

Offshore oil drillers: institutional industry primer

As of Aug. 20, 2026 | Sources: Octus Fundamentals, Intel, PCA

Executive summary

Offshore contract drilling is in a structurally better position than it was during the post-2014 downturn: years of limited newbuild activity, scrapping and consolidation have constrained high-quality rig supply just as major oil companies and national oil companies are again allocating capital to offshore resources. The improvement is strongest in ultra-deepwater floaters, where high-spec seventh-generation drillships are achieving dayrates above \$400,000 and utilization is tightening; the jackup market is less uniform, with approximately 90% modern-rig utilization but meaningful weakness and uncertainty in the Middle East. ([Americas Monthly Credit Downgrades/Upgrades - June 2026 - July 2026](#))

For creditors, the central issue is no longer simply whether offshore drilling survives—it is which operators can convert stronger dayrates and utilization into durable free cash flow before the next downcycle. Capital structures vary enormously: Transocean is deleveraging rapidly but remains materially leveraged, Valaris has historically carried a much cleaner balance sheet, while Borr has moved in the opposite direction by adding rigs and debt ahead of an anticipated jackup recovery. ([Offshore Drillers - March 24, 2026](#))

The most important industry development is consolidation. Transocean's pending \$5.8 billion all-stock acquisition of Valaris would create the world's largest offshore contract driller, with roughly \$10 billion of announced pro forma backlog at deal announcement, while Noble has already absorbed Diamond Offshore. ([Transocean's Acquisition of Valaris - February 9, 2026](#))

Among the selected credits, Borr currently presents the clearest balance-sheet risk, whereas Transocean's credit trajectory has improved materially and Valaris entered its pending combination from a substantially less leveraged position.

1. Industry description

What industry participants do

Offshore drillers own and operate mobile offshore drilling units (MODUs) used by oil and gas producers to drill, complete and sometimes intervene in offshore wells.

They generally do not own the hydrocarbons and typically do not bear the direct commodity-price risk of an E&P producer. Instead, they provide the rig, equipment and personnel necessary for the producer to drill.

The major asset categories are:

Rig type	Primary environment	Typical customer use	Economics
Drillship	Deepwater / ultra-deepwater	Complex exploration and development wells	Highest capability and generally highest dayrates
Semisubmersible	Deepwater and harsh environments	Deepwater and harsh-environment drilling	High specification; niche advantages in some basins
Jackup	Shallow water	Lower-cost, shorter-cycle development drilling	Lower dayrates and generally lower operating cost

The economic distinction matters. Recent Valaris data showed 2026 average drillship dayrates around \$416,000/day, versus roughly \$126,000/day for jackups. ([Offshore Drillers - March 24, 2026](#))

That creates effectively two related but different markets: deepwater floaters, dominated by high-specification drillships and semisubmersibles, and shallow-water jackups.

Value proposition

An offshore well can cost hundreds of millions of dollars and is only economic if drilling is completed safely and efficiently. Producers therefore value:

- Technical capability
- Reliability and uptime
- Safety record
- Crew quality
- Geographic operating experience
- Rig specification and age
- Ability to deploy multiple rigs across major offshore basins

The newest rigs can earn meaningful premiums. Valaris previously estimated seventh-generation drillships were commanding roughly a 25% dayrate premium and 10 percentage points higher utilization than sixth-generation units. ([Valaris Earnings Analysis - August 1, 2025](#))

Who pays?

Customers are primarily:

- Integrated oil majors: Shell, Chevron, TotalEnergies, Equinor, etc.
- National oil companies: Petrobras, Saudi Aramco, QatarEnergy, Pemex and others.
- Independent E&Ps: particularly in the Gulf of Mexico, West Africa and other offshore basins.

How industry operators make money

The basic model is straightforward:

Revenue $\approx$ contracted operating days $\times$ dayrate + reimbursables / ancillary revenue

A drillship earning \$450,000 per day for a full year would theoretically generate roughly \$164 million of annual contract revenue before downtime and other adjustments.

