Citi Research

Equities

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Oil Companies - International (Citi)
Global

World Champions — Energy

Global Leaders in Meeting the World's Affordable Energy Needs

- **World Energy Champions** – In this sixth installment of a new global series of reports from Citi Research, we have identified 16 finalist companies as World Energy Champions selected from nominations by the Citi Research Global Energy team. These finalist companies have been individually profiled in this report and evaluated across an array of performance metrics. In addition, based on quantitative screening with a fundamental overlay, we argue that FMC Technologies, Seadrill and Keppel Corp – all within the Oil Service sub-sector of the Energy spectrum – can each claim the title of "best-of-the-best" World Energy Champions in their respective regions.

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World Energy Champions

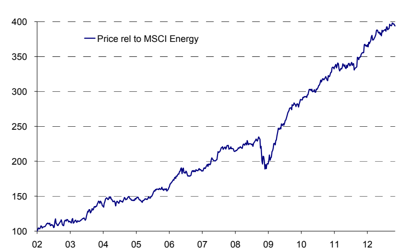
In this sixth report of Citi's World Champion series, we highlight Citi Research's global coverage of some of the largest and most far-reaching Energy companies in the world. For the first four installments of this series, please see Industrials, Materials, Internet, Media & Telco, Technology and Financials.

Figure 1. World Champions: Energy – Portfolio Manager's Summary

Company	Analyst	Why a Champion?	Rating	Rationale
Anadarko Petroleum Corp	Robert S Morris	A leading global exploration company	1	Industry-leading growth that looks competitively positioned on the cost-curve
BG Group	Michael J Alsford	Key player in Brazil / a global leader in LNG	1	Despite recent issues, we still see above industry growth with low oil price breakeven; growing ROE
Dresser-Rand Group	Robin Shoemaker	Leader in manufacture of compressors, steam turbines and power systems for energy industry	1	High growth, strong market share and high profitability
Exxon Mobil Corp	Faisel Khan, CFA	Global integrated with capital discipline and premium RoE	1	Strong track-record on investment and high RoE, with an outlook that this can be maintained
FMC Technologies	Robin Shoemaker	Global leader in subsea technologies	1	Dominant market share built around product quality and reliability
Gazprom	Ronald Paul Smith	World's biggest gas producer and exporter	1	Increasing globalisation of gas markets sees Gazprom emerge as an important global player
Keppel Corp	Horng Han Low	Global yard player that is positioned well for structural growth in offshore investment	1	20 global yards and a strong history/presence in the important Brazilian market
Neste Oil	Ioanna Exarchou	Top-quartile global refiner, with global leading position in biodiesel	1	Global reach from highly profitable refining business; renewables unproven, but can emerge strongly
Phillips 66	Faisel Khan, CFA	Refining system geared to growing hydrocarbon production in North America	2	Shift in North American supply picture has boosted PSX portfolio to a much stronger cost-curve position
Samsung Heavy Industries	Ethan Kim	Global leadership in deepwater drilling rig construction	1	Dominant market share looks well-positioned for structural growth in offshore
Saipem	Ryan W Kauppila	Champion in deepwater and harsh environment construction	1	Strong presence in Middle East and in complex hydrocarbon development looks well positioned
Sasol Ltd	Tassin Meyer	Global leader in coal-toliquid and gas-to-liquid technology	1	Leveraging legacy and cash flow of South African base to grow internationally
Schlumberger Ltd	Robin Shoemaker	Market leader in global oilfield services across a broad range of drilling-related technologies	1	Strong market positions in growth market segments supports industry-leading profit margins
Seadrill	Ryan W Kauppila	Industry's largest owner of modern deepwater drilling rigs	1	Attractive valuation, strong growth prospects and high RoE
Technip	Ryan W Kauppila	Industry leader in frontier areas of offshore energy infrastructure	1	Diversified geographical presence, including Brazil, and leading technology positions
Tullow Oil	Michael J Alsford	A leading global exploration company	2	Unrivalled track-record of exploration success, and with good prospects around future exploration

Source: Citi Research

Figure 2. Citi Energy World Champions Relative Performance



Source: Citi Research, Price as of Nov 2.

This report seeks to answer key questions on what makes World Champions, what differentiates them, and how their financial metrics are likely to foster continued global growth. Selecting Champions has been a winning strategy for investors, with the stocks in our "Citi Energy" Index collectively outperforming the MSCI Energy Index each year since 2002 (see Figure 2). In profiling our 16 finalists, we included a 'What Investors Are Asking' section to highlight where the debate is on each of these names.

Citi World Champion Series: Energy

Introduction from Rob Buckland, Citi Head of Global Strategy

According to Citi economists, the macro overhangs are likely to persist. Ongoing debt reduction will continue to be a significant drag on the developed economies. Forecasts for Eurozone GDP are worse than in Japan's two "lost decades". We expect the current Eurozone recession to last until the end of next year. The US government will eventually have to face up to its fiscal problems and our forecasts imply at least another year of sluggish economic growth. In Japan, too, the economy lumbers under a mountain of government debt. Jittery bond markets may become increasingly reluctant to fund stimulus.

While there will be occasional set-backs, long-term growth prospects look better for the emerging economies. Balance sheets are stronger for governments, households and banks. Also, markets are generally underpenetrated. According to Willem Buiter, Citi's Chief Economist, Asia and Africa are likely to be key "Global Growth Generators" for most of the next three or four decades.

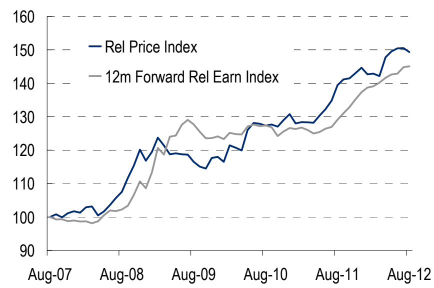
According to MSCI, the investable global stock market is still 88% weighted towards developed markets, where GDP growth is likely to remain subdued. Only 12% of global market cap trades on Emerging Market exchanges. This leaves global equity investors facing a serious challenge. How can they invest in reasonable growth prospects, when the majority of companies in their portfolios are likely to be listed in sluggish economies?

Origins of Citi's World Champions Framework

Citi's European equity strategists have responded by creating a subset of World Champions listed in their markets. These are companies with international businesses and those that our analysts believe are the leaders in their respective sectors. Our European strategists find that these companies have been able to display clear signs of pricing power, enjoy strong balance sheets, are well managed and often have meaningful revenue exposure to faster growing Emerging Economies.

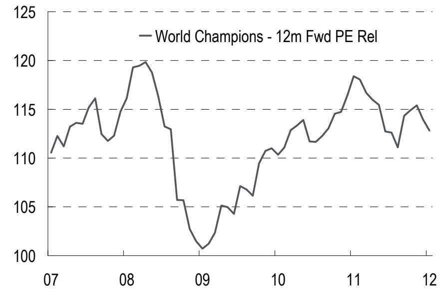
These are typical stock characteristics that have served investors well during previous lost decades around the world. Those companies that survived, and even flourished, during these dark economic episodes were able to offset weaker volume growth with new products or a shift in regional focus, superior pricing power, efficiency advantages or more likely a combination of all the above. Our European team notes that collectively the stocks in their World Champion basket have consistently outperformed over the past five years (Figure 3).

Figure 3. European World Champions Price & EPS Relative To European Market



Source: Citi Research, Datastream

Figure 4. European World Champions PE Relative to European Market



Source: Citi Research, Datastream

Despite the unashamedly qualitative selection criteria, the European World Champion basket rates well on more quantitative measures. Figure 3 shows that much of the outperformance has reflected superior earnings trends, not a relative re-rating (Figure 4). This makes our European strategy team hopeful that their World Champions can keep outperforming. As importantly, they highlight that recent outperformance has occurred against a backdrop of rising *and* falling equity markets.

Kenji Abe, our Japan equity strategist, also notes that companies with solid international businesses also tend to be outperformers in his market. The Japanese economy has struggled to grow over the last two decades. Kenji notes that companies that outperformed were the Japanese Global Champions. These were well-run international businesses that generated superior sales and EPS growth, so similar to their European counterparts.

Applying Citi's World Champions Framework to the Global Energy Sector

On the following pages, we have extended our European strategy team's methodology in picking World Champions to the Global Energy sector. Our Citi analysts across the global regions nominated their selections for World Champions across their respective global sectors. The selection criteria were:

1) Market cap of at least $3 billion

2) At least a top 3 market share in a third of their businesses

3) A global reach, as measured by significant revenue outside of their respective home market.

The Selection Committee narrowed down the initial Citi Energy nominations to the World Champions in this report.

Stiff competition among crowned 16 World Champions. Citi's Energy teams around the world nominated these 16 companies as World Champions in each of their respective industries. This exercise was done irrespective of current Citi investment ratings.

Figure 5. Citi Energy World Champions

Company	Sub Sector	Analyst	Rating	Share Price	Curr	Target Price	Upside to Target Price	Dividend Yield	ETR
Anadarko Petroleum Corp	Oil, Gas & Consumable Fuels	Robert S Morris	1	72	USD	115	59.9%	0.5%	60.4%
BG Group	Oil, Gas & Consumable Fuels	Michael J Alsford	1	10.8	GBP	13.8	27.7%	1.5%	29.1%
Dresser-Rand Group	Energy Equipment & Services	Robin Shoemaker	1	51	USD	66	28.2%	0.0%	28.2%
Exxon Mobil Corp	Oil, Gas & Consumable Fuels	Faisel Khan, CFA	1	89.4	USD	97.0	8.6%	2.4%	11.0%
FMC Technologies	Energy Equipment & Services	Robin Shoemaker	1	41	USD	53	30.9%	0.0%	30.9%
Gazprom	Oil, Gas & Consumable Fuels	Ronald Paul Smith	1	4.58	USD	7.2	57.2%	6.1%	63.3%
Keppel Corp	Industrial Conglomerates	Horng Han Low	1	11	SGD	13	24.4%	4.7%	29.2%
Neste Oil	Oil, Gas & Consumable Fuels	Ioanna Exarchou	1	9.5	EUR	11.0	15.7%	3.7%	19.4%
Phillips 66	Oil, Gas & Consumable Fuels	Faisel Khan, CFA	2	49	USD	49	-1.0%	0.9%	-0.1%
Samsung Heavy Industries	Machinery	Ethan Kim	1	36000.0	KRW	50000.0	38.9%	1.4%	40.3%
Saipem	Energy Equipment & Services	Ryan W Kauppila	1	35	EUR	50	44.8%	2.2%	47.0%
Sasol Ltd	Oil, Gas & Consumable Fuels	Tassin Meyer	1	374.0	ZAR	435.0	16.3%	4.7%	21.0%
Schlumberger Ltd	Energy Equipment & Services	Robin Shoemaker	1	70	USD	84	20.1%	1.6%	21.6%
Seadrill	Energy Equipment & Services	Ryan W Kauppila	1	230.9	NOK	270.0	16.9%	8.6%	25.6%
Technip	Energy Equipment & Services	Ryan W Kauppila	1	86	EUR	105	22.7%	2.0%	24.7%
Tullow Oil	Oil, Gas & Consumable Fuels	Michael J Alsford	2	14.3	GBP	15.5	8.8%	0.8%	9.6%
						Average	**16.7%**	**2.6%**	**19.3%**
						Median	**21.4%**	**1.8%**	**25.1%**

Source: Powered by dataCentral. Pricing as of Nov 7.

FAQs that Arise in Selecting World Champions

Q: How can World Champions be chosen from such a disparate group of Energy companies addressing different markets like Integrated Oil companies, E&Ps, Oil Services and Refiners, as well as different operating metrics?

A: We concede that this selection process becomes a bit more art than science as we screen for varying financial metrics and return trends to assess the company's long-term global growth prospects (please see Figure 7). Market share metrics, for example, can lead to different conclusions. A high share might signal a shorter runway for growth rather than reflect dominance in a particular market.

Q: Why is Exxon the only Integrated Oil? I thought these were big companies.

A: Perhaps somewhat contentious in this report is our decision to include only one Integrated Oil (Exxon) in our list. Investors are right to ask why RD Shell, Total and Chevron are also not there. The answer is that the oil industry is actually surprisingly fragmented and even these global giants have a surprisingly low market share. Our decision to include Exxon reflects out belief that it is the capital management philosophy of this company that makes it different to peers, with consistently high RoE underpinning the Champion status.

Q: Which Champions offer investors the most significant upside today?

A: Using Citi's ratings, target prices and estimated total returns (ETRs) shows a wide variation in expected returns, with Gazprom, Anadarko, Samsung Heavy and Saipem leading the group.

Q: Which champions stand out among the rest?

A: All 16 of the companies featured in this report are Champions but on qualitative measures and financial metrics we think FMC Technologies, Seadrill, and Keppel Corp stand out as the best of the best in their respective regions.

Our Energy World Champion Methodology

To narrow down the best of the best we utilized a 3 step, equally weighed approach: 1) historical financial performance, focused on revenue growth, earnings, returns, and free cash flow to gauge each company's "track record" of delivering; 2) Citi analyst forecasts of these same financial measures from 2012-2014, to gauge the medium term growth opportunity (Figure 7); and 3) a fundamental overlay, focused on market share, competitive position, global reach, and barriers to entry.

And the Best-of-the-Best Are…

United States: FMC Technologies – Dominant market share in the manufacture of subsea equipment (47% for subsea trees) supports one of the highest returns on equity in the group. We expect the global subsea market to continue to expand materially, much of it from capital projects that are very defensively positioned on the cost-curve, enabling FMC to see revenue growth of 15-20% p.a. and with margins that will likely expand.

Europe: Seadrill – World Champion status is supported by the industry's largest, modern fleet of deepwater drilling rigs as well as a leading presence in the premium jack-up and tender rig markets. Current backlog of >3.5x 2013E sales, largely with investment grade oil majors, offers top-line visibility and combined with substantial gearing on contracted assets helps fuel returns on equity nearly 3x peers. Recent portfolio activity highlights, in our view, management's continued focus on delivering superior RoE to shareholders.

Asia: Keppel Corp – One of the biggest offshore yard businesses in the world (20 facilities) and with a strong positioning around Brazil which we view as the industry's biggest-single customer this decade. That presence and positioning should support high operating margins and high return on equity versus peers, in our view.

Figure 6. Ranking of Energy World Champions Around Key Financial Metrics

Rank		EPS Growth Rate 3-yr Avg		ROE 3-yr Avg		FCF Conversion 3-yr Avg
1	Neste Oil	40.9%	Dresser-Rand Group	29.8%	Keppel Corp	83.1%
2	Dresser-Rand Group	40.3%	Seadrill	29.6%	Dresser-Rand Group	73.1%
3	Technip	34.8%	FMC Technologies	24.1%	Samsung Heavy Industries	67.7%
4	FMC Technologies	30.4%	Exxon Mobil Corp	21.0%	Phillips 66	60.3%
5	Anadarko Petroleum Corp	28.7%	Keppel Corp	20.4%	Schlumberger Ltd	55.6%

Source: Powered by dataCentral

Figure 7. World Champions Quantitative Screens within the Context of the Global Sector

	Company	Revenue Growth Rate 3-yr Avg	EPS Growth Rate 3-yr Avg	EBIT Margin 3-yr Avg	ROE 3-yr Avg	Net Debt to EBITDA 2012E	FCF Conversion 3-yr Avg
	Aker Solutions	12.3%	21.6%	7.3%	21.2%	1.6	39.5%
	AMEC	9.7%	15.0%	7.6%	18.7%	-0.3	97.0%
1	**Anadarko Petroleum Corp**	6.7%	28.7%	24.6%	10.5%	1.5	-3.2%
	Apache Corp	7.3%	7.4%	34.0%	9.6%	1.0	-6.0%
	Baker Hughes Inc	5.5%	16.1%	11.4%	9.6%	0.8	28.3%
2	**BG Group**	8.3%	7.2%	37.0%	13.3%	1.0	-40.4%
	BP	-1.6%	-1.1%	10.8%	14.8%	0.6	17.1%
	Cameron International Corporation	17.0%	33.5%	13.5%	17.6%	0.6	63.4%
	Canadian Natural Resources Ltd	15.4%	49.6%	23.9%	11.6%	1.2	7.8%
	CGGVeritas	11.8%	43.6%	12.6%	7.7%	1.9	50.6%
	Chesapeake Energy Corp	8.7%	140.7%	17.6%	5.2%	2.4	-99.9%
	Chevron	-3.8%	-2.9%	17.8%	17.0%	-0.2	21.9%
	ConocoPhillips	-13.2%	3.9%	38.7%	13.7%	0.8	-3.0%
	Devon Energy Corp	14.8%	50.4%	30.7%	8.3%	0.6	-12.3%
	Diamond Offshore Drilling Inc	17.4%	30.0%	34.7%	20.4%	0.5	18.8%
3	**Dresser-Rand Group**	19.0%	40.3%	11.4%	29.8%	2.1	73.1%
	Eni	3.6%	7.6%	28.0%	13.4%	0.5	30.2%
	Ensco plc	16.4%	23.2%	34.9%	12.5%	2.2	37.3%
	EOG Resources Inc	12.9%	17.9%	24.1%	9.6%	1.0	-32.3%
4	**Exxon Mobil Corp**	-0.7%	-2.3%	13.1%	21.0%	0.0	43.4%
	Fluor Corp	7.0%	10.3%	4.1%	17.4%	-1.6	67.5%
5	**FMC Technologies**	15.2%	30.4%	11.3%	24.1%	1.2	43.9%
6	**Gazprom**	1.5%	-10.8%	27.7%	11.9%	0.7	-1.6%
	Gazpromneft	-0.2%	-12.3%	12.3%	14.8%	0.6	23.7%
	Halliburton Co	6.1%	19.6%	15.5%	18.3%	0.3	35.4%
	Hess Corp	-25.8%	-4.8%	19.4%	8.8%	1.2	-28.4%
	Hyundai Heavy Industries	2.3%	11.0%	4.6%	10.2%	3.3	59.2%
	Inpex	-5.6%	-15.7%	59.8%	7.9%	-0.4	-88.3%
	KBR, Inc.	11.0%	56.5%	6.5%	13.1%	-1.7	80.4%
7	**Keppel Corp**	-8.6%	-3.5%	20.6%	20.4%	0.5	83.1%
	Lukoil	-2.8%	-8.6%	10.3%	12.5%	0.4	18.6%
	Lundin Petroleum	3.1%	1.1%	55.3%	15.5%	0.3	-18.5%
	Marathon Oil Corp	3.4%	21.7%	38.8%	9.7%	0.7	3.4%
	Marathon Petroleum Corp	2.9%	-19.6%	5.7%	23.2%	0.0	47.2%
	Nabors Industries	6.8%	7.5%	8.2%	6.9%	2.4	25.2%
8	**Neste Oil**	-4.8%	40.9%	2.1%	9.9%	3.2	44.1%
	Occidental Petroleum Corp	4.3%	4.8%	39.4%	14.0%	0.2	18.1%
	OMV AG	-8.5%	-8.5%	15.2%	11.0%	1.0	19.7%
	Petrobras	-6.1%	7.6%	12.1%	6.9%	2.4	-47.2%
	PetroChina	1.5%	1.8%	8.6%	12.6%	1.0	16.8%
	Petrofac	12.1%	13.4%	13.0%	41.6%	-0.5	17.9%
	PGS	15.3%	36.7%	20.1%	14.1%	0.7	28.0%
9	**Phillips 66**	-18.4%	-19.7%	4.8%	16.5%	0.4	60.3%
	Reliance Industries	-8.7%	4.6%	8.0%	11.6%	0.7	9.0%
	Repsol	0.8%	-2.0%	8.5%	7.7%	1.8	12.4%
	Rosneft	-1.6%	-10.5%	10.7%	11.6%	1.3	2.8%
	Rowan Companies plc	22.4%	56.7%	22.2%	7.7%	1.8	-66.3%
	Royal Dutch Shell	3.0%	2.9%	11.9%	13.7%	0.3	26.0%
	Royal Dutch Shell(CL B)	3.0%	2.9%	11.9%	13.7%	0.3	26.0%
10	**Saipem**	5.1%	18.1%	11.8%	19.6%	1.8	50.9%
11	**Samsung Heavy Industries**	4.6%	11.2%	7.9%	15.9%	1.7	67.7%
	SapuraKencana Petroleum Bhd	13.2%	31.9%	16.3%	10.5%	3.2	-65.6%
12	**Sasol Ltd**	0.6%	-0.7%	21.5%	19.7%	-0.0	23.4%
13	**Schlumberger Ltd**	11.8%	17.3%	18.7%	18.0%	0.5	55.6%
14	**Seadrill**	19.0%	22.1%	41.2%	29.6%	4.1	13.7%
	SembCorp Marine	16.9%	11.3%	15.5%	22.5%	-1.2	32.8%
	Sinopec	-1.7%	25.9%	2.3%	13.2%	1.7	5.0%
	Statoil	-1.3%	-0.6%	25.6%	17.4%	0.2	10.1%
	Subsea 7	14.2%	34.3%	14.7%	11.7%	0.2	44.8%
15	**Technip**	20.2%	34.8%	10.7%	16.2%	-0.5	53.1%
	Tesoro Corporation	4.1%	-25.9%	4.2%	16.2%	0.2	42.9%
	Total	0.0%	-2.4%	42.0%	15.0%	0.5	17.0%
	Transocean Ltd.	12.2%	56.9%	17.6%	8.0%	2.7	59.0%
16	**Tullow Oil**	4.0%	-1.7%	46.3%	13.2%	0.6	-46.7%
	Valero Energy Corp	-9.4%	-5.3%	3.8%	12.1%	1.0	41.3%
	Weatherford International Ltd	12.5%	46.8%	10.0%	9.4%	2.5	37.2%
	Woodside Petroleum Ltd	4.9%	6.6%	50.6%	15.5%	0.7	52.2%
	WorleyParsons Ltd	7.2%	13.9%	7.2%	18.9%	0.8	87.5%
	World Champions Median	**4.9%**	**14.2%**	**15.9%**	**17.3%**	**0.8**	**44.0%**
	Ex-World Champions Median	**4.6%**	**9.0%**	**14.1%**	**12.8%**	**0.7**	**20.8%**

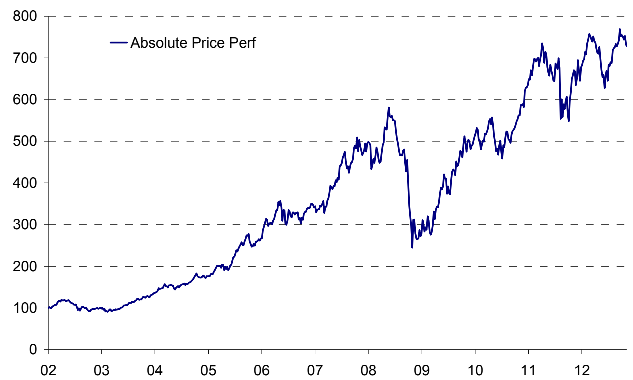
Source: Powered by dataCentral

Acting like World Champions: Outperformance

World Champions have strongly outperformed over 10-year periods. Similar to the European Strategy World Champion list, the 16 Energy World Champions selected have significantly outperformed the MSCI sector over the past 10 years (Figure 9), so selecting Champions has been a winning strategy for investors.

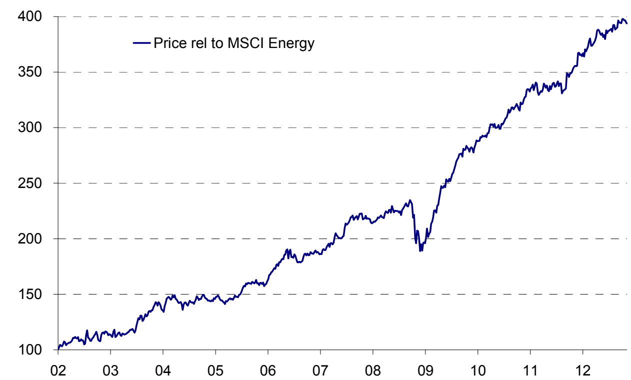
Energy "best in breeds" trading below historical levels but at a premium to the MSCI. Although the Citi Energy World Champions Index remains at a c.15% discount to its historical average forward P/E of 15x, these 'World Champions' still command a c.25% premium to the MSCI Energy. However, Citi Energy World Champions have consistently traded at a premium to MSCI Energy since 2004. We attribute this relative premium to the increased global revenue exposure and ability to gain share and expand margins broadly within developing markets.

Figure 8. Citi Energy World Champions Index Absolute Performance



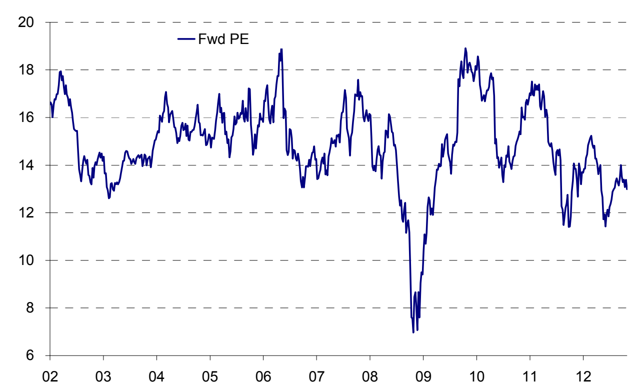
Source: Datastream, Citi Research. Pricing as of November 2.

