

Equities

2 February 2011 | 13 pages

Cameron International Corporation (CAM)

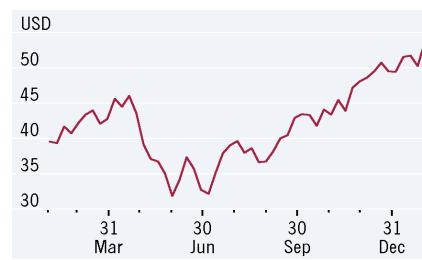
Lowering Estimates as Guidance Came in Light vs. Our Estimate

- Company Update
- Target Price Change
- Estimate Change

- **Slight Beat in 4Q10** — CAM reported 4Q10 EPS of \$0.69, a slight beat compared to our \$0.66 estimate and the \$0.67 consensus estimate. Revenues were \$1.81B vs. our \$1.69B estimate and the \$1.71B consensus estimate. The solid result was primarily driven by a stronger-than-expected revenues and margins in Drilling & Production Systems, and the company also benefited from a recovery in its shorter-cycle businesses.
- **2011 EPS Guidance Came in Light** — Guidance for 2011 EPS was \$2.65-\$2.75, which was slightly below our previous \$2.95 estimate and in line with the \$2.74 consensus estimate. Guidance for 1Q11 was \$0.63-\$0.66, which compared to our \$0.63 estimate and the \$0.63 consensus estimate.
- **Order Growth Improving** — Orders grew sequentially by 16% overall to \$1.71B despite the lack of a single large subsea award in the quarter. The backlog declined slightly to \$4.8B from \$4.9B quarter-over-quarter. Book-to-bill of 0.9x was in line with the company's 0.9x-1.1x range over the past six quarters. Orders grew at the highest rate in DPS, at 30% quarter-over-quarter, a result of strong subsea bookings. V&M orders grew by 11%, and PCS orders fell by 8%.
- **Capex Increasing** — CAM is planning to increase its capex by 25%-50% to \$250M-\$300M in 2011 from \$200M in 2010. The increase is in line with the trend reported so far by other oil service companies, a positive sign for the industry.
- **Reiterate Hold** — Although results are improving, we are modeling that 2011 will not be as strong a year as we had previously expected unless DPS orders begin accelerating. We are lowering our EPS estimates in 2011 and 2012 (see table below). We reiterate our Hold rating on the stock, with revised target price of \$58.

Hold/High Risk	2H
Price (02 Feb 11)	US\$56.08
Target price	US\$58.00
	from US\$54.00
Expected share price return	3.4%
Expected dividend yield	0.0%
Expected total return	3.4%
Market Cap	US\$13,603M

Price Performance (RIC: CAM.N, BB: CAM US)



EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2010A	0.51A	0.58A	0.64A	0.69A	2.42A	2.42A
2011E	0.65E	0.68E	0.70E	0.72E	2.75E	2.74E
Previous	0.63E	0.70E	0.80E	0.82E	2.95E	na
2012E	na	na	na	na	3.40E	3.35E
Previous	na	na	na	na	3.65E	na
2013E	na	na	na	na	4.10E	3.60E
Previous	na	na	na	na	na	na

Source: Company Reports and dataCentral, CIR. FC Cons: First Call Consensus.