Three variables therefore dominate revenue:

1. Dayrate

The daily amount the customer pays for the rig.

A change in dayrate can have very high incremental margins because much of the rig's operating-cost base does not move proportionately with price.

2. Utilization

A \$450,000/day rig earns nothing close to its potential if it sits idle.

That makes utilization arguably the most important leading indicator for dayrates. Management teams across the sector have repeatedly emphasized that pricing strengthens once available high-quality capacity becomes scarce. ([Offshore Drillers - March 24, 2026](#))

3. Contract duration

Long contracts create backlog and cash-flow visibility.

But there is a tradeoff: locking in a rig for three years today protects downside while potentially sacrificing the opportunity to reprice the rig upward next year.

Contract strategy therefore matters enormously late in a tightening cycle.

2. Industry drivers

Three variables dominate offshore drilling economics:

Offshore E&P spending → rig demand → utilization → dayrates.

Everything else largely feeds into that chain.

Offshore development economics

Deepwater developments compete for capital against shale, conventional onshore projects and acquisitions.

Valaris cited estimates that more than 75% of expected deepwater spending over a three-year period related to projects with breakeven oil prices below \$50/bbl, supporting the attractiveness of long-cycle offshore investment. ([Valaris Earnings Analysis - August 1, 2025](#))

Oil prices, but with a lag

Oil prices matter indirectly.

Higher prices improve customer economics, which can lead to:

Higher E&P budgets → additional tenders → higher utilization → stronger dayrates.

But the transmission isn't immediate. Borr management estimates rig demand can lag oil-price increases by six to twelve months because operators need time for budgeting, planning and procurement. ([Borr Drilling Earnings Analysis - May 21, 2026](#))

Rig supply

This is arguably the structural bull case.

Unlike previous offshore cycles, the industry isn't responding to higher dayrates with a large wave of speculative newbuilds.

Fitch recently characterized available deepwater capacity as very limited and expects no meaningful newbuild activity, helping support pricing as utilization tightens. ([Seadrill Ratings Alert - June 15, 2026](#))

Cold-stacked rigs represent potential supply, but reactivation can require substantial capital. Operators increasingly insist on contracts sufficiently long and profitable to repay reactivation costs rather than bringing rigs back speculatively.

Fleet quality

The relevant supply isn't simply the number of rigs—it is the number of technically competitive rigs.

Modern seventh-generation drillships can command materially better utilization and pricing than older units.

That means nominal fleet capacity can overstate economically competitive capacity.

Geography

The industry's most important deepwater regions form the “Golden Triangle”:

Brazil + Gulf of Mexico + West Africa.

Seadrill, for example, reported that more than 90% of its \$3.1 billion backlog in May was sourced from these regions. ([Seadrill Primary Analysis - June 15, 2026](#))

Jackups have heavier exposure to the Middle East, Southeast Asia, Mexico and the North Sea.

3. Representative companies

For the institutional comparison, three companies illustrate distinct credit and business profiles:

- Transocean — scaled deepwater operator and leveraged deleveraging story

- Valaris — diversified floater/jackup operator entering a transformational merger
- Borr Drilling — modern jackup specialist and higher-leverage shallow-water exposure

Seadrill and Noble are also important industry benchmarks, particularly for deepwater, and are incorporated into the industry discussion.

Financial comparison

Latest comparable Octus Fundamentals data, Q2 2026 / LTM, \$ millions:

	Transocean	Valaris	Borr Drilling
LTM Revenue	\$4,118	\$2,138	\$1,016
LTM Adj. EBITDA	\$1,534	\$423	\$373
Adj. EBITDA Margin	37.3%	19.8%	36.7%
Balance-sheet debt	\$5,433	\$1,166	\$2,487
Cash	\$795*	\$541	\$224
Net debt	\$4,532	\$559	\$2,306
Net leverage	3.0x	1.3x	6.2x
Liquidity	\$1,251	\$916	\$474
LTM FCF	\$904	(\$24)	(\$108)

*Octus contains multiple Transocean cash definitions; \$795 million corresponds to the broader cash-and-equivalents value used in its leverage calculations.

