

Mossberg's Investor Digest

Best Idea Profile

Vantage Drilling (Amex: VTG)

DESCRIPTION:

Two-and-one-half-year-old Vantage Drilling provides offshore drilling services to oil and natural gas E&P companies. The company owns 4 jackups (drilling up to a depth of approx. 375 feet of water) and has 45% operating interest in ultra-deepwater drillship (drilling up to approx. 12,000 feet). The drillship is contracted for delivery in this year. VTG is also paid to manage the construction and eventual operations of two other drillships and two semi-submersibles (drilling up to approx. 10,000 feet), which are scheduled for completion in 2011 and 2012.

KEY INVESTMENT CONSIDERATIONS:

Deepwater (4,500 ft.+) rig market is very resilient

– Despite the economic downturn, deepwater rates have remained relatively unchanged at approximately \$500k/day and industry-wide utilization remains near 100%. It appears the demand for deepwater drillers will continue to exceed supply as national oil companies are eager to replace reserves. For example, oil revenues funded 38% of Mexico's government budget last year. With a 5% decrease in expected production during 2010, Mexico (and many other countries) must drill in deep water to replace reserves.

New rigs are more efficient and in greater demand

– With 73% of today's jackup fleet 25 years old or older, Vantage will be in good position with the youngest fleet in the industry. Not only are younger rigs in greater demand and can generate greater day rates, they also require lower maintenance costs. Less downtime for repairs also helps drives utilization, which is key in producing returns from a high fixed cost asset. In addition, older rigs are the first to be retired during a downturn, which reduces the chances the company's rigs will sit idle.

Betting on the Jockeys – Vantage came public as a

Special Purpose Acquisition Company (SPAC) and in so doing, assembled a very experienced management team, including Paul Bragg, who was CEO at Pride International (NYSE: PDE). While Pride's performance was lackluster under the last few years of his leadership and Bragg's departure was heated (Pride and Bragg are suing each other over the terms of his separation), his early efforts at that company helped build Pride from a small domestic land-based servicing company to one of the world's largest international drilling contractors. At Vantage, he has assembled a team of experienced professionals. The other 8 members of the senior management team have over 25 years of experience, including years spent at Pride, Transocean and other well-know drilling companies.

(Nasdaq: VTG)

Investment Data (as of 11/16/09)

Recent Price	\$1.46
52-Week Range	1.29 - 2.10
Fiscal Year End	December
Shares Outstanding	224 MM
Average Trading Volume (3 mos)	1.1 MM
Market Capitalization	220 MM
Cash	66 MM
Long Term Debt	250 MM
Enterprise Value (EV)	404 MM
LT Debt/ Equity	0.26
BV/ Share	5.90
TTM Revenue	47 MM
P/ Revenue	4.7x
TTM EPS	-0.56
P/ EPS	nmf
TTM EBITDA	2.3 MM
EV/ EBITDA	Nmf

VALUATION:

Over the last year, VTG has transitioned from a development stage company with no revenue, to a full operating company with revenue and earnings. The company's valuation should expand as revenue and earnings growth will be very rapid over the next couple of years. Using fairly conservative assumptions, the four jackups and participating interest in the drillship could generate more than \$300 million in annual revenue and \$150 million in EBITDA when fully utilized. With the drillship scheduled for delivery in 1Q 2011, full utilization could be as soon as 15 months from now. The company says its net asset value is \$3.53, which includes the four jackups, interest in the drillship, and discounted cash flows from construction and management contracts. If shares were to trade inline with the company's peers, the stock would be worth \$3.20.