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Fiscal year end 31-Dec	2009	2010	2011E	2012E	2013E
Valuation Ratios					
P/E adjusted (x)	24.2	23.2	20.4	16.5	13.7
EV/EBITDA adjusted (x)	13.6	12.3	11.0	9.1	7.2
P/BV (x)	3.1	3.0	2.7	2.3	1.9
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Per Share Data (US\$)					
EPS adjusted	2.32	2.42	2.75	3.40	4.10
EPS reported	2.11	2.27	2.75	3.40	4.10
BVPS	17.86	18.91	20.61	24.63	29.77
DPS	0.00	0.00	0.00	0.00	0.00
Profit & Loss (US\$M)					
Net sales	5,223	6,135	6,350	7,226	8,226
Operating expenses	-4,412	-5,276	-5,390	-6,089	-6,867
EBIT	811	859	959	1,137	1,359
Net interest expense	-87	-78	-72	-49	-47
Non-operating/exceptionals	-82	-47	0	0	0
Pre-tax profit	643	733	888	1,088	1,312
Tax	-167	-170	-209	-256	-308
Extraord./Min.Int./Pref.div.	0	0	0	0	0
Reported net income	476	563	679	832	1,004
Adjusted earnings	522	599	679	832	1,004
Adjusted EBITDA	968	1,060	1,179	1,377	1,619
Growth Rates (%)					
Sales	-10.7	17.5	3.5	13.8	13.8
EBIT adjusted	-11.9	5.9	11.8	18.5	19.5
EBITDA adjusted	-8.1	9.6	11.3	16.8	17.6
EPS adjusted	-13.1	4.3	13.6	23.5	20.6
Cash Flow (US\$M)					
Operating cash flow	613	294	812	1,012	1,191
Depreciation/amortization	157	202	220	240	260
Net working capital	-11	-486	-150	-138	-165
Investing cash flow	-226	-229	-290	-305	-330
Capital expenditure	-241	-201	-290	-305	-330
Acquisitions/disposals	15	-29	0	0	0
Financing cash flow	-169	-86	-805	-10	-10
Borrowings	-150	-8	-520	-10	-10
Dividends paid	0	0	0	0	0
Change in cash	240	-29	-283	697	851
Balance Sheet (US\$M)					
Total assets	7,725	8,005	8,094	9,462	11,066
Cash & cash equivalent	1,861	1,833	1,549	2,246	3,097
Accounts receivable	959	1,056	1,016	1,156	1,316
Net fixed assets	1,192	1,248	1,346	1,439	1,537
Total liabilities	3,806	3,613	3,084	3,474	3,829
Accounts payable	2,208	2,016	1,978	2,279	2,614
Total Debt	1,255	1,293	773	763	753
Shareholders' funds	3,920	4,392	5,009	5,988	7,237
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	18.5	17.3	18.6	19.1	19.7
ROE adjusted	16.7	14.4	14.5	15.1	15.2
ROIC adjusted	21.7	17.9	17.4	18.8	20.7
Net debt to equity	-15.5	-12.3	-15.5	-24.8	-32.4
Total debt to capital	24.2	22.7	13.4	11.3	9.4

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Additional Segment Detail

Drilling & Production Systems revenues increased by 18% sequentially, beating our estimate by 6%. ***We are assuming that DPS revenues decline by 5% in 2011 and that operating margins increase to 19.1% from 17.9% in 2011 vs. 2010.***

- The outlook for drilling systems is robust, with significant quotation activity both onshore and offshore and the company tracking more than 50 jackups and 25 semisubmersibles and drillships. The company is pressing forward with expenditures to boost its aftermarket businesses both in the U.S. and overseas.
- Subsea bookings were \$491M in 4Q10, up from \$222M in 3Q10. The orders include phase one of the Liwan project in offshore China. The company also opened a subsea product manufacturing assembly in Angola to advance local content commitments. Although GOM subsea awards are still contingent on customers getting through permitting process, the GOM represents a significant market over the long-term for the company. The company expects subsea revenues to decline by 14% in 2011 vs. 2010.
- Surface systems achieved revenues of \$313M in the quarter, up from \$278M in 3Q10, driven by the \$80M of investments during 2010 to position the company to meet the demand from shale markets. Much of the strong performance was attributed to frac and flowback rentals, and we expect this trend to continue in 2011. Overseas, the recovery in the North Sea and Caspian markets also helped the results, and Asia and Middle East new projects should further benefit bookings in 2011.

Valves & Measurements revenues grew sequentially by 8%, although the resulting revenue fell short of our estimate by 3%. The outlook remains positive in 2011 as a number of projects should move forward with the continued strength of short-cycle businesses. ***We are assuming V&M revenue growth of 18% in 2011 and margins expanding to 18.0% in 2011 from 14.8% in 2010.***

- The growth in North American fracturing markets has benefited CAM, as customers have asked the company to come up with frac manifold designs that give more flexibility and less downtime. The company estimates that the overall revenue opportunity for wells being drilled and completed in shales is more than \$100K per well, which is approximately 4x the size of that from the typical West Texas well three years ago.
- V&M orders were \$442M in 4Q10 from \$397M in 3Q10, with \$45M of this attributed to the Chevron Gorgon project.
- Pricing is improving as low-margin engineered valve work is digested.

Process & Compression Systems revenue increased 31% for the quarter, exceeding our expectation by 19%. ***We are modeling in revenue growth of 15% in 2011 and a slight improvement in operating margin to 12.5% in 2011 from 11.5% in 2010.***

- The company continues to gain synergies and expand the set of opportunities around its process systems platform. CAM is particularly well positioned to win awards for FPSOs and separation systems in Brazil over the next few years.