Sources: [Transocean - Revenue - 2026Q2](#), [Valaris - Revenue - 2026Q2](#), [Borr Drilling - Revenue - 2026Q2](#).

The contrast is significant.

Transocean's earnings and FCF are currently strong enough to materially reduce leverage. Valaris remains comparatively lightly levered but is experiencing weaker near-term earnings and FCF. Borr combines weaker recent cash generation with much higher leverage.

4. Revenue models and risks to revenue

Transocean

Predominantly deepwater and harsh-environment drilling.

Its revenue profile benefits from high-value drillships and long-duration contracts. Q2 utilization improved to 78.2% from 67.3% a year earlier, and Transocean reported approximately \$6.7 billion of backlog as of August 5, including \$292 million of new backlog added since May at a weighted-average dayrate around \$461,000. ([Transocean Q2 Earnings - August 5, 2026](#))

Principal risks are idle periods, recontracting after 2027, customer project delays and the company's still-substantial debt burden.

Valaris

Valaris is valuable strategically because it combines high-spec floaters with a significant jackup operation.

That creates diversification but also exposes the company to two different market cycles.

Its floater backlog has benefited from long-term programs in the Golden Triangle, while jackups provide exposure to Saudi Arabia, the North Sea, Trinidad and Australia. ([Valaris Earnings Analysis - August 1, 2025](#))

The key current risk is less standalone solvency than transactional credit migration: Fitch placed Valaris on Rating Watch Negative because the pending Transocean acquisition could result in a combined credit profile weaker than standalone Valaris. ([Valaris Ratings Alert - February 11, 2026](#))

Borr Drilling

Borr is essentially a focused modern-jackup strategy.

That provides greater exposure to relatively low-cost, shorter-cycle offshore barrels—but also heavier dependence on Middle Eastern shallow-water activity.

Borr's August update showed marketed modern-jackup utilization around 90%, but management described contracting as uneven and said Middle East backlog additions during 1H26 were exceptionally weak. The company nevertheless added eight commitments representing more than 2,100 days at an average \$134,000/day, bringing backlog to roughly \$1.13 billion. ([Borr Drilling Earnings Analysis - August 12, 2026](#))

Its risk is straightforward: high financial leverage magnifies recontracting risk.

5. Ratings agency views

Transocean

Moody's upgraded Transocean's CFR to B2 in June and kept the rating under review for further upgrade.

The rationale centered on approximately \$2 billion of expected debt reduction from year-end 2024 through year-end 2026, stronger offshore fundamentals, high-quality deepwater assets and significant backlog.

Constraints remain elevated leverage, relatively weak interest coverage, capital-structure complexity and post-2027 recontracting risk. ([Transocean Moody's Ratings Alert - June 23, 2026](#))

Valaris

Fitch's standalone view had been substantially stronger, but the agency placed the company on Rating Watch Negative following the Transocean announcement.

The concern isn't deterioration in Valaris itself: Fitch highlighted strong liquidity and relatively modest standalone leverage. The issue is the higher leverage and weaker coverage of the prospective parent. ([Valaris Fitch Ratings Alert - February 11, 2026](#))

Borr

Borr is the weak-credit outlier.

Fitch affirmed the company at B- / Stable in May. It expects leverage to remain high following Borr's acquisition of five Noble jackups and highlights cyclical and high financial leverage as principal constraints. ([Borr Fitch Ratings Alert - May 26, 2026](#))

Moody's had Borr at B3 / Stable in its December 2025 review. ([Borr Moody's Ratings Alert - December 9, 2025](#))

6. Capital structure and leverage

The sector's balance-sheet dispersion is unusually wide.

Transocean

Q2 2026 balance-sheet debt was approximately \$5.4 billion, versus \$6.5 billion in Q3 2025.

Net leverage has fallen to approximately 3.0x from 4.4x over that period. ([Transocean - Net Leverage - 2026Q2](#))

That deleveraging is fundamental to the credit story.

