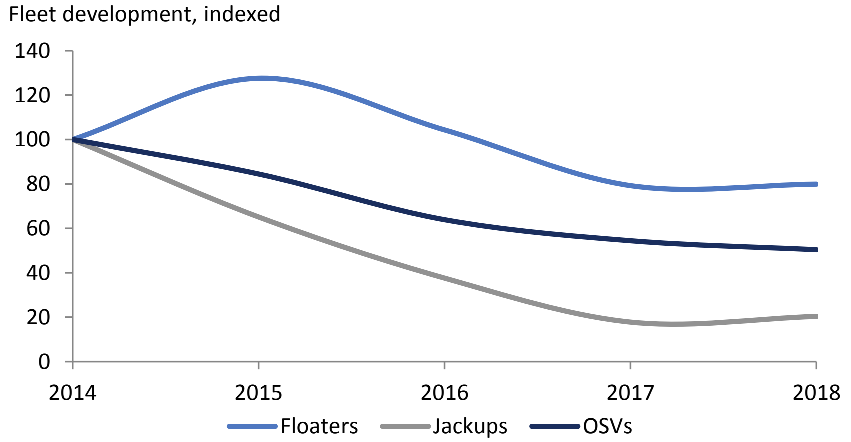


Source: Pareto Securities Equity Research, IHS Petrodata

The U.S. OSV market was hit relatively harder than other regions in the early stages of this downcycle, driven by a sharp decline in rig activity. The number of working OSVs in the U.S. GoM currently stands at ~160, down 50% from the peak in 2014. This is in line with the floater count, which is down 50% from peak. Meanwhile, the number of cold stacked vessels stands at ~270. What has hit OSV activity in the region hardest has been lower development drilling, whilst exploration activity in the region has been relatively stable.

As rig activity is the main demand driver for U.S. GoM OSV demand, an improvement of rig activity will be the main catalyst for a market improvement. This will however be dependent on the oil price, and the subsequent sanctioning of new developments, as exploration activity in the region has held up relatively well throughout this downturn.

U.S. GoM: Rig and OSV activity (indexed)

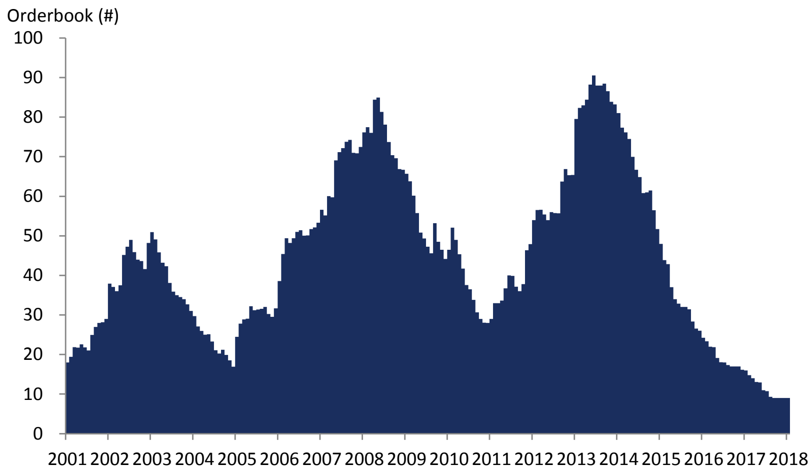


Source: Pareto Securities Equity Research

OSV newbuild activity in the U.S. is at the lowest levels since the early 2000s, following high ordering activity in 2012/13. Whilst the average construction time of an OSV is 12-18 months, several newbuilds under construction in the U.S. between 2012 and 2014 were heavily delayed. This was primarily due to yard delays, with domestic yard capacity being the main constraint for local OSV construction.

The majority of Jones Act compliant newbuild OSVs (PSV/AHTS) have however been taken out of the orderbook, with only nine vessels under construction today. All newbuilds are PSVs, and close to all have been under construction since 2013. The vessels were initially ordered by Edison Chouest, Harvey Gulf and Tidewater. The majority of the vessels are expected to be delivered in 2018/19, but remain options for the vessel owners. Given the oversupply in the region, ordering activity is not expected to pick up in the short to medium term.

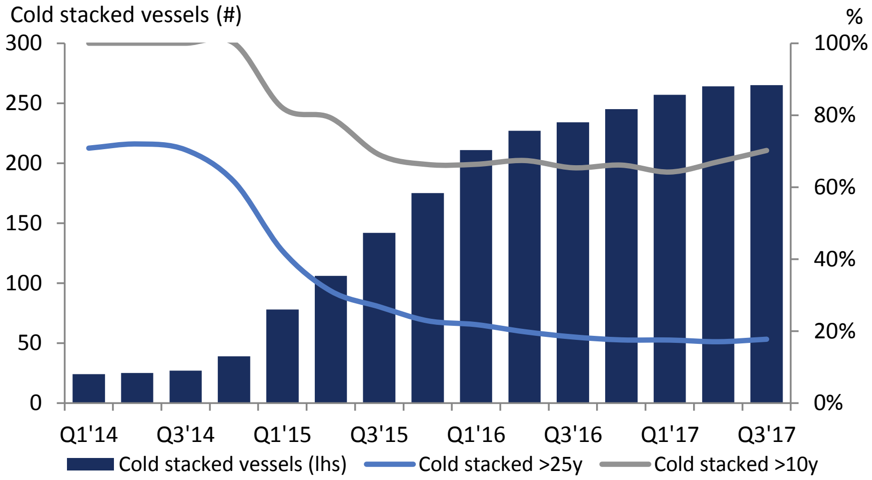
Jones Act orderbook



Source: Pareto Securities Equity Research

The cold stacked fleet imposes the largest supply overhang in the U.S. GoM OSV market, with 270 stacked vessels. The majority of the cold stacked vessels in the region are older vessels, although with some younger vessels also entering lay-up following contract completions. The average age of the cold stacked fleet currently stands at 17y, with ~70% of the cold stacked fleet being older than 10y. As the U.S. OSV market is more consolidated than in other regions, the market discipline has however held up relatively better. This should hence limit a wave of reactivations in case the market improves in the short to medium term, as the reactivation cost will likely not be sufficient to justify such reactivations.

U.S. GoM; Cold stacked vessels

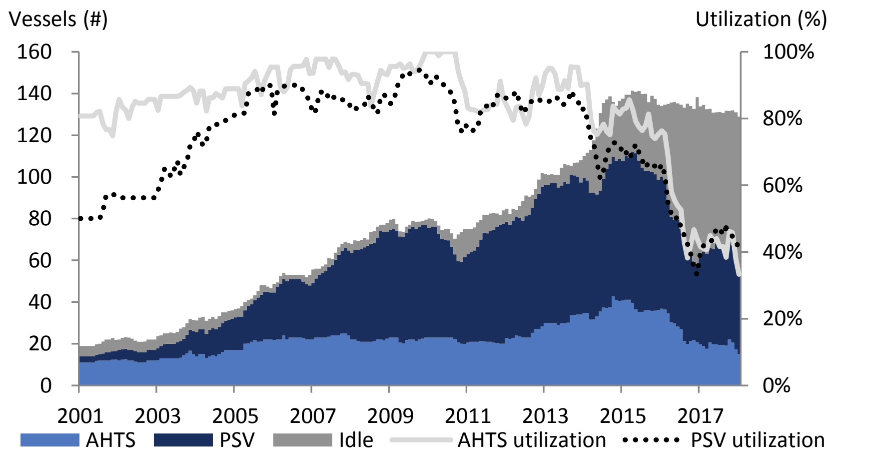


Source: Pareto Securities Equity Research

Offshore Mexico, OSV activity is currently back to 2011 levels. Activity in the region is however expected to gradually pick up over the coming years, followed by an anticipated increase in drilling activity. The increase should primarily be for PSVs and small AHTS', due to the shallow water nature of the region. There is still limited activity in the deepwater parts of the Mexican side of the Gulf, with limited deepwater exploration activity historically. The Mexican OSV market is in general characterized by older vessels, owned by local players.

Rig activity offshore Mexico has been at low levels the past years, following liquidity constraints with NOC Pemex. International oil companies (IOCs) are however gradually expected to drive OSV demand in the region, with oil company interest picking up after the first open licensing round in 2015 (Round 1.1) receiving limited interest. Following the 2015/2016 shallow water appraisal licencing round (Round 1.2), jackup activity in the region picked up somewhat, with three IOCs chartering four jackups. Well results have proved to be encouraging, and generally indicate upside to the original reserve estimates. Furthermore, Mexico's Licencing round 2.1 for shallow-water areas (partially floater territory) resulted in successful bids for 10 new blocks. This will be followed by further licensing rounds and is, combined with some likely fast tracked development campaigns, likely to lift jackup demand from IOC's in Mexico above 10 units into 2020. In addition, Mexico is currently conducting a deepwater round (Round 2.4) and has also issued tenders for another shallow water round (Round 3.1).

Mexico fleet development and utilization



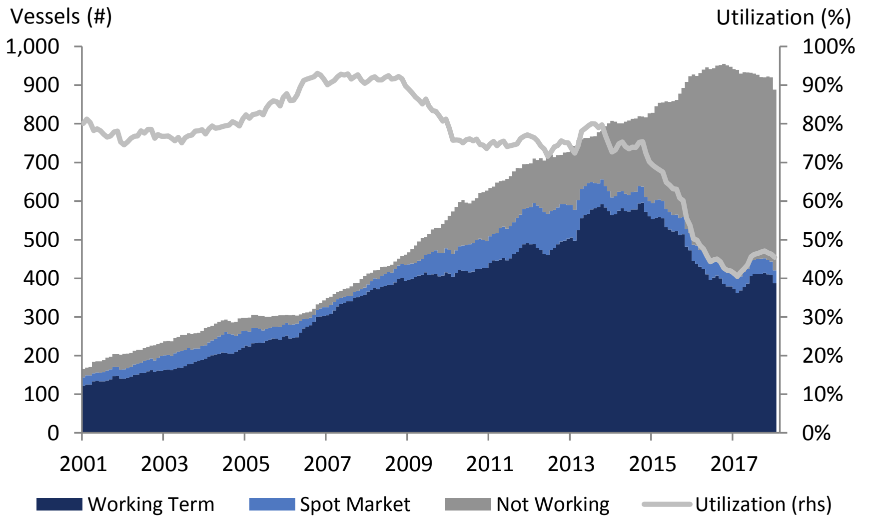
Source: Pareto Securities Equity Research

Asia still hampered by massive oversupply

Activity in the Asian OSV market picked up over the summer season, primarily driven by an increase in term activity. Utilization remains however depressed, hovering around 40%. The majority of term fixtures in the region have been for production and drilling support, in line with the global trend. The region continues however to be negatively impacted by high oversupply, following high newbuild activity in the region the past decade. The number of idle vessels stands at ~470, of which ~270 are cold stacked. The actual number of stacked vessels is however probably higher, as >90% of the idle vessels have not been working the past 90 days.

Malaysia is the largest OSV region in Asia measured by the number of vessels operating, followed by India and Indonesia. China is also a large region due to high construction activity, although several of these vessels are mobilized to other parts of Asia, the Middle East or West Africa after completion. Inter-regional mobilization is high, although there are some elements of cabotage rules within these markets. The market is dominated by locally flagged vessels and local vessel owners, and is highly competitive. Vessel costs are also low, due to low labour and crew costs in the region. This takes the vessel opex to USD 3,000-5,000/day, compared to USD 8,000-12,000/day in the North Sea.

Asia OSV fleet development

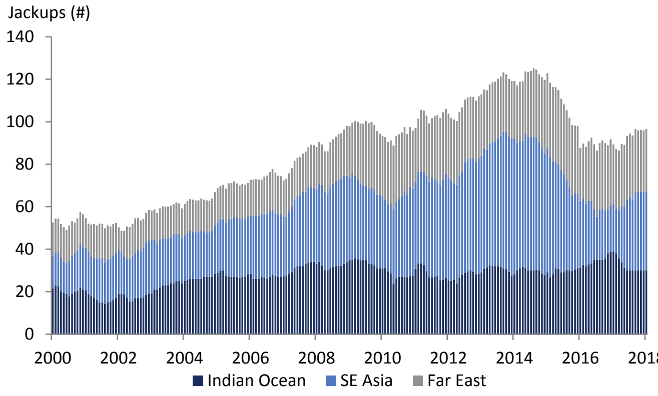


Source: Pareto Securities Equity Research, IHS Petrodata

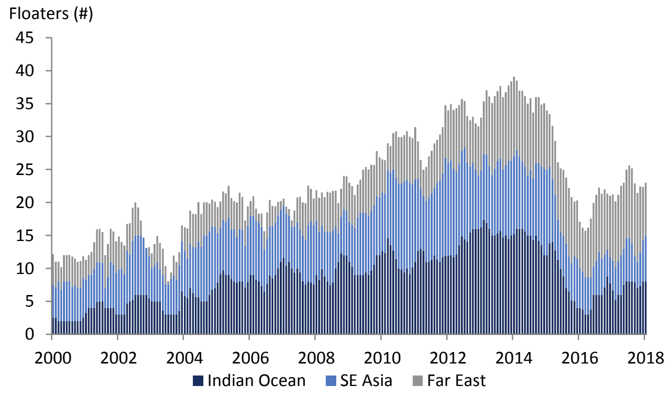
Activity offshore Asia is characterized by shallow waters, and there are primarily jack-ups and tender rigs operating in the region. OSV demand is hence largely for smaller and mid-sized vessels. In addition the majority of offshore installations are fixed facilities, and the density on the infrastructure is high. Smaller crew boats, tugs and barges cover some of the demand for offshore services, unlike other regions with longer distances and deeper waters.

Rig activity in the region has improved from the bottom in early 2016, both for floaters and for jackups. The increase in floater activity is however the largest demand driver for OSV activity, explaining the increase in term demand for OSVs, and then primarily for small and mid-sized AHTS.

Asia jackup development



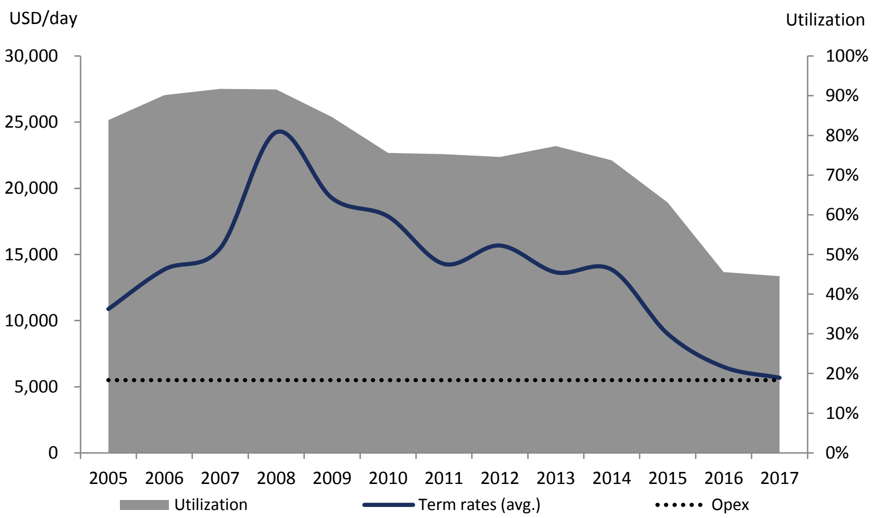
Asia floater development



Source: Pareto Securities Equity Research, IHS Petrodata

Dayrates and utilization in Asia have been under pressure for a long period, due to a very competitive market environment. Utilization started to come down already after 2008, negatively impacted by a high number of vessels delivered from Asian yards. The high number of newbuilds entering the market hence added significant pressure on the market balance long before the downturn started. Current dayrates are below break-even levels, with utilization also below the global average.

Asia dayrates and utilization*



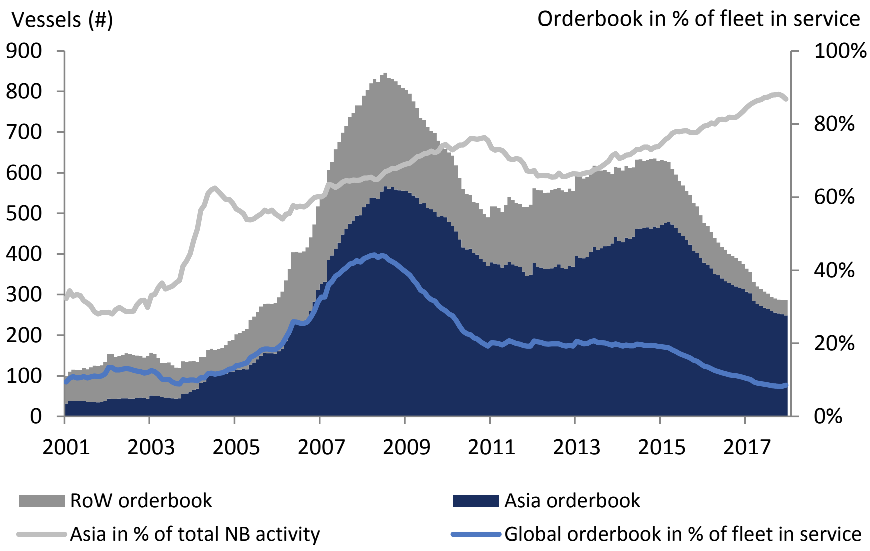
** IHS MarineBase data; based on actual fixtures with disclosed dayrates, fixtures with undisclosed dayrates omitted*

Source: Pareto Securities Equity Research

The massive supply growth in the region has been driven by the entry of Asian yards into the industry in the early 2000s. Chinese yards have been particularly active building into the OSV market, adapting a steep learning curve. Asian yards have able to construct vessels at significant discounts to European yards, and have been particularly competitive for large PSVs.

The on-paper orderbook remains high, but is declining as yards and vessel owners face financial difficulties. As we outline later in this report, only a fraction of the remaining orderbook is expected to actually be delivered.

Orderbook (Asia/global) and % of Asia NB in total orderbook

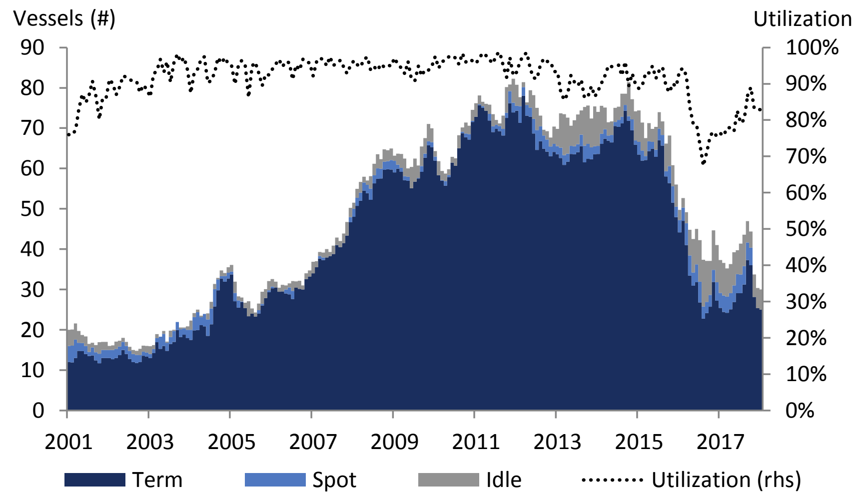


Source: Pareto Securities Equity Research

Soft rig activity offshore Australia, but offshore activity expected to pick up

The Australian OSV market is a somewhat closed market, with high entry barriers. This is due to cabotage rules, making it difficult for foreign vessels to enter the region. In addition, operational costs are higher than in most other regions, as owners are required to utilize local crew. The higher vessel costs result in that vessel owners in general mobilize vessels out of the region, if utilization drops below 70%. Hence, the majority of vessels operating in the region are operating on term charters, resulting in somewhat higher utilization than in other regions.

Australia/New Zealand OSV fleet development and utilization

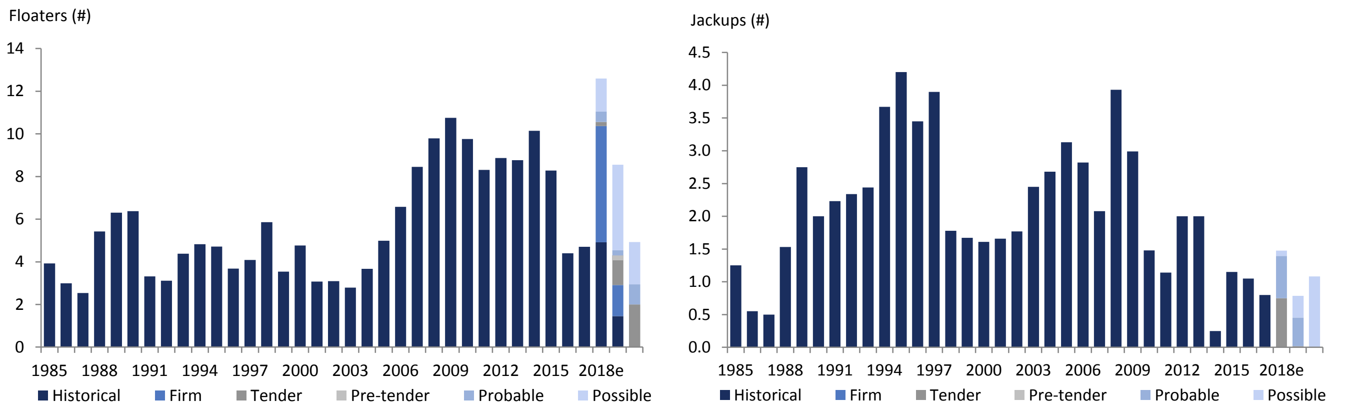


Source: Pareto Securities Equity Research

Dayrates in the region have also held up relatively well, reflecting the higher operational costs in the regions. Margins are however marginally break-even, in spite of dayrates being up to 50% higher than in other regions. The market fragmentation is however relatively low, with only ten OSV operators in the region today, vessel owners are struggling to secure utilization. The market share is dominated by MMA Offshore, Solstad Farstad and Swire Pacific, which together hold ~63% market share of the current OSV fleet.

Activity levels in the region improved this summer, largely due to some larger offshore construction projects reaching the offshore installation phase. Rig activity in the region has been at low levels over the past three years, but there are several drilling campaigns scheduled for 2018 and 2019. Unlike other parts of the Asia region with more shallow water activity, there is good floater activity in the region. This has resulted in some mobilization of larger AHTS' from the North Sea, which primarily work provide rig support.

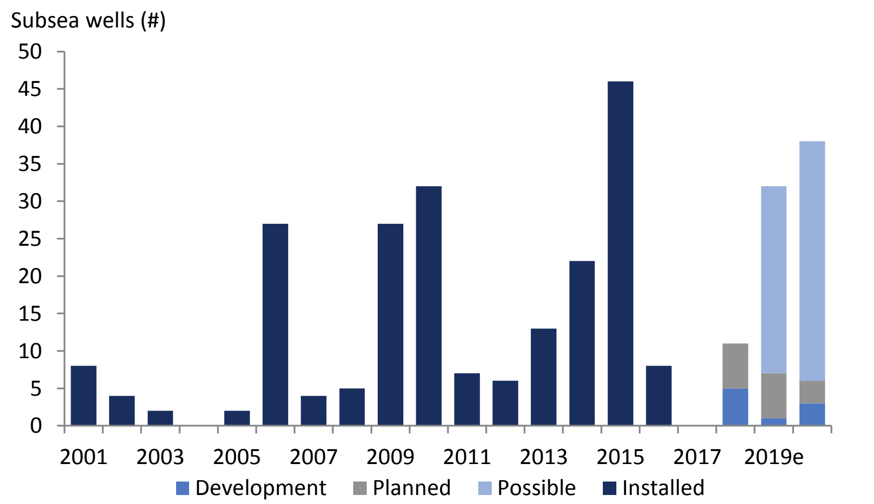
Australia/New Zealand rig fleet development



Source: Pareto Securities Equity Research, IHS Petrodata

Whilst offshore activity has remained at low levels the past years, there are several projects with offshore installation scheduled for 2019/20. The majority of activity in the region will however be driven by offshore construction and production support, implying demand for large to mid-sized PSVs. There have however been recent seismic campaigns both offshore Australia and New Zealand, which could imply an uptick in exploration drilling in the medium term.

Australia; subsea wells by installation year (#)



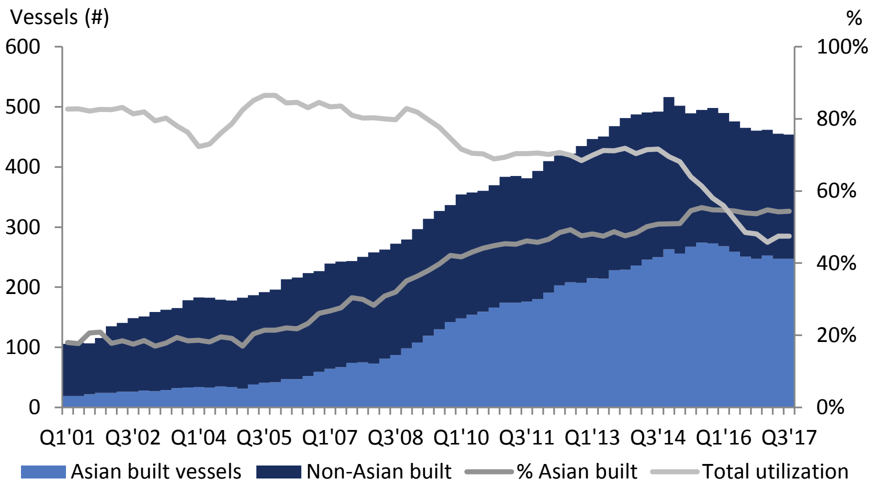
Source: Pareto Securities Equity Research, IHS Petrodata

West Africa and Middle East impacted by Asia mobilization

The high supply growth in Asia has resulted in a high influx of vessels to West Africa over the past years. The West Africa OSV market has historically been dominated by older and lower-end assets, and Asian newbuilds have hence been very competitive in the region. Dayrates have however been at break-even levels the past two years, given high market fragmentation and low discipline. The majority of work scope has also been for production support, implying that small and mid-sized AHTS have been cannibalizing PSV work scope.

In spite of some protectionism and local content rules, Asian OSV companies have been relatively successful in gaining market share in the region, as can be seen below.

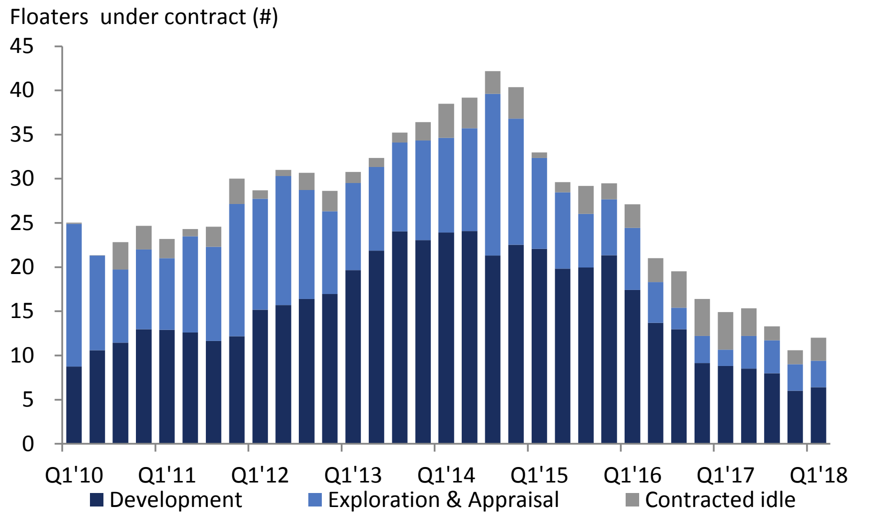
West Africa OSV fleet



Source: Pareto Securities Equity Research, IHS Petrodata

West Africa remains a soft spot for OSVs, with the majority of demand growth over the past decade coming from exploration activity and subsequent development drilling. Exploration activity in the region remains however at a minimum, and the majority of production support requires small to mid-sized vessels. The floater count is expected to be flat from current levels in 2018, with oil companies primarily focusing on developing existing discoveries, rather than new exploration. Legislation issues and high local content requirements also challenge new activities, in spite of overall exploration and development costs coming down.

West Africa rig fleet (floaters)



Source: Pareto Securities Equity Research

The entry of Asian built tonnage has also resulted in severe pressure on the market balance in the Middle East OSV market. As Asian vessel owners have been looking to ensure utilization, and with local crew costs being very competitive, owners have been willing to accept dire terms. In addition, the majority of OSVs in the Middle East are utilized for production support, implying that operators often award term charters in bulk. Although local vessels are preferred, the low prices offered by Asian vessel owners have resulted in an increasing number of Asian vessels in the region.

Russian Arctic starting to pick up, key driver longer term

Exploration in the Russian Arctic was anticipated to be an important demand driver for the OSV market prior to the downturn. The harsh environment and remote drilling locations imply a significantly higher rig/OSV ratio than in other regions, with up to 15x OSVs per drilling rig. This compares with 1-2x OSVs/rig in the North Sea and 3-4x OSVs/rig offshore Brazil. Drilling operations in the Russian Arctic also require large high spec'ed assets, primarily from the North Sea market.

Russian E&P company Rosneft partnered with ExxonMobil, Statoil and Shell for exploration in the Russian Arctic in 2012, with the first campaign being Rosneft/ExxonMobil's drilling campaign in the Kara Sea in 2014. This campaign had 15x OSVs employed in the Kara Sea over the summer, all chartered on multi-year contracts. Whilst the drilling season in the Russian Arctic is relatively short due to ice conditions, mobilization and preparation will require longer charters beyond the drilling support scope. As the majority of vessels chartered for the campaign were from the North Sea vessel pool, this also had a positive impact on the North Sea spot market. The political sanctions imposed against Russia in 2014 resulted however in that Rosneft halted the 2015 drilling campaign, terminating all charters.

The Russian E&P company Gazprom announced earlier last year that it would resume exploration drilling in the Kara Sea in the summer season. The company had one rig in operation, supported by 2x AHTS' and 4x PSVs. The AHTS contracts were rumoured to have been fixed at NOK ~350k/day, significantly above utilization adjusted average spot rates the past two years. The PSVs were rumoured to be fixed at NOK 130-150k/day. Rosneft has also scheduled drilling campaigns in the Russian Barents Sea for 2018, currently tendering for OSVs. We expect that these vessels will also be North Sea vessels. One drilling campaign could imply demand for the similar amount of vessels as for the Gazprom campaign, implying 5-7% of the North Sea spot market during the summer season.

Russian Arctic Drilling

Source: Krichevsky

Supply side adjustments main catalyst

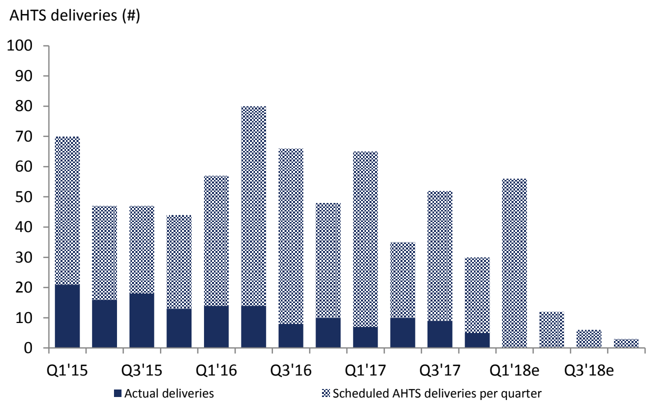
Orderbook inflated as evidenced by record high slippage in 2017

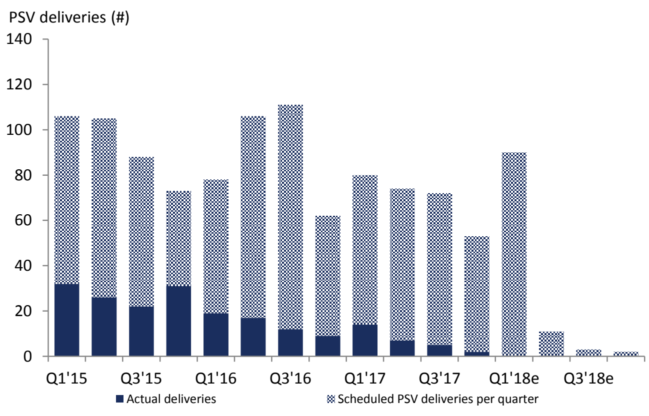
The OSV supply growth continues to decline, and it is becoming more and more evident that a high portion of the on-paper orderbook will likely never come to market. The majority of vessels in the orderbook today are either built on speculation, with construction costs well above current resale values, or ordered by financially distressed owners. There has not been placed any new OSV orders the past two years, with the current orderbook comprising vessels ordered prior to 2015. As the construction time of an OSV is 12-18 months, all vessels in the orderbook today comprise legacy orders.

The OSV market entered the downturn in 2014 with an orderbook comprising 16% of the fleet on the water, following high ordering activity in the prior upcycle. The supply growth was hence unsustainable even before the downturn commenced, with a CAGR of 9% between 2004 and 2014. The high ordering activity was driven by compelling asset returns, easy access to funding, and attractive yard terms. The slippage rate has however been high the past years, and 2017 will mark a new low point with a slippage rate of 83%. The high slippage rate in our view is an important indicator for that the majority of the orderbook will not be delivered.

Prior to the downturn, slippage in the OSV orderbook was largely driven by yards struggling to finalize vessels according to schedule. This was mainly due to new yards entering the industry, and unrealistic delivery schedules. When the downturn started to unfold in 2014, this provided an opportunity for vessel owners to terminate on breach of delivery schedules. Several newbuild contracts were hence terminated, leaving the yards with vessels on their own books. Meanwhile, vessel owners that did not have the opportunity to cancel newbuilds started to defer delivery ahead of a market recovery. The majority of vessel deliveries that were temporarily delayed when the downturn commenced have however entered service by now, resulting in a more questionable future for the remaining orderbook.

Orderbook by scheduled delivery date





Source: Pareto Securities Equity Research

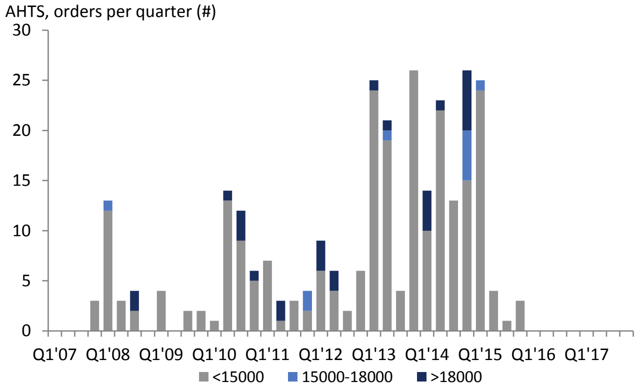
The current orderbook stands at 101 AHTS' and 152 PSVs, equalling 6% and 8% of the fleet in service respectively. This comprises mainly smaller AHTS' and large and mid-sized PSVs. Of the current orderbook, ~87% is under construction at Asian yards, and of these newbuildings, ~40% are assumed to have been built on speculation by the yards themselves. Low sales projections due to distressed second hand pricing well below completion cost and lack of financing, makes the probability of these vessels ever being delivered low. The vessels are however not removed from the order-book.

The slippage rate has been further fuelled by financially distressed owners, and speculative vessels built for re-sale. Several vessels that were ordered in the prior upcycle have been left stranded in yard, as the owner has either entered financial distress or bankruptcy. In addition, several of these assets were built on speculation, for re-sale after delivery. Second-hand asset prices have come down significantly the past two years, resulting in that many newbuilding contracts are out-of-money options.

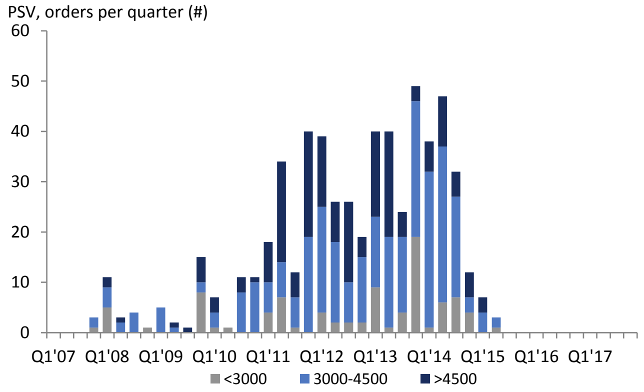
The construction cost for a PSV in 2014 was NOK ~300m (USD ~50m) in Norway and USD ~28m in Asia. Due to the weakening of the NOK against the USD, the comparable cost today would be USD ~35m. The large yard inventory today has however resulted in that yards are willing to sell vessels for as low as USD 12-17m, well below the cost of completion. Although seemingly attractive for an opportunistic owner, re-sale prices for a relatively new PSV is today USD 7-12m.

