Seahawk Investments
Quarterly Note
2026/02

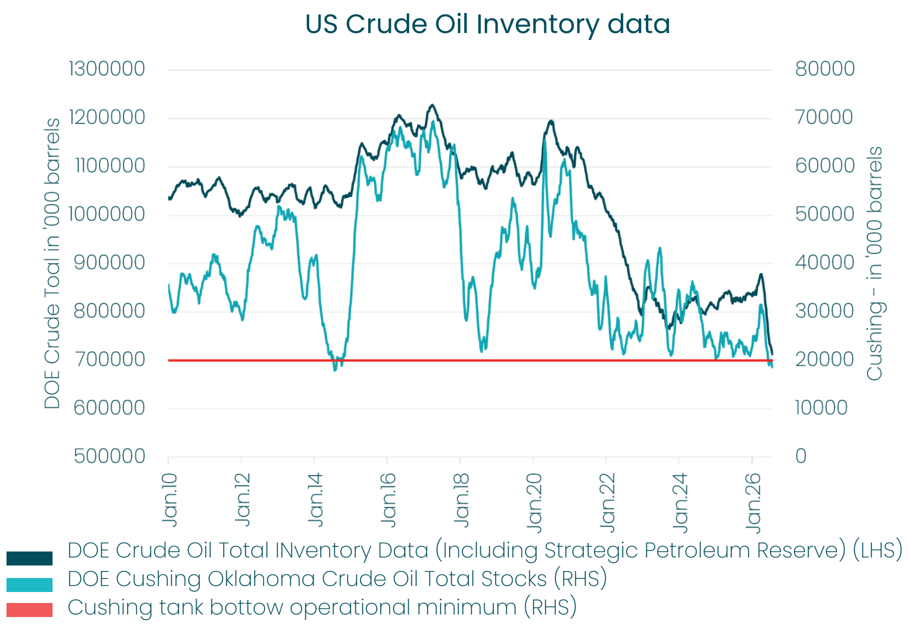
Opportunities in the Energy Services Segment

State of the Oil Market

US commercial crude oil inventories have fallen to their lowest level since 2018. During the week ending 24 July 2026, crude stockpiles declined by more than 7 million barrels, while inventories at the Cushing, Oklahoma storage hub dropped below 20 million barrels, their lowest level since August 2014. This level is widely regarded by traders as the "tank-bottom" threshold, below which operational flexibility becomes increasingly constrained.

Although releases from the Strategic Petroleum Reserve (SPR) have slowed, reserve levels remain at their lowest point since the 1980s. Collectively, these developments point to a continued erosion of available buffers within the global oil market at a time when tensions surrounding the conflict with Iran are intensifying.

The combination of declining inventories, limited spare stockpiles, and heightened geopolitical uncertainty has left the oil market increasingly vulnerable to supply disruptions. As a result, market participants are reacting more sensitively to geopolitical developments, contributing to the elevated volatility currently observed in crude oil prices.



Source: Bloomberg 29.7.26.
Cushing inventories measures oil at a single critical storage hub in Oklahoma, while the DOE Commercial Crude Oil Inventory measures all commercial stocks across the entire United States.