Figure 9. Citi Energy World Champions Index Relative Performance



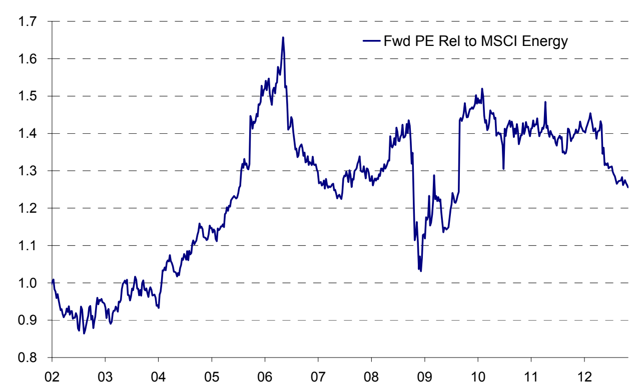
Source: Datastream, Citi Research. Pricing as of November 2.

Figure 10. Citi Energy World Champions Index Absolute P/E



Source: Datastream, Citi Research. Pricing as of November 2.

Figure 11. Citi Energy World Champions Index Relative P/E



Source: Datastream, Citi Research. Pricing as of November 2.

In the following section, Citi Research's Energy analysts have profiled each of the 16 World Champions

Company Focus

■ Company Update

Robert S Morris
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Buy	**1**
Price (07 Nov 12)	US$71.92
Target price	US$115.00
Expected share price return	59.9%
Expected dividend yield	0.5%
Expected total return	**60.4%**
Market Cap	US$35,943M

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

Anadarko Petroleum Corp (APC)

Strong Long-term Portfolio with Significant International Growth

- **APC has secured a leading position in key US plays** — APC's near-term growth is predicated on its U.S. asset base, underpinned by Eagle Ford and Wattenberg liquids growth and to some extent by other unconventional plays (the new Haynesville liquids-rich, Permian Avalon and Marcellus horizontal plays) along with the ramp up of Caesar/Tonga and Lucius in the deepwater Gulf of Mexico. We note the potential of the Wattenberg in particular, a play that maps well onto our cost-curve and offers APC significant resource: management recently indicated a resource potential of the Niobrara and Codell formations of up to 1.5 Bboe (net), enough we think to grow that position 15%+ per annum (incremental volumes 60% oil and 10% NGLs). Anadarko owns ~2/3s of its acreage in these areas in perpetuity and with the full mineral rights which significantly enhances the returns for the company on wells drilled on the Land Grant sections while it collects a royalty on sections it farms out to others. The U.S. represents close to one-half of Anadarko's total estimated risked resource potential and ~$1.4bn exploration budget, with this evenly split between the deepwater GoM and onshore (25-30 wells) including the Utica shale and Powder River Basin.
- **A high potential International asset base** — Key to APC's international portfolio is the potential of Mozambique where Area 1 (36.5% APC) gas resources now sit in the ca.35-65 TCF range. We current model Mozambique LNG as a 4 Train initial development, with equity gas split equally between Areas 1 and 4; economics look attractive at around US$45/bbl reflecting the vast resource size and attractive fiscal environment, although the shallower waters of Area 1 probably offer more certainty to this number. Activity in Ghana including Jubilee production ramp up (expected to reach 120 MBbl/d in early 2013) and the submission of a development plan for the TEN complex represent other sources of material growth with exploration programs in Kenya and offshore New Zealand providing further potential upside.
- **Long-term growth underscored by global opportunities** — An active exploration programme lies at the heart of APC's offering to investors. In addition to domestic opportunities (deepwater Gulf of Mexico and onshore unconventional plays), offshore Ghana and Mozambique provide a focus over the coming 12 months along with future opportunities in West Africa (~6 million gross acres across Cote d'Ivoire, Liberia and Sierra Leone and 8-10 exploration wells drilled this year), North Africa (~15 million gross acres and 2 exploration wells this year) and China (~2 million gross acres and 1 exploration well this year). We note in particular on Mozambique the frontier potential of the southern Area 1, as follow-on to the 2010 Iron Clad well, where the presence of oil suggests there may be different play opportunities in the basis.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	0.73A	1.14A	0.65A	0.85A	3.38A	3.37A
2012E	**0.95A**	**0.85A**	**0.84A**	**0.75E**	**3.38E**	**3.34E**
Previous	0.95A	0.85A	0.84A	0.75E	3.38E	na
2013E	**0.90E**	**0.88E**	**1.05E**	**1.13E**	**3.95E**	**4.20E**
Previous	0.90E	0.88E	1.05E	1.13E	3.95E	na
2014E	**na**	**na**	**na**	**na**	**5.60E**	**5.27E**
Previous	na	na	na	na	5.60E	na

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

- **APC remains a top pick** — Anadarko trades at a discount to the peer group (~5.3x EV/2013E DACF versus peer group average of ~6.3x EV/2013E DACF), while we believe its high quality asset base, solid financial position, strong operational track record and consistency of exploration delivery should command a premium valuation to its peers. Further, with production growth coming from liquids and international gas, experience operating in both domestic and international markets and a strong liquidity position, Anadarko is well positioned to take advantage of arising opportunities in the U.S. and abroad, in our view. Moreover, we argue that Anadarko's exploration prospects provide a "free option" in addition to its valuation.

- **What investors are asking** —

  – **(1) Tronox litigation** — The legal implications of Tronox remains a near-term uncertainty and, as presentations have now concluded with post-trial summaries due on November 20th to be followed by closing arguments the week of December 10th, we expect the judge to render a decision in Q1'13. We believe that the stock currently reflects around ~$3.0bn (or less than ~$4.00 per share after tax) for Tronox although we still think a liability of US$1.0-2.5bn represents a realistic outcome, compared to plaintiff aspirations in excess of US$18.9bn, and thus it is understandable that such a wide bid/ask spread from the legal process weighs on the current valuation.

  – **(2) The future of Mozambique —** Anadarko will continue its exploration program later in the year by testing the Barracuda and Black Pearl (APC 36.5 % WI) oil prospects next to the Iron Clad discovery in the southern part of Block 1. APC management have reaffirmed a desire to monetise a portion of its stage, perhaps structured as a farm-down in exchange for a capital carry (similar to what it did on Lucius). The PTTEP/Cove deal sets a reference price of US$8.2 billion (~$16 per share) as a read-across valuation, although the size of APC's stake could warrant a premium to that.

  – **(3) The outlook for APC's exploration programme —** Key exploration results over the next several months include the Coronado and Yucatan prospects and the high-impact sub-salt prospect Phobos (300 MMBOE+, APC 30% WI) in the deepwater Gulf. Offshore Ghana, results should be forthcoming on the Okure prospect (APC 18% WI) within the TEN Complex later this year.

Integrated Oil & Gas (GICS) | Integrated Oils (Citi)
Europe | United Kingdom

Company Focus

■ Company Update

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Buy	**1**
Price (07 Nov 12)	£10.81
Target price	£13.80
Expected share price return	27.7%
Expected dividend yield	1.5%
Expected total return	**29.2%**
Market Cap	£36,772M
	US$58,823M

Price Performance
(RIC: BG.L, BB: BG/ LN)

BG Group (BG.L)

Despite Recent Issues, Still World-Class Assets and LNG

- **What makes BG a Champion** — BG is a leading integrated gas company that has been able to connect gas to higher value markets. BG is growing strongly and will have the 3rd largest liquefaction capacity (15mpta) and LNG supply portfolio (20mpta) by 2015. In addition, BG has delivered strong exploration success, discovering significant resources additions in the Brazilian pre-salt - a key driver of its upstream growth to the end of the decade.

- **What makes BG a World Champion** — BG has a diversified global portfolio in both its upstream and LNG businesses. By 2020, we see Brazil accounting for 50% of upstream cashflows, but other regions (Australia at 20%, North Africa at 8% and Europe at 10%) remain important parts of BG's upstream business. In addition, BG has a global LNG liquefaction and supply portfolio, which offers the flexibility to divert gas to higher value gas markets

- **BG's growth outlook** — Despite recent issues around the 2013/14 build-out of growth, we still forecast BG upstream cashflows to increase by 13% CAGR 2011-20, almost 3x above the sector average, driven principally by the ramp-up of Brazil. Upstream returns remain high given strong economics from the Brazilian pre-salt projects. We estimate the breakeven of Brazil pre-salt at c. US$35-40/boe and see these projects achieving IRRs of c. 35%. Australia also remains an important contributor to both upstream cashflows (20% by 2020) and LNG supply growth with the delivery of the QC LNG project.

- **BG's cash usage** — High investment requirements see BG continuing to raise borrowing levels until 2015. However, capitalisation and cashflow are strong and we do not anticipate net debt /EBITDA climbing above 1.3x. BG remains committed to retaining its single A-rating and has taken steps to manage the rise in gearing levels announcing a US$5bn asset disposal programme. BG continues to take steps to extend the duration and size of its debt facilities and diversify its source of funding in order to execute on its development plans.

- **Current recommendation** — We rate BG Buy, and see the recent sell-off as an opportunity to invest in a company with strong transformational growth characteristics. We think visibility around growth to 2020 is strong, with RoE expected to reach 15% on our macro scenario, well above sector peers, and at an implied 0.6x 2019E P/Book a growth/profitability profile that we think offers compelling value.

BG Group (USD)

Year to 31 Dec	2010A	2011A	2012E	2013E	2014E
Sales ($M)	17,583.0	21,148.0	23,045.7	22,541.6	27,045.9
Profit Before Tax ($M)	6,826.0	7,990.0	8,650.3	8,587.3	10,402.3
Diluted EPS (¢)	119.1	127.6	137.8	131.9	158.3
Diluted EPS (Old) (¢)	119.1	127.6	137.8	131.9	158.3
PE (x)	14.5	13.5	12.5	13.1	10.9
EV/EBITDA (x)	7.0	6.4	6.2	6.3	5.4
DPS (¢)	21.6	23.8	25.7	27.7	29.9
Net Div Yield (%)	1.2	1.4	1.5	1.6	1.7

- **What are investors asking -**
  - **(1) How can the execution risk be mitigated around BG's growth plans?** A key concern has been the delivery of BG's upstream growth plans, which is primarily driven by Brazil. At current valuation levels, we believe the market is heavily discounting Brazil delivery, despite the fact that these projects remain broadly on time and on budget. The delivery of the next two FPSO units (Sapinhoa and Lula NE) in 1H13 should provide greater confidence around Brazil execution. While challenges exist given the size of the investment plans in Brazil, the modular nature of Brazil helps to mitigate execution risk, in our view, and the improvements in drilling efficiencies, better reservoir characteristics (leading to higher well flow rates and increased recovery per FPSO module) should help to offset cost inflation in the Brazilian services market.
  - **(2) Can the balance sheet support the high investment program?** BG continues to take steps to extend the duration and size of its debt facilities and diversify its source of funding. In the past 18 months BG has raised around US$8bn, including US$2.1bn in hybrid bonds. The hybrid bonds are also categorised as 50% debt/ 50% equity by the ratings agencies. Additionally, BG has signed a MoU for up to US$1.5bn in funding from the Bank of China, up to US$1.8bn in funding from the Brazilian Development Bank, signed a US$500m credit agreement with Export Development Canada and an agreement for potential funding from the Japan Bank for International Cooperation. In a weakening oil price environment, cashflows will be squeezed and we do see gearing levels moving over 38% (net debt/capital employed) in 2015 if oil falls to US$70/bbl (real), significantly above BG's framework target of c. 25%. In this scenario, we believe BG might move more quickly to reduce the high equity stakes it has in key assets (e.g. QC LNG, Brazil and Tanzania LNG). A reduced equity stake would have the dual benefit of initial proceeds, but also lowering the capital requirements (net to BG) to deliver these developments.
  - **(3) What is the pricing outlook for Asian LNG?** With divergent gas prices globally, a key concern is whether we see a break in Asian LNG oil linkage. We see the LNG market remaining tight over the medium term as global gas demand remains robust and new supply disappoints. In addition, we see limited medium-term arbitrage opportunities for the majority of American gas supply. Even if we see a move away from oil linkage over the longer term towards Henry Hub linkage, we do not forecast a significant deterioration in Asian LNG prices given our global LNG cost curve analysis, which sees most LNG projects requiring more than US$12/mmbtu to achieve an IRR of 12%.

Oil & Gas Equipment & Services (GICS) | Oilfield Equipment & Services (Citi)
North America | United States

Company Focus

■ Company Update

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Buy	**1**
Price (07 Nov 12)	US$51.47
Target price	US$66.00
Expected share price return	28.2%
Expected dividend yield	0.0%
Expected total return	**28.2%**
Market Cap	US$3,895M

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

Dresser-Rand Group (DRC)

The Global Leader in Energy Infrastructure Solutions

- **What makes DRC a Champion** — DRC is a champion because of its industry leading position in the manufacture of compressors, steam turbines and reciprocating engine power systems. DRC stands out from its competitors because its core technology platforms provide the most comprehensive solutions for oil and gas production, transmission, storage, and processing. We know of no other company that will benefit more from continuing energy infrastructure investment. DRC has the largest installed base of equipment and the largest service network in the industry, creating a strong aftermarket revenue stream.

- **What makes DRC a World Champion** — DRC's global presence is unmatched in the industry: 75 sales offices around the world, 49 service and support centers, and 13 manufacturing locations. North America, the company's largest geographic market, accounted for 31% of revenues in 2011. DRC's highest growth markets are in the Eastern Hemisphere and, for that reason, the company moved its corporate headquarters from Houston to Paris a few years ago. The company has formed alliances and frame agreements with some of the world's largest oil companies to boost its international presence.

- **DRC's growth outlook** — We believe that the global pace of energy infrastructure spending will accelerate based on rising world oil demand and the need to develop new sources of energy in challenging environments such as deepwater oil and gas basins. We believe that DRC's sales of new units and aftermarket parts and services will reflect the higher rate of industry spending on energy infrastructure projects in the coming years. We expect new unit revenues to grow at a 20% CAGR through 2015. Aftermarket revenues are expected to grow at a 10%-15% CAGR. This top line growth, combined with modest margin expansion, could drive EPS from $2.39 in 2012 to $4.70 in 2014E.

- **DRC's cash usage** — DRC generates strong cash flows from its dependable and highly profitable aftermarket business. Cash flows are channeled into R&D (around 2% of sales), acquisitions, and share repurchases. DRC has a low capital intensity business model and customer advance payments and progress payments finance working capital. These factors boost free cash flow.

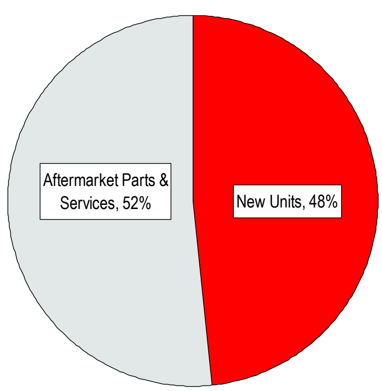
- **Current recommendation** — We rate DRC a Buy with a $66 price target. The company trades at a modest discount compared its peers, despite having higher growth characteristics that should support a premium valuation. We also believe that DRC could become a M&A target for an industrial company looking to boost its exposure to the energy infrastructure market.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	0.13A	0.14A	0.51A	0.90A	1.66A	1.68A
2012E	**0.31A**	**0.45A**	**0.54A**	**1.08E**	**2.39E**	**2.48E**
Previous	0.31A	0.45A	0.54A	1.08E	2.39E	na
2013E	**0.39E**	**0.53E**	**0.98E**	**1.81E**	**3.70E**	**3.72E**
Previous	0.39E	0.53E	0.98E	1.81E	3.70E	na
2014E	**na**	**na**	**na**	**na**	**4.70E**	**4.68E**
Previous	na	na	na	na	4.70E	na

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

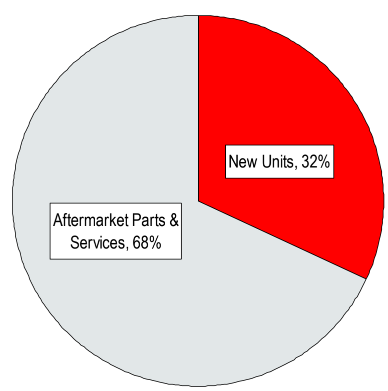
- **What investors are asking** —
  - **(1) Technology leadership** — Investors should ask if DRC can sustain its leadership in its core technology platforms. As the industry's technical leader in custom-engineered centrifugal and reciprocating compressors, DRC is responding to increasingly more demanding specifications for performance, reliability, and energy efficiency. The company's proprietary DATUM compressors are at the technological forefront today. Can DRC maintain this leadership? GE and Siemens are formidable competitors across multiple product lines and they have their own new product pipelines.
  - **(2) Execution leadership** — Investors should ask if DRC can continue to demonstrate superior execution and timely delivery of large customer orders for turbo and reciprocating compression equipment and steam turbines. DRC has established one of the industry's best track records in delivering custom engineered compression systems for deepwater field development projects. This has enabled the company to increase its share of the rapidly growing FPSO (floating production, storage, and offloading) market. Over time the company must boost the "local content" of its manufactured products. Part of the execution challenge is to provide high-quality manufactured products (both new units and aftermarket parts and services) and, simultaneously, to increase the participation of developing countries in the manufacturing supply chain.
  - **Price leadership** — As industry capacity is increasingly stretched and strained by robust demand for energy infrastructure equipment, investors will expect DRC to show leadership in raising prices and delivering higher profit margins, especially in the new unit side of the business. Today new units represent a significantly higher proportion of revenues than of profits (see Figures 1 and 2). While aftermarket margins will likely remain superior to new unit margins, we see the greatest upside to current pricing levels in new unit pricing.

Figure 1. Dresser-Rand: LTM Revenue Split



Source: Company reports, Citi Research

Figure 2. Dresser-Rand: LTM Gross Profit Split



Source: Company reports, Citi Research

Integrated Oil & Gas (GICS) | Oil Companies - Majors (Citi)
North America | United States

Company Focus

- Company Update

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Buy	**1**
Price (07 Nov 12)	US$89.35
Target price	US$97.00
Expected share price return	8.6%
Expected dividend yield	2.6%
Expected total return	**11.2%**
Market Cap	US$412,434M

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

Exxon Mobil Corp (XOM)

Most Disciplined Integrated Company in the Group

- **What makes XOM a Champion** — XOM is the world's largest publicly traded international oil and gas company, and continues to demonstrate that its integrated strategy of upstream, refining and chemicals continues to work despite all the corporate restructuring we have seen of late in the integrated oil arena. While upstream still makes up the bulk of XOM's profits, Chemicals and US refining are delivering impressive returns on capital. Furthermore, the company's consistent and patient asset divestiture program continues to prune underperforming assets at relatively attractive prices. Overall returns on capital employed for upstream were 27% last year (9% in the US and 39% overseas).

- **What makes XOM a World Champion** — Roughly 86% of total operating income is outside of the United States, split between Asia & Middle East (41%), Europe (18%), Africa (18%) and Canada & South America (8%). XOM's exploration and production is highest in Asia (36%), followed by the US (25%), and Europe (18%).

- **XOM's growth outlook** — We estimate XOM can grow production by 1% per annum through the end of the decade. The company's large-scale operated projects under construction such as PNG, Kearl and Hadrian have some of the highest IRRs in our decade-ahead analysis, while its non-operated assets are trending towards the industry average. Given XOM's size (4.4mmboe/d of net production), it does not make much sense to try to grow the portfolio in the current cost environment unless the company discovers or obtains access to a large resource base with a low cost structure. XOM's deal in Russia with Rosneft and other deals in the Middle East could represent new opportunities to grow the portfolio.

- **XOM's cash usage** — We expect dividends to increase about 4% every year until the end of decade and a dividend payout ratio averaging ~27%. We estimate XOM will use 65% of its future free cash flow for share repurchases, or ~5% of its diluted shares per year through the end of the decade. Debt /cap stood at 9.9% at the end of 2011 which we forecast will decline gradually until 2016.

- **Current recommendation** — We maintain our Buy rating and $97 price target.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	2.05A	2.17A	1.92A	1.80A	7.95A	8.42A
2012E	**1.92A**	**2.05A**	**2.02E**	**2.31E**	**8.30E**	**7.80E**
Previous	1.92A	2.05A	2.02E	2.31E	8.30E	na
2013E	**2.20E**	**1.92E**	**1.98E**	**1.87E**	**7.97E**	**8.06E**
Previous	2.20E	1.92E	1.98E	1.87E	7.97E	na
2014E	**1.87E**	**2.02E**	**2.03E**	**1.99E**	**7.92E**	**8.13E**
Previous	1.87E	2.02E	2.03E	1.99E	7.92E	na

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

- **What investors are asking** —

– **(1) Should Exxon remain an Integrated company?** XOM has successfully generated value by making the right decisions over a long period for time. While many companies have stumbled with their integrated strategy, a few companies have rectified the situation by spinning off their downstream segments. We believe XOM has executed the integration strategy effectively and deserves to trade at a premium based on three key attributes: 1) each business needs to stand on its own and be best in class in that subsector; 2) companies can't have business segments fighting for capital within the organization; and 3) each business segment needs to take advantage of the integration and provide what it can offer (lower cost of capital, technology, engineering and team work).

– **(2) Will XOM buy a large oil and gas asset in the US or overseas?** We believe XOM could buy select assets with large resource positions. For example, XOM recently made a $2.9 billion bid for Celtic Exploration, which would add large undeveloped oil and gas positions in the Montney and Duvernay shales in Western Canada. Celtic could add 3BnBoe of resource.

– **(3) Does XOM regret buying XTO in 2009?** The $40B acquisition of XTO continues to remain a question mark for the market. Low US natural gas prices are a drag on XOM's returns and profitability and the XTO assets are the primary contributor to this drag, although the overall impact is muted given that US natural gas only makes up 15% of XOM's total production.

Oil & Gas Equipment & Services (GICS) | Oilfield Equipment & Services (Citi)
North America | United States

Company Focus

FMC Technologies (FTI)

The Global Market Leader in Subsea Technologies

- **Company Update**

Robin Shoemaker
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Buy	**1**
Price (07 Nov 12)	US$40.50
Target price	US$53.00
Expected share price return	30.9%
Expected dividend yield	0.0%
Expected total return	**30.9%**
Market Cap	US$9,628M

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

- **What makes FTI a Champion?** — FTI is a champion because of its industry leading position in the manufacture of subsea technologies for oil and gas production, a rapidly growing segment in the oilfield equipment market today. The company achieved a 47% share of the market for subsea wellhead assemblies (known as trees) over the past five years (2007-11).

- **What makes FTI a World Champion?** — FTI is a world champion because its product quality and reliability are unmatched in the subsea industry. Many of the world's largest oil companies (both IOCs and NOCs) have retained FTI under "global frame agreements" to provide subsea trees, control systems, and manifolds, agreements that underpin a steady stream of equipment orders through the business cycle. Although FTI has other business lines besides subsea equipment, the Subsea Technologies segment comprises 60-70% of revenues and 50-60% of operating profit.

- **FTI's growth outlook** — We expect worldwide subsea tree awards to increase by 50% or more in 2012. The industry received 100 tree orders in 2Q12, bringing the 2012 total to around 270 at midyear, and is on track to reach 450-500 tree orders by year-end (versus only 311 tree awards in 2011). Subsea tree orders are projected to grow steadily from 2013 to 2016, based on known deepwater field development projects. We expect FTI's subsea equipment orders to increase from $3.9 billion in 2011 to $6.0 billion in 2014. In our model subsea revenues increase at a rate of 15%-20% per year through 2014 and margins improve from a range of 11%-12% in 2012 to 15%-16% in 2014. We expect EPS to increase at a 20%-25% CAGR for the next few years.

- **FTI's cash usage** — FTI should have relatively low capital spending requirements going forward even in a period of strong revenue growth. We believe FTI will consider returning cash to shareholders through dividends while pursuing attractive acquisition opportunities. The company's debt is low at approximately 1.0x EBITDA. FTI recently announced the acquisition of Pure Energy Services, an Alberta-based provider of frac flowback services in Canada and the US, for $285 million in cash.