On the bright side, following significant ordering activity in 2011-2014, there have been no new OSV orders the past two years. Whilst seemingly obvious, it marks a first in the OSV industry since the early 1990s.The majority of assets in operation today are however relatively new, and this will continue to affect the supply/demand balance well beyond this downcycle. Note however that in the AHTS segment there have been few orders for high end assets the past years, while PSVs >3,000 dwt have dominated the PSV orderbook.

AHTS; orders per quarter (sorted by BHP)



PSV; orders per quarter (sorted by dwt)



Source: Pareto Securities Equity Research, IHS Petrodata

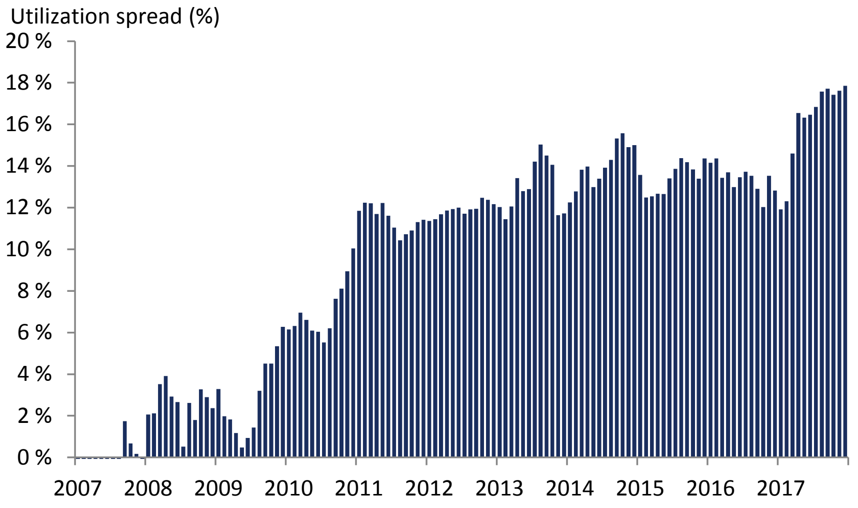
Whilst the on-paper orderbook remains worryingly high in the current market, we argue that construction activity will be less of a threat to the market balance in the short to medium term. As the cost to take final delivery from yard today is still well above current re-sale quotes, this should by itself hinder a flurry of newbuilds entering service in the short to medium term.

Expect some vessel reactivations, but majority not competitive

A more important factor for improving the overall market balance will be the cold stacked fleet. At present, the number of cold stacked vessels stands at ~1,100, ~30% of the total OSV fleet. Hence, the future of these vessels will have an implication on the overall market balance. The number of cold stacked vessels has been relatively flat throughout 2017, with the exception of a few reactivations for term work. In addition some older vessels have been scrapped, but this figure is negligible. The majority of vessel reactivations are driven by awarded term work, as vessel owners continue to bid cold stacked vessels in tenders. This applies however mainly to newer assets, as older vessels have a higher reactivation cost through deferred maintenance costs. We argue that reactivations and scrapping of cold stacked vessels will be the key factors for an improving OSV market balance.

Historically OSVs have been able to operate well beyond their useful lifetime of 25 years, with vessels as old as 40 years being operational until recently. This downturn will however dramatically change the useful lifetime for OSVs, given the high newbuilding activity the past decade. This is particularly evident for PSVs, with construction activity comprising mainly mid-sized and large vessels. The bifurcation trend is becoming increasingly evident, as oil companies tend to prefer newer assets, as can be seen below. Vessels in operation built after 2007 have on average 20% higher utilization than vessels in operation built prior to 2005. This will likely result that the useful lifetime of an OSV will come down materially through this downturn, also below 25 years.

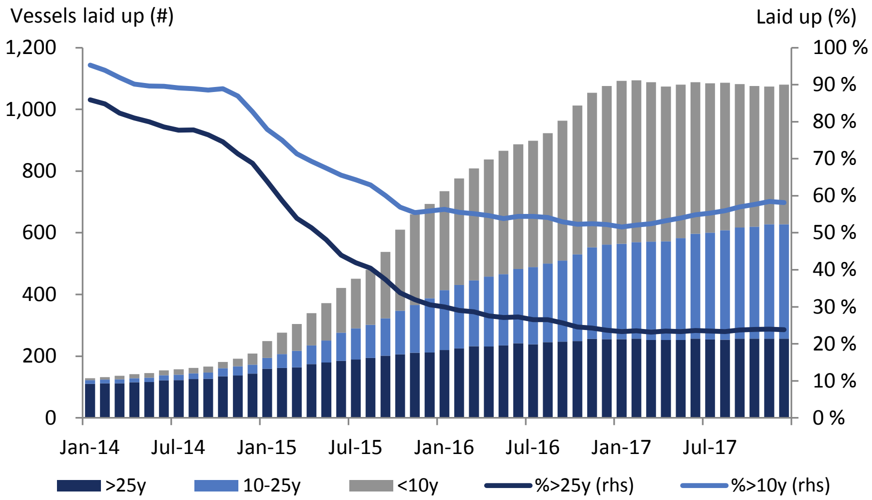
Utilization spread; vessels built pre- and post-2005



Source: Pareto Securities Equity Research

The number of cold stacked assets older than 25y stands at 257, comprising 24% of the cold stacked OSV fleet and 7.4% of the total OSV fleet (in service + cold stacked). These vessels are not expected to return to market, as they have exceeded their useful lifetime, and as they would not be competitive against younger vessels. We hence expect that these vessels will be phased out of the market, either through scrapping or through out-of-market sales. Scrapping activity has however been slow, due to scrap values being zero or even negative. Coupled with low stacking costs of USD 500-1,000/day, vessel owners have largely opted to keep vessels as a cheap option.

Cold stacked vessels (#)



Source: Pareto Securities Equity Research

We further note that the number of cold stacked vessels older than 10y continues to increase, currently standing at 628 vessels, or 58% of the cold stacked fleet. An OSV requires a special survey every fifth year, in addition to an interim survey every 2.5y. Whilst the maintenance cost initially is low for a special survey, ranging from USD 2-3m/vessel, the maintenance requirement escalates as the vessel becomes older. In addition, maintenance work is also conducted regularly whilst the vessel is in service, with these costs covered through the operational costs of the vessel. This maintenance work is deferred as a vessel enters cold stack mode, resulting in a higher actual reactivation cost beyond the sole cost of reactivating a vessel. Given the current market environment, we expect that the majority of vessels older than 10y will remain cold stacked indefinitely. Whilst it could be attractive for an owner to reactivate these assets if dayrates come up, the reactivation cost would make the vessel uncompetitive with vessels already in service.

This hence implies that out the ~30% of additional supply coming from the cold stacked fleet, 24% of the cold stacked fleet is never expected to return to market, due to age. An additional 34% is highly unlikely to be competitive unless the market substantially improves. In addition, several vessels that are cold stacked today are owned by financially distressed owners, which do neither have the financial capacity to fund reactivation costs, nor fund working capital or crew costs. Such owners are less likely to be awarded term contracts, and it is not economically viable to reactivate a vessel to trade in the spot market. This does not include vessels owned by restructured companies like Tidewater, Solstad Farstad or Havila Shipping, as these companies have made it through restructurings on a going-concern basis.

The largest owners of cold stacked assets younger than 10y are Bourbon Offshore, Tidewater, Edison Chouest, Harvey Gulf, and Solstad Farstad. These vessel owners together own 142 of the vessels younger than 10y, equalling 32% of this group of cold stacked assets. We expect these vessel owners to be more disciplined than smaller vessel owners, as all have been vocal about the need to discipline the market. The working capital requirement will likely also restrain the number of simultaneous vessel reactivations within one owned fleet, as liquidity is a constraint for the majority of OSV companies today.

Based on the above, we expect that a substantial part of the cold stacked fleet will not return to market, unless the market significantly improves. This seems however unlikely in the short to medium term, based on current rig projections and as OSVs are long lead items within E&P spending. If utilization starts improving and vessel owners are more confident in securing work, this could result in dayrates improving. There is nevertheless still significant idle capacity in the market, with current utilization at 50%, whilst the cold stack fleet only comprises 30% of the fleet in service. This would hence likely be bid first, before vessel owners start to justify reactivation costs. This implies that out of the ~1,100 vessels that are cold stacked today, only ~450 are likely to be reactivated in case of a normalization of the market. This would however require dayrates well above current levels.

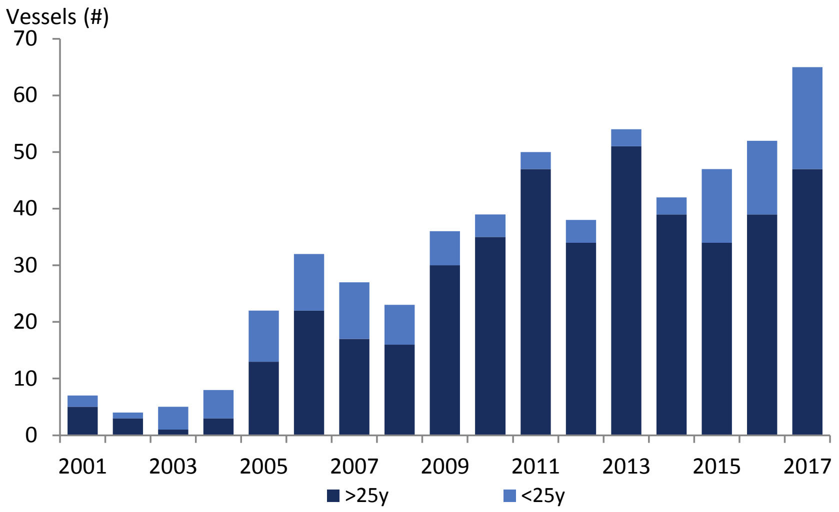
History has nevertheless proven that the OSV market has rarely been able to find an inflection point between supply and demand. A temporary tightness of the market could hence result in a surge of supply due to vessel reactivations, in spite of the abovementioned factors.

Scrapping activity still slow

As mentioned above, scrapping in the OSV market has been rare. There are currently 314 vessels in service exceeding the useful lifetime of 25y, excluding the 257 vessels older than 25y that are cold stacked. There are many factors impacting the low scrapping activity, with the most important being that OSVs have less retrievable steel than other vessels, which limits the scrap value. In addition, the fragmentation of the market challenges meaningful scrapping activity. It is however positive to see that 2017 marked another record year in terms of scrapping activity, although more needs to be done.

The bifurcation trend should continue to accelerate scrapping of older assets, as vessels older than 25 years that are still in service have an average utilization <15%. This compares with a utilization of 60% for vessels that are ten years or younger. The majority of the opex component for an OSV is crew costs, implying limited cost differentiation between older and newer vessels in between vessels classes. Hence, higher-end vessels are significantly more competitive in the current market environment, often having several technical features like firefighting, oil spill response and larger storage capacity. On the back of this, we expect continued scrapping of older vessels, although at a continued slow pace.

Vessel attrition



Source: Pareto Securities Equity Research

Supply adjustments will be key for reaching inflection point

OSV demand is expected to remain relatively flat in the short term, before it gradually improves, driven by higher rig and offshore activity. As OSVs are long lead items within oil company spending, no imminent demand uptick should be expected by a higher oil price. The catalyst for an improved market balance in the short to medium term will hence be a supply adjustment, rather than a demand uptick.

In the below model, we implement our assumptions on scrapping and on the orderbook. We assume that vessels older than 25y in service will be scrapped, and further assume that cold stacked vessels older than 25y will be scrapped. We have also adjusted the cold stacked fleet for vessels older than 10y, which have significant requirement for capital expenditures. Finally, we have netted out vessels that are cold stacked and owned by financially distressed owners, which should not be able to fund deferred maintenance capex and/or working capital. We do acknowledge that an improvement in the market balance could result in acquisitions of such assets, and have hence de-risked our assumption to primarily include lower-end assets.

In addition, we have adjusted the orderbook for speculative orders, predominantly by the Asian yards themselves, and where the vessel has been under construction for more than three years. Resale prices of assets in service should have an adverse impact on the economics of completing such vessels. We have also adjusted the orderbook for low-end vessels where both the owner and the yard are in significant financial distress.

This results in that the adjusted fleet in service decreases from ~3,500 vessels to ~2,560 vessels. The majority of this reduction (60%) comes from a reduction of the actual supply overhang within the cold stacked fleet, but we also assume 314 vessels to be scrapped.

We further adjust the orderbook down with 44%, with the majority of reductions being for lower-end vessels. The majority of this adjustment has probably already taken place, as we argue earlier in this report.

Current utilization stands at 49% for the market as a whole, with the highest utilization for the larger vessel categories. When adjusting for vessels that are not competitive, such as vessels older than 25y, adjusted utilization stands at 68%. We expect this to normalize to 78% longer term, but this should still be a couple of years down the road.

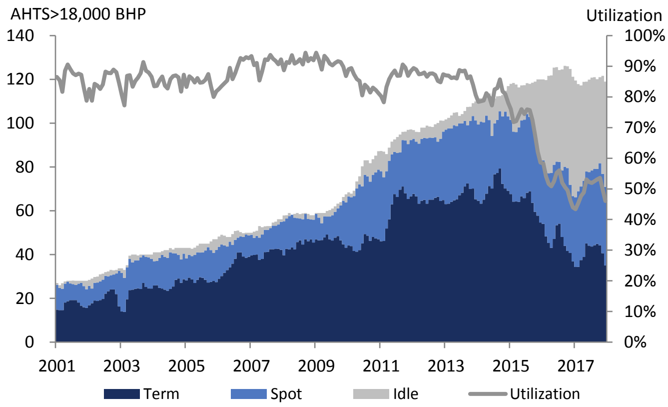
OSV supply table

	PSV (dwt)			AHTS (BHP)			Total
	<3500	**3,500-4,500**	**>4,500**	**<15,000**	**15,000-18,000**	**>18,000**	
Working (term+spot)	481	207	256	950	73	69	2,036
Idle	66	35	25	225	20	14	385
Cold stacked	407	92	79	425	39	32	1,074
Fleet in service	**954**	**334**	**360**	**1,600**	**132**	**115**	**3,495**
Utilization today (adj. for lower spot utilization)	*42 %*	*46 %*	*75 %*	*47 %*	*53 %*	*70 %*	*49 %*
Implied demand today	397	154	270	755	70	80	1,726
Cold stacked reactivation adjustments:							
- Vessels >25y	106	1	0	149	1	0	257
- Vessel 10-25y (prob. weighted)	117	28	0	46	10	0	201
- Other adjustments (e.g. distressed owner, WC)	54	16	3	89	4	0	166
Cold stacked fleet adj.	**130**	**47**	**76**	**141**	**24**	**32**	**450**
Scrapping of vessels older than 25y in service	**116**	**4**	**2**	**186**	**5**	**1**	**314**
Adjusted fleet in service	**561**	**285**	**355**	**1,130**	**112**	**114**	**2,557**
Adjusted utilization today (adj. for spot utilization)	*71 %*	*54 %*	*76 %*	*67 %*	*63 %*	*70 %*	*68 %*
On-paper orderbook	**53**	**76**	**20**	**83**	**10**	**7**	**249**
On-paper orderbook in % of fleet in service	*6 %*	*23 %*	*6 %*	*5 %*	*8 %*	*6 %*	*7 %*
Orderbook adjustments:							
- Speculative vessels	*26*	*23*	*3*	*23*	*5*	*0*	*80*
- Distressed owner	*8*	*13*	*3*	*5*	*0*	*0*	*29*
Adjusted ownerbook	**19**	**40**	**14**	**55**	**5**	**7**	**140**
Adjusted orderbook in % of fleet in service	*2 %*	*12 %*	*4 %*	*3 %*	*4 %*	*6 %*	*4 %*
Adjusted fleet in service (incl. NB)	**580**	**325**	**369**	**1,185**	**117**	**121**	**2,697**
Normalized demand (2020e)	340	270	320	950	100	125	2,105
Normalized utilization (incl. NB)	59 %	83 %	87 %	80 %	85 %	103 %	78 %

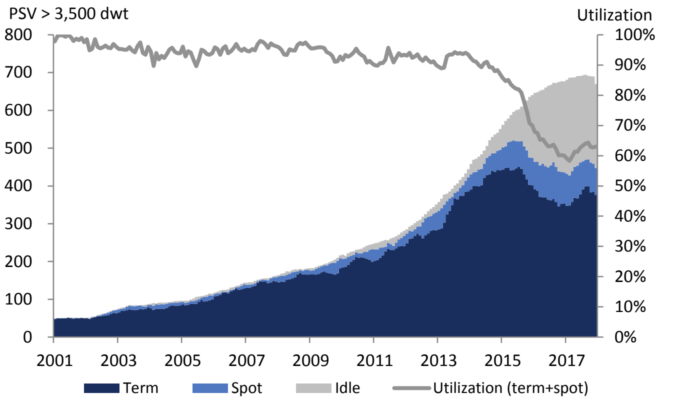
Source: Pareto Securities Equity Research

Tables and figures

Vessels in service and utilization; AHTS >18,000 BHP

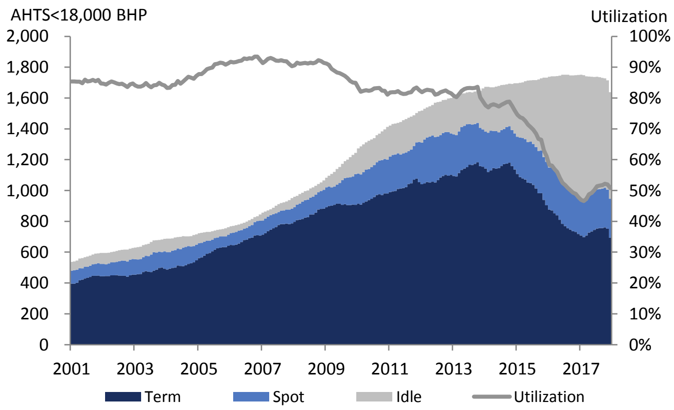


Vessels in service and utilization; PSV >3,500 dwt

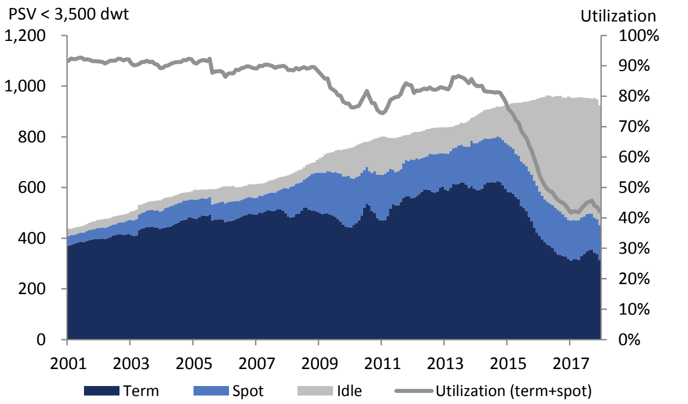


Source: Pareto Securities Equity Research, IHS Petrodata

Vessels in service and utilization; AHTS <18,000 BHP

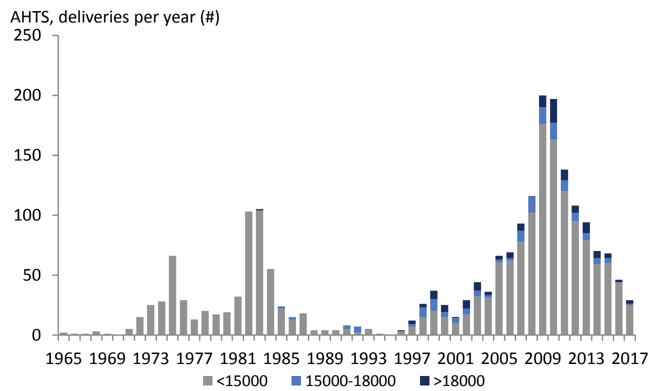


Vessels in service and utilization; PSV <3,500 dwt

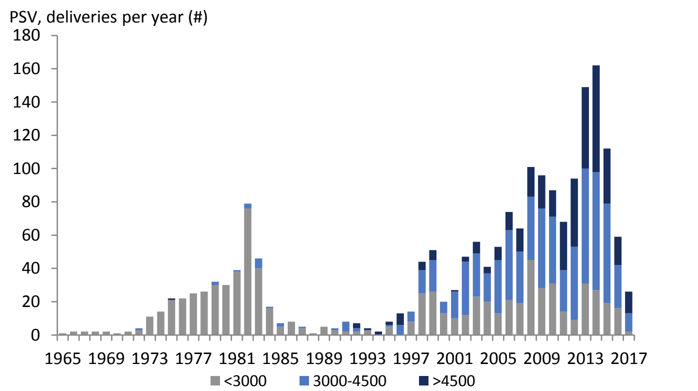


Source: Pareto Securities Equity Research, IHS Petrodata

Deliveries per year (AHTS)



Deliveries per year (PSV)



Source: Pareto Securities Equity Research, IHS Petrodata

Companies

A phoenix rising from the ashes

GulfMark Offshore has emerged from Chapter 11, with a significantly leaner balance sheet and liquidity runway. The company is trading at a discount to firesale values, which we find unwarranted. We initiate coverage with a diluted TP of USD 41, in line with our NAV. This implies 46% upside from the current share price, and we initiate coverage with a BUY recommendation.

Buy
Hold
Sell

Target price (USD)	**41**
Share price (USD)	28

Recently completed Chapter 11 recapitalization

GulfMark Offshore is a U.S. based OSV company, with operations in all the major offshore regions worldwide. The company recently emerged from Chapter 11, having equitized USD 430m of unsecured debt and issuing USD 125m of new equity. In addition the company refinanced its bank debt with a new USD 100m facility, resulting in a net debt close to zero. This should provide the company with a sufficient liquidity runway through the downturn.

High North Sea exposure, expected to grow fleet trough M&A

The company owns a fleet of 66 OSVs, in addition to having three vessels under management. The fleet comprises PSVs and AHTS', with an average fleet age of ~11 years. The company has high exposure towards the North Sea, which is the region we expect will rebound the first. The company will further also likely use its balance sheet to modernise the fleet through M&A going forward.

BUY, TP USD 41

GulfMark is trading at a discount to fire sale values, which we find unwarranted. Even after assuming dilution through the noteholder warrants, the company is trading below replacement cost and newbuilding parity. We set our TP at USD 41, in line with our NAV, and initiate coverage with a BUY recommendation.

USDm	**2016**	**2017e**	**2018e**	**2019e**	**2020e**
Revenues	124	101	106	112	171
EBITDA	(11)	(41)	0	7	48
EBIT	(232)	(91)	(35)	(27)	14
EPS	(8.10)	(18.90)	(4.24)	(3.58)	0.21
EPS adj	(8.98)	(16.03)	(4.24)	(3.58)	0.21
DPS	-	-	-	-	-
EV/EBITDA	-	-	-	48.1	7.2
EV/EBIT	-	-	-	-	25.3
P/E adj	-	-	-	-	-
P/B	0.10	1.05	1.22	1.45	1.43
ROE (%)	-	-	-	-	1.1
Div yield (%)	-	-	-	-	-
Net debt	475	15	33	45	42

Source: Pareto

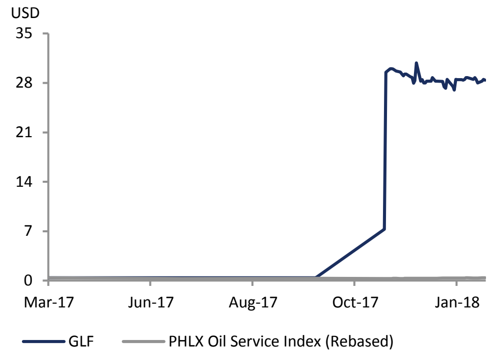
Forecast changes

%	**2017e**	**2018e**	**2019e**
Revenues	NM	NM	NM
EBITDA	NM	NM	NM
EBIT adj	NM	NM	NM
EPS reported	NM	NM	NM
EPS adj	NM	NM	NM

Source: Pareto

Ticker	GLF.A, GLF US
Sector	OSV
Shares fully diluted (m)	10.9
Market cap (USDm)	309
Net debt (USDm)	15
Minority interests (USDm)	0
Enterprise value 17e (USDm)	325
Free float (%)	100

Performance



Source: Factset

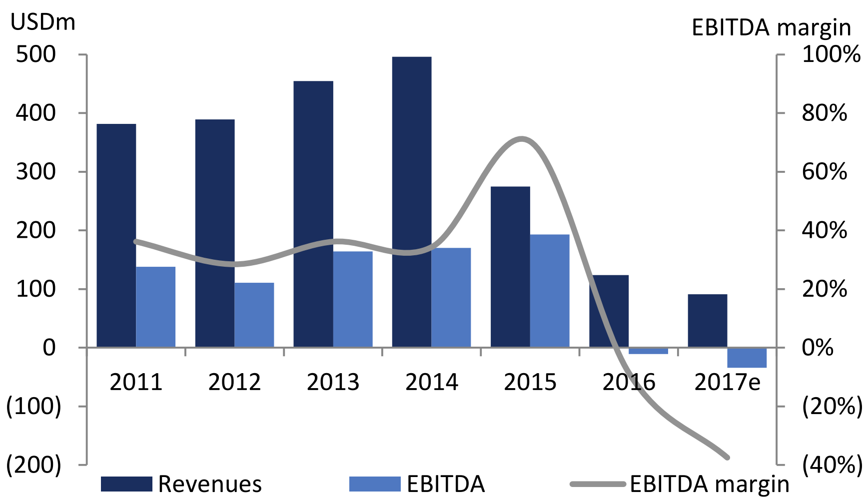
Analysts
Synnøve Gjønnes
+47 22 87 88 26, synnove.gjonnes@paretosec.com

Company overview

GulfMark Offshore is an OSV company based in the U.S. The company owns a fleet of 66 modern OSVs (49x PSVs, 16x AHTS', 1x FSV), and has three additional vessels under management. The company has ~1,100 employees onshore and offshore, and is headquartered in Houston. The company is Jones Act compliant, meaning it can operate vessels in the U.S. GulfMark Offshore is listed on the New York Stock Exchange (NYSE:GLF).

GulfMark has three main operating regions, the North Sea, Southeast Asia (including West Africa) and the Americas (including Brazil). These are also the reporting segments of the company. The North Sea is the largest operating region for the company, both in terms of revenues and vessels in operation. This is followed by the Americas region, and then lastly Southeast Asia. The majority of the client base comprises international and major oil companies. As the company is primarily positioned within the PSV segment, the company mainly undertakes production related tasks like supply of offshore cargo and standby duties. At present 31 vessels are cold stacked, out of the total fleet of 69 vessels.

GulfMark Offshore revenues and EBITDA (2012-2017e)



Source: Pareto Securities Equity Research, GulfMark Offshore

When the downturn in the OSV market commenced, the company announced a comprehensive cost restructuring program, in addition to buying back bonds opportunistically. Furthermore, the company sold older assets and renegotiated its credit facilities. Following a merger proposal from SEACOR Marine in 2016, which the company rejected, the company tried to refinance the senior notes. Through a combination of preferred equity and a new term loan, the company offered to buy back up to USD 300m of the USD 500m senior notes, at a significant discount to par value. This was however not successful, as noteholders rejected the proposal.

The company entered a Chapter 11 restructuring process in 2017. The company emerged from Chapter 11 in November, having equitized all of its outstanding bond debt, refinanced its bank facilities, and raised new equity. Please find a detailed overview of the restructuring overview on the next page.

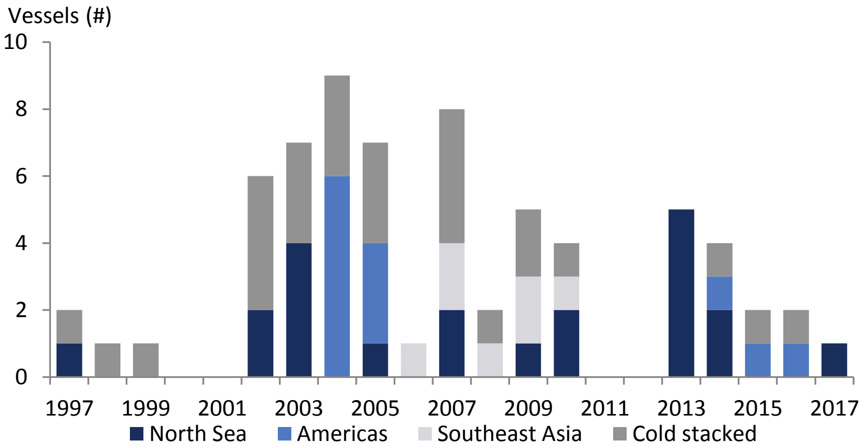
Please find an overview over the Chapter 11 restructuring below:

- All prior outstanding shares (~26.5m) were cancelled prior to the offering (legacy shares)
- The company issued USD 125m of new equity, in total ~7m shares
- The 2022 notes (USD ~429.6m outstanding) were cancelled
- Noteholders of the 2022 notes received 149,900 warrants exercisable for 1 share at USD 0.01/share, exercisable until 14 November 2042
  - U.S. citizens note holders received 8.29764454 of new stock for every USD 1,000 of bonds owned
  - Non-U.S. Citizen note holders received 8.29764454 of Jones Act warrants for every USD 1,000 of bonds owned (non-U.S. equity ownership has to remain <24% due to Jones Act)
- Existing equity holders received 810.811 warrants exercisable for 1 share at USD 100/share, exercisable until 14 November 2024
  - 0.00271233 of new stock and 0.02931672 equity warrant for each share of legacy shares
- DNB and Hayfin provided two new credit facilities, maturing 14 November 2022:
  - Senior secured term facility of USD 100m (fully drawn) (Hayfin)
  - Senior secured RCF of up to USD 25m, including a USD 12.5m swingline loan subfacility and USD 5m letter of credit subfacility (DNB)
- All prior credit facilities (USD 143m) have been repaid and terminated
- Following the completion of the Chapter 11 process, the fully diluted share count of GulfMark Offshore is ~11.7m shares (including 876,553 of management incentive shares)

Asset overview and cash flow

GulfMark Offshore owns a fleet of 66 vessels, and operates an additional three vessels. Of the current fleet, 31 vessels are cold stacked, including one of the operated vessels. Following the Chapter 11 restructuring process, the book value of the fleet is USD ~360m, compared to a historical construction cost of USD ~1.5bn. The average fleet age of the owned fleet is ~11 years.

Fleet age distribution

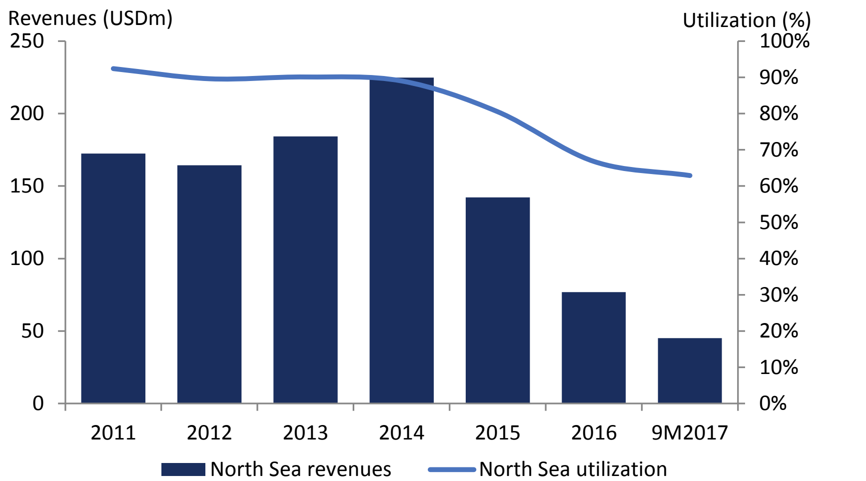


Source: Pareto Securities Equity Research

The North Sea fleet comprises 30 vessels, including three operated vessels. The fleet counts 27 PSVs and three mid-sized AHTS. Nine vessels are currently stacked in the region. We assume four of these vessels stacked through 2019, and the remaining five stacked for the foreseeable future. Of the vessels in service, six are trading in the spot market, whilst 15 are working on term commitments. The majority of these term charters are rolling off in 2018, while four vessels have term charters extending into 2019.

Revenues and utilization for the North Sea fleet has held up relatively well compared to the overall GulfMark fleet, due to term charters and in general higher spec'ed assets. This has resulted in that the North Sea segment consistently has had a positive EBITDA through the downturn, with the exception of Q1'17. As the North Sea spot market improved over the summer, and the company secured some charters on slightly improved terms, the EBITDA margin for the North Sea segment has improved the past six months.

North Sea revenues and utilization



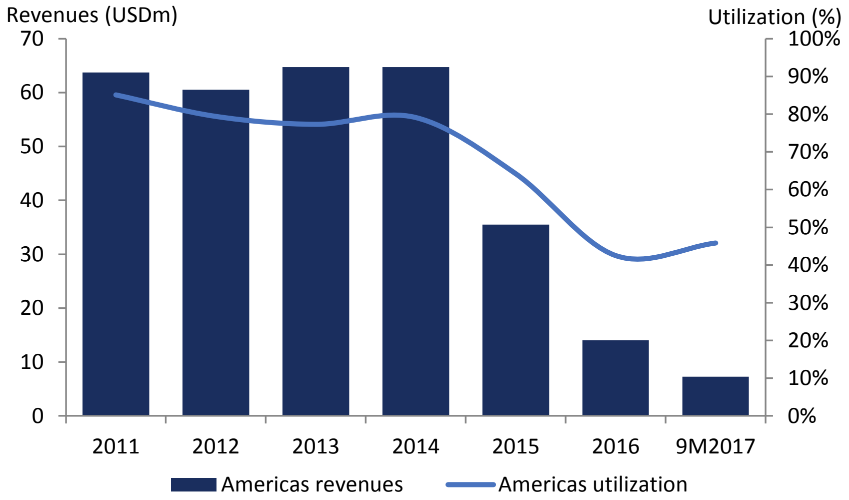
Source: Pareto Securities Equity Research, GulfMark Offshore

The Americas fleet comprises 29 vessels, including 26 PSVs and three smaller AHTS'. Due to in general low utilization in the U.S. GoM, vessels mobilizing from other regions, and vessels losing their respective CAA licenses in Brazil, the number of cold stacked vessels currently stands at 17 vessels. The majority of the operational vessels in the Americas segment are deployed in the U.S. GoM, with the exception of two vessels in Trinidad and Tobago, one vessel in Mexico, and one vessel in Brazil.

All vessels in the segment are operating on shorter term commitments, with no longer term charters in the backlog. Historically term charters in the U.S. GoM have had shorter durations than in e.g. Brazil or the North Sea, as the majority of vessels have been utilized for on project specific exploration and development drilling support. As these contracts are often awarded on a project by project basis, the average contract duration is also shorter. This has resulted in that earnings and utilization in the region have dropped significantly the past two years.

Due to the current oversupply in the U.S. GoM, and several of GulfMark's stacked vessels in the U.S. GoM being older than 15 years and/or smaller in size (PSVs), we assume that 14 of the vessels currently cold stacked in the region will remain cold stacked in the foreseeable future. Reactivation costs coupled with deferred maintenance spending and working capital are expected to hinder several of the smaller vessels being competitive, even if utilization would pick up.

