

Equities

18 July 2011 | 20 pages

Halliburton Co (HAL)

Raising Estimates and Price Target on North American Strength

- Company Update
- Target Price Change
- Estimate Change

■ **Raising Estimates (Once Again)** — We have raised our earnings estimates (see table below) to account for HAL's exceptionally strong momentum in North America, as we concur with guidance that the pressure pumping market will remain undersupplied through 2012. We have reduced our Eastern Hemisphere operating margins to reflect the likely persistence of negative impacts associated with the loss of business in Libya and anti-growth tax policies in the U.K. North Sea. However, the company has greater leverage than any of the other diversified oilfield service firms to North American service intensity and oily/liquids-rich drilling and completion trends, and we expect these factors to drive superior growth for the company going forward.

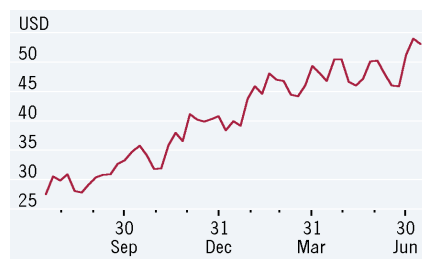
■ **Raising Numbers Substantially in North America** — We have raised our N.A. revenue and operating margin forecasts for 2011. We now expect top-line growth of 62% (46% previously) to \$14.3B (\$12.8B previously) and margins expanding to 29.1% (26.0% previously) in 2011. HAL has gained market share in the Gulf of Mexico during the nascent recovery (winning eight of 18 cementing contracts on the newly permitted wells), but the pace of deepwater permitting may dwindle in the second half of the year.

■ **Reducing Eastern Hemisphere Margins** — We have reduced our 2011 Eastern Hemisphere margin forecast following shortfalls in 1H11 relative to our expectations. We have lowered our 2011 operating margin assumption from 10.8% to 6.8% in Europe/Africa/CIS and from 15.0% to 13.4% in Middle East/Asia. International pricing has been challenging, but we expect to see improvements by the end of 2011 in tighter markets -- such as Brazil, Colombia, Norway, the Middle East, and deepwater offshore. By 2012, margin expansion is likely to spread to other geographies.

■ **Reiterating Buy** — Compared to the average of peers SLB, WFT, and BHI, HAL trades at a 26% discount on 2012 P/E (10.6x vs. 14.3x peer average) and an 18% discount on 2012 EV/EBITDA (5.9x vs. 7.2x peer average). We reiterate our Buy (1H) rating and have raised our price target to \$70 from \$61 to reflect our earnings revision.

| | |
|------------------------------|----------------|
| Buy/High Risk | 1H |
| Price (18 Jul 11) | US\$53.12 |
| Target price | US\$70.00 |
| | from US\$61.00 |
| Expected share price return | 31.8% |
| Expected dividend yield | 0.7% |
| Expected total return | 32.5% |
| Market Cap | US\$48,605M |

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



| EPS | Q1 | Q2 | Q3 | Q4 | FY | FC Cons |
|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| 2010A | 0.28A | 0.52A | 0.58A | 0.68A | 2.06A | 2.06A |
| 2011E | 0.61A | 0.81A | 0.94E | 1.12E | 3.48E | 3.11E |
| Previous | 0.61A | 0.74E | 0.83E | 0.92E | 3.05E | na |
| 2012E | na | na | na | na | 5.00E | 4.03E |
| Previous | na | na | na | na | 3.70E | na |
| 2013E | na | na | na | na | 6.15E | 4.45E |
| Previous | na | na | na | na | 4.40E | na |

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

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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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| Fiscal year end 31-Dec | 2009 | 2010 | 2011E | 2012E | 2013E |
|--|---------------|---------------|---------------|---------------|---------------|
| Valuation Ratios | | | | | |
| P/E adjusted (x) | 41.2 | 25.8 | 15.3 | 10.6 | 8.6 |
| EV/EBITDA adjusted (x) | 17.1 | 12.2 | 7.9 | 5.6 | 4.4 |
| P/BV (x) | 5.5 | 4.7 | 3.2 | 2.5 | 2.0 |
| Dividend yield (%) | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 |
| Per Share Data (US\$) | | | | | |
| EPS adjusted | 1.29 | 2.06 | 3.48 | 5.00 | 6.15 |
| EPS reported | 1.27 | 2.01 | 3.42 | 5.00 | 6.15 |
| BVPS | 9.65 | 11.35 | 16.48 | 21.13 | 26.92 |
| DPS | 0.36 | 0.36 | 0.36 | 0.36 | 0.36 |
| Profit & Loss (US\$M) | | | | | |
| Net sales | 14,675 | 17,973 | 24,644 | 29,469 | 34,038 |
| Operating expenses | -12,686 | -14,974 | -19,700 | -22,379 | -25,399 |
| EBIT | 1,989 | 2,999 | 4,944 | 7,090 | 8,638 |
| Net interest expense | -285 | -297 | -261 | -252 | -240 |
| Non-operating/exceptionals | -22 | -47 | -9 | 0 | 0 |
| Pre-tax profit | 1,682 | 2,655 | 4,674 | 6,838 | 8,398 |
| Tax | -518 | -853 | -1,514 | -2,222 | -2,729 |
| Extraord./Min.Int./Pref.div. | -19 | 33 | -9 | -8 | -8 |
| Reported net income | 1,145 | 1,835 | 3,151 | 4,607 | 5,661 |
| Adjusted earnings | 1,164 | 1,879 | 3,206 | 4,607 | 5,661 |
| Adjusted EBITDA | 2,920 | 4,118 | 6,254 | 8,590 | 10,338 |
| Growth Rates (%) | | | | | |
| Sales | -19.7 | 22.5 | 37.1 | 19.6 | 15.5 |
| EBIT adjusted | -49.6 | 50.8 | 64.9 | 43.4 | 21.8 |
| EBITDA adjusted | -37.7 | 41.0 | 51.9 | 37.3 | 20.4 |
| EPS adjusted | -55.1 | 59.8 | 68.8 | 43.6 | 22.9 |
| Cash Flow (US\$M) | | | | | |
| Operating cash flow | 2,406 | 2,212 | 3,506 | 5,036 | 6,385 |
| Depreciation/amortization | 931 | 1,119 | 1,310 | 1,500 | 1,700 |
| Net working capital | 983 | -903 | -964 | -1,080 | -984 |
| Investing cash flow | -3,085 | -1,755 | -3,000 | -3,300 | -3,630 |
| Capital expenditure | -1,864 | -2,069 | -3,000 | -3,300 | -3,630 |
| Acquisitions/disposals | 148 | -523 | 0 | 0 | 0 |
| Financing cash flow | 1,670 | -1,114 | -330 | -330 | -330 |
| Borrowings | 1,944 | -790 | 0 | 0 | 0 |
| Dividends paid | -324 | -327 | -330 | -330 | -330 |
| Change in cash | 958 | -684 | 176 | 1,406 | 2,426 |
| Balance Sheet (US\$M) | | | | | |
| Total assets | 16,538 | 18,297 | 23,601 | 28,448 | 34,357 |
| Cash & cash equivalent | 3,394 | 2,051 | 4,067 | 5,473 | 7,899 |
| Accounts receivable | 2,964 | 3,924 | 4,929 | 5,894 | 6,808 |
| Net fixed assets | 5,759 | 6,842 | 8,532 | 10,332 | 12,262 |
| Total liabilities | 7,781 | 7,910 | 8,489 | 9,072 | 9,672 |
| Accounts payable | 787 | 1,139 | 1,538 | 1,747 | 1,983 |
| Total Debt | 4,574 | 3,824 | 3,824 | 3,824 | 3,824 |
| Shareholders' funds | 8,757 | 10,387 | 15,112 | 19,376 | 24,685 |
| Profitability/Solvency Ratios (%) | | | | | |
| EBITDA margin adjusted | 19.9 | 22.9 | 25.4 | 29.1 | 30.4 |
| ROE adjusted | 14.1 | 19.7 | 25.2 | 26.8 | 25.7 |
| ROIC adjusted | 13.7 | 17.5 | 23.1 | 27.6 | 28.8 |
| Net debt to equity | 13.5 | 17.1 | -1.6 | -8.5 | -16.5 |
| Total debt to capital | 34.3 | 26.9 | 20.2 | 16.5 | 13.4 |

