

Research Update:

# Odfjell Drilling Ltd. 'B+' Rating Affirmed On Rig Acquisition; New \$650 Million Notes Rated 'BB'; Outlook Stable

November 17, 2025

## Rating Action Overview

- [Odfjell Drilling Ltd.](#) (ODL), through its subsidiary Odfjell Rig III Ltd., intends to raise a \$650 million, 5.25-year senior secured first-lien notes public offering. We understand it will use the proceeds, together with additional \$309 million in bank debt and \$3 million cash on hand, to fund the redemption of the existing \$310 million senior secured notes due 2028, repay the existing bank facility on Deepsea Nordkapp amounting to \$133 million, fully repay the \$15 million revolving credit facility (RCF) currently outstanding, and finance the acquisition of its new rig for \$480 million from its \$250 million bank facility.
- We regard the acquisition as relatively low risk because the rig comes with a long-term contract with Equinor of two years. At the same time, we continue to believe that the group has a limited scale with five rigs only, pro forma the transaction operating in Norway.
- Therefore, we affirmed our issuer credit rating of 'B+' on the company. We also affirmed our 'BB' issue-level rating and '1' recovery rating on the company's existing \$310 million senior secured notes due 2028. The recovery rating reflects our expectation for 95% recovery, and we anticipate we will withdraw our rating on the notes as soon as the transaction is settled. We also assigned a 'BB' issue-level rating and '1' recovery rating to ODL's \$650 million proposed senior secured first-lien bond. The '1' recovery rating indicates our expectation for very high (90%-100%; rounded estimate: 95%) recovery of principal in the event of a payment default.
- The stable outlook reflects our view that ODL's credit measures will remain commensurate with the ratings over the next 12 months, with debt to EBITDA well below 3.0x, supported by continued robust drilling activity on the Norwegian continental shelf.

## Rating Action Rationale

**We anticipate ODL's leverage will remain well within the bands of its current 'B+' rating.** ODL is paying \$480 million for a rig that is on a firm contract with Equinor until Q1 2028, and we

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anticipate it will add about \$100 million in company-reported annual EBITDA to the group's current annual run rate expected EBITDA of \$450 million-\$500 million for 2025.

The transaction is a good strategic fit given the company's strong expertise in the region and the already strong relationship with Norway's largest oil and gas producer. We anticipate pro forma the proposed acquisitions, the company's fleet will increase to five owned units from four. We believe its fleet consisting of a handful of rigs continues to compare negatively with similarly rated peers such as Valaris and Seadrill because unforeseen events hampering ODL's ability to operate one rig would have a material impact on its cash flows.

That said, we view the acquisition as marginally positive for the company's business. Under our revised base case, we anticipate its debt to EBITDA will be 1.5x-2.0x in 2026-2027 on average. This is marginally better compared with 1.9x recorded by the company in 2024. Therefore, we continue to expect S&P Global Ratings-adjusted leverage of 2x-3x, well entrenched with its 'B+' rating.

**Above-average operating efficiency and profitability continue to support the ratings.** While ODL's fleet is small, we believe it is very well managed, with an overall utilization rate of close to 99% over the past few years. This, combined with the rigs' high technological specifications, allows the company to contract the rigs more often and at higher day rates than peers. This supports ODL's superior profitability, with EBITDA margins of over 40% on average. However, we note the own fleet's EBITDA is materially higher

Furthermore, the acquired rig does not impact the supply demand situation in Norway given the unit is already present on the Norwegian Continental Shelf. We should also see backlog increases to \$2.2 billion (compared to \$1.5 billion at the end of third-quarter 2025), thanks to the \$355 million added from new rig Deepsea Bollsta and the new contract for Deepsea Aberdeen allowing for strong revenue visibility well into 2027 and beyond. This will provide the company with ample headroom for capital expenditure (capex) and some shareholder remuneration. ODL's strong customer relationships, notably with Equinor, are being strengthened, and work for Aker BP and other large operators in Norway lead us to believe the company will continue to have a superior ability to contract the rigs, even at low points of the cycle.

