Tidewater Inc [NYSE: TDW]

Initiate at BUY at 2.5% | PT: $69.84

March 14th, 2025

CIMG Investment Research

Tidewater Inc: A Rising Tide Lifts Our Boats

Tidewater Inc (NYSE: TDW) is a leading global contractor of offshore support vessels (OSVs) and marine services to the offshore industry headquartered in Houston, Texas. The offshore drilling and services industry has lagged behind shale since the beginning of the shale revolution in 2014, but the tide is beginning to turn in favor of offshore operators. Worsening shale economics the growing scarcity of tier 1 inventory in the Permian basin and a slower-than-expected energy transition provide an attractive opportunity for offshore drillers to shoulder the increased demand. Despite this increasingly imbalanced supply and demand equation, in the current day-rate environment new construction is economically unfeasible. InE believes that OSV operators provide an opportunity to play the offshore drilling trade without predicting the success of an individual driller. Within the OSV space, TDW boasts the youngest fleet, strong liquidity, a global fleet, and a proven management team.

Investment Thesis

Forecast for global energy demand are consistently rising as the energy transition begins to slow. Unprecedented demand coupled with historically bearish oil sentiment offers an attractive entry point. As global energy demand continues to rise, the fundamentals of offshore drilling continue to make a compelling case. Current market sentiment reflects the previous year's bearish view of oil, yet the underlying market is beginning to shift. The current narrative around global energy demonstrates a profound misalignment between the sentiment of the market and the structural realities. The narrative that the energy transition would rapidly disrupt the fossil fuel market turned out to be more complex than any nation could have predicted. The bearish sentiment around the fossil fuel space and subsequent capital rotation into renewables underestimated the importance of cheap energy to emerging markets, reliability during peak usage, limitations of alternative infrastructure, and the industrial needs of developed nations. These limitations have to this point and continue to reinforce the necessity of fossil fuels, specifically oil, in the global energy mix. This thematic shift presents a stark contrast between the headlines and the reality on the ground. The oil capital cycle has seen continued disruptions due to underinvestment in upstream production, a direct consequence of the ESG policies that plagued Wall Street and tanked investor sentiment. As demand continues to ramp up, the supply-constrained market will require a significant recalibration. Que the left for dead offshore drillers, who can stage a resurgence to the global stage due to a decade of technological advancements, cleansing bankruptcies, and cost efficiencies which have made deepwater drilling even more competitive. Due to the long-term nature of our time horizon, there is sufficient time to outlast the fixation on declining hydrocarbon usage. Furthermore, short-term oil markets fixate on political rhetoric and transitory headwinds as they overweight short-term supply and demand fluctuations in their pricing models. Short-term surges from the United States Strategic Petroleum Reserve and surges from both OPEC+ and non-OPEC+ members distort and mask long-term declines, and current American recession fears plague oil sentiment. It is important to recognize that the large E&P companies are assessing real oil prices in the out years (2027-2035) as they assess the financial factors of these projects. Prices in these years, even in heavily conservative models, sit significantly above current strip prices with projections ranging from $70 - $90+ range. The fact of the matter is that there are natural supply constraints such as the previously mentioned underfunding in upstream capex. Additionally, the natural depletion rates in current wells necessitate new supply, even if demand were to unexplainably remain flat. The immediate reality remains, that oil is an indispensable commodity in the global economy, and demand will continue to grow throughout the time horizon of the investment.

Industrials and Energy

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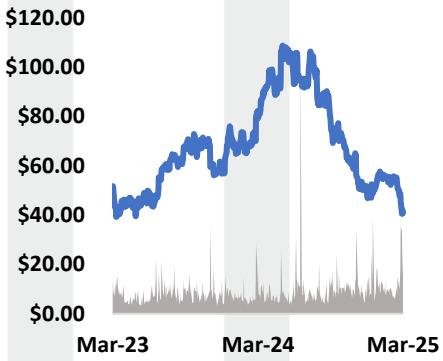
Figure 1: TDW 2 Year Stock Chart



Price	$41.45
Dividend Yield	-
PT	$69.84
Upside	68.50%
52-Week Range	$38.65-111.42
Dil Shares Out	51.5 M
Mkt Cap	$2.18 B
Ent Value	$2.41 B
NTM P/E	10.84x
NTM EV/EBITDA	4.43x
% of Float Short	11.11%