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2Q11 Key Takeaways

In North America, we have revised our 2011 forecast for revenue and operating margins substantially. We have raised our 2011 revenue growth estimate from 46% to 62% and our 2011 operating margin estimate from 26.0% to 29.1%. We had previously assumed a 5% sequential revenue growth rate in each of the last three quarters of 2011 and a 70-100 bps increase in margins in each of the remaining quarters of the year. In 2Q11, however, HAL shattered our assumptions, reporting a 16% sequential increase in revenues and a 440 basis point increase in operating margin (from 24.5% to 28.9%). As a result, we have raised our revenue and margin forecasts in line with a higher trajectory. However, we are still assuming a slower sequential revenue growth rate (10% growth in 3Q11 and 8% growth in 4Q11 vs. 16%, 13%, 10%, 13%, and 24% growth sequentially over the last five quarters). We are also assuming q/q margin expansion of only 140 bps (to 30.3%) in 3Q11 and 110 bps (to 31.4%) in 4Q11. Beyond the end of the year, we have modeled that North American margins plateau at approximately 32% in both 2012 and 2013, as we believe new supply of pressure pumping and drilling equipment will begin to catch up with demand.

- Even if HAL increases prices only enough to keep up with anticipated cost inflation, we expect higher volumes spread over the fixed cost base to result in higher North America margins. Dry gas basins in the U.S. are still in equilibrium while oily/liquids-rich markets remain substantially underserved.
- HAL has been able to pull through other services with its frac equipment, which remains the current “gating item.” Incremental margins in Drilling & Evaluation were the same as those in Completion and Production in North America, partially due to the integrated nature of these products and services. At the same time, HAL indicates that strong demand growth is leading to new challenges such as proppant supply and crew training.
- It bears mentioning that HAL achieved the strong N.A. results despite adverse weather conditions in the Bakken. Although HAL has a relatively modest exposure to Canada, the seasonal drilling decline in 2Q11 certainly did not help North America performance.
- On the other hand, the nascent Gulf of Mexico recovery, although only 3% of company revenues and 5.5%-6.0% of North American revenues, provided high incrementals (probably mirroring the ~70% decrements during the downturn) that benefited operating margins in the quarter. These incrementals are not expected to repeat, as the GOM recovery appears at risk of stalling. Although HAL has increased GOM market share in the quarter (receiving awards for cementing contracts on eight of the 18 new deepwater well permits issued thus far), the pace of permitting has slowed. HAL is projecting only 20 deepwater permits will be issued by the end of the year from 18 such permits already issued to date.
- In 2Q11, HAL also appeared to achieve pockets of success in pushing out costs, particularly in the Rockies, and we expect the company to deliver on greater percentages of its cost improvement initiatives by the end of 2011.
- HAL is building a portfolio of technologies to maximize its customers' unconventional resource investments, some of which were noted on the call. RapidFrac (sliding-sleeve completion system) has achieved a significant increase in production and a meaningful reduction in pumping time for a customer in the Bakken. Conductivity enhancers, such as SandWedge and Expedite, have yielded major improvements to flow through and production.

In the Eastern Hemisphere, we have reduced our expectations in 2011, following the significant margin shortfalls in both 1Q11 and 2Q11. We have lowered our 2011 operating margin assumption from 10.8% to 6.8% in Europe/Africa/CIS and from 15.0% to 13.4% in Middle East/Asia. We have kept our 2011 revenue estimate the same, assuming 2% growth in Europe/Africa/CIS and 18% growth in Middle East/Asia.

- The company identified five factors that negatively impacted margins by a total of 400 bps in 2Q11. These factors include Libya (still shut down), Iraq (rig mobilization delays), Africa (project and country start-up difficulties), the U.K. North Sea (anti-growth tax policies), and Algeria (administrative issues). In the near-term, we expect that three of these five factors will begin to correct, specifically Iraq (rigs are ready but just need to get through customs, HAL is targeting seven rigs by the end of 3Q11), Africa (Angola rig maintenance is the primary issue), and Algeria (delays have been limited to contract extensions whereas Sonatrach has been able to facilitate contract start-ups from new tenders). On the other hand, issues are likely to be entrenched in Libya (timing of a resumption remains anybody's guess) and the U.K. (adverse tax policies are likely to force HAL to reduce its cost structure in the region).
- HAL has not backed away from its prior 4Q11 target of reaching the 16.2% international margins achieved in the last quarter of 2010. We have modeled our international margins exiting 2011 at only 14.1% operating margins. Also, in 2Q11, the company would have achieved 13.8% margins rather than the 9.8% reported if not for the estimated 400 bps negative margin impacts from the five cost-related issues detailed above.
- International pricing has been challenging, but we expect improvements by the end of 2011 in tighter markets, such as Brazil, Colombia, Norway, the Middle East, and deepwater offshore. By 2012, international margin expansion is likely to become more meaningful and geographically diversified.

In Latin America, we have raised our 2011 revenue growth assumption from 15% to 26% and have lowered our 2011 operating margin assumption from 13.5% to 13.3%. Brazil grew by 21% and is expected to surpass Mexico as the company's largest base of operations. Mexico showed signs of improvement, growing at 12%, but Pemex capital access is still constrained by government budgetary issues. Margins in the quarter were also impacted by costs in Colombia and Argentina.