- **Current recommendation** — We rate FTI a Buy with a $53 price target. We believe FTI is the best and most direct play on the subsea infrastructure market. Although FTI trades at a significant premium to its peers, we believe the premium is justified by its superior earnings growth profile and the high visibility of future orders that will come from its global customer alliances.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	0.35A	0.39A	0.50A	0.41A	1.64A	1.62A
2012E	**0.41A**	**0.46A**	**0.41A**	**0.60E**	**1.88E**	**1.86E**
Previous	0.41A	0.46A	0.41A	0.60E	1.88E	na
2013E	**0.71E**	**0.69E**	**0.90E**	**0.20E**	**2.50E**	**2.36E**
Previous	0.71E	0.69E	0.90E	0.20E	2.50E	na
2014E	**na**	**na**	**na**	**na**	**3.20E**	**3.07E**
Previous	na	na	na	na	3.20E	na

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

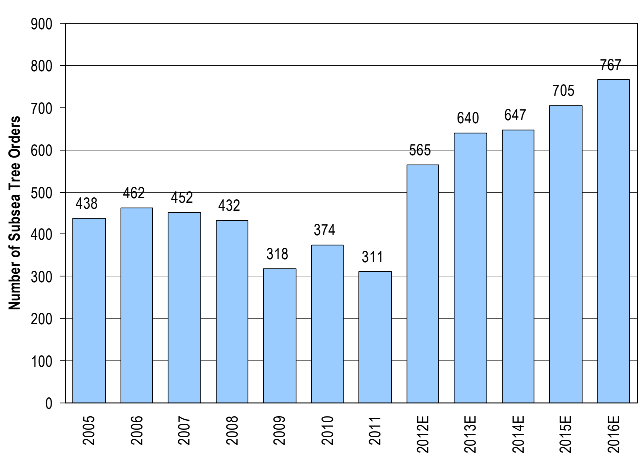
- **What investors are asking —**

  – **(1) Technology leadership** — Investors should ask if FTI can sustain its leadership in subsea technologies for oil and gas production. Since 2007 FTI has built and delivered nearly half of worldwide subsea production infrastructure (see Figure 2). As the industry's technical leader, FTI is responding to increasingly demanding specifications for performance and reliability in extreme environments, including high pressure and high temperature reservoirs. Subsea oil and gas processing is the new frontier in subsea production, where Schlumberger will be a formidable competitor.

  – **(2) Execution leadership** — Investors should ask if FTI can continue to demonstrate superior execution and timely delivery of large tree orders that meet increasing "local content" requirements. FTI has established one of the industry's best track records in delivering high-specification subsea equipment for major deepwater field development projects. This has enabled the company to increase its preferred provider relationships with key customers. FTI faces growing pressures to build sophisticated subsea equipment in countries such as Brazil and Angola. Over time the company must boost the "local content" of its manufactured products. Investors need to know if FTI is prepared to defend its leading market share through investments in new manufacturing and research centers in developing countries.

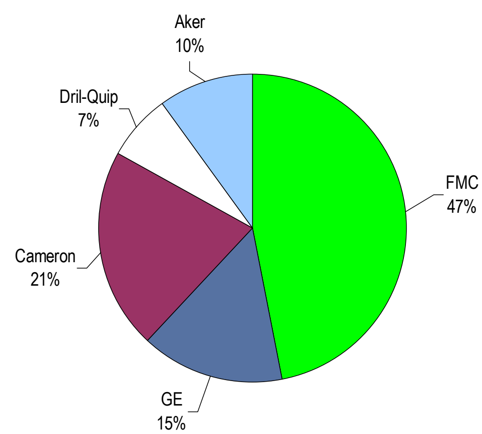
  – **(3) Price leadership** — As the largest and most successful company in the subsea arena, investors naturally ask why FTI has not shown leadership in pricing. Subsea equipment manufacturers (including FTI) have reported weak margins due to weak pricing for several years, reflecting industry overcapacity and intense competition for large tree orders. FTI has suggested that pricing will not improve until all of its competitors (see Figure 2) have reloaded their backlogs and are no longer willing to cut prices to win new business. FTI suggests that a better pricing environment will emerge in 2013, but investors will justifiably wonder if this is an overly optimistic prediction.

Figure 12. Actual and Projected Subsea Tree Orders



Source: Quest Offshore Resources, Citi Research estimates

Figure 13. Subsea Equipment Market Shares (2007-2011)



Source: Quest Offshore Resources, Citi Research

Integrated Oil & Gas (GICS) | Oil Companies - International (Citi)
CEEMEA | Russian Federation

Company Focus

- Company Update

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Buy	**1**
Price (07 Nov 12)	US$4.58
Target price	US$7.20
Expected share price return	57.2%
Expected dividend yield	6.1%
Expected total return	**63.3%**
Market Cap	US$105,116M

Price Performance
(RIC: GAZP.MM, BB: GAZP RU)

Gazprom (GAZP.MM)

The Gas Giant

- **What makes Gazprom a Champion** — Gazprom is the world's largest single gas producer (c500bcm or 8mn boe/d) and exporter (220bcm or 3.6mn boe/d). With liquids, overall production is c9.3mn boe/d. Gazprom exports c150bcm per annum to Europe, roughly 1/4 of the total gas supply for that region. With substantial export capacity to the region and few real alternatives, we see Gazprom as being largely irreplaceable on the European market, although market share losses at the margin are possible.
- **What makes Gazprom a World Champion** — The global gas market is becoming ever more integrated via LNG. Gazprom produces a modest amount via its share in the Sakhalin-2 project, but has ambitions to expand that significantly with a 3rd train at that project and a new greenfield plant at Vladivostok. The oft-delayed Shtokman LNG project should eventually come off the drawing board and will likely be 100% LNG oriented when it does. Finally, Gazprom's pipeline exports compete with LNG in the European market, by extension affecting the global supply/demand balance of the fuel.
- **Gazprom's growth outlook** — Growth opportunities are limited for the medium term for several reasons. First, Gazprom's sheer size means that material volume growth is difficult in the best of times. Second, European gas demand is swooning, pulled down by a weak economy, and competition from LNG and cheap coal is at least temporarily depressing market share. Pricing power is limited, as we think oil-linked contract prices have hit a practical ceiling, and any increase in oil prices is likely to be matched by additional formula discounts.
- **Gazprom's cash usage** — The Russian government recently required Gazprom to begin paying meaningful dividends, 25% of RAS net income, or c17.5% of IFRS. We think an additional 40% step-up to 25% of IFRS is likely in the next 12-24 months, pushing dividend yields from the current 5.3% to c7.5%. All other available cash flows, per company tradition, we expect to be reinvested.
- **Current recommendation** — On our estimates, Gazprom is trading at very low multiples of c3-4x on a P/E basis and c.2.5-3x on EV/EBITDA, which our DCF valuation suggests is low. The current dividend yield of >5% is above the company's bond YTMs at or under 5%.

Gazprom (USD)

Year to 31 Dec	2010A	2011A	2012E	2013E	2014E
Sales ($M)	118,656.8	157,661.0	147,247.3	148,596.2	151,827.8
Profit Before Tax ($M)	41,951.6	57,032.7	46,568.0	40,306.8	37,082.4
Diluted EPS ($)	1.39	1.93	1.58	1.37	1.26
Diluted EPS (Old) ($)	1.39	1.93	1.58	1.37	1.26
PE (x)	3.3	2.4	2.9	3.4	3.6
EV/EBITDA (x)	2.8	1.9	2.3	2.6	2.8
DPS ($)	0.13	0.31	0.27	0.23	0.30
Net Div Yield (%)	2.8	6.7	5.8	5.1	6.6

- **What investors are asking —**

  - **(1) Where is the capex going, and at what returns?** Some 44% of capex goes into Gazprom's enormous pipeline system, albeit at varying (and difficult to estimate) returns. The 55bcm, $11bn Nord Stream (on and offshore) project, for example, is likely exceeding Gazprom's cost of capital because it allows the company to avoid paying c$65/mcm for gas transit through Ukraine and other transit countries on the way to Germany. The 3.8bcn, $1.1bn Dzhugba-Sochi is on the other end of the spectrum, built to feed gas to Sochi for the 2014 Winter Olympics, we doubt the line will ever earn its cost of capital. Upstream investment, typically 35% of the whole, is more efficient, and Gazprom can replace hydrocarbons (mostly gas, of course) at <$1/boe.

  - **(2) What will Gazprom's position be on the European market in 5 years**? In 5 years we expect Gazprom's position on the European market to be roughly what it is today – 25%, with the upside limited by European willingness to become more reliant upon Russian gas and the availability of (somewhat expensive) LNG. The downside is limited by the lack of scope of LNG and other, limited alternative suppliers to replace Gazprom's volumes.

  - **(3) Will domestic market share losses to Novatek and other independent producers continue?** Yes, the domestic market share losses are likely to continue. Rosneft has recently announced that it and partner Itera have c50bcm of contracted *increases* (from 26bcm this year to 77bcm in 2017) already signed, with 35bcmpa of that coming, it turns out, from Novatek's current client Inter RAO. Against the backdrop of a Russian domestic gas market of c400bcm, this is a material gain in market share, even if some of those volumes go to newbuild chemical or power plants, as we think might be the case. We expect Novatek to replace the lost volumes (c15bcm currently to it alone) by taking other Gazprom customers, and to continue to expand volumes from 2012's c60bcm to 75bcm by 2017.

Industrial Conglomerates (GICS) | Conglomerates (Citi)
Asia Pacific | Singapore

Company Focus

Keppel Corp (KPLM.SI)

Extending Its Market Leadership During Current Cycle

- Company Update

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Buy	**1**
Price (07 Nov 12)	S$10.53
Target price	S$13.10
Expected share price return	24.4%
Expected dividend yield	4.7%
Expected total return	**29.2%**
Market Cap	S$18,936M
	US$15,490M

Price Performance
(RIC: KPLM.SI, BB: KEP SP)

- **Global franchise** – Keppel's "Near Market, Near Customer" strategy positions it well to capitalize on rising local content requirements by NOCs. Among leading offshore yards, Keppel has the most extensive reach in terms of global presence with 20 yards and is able to execute without compromising its margins. With the order book in excess of S$12bn, earnings appear fully secured until FY13E. We also note its better margin prospects than industry peers, underpinned by productivity gains and economies of scale from 19 jackups scheduled for delivery in 2013 (>50% based on a single design; KFELS B Class).

- **Best leverage to Petrobras' E&P program** – We argue that Keppel is among the best global plays into Petrobras' E&P program. With more than 10 years of operating history, Keppel already has developed deep understanding of and a large presence in Brazil. Execution risks will be well managed, in our view. Close to one-third of Keppel's 24,000 global workforce is based in Brazil.

- **Order book outlook** – We expect order wins (ex-Petrobras) continue to grow from S$5bn (2012) to S$5.5-6bn in 2013-14 with potential upside risks. Unlike the recovery in 2011, when orders were largely concentrated in jackups, future order book should be well spread across jackups, semisubs and possibly drillships. Keppel's new compact drillship design should position it well to level the playing field with Korean yards, like Samsung. Keppel has no market share in drillship newbuilds as yet, hence penetrating this segment could re-rate the stock, in our view.

- **Strong commitment to R&D** – KEP O&M is jointly designing a first-of-its kind ice-worthy jackup together with ConocoPhillips. Expected to be completed by end-2013, the jackup is to be equipped with a hull designed for towing in ice and will be capable of operating among the harshest marine frontiers such as the Arctic seas. We believe KEP's suite of products and technologies is far superior to many of its global competitors'. For instance, apart from having a proven set of jackup rig designs that has gained wide market acceptance (eg. KFELS proprietary designs made up 38% of new orders between '10-11), it also possesses a broad mix of in-house deepwater rig designs and patents on several critical rig components (including jacking, self-positioning and skidding systems).

Statistical Abstract

Year to 31 Dec	Net Profit (S$M)	Diluted EPS (S$)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2010A	1,307	0.74	2.5	14.3	2.9	21.1	3.6
2011A	1,491	0.83	12.5	12.7	2.6	21.6	4.1
2012E	1,955	1.09	31.1	9.7	2.2	24.5	4.7
2013E	1,602	0.89	-18.1	11.8	2.0	18.0	4.3
2014E	1,822	1.01	13.7	10.4	1.8	18.7	4.4

Source: Powered by dataCentral

- **What investors are asking** —
  - **(1) How will operating margins progress into 2013?** Operating margin declined more sharply than expected YoY and is currently ~13%. Confidence level for margins to rebound in 2013 is low given the weaker margin trend. What is the possibility of margin recovery and what is the rate of margin recovery in 2013?
  - **(2) Contracting strategy with NOCs.** There is newsflow that other NOCs such as PetroVietnam and State Oil Company of Azerbaijan Republic (SOCAR) could be looking to own rigs. What are the type of assets they are keen to procure and how is Keppel Corp positioned? When can we expect any contracts to be secured?
  - **(3) Dividend payout.** Keppel Corp's dividend payout history has consistently surprised on the upside. Is there any likelihood of a higher dividend payout given the record profits in 2012?

Oil & Gas Refining & Marketing (GICS) | Refiners (Citi)
Europe | Finland

Company Focus

■ Company Update

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Buy	**1**
Price (06 Nov 12)	€9.51
Target price	€11.00
Expected share price return	15.7%
Expected dividend yield	3.7%
Expected total return	**19.4%**
Market Cap	€2,437M
	US$3,123M

Price Performance
(RIC: NES1V.HE, BB: NES1V FH)

Neste Oil (NES1V.HE)

Global Refining Asset Leader Geared to Tight Diesel Supply

- **What makes Neste a Champion** — Neste offers exposure to one of the world's most profitable refining portfolios, an asset position that will likely remain advantaged for the long term and one that should offer strong yield characteristics as the company comes out of a heavy investment phase. We think a first quartile position on the global refining cost curve and a yield profile that is ideally placed within an increasingly middle-distillate driven industry provide a solid basis for margin expansion as industry rationalisation continues.
- **What makes Neste a World Champion** — Neste has a global reach with ~52% of sales in 2011 generated outside of its domestic market, 11% of which in the Americas and 9% in the Baltic Rim. Production facilities in Finland, Singapore, Netherlands and Bahrain support the group's global activities. Neste supplied renewable diesel to six European countries in 2011 and the first cargo of waste fat-based biodiesel was shipped to the US in 1Q12.
- **Neste's growth outlook** — We believe Neste will deliver the biggest returns expansion in the European oil refining sector over the next three years (from 3% in 2011 to 9% in 2014) driven by the ramp up of the renewables business and a high-quality refining system. Having completed a heavy investment cycle, Neste stands to deliver 2011-2014E CAGRs of 23% (EBITDA) and 57% (EPS).
- **Neste's cash usage** — The majority of Neste's R&D expenditure in 2011 (0.3% of sales) was focused on extending the group's biofuel feedstock range. The completion of the group's biofuel investment program sees capex reverting back to maintenance levels at an average ~59% of (pre-working capital) operating cash flow in 2012-2014E. A dividend payout ratio averaging 49% of adjusted net income (historical 5-year average 76%) supports absolute DPS growth and a dividend yield of 3-6% in 2012-2014E.
- **We rate Neste Buy** — Free cash flow looks set to grow, supporting FCFY of 12%-14% in 2013-2014E, while a 7% discount to the sector average (8.1x 2013E PE vs. sector average at 8.8x) we believe is unjustified given Neste's returns' growth profile.

Neste Oil (EUR)

Year to 31 Dec	2010A	2011A	2012E	2013E	2014E
Sales (€M)	11,892.0	15,420.0	17,858.5	17,647.0	16,175.7
Net Income (€M)	164.2	90.1	175.6	300.5	348.4
Diluted EPS (€)	0.64	0.35	0.68	1.17	1.36
Diluted EPS (Old) (€)	0.64	0.35	0.68	1.17	1.36
PE (x)	14.8	27.1	13.9	8.1	7.0
EV/EBITDA (x)	8.2	8.4	6.4	5.0	4.3
DPS (€)	0.35	0.35	0.35	0.55	0.68
Net Div Yield (%)	3.7	3.7	3.7	5.8	7.1

- **What investors are asking —**

  – **(1) Impact of changing global demand patterns.** As a European refiner, Neste faces margin pressures from weak demand trends in Europe and competitive asymmetries vs. its peers in the US and the Middle East. Although European oil product demand has been weak throughout 2012 and is projected to see little growth going forward, advantaged coastal refiners such as Neste benefit from growing import demand from non-OECD markets such as Africa and Latin America. Neste benefits from a low opex base, proximity to crude export terminals and ability to process lower-quality Russian crudes – all supporting Neste's margin premiums of $2-4/bbl vs. the European industry average. It is also geared towards the production of premium, high-margin oil products that Europe imports (middle distillates account for 55% of total refinery production). We see this underpinning margin expansion for Neste as industry rationalisation continues and Europe's middle distillate deficit widens.

  – **(2) Now that the biofuels investment is complete, will Neste embark upon a new capital-intensive project, limiting potential shareholder returns?** Following the completion of a heavy investment cycle, management has emphasised that they do not expect any material increases in capex levels going forward. The group's focus is now on deleveraging (management targets gearing within the range of 25-50%) and maximising shareholder returns. Moreover, efforts to grow through partnerships (e.g. the Bahrain JV with BaPco and the Adnoc partnership in Abu Dhabi) indicate a strategic shift towards less capital-intensive growth routes.

  – **(2) To what degree is global biodiesel demand sustained by subsidies and is there a risk of the addressable market disappearing should such subsidies be withdrawn?** The key driver behind biodiesel demand in Neste's key markets, Europe and the US, is legislation rather than subsidies. In the EU this is set by the Renewables Energy Directive (RED), which stipulates that 10% of energy used in transport in the European Union be renewables-based by 2020. Tax incentives, widely used in 2006-2008, have been largely phased out, and biofuels blending is now defined by mandated quotas. Similarly, biodiesel demand in the US is driven by the Renewable Fuel Standard (RFS), with annual blended volumes set by the US Environmental Protection Agency. Therefore we expect that complete withdrawal of subsidies (where they are still present) would have minimal impact on Neste's addressable market.

Oil & Gas Refining & Marketing (GICS) | Independent Refiners and Marketers (Citi)
North America | United States

Company Focus

- Company Update

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Neutral	**2**
Price (07 Nov 12)	US$49.49
Target price	US$49.00
Expected share price return	-1.0%
Expected dividend yield	2.0%
Expected total return	**1.0%**
Market Cap	US$30,971M

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

Phillips 66 (PSX)

World Champion Levered to North American Hydrocarbon Growth

- **What makes PSX a Champion** — PSX represents a portfolio of assets that is levered to growing hydrocarbon production in North America. Its refining assets are situated near major delivery points of crude oil production from Canada and the interior US. Its chemical assets are taking advantage of cheap US feedstocks. Its midstream and pipeline assets are taking advantage of the growing hydrocarbon production in the US. PSX's key strategy is to have 50% of its capital deployed in the chemical and midstream businesses, where we estimate it will generate higher risk-adjusted returns than on refining

- **What makes PSX a World Champion** — Given the competitive nature of the global refining business, we constructed a margin curve to assess PSX's competitive position in the US and across the world. Our analysis demonstrates that PSX's refining assets generate some of the highest per unit margins globally. We believe PSX is well positioned to gain an increasing share of the petroleum product export market, which we believe is growing almost 200 kbod a year in the Atlantic basin alone. PSX's chemicals joint venture, CPChem, is one of the largest chemicals companies in the world. CPChem has a major presence in the US and the Middle East. CPChem's assets in the US and the Middle East sit at the bottom of the global ethylene cost curve because of access to cheap feedstock (ethane/propane). CPChem generates top tier returns on capital employed in the range of 30%. PSX's midstream position through DCP is one of the largest gathering, processing and transportation positions in North America.

- **PSX's growth outlook** — Most of the growth for PSX will be through its midstream and chemicals assets. We estimate PSX has mid-cycle earnings power of $4.25 per share. We expect PSX to generate over $3bn in free cash flow through 2015.

- **PSX's cash usage** — PSX started with a quarterly dividend of $0.20 per share in 3Q'12 and has already raised the quarterly dividend to $0.25 per share. We believe that PSX could double its dividend over the next 2-3 years. PSX has a $1 bn share repurchase program.

- **Current recommendation: Neutral** — The refining business for PSX faces near-term headwinds, along with the rest of its global peers, of low refining margins driven by weak demand and new capacity builds around the globe. The addition of pipeline capacity from the Permian basin and Cushing to refining hubs in the US Gulf coast is likely to reduce the advantage enjoyed by US Midcontinent refiners.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	1.08A	1.66A	1.67A	3.21A	7.28A	na
2012E	**1.01A**	**1.86A**	**2.42E**	**1.61E**	**6.92E**	**7.36E**
Previous	1.01A	1.86A	2.42E	1.61E	6.92E	na
2013E	**1.29E**	**1.67E**	**1.59E**	**0.91E**	**5.47E**	**5.96E**
Previous	1.29E	1.67E	1.59E	0.91E	5.47E	na
2014E	**0.78E**	**1.51E**	**1.42E**	**0.75E**	**4.46E**	**5.54E**
Previous	0.78E	1.51E	1.42E	0.75E	4.46E	na

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

- **What investors are asking —**

  - **(1) How will PSX be affected by changing crude differentials upon the completion of transportation options to the US Gulf Coast?** The new pipeline capacity is likely to first have an impact on light sweet barrels in the US Midcontinent benchmarked to WTI. We believe that, while the discount between LLS and WTI will narrow, Canadian heavy crudes benchmarked to WTI will continue to be discounted to WTI and at levels much below LLS. The narrowing of these discounts on the one hand reduces the advantage for PSX at its Mid Continent refineries, but on the other hand opens the opportunity to benefit from greater availability of light sweet crude at its Gulf Coast refineries. Among its four segments, PSX has the largest presence in the US Gulf Coast and additional availability of discounted light sweet barrels on the coast should help PSX maintain margins.

  - **(2) How soon can DCP shift away from commodity price exposed growth to a fee based growth?** DCP continues on the trajectory of investing $5-$7 bn through 2015 on G&P and NGL Logistics assets. PSX has always maintained that this growth will be self-funded and the parents will not have to participate. However, the recent weakening in NGL prices fuelled by rising production and limited demand has caused some concern amongst investors regarding DCP's ability to continue to fund this growth. DCP to its end is moving more towards a fee-based pricing structure not only at its logistics assets but also at its G&P assets. Although we expect NGL prices to remain weak in the near term, a move towards more fee-based income should help DCP not only fund its growth but also generate good returns for its parents.

  - **(3) How long with the ethylene cycle last and how is CPChem positioned to benefit from it?** On the one hand PSX is exposed to NGL price weakness through DCP but on the other it benefits from the same price weakness at CPChem. Being one of the largest ethylene producers in the world, CPChem benefits from low ethane prices. Continued strong growth in ethane production and delays in commissioning of new ethane crackers is likely to extend the strong ethylene cycle in the US through 2016-2017E. We believe that CPChem is well positioned to benefit from this extended ethylene cycle.

Company Focus

Samsung Heavy Industries (010140.KS)

Unrivalled Leadership in Deepwater Drilling Rigs

- Company Update

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Buy	**1**
Price (07 Nov 12)	W36,000
Target price	W50,000
Expected share price return	38.9%
Expected dividend yield	1.4%
Expected total return	**40.3%**
Market Cap	W8,311,514M
	US$7,624M

Price Performance
(RIC: 010140.KS, BB: 010140 KS)

- **What makes SHI a Champion** — Samsung Heavy (SHI) is the largest shipyard globally in terms of backlog (constructs both commercial and offshore vessels). SHI has a industry leading position in offshore vessels construction typically for drillships, a segment that we expect to see secular growth in the medium term amid structural oil & gas E&P demand into deep-water. SHI has achieved 30~50% market share for deepwater drillship construction since mid-2000 (excluding Petrobras' E&P program, where Singapore yards have better leverage with local exposure) globally.

- **What makes SHI a World Champion** — SHI has an unrivalled track record and product quality, which enable it to have sticky relationships with most of top-tier drilling companies globally. Furthermore, SHI has among the greatest drillship delivery capacities (12-15 vessels per annum) vs. other Korean big yards (5-7 vessels) given its pre-emptive business structure shift (yard and man-hour) to offshore including drillships during mid-2000. With tight supply-demand dynamics of global drilling rigs underpinned by soaring day-rates ($600-650K per day) close to the past peak, SHI looks poised to enjoy multi-year of offshore oil & gas up-cycle ahead. Currently, offshore business including drillship/production facilities comprises c60% of order book/revenue and more than 70% of operating profit.

- **Order book outlook** — We forecast new order wins to reach USD13.9bn mark with offshore vessels contributing USD11bn (or 75% of total); while conventional commercial vessel demand will likely remain dire (with supply-demand imbalance across the industry) in a foreseeable future, we believe SHI's well-proven track-record for offshore vessels (drillship/production facilities) amid secular industry growth, should lead into greater visibilities for its order book. Apart from drillship order wins, which we expect to be an USD6bn per annum opportunity for SHI, a rebound in LNG-related vessels (LNGC and LNG-FPSO) and production facilities (FPSO & platforms) should provide further growth potential for SHI's order book. SHI is also dedicated to oil majors' floating LNG programs (i.e. LNG-FPSO), including a long-term contract with Royal Dutch Shell to provide 10 units of LNG FPSO over the next decade (USD50bn).

- **SHI's cash usage: near-term WC burden and commitment to R&D** — SHI will likely suffer from a working capital burden in the near term as recent offshore orders with heavy-tail payment structures may lead to a temporary mismatch in cash flow, although this is reimbursable with deliveries of those vessels eventually. Apart from this, SHI seems dedicated to strong R&D in the foreseeable future to develop better designs for high-end offshore ships amid a

Statistical Abstract

Year to 31 Dec	Net Profit (WB)	Diluted EPS (W)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2010A	888	3,846	26.6	9.4	2.2	26.7	1.3
2011A	851	3,685	-4.2	9.8	1.8	20.1	1.3
2012E	822	3,559	-3.4	10.1	1.6	16.4	1.4
2013E	913	3,953	11.0	9.1	1.4	15.9	1.4
2014E	1,016	4,398	11.3	8.2	1.2	15.4	1.4

Source: Powered by dataCentral

stiffer competitive landscape. Further, increasing demand for vessels with fuel-efficiency and less green-gas emission is likely also to lead SHI to dedicate more to R&D for technologies.

