15 March 2012 | 46 pages

Off(shore) to the races

Oil services offer defensive growth at attractive price

Ryan W Kauppila
+44-20-7986-4467
ryan.kauppila@citi.com

- **Growth At Reasonable Price** — We think European oil services continue to screen well around attractively priced growth metrics. Eight of our coverage stocks meet the criteria of >15% annual earnings growth 2011-13E and trading within 10% of their 15-year average 1-year forward PE (or time since IPO).
- **2012 another year of positive book-to-bill** — In our view, the market is underestimating the longevity of this growth. High oil prices are a stark reminder of limited spare capacity in the global oil supply chain. An overarching theme of oil majors' 2012 strategy presentations was increased investment and we see continued growth in spend as necessary for maintaining an oil price environment conducive of global growth. For a majority of our companies, we increase estimates and target prices based on this improved outlook. Please see the table below for details.
- **Subsea still the key place to be** — We believe subsea construction looks to offer the best investment opportunity, supported by record backlogs, robust orderbooks, and high barriers to entry. Industry backlogs 10% above 2008 peaks offer record backlog-to-sales visibility (1.45x 2012E) and tightening utilisation should see margins rise from 18% to 23% 2011-14E in our view. We have a Buy rating on all three of Saipem, Technip, and Subsea 7 around this theme.
- **Buy AMEC, LAM** — AMEC offers low-risk exposure to rising natural resources spend. Visibility has improved markedly over the past six months and we expect 18% earnings growth 2011-14E. Lamprell has seen backlog rise 35% YoY, offering robust top-line visibility over 2012-13E. We expect further investment in global offshore infrastructure to support earnings growth of 28% pa 2011-14E.
- **Upgrade PGS, downgrade Petrofac. Both to Neutral** — Marine seismic pricing looks to be coming off the bottom, but is far from achieving 2007/08 peaks in our view. We remain cautious on CGG, and see better momentum in PGS's earnings given recent investments in multi-client. For Petrofac, despite some value around 2012/13E multiples, we think the changing cocktail of business mix and geographical exposure heightens the risks around 2014+ earnings delivery.

	Rating		Target Price		Current Year Earnings Estimates		Next Year Earnings Estimates	
Ticker	Old	New	Old	New	Old	New	Old	New
AMEC.L	1	1	£13.00	£13.30	p84.2	p84.4	p98.9	p99.0
GEPH.PA	3	3	€15.00	€21.00	€1.29	€1.39	€1.79	€1.73
LAM.L	1	1	£3.30	£4.00	US$0.29	US$0.29	US$0.41	US$0.47
PFC.L	1	2	£16.50	£18.50	US$1.72	US$1.87	US$2.13	US$2.22
PGS.OL	3	2	NKr62.50	NKr92.00	US$0.76	US$0.93	US$1.47	US$1.32
SDRL.OL	2	2	NKr230.00	NKr225.00	US$3.08	US$3.04	US$3.46	US$3.68
SPMI.MI	1	1	€40.00	€50.00	€2.26	€2.34	€2.80	€2.92
SUBC.OL	1	1	NKr140.00	NKr165.00	US$1.10	US$1.10	US$1.23	US$1.23
TECF.PA	1	1	€82.00	€105.00	€4.37	€4.65	€5.80	€5.96

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

Contents

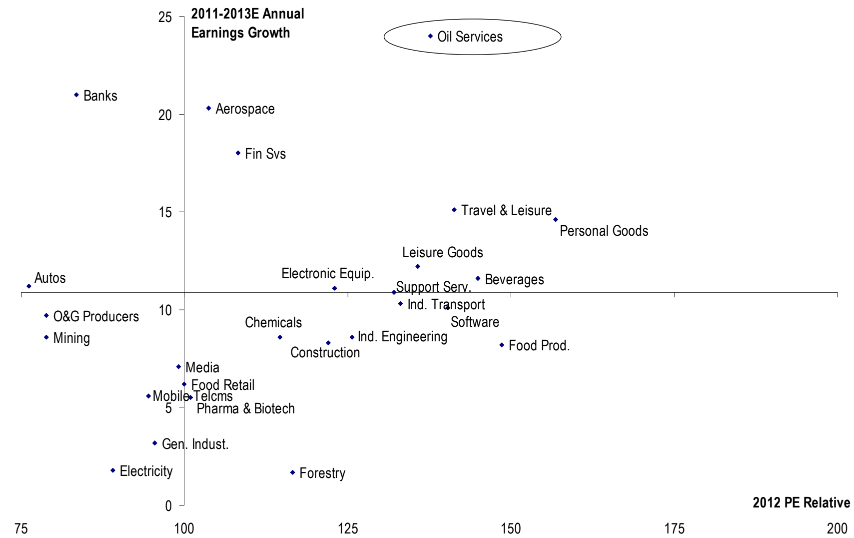
Growth at a Reasonable Price (GARP)

European oil services continue to screen well around attractively priced growth metrics. The sector is trading 3% below its historical PE (15-year) and offers 2-year annual earnings growth of 24%. We see this as offering one of the most compelling growth stories across the European market (Figure 1).

Eight out of our nine coverage stocks meet the GARP criteria of >15% pa 2-year compound earnings growth and trading within 10% of their 15-year average 1-year forward PE (or time since IPO). Seadrill is the lone outlier with 11% p.a. earnings growth.

European oil services look to offer some of the most attractively priced growth across the European market

Figure 1. PE relative and 2-yr. annual earnings growth (EuroStoxx)



Source: Citi Investment Research and Analysis

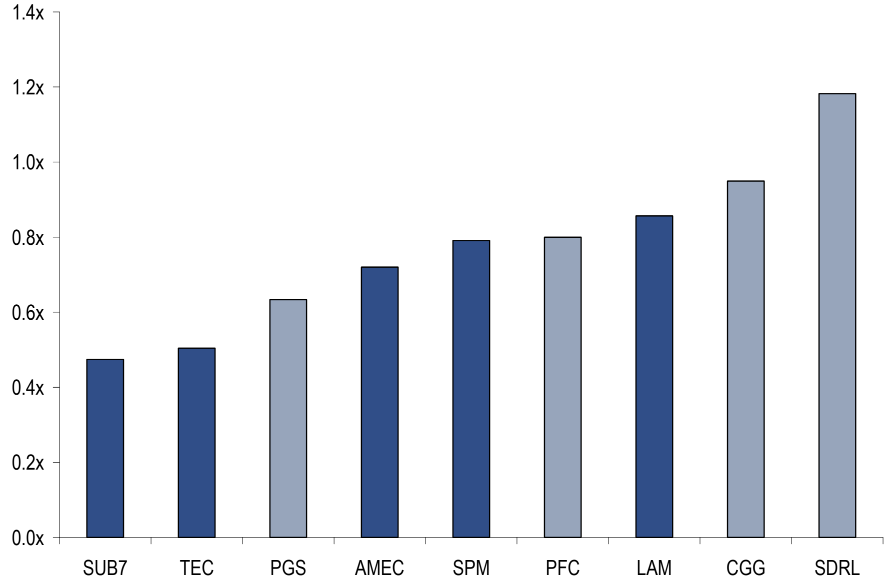
We think this projected growth offers several defensive characteristics:

- Upstream oil supply chain is operating >95% capacity (not accounting for Iranian sanctions)
- Investment in oil infrastructure is needed to assure an oil price environment conducive of global growth
- Rising industry capex - +12% YoY in 2012E – supports another year of positive book-to-bill
- Record industry backlog, largely with investment grade integrated oil companies and national oil companies
- Increasing project complexity (deeper water, unconventionals) is associated with greater services intensity per produced barrel

We see particularly attractive opportunities around offshore construction - Saipem, Technip, and Subsea 7 – as well as AMEC and Lamprell (Figure 2).

Saipem, Technip, Subsea 7, AMEC, and Lamprell offer attractively priced growth

Figure 2. European oil services PEG ratio (2012-15E)



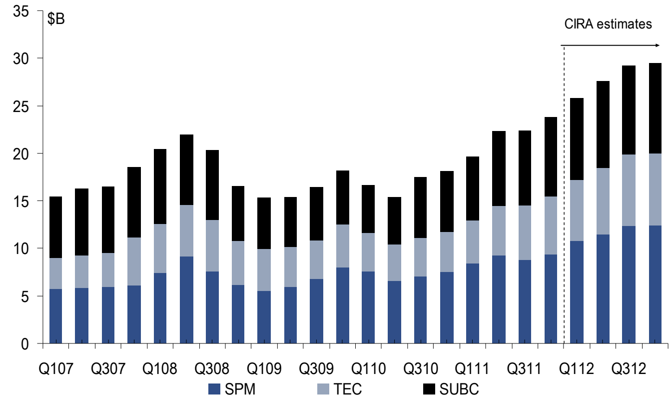
Source: Citi Investment Research and Analysis

- SUBC, TEC, AMEC, SPM, LAM, and SDRL offer record backlog
- 2012-15E earnings growth of >20% p.a. for SUBC, TEC, PGS, SPM
- Expect positive book-to-bill in 2012 from SPM, SUBC, TEC, PGS, and CGG
- Offshore construction benefits from steep barriers to entry (SPM, TEC, SUBC)

Offshore construction set to tighten

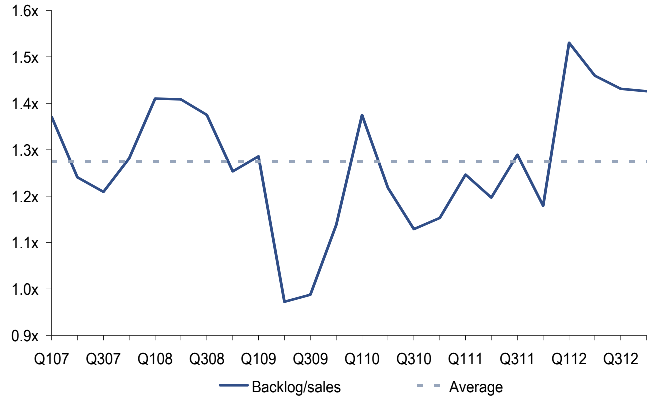
New subsea awards increased 49% YoY in 2011, led by strength offshore Brazil, Australia, and the North Sea. Industry backlog now stands at a record level (Figure 3) and given our favourable outlook for new 2012 awards in West Africa, Brazil and the North Sea, we expect further backlog growth over the coming year. This dramatic uptick in activity sees the sector offering record top-line visibility, with backlog-to-sales ~10% above prior peaks (Figure 4).

Figure 3. Offshore construction backlog



Source: Company data, Citi Investment Research and Analysis

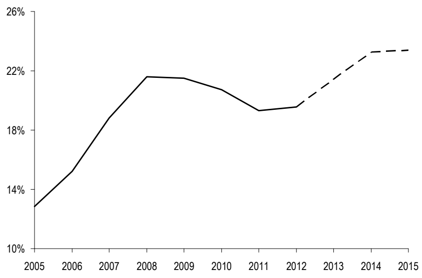
Figure 4. Offshore backlog/sales*



Source: Company data, Citi Investment Research and Analysis *SPM, TEC, SUBC

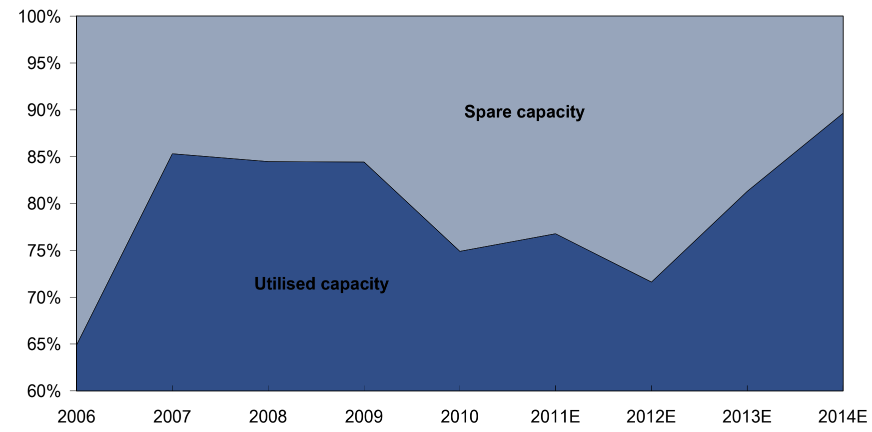
Given the time to construct new offshore construction vessels, we have a robust view around supply through to 2014. Based on projects already awarded or where we see an award as likely in 2012, we see utilisation set to tighten sharply 2012-14E (Figure 5). This tightening utilisation should see industry margins improve accordingly (Figure 6).

Figure 6. Subsea industry EBITDA margin



Source: Company Data, CIRA

Figure 5. Deepwater pipelay capacity utilisation

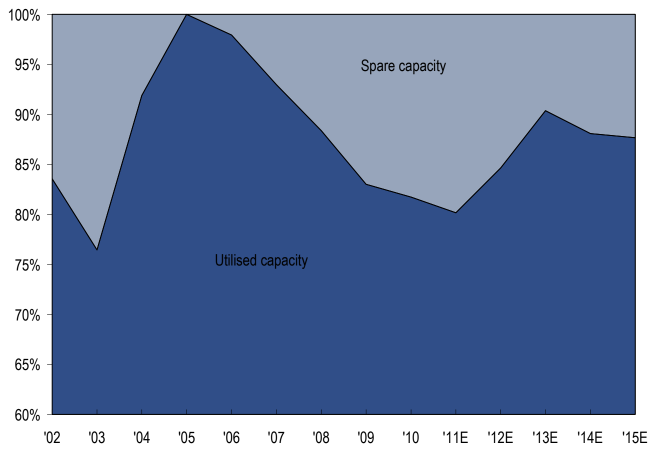


Source: ODS, Citi Investment Research and Analysis

Moderate near-term tightening around exploration…

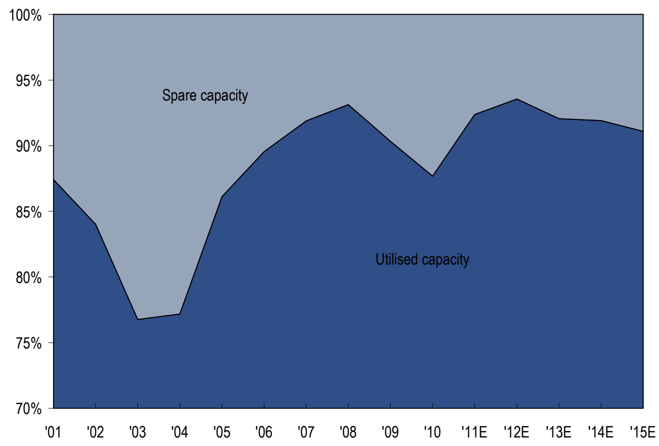
Rising exploration spend sees a tightening around exploration geared assets over 2012-13E (Figures 7,8). For marine seismic, the rebound occurs off cyclical lows (80% utilisation) and is reliant on continued oil price strength >$100/bl Brent in our view. For drilling, utilisation around high-end UDW capacity remains high (>95%) and day-rates have risen substantially from the 2010 lows. In large part, this strength reflects the structural shift towards deeper water. Older, shallow-water units are likely to see continued low utilisation rates (<80%).

Figure 7. Marine seismic capacity utilisation



Source: ODS, Citi Investment Research and Analysis

Figure 8. Deepwater drillship capacity utilisation

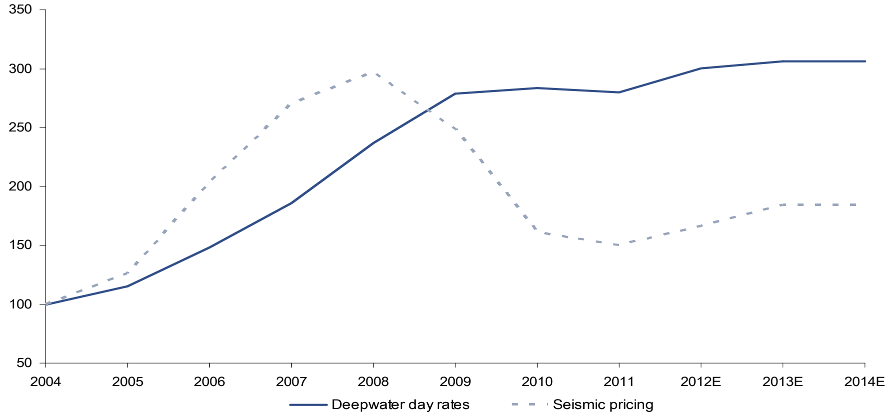


Source: ODS, Citi Investment Research and Analysis

Last decade saw a considerably more dramatic tightening around exploration assets than we anticipate this decade, seeing prices for both seismic and deepwater drilling assets treble in order to ration demand (Figure 9). Whilst we see some price inflation over 2012-13 as industry utilisation tightens, we see the recovery occurring in a climate encouraging new investment (available shipyard capacity, cheap leverage) and expect new supply to meet incremental demand from 2014.

