

Tidewater (TDW)

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Company Brief & Thesis

Tidewater Inc. is a global leader in marine logistics and transportation for the offshore energy sector. The company specializes in supporting offshore oil and gas exploration, development, and production through a fleet of modern vessels. Its services include transporting supplies, equipment, and personnel to offshore installations, as well as providing anchor-handling and platform supply vessels for towing rigs, delivering essential materials, and supporting subsea inspection, maintenance, and repair operations. With a diverse fleet of over 200 vessels, Tidewater's capabilities extend across multiple offshore environments, including deepwater and harsh-weather operations in 60 countries. The company's vessels play a critical role in ensuring the safety and efficiency of offshore energy projects, offering reliable logistical support to energy producers, worldwide.

Tidewater's long tenure in the sector offers them a competitive advantage in terms of industry knowledge, fleet size and, perhaps most importantly, having established connections with oil companies worldwide. The company's ability to manage their fleet operations and price rates per vessel makes them able to maneuver times of lower oil prices. Their stock drop of around 50% from their recent highs in mid 2024 and their strong financial position provides a great opportunity for purchase.

Tidewater offers two main types of service with its fleet. Out of their 192 worldwide offshore support vessels, they have 139 Platform Supply Vessels (PSVs) and 53 Anchoring Handling Support Vessels (AHTS). They also have 21 other vessels for crew transportation and other types of specific necessities such as rig management.

Their PSV vessels are specifically designed to transport diverse cargo types. Below-deck tanks accommodate fuel, water, drilling fluids, cement, and mud, while their open deck space supports materials such as casing, drill pipe, and other critical equipment. Most of their fleet, 69 vessels, have a floor area of more than 900m², which allows them to transport a larger amount of resources and tools for this diverse set of needs

In order to expand its fleet capabilities, Tidewater acquired 84 PSVs over the last 18 months through the acquisitions of Swire Pacific Offshore and Solstad Offshore. This acquisition solidified Tidewater's position as the largest owner and operator of high-specification PSVs globally.

Company Dive In

Tidewater's AHTS vessels are specially designed to provide services such as towing, anchor handling, and support for offshore rigs, platforms, and barges. They also play an essential role in subsea construction and installation projects, offering advanced lifting and deployment systems, including high-capacity cranes and winches.

The AHTS fleet is strategically categorized based on bollard pull ratings, ranging from 4,000 to over 16,000 BHP (Brake Horsepower). Through their recent M&As, In their diverse fleet, they offer a vast array of BPH ranges for a diverse set of tasks and they have recently acquired 11 new vessels with more than 16,000BHP, which are fundamental to tasks such as mooring large floating rigs, towing heavy loads, and supporting deepwater operations.