Americas revenues and vessel utilization



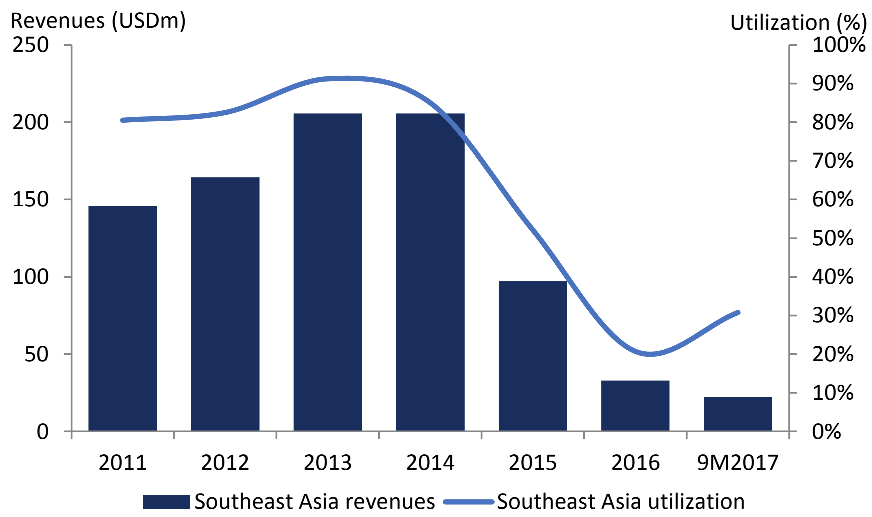
Source: Pareto Securities Equity Research, GulfMark Offshore

The Southeast Asia fleet is relatively smaller than the two other segments, with ten vessels. The Southeast Asia fleet comprises eight mid-sized and two smaller AHTS'. Three vessels are currently cold stacked in the region. Of the operational vessels, two are operating on term charters with Chevron offshore Thailand, whilst the remaining vessels are operating on shorter term commitments in Malaysia, Thailand and Myanmar.

As the Southeast Asia market is a highly competitive market due to low crew costs and a high oversupply of vessels, earnings in the Southeast Asia segment started to deteriorate already in the downturn. Although vessel costs are relatively lower compared to the North Sea and Americas segments, dayrates are also significantly lower.

We expect the Southeast Asia market to remain challenging for the foreseeable future, and although utilization is better than for the Americas segment, overall earnings are expected to remain lower. We do however assume all vessels operational from 2020.

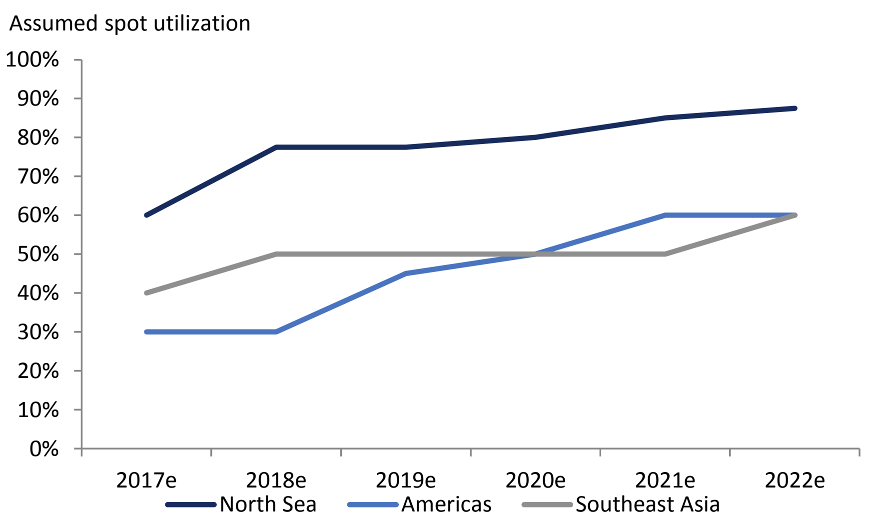
Southeast Asia revenues and vessel utilization



Source: Pareto Securities Equity Research, GulfMark Offshore

For all stacked vessels we assume a cold stacking cost of USD 500/day. We also assume the number of vessels operating on term charters the next two years to be flat, meaning that the remaining are assumed to be trading spot. We further assume spot utilization to differentiate somewhat between the regions, as can be seen below.

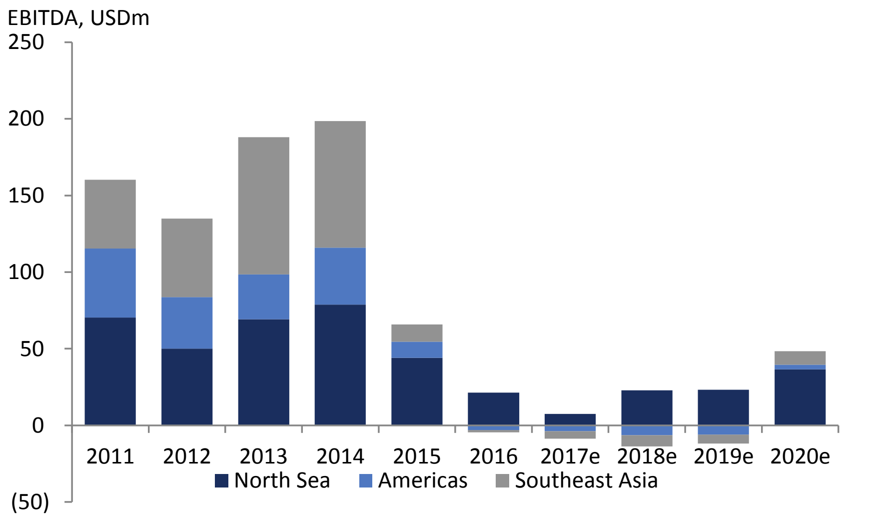
Average spot utilization per region



Source: Pareto Securities Equity Research

Based on these assumptions, we expect the North Sea to continue to generate a positive EBITDA over the next years. The main driver for a higher EBITDA in the North Sea in 2018 will be a combination of higher utilization and higher dayrates. Revenues in the region started to improve already in Q2'17, positively impacted by improved utilization and an improving North Sea spot market during the 2017 summer season. EBITDA from the Americas and Southeast Asia is however expected to continue to be negative in 2018e and 2019e. Earnings in the Southeast Asia region are however expected to improve in 2020e, due to assumed vessel reactivations and higher utilization. The Americas region should be break-even in 2020e, but as we continue to assume several vessels cold stacked in the region, we do not expect a significant improvement in the earnings capacity.

Historical and projected EBITDA per region



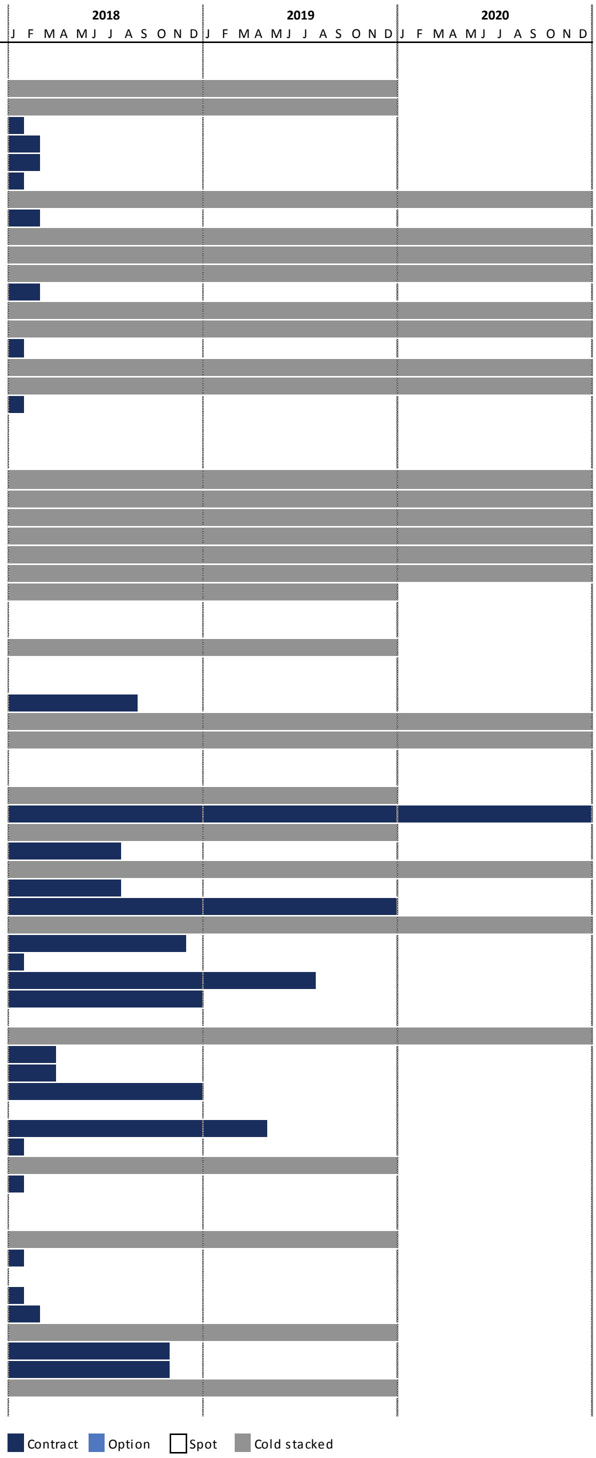
Source: Pareto Securities Equity Research, GulfMark Offshore

The high North Sea exposure has been a relative support for the company through the downturn, due to a decent backlog and higher overall utilization. We expect that the North Sea will become an increasingly important region for the company going forward, as offshore activity in the region continues to pick up. The region also has a higher OSV/rig ratio than other regions, and this will be further supported by drilling activity in the Barents Sea (Norwegian and Russian side). GulfMark has relatively higher earnings exposure to the North Sea than most U.S. peers, which we find valuable.

We do not rule out that the company will take advantage of the current downturn and its solid balance sheet by engaging in M&A. We acknowledge that the majority of vessel targets, and then particularly larger and higher spec'ed assets, are implicitly marketed at a premium to the GulfMark fleet today. This is not due to an overly optimistic market outlook by most sellers, but due to underlying debt being higher than current market values. Valuations for such assets are however still at a discount to newbuilding parity, and whilst the market is challenging for most asset classes today, some niche segments are expected to rebound ahead of the overall OSV market. For GulfMark we expect the main priority to be on large North Sea spec'ed PSVs, and this is also a region where there has been decent activity in the S&P market the past year.

GulfMark Offshore fleet overview

Vessel	Type	Year	Size (dwt/BHP)	Ownership	Client	Location	
Americas							
Austral Abrolhos	AHTS	2004	7,098	100%	Spot	Brazil	Americas
Coloso	AHTS	2005	5,998	100%	Cold stacked	US GoM	Americas
Titan	AHTS	2005	5,916	100%	Cold stacked	US GoM	Americas
Bienville	PSV	2005	2,929	100%	DeNovo Energy	Trinidad and Tobago	Americas
Bourbon	PSV	2004	2,929	100%	Anadarko	US GoM	Americas
Chartres	PSV	2004	3,463	100%	Allseas	Mexico	Americas
Conti	PSV	2005	2,346	100%	DeNovo Energy	Trinidad and Tobago	Americas
Double Eagle	PSV	2007	1,686	100%	Cold stacked	US GoM	Americas
Esplanade	PSV	2005	2,929	100%	Anadarko	US GoM	Americas
First and Ten	PSV	2007	1,686	100%	Cold stacked	US GoM	Americas
Grand Slam	PSV	2008	2,151	100%	Cold stacked	US GoM	Americas
Hat Trick	PSV	2008	1,686	100%	Cold stacked	US GoM	Americas
Hercules	PSV	2016	5,300	100%	LLOG	US GoM	Americas
Highland Scout	PSV	1999	2,833	100%	Cold stacked	US GoM	Americas
Homerun	PSV	2008	2,151	100%	Cold stacked	US GoM	Americas
Iberville	PSV	2004	2,929	100%	Walter Oil & Gas	US GoM	Americas
Jermaine Gibson	PSV	2008	2,151	100%	Cold stacked	US GoM	Americas
Knockout	PSV	2008	2,151	100%	Cold stacked	US GoM	Americas
Orleans	PSV	2004	2,929	100%	Walter Oil & Gas	US GoM	Americas
Polaris	PSV	2014	3,600	100%	Spot	US GoM	Americas
Regulus	PSV	2015	3,561	100%	Spot	US GoM	Americas
Royal	PSV	2004	3,462	100%	Spot	US GoM	Americas
Slam Dunk	PSV	2008	2,129	100%	Cold stacked	US GoM	Americas
St Louis	PSV	2005	3,462	100%	Cold stacked	US GoM	Americas
Thomas Wainwright	PSV	2010	2,448	100%	Cold stacked	US GoM	Americas
Touchdown	PSV	2008	2,151	100%	Cold stacked	US GoM	Americas
Toulouse	PSV	2005	2,929	100%	Cold stacked	US GoM	Americas
Triple Play	PSV	2007	1,686	100%	Cold stacked	US GoM	Americas
Hammerhead	FSV	2008	552	100%	Cold stacked	US GoM	Americas
North Sea							
Highland Courage	AHTS	2002	16,320	100%	Cold stacked	UK	North Sea
Highland Endurance	AHTS	2003	16,320	100%	Spot	UK	North Sea
Highland Valour	AHTS	2003	16,320	100%	Spot	UK	North Sea
Enea	PSV	2010	4,836	-	TAQA	UK	North Sea
Gargano	PSV	2002	3,200	-	Cold stacked	UK	North Sea
Highland Bugler	PSV	2002	3,115	100%	Cold stacked	UK	North Sea
Highland Challenger	PSV	1997	3,115	100%	Spot	UK	North Sea
Highland Chieftain	PSV	2013	4,000	100%	Spot	UK	North Sea
Highland Citadel	PSV	2003	3,350	100%	Cold stacked	UK	North Sea
Highland Defender	PSV	2013	5,200	100%	Maersk Oil	UK	North Sea
Highland Duke	PSV	2012	3,105	100%	Cold stacked	UK	North Sea
Highland Eagle	PSV	2003	3,200	100%	Eni	UK	North Sea
Highland Fortress	PSV	2001	3,200	100%	Cold stacked	UK	North Sea
Highland Guardian	PSV	2013	5,096	100%	Shell	UK	North Sea
Highland Knight	PSV	2013	3,000	100%	ConocoPhillips	UK	North Sea
Highland Laird	PSV	2006	3,184	100%	Cold stacked	UK	North Sea
Highland Monarch	PSV	2003	3,115	100%	Peterson	Netherlands	North Sea
Highland Navigator	PSV	2002	4,510	100%	Allseas	Turkey	North Sea
Highland Prestige	PSV	2007	4,993	100%	TAQA	UK	North Sea
Highland Prince	PSV	2009	4,826	100%	Team	UK	North Sea
Highland Princess	PSV	2014	3,000	100%	Spot	UK	North Sea
Highland Rover	PSV	1998	3,200	100%	Cold stacked	UK	North Sea
North Barents	PSV	2017	4,700	100%	OMV	Norway	North Sea
North Cruys	PSV	2014	5,000	100%	OMV	Norway	North Sea
North Mariner	PSV	2002	4,400	100%	Nexen	UK	North Sea
North Pomor	PSV	2013	4,700	100%	Spot	Norway	North Sea
North Promise	PSV	2007	4,850	100%	Shell	UK	North Sea
North Purpose	PSV	2010	4,850	100%	Dana Petroleum	UK	North Sea
North Stream	PSV	1998	4,585	100%	Cold stacked	Norway	North Sea
Portosalvo	PSV	2005	3,210	-	Perenco	UK	North Sea
Southeast Asia							
Sea Apache	AHTS	2008	10,700	100%	Cold stacked	Singapore	Southeast Asia
Sea Cherokee	AHTS	2009	10,700	100%	PTTEP	Myanmar	Southeast Asia
Sea Cheyenne	AHTS	2007	10,704	100%	Spot	Malaysia	Southeast Asia
Sea Choctaw	AHTS	2008	10,700	100%	Coastal Energy	Malaysia	Southeast Asia
Sea Comanche	AHTS	2009	10,700	100%	TBC	Thailand	Southeast Asia
Sea Kiowa	AHTS	2008	10,700	100%	Cold stacked	Singapore	Southeast Asia
Sea Sovereign	AHTS	2006	5,500	100%	Chevron	Thailand	Southeast Asia
Sea Supporter	AHTS	2007	7,954	100%	Chevron	Thailand	Southeast Asia
Sea Valiant	AHTS	2010	10,188	100%	Cold stacked	Singapore	Southeast Asia
Sea Victor	AHTS	2010	10,188	100%	Spot	Malaysia	Southeast Asia



Source: Pareto Securities Equity Research

Cash flow

We assume the company to generate a marginally positive EBITDA in 2018e and 2019e, before we expect earnings to improve in 2020 as vessels are assumed reactivated and utilization picks up. In 2020e we assume an EBITDA of USD 48m, fairly in line with 2015. This is however well below peak EBITDA of USD 177m in 2014.

Annual interest payments are estimated at USD 8m per year going forward, significantly down from USD ~33m in 2017. The operational cash flow is hence expected to be positive from 2020e and onwards, in spite of some working capital build-up.

The company has no newbuilds under construction, and hence no newbuilding capex commitments. The majority of vessel maintenance and drydocks are further expected to be capitalized over vessel operating costs going forward. We hence increase operational costs somewhat per vessel, and amortize drydock costs with a 2.5 year profile. Whilst we assume limited capex in 2018e and 2019e, vessel reactivations are expected to result in an increase in capital expenditures in 2020e.

The company has no debt amortization until November 2019. From November 2019 there will be USD 10m of semi-annual debt repayment, until the final maturity date in November 2022.

The company raised USD 125m of new equity in connection with the Chapter 11 recapitalization, providing a cash buffer through the next years. Whilst we do not expect the company to generate a positive FCF until 2020e, the current liquidity buffer should be sufficient to see the company through the downturn. We also note that if the market improves ahead of our expectations, additional vessel reactivations would also be positive for improving the earnings capacity.

Cash flow per year

FY		2015	2016	2017e	2018e	2019e	2020e
EBITDA	USDm	41	(11)	(41)	0	7	48
P&L interest	"	(37)	(33)	(32)	(8)	(8)	(7)
Net WC adjustments/tax/other	"	37	20	15	(7)	(7)	(26)
Operational cash flow	"	**42**	**(24)**	**(58)**	**(14)**	**(8)**	**15**
Newbuild capex	"	-	-	-	-	-	-
Maintenance capex	"	(35)	(16)	(25)	(4)	(4)	(12)
Sale of assets	"	9	7	3	-	-	-
Other investment activities	"	4	-	-	-	-	-
CF from investment activities	"	**(23)**	**(10)**	**(22)**	**(4)**	**(4)**	**(12)**
New equity	"	1	0	125	-	-	-
Change in debt	"	(45)	27	39	-	-	(10)
Other	"	(4)	(7)	(14)	-	-	-
Cash flow from financing	"	**(47)**	**20**	**150**	**0**	**0**	**(10)**
FCF	"	6	(40)	(83)	(18)	(12)	3
Net change in cash	"	*(28)*	*(13)*	*71*	*(18)*	*(12)*	*(7)*
Cash	"	**22**	**9**	**79**	**61**	**49**	**42**
Net debt	"	478	475	15	33	45	42
NIBD/EBITDA	*x*	*11.6x*	*n/a*	*n/a*	*n/a*	*6.2x*	*0.9x*

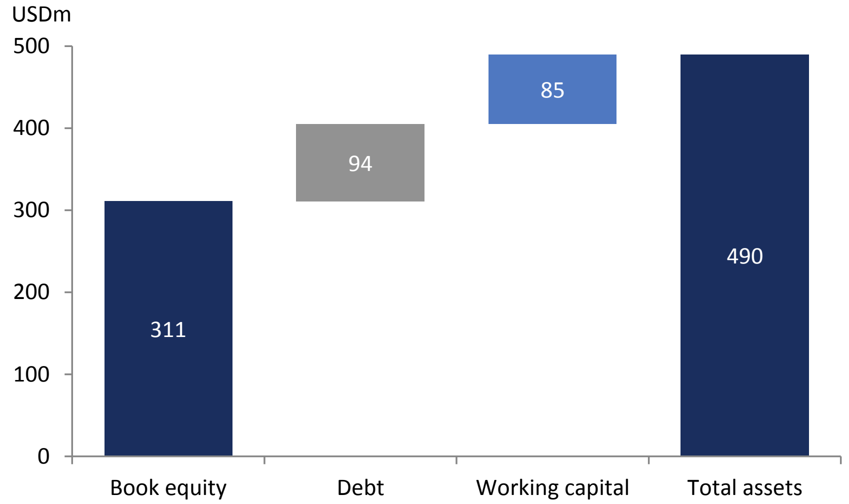
Source: Pareto Securities Equity Research, GulfMark Offshore

Capital structure

As of end Q3'17 the company had total assets of USD ~1.1bn. The capital structure comprised book equity value of USD 309m, with no minority interests. Total debt was USD 143.4m comprising a multi-currency of USD 72m, a Norwegian facility of USD 45m and debtor in possession financing of USD 17m. In addition the company had USD 85m of working capital, mainly comprising receivables. After the completion of the Chapter 11 restructuring in November, the company provided proforma statements for Q3'17. The proforma adjustments would be USD 311m of book equity, USD 94m of debt, and USD 85m of working capital, primarily comprising cash.

The company has no off-balance sheet lease commitments today.

Proforma capital structure as of 30 September 2017



Source: Pareto Securities Equity Research, GulfMark Offshore

The company today has two credit facilities with DNB and Hayfin. Please find an overview of the two facilities below:

Debt overview

	Term Loan Facility	RCF
Borrower:	GulfMark Rederi AS	GulfMark Rederi AS
Original amount:	USD 100m	USD 25m
Amount drawn:	USD 100m	-
Coupon:	LIBOR + 625 bps	LIBOR + 625 bps
Security:	Collateral vessels and share pledges in vessel owning companies	Collateral vessels and share pledges
Maturity:	Nov-22	Nov-22
Amortization profile:	USD 10m Nov'20 and then semi-annually until principal repayment (USD 60m)	None
Guarantor:	GulfMark Offshore, Inc and various subsidiaries	GulfMark Offshore, Inc and various subsidiaries
Lender:	Hayfin Capital Management LLP	DNB Capital LLC
Other:		Includes USD 12.5m swingline facility, USD 5m letter of credit subfacility

Source: GulfMark Offshore

Valuation

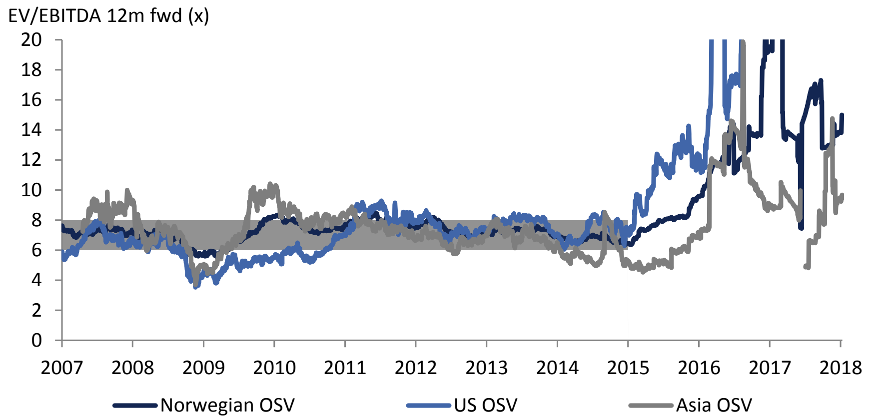
We have valued GulfMark Offshore using two different valuation approaches; a multiple valuation and an asset based valuation. We calculate the diluted share count at ~10.9m comprising ~7m shares, ~3m noteholder warrants exchangeable for shares at USD 0.01/share, and 876,553 shares under the management incentive plan. We exclude the 810,811 equity warrants from this calculation, as the conversion price is USD 100/share. These are hence significantly out of the money today.

As we do not expect earnings to normalize until 2020e, we find an asset based valuation to be the best valuation metric. We hence initiate coverage with a diluted TP of USD 41, based on our NAV for the company. This implies 46% upside from the current share price, and we initiate coverage with a BUY recommendation.

Multiples imply diluted equity value of USD 23-42 per share

OSV companies have historically traded at an EV/EBITDA of 6-8x, prior to the industry downturn. This has been fairly similar also between regions, although the U.S. OSV companies have been more liquid and less leveraged than peers in other regions. Although this rapidly changed when the market started to deteriorate in early 2015, the U.S. Chapter 11 has enabled U.S. OSV companies to emerge from restructurings with significantly less leverage than peers in other regions.

Historical OSV EV/EBITDA 12m fwd



Source: Factset

An EBITDA of USD 48m in 2020e would imply a diluted value of USD 23-27 per share, assuming 6-7x EV/EBITDA'2020e. Peak EBITDA in 2014 was USD 177m, however we do not assume all vessels working, and with dayrates only gradually improving the next years.

Dayrate and EV/EBITDA sensitivity on EBITDA'2020e (USD/share)

		Sensitivity to dayrates						
		-20 %	-10 %	-5 %	0	5%	10%	20%
EV/EBITDA	5.0x	3	11	14	18	22	26	34
	5.5x	3	12	16	21	25	29	38
	6.0x	4	13	18	23	28	32	42
	6.5x	5	15	20	25	30	35	45
	7.0x	5	16	22	27	33	38	49
	7.5x	6	18	24	30	35	41	53
	8.0x	7	19	25	32	38	44	57

Source: Pareto Securities Equity Research

We note however that the full earnings capacity of the fleet, assuming all vessels in service would imply an EBITDA of USD ~100m. We do however not base our valuation on this, as a reactivation of these vessels would likely imply significant global reactivation activity, and hence subsequent pressure on dayrates and utilization. Nevertheless, based on this we reach a diluted value per share of USD 36-42 assuming all vessels operational and 6-7x EV/EBITDA.

Dayrate and EV/EBITDA sensitivity on normalized EBITDA (USD/share)*

		Sensitivity to dayrates						
		-20 %	-10 %	-5 %	0	5%	10%	20%
EV/EBITDA	5.0x	4	16	22	29	35	41	53
	5.5x	5	19	25	32	39	45	59
	6.0x	6	21	28	36	43	50	65
	6.5x	7	23	31	39	47	55	71
	7.0x	8	25	34	42	51	60	77
	7.5x	9	28	37	46	55	64	82
	8.5x	11	32	42	53	63	74	94

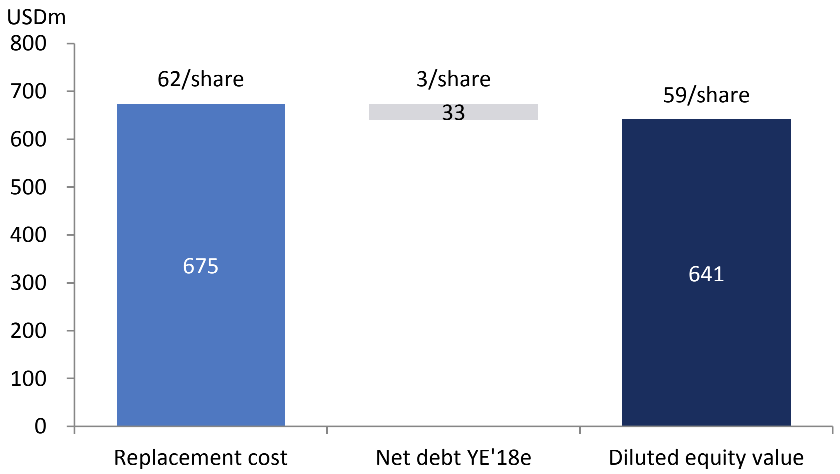
**Assuming all vessels working, but with same dayrate and utilization assumptions as estimated for 2020e estimates*

Source: Pareto Securities Equity Research

Asset values imply diluted equity value of USD 30-59 per share

The replacement value of the GulfMark fleet is estimated at USD ~675m. This is what it is assumed to cost to replace the fleet through the second-hand market today. Based on replacement values, the implied diluted equity value per share is USD 59/share. We note however that this is a poor valuation metric in the current market environment and for GulfMark specifically, due to the high number of cold stacked vessels.

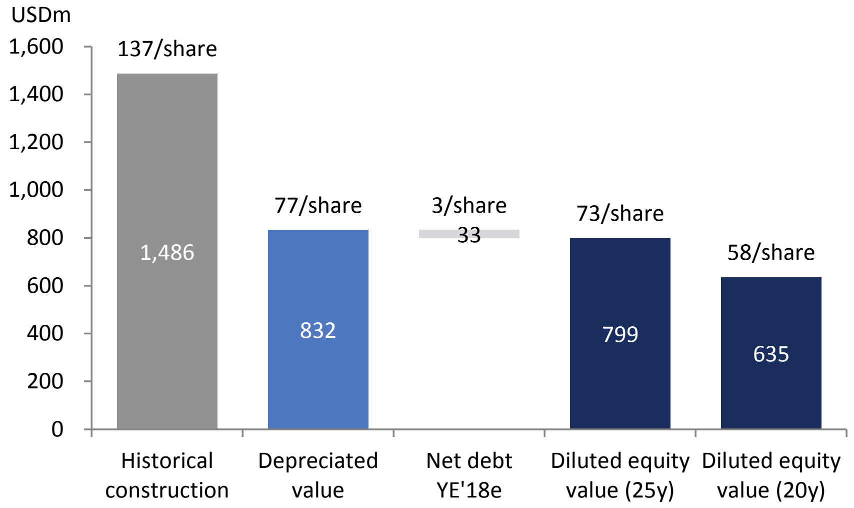
Implied equity value by replacement cost (USD/share)



Source: Pareto Securities Equity Research

The historical construction cost of the GulfMark Offshore fleet is estimated at USD ~1.5bn. The depreciated value of the historical construction cost, when assuming a useful lifetime of 25 years for the fleet, is USD 832m. This implies a diluted equity value of USD 73 per share. We acknowledge that in the current market, the useful lifetime of an OSV may be shorter than the historical 25 years. Assuming a useful lifetime of 20 years, this gives an implied value per share of USD 58. As for the replacement value, this metric does not properly reflect the number of cold stacked assets, and is hence a poor valuation metric.

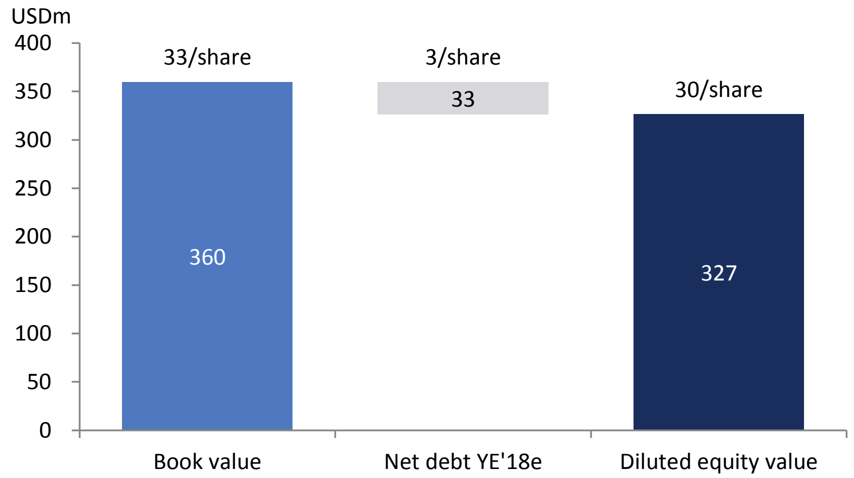
Implied equity value by depreciated construction cost (USD/share)



Source: Pareto Securities Equity Research

The book value of the fleet and associated equipment today is USD ~360m, assuming fresh-start accounting after the Chapter 11 restructuring. This includes some equipment beyond the fleet, but nevertheless implies a diluted value per share of USD 30. This better reflects the limited value of the cold stacked fleet than the historical construction cost and replacement value, due to the high number of cold stacked vessels.

Implied equity value by book value (USD/share)



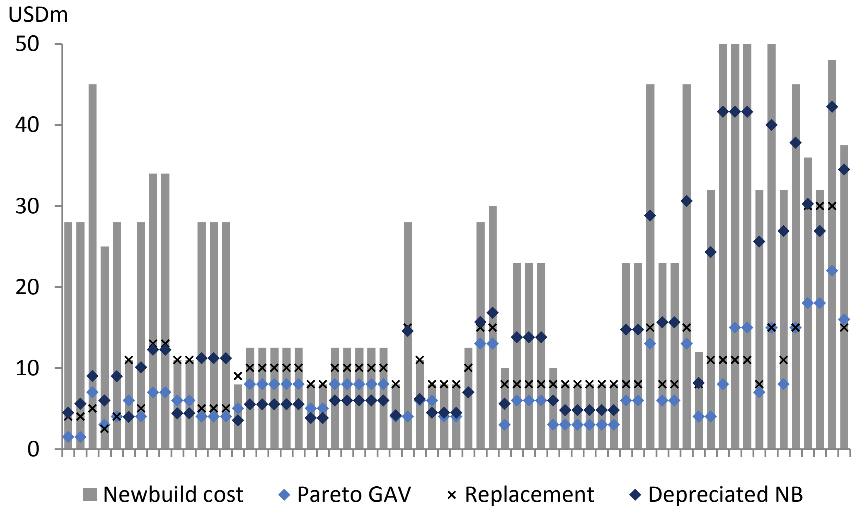
Source: Pareto Securities Equity Research, GulfMark Offshore

NAV indicating value of USD 41/share

When valuing the GulfMark Offshore fleet with a SOTP approach, we value the fleet on a charter-free basis. We also apply a limited value to vessels that are cold stacked today. The company does not have any material long term charters in its backlog, and we do hence not apply any additional value to the backlog. Vessels are valued in line with recent re-sale transactions, which reflect fire sale values in the current market environment.

As can be seen below, for the majority of vessels our values are below replacement value, and for the majority of vessels also below the depreciated construction cost. This applies largely for older vessels, whilst we apply a lower discount for larger and newer assets.

Implied equity value by replacement cost



Source: Pareto Securities Equity Research

On the back of this, we reach a SOTP equity value of USD 41 per share on a fully diluted basis. This is also were we set our TP, as we believe this best represents the underlying value of the company.

Pareto GAV

Fleet value		GAV	# vessels	GAV -10%	GAV +10%
AHTS > 20,000 BHP, 2000+	USDm	-	-	-	-
AHTS 15,000-19,999 BHP, 2000+	"	18	3	16	20
Other AHTS	"	73	13	66	80
PSV > 3,500 DWT, 2000+	"	208	15	187	229
Other PSV	"	176	34	158	194
Other	"	2	1	2	2
Gross Asset Value	"	**477**	**66**	**429**	**525**
Net Debt YE'18e	"	(33)		(33)	(33)
Remaining Capex	"	0		0	0
Net Asset Value (NAV)	"	444		396	491
NAV per share	**USD**	**41**		**36**	**45**

Source: Pareto Securities Equity Research

A 10% change in asset values from our current GAV would imply a diluted value per share of USD 36-45. Please find a detailed break-down of our asset values for the GulfMark Offshore fleet on the next page.

