Maridive & Oil Services Co. Reports FY2018 Results

Marine division delivers top-line growth against prevailing market trends; slow E&P spending weighs down on construction division and Group profitability; positive outlook for Valentine as company signs exclusive pipe-laying agreement with global contractor shortlisted on Saudi Aramco's LTA bidders list

18 March 2019

Maridive & Oil Services Co. ("Maridive" or the Group, MOIL.CA on the Egyptian Exchange), one of the largest private offshore marine and oil support services provider in the MENA region by number of vessels, announces its results for the year ended 31 December 2018, reporting revenues of USD 208.2 million, down 13% year-on-year as E&P spending bottomed out during 2018. Net profit for the year was USD 14.0 million in FY2018, down 40% year-on-year and reflective of a market-wide slowdown in E&P spending and offshore construction activity.

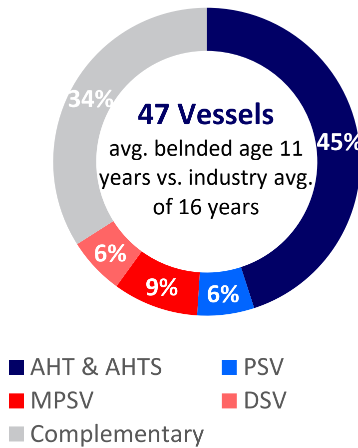
Key Financial Highlights

USD (000)'s	FY2017	FY2018	Change
Marine Division Revenues	106,766	112,511	*5%*
Construction – Valentine Maritime Revenues	123,367	76,515	*(38%)*
Construction – Maridive Offshore Projects Revenues	23,154	31,285	*35%*
Intercompany Eliminations	*(15,133)*	*(12,136)*	*(20%)*
Total Consolidated Revenues	**238,835**	**208,175**	***(13%)***
Gross Profit	90,911	82,957	*(9%)*
Gross Profit Margin	***38%***	***40%***	***2 pts***
EBITDA	100,812	85,634	*(15%)*
EBITDA Margin	***42%***	***41%***	***(1 pts)***
Net Income	23,492	14,002	*(40%)*
Net Income Margin	***10%***	***6%***	***(4pts)***

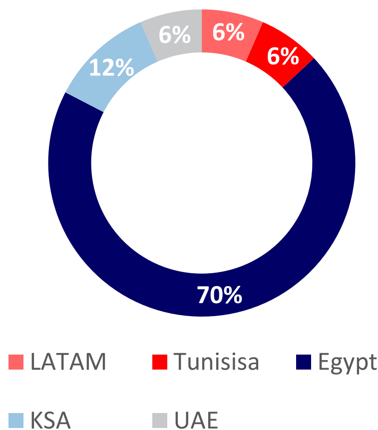
Commenting on the Group's results for the year, Maridive Chairman Dr. Tarek Nadim said: "There is global consensus today that 2018 was the year when E&P spending has bottomed out and daily charter rates in our industry have hit historic lows. Nevertheless, our marine division delivered a solid performance that defied market trends with a 5% year-on-year increase in revenues as it leveraged its versatile and young fleet to secure higher contract renewals. The division's performance was also buoyed by its relatively less susceptible nature to industry cyclicality, with vessel utilization typically driven by ongoing rig operations rather than rig deployment. On the other hand, our construction division is tightly correlated to E&P spending, where subdued market activity took a toll on our subsidiary Valentine Maritime's award book in 2018, and weighed down on the Group's consolidated performance. I am, however, particularly pleased with our specialized construction arm Maridive Offshore Projects which continued to diversify its service offering, expand its reach and deliver strong double-digit growth and value to our shareholders."