Other changes to our model include raising Corporate and Other Expenses to \$90M from \$70M in the remaining quarters of the year. We are assuming that the company's internal process-related and supply-chain initiatives will push up these expenses beyond prior guidance. We have also increased our effective tax rate assumption from 32% to new guidance of "closer to 33%" over the second half of 2011 to reflect the improved outlook in North America. Capital spending in 2011 is now projected at \$3.1-\$3.2 billion, up from \$3 billion.

Valuation

Compared to peers SLB, WFT, and BHI, HAL trades at a 26% discount on 2012 P/E (10.6x vs. 14.3x peer average) and an 18% discount on 2012 EV/EBITDA (5.9x vs. 7.2x peer average) (see Figure 1).

Figure 1. Halliburton: Comparable Companies Analysis

| Company | Citi Rating | Price Target | 7/18/2011 | | % Ch YTD | % Ch LTM | P/E | | EV/EBITDA | | Debt/ EBITDA | Net Debt/ EBITDA |
|------------------------------------|-------------|----------------|---------------|----------------|------------|------------|---------------|---------------|--------------|--------------|---------------|------------------|
| | | | MCap \$B | Price | | | 2011E | 2012E | 2011E | 2012E | | |
| Schlumberger | 1M | 115.00 | \$119.5 | \$87.21 | 4% | 54% | 23.3 x | 17.5 x | 11.9 x | 9.6 x | 1.2 x | 0.6 x |
| Weatherford | 1H | 27.00 | \$13.8 | \$18.33 | -20% | 26% | 24.3 x | 14.1 x | 8.5 x | 6.4 x | 3.9 x | 3.8 x |
| Baker Hughes | 2H | 80.00 | \$32.8 | \$77.00 | 35% | 67% | 18.8 x | 14.9 x | 8.2 x | 6.9 x | 1.5 x | 0.9 x |
| Big Four Average | | | | | 12% | 60% | 20.4 x | 14.3 x | 9.2 x | 7.2 x | 1.9 x | 1.4 x |
| Halliburton | 1H | \$70.00 | \$48.6 | \$53.12 | 30% | 93% | 15.3 x | 10.6 x | 8.1 x | 5.9 x | 0.9 x | 0.5 x |
| Premium/(Discount) to Peers | | | | | | | -25% | -26% | -12% | -18% | -50.3% | -67.5% |

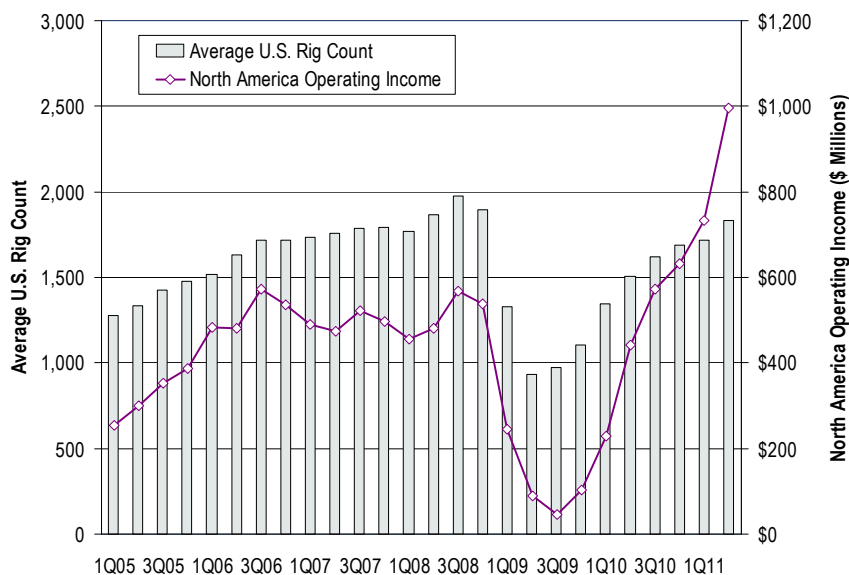
Source: Thomson, Citi Investment Research and Analysis

2Q11 Earnings Recap

- HAL reported an adjusted EPS of \$0.81, well ahead of our estimate of \$0.74 and the consensus expectation of \$0.72. The beat was driven by exceptionally strong results in North America.
- North American revenues grew sequentially by 16% vs. our 5% estimate, and operating margins improved from 24.5% in 1Q11 to 28.9% in 2Q11 vs. our 25.5% estimate. Incremental margins were 57% in 2Q11 compared to 1Q11, the highest incremental margin progression since the North American recovery started in 2009.
- International results were better than our expectations on revenues but significantly below our expectations on margins. International revenues grew sequentially by 8.3% vs. our 5.5% estimate. Operating margins increased from 6.9% in 1Q11 to 9.8% in 2Q11 vs. our 11.8% estimate. Operating income was in line with our expectations in Latin America and slightly below our expectations in Europe/CIS/Africa and the Middle East/Asia.
- The company continues to see confidence in the strength of the North American recovery through 2012, and these results provide another data point validating the company's bullish view. Drivers of ongoing strength in North America include strong crude prices, improved operator cash flows, access to capital, and the ongoing liquids-rich activity. Margin growth is likely to slow, however, due to cost inflation and GOM uncertainty going forward.
- HAL noted that international pricing is stabilizing and expected to result in pricing improvements toward the end of 2011. HAL cited various short-term cost issues as dragging on margins in the quarter but confirmed the long-term strength of the international cycle. HAL was also recently awarded a three-year Chevron contract for shale gas exploration in Poland, and the company cited the shale development in Europe as one of the drivers of its long-term confidence in the international recovery.

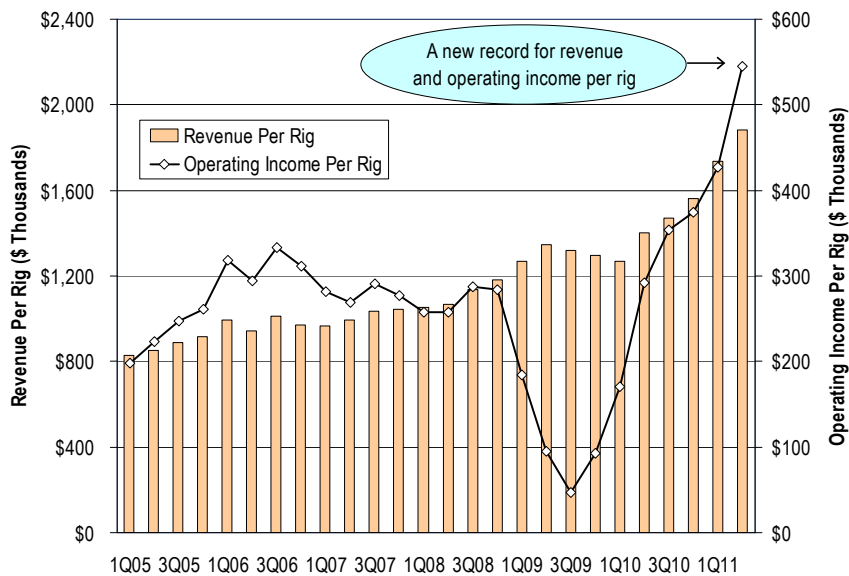
Figures 2-10 show segment trends of financial and operating data compared to historical periods.