Pareto GAV

Vessel Name	Vessel Type	BHP	Built	Value (USDm)
Highland Courage	AHTS	16,320	2002	6
Highland Endurance	AHTS	16,320	2003	6
Highland Valour	AHTS	16,320	2003	6
Austral Abrolhos	AHTS	7,100	2004	5
Coloso	AHTS	5,916	2005	5
Titan	AHTS	5,916	2005	5
Sea Sovereign	AHTS	5,500	2006	4
Sea Cheyenne	AHTS	10,704	2007	6
Sea Supporter	AHTS	7,954	2007	6
Sea Apache	AHTS	10,700	2008	6
Sea Choctaw	AHTS	10,700	2008	6
Sea Kiowa	AHTS	10,700	2008	6
Sea Cherokee	AHTS	10,700	2009	6
Sea Comanche	AHTS	10,700	2009	6
Sea Valiant	AHTS	10,188	2010	6
Sea Victor	AHTS	10,188	2010	6
			AHTS fleet value	**91**

Vessel Name	Vessel Type	DWT (ton)	Built	Value (USDm)
Highland Challenger	PSV	3,115	1997	2
Highland Rover	PSV	3,200	1998	2
North Stream	PSV	4,585	1998	7
Highland Scout	PSV	2,833	1999	3
Highland Fortress	PSV	3,200	2001	4
Highland Bugler	PSV	3,115	2002	4
Highland Navigator	PSV	4,510	2002	7
North Mariner	PSV	4,400	2002	7
Highland Citadel	PSV	3,350	2003	4
Highland Eagle	PSV	3,200	2003	4
Highland Monarch	PSV	3,115	2003	4
Bourbon	PSV	2,929	2004	8
Chartres	PSV	3,463	2004	8
Iberville	PSV	2,346	2004	8
Orleans	PSV	2,929	2004	8
Royal	PSV	3,462	2004	8
Bienville	PSV	2,346	2005	8
Conti	PSV	2,346	2005	8
Esplanade	PSV	2,929	2005	8
St Louis	PSV	3,462	2005	8
Toulouse	PSV	3,463	2005	8
Highland Laird	PSV	3,184	2006	4
Double Eagle	PSV	1,686	2007	4
First and Ten	PSV	1,686	2007	4
Grand Slam	PSV	2,151	2007	7
Highland Prestige	PSV	4,993	2007	13
North Promise	PSV	4,850	2007	13
Triple Play	PSV	1,686	2007	3
Hat Trick	PSV	1,686	2008	3
Homerun	PSV	2,151	2008	3
Jermaine Gibson	PSV	2,151	2008	3
Knockout	PSV	2,151	2008	3
Slam Dunk	PSV	2,129	2008	3
Touchdown	PSV	2,151	2008	3
Highland Prince	PSV	4,826	2009	13
North Purpose	PSV	4,850	2010	13
Thomas Wainwright	PSV	2,448	2010	4
Highland Duke	PSV	3,105	2012	4
Highland Chieftain	PSV	4,000	2013	8
Highland Defender	PSV	5,200	2013	15
Highland Guardian	PSV	5,096	2013	15
Highland Knight	PSV	3,000	2013	7
North Pomor	PSV	4,700	2013	15
Highland Princess	PSV	3,000	2014	8
North Cruys	PSV	5,000	2014	15
Polaris	PSV	3,600	2014	18
Regulus	PSV	3,561	2014	18
Hercules	PSV	5,300	2015	22
North Barents	PSV	4,700	2016	16
			PSV fleet value	**384**
Hammerhead	FSV		2008	2
			FSV/SpV fleet value	**2**

Source: Pareto Securities Equity Research

Shareholders

Top 20 shareholders (as of 25.01.2018)*

		% Out
1	MARTIN WILLIAM CHARLE	31.4 %
2	CAPTAIN Q LLC	16.8 %
3	CANYON CAPITAL ADVISORS LLC	15.9 %
4	TIAA-CREF	4.4 %
5	PACIFIC HEIGHTS ASSET MANAGEMENT	0.3 %
6	DENVER INVESTMENT ADVISORS LLC	0.3 %
7	MATHES COMPANY INC	0.1 %
8	GUGGENHEIM	0.0 %
9	FRANKLIN RESOURCES	0.0 %
10	FMR LLC	0.0 %
11	BANK OF MONTREAL	0.0 %
	Others	30.7 %
	Total	**100%**

**Does not include noteholder warrants*
Source: Bloomberg

PROFIT & LOSS (fiscal year) (USDm)	2013	2014	2015	2016	2017e	2018e	2019e	2020e
Revenues	**455**	**496**	**275**	**124**	**101**	**106**	**112**	**171**
EBITDA	**164**	**177**	**41**	**(11)**	**(41)**	**0**	**7**	**48**
Depreciation & amortisation	(64)	(75)	(225)	(221)	(50)	(35)	(35)	(35)
EBIT	**100**	**102**	**(184)**	**(232)**	**(91)**	**(35)**	**(27)**	**14**
Net interest	(24)	(29)	(37)	(33)	(32)	(8)	(8)	(7)
Other financial items	(1)	(1)	(1)	22	(14)	-	-	-
Profit before taxes	**76**	**72**	**(221)**	**(243)**	**(137)**	**(42)**	**(35)**	**6**
Taxes	(5)	(9)	6	39	(69)	(4)	(4)	(4)
Minority interest	-	-	-	-	-	-	-	-
Net profit	**71**	**62**	**(215)**	**(203)**	**(206)**	**(46)**	**(39)**	**2**
EPS reported	2.68	2.36	(8.66)	(8.10)	(18.90)	(4.24)	(3.58)	0.21
EPS adjusted	**2.73**	**2.14**	**(2.52)**	**(8.98)**	**(16.03)**	**(4.24)**	**(3.58)**	**0.21**
DPS	1.01	0.99	-	-	-	-	-	-

BALANCE SHEET (USDm)	2013	2014	2015	2016	2017e	2018e	2019e	2020e
Tangible non current assets	1,495	1,485	1,266	995	351	321	290	267
Other non-current assets	89	65	17	6	5	5	5	5
Other current assets	131	116	65	44	39	45	52	79
Cash & equivalents	61	51	22	9	79	61	49	42
Total assets	**1,774**	**1,716**	**1,370**	**1,054**	**475**	**432**	**397**	**394**
Total equity	1,064	969	698	450	295	249	210	213
Interest-bearing non-current debt	501	545	500	-	94	94	84	64
Interest-bearing current debt	-	-	-	483	-	-	10	20
Other Debt	209	203	172	121	86	88	92	97
Total liabilites & equity	**1,774**	**1,716**	**1,370**	**1,054**	**475**	**432**	**397**	**394**

CASH FLOW (USDm)	2013	2014	2015	2016	2017e	2018e	2019e	2020e
Cash earnings	135	138	11	(39)	378	(11)	(4)	37
Change in working capital	(17)	9	31	15	(436)	(3)	(3)	(22)
Cash flow from investments	(210)	(121)	(23)	(10)	(22)	(4)	(4)	(12)
Cash flow from financing	(40)	(40)	(47)	20	150	-	-	(10)
Net cash flow	(133)	(15)	(28)	(13)	71	(18)	(12)	(7)

CAPITALIZATION & VALUATION (USDm)	2013	2014	2015	2016	2017e	2018e	2019e	2020e
Share price (USD end)	**47.1**	**24.4**	**4.70**	**1.80**	**28.5**	**28.0**	**28.0**	**28.0**
Number of shares end period	26	26	25	25	11	11	11	11
Net interest bearing debt	440	494	478	475	15	33	45	42
Enterprise value	**1,671**	**1,139**	**594**	**520**	**325**	**338**	**349**	**347**
EV/Sales	3.7	2.3	2.2	4.2	3.2	3.2	3.1	2.0
EV/EBITDA	**10.2**	**6.4**	**14.4**	**-**	**-**	**-**	**48.1**	**7.2**
EV/EBIT	16.6	11.2	-	-	-	-	-	25.3
P/E reported	17.6	10.3	-	-	-	-	-	-
P/E adjusted	**17.2**	**11.4**	**-**	**-**	**-**	**-**	**-**	**-**
P/B	1.2	0.7	0.2	0.1	1.0	1.2	1.4	1.4

FINANCIAL ANALYSIS & CREDIT METRICS	2013	2014	2015	2016	2017e	2018e	2019e	2020e
ROE adjusted (%)	6.9	5.6	-	-	-	-	-	1.1
Dividend yield (%)	2.1	4.1	-	-	-	-	-	-
EBITDA margin (%)	36.2	35.7	15.0	-	-	0.2	6.5	28.4
EBIT margin (%)	22.1	20.5	-	-	-	-	-	8.0
NIBD/EBITDA	2.68	2.79	11.61	(45.04)	(0.36)	198.61	6.18	0.87
EBITDA/Net interest	6.96	5.86	5.27	-	-	0.02	0.97	6.54

PROFIT & LOSS (fiscal year) (USDm)	1Q'17	2Q'17	3Q'17	4Q'17e	1Q'18e	2Q'18e	3Q'18e	4Q'18e
Revenues	**24**	**25**	**26**	**26**	**26**	**28**	**28**	**25**
EBITDA	**(18)**	**(17)**	**(4)**	**(1)**	**(1)**	**(0)**	**2**	**(1)**
Depreciation & amortisation	(14)	(14)	(14)	(9)	(9)	(9)	(9)	(9)
EBIT	**(32)**	**(31)**	**(18)**	**(10)**	**(10)**	**(9)**	**(7)**	**(9)**
Net interest	(18)	(6)	(3)	(5)	(2)	(2)	(2)	(2)
Other financial items	(0)	(5)	(9)	-	-	-	-	-
Profit before taxes	**(51)**	**(42)**	**(30)**	**(15)**	**(12)**	**(11)**	**(9)**	**(11)**
Taxes	(74)	1	5	(1)	(1)	(1)	(1)	(1)
Minority interest	-	-	-	-	-	-	-	-
Net profit	**(125)**	**(41)**	**(25)**	**(16)**	**(13)**	**(12)**	**(10)**	**(12)**
EPS reported	(4.93)	(1.58)	(0.93)	(1.43)	(1.17)	(1.06)	(0.88)	(1.12)
EPS adjusted	**(4.72)**	**(0.91)**	**(0.61)**	**(1.43)**	**(1.17)**	**(1.06)**	**(0.88)**	**(1.12)**
DPS	-	-	-	-	-	-	-	-

BALANCE SHEET (USDm)	1Q'17	2Q'17	3Q'17	4Q'17e	1Q'18e	2Q'18e	3Q'18e	4Q'18e
Tangible non current assets	1,003	1,007	360	351	344	336	328	321
Other non-current assets	2	3	5	5	5	5	5	5
Other current assets	43	48	39	39	40	41	41	45
Cash & equivalents	28	14	86	79	75	69	68	61
Total assets	**1,077**	**1,071**	**490**	**475**	**463**	**451**	**443**	**432**
Total equity	339	316	311	295	283	271	261	249
Interest-bearing non-current debt	-	-	94	94	94	94	94	94
Interest-bearing current debt	546	134	-	-	-	-	-	-
Other Debt	191	621	85	86	87	86	87	88
Total liabilites & equity	**1,077**	**1,071**	**490**	**475**	**463**	**451**	**443**	**432**

CASH FLOW (USDm)	1Q'17	2Q'17	3Q'17	4Q'17e	1Q'18e	2Q'18e	3Q'18e	4Q'18e
Cash earnings	(16)	(27)	427	(7)	(4)	(3)	(1)	(3)
Change in working capital	4	(4)	(436)	1	1	(2)	1	(3)
Cash flow from investments	(21)	(0)	(0)	(0)	(1)	(1)	(1)	(1)
Cash flow from financing	52	17	81	-	-	-	-	-
Net cash flow	19	(14)	72	(6)	(5)	(6)	(1)	(7)

CAPITALIZATION & VALUATION (USDm)	1Q'17	2Q'17	3Q'17	4Q'17e	1Q'18e	2Q'18e	3Q'18e	4Q'18e
Share price (USD end)	**0.40**	**0.40**	**0.40**	**28.5**	**28.0**	**28.0**	**28.0**	**28.0**
Number of shares end period	25	26	27	11	11	11	11	11
Net interest bearing debt	518	120	8	15	19	25	26	33
Enterprise value	**528**	**130**	**19**	**325**	**324**	**330**	**331**	**338**
EV/Sales	4.8	1.3	0.2	3.2	3.2	3.1	3.1	3.2
EV/EBITDA	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
EV/EBIT	-	-	-	-	-	-	-	-
P/E reported	-	-	-	-	-	-	-	-
P/E adjusted	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
P/B	0.0	0.0	0.0	1.0	1.1	1.1	1.2	1.2

FINANCIAL ANALYSIS & CREDIT METRICS	1Q'17	2Q'17	3Q'17	4Q'17e	1Q'18e	2Q'18e	3Q'18e	4Q'18e
Dividend yield (%)	-	-	-	-	-	-	-	-
EBITDA margin (%)	-	-	-	-	-	-	7.2	-
EBIT margin (%)	-	-	-	-	-	-	-	-
NIBD/EBITDA	(14.28)	(8.71)	(6.42)	(4.01)	(1.69)	(2.45)	(36.94)	155.49
EBITDA/Net interest	-	-	-	-	-	-	-	0.02

MMA Offshore Ltd

Initiating Coverage

26 January 2018

Play on Aussie market recovery

MMA Offshore is a leading player in the Australian OSV market. The company recently secured a liquidity runway through the downturn by raising equity and amending its bank debt facilities. The company is currently trading at a discount to replacement values and newbuilding parity, which we find unwarranted. We initiate coverage with a TP of AUD 0.34, in line with our NAV. This implies 17% upside to the current share price, and we initiate coverage with a BUY recommendation.

Leading player in Australian OSV market

MMA Offshore is one of the leading players in the Australian OSV market. The Australian OSV market has been more resilient than the global OSV market, due to high entry barriers. MMA Offshore has however not been shielded from the downturn in the industry, and recently completed an equity offering of AUD 97m, in addition to amending its bank debt facilities, strengthening the balance sheet and securing a liquidity runway through the downturn.

Modern and versatile fleet

MMA Offshore has a modern and versatile fleet, with an average fleet age of 5.7 years. In addition to conventional AHTS', PSVs and AHTs, the company also owns IMR and subsea construction vessels. As part of its deleveraging strategy, the company has successfully divested 28 vessels the past two years, reducing debt with AUD 124m. In addition the company plans to divest an additional ten non-core vessels this year.

BUY, TP AUD 0.34/share

MMA Offshore is trading fairly in line with current firesale values, but at a significant discount to newbuilding parity and replacement values. We find this unwarranted, given the liquidity runway, and niche position in the Australian OSV market. We set our TP at AUD 0.34, which is in line with our NAV. This implies 17% upside to the current share price, and we initiate coverage with a BUY recommendation.

Please note that Pareto Securities acted as advisor for MMA Offshore for the rights issue and private placement

AUDm	2016	2017	2018e	2019e	2020e
Revenues	415	222	156	174	202
EBITDA	69	3	21	33	54
EBIT	(112)	(330)	(11)	1	22
EPS	(0.30)	(0.95)	(0.04)	(0.02)	0.01
EPS adj	(0.02)	(0.14)	(0.04)	(0.02)	0.01
DPS	0.01	-	-	-	-
EV/EBITDA	6.6	-	19.9	12.6	7.1
EV/EBIT	-	-	-	-	17.5
P/E adj	-	-	-	-	34.7
P/B	0.17	0.21	0.77	0.80	0.78
ROE (%)	-	-	-	-	2.3
Div yield (%)	4.4	-	-	-	-
Net debt	348	295	179	164	134

Source: Pareto

Buy

Hold

Sell

Target price (AUD)	**0.34**
Share price (AUD)	0.29

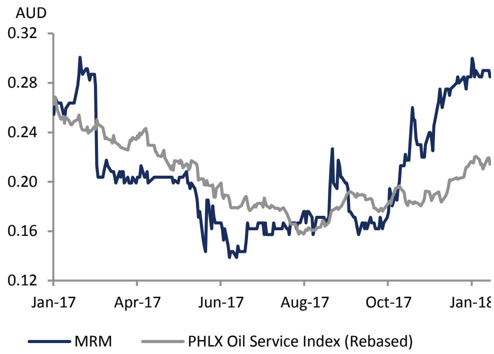
Forecast changes

%	2018e	2019e	2020e
Revenues	NM	NM	NM
EBITDA	NM	NM	NM
EBIT adj	NM	NM	NM
EPS reported	NM	NM	NM
EPS adj	NM	NM	NM

Source: Pareto

Ticker	MRM.AX, MRM AU
Sector	OSV
Shares fully diluted (m)	858.1
Market cap (AUDm)	245
Net debt (AUDm)	179
Minority interests (AUDm)	0
Enterprise value 18e (AUDm)	423
Free float (%)	100

Performance



Source: Factset

Analysts

Synnøve Gjønnes

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Company overview

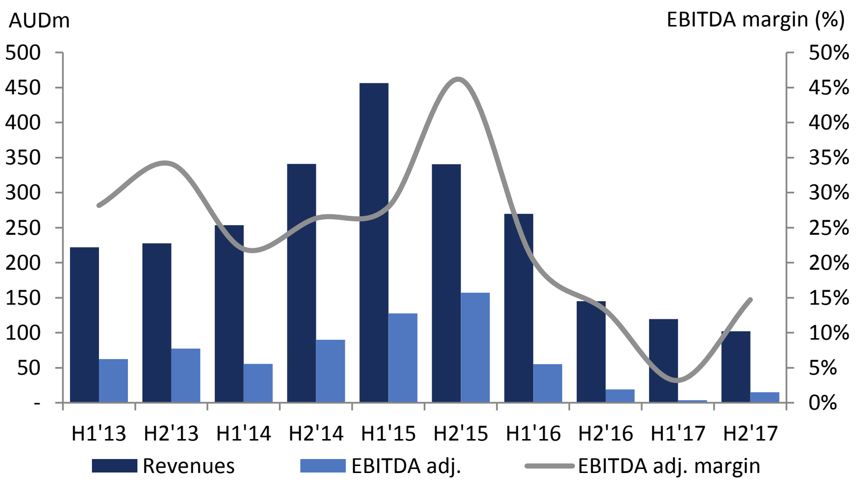
MMA Offshore Limited is an OSV and subsea services company headquartered in Australia. The company owns a core fleet of 28 modern OSVs (12xAHTS', 9xPSVs, 4xIMR/DSVs, 3xAHTs) and a shipyard in Batam. In addition, the company holds a fleet of 10 non-core vessels that will be divested. The company has ~800 employees, including onshore and offshore personnel. MMA Offshore was established in 1989, and has been listed on the Australia Stock Exchange (ASX:MRM) since 1999.

MMA Offshore is the largest OSV operator in Australia, with ~30% market share. The company's revenues are generated by the chartering of OSVs to end-clients, but also from project work. This includes chartering of third-party vessels and barges on a project by project basis. The company's largest clients are majors and international oil companies. The main market for MMA Offshore is the Australian OSV market, but the company also has vessels in operation in the Middle East and in the Southeast Asia region.

In 2014 MMA Offshore acquired all subsidiaries of Singaporean OSV company Jaya Holdings. This increased the fleet by 33 vessels (including six newbuilds), taking the total MMA Offshore fleet to 67 vessels. In addition, the transaction included two shipyards in Singapore and Indonesia. This resulted in a substantial improvement in earnings in 2015, and resulted in that MMA Offshore increased its presence in the Southeast Asia, Middle East and West Africa OSV markets. In addition it strengthened the company's subsea and construction vessel exposure.

The challenging market environment in the OSV industry has however resulted in that revenues for MMA Offshore have come under pressure the past two years, due to lower fleet utilization and also lower dayrates. Whilst dayrates in the Australian market have been more resilient than the global OSV market, utilization has been strained due to lower drilling and construction activity in the region. This has resulted in that MMA Offshore has mobilized more vessels to the international market to secure work, but at significantly lower dayrates.

MMA revenues and EBITDA FY2013-FY2017*/**



**Fiscal year deviates from actual year; FY2017 ended June 2017*
***MMA acquired Jaya Holdings in FY2015 and sold the Dampier and Broome supply bases in FY 2017, in addition to divesting vessels through FY2016-2017*

Source: Pareto Securities Equity Research, MMA Offshore

The company has divested several non-core assets over the past 18 months, including 28 non-core vessels and two supply bases in Australia. This has resulted in AUD 124m of debt repayment since FY2015. The company is in process of divesting an additional ten non-core assets, of which seven are currently under sales contracts.

In November 2017, MMA Offshore raised AUD 97m (USD ~76m) of new equity, in addition to amending some terms of its debt facilities. This included extending the maturity of the company's two bank facilities with two years to 2021, lowering interest rates, and providing a covenant holiday until 30 June 2019. The equity issue was a key condition to be able to amend terms on the debt facility, but it also strengthened the liquidity position. Of the AUD 97m in new equity, AUD 30m was used on debt repayment.

Following the equity raise and deferral of maturity of the company's bank debt, MMA Offshore has significantly improved its liquidity runway going forward. Furthermore, EBITDA margins started to improve in H2'FY17, following the commencement of new charters and full implementation of cost measures.

Mermaid Leeuwin

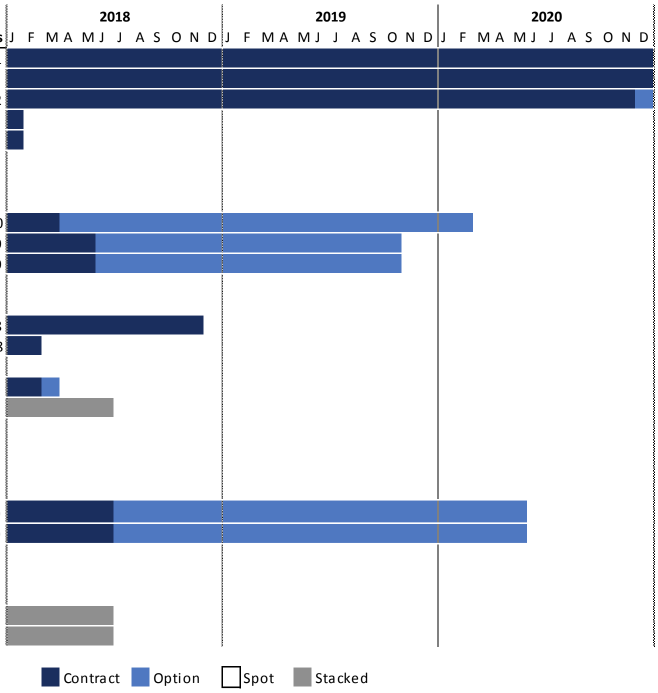
Source: MMA Offshore

Asset overview and cash flow

MMA Offshore owns a fleet of 28 modern OSVs (12xAHTS', 9xPSVs, 4xIMR/DSVs, 3xAHTs), in addition to a shipyard in Batam, Indonesia. 12 vessels are currently operating in the Australian market, whilst the remaining vessels are operating in Southeast Asia, the Middle East and West Africa. The broker value of the fleet was AUD 534m as of FY2017, which compares with a book value of AUD 493m as of FY2017 and a historical construction cost of AUD ~1bn. The average fleet age is 5.7y.

Fleet overview (as per calender year)*

Vessel	Type	Year	Size	Client	Location	Firm	Options
Plover	PSV	2015	4,000	Inpex	Australia	Aug-21	Aug-31
Brewster	PSV	2016	4,000	Inpex	Australia	Apr-22	Apr-32
Inscription	PSV	2012	5,000	ConocoPhillips	Australia	Dec-20	Dec-22
Leeuwin	PSV	2013	4,000	Woodside	Australia	Jan-18	Jan-18
Leveque	PSV	2010	3,100	ConocoPhillips	Australia	Jan-18	Jan-18
Vision	AHTS	2009	8,000		Australia	Spot	Spot
Vantage	AHTS	2009	5,150		Australia	Spot	Spot
Voyager	AHTS	2009	5,150		Australia	Spot	Spot
Cove	AHT	2013	5,620	BHP Billiton	Australia	Apr-18	Mar-20
Strait	AHT	2012	7,341	Woodside	Australia	Jun-18	Nov-19
Sound	AHT	2007	7,341	Woodside	Australia	Jun-18	Nov-19
Searcher	MSV	2008	3,200		Australia	Spot	Spot
Privilege	MPV	2015	LOA 90m/50tn	CNR	Ivory Coast/TBC	Dec-18	Dec-18
Pride	MPV	2013	LOA 78m/50tn	TBC	Saudi Arabia	Mar-18	Mar-18
Prestige	ROVSV	2016	LOA 88m/75tn		Malaysia	Spot	Spot
Pinnacle	ROVSV	2016	LOA 88m/75tn	TBC	Malaysia	Mar-18	Apr-18
Vigilant	PSV	2013	4,500		Indonesia	Spot	Spot
Valour	PSV	2013	4,500		Singapore	Spot	Spot
Vigilance	PSV	2009	2,850		Singapore	Spot	Spot
Majestic	AHTS	2014	12,240		Singapore	Spot	Spot
Sea Hawk 1	AHTS	2009	12,240		Singapore	Spot	Spot
Chieftain	AHTS	2010	8,160	Makamin/Saudi Aramco	Saudi Arabia	Jun-18	Jun-20
Centurion	AHTS	2011	8,160	Makamin/Saudi Aramco	Saudi Arabia	Jun-18	Jun-20
Concordia	AHTS	2010	8,160		Saudi Arabia	Spot	Spot
Cavalier	AHTS	2010	8,160		UAE	Spot	Spot
Crystal	AHTS	2012	8,000		Singapore	Spot	Spot
Coral	AHTS	2011	8,000		Indonesia	Spot	Spot
Almighty	AHTS	2010	5,150		Indonesia	Spot	Spot



**Note: Historical contracts based on MMA Offshore public announcements whilst forecasts are based on Pareto estimates and IHS MarineBase, spot contracts not reflected in contract overview*

Source: Pareto Securities Equity Research, MMA Offshore public announcements

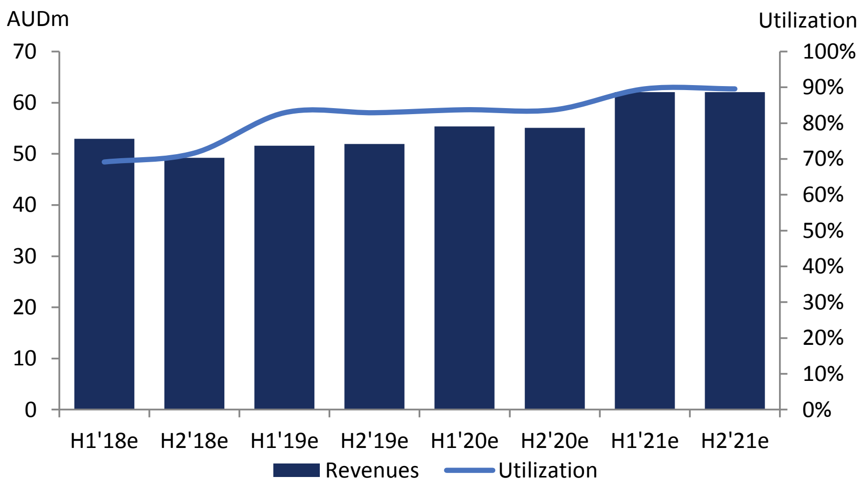
Within the Australian fleet, the majority of vessels are operating on term charters. Entry barriers in the Australian OSV market are high, due to local content requirements. The Australian fleet comprises five PSVs, three smaller AHTS', three mid-sized AHTs and one seismic support vessel.

Three of the PSVs are operating under long term charters, providing production support. The two PSVs operating for Inpex are purpose built for their charters, and we hence expect Inpex to exercise the options in 2021 and 2022 respectively. ConocoPhillips is also expected to exercise the options for PSV Inscription, due to the size of the vessel (5,000 dwt). There are few similar spec'ed vessels in the region, and as the vessel is working with production support, we expect a new charter on similar terms. We also expect the PSV Leeuwin to be renewed for further production work. Utilization has been good for the vessel, in spite of not having a long term contract. The three AHTS' are working on shorter commitments at the moment, likely awaiting an anticipated uptick in rig activity in the region. This should also be the case for the three AHTs, if options are not exercised. Searcher is expected to be employed as a seismic source vessel, but we assume only 65% utilization per year going forward (50% in FY2018).

Due to the high vessel operating costs in Australia, we assume that vessels that are not able to secure utilization >70%, will be mobilized out of the region. This implies lower dayrates, but with costs also being lower. The exception is for Searcher, which is operating as a seismic source vessel, and hence assumed to cover costs with >65% utilization. In estimates we have assumed the two smaller AHTS' to be traded internationally, before we expect these to be mobilized back into Australia in late 2018. We also assume PSV Leveque to be traded in the Southeast Asia market the next two years, although the company will likely try to secure a long term charter in Australia.

For the vessels that are working on short term commitments in Australia, we assume 70% utilization, implying break-even earnings for these vessels.

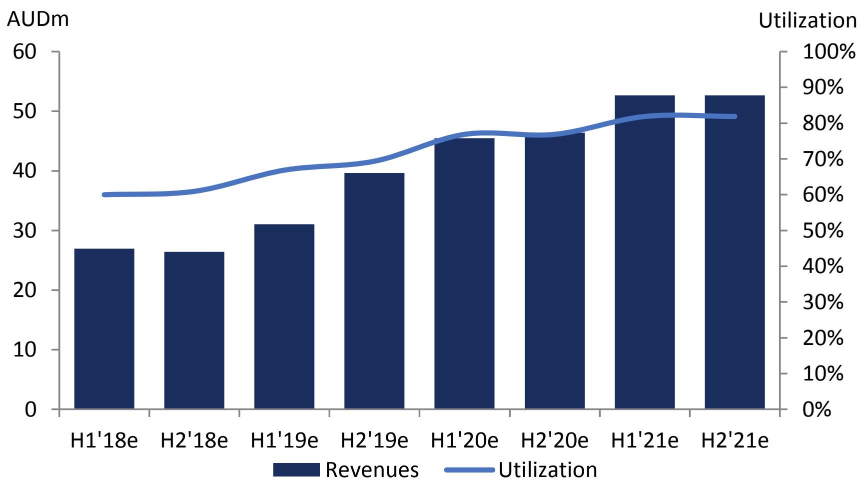
Projected revenues and utilization Australia segment*



** Fiscal year deviates from actual year; H1'18 ends December 2017*
Source: Pareto Securities Equity Research

The international fleet comprises four subsea vessels, two larger PSVs, one smaller PSV, two mid-sized AHTS and nine smaller AHTS'. With the exception of the subsea vessels and three AHTS', the majority of the international fleet is traded in the spot market. We do not expect any meaningful earnings contribution from these vessels, assuming a negative EBITDA on these vessels through mid-2019. The subsea vessels are however the key earning contributors in the international fleet, particularly Prestige and Pinnacle.

Projected revenues and utilization International segment*



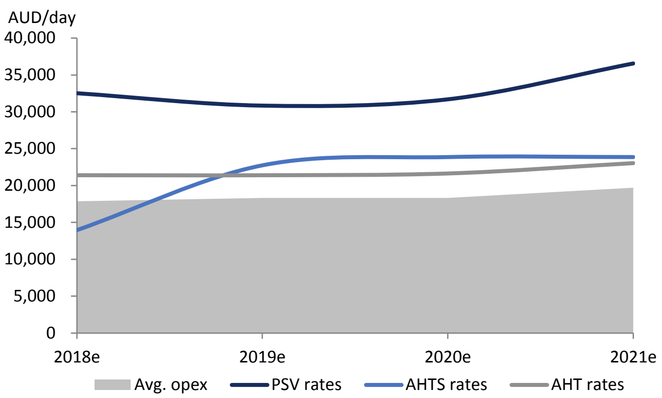
** Fiscal year deviates from actual year; FY2017 ended June 2017*
Source: Pareto Securities Equity Research

In addition to the OSV fleet, the company also owns a shipyard facility in Batam, Indonesia. The facility comprises 18.1 hectares, and has warehouse storage, a dock and a laydown area. The facility has historically been used for OSV construction, but today the company utilizes this facility for in-house repairs and maintenance, in addition to stacking of vessels. We do not include any external revenues from the Batam facility in estimates.

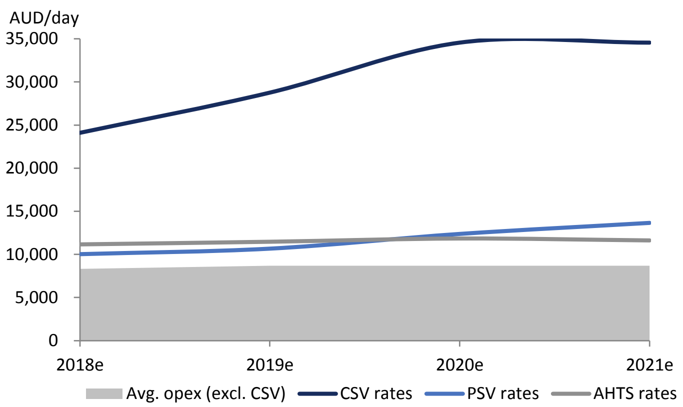
The majority of the earnings increase in our estimates follows an anticipated increase in utilization, rather than dayrates. The vessels with the highest dayrates in the Australian fleet are on long term charters today (built against contracts), and hence the increase in EBITDA going forward largely derives from higher utilization on vessels operating on shorter commitments. For the international fleet, we assume a negative EBITDA on all vessels trading spot or without firm charters, due to assumed low utilization. The main earnings growth from the international fleet should come from the four subsea vessels, as this market is less commoditized than the conventional OSV market.

Current dayrates for generic subsea and IMR vessels in the international market stand at AUD 28-44k/day (USD 22-35k/day), hence implying that we do not factor in a material dayrate uptick.

Average dayrates and opex; Australia segment*/**



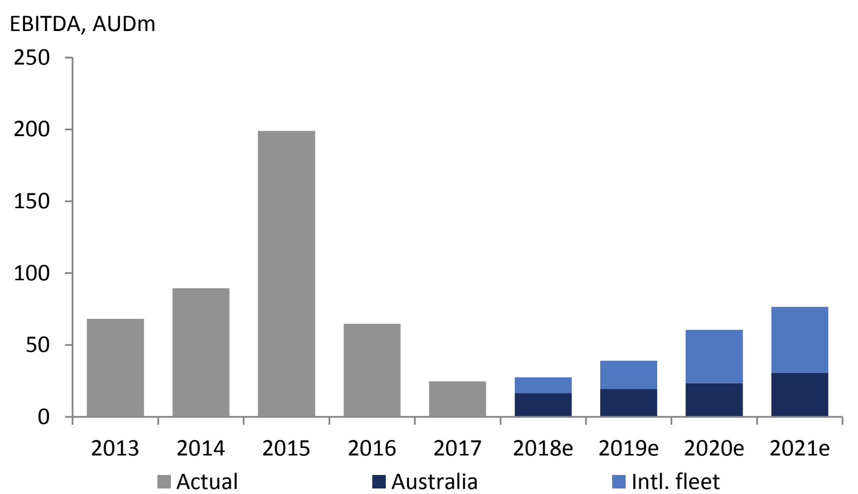
Average dayrates and opex; International fleet*/**



** Note that this is the arithmetic average of actual dayrates on chartered vessels and Pareto dayrate estimates, and is only meant to illustrate the direction of assumed dayrates; the graph does not adjust for utilization nor contracts nor specification of the vessel; opex is arithmetic average of total fleet and can hence be higher/lower than assumed above and will also vary between asset classes and regions*
*** Fiscal year deviates from actual calendar year; FY2017 ended June 2017*

Source: Pareto Securities Equity Research

Historical and projected EBITDA per segment going forward per FY*



** Fiscal year deviates from actual year; FY2017 ended June 2017*
Source: Pareto Securities Equity Research

Cash flow overview

We expect EBITDA to gradually improve going forward, largely driven by higher utilization on the fleet. We do however not expect a normalization of the EBITDA until FY2021, when we estimate an EBITDA of AUD 68m, in line with FY2016. The EBITDA for FY2016 included however AUD 16m of EBITDA net from the two supply bases, implying a higher underlying fleet EBITDA in FY2021.

The challenging market conditions and subsequent pressure on earnings resulted in that the company raised AUD 97m of new equity and amended its syndicated bank facility in November. This will improve the liquidity runway and strengthen the balance sheet through the next years.

The amendments of the bank facility will reduce the annual interest cost to AUD ~15m going forward, in addition to removing the current PIK interest. We estimate the leverage ratio >5.5x until FY2019 and >3.0x in FY 2020, and hence assume an interest margin of 4.0% and 3.75% respectively. The company has no committed capex, with annual maintenance capex estimated at AUD 12-14m per year going forward. This implies that the company should be able to generate a break-even FCF with an EBITDA of USD ~30m, including some WC build up.

The company has an amortization holiday until June 2020, with AUD 5m in amortization in June 2020 and AUD 7.5m in December 2020 and June 2020 respectively. There is also a cash sweep mechanism in place from June 2020, with excess cash above AUD 70m. There will hence be restrictions on dividends until the bank facility matures in September 2021.

We have also included the AUD 30m of additional debt repayment from the sale of the remaining ten non-core assets. We assume an average sales price of AUD 3m per vessel, implying no additional cash outlay for the company. Seven of these ten vessels are under contracts today.

