

CORPORATE OUTLOOK

TGS model weathers the storm and draws imitators

Company about to **face new challenges** in the market but it remains unfazed

ANDREW McBARNET
Vancouver

IN THE marine seismic multi-client business, TGS has enjoyed an unchallenged run of success.

Over the past two decades it has reported profits virtually every quarter. It has never missed a dividend payment to shareholders, even in the darkest hours of the industry in 2015-16.

TGS chief executive Kristian Johansen, who was promoted from chief operating officer upon the retirement of former chief executive Robert Hobbs, in 2016, has had to meet the challenge of maintaining the company's momentum.

Potential trouble in the wings could be brewing, however, from Schlumberger's WesternGeco division and CGG, previously two of the heaviest hitters in the marine seismic contracting field.

Outsourced

Both companies have concluded that the vessel ownership business model is unsustainable. In a serious case of imitation being the sincerest form of flattery, they have each said goodbye to vessel ownership and are following the TGS model — that is to say, they will continue to build their already substantial multi-client libraries but acquisition of all future data will be outsourced.

In so doing they have set themselves free of the burden of maintaining and operating boats profitably in a highly cyclical market, something no marine seismic contractor in history has ever been able to sustain over any length of time.

Johansen is unfazed by the new turn of events.

"Rationalisation of the supply market to just three players — Shearwater, PGS (Petroleum Geo-Services), and Polarcus — is a good thing for the industry," he says.

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Method: TGS chief executive
Kristian Johansen
Photo: JAVAD PARSA

20% in survey vessel prices. That is healthy for a business which has suffered such a serious downturn. As far as extra competition is concerned, we are ready to face it."

He is unconcerned about the availability of vessels, even though the global seismic fleet has shrunk from 65 or so vessels five years ago to around 25.

"We have been a major client for all the marine seismic contractors

through the best and worst of times and have maintained a close relationship with them. I don't see anything changing there," he says.

In the next three years, TGS intends to up its game in the area of processing, which Johansen concedes has never been the company's strongest suit.

"This has partly been because most of our processing is carried

out on data gathered during our multi-client projects. The client companies have therefore not enjoyed a close relationship with our team," he says.

"That has to change, because having data and being able to optimise its value for our customers is where the market is leading."

TGS contemplated acquiring an established processing company but in the end, "we decided we

could do better by developing our own system," Johansen says.

"It will be a hybrid mixture of what we have now and investment in cloud technology. We mean to be in a flexible position, able to offer both proprietary and contract processing, and are engaging with some of the supermajors to see how we can improve our imaging services further."

Over and above intensifying competition, Johansen acknowl-

edges that TGS' fortunes are at the mercy of the economic climate and E&P oil and gas spending.

He does not like to contemplate what might happen to the seismic business should the current warnings of a coming recession become reality.

For the moment he is positive. "We expect, year-on-year, small-percentage increases in exploration expenditure. Oil companies are still using their money to trade assets, buy back stock and focus on maximising production from existing reserves.

"In our opinion, this can only go on for so long, and the longer they delay spending on finding more oil, the more dramatic will be the upturn."

In the multi-client towed streamer market, TGS operations in the Western Hemisphere in the second quarter of this year included joint venture surveys with PGS off Eastern Canada, deploying three vessels, plus three projects off Brazil.

It also had one vessel active off Norway and two off West Africa, one a joint venture. The winter

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season may see more projects south of the Equator, for example in Australasia and South America. A likely pointer to future growth for TGS has been its involvement in two node-based seabed seismic surveys.

The Amendment Phase 1 survey, a 2758-square kilometre survey in collaboration with WesternGeco that finished last month, was the largest deep-water node survey so far in the US Gulf of Mexico.

The company has also been partnering with Axxis Geo Solu-

real value to our clients. Sparse node surveys can open up exploration data opportunities.

"Whether there will be sufficient work to support the growing number of companies offering seabed seismic technology and services is another question," he says.

Since 2012, TGS has been diversifying into onshore seismic in the US and Canada, leveraging its multi-client expertise.

It is a move that ties in with its global well data collection that includes nationwide US production data, directional surveys and a custom well file database.

