International revenue from Norwegian oil service companies

Excerpt in English from report to the Ministry of Petroleum and Energy
November 14th, 2018

Summary (1/5)

100 billion NOK in international revenue in 2017 – decline of 25% from 2016

The suppliers were saved by a robust home market – the international share of revenue was only 29%

2017 was a demanding year for Norwegian oil service companies. The total revenue was 340 billion NOK, corresponding to a decline of 10% compared to the previous year. Statistics for 2017 is based on Rystad Energy's database consisting of over 1100 companies. Of these, 315 have international revenue as defined in the report. The global market consisting of total spending by E&P-companies was down by 12% in 2017 compared to 2016 levels. Thus, the top line for Norwegian oil service companies evolved approximately the same as the global market. This was caused by a relatively strong growth in the home market, having high activity related to the development of Johan Sverdrup. The revenue generated from Norway was 240 billion NOK, a decline of 2% from 2016.

In contrast to this mere decline, the international revenue for the Norwegian suppliers declined more severely, by 25% from 132 billion NOK in 2016 to 100 billion NOK in 2017. The international share of total revenue was hence 29%, the smallest share since 2003. Towards 2015, the Norwegian oil service industry performed better than the global market. This was due to the industry being exposed to high growth segments such as rig and field development, in addition to the weak Norwegian krone versus the US dollar which had a positive effect. The international revenue for the same suppliers fell more than the market in both 2016 and 2017. The decline was caused by new build activity early in the cycle leading towards an end, and an unfavorable exchange rate.

UK was manifestly the largest market with a 22 billion NOK revenue

For the third year in a row, UK tops the ranking of international revenue. The international revenue derived from UK was 22 billion NOK in 2017 (-13% from 2016 level). UK was followed by Brazil with 14 billion NOK (-27%), thereafter US with 8.9 billion NOK (-27%). Other important countries were Angola (6.8 billion), South-Korea (5.3), Australia (3.9), Canada (3.3), Malaysia (3.0), Singapore (2.9) and Nigeria (2.7). UK increased their share of revenue from just below 19% in 2016 to nearly 22% in 2017. The increase was mainly due to an increase in the two segments subsea equipment and installation and topside and processing equipment. Brazil and US contributed with 14% and 8%, respectively. These top three countries are exposed to several product and service segments, making them more hedged against volatility in single segments than other markets.

With its 26 billion NOK, West Europe was still the largest international region in terms of revenue, dominated by the UK. Although West Europe remains as the largest region, revenue declined by 13% compared to 2016. West Africa remained as second largest region with 15 billion NOK (-33%), just above South America in third place, also with 15 billion NOK (-26%).

Source: Rystad Energy

Summary (2/5)

100 billion NOK in international revenue in 2017 – decline of 25% from 2016

Subsea was the largest and most important segment – seismic on its way up

Subsea equipment and installation remained as the largest product segment with a market share of 24%, despite a 20% decline in revenue. The revenue generated from this segment was 24 billion NOK in 2017, down from approximately 30 billion NOK in 2016. The segment was driven by important geographical markets such as UK, Brazil, Angola and US, where Aker Solutions, FMC and DOF were significant contributors. Seismic and G&G was the only segment which experienced growth. The revenue increased by 4.5%, from 9.6 billion NOK in 2016 to 10.0 billion NOK in 2017, the main reason being the leading players PGS and TGS.

Aker Solutions was clearly the largest company in terms of international revenue – TGS with 33% growth

In 2017 the following companies was on the top 20 list of largest suppliers in terms of international revenue (in alphabetical order): ABB, Akastor, Aker Solution, BW Offshore, Cameron, Deepocean, DNV GL, DOF, TechnipFMC, Fred Olsen Energy, Kongsberg Gruppen, NOV, Odfjell Drilling, PGS, Rolls-Royce Marine, Siem Offshore, Solstad Farstad, TGS, Vard and Wärtsilä. The list consist of 7 rig and shipowners, 12 offshore and maritime equipment and service suppliers, and only 1 yard.

17 of the companies on the top 20 list in 2016 was also on the list in 2017. Only three of these 17 companies experienced growth in 2017. The seismic suppliers TGS and PGS increased their international revenue with 33% and 8%, respectively. The drilling package suppliers NOV and MH Wirth (Akastor) continued to be affected by reduced activity at Asian yards, but managed to remain on the top 20 list. In addition, 2017 was a tough year for several rig and shipowners due to lower rates and a number of stacked ships and rigs without contracts.