- **Top-pick in KR shipbuilding sector** — SHI is our top pick in Korea's shipbuilding sector, premised on some of the best order book/earnings visibility leveraging off its solid presence in offshore segments, where we see secular growth potential in the foreseeable future.

- **What investors are asking** —

  – **(1) What is the competitive landscape for offshore segments where SHI (and KR shipyards) currently enjoys leadership (i.e. will Chinese or Singaporean yards will be a threat to SHI's leadership)?** — Samsung Heavy is currently sitting on ~50% global market share for drillships. Except for Petrobras' rig-building program, we do not see a big threat from either Singaporean shipyards (due to pricing competitiveness and building track-record) or Chinese yards (due to track-record and product-quality). We expect Samsung to maintain its unrivaled leadership in the drillship segment in the foreseeable future.

  – **(2) When will we see the bottom for quarterly operating margins?** — We expect 2H12E to be a bottom for operating margins, and anticipate sequential margin improvement into 2013E and beyond, with high-margin offshore (drillship and production facilities) increasingly hitting the P&L. This compares to other top-tier Korean shipyards, which we expect to see margin improvement beyond 2013E due to a lack of learning curve in drillships and relatively higher exposure to low-priced commercial ships.

  – **(3) What is the level of SHI's sustainable new-order wins in the medium term? —** We estimate a cUS$12bn opportunity from drillships (x20 units, excluding Petrobras' orders) per annum over the next three years, with SHI expected to secure ~50% global market share. In addition, we assume 1-2 units of oil & gas production facilities for SHI, while the long-term contract with Royal Dutch Shell for SHI to provide 10 units of LNG-FPSO (cUS$3bn per each) lends upside risk. Combined with US$2-3bn of opportunity from commercial vessels, we estimate US$13-14bn per annum of order-influx may be a sustainable opportunity for SHI.

Company Focus

■ Company Update

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Buy	**1**
Price (07 Nov 12)	€34.53
Target price	€50.00
Expected share price return	44.8%
Expected dividend yield	1.9%
Expected total return	**46.7%**
Market Cap	€15,238M
	US$19,527M

Price Performance
(RIC: SPMI.MI, BB: SPM IM)

Saipem (SPMI.MI)

Geared Towards Deeper and Harsher

- **What makes Saipem a Champion** — Saipem is a global leader in offshore construction, an area that we see accounting for the largest source of incremental oil and gas production this decade. Saipem's capability is particularly differentiated on frontier developments in ultradeep waters and harsh environments, which marry complex engineering with a niche and capital-intensive installation fleet. Saipem has shown industry-leading delivery through-cycle and we expect the trend towards more complex hydrocarbon developments to steepen competitive barriers. Onshore, Saipem has a strong presence throughout the Middle East, a critical area of industry spend this decade.

- **What makes Saipem a World Champion** — Saipem's business is diversified across both geography and client-base. Italy, its home market, accounts for less than 10% of current backlog. Saipem has been at the forefront of the industry's trend towards increased local content. It maintains a strong presence in key resource countries, such as Saudi Arabia, Nigeria, Angola, Algeria, Kazakhstan and Indonesia, and is expanding its footprint in the Americas – Brazil and Canada. Cumulatively >40% of Saipem's backlog is in countries where it maintains a strong local content commitment and we expect this to feature even more prominently throughout the decade. Saipem's client base is diverse with a robust credit profile, with national oil companies ~50% of backlog and oil majors ~35%.

- **Saipem's growth outlook** — We expect 2012-15E revenue, EBITDA and earnings CAGRs of 6%, 11% and 18%, respectively.

- **Saipem's cash usage** — Saipem has averaged €1.5bn in annual capex 2006-12E, adding leading edge assets across offshore construction and drilling. That investment looks well timed to capture the expected growth in offshore production, and with capex now looking to fall below €1bn per annum, we forecast a 2015 FCF yield of 12%. Over the coming three years, we expect the dividend to grow in line with earnings (33% payout) and Saipem to deleverage (gearing from 85% currently to 20% year-end 2015E).

- **Current recommendation** — We rate Saipem Buy. Shares are trading at 14x 2013E PE, in-line with the broader European oil services sector despite a superior track record of delivery and more robust top-line visibility. Again, on 1-year forward PE, the shares are on a 15% discount to their 10-year average.

Saipem (EUR)

Year to 31 Dec	2010A	2011A	2012E	2013E	2014E
Sales (€M)	11,160.0	12,593.0	13,619.2	13,700.8	15,051.1
Net Income (€M)	846.4	921.0	995.7	1,071.9	1,389.8
Diluted EPS (€)	1.92	2.09	2.26	2.43	3.15
Diluted EPS (Old) (€)	1.92	2.09	2.26	2.43	3.15
PE (x)	17.9	16.5	15.3	14.2	11.0
EV/EBITDA (x)	10.1	8.7	8.1	7.8	6.4
DPS (€)	0.63	0.70	0.74	0.80	1.04
Net Div Yield (%)	1.8	2.0	2.2	2.3	3.0

- **What investors are asking —**
  - **(1) Saipem's backlog has declined 8% YTD; when should we expect expansion?** The decline in backlog conceals the growth seen in offshore construction (+60% since Q2 2010), as Saipem's recent offshore construction vessel and drilling rig additions capture high-margin work in a growing market. Over the next several months, we see a robust bid pipeline (Brazil, West Africa, Caspian) supporting further offshore growth through 2012/13. Even on the assumption of a stable onshore backlog in 2013, we expect group backlog to expand 8-10% YoY in 2013.
  - **(2) What are Saipem's prospects onshore amidst increased Asian competition?** We expect the industry's focus on local content to increase in importance this decade across several resource-rich geographies, including the Middle East and both West and East Africa. Saipem has been an industry leader in its local content offering, developing local labor pools, construction infrastructure and supply chains in several key geographies (e.g. Saudi, Nigeria, Algeria, Caspian, and increasingly Brazil and Iraq). We think this capability is not easily replicated and offers a distinct advantage against many Asian competitors. Across onshore markets, we see Saipem as well positioned vs. peers in Saudi and Iraq and in LNG liquefaction with JV partner Chiyoda, both likely to be key areas of onshore spend this decade in our view.
  - (**3) Is Saipem hindered by its relationship with Eni?** Broadly, we do not believe oil producers view Eni's ownership stake in Saipem (43% shareholding) as a strategic threat and do not see it hindering Saipem's ability to tender for frontier, strategically important projects. This appears particularly true for large national oil companies (Aramco, Gazprom). As a positive, the ability to fund via Eni treasury looks to offer a 100-200bps advantage on available debt financing.

Integrated Oil & Gas (GICS) | Oil Companies - International (Citi)
CEEMEA | South Africa

Company Focus

- **Company Update**

Tassin Meyer
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Buy	**1**
Price (07 Nov 12)	R374.00
Target price	R435.00
Expected share price return	16.3%
Expected dividend yield	5.1%
Expected total return	**21.4%**
Market Cap	R241,553M
	US$28,000M

Price Performance
(RIC: SOLJ.J, BB: SOL SJ)

Sasol Ltd (SOLJ.J)

An Alternative Play on Cheap Shale Gas

- **What makes Sasol a Champion** — Sasol is the world leader in coal-to-liquid (CTL) and gas-to-liquid (GTL) technology with plants in South Africa and Qatar and plans for significant expansion in the US, Uzbekistan and Canada in the medium term. Sasol currently operates the world's only commercial scale CTL plant in South Africa. It also operates the world's first commercial scale GTL plant - Oryx in Qatar. Barriers to entry for Sasol's GTL are significant; we highlight four key barriers: 1) technology - or rather the scalability and commercialisation of technology to produce liquid fuel from coal and gas. 2) feedstock availability - stranded gas or coal are ideal. 3) capital cost – GTL is expensive, but Sasol's targeted returns justify the investment. 4) First mover advantage – Sasol has been operating its CTL plant for c.60yrs in South Africa and c.6yrs in Qatar. Shell is the only other producer currently operating a commercial sized synthetic fuel plant (also in Qatar).

- **What makes Sasol a World Champion** — c.50% of Sasol's revenues and c.25% of EBIT are currently derived outside its home market (South Africa). All of Sasol's current GTL expansion plans lie outside of South Africa – should Uzbekistan and the US GTL plant go ahead, we estimate a c.70% revenue contribution by FY20E from outside South Africa.

- **Sasol's growth outlook** — Sasol's near-term earnings growth will be dictated by commodity and currency price movements, given the long lead time for new projects (2016E to 2020E). We forecast FY13E to FY16E CAGRs of 5% for revenues, 4% for EBITDA and 4% for EPS.

- **Sasol's cash usage** — Sasol ended FY12 with a marginal net cash position (ZAR1.7bn), including restricted cash. Forecast operating cashflows remain strong and more than able to cover both rising capex and Sasol's progressive dividend policy. Despite sharply higher YoY capex in each of the last three years, Sasol continues to generate positive FCF to support its already strong balance sheet. We believe that EBITDA growth will continue to outpace capex growth.

- **Current recommendation** — We have a Buy rating on Sasol: We highlight Sasol's c.5% dividend yield, strong cashflow generation and attractive relative and absolute valuation. We argue that Sasol remains one of the few commodity companies offering upside at spot prices, as well as conservative earnings forecasts vs. energy peers. Spot ZAR crude prices remain above our base case FY13 forecast, implying upside risk to our earnings estimate. Sasol has underperformed crude prices by c.15% since June 2012.

Sasol Ltd (ZAR)

Year to 30 Jun	2011A	2012A	2013E	2014E	2015E
Sales (RM)	142,436.0	169,446.0	170,071.1	171,432.8	181,275.6
Net Income (RM)	20,326.0	25,504.0	27,817.4	25,548.2	25,683.0
Diluted EPS (¢)	3,372	4,207	4,514	4,146	4,168
Diluted EPS (Old) (¢)	3,372	4,207	4,514	4,146	4,168
PE (x)	11.1	8.9	8.3	9.0	9.0
EV/EBITDA (x)	6.7	5.4	5.1	5.3	5.1
DPS (¢)	1,300	1,750	1,900	1,900	1,950
Net Div Yield (%)	3.5	4.7	5.1	5.1	5.2

- **What investors are asking —**
  - **1) Continued value extraction in South Africa?**
    A key concern remains production stability and cost containment at the Secunda operation, which is receiving additional management attention. Sasol will require continued investment in capex to ensure longevity of the Secunda assets. Although production stability has improved over the past 12 months, cost containment remains an issue as rising electricity prices and labour costs continue to pressure. Production stability (and small volume growth from FY13e) at Secunda should support continued cash generation and improving returns in the broader South African operations. We expect Sasol will need to carefully manage its relationship with the South African authorities given that South African generated returns will be an important funding source for offshore expansion. This will most likely be managed through continued investment in the South African operations (currently 81% of capital commitments are in South Africa).
  - **2) Where and how will Sasol expand its global footprint?**
    Sasol's major new projects are focused on offshore markets primarily within the GTL and chemicals space: US GTL, US ethane cracker, Uzbekistan GTL and Canadian GTL and shale gas. Sasol also continues to look for upstream gas assets and gas acquisitions to support its GTL ambitions – in Australia, Mozambique and the US. We also still see potential for expansion of Sasol's exposure to Qatar once the moratorium on the North Field is lifted (expected in 2014), given the success to date of the Oryx GTL plant. Sasol's key growth projects offshore, however, remain some time from final decision and commissioning. An on time commissioning of the first of Sasol's major offshore projects is only likely for CY16E, with the potential for a staggering of these projects to accommodate constraints in human capital.
  - **3) Potential for near-term cash returns?**
    Sasol continues to benefit from an under-geared balance sheet (Sasol remains in a net cash position including restricted cash, and a small net debt position of 2.7% when excluding restricted cash) and strong cash inflows. We forecast above-average FCF yields and a compelling dividend yield of 5% for FY13E. With Sasol having delivered a beat on dividend expectations in FY12 and with its progressive dividend policy, we see limited risk to dividends in FY13E. Also, despite sharply higher YoY capex in each of the last three years, Sasol continues to generate positive FCF to support its already strong balance sheet. While Sasol's EBITDA growth continues to obscured by its rising capex bill (at a record ZAR29bn for FY12E), we believe that EBITDA growth will continue to outpace capex growth and that rising cashflows have covered and should continue to cover planned capex. We believe that there remains scope for rising capital returns to shareholders as crude prices remain above long-term averages and capex projects take longer to be commissioned.

Oil & Gas Equipment & Services (GICS) | Oilfield Equipment & Services (Citi)
North America | United States

Company Focus

- Company Update

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Buy	**1**
Price (07 Nov 12)	US$69.97
Target price	US$84.00
Expected share price return	20.1%
Expected dividend yield	1.6%
Expected total return	**21.6%**
Market Cap	US$92,890M

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

Schlumberger Ltd (SLB)

The Global Market Leader in Oilfield Services

- **What makes Schlumberger a Champion?** — SLB offers the highest-quality and broadest range of technologies and services for oil and gas exploration, development, and production. The company holds the #1 or #2 market share position in nearly all of its major product and service lines. Although the company faces competition in every market niche, no competitor can match the breadth and depth of SLB's offerings. The company consistently achieves industry-leading profit margins across its global platform

- **What makes SLB a World Champion?** — SLB is is the market leader in virtually all of the world's major oil and gas producing basins. The company's outperformance is especially notable in the Eastern Hemisphere markets such as the Middle East, Russia, Africa, and Asia. More than any of its competitors SLB is a truly global company with a diversified workforce and a deep pool of talent drawn from the world's top engineering and science academies. On our estimates, SLB trades at a valuation premium to its peer group, based on both the geographic diversification of its revenue and income streams and the superior operating margins it achieves in all markets.

- **SLB's growth outlook** — We believe that the global oilfield services markets are in the early to middle stages of a strong growth cycle tied to rising world oil demand, and our estimates for SLB reflect this viewpoint. We expect a 13-15% CAGR in SLB's worldwide revenues for the next three years. EBIT margins should expand by 100-150 basis points per year through 2015E. We forecast an EPS CAGR of 17% through 2015 based on these assumptions. These are impressive growth targets for a company that is already the industry leader with a market capitalization of approximately $100 billion.

- **SLB's cash usage** — SLB typically allocates 50% to 70% of its operating cash flows to capital expenditures. The company also has distributed from 20% to 25% of its net income as dividends over the past five years. Since SLB has a relatively low 17% debt-to-total capitalization ratio, it plans to return free cash flow to shareholders through dividends and share repurchases. The company also plans to use free cash flows to fund strategic acquisitions in the high-growth segments of the oilfield services business.

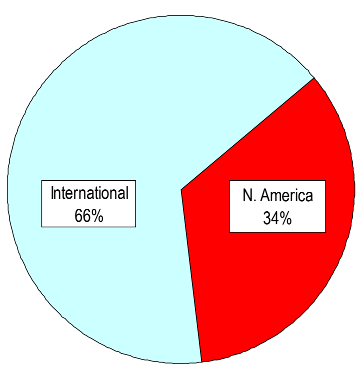
- **Current recommendation** — We have a Buy rating and an $84 price target on SLB. We believe that SLB will benefit from strong growth in demand for international and deepwater oilfield services, including high-margin services related to exploratory drilling.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	0.71A	0.87A	0.98A	1.11A	3.65A	3.66A
2012E	**0.96A**	**1.05A**	**1.08A**	**1.14E**	**4.23E**	**4.23E**
Previous	0.96A	1.05A	1.08A	1.14E	4.23E	na
2013E	**1.05E**	**1.17E**	**1.32E**	**1.39E**	**4.93E**	**4.91E**
Previous	1.05E	1.17E	1.32E	1.39E	4.93E	na
2014E	**na**	**na**	**na**	**na**	**5.83E**	**6.10E**
Previous	na	na	na	na	5.83E	na

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

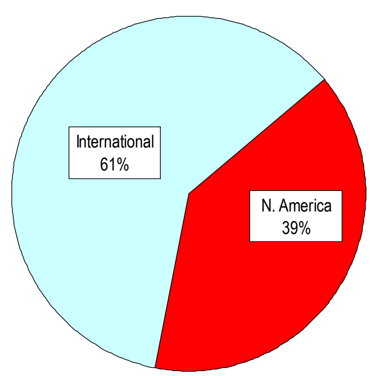
- **What investors are asking —**
  - **(1) Is the growth in demand for oilfield services sustainable, and how is SLB positioned to capture its share of that growth?** Macroeconomic forces inevitably determine demand for oil and the sustainable level of oil prices. Assuming a generally favorable macroeconomic backdrop and oil price stability at or near current levels, what kind of growth rate can investors expect from SLB and what are the new products and technologies that will preserve the company's leading share of the oilfield services market?
  - **(2) Seismic leadership** — SLB has invested heavily over the past decade in its seismic data acquisition and processing business. The company is the leader of the seismic services industry and has recently introduced new technologies for seismic data acquisition and interpretation that are likely to extend its lead over the competition. Investors should be asking about the company's plans for integrating its drilling and seismic businesses through crossover applications such as seismic guided drilling and well placement. How transformational is this ongoing integration of seismic and drilling operations? Can other companies effectively compete with SLB in this arena?
  - **(3) Unconventional resources leadership** — Technological breakthroughs in horizontal drilling and hydraulic fracturing have led to a major surge in unconventional shale resource development in North America. The rest of the world is now trying to catch up. How is SLB positioned to be the market leader in providing high-end technologies for environmentally safe and efficient drilling in unconventional oil and gas reservoirs? Does the company really believe that it can shift its business model from providing low-end services such as hydraulic fracturing to providing expert planning and engineering of shale wells and managing production for its customers?

Figure 14. Schlumberger: LTM Revenue Split



Source: Company reports, Citi Research

Figure 15. Schlumberger: LTM Operating Income Split



Source: Company reports, Citi Research

Oil & Gas Drilling (GICS) | Offshore Drilling (Citi)
Europe | Norway

Company Focus

Seadrill (SDRL.OL)

Modern Armada Sustains Profitability Leadership

- **Company Update**

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Buy	**1**
Price (07 Nov 12)	NKr230.90
Target price	NKr270.00
Expected share price return	16.9%
Expected dividend yield	8.9%
Expected total return	**25.8%**
Market Cap	NKr118,326M
	US$20,715M

Price Performance
(RIC: SDRL.OL, BB: SDRL NO)

- **What makes Seadrill a Champion** — Seadrill owns the industry's largest, modern fleet of deepwater drilling rigs – 15 deepwater rigs built since 2000 with a further 8 under construction – and has a leading presence in the premium jack-up and tender rig markets. Seadrill's largest shareholder, John Fredriksen, also has influential ownership in several marine-related companies (e.g. Frontline, Golar LNG, Deep Sea Supply), and Seadrill benefits from consequent operational and shipyard related synergies. Seadrill has a current backlog of >3.5x 2013E sales, largely with investment-grade oil majors, offering robust top-line visibility. This visibility affords substantial gearing on contracted assets, helping fuel 2014E returns on equity of 36%, nearly 3x peer levels.

- **What makes Seadrill a World Champion** — Seadrill is active in all key deepwater drilling geographies (Brazil, West Africa, Gulf of Mexico) with 88% of its drilling assets currently operating outside of its home Norwegian market. Activity is concentrated amongst the large oil majors, including Petrobras (Petrobras, Total, Exxon, Shell and Statoil accounted for 59% of 2011 revenues), and Seadrill is well positioned in a post-Macondo environment of heightened risk aversion, in our view. Seadrill appears able to leverage its scale and geographical diversity to both staff and service assets better than smaller peers.

- **Seadrill's growth outlook** — Seadrill offers 2012-14E CAGRs of 17%, 19%, and 21% in revenues, EBITDA and earnings, respectively.

- **Seadrill's cash usage** — Seadrill has historically distributed the bulk of operating cash flows as dividends (avg. 78% 2010-12E) and financed its newbuild capex program with a high proportion of debt (current gearing of 165%). Going forward, given our positive outlook for deepwater drilling rates, we expect a further 7% rise in payout 2012-15E and for gearing to peak at 195% in 2014E as Seadrill takes delivery on a further $6B of committed newbuild expense. We also expect Seadrill to participate in distressed asset sales when opportunities arise.

- **Current recommendation** — We currently rate Seadrill Buy. Deepwater drilling day rates are +20% YoY and we see continued tightness over coming years (through at least 2015E).

Seadrill (USD)

Year to 31 Dec	2010A	2011A	2012E	2013E	2014E
Sales ($M)	3,758.0	4,193.0	4,504.5	5,364.8	6,379.7
Net Income ($M)	1,205.3	1,346.4	1,450.2	1,858.5	2,161.9
Diluted EPS ($)	2.73	2.76	2.97	3.80	4.42
Diluted EPS (Old) ($)	2.73	2.76	2.97	3.80	4.42
PE (x)	14.8	14.6	13.6	10.6	9.1
EV/EBITDA (x)	13.2	12.4	11.9	10.2	8.8
DPS ($)	2.74	3.06	3.49	3.44	3.68
Net Div Yield (%)	6.8	7.6	8.6	8.5	9.1

- **What investors are asking —**

  – **(1) Is Seadrill's dividend sustainable, given the high leverage?** Seadrill's modern fleet, $20B backlog and deliveries from its ongoing capital program look to support an increasing payout 2012-15E, in our view. Leverage levels look comfortably within covenants – 2013E EBITDA/interest expense of 6.8x and net debt/EBITDA of 3.7x vs. covenants of >2.5x and <4.5x, respectively. Given the current tightness in the deepwater drilling market we expect Seadrill can secure both favourable rates and financing on the existing assets as contracts expire and on newbuilds currently under construction. We estimate day rates would need to fall >20% before Seadrill had to cut the current payout level to remain compliant with debt covenants.

  – **(2) Given the top-line visibility, what are the risks to margins over the life of those contracts?** The drilling industry has attempted to reduce the risks associated with a tight supply chain. Seadrill, where ~80% of operating costs are personnel-related, has escalation provisions embedded in its drilling contracts which allow for day rate adjustments to account for higher labour costs. However, Seadrill is exposed to several areas where industry tightness could have negative knock-on effects to margins, including the risk of late rig delivery from the shipyard, lack of available crew, rising equipment/maintenance costs, and the affordability/availability of insurance. Relative to peers, we see these risks as somewhat mitigated by Seadrill's experience in building marine assets and scale of operations.

  – **(3) How exposed is Seadrill to increases in interest rate?** The bulk of Seadrill's debt is variable-rate and therefore exposes it to fluctuations in interest rates. To mitigate this risk near term, Seadrill has entered swap agreements which secure ~55% of this debt at an average fixed-rate of ~2.84%. However, the longer-term exposure is material. On our estimates, a 1% interest rate increase (i.e. LIBOR) in 2015 would reduce earnings by ~5%.

Oil & Gas Equipment & Services (GICS) | Oilfield Equipment & Services (Citi)
Europe | France

Company Focus

■ Company Update

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Buy	**1**
Price (07 Nov 12)	€85.60
Target price	€105.00
Expected share price return	22.7%
Expected dividend yield	1.9%
Expected total return	**24.6%**
Market Cap	€9,667M
	US$12,388M

Price Performance
(RIC: TECF.PA, BB: TEC FP)

Technip (TECF.PA)
Technological leadership

- **What makes Technip a Champion** — Technip is the industry leader in several frontier areas of offshore energy infrastructure – floating LNG, flexible pipe, SPARs. Given its depth of engineering talent, a leading installation fleet, strong client relationships, and a corporate focus on technological leadership, we expect Technip to further enhance this leadership going forward. This scope for share gains is aided by the industry's structural shift to more complex hydrocarbon production (e.g. deeper water, Arctic). Technip also has leading positions across key areas of downstream oil and gas infrastructure such as gas-to-liquids, LNG liquefaction, petrochemicals, and refining.

- **What makes Technip a World Champion** — Technip's backlog is highly diversified across geography – its home French market accounts for <10% of backlog – and type of project. Manufacturing and engineering centers are located in several key resource-rich countries (e.g. Norway, Brazil, Angola, Malaysia, Australia, USA). A well established local position in Brazil – Brazil accounts for more than 10% of group employees (>3000 Brazilian nationals) – leaves Technip well positioned to increase its share of deepwater spend this decade as the Brazilian pre-salt is developed with an emphasis on local content.

- **Technip's growth outlook** — We forecast 2012-15E CAGRs of 17%, 24%, and 28% for revenues, EBITDA and net income, respectively.

- **Technip's cash usage** — Technip's management has been proactive in increasing exposure to areas where we see attractive structural growth prospects, including two material acquisitions in the past year – Global Industries and Shaw's Stone & Webster unit (offshore installation and gas monetization) – and the recent alliance with Heerema. However, the company still remains in a strong financial position (net cash) and we expect further opportunistic acquisitions and organic additions, particularly in subsea, where utilisation looks set to tighten materially 2012-15E. We assume dividends grow in-line with earnings (40% payout ratio).

- **Current recommendation** — We rate Technip Buy. Although shares trade at a 10% premium to European oil services peers on 1-year forward PE, this still does not look to adequately reflect superior growth prospects, in our view (2012-15E growth twice that of peers).