Marine seismic and drilling should see more subdued price inflation than witnessed last decade

Figure 9. Deepwater drilling and seismic pricing (2004 = 100)



Source: ODS, Company data, Citi Investment Research and Analysis

Company Focus

AMEC (AMEC.L)
Buy - PT £13.3

- Company Update
- Target Price Change
- Estimate Change

Buy	1
Price (14 Mar 12)	£11.76
Target price	£13.30
from £13.00	
Expected share price return	13.1%
Expected dividend yield	3.1%
Expected total return	**16.3%**
Market Cap	£3,880M
	US$6,095M

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

- **Vision 2015 arrives early** — We expect AMEC to deliver its stated target of EPS>100p by 2015E comfortably ahead of schedule (2013E and 2014E EPS of 99p and 116p respectively). The company looks well positioned to capture accelerating spend across oil & gas, mining and power, and combined with the ongoing £400m share buyback and our expectation for tax rates to stay <24%, we see earnings growth of 16% p.a. 2011-15E.

- **Leveraging diversification** — AMEC's environmental and infrastructure services, although lower margin than most natural resources work, enable a multi-product, full-suite solution to clients. As projects increase in complexity and clients look to expand across geographies and capability, we see growing demand for AMEC's integrated offering.

- **Low-risk, attractive margin** — AMEC's predominantly cost-plus business model offers a lower risk profile in comparison to E&C peers who contract on fixed-price. Despite these lower risks, AMEC delivers E&C margins (9%) higher than fixed-price peers such as Technip and Saipem (~7%). Additionally, AMEC has several long-term frame agreements which offer extended visibility and should serve to buffer some of the cyclical effects associated with a business exposed to high-cost production (e.g. Canadian oil sands).

- **Ample capacity for further acquisitions** — Since 2007, AMEC has pursued a successful bolt-on acquisition strategy (25 acquisitions averaging ~ £22m), supporting a 44% rise in revenues and 118% rise in EBITA. Given AMEC's low-risk model and high rate of cash conversion, we see ample financial capacity to continue acquiring even after completing the ongoing £400m share buyback. We have forecast an average £150m p.a. in acquisitions 2012-20E, but see scope for a target of up to £1B (2012E leverage of ~50%) should an attractive opportunity arise.

- **Valuation** — AMEC is trading at just 14x 2012E PE, a 13% discount to the sector. Given the low-risk business model and favourable outlook across multiple business lines, we see this as unwarranted. We increase our target price to £13.30 from £13.00 to reflect modest positive changes to cash flow 2014-15E. We rate the stock Buy.

AMEC (GBP)

Year to 31 Dec	2010A	2011A	2012E	2013E	2014E
Sales (£M)	2,949.8	3,261.0	3,778.1	4,258.4	4,806.8
Profit Before Tax (£M)	251.8	259.2	308.4	363.4	440.3
Diluted EPS (p)	60.5	70.4	84.4	99.0	116.3
Diluted EPS (Old) (p)	60.5	70.4	84.2	98.9	110.9
PE (x)	19.5	16.7	13.9	11.9	10.1
EV/EBITDA (x)	12.0	10.9	10.2	9.2	7.8
DPS (p)	26.5	30.5	37.1	43.4	51.0
Net Div Yield (%)	2.3	2.6	3.2	3.7	4.3

AMEC.L: Fiscal year end 31-Dec — Price: £11.76; TP: £13.30; Market Cap: £3,881m; Recomm: Buy

Profit & Loss (£m)	2010	2011	2012E	2013E	2014E
Sales revenue	2,950	3,261	3,778	4,258	4,807
Cost of sales	-2,510	-2,774	-3,214	-3,623	-4,090
Gross profit	440	487	564	635	717
Gross Margin (%)	14.9	14.9	14.9	14.9	14.9
EBITDA	**278**	**309**	**346**	**398**	**468**
EBITDA Margin (%)	9.4	9.5	9.2	9.4	9.7
Depreciation	-13	-10	-11	-10	-10
Amortisation	-25	-39	-33	-24	-18
EBIT	**240**	**260**	**302**	**364**	**441**
EBIT Margin (%)	8.1	8.0	8.0	8.5	9.2
Net interest	8	12	12	5	3
Associates	13	15	15	15	15
Non-op/Except	-10	-28	-21	-21	-19
Pre-tax profit	**252**	**259**	**308**	**363**	**440**
Tax	-22	-52	-72	-85	-103
Extraord./Min.Int./Pref.div.	-7	25	0	-2	-2
Reported net profit	**223**	**232**	**236**	**276**	**335**
Net Margin (%)	7.6	7.1	6.2	6.5	7.0
Core NPAT	202	235	269	300	352

Per share data	2010	2011	2012E	2013E	2014E
Reported EPS (p)	67.0	69.5	74.2	91.1	110.5
Core EPS (p)	60.5	70.4	84.4	99.0	116.3
DPS (p)	26.5	30.5	37.1	43.4	51.0
CFPS (p)	39.7	51.8	88.0	103.1	120.1
FCFPS (p)	37.9	48.2	85.5	100.4	117.5
BVPS (p)	390.5	419.9	485.3	551.4	618.5
Wtd avg ord shares (m)	326	327	311	303	303
Wtd avg diluted shares (m)	333	334	318	303	303

Growth rates	2010	2011	2012E	2013E	2014E
Sales revenue (%)	16.2	10.5	15.9	12.7	12.9
EBIT (%)	24.7	8.2	16.1	20.6	21.1
Core NPAT (%)	30.2	16.6	14.3	11.7	17.5
Core EPS (%)	30.3	16.4	20.0	17.2	17.5

Balance Sheet (£m)	2010	2011	2012E	2013E	2014E
Cash & cash equiv.	544	493	212	215	280
Accounts receivables	696	844	844	844	844
Inventory	1	4	4	4	4
Net fixed & other tangibles	32	35	32	29	28
Goodwill & intangibles	621	848	875	911	974
Financial & other assets	370	229	229	229	229
Total assets	**2,263**	**2,453**	**2,196**	**2,233**	**2,358**
Accounts payable	686	758	363	238	160
Short-term debt	0	0	0	0	0
Long-term debt	0	0	0	0	0
Provisions & other liab	303	323	323	323	323
Total liabilities	**988**	**1,081**	**686**	**561**	**483**
Shareholders' equity	1,272	1,373	1,509	1,671	1,874
Minority interests	3	1	1	1	1
Total equity	**1,275**	**1,374**	**1,510**	**1,672**	**1,875**
Net debt	**-544**	**-493**	**-212**	**-215**	**-280**
Net debt to equity (%)	-42.6	-35.9	-14.0	-12.9	-14.9

Valuation ratios	2010	2011	2012E	2013E	2014E
PE (x)	19.5	16.7	13.9	11.9	10.1
PB (x)	3.0	2.8	2.4	2.1	1.9
EV/EBITDA (x)	12.0	10.9	10.2	9.2	7.8
FCF yield (%)	3.2	4.1	7.3	8.5	10.0
Dividend yield (%)	2.3	2.6	3.2	3.7	4.3
Payout ratio (%)	44	43	44	44	44
ROE (%)	19.5	17.6	16.4	17.4	18.9

Cashflow (£m)	2010	2011	2012E	2013E	2014E
EBITDA	278	309	346	398	468
Working capital	-84	-72	0	0	0
Other	-61	-64	-66	-86	-104
Operating cashflow	**132**	**173**	**280**	**312**	**364**
Capex	-6	-12	-8	-8	-8
Net acq/disposals	-96	-262	-120	-120	-160
Other	-51	148	0	0	0
Investing cashflow	**-153**	**-126**	**-128**	**-128**	**-168**
Dividends paid	-58	-86	-100	-115	-131
Financing cashflow	**-69**	**-98**	**-433**	**-182**	**-131**
Net change in cash	**-70**	**-51**	**-281**	**3**	**65**
Free cashflow to s/holders	**126**	**161**	**272**	**304**	**356**

For further data queries on Citi's full coverage universe please contact CIRA Data Services Europe at CIRADataServicesEMEA@citi.com or +44-207-986-4050
For definitions of the items in this table, please click here.

Powered by: dataCentral

AMEC

Company description

AMEC is an Engineering & Construction contractor involved in engineering, consultancy, and project management across oil & gas, mining, power, and environmental services. The company's activity centres on the UK, Canada and the US and contracts are typically bid on a cost-plus or reimbursable basis.

Investment strategy

Our Buy recommendation on AMEC accounts for rising investment in oil and mining capital expenditures (2012E +>10%+ YoY), a low-risk business model (cost-plus engineering), ongoing £400m share buyback, and financial capacity for further growth against a competitive landscape and risks associated with inorganic expansion. On current valuation and favorable macro tailwinds, this looks a compelling risk-reward offering.

Valuation

Our 12-month target of £13.3 is based on DCF valuation. Free cash flows between 2012-20 are modeled explicitly. Our terminal value assumes top-line growth of 5%, consistent with our view of the long-term growth in global energy infrastructure spend. Our terminal value EBITDA margin 9% is the level we judge sustainable given our perception of AMEC's competitive position within the industry, historical results and annual level of investment needed to sustain that position. All cash flows are then discounted at an industry WACC of 12.5%. We assume a GBP/USD exchange rate of 1.55.

Risks

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

Integrating acquired companies - Our growth targets for AMEC assume that annual acquisition spend consistent with recent trends is needed. Acquiring these companies at prices that deliver suitable returns and integrating the acquired companies carries inherent risks and may impede AMEC profitability.

Commodity demand - AMEC's customer base is focused on natural resources and power production, whose capital budgets are highly sensitive to the underlying demand and prices for raw commodities. Similarly, a rise in commodity demand/prices that exceeds our expectations could lead to share price appreciation that exceeds our current forecast.

Legislation/political - AMEC operates in areas which can be politically sensitive such as nuclear, oil sands, and unconventional oil and gas. While AMEC's broad client base provides a diversification buffer, a sharp shift in policy in a key area would likely have a negative impact on earnings.

Reputational damage - Engineering firms rely heavily on their execution track record to win new business. Association with an industrial accident or faulty execution could impair AMEC's ability to compete for new awards.

If the impact of these risk factors is less negative than we currently anticipate, then the share price might outperform our target price.

Company Focus

- Company Update
- Target Price Change
- Estimate Change

Sell	**3**
Price (14 Mar 12)	€22.53
Target price	€21.00
from €15.00	
Expected share price return	-6.8%
Expected dividend yield	0.0%
Expected total return	**-6.8%**
Market Cap	€3,421M
	US$4,477M

Price Performance
(RIC: GEPH.PA, BB: GA FP)

CGGVeritas (GEPH.PA)

Sell - PT €21

- **Reduced multi-client investment limits oil-price upside** — CGG did not fully exploit the depressed pricing environment in marine seismic over 2010-11 in our view. Whilst PGS allocated additional capacity to multi-client, CGG increased allocation to contract despite an environment of operating losses. As a result, CGG enters 2012 with a multi-client book value -8% YoY. Whilst June's Central Gulf of Mexico lease sale and an environment where oil is considerably above industry average planning assumptions offer an opportunity for late sales on fully depreciated data, we are concerned that CGG's lack of investment in 2011 limits 2012's take of discretionary capex.
- **Marine seismic improving, but past peaks a distant memory** — Marine seismic looks to have reached the cyclical trough in H2 2011, with peak-to-trough pricing -55% as measured in revenue per streamer. We expect pricing to improve by 11% p.a. over 2012-13E as capacity utilisation tightens (from 78% to 88%), but the heady days of 2007-08 look to be a distant memory. The barriers to adding new marine capacity are not particularly high and given both attractive shipyard terms and buoyant financing available for energy-facing assets, expect the inflationary price environment to be short-lived (forecast stable pricing from 2014E+).
- **Sercel: strong land demand offsets fewer marine newbuilds** — Sercel delivered 15% pa revenue growth and a 940bps uplift to EBITDA margins during the 2009-11 downturn in marine seismic. In part, the strength stemmed from the need to equip the growing supply of marine vessels, and we would expect this counter-cyclical element to wane over 2012-13 as fewer newbuilds are outfitted. However, Sercel is also capturing the growth in land seismic demand, benefitting from the trend towards increased channel counts (particularly in the Middle East) and unconventionals. We expect Sercel to deliver a further 10% pa revenue growth 2012-13E and given their dominant market share (>60%), view the attractive current margins as sustainable (EBITDA margin of 35%).
- **Valuation** — CGG currently trades at a 10% premium to the sector on 2013E PE, a valuation which looks to more than adequately reflect the prospects for further price increases in 2014 and beyond. We increase our 2012 estimates to reflect higher pricing and discretionary capex budgets in 2012 but lower 2013 due to some spend being brought forward into 2012. We increase our target price by 40% to €21 from €15 to reflect a better pricing environment and higher long-term growth rate assumptions. We rate the stock Sell.

CGGVeritas (EUR)

Year to 31 Dec	2010A	2011A	2012E	2013E	2014E
Sales (€M)	2,189.3	2,272.4	2,600.3	2,854.0	3,007.7
Net Income (€M)	-54.7	-11.5	211.7	261.9	303.3
Diluted EPS (€)	-0.36	-0.08	1.39	1.73	2.00
Diluted EPS (Old) (€)	-0.36	0.21	1.29	1.79	2.10
PE (x)	-62.7	-297.3	16.2	13.1	11.3
EV/EBITDA (x)	7.7	7.6	5.2	4.6	4.0
DPS (€)	0.00	0.00	0.00	0.00	0.00
Net Div Yield (%)	0.0	0.0	0.0	0.0	0.0

GEPH.PA: Fiscal year end 31-Dec						Price: €22.53; TP: €21.00; Market Cap: €3,421m; Recomm: Sell					
Profit & Loss (€m)	**2010**	**2011**	**2012E**	**2013E**	**2014E**	**Valuation ratios**	**2010**	**2011**	**2012E**	**2013E**	**2014E**
Sales revenue	2,189	2,272	2,600	2,854	3,008	PE (x)	-62.7	nm	16.2	13.1	11.3
Cost of sales	-1,746	-1,926	-1,992	-2,140	-2,223	PB (x)	1.2	1.2	1.1	1.0	0.9
Gross profit	443	347	608	715	784	EV/EBITDA (x)	7.7	7.6	5.2	4.6	4.0
Gross Margin (%)	20.2	15.3	23.4	25.0	26.1	FCF yield (%)	-0.7	3.4	-0.5	8.1	9.3
EBITDA	**581**	**602**	**873**	**951**	**1,009**	Dividend yield (%)	0	0	0	0	0
EBITDA Margin (%)	26.6	26.5	33.6	33.3	33.6	Payout ratio (%)	0	0	0	0	0
Depreciation	-238	-269	-279	-271	-269	ROE (%)	-2.0	-0.4	7.0	8.0	8.5
Amortisation	-276	-185	-191	-186	-185	**Cashflow (€m)**	**2010**	**2011**	**2012E**	**2013E**	**2014E**
EBIT	**67**	**148**	**403**	**494**	**555**	EBITDA	581	602	873	951	1,009
EBIT Margin (%)	3.1	6.5	15.5	17.3	18.5	Working capital	-51	83	0	0	0
Net interest	-106	-124	-102	-116	-113	Other	-80	-104	-191	-232	-252
Associates	-1	12	16	16	16	**Operating cashflow**	**450**	**581**	**682**	**719**	**758**
Non-op/Except	9	1	0	0	0	Capex	-473	-466	-699	-440	-440
Pre-tax profit	**-31**	**36**	**317**	**394**	**458**	Net acq/disposals	8	17	0	0	0
Tax	-14	-45	-105	-132	-155	Other	46	47	64	40	40
Extraord./Min.Int./Pref.div.	-11	-3	0	0	0	**Investing cashflow**	**-419**	**-402**	**-635**	**-400**	**-400**
Reported net profit	**-55**	**-12**	**212**	**262**	**303**	Dividends paid	-3	-3	0	0	0
Net Margin (%)	-2.5	-0.5	8.1	9.2	10.1	**Financing cashflow**	**-208**	**-115**	**0**	**0**	**0**
Core NPAT	-55	-12	212	262	303	**Net change in cash**	**-144**	**75**	**47**	**319**	**358**
Per share data	**2010**	**2011**	**2012E**	**2013E**	**2014E**	**Free cashflow to s/holders**	**-23**	**115**	**-17**	**279**	**318**
Reported EPS (€)	-0.36	-0.08	1.39	1.73	2.00						
Core EPS (€)	-0.36	-0.08	1.39	1.73	2.00						
DPS (€)	0	0	0	0	0						
CFPS (€)	2.96	3.83	4.49	4.74	4.99						
FCFPS (€)	-0.15	0.76	-0.11	1.84	2.09						
BVPS (€)	18.57	19.36	20.76	22.48	24.48						
Wtd avg ord shares (m)	151	152	152	152	152						
Wtd avg diluted shares (m)	152	152	152	152	152						
Growth rates	**2010**	**2011**	**2012E**	**2013E**	**2014E**						
Sales revenue (%)	-2.3	3.8	14.4	9.8	5.4						
EBIT (%)	17.7	121.0	171.8	22.5	12.4						
Core NPAT (%)	79.3	79.0	nm	23.7	15.8						
Core EPS (%)	79.4	78.9	nm	23.7	15.8						
Balance Sheet (€m)	**2010**	**2011**	**2012E**	**2013E**	**2014E**						
Cash & cash equiv.	336	411	457	776	1,134						
Accounts receivables	695	677	677	677	677						
Inventory	265	279	279	279	279						
Net fixed & other tangibles	917	1,079	1,139	1,010	912						
Goodwill & intangibles	2,733	2,746	2,875	2,969	3,064						
Financial & other assets	379	364	364	364	364						
Total assets	**5,324**	**5,556**	**5,791**	**6,075**	**6,430**						
Accounts payable	296	299	299	299	299						
Short-term debt	79	55	55	55	55						
Long-term debt	1,407	1,447	1,447	1,447	1,447						
Provisions & other liab	673	750	774	795	847						
Total liabilities	**2,455**	**2,550**	**2,573**	**2,595**	**2,646**						
Shareholders' equity	2,812	2,939	3,151	3,412	3,716						
Minority interests	58	68	68	68	68						
Total equity	**2,870**	**3,006**	**3,218**	**3,480**	**3,783**						
Net debt	**1,150**	**1,090**	**1,044**	**725**	**367**						
Net debt to equity (%)	40.1	36.3	32.4	20.8	9.7						

For further data queries on Citi's full coverage universe please contact CIRA Data Services Europe at CIRADataServicesEMEA@citi.com or +44-207-986-4050
For definitions of the items in this table, please click here.