"Against this challenging market backdrop, management's focus during 2018 was on deep-rooting the Group's commercial and cost restructuring strategies that, over the years, have allowed us to deliver value at a time when global peers have struggled to stay afloat. We continued to expand our on-the-ground presence with representative offices and have pursued high-value contracts with short-term extendable tenors allowing for periodic re-rating. Backed by a strong financial performance during the first half of the year, we took a difficult but prudent decision in 4Q2018 to relocate one of our prime vessels to the Gulf of Mexico. While the two-month trip affected average utilization rates at our marine division, the relocation leaves us heading into 2019 with a more optimized geographic presence to capture the anticipated market upside. I am also pleased to announce that Valentine has recently inked an exclusive pipe laying agreement with a major contractor shortlisted on Saudi Aramco's Long Term Agreements bidders list. The agreement will allow the consortium to to tender for the GCC region's strongest driver of offshore activity, and will generate new long-term and high-value business that is best-suited for Valentine's capabilities," he concluded.

Marine Fleet Breakdown (FY2018)



Marine Fleet Geographical Diversification (FY 2018)



Operational Developments

Marine Division

Maridive's marine services division offers offshore marine and oil support services through the charter of vessels and rendering of services to regional and international National Oil Companies ("NOCs") as well as International Oil Companies ("IOCs"). The division's business is driven by the number of offshore drilling and production rigs in operation, with the Group bidding for tendered contracts that run from six months to three years with specified daily charter rates.

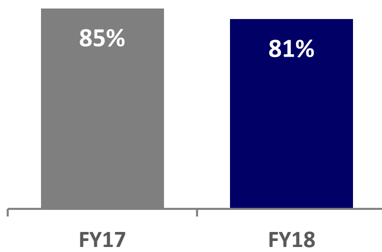
As of 31 December 2018, the Group operated a marine fleet of 47 vessels in total, consisting of 24 Offshore Support Vessels ("OSV") – including 24 Anchor Handling Tug Supply Vessels ("AHTS or "AHT") and Platform Support Vessels ("PSV") – 7 Construction Support Vessels ("CSV") – including Multipurpose Support Vessels ("MPSV') and Dive Support Vessels ("DSV') – and 16 Complementary vessels including mooring boats, tugs and crew boats. The Group's fleet stands today as one of the youngest and most versatile fleets in the market, with continued investment in new vessels that meet the rigorous specifications required to win competitive bids.

Maridive's marine fleet is strategically located across a diverse geographical footprint, with the Group maintaining a presence in three key oil-producing regions poised to capture the anticipated rebound in E&P activity and average daily rates. During 4Q2018, Maridive took the strategic decision to relocate one of its MPSVs from Egypt to the Gulf of Mexico region, a decision that despite taking a toll on utilization rates during the two-month trip, will ultimately strengthen the Group's position in, and access to, one of the most promising regions with significant upside potential.

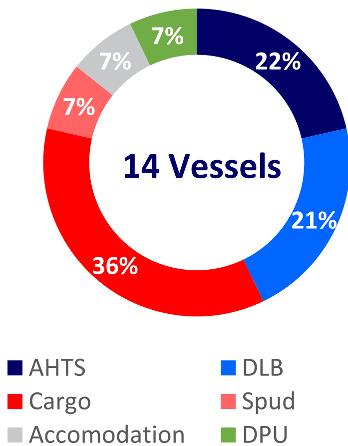
Weighted average utilisation rates stood at 81% in 2018 compared to 85% in 2017, affected by the MPSV's relocation downtime. The Group also performed routine maintenance works on its vessels as it gears up for an anticipated uptick in market activity and demand heading into 2019.

The Group maintained 12 representative offices across the globe in 2018, having recently relaunched offices in Tunisia and Nigeria. The Group's expansive on-the-ground presence allows it to efficiently deploy its commercial and business development strategy, while simultaneously lending additional flexibility in capturing local market opportunities. During 2018, the Group's OSV segment was awarded a number of contracts, including a contract for a crew boat to Eni in Tunisia, two PSVs contracted in Egypt's Zohr Field mega project and an ASD Tug acquired at year-end 2018 and that is currently being modified for a contract in the Kingdom of Saudi Arabia ("KSA").

Average OSV Fleet Utilization



Construction Fleet Breakdown (FY2018)



Construction Division

Maridive's Offshore Construction Services ("OCS") division specializes in construction, installation, maintenance and sub-sea inspection of offshore platforms and submarine pipelines, project management, as well the chartering of barges and CSVs. The Group extends its service through two operating subsidiaries, namely Valentine Maritime and Maridive Offshore Projects ('MOP').