Historical and projected cash flow*

		Jun-15	Jun-16	Jun-17	Jun-18	Jun-19	Jun-20	Jun-21
FY		**2015**	**2016**	**2017**	**2018e**	**2019e**	**2020e**	**2021e**
EBITDA	AUDm	289	69	3	21	33	54	68
P&L interest	"	(18)	(18)	(26)	(19)	(13)	(13)	(13)
Non cash interest adj.	"	-	(7)	(7)	-	-	-	-
Net WC adjustments/tax/other	"	(65)	80	23	7	(5)	(5)	(5)
Operational cash flow	"	**205**	**124**	**(7)**	**10**	**14**	**36**	**51**
Newbuild capex	"	(161)	(156)	(16)	-	-	-	-
Maintenance capex	"	(12)	(16)	(12)	(12)	(13)	(11)	(14)
Sale of assets	"	0	35	76	18	13	-	-
Other investment activities	"	4	4	9	-	-	-	-
CF from investment activities	"	**(168)**	**(133)**	**57**	**6**	**0**	**(11)**	**(14)**
New equity	"	-	-	-	97	-	-	-
Change in debt	"	(53)	(59)	(67)	(48)	(13)	(40)	(37)
Other	"	(35)	(7)	(4)	(5)	-	(5)	-
Cash flow from financing	"	**(87)**	**(66)**	**(71)**	**44**	**(13)**	**(45)**	**(37)**
FCF	"	33	(48)	(35)	(2)	2	25	37
Net change in cash	*"*	*(50)*	*0*	*(21)*	*59*	*2*	*(19)*	*0*
Cash	"	**124**	**50**	**29**	**88**	**90**	**70**	**70**
Net debt	"	318	348	295	179	164	134	97
Debt/EBITDA	*x*	*1.5x*	*5.7x*	*94.3x*	*12.5x*	*7.8x*	*4.0x*	*2.6x*

**Fiscal year deviates from actual year; FY2018 ends June 2018*

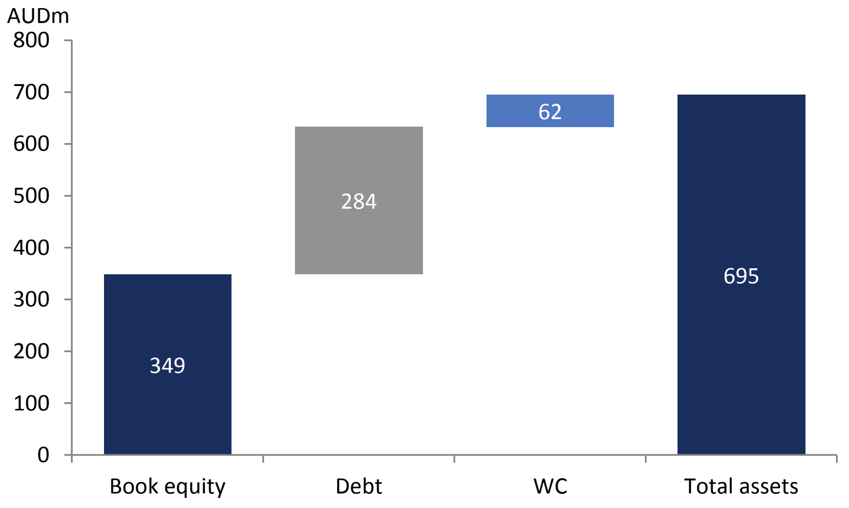
Source: Pareto Securities Equity Research

Capital structure

As of end FY2017 (June 2017) the company had total assets of AUD ~633m. The capital structure comprised book equity value of AUD ~259m, with no minority interests. Total debt was AUD ~324m, comprising a syndicated loan facility, with one AUD tranche and one USD tranche. In addition the company had AUD 62m of working capital, mainly comprising receivables. This does not include the AUD 97 m of new equity raised in November, or the proposed debt repayment of AUD 30m. Proforma figures after the equity raise would be AUD 695m of assets, AUD 349m of book equity value and AUD 284m of debt.

The company has no off-balance sheet lease commitments today.

Proforma MMA Offshore capital structure (FY2017)*



**Adjusted for AUD 97m equity issue and subsequent AUD 30m debt repayment*
Source: Pareto Securities Equity Research, MMA Offshore

Following the AUD 97m equity issue, the company amended its bank debt facility. Please find an overview over the amendments below:

- The maturity date was extended to 30 September 2021 (30 September 2019)
- Scheduled debt amortization of AUD 5m in June 2020, AUD 7.5m in December 2020 and AUD 7.5m in June 2021
- Cash sweep of excess cash >AUD 70m as of June 2020, December 2020 and June 2021
- Prepayment from proceeds of non-core assets of at least AUD 30m between November 2017 until December 2018 (any cash shortfall to be funded by MMA)
- PIK interest has been removed and accrued PIK interest will be capitalized as of September 2019
- New interest margins will depend on the leverage ratio:
  - <=3.0x – 3.25% interest margin
  - 3.0-5.5x – 3.75% interest margin
  - >5.5x – 4.0% interest margin
- Covenants:
  - Leverage ratio: Holiday until June 2019
  - Interest coverage ratio: Holiday until June 2019
  - 80% Loan to Value (LTV) ratio

We assume the syndicated loan facility to be refinanced at maturity in September 2021.

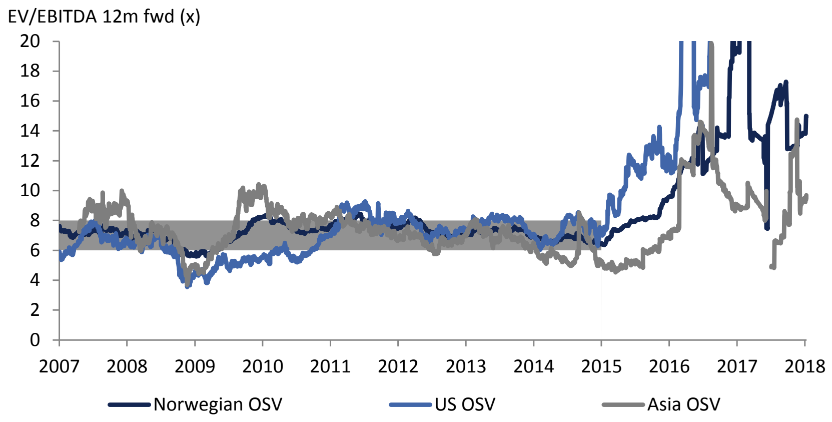
Valuation

We have valued MMA Offshore using two different valuation approaches; a multiple valuation and an asset based valuation. Based on these methods we reach a value per share of AUD 0.33-0.45. We initiate coverage on MMA Offshore with a TP of AUD 0.34, based on our NAV. This is in line with current market values, but at a discount to replacement cost and newbuilding parity. Our TP implies a premium of 17% from the current share price, and we initiate coverage with a BUY recommendation.

Multiples imply value of AUD 0.37-0.44/share

OSV companies have historically traded at an EV/EBITDA of 6-8x, prior to the industry downturn. This has been fairly similar across regions. When valuing the company using a multiple approach, we base our valuation on "normalized" earnings in FY2021 (June 2021). Current earnings are assumed at break-even levels, and would hence not reflect the future earnings capacity. Our EBITDA estimate for FY2021 is at the same level as EBITDA for FY2016. We note that MMA Offshore should be cash break-even with an EBITDA of AUD ~30m.

Historical OSV EV/EBITDA 12m fwd



Source: Factset

An EBITDA of AUD 68m in FY2021 would imply an equity valuation range of AUD 0.37-0.44per share, assuming 6-7x EV/EBITDA'FY2021e. Peak EBITDA in 2015 was AUD 289m, however this was with a substantially larger fleet and two supply bases.

Dayrate and EV/EBITDA sensitivity on FY2021 EBITDA (AUD/share)

		Sensitivity to dayrates						
		-20 %	-10 %	-5 %	0	5%	10%	20%
EV/EBITDA	5.0x	0.02	0.15	0.22	0.29	0.35	0.42	0.55
	5.5x	0.03	0.18	0.25	0.33	0.40	0.47	0.62
	6.0x	0.04	0.20	0.28	0.37	0.45	0.53	0.69
	6.5x	0.06	0.23	0.32	0.41	0.49	0.58	0.75
	7.0x	0.07	0.26	0.35	0.44	0.54	0.63	0.82
	7.5x	0.08	0.28	0.38	0.48	0.59	0.69	0.89
	8.0x	0.10	0.31	0.42	0.52	0.63	0.74	0.95

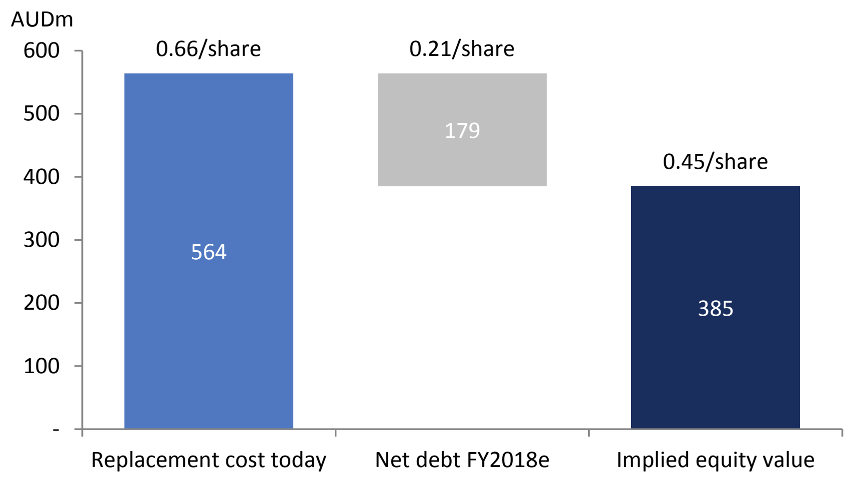
Source: Pareto Securities Equity Research

We note however that the full earnings capacity of the fleet, assuming all vessels on normalized market rates, would imply an EBITDA of AUD 75m. This assumes higher term activity in Australia, but also with a higher Australia cost base. In addition this would assume higher utilization on vessels in the international fleet, which are assumed trading in the spot market. Based on this, 6-7x EV/EBITDA would imply a value per share of AUD 0.41-0.50.

Asset values imply value of AUD 0.33-0.45/share

The estimated replacement value of the MMA Offshore fleet is estimated at AUD 564m. This is what it is assumed to cost to replace the fleet through the second-hand market today. This is relatively aligned with the broker values of the fleet of AUD 543m (as of June 2017). Based on replacement values, the implied equity value per share is AUD 0.45.

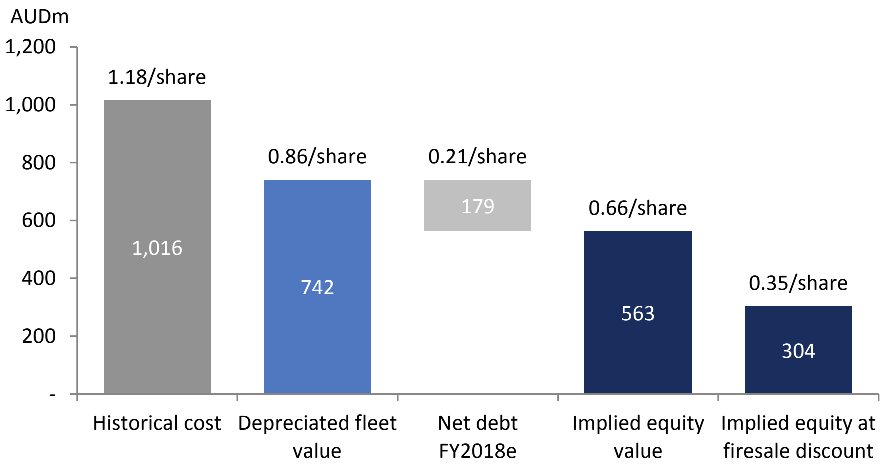
Implied equity value by replacement cost



Source: Pareto Securities Equity Research, MMA Offshore

The historical construction cost of the MMA Offshore fleet is AUD ~1bn. The depreciated value of the historical construction cost, when assuming a useful lifetime of 20 years for the fleet, is AUD 742m. This implies an equity value of AUD ~560m, or AUD 0.66/share. We note however that this is a poor valuation metric, as the majority of vessels are trading at significant discounts to newbuilding costs adjusted for depreciation today. Implying a firesale discount, the value is AUD 0.35/share.

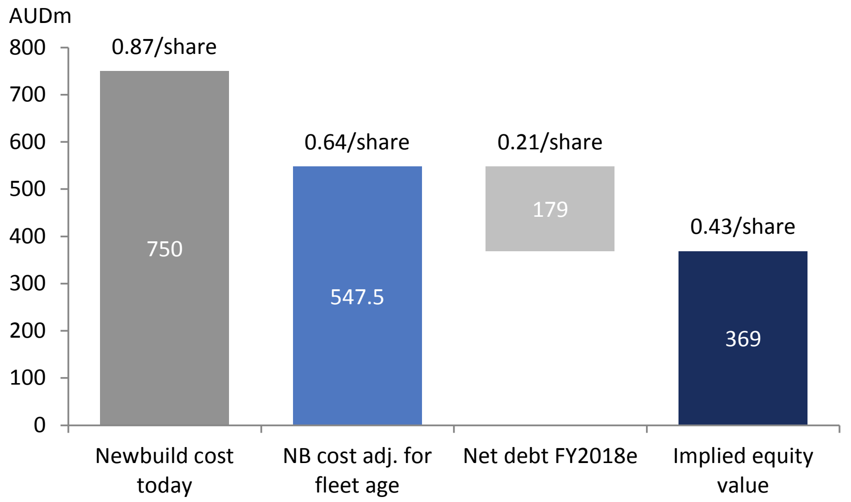
Implied equity value by depreciated construction cost



Source: Pareto Securities Equity Research, MMA Offshore

Due to the current market environment, the construction cost of the fleet today is expected to be ~25% lower than the historical construction cost on average. This varies however between asset classes and is dependent on delivery year. The majority of such cost deflation is assumed for the AHTS fleet. We estimate that the construction cost for the fleet today would be AUD ~750m, and given that MMA Offshore's fleet has an average fleet age of 5.4 years, we depreciate the value assuming a 20 year useful lifetime. This gives an implied equity value per share of AUD 0.43. As for the discounted newbuilding cost, the newbuilding parity does not reflect the underlying value of the fleet in the current market environment, and should hence be discounted somewhat.

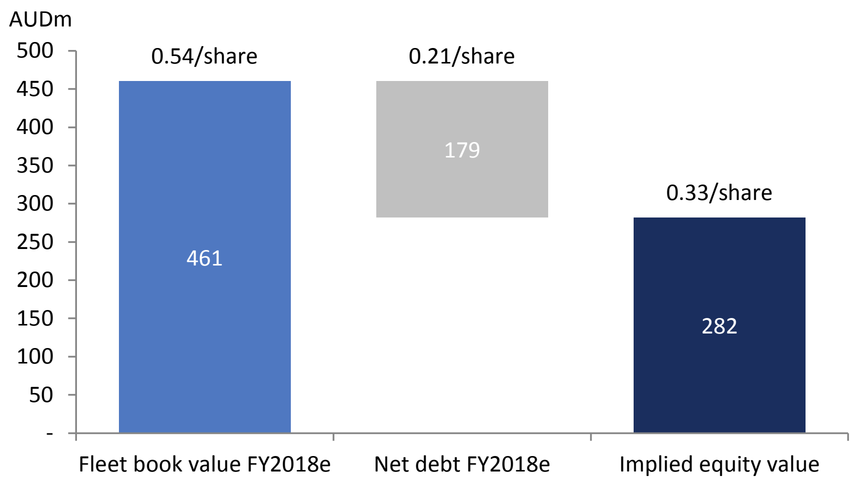
Implied equity value by today's construction cost



Source: Pareto Securities Equity Research

The book value of the MMA Offshore fleet was AUD 493m as of end FY2017. Assuming AUD 32m of annual depreciation, the book value should be AUD 461m as of FY2018. This is below current broker values, and our estimated replacement value for the fleet. The book value of the fleet per share is AUD 0.33.

Implied equity value by book value of the fleet



Source: Pareto Securities Equity Research, MMA Offshore

NAV indicating value of AUD 0.34/share

When valuing MMA Offshore with a NAV approach, we value the fleet on a charter-free basis. The exceptions are PSVs Plower and Brewster, which have been purpose built for their current charters. We value the fleet in line with current re-sale transactions, which reflect the distressed state of the market, and largely are firesale values. On the back of this, we reach a SOTP equity value of AUD 0.34/share.

A 10% change in asset values from our current GAV would imply a value per share of AUD 0.29-0.40. This highlights how sensitive the NAV is towards changes in underlying vessel values. We acknowledge that current market values are reflecting depressed asset values and significant discounts to replacement costs. On a going-concern basis, we hence argue that MMA Offshore should trade at a premium to current GAV.

Pareto NAV

Vessel Name	Type	Built	Size	Age	Value (AUD)	Comment
Plover	PSV	2015	4,000	2	42	*Purpose built for current charter*
Brewster	PSV	2016	4,000	1	42	"
Inscription	PSV	2012	5,000	5	20	*Bespoke vessel, 5,000 dwt Australia spec'ed*
Leeuwin	PSV	2013	4,000	4	17	*Re-sale value*
Leveque	PSV	2010	3,100	7	10	*Smaller vessel*
Vision	AHTS	2009	8,000	8	8	*Project support, spot*
Vantage	AHTS	2009	5,150	8	5	*Smaller AHTS, project support*
Voyager	AHTS	2009	5,150	8	5	*Likely international*
Cove	AHT	2013	5,620	4	12	*On contract*
Strait	AHT	2012	7,341	5	12	"
Sound	AHT	2007	7,341	10	6	*Older vessel, likely traded internationally*
Searcher	MSV	2008	3,200	9	6	*Seismic source vessel*
Privilege	MPV	2015	LOA 90m/50tn	2	38	*Smaller IMR vessel*
Pride	MPV	2013	LOA 78m/50tn	4	28	"
Prestige	ROVSV	2016	LOA 88m/75tn	1	50	*12 pax sat dive system, good long term prospects*
Pinnacle	ROVSV	2016	LOA 88m/75tn	1	50	*12 pax sat dive system, good long term prospects*
Vigilant	PSV	2013	4,500	4	16	*Re-sale value*
Valour	PSV	2013	4,500	4	16	"
Vigilance	PSV	2009	2,850	8	5	"
Majestic	AHTS	2014	12,240	3	9	"
Sea Hawk 1	AHTS	2009	12,240	8	6	"
Chieftain	AHTS	2010	8,160	7	14	*On contract, Saudi Arablia compliant*
Centurion	AHTS	2011	8,160	6	14	"
Concordia	AHTS	2010	8,160	7	8	*Re-sale value*
Cavalier	AHTS	2010	8,160	7	8	"
Crystal	AHTS	2012	8,000	5	8	"
Coral	AHTS	2011	8,000	6	8	"
Almighty	AHTS	2010	5,150	7	4	"

Net Asset Value		GAV	Vessels (#)	GAV-10%	GAV+10%
IMR/CSV	AUDm	166	5	149	183
PSV	"	168	7	151	185
AHTS	"	97	12	87	107
AHT	"	30	3	27	33
Other vessels	"	6	1	5	7
Gross Asset Value	"	**467**		**415**	**507**
Net debt FY18e	"	(179)		(179)	(179)
Remaining Capex	"	0		0	0
Minority Interest	"	0		0	0
Net Asset Value (NAV)	"	**288**		**236**	**329**
NAV/share	**AUD**	0.34		0.28	0.38

Source: Pareto Securities Equity Research

Shareholders

Top 20 shareholders (as of 25.01.2018)

		% Out
1	BLACK CRANE ASIA OP FD	9.0 %
2	HALOM INVESTMENTS PTE LTD	7.9 %
3	PARADICE INVESTMENT MGMT PTY LTD	5.8 %
4	THORNEY OPPORTUNITIES LTD	5.5 %
5	PARETO SECURITIES ASA (nominee)	2.3 %
6	ARGO INVESTMENTS LTD	0.8 %
7	PRUDENTIAL PLC	0.8 %
8	DIMENSIONAL FUND ADVISORS LP	0.7 %
9	EVELIN INVESTMENTS PTY LTD	0.5 %
10	EIM CAPITAL MANAGERS	0.5 %
11	WEBER JEFFREY ANDREW	0.4 %
12	HISHENK PTY LTD	0.4 %
13	NORGES BANK	0.4 %
14	HONG KEONG CHIU	0.4 %
15	HOWELL EVA ALEXANDRA	0.3 %
16	HOWARTH ANTHONY JOHN	0.3 %
17	BRADLEY MARK FRANCIS	0.3 %
18	DENTAL UNION OF AUSTRALIA	0.2 %
19	ONE MANAGED INVESTMENT FUNDS LTD	0.2 %
20	YING LIANG	0.2 %
	Others	63 %
	Total	**100%**

Source: Bloomberg

PROFIT & LOSS (fiscal year) (AUDm)	2013	2014	2015	2016	2017	2018e	2019e	2020e
Revenues	**449**	**595**	**797**	**415**	**222**	**156**	**174**	**202**
EBITDA	**140**	**145**	**289**	**69**	**3**	**21**	**33**	**54**
Depreciation & amortisation	(52)	(64)	(323)	(181)	(333)	(32)	(32)	(32)
EBIT	**94**	**87**	**(30)**	**(112)**	**(330)**	**(11)**	**1**	**22**
Net interest	(10)	(10)	(18)	(18)	(26)	(19)	(13)	(13)
Other financial items	-	-	-	-	-	-	-	-
Profit before taxes	**84**	**77**	**(48)**	**(129)**	**(356)**	**(30)**	**(13)**	**9**
Taxes	(23)	(23)	(3)	16	2	(1)	(1)	(2)
Minority interest	-	-	-	-	-	-	-	-
Net profit	**60**	**54**	**(51)**	**(113)**	**(354)**	**(30)**	**(13)**	**7**
EPS reported	0.26	0.15	(0.14)	(0.30)	(0.95)	(0.04)	(0.02)	0.01
EPS adjusted	**0.27**	**0.15**	**0.18**	**(0.02)**	**(0.14)**	**(0.04)**	**(0.02)**	**0.01**
DPS	0.07	0.06	0.09	0.01	-	-	-	-

BALANCE SHEET (AUDm)	2013	2014	2015	2016	2017	2018e	2019e	2020e
Tangible non current assets	448	896	1,046	956	498	461	429	408
Other non-current assets	32	49	10	9	-	-	-	-
Other current assets	136	244	244	80	106	88	98	105
Cash & equivalents	59	175	124	50	29	88	90	70
Total assets	**674**	**1,364**	**1,425**	**1,094**	**633**	**637**	**617**	**583**
Total equity	403	737	779	634	256	318	305	312
Interest-bearing non-current debt	150	394	393	319	314	267	254	210
Interest-bearing current debt	29	47	50	73	0	0	0	0
Other Debt	92	186	204	68	62	52	58	62
Total liabilites & equity	**674**	**1,364**	**1,425**	**1,094**	**633**	**637**	**617**	**583**

CASH FLOW (AUDm)	2013	2014	2015	2016	2017	2018e	2019e	2020e
Cash earnings	129	69	178	93	31	2	19	39
Change in working capital	(58)	(16)	28	31	(38)	8	(5)	(3)
Cash flow from investments	(89)	(246)	(168)	(133)	57	6	-	(11)
Cash flow from financing	21	309	(87)	(66)	(71)	44	(13)	(45)
Net cash flow	4	116	(50)	-	(21)	59	2	(19)

CAPITALIZATION & VALUATION (AUDm)	2013	2014	2015	2016	2017	2018e	2019e	2020e
Share price (AUD end)	**3.12**	**1.91**	**0.50**	**0.28**	**0.14**	**0.29**	**0.29**	**0.29**
Number of shares end period	228	367	371	373	373	858	858	858
Net interest bearing debt	121	266	318	348	295	179	164	134
Enterprise value	**833**	**965**	**502**	**454**	**349**	**423**	**409**	**379**
EV/Sales	1.9	1.6	0.6	1.1	1.6	2.7	2.3	1.9
EV/EBITDA	**6.0**	**6.7**	**1.7**	**6.6**	**-**	**19.9**	**12.6**	**7.1**
EV/EBIT	8.9	11.1	-	-	-	-	-	17.5
P/E reported	11.8	13.0	-	-	-	-	-	34.7
P/E adjusted	**11.8**	**12.8**	**2.8**	**-**	**-**	**-**	**-**	**34.7**
P/B	1.8	0.9	0.2	0.2	0.2	0.8	0.8	0.8

FINANCIAL ANALYSIS & CREDIT METRICS	2013	2014	2015	2016	2017	2018e	2019e	2020e
ROE adjusted (%)	30.0	9.6	8.6	-	-	-	-	2.3
Dividend yield (%)	2.2	3.3	18.9	4.4	-	-	-	-
EBITDA margin (%)	31.1	24.3	36.3	16.6	1.5	13.7	18.7	26.5
EBIT margin (%)	20.8	14.7	-	-	-	-	0.3	10.7
NIBD/EBITDA	0.86	1.84	1.10	5.06	88.62	8.40	5.06	2.50
EBITDA/Net interest	14.31	14.55	15.39	4.19	0.71	1.12	2.47	4.25

Solstad Farstad ASA

Update

26 January 2018

Leveraged bet on asset values

Solstad Farstad is the largest North Sea OSV operator, and holds the fourth largest OSV fleet globally. Whilst the company is highly leveraged, it is backed by two strong sponsors through Aker ASA and Hemen Holding (Mr. John Fredriksen). We lower our NAV to NOK 7 (8) on asset sales and lowered values for cold stacked assets, and subsequently lower our TP to NOK 7 (8). Whilst this implies some upside to the current share price, we maintain our HOLD recommendation to due high leverage.

Expect seasonality to impact earnings over the winter season

We expect earnings to come down for Solstad Farstad over the winter, in line with the seasonal pattern. This should mainly be driven by lower activity in the CSV segment, as some CSVs have been warm stacked over the winter. The impact should be less for the AHTS and PSV fleet, due to low spot coverage. We hence expect Q4'17 and Q1'18 EBITDA to normalize from the very good level in Q3'17.

Increased merger synergies to NOK 700-800m (NOK 450-600m)

The company recently announced an increase in the merger synergies, increasing these to NOK 700-800m (NOK 450-600m) by YE'18e. We have implemented this in estimates, assuming lower vessel costs and G&A for 2018e. We lower revenues somewhat for the next years, due to vessel sales and some adjustments to the cold stacked fleet. We make however limited changes to dayrate and utilization assumptions. We have further adjusted our reported EBITDA for 2017e for the merger impact in Q2.

Lower TP to NOK 7 (8), HOLD maintained

The company has announced plans to divest parts of its lower end fleet, but the timing of such a transaction is uncertain. We expect however the company to continue to divest assets going forward, primarily older or smaller vessels. We lower our NAV to NOK 7 (8) following vessel sales and lowered values on cold stacked assets, and subsequently lower our TP to NOK 7 (8). Whilst this implies some upside to the current share price, the company is a highly leveraged option on asset values, and we maintain HOLD.

NOKm	2016	2017e	2018e	2019e	2020e
Revenues	5,666	5,322	5,684	6,613	7,977
EBITDA	1,326	733	1,173	1,711	2,049
EBIT	(5,076)	2,216	(321)	239	588
EPS	(20.22)	4.36	(4.64)	(2.59)	(1.39)
EPS adj	(15.36)	(8.32)	(4.64)	(2.59)	(1.39)
DPS	-	-	-	-	-
EV/EBITDA	26.4	39.1	24.5	16.6	13.5
EV/EBIT	-	12.9	-	-	47.2
P/E adj	-	-	-	-	-
P/B	0.61	0.32	0.43	0.52	0.59
ROE (%)	-	23.1	-	-	-
Div yield (%)	-	-	-	-	-
Net debt	31,624	26,815	26,910	26,590	25,858

Source: Pareto

Buy
Hold
Sell

Target price (NOK)	**7.00**
Share price (NOK)	6.08

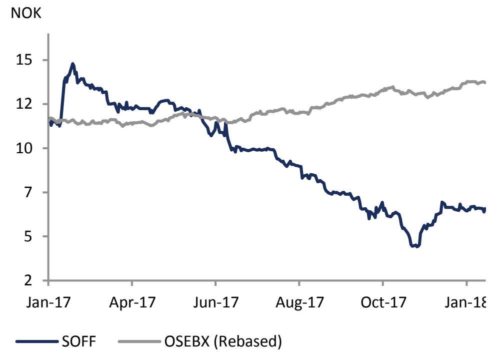
Forecast changes

%	2017e	2018e	2019e
Revenues	(19)	(5)	(11)
EBITDA	(71)	(33)	(37)
EBIT adj	(10)	(5)	(64)
EPS reported	(8)	(3)	NM
EPS adj	(11)	(3)	NM

Source: Pareto

Ticker	SOFF.OL, SOFF NO
Sector	OSV
Shares fully diluted (m)	291.4
Market cap (NOKm)	1,772
Net debt (NOKm)	26,815
Minority interests (NOKm)	56
Enterprise value 17e (NOKm)	28,632
Free float (%)	35

Performance



Source: Factset

Analysts
Synnøve Gjønnes
+47 22 87 88 26, synnove.gjonnes@paretosec.com

Largest OSV company in the North Sea

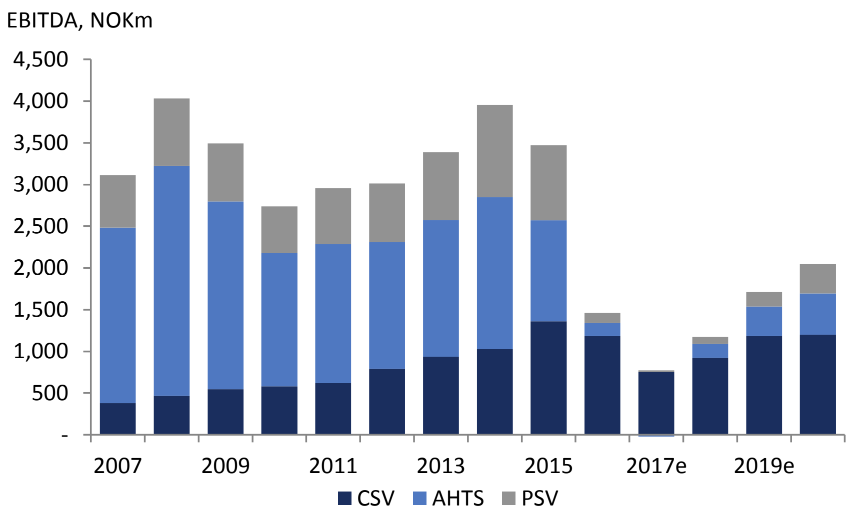
Solstad Farstad is the largest OSV operator in the North Sea following the merger between Solstad Offshore, Farstad Shipping, Deep Sea Supply and Rem Offshore. The integration of the companies is well on track, and the company recently increased its overall cost synergies to NOK 700-800m (NOK 450-600m) by YE'18e. We have implemented the increased merger synergies in estimates, assuming lower vessel costs and G&A.

The company has 146 vessels in service, of which 49 are cold stacked. The majority of cold stacked vessels are AHTS' and PSVs, but some CSVs have also been warm stacked in Q4 and will be stacked over the winter. Three AHTS' that have been previously been sold, will also be delivered to the Brazilian navy the next weeks. In our model we have assumed all cold stacked PSVs and small and mid-sized AHTS (<18,000 BHP) to be cold stacked throughout 2019, whilst we assume cold stacked large AHTS' and CSVs to be cold stacked throughout 2018. Dayrates are largely assumed flat for PSVs until 2019e, whilst we expect a small positive increase in average dayrates for uncommitted CSVs and large AHTS' from mid-2018 and onwards.

As can be seen below, the majority of earnings are coming from the subsea construction vessel segment. The CSV segment has been relatively resilient through the downturn, but we note that the combined company has added CSV capacity through 2015 and 2016. This showcases lower dayrates within this segment, whilst overall margins have been better than the more commoditized AHTS and PSV market.

Tender activity in the CSV market has picked up recently, and we expect EBITDA from the CSV segment to improve in 2018. In addition, we expect that the recently implemented cost synergies will come into effect through lower vessel costs, particularly on the AHTS' and PSV fleet. Note that in relation to the merger, the company adjusted the reported EBITDA for certain merger accounting adjustments. We have based our EBITDA on a non-adjusted basis (cash EBITDA).

Historical and projected EBITDA



Source: Pareto Securities Equity Research

Solstad Farstad has announced several term contracts the past months, and we expect that the main focus is to increase utilization through long term charters. There has been an increase in tendering activity for term contracts in the North Sea recently, and we also note that Petrobras has launched new tenders for AHTS' for Brazilian operations. Whilst term contracts have been at break-even levels the past three years in the North Sea, dayrates have slowly started to improve. New contract awards would hence be supportive.

The company remains highly leveraged with net interest bearing debt of NOK 26.6bn as of Q3'17. We estimate annual interest payments of NOK ~1bn, and annual debt amortization of NOK ~690m. We expect that the company will be able to make it through the next year, without breaching the minimum cash covenant of NOK 500m in the parent company. The market will however have to improve in 2019 and 2020, for Solstad Farstad to improve liquidity.

Note that the below figures are fully consolidated for the combined company, and that the outstanding debt in the respective companies lie within silos, with ringfenced structures.

Projected cash flow

	Q3'17	Q4'17e	Q1'18e	Q2'18e	Q3'18e	Q4'18e	Q1'19e	Q2'19e	Q3'19e	Q4'19e	Q1'20e	Q2'20e	Q3'20e	Q4'20e
EBITDA	384	98	104	417	466	185	338	513	523	337	397	609	633	410
Interest	(256)	(252)	(254)	(254)	(251)	(250)	(242)	(242)	(240)	(246)	(245)	(244)	(242)	(240)
Change in WC, taxes, other	(75)	60	(7)	(6)	(39)	90	(35)	(53)	(7)	50	49	(47)	(14)	43
Operational CF	**53**	**(94)**	**(156)**	**157**	**175**	**25**	**61**	**218**	**276**	**141**	**200**	**318**	**377**	**212**
Newbuild capex	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Maintenance	(26)	(80)	(74)	(74)	(74)	(74)	(94)	(94)	(94)	(94)	(94)	(94)	(94)	(94)
Other	497	-	-	-	-	-	-	-	-	-	-	-	-	-
Cashflow from investments	**472**	**(80)**	**(74)**	**(74)**	**(74)**	**(74)**	**(94)**	**(94)**	**(94)**	**(94)**	**(94)**	**(94)**	**(94)**	**(94)**
New equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Change in debt	(565)	(215)	(165)	(194)	(165)	(165)	(175)	(175)	(175)	(175)	(187)	(187)	(187)	(187)
Other	6	-	-	-	-	-	-	-	-	-	-	-	-	-
Cash flow from financials	**(559)**	**(215)**	**(165)**	**(194)**	**(165)**	**(165)**	**(175)**	**(175)**	**(175)**	**(175)**	**(187)**	**(187)**	**(187)**	**(187)**
Change in cash	*(34)*	*(389)*	*(395)*	*(111)*	*(64)*	*(214)*	*(208)*	*(50)*	*7*	*(128)*	*(81)*	*37*	*96*	*(69)*
Cash	2,114	1,725	1,330	1,219	1,155	942	734	684	691	563	482	519	616	547
Net debt	**26,641**	**26,815**	**27,045**	**26,962**	**26,861**	**26,910**	**26,943**	**26,819**	**26,637**	**26,590**	**26,484**	**26,260**	**25,977**	**25,858**
NIBD/EBITDA adj.				*26.88x*	*24.76x*	*22.94x*	*19.16x*	*17.85x*	*17.08x*	*15.54x*	*14.96x*	*14.07x*	*13.14x*	*12.62x*

Source: Pareto Securities Equity Research

Solstad Farstad has announced plans to potentially divest parts of its fleet into a new set-up, primarily older and lower spec'ed vessels. We expect this to comprise PSVs from the Deep Sea Supply fleet, in addition to some older PSVs from the overall fleet. We do not include this in estimates, as the timing and scope remains uncertain. We expect however the company to continue to divest assets going forward, primarily older vessels. This should have a relative limited impact on estimates and liquidity, due to the majority of these being cold stacked today.

Valuation

We estimate the value of the combined entity at NOK ~28.9bn. This is based on an average valuation of the following asset classes as per below. We have lowered our GAV somewhat since our last update, following asset sales, and due to lowered values on recently cold stacked assets. Based on the below we set our TP at NOK 7 (8). We acknowledge that there is some upside to the current share price, but due to high leverage we maintain our HOLD recommendation.