- Reciprocating compression and centrifugal systems, both GDP-sensitive businesses, continue to gain traction, suggesting that a recovery is well underway.

Figures 1-8 depict the segment results compared to estimates and against historical trends.

Figure 1. Cameron International: Reported Results vs. Estimates and Prior Periods

Cameron Intl Corp. Quarterly Earnings Analysis										
(\$ millions)	4Q'10A	4Q'10E	Difference		3Q'10A	Sequential		4Q'09A	Y-o-Y	
Revenues										
Drilling & Production Systems	\$1,118	\$1,050	\$68	6%	\$944	\$174	18%	\$947	\$171	18%
Valves & Measurement	336	345	(9)	-3%	313	24	8%	312	24	8%
Compression Systems	354	298	56	19%	270	84	31%	205	148	72%
Total Revenue	1,808	1,693	115	7%	1,527	281	18%	1,464	344	23%
Costs of Revenues	1,313	1,243	70	6%	1,101	211	19%	1,072	241	22%
Gross Profit	496	450	45	10%	426	70	16%	392	103	26%
SG&A Expenses	250	218	32	15%	210	40	19%	198	52	26%
EBIT	245	232	13	6%	216	30	14%	194	51	26%
Interest Expense (Income)	22	22	(0)	-1%	20	2	8%	18	3	19%
Other Expense (Income)	8	(0)	8	NA	10	(2)	-22%	43	(34)	-81%
Pretax Income	215	210	5	2%	185	30	16%	133	82	61%
Income Tax Provision	51	48	3	6%	36	14	40%	36	15	41%
Clean Net Income	171	162	8	5%	157	14	9%	129	42	33%
Shares (millions)	249.0	247.5	2	1%	245.5	4	1%	236.1	13	5%
EPS	\$0.69	\$0.66	\$0.03	5%	\$0.64	\$0.05	7%	\$0.54	\$0.14	26%
Tax Rate	23.6%	22.8%	81 bp		19.7%	392 bp		27.0%	(340) bp	
Margin Analysis										
Gross Margin	27.4%	26.6%	80 bp		27.9%	(47) bp		26.8%	60 bp	
EBIT Margin	13.6%	13.7%	(16) bp		14.1%	(56) bp		13.3%	30 bp	
Pretax Margin	11.9%	12.4%	(51) bp		12.1%	(21) bp		9.1%	280 bp	
Net Margin	9.4%	9.6%	(15) bp		10.3%	(84) bp		8.8%	67 bp	

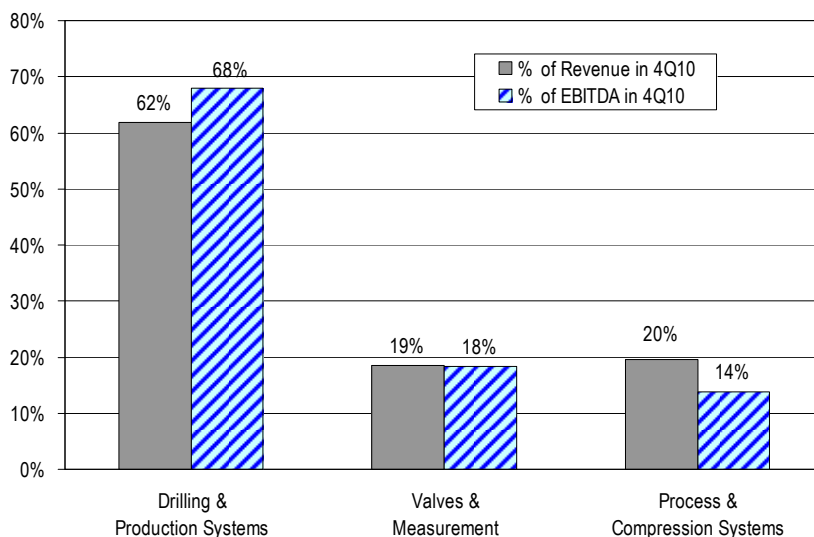
Source: Citi Investment Research and Analysis