Powered by: dataCentral

CGGVeritas

Company description

CGGVeritas is a pure-play seismic company, with sales diversified across marine and land acquisition, processing & imaging, and the manufacture and sale of seismic equipment via its Sercel subsidiary. The company owns multi-client data across most key areas of oil & gas production growth. In equipment, Sercel maintains a market share of c. 60%.

Investment strategy

Our Sell rating on CGGVeritas is in the context of an industry operating at low levels of utilisation (ca 80%) and insufficient multi-client investment through the down cycle. Whilst we do expect a ~25% recovery in pricing from cyclical lows in 2012-13, current valuation suggests something more material, in our view.

Valuation

Our 12-month target price of EUR 21 is based on a DCF valuation. Free cash flows between 2012-2020 are modeled explicitly. Our terminal value assumes top-line growth of 5%, consistent with our view of the long-term growth in global energy capex. Our terminal value EBITDA margin assumption of 32% is the level we judge sustainable given our perception of CGG's competitive position within the industry, historical operating results, and assumed level of annual investment required to sustain that position. All cash flows are discounted at a WACC of 13%.

Risks

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

Key risks include:

Commodity demand: CGG'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.

Financial constraints: CGG operates a capital-intensive business that requires financing for ongoing investment in the marine vessel fleet, multi-client data library and R&D. A deterioration in the business environment may impair its ability to acquire new funding or service existing debts. Also, in large part a result of the Veritas and Wavefield acquisitions in 2007 and 2008, CGG recognises significant goodwill on its balance sheet, which may need to be impaired should business conditions deteriorate.

Piracy/global turmoil: Seismic vessels operate under conditions which make them vulnerable to piracy attacks. Additionally, CGG operates in regions of proven or prospective hydrocarbon resources, which have historically shown increased risks of civil disturbance and/or acts of terrorism.

Currency: The majority of CGG's business is conducted in USD, yet the company incurs significant costs in other currencies.

If the impact of these risk factors is less negative than we currently anticipate, then the share price might rise above our target price.

Company Focus

- Company Update
- Target Price Change
- Estimate Change

Buy	**1**
Price (14 Mar 12)	£3.40
Target price	£4.00
from £3.30	
Expected share price return	17.6%
Expected dividend yield	1.9%
Expected total return	**19.5%**
Market Cap	£886M
	US$1,391M

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

Lamprell (LAM.L)

Buy - PT £4.0

- **Record backlog affords robust visibility** — Lamprell's year-end backlog of ~$1.3B is +35% YoY, with 2012E newbuild revenues of $620m fully covered by existing orders. Although the cost over-runs flagged in October on the three liftboats raises concerns around execution and the embedded profitability in the backlog, we believe this is specific to those units. More than 70% of remaining 2012E revenues stem from jackups of the Letourneau S116E design, where Lamprell has extensive experience. As such, execution risks on the remaining portfolio appear muted and we expect each unit to deliver a 10% profit margin.
- **Middle East domicile bolsters onshore efforts** — Lamprell is levered to rising energy infrastructure investment in the Middle East. Already the dominant regional player in rig refurbishment (>90% market share), Lamprell is currently constructing four jackups for Abu Dhabi's National Drilling Company and has recently won a $62m award for the supply of two topsides and jackets in Iraq. Although recent political turmoil has slowed the pace of Iraqi development, we are confident >$100B in spend materialises this decade. Given the onshore capability acquired via MIS, Lamprell looks well positioned to expand its presence as this development proceeds.
- **Hull 106/108 disposals reduce leverage** — Lamprell has sold the jackups acquired in the MIS acquisition to Grupo Mexico, with delivery of Hull 106 in February and 108 expected towards the end of H1. For the 100% owned Hull 108, we expect a price of ~$160m and for Lamprell to be debt free by H2 2013. Given that Lamprell pays no income tax in the UAE, this quick payback is financially sound, limits the cyclical risks inherent in rig construction, and frees capacity for further expansion.
- **Valuation** — Lamprell is trading at just 11x 2012E PE, a 30% discount to the sector. Although Lamprell's recent execution mishaps have raised concerns around forecast earnings, we feel confident the over-runs are fully accounted, and see the shares as offering compelling leverage to increasing energy infrastructure spend. We increase our estimates to reflect recent contract awards. We also increase our target price to £4.00 from £3.30 to reflect a reduction in forecast 2012 net debt and higher long-term growth assumptions. We rate the stock Buy.

Lamprell (USD)

Year to 31 Dec	2009A	2010A	2011E	2012E	2013E
Sales ($M)	425.5	504.0	914.4	1,234.0	1,356.6
Net Income ($M)	26.1	57.5	69.9	122.2	146.0
Diluted EPS ($)	0.12	0.26	0.29	0.47	0.56
Diluted EPS (Old) ($)	0.13	0.09	0.29	0.41	0.51
PE (x)	45.1	20.5	18.3	11.4	9.5
EV/EBITDA (x)	34.6	15.5	13.1	8.9	7.4
DPS ($)	0.03	0.12	0.12	0.19	0.23
Net Div Yield (%)	0.6	2.3	2.3	3.6	4.3

LAM.L: Fiscal year end 31-Dec — Price: £3.40; TP: £4.00; Market Cap: £885m; Recomm: Buy

Profit & Loss (US$m)	2009	2010	2011E	2012E	2013E
Sales revenue	425.5	504.0	914.4	1,234.0	1,356.6
Cost of sales	-384.3	-446.0	-809.4	-1,070.3	-1,177.1
Gross profit	41.2	58.0	105.0	163.7	179.5
Gross Margin (%)	9.7	11.5	11.5	13.3	13.2
EBITDA	**41.2**	**58.0**	**105.0**	**163.7**	**179.5**
EBITDA Margin (%)	9.7	11.5	11.5	13.3	13.2
Depreciation	-13.2	-12.5	-18.9	-26.4	-26.2
Amortisation	-0.1	-0.1	-0.2	-1.3	-1.1
EBIT	**27.9**	**45.4**	**85.9**	**136.1**	**152.3**
EBIT Margin (%)	6.6	9.0	9.4	11.0	11.2
Net interest	0.5	-0.9	-23.3	-11.1	-3.3
Associates	0	0	0	0	0
Non-op/Except	-2.4	24.5	0	0	0.0
Pre-tax profit	**26.1**	**69.1**	**62.6**	**125.0**	**149.0**
Tax	0	0	-1.1	-2.8	-3.0
Extraord./Min.Int./Pref.div.	0	0	0	0	0
Reported net profit	**26.1**	**69.1**	**61.5**	**122.2**	**146.0**
Net Margin (%)	6.1	13.7	6.7	9.9	10.8
Core NPAT	26.1	57.5	69.9	122.2	146.0

Per share data	2009	2010	2011E	2012E	2013E
Reported EPS ($)	0.12	0.31	0.26	0.47	0.56
Core EPS ($)	0.12	0.26	0.29	0.47	0.56
DPS ($)	0.03	0.12	0.12	0.19	0.23
CFPS ($)	-0.12	0.53	-0.15	0.58	0.67
FCFPS ($)	-0.20	0.38	-0.50	0.38	0.47
BVPS ($)	1.07	1.29	2.93	3.20	3.53
Wtd avg ord shares (m)	220	220	239	260	260
Wtd avg diluted shares (m)	220	220	239	260	260

Growth rates	2009	2010	2011E	2012E	2013E
Sales revenue (%)	-42.6	18.4	81.4	35.0	9.9
EBIT (%)	-66.2	62.7	89.2	58.5	11.9
Core NPAT (%)	-70.1	120.5	21.6	74.9	19.5
Core EPS (%)	-70.1	120.5	12.2	60.5	19.5

Balance Sheet (US$m)	2009	2010	2011E	2012E	2013E
Cash & cash equiv.	67.8	210.2	139.2	198.6	107.1
Accounts receivables	193.8	251.1	351.5	351.5	351.5
Inventory	43.1	9.5	14.1	14.1	14.1
Net fixed & other tangibles	97.7	113.3	310.6	334.2	358.0
Goodwill & intangibles	1.3	2.4	15.4	14.1	13.1
Financial & other assets	2.5	11.9	357.7	357.7	357.7
Total assets	**406.2**	**598.4**	**1,188.4**	**1,270.2**	**1,201.5**
Accounts payable	124.6	293.3	102.0	262.0	262.0
Short-term debt	31.6	0	0	0	0
Long-term debt	0	0	305.0	155.0	0
Provisions & other liab	15.2	21.2	19.2	19.2	19.2
Total liabilities	**171.4**	**314.5**	**426.2**	**436.2**	**281.2**
Shareholders' equity	234.8	284.0	762.2	834.0	920.3
Minority interests	0	0	0	0	0
Total equity	**234.8**	**284.0**	**762.2**	**834.0**	**920.3**
Net debt	**-36.2**	**-210.2**	**165.8**	**-43.6**	**-107.1**
Net debt to equity (%)	-15.4	-74.0	21.8	-5.2	-11.6

Valuation ratios	2009	2010	2011E	2012E	2013E
PE (x)	45.1	20.5	18.3	11.4	9.5
PB (x)	5.0	4.1	1.8	1.7	1.5
EV/EBITDA (x)	34.6	15.5	13.1	8.9	7.4
FCF yield (%)	-3.8	7.0	-9.4	7.2	8.9
Dividend yield (%)	0.6	2.3	2.3	3.6	4.3
Payout ratio (%)	29	46	41	41	41
ROE (%)	11.7	26.6	11.8	15.3	16.6

Cashflow (US$m)	2009	2010	2011E	2012E	2013E
EBITDA	41.2	58.0	105.0	163.7	179.5
Working capital	-70.6	78.4	-121.5	0	0
Other	3.2	-18.7	-20.0	-13.9	-6.2
Operating cashflow	**-26.3**	**117.6**	**-36.5**	**149.9**	**173.3**
Capex	-18.5	-34.8	-83.0	-50.0	-50.0
Net acq/disposals	0.1	0.0	-389.2	160.0	0
Other	-1.7	-2.1	7.1	0	0
Investing cashflow	**-20.1**	**-36.8**	**-465.1**	**110.0**	**-50.0**
Dividends paid	-6.3	-26.6	-40.1	-50.5	-59.7
Financing cashflow	**3.0**	**-51.6**	**437.6**	**-200.5**	**-214.7**
Net change in cash	**-43.3**	**29.6**	**-64.2**	**59.4**	**-91.5**
Free cashflow to s/holders	**-44.8**	**82.9**	**-119.5**	**99.9**	**123.3**

For further data queries on Citi's full coverage universe please contact CIRA Data Services Europe at CIRADataServicesEMEA@citi.com or +44-207-986-4050
For definitions of the items in this table, please click here.

Powered by: dataCentral

Lamprell

Company description

Lamprell is an Engineering & Construction contractor in the Middle East focused on new-build jackups, liftboats, offshore platforms, and other offshore oil & gas facilities as well as maintaining a dominant regional presence in rig refurbishment.

Investment strategy

We rate Lamprell as Buy. It is highly geared to offshore oil production and to the build-out of Middle East energy infrastructure, areas which look well positioned on the industry cost curve, in our view. In Middle East rig refurbishment, Lamprell enjoys a commanding market share, and should continue to see growth and high-teens margins as regional national oil companies look to expand production. Lamprell looks to offer attractively priced near-term growth and attractive exposure to medium-term growth in Middle East energy infrastructure.

Valuation

Our 12-month target of £4 is based on a DCF valuation. Free cash flows between 2012-20E are modeled explicitly. Our terminal value assumes top-line growth of 5%, consistent with our view of long-term growth in global energy infrastructure spend. Our terminal value EBITDA margin of 10.5% is the level we judge as sustainable given our perception of Lamprell's competitive position in the industry, historical performance and expected rate of annual investment needed to sustain that position. Cash flows are discounted at a WACC of 15% and we assume a GBP/USD rate of 1.55.

Risks

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

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

Commodity demand - Lamprell is highly dependent on the capital expenditures of companies servicing the oil & gas and offshore wind industry. These customers' capital budgets and their ability to service contracted debts are highly sensitive to the underlying demand and prices of raw commodities.

Taxation - Lamprell's activities in the UAE operate under tax holidays and do not incur an income tax liability. Changes to the UAE's income tax regulations would likely have a negative impact on earnings.

Integration risks - Lamprell has announced intentions to pursue growth via acquisition, which carries the risk that integration may prove more costly than anticipated or that anticipated market access may not materialise.

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 Lamprell's ability to win new business.

Company Focus

- Company Update
- Rating Change
- Target Price Change
- Estimate Change

Neutral	**2**
from Buy	
Price (14 Mar 12)	£16.96
Target price	£18.50
from £16.50	
Expected share price return	9.1%
Expected dividend yield	2.0%
Expected total return	**11.1%**
Market Cap	£5,866M
	US$9,215M

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

Petrofac (PFC.L)

Neutral – PT £18.5

- **Year of transition** — We expect further evolution in Petrofac's business mix over the coming twelve months – from a concentrated portfolio of large (>$1B), onshore MENA/Turkmenistan-focused E&C projects to a considerably more diversified exposure across geography, project size (more projects <$1B), and type (offshore and IES). We view this as a necessary adaptation given the available opportunity set and increased Asian competition onshore Middle East, and view Petrofac management as well suited to navigating change, but also see this shift in mix as increasing earnings cyclicality (shorter duration projects) and risks around execution (sub-surface exposure).
- **$24B 2012 E&C bid pipeline** — We expect Petrofac to tender for ~$24B of new awards in 2012; assuming a win rate of 25%, Petrofac should fully replace E&C backlog this year ($6B of new awards). Iraq remains critical to medium-term growth, but accounts for <$3B of current prospects. We expect Saudi Arabia to account for the lion's share of awards in 2012.
- **Industry leading margins extend leadership** — Petrofac delivered record onshore E&C margins in H2 2011, as the $3.4B South Yoloten project reached profit recognition. In our view, this suggests an embedded EBITDA margin for the project >16% and provides robust visibility around group profitability 2012-13E. Additionally, Petrofac remains confident it can maintain industry-leading margins near current levels over the medium-term, despite intensified competition from Korea. As such, we have raised our 2014/15 onshore E&C margin assumptions by 150bps, which sees an 8% uplift to earnings.
- **IES growth accelerates** — The acceleration of spend in Malaysia and Mexico sees IES contribution being to ramp meaningfully in 2012. From just 12% in 2011, we expect IES to contribute 36% of EBITDA by 2015E (IES EBITDA growth of 155% p.a. 2011-15E). The Schlumberger partnership looks to hold significant potential, combining Petrofac's strengths around project management and facilities with Schlumberger's subsurface expertise and extensive well data. We expect the first award to the partnership in June with the next Mexico round (four onshore, two offshore) and potential inroads into the Middle East by year-end.
- **Valuation** — Petrofac offers good near-term visibility and is trading at a 10% discount to the sector on 2012E PE at just 14x. However, the current share price looks to adequately reflect current growth prospects and we see more limited scope for outperformance. We therefore downgrade the stock to Neutral from Buy. However, we increase our estimates due to better E&C margin delivery. We also increase our target price to £18.50 from £16.50 to reflect higher long-term growth assumptions.