**ODL takes a prudent approach to its balance sheet in the context of high industry volatility.**

Despite drilling being a cyclical industry, ODL is less prone to large EBITDA variations thanks to its long-term contracts with clients, as well as the harsh environmental conditions in Norway, which limit the number of rigs that can work there. The company went through the previous industry downturn without experiencing a default or distressed exchange. We therefore believe its prudent leverage target of company-defined net debt to EBITDA of at most 2x at even at the bottom of the cycle and the absence of dividend payments if debt to EBITDA is above 2.25x supports the rating. The announced transaction will only temporarily increase leverage, but to a level that is comfortably within our anticipated range for the rating level.

**We expect very high recovery prospects for the new proposed \$650 million senior secured notes.** We understand the company will use the proceeds, together with additional \$309 million bank debt and \$3 million cash at hand, to fund the redemption of the existing \$310 million senior secured notes due 2028, repay the existing bank facility on Deepsea Nordkapp amounting to \$150 million, repay in full the \$15 million RCF currently outstanding, and finance the acquisition of its new rig for \$480 million from a \$250 million bank facility. In our view, the company's sources of liquidity will be more than enough to cover its uses because at signing it will have backstop facilities to fund the acquisition should the proposed bond issuance be postponed.

## Outlook

The stable outlook reflects our expectation that ODL will reduce its leverage after the acquisition of its fifth rig thanks to the long-term nature of its contracts, providing it with the scope to face headwinds at lower points in the cycle. We believe its fleet of rigs will continue to achieve above-average utilization and efficiency rates. We anticipate debt to EBITDA of 2x-3x, which is commensurate with the 'B+' rating.

### Downside scenario

We could lower our rating on ODL if we anticipate weaker credit metrics, such as debt to EBITDA consistently above 3.0x or funds from operations to debt below 30%. This could occur if:

- Weaker commodity prices impair demand for offshore drilling services, making it more challenging for the company to re-contract its rigs at favorable day rates; and
- ODL adopts a more aggressive financial policy on dividends and capital spending.

### Upside scenario

We view the rating upside as limited in light of ODL's asset and geographic concentration. Such upside is linked to increased scale and cash flow generation, with less dependence on individual assets. The rating upside could also rise if the company's financial policy targets become much more stringent, for example with a capital structure that is close to free of net debt such that debt to EBITDA would be well below 1.5x at all points of the cycle.

## Company Description

Founded in 1973 but with roots dating back to 1914 and headquartered in Aberdeen, Scotland (incorporated in Bermuda), ODL owns and operates mobile offshore drilling units predominantly in Norway. As of Dec. 31, 2024, the company employed 1,547 people. Through its various subsidiaries, ODL has eight rigs in total, five that it owns and three that it operates under management contracts.

The company operates through two main segments: own fleet and external fleet. The drilling operations and management of ODL's own rigs reflect contracted day rates and additional incentives. It only offers operational management to the owners of the rigs in the external fleet, for which it receives a management fee. Although limited, its customer base mostly consists of tier 1 exploration and production companies such as Equinor, Aker BP, Exxon, and Shell.

ODL is a publicly traded company with all its ordinary shares listed on the Oslo Stock Exchange. Its majority owner is Helene Odfjell, who holds 49.9% of the publicly traded shares through Odfjell Partners Holding Ltd. No other shareholder owns more than 10% of the shares. As of Nov. 13, 2025, the company's market cap reached \$1.8 billion.