Figure 2. Halliburton: Average U.S. Rig Count and North America Operating Income



Source: Thomson, Citi Investment Research and Analysis

Figure 3. Halliburton: North America Revenue Per Rig and Operating Income Per Rig



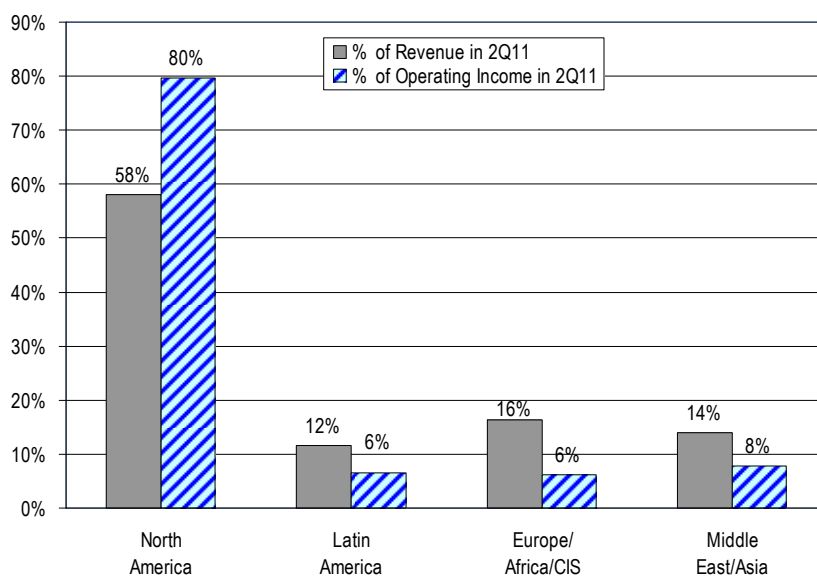
Source: Thomson, Citi Investment Research and Analysis

Figure 4. Halliburton: Revenue and Operating Income by Region

| | North America | Latin America | Europe/ Africa/CIS | Middle East/Asia | Total Int'l | Corporate & Other | Total Company |
|--|---------------|---------------|--------------------|------------------|-------------|-------------------|---------------|
| Revenue (\$ Millions): | | | | | | | |
| 2Q10 | \$2,111 | \$567 | \$981 | \$728 | \$2,276 | - | \$4,387 |
| 1Q11 | 2,982 | 612 | 911 | 777 | 2,300 | - | 5,282 |
| 2Q11 | 3,445 | 687 | 969 | 834 | 2,490 | - | 5,935 |
| Revenue Growth: | | | | | | | |
| Year-over-year | 63% | 21% | -1% | 15% | 9% | - | 35% |
| Sequential | 16% | 12% | 6% | 7% | 8% | - | 12% |
| Pre-Tax Operating Income (\$ Millions): | | | | | | | |
| 2Q10 | \$441 | \$89 | \$148 | \$137 | \$374 | (\$53) | \$762 |
| 1Q11 | 732 | 76 | 55 | 86 | 217 | (76) | 873 |
| 2Q11 | 997 | 81 | 77 | 98 | 256 | (81) | 1,172 |
| Pre-Tax Operating Margin: | | | | | | | |
| 2Q10 | 20.9% | 15.7% | 15.1% | 18.8% | 16.4% | - | 17.4% |
| 1Q11 | 24.5% | 12.4% | 6.0% | 11.1% | 9.4% | - | 16.5% |
| 2Q11 | 28.9% | 11.8% | 7.9% | 11.8% | 10.3% | - | 19.7% |
| Incremental (Decremental) Margin: | | | | | | | |
| Year-over-year | 42% | NA | -592% | NA | NA | - | 26% |
| Sequential | 57% | 7% | 38% | 21% | 21% | - | 46% |
| Margin Change: | | | | | | | |
| Year-over-year | 804bp | -391bp | -715bp | -707bp | -616bp | - | 237bp |
| Sequential | 439bp | -63bp | 190bp | 68bp | 84bp | - | 321bp |

Source: Thomson, Citi Investment Research and Analysis

Figure 5. Halliburton: Revenue and Operating Income Contribution by Region



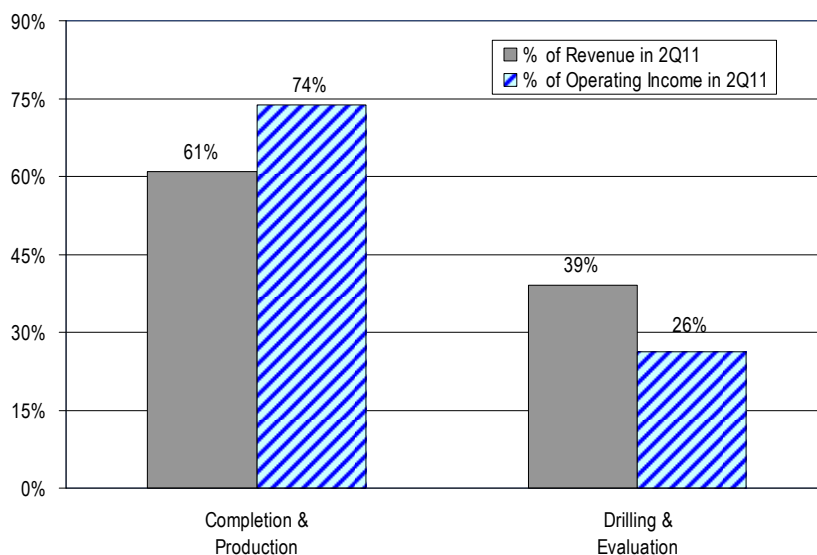
Source: Thomson, Citi Investment Research and Analysis

Figure 6. Halliburton: Revenue and Operating Income by Segment

| | Completion & Production | Drilling & Evaluation | Corporate & Other | Total Company |
|--|-------------------------|-----------------------|-------------------|---------------|
| Revenue (\$ Millions): | | | | |
| 2Q10 | \$2,393 | \$1,994 | - | \$4,387 |
| 1Q11 | 3,172 | 2,110 | - | 5,282 |
| 2Q11 | 3,618 | 2,317 | - | 5,935 |
| Revenue Growth: | | | | |
| Year-over-year | 51% | 16% | - | 35% |
| Sequential | 14% | 10% | - | 12% |
| Pre-Tax Operating Income (\$ Millions): | | | | |
| 2Q10 | \$497 | \$318 | (\$53) | \$762 |
| 1Q11 | 696 | 253 | (76) | 873 |
| 2Q11 | 924 | 329 | (81) | 1,172 |
| Pre-Tax Operating Margin: | | | | |
| 2Q10 | 20.8% | 15.9% | - | 17.4% |
| 1Q11 | 21.9% | 12.0% | - | 16.5% |
| 2Q11 | 25.5% | 14.2% | - | 19.7% |
| Incremental/(Decremental) Margin: | | | | |
| Year-over-year | 35% | 3% | - | 26% |
| Sequential | 51% | 37% | - | 46% |
| Margin Change: | | | | |
| Year-over-year | 470 bps | -180 bps | - | 230 bps |
| Sequential | 350 bps | 220 bps | - | 320 bps |

