



INITIATION OF COVERAGE

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Reach Subsea (Buy, TP NOK 3.8) – Asset light play on subsea recovery

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MARKETS **1**

Reach Subsea (Buy, TP NOK 3.8) – Asset light play on subsea recovery

Reach Subsea is a growth company within subsea services, which primarily focuses on IMR and light construction in Europe. We believe the company will benefit from increased spending on both opex and capex related subsea work going forward, especially in Norway. Reach both owns and charters in ROVs, but charters in all vessel capacity. The company has entered into highly attractive pay-as-you-go contracts with vessel owners during the downturn, which means opex adjusts to prevailing demand. While 80% of the cost base was fixed in 2016, only 25% is fixed now. 2016 and 2017 have been weak, but we expect revenues and margins will recover towards a normalized level in 2020 as offshore and subsea activity increases. We initiate coverage on Reach Subsea with a Buy recommendation and NOK 3.8 target price. We base our valuation on a 12x P/E multiple on 2020e EPS of 0.37, which compares to today's 2020e P/E of 7x.

- **Asset light challenger in the IMR and light construction subsea markets:** Reach Subsea is a growth company within the IMR part of the subsea value chain (inspection, maintenance and repair), with main focus on the North Sea and Europe. The company engages in all parts of the O&G lifecycle, from field developments to decommissioning, using modern high spec work ROVs, and has also entered the offshore wind market. The company also provides light construction services, but does not compete with companies such as Subsea 7 and TechnipFMC on larger EPCI projects. All vessels are chartered in from third parties such as Solstad Farstad and Havila, while the ROVs are partly owned and chartered. The business model is hence asset light, which is favorable in today's market with oversupply of subsea tonnage. Current market cap stands at NOK 350m and the EV around NOK 500m.
- **We expect growth in both opex and capex related subsea work:** 60-80% of Reach' revenues come from oil and gas, while the remaining part is mainly within offshore wind. Of the O&G revenues, around 50% is opex related IMR work (maintaining existing infrastructure) while 50% is capex driven (new developments). Both these segments are expected to see growing spending in the coming years. Rystad estimates 11% CAGR in spending on IMR/subsea services from 2017 to 2020 while TechnipFMC has an official estimate of 12% from 2017-2020. The spending on SURF is furthermore expected to grow at a 19% CAGR from 2017 to 2020, driven by the combination of higher oil price and reduced break-evens on new projects. Although Reach does not execute EPCI contracts in the SURF market, it delivers various capex related services and also benefits from subsea capacity being absorbed.
- **Attractive pay-as-you-go contract means opex adjusts to prevailing demand:** Reach has managed to negotiate very attractive pay-as-you-go terms with vessel owners during the downturn, with six out of seven vessels now on flexible charters. While 80% of the opex was fixed in 2016, only 25% of the opex was fixed in H2'17. The reduction relates mainly to restructuring of charter commitments for Edda Fonn with Østensjø and Normand Reach with Solstad Offshore in 2016. New vessels added to the fleet (the latest being Olympic Challenger for 2+1 years) have also been chartered in at attractive terms. This means the cost base adjusts to the prevailing demand, resulting in high flexibility for Reach.
- **2016-2017 marked the trough – Attractive valuation in a recovery scenario towards 2020:** The backlog visibility is low, with a current backlog of NOK 147m backlog (42% coverage on our Q2-Q4'18 revenue estimate) as work is dominated by spot, short-term contracts and call-offs on framework agreements. Outstanding tender volume is however high at around NOK 1.7bn, and we expect the backlog visibility to improve going forward. In Q1'18, Reach was furthermore awarded a 5-year framework agreement by Equinor for IMR, survey and light construction work, which marked a strategic breakthrough for Reach. In Norway, there is a large number of projects with planned offshore campaigns in 2019-2020, which we expect Reach will benefit from. We estimate revenues will increase from NOK 360m in 2017 to NOK 639m in 2020 and net income margin will increase from -9% to 8% . We treat 2020 as a normalized year for Reach and base our valuation on 12x P/E on 2020 EPS of NOK 0.37 standing in 2019, discounted at 10% discount rate. This compares to current P/E of 7x for 2020e. We hence apply a discount to the 15x P/E and 8% discount rate we use in our Subsea 7 target price due to the smaller size of Reach and lower liquidity in the share. We initiate coverage on Reach Subsea with a target price of NOK 3.8.

Reach Subsea - Company overview

ROV mobilization on Stril Explorer



Edda Fonn

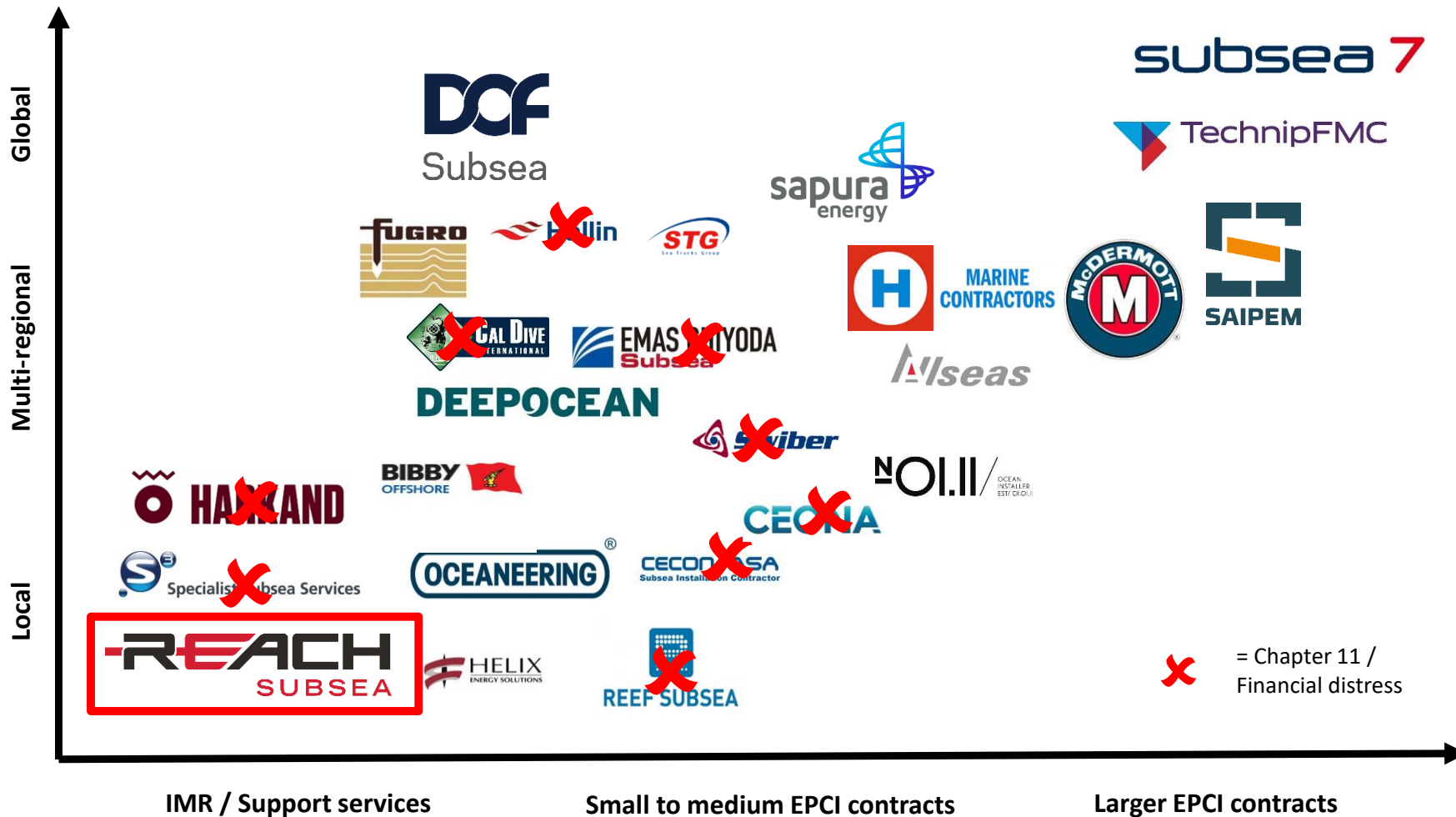


- Reach Subsea is an asset light growth company within subsea services, which primarily focuses on IMR (inspection, maintenance and repair), light construction and surveys. The company is based out of Haugesund and has the North Sea as its core market, but also targets to grow abroad. The company executed various projects throughout Europe in 2017 and the company opened a new office in Houston in Q1'18. The office was opened with the intention to penetrate new markets, particularly Gulf of Mexico and West Africa.
- The company was founded as a subsea company in 2012, when it merged with former Green Reefers and laid out a new growth strategy. A long-term charter was agreed with Solstad Offshore for the vessel Normand Reach in 2013, and the company had its first full year in operation as a subsea company in 2014. Since then, the company has grown rapidly to a fleet of seven subsea spreads (vessel + ROVs).
- Reach engages in all parts of the oil and gas value chain, from field developments to decommissioning, using modern high spec Work ROVs. The company has also entered the growing market for offshore wind, which has comprised 20-40% of revenues the past couple of years.
- The company's ROVs engages in a variety of tasks at the seabed, including inspection, maintenance and repair of pipelines and other subsea infrastructure as well as surveys/mapping. The company also provides light construction and decommissioning services, but is not qualified to conduct larger EPCI projects such as Subsea 7 and TechnipFMC.

