

Topaz Energy and Marine

Financial results for the six months ended 30th June 2018

Half Year Revenue Up 30 % to US\$151 million: EBITDA Increases 33 % to US\$77 million

Dubai, UAE, Wednesday 29th August 2018: Topaz Energy and Marine (“Topaz”), a leading offshore support vessel and marine logistics company, today announces its results for the six months ended 30 June 2018 (“the period”).

US\$ Millions

	Three Months Ended		Six Months Ended		
	June 2017	June 2018	June 2017	June 2018	% change
Consolidated Revenue	57	85	116	151	+30%
EBITDA	26	44	58	77	+33%
EBITDA Margin (%)	46%	52%	50%	51%	+1ppt
Net Profit/(Loss) (before exceptions)	(10)	5	(13)	2	NM
Net Profit/(Loss) Margin (%)	-18%	6%	-11%	1%	NM
Net Profit/(Loss) (after exceptions)	(10)	(1)	(13)	(4)	+69%
Net Profit/(Loss) Margin (%)	-18%	-1%	-11%	-3%	NM
Core Vessel Utilization			62%	86%	+24ppt

Business Highlights

- Strong second quarter growth supported by increasing investment by energy companies in exploration, production and development. Q2 2018 revenue increased by 29% to US\$85m compared to Q1 2018; EBITDA improved by 33% to US\$44m in Q2 2018 against Q1 2018.
- US\$33m revenue and US\$19m EBITDA contribution from Topaz Solutions during H1 2018, generated by Topaz’s strategic marine logistics project Tengizchevroil (“Tengiz”). Eighteen vessels have now been received from the shipyards of which eight vessels are earning full revenue as at 30th June 2018. Project ramp-up continues with full vessel deployment anticipated during H2 2018
- Overall core fleet utilization at 86% with significant improvements in MENA and Africa regions.
- Despite ramp-up costs of Tengiz, EBITDA margin improved slightly to 51%, as costs continue to be managed proactively across the business.
- Back-log stands at US\$1.4bn providing long-term earnings visibility and financial strength
- Re-affirmed credit rating by S&P and Moody’s in 2018
- One modern Anchor Handling Tug Supply Vessel (“AHTSV”) added to the fleet: “Topaz Master” which will be deployed to Saudi Arabia.
- Completed divestment of four laid up, aged vessels in Q2 as planned
- Continue to be fully compliant with all financial covenants with sufficient headroom
- Topaz’s strong commitment to safety illustrated by 30 consecutive months of no Lost Time Incidents (“LTIs”)

René Kofod-Olsen, Chief Executive Officer, Topaz Energy and Marine said,

“Our results for the first half of the year, and particularly the second quarter, illustrate how we have managed Topaz through a very challenging period for the energy sector. We are moving our business increasingly to a service led approach, enabling us to be more than a ship supplier and to generate growth and higher earnings from our assets. Our Tengiz project demonstrates our strategic focus on services, which made a significant contribution in terms of revenue and EBITDA during the second quarter as we deployed eight of the total twenty specially designed vessels.

“Our customers are also increasing their investments in projects as they seek to fill the supply requirements of a world which will still be dependent on oil and gas as part of its overall energy mix for decades to come.

“This growing level of demand, combined with a strategically significant contribution from Topaz Solutions, means that Topaz increased revenue by 30% to US\$151 million, whilst EBITDA was up 33% to US\$77 million with a robust EBITDA margin of 51%, despite the ramp-up costs associated with the Tengiz project and increased crew costs due to higher utilization rates

“By working closely with our customers, we increased our core fleet utilization to 86%, up from 62% in the first half of 2017. The Caspian region delivered 88% utilization, up from 81%, whilst the most significant improvements came from the MENA and Africa regions, which improved from 51% to 84% and 26% to 87% respectively.