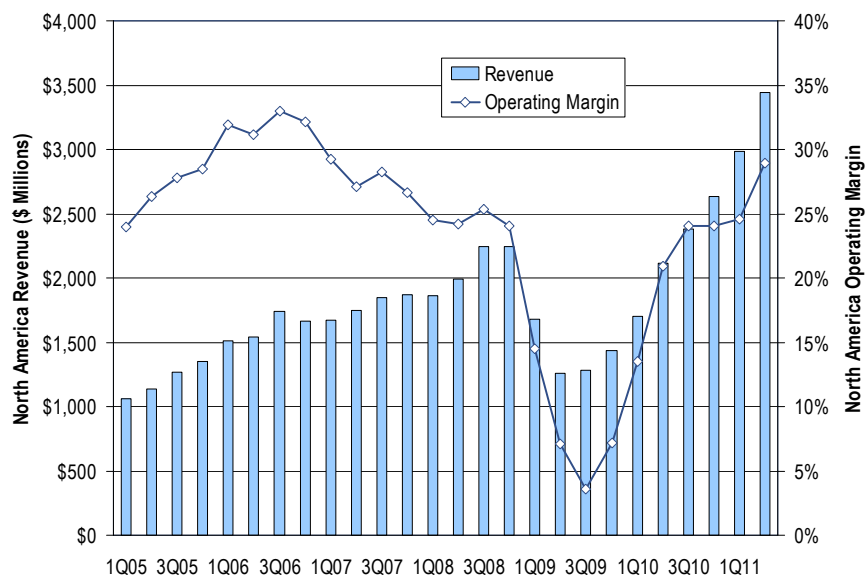
Source: Thomson, Citi Investment Research and Analysis

Figure 7. Halliburton: Revenue and Operating Income by Segment



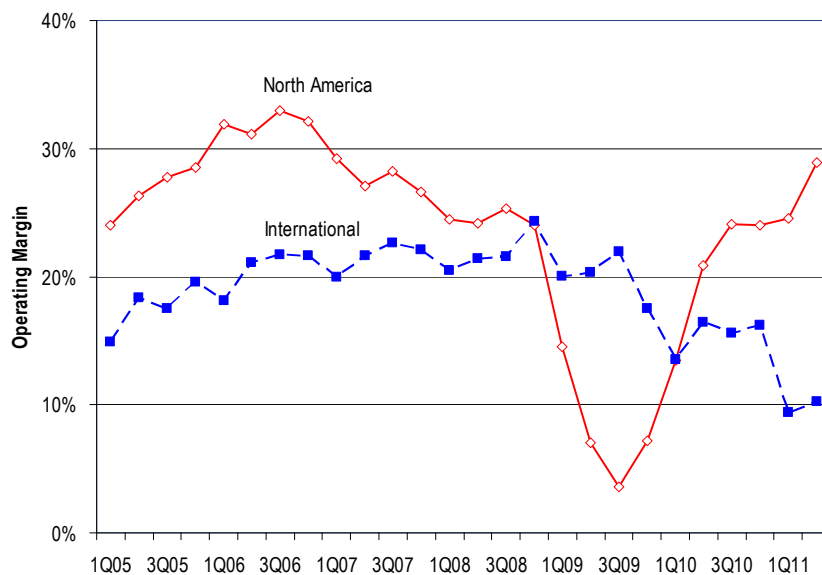
Source: Thomson, Citi Investment Research and Analysis

Figure 8. Halliburton: North American Oilfield Services Revenue and Operating Margin



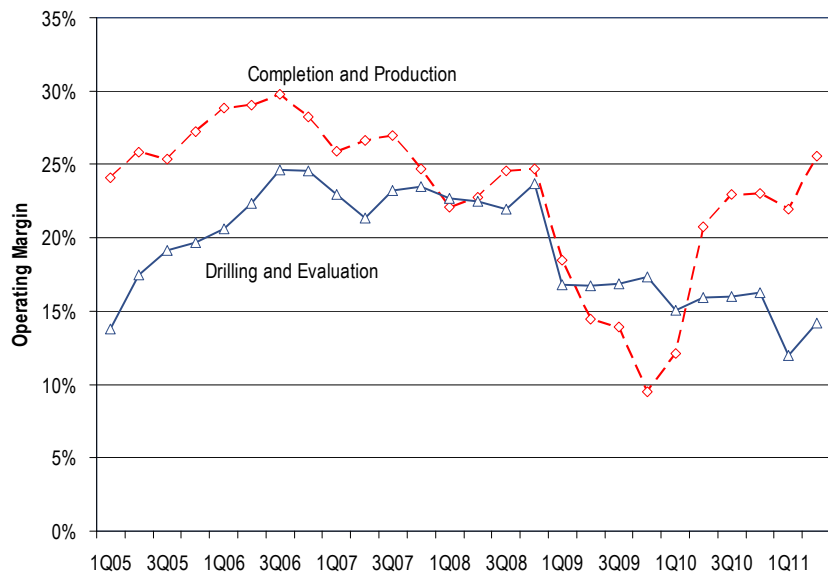
Source: Thomson, Citi Investment Research and Analysis

Figure 9. Halliburton: Operating Margin by Region



Source: Thomson, Citi Investment Research and Analysis

Figure 10. Halliburton: Operating Margin by Product Line



Source: Thomson, Citi Investment Research and Analysis

Halliburton Co

Valuation

We derive our \$70 HAL price target by averaging P/E and EV/EBITDA methodologies. Our target is based on historical analysis of HAL and group multiples.

Our P/E derivation generates a price target of \$75 by applying a 13.5x multiple to our forward 12-month EPS estimate of \$5.57. The multiple is below the 23.3x peak HAL multiple reached in the most recent downturn and is well above the 6.3x trough reached at the peak of the last upturn. The multiple is based on historical analysis of HAL and relative market multiples and is within the 7.8x–33.8x historical range where the average of large cap services stocks traded over the past ten years. The median group P/E multiple was 19.9x in the most recent cycle.

Our EV/EBITDA derivation generates a price target of \$65 by applying an 6.2x EV/EBITDA multiple to our forward 12-month EBITDA of \$9.46 billion. The multiple is below the 10.9x peak HAL multiple reached in the most recent downturn and is well above the 3.7x low multiple reached at the peak of the last upturn. The multiple is based on historical analysis of HAL and relative market multiples and is within the 4.3x–14.7x historical range where the average of large cap services stocks traded over the past ten years. The median group EV/EBITDA multiple was 9.6x in the most recent cycle.