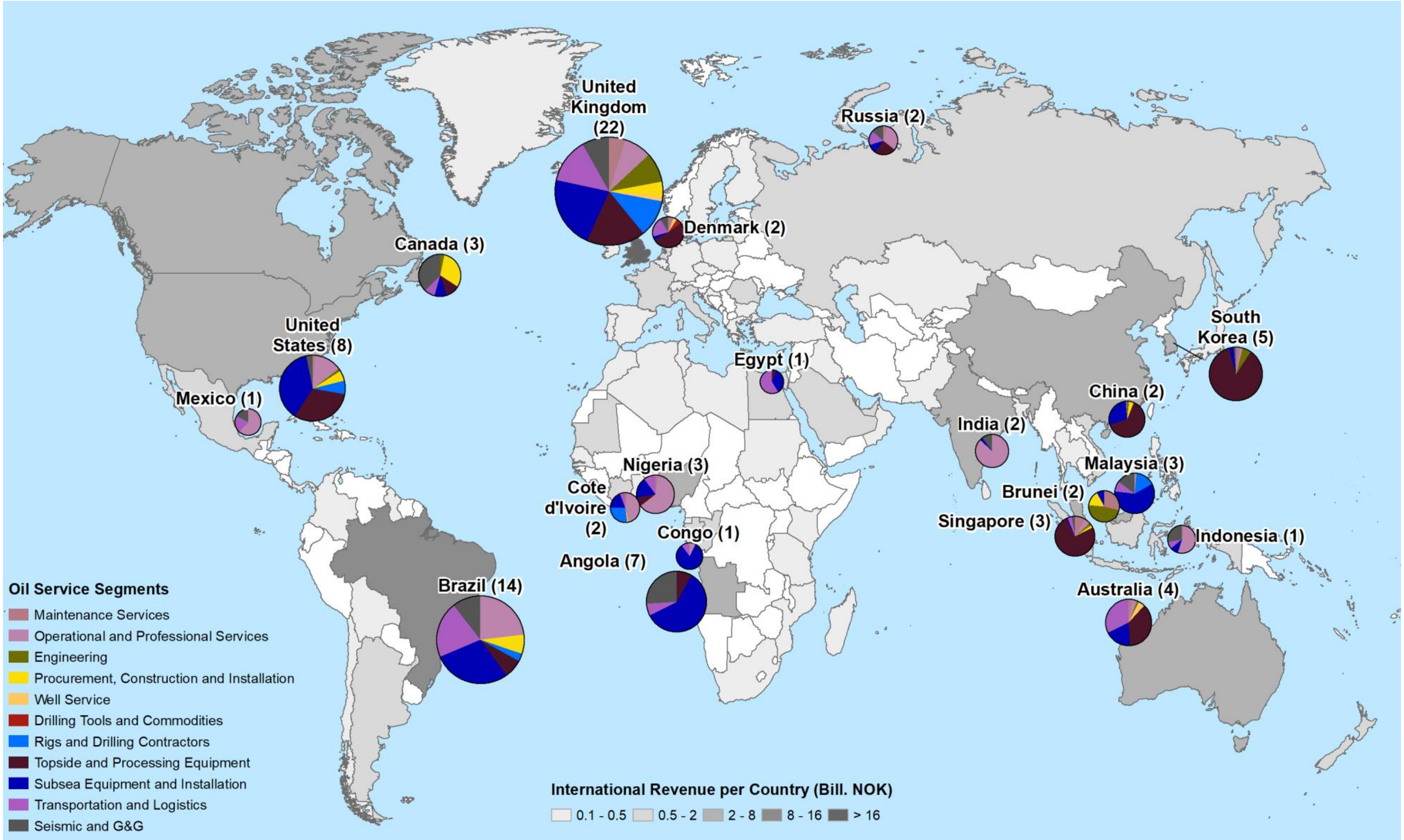
Brighter times for Norwegian suppliers is expected towards 2020

Global spending in offshore oil and gas industry is expected to fall by 5% in 2018, before the level is expected to increase annually towards 2020: 6% in 2019 and 11% in 2020. Seismic and G&G and maintenance services were the only two segments facing growth in offshore E&P-spending in 2017. We expect that the other segments follow this trend in 2018/2019, driven by an improved cash flow, higher oil price and a new investment cycle for offshore. In addition, the net orderbook in 2017 for Norwegian suppliers increased by 52% from 2016, indicating that the turnover might have reached a minimum in 2017. Accumulated, this raises hope for an improved global market and a positive development in Norwegian supply industry the coming years. Nevertheless, one cannot expect to reach the same spending and turnover levels experienced by the industry in 2014/2015.