Figure 2. Cameron International: Revenue and EBITDA by Division

	Drilling & Production Systems	Valves & Measurement	Process & Compression Systems	Corporate and Other	Total
Revenue (\$ Millions):					
4Q09	\$853	\$312	\$300		\$1,464
3Q10	944	313	270		1,527
4Q10	1,118	336	354		1,808
Revenue Growth:					
year-over-year	31%	8%	18%	-	23%
sequential	18%	8%	31%	-	18%
EBITDA (\$ Millions):					
4Q09	\$159	\$61	\$50	(\$31)	\$238
3Q10	186	54	56	(28)	268
4Q10	227	61	46	(41)	293
EBITDA Margin:					
4Q09	18.6%	19.5%	16.7%	-	16.3%
3Q10	19.7%	17.3%	20.9%	-	17.6%
4Q10	20.3%	18.1%	13.0%	-	16.2%
Incremental/(Decremental) Margin:					
year-over-year	26%	0%	NA	-	16%
sequential	24%	30%	NA	-	9%
Margin Change:					
year-over-year	171bp	-137bp	-372bp	-	-8bp
sequential	63bp	87bp	-789bp	-	-136bp

Source: Company Reports, Citi Investment Research and Analysis

Figure 3. Cameron International: Revenue and EBITDA Contribution by Division



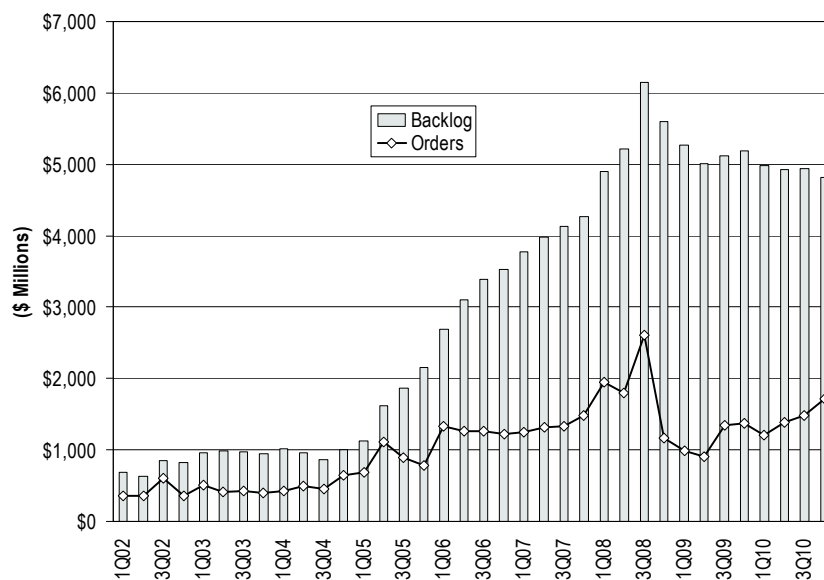
Source: Company Reports, Citi Investment Research and Analysis

Figure 4. Cameron International: Orders and Backlog by Division

	Drilling & Production Systems	Valves & Measurement	Process & Compression Systems	Total
Orders (\$ Millions):				
4Q09	\$873	\$323	\$171	\$1,367
3Q10	718	397	365	1,480
4Q10	933	442	336	1,711
Order Growth:				
year-over-year	7%	37%	96%	25%
sequential	30%	11%	-8%	16%
Backlog (\$ Millions):				
4Q09	\$4,019	\$547	\$623	\$5,190
3Q10	3,401	740	793	4,934
4Q10	3,196	834	787	4,817
Backlog Growth:				
year-over-year	-20%	52%	26%	-7%
sequential	-6%	13%	-1%	-2%

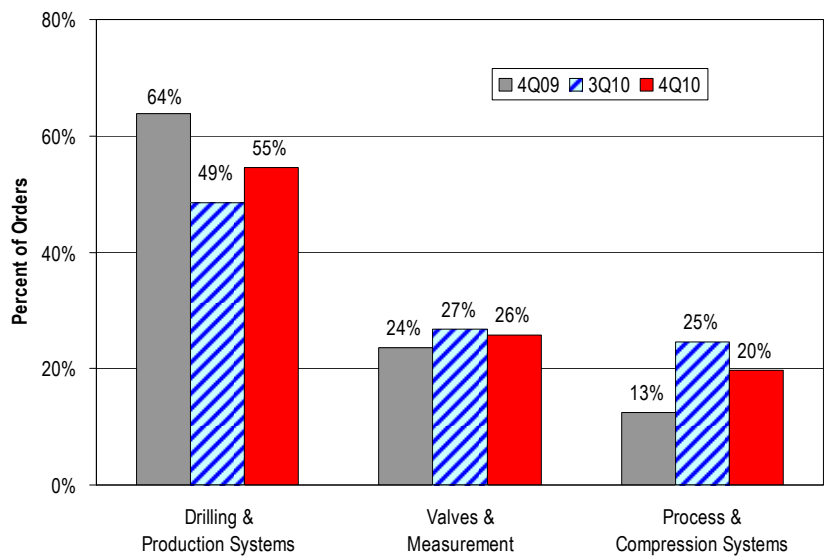
Source: Company Reports, Citi Investment Research and Analysis

