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It's Alive! Supply, Demand . . . and Even Drillships.

It was a good headline for Halloween week: ***"It's Alive! Offshore Drillers Begin Bringing Idle Drillships Back to Life!"***

Like most people, at Outlook Capital Management we break our own rules every once in a while; and like most people, we get our head handed to us a reward . . . every time, pretty much. So we stick to our Rules almost all the time, by now. "Almost" all the time. The last rule-breaking episode was a few years ago, when Outlook took a small position in Transocean.

Transocean was (and still is) the largest, strongest oil drillship company in the world . . . but it is quite possible for "the largest and strongest" to be not quite strong enough—when Trouble shows up like a grizzly bear pouncing on a Pekinese. That red circle and plunging red line, down there, were grizzly-bear-sized Trouble for the oil drillship business, as the price of oil dropped from $80 to $23 . . . and every big ocean-oil producer in the world cut its drillship rental budget by 80—90% or so.

Oil's Fall and Rise: 2018 - 2021

6 or 7 of Transocean's competitors went bankrupt, thanks to that grizzly. Transocean hung on by its teeth: watching the clock tick down on its 3-year supply of cash, and waiting for the price of oil to rise high enough, long enough, to make those ocean-oil companies pick up the phone and call. Meanwhile Transocean's people did every possible thing to save cash. For drillship companies, the best but most painful thing they can do is to "idle" some of their ships. That cuts down the cost of crew, fuel and general

maintenance. In the drillship business, they call idling ships "warm stacking" or "cold stacking." "Warm" costs more money, but lets the ship come back to life quicker when Exxon finally calls. "Cold" is more like a death sentence: minimizing maintenance costs, but also making it hideously expensive to bring the ship back to life.

Transocean thinks it costs from $50 million to $100 million to do that, per ship. That of course is real money . . . and Exxon, BP, Shell and friends must want to drill very badly indeed to pay those costs plus the $300,000 to $400,000 per day rental charges—since Transocean certainly won't.

And that is exactly what Exxon and friends are beginning to do, hence that Halloween headline from Esgian Rig Analytics, one of the top drillship-analysis firms in the world: "It's Alive!" Drillship companies like Transocean are beginning to get paid to bring ships back from the grave. Why? Because of that accelerating green arrow above. The price of oil has risen dramatically because supply has been "cold-stacked" all over the world, for quite a few years now; and because world oil demand is clearly defying the Virus pessimists, rising steadily toward it's pre-Covid levels, and looking very much like it won't stop there.

Back to those Rules. Here's a Golden one: "Supply and Demand work as they ought to work: "curing" low prices eventually. But they do take a long, roundabout path to get where they're supposed to go. If we understand that, we can bet on Supply and Demand acting in character, and have the patience to wait for our bet to pay off." That's just what we're doing with Conoco and Exxon . . . and cheering Transocean on, from the sidelines.

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