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

Risks

Our High Risk rating on Halliburton is based on a combination of quantitative and qualitative assessments compared with those faced by other stocks covered by Citigroup Investment Research and Analysis (CIRA). Derivation of our price target and Expected Total Return (ETR) is based on projected financial performance, which is highly dependent on the level of oil and gas exploration and production (E&P) activity. E&P activity can be significantly affected by changes in oil and gas prices. HAL's performance is particularly sensitive to the NAM natural gas and pressure-pumping markets. 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.

Schlumberger Ltd

Valuation

We derive our \$115 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 \$115 by applying a 22x multiple to our *forward 12-month EPS estimate of \$5.25. 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–33.8x historical range where the average of large cap services stocks traded over the past ten years. The median group P/E multiple was 19.9x in the most recent cycle.

Our EV/EBITDA derivation generates a price target of \$115 by applying a 11.8x EV/EBITDA multiple to our *forward-12-month EBITDA of \$13.4 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–14.7x historical range where the average of large cap services stocks traded over the past ten years. The median group EV/EBITDA multiple was 9.6x in the most recent cycle.

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

Risks

Our Medium Risk rating on SLB is based on a combination of quantitative and qualitative risk assessments compared with those faced by other stocks covered by Citi Investment Research and Analysis (CIRA). 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 we anticipate, 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.

Weatherford International Inc

Valuation

We derive our \$27 WFT price target by averaging P/E and EV/EBITDA methodologies. Our target is based on historical analysis of WFT and group multiples.

Our P/E derivation generates a price target of \$26 by applying a 17.0x multiple to our *forward 12-month EPS estimate of \$1.50. The multiple is below the 29.4x peak WFT multiple reached in the most recent downturn and is well above the 5.8x trough reached at the peak of the last upturn. The multiple is based on historical analysis of WFT and relative market multiples and is within the 7.8x–33.8x historical

range where the average of large cap services stocks traded over the past ten years. The median group P/E multiple was 19.9x in the most recent cycle.

Our EV/EBITDA derivation generates a price target of \$28 by applying a 8.0x EV/EBITDA multiple to our *forward-12-month EBITDA of \$3.4 billion. The multiple is below the 14.8x peak WFT multiple reached in the most recent downturn and is well above the 4.2x low multiple reached at the peak of the last upturn. The multiple is based on historical analysis of WFT and relative market multiples and is within the 4.3x–14.7x historical range where the average of large cap services stocks traded over the past ten years. The median group EV/EBITDA multiple was 9.6x in the most recent cycle.

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

Risks

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

Baker Hughes Inc

Valuation

We derive our \$80 BHI price target by averaging P/E and EV/EBITDA methodologies. Our target is based on historical analysis of BHI and group multiples.

Our P/E derivation generates a \$81 price target by applying a 15.0x multiple to our *forward 12-month EPS estimate of \$5.39. The multiple is below the 34.5x peak BHI multiple reached in the most recent downturn and is well above the 6.8x trough reached at the peak of the last upturn. The multiple is based on historical analysis of BHI and relative market multiples and is within the 7.8x–33.8x historical range within which 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 \$80 price target by applying a 7.0x EV/EBITDA multiple to our *forward-12-month EBITDA of \$5.4 billion. The multiple is below the 15.5x peak BHI multiple reached in the most recent downturn and is well above the 3.4x low multiple reached at the peak of the last upturn. The multiple is based on historical analysis of BHI and relative market multiples and is within the 4.3x–14.7x historical range within which the average of large cap services stocks traded over the past ten years. The median group EV/EBITDA multiple was 9.6x in the most recent cycle.

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

Risks

Our High Risk rating on BHI is based on a combination of quantitative and qualitative risk assessments compared with those faced by other stocks covered by Citi Investment Research and Analysis (CIRA). The principal elements of risk are price and 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 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. Other risks to BHI's stock price performance include political risks related to the company's broad international presence, particularly in South America, Africa, and Russia, and management risks associated with the rapid growth seen in several of its business segments. If the balance of these factors is more negative than we anticipate, 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.

Appendix A-1

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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.

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Halliburton Co (HAL)

Ratings and Target Price History Fundamental Research

Analyst: Robin Shoemaker

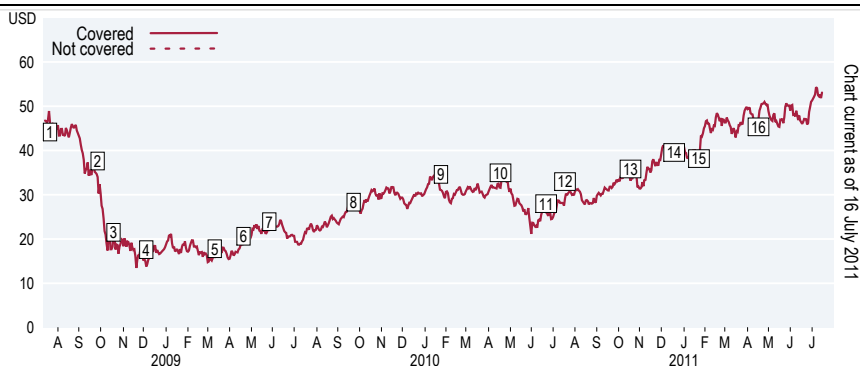


Chart current as of 16 July 2011

| | Date | Rating | Target Price | Closing Price |
|---|-----------|--------|--------------|---------------|
| 1 | 22-Jul-08 | 1H | *64.00 | 46.30 |
| 2 | 26-Sep-08 | 1H | *46.00 | 34.00 |
| 3 | 20-Oct-08 | 1H | *36.00 | 20.80 |
| 4 | 4-Dec-08 | 1H | *25.00 | 13.78 |
| 5 | 11-Mar-09 | 1H | *20.00 | 15.77 |
| 6 | 21-Apr-09 | 1H | *23.00 | 19.96 |

* Indicates change

| | Date | Rating | Target Price | Closing Price |
|----|-----------|--------|--------------|---------------|
| 7 | 27-May-09 | 1H | *27.00 | 22.06 |
| 8 | 23-Sep-09 | 1H | *34.00 | 27.35 |
| 9 | 25-Jan-10 | 1H | *40.00 | 31.07 |
| 10 | 19-Apr-10 | 1H | *43.00 | 31.57 |
| 11 | 22-Jun-10 | 1H | *34.00 | 25.99 |
| 12 | 19-Jul-10 | 1H | *42.00 | 29.17 |

| | Date | Rating | Target Price | Closing Price |
|----|-----------|--------|--------------|---------------|
| 13 | 19-Oct-10 | 1H | *47.00 | 33.18 |
| 14 | 19-Dec-10 | 1H | *50.00 | 39.89 |
| 15 | 24-Jan-11 | 1H | *56.00 | 39.55 |
| 16 | 18-Apr-11 | 1H | *61.00 | 47.14 |