Petrofac (USD)

Year to 31 Dec	2010A	2011A	2012E	2013E	2014E
Sales ($M)	4,354.2	5,800.7	6,201.2	6,810.1	7,322.1
Profit Before Tax ($M)	543.5	680.6	809.3	983.5	1,199.2
Diluted EPS ($)	1.26	1.57	1.87	2.22	2.71
Diluted EPS (Old) ($)	1.26	1.44	1.72	2.13	2.52
PE (x)	21.1	17.0	14.3	12.0	9.8
EV/EBITDA (x)	12.7	10.0	7.8	6.1	4.8
DPS ($)	0.44	0.55	0.67	0.79	0.96
Net Div Yield (%)	1.6	2.0	2.5	3.0	3.6

PFC.L: Fiscal year end 31-Dec — Price: £16.96; TP: £18.50; Market Cap: £5,866m; Recomm: Neutral

Profit & Loss (US$m)	2010	2011	2012E	2013E	2014E
Sales revenue	4,354	5,801	6,201	6,810	7,322
Cost of sales	-3,595	-4,789	-5,120	-5,623	-6,046
Gross profit	759	1,011	1,081	1,187	1,276
Gross Margin (%)	17.4	17.4	17.4	17.4	17.4
EBITDA	**634**	**763**	**898**	**1,081**	**1,303**
EBITDA Margin (%)	14.5	13.2	14.5	15.9	17.8
Depreciation	-93	-67	-87	-98	-108
Amortisation	-3	-13	-14	-14	-14
EBIT	**538**	**683**	**797**	**968**	**1,180**
EBIT Margin (%)	12.3	11.8	12.8	14.2	16.1
Net interest	5	-2	13	15	19
Associates	0	0	0	0	0
Non-op/Except	1	0	0	0	0
Pre-tax profit	**544**	**681**	**809**	**984**	**1,199**
Tax	-111	-141	-162	-216	-264
Extraord./Min.Int./Pref.div.	0	0	-6	-6	-6
Reported net profit	**433**	**540**	**641**	**761**	**929**
Net Margin (%)	9.9	9.3	10.3	11.2	12.7
Core NPAT	433	540	641	761	929
Per share data	**2010**	**2011**	**2012E**	**2013E**	**2014E**
Reported EPS ($)	1.26	1.57	1.87	2.22	2.71
Core EPS ($)	1.26	1.57	1.87	2.22	2.71
DPS ($)	0.44	0.55	0.67	0.79	0.96
CFPS ($)	0.31	4.39	2.18	2.56	3.08
FCFPS ($)	-0.03	3.55	1.34	1.72	2.24
BVPS ($)	2.29	3.43	4.74	6.27	8.16
Wtd avg ord shares (m)	339	339	339	339	339
Wtd avg diluted shares (m)	343	343	343	343	343
Growth rates	**2010**	**2011**	**2012E**	**2013E**	**2014E**
Sales revenue (%)	19.1	33.2	6.9	9.8	7.5
EBIT (%)	24.8	27.0	16.7	21.5	21.9
Core NPAT (%)	22.4	24.6	18.9	18.7	22.1
Core EPS (%)	22.2	24.6	18.9	18.7	22.1
Balance Sheet (US$m)	**2010**	**2011**	**2012E**	**2013E**	**2014E**
Cash & cash equiv.	1,063	1,979	2,241	2,592	3,080
Accounts receivables	1,057	1,252	1,252	1,252	1,252
Inventory	7	10	10	10	10
Net fixed & other tangibles	287	489	570	640	700
Goodwill & intangibles	192	201	201	201	201
Financial & other assets	996	903	1,010	1,117	1,225
Total assets	**3,601**	**4,834**	**5,283**	**5,811**	**6,466**
Accounts payable	1,021	1,606	1,606	1,606	1,606
Short-term debt	47	50	50	50	50
Long-term debt	40	30	30	30	30
Provisions & other liab	1,713	1,982	1,989	1,999	2,012
Total liabilities	**2,822**	**3,669**	**3,675**	**3,685**	**3,699**
Shareholders' equity	776	1,162	1,605	2,123	2,765
Minority interests	3	3	3	3	3
Total equity	**779**	**1,165**	**1,608**	**2,126**	**2,768**
Net debt	**-975**	**-1,899**	**-2,161**	**-2,512**	**-2,999**
Net debt to equity (%)	-125.2	-163.1	-134.3	-118.1	-108.4

Valuation ratios	2010	2011	2012E	2013E	2014E
PE (x)	21.1	17.0	14.3	12.0	9.8
PB (x)	11.6	7.8	5.6	4.3	3.3
EV/EBITDA (x)	12.7	10.0	7.8	6.1	4.8
FCF yield (%)	-0.1	13.3	5.0	6.5	8.4
Dividend yield (%)	1.6	2.0	2.5	3.0	3.6
Payout ratio (%)	35	35	36	36	36
ROE (%)	51.9	55.7	46.4	40.8	38.0
Cashflow (US$m)	**2010**	**2011**	**2012E**	**2013E**	**2014E**
EBITDA	634	763	898	1,081	1,303
Working capital	-451	806	0	0	0
Other	-77	-62	-149	-201	-245
Operating cashflow	**106**	**1,508**	**749**	**880**	**1,058**
Capex	-116	-290	-290	-290	-290
Net acq/disposals	-131	-78	0	0	0
Other	-7	4	0	0	0
Investing cashflow	**-254**	**-363**	**-290**	**-290**	**-290**
Dividends paid	-132	-160	-198	-243	-288
Financing cashflow	**-201**	**-217**	**-198**	**-243**	**-288**
Net change in cash	**-357**	**921**	**261**	**347**	**480**
Free cashflow to s/holders	**-10**	**1,218**	**459**	**590**	**768**

For further data queries on Citi's full coverage universe please contact CIRA Data Services Europe at CIRADataServicesEMEA@citi.com or +44-207-986-4050
For definitions of the items in this table, please click here.

Powered by: dataCentral

Petrofac

Company description

Petrofac is an Engineering & Construction contractor, offering full life cycle services across both upstream and downstream oil and gas activities. Operational centres are located in Aberdeen, Abu Dhabi, Chennai, Mumbai, Sharjah, and Woking (UK) while the current contract backlog is concentrated in the Middle East/North Africa/CIS. E&C contracts are typically bid on a lump-sum turnkey basis. Energy Developments is a focus growth area, which seeks opportunities to co-invest in hydrocarbon basins with proved, but undeveloped resources.

Investment strategy

Our Neutral recommendation for Petrofac considers sector-leading E&C earnings visibility, a conservative balance sheet (net cash), growth opportunities in Integrated Energy Services, and a proven track record of successful execution in frontier geographies against a valuation which looks to adequately reflect these attractive growth prospects.

Valuation

Our 12-month target of £18.5 is based on 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 capex. Our terminal value EBITDA margin of 17% is the level we judge sustainable given our perception of Petrofac's competitive position within the industry, historical results, and per annum investment needed to sustain this position. All cash flows are then discounted at a 13.5% WACC.

Risks

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

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

Concentrated order book - Four projects in Petrofac's backlog exceed $1B and are bid on a lump-sum turnkey basis. Problems with execution or severe cost overruns at one of these sites would negatively impact Petrofac's profitability.

Commodity demand - Investment decisions by Petrofac's key customer base are highly sensitive to underlying demand and prices for oil and gas. A sharp downturn in demand would negatively impact results.

Legislation/political uncertainty - Petrofac derives considerable business from the Middle East/North Africa. Although operations to date have suffered little impact, the threat remains that political upheaval could impact Petrofac's ability to carry out operations and recognise revenue.

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

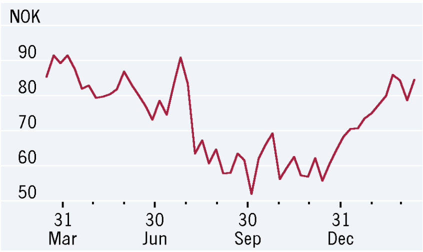
If the impact of these risk factors is less negative than we currently anticipate, then the share price might rise above our target price.

Company Focus

- Company Update
- Rating Change
- Target Price Change
- Estimate Change

Neutral	**2**
from Sell	
Price (14 Mar 12)	NKr84.70
Target price	NKr92.00
from NKr62.50	
Expected share price return	8.6%
Expected dividend yield	3.0%
Expected total return	**11.6%**
Market Cap	NKr18,448M
	US$3,238M

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



PGS (PGS.OL)

Neutral – PT NKr92

- **Discretionary budgets boost multi-client** — Citi's 2012 oil price forecast of $125/bl Brent implies a price >25% above average operator planning assumptions. To the extent this translates into increased discretionary capex, multi-client late sales are poised to benefit. PGS has expanded its multi-client library by 14% since 2009, reducing allocation to contract work each year since 2008 as vessel pricing retreated. We see this decision as particularly well timed with the current high oil price environment and expect multi-client sales of 25% pa 2011-13E (vs. 17% for contract) and delivering a 700bps uplift to group EBITDA margins.
- **Contract showing modest recovery** — Marine seismic utilisation looks to be rebounding off the 2011 cyclical lows and we see utilisation tightening by 10% between 2011-13E (to 89%). For FY 2012 and 2013, we expect prices +11% p.a. (15% YoY during this year's summer season). However, we do not see utilisation returning to the heady days of 2007-08, and expect prices to stabilize from 2014. For marine contract margins, we see a path from 4% in 2011 to 20% in 2014 (EBIT); a healthy rise, but far from the 40%+ delivered 2006-08, and a level which we think the market is already reflecting.
- **5th generation Ramforms deliver growth** — PGS's two fifth generation Ramform vessels are currently on time and on budget, with delivery expected in Q2 and Q4 2014 respectively. The units will be the most technologically advanced in the industry, able to tow up to 24 streamers and serve to maintain PGS's advantageous position on the industry cost curve. We believe bottom-quartile seismic capacity will continue to struggle with profitability this decade and see investment in fleet renewal as necessary to sustaining suitable returns. In light of the upturn in the market and PGS's technological leadership, we expect the exercise of two outstanding options for additional 5th generation vessels this year (for 2015 delivery).
- **Valuation** — PGS is trading at a 12% discount to the sector 2013E PE, a valuation which looks fair given the shorter lead-times and inferior industry dynamics associated with marine seismic. Due to the improved prospects around multi-client sales, we upgrade our rating to Neutral from Sell. We increase our 2012 estimates to reflect higher pricing and discretionary capex budget but lower 2013 due to some 2013 spend being brought forward. We increase our target price to NKr92 from NKr62.50 to reflect higher multi-client sales/cash flows and long-term growth assumptions.

PGS (USD)

Year to 31 Dec	2010A	2011A	2012E	2013E	2014E
Sales ($M)	1,136.3	1,253.0	1,493.3	1,778.0	1,998.6
Net Income ($M)	-22.4	33.4	202.2	287.6	369.7
Diluted EPS ($)	-0.11	0.15	0.93	1.32	1.70
Diluted EPS (Old) ($)	-0.11	0.30	0.76	1.47	1.85
PE (x)	-133.1	96.8	16.0	11.2	8.7
EV/EBITDA (x)	8.2	6.9	5.2	4.3	3.6
DPS ($)	0.00	0.00	0.00	0.00	0.00
Net Div Yield (%)	0.0	0.0	0.0	0.0	0.0

PGS.OL: Fiscal year end 31-Dec — Price: NKr84.70; TP: NKr92.00; Market Cap: NKr18,448m; Recomm: Neutral

Profit & Loss (US$m)	2010	2011	2012E	2013E	2014E
Sales revenue	1,136	1,253	1,493	1,778	1,999
Cost of sales	-594	-656	-781	-930	-1,046
Gross profit	542	597	712	848	953
Gross Margin (%)	47.7	47.7	47.7	47.7	47.7
EBITDA	**540**	**539**	**717**	**879**	**996**
EBITDA Margin (%)	47.6	43.0	48.0	49.5	49.8
Depreciation	-218	-161	-164	-185	-191
Amortisation	-192	-240	-261	-299	-311
EBIT	**131**	**139**	**292**	**395**	**494**
EBIT Margin (%)	11.5	11.1	19.6	22.2	24.7
Net interest	-51	-51	-35	-36	-32
Associates	-10	-12	-4	0	0
Non-op/Except	-78	-10	0	0	0
Pre-tax profit	**-8**	**65**	**253**	**359**	**462**
Tax	-14	-30	-51	-72	-92
Extraord./Min.Int./Pref.div.	15	0	0	0	0
Reported net profit	**-8**	**35**	**202**	**288**	**370**
Net Margin (%)	-0.7	2.8	13.5	16.2	18.5
Core NPAT	-22	33	202	288	370

Per share data	2010	2011	2012E	2013E	2014E
Reported EPS ($)	-0.04	0.16	0.93	1.32	1.70
Core EPS ($)	-0.11	0.15	0.93	1.32	1.70
DPS ($)	0	0	0	0	0
CFPS ($)	1.55	2.01	2.93	3.59	4.05
FCFPS ($)	-0.34	-0.50	-0.24	0.74	1.89
BVPS ($)	8.61	8.12	8.87	9.73	10.77
Wtd avg ord shares (m)	200	217	217	217	217
Wtd avg diluted shares (m)	200	218	218	218	218

Growth rates	2010	2011	2012E	2013E	2014E
Sales revenue (%)	-29.1	10.3	19.2	19.1	12.4
EBIT (%)	-66.0	6.1	110.4	35.3	25.0
Core NPAT (%)	-112.8	249.5	505.4	42.2	28.5
Core EPS (%)	-112.1	237.4	505.4	42.2	28.5

Balance Sheet (US$m)	2010	2011	2012E	2013E	2014E
Cash & cash equiv.	433	175	82	143	411
Accounts receivables	225	209	209	209	209
Inventory	0	0	0	0	0
Net fixed & other tangibles	1,517	1,673	1,884	1,999	1,958
Goodwill & intangibles	553	587	641	662	671
Financial & other assets	273	271	271	271	271
Total assets	**3,002**	**2,916**	**3,088**	**3,285**	**3,520**
Accounts payable	95	58	58	58	58
Short-term debt	0	0	0	0	0
Long-term debt	784	743	743	743	743
Provisions & other liab	401	352	362	372	382
Total liabilities	**1,280**	**1,153**	**1,163**	**1,173**	**1,183**
Shareholders' equity	1,722	1,763	1,925	2,111	2,337
Minority interests	0	0	0	0	0
Total equity	**1,722**	**1,763**	**1,925**	**2,111**	**2,337**
Net debt	**351**	**568**	**661**	**600**	**332**
Net debt to equity (%)	20.4	32.2	34.3	28.4	14.2

Valuation ratios	2010	2011	2012E	2013E	2014E
PE (x)	nm	96.8	16.0	11.2	8.7
PB (x)	1.7	1.8	1.7	1.5	1.4
EV/EBITDA (x)	8.2	6.9	5.2	4.3	3.6
FCF yield (%)	-2.3	-3.3	-1.6	5.0	12.7
Dividend yield (%)	0	0	0	0	0
Payout ratio (%)	0	0	0	0	0
ROE (%)	-0.5	2.0	11.0	14.3	16.6

Cashflow (US$m)	2010	2011	2012E	2013E	2014E
EBITDA	540	539	717	879	996
Working capital	-62	-40	0	0	0
Other	-168	-62	-80	-97	-114
Operating cashflow	**310**	**438**	**637**	**782**	**882**
Capex	-378	-546	-690	-620	-470
Net acq/disposals	167	1	0	0	0
Other	148	-65	0	0	0
Investing cashflow	**-63**	**-609**	**-690**	**-620**	**-470**
Dividends paid	-1	0	-40	-101	-144
Financing cashflow	**15**	**-86**	**-40**	**-101**	**-144**
Net change in cash	**262**	**-258**	**-93**	**61**	**268**
Free cashflow to s/holders	**-68**	**-108**	**-53**	**162**	**412**

For further data queries on Citi's full coverage universe please contact CIRA Data Services Europe at CIRADataServicesEMEA@citi.com or +44-207-986-4050
For definitions of the items in this table, please click here.

Powered by: dataCentral

PGS

Company description

PGS is a pure-play marine seismic firm, with sales diversified across marine contract and multi-client acquisition and processing & imaging. The firm operates a fleet of advanced vessels and attempts to differentiate via R&D spend and maintaining a competitive cost position amongst the global seismic vessel fleet.

Investment strategy

We rate PGS as Neutral. PGS has a concentrated exposure to high-end marine seismic, where we see industry utilisation set to tighten over 2012-13 and prices to rise by ~25%. The differentiation in returns afforded top quartile capacity should continue to expand as oil exploration moves into deeper water and harsh environements. Additionally, PGS should benefit from continued investments in multi-client data in key exploration basins and investments in the fleet to maintain technological leadership in the industry. This is balanced against a valuation which looks to largely reflect improving fundamentals.

Valuation

Our 12-month target of NOK 92 is based on DCF valuation. Free cash flows between 2012-20E 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 spend. Our assumed EBITDA margin of 47% is the level we judge sustainable given our perception of PGS's competitive position within the industry, historical operating results, and assumed annual investment necessary to sustain that position. All cash flows are discounted at a WACC of 13% and we subtract FY 2012E net debt to derive current equity value. We assume a NOK/USD exchange rate of 5.6.

Risks

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

Key risks to achieving our price target include:

Commodity demand - PGS'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.

Financial constraints - PGS operates a capital-intensive business that requires financing for ongoing investment in the marine vessel fleet, multi-client data library, and R&D. A deterioration in the business environment may impair its ability to acquire new funding or service existing debts. PGS filed for Chapter 11 in 2003 following a prolonged period of relatively low energy prices.

Piracy/global turmoil - Seismic vessels operate under conditions which make them vulnerable to piracy attacks. Additionally, CGG operates in regions of proven or prospective hydrocarbon resources, which have historically shown increased risks of civil disturbance and/or acts of terrorism.