Technip (EUR)

Year to 31 Dec	2010A	2011A	2012E	2013E	2014E
Sales (€M)	6,081.6	6,813.0	8,099.0	9,190.9	11,710.7
Net Income (€M)	417.6	507.3	539.2	711.4	979.3
Diluted EPS (€)	3.69	4.32	4.37	5.77	7.94
Diluted EPS (Old) (€)	3.69	4.32	4.37	5.77	7.94
PE (x)	23.2	19.8	19.6	14.8	10.8
EV/EBITDA (x)	10.6	9.9	9.3	7.4	5.2
DPS (€)	1.45	1.58	1.75	2.31	3.17
Net Div Yield (%)	1.7	1.8	2.0	2.7	3.7

- **What investors are asking** —
  - **(1) Given the recent acquisitions, growth in backlog, and trend towards larger projects, have execution risks increased?** Whilst cost overruns and execution mishaps are always a key investment concern for fixed-price contractors, Technip looks to have taken several steps to mitigate the inherent risks, including: 1) procuring long lead-time items at time of contract award, 2) for high-cost frontier projects (e.g. Prelude FLNG), the contract can be subdivided into smaller sections, reducing absolute exposure at any given point in time, 3) establishing longer-term frame agreements with key clients, affording a more collaborative contractor-client relationship whilst assuring the client available supply.
  - **(2) Can traditional E&C (Technip's onshore/offshore segment) continue to grow amidst increased Asian competition?** Technip has pursued a differentiation strategy around complex infrastructure projects and no longer looks to compete on more commoditised infrastructure projects. Given Technip's strong track record and engineering strength, we think it will maintain/increase market share in these large-scale frontier areas. Technip's leadership in floating LNG, where Technip has been awarded the only two projects to the industry thus far, attests to the merits of this strategy.
  - **(3) What are the key constraints on growth?** Human capital, particularly around subsea engineering, remains a key constraint for Technip and the industry at large. We believe Technip, as a large player working on complex projects with access to global resources, offers a compelling value proposition to employees, but we expect attrition rates to remain high in subsea and geographies with tight labour markets (e.g. Brazil, Australia).

Oil & Gas Exploration & Production (GICS) | Exploration & Production (Citi)
Europe | United Kingdom

Company Focus

- **Company Update**

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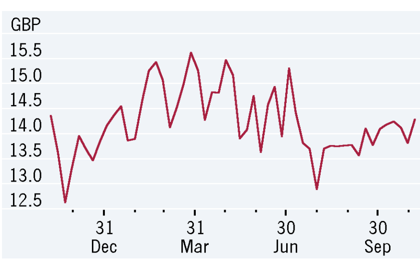
Neutral	2
Price (07 Nov 12)	£14.25
Target price	£15.50
Expected share price return	8.8%
Expected dividend yield	0.0%
Expected total return	**8.8%**
Market Cap	£12,930M
	US$20,684M

Price Performance
(RIC: TLW.L, BB: TLW LN)



Tullow Oil (TLW.L)

World Class Explorer

- **What makes Tullow Oil a Champion** — Tullow has rapidly expanded its exploration portfolio over the last five years, building on recent success in Ghana and also Uganda. Tullow's sector-leading E&A success rate of c.75% over this period was at a finding cost of c.US$2/boe, on our estimates. Tullow has also managed to stay ahead of the industry and secure new acreage targeting extensions of these play-types. Tullow's development portfolio (Ghana, Uganda, French Guiana) is also attractively positioned on the global cost curve.
- **What makes Tullow Oil a World Champion** — Tullow has a global exploration portfolio that is difficult to replicate. Tullow plans an active E&A campaign over the next 12-18 months with high impact wells in Ghana (Sapele, Okure), French Guiana (Priodontes) and East Africa (Kenya and Ethiopia). In total, we include 484p/share risked for Tullow's 2012/13 drilling progamme in our base case NAV of 1,550p/sh, but unrisked we estimate it could be worth up to 1,387p/sh.
- **Tullow's growth outlook** — We forecast a 2011-20E cashflow CAGR of 13%. The near-term growth is driven primarily by the ramp-up to plateau of the Jubilee field and the TEN project in Ghana. Beyond 2016, the delivery of a Ugandan export development could be achieved by 2018/19E. We see additional potential development projects within Tullow's current portfolio including a possible Zaedyus development (French Guiana) and a Kenya hub development (following the recent Ngamia exploration success). However, both potential projects require additional E&A success to de-risk sufficient upstream volumes.
- **Tullow's cash usage** — High capex requirements see Tullow continuing to raise borrowing levels until 2016E. However, following the partial sale of its Uganda asset to Total and CNOOC, Tullow is well capitalised and we do not anticipate net debt/EBITDA climbing above 2.2x on our oil price deck (US$90/bbl real).
- **Current recommendation** — We rate Tullow Neutral. While Tullow has a high-quality portfolio that delivers attractive growth and high returns, we believe the upside potential from its exploration portfolio is largely reflected in valuation, with Tullow trading close to our base case NAV of 1,550p/share.

Tullow Oil (USD)

Year to 31 Dec	2010A	2011A	2012E	2013E	2014E
Sales ($K)	1,089,800.0	2,304,200.0	2,521,909.6	2,874,533.3	2,726,284.0
Profit Before Tax ($K)	179,100.0	1,043,700.0	1,088,427.2	1,315,634.4	1,135,441.4
Diluted EPS (¢)	9.1	68.7	69.9	79.5	67.6
Diluted EPS (Old) (¢)	9.1	68.7	69.9	79.5	67.6
PE (x)	249.2	33.2	32.6	28.7	33.7
EV/EBITDA (x)	37.3	14.0	13.2	10.9	12.2
DPS (¢)	9.3	19.2	18.8	19.7	20.7
Net Div Yield (%)	0.4	0.8	0.8	0.9	0.9

- **What are investors asking -**

  – **(1) What is the timing of Jubilee production ramp up?** The ramp-up of the Jubilee field has been impacted by poor well performance. However, recent remedial work has delivered positive results and Tullow is confident that plateau production from the field (c. 120k boe/d gross) can be achieved in 2013.

  – **(2) Can the balance sheet support the high investment program?** The partial sale of Uganda has strengthened the balance sheet considerably, but we see increasing gearing levels as Tullow embarks on its significant growth program. We think Tullow will likely look to diversify its funding sources over the next 12 months and expect it to tap the high-yield bond market. With a smaller portfolio and no credit rating, we would expect net debt of c.US$4-4.5bn to be seen as an acceptable level of gearing by the debt markets. However, under our current oil price deck (US$90/bbl real), we see net debt rising to US$4.9bn by 2016E, a level that could be seen as too high by the debt markets. Tullow has high equity stakes in key assets (e.g. TEN development and East Africa Rift), which it could look to partially monetise over the medium term ahead of planned capital commitments. In addition, Tullow has launched a process to sell its South-East Asia business, which we value at c. US$158m (c.11p/sh).

  – **(3) Does Tullow now offer less materiality from exploration?** Tullow has rapidly expanded its exploration portfolio over the last five years, building on recent success in Ghana and also Uganda. Tullow's high E&A success rate of c.75% over this period was at a finding cost of c. US$2/boe, on our estimates. However, Tullow has also managed to stay ahead of the industry and secure new acreage targeting extensions of these play-types. Outside of its core areas of Ghana and Uganda, Tullow plans exploration campaigns targeting new frontier plays in East Africa (Kenya and Ethiopia), French Guiana and Mauritania. The high-impact wells include Okure (formerly Tweneboa Deep) and Sapele in Ghana and Priodontes in French Guiana. In addition, Tullow plans a multi-rig drilling campaign across its East Africa portfolio (Kenya and Ethiopia) following the recent play opening success at Ngamia. We believe the risked 'option' value of Tullow's material exploration portfolio has been largely reflected in the current share price, with the shares trading at only a small discount to our base case NAV of 1,550p/share. We already include risked exploration resource potential of 0.8bn boe (or 484p/sh) for Tullow's 2012/13 drilling progamme in our base case NAV. This risked resource base is c. 70% of Tullow's existing 2P and contingent resource of 1.1bn boe (following the partial sale of Uganda). While Tullow's exploration portfolio could potentially unlock more value than we have assumed in our base case NAV (we value the exploration portfolio at 1,387p/share unrisked), we think the market needs to assume that Tullow maintains greater than industry average success rates and discovers significant new resources to underpin its premium valuation.

Prices/ratings for other stocks mentioned: Hyundai Heavy Industries (009540.KS; W215,500; 1); Sinopec (0386.HK; HK$8.19; 2); PetroChina (0857.HK; HK$10.36; 2); Inpex (1605.T; ¥444,000; 1); Aker Solutions (AKSO.OL; NKr107.10; 1); AMEC (AMEC.L; £10.60; 2); Apache Corp (APA.N; US$79.87; 1); Baker Hughes Inc (BHI.N; US$41.30; 2); BP (BP.L; £4.36; 2); Cameron International Corporation (CAM.N; US$51.85; 2); Chesapeake Energy Corp (CHK.N; US$17.56; 2H); Canadian Natural Resources Ltd (CNQ.N; US$29.10; 1); ConocoPhillips (COP.N; US$56.78; 1); Chevron (CVX.N; US$107.45; 1); Diamond Offshore Drilling Inc (DO.N; US$67.78; 2); Devon Energy Corp (DVN.N; US$55.41; 2); Eni (ENI.MI; €17.52; 1); EOG Resources Inc (EOG.N; US$120.00; 1); Ensco plc (ESV.N; US$57.73; 1); Fluor Corp (FLR.N; US$53.23; 1H); CGGVeritas (GEPH.PA; €23.78; 3); Halliburton Co (HAL.N; US$31.71; 1); Hess Corp (HES.N; US$53.12; 1H); KBR, Inc. (KBR.N; US$27.56; 1H); Lukoil (LKOH.MM; US$60.74; 1); Lundin Petroleum (LUPE.ST; SKr157.30; 1); Marathon Petroleum Corp (MPC.N; US$55.46; 2); Marathon Oil Corp (MRO.N; US$29.96; 1); Nabors Industries (NBR.N; US$13.47; 1); Novatek (NVTKq.L; US$104.80; 1)OMV AG (OMVV.VI; €27.26; 2); Occidental Petroleum Corp (OXY.N; US$77.45; 2); Petrobras (PBR.N; US$21.38; 1); Petrofac (PFC.L; £15.56; 2); PGS (PGS.OL; NKr97.60; 2); Rowan Companies plc (RDC.N; US$32.24; 2); Royal Dutch Shell (RDSa.L; £21.50; 2); Royal Dutch Shell(CL B) (RDSb.L; £22.16; 2); Reliance Industries (RELI.BO; Rs796.60; 2); Repsol (REP.MC; €15.29; 1); Transocean Ltd. (RIG.N; US$47.82; 1); Rosneft (ROSN.MM; US$7.71; 1); SembCorp Marine (SCMN.SI; S$4.40; 1); Gazpromneft (SIBN.MM; US$4.80; 1); SapuraKencana Petroleum Bhd (SKPE.KL; RM2.82; 1); Statoil (STL.OL; NKr138.20; 2); Subsea 7 (SUBC.OL; NKr124.00; 1); Total (TOTF.PA; €38.04; 2); Tesoro Corporation (TSO.N; US$37.99; 2H); Valero Energy Corp (VLO.N; US$29.39; 2H); Weatherford International Ltd (WFT.N; US$11.01; 1); WorleyParsons Ltd (WOR.AX; A$24.53; 2); Woodside Petroleum Ltd (WPL.AX; A$34.16; 1)

Anadarko Petroleum Corp

Company description

Anadarko Petroleum Corporation explores for, develops and produces natural gas, crude oil and natural gas liquids with about 2.3 billion barrels of oil equivalent (BOE) of proved reserves. It also produces hard minerals from land grant holdings, and owns and operates midstream assets to gather, treat and process natural gas. The company is has about 60% of its reserves and production as natural gas, and 40% as crude oil. Anadarko was founded in 1959 with headquarters in The Woodlands, Texas.

In the U.S., Anadarko operates both onshore including the Rockies and Southern region (which includes the Marcellus, Haynesville and Eagleford shale areas), as well as offshore in the deepwater Gulf of Mexico. Internationally, Anadarko has an extensive operation in Algeria including the in-development El Merk project, as well as production at Bohai Bay in China. In Ghana, Anadarko (along with its partners) is developing the Jubilee project. Anadarko is a prolific deepwater explorer hold exploration acreage and conducting extensive exploration in the deepwater Gulf, Brazil, Ghana, Mozambique, China, Sierra Leone, Liberia as well as other countries.

Investment strategy

We rate Anadarko Buy (1) based on the upside to our current price target. Anadarko is unique among its peers in maintaining a high-risk but high-potential exploration program around the globe and has posted exceptional success over the past year. Consequently, the company has significant potential in both discoveries already notched and prospects, many of which have been enhanced by its recent successes, yet to be drilled. At the same time, like many of its peers, the company also possesses meaningful upside potential in North American shale plays. And even though Anadarko is expected to generate more moderate production growth near-term, its inventory of mega projects essentially assures strong growth longer term. Finally, Anadarko has well above average sensitivity to changes in crude oil prices and below average sensitivity to changes to natural gas prices, which we are much more cautious on near term. Therefore, as we look forward to continued success with the exploration drill bit, we assign Anadarko a Buy rating.

Valuation

Our $115 price target is based on APC's stock achieving an EV multiple of 7.9x/7.2x our 2012/2013 debt-adjusted cash flow estimates based on 'normalized' WTI spot oil and composite spot gas prices of $90.00/Bbl and $4.50/MMBtu, respectively, and ~112% of proved-only NAV.

Risks

Risks to achieving our target price include:

Volatile Commodity Prices – Anadarko is sensitive to changes in the prices of crude oil, and natural gas. Their exposure is substantially reduced due to extensive hedging of expected natural gas and crude oil production in 2010, but a portion of their production is unhedged.

Political Risks – Anadarko operates or explores in developing countries such as Algeria, Ghana, Sierra Leone, Liberia, Cote d'Ivoire, Mozambique and thus is subject to political risks including changes in operating terms, taxes, or expropriation.

Expensive Long-Term Projects – Anadarko pursues long-term projects which require large capital outlays and several years of development before any cash flows are realized. These projects are subject to substantial uncertainties in terms of projects costs, as well as the timing and amount of eventual returns.

Exploration Risk - Anadarko is conducting or is planning to conduct exploration in several under-explored areas within Mozambique, Sierra Leone, Liberia, Cote d'Ivoire and elsewhere, and such exploration projects have a high probability of failure.

BG Group

Company description

BG is an integrated gas company, which looks to connect equity and third-party gas to higher-value gas markets primarily through its global LNG business. In addition, recent material exploration success in the Brazilian pre-salt provides BG with growing exposure to deepwater oil.

Investment strategy

BG offers a differentiated growth profile versus peers and there is improved visibility on this growth outlook following recent announcements on the pace of the development of its pre-salt assets in Brazil and the timing of its Australian CBM project (QC LNG). The development of its Brazil and Australian projects underpins upstream growth at the top-end of current E&P production guidance of 6-8% out to 2020. We assume the lower end of this range at 8% growth out to 2020. Progress and delivery on its key growth projects should lead to further outperformance relative to the other large-cap oils, in our view. We have a Buy (1) rating.

Valuation

Our 1,380p price target is based on our DCF valuation. This is modelled in USD and set using a 1.61 spot GBP/USD exchange rate. Our DCF is calculated using a 10-year explicit forecast period and Citi's commodity price outlook of US$110/bbl in 2012, US$100/bbl in 2013 and then long-term US$90/bbl (real, 2012 money). We also assume a terminal growth rate of 1% and a discount rate of 7.7% (based on CAPM). Our DCF is supported by our sum-of-the-parts valuation of 1,730p/share. Our sum-of-the-parts valuation is based on a DCF of BG's E&P resource base and the non-E&P divisions are valued on a combination of multiples, divisional DCFs or market valuations (for listed associates).

Risks

Our investment rating on BG considers a number of company-specific and industry risks:

- Commodity prices - BG's earnings are sensitive to changes in oil and natural gas prices, which can fluctuate significantly as a function of economic and geopolitical forces. We estimate a US$1/bbl move in oil prices (versus our 2012 forecast of US$110/bbl) would affect EPS by 0.9%.

- Currency - BG's principal earnings and costs are in US$ meaning that GBP/US$ currency moves are largely translational (ie close to a 1:1 impact on EPS).
- Political - Changing political forces can affect BG's legal ownership, fiscal take and pace of development activity in any country in which it operates. Note that Brazil represents c.30% of BG's resource base, while Australia represents 20%. BG also has a key position in Kazakhstan through its stake in the Karachaganak oil and gas development, which accounts for c.10% of its resource base.
- Natural and man-made disasters - BG's operating activities can be severely disrupted by the effects of natural disasters or industrial accidents. Accidents may bear the burden of additional costs for remediation, fines and from restrictions on future business activities.

These risks might impede the share price from reaching our target price.

Dresser-Rand Group

Company description

Dresser-Rand is among the largest suppliers of rotating equipment solutions to the worldwide oil, gas, petrochemical, and process industries. The Company operates manufacturing facilities in the United States, France, Germany, Norway, India, and Brazil, and maintains a network of 33 service centers and 12 manufacturing locations serving customers in 140 countries. Product and service applications include oil and gas production; high-pressure field injection, gas lift, and enhanced oil recovery; natural gas processing; gas liquefaction; gas transmission and storage; refining; petrochemical production; and general industrial markets such as paper, steel, sugar, distributed power and the U.S. Navy. The company's business is organized into two divisions: new units, which provides compressors for steam, reciprocating and turbine applications; and aftermarket parts and service.

Investment strategy

We rate Dresser-Rand shares Buy. In our view, Dresser-Rand is a long cycle play on global investment in oil and natural gas infrastructure. Dresser-Rand has achieved a balance between a cyclical original equipment manufacturing (OEM) business and a steady, highly profitable aftermarket parts and services business. The current slowdown in OEM orders demonstrates the benefits of having a large installed equipment base providing aftermarket opportunities. Over the past eight years, a team of executives led by CEO Vince Volpe planned and executed a manufacturing and financial strategy designed to capture the cyclical upside and protect against short or protracted slowdowns. Based on the clear success of their strategy, we believe the company's shares are undervalued.

Valuation

We derive our $66 price target by averaging P/E and EV/EBITDA methodologies. Our target is based on historical analysis of DRC and group multiples.

Our P/E derivation generates a price target of $67 by applying a 15.0x multiple to our *forward 12-month EPS estimate of $4.45. The multiple is based on historical analysis of relative market multiples and is within the 6.7x–58.6x historical range where the average of services stocks traded over the past ten years. The median P/E multiple has been 17.8x.

Our EV/EBITDA derivation generates a price target of $65 by applying an 8.5x EV/EBITDA multiple to DRC's *forward-12-month EBITDA of $692 million. The multiple is based on historical analysis of relative market multiples, and is within the 4.0x–12.6x historical range where the average of services stocks traded over the past ten years. The median EV/EBITDA multiple has been 9.6x.

* The forward 12-month estimate is based on the subsequent four quarters looking out 12 months from the most recent earnings quarter.

Risks

There are significant risks to our $66 price target on Dresser-Rand. The principal elements of risk for DRC, relative to the Citi Research coverage universe, are market capitalization and earnings volatility. An unforeseen event, such as the Asian currency crisis of 1997 or a severe downturn in global economic activity, could further weaken oil and gas prices and cause a sharp downturn in demand for compressors and other oilfield equipment. Another risk is that competition is keen in both original equipment manufacturing and in aftermarket parts and services. Two of the company's rivals — General Electric and Siemens — are substantially larger than Dresser-Rand and are aggressive competitors. Manufacturing operations are subject to union labor contracts and disputes can, and have, disrupted operations and financial results. Derivation of our price target and resulting expected total return is based on projected financial performance, which is highly dependent on the level of oil and natural gas exploration and production (E&P) activity. E&P activity can be significantly impacted by changes in oil and gas prices, which tend to be highly volatile. 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

Exxon Mobil Corp

Company description

ExxonMobil (XOM) is the largest international integrated oil and gas company, with worldwide operations in exploration and production (E&P), refining and marketing and transportation (RM&T), petrochemicals, specialty chemicals and electric power generation. Affiliates of the company conduct extensive research programs in support of these businesses.

Investment strategy

We rate shares of ExxonMobil a Buy (1) with a 12 month target price of $97 per share. The company, considered one of the most successful integrated oil and gas companies, has sustained a premium rating to the sector built on a platform of capital discipline, a solid balance sheet, and the ability to generate consistent earnings and returns. XOM leads the energy industry in returns on capital and has demonstrated it can take on large-scale projects (as the operator) without significant delays and capital cost overruns. XOM stock recently underperformed the oil sector and market as result of weak refining profits and the acquisition of XTO Energy. Despite near-term investors concerns on these issues, we believe XOM is the right stock to own at the current valuation and looks cheap relative to the mega-cap companies within the S&P 500. Furthermore, despite XOM's relatively high forward P/E verse the other super major oil companies we estimate its low-cost structure and capital efficiency (IROIC) more than justify the premium valuation.

Valuation

We use four valuation scenarios to reach our target of $97 p/s. All our values are based on a 12-month future valuation. Valuations are initially calculated in today's dollars, then adjusted forward using XOM cost of equity.

Our NAV yields $110 per share. Our DCF analysis results $99 p/s at Citi Research's oil and gas price deck. Our DCF analysis breaks down each producing basin and assigns a value based on XOM's stated objectives in each area as well as proved reserves. In the US, we extrapolate reserves per well and assign production decline curves based on available information. Production is modeled until the stated resources are exhausted or until the termination of the XOM's production sharing agreements (PSC).

We use a weighted average cost of capital (WACC) of 8.7%, and is based on an equity risk premium of 6.54%, a 10-year Treasury Yield of 2.0%, a bond spread of 124 bp and a 2-year raw beta of 1.01 (source: Bloomberg).

Our Cyclically Adjusted Cash Flow (CACF) analysis results in $70 per share with a 12.0x multiple based on peer company comparison.

Our Long-term PE analysis results in $112 per share using a 14.0x multiple to 2013 earnings.

Risks

The key risks to our investment thesis on ExxonMobil include: 1) moderate commodity risk relative to the rest of the sector; 2) a lower relative financial risk versus industry peers with essentially no net debt. 3) historical share price volatility, based on the input of the Citi Research quantitative research team, as a possible indicator of future stock-specific risk, indicates XOM has a low relative risk profile versus its peers. 4) As with the oil sector generally, the risk of a sharp pullback in oil prices could impair earnings outlook for XOM. 5) XOM's sector-leading profitability could be eroded by a shift toward higher tax production mix, primarily reflecting the PSC/PSA terms, which will reduce leverage to the strong oil price environment. 6) At the operating level, XOM operates in many high-risk countries, where changes in fiscal terms could result in changes to contract terms. 7) In a strong commodity environment, XOM should benefit from higher earnings. 8) If XOM exceeds management's goal of production growth of 2-3% annually from 2008-2013, higher-than-expected production levels could keep the shares trading at higher levels.

If any of these risk factors has a greater downside impact than we anticipate, XOM's share price will likely have difficulty attaining our target price. Conversely, if the impact of any of these upside risks is greater than we anticipate, the stock could materially exceed our target price.

FMC Technologies

Company description

FMC Technologies designs, manufactures, and services technologically advanced systems and products for its customers through its Energy Systems business. The business is split into two segments: Energy Production Systems and Energy Processing Systems. The Production Systems segment is a global leader in the provision of subsea production systems, and surface drilling and production systems. The Processing Systems segment is a leading supplier of energy

transportation, processing, and measurement solutions to the oil and gas industry. FMC Technologies' Specialty Systems business, which was comprised of its FoodTech and Airport Systems segments, was spun off as a tax-free dividend to shareholders in mid-2008 under the name John Bean Technologies Corp. In 2008, the company purchased a 45% interest in Schilling Robotics LLC, a manufacturer of remotely operated vehicles (ROVs), manipulator systems, and other high-technology equipment used in subsea oil and gas exploration.

Investment strategy

We rate FTI shares as Buy. We believe the company has excellent leverage to later cycle infrastructure development and more stable international E&P spending. The company is a global leader in the provision of subsea drilling and production systems and has cultivated a strategy of developing strategic alliances with the top players in the industry, positioning it to exploit the strong demand forecast for subsea and related equipment. In addition, FMC Technologies' technologically oriented focus and efforts to expand its subsea product offering have been instrumental in the company's success in securing numerous large-scale project awards over the last several years. Deepwater development is expected to increase the average size of project developments in coming years, and these factors should prove to be key competitive advantages. The company's outlook is increasingly solid with year-over-year margin improvement and record backlog providing good visibility into the company's near-term earnings potential.

Valuation

We derive our $53 FTI price target by averaging P/E and EV/EBITDA methodologies. Our target is based on historical analysis of FTI and group multiples, which exhibit very high correlations to both the level and direction of forward earnings expectations.

Our P/E derivation generates a price target of $53 by applying a 17.5x multiple to our *forward-12-month EPS estimate of $3.02. The multiple is below the 30.7x historical ten-year peak FTI multiple and is well above the 9.3x trough reached at the peak of the last upturn. The multiple is based on historical analysis of FTI and relative market multiples and is above the 7.1x–24.3x historical range where the average of capital equipment supplier stocks traded over the past ten years. The median group P/E multiple was 18.0x in the most recent cycle.