Source: Rystad Energy

Summary (3/5)

Norwegian service companies with deliveries in multiple segments across all continents



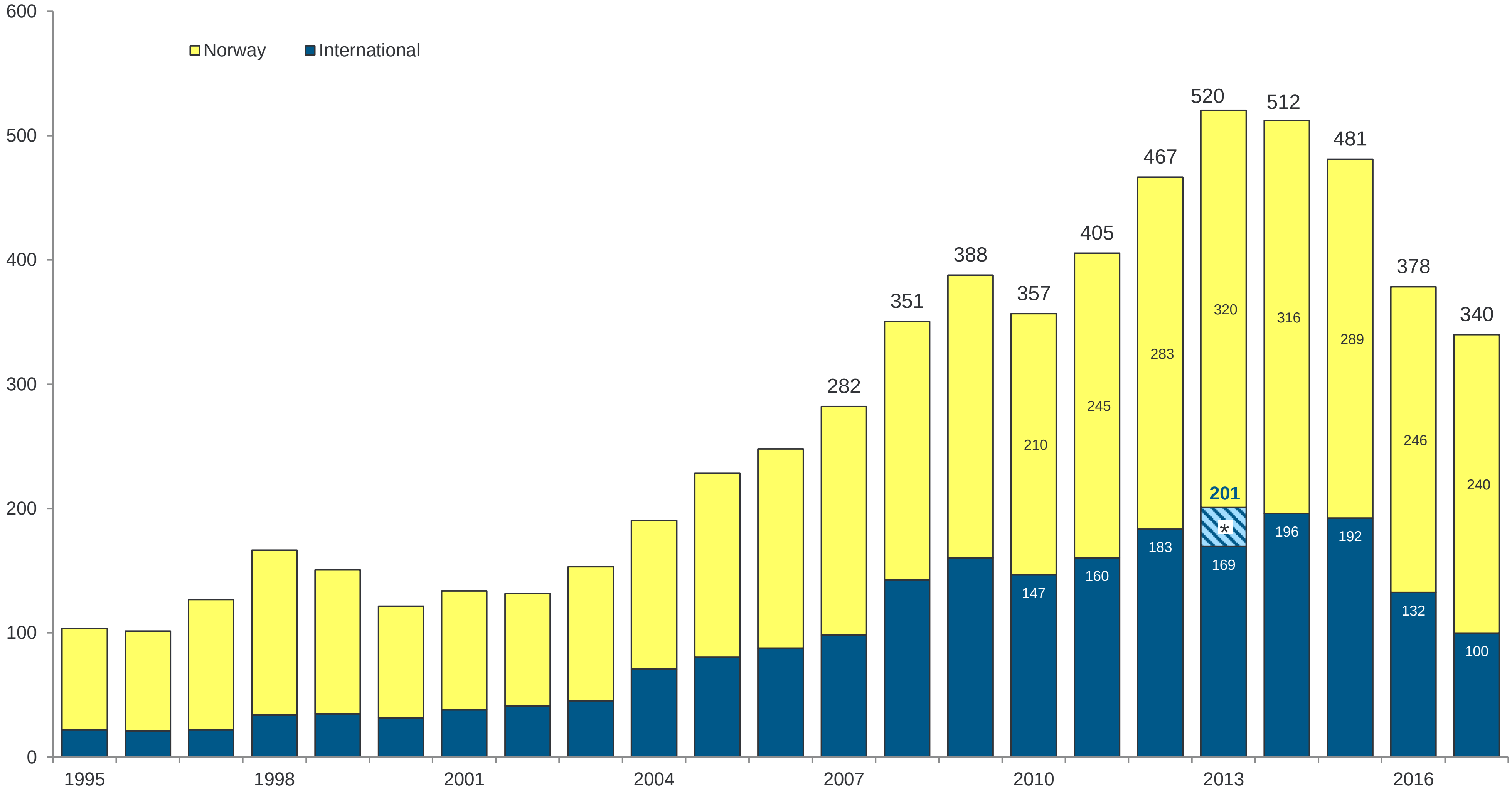
Source: Rystad Energy

Summary (4/5)

Still decline in international revenue (-25%). Home market flattening out (-2%)