Foreign exchange risks - The majority of CGG's business is conducted in USD, yet the company incurs significant costs in other currencies.

If the impact on the company from any of these factors proves to be greater than we anticipate, the stock will likely have difficulty achieving our target price. Likewise, if any of these factors proves to have less of an effect than we anticipate, the stock could outperform our target.

Company Focus

Saipem (SPMI.MI)

Buy – PT €50

- Company Update
- Target Price Change
- Estimate Change

Buy	1
Price (14 Mar 12)	€38.38
Target price	€50.00
from €40.00	
Expected share price return	30.3%
Expected dividend yield	1.7%
Expected total return	**32.0%**
Market Cap	€16,936M
	US$22,159M

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

- **Pushing the boundary** — Saipem's five-year, €8B capex program completes in 2012 with delivery of the industry-leading Castorone pipelay vessel. Together with the FDS 2, these additions to Saipem's fleet leave them well positioned for frontier offshore construction. The two assets already feature in 33% of offshore E&C backlog (€2.5B), with the Castorone scheduled to lay the Ichthys pipeline in Australia and the FDS 2 leading SURF development for Husky's Liwan project in China. Based on construction costs for the Castorone of $750m per vessel, early awards suggest returns >20%.

- **Offshore backlog to grow further in 2012** — Whilst Saipem's group backlog remained stable in 2011 (€20.4B), offshore backlog's contribution within the business mix increased from 27% to 32%, implying an €80m increase in the backlog's embedded profitability (or 6% of 2013E net income). Given the robust bid pipeline we see offshore West Africa and Brazil (in addition to works already won offshore Australia), we expect offshore backlog to expand further in 2012E.

- **Hard hats limit risks** — Saipem views 'control' over construction as strategic for reducing risks around fixed-price contracting and delivering local content. Control implies that a meaningful percentage of workers on a construction project are Saipem employees, rather than fully subcontracted. As part of this strategy, Saipem owns nine construction yards, with two under development (Brazil and Canada), which cumulatively employ ~40% of Saipem's 39000 employees. These yards feature prominently in Saipem's strong presence in Nigeria, Angola, Caspian, and Middle East and in our view, help reduce the risks of project cost overruns.

- **Falling idle costs** — Saipem had idle cost of €134m in 2011, +225% from the cyclical low in 2008. These costs alone (port fees, minimum crew wages, etc…) reduced 2011 earnings by ~7%, an item that should reverse as utilisation tightens over 2013/14E.

- **Valuation** — Saipem is trading in-line with the European oil services sector on 2012E PE, a valuation which looks attractive given a robust bid pipeline and leading exposure to frontier projects. We increase our estimates due to tightening offshore construction markets. We also increase our target price to €50 from €40 due to higher long-term growth and margin assumptions. We rate the stock Buy.

Saipem (EUR)

Year to 31 Dec	2010A	2011A	2012E	2013E	2014E
Sales (€M)	11,160.0	12,593.0	13,209.3	14,497.1	15,990.1
Net Income (€M)	846.4	921.0	1,033.9	1,288.8	1,599.8
Diluted EPS (€)	1.92	2.09	2.34	2.92	3.62
Diluted EPS (Old) (€)	1.89	2.06	2.26	2.80	3.34
PE (x)	19.9	18.4	16.4	13.1	10.6
EV/EBITDA (x)	11.0	9.5	8.5	7.0	5.8
DPS (€)	0.63	0.70	0.77	0.96	1.20
Net Div Yield (%)	1.6	1.8	2.0	2.5	3.1

SPMI.MI: Fiscal year end 31-Dec — Price: €38.38; TP: €50.00; Market Cap: €16,936m; Recomm: Buy

Profit & Loss (€m)	2010	2011	2012E	2013E	2014E
Sales revenue	11,160	12,593	13,209	14,497	15,990
Cost of sales	-9,360	-10,608	-11,065	-11,972	-13,049
Gross profit	1,800	1,985	2,144	2,525	2,941
Gross Margin (%)	16.1	15.8	16.2	17.4	18.4
EBITDA	**1,837**	**2,135**	**2,332**	**2,715**	**3,115**
EBITDA Margin (%)	16.5	17.0	17.7	18.7	19.5
Depreciation	-502	-623	-681	-723	-723
Amortisation	-15	-19	-21	-22	-22
EBIT	**1,320**	**1,493**	**1,631**	**1,970**	**2,370**
EBIT Margin (%)	11.8	11.9	12.3	13.6	14.8
Net interest	-110	-133	-115	-75	-37
Associates	30	19	8	16	16
Non-op/Except	16	0	0	0	0
Pre-tax profit	**1,256**	**1,379**	**1,524**	**1,911**	**2,349**
Tax	-344	-392	-442	-554	-681
Extraord./Min.Int./Pref.div.	-50	-66	-48	-68	-68
Reported net profit	**862**	**921**	**1,034**	**1,289**	**1,600**
Net Margin (%)	7.7	7.3	7.8	8.9	10.0
Core NPAT	846	921	1,034	1,289	1,600

Per share data	2010	2011	2012E	2013E	2014E
Reported EPS (€)	1.96	2.09	2.34	2.92	3.62
Core EPS (€)	1.92	2.09	2.34	2.92	3.62
DPS (€)	0.63	0.70	0.77	0.96	1.20
CFPS (€)	2.79	3.62	4.04	4.76	5.47
FCFPS (€)	-0.72	0.90	1.98	3.04	3.74
BVPS (€)	9.28	10.77	12.43	14.60	17.30
Wtd avg ord shares (m)	437	437	437	437	437
Wtd avg diluted shares (m)	440	441	441	441	441

Growth rates	2010	2011	2012E	2013E	2014E
Sales revenue (%)	8.4	12.8	4.9	9.7	10.3
EBIT (%)	14.0	13.1	9.2	20.8	20.3
Core NPAT (%)	15.3	8.8	12.3	24.7	24.1
Core EPS (%)	15.4	8.4	12.3	24.7	24.1

Balance Sheet (€m)	2010	2011	2012E	2013E	2014E
Cash & cash equiv.	930	1,089	1,656	2,660	3,891
Accounts receivables	4,330	3,458	3,458	3,458	3,458
Inventory	791	1,392	1,392	1,392	1,392
Net fixed & other tangibles	7,403	8,024	8,233	8,248	8,263
Goodwill & intangibles	760	752	752	752	752
Financial & other assets	814	766	766	766	766
Total assets	**15,028**	**15,481**	**16,257**	**17,275**	**18,522**
Accounts payable	5,814	5,393	5,441	5,509	5,577
Short-term debt	1,329	1,274	1,274	1,274	1,274
Long-term debt	2,887	2,813	2,813	2,813	2,813
Provisions & other liab	844	1,178	1,178	1,178	1,178
Total liabilities	**10,874**	**10,658**	**10,706**	**10,774**	**10,842**
Shareholders' equity	4,060	4,709	5,437	6,387	7,566
Minority interests	94	114	114	114	114
Total equity	**4,154**	**4,823**	**5,551**	**6,501**	**7,680**
Net debt	**3,286**	**2,998**	**2,431**	**1,427**	**196**
Net debt to equity (%)	79.1	62.2	43.8	22.0	2.5

Valuation ratios	2010	2011	2012E	2013E	2014E
PE (x)	19.9	18.4	16.4	13.1	10.6
PB (x)	4.1	3.6	3.1	2.6	2.2
EV/EBITDA (x)	11.0	9.5	8.5	7.0	5.8
FCF yield (%)	-1.9	2.4	5.2	7.9	9.8
Dividend yield (%)	1.6	1.8	2.0	2.5	3.1
Payout ratio (%)	33	34	33	33	33
ROE (%)	23.0	21.0	20.4	21.8	22.9

Cashflow (€m)	2010	2011	2012E	2013E	2014E
EBITDA	1,837	2,135	2,332	2,715	3,115
Working capital	-245	-219	0	0	0
Other	-364	-318	-549	-613	-702
Operating cashflow	**1,228**	**1,598**	**1,783**	**2,102**	**2,413**
Capex	-1,545	-1,199	-910	-760	-760
Net acq/disposals	49	18	0	0	0
Other	41	0	0	0	0
Investing cashflow	**-1,455**	**-1,181**	**-910**	**-760**	**-760**
Dividends paid	-263	-297	-306	-338	-421
Financing cashflow	**31**	**-96**	**-306**	**-338**	**-421**
Net change in cash	**-152**	**169**	**567**	**1,003**	**1,232**
Free cashflow to s/holders	**-317**	**399**	**873**	**1,342**	**1,653**

For further data queries on Citi's full coverage universe please contact CIRA Data Services Europe at CIRADataServicesEMEA@citi.com or +44-207-986-4050
For definitions of the items in this table, please click here.

Powered by: dataCentral

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.

Company Focus

- Company Update
- Target Price Change
- Estimate Change

Neutral	2
Price (14 Mar 12)	NKr220.00
Target price	NKr225.00
from NKr230.00	
Expected share price return	2.3%
Expected dividend yield	7.9%
Expected total return	**10.2%**
Market Cap	NKr112,460M
	US$19,738M

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

Seadrill (SDRL.OL)
Neutral – PT NKr225

- **Dividend supported by $14B backlog** — Seadrill's current backlog >$14B offers sector-leading top-line visibility at 3x 2012E revenues. We forecast $5.1B of operating cash flow over 2012-13E. Assuming 80% of $3.7B of maturing debt is refinanced and 80% leverage on newbuild commitments of $3B sees current levels of dividend well secured ($600m of headroom).
- **Leverage increases cyclical risks** — Seadrill's build-out has been accelerated by the availability of attractive shipyard terms and bank financing, with a reliance on variable debt benefitting from the current low rate environment. As such, Seadrill's leverage of 170% is considerably higher than US peers (Transocean and Noble of 51% and 55%) which have not participated as aggressively in the current newbuild cycle. Whilst Seadrill's leverage boosts equity returns (2012E RoE of 25% is 550bps higher than Saipem), it also increases the cyclical risks inherent in both drilling and interest rates.
- **Shipyard terms, available leverage enable further growth** — Seadrill recently ordered two additional newbuild UDW drillships for 2014 delivery. At $600m each, the high-end assets (water depth capacity >12000ft and seven ram BOP) look to cost ~10% less than similar assets ordered in October by a competitor. This is evidence of Seadrill's buying power, not only as the world's largest driller (by market cap), but also as a member of the Fredriksen group of companies. Additionally, available financing around energy assets looks buoyant, and given the recent improvement in day rates, expect Seadrill to exercise its remaining option with Samsung in 2012 for an additional 2014 delivery.
- **Expanding high-end differentiation** — Utilisation around high-end UDW capacity remains high (>95%) and day-rates have risen substantially from the 2010 lows. In part, this strength reflects the structural shift toward deeper water. Additionally, in an environment of heightened risk-aversion post-Macondo, operators are opting for more expensive, high-specification rigs even when conditions may allow for a less advantaged asset. Older, shallow-water units are likely to see continued low utilisation rates (<80%), a distinct advantage for Seadrill's modern fleet.
- **Valuation** — Seadrill is trading on 10.5x 2013E PE, a 10% premium to US drilling peers. This valuation looks to adequately reflect the better earnings power of Seadrill's comparatively young drilling fleet in our view. We slightly lower our 2012 estimates due to higher operating expenses but raise 2013 and 2014 due to higher day rate assumptions. We lower our target price to NKr225 from NKr230 to reflect a stronger Norwegian Krone. We rate the stock Neutral.

Seadrill (USD)

Year to 31 Dec	2010A	2011A	2012E	2013E	2014E
Sales ($M)	3,758.0	4,193.0	4,472.0	5,224.2	5,786.0
Net Income ($M)	1,205.3	1,351.9	1,479.9	1,791.8	1,840.8
Diluted EPS ($)	2.73	2.78	3.04	3.68	3.78
Diluted EPS (Old) ($)	2.73	2.68	3.08	3.46	3.43
PE (x)	14.1	13.9	12.7	10.5	10.2
EV/EBITDA (x)	12.7	12.0	11.2	10.0	9.3
DPS ($)	2.74	3.06	3.20	3.20	3.20
Net Div Yield (%)	7.1	7.9	8.3	8.3	8.3

SDRL.OL: Fiscal year end 31-Dec — Price: NKr220.00; TP: NKr225.00; Market Cap: NKr112,460m; Recomm: Neutral

Profit & Loss (US$m)	2010	2011	2012E	2013E	2014E
Sales revenue	3,758	4,193	4,472	5,224	5,786
Cost of sales	-2,263	-2,349	-2,505	-2,926	-3,241
Gross profit	1,495	1,844	1,967	2,298	2,545
Gross Margin (%)	39.8	44.0	44.0	44.0	44.0
EBITDA	**2,084**	**2,338**	**2,586**	**2,997**	**3,356**
EBITDA Margin (%)	55.5	55.8	57.8	57.4	58.0
Depreciation	-459	-562	-574	-612	-678
Amortisation	0	0	0	0	0
EBIT	**1,625**	**1,776**	**2,012**	**2,385**	**2,678**
EBIT Margin (%)	43.3	42.4	45.0	45.6	46.3
Net interest	-270	-276	-348	-383	-556
Associates	48	-420	91	86	87
Non-op/Except	-72	527	0	0	0
Pre-tax profit	**1,331**	**1,607**	**1,755**	**2,089**	**2,210**
Tax	-159	-165	-176	-209	-265
Extraord./Min.Int./Pref.div.	-55	-87	-100	-88	-104
Reported net profit	**1,117**	**1,355**	**1,480**	**1,792**	**1,841**
Net Margin (%)	29.7	32.3	33.1	34.3	31.8
Core NPAT	1,205	1,352	1,480	1,792	1,841

Per share data	2010	2011	2012E	2013E	2014E
Reported EPS ($)	2.53	2.78	3.04	3.68	3.78
Core EPS ($)	2.73	2.78	3.04	3.68	3.78
DPS ($)	2.74	3.06	3.20	3.20	3.20
CFPS ($)	2.91	3.73	4.42	5.12	5.39
FCFPS ($)	-2.72	-1.75	2.48	-1.14	1.37
BVPS ($)	13.19	12.97	12.93	13.57	14.31
Wtd avg ord shares (m)	409	467	467	467	467
Wtd avg diluted shares (m)	442	487	487	487	487

Growth rates	2010	2011	2012E	2013E	2014E
Sales revenue (%)	15.5	11.6	6.7	16.8	10.8
EBIT (%)	18.4	9.3	13.3	18.5	12.3
Core NPAT (%)	16.6	12.2	9.5	21.1	2.7
Core EPS (%)	15.3	1.7	9.5	21.1	2.7

Balance Sheet (US$m)	2010	2011	2012E	2013E	2014E
Cash & cash equiv.	1,353	483	242	340	608
Accounts receivables	697	720	720	720	720
Inventory	0	0	0	0	0
Net fixed & other tangibles	12,201	13,779	14,105	16,393	17,575
Goodwill & intangibles	1,733	1,320	1,320	1,320	1,320
Financial & other assets	1,514	1,963	1,963	1,963	1,963
Total assets	**17,497**	**18,265**	**18,351**	**20,736**	**22,186**
Accounts payable	95	38	38	38	38
Short-term debt	981	1,419	1,419	1,419	1,419
Long-term debt	8,176	9,009	9,009	11,009	12,009
Provisions & other liab	2,310	1,473	1,513	1,601	1,705
Total liabilities	**11,561**	**11,939**	**11,979**	**14,067**	**15,171**
Shareholders' equity	5,398	6,055	6,041	6,338	6,684
Minority interests	539	331	331	331	331
Total equity	**5,937**	**6,386**	**6,372**	**6,669**	**7,015**
Net debt	**7,803**	**9,945**	**10,186**	**12,088**	**12,820**
Net debt to equity (%)	131.4	155.7	159.9	181.3	182.7

Valuation ratios	2010	2011	2012E	2013E	2014E
PE (x)	14.1	13.9	12.7	10.5	10.2
PB (x)	2.9	3.0	3.0	2.8	2.7
EV/EBITDA (x)	12.7	12.0	11.2	10.0	9.3
FCF yield (%)	-7.1	-4.5	6.4	-2.9	3.6
Dividend yield (%)	7.1	7.9	8.3	8.3	8.3
Payout ratio (%)	100	110	105	87	85
ROE (%)	23.3	23.7	24.5	29.0	28.3

Cashflow (US$m)	2010	2011	2012E	2013E	2014E
EBITDA	2,084	2,338	2,586	2,997	3,356
Working capital	-323	71	0	0	0
Other	-478	-593	-432	-505	-734
Operating cashflow	**1,283**	**1,816**	**2,154**	**2,492**	**2,622**
Capex	-2,486	-2,670	-945	-3,045	-1,953
Net acq/disposals	35	-55	0	0	0
Other	154	92	45	145	93
Investing cashflow	**-2,297**	**-2,633**	**-900**	**-2,900**	**-1,860**
Dividends paid	-989	-1,440	-1,494	-1,494	-1,494
Financing cashflow	**1,293**	**538**	**-1,494**	**506**	**-494**
Net change in cash	**280**	**-272**	**-241**	**98**	**268**
Free cashflow to s/holders	**-1,202**	**-854**	**1,209**	**-553**	**669**

For further data queries on Citi's full coverage universe please contact CIRA Data Services Europe at CIRADataServicesEMEA@citi.com or +44-207-986-4050
For definitions of the items in this table, please click here.