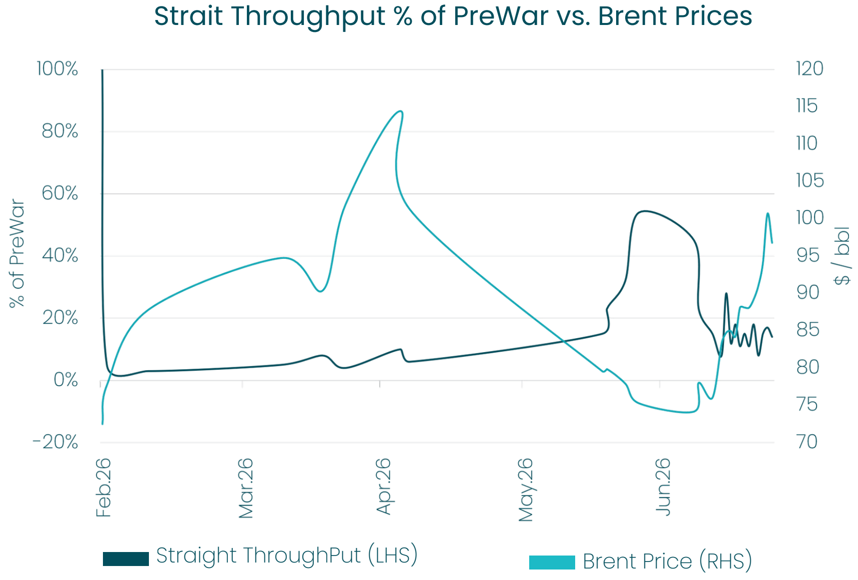
Strait of Hormuz Throughput

Only a month earlier, the outlook had improved markedly after the United States and Iran reached an agreement to reopen the Strait of Hormuz to commercial shipping. As previously delayed tankers resumed their voyages, crude oil shipments through the strait increased to approximately 4.8 million barrels per day in June.

The recovery in vessel traffic signalled a declining risk of a prolonged disruption to Gulf oil exports. Transit volumes reached their highest levels since the outbreak of the conflict, with June crossings surpassing earlier post-conflict peaks.

Despite this improvement, throughput remained well below pre-war levels, at only around 30% of the approximately 15 million barrels per day that had previously passed through the strait. Nevertheless, the resumption of shipping activity helped alleviate market concerns over a potential closure of Hormuz and reduced the risk premium embedded in crude oil prices.

Following the sharp rise in oil prices earlier in the conflict, improved transit conditions contributed to a meaningful market correction. Brent crude, which had traded above $100 per barrel amid fears of supply disruptions, fell to approximately $73 per barrel by the end of June 2026. However, the decline proved short-lived. As military operations in the U.S.-Iran conflict resumed and geopolitical risks intensified once again, Brent prices rebounded toward the $100 per barrel level.



Source: Bloomberg 29.7.26

Oil Refinery Crack Spreads at record levels

The disruption to tanker traffic through the Strait of Hormuz significantly reduced the flow of both crude oil and refined petroleum products, triggering concerns about potential fuel shortages across global energy markets.

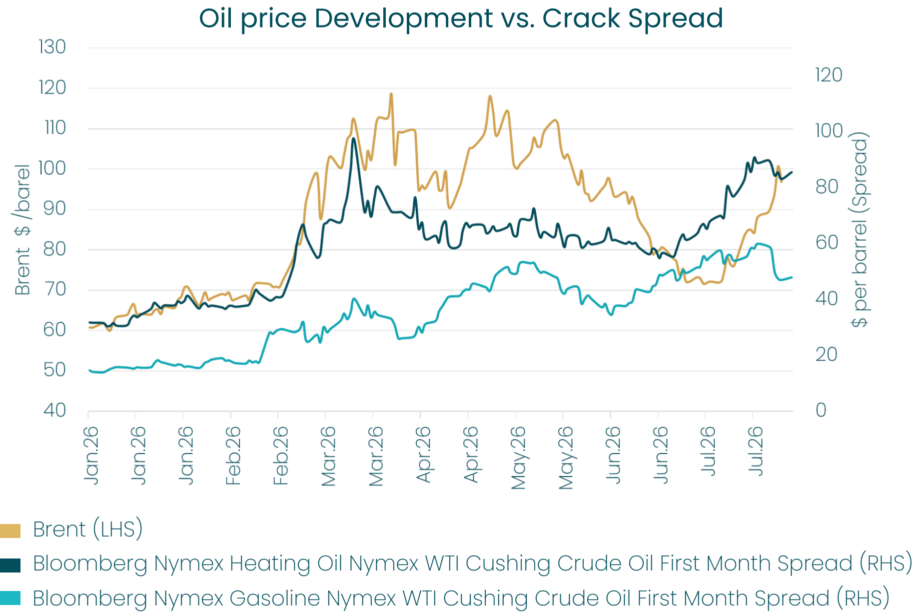
While crude oil prices rose sharply in response to the supply shock, refined-product prices increased even more rapidly as refiners grappled with uncertainty surrounding feedstock availability, shipping logistics, and the cost of rebuilding depleted inventories.