Figure 0.1: Total revenue from Norwegian suppliers, Norway vs. internationally*

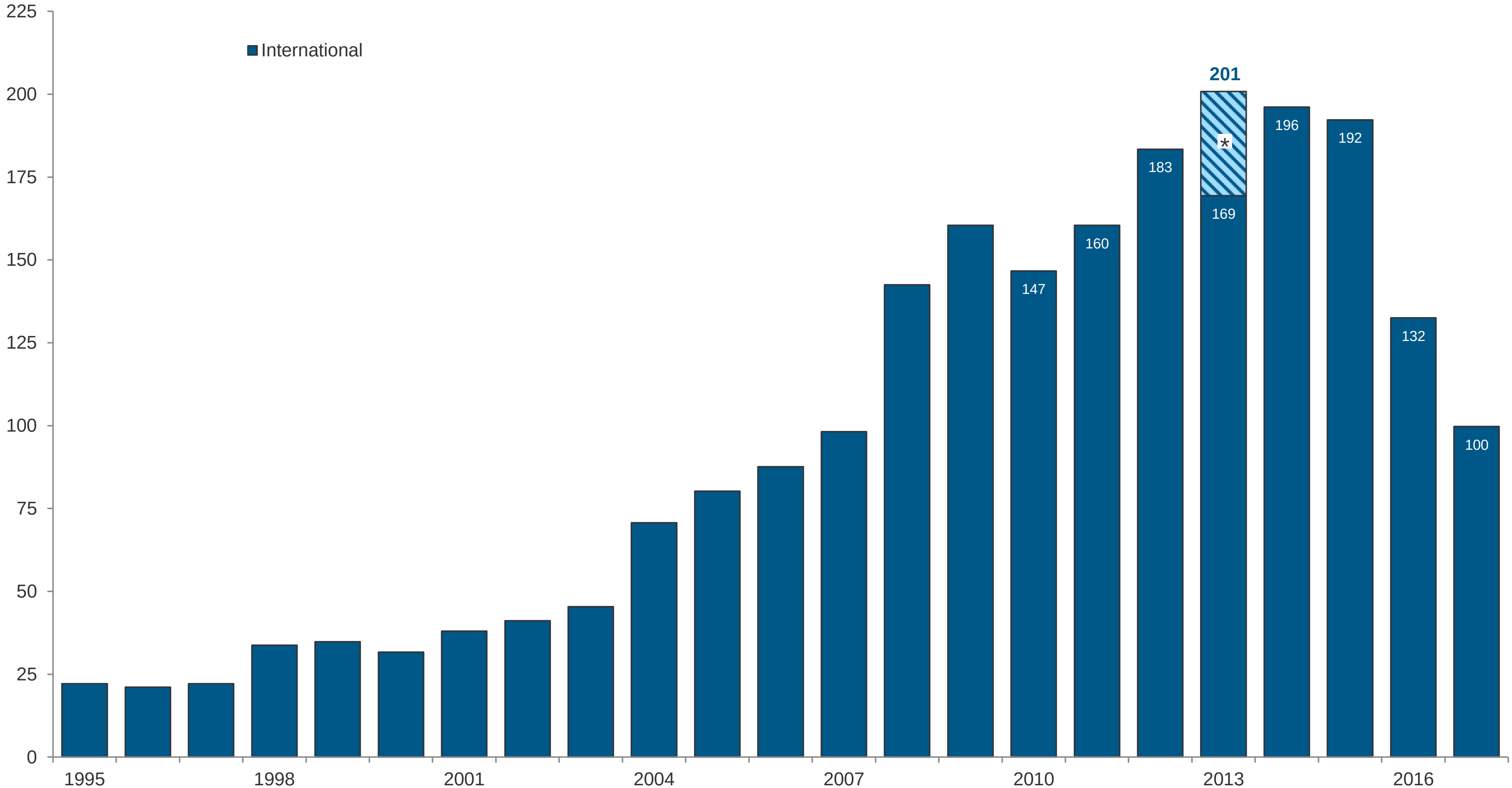
NOK billions



* International revenue from Seadrill and Archer is excluded from the data set for 2014 (Norwegian revenue from a subsidiary with business address in Norway is included in the revenue for Norway). Growth is calculated for comparable data sets (same base of companies). The revenue of all Norwegian oil service suppliers, both with and without international revenue, is included. See Appendix 5 for explanation of differences between this year's and last year's report; Source: Rystad Energy

Summary (5/5)
Still decline in international revenue (-25%)

Figure 0.2: Total international* revenue from Norwegian oil service suppliers
NOK billions



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