Powered by: dataCentral

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 Neutral. Seadrill's >$12B 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 levels. However, the current newbuild program and future refinancing needs is highly reliant access to debt financing.

Valuation

Our 12-month target of NOK 225 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 52% 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%. Equity stakes are valued at market value. We have assumed a NOK/USD exchange rate of 5.6.

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.

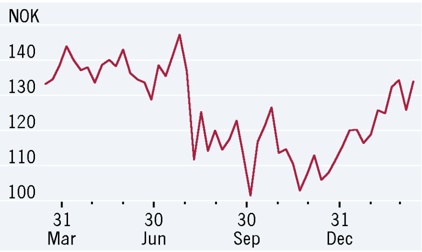
Drilling rig supply/demand - The day rates paid for drilling services is largely dependent on the supply/demand balance for equipment (drillships, semi-submersibles, jack-ups, tender rigs). A rise in industry expenditure beyond our current expectations or a delay in current planned capacity from coming 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.

Company Focus

- Company Update
- Target Price Change
- Estimate Change

Buy	**1**
Price (14 Mar 12)	NKr134.60
Target price	NKr165.00
from NKr140.00	
Expected share price return	22.6%
Expected dividend yield	1.1%
Expected total return	**23.7%**
Market Cap	NKr47,351M
	US$8,311M

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



Subsea 7 (SUBC.OL)
Buy – PT NKr165

- **Brazil: unique opportunity, unique challenges** — Brazil is the critical subsea construction growth market, with the development of Brazilian pre-salt accounting for >50% of the growth in global ultradeep water production this decade. Subsea 7 is well placed to benefit from this growth; 27% of backlog is currently from Brazil and we expect its contribution to rise from 12% to 20% 2011-15E. The increasing reliance on one buyer – Petrobras – presents a unique risk. In comparison to markets with more operators, contractor pricing power is likely lower, as the need to secure long-term demand reduces the incentive to exploit periods of short-term market tightness. Additionally, permitting problems with the planned Parana spoolbase and the associated impact on margins for Guara-Lula flag concern over potential future bureaucratic costs and project delays. As such, whilst the top-line opportunity more than warrants continued investment, we have assumed stable margins in Brazil 2012-16E (EBITDA of 21%) as compared to a 700bps rise in the North Sea (from 16% to 23%).

- **10% FCF yield by 2014** — We expect Subsea 7 to invest in further Brazilian assets this decade, but see reduced capital spend in comparison to the recent period of high organic spend. Following the delivery of the Seven Borealis in Q2 this year, we expect annual capex to fall 25% 2011-13E to $500m. We have assumed $100m p.a. of merger synergies from 2012 and see a free cash flow yield >10% by 2014E.

- **Life-of-field services tightening** — After a 16% peak-to-trough decline (2008-10), demand for Subsea 7's diving and ROV support rose 8% in 2011, with H2 vessel utilisation improving to 84% (from 81% in 2010). With over 85% of activity derived from Northwest Europe and >15% market share in that region, the increase in North Sea field activity should deliver top-line growth >10% pa through to 2015 and contribute to the upturn in margins we see in that region.

- **Valuation** — Subsea 7 offers the most attractive risk-adjusted growth in the sector, trading at a 2012-15E PEG ratio of just 0.5x. We leave our 2012 estimates unchanged but increase 2013 estimates due to tightening offshore construction markets. We also increase our target price to NKr165 from NKr140 due to higher cash flow and long-term growth assumptions. We rate the stock Buy.

Subsea 7 (USD)

Year to 31 Dec	2009A	2010A	2011E	2012E	2013E
Sales ($M)	4,648.1	4,391.7	5,474.8	5,825.5	6,808.4
Net Income ($M)	524.9	385.4	417.7	464.2	703.8
Diluted EPS ($)	1.38	1.07	1.10	1.23	1.86
Diluted EPS (Old) ($)	1.38	1.07	1.10	1.23	1.80
PE (x)	17.1	22.0	21.4	19.3	12.7
EV/EBITDA (x)	7.9	7.9	7.9	7.0	4.9
DPS ($)	0.12	0.00	0.00	0.25	0.37
Net Div Yield (%)	0.5	0.0	0.0	1.0	1.6

SUBC.OL: Fiscal year end 31-Dec — Price: NKr134.60; TP: NKr165.00; Market Cap: NKr47,351m; Recomm: Buy

Profit & Loss (US$m)	2009	2010	2011E	2012E	2013E
Sales revenue	4,648	4,392	5,475	5,826	6,808
Cost of sales	-3,896	-3,660	-4,807	-5,064	-5,685
Gross profit	752	731	668	762	1,124
Gross Margin (%)	16.2	16.7	12.2	13.1	16.5
EBITDA	**1,015**	**988**	**1,026**	**1,139**	**1,520**
EBITDA Margin (%)	21.8	22.5	18.7	19.6	22.3
Depreciation	-257	-253	-359	-377	-396
Amortisation	-5	-4	0	0	0
EBIT	**752**	**731**	**668**	**762**	**1,124**
EBIT Margin (%)	16.2	16.7	12.2	13.1	16.5
Net interest	-76	-62	-23	-10	-9
Associates	0	0	0	0	0
Non-op/Except	96	-28	15	0	0
Pre-tax profit	**772**	**641**	**659**	**752**	**1,115**
Tax	-227	-208	-213	-256	-379
Extraord./Min.Int./Pref.div.	-15	0	-29	105	-32
Reported net profit	**530**	**433**	**418**	**602**	**704**
Net Margin (%)	11.4	9.9	7.6	10.3	10.3
Core NPAT	525	385	418	464	704
Per share data	**2009**	**2010**	**2011E**	**2012E**	**2013E**
Reported EPS ($)	1.39	1.21	1.10	1.59	1.86
Core EPS ($)	1.38	1.07	1.10	1.23	1.86
DPS ($)	0.12	0	0	0.25	0.37
CFPS ($)	2.86	0.87	1.24	2.31	2.99
FCFPS ($)	1.76	-1.11	-0.56	0.72	1.67
BVPS ($)	6.64	7.50	17.10	18.97	20.90
Wtd avg ord shares (m)	339	340	339	339	339
Wtd avg diluted shares (m)	381	359	379	379	379
Growth rates	**2009**	**2010**	**2011E**	**2012E**	**2013E**
Sales revenue (%)	-5.1	-5.5	24.7	6.4	16.9
EBIT (%)	-15.1	-2.8	-8.7	14.1	47.5
Core NPAT (%)	-8.9	-26.6	8.4	11.1	51.6
Core EPS (%)	-8.3	-22.1	2.7	11.1	51.6
Balance Sheet (US$m)	**2009**	**2010**	**2011E**	**2012E**	**2013E**
Cash & cash equiv.	1,395	943	680	1,156	1,705
Accounts receivables	804	1,009	876	876	876
Inventory	55	59	63	63	63
Net fixed & other tangibles	2,011	2,528	3,385	3,608	3,712
Goodwill & intangibles	109	104	2,424	2,424	2,424
Financial & other assets	973	861	1,521	1,521	1,521
Total assets	**5,347**	**5,506**	**8,949**	**9,648**	**10,301**
Accounts payable	1,200	1,251	1,292	1,292	1,292
Short-term debt	133	225	13	13	13
Long-term debt	884	670	880	880	880
Provisions & other liab	843	751	922	922	922
Total liabilities	**3,061**	**2,897**	**3,107**	**3,107**	**3,107**
Shareholders' equity	2,255	2,552	5,791	6,424	7,077
Minority interests	31	57	51	117	117
Total equity	**2,286**	**2,609**	**5,842**	**6,542**	**7,194**
Net debt	**-377**	**-49**	**213**	**-263**	**-812**
Net debt to equity (%)	-16.5	-1.9	3.7	-4.0	-11.3

Valuation ratios	2009	2010	2011E	2012E	2013E
PE (x)	17.1	22.0	21.4	19.3	12.7
PB (x)	3.6	3.1	1.4	1.2	1.1
EV/EBITDA (x)	7.9	7.9	7.9	7.0	4.9
FCF yield (%)	7.4	-4.7	-2.4	3.1	7.1
Dividend yield (%)	0.5	0	0	1.0	1.6
Payout ratio (%)	9	0	0	20	20
ROE (%)	28.4	18.0	10.0	9.8	10.4
Cashflow (US$m)	**2009**	**2010**	**2011E**	**2012E**	**2013E**
EBITDA	1,015	988	1,026	1,139	1,520
Working capital	127	-330	-334	0	0
Other	-54	-346	-221	-265	-388
Operating cashflow	**1,088**	**313**	**472**	**874**	**1,132**
Capex	-418	-712	-685	-600	-500
Net acq/disposals	-130	186	8	203	0
Other	219	-2	480	0	0
Investing cashflow	**-329**	**-529**	**-198**	**-397**	**-500**
Dividends paid	-40	-62	-9	0	-83
Financing cashflow	**-4**	**-252**	**-63**	**0**	**-83**
Net change in cash	**811**	**-452**	**213**	**477**	**549**
Free cashflow to s/holders	**670**	**-399**	**-214**	**274**	**632**

For further data queries on Citi's full coverage universe please contact CIRA Data Services Europe at CIRADataServicesEMEA@citi.com or +44-207-986-4050
For definitions of the items in this table, please click here.

Powered by: dataCentral

Subsea 7

Company description

Subsea 7 is an Engineering & Construction contractor principally focused on offshore oil and gas activities. The company follows from the merger of Acergy and Subsea 7 Inc completed in January 2011, and now operates a combined fleet of 42 vessels. Local content is a competitive strength, with spoolbases and/or fabrication yards in Angola, Nigeria and Brazil, a key factor in winning contract awards in those markets.

Investment strategy

We rate Subsea 7 Buy. Subsea 7 is principally focused on offshore oil & gas construction, an area of oil services where we see growth rates above the industry average and high barriers to entry. The combination of Acergy and Subsea 7 Inc comes at an opportune time, as the combined entity is now better positioned to win awards for increasingly large-scale, complex offshore projects. While a decline in energy demand growth/oil prices is likely to see a slowdown in subsea activity, the area should prove a key structural area of industry growth this decade and we view Subsea 7 as offering attractive exposure to this theme.

Valuation

Our 12-month target of NOK 165 is based on DCF valuation. Free cash flows between 2012-20E are modeled explicitly. Our terminal value assumes top-line growth of 5%, consistent with our view of the long-term growth in global energy infrastructure spend. Our terminal value EBITDA margin of 20% is the level we judge sustainable given our perception of Subsea 7'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 13%. We assume a NOK/USD exchange rate of 5.6.

Risks

Our investment rating on Subsea 7 considers a number of company-specific and industry risks

Key risks to achieving our price target include:

Commodity demand - Subsea 7's customer base is highly sensitive to underlying demand and prices for oil and gas. A sharp downturn in demand could negatively impact results.

Merger integration - The integration of Acergy SA and Subsea 7 Inc may prove more difficult and/or more costly than anticipated; similarly, expected synergies may not be delivered.

Labour and raw material inflation - Subsea 7 bids for projects on a lump-sum turnkey basis. While measures are taken to hedge potential rise in input costs, risks of cost overruns remain which could impede profitability.

Reputational damage - Engineering firms rely heavily on their execution track record to win new business. Association with an industrial accident or poor project execution could impair Subsea 7's ability to compete for new awards.

Company Focus

- Company Update
- Target Price Change
- Estimate Change

Buy	**1**
Price (14 Mar 12)	€84.86
Target price	€105.00
from €82.00	
Expected share price return	23.7%
Expected dividend yield	1.9%
Expected total return	**25.7%**
Market Cap	€9,418M
	US$12,323M

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

Technip (TECF.PA)

Buy – PT €105

- **Key technological leadership** — Technip is a technological leader around gas monetization (FLNG, GTL, LNG, and petrochemicals) flexible pipes, and offshore facilities, all areas where we see promising growth this decade. This leadership has translated into several long-term frame agreements in recent years, including a 15-year agreement with Shell for FLNG and 10-year frame agreement with BP for Spar delivery in the Gulf of Mexico. We believe this trend towards long-term supply agreements highlights operators' expectations for market tightness around key technologies and personnel later this decade. We share this view, and see Technip's leadership positions offering increasing operating leverage as this tightness intensifies.

- **Diversifying downstream** — Technip has navigated increasing Asian competition onshore Middle East by diversifying geographically. The Middle East's contribution to Technip's backlog has fallen to 17% from 38% in 2009, despite 39% growth in aggregate group backlog. Going forward, we expect continued onshore penetration into Asia and Latin America as well as growth in North America gas monetization to support 7% p.a. top-line growth onshore 2013-15E.

- **Global Industries accretive from 2013** — Technip is targeting EBITDA break-even from Global Industries in 2012. Under our view of 2012 asset utilisation for the Global assets, which look to be materially lower than those provided in the Global Industries merger documents filed with the SEC (which gave an EBITDA of $11m), this looks ambitious. Strength in the North Sea looks to more than compensate however and do not see considerable risks to 2012 guidance. Longer-term, we believe the acquisition is well timed to capture the tightening offshore market from 2013 and expect the subsea division to deliver operating profit growth of 27% p.a. 2012-15E.

- **Valuation** — Technip offers compelling leadership around several key areas of energy infrastructure spend this decade in our view. Trading on 9x 2015E PE, in-line with the sector, we think the market is underestimating this strength and superior growth prospects offered medium-term. We increase our estimates for 2012 and 2013 due to tighter offshore construction markets and faster-than-expected backlog growth. We also increase our target price to €105 from €82 to reflect higher 2012-20E cash flows and long-term growth assumptions. We rate the stock Buy.

Technip (EUR)

Year to 31 Dec	2010A	2011A	2012E	2013E	2014E
Sales (€M)	6,081.6	6,813.0	7,824.9	9,063.2	10,190.8
Net Income (€M)	417.6	507.3	546.8	699.7	918.8
Diluted EPS (€)	3.69	4.32	4.65	5.96	7.82
Diluted EPS (Old) (€)	3.69	4.16	4.37	5.80	7.28
PE (x)	23.0	19.7	18.2	14.3	10.9
EV/EBITDA (x)	10.3	9.3	8.6	7.0	5.2
DPS (€)	1.45	1.58	1.86	2.38	3.13
Net Div Yield (%)	1.7	1.9	2.2	2.8	3.7

TECF.PA: Fiscal year end 31-Dec					
Profit & Loss (€m)	**2010**	**2011**	**2012E**	**2013E**	**2014E**
Sales revenue	6,082	6,813	7,825	9,063	10,191
Cost of sales	-5,461	-6,104	-7,027	-8,049	-8,858
Gross profit	620	710	798	1,014	1,333
Gross Margin (%)	10.2	10.4	10.2	11.2	13.1
EBITDA	**778**	**884**	**985**	**1,214**	**1,536**
EBITDA Margin (%)	12.8	13.0	12.6	13.4	15.1
Depreciation	-158	-174	-187	-199	-203
Amortisation	0	0	0	0	0
EBIT	**620**	**710**	**798**	**1,014**	**1,333**
EBIT Margin (%)	10.2	10.4	10.2	11.2	13.1
Net interest	-20	17	-16	-15	-20
Associates	0	0	0	0	0
Non-op/Except	-6	-16	0	0	0
Pre-tax profit	**595**	**711**	**781**	**1,000**	**1,313**
Tax	-179	-209	-234	-300	-394
Extraord./Min.Int./Pref.div.	2	5	0	0	0
Reported net profit	**418**	**507**	**547**	**700**	**919**
Net Margin (%)	6.9	7.4	7.0	7.7	9.0
Core NPAT	418	507	547	700	919
Per share data	**2010**	**2011**	**2012E**	**2013E**	**2014E**
Reported EPS (€)	3.69	4.32	4.65	5.96	7.82
Core EPS (€)	3.69	4.32	4.65	5.96	7.82
DPS (€)	1.45	1.58	1.86	2.38	3.13
CFPS (€)	0.25	5.13	6.25	7.65	9.56
FCFPS (€)	-3.66	1.92	3.44	4.84	6.75
BVPS (€)	29.92	32.92	38.00	44.51	53.05
Wtd avg ord shares (m)	106	108	108	108	108
Wtd avg diluted shares (m)	113	117	117	117	117
Growth rates	**2010**	**2011**	**2012E**	**2013E**	**2014E**
Sales revenue (%)	-5.8	12.0	14.9	15.8	12.4
EBIT (%)	-8.3	14.4	12.4	27.2	31.4
Core NPAT (%)	145.0	21.5	7.8	28.0	31.3
Core EPS (%)	132.0	17.1	7.8	28.0	31.3
Balance Sheet (€m)	**2010**	**2011**	**2012E**	**2013E**	**2014E**
Cash & cash equiv.	3,106	2,611	2,091	2,471	3,014
Accounts receivables	1,061	952	952	952	952
Inventory	215	231	231	231	231
Net fixed & other tangibles	2,056	2,108	2,989	3,090	3,187
Goodwill & intangibles	2,408	2,460	2,460	2,460	2,460
Financial & other assets	1,376	1,378	1,378	1,378	1,378
Total assets	**10,222**	**9,740**	**10,101**	**10,582**	**11,222**
Accounts payable	1,584	1,682	1,682	1,682	1,682
Short-term debt	681	154	154	154	154
Long-term debt	1,092	1,056	1,056	1,056	1,056
Provisions & other liab	3,663	3,291	3,106	2,887	2,608
Total liabilities	**7,020**	**6,184**	**5,998**	**5,780**	**5,501**
Shareholders' equity	3,180	3,541	4,088	4,787	5,706
Minority interests	22	15	15	15	15
Total equity	**3,202**	**3,556**	**4,102**	**4,802**	**5,721**
Net debt	**-1,332**	**-1,401**	**-881**	**-1,261**	**-1,804**
Net debt to equity (%)	-41.6	-39.4	-21.5	-26.3	-31.5

