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Defaulted Bond Holders Are Closer to Seizing Rig They Don't Want

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- Investors declare default on Oro Negro's \$175 million bond
- That leaves tough choice: Take rig or hold on for Pemex deal

Spurned bondholders of Mexican oil-field operator Oro Negro Offshore Drilling Pte are moving ever closer to the one option they'd hoped to avoid at all costs: seizing a rig hardly anyone wants.

A trustee for investors holding \$175 million in notes due in December called a default Friday after Oro Negro missed a \$4.8 million coupon payment. Now, bondholders face a choice: Take control of the rig, named Impetus, that backs the bond and try to sell it amid a global glut, or hold out hope that a long-delayed contract with state-owned crude producer Pemex to use the equipment will finally come through.

The 9.9% decline in contracts in the past year is the steepest on record



The dilemma is one more example of how companies and investors are suffering as oil producers from Petroleos Mexicanos to Brazil's Petroleo Brasileiro SA have slashed spending budgets by billions of dollars after oil plunged 50 percent since its 2014 peak. Like most oil-services companies operating in Mexico, Oro Negro is especially vulnerable to the cuts because it gets 100 percent of its revenue from Pemex, still the nation's lone oil producer even after a new law two years ago changed the constitution to allow

foreign drilling for the first time since the 1930s.

"It's a pretty desperate situation for the creditors," said Robert Rauch, a partner and portfolio manager at Gramercy Funds Management LLC in Greenwich, Connecticut, who doesn't hold the bonds. Mothballing the rig "in this market isn't going to be a very attractive option."

The 2015 bond fell to a record low 43.88 cents on the dollar from 72 cents on Sept. 29, the day before Oro Negro missed the interest payment. Mexico's peso fell 0.5 percent to 16.5109 per dollar as of 2 p.m. New York time.

If history is any judge, investors may be better off holding out for a Pemex deal. Bondholders of defaulted Mexican oil-services company Oceanografia SA took control of the Goliath, a 591-foot oil-services supply ship, in March 2014. They struggled to find a buyer.

"At this stage, even a bad contract at lower daily rates is better than no contract at all," Rauch said.

The market for jack-up rigs, oil platforms that stand on stilts like the one that's backing the Oro Negro bond, has collapsed along with crude prices. Worldwide, the number of similar rigs in operation fell to a 22-month low of 164 in September from 182 a year earlier, according to Rigzone, an industry news website. The unused platforms are being scrapped or mothballed.

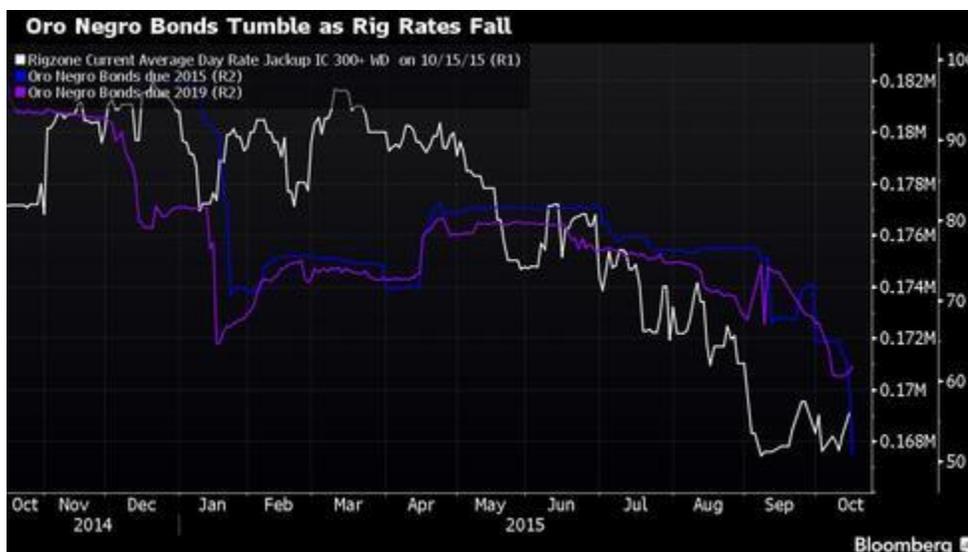
"Like every business in our industry, Oro Negro is facing significant challenges," the Mexico City-based company said in an Oct. 7 letter to creditors. "Our challenges are a direct result of the challenges our only customer, Pemex, also faces."

Oro Negro declined to comment for this article.

Pemex, the world's ninth-largest crude producer, is cutting its oil-field investments by 20 percent next year as output falls to the lowest level since at least 1990 and it has posted 11 straight quarterly net losses. Moody's Investors Service warned in August that it may cut Mexico City-based Pemex's credit rating, now the fourth-lowest investment grade at A3, on concern depressed oil prices will further erode cash flow.

Oro Negro has a separate \$701 million bond due in 2019 that's backed by four other rigs: the Primus, Laurus, Fortius and Decus. Last month, Pemex cut the daily rate it pays for the equipment to \$130,000 from \$160,000.

The price on that bond was at 59.86 cents on the dollar on Friday from 66.15 cents on Sept. 29. The next interest payment is due in January.



Oro Negro sold the \$175 million in bonds last year to pay for the Impetus. At the time, the oil-services company said Pemex planned to sign a contract by the end of March to use the new rig in an offshore field. Now, it says it may finalize the deal by November or December, according to Nordic Trustee ASA, the trustee of the debt.

The oil driller said it has spent \$76 million on the Impetus and plans to spend another \$3 million by year-end to keep it in working condition. Now, Oro Negro just needs the contract.

"There aren't a lot of options for bondholders," Luis Maizel, who manages \$5.5 billion of fixed-income assets at San Diego-based LM Capital Group, said by phone. "If you go in and repossess it, what are you going to do with it? If they play mean they have more chance of losing than winning."