## Our Base-Case Scenario

### Assumptions

- Revenue of \$850 million-\$900 million in 2025 pro forma the planned acquisition, increasing to \$950 million-\$1,050 million per year in 2026-2027, compared with \$775 million in 2024;

- The execution of the current rig contracts and options, with 95%-100% utilization of ODL's own rigs;
- All-in day rates of about \$500,000 per day over 2025-2027 compared with \$470,000 in 2024;
- EBITDA margins of about 50% in 2025-2027, improving from 44.5% in 2024;
- Capex of \$50 million-\$100 million in 2026-2027, increasing from \$132 million recorded in 2024;
- Dividends of \$150 million-\$250 million per year in 2025-2026, up from \$58 million recorded in 2024; and
- The acquisition of one rig for \$480 million and no other acquisitions.

## Key metrics

### Odfjell Drilling Ltd.--Forecast summary

Period ending	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025	Dec-31-2026	Dec-31-2027
(Mil. \$)	2022a	2023a	2024a	2025e	2026f	2027f
Revenue	650	733	775	874	1,060	1,043
EBITDA	308	329	345	451	605	580
Less: Cash interest paid	(45)	(56)	(60)	(57)	(56)	(58)
Less: Cash taxes paid	(2)	(6)	(8)	(11)	(18)	(25)
Funds from operations (FFO)	261	267	277	383	514	467
Cash flow from operations (CFO)	275	265	288	371	484	464
Capital expenditure (capex)	67	66	132	139	79	53
Free operating cash flow (FOCF)	209	199	156	231	405	411
Dividends	2	28	57	159	264	288
Share repurchases (reported)	75	--	--	--	--	--
Discretionary cash flow (DCF)	131	170	99	54	141	123
Debt	911	775	666	1,085	1,007	907
<b>Adjusted ratios</b>						
Debt/EBITDA (x)	3.0	2.4	1.9	2.4	1.7	1.6
FFO/debt (%)	28.7	34.4	41.6	35.3	51.0	51.4
FOCF/debt (%)	22.9	25.6	23.4	21.3	40.2	45.3
DCF/debt (%)	14.4	21.9	14.8	5.0	14.0	13.6
Annual revenue growth (%)	13.5	12.8	5.8	12.8	21.2	(3.4)
EBITDA margin (%)	47.5	44.9	44.5	51.6	57.1	54.8
Return on capital (%)	6.2	6.9	7.3	11.3	14.3	13.3

All figures are adjusted by S&P Global Ratings, unless stated as reported. a--Actual. e--Estimate. f--Forecast. \$--U.S. dollar.

## Liquidity

We continue to assess ODL's liquidity as adequate and expect sources of funds to exceed uses by more than 1.2x over the next 12 months. In addition, we expect that sources would exceed uses even if our projected EBITDA figure were to decline 15%. The refinancing is in line with our liquidity assessment.

Principal liquidity sources	Principal liquidity uses
<ul style="list-style-type: none"> <li>Cash and cash equivalents of about \$95 million pro forma the transaction;</li> <li>Funds from operations of \$190 million-\$200 million over the next 12 months; and</li> <li>A long term committed RCF of \$150 million due in 2030 (fully undrawn).</li> </ul>	<ul style="list-style-type: none"> <li>Debt maturities of \$115 million, including the amortization of the new debt;</li> <li>Capex of about \$75-\$125 million over the next 12 months; and</li> <li>No working capital requirements or dividend distributions over the next 12 months.</li> </ul>

## Covenants

The bond and term loan in ODL's debt structure have the following covenants:

- A leverage ratio of 2.25x or less (the ratio is currently above 1.0x); and
- Free liquidity of \$50 million or more.

We expect ODL will have ample headroom under these covenants over the next 12 months.

## Environmental, Social, And Governance

Environmental factors are a negative consideration in our credit rating analysis of ODL due to our expectation that the energy transition will reduce the demand for offshore drilling rigs and services, as accelerating adoption of renewable energy lowers the need for fossil fuels. In view of its exposure to the offshore drilling market, the company faces higher environmental risks than onshore rig contractors due to its susceptibility to operational interruptions and damage to its equipment in its harsh operating environments. However, we believe ODL's operational track record in Norway partly mitigates these risks.