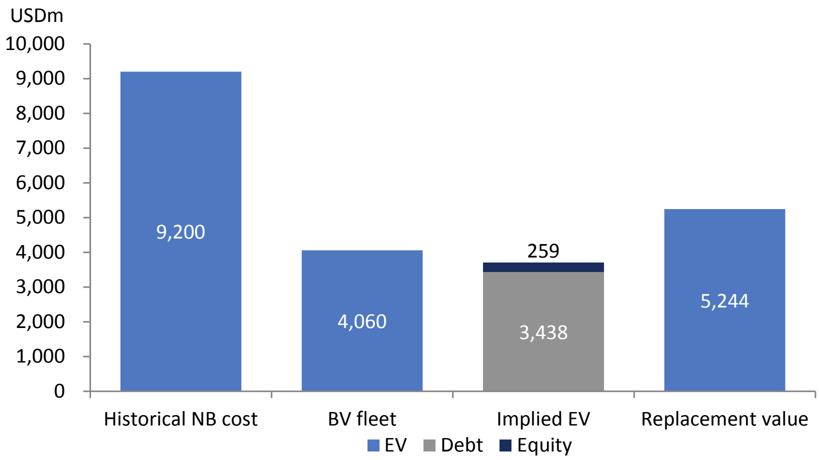
Pareto NAV

Fleet value		GAV	# vessels	EV/vessel	Avg.Size	Avg. Age
CSV	NOKm	14,040	29	479	129	7
AHTS > 20,000 BHP, 2000+	"	6,225	15	415	27,252	9
AHTS 15,000-19,999 BHP, 2000+	"	1,150	13	88	16,518	13
Other AHTS	"	1,845	22	84	42,636	73
PSV > 3,500 DWT, 2000+	"	4,551	45	101	4,316	6
Other PSV	"	1,078	19	57	4,357	16
Gross Asset Value	"	**28,889**	**143**			
Net Debt YE'17e	"	(26,910)				
Remaining Capex	"	0				
Net Asset Value (NAV)	"	1,979				
NAV	**NOK**	**7**				

Source: Pareto Securities Equity Research

High leverage makes the equity in Solstad Farstad a leveraged option on a market recovery. This is shown below, as debt holders are seemingly taking the risk on the downside, whilst equity holders are left with a potential upside if asset values start to improve. A small percentage change in the EV will have a positive impact on the equity, in spite of a potential dilution through a future equity issue.

SOFF values

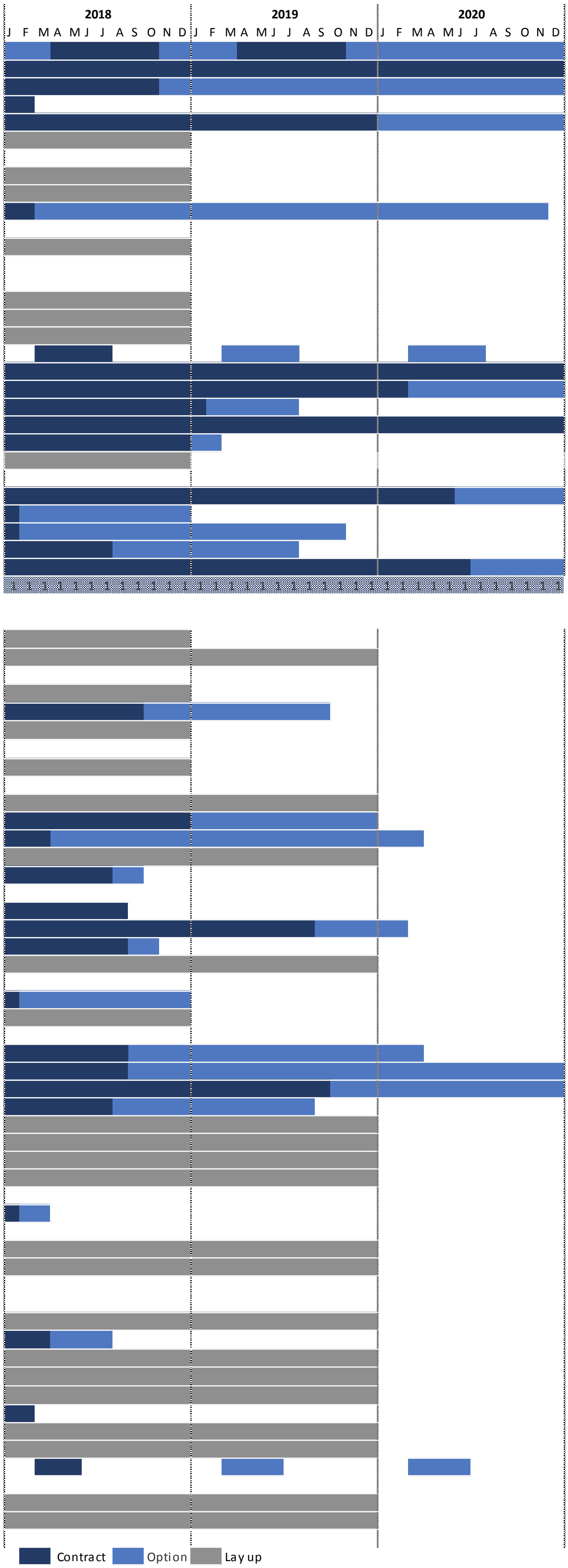


Source: Pareto Securities Equity Research, Solstad Offshore, Farstad Shipping, Deep Sea Supply

Fleet overview (CSV+AHTS)

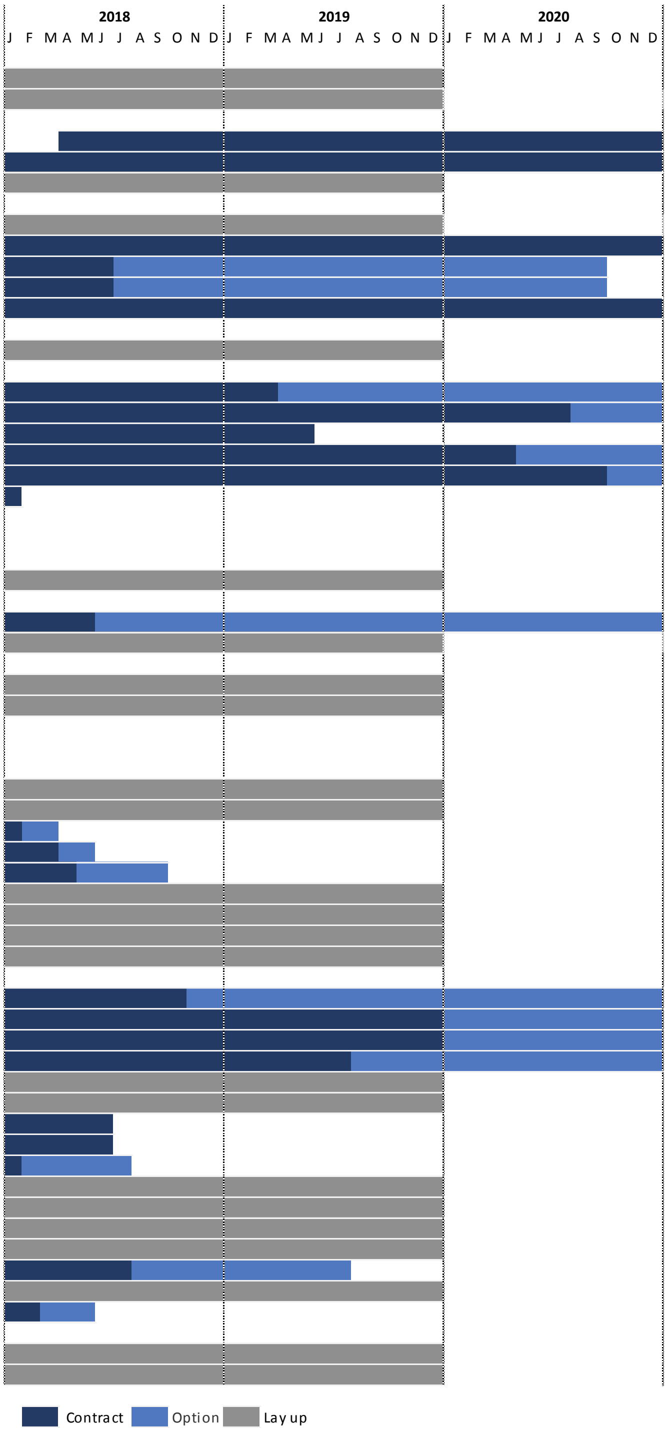
CSV	Type	Build	Size	Location	Client	Firm end	Opt. end
Normand Reach	CSV	2014	121 LOA	Norway	Reach Subsea	May-19	May-22
Normand Vision	CSV	2014	157 LOA	Norway	Ocean Installer	May-22	May-24
Normand Pacific	CSV	2011	122 LOA	Norway	Prysmian	Oct-18	Oct-22
Normand Baltic	CSV	2010	95 LOA	Malaysia	Petronas	Feb-18	Feb-18
Normand Subsea	CSV	2009	113 LOA	Norway	Subsea 7	Dec-19	Dec-21
Normand Seven	CSV	2007	130 LOA	Norway	Lay up	Spot	Spot
Normand Installer	CSV	2006	124 LOA	Indonesia	Spot	Spot	Spot
Normand Commander	CSV	2006	93 LOA	Norway	Lay up	Spot	Spot
Normand Fortress	CSV	2006	94 LOA	Norway	Lay up	Spot	Spot
Normand Flower	CSV	2002	93 LOA	Norway	Prysmian	Feb-18	Nov-20
Normand Mermaid	CSV	2002	90 LOA	Norway	Spot	Spot	Spot
Normand Cutter	CSV	2001	128 LOA	Norway	Lay up	Spot	Spot
Normand Clipper	CSV	2001	128 LOA	Norway	Spot	Spot	Spot
Normand Pioneer	CSV	1999	95 LOA	Norway	Spot	Spot	Spot
Normand Progress	CSV	1999	95 LOA	Norway	Lay up	Spot	Spot
NOR Valiant	CSV	2008	78 LOA	Netherlands	Lay up	Spot	Spot
NOR Australis	CSV	2009	82 LOA	Singapore	Lay up	Spot	Spot
Norce Endeavour	DLB	2010	146 LOA	Thailand	Chevron	Sep-19	Sep-19
Normand Maximus	CSV	2016	180 LOA	Norway	Saipem	Oct-24	Oct-27
Normand Poseidon	CSV	2009	94 LOA	North Sea	Allseas	Feb-20	Feb-22
Normand Jarl	CSV	2013	108 LOA	North Sea	Dong	Jan-19	Jul-19
Normand Ocean	CSV	2014	108 LOA	North Sea	DeepOcean	Oct-21	Oct-27
Normand Jarstein	CSV	2014	117 LOA	North Sea	Repsol	Dec-18	Feb-19
Normand Tonjer	CSV	2010	95 LOA	Norway	Lay up	Spot	Spot
Far Scotia	CSV	2001	67 LOA	Brazil	Spot	Spot	Spot
Far Saga	CSV	2001	99 LOA	Brazil	Petrobras	May-20	May-26
Far Swift	CSV	2003	72 LOA	Brazil	Petrobras	Jan-18	Dec-18
Far Samson	CSV	2009	122 LOA	Egypt	Saipem	Jan-18	Oct-19
Far Sleipner	CSV	2015	143 LOA	Congo	Technip	Jul-18	Jul-19
Far Sentinel	CSV	2015	143 LOA	Mexico	Blue Marine	Jun-20	Jun-22
Far Superior	CSV	2016	98 LOA	North Sea	TechnipFMC	Nov-21	Nov-26

AHTS	Type	Build	Size	Location	Client	Firm end	Opt. end
Normand Atlantic	AHTS	1997	19,400 BHP	Norway	Lay up	Spot	Spot
Normand Borg	AHTS	2000	16,800 BHP	Norway	Lay up	Spot	Spot
Normand Drott	AHTS	2010	32,183 BHP	Norway	Spot	Spot	Spot
Normand Ivan	AHTS	2001	20,000 BHP	Norway	Lay up	Spot	Spot
Normand Ferking	AHTS	2007	20,000 BHP	Norway	Statoil	Sep-18	Sep-19
Normand Mariner	AHTS	2002	23,500 BHP	Norway	Lay up	Spot	Spot
Normand Master	AHTS	2003	23,500 BHP	Brazil	Spot	Spot	Spot
Normand Neptun	AHTS	1996	19,400 BHP	Norway	Lay up	Spot	Spot
Normand Prosper	AHTS	2010	32,000 BHP	Norway	Spot	Spot	Spot
Normand Titan	AHTS	2007	16,300 BHP	Norway	Lay up	Spot	Spot
Far Sabre	AHTS	2008	14,400 BHP	Norway	NCA	Dec-18	Dec-19
Far Sagaris	AHTS	2009	24,000 BHP	Brazil	QGEP	Mar-18	Mar-20
Far Sailor	AHTS	1997	17,000 BHP	Norway	Lay up	Spot	Spot
Far Santana	AHTS	2000	19,000 BHP	Brazil	Petrobras	Jul-18	Sep-18
Far Sapphire	AHTS	2007	28,000 BHP	Norway	Spot	Spot	Spot
Far Saracen	AHTS	2010	24,000 BHP	Australia	Woodside	Aug-18	Aug-18
Far Scorpion	AHTS	2009	24,000 BHP	Australia	Inpex	Aug-19	Feb-20
Far Senator	AHTS	2013	24,000 BHP	Australia	CooperEnergy	Aug-18	Oct-18
Far Senior	AHTS	1998	17,000 BHP	Norway	Lay up	Spot	Spot
Far Sigma	AHTS	2014	24,000 BHP	Norway	Spot	Spot	Spot
Far Sirius	AHTS	2014	24,000 BHP	Australia	Woodside	Jan-18	Dec-18
Far Sovereign	AHTS	1999	27,000 BHP	Norway	Lay up	Spot	Spot
Far Statesman	AHTS	2013	24,000 BHP	Australia	Spot	Spot	Spot
Far Sword	AHTS	2006	16,000 BHP	Australia	Inpex	Aug-18	Mar-20
BOS Topazio	AHTS	2005	12,000 BHP	Brazil	Petrobras	Aug-18	Aug-22
BOS Turmalina	AHTS	2006	14,000 BHP	Brazil	QGEP	Sep-19	Sep-21
BOS Turquesa	AHTS	2007	19,000 BHP	Brazil	Petrobras	Jul-18	Aug-19
Nor Chief	AHTS	2008	10,800 BHP	Norway	Lay up	Spot	Spot
Nor Tigerfish	AHTS	2007	7,954 BHP	Norway	Lay up	Spot	Spot
Sea Leopard	AHTS	1998	15,000 BHP	Norway	Lay up	Spot	Spot
Sea Panther	AHTS	1999	15,000 BHP	Norway	Lay up	Spot	Spot
Sea Jackal	AHTS	2011	6,800 BHP	Brazil	Spot	Spot	Spot
Sea Tiger	AHTS	1998	15,000 BHP	Brazil	Petrobras	Jan-18	Mar-18
Normand Ranger	AHTS	2010	28,000 BHP	UK	Spot	Spot	Spot
Far Grip	AHTS	1993	14,000 BHP	Indonesia	Lay up	Spot	Spot
Far Saltire	AHTS	2002	16,000 BHP	Malaysia	Lay up	Spot	Spot
Far Scimitar	AHTS	2008	16,000 BHP	Singapore	Spot	Spot	Spot
Far Scout	AHTS	2001	17,000 BHP	Mauritania	Spot	Spot	Spot
Far Sound	AHTS	2006	16,000 BHP	Singapore	Lay up	Spot	Spot
Far Stream	AHTS	2006	16,000 BHP	Singapore	TBC	Mar-18	Jul-18
Far Strait	AHTS	2006	16,000 BHP	Indonesia	Lay up	Spot	Spot
Sea Badger	AHTS	2011	6,800 BHP	Indonesia	Lay up	Spot	Spot
Sea Cheetah	AHTS	2007	15,000 BHP	Indonesia	Lay up	Spot	Spot
Elang Laut 1	AHTS	2009	12,000 BHP	Indonesia	Medco	Feb-18	Feb-18
Sea Jaguar	AHTS	2007	15,000 BHP	Indonesia	Lay up	Spot	Spot
Sea Ocelot	AHTS	2007	10,880 BHP	Indonesia	Lay up	Spot	Spot
Nor Captain	AHTS	2007	10,880 BHP	Singapore	Spot	Spot	Spot
Nor Spring	AHTS	2008	8,000 BHP	UAE	Spot	Spot	Spot
Lady Astrid	AHTS	2003	13,000 BHP	Singapore	Lay up	Spot	Spot
Lady Caroline	AHTS	2003	13,000 BHP	Singapore	Lay up	Spot	Spot



Fleet overview (PSV)

PSV	Type	Build	Size	Location	Client	Firm end	Opt. end
Normand Arctic	PSV	2011	5,000 DWT	Norway	Lay up	Spot	Spot
Normand Falnes	PSV	2011	5,300 DWT	Norway	Lay up	Spot	Spot
Normand Fortune	PSV	2013	5,000 DWT	Norway	Spot	Spot	Spot
Normand Leader	PSV	2013	3,698 DWT	Norway	ConocoPhillips	Mar-22	Mar-25
Normand Server	PSV	2011	5,300 DWT	Norway	ConocoPhillips	Jan-22	Jan-25
Normand Skipper	PSV	2005	6,400 DWT	Norway	Lay up	Spot	Spot
Normand Skude	PSV	2015	5,275 DWT	Norway	Spot	Spot	Spot
Normand Supplier	PSV	2010	3,268 DWT	Norway	Lay up	Spot	Spot
Normand Supporter	PSV	2012	5,300 DWT	Norway	ConocoPhillips	Feb-22	Feb-25
Far Scotsman	PSV	2012	4,000 DWT	Brazil	Statoil	Jun-18	Sep-20
Far Serenade	PSV	2009	4,000 DWT	Brazil	Statoil	Jun-18	Sep-20
Far Searcher	PSV	2008	4,750 DWT	Norway	Statoil	Sep-22	Sep-27
Far Seeker	PSV	2008	4,500 DWT	Australia	Spot	Spot	Spot
Far Server	PSV	2010	4,000 DWT	Norway	Lay up	Spot	Spot
Far Skimmer	PSV	2012	4,000 DWT	Australia	Spot	Spot	Spot
Far Star	PSV	1999	4,400 DWT	Brazil	Shell	Mar-19	Mar-21
Far Sun	PSV	2014	4,000 DWT	Norway	Statoil	Jul-20	Jul-23
Far Supplier	PSV	1999	4,600 DWT	Australia	ExxonMobil	May-19	May-19
Far Strider	PSV	1999	4,600 DWT	Brazil	Petrobras	Apr-20	Apr-24
Far Sygna	PSV	2014	4,000 DWT	Norway	Statoil	Sep-20	Sep-23
Far Swan	PSV	2006	3,500 DWT	Australia	Inpex	Jan-18	Jan-18
Sea Tortuga	PSV	2014	4,000 DWT	Australia	Spot	Spot	Spot
Sea Triumph	PSV	2014	4,000 DWT	Australia	Spot	Spot	Spot
Normand Aurora	PSV	2005	4,800 DWT	UK	Spot	Spot	Spot
Normand Corona	PSV	2006	3,350 DWT	Norway	Lay up	Spot	Spot
Normand Flipper	PSV	2002	4,400 DWT	UK	Spot	Spot	Spot
Normand Naley	PSV	2011	5,000 DWT	UK	Engie	May-18	Dec-21
Normand Provider	PSV	2007	3,326 DWT	Norway	Lay up	Spot	Spot
Normand Sira	PSV	2008	3,698 DWT	UK	Spot	Spot	Spot
Normand Trym	PSV	2006	3,350 DWT	Norway	Lay up	Spot	Spot
Normand Vibran	PSV	2008	3,350 DWT	Norway	Lay up	Spot	Spot
Far Sitella	PSV	2013	4,000 DWT	Ivory Coast	Spot	Spot	Spot
Far Solitaire	PSV	2012	4,000 DWT	UK	Spot	Spot	Spot
Far Spica	PSV	2013	4,000 DWT	UK	Spot	Spot	Spot
Far Spirit	PSV	2007	3,500 DWT	Singapore	Lay up	Spot	Spot
Far Splendour	PSV	2003	3,500 DWT	Norway	Lay up	Spot	Spot
Far Starling	PSV	2013	4,000 DWT	Angola	TechnipFMC	Jan-18	Mar-18
Far Supporter	PSV	1996	4,700 DWT	Egypt	Saipem	Mar-18	May-18
Far Symphony	PSV	2003	4,900 DWT	UK	Fairfield	Apr-18	Sep-18
Lady Melinda	PSV	2003	3,100 DWT	Singapore	Lay up	Spot	Spot
Sea Angler	PSV	2007	3,250 DWT	Singapore	Lay up	Spot	Spot
Sea Halibut	PSV	2007	3,250 DWT	Singapore	Lay up	Spot	Spot
Sea Bass	PSV	2008	3,250 DWT	Singapore	Lay up	Spot	Spot
Sea Brasil	PSV	2012	4,700 DWT	Brazil	Spot	Spot	Spot
Sea Falcon	PSV	2013	4,600 DWT	UK	Statoil	Oct-18	Oct-21
Sea Flyer	PSV	2013	4,600 DWT	UK	Apache	Dec-19	Dec-22
Sea Forth	PSV	2013	4,600 DWT	UK	Apache	Dec-19	Dec-22
Sea Frost	PSV	2013	4,600 DWT	UK	Statoil	Jul-19	Jul-22
Sea Pike	PSV	2007	3,250 DWT	Singapore	Lay up	Spot	Spot
Sea Pollock	PSV	2008	3,250 DWT	Norway	Lay up	Spot	Spot
Sea Spark	PSV	2013	4,600 DWT	Mediterranean	BP	Jun-18	Jun-18
Sea Spear	PSV	2014	4,600 DWT	Mediterranean	BP	Jun-18	Jun-18
Sea Spider	PSV	2014	4,600 DWT	UK	Statoil	Jan-18	Jul-18
Sea Springer	PSV	2014	4,600 DWT	Norway	Lay up	Spot	Spot
Sea Supra	PSV	2014	4,700 DWT	Singapore	Lay up	Spot	Spot
Sea Surfer	PSV	2014	4,700 DWT	Singapore	Lay up	Spot	Spot
Sea Swan	PSV	2014	4,700 DWT	Singapore	Lay up	Spot	Spot
Sea Swift	PSV	2014	4,700 DWT	Mediterranean	BP	Jul-18	Jul-19
Sea Witch	PSV	2008	3,250 DWT	Norway	Lay up	Spot	Spot
Sea Tantalus	PSV	2013	4,000 DWT	UK	Apache	Feb-18	May-18
Sea Titus	PSV	2014	4,000 DWT	UK	Spot	Spot	Spot
Sea Trout	PSV	2008	3,300 DWT	Norway	Lay up	Spot	Spot
Sea Turbot	PSV	2008	3,250 DWT	Singapore	Lay up	Spot	Spot



PROFIT & LOSS (fiscal year) (NOKm)	2013	2014	2015	2016	2017e	2018e	2019e	2020e
Revenues	**8,906**	**9,283**	**8,761**	**5,666**	**5,322**	**5,684**	**6,613**	**7,977**
EBITDA	**3,913**	**3,807**	**3,361**	**1,326**	**733**	**1,173**	**1,711**	**2,049**
Depreciation & amortisation	(1,217)	(1,645)	(5,441)	(6,466)	(1,349)	(1,480)	(1,480)	(1,480)
EBIT	**2,753**	**2,244**	**(2,014)**	**(5,076)**	**2,216**	**(321)**	**239**	**588**
Net interest	(1,094)	(1,159)	(1,287)	(1,344)	(1,215)	(1,009)	(970)	(971)
Other financial items	(232)	(898)	(1,412)	653	282	-	-	-
Profit before taxes	**1,428**	**187**	**(4,712)**	**(5,767)**	**1,283**	**(1,331)**	**(732)**	**(383)**
Taxes	(79)	(37)	(115)	(88)	(6)	-	-	-
Minority interest	(6)	28	(52)	(39)	(6)	(22)	(22)	(22)
Net profit	**1,343**	**178**	**(4,879)**	**(5,893)**	**1,271**	**(1,353)**	**(754)**	**(405)**
EPS reported	4.61	0.61	(16.74)	(20.22)	4.36	(4.64)	(2.59)	(1.39)
EPS adjusted	**3.38**	**3.49**	**(4.15)**	**(15.36)**	**(8.32)**	**(4.64)**	**(2.59)**	**(1.39)**
DPS	5.00	5.00	6.50	-	-	-	-	-

BALANCE SHEET (NOKm)	2013	2014	2015	2016	2017e	2018e	2019e	2020e
Tangible non current assets	29,763	37,397	35,499	36,335	31,179	29,995	28,891	27,787
Other non-current assets	827	880	815	925	1,177	1,163	1,170	1,190
Other current assets	2,581	2,786	2,222	2,471	2,121	2,082	2,128	2,098
Cash & equivalents	3,380	3,979	3,433	2,950	1,725	942	563	547
Total assets	**36,551**	**45,042**	**41,969**	**42,681**	**36,201**	**34,182**	**32,752**	**31,621**
Total equity	13,396	15,072	10,866	5,556	5,555	4,224	3,492	3,109
Interest-bearing non-current debt	18,057	23,805	23,334	24,078	27,968	27,279	26,581	25,833
Interest-bearing current debt	2,713	2,774	4,857	10,496	572	572	572	572
Other Debt	2,200	3,081	2,911	2,551	2,107	2,107	2,107	2,107
Total liabilites & equity	**36,551**	**45,042**	**41,969**	**42,681**	**36,201**	**34,182**	**32,752**	**31,621**

CASH FLOW (NOKm)	2013	2014	2015	2016	2017e	2018e	2019e	2020e
Cash earnings	2,322	2,356	2,233	1,072	(179)	163	741	1,078
Change in working capital	(340)	380	(191)	(220)	(24)	38	(45)	30
Cash flow from investments	(2,562)	(4,344)	(5,319)	(3,359)	1,250	(296)	(376)	(376)
Cash flow from financing	1,083	1,973	2,577	1,845	(830)	(689)	(698)	(748)
Net cash flow	503	365	(700)	(663)	(25)	(783)	(379)	(16)

CAPITALIZATION & VALUATION (NOKm)	2013	2014	2015	2016	2017e	2018e	2019e	2020e
Share price (NOK end)	**119.0**	**78.0**	**20.2**	**11.5**	**6.0**	**6.1**	**6.1**	**6.1**
Number of shares end period	292	292	292	292	291	291	291	291
Net interest bearing debt	17,389	22,599	24,759	31,624	26,815	26,910	26,590	25,858
Enterprise value	**52,025**	**45,250**	**30,545**	**35,040**	**28,632**	**28,760**	**28,462**	**27,753**
EV/Sales	5.8	4.9	3.5	6.2	5.4	5.1	4.3	3.5
EV/EBITDA	**13.3**	**11.9**	**9.1**	**26.4**	**39.1**	**24.5**	**16.6**	**13.5**
EV/EBIT	18.9	20.2	-	-	12.9	-	-	47.2
P/E reported	25.8	-	-	-	1.4	-	-	-
P/E adjusted	**35.2**	**22.4**	**-**	**-**	**-**	**-**	**-**	**-**
P/B	2.6	1.5	0.5	0.6	0.3	0.4	0.5	0.6

FINANCIAL ANALYSIS & CREDIT METRICS	2013	2014	2015	2016	2017e	2018e	2019e	2020e
ROE adjusted (%)	7.6	7.1	-	-	-	-	-	-
Dividend yield (%)	4.2	6.4	32.1	-	-	-	-	-
EBITDA margin (%)	43.9	41.0	38.4	23.4	13.8	20.6	25.9	25.7
EBIT margin (%)	30.9	24.2	-	-	41.6	-	3.6	7.4
NIBD/EBITDA	4.44	5.94	7.37	23.85	36.61	22.94	15.54	12.62
EBITDA/Net interest	3.08	3.23	3.56	2.53	0.27	1.16	1.76	2.11

PROFIT & LOSS (fiscal year) (NOKm)	1Q'17	2Q'17	3Q'17	4Q'17e	1Q'18e	2Q'18e	3Q'18e	4Q'18e
Revenues	**1,198**	**1,481**	**1,409**	**1,234**	**1,241**	**1,549**	**1,598**	**1,297**
EBITDA	**115**	**136**	**384**	**98**	**104**	**417**	**466**	**185**
Depreciation & amortisation	(448)	(161)	(370)	(370)	(370)	(370)	(370)	(370)
EBIT	**1,219**	**1,401**	**(128)**	**(276)**	**(269)**	**44**	**93**	**(188)**
Net interest	(397)	(200)	(366)	(252)	(254)	(254)	(251)	(250)
Other financial items	41	116	125	-	-	-	-	-
Profit before taxes	**863**	**1,317**	**(369)**	**(528)**	**(523)**	**(211)**	**(159)**	**(438)**
Taxes	(5)	(1)	-	-	-	-	-	-
Minority interest	-	5	(6)	(6)	(6)	(6)	(6)	(6)
Net profit	**859**	**1,321**	**(375)**	**(533)**	**(528)**	**(216)**	**(164)**	**(444)**
EPS reported	2.95	4.53	(1.29)	(1.83)	(1.81)	(0.74)	(0.56)	(1.52)
EPS adjusted	**(3.63)**	**(1.15)**	**(1.71)**	**(1.83)**	**(1.81)**	**(0.74)**	**(0.56)**	**(1.52)**
DPS	-	-	-	-	-	-	-	-

BALANCE SHEET (NOKm)	1Q'17	2Q'17	3Q'17	4Q'17e	1Q'18e	2Q'18e	3Q'18e	4Q'18e
Tangible non current assets	35,149	33,015	31,469	31,179	30,883	30,587	30,291	29,995
Other non-current assets	966	1,077	1,181	1,177	1,174	1,170	1,166	1,163
Other current assets	2,594	2,884	2,181	2,121	2,128	2,134	2,173	2,082
Cash & equivalents	2,846	2,420	2,114	1,725	1,330	1,219	1,155	942
Total assets	**41,555**	**39,396**	**36,944**	**36,201**	**35,514**	**35,109**	**34,785**	**34,182**
Total equity	7,932	6,591	6,083	5,555	5,032	4,821	4,662	4,224
Interest-bearing non-current debt	29,933	29,948	28,183	27,968	27,803	27,609	27,444	27,279
Interest-bearing current debt	1,124	769	572	572	572	572	572	572
Other Debt	2,567	2,089	2,107	2,107	2,107	2,107	2,107	2,107
Total liabilites & equity	**41,555**	**39,396**	**36,944**	**36,201**	**35,514**	**35,109**	**34,785**	**34,182**

CASH FLOW (NOKm)	1Q'17	2Q'17	3Q'17	4Q'17e	1Q'18e	2Q'18e	3Q'18e	4Q'18e
Cash earnings	(67)	(509)	551	(154)	(149)	163	215	(65)
Change in working capital	(205)	(377)	498	60	(7)	(6)	(39)	90
Cash flow from investments	(512)	1,371	472	(80)	(74)	(74)	(74)	(74)
Cash flow from financing	575	(632)	(559)	(215)	(165)	(194)	(165)	(165)
Net cash flow	(209)	606	(34)	(389)	(395)	(111)	(64)	(214)

CAPITALIZATION & VALUATION (NOKm)	1Q'17	2Q'17	3Q'17	4Q'17e	1Q'18e	2Q'18e	3Q'18e	4Q'18e
Share price (NOK end)	**11.8**	**9.6**	**6.9**	**6.0**	**6.1**	**6.1**	**6.1**	**6.1**
Number of shares end period	292	292	291	291	291	291	291	291
Net interest bearing debt	28,211	28,297	26,641	26,815	27,045	26,962	26,861	26,910
Enterprise value	**31,696**	**31,150**	**28,700**	**28,632**	**28,879**	**28,802**	**28,706**	**28,760**
EV/Sales	6.2	6.1	5.6	5.4	5.4	5.3	5.1	5.1
EV/EBITDA	**30.9**	**48.8**	**38.3**	**39.1**	**40.0**	**28.7**	**26.5**	**24.5**
EV/EBIT	-	-	-	12.9	39.7	-	-	-
P/E reported	-	-	-	1.4	-	-	-	-
P/E adjusted	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
P/B	0.4	0.4	0.3	0.3	0.4	0.4	0.4	0.4

FINANCIAL ANALYSIS & CREDIT METRICS	1Q'17	2Q'17	3Q'17	4Q'17e	1Q'18e	2Q'18e	3Q'18e	4Q'18e
Dividend yield (%)	-	-	-	-	-	-	-	-
EBITDA margin (%)	9.6	9.2	27.2	7.9	8.4	26.9	29.2	14.3
EBIT margin (%)	101.8	94.6	-	-	-	2.8	5.8	-
NIBD/EBITDA	26.16	43.95	38.25	37.53	37.68	26.79	24.81	22.97
EBITDA/Net interest	1.84	1.62	1.58	0.27	0.60	0.76	1.07	1.16

The Tide has turned

Buy
Hold
Sell

Tidewater holds one of the largest OSV fleets globally, well positioned across all asset classes and regions. The company emerged from Chapter 11 last year, with zero net debt, and well positioned to take advantage of the current market downturn through M&A. We initiate coverage with a diluted TP of USD 44, in line with our SOTP. This implies 58% upside from the current share price, and we initiate coverage with a BUY recommendation.

Target price (USD)	**44**
Share price (USD)	28

Forecast changes

%	2017e	2018e	2019e
Revenues	NM	NM	NM
EBITDA	NM	NM	NM
EBIT adj	NM	NM	NM
EPS reported	NM	NM	NM
EPS adj	NM	NM	NM

Source: Pareto

Ticker	TDW.N, TDW US
Sector	OSV
Shares fully diluted (m)	31.1
Market cap (USDm)	871
Net debt (USDm)	-18
Minority interests (USDm)	2
Enterprise value 17e (USDm)	743
Free float (%)	0

OSV giant with zero net debt

Tidewater is a global OSV company. The company emerged from Chapter 11 last summer, with zero net debt. This has secured a runway through the downturn, and we expect a positive FCF from 2020e and onwards. We expect that the company will use its size and position to continue to grow market share, potentially also driving some much needed consolidation in the industry.

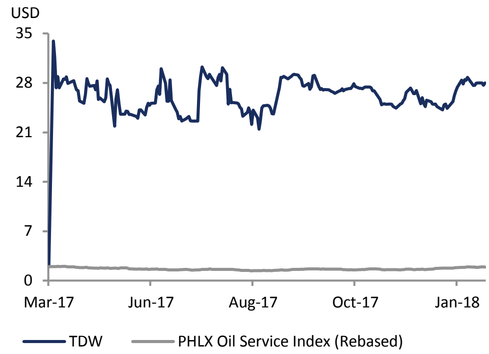
Well positioned across OSV supply chain

Tidewater holds the second largest OSV fleet worldwide, comprising deepwater PSVs and AHTS', in addition to towing supply vessels and smaller crew boats. The average fleet age is ~8.7 years, excluding the stacked fleet. The company is present in all the major offshore regions, and is hence not dependent on a region specific recovery. We hence consider it an interesting bet on a global OSV market recovery, well positioned across all asset classes.

BUY, TP USD 44

The company is trading in line with fire sale values, applying no value to the stacked fleet. We find this unwarranted, given the size, balance sheet, and potential earnings capacity of the fleet. We set our diluted TP at USD 44, which is in line with our SOTP. This implies 58% upside from the current share price, and we initiate coverage with a BUY recommendation.