The OCS division is an end-to-end service provider offering turnkey solutions, including rig installation, engineering, procurement and construction ('EPC') pipe laying, fabrication services and CSVs chartering. As of 31 December 2018, the division maintained 14 vessels between both operating subsidiaries, including three AHTS, three Derrick Pipe Lay Barges ('DLB'), five cargo barges, one spud barge, an accommodation barge and a Detachable Propulsion Unit ('DPU').

Valentine Maritime's service offering covers the full spectrum of offshore construction services, including large-scale engineering, procurement, installation and commissioning ('EIPC') projects; operational expenditure projects and well services. The company operates Maridive's flagship vessel the DLB 1600, a 20 thousand ton pipe laying vessels with a 1,600 ton crane and accommodation for over 300 personnel.

Valentine executed a sizeable portion of its construction backlog in the first half of 2018, with slow market activity and E&P spending raising difficultly in replenishing the company's backlog with new awards. Nonetheless, the Group remains optimistic with regards to the pickup in market activity and a stronger backlog driven by recovering E&P spending. Valentine has also confirmed the qualifications of its assets with the rigorous requirements of the regions NOCs (Saudi Aramco, ADNOC, and Kuwait Oil Company).

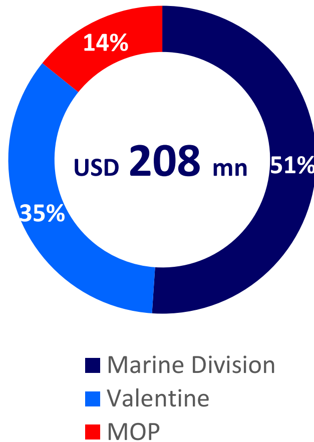
Most notably, Valentine has inked an exclusive offshore pipe laying agreement with a contractor shortlisted on Saudi Aramco's Long Term Agreements ('LTA') bidders list. The consortium is currently receiving Contract Release Purchase Orders ('CRPOs') and Valentine's DLB 1600 has already passed Saudi Aramco's stringent inspection. Valentine also continues to maintain its independent registration with Saudi Aramco's vendor list and is being invited to participate in tenders that fall outside of the LTA contract / CRPOs scope.

Meanwhile, ***MOP*** is increasingly focused on recurring income construction work and service offering to third parties, including Unmanned Aerial Vehicle (UAV) drone inspection, port management services, proprietary pipe-laying technologies and labour supply. The company's new fabrication yard was 90% complete as of year-end 2018 and is expected to become operational during 2019. Additionally, MOP is actively exploring build, operate, and transfer ('BOT') opportunities as well as increasingly tendering for contracts in the MENA and LATAM regions as it seeks to diversify its client base. During 2018, the company had an average tender success rate of 55%.

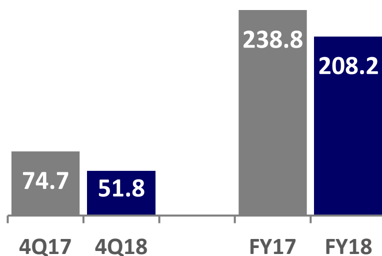
FY2018 EARNINGS RELEASE

Cairo | 18 March 2019

Revenue Breakdown (FY2018)



Revenue Progression (USD mn)



Financial Highlights

Revenues

The Group recorded revenues of USD 208.8 million in FY2018, down 13% y-on-y compared to the USD 238.8 achieved in the previous year. Top-line performance was weighed down as E&P spending bottomed out in 2018 and in turn affected Valentine's ability to secure new construction awards. Instead, Valentine's activity was primarily driven by high-margin chartering awards, delivering revenues of USD 76.5 million in FY2018, down 38% y-o-y.

On the other hand, MOP delivered a solid set of results with revenues up 35% y-on-y to USD 31.3 million thanks to the company's business development efforts, ability to secure new regional awards and efficiency in executing existing contracts. The company's growing yet small contribution to the Group's consolidated revenues did not, however offset Valentine's revenue contraction.