Reach operates primarily in the IMR and light construction markets in Europe

Main competitors include DeepOcean, DOF Subsea, Fugro and Oceaneering

SURF and IMR competitive landscape



Projects in 2017 included inspection of Nordstream pipeline, subcontractor to Solstad/McDermott at Ichthys, Turkstream route clearance and wreck diving in Bulgaria

Nordstream inspection



Ichthys LNG project



Turkstream survey



Bulgaria wreck diving

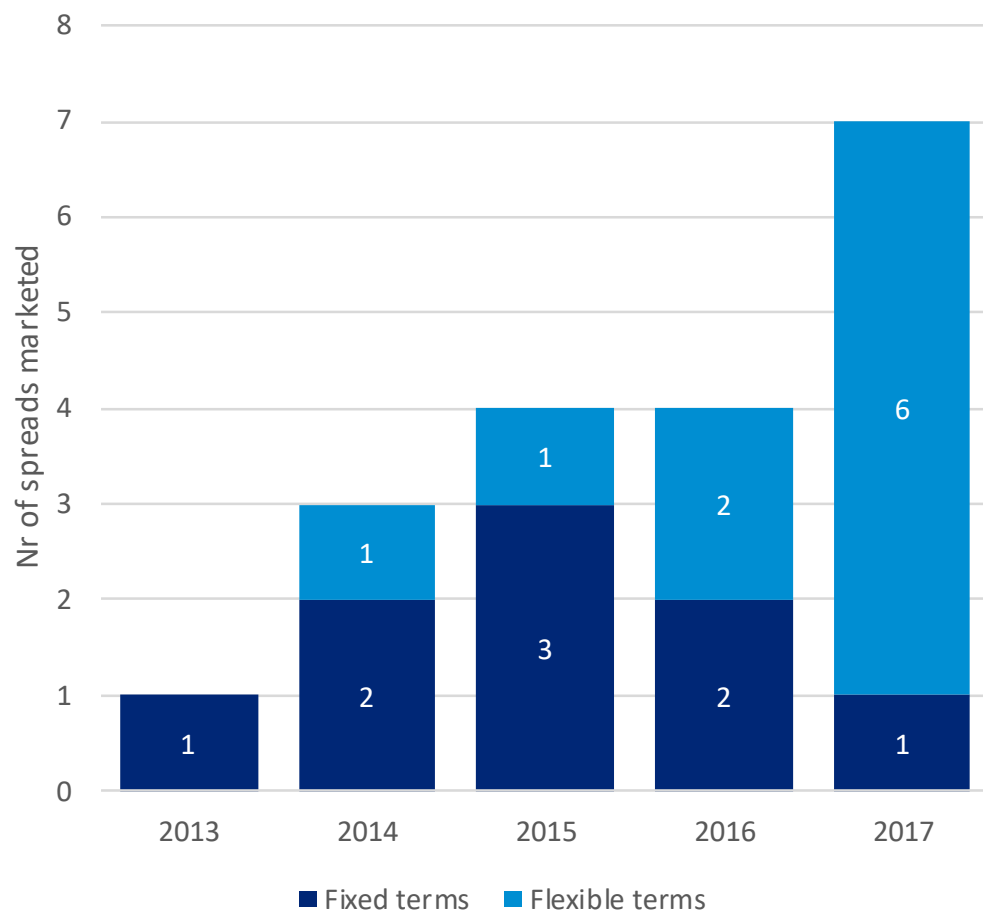


- Annual inspection of the 1224 km Nordstream pipeline in the Baltic Sea
- Executed with Stril Explorer in JV agreement with MMT
- Project duration from April to September 2017
- Subcontractor to Solstad at the Ichthys LNG project in Australia, with McDermott as the end client
- Delivered all ROV and tooling services for the installation and hook-up executed with Normand Reach
- Project duration from July to October 2017
- Route clearance and UXO survey (checking for unexploded bombs) at the Turkstream project in the Black Sea
- The Turkstream pipeline will transport large volumes of gas from Russia to Turkey when installed
- Subcontractor to Allseas, with Turkstream/South Stream as end-client
- Project duration from August 2017 to March 2018
- Archaeological survey in Bulgarian waters in the Black Sea
- Executed with Havila Subsea and the Surveyor ROV
- MMT as client, with Black Sea MAP as end client
- Project duration from August to September 2017

Fleet growth from four vessels in 2015-16 to current fleet of seven vessels

6 of 7 vessels on flexible terms

Vessels marketed at year-end

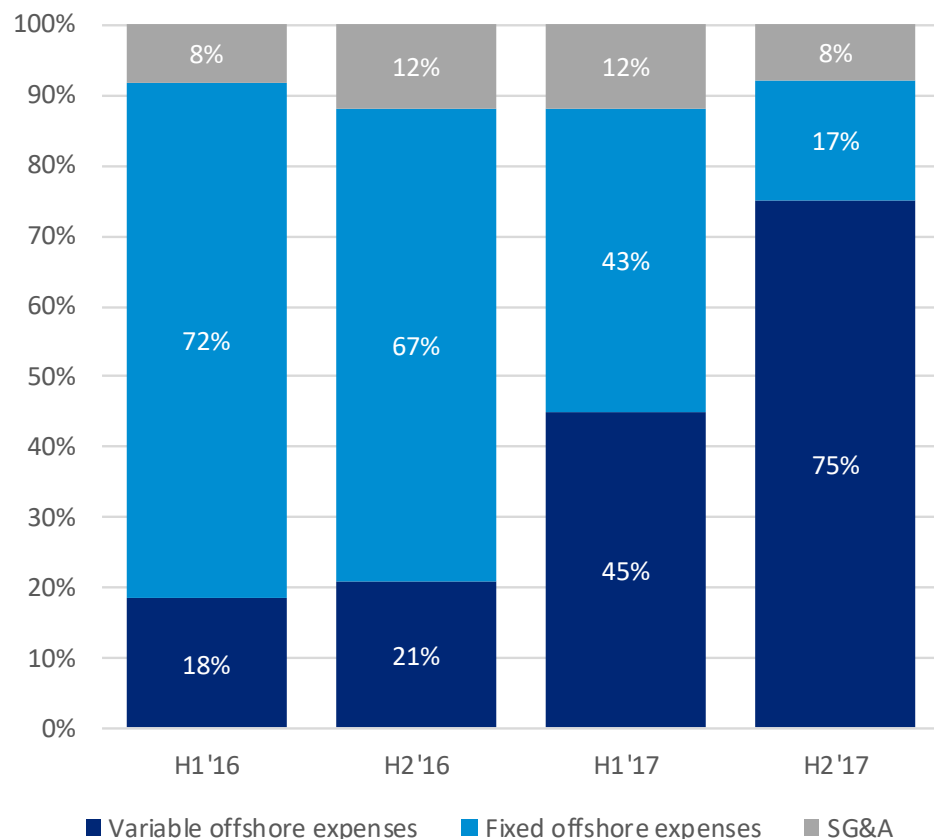


Current fleet

	Vessel	Equipment
	Viking Neptun	2xWROV Owned
	Normand Reach	2xWROV Owned
	Edda Fonn	1xWROV Owned
	Stril Explorer	1xWROV 1xSurveyor Owned
	Havila Subsea	2xWROV Owned
	Olympic Challenger	2*WROV Chartered
	Olympic Delta	2xWROV Chartered

Highly attractive pay-as-you-go contracts with vessel owners means opex adjusts to prevailing demand

Opex composition

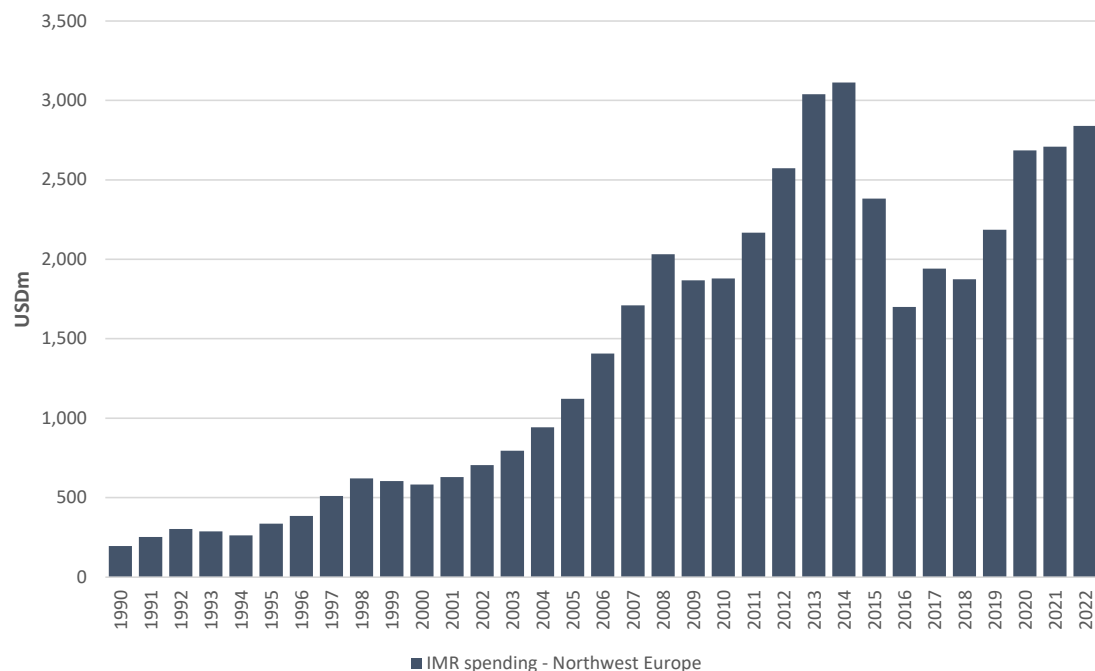


- Reach has managed to negotiate very attractive pay-as-you-go terms with vessel owners during the downturn, with six out of seven vessels now on flexible charters. While 80% of the opex was fixed in 2016, only 25% of the opex was fixed in H2'17. The reduction relates mainly to restructuring of charter commitments for Edda Fonn with Østensjø and Normand Reach with Solstad Offshore in 2016. New vessels added to the fleet (the latest being Olympic Challenger for 2+1 years) have also been chartered in at attractive terms.
- Normand Reach (owned by Solstad Offshore) is the only vessel where Reach has a commitment to charter the vessel. The commitment amounts to 180 days for 2018. Reach was in January awarded a contract by BP for use of the spread on a 3-month walk-to-work contract plus options, which covers roughly 50% of charter commitment for the spread.