Performance



Source: Factset

USDm	2016	2017e	2018e	2019e	2020e
Revenues	602	330	431	474	716
EBITDA	74	(11)	13	45	177
EBIT	(578)	(263)	(33)	(1)	131
EPS	(14.02)	(54.13)	(2.42)	(1.38)	2.54
EPS adj	(13.99)	(9.05)	(2.42)	(1.38)	2.54
DPS	-	-	-	-	-
EV/EBITDA	19.4	-	-	19.9	4.6
EV/EBIT	-	-	-	-	6.2
P/E adj	-	-	-	-	11.0
P/B	0.06	0.74	0.92	0.97	0.89
ROE (%)	-	-	-	-	8.4
Div yield (%)	-	-	-	-	-
Net debt	1,328	(18)	22	30	(64)

Source: Pareto

Analysts
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Company overview

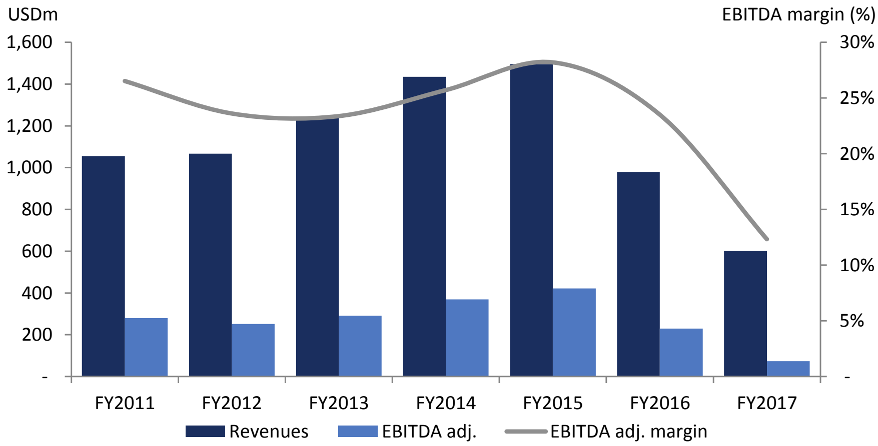
Tidewater Inc. is a global OSV company that provides offshore vessels and marine services to the global offshore energy industry. The company owns and operates the second largest fleet in the OSV industry, comprising 235 vessels. The fleet is diversified and comprises PSVs, AHTS', offshore tugs, subsea vessels and other OSVs. The company is headquartered in New Orleans, U.S., and has been listed on the New York Stock Exchange (NYSE:TDW) since 1970.

Tidewater has a global presence, and operates vessels in all major offshore regions in the world. The company focuses largely on the time charter market, and to a lesser extent on trading the vessels in the spot market. The client base comprises major international and national oil companies, as well as independent E&P companies and drilling companies. The company reports earnings within three geographic segments; Americas, Middle East/Asia Pacific and Africa/Europe. The Africa/Europe segment is the largest operating region for the company, both in terms of active vessels and fleet revenues. For the fiscal year of 2017, Africa/Europe contributed to 47% of revenues, whilst the Americas region contributed 28%, and the Middle East/Asia Pacific contributed 25%.

The company has historically had a deviating fiscal year, which ends 31 March each calendar year. The company has however opted to change this and will from 31 December 2017 report a fiscal year that ends 31 December. A 10-K report covering the transition period between 1 April and 31 December 2017 will be filed.

The company's revenues and operating results are determined by the achieved dayrates and utilization for the vessel fleet. The challenging OSV market following the drop in the oil price and sharp decline in offshore activity has put a strain on revenues and profitability. The company early initiated cost measures when the downturn started in 2015, but has not been shielded from the downturn, as can be seen below.

Tidewater revenues and EBITDA FY2013-FY2017*



**Fiscal year deviates from actual year; FY2017 ended March 2017*
Source: Pareto Securities Equity Research, Tidewater Inc.

As a consequence of the prolonged downturn in the industry and a worsening liquidity situation, the company entered restructuring discussions with creditors in January 2016. This resulted in a pre-packed Chapter 11 process, which was completed in May 2017. Upon emergence, the company had zero net debt, with a covenant holiday in place through 2019.

Please find an overview over the Chapter 11 recapitalization below

- All existing shares (~47m) were cancelled upon completion of the Chapter 11 recapitalization in July 2017
- The company issued new equity comprising ~18.5m shares
- The company cancelled USD ~2.3bn of liabilities (together denominated the unsecured creditors):
  - A USD 300m Term Loan
  - The fully drawn USD 600m RCF
  - USD 500m of senior unsecured notes (2013 notes)
  - USD 165m of senior unsecured notes (2011 notes)
  - USD 382.5m of senior unsecured notes (2010 notes)
  - A make-whole provision on the unsecured notes of USD 94.7m
  - Sale leaseback agreements for 16 vessels (USD ~260m)
  - Accrued interest of USD 23.7m
- The unsecured creditors received their pro-rata share of:
  - USD 225m in cash
  - 28.5m shares in the restructured company, equalling 95% of the restructured share capital
  - A new USD 350m HYB maturing in 2022 with 8% fixed interest
- Existing equity holders received:
  - 1.5m shares of the issued shares, equalling 5% of the issued share capital
  - ~2.4m Series A warrants that give the right to purchase 1 share at an exercise price of USD 57.06/share
  - ~2.6m Series B warrants that give the right to purchase 1 share at an exercise price of USD 62.28/share
  - Both warrant classes have a six year maturity and mature 31 July 2023
- The issuance of shares and warrants to non-US citizens were subject to restrictions as the Jones Act prohibits that the total number of shares held by non-US citizens exceeds 24%
- A management incentive plan including ~3m shares
- The company further amended the Troms Offshore debt (USD 91m):
  - Annual amortization was reduced with 50% through 31 March 2019
  - An modest increase in annual interest until April 2023
  - The company will further provide for security and additional guarantees
- Net debt post restructuring was USD (9)m

Asset overview

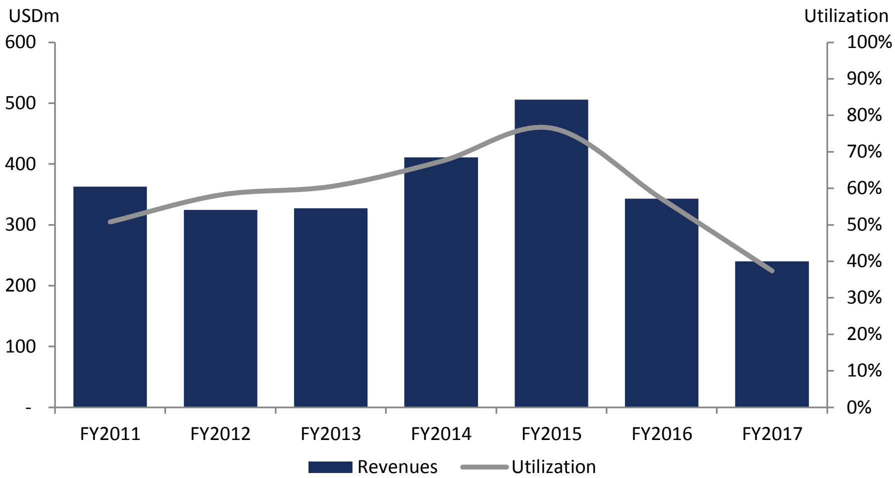
Tidewater owns a fleet of 235 vessels (excl. eight JV vessels and incl. one leased in vessel) and holds the second largest OSV fleet in the world. The fleet comprises 95x PSVs, 91x AHTS', 9x AHTs, 35x crew boats/FSVs and 5x speciality vessels. The company also owns eight ROVs. At present, 90 vessels are stacked. Following the Chapter 11 restructuring, the book value of the fleet is USD 837m. The average fleet age is ~9.5 years, and 8.7 years when excluding stacked vessels.

The Americas region includes vessels operating in North and South America, with the majority of vessels in the segment today operating in the U.S. GoM. The Americas fleet comprises 52 owned vessels, including 35 PSVs, 10 AHTS', one AHT and six crew boats/FSVs. Low utilization and dayrates in the region over the last two years have resulted in increased stacking activity. Currently the company has 29 vessels stacked in the Americas fleet.

The majority of the vessels in the segment are operating on short term commitments, with few longer term charter opportunities in the region. The majority of contracts are expected to roll off this year, however we expect several of these vessels to roll over on new shorter term commitments. Contracts in the U.S. GoM are often rewarded on a project by project basis and majority of vessels have been utilized for exploration and development drilling.

The Americas region is currently oversupplied, and vessel reactivations are expected to be limited in the short term. The company has currently twelve vessels in the region that are older than 15 years, of which six have been cold stacked for two years or longer. We assume all 12 vessels to remain cold stacked in foreseeable future due to reactivation costs and deferred maintenance spending. Of the remaining 17 stacked vessels that have been stacked, we assume seven to remain cold stacked through 2020.

Americas revenues and utilization*



**Fiscal year deviates from calendar year; FY2017 ended 31 March 2017*
Source: Pareto Securities Equity Research, Tidewater

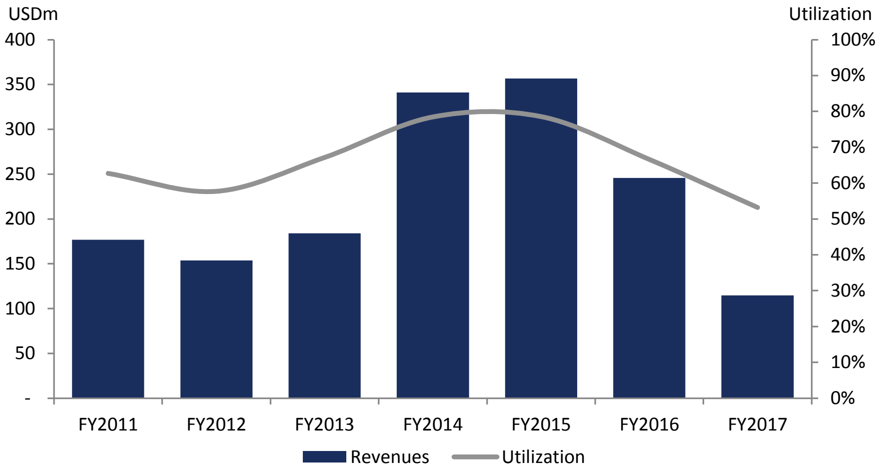
Following the Chapter 11 restructuring, the company has merged the two reporting segments Middle East and Asia Pacific. The Middle East/Asia Pacific fleet today comprises 61 vessels, including 19 PSVs, 41 AHTS' and one crew boat/FSV. As of September 30, 2017 the company had 22 stacked vessels in the region.

The company currently has 29 vessels working on time charters in the region, however with most rolling off contracts within the next 12 months. Three vessels are long term contracts with Saudi Aramco in the Middle East, with contracts expiring in 2020 for the first, and in 2022 for the remaining two, and with further options.

The Asia Pacific region is a very competitive OSV region due to high market fragmentation, low crew costs, and significant overcapacity of vessels. This has resulted in pressure on dayrates and utilization, and earnings have been further impacted by vessel stacking. The Middle East region has also seen a substantial drop in revenues over the last two years, both due to the general downturn in the industry and the entry of Asian-built vessels in the region. Tidewater has however been able to keep utilization in the Middle East at a relatively stable level.

Overall in the Middle East/Asia Pacific segment, the company reports on a modest increase in utilization, however dayrates are still depressed and an uptick is not expected in the short term. Of the 22 stacked vessels, there are four small-/mid-sized AHTS' that are older than ten years which we do not expect to be activated in the forecast period. We also assume eight of the remaining 18 stacked vessels to remain stacked through 2020 due to reactivation costs and deferred maintenance.

Middle East/Asia Pacific revenues and utilization*



**Fiscal year deviates from calendar year; FY2017 ended 31 March 2017*
Source: Pareto Securities Equity Research, Tidewater

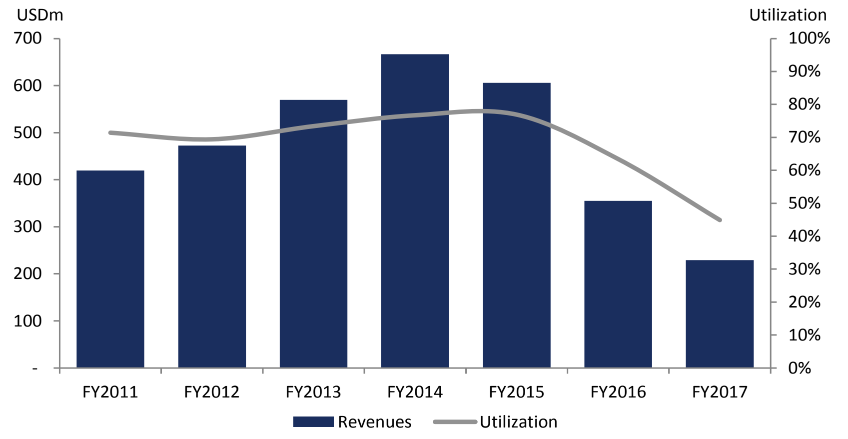
Africa/Europe is the company's largest region, both in terms of active vessels and vessel revenues. The Africa/Europe-based fleet comprises 121 vessels, including 41 PSVs, 40 AHTS', 8 AHTs, 28 crew boats/FSVs, and two SpVs. At current, 39 vessels are stacked in the region.

West Africa, which historically has been a large region for the company, has been affected by lower rig activity. The majority of OSV demand in the region has historically been driven by exploration activity and subsequent development drilling, however exploration activity is currently at a minimum.

Coupled with high mobilization from Southeast Asia, this has resulted in significant pressure on dayrates and utilization.
The company has historically had few vessels operating in the North Sea, until the acquisition of Norwegian OSV company Troms Offshore in 2013. Out of the eight vessels in the Troms Offshore fleet, four are currently trading in the North Sea spot market, two are on term charters, whilst two are stacked. Whilst the North Sea has been challenged by oversupply and lower rig activity, this is the region that we expect will rebound the first. We hence expect all the Troms vessels operational from 2020e.

The company currently has 20 vessels working on term charters in the Africa/Europe region, with the majority ending within the next 12 months. Due to pressure on both utilization and dayrates, the company has increased the number of stacked vessels in the region considerably over the past three years. The company has 13 AHTS'/PSVs in the region that have been cold stacked for two years or more, which we expect will be stacked the foreseeable future. We further expect an additional nine vessels to be stacked the next years due to being out of class or due to vessel specifications.

Africa/Europe revenues and utilization*



**Fiscal year deviates from calendar year; FY2017 ended 31 March 2017*
Source: Pareto Securities Equity Research, Tidewater

Tidewater also has a JV in Angola, in which it has had significant financial and operational challenges. The JV, Sonatide, is 49% owned by Tidewater and 51% owned by Angolan NOC Sonangol. The majority of the challenges relate to currency issues and working capital.

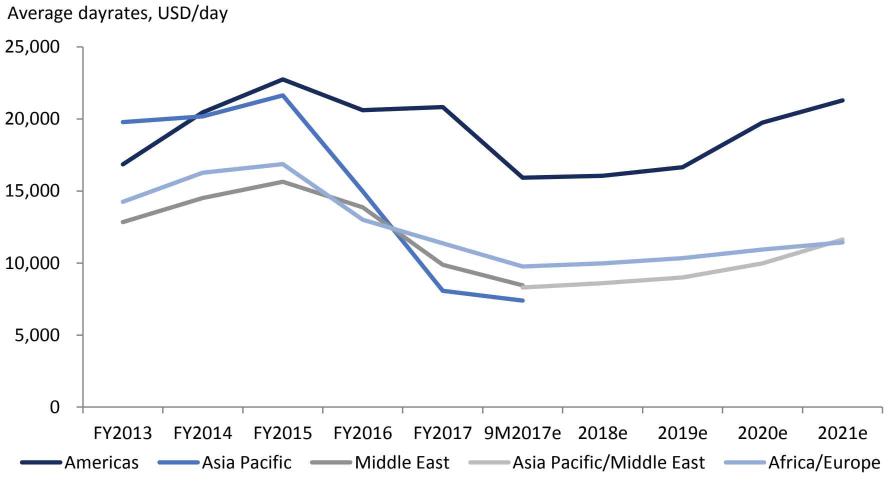
Sonatide owns seven vessels, of which four are currently stacked. In addition, Sonatide earns commission from Tidewater vessels that are marketed through the JV. This amounts to 44 vessels, of which 16 are stacked. As of September 2017 Tidewater's carrying value in the Sonatide JV was USD 24m. This compares with Sonatide's revenues for the fiscal H1'18 of USD 48m.

Tidewater has persistently tried to reduce the outstanding balance of receivables it has in Angola, but this has been challenged by issues related to exchanging receivables paid in the local currency Kwanza to USD. As of 30 September 2017, the net receivables related to Sonatide amounted to USD 245m. Of this amount, USD 39m represents unpaid charter hire.

The company expects that its claim towards Sonatide will be supported by USD 91m of cash in Sonatide, and USD 113m of amounts due from Tidewater to Sonatide. We note however that the majority of Sonatide's cash position is denominated in Kwanza, which increases the uncertainty, although this is pending conversion into USD. Of the amount that Tidewater is due to Sonatide, USD 34m relates to commissions, whilst the remaining balance relates to incurred costs by Sonatide. We have assumed some unwinding of the working capital related to Sonatide in estimates.

The region that we expect to rebound first in term of dayrates is the Americas region. This is driven by an expected uptick in activity in Brazil, and less pressure on dayrates in the U.S. GoM. We do however not expect earnings to rebound first in this region, as utilization is expected to remain below 50% until 2020e. Dayrates in the Asia Pacific/Middle East are expected to gradually improve, as are dayrates in the Africa/Europe region.

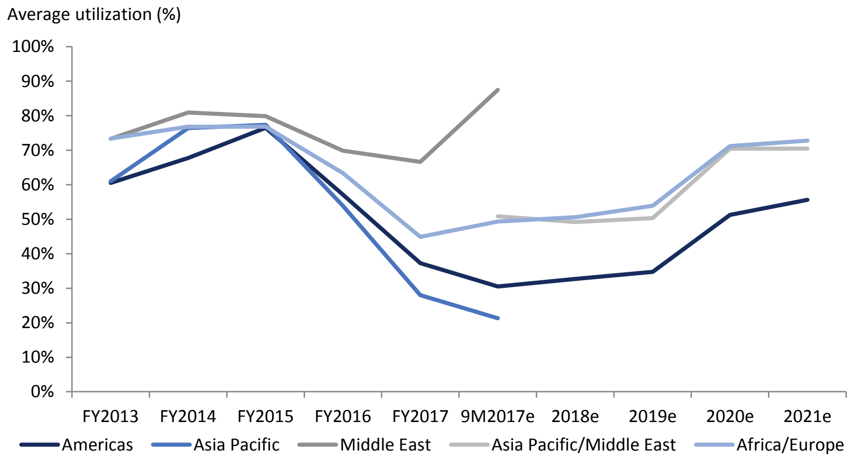
Historical dayrates and Pareto dayrate assumptions



Source: Pareto Securities Equity Research, Tidewater

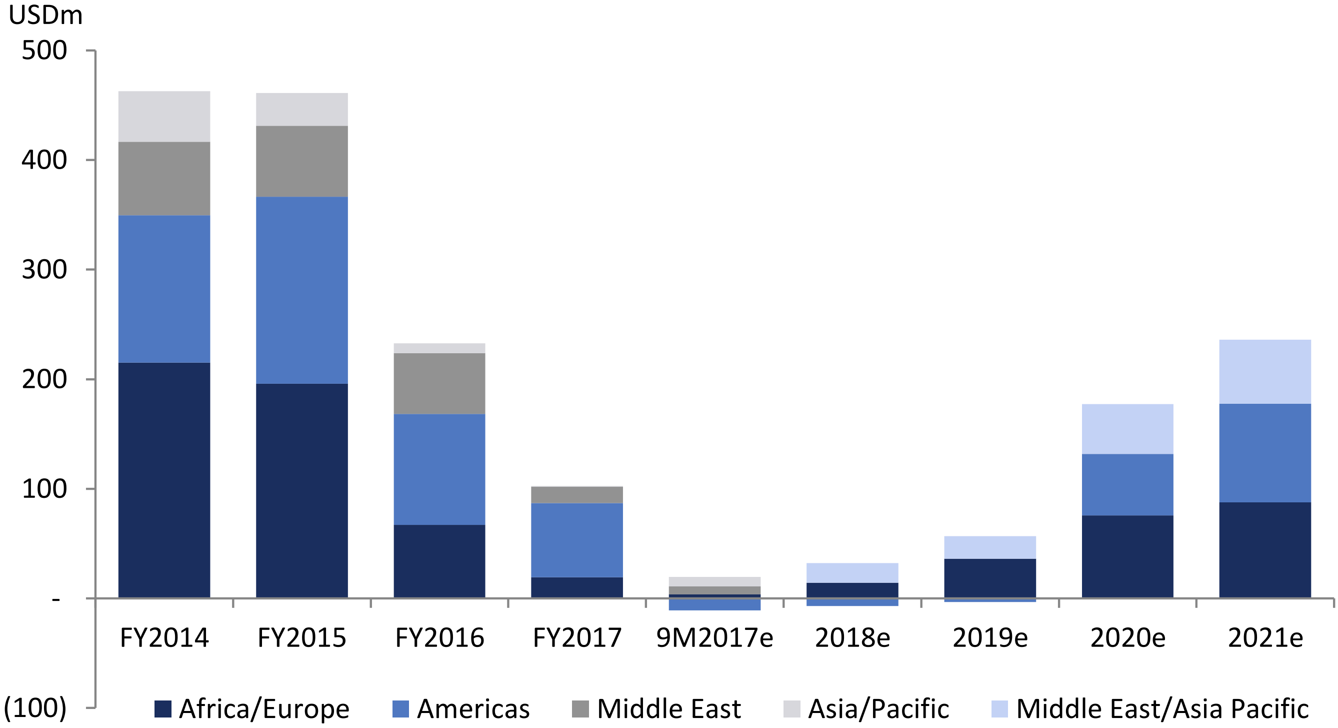
Utilization is expected to gradually normalize for the Asia Pacific/Middle East and Africa/Europe fleet first. Activity in both regions has picked up recently, and whilst no rapid recovery should be expected, we expect that utilization should improve from current levels. Reactivation of stacked vessels in 2020e will have the largest impact on utilization figures. Meanwhile, the Americas region is expected to remain depressed in terms of utilization going forward, due to the significant inventory of vessels in the region.

Historical utilization and Pareto utilization assumptions



Source: Pareto Securities Equity Research, Tidewater

Historical and projected EBITDA per segment*//*****



** Fiscal year deviates until FY 2017; YE FY 2017 is March 2017*
*** The company will from 31 December 2017 report fiscal year as per calendar year, commencing in 2018*
**** Company merged Middle East and Asia Pacific reporting regions post-restructuring*

Source: Pareto Securities Equity Research, Tidewater

Cash Flow

We expect EBITDA to gradually improve going forward, mainly driven by a normalisation of utilization, and dayrates picking up for the deepwater fleet. We also assume 37 stacked vessels to be reactivated in 2020e, out of a total stacked fleet of 90 vessels. The reactivating costs for these 37 vessels are expected to be limited, given that these have been smart stacked. Reactivation costs beyond these 37 vessels should however be increasingly higher.

The company has substantially reduced annual operating lease and interest costs after the restructuring. We estimate an annual interest cost of USD ~31m going forward, with no lease commitments. Annual tax is estimated at USD 32m per year the next two years, aligned with company guidance.

The company is in the final phase of its newbuilding program, with one vessel under construction. (Jones Act compliant). The company has been in a dispute with the yard over this vessel, but this has been settled and we estimate remaining capex of USD 4m in Q2'18. The company is also engaged in a dispute related to a FSV in Brazil, supposed to be delivered in 2009. The company has valued the remaining insurance receivable related to this vessel to USD 1.8m, compared with the original USD 5.6m cost. We have not included this in the cash flow projections.

Tidewater projected cash flow

		FY2015	FY2016	FY2017	9M2017e	2018e	2019e	2020e	2021e
EBITDA	USDm	422	230	74	(11)	13	45	177	240
P&L interest	"	(48)	(51)	(70)	(21)	(31)	(31)	(31)	(30)
Net WC adjustments/tax/other	"	(15)	74	25	2	(17)	(23)	(52)	(78)
Operational cash flow	**"**	**359**	**253**	**30**	**(30)**	**(35)**	**(9)**	**95**	**132**
Newbuild capex	"	(364)	(148)	0	(3)	(4)	-	-	-
Sale of assets	"	132	11	15	7	-	-	-	-
Other investment activities	"	1	3	-	5	-	-	-	-
CF from investment activities	**"**	**(231)**	**(135)**	**15**	**9**	**(4)**	**-**	**-**	**-**
Dividends/buy backs	"	(148)	(35)	-	-	-	-	-	-
Change in debt	"	41	518	(10)	(6)	(3)	(6)	(10)	(10)
Other	"	(2)	(2)	(7)	(211)	-	-	-	-
Cash flow from financing	**"**	**(109)**	**482**	**(17)**	**(217)**	**(3)**	**(6)**	**(10)**	**(10)**
FCF	"	127	118	45	(21)	(39)	(9)	95	132
Net change in cash	*"*	*18*	*600*	*28*	*(239)*	*(42)*	*(15)*	*85*	*122*
Cash	**"**	**79**	**678**	**706**	**468**	**426**	**410**	**495**	**617**
Net debt	"	1,456	1,374	1,328	(18)	22	30	(64)	(196)
NIBD/EBITDA	*x*	*3.5x*	*6.0x*	*17.9x*	*1.6x*	*1.6x*	*0.7x*	*-0.4x*	*-0.8x*

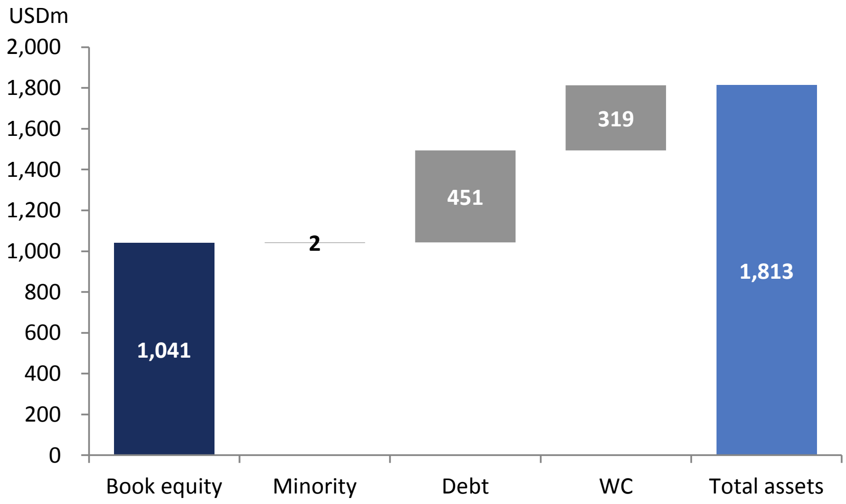
Source: Pareto Securities Equity Research

In 2009, the Republic of Venezuela seized eleven Tidewater vessels as part of the nationalization of the oil and gas industry in the country. Tidewater disputed this claim, and was in 2015 awarded USD 46.4m by the World Bank's International Centre for Settlement of Investment Disputes ("ICSID"). The Republic of Venezuela did however apply to have the ruling annulled. In December 2016, ICSID lowered the amount to USD 36.4m. The total amount outstanding to Tidewater, including accrued interest and legal fees, amounted to USD 55.5m as of September 2017. We have not included the claim in cash flow estimates.

Capital Structure

Following the Chapter 11 restructuring, the company had total assets of USD ~1.8bn. The capital structure comprises book equity value of USD ~1bn, with USD 1.8m of minority interest. Total debt was USD 451m of gross debt. In addition the company had USD 319m of working capital, of which USD 460m was cash.

Tidewater capital structure



Source: Pareto Securities Equity Research, Tidewater Inc.

Prior to the Chapter 11 recapitalization, the company had 16 vessels operating under sale lease back agreements. Six of these 16 vessels were in operation. As of September 30, 2017, five claims had been settled for an aggregate USD 166.1m, while one remaining claim of maximum USD 94.1m was outstanding. Costs for mobilization and re-delivery of these vessels were incurred in Q3'17. Following the recapitalization, the company has no further off-balance sheet commitments.

An overview of Tidewater's debt facilities can be found below:

Tidewater debt overview:

	2022 Notes	Troms Offshore USD debt	Troms Offshore NOK debt
Borrower:	Tidewater Inc.	Troms Offshore Supply AS	Troms Offshore Supply AS
Original amount:	USD 350m	USD 60.7m	USD ~84m (NOK 504.4m)
Amount drawn:	USD 350m	USD 49.5m	USD 41.7m (NOK ~334m)
Interest:	8% fixed rate	Variable, 5.01% as of Sept'2017	Variable, 5.01% as of Sept'2017
Security:	Several Tidewater vessels and share pledges in associated vessel owning companies	Troms Offshore fleet, share pledges in Troms Offshore Supply AS and certain subsidiaries	Troms Offshore fleet, share pledges in Troms Offshore Supply AS and certain subsidiaries
Maturity:	Aug'2022	Jan'2027/Apr'2027	May'2024/Jan'2026
Amortization profile:	None	Semi-annual	Semi-annual
Guarantor:	Substantially all Tidewater companies	Troms Offshore Supply AS	Troms Offshore Supply AS
Lender:		Eksportkreditt Norge AS, KLP, Gjensidige Forsikringsselskap, GIEK, DNB Capital LLC	Eksportkreditt Norge AS, KLP, Gjensidige Forsikringsselskap, GIEK, DNB Capital LLC
Other:	Up to 100% of proceeds from asset sales to be used to repurchase at par	50% of original debt amortization through 31 March 2019	50% of original debt amortization through 31 March 2019

Source: Pareto Securities Equity Research, Tidewater Inc.

Valuation

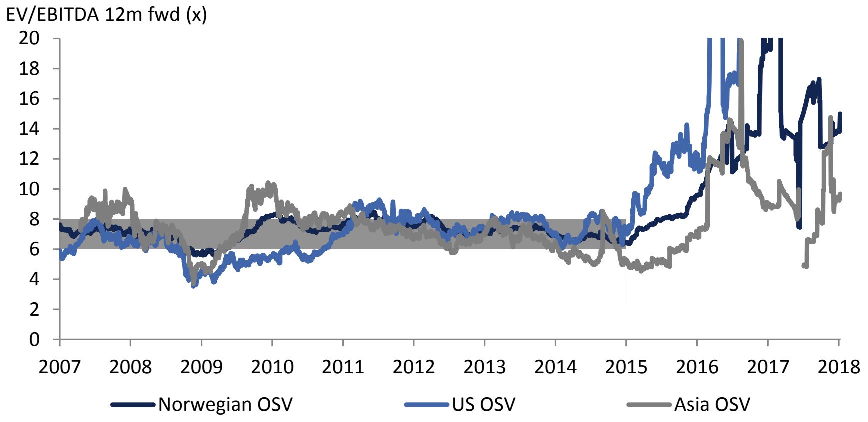
We have valued Tidewater using two different valuation approaches; a multiple valuation and an asset based approach. Based on these methods we reach a value per share of USD 26-48. We use a diluted share count of ~31.1m shares, assuming the existing share capital, in addition to including 33% of the shares to be awarded under the management incentive plan. We do not include the equity holder warrants, as these are significantly out of the money (USD 57.06/USD 62.28 exercise price). If these would be exercised, this would add an additional ~5m shares.

We initiate coverage on Tidewater with a TP of USD 44, in line with our NAV. This implies a premium of 58% from the current share price, and we initiate coverage with a BUY recommendation.

Multiples imply diluted value of USD 36-42/share

OSV companies have historically traded at an EV/EBITDA of 6-8x, prior to the industry downturn. This has been fairly similar also between regions, although the U.S. OSV companies have been more liquid and less leveraged than peers in other regions. Although this rapidly changed when the market started to deteriorate in early 2015, U.S. restructurings have resulted in significantly less leverage than peers. This should hence warrant a valuation premium on normalized earnings compared to peers.

Historical OSV EV/EBITDA 12m fwd



Source: Factset

We estimate an EBITDA of USD 177m in 2020e, which would imply a diluted value of USD 36-42/share, assuming 6-7x EV/EBITDA'2020e. Peak EBITDA in fiscal year 2014 was USD 422m, however this was on a larger fleet, and in our estimates we assume ~22% of the total fleet (53 vessels) stacked indefinitely.

Dayrate and EV/EBITDA sensitivity on EBITDA'2020e (USD/share)

		Sensitivity to dayrates						
		-20 %	-10 %	-5 %	0	5%	10%	20%
EV/EBITDA	5.0x	8	19	25	31	36	42	54
	5.5x	8	21	27	33	40	46	59
	6.0x	9	22	29	36	43	50	64
	6.5x	9	24	32	39	47	54	69
	7.0x	10	26	34	42	50	58	74
	7.5x	10	28	36	45	53	62	79
	8.5x	11	31	41	51	60	70	90

Source: Pareto Securities Equity Research

If the company would have reactivated all stacked capacity in 2020e, we estimate a normalized EBITDA of USD 286m in this scenario. This is based on similar utilization and dayrate assumptions as in our model. This is still well below peak EBITDA, as we have assumed only a gradual market recovery and hence lower dayrates than in the previous upcycle. A fully operational fleet on our assumptions would imply a diluted value per share of USD 57-66.

Dayrate and EV/EBITDA sensitivity on normalized EBITDA'2020e (USD/share)*

		Sensitivity to dayrates						
		-20 %	**-10 %**	**-5 %**	**0**	**5%**	**10%**	**20%**
EV/EBITDA	5.0x	19	33	41	48	55	63	77
	5.5x	20	37	45	53	61	69	85
	6.0x	22	40	48	57	66	75	92
	6.5x	24	43	52	62	71	81	100
	7.0x	25	46	56	66	77	87	107
	7.5x	27	49	60	71	82	93	115
	8.5x	30	55	68	80	93	105	130

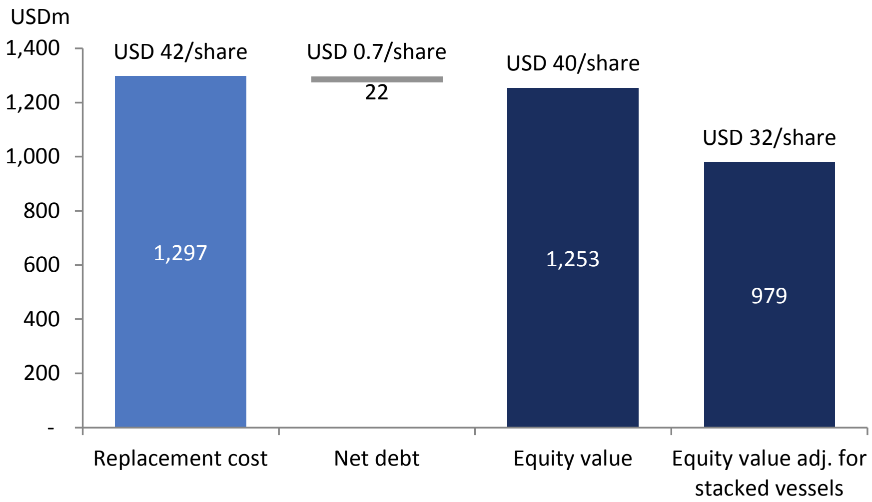
**Assuming all vessels operational*

Source: Pareto Securities Equity Research

Asset values imply diluted equity value of USD 26-48/share

The replacement value of the Tidewater fleet is estimated to USD ~1.3bn. This is what it is assumed to cost to replace the fleet through the second-hand market today. We note however that this is a poor valuation metric, due to the high number of stacked vessels in the fleet. If excluding the stacked vessels, the replacement value is estimated at USD ~1bn. This gives a value per share of USD 32, but not applying any value to the stacked fleet (90 vessels).

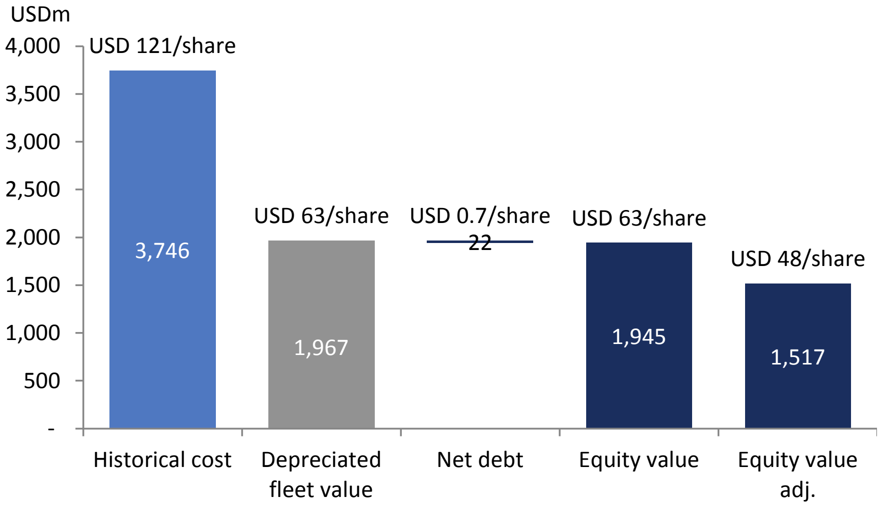
Implied equity value by replacement cost (USD/share)



Source: Pareto Securities Equity Research

The historical construction cost of the Tidewater fleet is estimated at USD ~3.5bn. The depreciated value of the historical construction cost, when assuming a useful lifetime of 20 years for the fleet, is USD ~2bn. This compares with a book value of USD 837m, assuming fresh-start accounting upon emergence from Chapter 11. As for the replacement value, this metric does not properly reflect the number of stacked assets, and is hence a poor valuation metric, given the high number of stacked vessels in the Tidewater fleet. When adjusting for the stacked fleet, we reach a value per share of USD 48.