Although crude oil prices moderated temporarily during May and June, prices for refined products such as diesel and gasoline remained elevated. This divergence reflected a key characteristic of the 2026 energy market: the primary constraint shifted from crude oil availability to the availability of refined products.

Several factors contributed to this imbalance. Refinery closures and capacity rationalization in North America and Europe reduced global processing capacity, while damage to Russian refining infrastructure further tightened supplies of diesel and other petroleum products. At the same time, gasoline and diesel inventories declined to unusually low levels, leaving the market increasingly vulnerable to supply disruptions.

The most pronounced impact was observed in diesel and other middle-distillate products. Demand from transportation, shipping, aviation, and industrial sectors remained resilient throughout the period, while supply growth struggled to keep pace. Notably, industry forecasts had already anticipated a tight diesel market entering 2026, a situation that was subsequently exacerbated by geopolitical disruptions and refinery outages.

As a result, crack spreads expanded significantly during the first seven months of the year. By July 2026, diesel refining margins had exceeded $60 per barrel, while the U.S. benchmark 3-2-1 crack spread reached record highs. Such levels are exceptional by historical standards and reflect severe stress within global fuel supply chains, even as crude oil supplies gradually recovered following the partial reopening of the Strait of Hormuz.



Source: Bloomberg 29.7.26
The oil refinery margin ("crack spread") measures the difference between crude oil prices and prices for refined oil products.

Sector Performance in a volatile oil market environment

As global oil inventories remain tight by historical standards, crude oil prices are expected to remain highly volatile in the months ahead. Although the recovery in tanker traffic through the Strait of Hormuz has helped alleviate immediate supply concerns, inventory levels remain well below normal, leaving the market vulnerable to further geopolitical disruptions and supply shocks. Consequently, crude oil prices are likely to react strongly to developments in the Middle East and other geopolitical headlines.

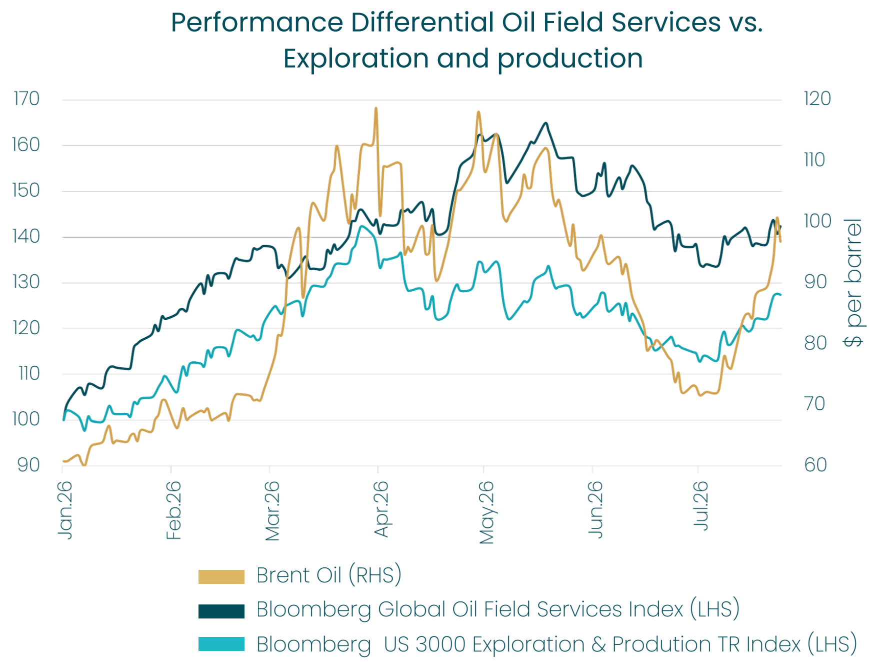
While crude oil prices may remain volatile, refined-product markets are expected to stay fundamentally tight for the foreseeable future. Low inventories of diesel and gasoline, combined with constrained refining capacity and ongoing disruptions to parts of the global refining system, continue to support elevated refining margins despite fluctuations in crude prices.