Figure 5. Cameron International: Orders and Backlog By Quarter



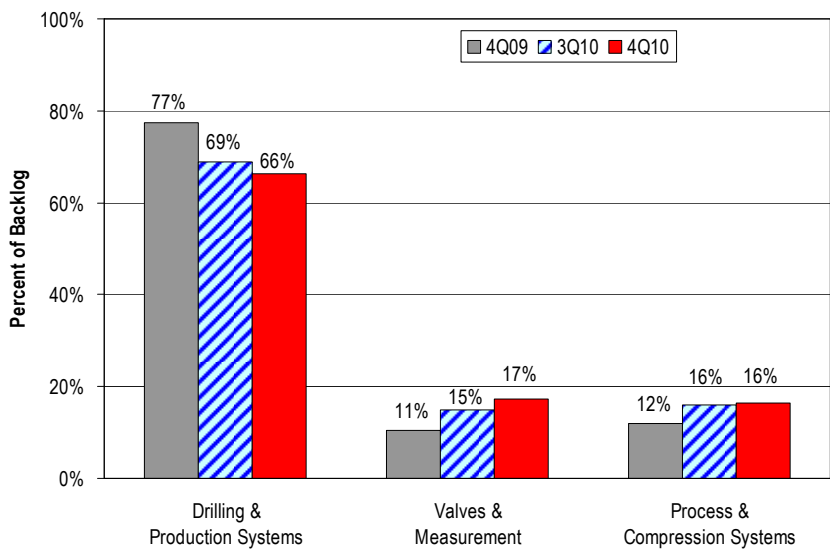
Source: Company Reports, Citi Investment Research and Analysis

Figure 6. Cameron International: Breakdown of Orders by Division



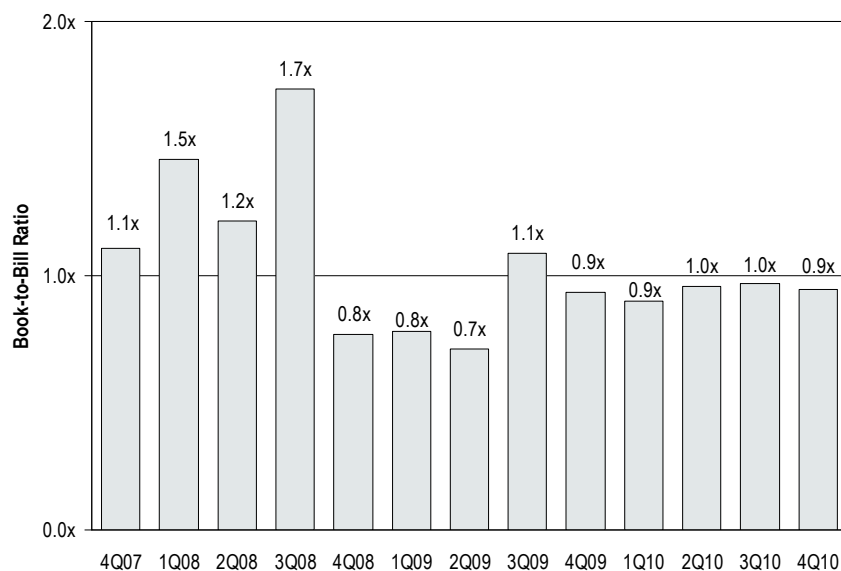
Source: Company Reports, Citi Investment Research and Analysis

Figure 7. Cameron International: Breakdown of Backlog by Division



Source: Company Reports, Citi Investment Research and Analysis

Figure 8. Cameron International: Book-to-Bill Ratio



Source: Company Reports, Citi Investment Research and Analysis

Cameron International Corporation

Valuation

We derive our \$58 CAM price target by averaging P/E and EV/EBITDA methodologies. Our target is based on historical analysis of CAM and group multiples.

Our P/E derivation generates a price target of \$56 by applying a 16.5x multiple to our *forward 12-month EPS estimate of \$3.40. The multiple is below the 26.4x peak CAM multiple reached in the most recent downturn and is well above the 7.3x trough reached at the peak of the last upturn. The multiple is based on historical analysis of CAM and relative market multiples and is within the 7.8x–33.8x historical range where the average of large cap services stocks traded over the past ten years. The median group P/E multiple was 19.9x in the most recent cycle.