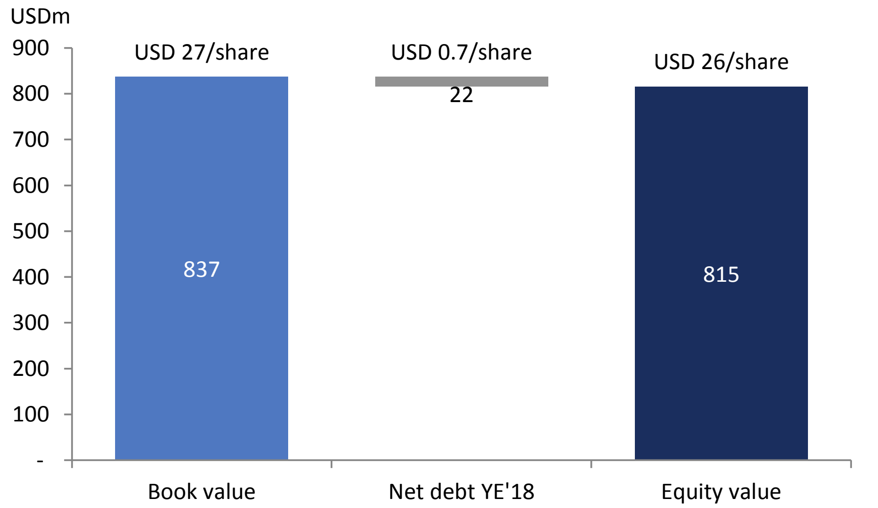
Implied equity value by depreciated construction cost (USD/share)



Source: Pareto Securities Equity Research

The book value of the fleet and associated equipment today is USD ~837m, assuming fresh-start accounting. This implies a diluted value per share of USD 26. This is largely in line with where the share price is trading today. Due to the fresh-start accounting, this metric also reflects the high number of stacked vessels, due to the impairments taken in the Chapter 11 restructuring.

Implied equity value by book value (USD/share)



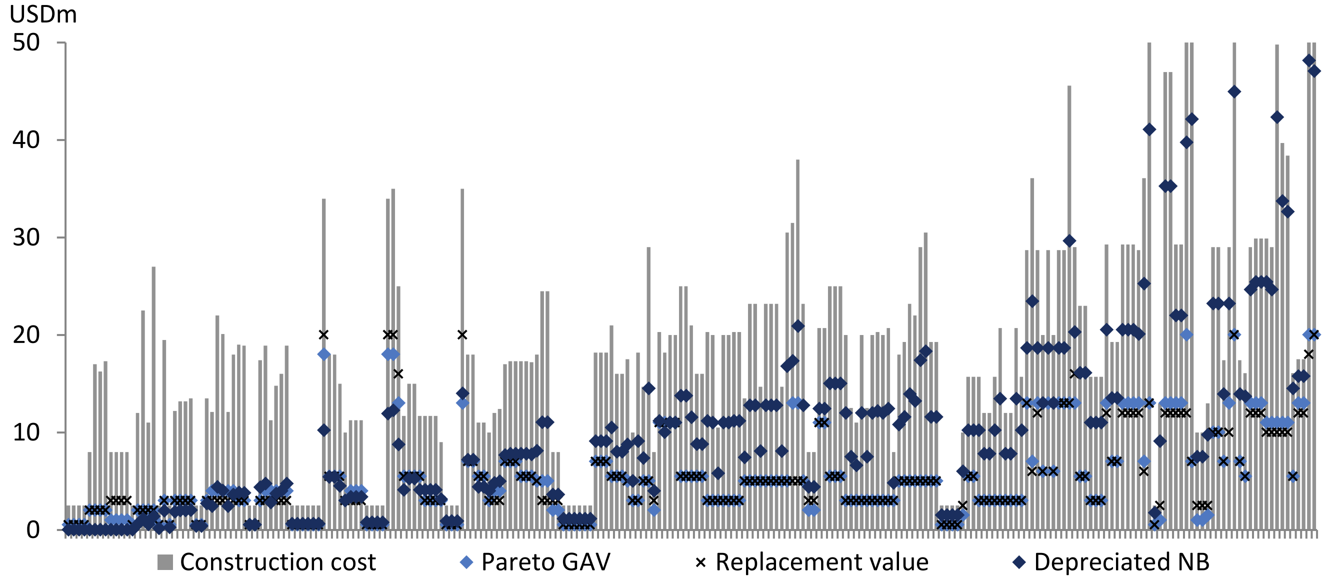
Source: Pareto Securities Equity Research, Tidewater

SOTP implies diluted value of USD 44/share

We value the Tidewater fleet on a charter-free basis in our SOTP, as the company has no meaningful backlog. We base these values on current market values, hence reflecting the current depressed state of the market. Some vessels are however valued at a slight premium to either resale values or the depreciated value due to current re-sale values or assumed future earnings capacity.

As can be seen below, for the majority of vessels our values are below replacement value, and for the majority of vessels, also below the depreciated construction cost. This applies largely for older vessels, whilst we apply a lower discount for larger and newer assets.

Implied equity value by replacement cost



Source: Pareto Securities Equity Research

On the back of this, we reach a SOTP equity value of USD 44 per share on a fully diluted basis. This is also were we set our TP, as we believe this best represents the underlying value of the company. A 10% change in asset values from our current GAV would imply a diluted value per share of USD 40-49.

Pareto NAV

Fleet value		GAV	GAV -10%	GAV +10%
AHTS > 20,000 BHP, 2000+	USDm	72	65	79
AHTS 15,000-19,000 BHP, 2000+	"	26	23	29
Other AHTS	"	433	389	476
PSV > 3,500 DWT, 2000+	"	611	550	672
Other PSV	"	216	195	238
AHTs	"	12	11	13
FSV/Crew Boats	"	20	18	22
Speciality Vessels	"	7	6	8
Gross Asset Value	"	**1,398**	**1,258**	**1,537**
Net Debt YE'18e	"	(18)	(18)	(18)
Remaining Capex YE'18e	"	-	-	-
Net Asset Value	"	1,380	1,240	1,520
NAV per share	**USD**	**44**	**40**	**49**

Source: Pareto Securities Equity Research

Tidewater AHTS fleet

Vessel name	Vessel type	BHP	Built	Pareto GAV (USDm)
William C. O'Malley	AHTS	26,400	2005	18
Alden J. Laborde	AHTS	24,000	2006	18
C.E. Laborde Jr.	AHTS	23,064	2005	18
John P. Laborde	AHTS	23,064	2004	18
Richard M. Currence	AHTS	18,000	2005	13
Coxon Tide	AHTS	16,000	2012	13
J Keith Lousteau	AHTS	13,570	2009	12
Marty Quist Tide	AHTS	13,570	2010	12
Netherland Tide	AHTS	13,570	2010	12
Reg McNee Tide	AHTS	13,570	2009	12
Tommy Sheridan Tide	AHTS	13,570	2009	12
William R. Croyle II	AHTS	13,570	2009	12
Cindy Tide	AHTS	10,138	2008	8
Allison Tide	AHTS	10,000	2007	7
Day Tide	AHTS	10,000	2008	8
Du Moulin Tide	AHTS	10,000	2006	7
Kehoe Tide	AHTS	10,000	2008	8
Leonard Tide	AHTS	10,000	2006	8
Sutton Tide	AHTS	10,000	2007	8
Thompson Tide	AHTS	10,000	2007	8
Al Harthy Tide	AHTS	9,500	2009	8
Boudreaux Tide	AHTS	9,500	2010	8
Chiasson Tide	AHTS	9,500	2009	8
Mansour Tide	AHTS	9,500	2010	8
Richard Tide	AHTS	9,500	2010	8
Donnelly Tide	AHTS	9,000	2004	5
Platt Tide	AHTS	9,000	2004	5
Boyd Tide	AHTS	8,200	2011	8
Archon Tide	AHTS	8,000	2011	8
Big Joe Tide	AHTS	8,000	2005	5
Foster Tide	AHTS	8,000	2012	8
J Hugh Roff Jr	AHTS	8,000	2005	5
Ozren Tide	AHTS	8,000	2009	5
Sabando Tide	AHTS	8,000	2008	5
Weyland Tide	AHTS	8,000	2012	5
Touchet Tide	AHTS	7,200	2004	5
Yeo Tide	AHTS	7,200	2005	5
Amadon Tide II	AHTS	7,180	2007	5
Miller Tide	AHTS	7,180	2006	5
Dalen Tide	AHTS	7,178	2008	5
Leibe Tide	AHTS	7,178	2008	5
Savoy Tide	AHTS	7,145	2015	5
Walker Tide	AHTS	7,145	2016	5
Gleixner Tide	AHTS	7,080	2009	5
Mahnke Tide	AHTS	7,080	2006	5
Ortalano Tide	AHTS	7,080	2009	5
Billy J Ramey II	AHTS	7,000	2007	5
Comotto Tide	AHTS	7,000	2007	5
Menendez Tide	AHTS	7,000	2005	5
Smith Tide	AHTS	6,600	2007	4
Fonseca Tide	AHTS	6,000	2008	4
Goldblatt Tide	AHTS	5,500	2004	2
Collard Tide	AHTS	5,400	2005	2
Currie Tide	AHTS	5,400	2005	2
Morrison Tide	AHTS	5,400	2005	2
Ang Tide	AHTS	5,302	2003	2
Nelson Tide	AHTS	5,300	2001	1
Wilbert Tide	AHTS	5,300	2002	2
Chayari Tide	AHTS	5,220	2011	4
Atef Tide	AHTS	5,150	2011	4
Bergeron Tide	AHTS	5,150	2009	3
Boutros Tide	AHTS	5,150	2011	4
Courtney Tide	AHTS	5,150	2010	3
Delancey Tide	AHTS	5,150	2010	3
Deroche Tide	AHTS	5,150	2010	3
Domingue Tide	AHTS	5,150	2011	4
D'Souza Tide	AHTS	5,150	2009	3
Dulaca Tide	AHTS	5,150	2010	3
Gary Tide	AHTS	5,150	2010	3
Kirkconnell Tide	AHTS	5,150	2010	3
Lacoste Tide	AHTS	5,150	2011	4
Lecompte Tide	AHTS	5,150	2010	3
Mawford Tide	AHTS	5,150	2009	3
Montgomery Tide	AHTS	5,150	2012	3
Mossalem Tide	AHTS	5,150	2011	4
Pravit Tide	AHTS	5,150	2005	2
Reech Tide	AHTS	5,150	2012	4
Reynaldo Tide	AHTS	5,150	2010	3
Rogelio Tide	AHTS	5,150	2011	4
Sasi Tide	AHTS	5,150	2008	3
Segovia Tide	AHTS	5,150	2010	3
Spooner Tide	AHTS	5,150	2012	4
Tablate Tide	AHTS	5,150	2011	4
Ward Tide	AHTS	5,150	2011	4
Ario Tide	AHTS	5,100	2006	2
David Tide II	AHTS	5,000	2009	3
Errington Tide	AHTS	5,000	2009	3
Hanks Tide	AHTS	5,000	2009	3
Instone Tide	AHTS	5,000	2008	3
Romic Tide	AHTS	5,000	2010	3
Stricklin Tide	AHTS	5,000	2009	3

Source: Pareto Securities Equity Research, Tidewater Inc.

Tidewater PSV fleet

Vessel name	Vessel type	BHP	Built	Pareto GAV (USDm)
Flowers Tide	PSV	4,700	2016	15
Landry Tide	PSV	4,700	2016	15
Southern Tide	PSV	6,300	2016	35
States Tide	PSV	6,392	2016	35
Breaux Tide	PSV	4,662	2015	18
Monty Orr Tide	PSV	4,530	2015	18
Paterson Tide	PSV	4,600	2015	18
Saavedra Tide	PSV	4,000	2015	15
Terry Tide	PSV	4,000	2015	15
Torrens Tide	PSV	4,197	2015	15
Troms Hera	PSV	4,000	2015	15
Troms Mira	PSV	4,000	2015	15
Campos Tide	PSV	4,000	2014	13
Chauvin Tide	PSV	4,000	2014	13
Doenicke Tide	PSV	3,000	2014	7
Jones Tide	PSV	4,577	2014	15
Troms Arcturus	PSV	5,660	2014	27
Walgamotte Tide	PSV	3,000	2014	7
Demarest Tide	PSV	4,700	2013	18
Fanning Tide	PSV	4,365	2013	13
Felton Tide	PSV	5,136	2013	18
Lundstrom Tide	PSV	4,365	2013	18
Miss Marilene Tide	PSV	5,869	2013	24
Troms Lyra	PSV	3,800	2013	13
Aldemir Souza Tide	PSV	5,000	2012	13
Ambrosius Tide	PSV	3,691	2012	7
Caroline Tide III	PSV	3,703	2012	7
Carr Tide	PSV	5,000	2012	13
Gerard Tide	PSV	5,000	2012	13
Handin Tide	PSV	5,000	2012	13
Laird Tide	PSV	5,170	2012	11
Rozo Tide	PSV	3,483	2012	9
Troms Sirius	PSV	4,800	2012	20
Bailey Tide	PSV	5,000	2011	13
Cindy Brown Tide	PSV	3,588	2011	7
Gammage Tide	PSV	5,000	2011	13
Halat Tide	PSV	3,483	2011	6
Hart Tide	PSV	5,000	2011	11
Kosarca Tide	PSV	3,483	2011	6
Shepherd Tide	PSV	5,000	2011	13
Stephen Wallace Dick	PSV	5,000	2011	13
Troms Capella	PSV	4,700	2011	13
Anderson Tide	PSV	3,000	2010	5
Davis Tide	PSV	3,250	2010	5
Garza Tide	PSV	3,000	2010	5
Greenwood Tide	PSV	3,483	2010	5
Kenny Tide	PSV	3,152	2010	5
Lebouef Tide	PSV	3,300	2010	5
Lim Tide	PSV	2,998	2010	5
Trounson Tide	PSV	3,250	2010	5
Cabiness Tide	PSV	3,026	2009	5
Couper Tide	PSV	3,250	2009	5
Davidson Tide	PSV	3,250	2009	5
Desoto Tide	PSV	3,250	2009	5
Gubert Tide	PSV	3,250	2009	5
Leese Tide	PSV	3,000	2009	5
Olivier Tide	PSV	3,250	2009	5
Pelafigue Tide	PSV	3,032	2009	5
Terrel Tide	PSV	3,300	2009	5
Troms Castor	PSV	5,549	2009	13
Troms Pollux	PSV	5,549	2009	13
Wise Tide II	PSV	3,250	2009	5
Brasher Tide	PSV	3,000	2008	5
Urdaneta Tide	PSV	3,103	2008	5
Melton Tide	PSV	3,184	2007	5
Skipsey Tide	PSV	3,103	2007	5
Hebert Tide	PSV	1,892	2006	4
Pat Taylor	PSV	1,675	2006	3
Bourgeois Tide	PSV	2,000	2004	4
Deville Tide	PSV	2,000	2004	4
Ebanks Tide	PSV	2,760	2004	4
Art Carlson	PSV	3,969	2003	4
Lousteau Tide	PSV	2,100	2003	2
Loving Tide	PSV	2,845	2003	3
Milan Tide	PSV	3,250	2003	3
Robert H. Boh	PSV	3,000	2003	4
Collins Tide	PSV	2,766	2002	2
Danko Tide	PSV	3,350	2002	3
De Vries Tide	PSV	3,283	2002	3
Ed Kyle	PSV	2,766	2002	2
Luanda Tide	PSV	3,350	2002	3
Wiggins Tide	PSV	1,300	2002	2
William C. Hightower	PSV	3,956	2002	4
Carline Tide	PSV	3,096	2001	2
Lui Tide	PSV	3,300	2001	3
T1 Abike	PSV	3,350	2001	3
Madonna Tide	PSV	3,096	2000	3
Bobby Rawle Tide	PSV	3,122	1999	2
Burch Williams	PSV	4,300	1999	2
Mckenny Tide	PSV	3,300	1999	3
Russell Tide	PSV	4,617	1999	3
Adam Tide	PSV	1,790	1998	1
Richard A Philippi	PSV	3,125	1998	2
Sam S Allgood	PSV	3,107	1998	2
William E. Bright	PSV	3,122	1998	2

Source: Pareto Securities Equity Research, Tidewater Inc.

Other vessels

Vessel name	Vessel type	Pareto GAV (USDm)
Gulf Mallard	AHT	1
Gulf Scaup	AHT	1
Gulf Teal	AHT	1
Gulf Wigeon	AHT	1
Leach Tide	AHT	1
Maquidi Tide	AHT	1
O'Rourke Tide	AHT	4
Soyo Tide	AHT	1
Vrana Tide	AHT	1

Vessel name	Vessel type	Pareto GAV (USDm)
Anna P	Crew	0
Bakama Tide	Crew	0
Bonnette Tide	FSV	1
Canuku Tide	Crew	0
Cheryl Tide	FSV	1
Chiloango Tide	Crew	0
Chinga Tide	Crew	0
Debbie Tide	Crew	1
Deenna Tide	FSV	1
Diana Tide	Crew	1
Faridah Tide	FSV	1
Futila Tide	Crew	0
Gro Tide	Crew	1
Ibinda Tide	Crew	0
Jo Lynn Tide	FSV	1
Karen Tide II	FSV	1
Lelean Tide	Crew	0
Lobito Tide	Crew	0
Lourdes Tide	Crew	1
Magnum Tide	Crew	0
Maiden Tide	Crew	0
Malongo Tide	Crew	0
Malanje Tide	Crew	0
Masleny Tide	FSV	1
Melinda Tide	Crew	1
Mervat Tide	FSV	1
Mission Tide	Crew	1
Namibe Tide	Crew	0
Sandra Tide	Crew	1
Susan Tide	Crew	1
Tola Tide	Crew	0
Ursula Tide	FSV	1
Zambeze Tide	Crew	0
Zimbo Tide	Crew	0
Zola Tide	Crew	0

Vessel name	Vessel type	Pareto GAV (USDm)
Construct Tide II	SpV	1
Tidewater Enabler	SpV	2
Lift Tide II	SpV	1
Rafael Tide	SpV	1
Montet Tide	SpV	2

Source: Pareto Securities Equity Research, Tidewater Inc.

Shareholders

Top 20 shareholders (as of 25.01.2018)

		% Out
1	AMERICAN INTERNATIONAL GROUP	10.3 %
2	PRUDENTIAL FINANCIAL INC	8.7 %
3	WELLS FARGO & COMPANY	7.3 %
4	NEW YORK LIFE GROUP	6.8 %
5	VANGUARD GROUP	6.4 %
6	STATE FARM MUTUAL AUTO INSURANCE	4.5 %
7	THIRD AVENUE MANAGEMENT LLC	2.9 %
8	MACQUARIE GROUP	2.7 %
9	LINCOLN NATIONAL GROUP	2.7 %
10	NATIONWIDE FUND ADVISORS	2.1 %
11	MUTUAL OF OMAHA GROUP	2.0 %
12	SOUTHPAW ASSET MANAGEMENT	1.8 %
13	ROBOTTI ROBERT	1.6 %
14	PACIFIC LIFE INSURANCE COMPANY	1.5 %
15	FMR LLC	1.3 %
16	ALLIANZ SE	1.2 %
17	SOLUS ALTERNATIVE ASSET MGMT LP	1.2 %
18	JANNEY MONTGOMERY SCOTT LLC	1.1 %
19	BLACKROCK	1.1 %
20	WESTERN & SOUTHERN FINANCIAL GRP	1.0 %
	Other	32 %
	Total	**100%**

Source: Bloomberg

PROFIT & LOSS (fiscal year) (USDm)	2013	2014	2015	2016	2017e	2018e	2019e	2020e
Revenues	**1,435**	**1,496**	**979**	**602**	**330**	**431**	**474**	**716**
EBITDA	**369**	**422**	**230**	**74**	**(11)**	**13**	**45**	**177**
Depreciation & amortisation	(167)	(459)	(300)	(652)	(252)	(46)	(46)	(46)
EBIT	**202**	**(37)**	**(70)**	**(578)**	**(263)**	**(33)**	**(1)**	**131**
Net interest	(42)	(48)	(51)	(70)	(21)	(31)	(31)	(31)
Other financial items	(3)	9	(5)	(2)	(1,402)	-	-	-
Profit before taxes	**173**	**(66)**	**(140)**	**(644)**	**(1,679)**	**(59)**	**(26)**	**106**
Taxes	(33)	1	(21)	(6)	(5)	(16)	(16)	(26)
Minority interest	-	(0)	0	(10)	(0)	(1)	(1)	(1)
Net profit	**140**	**(66)**	**(160)**	**(660)**	**(1,684)**	**(75)**	**(43)**	**79**
EPS reported	2.82	(1.35)	(3.41)	(14.02)	(54.13)	(2.42)	(1.38)	2.54
EPS adjusted	**3.94**	**(1.81)**	**(3.55)**	**(13.99)**	**(9.05)**	**(2.42)**	**(1.38)**	**2.54**
DPS	1.00	0.99	0.75	-	-	-	-	-

BALANCE SHEET (USDm)	2013	2014	2015	2016	2017e	2018e	2019e	2020e
Tangible non current assets	3,622	3,746	3,551	2,865	858	816	770	724
Other non-current assets	444	141	109	185	74	79	85	90
Other current assets	760	790	645	435	389	391	401	477
Cash & equivalents	60	79	678	706	468	426	410	495
Total assets	**4,886**	**4,756**	**4,984**	**4,191**	**1,789**	**1,711**	**1,666**	**1,786**
Total equity	2,685	2,481	2,306	1,651	1,022	947	905	984
Interest-bearing non-current debt	1,505	1,524	-	-	445	442	436	426
Interest-bearing current debt	10	10	2,052	2,034	5	5	5	5
Other Debt	686	741	626	506	317	317	320	370
Total liabilites & equity	**4,886**	**4,756**	**4,984**	**4,191**	**1,789**	**1,711**	**1,666**	**1,786**

CASH FLOW (USDm)	2013	2014	2015	2016	2017e	2018e	2019e	2020e
Cash earnings	271	309	180	(75)	(33)	(34)	(2)	120
Change in working capital	(167)	49	73	104	3	(1)	(7)	(26)
Cash flow from investments	(404)	(231)	(135)	15	9	(4)	-	-
Cash flow from financing	319	(109)	482	(17)	(217)	(3)	(6)	(10)
Net cash flow	20	18	600	28	(239)	(42)	(15)	85

CAPITALIZATION & VALUATION (USDm)	2013	2014	2015	2016	2017e	2018e	2019e	2020e
Share price (USD end)	**49.0**	**19.0**	**8.0**	**2.00**	**24.4**	**28.0**	**28.0**	**28.0**
Number of shares end period	50	49	47	47	31	31	31	31
Net interest bearing debt	1,455	1,456	1,374	1,328	(18)	22	30	(64)
Enterprise value	**3,897**	**2,387**	**1,756**	**1,438**	**743**	**895**	**904**	**810**
EV/Sales	2.7	1.6	1.8	2.4	2.3	2.1	1.9	1.1
EV/EBITDA	**10.6**	**5.7**	**7.6**	**19.4**	**-**	**-**	**19.9**	**4.6**
EV/EBIT	19.3	-	-	-	-	-	-	6.2
P/E reported	17.4	-	-	-	-	-	-	11.0
P/E adjusted	**12.4**	**-**	**-**	**-**	**-**	**-**	**-**	**11.0**
P/B	0.9	0.4	0.2	0.1	0.7	0.9	1.0	0.9

FINANCIAL ANALYSIS & CREDIT METRICS	2013	2014	2015	2016	2017e	2018e	2019e	2020e
ROE adjusted (%)	7.5	-	-	-	-	-	-	8.4
Dividend yield (%)	2.0	5.2	9.4	-	-	-	-	-
EBITDA margin (%)	25.7	28.2	23.5	12.3	-	3.1	9.6	24.8
EBIT margin (%)	14.0	-	-	-	-	-	-	18.4
NIBD/EBITDA	3.94	3.45	5.97	17.90	1.55	1.63	0.67	(0.36)
EBITDA/Net interest	8.85	8.77	4.51	1.06	-	0.43	1.47	5.79

PROFIT & LOSS (fiscal year) (USDm)	1Q'17	2Q'17	3Q'17	4Q'17e	1Q'18e	2Q'18e	3Q'18e	4Q'18e
Revenues	**161**	**115**	**111**	**104**	**103**	**112**	**112**	**104**
EBITDA	**33**	**(6)**	**(4)**	**(2)**	**(1)**	**7**	**7**	**(0)**
Depreciation & amortisation	(102)	(200)	(41)	(11)	(11)	(11)	(11)	(11)
EBIT	**(69)**	**(205)**	**(44)**	**(13)**	**(12)**	**(4)**	**(4)**	**(12)**
Net interest	(19)	(9)	(4)	(8)	(8)	(8)	(8)	(8)
Other financial items	1	(314)	(1,088)	-	-	-	-	-
Profit before taxes	**(85)**	**(524)**	**(1,135)**	**(20)**	**(19)**	**(11)**	**(11)**	**(18)**
Taxes	(2)	(0)	(3)	(1)	(4)	(4)	(4)	(4)
Minority interest	(8)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Net profit	**(95)**	**(524)**	**(1,138)**	**(21)**	**(23)**	**(15)**	**(15)**	**(22)**
EPS reported	(2.02)	(11.13)	(36.60)	(0.67)	(0.73)	(0.48)	(0.48)	(0.72)
EPS adjusted	**(2.03)**	**(4.46)**	**(1.62)**	**(0.67)**	**(0.73)**	**(0.48)**	**(0.48)**	**(0.72)**
DPS	-	-	-	-	-	-	-	-

BALANCE SHEET (USDm)	1Q'17	2Q'17	3Q'17	4Q'17e	1Q'18e	2Q'18e	3Q'18e	4Q'18e
Tangible non current assets	2,865	2,659	869	858	848	839	827	816
Other non-current assets	185	141	73	74	76	77	78	79
Other current assets	435	435	411	389	387	414	414	391
Cash & equivalents	706	684	460	468	454	422	417	426
Total assets	**4,191**	**3,920**	**1,813**	**1,789**	**1,765**	**1,752**	**1,737**	**1,711**
Total equity	1,651	1,126	1,043	1,022	999	984	969	947
Interest-bearing non-current debt	-	81	446	445	444	443	442	442
Interest-bearing current debt	2,034	10	5	5	5	5	5	5
Other Debt	506	2,703	319	317	317	320	320	317
Total liabilites & equity	**4,191**	**3,920**	**1,813**	**1,789**	**1,765**	**1,752**	**1,737**	**1,711**

CASH FLOW (USDm)	1Q'17	2Q'17	3Q'17	4Q'17e	1Q'18e	2Q'18e	3Q'18e	4Q'18e
Cash earnings	1	21	(44)	(11)	(12)	(5)	(5)	(12)
Change in working capital	70	(45)	28	20	2	(24)	-	21
Cash flow from investments	(6)	4	5	(1)	(2)	(2)	-	-
Cash flow from financing	(8)	(4)	(213)	(1)	(1)	(1)	(1)	(1)
Net cash flow	57	(23)	(224)	8	(14)	(32)	(6)	9

CAPITALIZATION & VALUATION (USDm)	1Q'17	2Q'17	3Q'17	4Q'17e	1Q'18e	2Q'18e	3Q'18e	4Q'18e
Share price (USD end)	**2.00**	**22.6**	**29.1**	**24.4**	**28.0**	**28.0**	**28.0**	**28.0**
Number of shares end period	47	47	31	31	31	31	31	31
Net interest bearing debt	1,328	(593)	(9)	(18)	(5)	26	31	22
Enterprise value	**1,438**	**488**	**897**	**743**	**868**	**899**	**904**	**895**
EV/Sales	2.4	0.9	1.7	1.5	2.0	2.1	2.1	2.1
EV/EBITDA	**19.4**	**9.2**	**28.7**	**34.1**	**-**	**-**	**-**	**67.6**
EV/EBIT	-	-	-	-	-	-	-	-
P/E reported	-	-	-	-	-	-	-	-
P/E adjusted	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
P/B	0.1	1.0	0.9	0.7	0.9	0.9	0.9	0.9

FINANCIAL ANALYSIS & CREDIT METRICS	1Q'17	2Q'17	3Q'17	4Q'17e	1Q'18e	2Q'18e	3Q'18e	4Q'18e
Dividend yield (%)	-	-	-	-	-	-	-	-
EBITDA margin (%)	20.6	-	-	-	-	6.3	6.3	-
EBIT margin (%)	-	-	-	-	-	-	-	-
NIBD/EBITDA	18.38	16.39	16.87	8.13	13.01	(1.93)	0.74	1.39
EBITDA/Net interest	1.06	0.84	0.63	0.54	-	0.03	0.37	0.43

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Appendix A

Disclosure requirements pursuant to the Norwegian Securities Trading Regulations section 3-10 (2) and section 3-11 (1), letters a-b

The below list shows companies where Pareto Securities AS - together with affiliated companies and/or persons – own a portion of the shares exceeding 5 % of the total share capital in any company where a recommendation has been produced or distributed by Pareto Securities AS.

Companies	No. of shares	Holdings in %	Companies	No. of shares	Holdings in %
Helgeland Sparebank	1,949,992	9.34 %	SpareBank 1Østfold Akersl	1,101,560	8.89 %
Pareto Bank ASA	9,898,482	16.89 %	Sparebanken Vest	4,097,368	6.94 %

Pareto Securities AS or its affiliates own as determined in accordance with Section 13(d) of the US Exchange Act, 1 % or more of the equity securities of :

Companies	No. of shares	Holdings in %	Companies	No. of shares	Holdings in %
Helgeland Sparebank	1,949,992	9.34 %	SpareBank 1SMN	1,836,692	1.41 %
NHST Media Group AS	21,475	1.85 %	SpareBank 1Østfold Akersl	1,101,560	8.89 %
Pareto Bank ASA	9,898,482	16.89 %	Sparebanken Møre	314,203	3.18 %
Selvaag Bolig ASA	2,070,624	2.21 %	Sparebanken Sør	472,999	3.02 %
SpareBank 1BV	1,360,368	2.16 %	Sparebanken Vest	4,097,368	6.94 %

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Please find below an overview of material interests in shares held by employees in Pareto Securities AS, in companies where a recommendation has been produced or distributed by Pareto Securities AS. "By material interest" means holdings exceeding a value of NOK 50 000.

Company	Analyst holdings*	Total holdings	Company	Analyst holdings*	Total holdings	Company	Analyst holdings*	Total holdings
AF Gruppen	0	1,675	Helgeland Sparebank	0	600	Protector Forsikring	0	14,085
Aker	0	521	Höegh LNG	0	5,406	Questerre Energy	0	13,525
Aker BP	0	625	Høland og Setskog Spareba	0	772	REC Silicon	0	161,461
Aker Solutions	0	1,307	Ice Group AS	0	55,500	SalMar	0	300
Arcus	0	4,731	Jæren Sparebank	0	500	Sandnes Sparebank	0	39,032
Atea	0	450	Komplett Bank	0	73,000	Scatec Solar	0	38,290
Austevoll Seafood	0	6,130	Kongsberg Gruppen	0	3,700	Selvaag Bolig	0	5,000
Avance Gas	0	15,488	Lerøy Seafood	0	31,947	Songa Bulk	0	2,290
Axactor	0	366,478	Marine Harvest	0	1,804	SpareBank 1BV	0	10,000
B2Holding	0	7,200	Monobank	0	1,355,000	SpareBank 1Nord-Norge	0	30,000
Bonheur	0	48,596	NEXT Biometrics	0	1,647	SpareBank 1SMN	0	15,490
Borr Drilling	0	1,430	Nordic Semiconductor	0	4,000	SpareBank 1SR-Bank	0	39,587
Brødboksen	0	286,358	Norsk Hydro	0	86,101	SpareBank 1Østlandet	0	641
BWLPG	0	9,592	Norwegian Air Shuttle	0	3,745	Sparebanken Møre	0	9,014
DNB	0	34,994	Norwegian Property	0	162,000	Sparebanken Sør	0	55,690
DNO	0	51,232	Ocean Yield	0	30,222	Statoil	0	9,961
DOF	0	916,624	Odfjell Drilling	0	7,931	Storebrand	0	5,340
Entra	0	14,362	Orkla	0	22,014	Subsea 7	0	7,006
Faroe Petroleum	9,600	9,600	Panoro Energy	0	16,470	Telenor	0	1,889
Flex LNG	0	10,000	Pareto Bank	0	976,609	TGS-NOPEC	0	2,000
Frontline	0	26,523	Petroleum Geo-Services	0	49,734	XXL	0	6,138
Gjensidige Forsikring	0	8,641	Pioneer Property	0	1,100	Yara International	0	10,746
Golden Ocean Group	0	12,324	Prosafe	0	5,984	Zenterio	0	78,865

This overview is updated monthly (last updated 15.01.2018).

*Analyst holdings refers to positions held by the Pareto Securities AS analyst covering the company.

Appendix B

Disclosure requirements pursuant to the Norwegian Securities Trading ST Regulation § 3-11, letters d-f, ref the Securities Trading Act Section 3-10

Overview over issuers of financial instruments where Pareto Securities AS have prepared or distributed investment recommendation, where Pareto Securities AS have been lead manager/co-lead manager or have rendered publicly known not immaterial investment banking services over the previous 12 months:

Africa Petroleum	Engie SA	Okea AS
AINMT	Faroe Petroleum	Ovako AB
American Tanker	Farstad Shipping	Pareto Bank
Austevoll Seafood	Flex LNG	Petrotal LLC
Avida Holding AB	GASLOG	Pilbara Minerls
Axzon A/S	Genel Energy	Protector Forsikring
Bankers Petroleum ltd	Gjensidige Forsikring	Questerre Energy Corporation
Beerenberg Holdco II AS	Glencore	Rødovre Port Holding A/S
BKK	Golar LNG	Sakthi Global Auto Holdings
Blackbird Energy	Goliath Offshore Holdings	Scorpio Tankers
Boa	Gunnebo Industrier	Sea Trucks
Boa OCV	HI BidCo AS	Shamaran
Boa Offshore	Hospitality Invest AS	Ski Eiendomdsinvest AS
Boa SBL	Huddly	Solvang
Borr Drilling Limited	Ice Group	Solør Bioenergi
Brødboksen	Idavang A/S	Sparebanken 1Østlandet
Denison Mines	KNOT Offshore	Tag Oil
DOF ASA	Komplett Bank	TiZir
Dof Subsea AS	Master Marine	Transocean
Eco Atlantic Oil and Gas	MMA Offshore	TTS Group
Eidesvik Offshore	Monobank ASA	Vieo B.V.
Eidsiva Energi	Navigator Holdings	VVHolding
Eland Oil & Gas	Next Biometrics	Western Bulk Chartering
Embarcadero Maritime II LLC	Northern Drilling	Zwipe AS

This overview is updated monthly (this overview is for the period 31.12.2016 – 31.12.2017).

Appendix C

Disclosure requirements pursuant to the Norwegian Securities Trading ST Regulation § 3-11(4)

Distribution of recommendations

Recommendation	% distribution
Buy	59 %
Hold	34 %
Sell	7 %

Distribution of recommendations (transactions*)

Recommendation	% distribution
Buy	92 %
Hold	8 %
Sell	0 %

* Companies under coverage with which Pareto Securities Group has on-going or completed public investment banking services in the previous 12 months

This overview is updated monthly (last updated 15.01.2018).

Appendix D

This section applies to research reports prepared by Pareto Securities AB.

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Climeon	Organoclick	Sedana Medical	Vostok New Ventures
Isofol Medical	Powercell	ShaMaran Petroleum	

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