IMR spending in NW Europe expected to grow at 11% CAGR between 2017-2020

~50% of Reach' Oil & Gas revenues is within opex related IMR work, primarily in Northwest Europe

IMR spending – Northwest Europe (USDm)

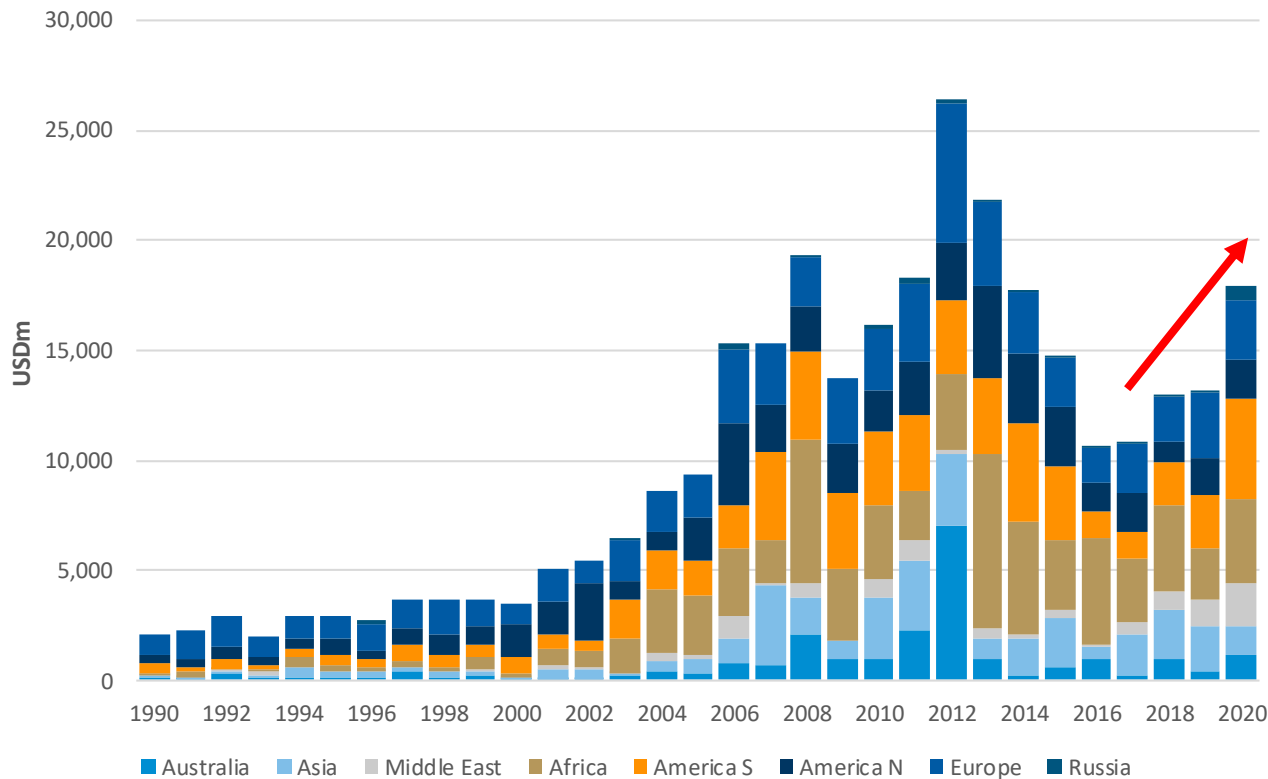


- Of Reach' oil and gas revenues, around 50% is opex related IMR work (maintaining infrastructure and production) while 50% is capex driven (new developments). Both these segments are expected to see growing spending in the coming years.
- IMR spending has been significantly reduced during the downturn, but cannot be deferred indefinitely as it is essential to meet regulatory requirements, prolong lifetime of assets and optimize production.
- Opex related subsea work is less oil price sensitive than capex related work

Reach will also benefit from expected increase in subsea developments

(1) Remaining 50% of O&G business is capex driven, (2) New projects absorb vessel capacity

Historical and forecasted value of global SURF order intake

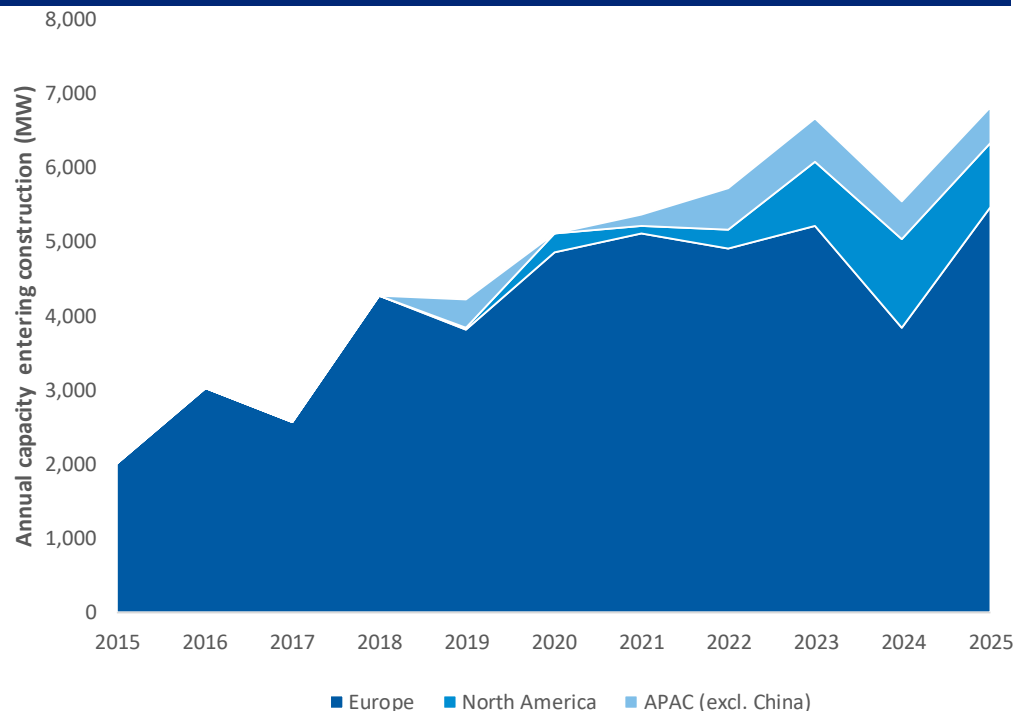


- Although Reach does not execute EPCI contracts in the SURF market, it delivers various capex related services, like light construction and survey and inspection of the seabed prior to subsea installation. SURF campaigns on new projects furthermore absorb vessel capacity, which also tightens the market Reach operate in.
- We expect a significant increase in the global subsea order intake going forward, which will benefit Reach Subsea in addition to the large SURF players like Subsea 7 and TechnipFMC
- The number of sanctioned projects has been low during the downturn, putting pressure on the capex related part of Reach' business

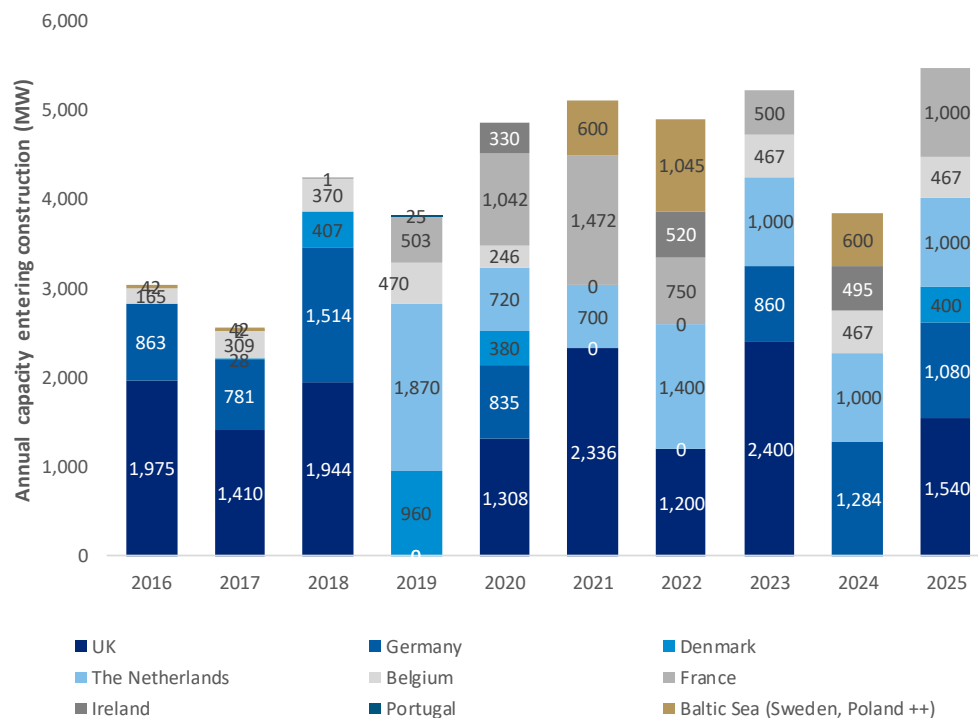
20-40% of Reach' revenues are non-O&G, primarily for offshore wind

Reach operates in the survey phase 6-12 months prior to offshore installation of wind parks

Annual offshore wind capacity entering construction (MW)










Europe capacity by country and project start year (MW)



NOK 147m backlog gives 42% coverage for Q2-Q4'18 – Mostly short-term work (8-10 weeks)

High tendering activity with NOK 1.7bn outstanding tenders. Reach also awarded 5y framework contract with Equinor in Q1'18