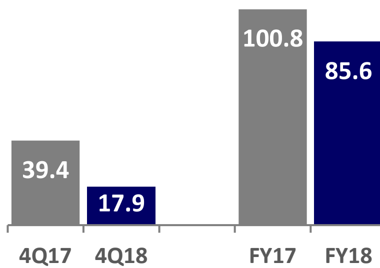
Meanwhile, revenues from the Group's marine division were up 5% y-o-y to USD 112.5 million. Division growth was driven by the company's reputation for operational excellence. Growth was also driven by the division's optimal fleet deployment strategy, which helped it overcome a general decline in daily charter rates.

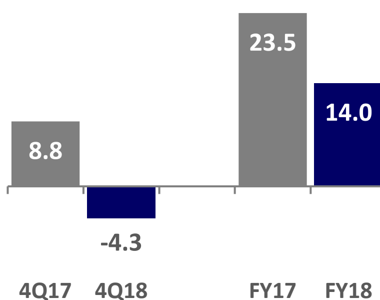
On a quarterly basis, Group revenues were down 31% y-o-y to USD 51.8 million, similarly driven by low construction activity at Valentine, which executed the bulk of its backlog during 1H2018 and witnessed subdued demand for chartering contracts in the second half of 2018. Valentine recorded an 88% decline in 4Q2018 revenues, while the marine division and MOP delivered revenue growth of 32% and 24%, respectively during the same period.

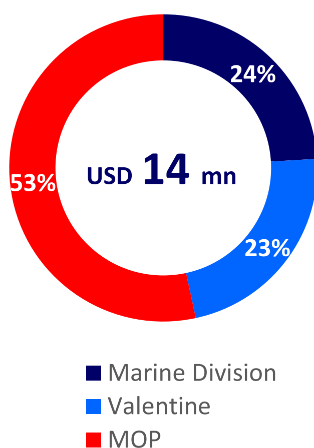
Revenue Growth by Division (FY2018)

Gross Profit

Consolidated gross profit recorded USD 82.9 million in FY2018, down 9% versus the USD 90.9 million posted in FY2017. Gross profit margin, however, expanded two percentage points to 40% in FY2018 compared to 38% in the previous year. Improved gross profitability on a full-year basis comes despite lower utilization rates on costs associated with the relocation of an MPSV to the Gulf of Mexico, as well as the periodic dry-docking of vessels for routine maintenance every three years that was performed in 4Q2018.







Meanwhile on a quarterly basis, consolidated gross profit recorded USD 18.5 million in 4Q2018, down 48% y-o-y and with a gross profit margin of 36% compared to 48% in 4Q2017. Gross profitability during the final quarter of the year was affected by the lack of new awards at Valentine coupled with the high-fixed costs nature of its fleet.

Selling, General & Administrative Expenses (SG&A)

SG&A expenses recorded USD 26.7 million in FY2018, a 16% y-o-y increase compared to the USD 22.9 million posted in FY2017. SG&A growth was primarily driven by the marine division, which posted a 36% increase in total SG&A expenses in FY2018. Increased SG&A spend comes as the Group expands its on-the-ground regional presence with new representative offices, with both the marine division and MOP witnessing increased tendering in the MENA and LATAM regions. Higher SG&A was also driven by the recruitment of higher-caliber professionals, with the company expecting SG&A as percentage of sales to remain stable going forward. In 4Q2018, consolidated SG&A was up 32% y-o-y to USD 8.3 million.

EBITDA

Maridive recorded a consolidated EBITDA of USD 85.6 million in FY2018, down 15% compared to the USD 100.8 million in FY2017. EBITDA margin for the year stood at 41% compared to 42% in FY2017. The Group's performance at the EBITDA level was primarily affected by low construction award and vessel utilization at Valentine, where EBITDA lost 35% y-o-y to stand USD 28.3 million in FY2018. It is worth noting, however, that Valentine's execution of high-margin chartering contracts during the first half of 2018 helped it lift its full-year average EBITDA margin to 37% from 36% in FY2017. Meanwhile, at the company's marine division, EBITDA stood at USD 47.3 million in FY2018, down 5% y-o-y on account of the vessel downtime during a two-month relocation trip in 4Q2018. Finally, MOP delivered a strong 13% y-o-y increase in EBITDA to USD 9.6 million in FY2018.

