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Ocean Yield 2Q18 Earnings (OCY NO, OYIEF)

The biggest news continues to surround the FPSO – *Dhiruabhai-1* completing a 10-year contract with Reliance Industries in India. As of now, the contract expires on September 21. Talks with Reliance on extension, new contract, or purchase option are expected in the coming weeks.

On the current field, another well was closed recently due to lower production volume, leaving two. Production could continue beyond September 21 and Reliance would need the FPSO for that. Ocean Yield puts a low probability on the idea that Reliance would exercise an extension option in the current contract. The belief is they would need it for more than 130 days and the charter rate is based on rates of 10-years ago and the market is lower now. Moreover, the current field has seen production decline over time due to the normal decay of older wells. Reliance has filed plans to decommission the rest of the field – giving one-year notice to the Indian government. **Thus, continued work at the current field is not a long-term solution and an extension of the charter would likely be done at a lower price.**

Reliance and British Petroleum are still moving forward to develop new nearby fields and expect to start drilling in 2Q19. This field has 3 trillion cubic feet of gas. The current field is producing about 4.3 million standard cubic meters per day. The new field is expected to produce 30-35 million cubic meters per day. They intend to use an FPSO solution and the *Dhiruabhai-1* has been determined to be a candidate for this situation.

Listening to the conference call, Ocean Yield seemed to indicate that it believes one outcome could be that Reliance would purchase the FPSO, in our opinion. During the 1Q18 call, Ocean Yield noted that Reliance was looking at making some new investment in the *Dhirubhai-1* and would purchase it. However, Ocean Yield also noted that they are looking at another opportunity outside of India. Both options are subject to upcoming discussions with Reliance. They cannot commit the FPSO to another party when it is under a contract that contains a purchase option. The outcome should be known in a few more weeks. Creating a long-term solution for the FPSO is a top priority Ocean Yield.

On the positive side of this, Ocean Yield is confirming that net cash flow from the FPSO will rise because they have been aggressively paying down the debt on that vessel and it is now debt free. Thus, the FPSO has not been contributing much cash toward the dividend. We showed this table in the last update and some of this data is only presented in annual reports:

	2017	2016
Total EBITDA	$340.70	$291.30
FPSO EBITDA	$115.90	$114.50
FPSO Interest	$1.90	$4.90
FPSO other Fin. Exp.	$2.20	$2.40
FPSO Debt payment	$67.60	$79.90
Net Cash from FPSO	$31.90	$39.60

For the quarters, we can see EBITDA, net income and debt paydown to approximate the cash impact of the FPSO:

	2Q18	1Q18
Net Income FPSO	$10.50	$7.20
Depreciation FPSO	$14.20	$14.20
Cash flow	$24.70	$21.40
Debt Paydown	$20.00	$0.00
Net cash from FPSO	$4.70	$21.40

So, while the FPSO has been a huge part of EBITDA, it actually has not been producing much cash flow toward the dividend. With no debt to pay in 3Q18, it should help Ocean Yield accumulate even more cash. Cash was $266 million at the end of the quarter with another $41 million undrawn on the bank line and the FPSO should boost cash by another $22-$23 million in 3Q. That gets Ocean Yield to $330 million in cash and availability.

The next twelve months of the dividend will be $121 million, there is $175 million of scheduled debt maturities, and the company will invest a net cash of $27 million in the remaining ship acquisition agreements. Thus, Ocean Yield has cash obligations of $323 million in the next twelve months. So essentially, cash on hand covers the next twelve months of cash needs and the FPSO situation will be resolved before the end of that time.

Either it will have a new contract and be producing cash flow, or it will be sold and thus have generated cash to the company.

Cash from operations over the next twelve months would be approximately $260 million (defined as net profit + depreciation +/- non-cash adjustments in interest income/expense) less the FPSO that is doing about $96 million in net profit + depreciation per year. So, cash generated would be $164 million over the next twelve months plus the additions from the four new container vessels that came online in very late June/early July and three Suez tankers arriving in 3Q and 4Q18.

The company has been slowing dividend growth and building cash for this event. It stated several times on the call and the earnings presentation that it plans to maintain the dividend. The FPSO will be resolved soon and it will either be recycled into new cash to fund a larger fleet or it will be debt free and operating on a new contract.

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