

Offshore valuations: there is a better way



Of all the asset classes valued by MSI, the high end offshore construction and construction support vessels are some of the most testing, given their technical complexity and sector S&P illiquidity. An additional challenge is that even the visibility of earnings for these vessels is limited whilst, as others have noted, to utilise one of these assets requires a serious engineering capacity, not to mention safety documentation. Furthermore, the collapse in offshore activity has meant that asset values have adjusted rapidly downwards, whilst some shipbrokers have been willing to issue valuations at artificially high levels, in order to allow owners to remain within LTV covenants. In other words, trying to establish true market levels is somewhere between confusing and a nightmare.

In our view this is where MSI's blended approach really comes into its own. As well as trying to establish a view on pricing, based on feedback from the market and any relevant transactions, we also take into account the replacement cost of the asset; in other words how much would it cost to go and order an equivalent unit from a shipyard today.

How the asset compares to its replacement cost then depends on the market; in really strong markets a modern asset may be worth more than its replacement costs as buyers will pay a premium to avoid waiting for delivery and the asset depreciates slowly over a long life expectancy. In poorer markets assets trade at a discount to replacement costs and have shorter economic life expectancies. This is exactly what we see in the offshore markets; Chinese yards are now having to offer hefty discounts or extremely soft financing to shift abandoned newbuildings, whilst older vessels are leaving the market.

Moreover, the MSI approach actually works in practice; in April 2016 we issued a valuation certificate for the vessel pictured – the Harkand Atlantis as it was then – at \$70 Mn. This was well below any broker valuation and we were heavily criticised at the time. However, we were convinced that attracting any willing buyer at a higher level would be extremely challenging, given the market weakness which was already being manifested and the oversupply of vessels at shipyards. In

November 2017 Boskalis was reported to have acquired the Atlantis for around \$60 Mn, precisely in line with where MSI's valuation would have placed it.