Within the energy equity sector, exploration and production (E&P) companies typically exhibit the strongest correlation with crude oil prices, as their revenues are directly linked to the sale of oil and gas. Movements in commodity prices therefore have an immediate impact on their cash flow and profitability.

Oil services companies also depend on a healthy commodity price environment, but their business models are generally less exposed to short-term oil price fluctuations. Rather than selling hydrocarbons, service companies provide equipment, technology, drilling and completion services, offshore engineering, maintenance, and production optimization solutions. As a result, their revenues are driven primarily by customer capital expenditure and activity levels rather than by the spot price of oil itself.

Historically, this has made the oil services sector more resilient during periods of market weakness. Producers can experience an immediate decline in revenue when oil prices fall, whereas oilfield service companies often benefit from contract backlogs, multi-year project commitments, and continuing maintenance requirements on existing producing assets. Activity levels typically respond to oil price changes with a lag, providing a degree of insulation from short-term market volatility.

This relative resilience has already been evident during the first half of 2026. Despite significant swings in crude oil prices driven by the conflict in the Middle East, oil service companies generally outperformed exploration and production companies as spending on long-cycle offshore, LNG, and infrastructure projects remained robust. This was particularly true for companies with exposure to offshore developments and major Middle Eastern investment programs, where project economics continue to be supported by long-term energy security considerations rather than short-term commodity price movements.



Source: Bloomberg 29.7.26

Investment Perspective for Energy Services Companies

Since the start of the current conflict in the Middle East, investor attention has increasingly focused on the region's energy infrastructure. The 2026 conflict has resulted in the most extensive damage to oil and gas assets since the attacks on Saudi energy facilities in 2019. According to estimates from the International Energy Agency (IEA) and industry sources, more than 80 energy facilities have been targeted, with over one-third suffering severe damage. Total repair and restoration costs are estimated at between $34 billion and $58 billion, and several key assets may require years to return to full operating capacity. Approximately one-third of the damage is estimated to have occurred in Iran, while the remaining two-thirds is spread across the broader Gulf region.

This environment creates a potentially attractive opportunity set for engineering and oilfield service companies with established positions in the region. Technip Energies appears particularly well placed to capture a portion of the reconstruction and expansion spending, given its longstanding presence in Qatar and its involvement in the North Field LNG expansion projects. Saipem, while having reduced its exposure to onshore activities in recent years, continues to maintain strong relationships with major Middle Eastern national oil companies and remains well positioned to participate in large-scale engineering and construction projects.

Subsea7, which is a potential merger partner for Saipem, offers even more direct exposure to offshore develop- ments. As offshore activity is expected to account for an increasing share of investment across the Middle East, the company could emerge as one of the key beneficiaries of the region's evolving spending landscape. Importantly, the primary investment case for Subsea7 is not higher oil prices per se, but rather an increase in offshore capital expenditure. The conflict has reinforced the strategic importance of energy security, production resilience, and export flexibility, all of which support long-term investment in offshore production systems, subsea infrastructure, and export facilities.

Beyond the immediate reconstruction effort, the conflict is likely to accelerate investment in infrastructure redundancy throughout the region. Energy producers and governments are expected to place greater emphasis on diversifying export routes, expanding storage capacity, enhancing offshore loading capabilities, and reducing reliance on critical chokepoints such as the Strait of Hormuz. These investments will likely extend well beyond the repair of damaged assets and may create a multi-year cycle of engineering, procurement, and construction activity.