On a quarterly basis, Group EBITDA was down 55% y-o-y to USD 17.6 million, weighed down primarily by Valentine's slow performance during the second half of 2018 with limited vessel chartering contracts compared to 1H2018.

Interest Expense

Total interest expense stood at USD 33.4 million in FY2018, up only 3% compared to USD 32.3 million in FY2017. Interest expense is primarily related to the Group's long-term debt facility utilized in fleet expansion and refurbishments.

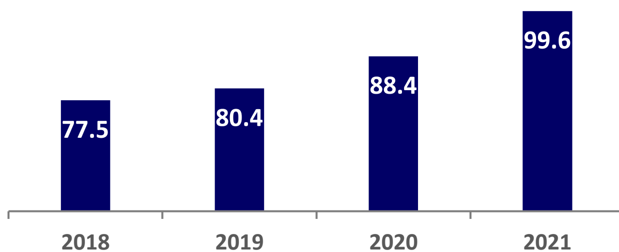
Net Income

Maridive recorded a consolidated net profit of USD 14.0 million in FY2018, down 40% y-o-y and with a net profit margin of 6%. The Group's bottom-line profitability was weighed down by an overall decline in revenues, increased SG&A spend as well as higher provisions and interest expenses. Profitability was primarily affected during 4Q2018, where the Group posted a loss of USD 4.3 million versus a profit of USD 8.8 million in the comparable period last year. Quarterly profitability was driven by lower contributions from Valentine.

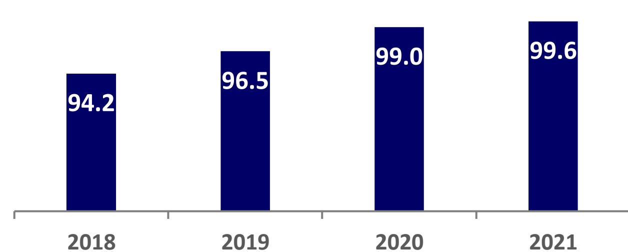
Strategy & Outlook

Management is cautiously optimistic with regards to the outlook of both the offshore support vessels and offshore construction industries in 2019. Following a prolonged period of downward pressure on global offshore E&P spending, as well as persistent pullback on average daily charter rates, the industry seems to have bottomed out in 2018 and is on the cusp of a recovery in the near term. Third-party industry research indicates a steady increase in offshore CAPEX and OPEX over the coming years, with the MENA region's low extraction and breakeven points positioning it as a primary beneficiary from the anticipated turnaround. Notably, the expected growth in spending comes at a time when Egypt is positioning its self as a regional energy hub, with increased exploration activities and significant natural gas finds. Maridive's strong position in its home market ideally positions it to capture a large share of local E&P spending in the coming period.

Projected Offshore EPIC CAPEX (USD bn)[1]