“We continued to manage our fleet pro-actively during the period to ensure we maintain the right platform to deliver sector leading service to our customers. During the 2nd quarter we completed the divestment of four of five ageing, laid up vessels, as we did not expect reactivation of these ships to yield positive returns. The sale of the fifth vessel is imminent. We recently took delivery of a modern, sophisticated AHTSV. The vessel will be deployed in the major regional market of Saudi Arabia, servicing a major oil company.

“We remain positive for the rest of the year, as our customers increase their investment spend in projects. We will also continue our strategy of expanding our capabilities into offshore marine logistics, with Tengiz a clear illustration of how our services-led strategy is delivering new sources of growth. We expect all 20 Tengiz vessels to be deployed and earning full revenue by Q4 2018.

Financial Review

US\$ Millions

REVENUE	Three Months Ended		Six Months Ended		
	June 2017	June 2018	June 2017	June 2018	% change
Caspian	43	42	88	80	-9%
MENA	13	13	24	23	-4%
Africa	1	8	3	15	400%
Solutions	0	22	1	33	NM
Corporate / adj	-	-	-	-	-
Total	57	85	116	151	30%

Revenue for the period was US\$151m, an increase of 30% compared to US\$116m over the same period last year. This increase was mainly the result of (i) revenue from Solutions of US\$33m and (ii) nine vessels working in Africa generating an additional US\$12m in revenue. However, this increase was partially offset by (i) loss of revenue of US\$10m in Caspian from vessels coming off-charter from completed projects and (ii) off-hire/standby rate on three subsea vessels of US\$3m.

US\$ Millions

DIRECT COSTS	Three Months Ended		Six Months Ended		
	June 2017	June 2018	June 2017	June 2018	% Change
Crew cost	13	15	23	28	22%
Technical maintenance	4	4	7	8	14%
Depreciation / dry-dock	17	16	34	33	-3%
Mobilization charges	1	-	1	1	0%
Others	6	14	13	21	62%
Total	41	49	78	91	17%

For the period ended 30 June 2018, direct costs increased by US\$13m to US\$91m in H1 2018, compared to US\$78m incurred in the prior year. The increase in costs were due to higher vessel utilization in Africa and MENA and ramp-up in Solutions.

EBITDA	Three Months Ended		Six Months Ended		
	June 2017	June 2018	June 2017	June 2018	% change
Caspian	26	27	59	52	-12%
MENA	3	4	5	5	0%
Africa	-2	3	(4)	5	-225%
Topaz Solutions	1	13	1	19	NM
Corporate / adj	-2	-3	(3)	(4)	33%
Total	26	44	58	77	33%

EBITDA increased by US\$19m, or 33%, to US\$77m during the period compared to US\$58m in the same period last year. This increase was mainly the result of (i) EBITDA from Solutions of US\$19m and (ii) nine vessels working in Africa US\$9m. However, this increase was partially offset by (i) loss of EBITDA of US\$7m in Caspian fleet due to off-charter on completed projects and (ii) off-hire/standby rate on three subsea vessels of US\$1m.

Administrative expenses:

Administrative expenses increased by US\$2m as compared to previous year (2018: US\$16m; 2017: US\$14m) as a direct consequence of the increase in our new Topaz Solutions business.

Finance costs:

Finance costs increased by US\$3m, or 11%, to US\$32m during the period compared to US\$29m from the prior period mainly due to a notional charge of US\$2m incurred due to a change in accounting standards under IFRS. The remainder of the increase was attributable to increased debt and marginally higher cost of funding on the refinanced bond.

Income tax expenses:

Income tax expense increased marginally by US\$1m or 13% to US\$9m from US\$8m in the same period last year.