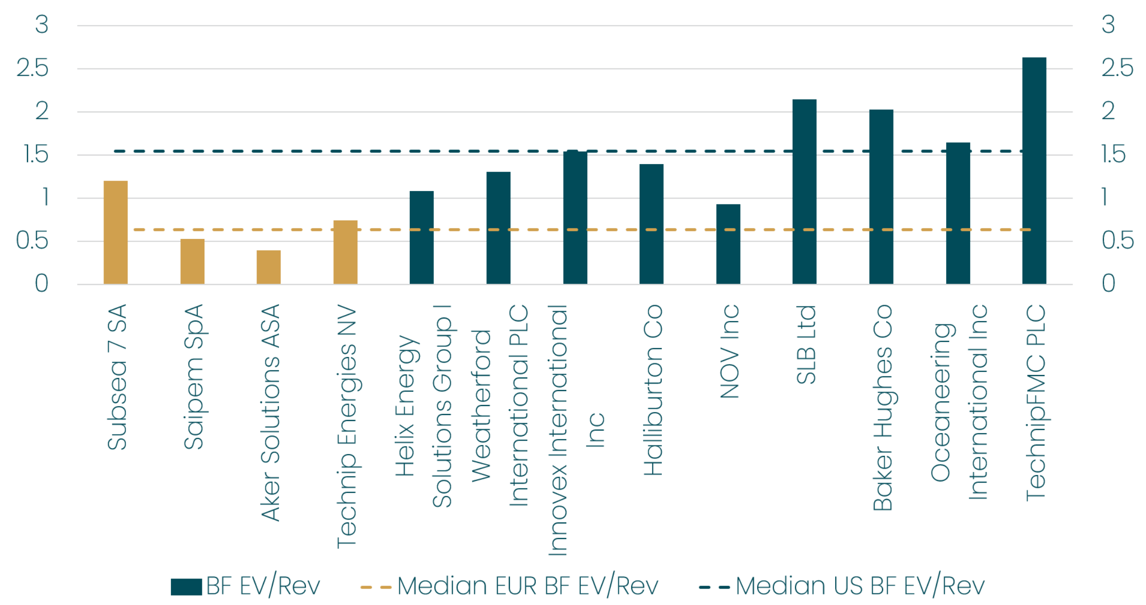
The crisis could also influence global capital allocation within the upstream sector. As geopolitical risks remain elevated in the Middle East, international operators may reassess project portfolios and increase investment in alternative regions offering attractive resource potential and greater geopolitical stability. In particular, the South Atlantic offshore basins, including Brazil, Guyana, Namibia, and other emerging deepwater provinces, are increasingly gaining strategic importance within the global offshore landscape. This trend could provide an additional tailwind for offshore service providers with global capabilities and strong exposure to deepwater developments.

Looking ahead, the most significant consequence of the Middle East conflict may not be its impact on crude oil prices, but rather its effect on investment spending. While oil prices are likely to remain sensitive to geopolitical developments, the more durable outcome is expected to be a strengthening of offshore and energy infrastructure investment. For companies such as Subsea7, Technip Energies, Saipem, McDermott, SLB, and Baker Hughes, this could translate into a sustained increase in project activity, larger order backlogs, and improved earnings visibility over the coming years. In this respect, the current crisis may ultimately prove more consequential for the offshore investment cycle than for the oil price itself.