Our EV/EBITDA derivation generates a \$59 price target by applying an 10.0x EV/EBITDA multiple to our *forward-12-month EBITDA of \$1.38 billion. The multiple is below the 12.8x peak CAM multiple reached in the most recent downturn and is well above the 3.9x trough reached at the peak of the last upturn. The multiple is based on historical analysis of CAM and relative market multiples and is within the 4.3x–14.7x historical range where the average of large cap services stocks traded over the past ten years. The median group EV/EBITDA multiple was 9.6x in the most recent cycle.

* Our forward 12-month estimate reflects the four quarters earnings stream beginning 12 months from the most recently reported quarter.

Risks

Our High Risk rating on CAM is based on a combination of quantitative and qualitative assessments compared with those faced by other stocks covered by Citi Investment Research and Analysis (CIRA). We believe the principal elements of investment risk for Cameron International are high earnings and stock price volatility. Derivation of our price target and resulting Expected Total Return (ETR) is based on projected financial performance, which is highly dependent on the level of oil and gas exploration and production (E&P) activity. E&P activity can be significantly affected by changes in oil and gas prices. If the impact on the company from any of these factors proves to be greater/less than we anticipate, we believe the stock will likely have difficulty achieving our target price or could outperform it.

Appendix A-1

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Cameron International Corporation (CAM)

Ratings and Target Price History Fundamental Research

Analyst: Robin Shoemaker
Covered since July 1 2008



Chart current as of 29 January 2011

	Date	Rating	Target Price	Closing Price
1	1-May-08	2H	*53.00	47.65
2	30-Jun-08	*1H	*66.00	55.35
3	30-Jul-08	1H	*67.00	49.82
4	26-Sep-08	1H	*55.00	40.45
5	30-Oct-08	1H	*46.00	24.44
6	12-Jan-09	1H	*33.00	22.32

* Indicates change

	Date	Rating	Target Price	Closing Price
7	11-Mar-09	*2H	*21.00	19.67
8	7-May-09	2H	*30.00	29.06
9	27-May-09	2H	*32.00	30.11
10	4-Aug-09	2H	*40.00	34.60
11	3-Nov-09	2H	*43.00	38.38
12	9-Feb-10	2H	*45.00	39.33

	Date	Rating	Target Price	Closing Price
13	22-Jun-10	2H	*42.00	35.77
14	4-Aug-10	2H	*45.00	38.98
15	4-Nov-10	2H	*47.00	45.59
16	19-Dec-10	2H	*54.00	49.54

Rating/target price changes above reflect Eastern Standard Time

Cameron International Corporation (CAM)

Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Robin Shoemaker
Covered since July 1 2008

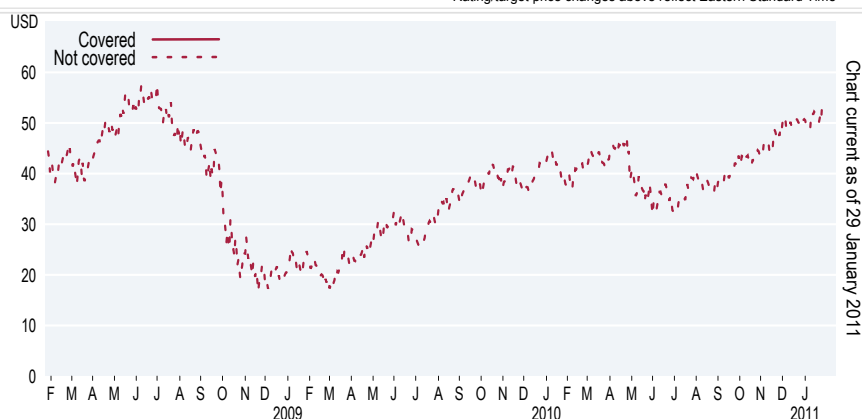


Chart current as of 29 January 2011

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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Data current as of 31 Dec 2010

Citi Investment Research & Analysis Global Fundamental Coverage

% of companies in each rating category that are investment banking clients

12 Month Rating			Relative Rating		
Buy	Hold	Sell	Buy	Hold	Sell
52%	37%	11%	0%	100%	0%
45%	44%	40%	0%	44%	0%

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To satisfy regulatory requirements, we correspond Under Review to Hold in our ratings distribution table for our 12-month fundamental rating system. However, we reiterate that we do not consider Under Review to be a recommendation.

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