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'And no one cares'

"We run a three-to-five stock portfolio. We view the stock market as just a very convenient place to find bargains. We're really more industrial investors. We think of ourselves as business owners."

So Darren Maupin, founder of Pilgrim Global Advisors, LLC, introduced himself to the *Grant's* audience. Deep underwater drilling, in general, and Noble Corp. plc (NE on the New York Stock Exchange), in particular, a component of that select Pilgrim portfolio, were his topics.

When oil traded for less than zero during the Covid panic, said Maupin, "we stopped everything else we were doing. We said, 'We're going to focus on energy, the whole energy supply chain.' And the first thing we did was we invested in Canadian natural gas. We underwrote it based on the value of the midstream assets. But while we were doing this, we also noticed the entire offshore-drilling business was going bankrupt. So we started paying attention. As it went through the chapter 11 process and started to emerge, we initiated a position in Noble."

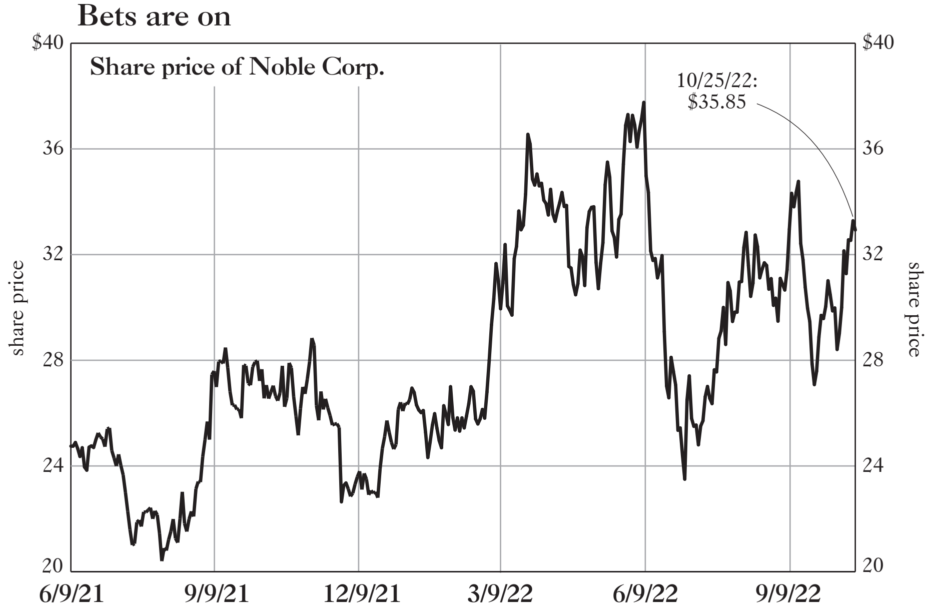
The seagoing vessels that draw oil from as deep as 12,000 feet below the surface are nothing like dumb iron, Maupin went on. "The technology is incredible. Last cycle, a number of engineers moved from NASA to this industry because it was more challenging. These things cost more or less a billion dollars to build. They weigh more than an aircraft carrier. They have the thrust of a SpaceX Falcon 9 rocket, which enables them to hold position for months at a time amid 19-foot waves and wind speeds of up to 55 miles an hour. They drill through the equivalent of two Mount Everests."

"One anecdote," he said. "I was talking to a Norwegian family that happened to build a lot of these rigs last cycle. And the scion of the family told me told me a few things. Firstly, we're not even welcome at cocktail parties. Secondly, we had some options at our preferred yard in Singapore. And we went recently to talk to them about those options, to see if we could renegotiate and push them out another decade. Why not? Right?

"The yard sat them down. And they said, 'You can forget about your options. You're not going to exercise them. We're not going to build a rig for you. And in fact, we're not going to build rigs ever again.' That wasn't a year ago or two years ago during Covid. That was this year. That was August. We're worried about Europe freezing. That's the mood in this industry. So we're not building rigs."

Our speaker put up a slide comparing SpaceX with the offshore-drilling industry. "SpaceX at the most recent private valuation was $120 billion, 10 times the aggregate of our offshore drillers—this is bull market stuff, story stocks go to Mars. But our drillers, these drillers are necessary to keep the earth turning. Right now they're getting pricing and contract duration. Return of capital is imminent. The whole shareholder base is transitioning from the distressed-debt guys

Bets are on



source: The Bloomberg

who took them through chapter 11 to more-natural equity holders.

"So in summary, front-end-loaded returns, asymmetry, constantly declining residual-value risk as they sign each new contract, 25% free cash flow yield, debt free. We like getting paid to wait. We have really patient capital. We have a three-to-five-year time horizon. We don't know when this will play out, but we're pretty comfortable sitting and waiting."

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