Price: €84.86; TP: €105.00; Market Cap: €9,418m; Recomm: Buy					
Valuation ratios	**2010**	**2011**	**2012E**	**2013E**	**2014E**
PE (x)	23.0	19.7	18.2	14.3	10.9
PB (x)	2.8	2.6	2.2	1.9	1.6
EV/EBITDA (x)	10.3	9.3	8.6	7.0	5.2
FCF yield (%)	-4.3	2.3	4.1	5.7	8.0
Dividend yield (%)	1.7	1.9	2.2	2.8	3.7
Payout ratio (%)	39	37	40	40	40
ROE (%)	14.2	15.1	14.3	15.8	17.5
Cashflow (€m)	**2010**	**2011**	**2012E**	**2013E**	**2014E**
EBITDA	778	884	985	1,214	1,536
Working capital	-501	-164	0	0	0
Other	-249	-117	-251	-315	-413
Operating cashflow	**28**	**603**	**734**	**899**	**1,123**
Capex	-442	-378	-330	-330	-330
Net acq/disposals	-92	13	-768	0	0
Other	27	34	30	30	30
Investing cashflow	**-508**	**-331**	**-1,068**	**-300**	**-300**
Dividends paid	-144	-164	-186	-219	-280
Financing cashflow	**789**	**-708**	**-186**	**-219**	**-280**
Net change in cash	**440**	**-471**	**-520**	**380**	**543**
Free cashflow to s/holders	**-414**	**225**	**404**	**569**	**793**

For further data queries on Citi's full coverage universe please contact CIRA Data Services Europe at CIRADataServicesEMEA@citi.com or +44-207-986-4050
For definitions of the items in this table, please click here.

Powered by: dataCentral

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.

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

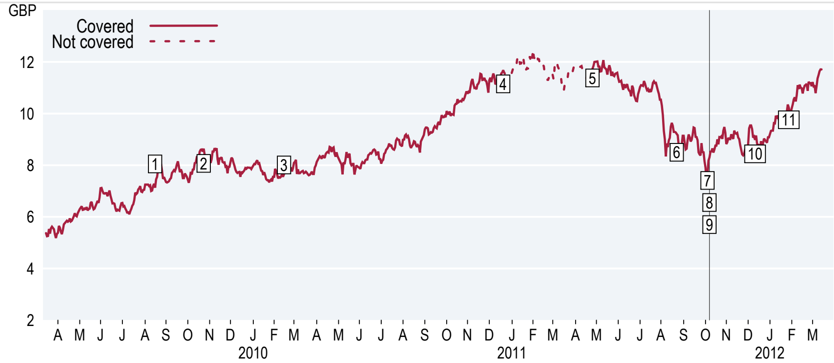
AMEC (AMEC.L)

Ratings and Target Price History

Fundamental Research

Analyst: Ryan W Kauppila

Covered since April 26 2011



	Date	Rating	Target Price	Closing Price
1	17-Aug-09	2M	*7.35	7.13
2	23-Oct-09	2M	*8.50	8.64
3	14-Feb-10	*1M	*9.00	7.55
4	21-Dec-10	Coverage terminated		
5	26-Apr-11	*2M	*12.50	11.73
6	23-Aug-11	*3M	*9.00	9.21
7	5-Oct-11	3M	*7.00	7.65
8	7-Oct-11	Stock rating system changed		
9	7-Oct-11	*3	7.00	8.30
10	12-Dec-11	*1	*11.00	8.98
11	27-Jan-12	1	*13.00	10.23

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

AMEC (AMEC.L)

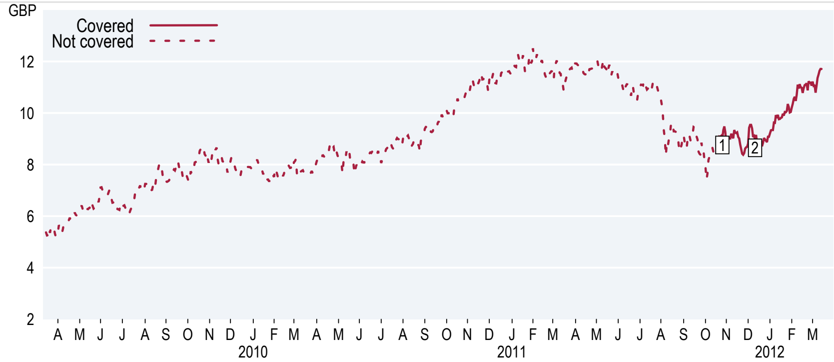
Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Ryan W Kauppila

Covered since April 26 2011



	Date	Rating	Target Price	Closing Price
1	26-Oct-11	*ADD LP	-	9.02
2	12-Dec-11	*REM LP	-	8.98

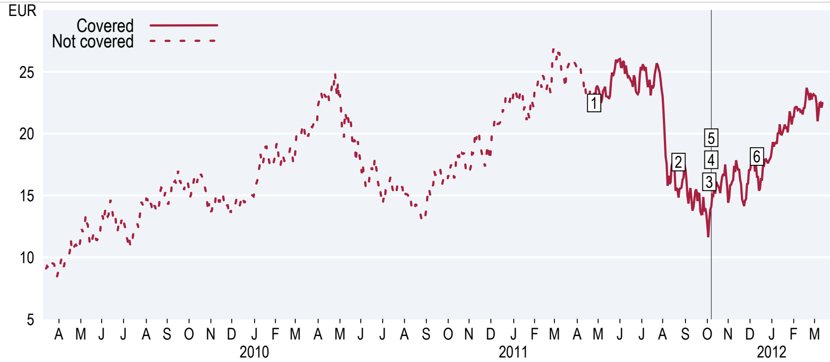
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

CGGVeritas (GEPH.PA)

Ratings and Target Price History
Fundamental Research

Analyst: Ryan W Kauppila
Covered since April 26 2011



	Date	Rating	Target Price	Closing Price
1	26-Apr-11	*2M	*24.00	23.25
2	23-Aug-11	*3M	*15.50	14.83
3	5-Oct-11	3M	*11.25	13.00
4	7-Oct-11	Stock rating system changed		
5	7-Oct-11	*3	11.25	14.09
6	12-Dec-11	3	*15.00	16.51

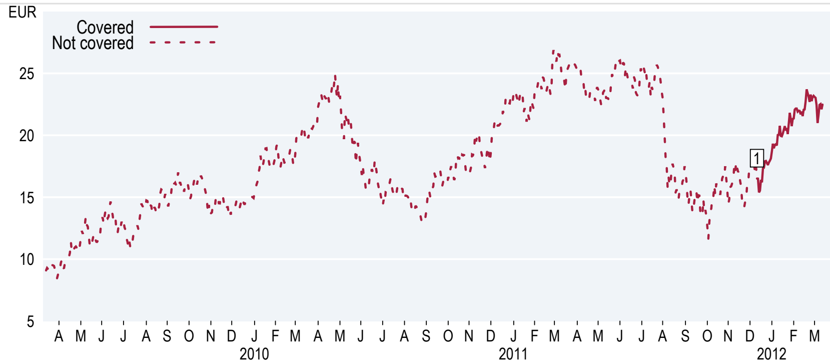
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

CGGVeritas (GEPH.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 LP	-	16.51

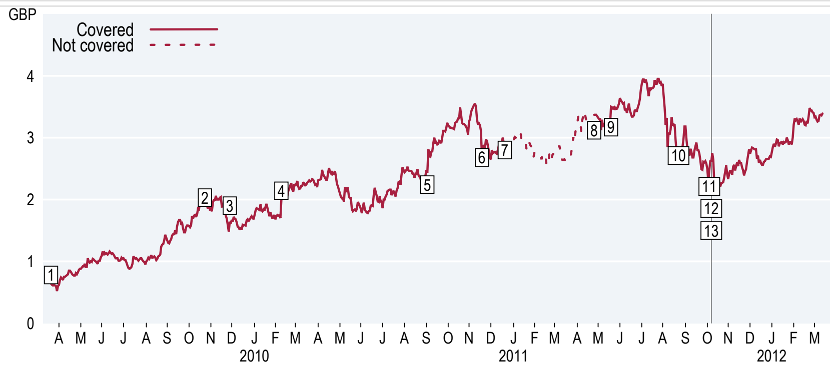
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Lamprell (LAM.L)

Ratings and Target Price History
Fundamental Research

Analyst: Ryan W Kauppila
Covered since April 26 2011



	Date	Rating	Target Price	Closing Price
1	20-Mar-09	1M	*1.36	0.64
2	23-Oct-09	*2H	*2.05	2.03
3	27-Nov-09	*1H	*1.82	1.64
4	9-Feb-10	1H	*2.73	2.00
5	2-Sep-10	1H	*3.45	2.43
6	18-Nov-10	1H	*3.64	2.68
7	21-Dec-10	Coverage terminated		
8	26-Apr-11	1H	*4.27	3.37
9	19-May-11	1H	*4.55	3.50
10	23-Aug-11	1H	*3.50	2.74
11	5-Oct-11	1H	*3.30	2.47
12	7-Oct-11	Stock rating system changed		
13	7-Oct-11	*1	3.30	2.61

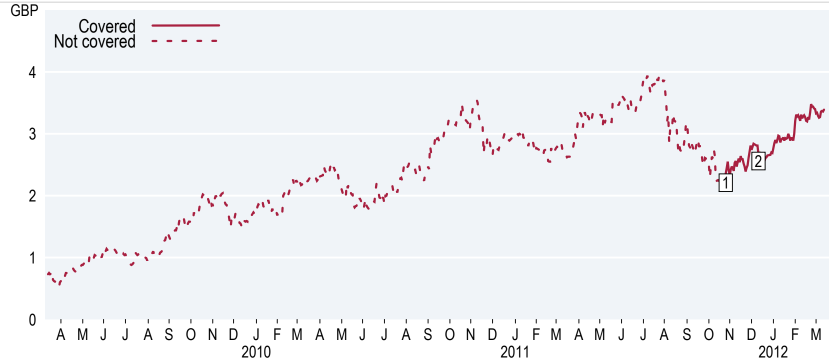
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Lamprell (LAM.L)

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	26-Oct-11	*ADD MP	-	2.36
2	12-Dec-11	*REM MP	-	2.66

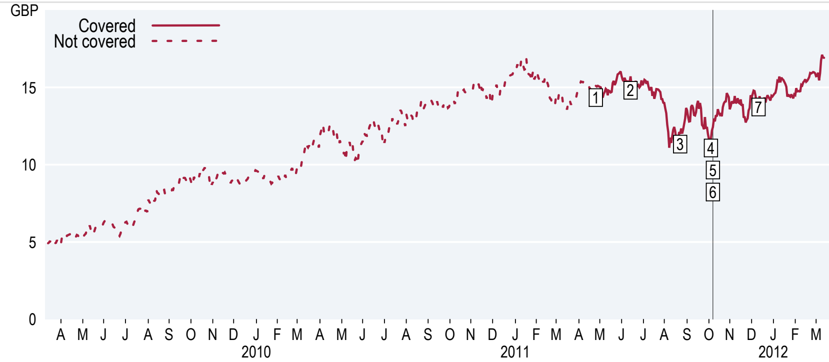
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Petrofac (PFC.L)

Ratings and Target Price History
Fundamental Research

Analyst: Ryan W Kauppila
Covered since April 26 2011



	Date	Rating	Target Price	Closing Price
1	26-Apr-11	*1M	*18.50	15.10
2	14-Jun-11	1M	*20.00	15.71
3	23-Aug-11	1M	*15.00	11.99
4	5-Oct-11	1M	*14.50	11.70
5	7-Oct-11	Stock rating system changed		
6	7-Oct-11	*1	14.50	12.43
7	12-Dec-11	1	*16.50	13.73

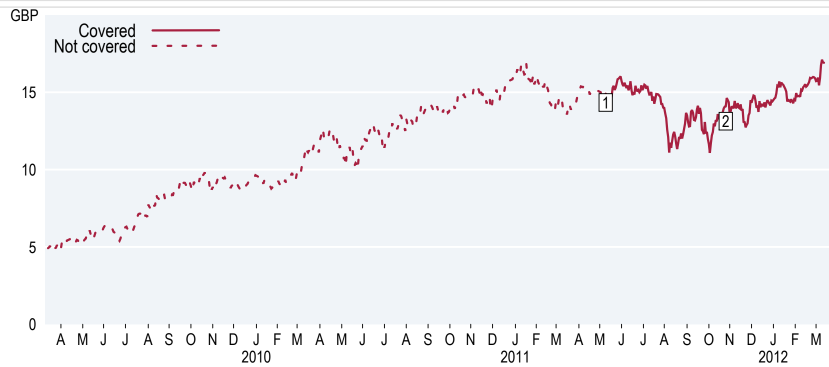
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Petrofac (PFC.L)

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	10-May-11	*ADD MP	-	14.91
2	26-Oct-11	*REM MP	-	14.09

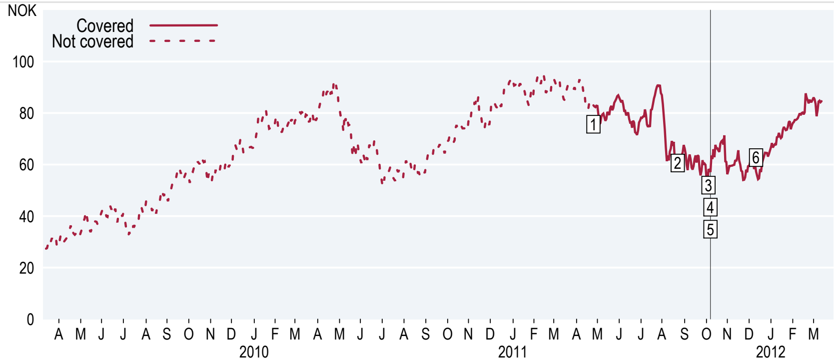
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

PGS (PGS.OL)

Ratings and Target Price History
Fundamental Research

Analyst: Ryan W Kauppila
Covered since April 26 2011



	Date	Rating	Target Price	Closing Price
1	26-Apr-11	*3H	*80.00	83.00
2	23-Aug-11	3H	*60.00	60.70
3	5-Oct-11	3H	*50.00	57.95
4	7-Oct-11	Stock rating system changed		
5	7-Oct-11	*3	50.00	57.10
6	12-Dec-11	3	*62.50	57.30

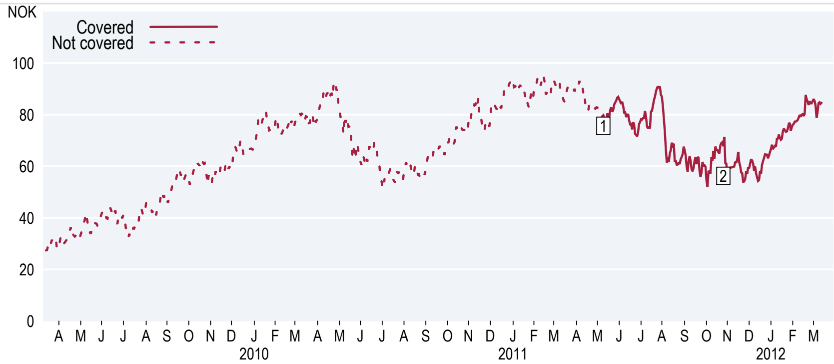
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

PGS (PGS.OL)

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	10-May-11	*ADD LP	-	79.80
2	26-Oct-11	*REM LP	-	67.75

* 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	27-May-09	3H	*70.00	90.90
2	17-Aug-09	*1M	*130.00	96.30
3	23-Oct-09	1M	*160.00	126.60
4	6-Nov-09	1M	*170.00	128.70
5	21-Sep-10	1M	*200.00	162.20
6	1-Dec-10	1M	*265.00	200.30
7	21-Dec-10	Coverage terminated		
8	26-Apr-11	*2M	*195.00	188.80
9	23-Aug-11	2M	*160.00	159.60
10	5-Oct-11	2M	*150.00	155.70
11	7-Oct-11	Stock rating system changed		
12	7-Oct-11	*2	150.00	167.10
13	30-Nov-11	2	*200.00	200.60
14	28-Feb-12	2	*230.00	230.50