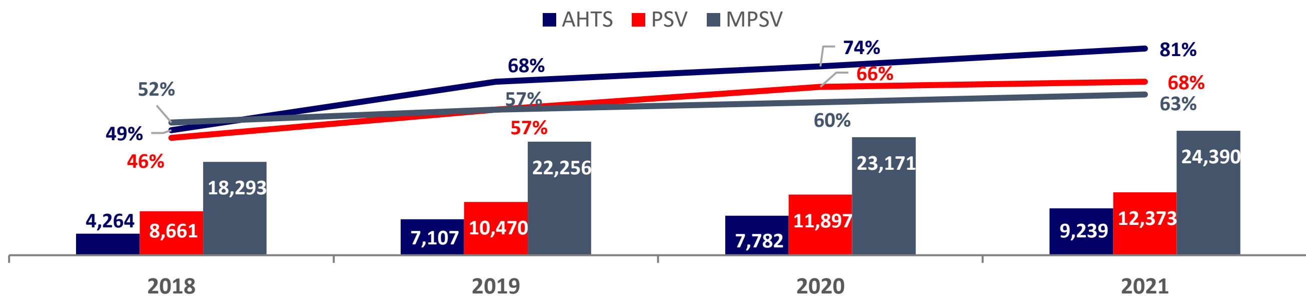
Projected Offshore OPEX* (USD bn)1



The company's construction arms Valentine and MOP are in a unique position to capitalize on market growth, supported by their young and versatile fleets that meet the high-spec qualifications required by regional and global NOCs and IOCs. Additionally, the Group stands to benefit from management's restructured commercial strategy, with increased tendering activity across the region at competitive pricing, as well as Valentine's recently signed agreement with an LTA-shortlisted contractor for Saudi Aramco, the region's largest E&P spender.

Parallel to rising E&P spending, the market is also witnessing a gradual recovery in average daily charter rates as well as vessel utilization. Industry research indicates an increase of c.50% in average daily rates between 2018 and 2021, while AHTS vessel utilization rates are expected to rise from a global average of 49% to 81% during the same period. Maridive's strategically located fleet, along with the company's optimized cost structure and on-the-ground presence in markets where it operates leave it well-equipped to capture the upside.

Projected OSV Daily Rates and Average Utilization (USD, %)[1]



[1] *Source: Company fillings, Clarkson and MSI*
OPEX includes i) inspection, maintenance and repairs (IMR), ii) maintenance, modifications and operations (MMO); and iii) well services expenditure

About Maridive & Oil Services Co.

Maridive & Oil Services Co. was established in 1978 to provide offshore marine and oil support services in Egypt and has since expanded from operating one marine unit to a fleet of over 60 vessels and operations in the Mediterranean Sea, the Red Sea, the Persian Gulf, the Caspian Sea and the Gulf of Mexico. The Group operates four subsidiaries with 12 global representative offices and employs over 2,600 employees, offering a comprehensive suite of offshore oil and gas services with a reputation for excellence and efficiency.

For more information about Maridive & Oil Services Co., please visit www.maridivegroup.net.

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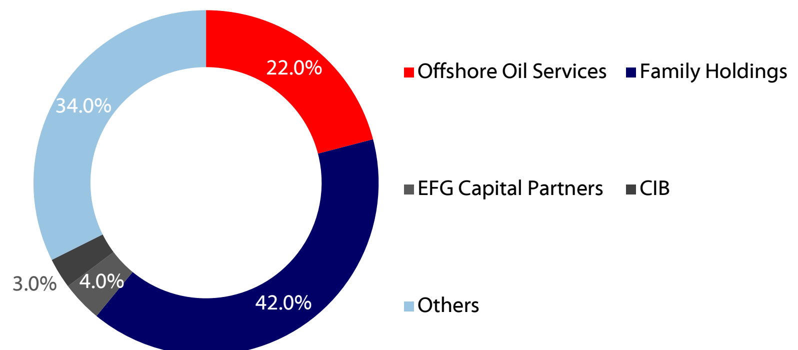
Shareholding Structure
(as at 18 March 2019)



Forward-Looking Statements

This communication contains certain forward-looking statements. A forward-looking statement is any statement that does not relate to historical facts and events, and can be identified by the use of such words and phrases as “according to estimates”, “anticipates”, “assumes”, “believes”, “could”, “estimates”, “expects”, “intends”, “is of the opinion”, “may”, “plans”, “potential”, “predicts”, “projects”, “should”, “to the knowledge of”, “will”, “would” or, in each case their negatives or other similar expressions, which are intended to identify a statement as forward-looking. This applies, in particular, to statements containing information on future financial results, plans, or expectations regarding our business and management, our future growth or profitability and general economic and regulatory conditions and other matters affecting us.