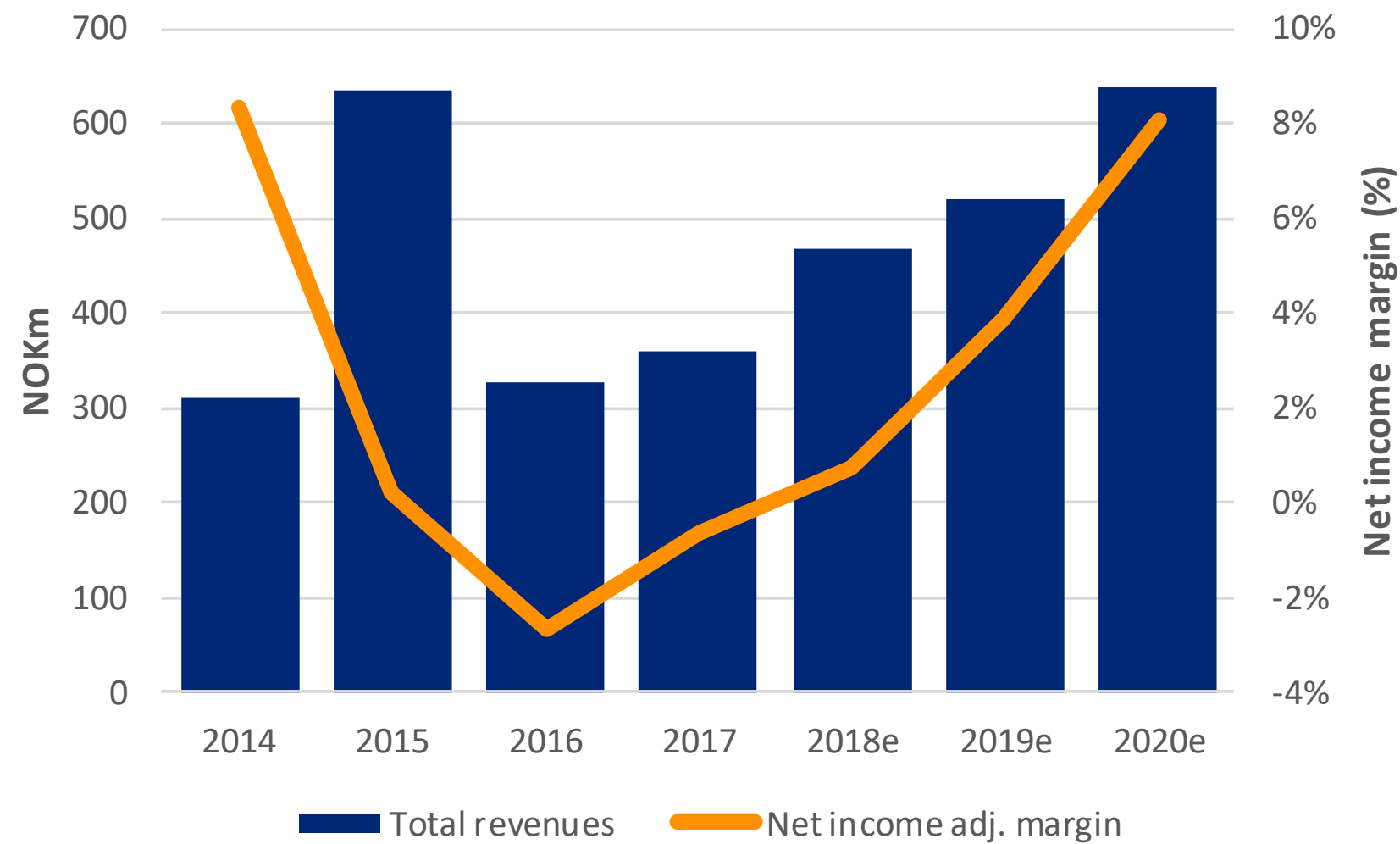
Vessel schedule as of Q1'18

	Vessel	Equipment	1Q operations	2018 update
	Viking Neptun	2xWROV Owned	Vessel on walk to work. No utilisation on the WROVs.	Mobilised for a subsea project late 2Q
	Normand Reach	2xWROV Owned	Vessel mobilised in March after being idle in January/February	Low utilisation in April. BP Mungo contract lasting beyond 2Q
	Edda Fonn	1xWROV Owned	Spot market January/March, docking in February	High utilisation in April/May, thereafter spot market
	Stril Explorer	1xWROV 1xSurveyor Owned	High utilisation (MMT contracts)	Expected high utilisation throughout the summer season
	Havila Subsea	2xWROV Owned	Spot market/Equinor contract	Secured until Mid-June, thereafter spot market
	Olympic Challenger	2*WROV Chartered	Mobilized in April	Low utilisation in April, spot market for the summer season and beyond
	Olympic Delta	2xWROV Chartered	Allseas project	Secured work until mid-June, thereafter spot market

We estimate revenues and margins will recover towards a normalized level in 2020

We assume current fleet of seven spreads going forward and normalized net income margin of 8% in 2020

Revenues and net income (NOKm)



We reach a fair value of NOK 3.8/share based on 12x P/E on 2020e EPS

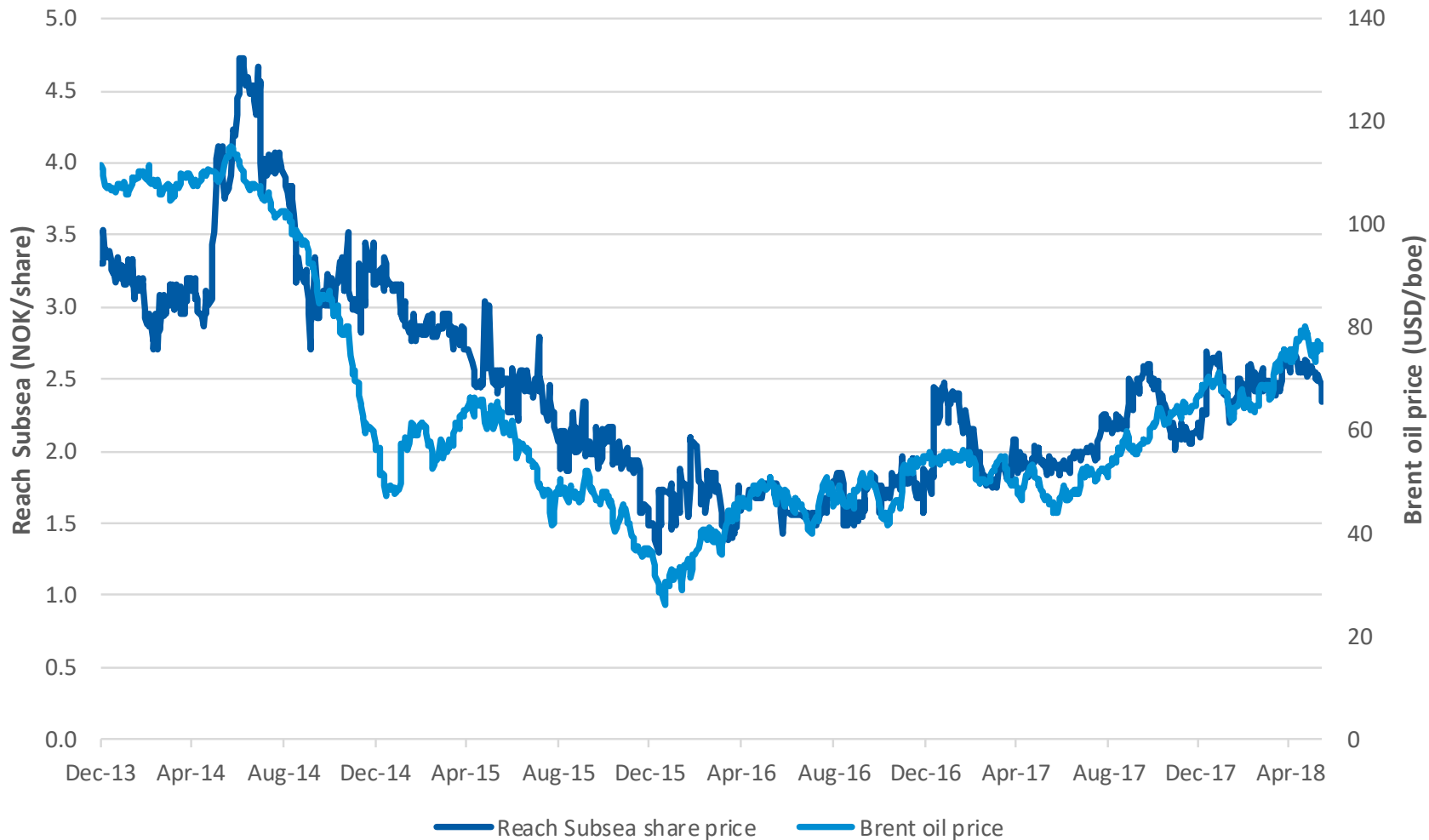
Valuation

EPS 2020e	0.37
Fair 12m fwd P/E	12
Fair equity value/share end 2019	4.4
Fair equity value/share (discounted 1.5y at 10%)	3.8

- **We treat 2020 as a mid-cycle year and apply a discount to Subsea 7 in our valuation**
 - We treat 2020 as a normalized year for Reach and base our valuation on 12x P/E on 2020 EPS of NOK 0.37 standing in 2019, discounted at 10% discount rate. We hence apply a discount to the 15x P/E and 8% discount rate we use for Subsea 7 due to the smaller size of Reach and liquidity in the share. Based on this, we reach a fair value of NOK 3.8 per share in Reach.
- **We prefer P/E over EV/EBTIDA after implementation of IFRS 16**
 - Reach implemented IFRS 16 (new standard on leases) from Q1'18, which has significant impact on Reach' accounts vs historical figures as almost all of Reach' operating assets were capitalized. EBITDA will hence be boosted going forward as most of previously reported opex will be capitalized. The impact on net profit is however neutral – we hence find it better to evaluate P/E multiples rather than EV/EBITDA for Reach.

Reach share price highly correlated with the oil price

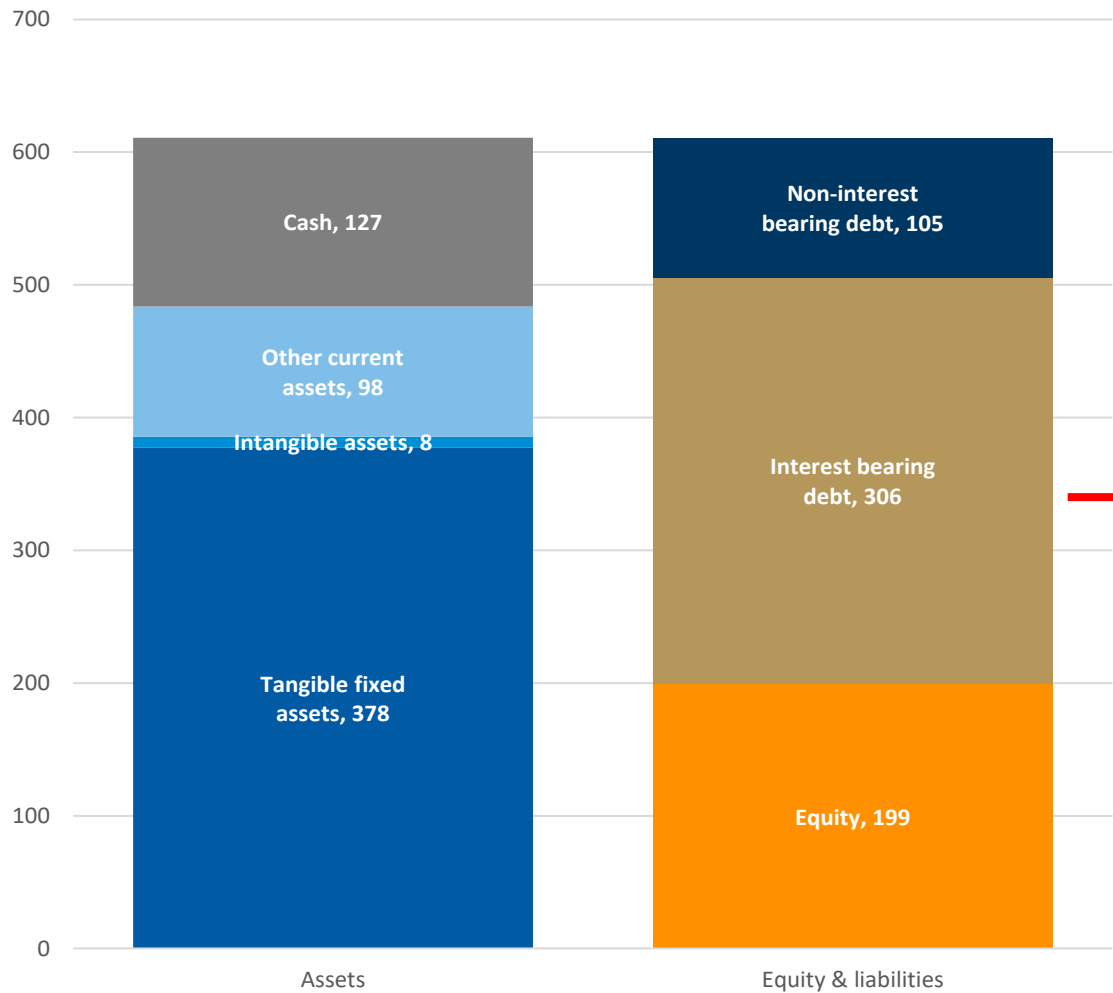
Reach Subsea share price vs Brent oil price



Solid liquidity and equity position – No major debt maturities or capex commitments

Balance sheet boosted by IFRS 16 in Q1'18 (rental cost for three vessels + ROVs capitalized)

Balance sheet Q1'18



- Bank debt: NOK 38m
- Finance lease liabilities: 268m
 - Boosted by NOK 222m in Q1'18 (IFRS 16)

Highly seasoned management team with extensive subsea experience

Founders of Reach Subsea include the founders of DeepOcean

Management Team



Jostein Alendal

Managing Director

Education: Automation Engineer.
Experience: Technical Manager and co-founder of DeepOcean with group responsibility of all ROV operations. Stolt Comex Seaway AS, Seateam AS and DSND.