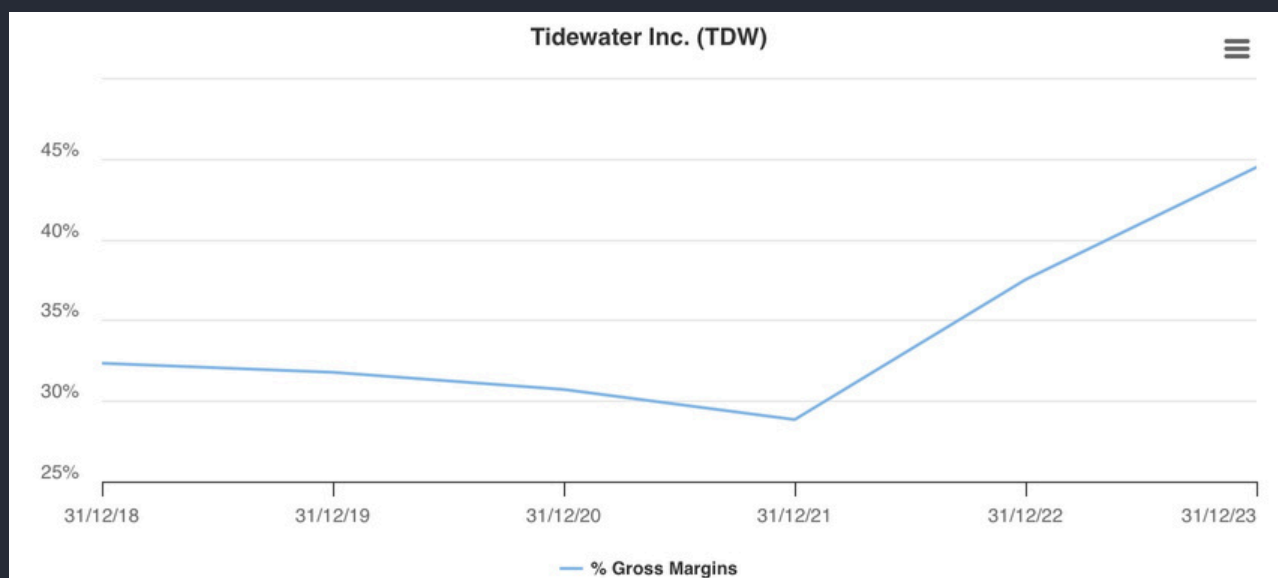


Company Dive In

Tidewater has leveraged its high-specification fleet to secure to substantial increase across different vessel classes, leading to a strong performance in day rates and gross margins, For Platform Supply Vessels (PSVs) over 900m², for example, the average day rate grew significantly from \$16,604 in 2022 to \$37,283 by Q3 2024. Similarly, PSVs between 700-900m² experienced an increase from \$13,889 in 2022 to \$35,411 during the same period.

Tidewater's Anchor Handling Towing Supply (AHTS) rates for >16k BHP vessels surged from \$19,737 in 2022 to \$48,615 by Q2 2024, while 8-12k BHP rates rose from \$11,604 to \$29,210 in the same period.

Tidewater's increased exposure to blue-chip customers and strong operational execution have contributed to consistent cash flow generation, and strengthened their business connection and interdependency.



Opportunities

Tidewater Inc. reported total assets of approximately \$2 billion, a significant increase from \$1.3 billion in the previous year. More specifically, PP&E increased to \$1.32 billion from \$803 million. The increase in vessels and investments in their modernization increases their ability to capitalize in the future. It also serves as a great stronghold/safety net for the company to support itself in case everything goes wrong for them

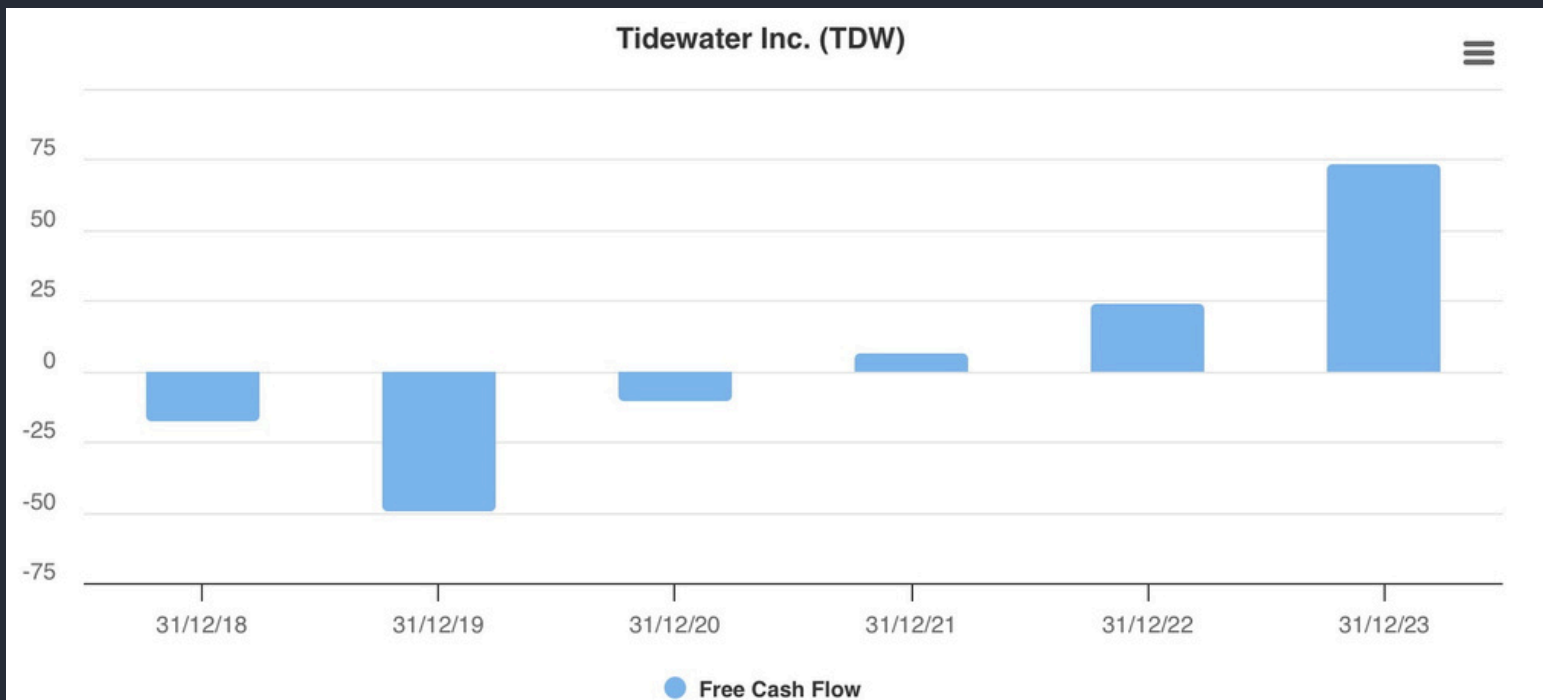
Trump's "drill baby drill" policies will probably incentivize companies to expand their offshore oil drilling operations. This will probably lower the price of oil due to higher supply, so investing in a company that profits not from oil, but from the expansion and maintenance of the oil industry, might be a great way to play the oil business wave in the next few years.