Our EV/EBITDA derivation generates a price target of $53 by applying an 11.1x EV/EBITDA multiple to our *forward-12-month EBITDA of $1.22 billion. The multiple is below the 17.6x historical ten-year peak FTI multiple and is well above the 4.6x trough reached at the peak of the last upturn. The multiple is based on historical analysis of FTI and relative market multiples and is just above the 3.8x–12.9x historical range where the average of capital equipment supplier stocks traded over the past ten years. The median group EV/EBITDA multiple was 10.0x 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

There are significant risks to our price target on FMC Technologies. The company carries an investment-grade debt rating, exhibits low beta relative to other oil service companies, and has minimal debt balances. The principal elements of FTI investment risk relative to the Citi Research energy coverage universe are relatively

low market capitalization and moderate earnings 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 development activity that can be significantly impacted by changes in oil and gas prices. Financial performance is sensitive to deepwater development activity. Our estimates could be negatively impacted if the anticipated increase in deepwater development activity does not occur or occurs at a slower pace than expected. Damage to any of FTI's key alliance relationships could also have an adverse effect on the company's earnings stream. 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.

Gazprom

Company description

Gazprom is the world's largest gas company, with a core business producing, transporting and selling natural gas. Gazprom is the world leader by gas reserves, gas production and the size of its high-pressure gas transport system. The company is majority owned by the Russian government.

Investment strategy

We rate Gazprom's stock Buy (1). Having resolved domestic gas tax and price issues, the key issue facing the company today is contract pricing negotiations with Ukraine and key customers in Germany. We assume 10% across-the-board price cuts in Europe will be retroactively applied to the whole of 2012, while Ukrainian prices will be sharply cut to bring them in line with European netback parity. Market share losses inside Russia will continue, but be offset by continued 15% increases in domestic tariffs for the next several years.

Valuation

We derive our Gazprom target price of $7.2 based on: 1) a DCF valuation of $6.7, using a WACC of 10.5% and terminal growth of 3.0% (50% weight); 2) 2012E EV/EBITDA target price of $7.0 based on a target multiple of 3.6x (25%); and 3) 2012E P/E target price of $8.4 based on a target multiple of 5.3x (25%).

Risks

Among the downside risks which could impede the shares from achieving our target price, we highlight the potentially higher taxes as the government searches for more revenue sources with which to plug a budget shortfall, lower European gas export price on the back of a weak crude price, faster-than-expected market share losses domestically as independent producers gain traction; a potential for significant increases in the company's cost structure; and, given the significant levels of capex for bringing new fields on stream to replace declining production at core West Siberian fields, and execution risk.

Keppel Corp

Company description

Keppel Corp is a Singapore-based multi-national, engaged in Offshore & Marine, Property and Infrastructure businesses. It was incorporated in 1968 as Keppel Shipyard (Pte) Ltd and listed 1975, changing its name to Keppel Corporation Ltd in 1986. With over 20 shipyards near its markets and customers, Keppel's O&M division is the global leader in jack-up rigs with leading positions in a complete range of design, construction, conversion, upgrading and repair of offshore structures and vessels, including floating production storage and offloading (FPSO) facilities. The property division has a diverse portfolio of real estate developments with a focus on strengthening property development for sale and fund management to achieve higher returns. The infrastructure division is driven by environmental engineering, power generation and facilities operations, and management as well as in telecom network engineering services and technology solutions. Keppel's Investments portfolio includes K1 Ventures, K-Green Trust, Dyna-Mac and MobileOne.

Investment strategy

We rate Keppel Corp Buy (1) with a target price of S$13.10. Despite financing difficulties, sector fundamentals remain resilient and the newbuild cycle is not yet over, in our view. We also note the potential for upside surprises from Petrobras orders, which we believe Keppel is well-positioned to capture. Beyond the O&M space, we are positive on Keppel's strategy of developing townships that should leverage on synergies between Keppel Land for property development and KIE for Infrastructure projects. Execution on the Tianjin Eco-City project would be a good showcase for similar projects.

Valuation

Our S$13.10 target price is based on a marginal discount to our per-share RNAV estimate of S$13.21, applying a 20% discount to the value of Keppel's investments in M1, K1 ventures, Dyna-Mac and K-Green Trust as we see Keppel as a passive investor in most of these ventures. For the group's O&M business, we use ~17x average FY12-14E P/E, close to +1 standard deviation of SMM's historical mean (since 2001) to account for stronger order win prospects. For Infrastructure, we use a slightly below peer average FY12E P/E of ~11x to reflect modest growth expectations and our conservative stance. We value Keppel Corp's 52% stake in Keppel Land based on market price.

Risks

Key downside risks to our investment thesis on Keppel are: 1) Sharp decline in oil prices/ severe credit tightening - which could affect demand for offshore drilling equipment and earnings at the O&M unit, the largest contributor to group earnings; 2) An economic slowdown, any government policy changes or sharp interest rate increases in Singapore or China could affect Keppel's property businesses in these countries; 3) Slippages in offshore/infrastructure contracts under execution could lead to penalties/losses; and 4) Overpaying for acquisitions. If any of these risk factors has a greater downside impact than we anticipate, the share price will likely have difficulty attaining our target price.

Neste Oil

Company description

Neste is a refining and marketing company headquartered in Espoo, Finland, with a strategic focus on high-specification, environmentally friendly fuels. Neste has invested a total of €1.4 billion in the construction of four renewable biodiesel plants with a combined capacity of 2 Mt/year.

Investment strategy

We rate Neste Oil as Buy (1). A proven operational advantage, underpinned by a heavy gearing towards the high-growth middle distillate market, ability to process lower-quality crudes and a crude supply cost advantage, consistent margin premiums over benchmark levels, a rapid ramp-up in renewables sales following the completion of the investment program and high dividend payout levels, we believe offer a compelling Buy case.

Valuation

Our €11.0 price is based on a DCF valuation. Free cash flows between 2012-2017 are modeled explicitly on our DCF valuation. We assume a terminal growth rate of 0% and a discount rate of 9% based on CAPM. Our terminal value return on invested capital of 7.2% is based on our view of industry returns, Neste Oil's competitive position within the sector, level of capital investments required and historical performance.

Risks

We see the following risks that may affect our target price and forecasts:

Macroeconomic factors and consumer demand - Oil refining is a volatile business and refiners have traditionally faced the most risk to earnings through periods of economic downturn. A significant portion of Neste's operations is concentrated in Finland; in 2010, 48% of its revenues were generated in its domestic market. A pronounced fall in oil product demand in this market could have an adverse effect on domestic sales volumes and margins captured. Refinery export sales volumes and margins are highly sensitive to global and regional end-user demand for oil products.

Crude oil supply - A significant portion of crude oil processed at Porvoo and Naantali refineries is sourced from Primorsk oil harbour in Russia. In the first half of 2011, 66% of crude processed was Russian export blend. Logistical disruptions in this location affecting physical supply and unforeseen changes in Russian crude oil import economics could affect Neste's refining profitability.

Crude oil prices - A high oil price environment can significantly restrict refining margins in a weak regional demand scenario. In addition, a narrowing price differential between lighter sweet crude oil blends and heavier crudes could reduce the competitive advantage of Porvoo and Naantali refineries, which are able to process heavier crudes.

Biodiesel feedstock prices - Biodiesel feedstock prices such as palm, soybean and rapeseed oil are highly sensitive to yield and production volumes which are in turn affected by weather patterns. Escalating biodiesel feedstock prices can severely affect the profitability of Neste's renewables' business. The principal feedstock processed for the production of NexBTL biodiesel is palm oil; planned to

account for 46% of biodiesel raw materials processed by volume for 2011. A narrowing differential between the purchase prices of palm oil versus rapeseed oil processed by traditional biodiesel producers can reduce Neste's renewables' margin premium over traditional biodiesel grades.

Operational disruptions - Unplanned downtime could severely impact Neste's earnings.

Political and Legislative risk - Changes in legislation around environmental, biofuel feedstock or fuel quality issues could lead to increased costs incurred by Neste or limit its range of feedstock supply options.

Strategic Stakes - The Finnish government is Neste's biggest shareholder. There are no indications that it intends to divest its shareholding but, in such an event, potential misalignment between the interest of a potential new majority shareholder and minority shareholders could occur.

Phillips 66

Company description

Phillips 66 is a downstream energy company, with assets in three segments: Refining and Marketing (R&M), Midstream and Chemicals. The company's R&M operations include 15 refineries with a net crude oil capacity of 2.2 million barrels per day, 10,000 branded marketing outlets, and 15,000 miles of pipeline systems. In Midstream, the company primarily conducts operations through its 50 percent interest in DCP Midstream, LLC, with 7.2 billion cubic feet per day of gross natural gas processing capacity. Phillips 66's Chemicals business is conducted through its 50 percent interest in Chevron Phillips Chemical Company LLC, with more than 30 billion pounds of net annual chemicals processing capacity across its product lines.

Investment strategy

We rate the shares of Phillips 66 (ticker: PSX) Neutral (2). PSX represents a portfolio of assets that is levered to the growth in hydrocarbon production in North America. Its refining assets are situated near major delivery points of crude oil production from Canada and the interior US. Its chemical assets are taking advantage of cheap US feedstocks. Its midstream and pipeline assets are taking advantage of the growing volume of hydrocarbons in the US. PSX's key strategy is to deploy 50% of its capital into the chemical and midstream business where we estimate it will generate higher risk adjusted returns than on refining.

However, at this point under our current margin assumptions these advantages are fully priced in and we are rate the stock as Neutral.

Valuation

Our target price of $49 p/s is based on our matrix valuation approach. We use four different valuation methodologies to reach our target price. We believe this approach captures the different valuation philosophies in the market today.

Our discounted cash flow analysis uses 10 years of cash flow with a terminal value based on the residual value of the assets at the end of 5 years. This residual value is essentially the book value of the assets and affiliate investments at the end of 5 years discounted back to today. We believe that the PSX' business is a cost of

capital business and therefore the book value of the assets fairly represents the terminal value of the company.

Our net asset value (NAV) analysis is based on a liquidation value of the company based on historical asset transactions over the last ten years for its refining & marketing assets and EBITDA multiples for its midstream and chemical assets. We have, however, not made any assumptions on the value of the inventory.

Our 2012 P/E and EV/EBITDA analyses are based on current multiples for refining, midstream and chemical business. In our coverage universe we estimate a P/E multiple of 6x for refiners, 16x for midstream companies and 8x for chemical companies. For EV/EBITDA multiples we have used a 3x multiple for refining, 8x for midstream and 5x for chemicals.

Risks

PSX is exposed to commodity risk but because of a diversified asset base it has a more stable earnings profile. PSX also has a low management risk with a strong and seasoned executive team. PSX also has an investment grade credit rating.

Downside risks include:

1. North Atlantic & West Coast Refining — Both the Atlantic Basin and Pacific Basin refiners are currently experiencing a high feedstock cost environment. Specially, Eastern United States and Europe are exposed to low refining margins. We expect PSX to rationalize its portfolio in this region. California also continues to face a low demand environment driven by a weak economy. Complex refining assets and export markets are currently providing relief at in the West Coast.

2. Chemicals — The chemicals space has seen strong margins amidst stable demand and cheap feedstocks in the US. However, ethylene demand could fall if the economy slows reducing the demand for polyolefins.

3. Dividend – PSX will start with an annual dividend of $0.8/share. However, in order for PSX to fully realize its stock potential, in light of its 35% exposure to logistics and chemicals, it will have to increase its dividend or more aggressively buyback shares in order to achieve a full valuation.

Upside risks include:

1. Midcontinent and Gulf Coast Exposure — PSX's refining assets are concentrated in PADD II and III. The spreads between midcontinent and water borne crudes have remained high even as new pipeline announcements have come in. A sustained midcontinent spread and a larger migration of the spread to the Gulf Coast will provide significant upside to our estimates.

If the impact on the company from any of these factors proves to be more/less than we anticipate, it may prevent the stock from achieving our target price or could cause our target price to materially underperform.

Samsung Heavy Industries

Company description

Samsung Heavy Industries (SHI) mainly focuses on shipbuilding and an offshore business. The company designs and constructs high-value-added vessels such as

LNG carriers and large passenger ships, as well as drill ships and shuttle tankers. SHI operates eight overseas facilities, including a ship block factory in China.

Investment strategy

We assign a Buy (1) rating to SHI. Multi-year up-cycle in offshore oil & LNG should continue to benefit SHI as the undisputed market leader with a proven record. We forecast it to secure US$13.9bn worth of new orders in 2012E with offshore (drillship & production facilities) and LNG vessels. An increasing number of new-well permissions, a continuous rise in rig day-rate, and the absorption of unchartered supply (potentially) will continue to trigger new-build demand for drillship. Along with offshore, the LNG cycle should lead to further new-orders visibility and sustainability for Korean shipyards. As an undisputed leader in offshore & LNG segments, we believe Samsung will continue to command a premium vs. other shipyards in Korea, further supported by best-in-class execution, leading to industry-leading profitability and earnings visibility.

Valuation

Our PBVR-based 12-month target price for Samsung Heavy is set at W50,000. We employ a Gordon Growth Model to fairly capture mid-to-longer term earnings sustainability. We derive our 1.9x target PBVR based on (ROE-g)/(COE-g) model, with the assumption of: 1) 2013-14E avg. ROE at 15.6%; 2) cost of equity at 9.3% (risk-free rate: 3.0%, market risk premium: 6.0% and beta: 1.06); and 3) terminal growth rate at 2.0%. From a historical trading perspective, Given the "over-shooting" nature of shipbuilders when order-flow remains solid, there may be upside risk to our target price (applying 2.3x peak 12-month FWD multiple in 2011 implies W61K).

Risks

Key downside risk to our investment thesis and target price on SHI include: 1) Potential competition from Asian competitors including China and Singapore; 2) Unexpected macro headwinds leading to slower new-build demand; and 3) Fluctuation in oil prices both on the downside and upside leading to volatility in offshore order flow, a key share price driver.

Saipem

Company description

Saipem is an Engineering & Construction contractor diversified across onshore & offshore construction and onshore & offshore drilling. Operations are diverse across client base and geography, with competitive local content offerings in select regions. Eni is a 43% shareholder and accounted for 24% of 2010 revenues.

Investment strategy

We rate Saipem Buy. We view Saipem as a market leader within European oil services, a sector benefitting from favourable structural trends. In 2011, we see a focus on executing current backlog, implementing new assets, and establishing a presence in areas that have not been historically significant to Saipem (e.g. Brazil, Iraq, China). In our view, Saipem has the unique asset base, scale and local content capability to fully benefit from our expectation that energy infrastructure spend is undergoing a structural rebasing upwards and we believe the shares offer compelling long-term value at current levels.

Valuation

Our 12-month target of EUR50 is based on a DCF valuation. Free cash flows between 2012-20E are modelled discretely. Our terminal value assumes top-line growth of 5%, consistent with our view of the long-term growth in global energy infrastructure spend. The terminal value EBITDA margin of 17% is the level we view as sustainable given our perception of Saipem's competitive position within the industry, historical performance, and annual level of investment needed to sustain that position. All cash flows are discounted at a WACC of 11%.

Risks

Our investment rating on Saipem considers a number of company-specific and industry risks.

Key risks to achieving our price target include:

Commodity demand - Saipem's customer base is highly sensitive to underlying demand and prices for oil and gas. A sharp downturn in demand would negatively impact results.

Labour and raw material inflation - Saipem bids for projects on a lump-sum turnkey basis. While measures are taken to hedge a potential rise in input costs, there remains the risk of cost overruns which could impede profitability.

Reputational damage - Engineering firms rely on their execution track record and reputation to win new business. Association with an industrial accident or poor project execution could impair Saipem's ability to compete for new awards.

Foreign exchange risk - The majority of Saipem's contracts are denominated in USD, yet it incurs a significant portion of costs in other currencies.

Sasol Ltd

Company description

Sasol is an integrated energy and chemicals company based in South Africa, but with significant operations throughout the world. Sasol produces and sells fuels, gas and chemicals, based on its commercial coal- and gas-to-liquid production. Sasol is listed on the JSE and has an ADR on the NYSE.

Investment strategy

We rate Sasol Buy. We believe Sasol's long-term volume and earnings growth potential is impressive and that its substantial experience in synthetic fuel production implies numerous expansion opportunities. Poor earnings and project delivery in recent periods seem still to be reflected in the share price, while better earnings and project delivery near term, with the expectation of higher crude prices and weaker ZAR/USD should support share price performance, in our view. We believe Sasol offers investors: a long reserve life; strong production growth; high gearing to oil prices and weaker ZAR/USD; and a positive cash position with significant cash generation potential, despite large capex plans.

Valuation

We value Sasol based on a DCF, price multiples and Sum-of-the-Parts. Using the rounded average of these methods, we derive our ZAR435 target price.

Our DCF-derived valuation for Sasol is ZAR440 at June 2013e. Our DCF is based on a long-term Brent price of US$90/bbl (real) from FY15e, a ZAR/USD of 9.45 (depreciating at 4% pa), a WACC of 13.1% and nominal terminal growth of 6%.

We calculate Sasol's sum-of-the-parts of ZAR457/sh using multiples in line with historical peer averages. We use punitive measures on the Chemicals business, given the relative profitability against the energy business. We afford a slightly higher than average rating of 6.5x to Sasol Synfuels and SSI, given the outlook for production growth and margin expansion.

We use PE multiples as our final valuation method. We use a 9.0x PE (set conservatively at the lower end of Sasol's forward PE trading range of 9.0-12.0x) applied to our FY13e diluted HEPS. This method implies a valuation of ZAR415/sh.

Risks

A stronger ZAR/USD than forecast could pressure earnings, given Sasol's significant gearing to the ZAR/USD. Any further delays or issues with project delivery or production could result in continued or even increased investor apathy toward Sasol's growth potential. Lower crude prices present a near-term risk to earnings, but also longer-term risk to new projects. Oversupply and/or weak demand in chemical markets could see lower chemical prices and margins and depress Sasol's earnings. Growing interest in GTL and CTL technology from international energy peers could place Sasol's world leader position in commercial synthetic fuels at risk. Sasol remains at risk of further competition fines as the South African Competition Commission continues its investigations into some of Sasol's markets.

If the impact of these factors is more or less negative than we assume, then the shares could under- or over-shoot our target price.

Schlumberger Ltd

Company description

Schlumberger is the leading oilfield service and seismic company. Schlumberger Oilfield Services provides products, services, and technical solutions to the oil and gas exploration and production (E&P) industry, including IT. The company is present in nearly all major oilfield sectors, where it tends to have strong market shares, and has historically generated superior investment returns compared to its competitors. The company owns 100% of WesternGeco, the largest global seismic service company, with industry-leading Q-Technology.

Investment strategy

We rate SLB shares Buy. Global drilling activity is in a recovery mode and SLB's offshore seismic division WesternGeco is expected to enter a recovery mode as oil and gas companies prepare for an anticipated increase in deepwater drilling over the next three to five years. The company has a broad geographic diversification and what is believed to be the most diverse product portfolio among the oilfield service companies. SLB has the largest proportional exposure of its peers to the oil

levered Eastern Hemisphere region, and has a significant presence increasingly in the important deepwater market. The company's geographic and product line diversity combined with its strong balance sheet and discount to its historical valuation make SLB shares attractive, in our view.

Valuation

We derive our $84 SLB price target by averaging P/E and EV/EBITDA methodologies. Our target is based on historical analysis of SLB and group multiples.

Our P/E derivation generates a price target of $84 by applying a 15.0x multiple to our *forward 12-month EPS estimate of $5.57. The multiple is below the 33.6x peak SLB multiple reached in the most recent downturn and is well above the 10.2x trough reached at the peak of the last upturn. The multiple is based on historical analysis of SLB and relative market multiples and is within the 7.8x–28.1x 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 price target of $84 by applying a 7.8x EV/EBITDA multiple to our *forward-12-month EBITDA of $14.792 billion. The multiple is below the 14.3x peak SLB multiple reached in the most recent downturn and is well above the 5.6x trough reached at the peak of the last upturn. The multiple is based on historical analysis of SLB and relative market multiples and is within the 4.3x–12.4x 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

There are significant risks to our price target on Schlumberger. 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 natural gas exploration and production (E&P) activity. E&P activity can be significantly affected by changes in oil and gas prices, which tend to be highly volatile. International competition has also intensified and if the trend proves more severe than anticipated, the stock may not achieve our price target. 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.

Seadrill

Company description

Seadrill is a leading provider of contract drilling services with a modern fleet of ultra-deepwater rigs, jack-ups and tender rigs.

Investment strategy

We rate Seadrill Buy. Seadrill's >$20B backlog is composed of long-term day-rate contracts with primarily investment-grade oil and gas producers, offering one of the best earnings visibility profiles in the sector with which to sustain current dividend

pay-out levels. Access to both shipyard capacity and debt financing look to be available and we expect Seadrill to continue with its newbuild program to meet rising deepwater drilling demand.

Valuation

Our 12-month target of NOK 270 is based on DCF valuation. Free cash flows between 2012-20E are modeled discretely. Our terminal value assumes top-line growth of 5%, consistent with our view of the long-term growth in global energy capex. Our terminal EBITDA margin of 54% is the level we judge sustainable given our perception of Seadrill's competitive position within the industry, historical performance and annual level of investment required to sustain this position. All cash flows are discounted at a WACC of 10.5%. Equity stakes are valued at market value. We have assumed a NOK/USD exchange rate of 5.9.

Risks

Our investment rating on Seadrill considers a number of company-specific and industry risks.

Key risks that could cause the shares to deviate from our price target include:

Access to funding - Seadrill's growth has relied on access to debt financing. With the majority of debt secured at variable rates, a rise in interest rates or inability to secure necessary financing could limit Seadrill's growth options going forward. On the other hand, current low interest rate levels extending beyond current Citi forecasts or an extension of credit from global shipyard operators could lead to a growth rates considerably higher than our current forecasts.

Commodity demand - Seadrill's revenues are highly dependent on the exploration budgets of oil and gas producers. This spend is highly sensitive to the underlying supply-demand balance and prices of oil and gas. Levels of demand/prices that exceed our forecasts could lead to a materially better performance than we currently expect. Similarly, performance could be negatively impacted by a more subdued path of demand/pricing.

Drilling rig supply/demand - The day rates paid for drilling services is largely dependent on the supply/demand balance for equipment (drillships, semi-submersibles, jack-ups, tender rigs). A rise in industry expenditure beyond our current expectations or a delay in current planned capacity from coming onstream could lead to day rates materially higher than we are forecasting. Similarly, a more subdued rate of drilling expenditure spending growth or capacity in excess of what we forecast could lead to a significant decline in the prices for drilling services.

Technip

Company description

Technip is an Engineering & Construction contractor with operations in onshore, offshore and subsea construction. Activities are diverse across client base and geography, with a presence in 50 countries. The subsea construction fleet consists of 17 vessels, with three more currently under construction. Production facilities, manufacturing yards and spoolbases are located in France, Angola, Brazil, Finland, Malaysia, Norway, the United Kingdom and the US.

Investment strategy

We rate Technip as Buy. We see Technip as a direct beneficiary of rising energy infrastructure spend, with leadership positions in key segments (subsea flexible pipe manufacture and installation, FLNG, refining, petrochemicals). A robust backlog provides visible growth despite near-term macro headwinds, at valuations that look attractive, in our view.

Valuation

Our 12-month target price of EUR105 is based on DCF valuation. Free cash flows between 2012-2020E are modelled explicitly. Our terminal value assumes top-line growth of 5%, consistent with our view of the long-term growth in global energy infrastructure spending. Our terminal value group EBITDA margin of 13.5% is the level we judge sustainable given our perception of Technip's competitive position within the industry, historical performance and annual level of investment required to sustain this position. All cash flows are then discounted at a WACC of 12.5%.

Risks

Our investment rating on Technip considers a number of company-specific and industry risks.

Key risks that could impede the share price from reaching our price target include:

Commodity demand - Technip's customer base is highly sensitive to underlying demand and prices for oil and gas. A sharp downturn in demand could negatively impact results while demand growth above our expectation could lead to significant appreciation beyond our current expectations.

Labour and raw material inflation - Technip bids for projects on a lump-sum turnkey basis. While measures are taken to hedge a potential rise in input costs, risks remain of cost overruns which could impede profitability.

Reputational damage - Engineering firms rely on their execution track record to win new business. Association with an industrial accident or poor project execution could impair Technip's ability to compete.

Currency - The majority of Technip's contracts are denominated in USD, but the firm incurs significant expense in other currencies.

Tullow Oil

Company description

Tullow is an E&P company, focused primarily on Africa, and has a strong exploration track record with world-class discoveries in Uganda and Ghana. These discoveries are now being commercialised with first oil from the Jubilee field (Ghana) in December 2010. Despite the increased size of the company, exploration activity remains material with high impact wells planned in Africa and South America during 2012 and 2013.

