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Dynamic is upbeat on Saudi market prospects

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Dynamic is busy with bids and has a strong pipeline of projects in the kingdom

The company sees entry of a fifth Long-Term Agreement contractor as an overall positive.

US contractor confident about Aramco sticking to its $20bn spending plans under Long-Term Agreement

The addition of a fifth company to Saudi Aramco's list of Long-Term Agreement (LTA) holders is an overall positive for the other contractors on the list and a clear indication that the world's biggest oil exporter is committed to its $20bn spending plans, says a top executive at Dynamic Energy Services International.

"It is a further indication that Aramco has a massive capital budget over the next six to 12 years and they plan on sticking to that," Dynamic's CEO Emile Dumesnil told MEED in an interview. "They [Aramco] want to make sure they have the capacity."

The LTA gives the engineering, procurement and construction (EPC) contractors exclusive rights to bid for several oil and gas producing platforms, tie-in platforms, pipelines, power cables and related facilities under the state-controlled company's masterplan for offshore fields.

The LTA deal was initially signed in June 2015 with four international contractors including Dynamic, a team of India's Larsen & Toubro and Singapore's Emas, the US' McDermott and Italy's Saipem. UAE-based National Petroleum Construction Company (NPCC) became the fifth LTA contractor on 13 October.

The six-year LTA agreement has the provision of extensions for an additional six years and Aramco has a capital budget of $20bn over that time period, says Dumesnil.

The oil and gas giant has already awarded several contracts to LTA holders since inking the deal last year. The largest contract this year was awarded to Larsen & Toubro on the expansion of the Hasbah gas field.

"Obviously the incumbent LTA holders have been there for a lot longer and the newcomers certainly hope to be there a lot longer than 12 years,'' says Dumesnil.

Strong pipeline

Securing the LTA is a major leap for Dynamic, which is a relatively new entrant in Saudi Arabia's oil and gas projects market. It has yet to win a major deal, but Dumesnil says the project pipeline is very strong.

"Each of us is bidding on an abundance of work. Aramco is going through their process and award of these works is on schedule,'' he says, adding that outstanding contract release purchase orders (CRPOs) will be awarded and the LTA holders will have a "great amount of work to execute".

The Saudi market, according to Dumesnil, is a perfect fit for a company with the size and skill-set of Dynamic. The technical requirement to carry out work under the LTA is right within the fairway of what Dynamic does, including offshore construction in shallow-water fields, brownfield, greenfield, the hook-up and commissioning of the structures.

"Frankly, we have done it in parts of the world that are a lot less accommodating to do business in than the kingdom. For us, doing business in Saudi Arabia – being in parts of the world including West Africa and elsewhere – is a breath of fresh air."

Saudi focus

Dynamic, which has been present in West Africa and the Caribbean Basin for more than a decade, is pursuing business in Brazil as well and has formed an alliance with a local fabricator in the country. However, Saudi Arabia is the market where it is most keen to expand its footprint.

"Right now, our complete focus is on the kingdom," he says. "Saudi Arabia is obviously our newest area where we believe the greatest opportunity exists."

Aramco's commitment to maintain, improve and expand its oil and gas infrastructure makes it a very attractive market for local, regional and international EPC contractors. The oil and gas giant, which has been the main revenue earner for the kingdom over the past eight decades, has an overall spending target of $334bn over the next decade across the value chain of the oil and gas sector.

"What exists in the kingdom doesn't exist anywhere elsewhere today, which is an operator that is committed to its capital [spending] budget," says Dumesnil. Most of the other operators are in a cut-back mode and many of Dynamic's traditional clients in West Africa have substantially reduced their capital expenditures, he explains.

A slide in oil prices from a mid-2014 peak of $115 a barrel has forced global oil majors to reduce capital expenditures, and Dynamic does not see a turnaround in global project spending this year or the next.

“We will see things tip back up as we see commodity prices increase, but not in the 2016-17 time frame,’’ says Dumesnil. “Aramco stands unique among the major operators in the world as it is the only operator committed to maintain its level of capital expenditure.”

Regional expansion

Like their counterparts, many of the national oil companies in the GCC have also scaled back spending and Dynamic feels it is not the right time to expand its footprint elsewhere in the GCC countries, which account for about a third of the world’s proven oil reserves.

“Like any other company, we look forward to opportunities elsewhere,” says Dumesnil. “But for the next five to 10 years, our exclusive focus is the GCC and we will be developing our relationship with Aramco. Obviously, Kuwait and the UAE are the markets we are interested in because of the operators there. They commit themselves to healthy capital budgets, so I think you are looking at a 2020 and beyond time frame, when Dynamic will be getting involved in those areas,” he explains, adding that where the company stands today, the other regional markets are “secondary” at the moment.

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