Transocean's LTM FCF reached approximately \$904 million, giving it meaningful organic debt-reduction capacity. ([Transocean - Free Cash Flow - 2026Q2](#))

Valaris

Valaris had approximately \$1.17 billion of debt, \$541 million of cash and roughly 1.3x net leverage at Q2. ([Valaris - Net Leverage - 2026Q2](#))

Its standalone balance sheet is therefore materially less leveraged than Transocean's.

Borr

Borr is moving in the opposite direction.

Debt rose from roughly \$2.1 billion in Q3 2025 to \$2.5 billion by Q2 2026, while net leverage increased from approximately 3.8x to 6.2x. ([Borr Drilling - Net Leverage - 2026Q2](#))

The increase reflects both lower EBITDA and acquisition financing.

This makes Borr significantly more dependent on the anticipated 2027–28 pickup recovery actually materializing.

7. Capital markets and M&A

Consolidation has become one of the defining industry themes.

Noble acquired Diamond Offshore in 2024.

Borr acquired five premium jackups from Noble in early 2026 and is pursuing additional fleet expansion.

Most consequentially, Transocean agreed to acquire Valaris in an all-stock \$5.8 billion transaction. At announcement, the combination was expected to create a company with approximately 78 rigs and \$10 billion of backlog, while management targeted roughly 1.5x net leverage within 24 months after closing. ([Transocean Acquisition of Valaris - February 9, 2026](#))

The strategic rationale is straightforward:

Scale → broader geographic fleet → fewer costly rig mobilizations → purchasing power → corporate cost synergies → stronger bidding capability.

There is also a supply-side benefit for the industry: consolidation reduces incentives for operators to underbid one another simply to keep individual rigs working.

8. Management commentary themes

Across management teams and rating agencies, three themes dominate.

Deepwater looks stronger than shallow water

Deepwater fundamentals have tightened materially.

Seventh-generation drillship dayrates are above \$400,000, available high-quality capacity is limited and customers are increasingly pursuing long-cycle offshore developments.

Utilization comes before pricing

Management teams consistently frame dayrates as a consequence of utilization.

That makes the progression:

Tenders → awards → utilization → dayrates

more informative than simply watching oil prices.

2027 matters

Current contracting decisions are increasingly setting up 2027 earnings.

Borr expects a shallow-water recovery into 2027–28, while Transocean and Seadrill see tighter high-spec deepwater utilization supporting stronger pricing.

The credit question is therefore whether operators can maintain sufficient backlog until that tightening translates fully into earnings.

9. Tailwinds and headwinds

Tailwinds

- Constrained rig supply. There is little appetite for speculative newbuilds.
- Aging / scrapped fleets. Older units have left the market permanently.
- Deepwater economics. Many large projects remain economic well below current oil prices.
- Energy security. Governments and national oil companies increasingly value secure long-lived production.
- Long-cycle E&P investment. Offshore projects can provide large, long-duration production profiles.
- Industry consolidation. Fewer competitors should improve bidding discipline.

Headwinds

- Commodity cyclicity. Drillers may not sell oil, but customer spending ultimately depends on hydrocarbon economics.
- Contract gaps. Even several idle months can materially affect annual EBITDA.
- Reactivation costs. Cold-stacked rigs can require substantial upfront investment.
- Customer concentration. Petrobras, Equinor, Shell, Aramco, Pemex and other large customers can represent meaningful percentages of individual fleets.
- Middle East jackup weakness. Borr specifically calls the Middle East the jackup sector's “engine,” and its near-term weakness remains material. ([Borr Drilling Earnings Analysis - August 12, 2026](#))
- Capital intensity. Rigs eventually require expensive surveys, maintenance and upgrades.

10. What to watch

For a credit investor, I would prioritize six indicators:

1. Floater utilization approaching 90%+

This is the strongest leading indicator of sustained pricing power.

2. Seventh-generation drillship dayrates

The current 400,000s materially changes incremental cash generation.

3. Book-to-bill / backlog replacement

Backlog consumption without replacement is an early warning signal.