20+ years in subsea



Birgitte W. Johansen

Chief Financial Officer / HR Manager

Education: The Blue MBA and Master of Business and Economics.
Experience: Account Manager in BNP Paribas, Shipping department. Analyst and Project Manager in Oceanlink Management. Relationship Manager in SpareBank 1 SR-Bank, Energy and Maritime department.

18+ years in finance



Inge Grutle

Chief Operations Officer

Education: Master of Science degree in Marine and Subsea Technology.
Experience: IMR Engineering Manager and Business Development in DeepOcean and has experience in planning and execution of offshore and subsea operations.

12+ years in subsea



Bård Thuen Høgheim

Chief Commercial Officer

Education: Master in Finance from Imperial College Business School. Experience: Project Broker in the subsea and renewables market in RS Platou and has experience in offshore industry analysis.

10+ years in offshore

- The founders of Reach Subsea, including CEO Jostein Alendal, also founded DeepOcean back in 1999, a company that has grown to ~1000 employees, 50 ROVs and one of the market leaders in the Northwest Europe subsea services market

Major shareholders

Top 20 shareholders as of 11 June 2018

	Investor	%	Shares
1	ACCELLO PARTNERS I AS	28.34%	40,600,000
2	EIKA NORGE	7.18%	10,285,650
3	JOSO INVEST AS	5.28%	7,564,589
4	JT INVEST AS	3.86%	5,529,539
5	NORMAND DRIFT AS	3.49%	5,000,000
6	HOLME HOLDING AS	2.81%	4,029,000
7	DANSKE INVEST NORGE VEKST	1.56%	2,232,109
8	CORUNA AS	1.46%	2,097,877
9	SKEISVOLL & CO AS	1.40%	2,000,000
10	TEOMAR AS	1.40%	2,000,000
11	A-Å INVEST AS	1.35%	1,938,725
12	BOYE HANS JØRGEN	1.26%	1,800,200
13	GOLDMAN SACHS & CO. LLC	1.24%	1,776,589
14	AB INVESTMENT AS	1.19%	1,705,743
15	NHO - P665AK	1.17%	1,675,110
16	LION INVEST AS	1.17%	1,670,000
17	SMS INVESTERING AS	1.15%	1,652,366
18	MACAMA AS	1.10%	1,578,446
19	BARRUS CAPITAL AS	1.05%	1,510,090
20	FREEMAN SHIPPING & OFFSHORE AS	0.98%	1,400,000

Financial summary

Annual financials*

P&L , NOKm	2014	2015	2016	2017	2018e	2019e	2020e
Total revenues	311	634	327	360	468	519	639
EBITDA	36	34	11	-2	82	130	172
EBITDA margin	11%	5%	3%	0%	18%	25%	27%
EBIT adj.	22	11	-14	-28	-18	30	72
EBIT margin	7%	2%	-4%	-8%	-4%	6%	11%
Pretax profit	26	1	-23	-31	-25	23	67
Pretax profit margin	8%	0%	-7%	-9%	-5%	4%	11%
Tax	0	0	0	0	2	-5	-15
Minorities	0	0	0	0	0	0	0
Net income adj.	26	1	-9	-2	4	20	52
Net income adj. margin	8%	0%	-3%	-1%	1%	4%	8%
Rec. EPS	0.34	0.02	-0.13	-0.02	0.02	0.14	0.36

Balance Sheet, USDm	2014	2015	2016	2017	2018e	2019e	2020e
Total fixed assets	111	208	163	126	317	225	133
Cash and equivalents	60	54	31	99	136	122	187
Other current assets	92	76	105	164	93	185	240
Total Assets	263	339	299	389	546	532	560
Total equity	154	157	163	218	194	212	264
Total non current liabilities	60	95	64	43	153	153	148
Total current liabilities	49	87	71	128	198	167	148
Total equity and liabilities	263	339	299	389	546	532	560

Net cash (debt)	-10	-58	-55	35	-129	-95	23
Equity ratio	59%	46%	55%	56%	36%	40%	47%

Cash flow, USDm	2014	2015	2016	2017	2018e	2019e	2020e
Cash flow from operations	71	-1	-56	-1	90	42	126
Cash flow from investments	-78	-105	-2	-26	-16	-8	-8
Cash flow from financing	-13	26	-50	79	-36	-48	-53
Change in cash	60	-6	-24	68	37	-14	65
Cash CB	60	54	31	99	136	122	187

Valuation	2014	2015	2016	2017	2018e	2019e	2020e
P/E	9.4x	82.0x	neg	neg	98.7x	17.3x	6.7x
P/B	1.6x	0.7x	1.1x	1.4x	1.8x	1.7x	1.3x

Quarterly financials*

P&L , NOKm	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18e
Total revenues	66	38	79	131	112	114	109
EBITDA	11	2	4	18	2	13	30
EBITDA margin	16%	6%	6%	14%	1%	12%	28%
EBIT	-3	-11	-9	4	-12	-17	-2
EBIT margin	-5%	-28%	-12%	3%	-10%	-15%	-2%
Pretax profit	-6	-13	-11	3	-10	-19	-4
Pretax profit margin	-8%	-33%	-14%	2%	-9%	-16%	-4%
Tax	0	0	0	0	0	0	1
Minorities	0	0	0	0	0	0	0
Net income	-6	-13	-11	3	-10	-19	-3
Net income margin	-8%	-33%	-14%	2%	-9%	-16%	-3%
Rec. EPS	0.02	-0.04	-0.02	0.07	-0.02	-0.09	0.03

Balance Sheet, USDm	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18e
Total fixed assets	163	154	148	138	126	386	363
Cash and equivalents	31	115	71	62	99	127	114
Other current assets	105	77	143	189	164	98	98
Total Assets	299	346	362	389	389	611	575
Total equity	163	236	225	228	218	199	196
Total non current liabilities	64	59	54	48	43	159	153
Total current liabilities	71	51	83	113	128	253	225
Total equity and liabilities	299	346	362	389	389	611	575

Net cash (debt)	-55	35	-3	-7	35	-179	-175
Equity ratio	55%	68%	62%	59%	56%	33%	34%

Cash flow, USDm	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18e
Cash flow from operations	-3	7	-24	-26	43	33	6
Cash flow from investments	-1	-4	-10	-12	0	-10	-2
Cash flow from financing (incl FX)	-19	81	75	-70	-6	5	-17
Change in cash	16	84	-44	-9	37	28	-13
Cash CB	31	115	71	62	99	127	114

Appendix

Several subsea contract opportunities in the pipeline

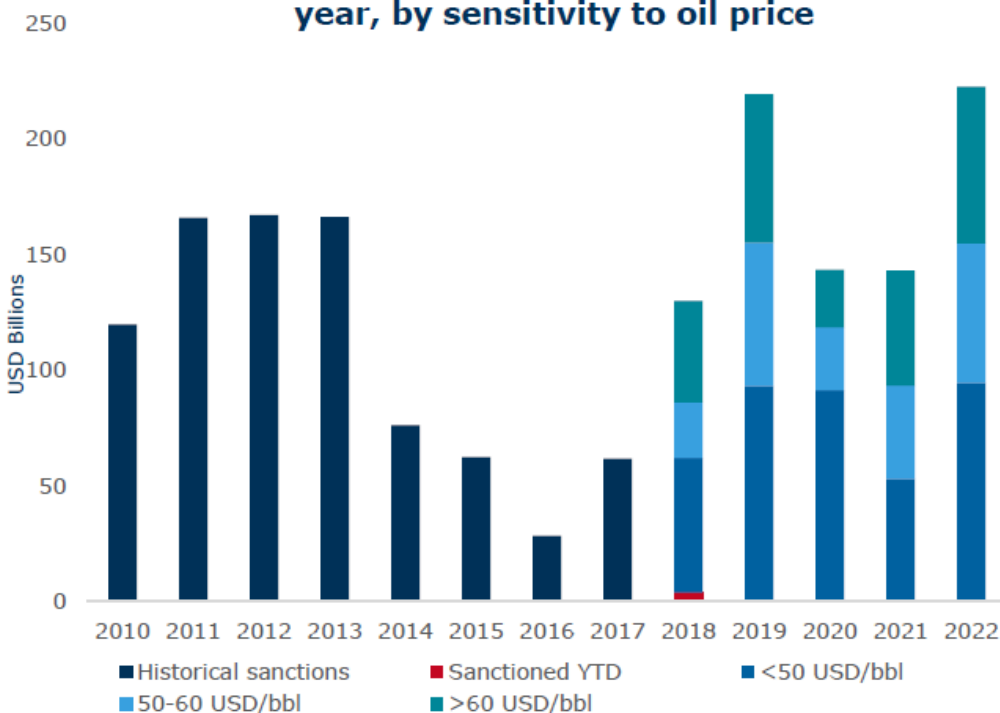
Selection of subsea contract opportunities in the pipeline