Valuation European Energy Services Companies vs US Peers

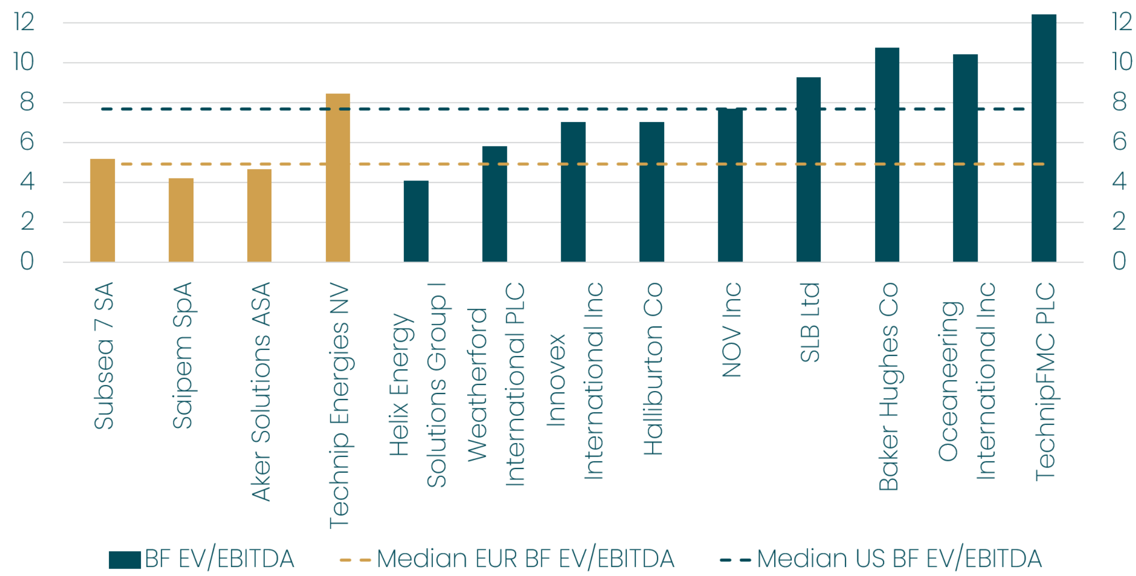
Selected European oilfield service companies, including Subsea7, Saipem, Aker Solutions, and Technip Energies, continue to trade at valuation discounts relative to many of their U.S. peers when measured on both EV/Revenue and EV/EBITDA multiples. This valuation gap appears notable given the improving outlook for offshore investment, LNG infrastructure spending, and Middle Eastern energy projects.

EV/Revenue



Source: Bloomberg 29.7.26

EV/EBITDA



Source: Bloomberg 29.7.26

Several factors may explain this discrepancy. Historically, European oil service companies have had greater exposure to offshore and engineering-intensive projects, a segment that experienced a prolonged downturn following the 2014 oil price collapse. As a result, investor sentiment toward the sector remained cautious for an extended period. In contrast, U.S. service companies benefited from stronger exposure to North American shale activity, which attracted higher valuation multiples due to its shorter project cycles and faster growth profile.

Today, however, market fundamentals have shifted. Offshore developments have become increasingly competitive on a cost basis, while a growing focus on energy security, LNG capacity expansion, and infrastructure resilience is supporting demand for long-cycle projects. Companies such as Subsea7, Saipem, Aker Solutions, and Technip Energies are well positioned to benefit from these trends through their exposure to subsea developments, offshore engineering, LNG infrastructure, and large-scale EPC contracts.

Despite these favourable dynamics, European service companies continue to trade at discounts to their U.S. counterparts. This suggests that the market may not yet be fully recognizing the earnings visibility provided by their substantial order backlogs, strong exposure to offshore and LNG investment, and the potential increase in spending related to Middle Eastern reconstruction and global energy security initiatives.

Should the current offshore upcycle continue and capital spending on LNG and offshore infrastructure remain robust, there is scope for a narrowing of this valuation gap over time. As a result, the European oilfield services sector may offer an attractive combination of cyclical exposure, earnings growth potential, and relative valuation support compared with many U.S. peers.

Key takeaways

European energy services companies appear structurally better positioned than most U.S. peers as the Middle East crisis is expected to lead to:

- Higher emphasis on energy security,
- Increased LNG investment,
- Rebuilding of damaged infrastructure,
- Continued low inventories,
- Strong offshore project sanctioning,

Among the European names, Technip Energies, Saipem, and Subsea7 arguably offer the purest exposure to what may become the defining investment themes of the next several years.

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