Forward-looking statements reflect our management’s (“Management”) current views of future events, are based on Management’s assumptions and involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. The occurrence or non-occurrence of an assumption could cause our actual financial condition and results of operations to differ materially from, or fail to meet expectations expressed or implied by, such forward-looking statements. Our business is subject to a number of risks and uncertainties that could also cause a forward-looking statement, estimate or prediction to become inaccurate. These risks include fluctuations in prices, costs, ability to retain the services of certain key employees, ability to compete successfully, changes in political, social, legal or economic conditions in Egypt and regions where the Group operates, worldwide economic trends, the impact of war and terrorist activity, inflation, interest rate and exchange rate fluctuations and Management’s ability to timely and accurately identify future risks to our business and manage the risks mentioned above.

Consolidated Income Statement

USD	FY2017	FY2018	*Change*
Revenues	**238,835,017**	**208,175,362**	***(13%)***
Cost of Operations	(147,923,804)	(125,217,632)	*(15%)*
Gross Profit	**90,911,213**	**82,957,730**	***(9%)***
Gross Profit Margin	*38%*	*40%*	*2 pts*
SG&A Expenses	(22,942,194)	(26,721,497)	*16%*
Impairments	(7,856,683)	(6,321,973)	*(20%)*
Provisions	(838,928)	(1,215,100)	*45%*
Changes in FV of Hedging Contracts	270,615	6,261	*(98%)*
Change in Interest on Hedging Contracts	(224,200)	(6,280)	*(97%)*
Interest Expense	(32,342,405)	(33,409,155)	*3%*
Other Income & Expenses	(1,457,890)	(279,191)	*(81%)*
Earnings Before Tax	**25,519,528**	**15,010,795**	***(41%)***
EBT Margin	*11%*	*7%*	*(4 pts)*
Income Taxes	(2,027,276)	(1,008,596)	*(50%)*
Net Profit	**23,492,252**	**14,002,199**	***(40%)***
Net Profit Margin	*10%*	*6%*	*(4 pts)*
Distributed at Follows:			
Minority Interest	(3,009,260)	(1,124,916)	*(63%)*
Attributable to the Parent	20,482,992	12,877,283	*(37%)*
Net Profit	**23,492,252**	**14,002,199**	***(40%)***

Consolidated Balance Sheet

USD	31 December 2017	31 December 2018
Non-Current Assets		
Fixed Assets	677,891,515	679,253,157
PUC	102,336,946	102,167,243
Intangible Assets	101,683	122,355
Goodwill	9,840,659	9,840,659
Loans to Related Parties	834,925	834,925
Financial Lease	7,489,824	4,877,639
Total Non-Current Assets	**798,495,552**	**797,095,978**
Current Assets		
Inventory	22,076,795	19,603,891
Accounts Receivables	98,502,846	83,419,021
Due from clients	8,377,153	5,335,425
Due from Related Parties	190,978	148,383
Debtors and Other Debit Balances	38,222,663	43,509,300
Financial Assets at Fair Value	2,815	2,956
Cash & Equivalents	35,693,058	16,095,412
Total Current Assets	**203,066,308**	**168,114,388**
Total Assets	**1,001,561,860**	**965,210,366**
Shareholders' Equity		
Capital	163,840,000	163,840,000
Reserves	102,702,182	103,144,829
Consolidation Reserves	(2,556,743)	(2,556,743)
Retained Earnings	23,550,892	43,748,696
Profit for the Year	20,482,992	12,877,283
Total Shareholders' Equity	**308,019,323**	**321,054,065**
Minority Interest	52,349,493	54,802,644
Total Shareholders' Equity & Minority Interest	**360,368,816**	**375,856,709**
Non-Current Liabilities		
Long-term Debt	376,849,292	341,545,588
Derivatives	6,261	-
Financial Leases	11,019,880	6,723,250
Total Non-Current Liabilities	**387,875,433**	**348,268,838**
Current Liabilities		
Provisions	8,214,773	8,888,586
Accounts Payable	70,924,000	57,071,952
Banks Overdraft	44,571,115	28,699,882
Borrowings	55,460,013	70,218,496
Other Credit Balances	55,627,371	54,979,542
Due to Related Parties	18,520,339	21,226,361
Total Current Liabilities	**253,317,611**	**241,084,819**
Total Liabilities	**641,193,044**	**589,353,657**
Total Liabilities & Shareholders' Equity	**1,001,561,860**	**965,210,366**