Country	Project	Facility type	Operator	Potential award time	Est first oil/gas	Estim. #of trees	Capex USDbn	Est SURF value (USDm)	Est SPS value (USDm)	Est umbilical value (USDm)	Est MMO value (USDm)
Alaska/Trinidad etc	BP Western Hemisphere	MMO	BP	Q1'18							70-120
Australia	Ichtys Phase II	Subsea tie-back	Inpex	2018				500-1000			
Australia	Gorgon ph 2	Subsea tie-back	Chevron	2018				500	300		
Angola	Dalia phase 3	Subsea tie-back									
Angola	Zinia Phase 2	Subsea tie-back	Total	2018		11	1.4	250-500			
Australia	Ichtys Phase II	Subsea tie-back	Inpex	2018				500-1000			
Azerbaijan	Azeri-Chirag-Guneshi	Fixed	BP	H1'18			3.5				
Brazil	Libra Phase 1 (Mero 1)	Floater	Petrobras	Q1'18	2020/21	13	5.5	400-600	100-150		
Brazil	Libra Phase 2 (Mero 2)	Floater	Petrobras	2018/2019	2021/22			400-600	100-150		
Brazil	Sepia	Floater	Petrobras	2018	2020/21	11					
China	Liuhua 16-2	Subsea tie-back	CNOOC	Q1'18	2020	8		200	150-200 (AWARDED FTI)		
Egypt	Burrullus	Subsea tie-back	sta					50-150 (AWARDED SUBC)			
Egypt	Zohr Phase 2	Subsea tie-back	ENI	Q1'18				500-1000		200 (awarded AKSO)	
Falkland	Sea Lion		Premier	Q1'18							
Ghana	Deepwater Tano/Tano Cape	Floater	Aker Energy	Q1'19		30		500-1000	300		
India	KG-DWN-98/2	Subsea tie-back	ONGC	2018	2019/2020	35	5.1	1,100	700		
India	MJ field at KG-D6	Floater	Reliance	H1'18	2021/2022	8	2.0				
Mozambique	Golfinho + Atum (Area 1)	Subsea tie-back	Anadarko	Mid-late 2018	2024	20	25.0	1,500	850	110-150	
Mozambique	Mamba (Area 4)	Subsea tie-back	ENI	Late 2018/2019	2023	20				50-100	
Nigeria	Ikike		Total								
Nigeria	Bonga SW / Aparo	Floater	Shell	Q3-Q4'18	2022	48	11.4	800	500		
Nigeria	ZabaZaba/Etan	Floater	ENI	2018	2021	22	10.0	900	600		
Norway	Alta/Gohda	Subsea tie-back?	Lundin	2018?				500			
Norway	Brasse	Subsea tie-back	Faroe Petroleum	2018	2020/21	4	0.5	125			
Norway	Bauge	Subsea tie-back	Statoil	2018	2020	3	0.5				
Norway	Cara	Subsea tie-back	Engie	2018?							
Norway	Garantiana	Subsea tie-back	Total	2018		5	0.6-1.3	185	165		
Norway	Grevling	TBA	OKEA	2018?							
Norway	Johan Sverdrup Phase 2	Subsea tie-back	Statoil	Mid-18	2022	28	5.5-7	500	Awarded AKSO		
Norway	King Lear		Statoil	2018				150	100-150		
Norway	Krafla/Askja	Subsea tie-back	Statoil	2018/2019		6					
Norway	Mikkjel Sør	Subsea tie-back	Statoil	2018	2020						
Norway	Tommeliten Alpha			2018?							
Norway	Troll gas module EPCI	MMO	Statoil	Mid-18							60-130
Norway	Wisting										
Romania	Neptun Deep	Subsea tie-back	ExxonMobil	2018	2020/2021	10	1.5-2	460	125	20-30	
Saudi Arabia	Various for SUBC under Saudi Aramco LTA	Mostly fixed	Saudi Aramco	2018							
Senegal	SNE	Subsea tie-back	Cairn Energy	2018				732			
UK	Buzzard ph 2	Subsea tie-back	Nexen	H1'18	Q4'20	6					
UK	Penguins	Floater	Shell	H1'18				120 (AWARDED SUBC)			
US GoM	Vito	Floater	Shell	2018		14		200	120		
Vietnam	Ca Rong Do	Floater	Repsol	Temporarily Delayed				250-300			
Qatar	Al Shaheen	Fixed	NOC	2018				600	300		
Qatar	Barzan gas at North Field	Fixed	QatarGas	2018				1300 (Awarded SPM)			

Vast number of projects economical at today's oil price

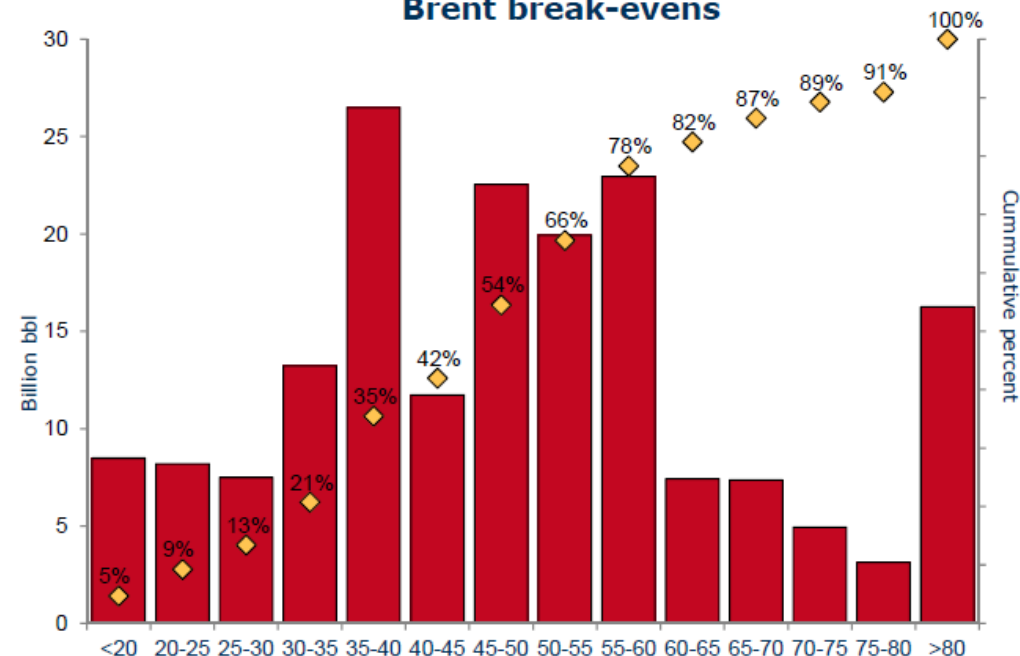
Greenfield capex by development year

Offshore greenfield capex in approval year, by sensitivity to oil price



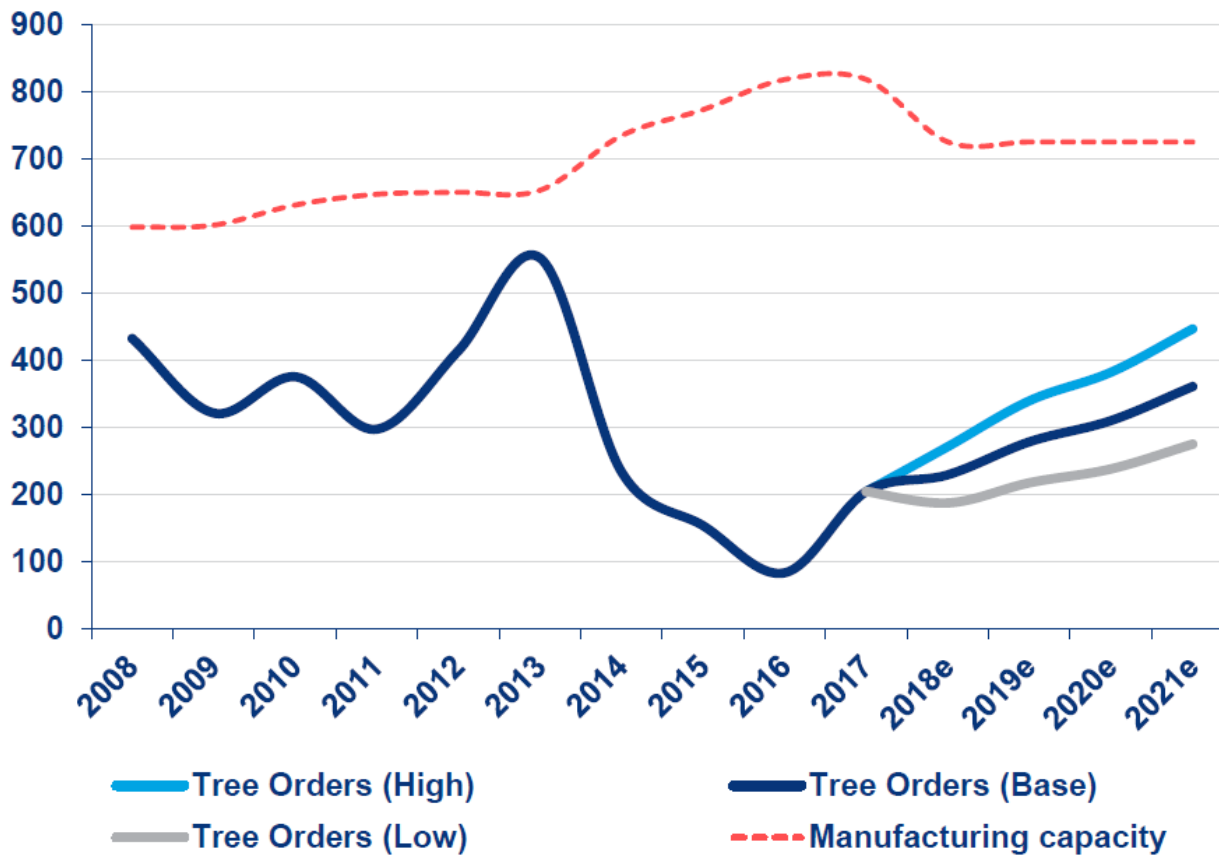
Non-sanctioned by Brent break-evens

Non-sanctioned offshore resources by Brent break-evens

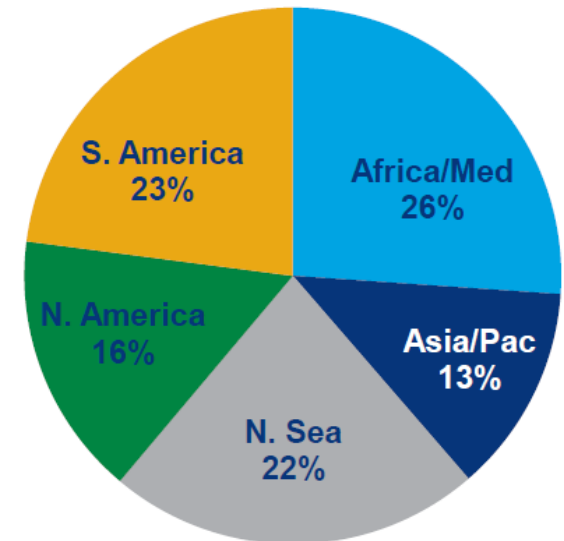


Subsea tree awards increasing → Leading indicator for SURF demand

Global subsea tree awards (2008-2021e)



Tree awards by region (2018-21e)



Surging demand for FEED studies support thesis of increased sanctioning activity

First stage in developing new projects and leading indicator for increasing offshore activity ahead

AKSO study awards Q1'18 vs Q1'17

	1Q 2018	1Q 2017
Total front-end awards	38	33
Concept studies leading to FEEDs	2	3
FEEDs leading to projects	7	2

AKSO study awards 2017 vs 2016

	2017	2016
Total front-end awards	124 +53%	81
Concept studies leading to FEEDs	26 +160%	10
FEEDs leading to projects	12 +100%	6