4. Borr's Middle East contracting

The key question is whether outstanding Saudi/UAE tenders convert into actual contracts and tighten jackup supply.

5. Transocean-Valaris closing and deleveraging

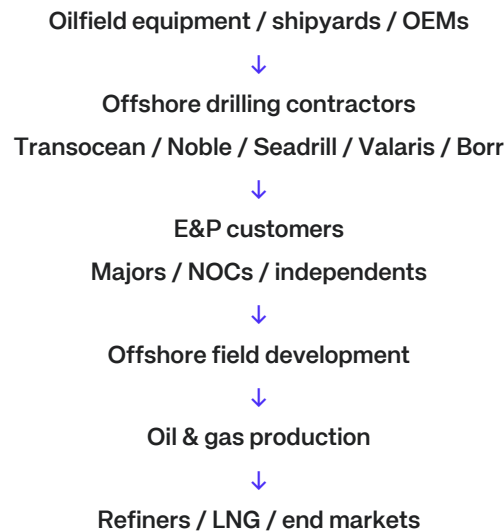
The combination is potentially transformational for both industry structure and Transocean's credit.

6. Reactivation discipline

A wave of speculative reactivations would undermine the supply-constrained thesis.

11. Value chain

The offshore drilling value chain can be simplified as:



For drillers, the most important upstream variable is customer offshore capital spending.

For creditors, however, the most important transmission mechanism is:

E&P spending → tendering → contracted utilization → dayrates → EBITDA → FCF → leverage.

12. Porter's five forces

The unusual feature today is barriers to entry.

A new entrant would need billions of dollars, specialized operating capabilities and customer credibility—and would have to order assets that take years to construct.

That is why restricted supply is so important to the current credit thesis.

Force	Assessment	Credit implication
Rivalry	Moderate, declining through consolidation	Better bidding discipline supports dayrates
New entrants	Very low	Huge capital requirements and lack of newbuild economics protect incumbents
Customer power	High	Large majors and NOCs control enormous contract awards
Supplier power	Moderate	Specialized labor, equipment and shipyard capacity can raise costs
Substitution	Moderate	Offshore competes for capital with shale, conventional onshore and other energy projects

13. Credit bottom line

The offshore drilling industry has transitioned from a survival/restructuring story toward a scarce-asset and cash-generation story, particularly for modern deepwater rigs.

But credit differentiation remains substantial.

Transocean is a leveraged credit moving rapidly in the right direction: Q2 LTM FCF of roughly \$904 million and declining debt provide a credible deleveraging path.

Valaris has historically represented the cleaner balance-sheet profile, although its pending acquisition changes the relevant credit analysis from standalone Valaris to the pro forma Transocean entity.

Borr is effectively making a leveraged bet on the next stage of the jackup recovery. Its modern fleet is attractive, but approximately 6.2x Q2 net leverage, negative LTM FCF and weaker Middle East contracting make execution much more important.

Seadrill and Noble provide evidence that the deepwater recovery is real: both have received ratings upgrades supported by backlog, stronger utilization, high-spec fleets and tightening offshore fundamentals.

The industry's central credit variable for the next 12–24 months is therefore not oil prices in isolation. It is whether sustained offshore spending pushes high-spec rig utilization high enough to maintain pricing power while operators remain disciplined about reactivating idle capacity.

Sources

Octus relevant reading

- [Offshore Drillers: Transocean Only Company With Consistently Declining Backlog Over Last 12 Months; Borr Drilling's Middle Eastern Challenges Could Cost It Months of Contracted Backlog — March 24, 2026](#)
- [Transocean's Acquisition of Valaris Increases Offshore Scale Advantages — February 9, 2026](#)
- [Primary Analysis: Seadrill Markets \\$600M of New SUNs Due 2034 — June 15, 2026](#)
- [Borr Drilling Q2 Earnings Analysis — August 12, 2026](#)
- [Transocean Q2 2026 Earnings — August 5, 2026](#)

Financial comparison uses Octus Fundamentals through Q2 2026 for Transocean, Valaris and Borr Drilling.