Tidewater benefits from high barriers to entry in the industry, which provide a significant competitive advantage. The offshore vessel market requires substantial capital investment for fleet acquisition, maintenance, and compliance with stringent regulatory standards. Additionally, the need for specialized expertise in operating vessels in challenging offshore environments creates further entry hurdles for new competitors.

Opportunities

Tidewater also has strong partnerships with leading oil and gas companies. These companies rely on Tidewater's offshore support services to expand their drilling projects and operate offshore stations. These partnerships provide a steady revenue stream and access to long-term contracts, which help insulate the company from market fluctuations.

The company operates the largest fleet in the world in the offshore support vessel market, capable of servicing deepwater and ultra-deepwater exploration projects. Tidewater is one of the only companies in the world that are well-equipped to meet the complex demands of offshore operations.



Risks

Tidewater Inc.'s day rates and gross margins are closely linked to fluctuations in oil prices. When oil prices decline, offshore projects may be deferred or scaled back, leading to reduced demand for OSVs. This scenario can result in lower day rates and decreased utilization, adversely affecting Tidewater's gross margins. Their huge fixed costs related to maintaining their fleet means that their hands are tied when the market takes a downturn. However, TDW's strong relationships to blue chip oil companies makes them better positioned than any other company in the industry if a downturn happens

Also, the energy transition into renewable sources threatens to reduce investment in offshore oil and gas exploration, potentially leading to lower utilization of Tidewater's fleet. But according to data from the US Department of Energy, contrary to popular belief, oil consumption hasn't declined due to the energy transition, so, at least for now, TDW's position is secured. Now, with Trump's administration pushing for more oil based energy, I believe this risk to be Very small in the near, mid term future

The company's offshore service fleet requires substantial investments for maintenance, upgrades, and compliance with evolving regulatory standards.