The Shale Revolution was able to rapidly take share in 2014, but as tier 1 supply becomes scarce and the cost advantage continues to erode, offshore drillers will be able to meet incremental demand with low break-even prices. The Shale Revolution was a massive milestone in the story of American energy taking a dominant position on the world stage, but the first major chinks in the armor are beginning to show. As recently detailed by the CEO of Pioneer Natural Resources Scott Sheffield, which was acquired by ExxonMobil in 2023, there are serious doubts about the sustainability of the Permian Basin's advantage. Sheffield spoke about rapidly increasing costs for new and legacy wells and rising input prices. He was quoted saying, "One of the main reasons that Pioneer sold was...we were running out of Tier 1 inventory. Everybody is running out of Tier 1 inventory. People don't talk about the fact that we are running out of inventory." This is one of the first mainstream interviews to encapsulate a critical part of the shale industry which is the rapid depletion of the highest quality assets. The continued depletion not only erodes the current profitability of the industry but places a cap on the speed at which the shale industry can grow. Sheffield stated that his former shale company would run out of tier one inventory by 2028 and tier 2 by 2032. This is alarming news, as TradingView stated Pioneer was thought to have some of the longest 'core' inventory in the region. Couple this stark reality on the supply side of the equation with a demand side that is forecast to grow, there will be a need for alternative sources to meet this demand. As this activity rotates offshore, the increased rig activity creates positive movement in the OSV day rates as they are the picks and shovels play to the offshore trade.

TDW is the strongest OSV operator with the youngest fleet, strong liquidity, a global footprint, and demonstrated operating leverage. TDW is in an incredibly unique and advantageous position in the OSV space. TDW boasts the largest fleet in an incredibly fragmented industry with over 191 vessels. Additionally, they have one of the youngest fleets in their peer set. A majority of the TDW fleet is optimized for deepwater service, which represents the largest deepwater fleet globally. Deepwater production is forecast to surge by almost 60% through 2030, and 70% of offshore commitments made through 2027 are expected to focus on deepwater zones according to Wood Mackenzie. TDW's deepwater specialization positions it to capture a significant portion of market growth over the next 3-5 years. Beyond fleet statistics, TDW's strategic acquisitions of Swire Pacific Ltd. And Solstad Offshore at fractions of their replacement value proves management is ready to take advantage of the current price dislocations in the space. This proven team gives InE confidence that they will continue to exercise superb capital allocation through the remainder of the bear market and prime TDW to accelerate ahead of peers in an inflecting day rates environment.

Tidewater's position in the offshore value chain as a supplier to all drillers serves as a natural hedge to VAL underperforming its peer group. InE recognizes that like the VAL pitch, there is little on the idiosyncratic front as this is a play on offshore drilling more broadly. The "proper" way to approach this play would be to buy a bucket of offshore drillers, as picking winners from a very tight group of comps is incredibly difficult. While InE has an extremely high conviction in VAL, there is an inherent risk in only investing in one of the offshore drilling names. TDW is unique in that it benefits from the increase in offshore activity yet is not exposed to as many of the direct risk companies like VAL face. OSV's supply to a litany of offshore drillers and this broad exposure to the offshore trade will serve as a hedge to the situation in which VAL is the laggard of its peer group. This allows us to maintain extreme conviction in the offshore trade while taking a slightly more risk-averse stance and increasing our margin of safety.

Valuation

The committee modeled TDW by calculating an appropriate EV / FCF yield for TDW to trade at in peak cycle and applied a FCF multiple to that value. As to not stray too far from CIMG's roots, the committee also did a 3-statement model, driving future cash flows primarily with increased utilization and day rates, and discounting those future cash flows to reach a terminal value. While the DCF is illustrative, it aids in visualizing the day-rates environment we are expecting. Using the projections for FCF during peak cycle, between 2028 and 2029, our projections yielded a PT of $69.84, or 68.5% upside.

Company Overview

Tidewater Inc (NYSE: TDW), is the world's leading provider of offshore service vessels. TDW operates 191 vessels and serves customers in over 30 countries across the Americas, Asia Pacific, the Middle East, West Africa, and the Europe/Mediterranean regions. Founded in 1956 and headquartered in Houston, Texas, TDW has established itself as the global leader through its extensive and modern fleet. The fleet consists of 139 platform supply vessels, which are used to transport essential supplies, crew, and cargo to and from offshore oil and gas rigs and other offshore installations. The remaining vessels in the OSV fleet are Anchor Handling Towing Supply (AHTS) Vessels. These ships are used to serve offshore rigs during mooring and towing operations in a variety of sea conditions. TDW has a concentrated customer base, with Eni S.p.A. accounting for 12% of revenue, and other major players like the Saudi Arabian Oil Company account for similar amounts. TDW is led by CEO Quentin Kneen, who has been with the company for 17 years.

Industry Overview

Offshore drilling is the process of drilling into the ocean floor to extract pockets of oil and natural gas that lie under the surface. TDW competes with companies like Edison Chouest Offshore, Hornbeck Offshore Services, COSL, and Bourbon. However, TDW is unique in the size of its fleet, its global focus, and its strong balance sheet. Key drivers of the offshore industry are heightened exploration activities in regions like the Gulf of Mexico, Brazil, and West Africa, alongside the global shift toward offshore wind energy projects. These factors have been unable to sustain a positive narrative, as continued challenges such as vessel oversupply, volatility in the crude oil markets, environmental regulations, and increasing geopolitical tensions grab headlines. However, decreasing shale performance and a decade of innovative designs, digitalization, and eco-friendly technologies have provided a runway for offshore drilling, and by extension OSV operators to thrive.