Investment strategy

Our investment rating on Tullow is Neutral. Tullow has a high-quality portfolio, which offers strong production and cash flow growth of c.13% 2011-20E, driven principally

by the ramp-up of the Jubilee field and delivery of the TEN, Uganda and French Guiana developments by the back end of the decade. Tullow also plans an active 2012/13 drilling programme targeting additional prospectivity in Africa (in particular Kenya) and high-impact wells in South America (Zaedyus follow-on). In total, we see Tullow drilling for prospects in 2012 that could add c.900p/share to our base NAV. However, we see only limited implied upside to our target price and maintain our Neutral rating.

Valuation

Our E&P sector valuations are driven off a net asset value (NAV) methodology. We feel this method best captures the value of oil & gas assets at different stages of their life-cycle (production, development and exploration) and the specific pricing, cost and fiscal terms of each individual asset. We calculate a base case NAV of £15.50, which assumes US$115/bbl in 2012, US$100/bbl in 2013 and then long-term US$90/bbl (real, 2012 money) and GBP/USD exchange rate of £1:$1.56. We assume a discount rate of 10% for our field models. Our base NAV comprises a core value of £7.02 (£7.99 for core assets minus £0.97/share for financial items), £3.65 of development/appraisal upside and £4.84/share of risked exploration. We set our target price at £15.50, in line with our base case NAV, due to the quality of Tullow's asset portfolio and its strong exploration track record.

Risks

We highlight a number of industry and company-specific risk elements that could cause the share price to deviate from our target price:

- Commodity prices - Tullow's earnings and valuation are sensitive to changes in oil and natural gas prices, both of which can fluctuate significantly as a function of economic and geopolitical forces. The share price could move significantly above/below our target price should expectations of long-term oil prices deviate meaningfully from our US$90/bbl assumption from 2014.

- Currency - Tullow's principal earnings and costs are in US$. There is a 1:1 translation effect on moves in GBP/US$ into local currency EPS and DPS.

- Political - Changing political forces could impact on Tullow's legal ownership, fiscal take and pace of development activity in any country in which it operates. Some 64% of Tullow's asset base is located in West Africa (Ghana, Sierra Leone, Liberia, Cote d'Ivoire, Mauritania), 28% in East Africa, 4% in South America (Suriname, French Guiana, Guyana), 3% in the North Sea, and less than 1% in Asia (Pakistan, Bangladesh).

- Natural and man-made disasters - Tullow's operating activities could be severely disrupted by the effects of natural disasters or industrial accidents. Accidents may bring the burden of additional costs from remediation, fines and restrictions on future business activities.

Notes

Appendix A-1

Analyst Certification

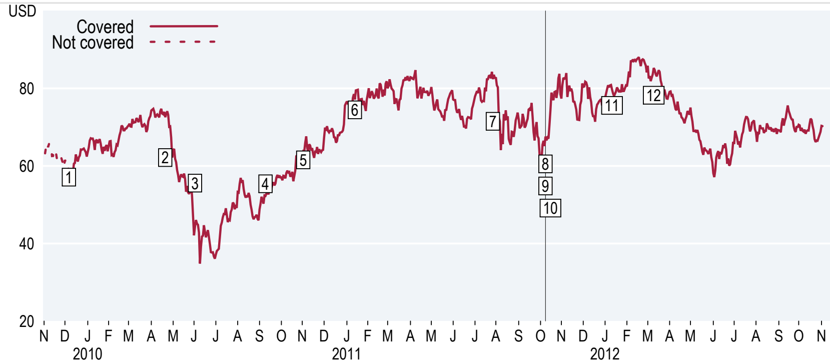
The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

IMPORTANT DISCLOSURES

Anadarko Petroleum Corp (APC)

Ratings and Target Price History
Fundamental Research

Analyst: Robert S Morris
Covered since December 7 2009



	Date	Rating	Target Price	Closing Price
1	7-Dec-09	1H	*80.00	58.27
2	21-Apr-10	1H	*100.00	72.58
3	2-Jun-10	1H	*75.00	44.36
4	9-Sep-10	1H	*74.00	52.28
5	2-Nov-10	1H	*80.00	63.82
6	13-Jan-11	1H	*95.00	77.14
7	27-Jul-11	1H	*100.00	82.39
8	8-Oct-11	Stock rating system changed		
9	8-Oct-11	*1	100.00	65.12
10	17-Oct-11	1	*120.00	74.44
11	11-Jan-12	1	*110.00	79.72
12	9-Mar-12	1	*115.00	85.25

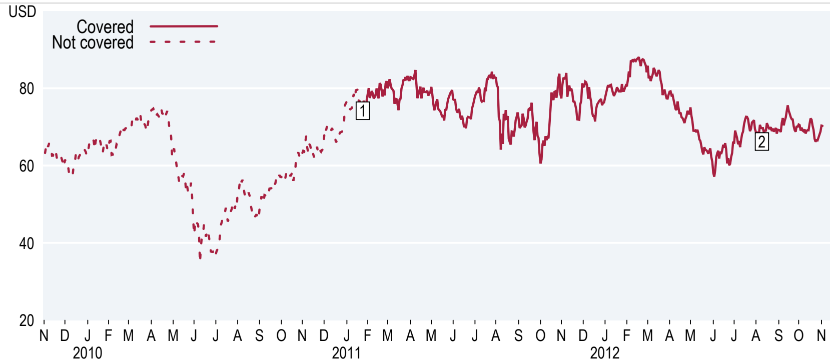
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Anadarko Petroleum Corp (APC)

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

Analyst: Robert S Morris
Covered since December 7 2009



	Date	Rating	Target Price	Closing Price
1	25-Jan-11	*ADD MP	-	75.70
2	9-Aug-12	*REM MP	-	69.66

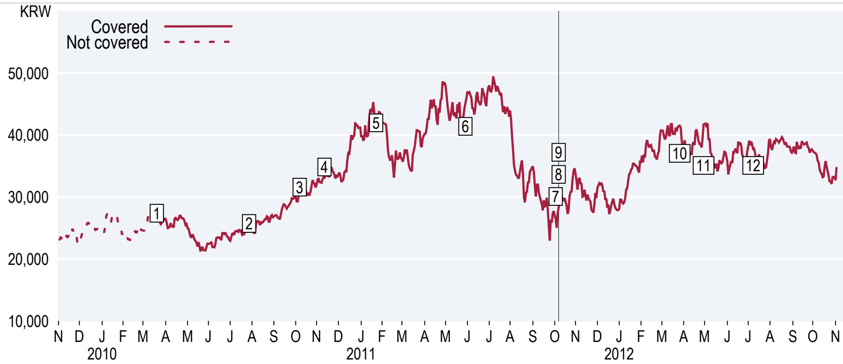
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Samsung Heavy Industries (010140.KS)

Ratings and Target Price History
Fundamental Research

Analyst: Ethan Kim
Covered since March 19 2010



	Date	Rating	Target Price	Closing Price
1	19-Mar-10	*2M	*30,000.00	26,600.00
2	28-Jul-10	2M	*28,000.00	24,650.00
3	7-Oct-10	*1M	*38,000.00	31,300.00
4	11-Nov-10	1M	*42,000.00	33,000.00
5	24-Jan-11	1M	*59,000.00	43,500.00
6	30-May-11	1M	*61,000.00	45,100.00
7	4-Oct-11	1M	*40,000.00	26,400.00
8	7-Oct-11	Stock rating system changed		
9	7-Oct-11	*1H	40,000.00	28,350.00
10	27-Mar-12	*1	*50,000.00	41,500.00
11	29-Apr-12	1	*52,000.00	39,400.00
12	9-Jul-12	1	*50,000.00	37,750.00

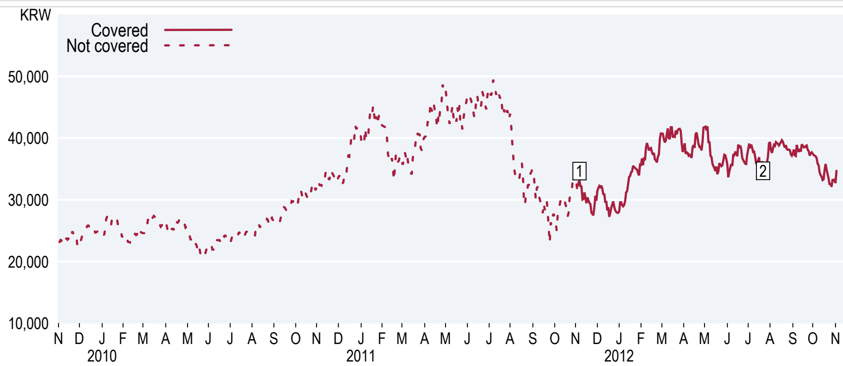
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Samsung Heavy Industries (010140.KS)

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

Analyst: Ethan Kim
Covered since March 19 2010



	Date	Rating	Target Price	Closing Price
1	7-Nov-11	*ADD MP	-	33,100.00
2	23-Jul-12	*REM MP	-	35,600.00

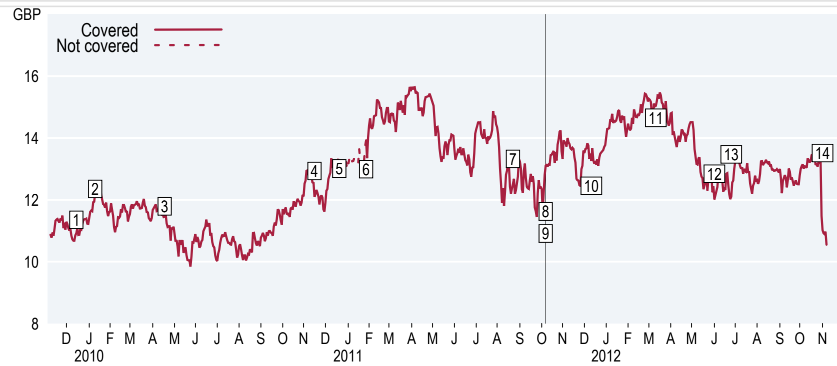
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

BG Group (BG.L)

Ratings and Target Price History
Fundamental Research

Analyst: Michael J Alsford
Covered since January 27 2011



	Date	Rating	Target Price	Closing Price
1	15-Dec-09	1M	*13.00	10.92
2	10-Jan-10	1M	*15.00	11.94
3	19-Apr-10	1M	*14.80	11.45
4	16-Nov-10	1M	*15.00	12.09
5	21-Dec-10	Coverage terminated		
6	27-Jan-11	1M	*16.00	13.92
7	23-Aug-11	1M	*15.50	12.51
8	7-Oct-11	Stock rating system changed		
9	7-Oct-11	*1	15.50	13.10
10	12-Dec-11	1	*16.20	13.25
11	12-Mar-12	1	*17.40	15.04
12	1-Jun-12	1	*16.00	12.01
13	26-Jun-12	1	*15.30	12.10
14	1-Nov-12	1	*13.80	11.02

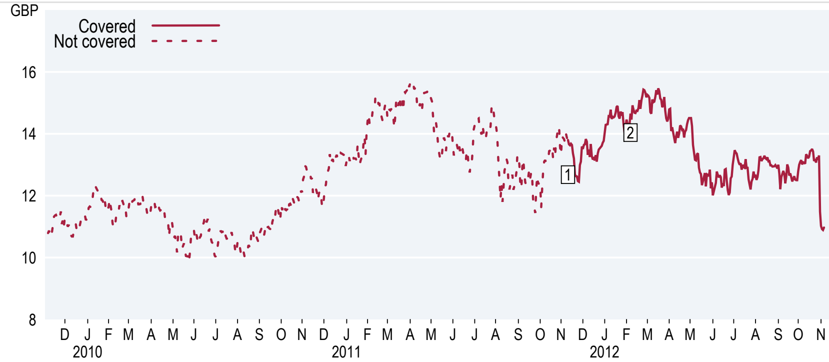
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

BG Group (BG.L)

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

Analyst: Michael J Alsford
Covered since January 27 2011



	Date	Rating	Target Price	Closing Price
1	10-Nov-11	*ADD MP	-	13.80
2	7-Feb-12	*REM MP	-	14.65

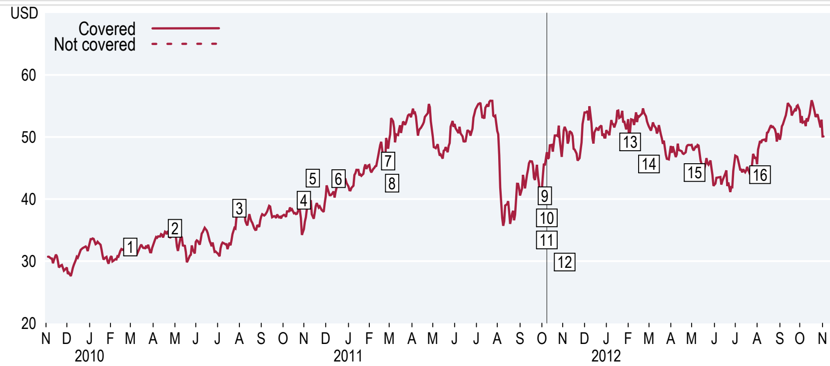
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Dresser-Rand Group (DRC)

Ratings and Target Price History
Fundamental Research

Analyst: Robin Shoemaker



	Date	Rating	Target Price	Closing Price
1	28-Feb-10	1H	*38.00	30.91
2	2-May-10	1H	*43.00	35.28
3	1-Aug-10	1H	*45.00	37.21
4	31-Oct-10	1H	*42.00	34.22
5	12-Nov-10	1H	*49.00	37.54
6	19-Dec-10	1H	*52.00	41.86
7	27-Feb-11	1H	*60.00	49.84
8	4-Mar-11	1H	*65.00	53.05
9	6-Oct-11	1H	*58.00	45.42
10	8-Oct-11	Stock rating system changed		
11	8-Oct-11	*1	58.00	45.42
12	3-Nov-11	1	*61.00	51.64
13	3-Feb-12	1	*58.00	49.21
14	1-Mar-12	1	*60.00	51.66
15	4-May-12	1	*64.00	47.83
16	5-Aug-12	1	*63.00	47.98
17	4-Nov-12	1	*66.00	50.09

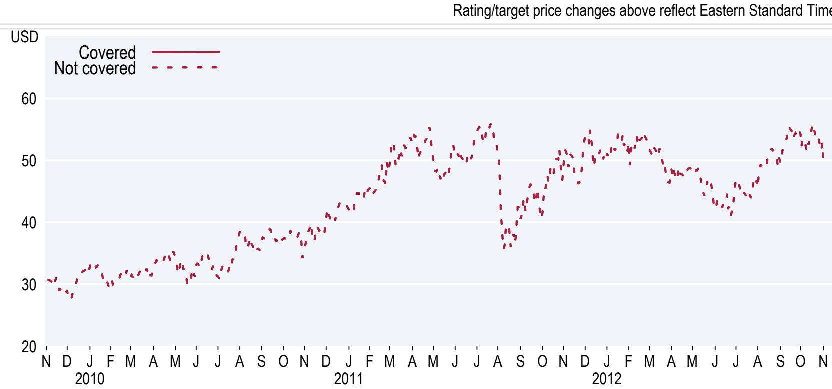
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Dresser-Rand Group (DRC)

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

Analyst: Robin Shoemaker



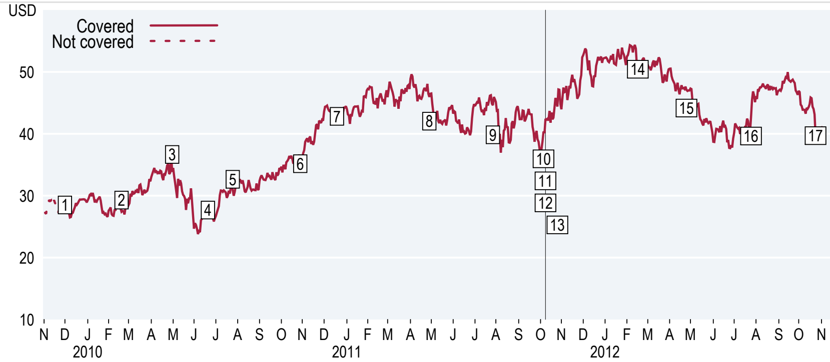
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

FMC Technologies (FTI)

Ratings and Target Price History
Fundamental Research

Analyst: Robin Shoemaker
Covered since September 15 2010



	Date	Rating	Target Price	Closing Price
1	1-Dec-09	*1M	*33.00	28.22
2	18-Feb-10	1M	*34.50	27.40
3	30-Apr-10	*2M	*38.50	33.85
4	21-Jun-10	*1M	*34.50	27.50
5	26-Jul-10	1M	*36.00	30.91
6	28-Oct-10	1M	*41.00	35.17

	Date	Rating	Target Price	Closing Price
7	19-Dec-10	1M	*55.00	43.22
8	28-Apr-11	1M	*57.00	45.96
9	27-Jul-11	1M	*60.00	44.61
10	6-Oct-11	1M	*54.00	40.36
11	8-Oct-11	Stock rating system changed		
12	8-Oct-11	*1	54.00	40.12

	Date	Rating	Target Price	Closing Price
13	26-Oct-11	1	*57.00	44.41
14	16-Feb-12	1	*59.00	51.35
15	25-Apr-12	1	*57.00	47.09
16	25-Jul-12	1	*56.00	42.68
17	24-Oct-12	1	*53.00	39.70

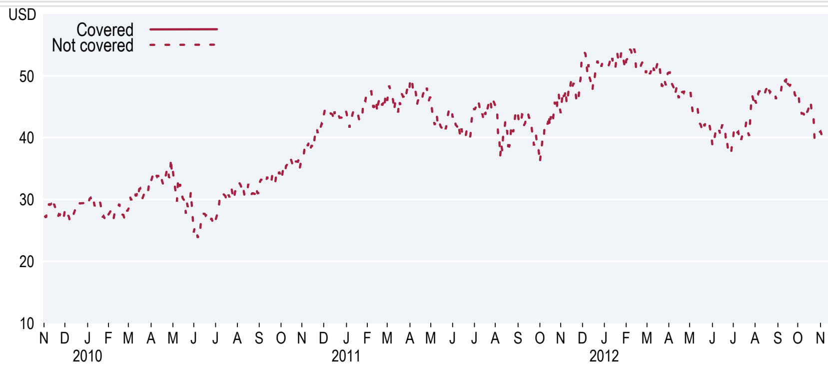
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

FMC Technologies (FTI)

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

Analyst: Robin Shoemaker
Covered since September 15 2010



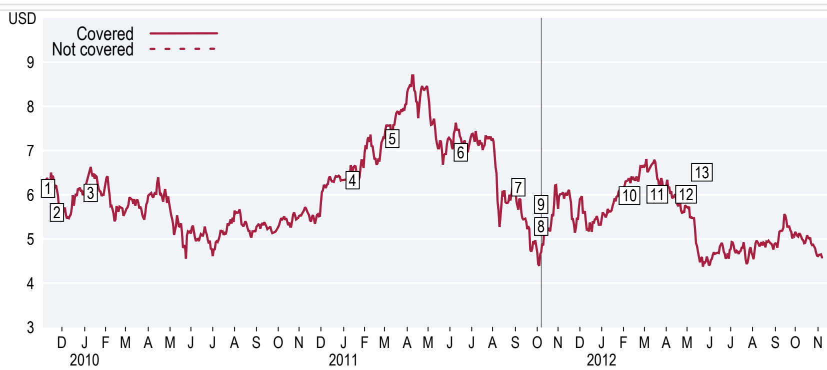
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Gazprom (GAZP.MM)

Ratings and Target Price History
Fundamental Research

Analyst: Ronald Paul Smith
Covered since June 16 2011



	Date	Rating	Target Price	Closing Price
1	10-Nov-09	1M	*8.00	6.38
2	24-Nov-09	1M	*8.10	6.11
3	10-Jan-10	1M	*8.30	6.04
4	14-Jan-11	1M	*9.50	6.53
5	11-Mar-11	1M	*10.30	7.29

	Date	Rating	Target Price	Closing Price
6	16-Jun-11	1M	*11.00	7.28
7	6-Sep-11	1M	*10.30	5.66
8	7-Oct-11	Stock rating system changed		
9	7-Oct-11	*1	10.30	4.70
10	9-Feb-12	1	*8.00	6.36

	Date	Rating	Target Price	Closing Price
11	20-Mar-12	*2	*6.50	6.36
12	30-Apr-12	*1	*7.50	5.76
13	22-May-12	1	*7.20	4.59

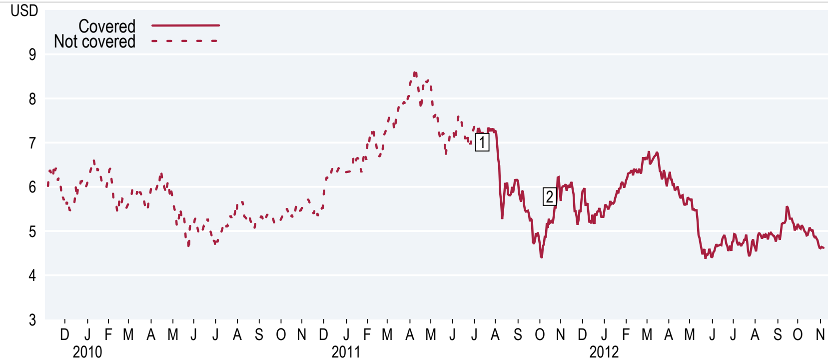
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Gazprom (GAZP.MM)

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

Analyst: Ronald Paul Smith
Covered since June 16 2011



	Date	Rating	Target Price	Closing Price
1	13-Jul-11	*ADD MP	-	7.24
2	17-Oct-11	*REM MP	-	5.18

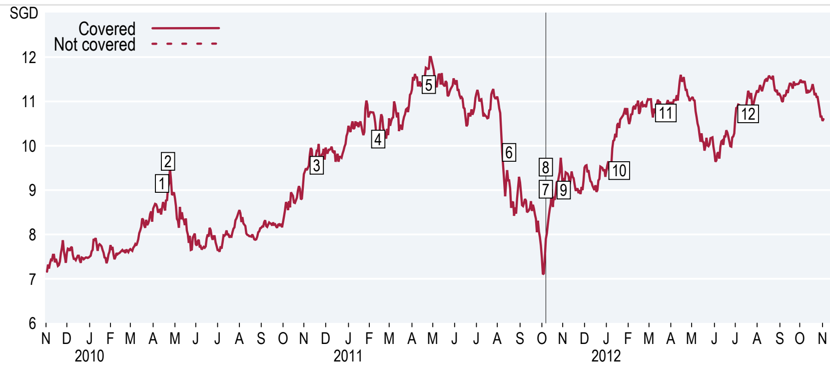
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Keppel Corp (KPLM.SI)

Ratings and Target Price History
Fundamental Research

Analyst: Horng Han Low



	Date	Rating	Target Price	Closing Price
1	14-Apr-10	1L	*9.64	8.59
2	22-Apr-10	1L	*10.09	9.06
3	18-Nov-10	1L	*11.64	9.89
4	14-Feb-11	1L	*13.14	10.31
5	26-Apr-11	1L	*13.14	11.74
6	17-Aug-11	1L	*12.00	9.22
7	7-Oct-11	Stock rating system changed		
8	7-Oct-11	*1	12.00	7.90
9	2-Nov-11	1	*10.35	9.27
10	19-Jan-12	1	*12.00	10.40
11	26-Mar-12	1	*12.80	10.76
12	19-Jul-12	1	*13.10	11.24

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Keppel Corp (KPLM.SI)

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

Analyst: Horng Han Low

	Date	Rating	Target Price	Closing Price
1	11-Feb-11	*ADD MP	-	10.15

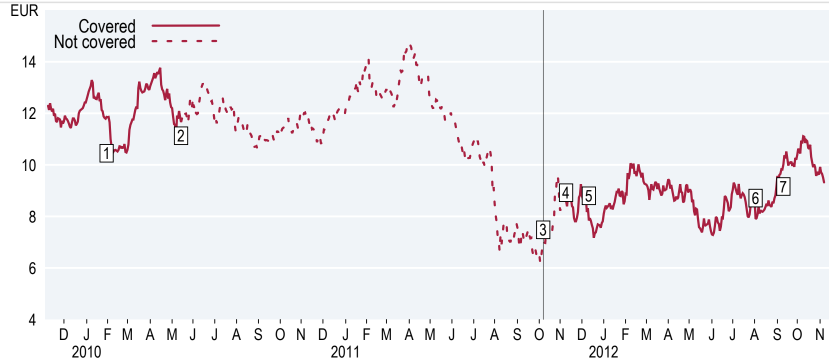
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Neste Oil (NES1V.HE)

Ratings and Target Price History
Fundamental Research

Analyst: Ioanna Exarchou
Covered since November 9 2011



	Date	Rating	Target Price	Closing Price
1	29-Jan-10	2H	*11.00	11.86
2	14-May-10	Coverage terminated		
3	7-Oct-11	Stock rating system changed		

	Date	Rating	Target Price	Closing Price
4	9-Nov-11	*1	*10.80	8.60
5	12-Dec-11	1	*11.50	7.84
6	2-Aug-12	1	*10.50	7.90