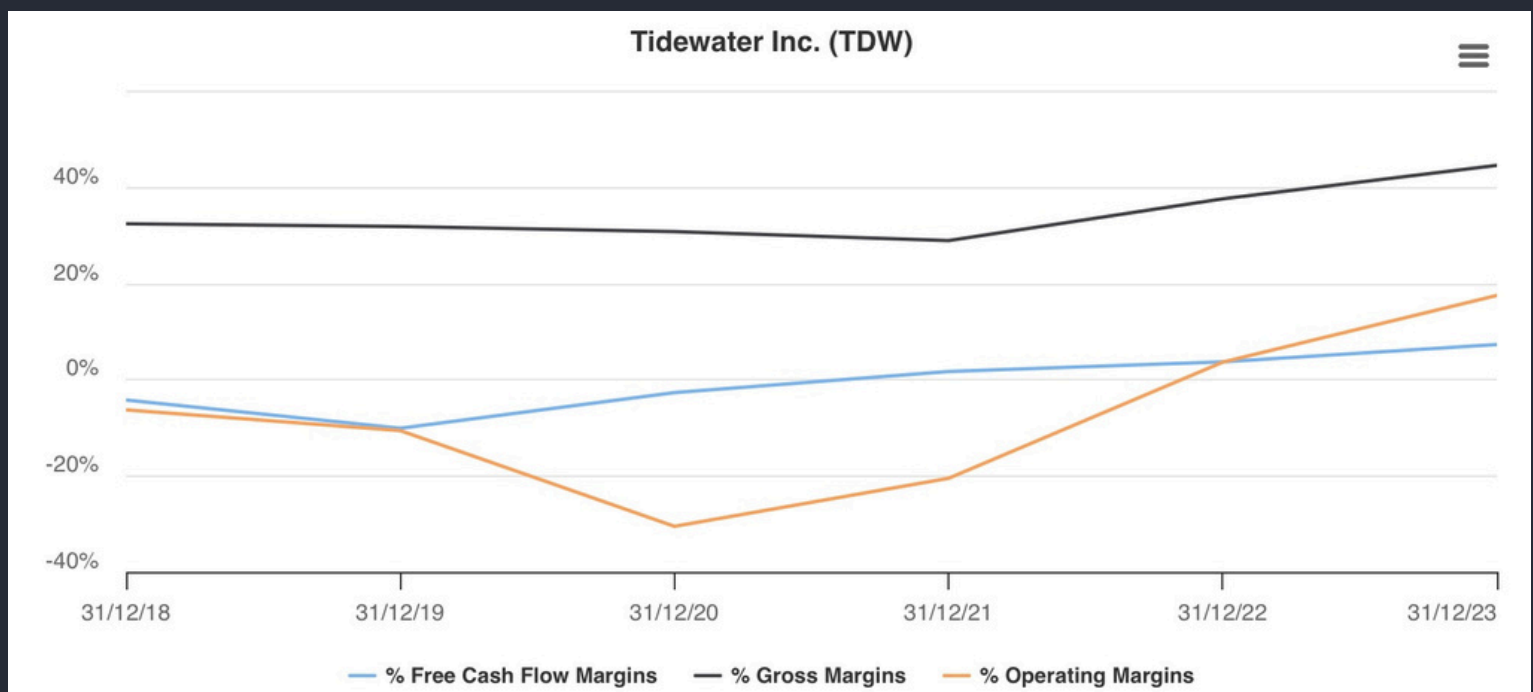
Multiples and Margins

Gross Margin: 47%

Operating Margin: 21%

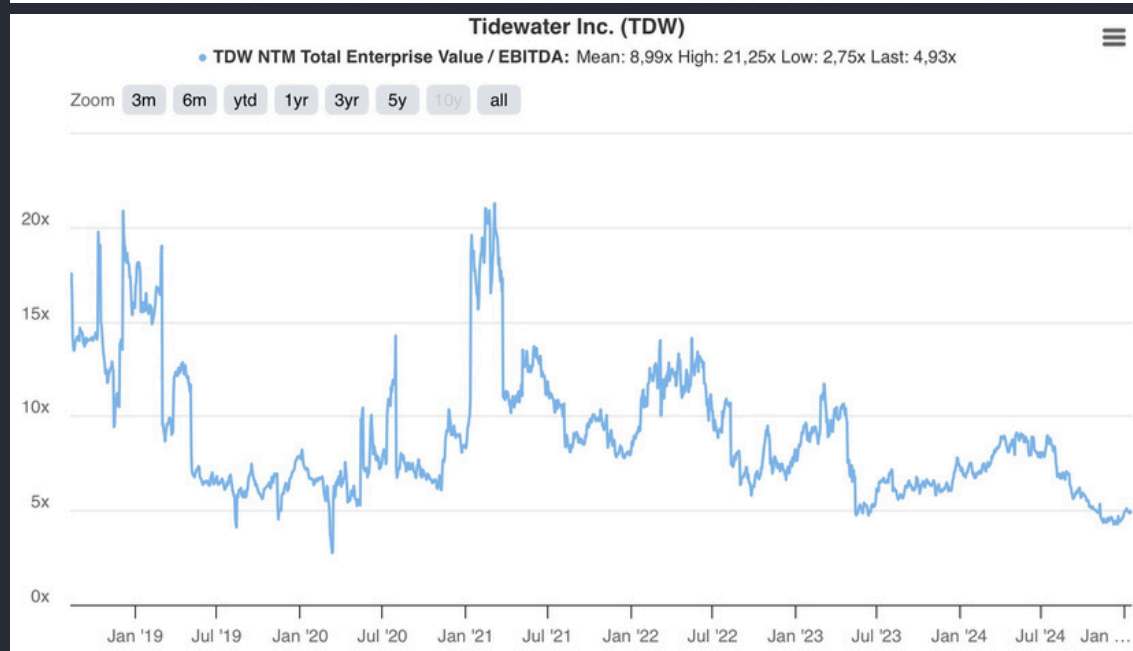
Net Income Margin: 13.9%

Free Cash Flow (FCF) Margin: 15%



The company has tight margins that constantly fluctuate because of oil prices and demand for more OSVs. But since 2021 they have stabilized their operational efficiencies and increased profitability, which allows them to surf the wave of oil prices and be better protected if the market takes downturns.

Multiples and Margins



Fair Value

To calculate Adobe's fair price, let's assume the following statistics:

Revenue Growth: 9%

EBITDA: 33%

EV/EBITDA: 7x

Period: 5 Years

Shares outstanding change per year: 0.0%

Revenue in 5 years: \$2.2 Billion

EBITDA in 5 Years: \$0.73 Billion

Price in 5 years (subtracted debt): \$4.74 Billion

Compounded annual return rate: 11.1%

Tidewater has a dominant position in a high barriers to entry industry that is currently trading under typical multiples and with a great, improved fleet. As government policies favor offshore oil drilling and the company keeps generating strong returns, I believe there's opportunity for great returns with this stock.