Cash flow

Cash generation as a percentage of EBITDA for the six months ended 30th June 2018 was 69% (January to June 2017: 107%). The table below illustrates the cash flow for the reporting period:

US\$ Millions

CASH FLOW	Three Months Ended		Six Months Ended		
	Jun 2017	Jun 2018	Jun 2017	Jun 2018	% change
EBITDA	26	44	58	77	33 %
Changes in working capital	1	-13	4	-24	NM
Cash generated from operations	27	31	62	53	-15 %
Cash conversion	104%	70%	107%	69%	-36%
Income tax paid	-3	-3	-7	-6	-14%
Interest paid	-22	-11	-28	-33	18%
Net cash generated from operating activities	2	17	27	14	-48 %
Net cash generated/(used) in Solutions	8	7	16	-5	-131%
Cash used in investing activities	-10	-15	-16	-22	38%
Cash used in financing activities	-8	11	-17	3	-118%
Increase / (decrease) in cash and cash equivalents	-8	20	10	-10	NM

The increase in working capital is mainly on account of a higher revenue and reclassification of assets held for sale. Interest payments include US\$17m coupon payment on the bonds and US\$8m of interest payments on the senior secured debt facility. Investing activities include US\$14m towards expansion CAPEX, which includes US\$~11m for a new vessel, and US\$8m towards dry-docking and upgrade CAPEX. Financing activities include Senior secured debt repayment of US\$15m, dividend payment to minorities of US\$5m and a draw-down of US\$25m from the RCF facility during Q2 2018.

Unutilized banking lines as at 30th June 2018 include an RCF of US\$50m expiring in April 2020.

Financing

Facility	Maturity	Interest Rate	Repayment	Outstanding at 30 June 18 US\$'000
Conventional and Islamic facility**	7 years	3-month LIBOR + 2.75%	Quarterly with bullet repayment	305,279
Senior Notes	5 years	9.125%	Bullet	367,294
Total Topaz Loans				672,573

*Recorded as per International Financial Reporting Standards (IFRS) in US\$.

** Includes amounts utilized under the RCF facility.

Bank Covenants

The senior secured borrowing arrangements include undertakings to comply with certain financial covenants. As at 30th June 2018, Topaz is compliant with all financial covenants.

Financial Covenant	Threshold	30 June 2018
Net Interest-Bearing Debt to EBITDA	< 5.75	4.41x
<i>Headroom</i>		23%
Tangible Net Worth	> US\$275m	US\$305m
<i>Headroom</i>		11%
Free liquidity (in millions)	> US\$30m	US\$118m
<i>Headroom</i>		292%
EBITDA to DSCR	> 1.20x	1.62x
<i>Headroom</i>		35%

Capitalization

The following table sets out the consolidated cash, total indebtedness, shareholders' funds, total capitalization and net debt at the end of the last five quarters.

In US\$ million

	Jun'17	Sep'17	Dec'17	Mar'18	Jun'18	Change Jun'18 v Jun'17
Cash & Cash Equivalents	49	51	78	48	68	19
Floating rate senior secured loans	286	278	296	289	305	19
Other loans / Senior Notes ¹	346	366	366	367	367	21
Subordinated shareholder funding	79	79	79	79	79	-
Total debt	711	723	741	735	751	40
Total equity	449	422	343	341	334	(115)
Total capitalization	1,160	1,145	1,084	1,076	1,085	(75)
Net debt	661	672	663	687	683	22
Total debt / LTM EBITDA	5.6	5.9	6.3	6.1	5.5	
Net debt / LTM EBITDA	5.2	5.5	5.6	5.7	5.0	

¹ Recorded as per International Financial Reporting Standards (IFRS)

About Topaz Energy and Marine

Topaz Energy and Marine is a leading international offshore support vessel company providing logistics support and marine solutions to the global energy industry with primary focus on the Caspian Sea, the Middle East, West Africa and Subsea operations. Headquartered in Dubai, Topaz Energy and Marine operates an existing fleet of ~100 offshore support vessels with an average age of approximately nine years. Topaz Energy and Marine is a subsidiary of Renaissance, a publicly traded company listed on the Muscat Securities Market in Oman. In addition, Standard Chartered Private Equity holds a minority position in the company.

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