

September 5, 2008

**Recovery Report:**

# Oceanografía S.A. de C.V.'s Senior Secured Notes

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On Sept. 5, 2008, Standard & Poor's Ratings Services affirmed its senior secured debt rating and assigned a recovery rating to Oceanografía S.A. de C.V.'s \$335 million senior secured notes maturing in 2015. The notes are rated 'B+' (the same as the long-term corporate credit rating) with a recovery rating of '3', indicating that lenders can expect meaningful (50% to 70%) recovery in the event of payment default.

The distinctive characteristics of particular jurisdictions' insolvency regimes have a significant effect on the amounts ultimately recovered, the time to recover such amounts, and the overall predictability of the process. Based on our review, we have assessed Mexico's insolvency regime as a Group B jurisdiction, resulting in the capping of both recovery and issue ratings.

Our classification results in jurisdiction-specific adjustments to our recovery ratings, namely the capping of both recovery ratings and the differential between the issuer credit and issue ratings in countries where we expect debtor-friendly insolvency regimes to affect the recovery process and actual recovery rates negatively. These caps increase the transparency and consistency of our assessments of the effect of countries' insolvency rules--especially countries that are less creditor friendly--when assigning recovery and issue ratings. (See "Update On Post-Default Recovery In Latin America," published Jan. 8, 2008, on RatingsDirect.)

The affirmation of the senior secured debt rating and the assignment of the recovery rating follow the introduction of the new recovery methodology that replaces the traditional notching guidelines we have been using for speculative-grade issuers in Mexico. (See "Introducing Recovery Ratings In Mexico" and "Debt Recovery For Creditors And The Law Of Insolvency In Mexico," both published Sept. 19, 2007, on RatingsDirect.)

The notes are senior secured obligations, ranking equally in right of payment with Oceanografía's existing and future senior secured obligations, senior in right of payment to all of its existing and future subordinated indebtedness, and junior to all liabilities of its future subsidiaries that do not guarantee the notes. (Currently the company does not have any subsidiaries.)

The likelihood of default for Oceanografía's debt is reflected in the 'B+/Stable/--' corporate credit rating, which has not changed. (For the complete corporate credit rating rationale on Oceanografía, see Standard & Poor's research report published July 14, 2008, on RatingsDirect.)

**Table 1**

Oceanografía S.A. de C.V.--Credit Profile					
Corporate credit rating	B+/Stable/--				
Facility/Issue	Issue rating	Recovery rating	Expected recovery (%)	Maturity	Repayment
\$335 million senior secured notes	B+	3	50-70	2015	Bullet

## Recovery Analysis

### Simulated default scenario

Standard & Poor's default scenario assumes a continued decrease in commodity prices, leading to a reduction in offshore oil and gas exploration and production spending and delays in the start-up of new projects. This would reduce the demand for marine services worldwide, which would be aggravated by excess equipment capacity in the market and creating a more competitive environment. Margins for shipping companies providing offshore services would be under pressure and EBITDA would be reduced.

We also assume that Oceanografía's backlog with Petróleos Mexicanos (PEMEX) declines substantially over the next four years. PEMEX is by far the company's largest customer, representing 99% of Oceanografía's revenues in 2007 and 95% during first-quarter 2008. Some of the reasons why this could happen are:

- Changes in capital spending by PEMEX;
- Changes to the Mexican laws that confer preferential treatment to Mexican-flagged vessels in awarding contracts; and/or
- Administrative proceedings and contractual disputes with PEMEX, arising in the ordinary course of business, that could hurt the company's relationship with PEMEX.

Our default scenario further assumes that the collateral supporting the senior secured notes has been fully perfected.

### Valuation

In analyzing recovery prospects in this case, Standard & Poor's used a discrete asset methodology, assessing the collateral value of the company's fleet including newbuilds, instead of calculating its enterprise value in a postdefault scenario.

As a first step, we used the estimated market value of the company's vessels that constitute the notes' guarantee and applied a 60% discount based on the fact that current market values are assumed to be close to their peak given recent trends in oil prices. Given that we assume that Oceanografía would default during a cyclical downturn, the value of the vessels in that scenario would be much lower than their estimated value today.

As a second step, we estimated the resources that would be available to the secured note holders, taking into consideration Oceanografía's other assets and liabilities. Other assets consist of vessels, most of which have not been delivered and have liabilities associated with them, and other equipment. Many of these vessels are financed under various international jurisdictions. Depending on the dates the vessels come on stream and the corresponding financing arrangements at that point, the creditors could face different recovery values. We applied discounts of 60% to 75% to the estimated market value of these assets.

### Results

Our assumptions yielded a net collateral value available for the senior secured creditors of \$173 million at default. Based on this, we obtained a '3' recovery rating, suggesting the expectation of meaningful (50% to 70%) recovery of principal on the senior secured notes.

## Transaction Summary

**Table 2**

Transaction Summary	
Facility	Senior secured notes
Borrower	Oceanografía S.A. de C.V.
Guarantors	Currently there are no subsidiaries. All future subsidiaries other than unrestricted subsidiaries.
Structure	No amortization until maturity. Optional prepayment under certain conditions.
Legal jurisdiction/issues	U.S.
Key covenants	Incur additional debt, pay dividends, repurchase capital stock or subordinated debt, make some type of investments and sell assets, create liens, transactions with affiliates, consolidations and mergers.

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