Rating/target price changes above reflect Eastern Standard Time

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

Analyst: Robin Shoemaker

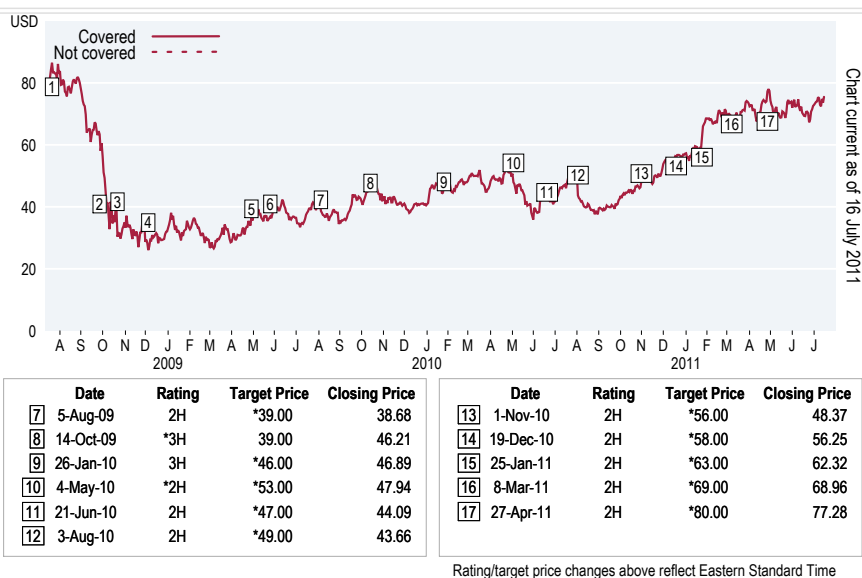
* Indicates change



Baker Hughes Inc (BHI)
Ratings and Target Price History
Fundamental Research

Analyst: Robin Shoemaker

* Indicates change



| Date | Rating | Target Price | Closing Price |
|-------------|--------|--------------|---------------|
| 1 22-Jul-08 | 2H | *92.00 | 86.50 |
| 2 26-Sep-08 | 2H | *71.00 | 63.40 |
| 3 22-Oct-08 | 2H | *35.00 | 30.35 |
| 4 4-Dec-08 | 2H | *31.00 | 26.02 |
| 5 29-Apr-09 | 2H | *37.00 | 36.95 |
| 6 26-May-09 | 2H | *40.00 | 36.88 |

| Date | Rating | Target Price | Closing Price |
|--------------|--------|--------------|---------------|
| 7 5-Aug-09 | 2H | *39.00 | 38.68 |
| 8 14-Oct-09 | *3H | 39.00 | 46.21 |
| 9 26-Jan-10 | 3H | *46.00 | 46.89 |
| 10 4-May-10 | *2H | *53.00 | 47.94 |
| 11 21-Jun-10 | 2H | *47.00 | 44.09 |
| 12 3-Aug-10 | 2H | *49.00 | 43.66 |

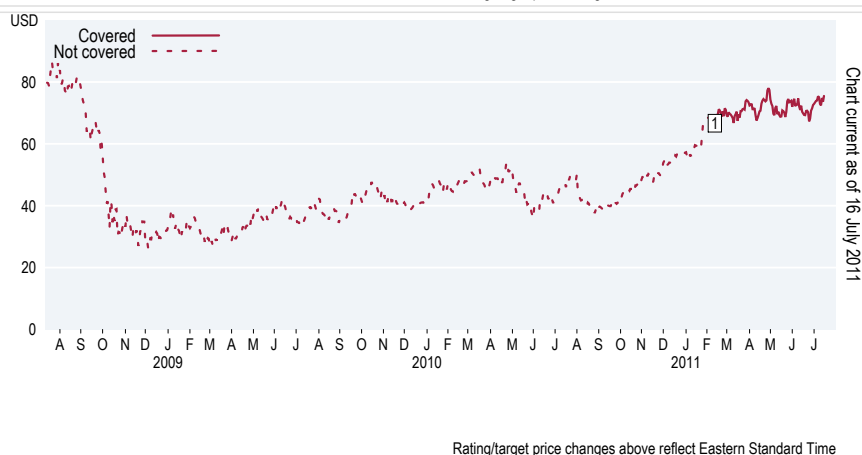
| Date | Rating | Target Price | Closing Price |
|--------------|--------|--------------|---------------|
| 13 1-Nov-10 | 2H | *56.00 | 48.37 |
| 14 19-Dec-10 | 2H | *58.00 | 56.25 |
| 15 25-Jan-11 | 2H | *63.00 | 62.32 |
| 16 8-Mar-11 | 2H | *69.00 | 68.96 |
| 17 27-Apr-11 | 2H | *80.00 | 77.28 |

Rating/target price changes above reflect Eastern Standard Time

Baker Hughes Inc (BHI)
Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Robin Shoemaker

* Indicates change



| Date | Rating | Target Price | Closing Price |
|-------------|---------|--------------|---------------|
| 1 11-Feb-11 | *ADD LP | - | 67.13 |

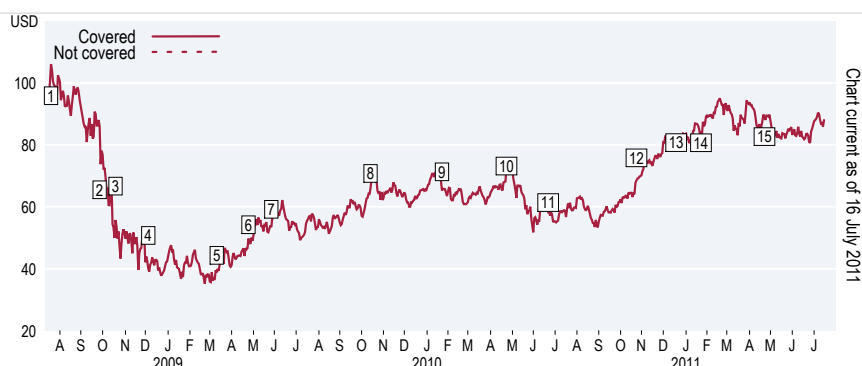
Rating/target price changes above reflect Eastern Standard Time

Schlumberger Ltd (SLB)

Ratings and Target Price History

Fundamental Research

Analyst: Robin Shoemaker



| | Date | Rating | Target Price | Closing Price |
|---|-----------|--------|--------------|---------------|
| 1 | 20-Jul-08 | 1M | *123.00 | 100.55 |
| 2 | 26-Sep-08 | 1M | *109.00 | 86.03 |
| 3 | 20-Oct-08 | 1M | *80.00 | 55.74 |
| 4 | 4-Dec-08 | 1M | *65.00 | 40.00 |
| 5 | 11-Mar-09 | *2M | *41.00 | 38.80 |

