

Borr Drilling meets market reality

Borr Drilling has created a market for secondhand jack-up drilling rigs almost single-handedly, and moreover booked healthy paper profits from the increasing book values of its fleet; indeed in part the book value increases have been driven by the fact that Borr themselves are purchasing rigs at lesser discounts than their first deals. However, their Q3 results contain some harsh realities. The net deficit of \$26.3 Mn is somewhat irrelevant, and indeed their stock price scarcely flinched when that was reported.

Far more intriguing and concerning from an investor point of view though is the delays in contracting – for example Borr’s maiden contract with Total E&P Nigeria was pushed from Q3 17 to November – and in our view the statement from their Q3 Directors Report says it all

“Tendering in this phase of the market cycle can be time consuming and the visibility of opportunities, whilst improving, is developing from a challenging base”



Within this context it is worth noting that Borr spent \$16.9 Mn on rig opex and G&A in Q3 alone, and by the end of this month will only have one rig working. So far what revenues Borr has achieved have come from purchasing forward options on other listed rig companies and with jack-up rig rates close to opex it seems unlikely that investors in Borr are holding out for a quick buck on operating cashflow.

Instead, we suspect the real story here is asset play. Borr initially excelled at buying assets at heavy discounts, but more recently has been paying prices more aligned with the fair market values assessed by MSI. Our estimates for high-spec jack-up resale prices will only rise by about a further 3% next year as the big gains made in 2017 have already been baked in. 2019 offers more promise but even that year we only expect a further 5% uptick. In other words, Borr did extremely well to get in early with some of its asset purchases, but we are sceptical that their strategy is replicable and indeed are cautious that their takeout of the nine PPL rigs will represent a great investment.