TechnipFMC estimates 12% CAGR in subsea services spending from 2017-2020e

Coinciding well the Rystad's estimate of 11% CAGR in IMR spending in NW Europe from 2017-2020e

Snapshot from TechnipFMC's last investor presentation

Installed asset base

Flexible Pipe



11,000 km

Umbilicals



5,000 km

Subsea Controls



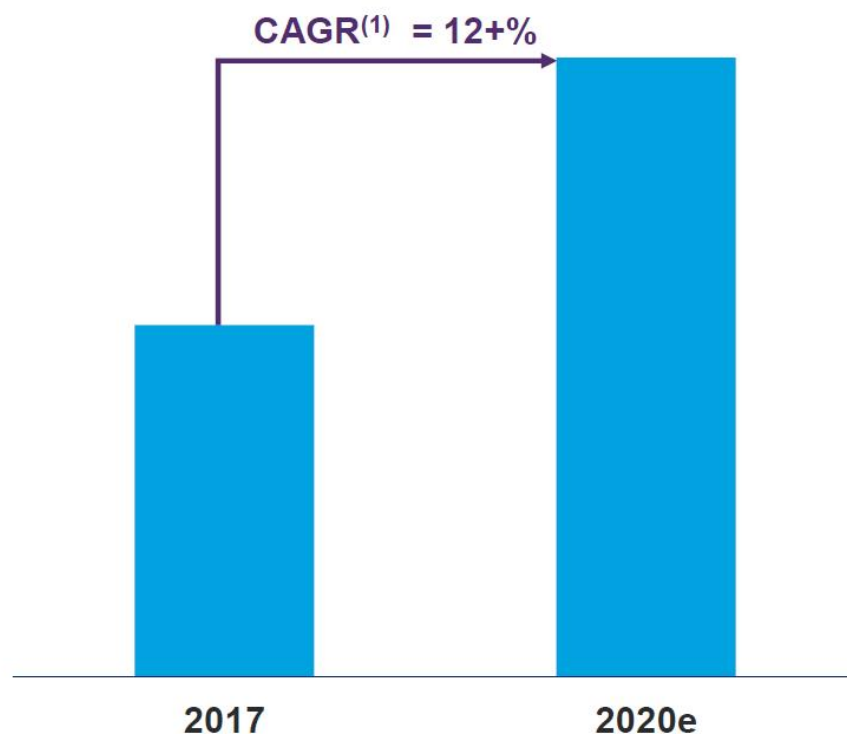
2,200+ units

Subsea Trees



2,000+ units

Subsea services revenue



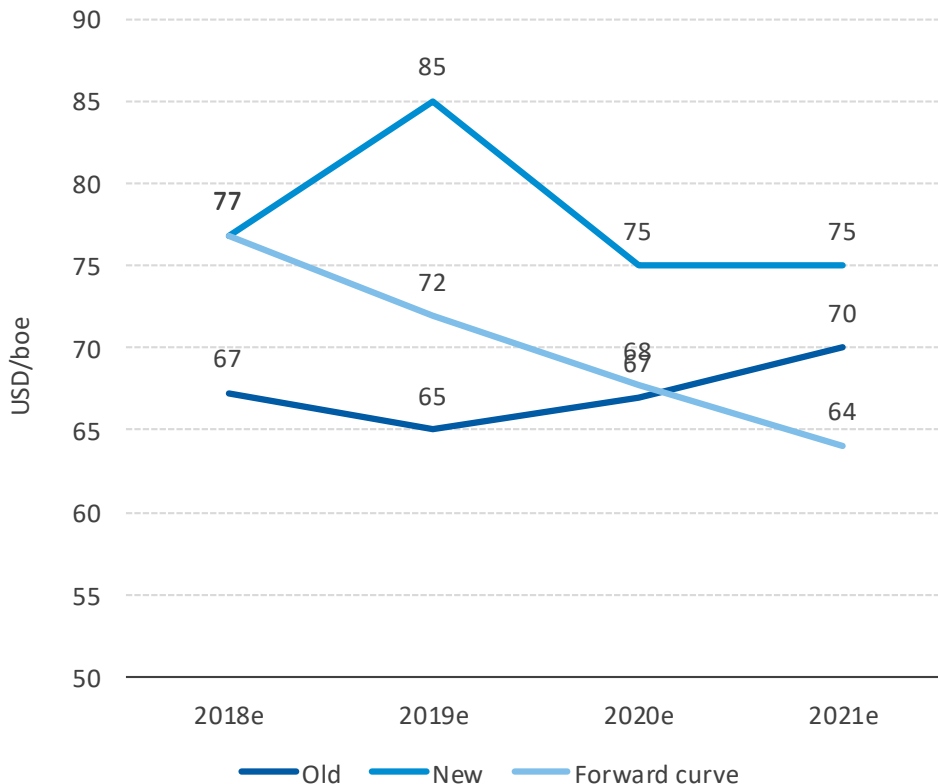
⁽¹⁾ Compound Annual Growth Rate

Services = 0.8x CAPEX over Life-of-Field

2x growth in Digital Services

We recently lifted out base case oil price estimates

Annual oil price forecasts



- **Rationale for increased oil price estimates**
 - Increased geopolitical risk (Iran, sanctions, Israel/Iran conflict, Venezuela)
 - Storage levels are declining
 - Strong demand, estimates consistently revised upwards
 - Strong YTD oil price
- **Key risks factors:**
 - Faster than expected shale recovery (shale cash flow is above to grow with positive FCF at current price)
 - OPEC compliance (compliance has been remarkably strong recently)
 - Demand destruction from high oil prices

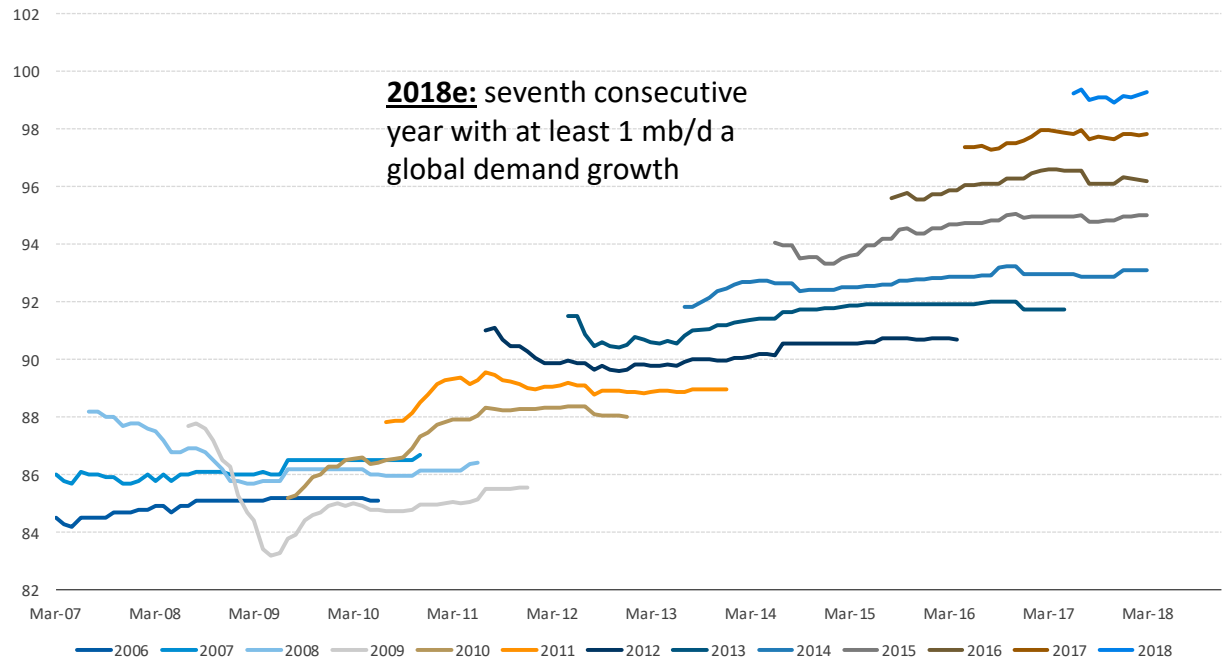
Oil demand has been (and still is) surprisingly strong

- **A few observations around OPEC and how low prices have changed oil demand:**

1. Lower prices have boosted demand and 2018 will be the seventh consecutive year with more than 1 mb/d of global demand growth
2. OECD demand has actually accelerated, particularly driven by gasoline demand due to strong economies in the US and Europe
3. Non-OECD oil demand growth has slowed down in markets like Venezuela, Brazil, Russia and Saudi Arabia and 5) potential trade war is the biggest short term risk to global demand growth.
4. US shale growth has not been reduced (i.e., OPEC's strategy was not successful to its target)

There is a certain irony in short term demand being such an upbeat story (as we have highlighted in a number of research reports) while the narrative since 2014 has been tilted towards the pessimistic, focusing on the long term – EVs taking over and peak oil demand