* Indicates change

| | Date | Rating | Target Price | Closing Price |
|----|-----------|--------|--------------|---------------|
| 6 | 24-Apr-09 | 2M | *53.00 | 49.73 |
| 7 | 27-May-09 | 2M | *56.00 | 53.41 |
| 8 | 14-Oct-09 | *1M | *80.00 | 66.04 |
| 9 | 22-Jan-10 | 1M | *84.00 | 65.24 |
| 10 | 23-Apr-10 | 1M | *92.00 | 72.68 |

| | Date | Rating | Target Price | Closing Price |
|----|-----------|--------|--------------|---------------|
| 11 | 22-Jun-10 | 1M | *77.00 | 58.26 |
| 12 | 24-Oct-10 | 1M | *82.00 | 67.77 |
| 13 | 19-Dec-10 | 1M | *100.00 | 81.34 |
| 14 | 23-Jan-11 | 1M | *110.00 | 83.48 |
| 15 | 22-Apr-11 | 1M | *115.00 | 89.78 |

Rating/target price changes above reflect Eastern Standard Time

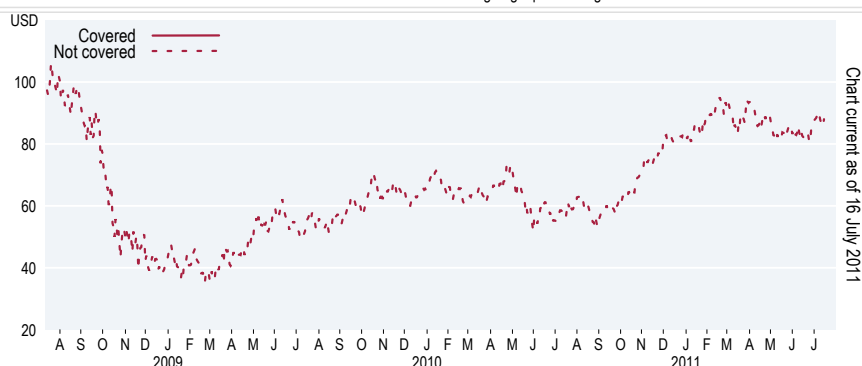
Schlumberger Ltd (SLB)

Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Robin Shoemaker



* Indicates change

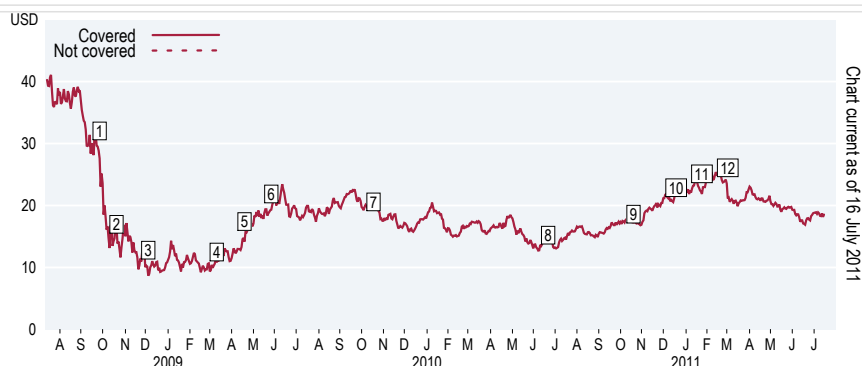
Rating/target price changes above reflect Eastern Standard Time

Weatherford International Inc (WFT)

Ratings and Target Price History

Fundamental Research

Analyst: Robin Shoemaker



| | Date | Rating | Target Price | Closing Price |
|---|-----------|--------|--------------|---------------|
| 1 | 26-Sep-08 | 2H | *34.00 | 27.60 |
| 2 | 21-Oct-08 | *1H | *30.00 | 16.61 |
| 3 | 4-Dec-08 | 1H | *22.00 | 8.68 |
| 4 | 11-Mar-09 | 1H | *15.00 | 10.83 |

* Indicates change

| | Date | Rating | Target Price | Closing Price |
|---|-----------|--------|--------------|---------------|
| 5 | 20-Apr-09 | 1H | *17.00 | 14.17 |
| 6 | 27-May-09 | 1H | *24.00 | 19.33 |
| 7 | 19-Oct-09 | 1H | *25.00 | 19.92 |
| 8 | 22-Jun-10 | 1H | *19.00 | 14.61 |

| | Date | Rating | Target Price | Closing Price |
|----|-----------|--------|--------------|---------------|
| 9 | 20-Oct-10 | 1H | *21.00 | 17.37 |
| 10 | 19-Dec-10 | 1H | *27.00 | 21.99 |
| 11 | 25-Jan-11 | 1H | *29.00 | 21.86 |
| 12 | 2-Mar-11 | 1H | *27.00 | 21.14 |

Rating/target price changes above reflect Eastern Standard Time

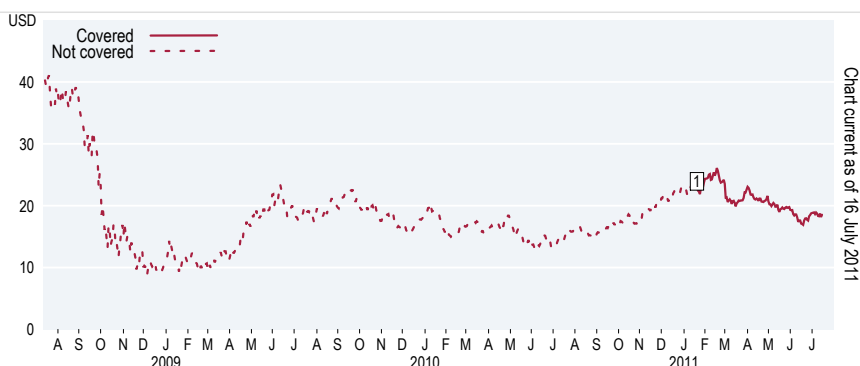
Weatherford International Inc (WFT)

Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Robin Shoemaker



| Date | Rating | Target Price | Closing Price |
|-------------|---------|--------------|---------------|
| 1 20-Jan-11 | *ADD MP | - | 22.87 |

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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Data current as of 30 Jun 2011

| | 12 Month Rating | | | Relative Rating | | |
|--|-----------------|------|------|-----------------|------|------|
| | Buy | Hold | Sell | Buy | Hold | Sell |
| Citi Investment Research & Analysis Global Fundamental Coverage | 54% | 36% | 11% | 10% | 81% | 10% |
| % of companies in each rating category that are investment banking clients | 45% | 41% | 42% | 50% | 42% | 44% |

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Robin Shoemaker; Mark Brown; Garrett Gough

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