

John Fredriksen's Seadrill is negotiating to cancel 40 billion in bank debt.

It is time for tough negotiations on the rig company's massive bank debt, which will finally be tied. It is still unclear whether main owner John Fredriksen will continue.

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John Fredriksen's Seadrill is facing another complicated debt restructuring. Here is the main owner in 2013, when he was still chairman of the company.
(Photo: Ida von Hanno Bast)

It is just over two years since John Fredriksen's Seadrill completed a debt restructuring that was hailed as the rig sector's most complicated ever.

In the previous round, the company got rid of several billion dollars with bond debt, while the huge bank debt of 5.7 billion dollars was cut.

The idea was that a gradual improvement in the rig market would enable the trailer to meet its requirements.

The uprising did not take place, and the corona crisis became the nail in the coffin. Seadrill has long acknowledged that there will be a new restructuring. Negotiations have begun, and the process will again be very unchallenging, according to sources Dagens Naeringsliv has shaken up.

It is also unknown what role Fredriksen (76) will play in the future, after he resigned as chairman of the board last year. The 27 per cent shareholding still made him the main owner, but it will be completely diluted by the debt restructuring.

For the actions are continuation in a phase where Fredriksen's role is not a real issue. Right now, parallel talks are taking place about bank debt and the company's remaining bond yield.

- Banks are negotiating to reduce debt to \$ 2 billion, the US research firm Reorg said last month. In addition, it is being discussed whether another half a billion dollars can be converted into shares at a severe time, while Seadrill itself wants to see the debt reduced to about one billion, according to DNS sources. In practice, this means that the talks are about a business <haircut> of between 38 and 42 billion knots, which will be reduced to damages corresponding to almost the entire restructured company.
- When it comes to Seadrill's bond loan of 476 million dollars - where Fredriksen is one of the five largest owners - an extension is the overall solution that is being discussed, according to documents that the company itself has published this autumn.

Today's shareholders will be left with crumbs or nothing, the company has already stated that. Nevertheless, the share jumped 37 percent at most on the Oslo Stock Exchange on Wednesday morning, and was up 13 percent in the afternoon. The company's market value is nevertheless almost 90 per cent lower than at the beginning of the year.

Complicated process

The previous restructuring was a complex affair, with a jungle of subsidiaries in various jurisdictions and angry bondholders rebelling. The company structure has become simpler, but it is only now that the big pain - the bank debt - will be taken.

A plaster has never been peeled off here before, says analyst Fredrik Stene in Clarkson's Platou Securities as.

The debt reduction that is being discussed is not large enough to make Seadrill competitive, Stene believes. One of the world's largest rig companies, Valaris, is expected to emerge from its own restructuring with about half a billion dollars in debt, spread over more rigs than Seadrill, he points out.

For the banks, it seems that cutting debt by two thirds is perhaps one of the most extreme things they have ever done. I still believe that they should convert everything here to have a sustainable capital structure, says Stene.

Before you get this far, about forty banks must agree. It will not be easy:

The bank debt is organized in 12 facilities with different rigs as security. Distributing assets between banks is a complicated exercise: only a third of the company's 35 rigs were in operation by the middle of the year, and Seadrill has said it is willing to scrape a dozen units to cut costs to improve market balance.

Banks also have different views on the oil industry and its future. Some have already made large loss provisions for Seadrill debt, while others will be interested in keeping as much debt as possible.

A small proportion of bank debt has been acquired by opportunistic hedge funds at low prices, including Strategic Value Partners.

These will be more interested in being left with shares than debt, and want a larger debt reduction than the banks.

In practice, banks must also agree with bondholders, even though the latter's values are largely hedged in other assets, such as Seadrill's share in subsidiaries such as SeaMex and Seabras Sapura.

The Guarantee Institute for Export Credit (Giek) is Seadrill's largest secured creditor, according to a source. Other important creditors are the Scandinavian banks DNB, Nordea, Swedbank and SEB.

Fredriksen's role

Fredriksen founded Seadrill 15 years ago and made the company the world's most valuable rig company and a dividend machine during the oil boom that followed. After the values disappeared in the oil crisis that started in 2014, he played a very important role in the previous restructuring, among other things by contributing several hundred million dollars.

The signals from Fredriksen in recent years may, however, indicate that he and his daughters may take a less controlling position in sectors such as shipping and offshore, which laid the foundation for wealth.

For the time being, there will be no formal requirement from Seadrill's creditors that he enter with new capital, or that the company raises more money in any other way. If Fredriksen wants to retain control of the company, one solution may be to buy the shares from banks that do not want to sit on them.

Chairman of the board Glen Ole Rødland says it is not possible to give anyone a timeline of the process, but that it is likely that the company will use a legal process, such as Chapter 11-bankruptcy protection in the United States that was used last. He wishes not to comment on the content of the negotiations.

- What I can confirm is that it is ongoing constructive discussions with our lenders about a restructuring of the balance, he says. (Terms)