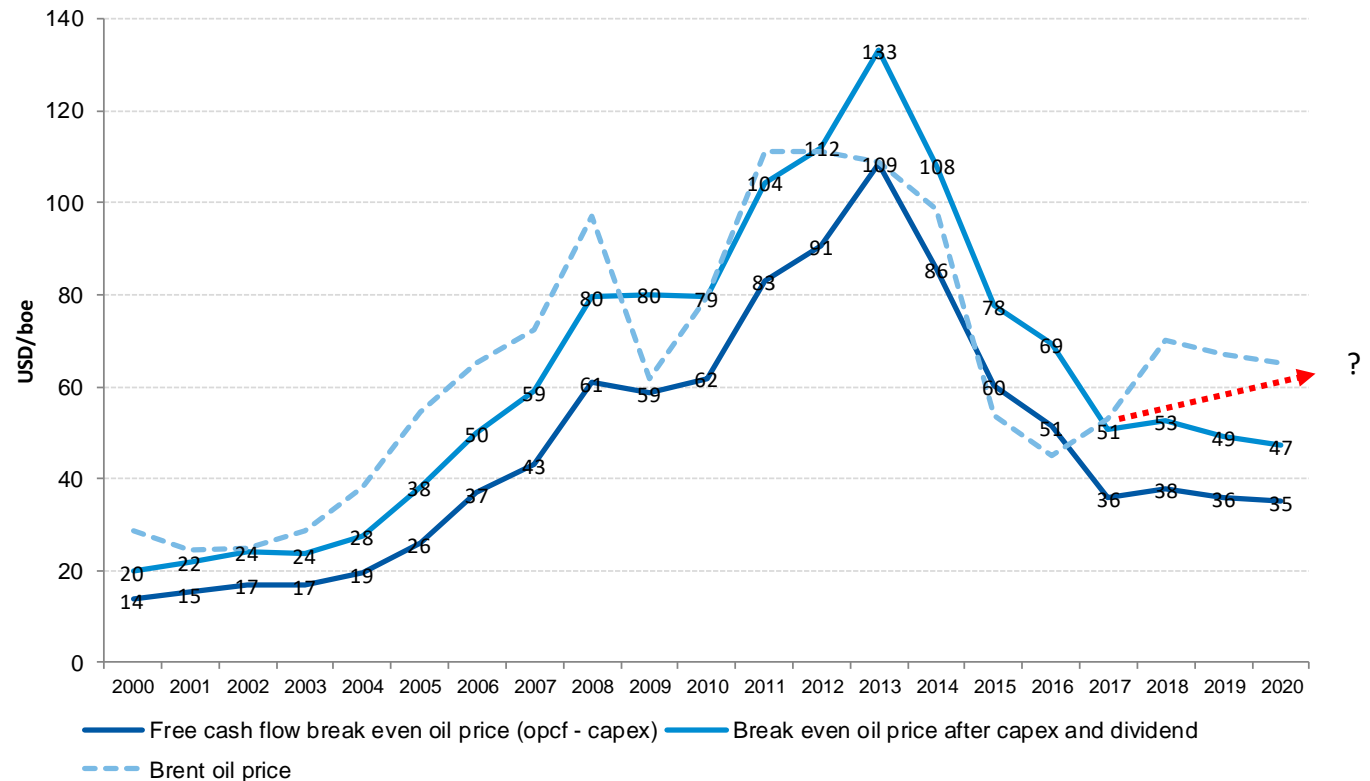
Trend for global demand estimates, mb/d



Oil majors' cash flow break even at the lowest since 2006

Break even oil price for oil majors*

- Cash flow break even at the lowest since 2006:** We have looked into E&P majors' break even oil price for the period 2000-2017 and also for 2018e-2020e using consensus data. From 2013 to 2017 cash flow break even (= oil price required to cover dividend) for these companies declined from USD 133/boe to USD 51/boe. For 2018-20 we estimate a cash flow break even oil price after dividend of USD 47-51/boe.
- The reduction in cash flow break even is driven by capex cut:** From 2013 to 2017, total capex for the eight majors included in our sample is expected to decline by USD 100bn, or down 51% (from USD 230bn to USD 113bn). On a per boe basis, capex declined from USD 78/boe in 2013 to USD 33/boe in 2017.



How we estimate break even oil prices (simplified):

- Collect annual data for operational cash flow, capex, dividend and production (i.e., four key numbers per year per company included in sample)
- Calculate average opcf per boe and opcf per boe as a percentage of annual oil price
- Calculate required oil price change to force free cash flow (opcf - capex) to zero. Compare the required oil price for zero FCF to the actual oil price. We assume consensus oil price used for cash flow estimates correspond to the Brent forward curve (future break even oil price is highly sensitive to this assumption).

* Equinor, Eni, BP, Total, Shell, Repsol, Chevron, Exxon, ConocoPhillips. Source: Factset

We use several approaches to analyze and forecast E&P capex

We use several approaches to analyze and forecast E&P capex:

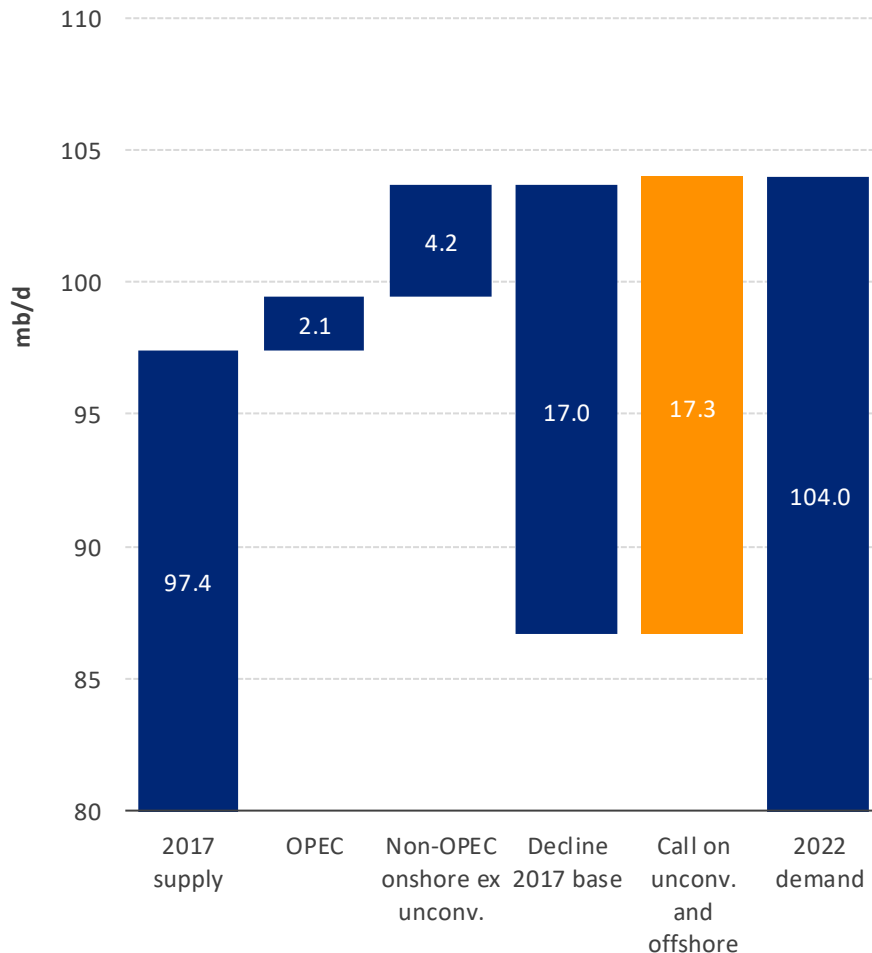
- Regression
 - Methodology: Regress historical E&P capex vs oil price change. R2 is maximized with t=0 weight of 45% and t-1 with weight of 55%.
 - Pros: Theoretically reasonable
 - Cons: Based on historical relationship oil price vs. upstream E&P capex
- Consensus capex majors
 - Methodology: Obtain consensus capex data for the largest listed oil companies globally
 - Pros: Captures trends that not necessarily are included in company guidance
 - Cons: Includes downstream capex
- Company guidance
 - Methodology: Track company specific capex guidance
 - Pros: Possible to exclude downstream capex
 - Cons: Few data points for year t until mid/end Q1 in year t (typically around CMDs)
- Rystad Energy
 - Methodology: Collect data for all field by field upstream capex
 - Pros: Takes into account up to date project specific plans
 - Cons: Relies on third party estimates
- **We forecast E&P capex growth of 8%, 10% and 10% 2018-20e, We assume somewhat higher growth than our models tell us, in order to capture the effect that analysts tend to miss the momentum of both downturns and upturns.**

Summary of approaches for E&P capex

Approach	2018e	2019e	2020e
Regression	12%	7%	3%
Consensus capex majors	0%	12%	4%
Company guidance	8%	na	na
Rystad	-1%	6%	13%
Comparison with 1980's	-1%	12%	2%
Average	4%	9%	6%
Average by end 2017	3%	7%	4%
SB1 Markets forecast	8%	10%	10%

We see substantial need for offshore oil going forward

Call on offshore next 5 years



- **17 mb/d call on offshore and unconventional next five years**
 - We have looked into the various components that will bridge 2017 oil supply and 2022 oil demand.
 - If we include projects under development and assume 3.5% global decline*, we find that offshore and unconventional sources must deliver around 17 mboe/d by 2022.
- **Unconventional unlikely to cover the demand need**
 - Of the 17 mb/d needed to cover global oil demand, some will certainly be covered by unconventional and primary US shale.
 - However, given the fact that US shale previously have grown at maximum 1 mb/d per year, we find it unlikely that unconventional sources will be able to deliver 17 mb/d growth over the next five year.
 - I.e., we will need substantial offshore oil developments over the next few years

Our forecast implies a growth path similar to the late 1980s

E&P capex rebased to 100 (1987 and 2016, respectively)



- **Late 1980s comparable to current situation**
 - The situation in the oil market in the mid and late 1980 was similar to what we have seen from the 2014: OPEC flooded the market with oil and oil prices and E&P spending declined dramatically.
 - After E&P capex reached its trough in the 1980s, spending increased dramatically and by 1991 E&P capex has increased by 35% compared to 1987. We do not rule out that the same may happen again.
- **We assume somewhat higher growth than our models tell us**
 - Analysts tend to miss the momentum of both downturns and upturns. Therefore, we assume somewhat higher growth in the period 2018-2020 than the theoretical models tell us by looking at what happened in the late 1980s.
 - We also note that in particular for 2018e there is a great variation between what our approaches tell us. E.g. both preliminary indications from majors and Rystad's estimates indicate a decline of 1%, while the regression analyses based on the historical relation E&P capex vs oil price predicts 10% growth.

Several ongoing wind farm tenders where Reach is expected to participate

Reach typically executes work on projects 6-12 months before offshore installation

Selection of ongoing/upcoming wind farm tenders

Country	Offshore wind farm project	Project capacity (MW)	Project cost (USDbn)	Largest owner	Potential award time	Offshore installation
Scotland, UK	Neart na Gaoithe	448	GBP 1614m	Mainstream Renewable Energy	2018	2020
France	Fecamp	498	EUR 2000m	EDF	2018	2019
France	Courseulles	450	EUR 1800m	EDF	2018	2020
France	Saint Nazaire	480	EUR 2000m	EDF	2018	2021
France	Saint-Brieuc	496	EUR 2500m	Iberdrola	2020	2020
United States	Vineyard	1600		Vinewyard Power	2018	2020
Germany	Windanker	250	EUR 750m	Iberdrola	2018?	2021
Germany	Wikinger Süd	85	EUR 250m	Iberdrola	2018?	2021
Germany	Baltic Eagle	500		Iberdrola	2018?	2021
Taiwan	Changhua - Pilot - Taipower	108-110		Taipower	2018	2019
Taiwan	Formosa 1 Phase 2	119-120		Macquarie (50%), DONG (35%)	2018	2019
Netherlands	Hollandse Kust Zuid 1+2	700			2018	2018-19
Netherlands	Hollandse Kust Zuid 3+4	700			2018	2018-19

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3-Year Price, Target Price and Rating Change History Chart for REACH NO

REACH NO	Closing	Target	
Date	Price	Price	Rating
13/06/2018	2.34	3.8	BUY



Current recommendations of the Research Department:

(refers to Recommendations published prior to this report and required disclosed in accordance with the Securities Trading Regulations section 3-11 (4))

Current Recommendation of the Research Department

Recommendation	Percent
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Neutral	21.5%
Sell	19.9%

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