Social factors are a neutral consideration in our ratings on ODL thanks to the company's safety record and presence in very low-risk countries, notably Norway.

Governance factors are a neutral consideration for ODL due to its historically conservative approach to leverage and long track record of successful operations.

## Issue Ratings--Recovery Analysis

### Key analytical factors

- We assigned our 'BB' issue rating to ODL's \$650 million proposed senior secured bond due 2030.

- The '1' recovery rating on the senior secured bond indicates our expectation for very high (90%-100%; rounded estimate: 95%) recovery of principal in the event of a payment default. This recovery rating leads us to apply a two-notch upward adjustment to the 'B+' issuer credit rating to arrive at our 'BB' issue-level rating.
- Our hypothetical default scenario contemplates a prolonged deterioration in cash flows as capital spending on offshore oil and gas exploration and production declines significantly and demand for offshore drilling services decreases.
- We value ODL using a discrete asset-based approach, which is consistent with our treatment of other contract drilling companies. We assume a 5% annual depreciation rate and a 50% realization rate on the company's drilling equipment, based on third-party valuations.

### **Simulated default assumptions**

- Simulated year of default: 2030
- Insolvency jurisdiction: UK

### **Simplified waterfall**

- Net enterprise value (after 5% administrative costs): \$925 million
- Total collateral value available for the \$650 million secured debt: \$538 million
- Total secured bond debt outstanding at default: \$558 million\*
- --Recovery expectation: 90%-100% (rounded estimate: 95%)

\*All debt amounts include six months of prepetition interest.

## Rating Component Scores

### Rating Component Scores

Component		
Foreign currency issuer credit rating		B+/Stable/--
Local currency issuer credit rating		B+/Stable/--
Business risk		Weak
Country risk		Very low risk
Industry risk		Moderately high risk
Competitive position		Weak
Financial risk		Aggressive
Cash flow/leverage		Aggressive
Anchor		b+
Modifiers		
Diversification/portfolio effect		Neutral/Undiversified
Capital structure		Neutral
Financial policy		Neutral
Liquidity		Adequate
Management and governance		Neutral
Comparable rating analysis		Neutral
Stand-alone credit profile		b+

## Related Criteria

- [Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities](#), Jan. 7, 2024
- [Criteria | Corporates | General: Corporate Methodology](#), Jan. 7, 2024
- [General Criteria: Environmental, Social, And Governance Principles In Credit Ratings](#), Oct. 10, 2021
- [Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments](#), April 1, 2019
- [Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings](#), March 28, 2018
- [General Criteria: Principles Of Credit Ratings](#), Feb. 16, 2011
- [Criteria | Corporates | General: Sector-Specific Corporate Methodology](#), July 7, 2025
- [General Criteria: Group Rating Methodology](#), July 1, 2019
- [Criteria | Corporates | General: Recovery Rating Criteria For Speculative-Grade Corporate Issuers](#), Dec. 7, 2016
- [Criteria | Corporates | Recovery: Methodology: Jurisdiction Ranking Assessments](#), Jan. 20, 2016
- [Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers](#), Dec. 16, 2014
- [General Criteria: Country Risk Assessment Methodology And Assumptions](#), Nov. 19, 2013

- [General Criteria: Methodology: Industry Risk](#), Nov. 19, 2013

## Ratings List

Ratings List		
Ratings Affirmed		
<a href="#">Odfjell Drilling Ltd.</a>		
Issuer Credit Rating		B+/Stable/--
Foreign Currency		B+/Stable/--
Ratings Affirmed; Recovery Ratings Unchanged		
<a href="#">Odfjell Rig III Ltd.</a>		
Senior Secured		BB
Recovery Rating		1(95%)
New Rating		
<a href="#">Odfjell Rig III Ltd.</a>		
Senior Secured		
US\$650 mil bnds due 2031		BB
Recovery Rating		1(95%)

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