Using R360, TGS' integration platform, it offers a simplified approach for companies to integrate geotechnical data and applications with exploration data.

"The Permian, Scoop and Stack and some other key basins have been good for us, indicating that companies continue to need the basic understanding of unconventional plays before drilling. Argentina and Mexico are other locations we are looking at," Johansen says.

"Because we often own the underlying data, the additional benefits of the better imaging possible from seabed seismic are of

Savings open up a return

PROPRIETARY seismic surveying once dominated marine seismic survey operations with 70% of the market and the remaining 30% devoted to multi-client, or 'spec' as it used to be known, writes Andrew McBarnet.

That ratio has been reversed as companies have realised the savings in survey cost from sharing and the reduced regulatory hassle, for example navigating survey permitting in different offshore regimes.

As competition has grown, the process of creating and selling a multi-client survey in countries around the world has become even more crucial to companies such as TGS. How it works is still something of a secret, according to chief executive Kristian Johansen.

"We have 40 to 50 people around the world developing projects based on our extensive geological knowledge of the area," he says.

"They work with governments, regulators, and potential oil company investors, and yes, our competitors may often be knocking on the same doors. We think our advantage is that we are a known and trusted quantity and usually have a well-established data library, which a new project will supplement."

TGS differs from its competitors in how it treats the pre-funding of its multi-surveys.

According to Johansen, it is the only company that defines pre-funding as the financial commitments made by oil companies before the first shot point of a survey.

"Our peers tend to call pre-funding any sale you make until the project is finished," he says. "This can be quite a long time."

It is really about how much risk you are willing to take, he says. "You don't need as much pre-funding for open blocks proposed for survey in the US Gulf of Mexico before a lease sale compared, say, with areas such as off Brazil where there are fewer players, some more aggressive than others."

Facing up to future

TGS chief executive Kristian Johansen is a strong believer in following the environmental, social and governance factors that can benefit investors and the wider community.

In its way the multi-client business model is a good example, he says. "Instead of a whole lot of differently planned surveys over the same area, we are using one vessel with less impact."

His concern is that the industry is ducking the issue.

"When attacked as environmentally unfriendly, the supermajors too often hide, rather than face reality, by talking about windmills, solar power and renewables," he says.

"In my opinion we have a responsibility to educate people about the facts and be seen to be doing what we can to reduce our carbon footprint."

Johansen continues: "That means not being afraid to acknowledge that we will need oil and gas for the foreseeable future."

Spectrum transaction adds to range on the palette

TGS chief executive Kristian Johansen is currently excited about his company's \$400 million takeover of rival marine seismic multi-client specialist Spectrum, owner of the world's largest 2D seismic data library, writes Andrew McBarnet.

"It is actually a consolidation. We now have Schlumberger, CGG and ourselves as the main multi-client players, along with PGS (Petroleum Geo-Services), the only one which continues to operate a seismic fleet."

In his view, the Spectrum transaction,

which was finalised in August, makes a lot of sense. "The two companies are very similar, although we are much bigger, with a current capitalisation of close to \$3 billion.

"In its recent years of growth, Spectrum made no secret of the fact that it was copying our example. It did this very successfully. Fortunately, it built its business in regions where we have traditionally been rather weak, particularly Latin America, so we are very complementary."

Johansen believes that the South

Atlantic, including Latin America and West Africa, could in the future turn out to be the most profitable of the company's strategic revenue "hubs".

Following the acquisition, he says, the company has no significant geographical gaps in its worldwide multi-client data coverage.

"We just need to make sure that we continue to deliver. In our favour is a strong balance sheet with almost \$500 million in liquidity and no debt.

It allows us to sustain combined multi-client investments, probably in excess

of \$400 million this year," he explains. The company is currently focused on the integration of Spectrum, targeted to yield savings of \$20 million. He anticipates that almost 50% will come from data processing, which Spectrum partly outsourced.

Another chunk should come from streamlining of administrative functions such as systems, office locations and marketing.

"In the end, I am hoping that we will not be faced with too much people overlap to deal with," he says.