	Date	Rating	Target Price	Closing Price
7	11-Sep-12	1	*11.00	10.01

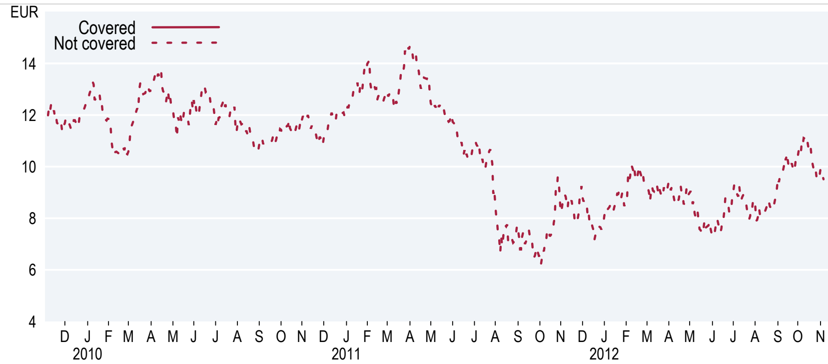
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Neste Oil (NES1V.HE)

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

Analyst: Ioanna Exarchou
Covered since November 9 2011



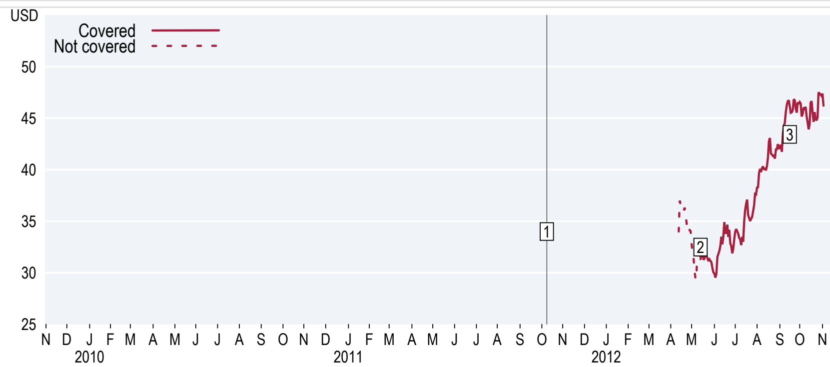
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Phillips 66 (PSX)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA
Covered since May 15 2012



	Date	Rating	Target Price	Closing Price
1	8-Oct-11	Stock rating system changed		

	Date	Rating	Target Price	Closing Price
2	14-May-12	*1	*40.00	31.32

	Date	Rating	Target Price	Closing Price
3	17-Sep-12	*2	*49.00	46.14

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Phillips 66 (PSX)

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

Analyst: Faisel Khan, CFA
Covered since May 15 2012

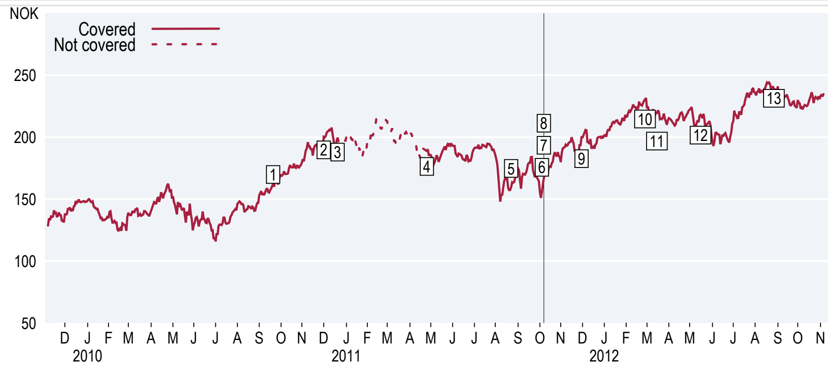
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Seadrill (SDRL.OL)

Ratings and Target Price History
Fundamental Research

Analyst: Ryan W Kauppila
Covered since April 26 2011



	Date	Rating	Target Price	Closing Price
1	21-Sep-10	1M	*200.00	162.20
2	1-Dec-10	1M	*265.00	200.30
3	21-Dec-10	Coverage terminated		
4	26-Apr-11	*2M	*195.00	188.80
5	23-Aug-11	2M	*160.00	159.60
6	5-Oct-11	2M	*150.00	155.70
7	7-Oct-11	Stock rating system changed		
8	7-Oct-11	*2	150.00	167.10
9	30-Nov-11	2	*200.00	200.60
10	28-Feb-12	2	*230.00	230.50
11	15-Mar-12	2	*225.00	219.10
12	16-May-12	*1	*250.00	218.10
13	28-Aug-12	1	*270.00	238.30

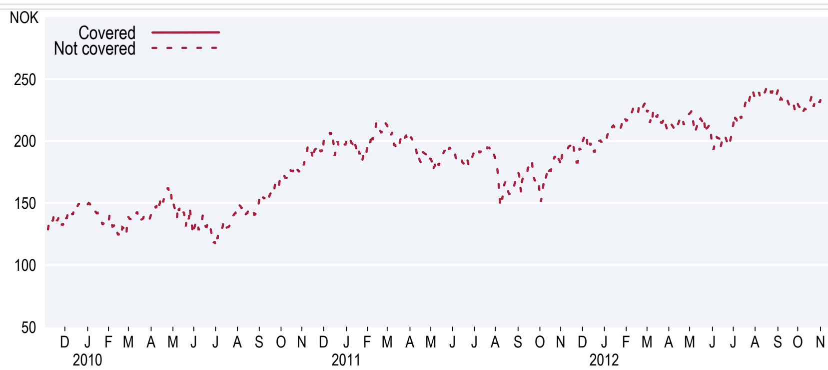
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Seadrill (SDRL.OL)

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

Analyst: Ryan W Kauppila
Covered since April 26 2011



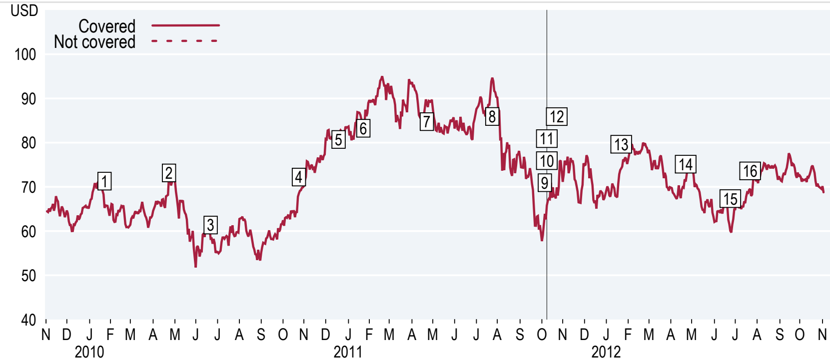
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Schlumberger Ltd (SLB)

Ratings and Target Price History
Fundamental Research

Analyst: Robin Shoemaker



	Date	Rating	Target Price	Closing Price
1	22-Jan-10	1M	*84.00	65.24
2	23-Apr-10	1M	*92.00	72.68
3	22-Jun-10	1M	*77.00	58.26
4	24-Oct-10	1M	*82.00	67.77
5	19-Dec-10	1M	*100.00	81.34
6	23-Jan-11	1M	*110.00	83.48
7	22-Apr-11	1M	*115.00	89.78
8	24-Jul-11	1M	*125.00	93.81
9	6-Oct-11	1M	*88.00	63.89
10	8-Oct-11	Stock rating system changed		
11	8-Oct-11	*1	88.00	62.64
12	23-Oct-11	1	*84.00	67.38
13	23-Jan-12	1	*86.00	74.16
14	22-Apr-12	1	*89.00	71.70
15	24-Jun-12	1	*83.00	61.56
16	23-Jul-12	1	*84.00	69.55

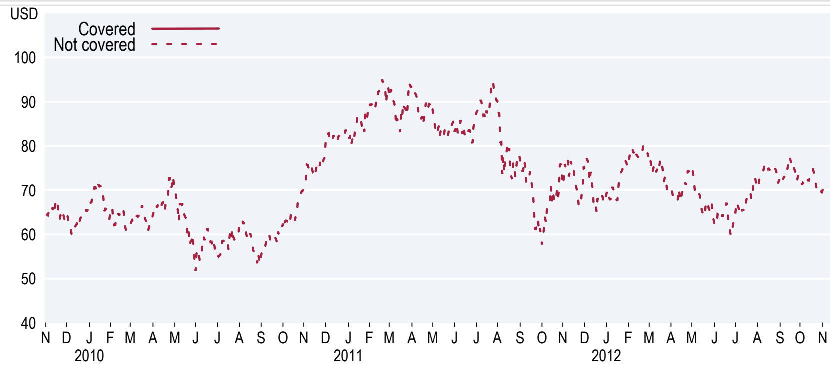
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Schlumberger Ltd (SLB)

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

Analyst: Robin Shoemaker



* Indicates change

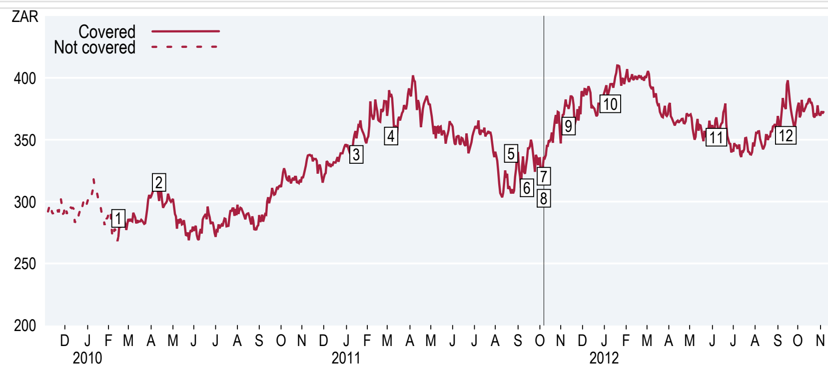
Rating/target price changes above reflect Eastern Standard Time

Sasol Ltd (SOLJ.J)

Ratings and Target Price History
Fundamental Research

Analyst: Tassin Meyer

Covered since February 15 2010



	Date	Rating	Target Price	Closing Price
1	14-Feb-10	*1M	*350.00	268.00
2	13-Apr-10	1M	*370.00	300.55
3	17-Jan-11	1M	*400.00	351.11
4	7-Mar-11	1M	*440.00	386.99
5	23-Aug-11	1M	*413.00	306.50
6	14-Sep-11	1M	*405.00	334.53
7	7-Oct-11	Stock rating system changed		
8	7-Oct-11	*1	405.00	336.10
9	11-Nov-11	1	*435.00	374.90
10	10-Jan-12	1	*520.00	394.90
11	7-Jun-12	1	*475.00	368.00
12	13-Sep-12	1	*435.00	374.79

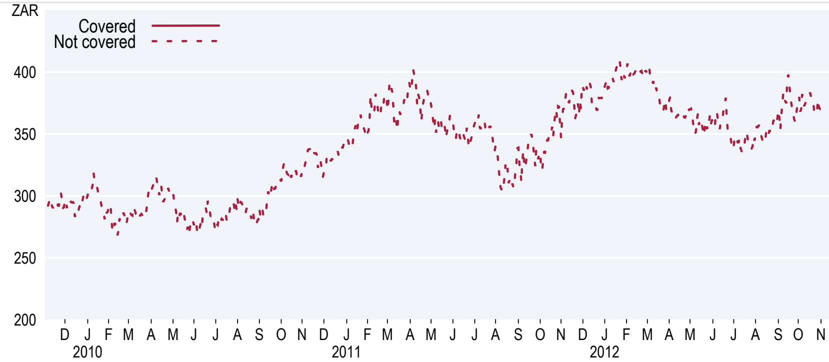
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Sasol Ltd (SOLJ.J)

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

Analyst: Tassin Meyer
Covered since February 15 2010



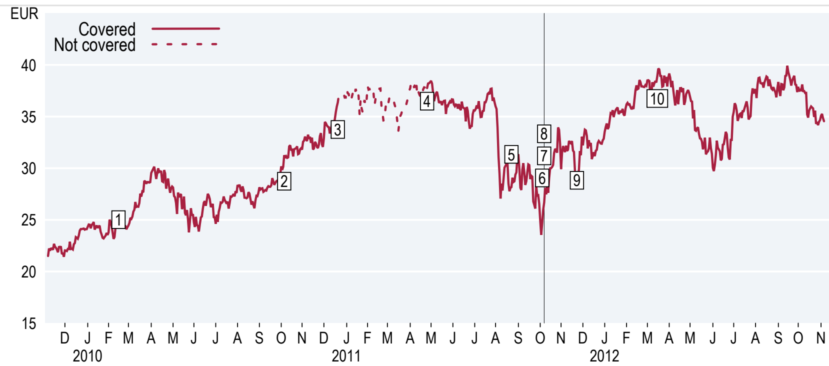
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Saipem (SPMI.MI)

Ratings and Target Price History
Fundamental Research

Analyst: Ryan W Kauppila
Covered since April 26 2011



	Date	Rating	Target Price	Closing Price
1	15-Feb-10	*3M	22.00	24.66
2	6-Oct-10	*1L	*38.00	31.26
3	21-Dec-10	Coverage terminated		
4	26-Apr-11	*1M	*43.00	37.76

	Date	Rating	Target Price	Closing Price
5	23-Aug-11	1M	*34.00	28.17
6	5-Oct-11	1M	*32.00	24.69
7	7-Oct-11	Stock rating system changed		
8	7-Oct-11	*1	32.00	26.69

	Date	Rating	Target Price	Closing Price
9	23-Nov-11	1	*40.00	28.83
10	15-Mar-12	1	*50.00	38.92

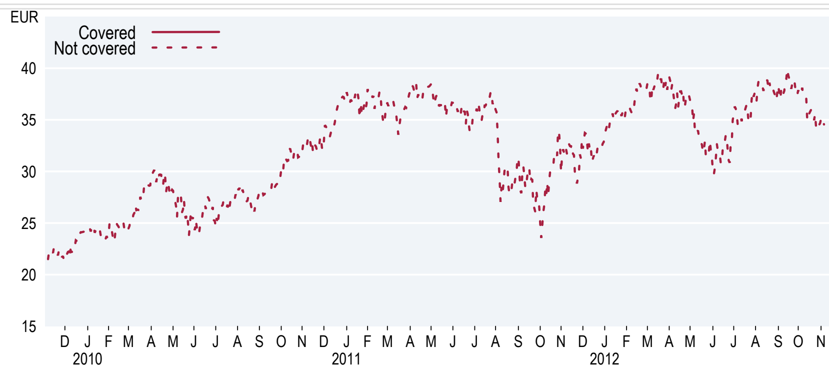
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Saipem (SPMI.MI)

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

Analyst: Ryan W Kauppila
Covered since April 26 2011



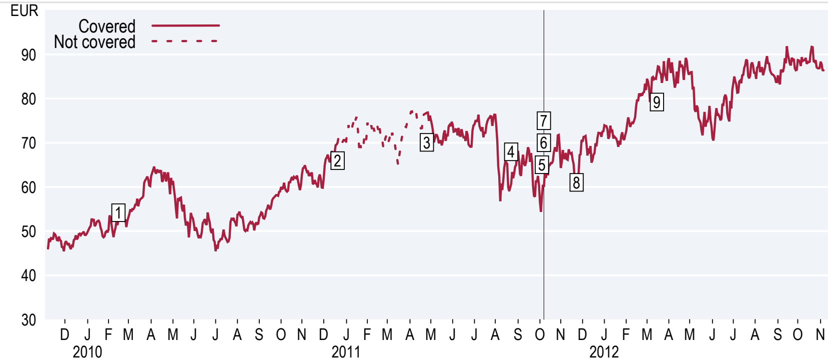
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Technip (TECF.PA)

Ratings and Target Price History
Fundamental Research

Analyst: Ryan W Kauppila
Covered since April 26 2011



Date	Rating	Target Price	Closing Price
1 15-Feb-10	*2M	*55.00	52.41
2 21-Dec-10	Coverage terminated		
3 26-Apr-11	2M	*82.00	76.80
4 23-Aug-11	*1M	*70.00	60.69
5 5-Oct-11	1M	*66.00	57.93
6 7-Oct-11	Stock rating system changed		
7 7-Oct-11	*1	66.00	59.99
8 23-Nov-11	1	*82.00	61.03
9 15-Mar-12	1	*105.00	85.92

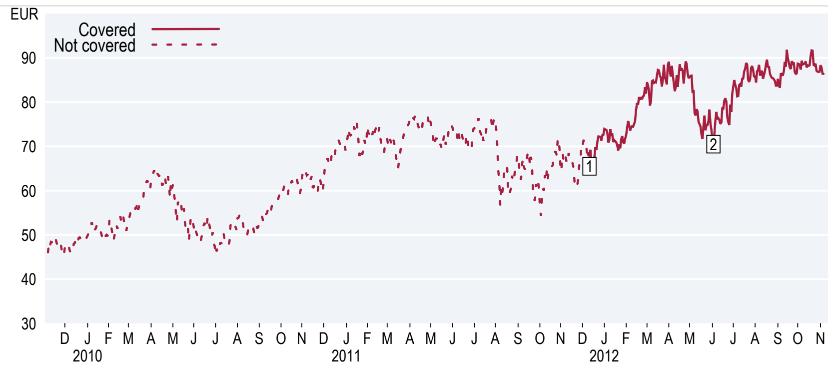
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Technip (TECF.PA)

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

Analyst: Ryan W Kauppila
Covered since April 26 2011



Date	Rating	Target Price	Closing Price
1 12-Dec-11	*ADD MP	-	67.58
2 4-Jun-12	*REM MP	-	70.51

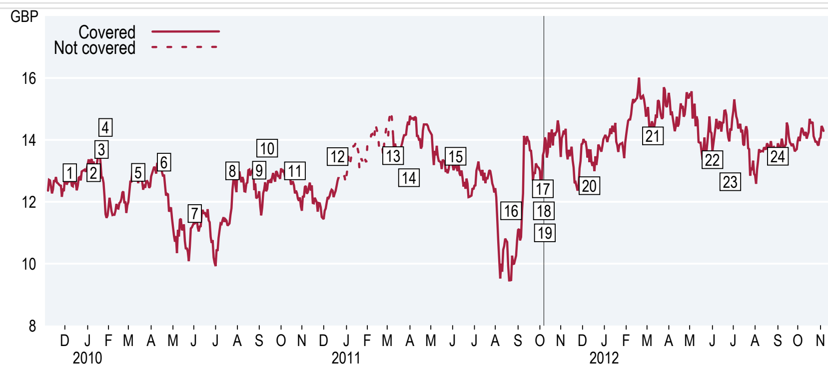
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Tullow Oil (TLW.L)

Ratings and Target Price History
Fundamental Research

Analyst: Michael J Alsford
Covered since March 9 2011



Date	Rating	Target Price	Closing Price
1 8-Dec-09	2H	*12.95	12.67
2 11-Jan-10	2H	*13.65	13.30
3 21-Jan-10	2H	*14.00	12.78
4 27-Jan-10	2H	*13.80	11.60
5 15-Mar-10	2H	*13.90	12.60
6 20-Apr-10	2H	*13.50	12.88
7 2-Jun-10	*1H	13.50	11.28
8 26-Jul-10	1H	*13.80	12.39
9 1-Sep-10	1H	*14.50	12.34
10 13-Sep-10	1H	*14.70	12.41
11 21-Oct-10	1H	*14.30	12.27
12 21-Dec-10	Coverage terminated		
13 9-Mar-11	*2H	*16.50	14.13
14 31-Mar-11	2H	*15.90	14.48
15 6-Jun-11	2H	*15.82	13.17
16 23-Aug-11	2H	*11.60	9.47
17 6-Oct-11	2H	*13.08	13.50
18 7-Oct-11	Stock rating system changed		
19 8-Oct-11	*2	13.08	13.62
20 12-Dec-11	2	*15.12	13.28
21 9-Mar-12	2	*16.33	14.47
22 1-Jun-12	2	*16.25	13.64
23 27-Jun-12	2	*16.50	14.37
24 2-Sep-12	2	*15.50	13.63

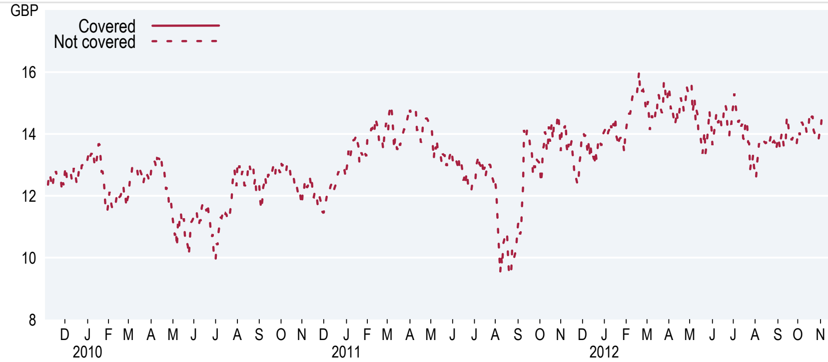
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Tullow Oil (TLW.L)

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

Analyst: Michael J Alsford
Covered since March 9 2011



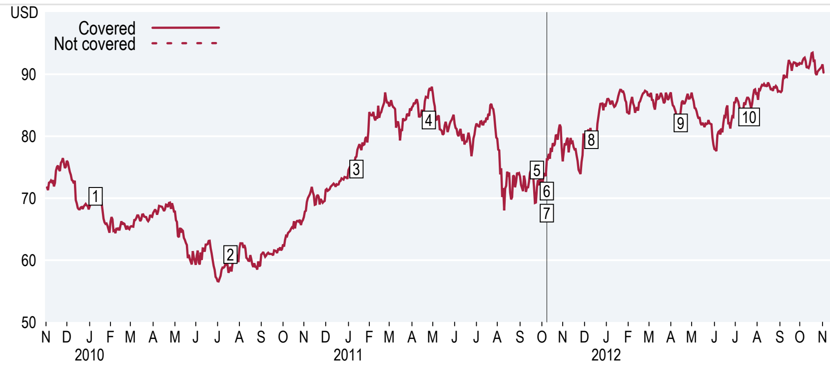
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Exxon Mobil Corp (XOM)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	11-Jan-10	1M	*87.00	70.30
2	20-Jul-10	1M	*86.00	58.95
3	13-Jan-11	1M	*90.00	76.71
4	26-Apr-11	1M	*99.00	87.42
5	26-Sep-11	1M	*88.00	71.72
6	8-Oct-11	Stock rating system changed		
7	8-Oct-11	*1	88.00	73.56
8	12-Dec-11	1	*97.00	80.05
9	16-Apr-12	1	*100.00	84.01
10	20-Jul-12	1	*97.00	85.95

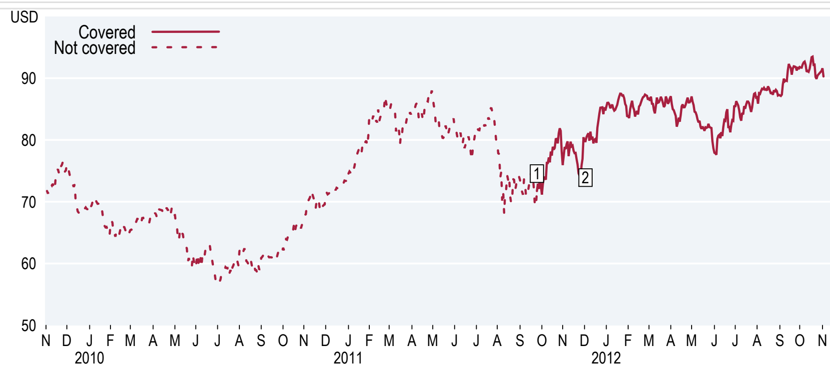
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Exxon Mobil Corp (XOM)

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

Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	26-Sep-11	*ADD MP	-	71.72
2	2-Dec-11	*REM MP	-	79.79

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Anadarko Petroleum Corp

Citi is acting as financial advisor to China Petroleum & Chemical Corp and ENN Energy Holdings in the proposed takeover of China Gas Holdings.

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of PetroChina Co Ltd

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Apache Corp

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Baker Hughes Inc

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Bp PLC. Citigroup Global Markets Ltd is acting as joint financial advisors to Rosneft in connection with the announcement on the 22nd October that Rosneft has entered into an agreement in principle with BP to acquire its 50% interest in TNK-BP.

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Chesapeake Energy Corp

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Canadian Natural Resources Ltd
Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of ConocoPhillips
Thelma M Bardouille,Research Assistant,holds a long position in the shares of Chevron Corp. Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Chevron Corp
Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Diamond Offshore Drilling Inc
Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Dresser-Rand Group Inc
Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Devon Energy Corp
Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of EOG Resources Inc
Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Halliburton Co
Sioban G Hickie,Associate,holds a long position in the securities of Hess Corp. Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Hess Corp
Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Marathon Petroleum Corp
Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Marathon Oil Corp
A director of Citi serves on the board of Nabors Industries. Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Nabors Industries Ltd
Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Occidental Petroleum Corp
Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Petroleo Brasileiro Petrobras SA
Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Phillips 66
Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Rowan Companies PLC
Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Royal Dutch Shell PLC
Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Transocean Ltd
Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Schlumberger NV
Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Statoil ASA
Citigroup is Sole Bookrunner on the announced Exchangeable Bond by Siem Industries Inc into Subsea 7 S.A common shares.
Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Total SA
Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Tesoro Corp
Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Valero Energy Corp
Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Weatherford International Ltd
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