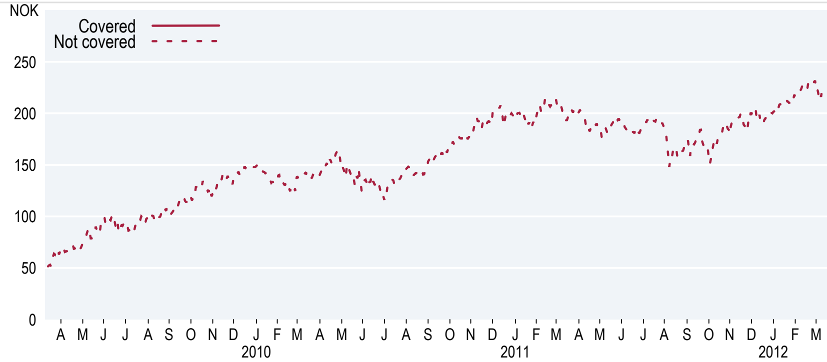
* Indicates change

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



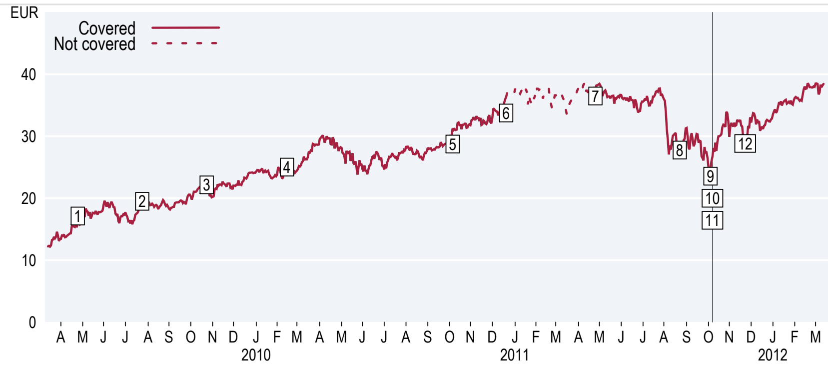
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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	24-Apr-09	*2M	14.00	16.05
2	24-Jul-09	2M	*19.00	19.18
3	23-Oct-09	2M	*22.00	22.05
4	14-Feb-10	*3M	22.00	24.79

	Date	Rating	Target Price	Closing Price
5	6-Oct-10	*1L	*38.00	31.26
6	21-Dec-10	Coverage terminated		
7	26-Apr-11	*1M	*43.00	37.76
8	23-Aug-11	1M	*34.00	28.17

	Date	Rating	Target Price	Closing Price
9	5-Oct-11	1M	*32.00	24.69
10	7-Oct-11	Stock rating system changed		
11	7-Oct-11	*1	32.00	26.69
12	23-Nov-11	1	*40.00	28.83

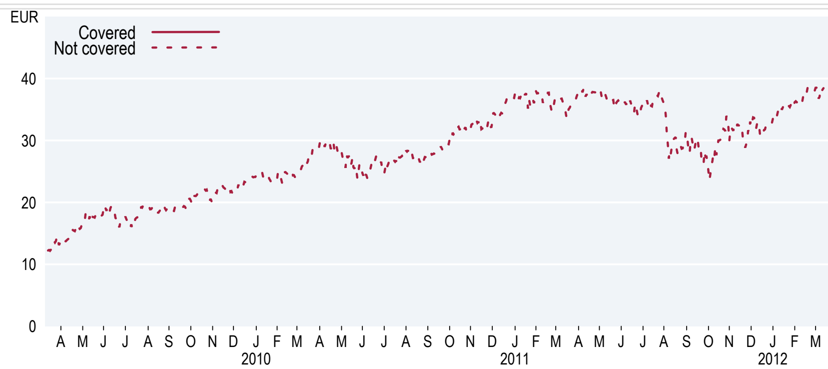
* Indicates change

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



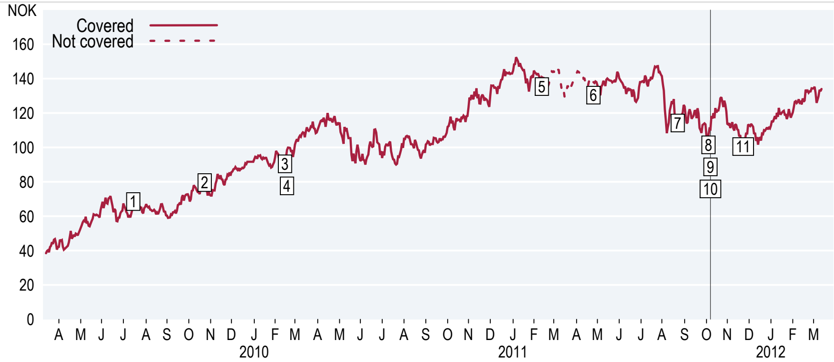
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Subsea 7 (SUBC.OL)

Ratings and Target Price History
Fundamental Research

Analyst: Ryan W Kauppila
Covered since April 26 2011



	Date	Rating	Target Price	Closing Price
1	15-Jul-09	*2H	*65.00	68.50
2	23-Oct-09	*3H	*68.00	78.55
3	14-Feb-10	3H	*80.00	91.95
4	17-Feb-10	3H	*86.00	98.45
5	11-Feb-11	Coverage terminated		
6	26-Apr-11	*1M	*170.00	138.00
7	23-Aug-11	1M	*140.00	114.30
8	5-Oct-11	1M	*130.00	107.20
9	7-Oct-11	Stock rating system changed		
10	7-Oct-11	*1	130.00	110.60
11	23-Nov-11	1	*140.00	100.50

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Subsea 7 (SUBC.OL)

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

Analyst: Ryan W Kauppila
Covered since April 26 2011

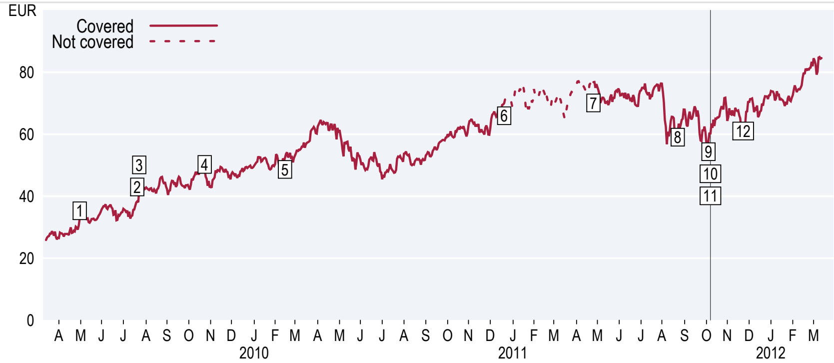
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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	30-Apr-09	2H	*30.00	32.86
2	21-Jul-09	*2M	*40.00	38.34
3	23-Jul-09	2M	*42.00	42.16
4	23-Oct-09	*3M	*44.00	48.65
5	14-Feb-10	*2M	*55.00	51.36
6	21-Dec-10	Coverage terminated		
7	26-Apr-11	2M	*82.00	76.80
8	23-Aug-11	*1M	*70.00	60.69
9	5-Oct-11	1M	*66.00	57.93
10	7-Oct-11	Stock rating system changed		
11	7-Oct-11	*1	66.00	59.99
12	23-Nov-11	1	*82.00	61.03

* 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

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Citigroup Global Markets Ltd acted as a Joint Bookrunner on Technip SA¿s most recent convertible bond issuance.

Citigroup Global Markets Inc. or its affiliates beneficially owns 1% or more of any class of common equity securities of Seadrill. This position reflects information available as of the prior business day.

Within the past 12 months, Citigroup Global Markets Inc. or its affiliates has acted as manager or co-manager of an offering of securities of Technip.

Citigroup Global Markets Inc. or its affiliates has received compensation for investment banking services provided within the past 12 months from Seadrill, Saipem, Technip.

Citigroup Global Markets Inc. or its affiliates expects to receive or intends to seek, within the next three months, compensation for investment banking services from Seadrill, Technip.

Citigroup Global Markets Inc. or an affiliate received compensation for products and services other than investment banking services from AMEC, Petrofac, PGS, Seadrill, Saipem, Subsea 7, Technip in the past 12 months.

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following as investment banking client(s): Seadrill, Saipem, Technip.

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following as clients, and the services provided were non-investment-banking, securities-related: AMEC, Seadrill, Saipem, Subsea 7, Technip.

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following as clients, and the services provided were non-investment-banking, non-securities-related: AMEC, Petrofac, PGS, Seadrill, Saipem, Subsea 7, Technip.

Analysts' compensation is determined based upon activities and services intended to benefit the investor clients of Citigroup Global Markets Inc. and its affiliates ("the Firm"). Like all Firm employees, analysts receive compensation that is impacted by overall firm profitability which includes investment banking revenues.

The Firm is a market maker in the publicly traded equity securities of PGS.

For important disclosures (including copies of historical disclosures) regarding the companies that are the subject of this Citi Investment Research & Analysis product ("the Product"), please contact Citi Investment Research & Analysis, 388 Greenwich Street, 28th Floor, New York, NY, 10013, Attention: Legal/Compliance [E6WYB6412478]. In addition, the same important disclosures, with the exception of the Valuation and Risk assessments and historical disclosures, are contained on the Firm's disclosure website at https://www.citivelocity.com/cvr/eppublic/citi_research_disclosures. Valuation and Risk assessments can be found in the text of the most recent research note/report regarding the subject company. Historical disclosures (for up to the past three years) will be provided upon request.

Citi Investment Research & Analysis Ratings Distribution

	12 Month Rating			*Relative Rating*		
Data current as of 31 Dec 2011	**Buy**	**Hold**	**Sell**	**Buy**	**Hold**	**Sell**
Citi Investment Research & Analysis Global Fundamental Coverage	57%	34%	9%	10%	79%	10%
% of companies in each rating category that are investment banking clients	45%	41%	40%	49%	43%	41%

Guide to Citi Investment Research & Analysis (CIRA) Fundamental Research Investment Ratings:
CIRA's stock recommendations include an investment rating and an optional risk rating to highlight high risk stocks.
Risk rating takes into account both price volatility and fundamental criteria. Stocks will either have no risk rating or a High risk rating assigned.
Investment Ratings: CIRA's investment ratings are Buy, Neutral and Sell. Our ratings are a function of analyst expectations of expected total return ("ETR") and risk. ETR is the sum of the forecast price appreciation (or depreciation) plus the dividend yield for a stock within the next 12 months. The Investment rating definitions are: Buy (1) ETR of 15% or more or 25% or more for High risk stocks; and Sell (3) for negative ETR. Any covered stock not assigned a Buy or a Sell is a Neutral (2). For stocks rated Neutral (2), if an analyst believes that there are insufficient valuation drivers and/or investment catalysts to derive a positive or negative investment view, they may elect with the approval of CIRA management not to assign a target price and, thus, not derive an ETR. Analysts may place covered stocks "Under Review" in response to exceptional circumstances (e.g. lack of information critical to the analyst's thesis) affecting the company and / or trading in the company's securities (e.g. trading suspension). As soon as practically possible, the analyst will publish a note re-establishing a rating and investment thesis. To satisfy regulatory requirements, we correspond Under Review and Neutral to Hold in our ratings

distribution table for our 12-month fundamental rating system. However, we reiterate that we do not consider Under Review to be a recommendation. **Relative three-month ratings:** CIRA may also assign a three-month relative call (or rating) to a stock to highlight expected out-performance (most preferred) or under-performance (least preferred) versus the geographic and industry sector over a 3 month period. The relative call may highlight a specific near-term catalyst or event impacting the company or the market that is anticipated to have a short-term price impact on the equity securities of the company. Absent any specific catalyst the analyst(s) will indicate the most and least preferred stocks in the universe of stocks under consideration, explaining the basis for this short-term view. This three-month view may be different from and does not affect a stock's fundamental equity rating, which reflects a longer-term total absolute return expectation. For purposes of NASD/NYSE ratings-distribution-disclosure rules, most preferred calls correspond to a buy recommendation and least preferred calls correspond to a sell recommendation. Any stock not assigned to a most preferred or least preferred call is considered non-relative-rated (NRR). For purposes of NASD/NYSE ratings-distribution-disclosure rules we correspond NRR to Hold in our ratings distribution table for our 3-month relative rating system. However, we reiterate that we do not consider NRR to be a recommendation.

Prior to October 8, 2011, the firm's stock recommendation system included a risk rating and an investment rating. **Risk ratings,** which took into account both price volatility and fundamental criteria, were: Low (L), Medium (M), High (H), and Speculative (S). **Investment Ratings** of Buy, Hold and Sell were a function of CIRA's expectation of total return (forecast price appreciation and dividend yield within the next 12 months) and risk rating. Additionally, analysts could have placed covered stocks "Under Review" in response to exceptional circumstances (e.g. lack of information critical to the analyst's thesis) affecting the company and/or trading in the company's securities (e.g. trading suspension). Stocks placed "Under Review" were monitored daily by management and as practically possible, the analyst published a note re-establishing a rating and investment thesis. For securities in developed markets (US, UK, Europe, Japan, and Australia/New Zealand), investment ratings were:Buy (1) (expected total return of 10% or more for Low-Risk stocks, 15% or more for Medium-Risk stocks, 20% or more for High-Risk stocks, and 35% or more for Speculative stocks); Hold (2) (0%-10% for Low-Risk stocks, 0%-15% for Medium-Risk stocks, 0%-20% for High-Risk stocks, and 0%-35% for Speculative stocks); and Sell (3) (negative total return). For securities in emerging markets (Asia Pacific, Emerging Europe/Middle East/Africa, and Latin America), investment ratings were:Buy (1) (expected total return of 15% or more for Low-Risk stocks, 20% or more for Medium-Risk stocks, 30% or more for High-Risk stocks, and 40% or more for Speculative stocks); Hold (2) (5%-15% for Low-Risk stocks, 10%-20% for Medium-Risk stocks, 15%-30% for High-Risk stocks, and 20%-40% for Speculative stocks); and Sell (3) (5% or less for Low-Risk stocks, 10% or less for Medium-Risk stocks, 15% or less for High-Risk stocks, and 20% or less for Speculative stocks).

Investment ratings are determined by the ranges described above at the time of initiation of coverage, a change in investment and/or risk rating, or a change in target price (subject to limited management discretion). At other times, the expected total returns may fall outside of these ranges because of market price movements and/or other short-term volatility or trading patterns. Such interim deviations from specified ranges will be permitted but will become subject to review by Research Management. Your decision to buy or sell a security should be based upon your personal investment objectives and should be made only after evaluating the stock's expected performance and risk.

NON-US RESEARCH ANALYST DISCLOSURES

Non-US research analysts who have prepared this report (i.e., all research analysts listed below other than those identified as employed by Citigroup Global Markets Inc.) are not registered/qualified as research analysts with FINRA. Such research analysts may not be associated persons of the member organization and therefore may not be subject to the NYSE Rule 472 and NASD Rule 2711 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account. The legal entities employing the authors of this report are listed below:

Citigroup Global Markets Ltd	Ryan W Kauppila

OTHER DISCLOSURES

The subject company's share price set out on the front page of this Product is quoted as at 14 March 2012 12:34 PM on the issuer's primary market.

Citigroup Global Markets Inc. and/or its affiliates has a significant financial interest in relation to Technip. (For an explanation of the determination of significant financial interest, please refer to the policy for managing conflicts of interest which can be found at www.citiVelocity.com.)

Citigroup Global Markets Inc. or its affiliates beneficially owns 2% or more of any class of common equity securities of Seadrill.

For securities recommended in the Product in which the Firm is not a market maker, the Firm is a liquidity provider in the issuers' financial instruments and may act as principal in connection with such transactions. The Firm is a regular issuer of traded financial instruments linked to securities that may have been recommended in the Product. The Firm regularly trades in the securities of the issuer(s) discussed in the Product. The Firm may engage in securities transactions in a manner inconsistent with the Product and, with respect to securities covered by the Product, will buy or sell from customers on a principal basis.

Securities recommended, offered, or sold by the Firm: (i) are not insured by the Federal Deposit Insurance Corporation; (ii) are not deposits or other obligations of any insured depository institution (including Citibank); and (iii) are subject to investment risks, including the possible loss of the principal amount invested. Although information has been obtained from and is based upon sources that the Firm believes to be reliable, we do not guarantee its accuracy and it may be incomplete and condensed. Note, however, that the Firm has taken all reasonable steps to determine the accuracy and completeness of the disclosures made in the Important Disclosures section of the Product. The Firm's research department has received assistance from the subject company(ies) referred to in this Product including, but not limited to, discussions with management of the subject company(ies). Firm policy prohibits research analysts from sending draft research to subject companies. However, it should be presumed that the author of the Product has had discussions with the subject company to ensure factual accuracy prior to publication. All opinions, projections and estimates constitute the judgment of the author as of the date of the Product and these, plus any other information contained in the Product, are subject to change without notice. Prices and availability of financial instruments also are subject to change without notice. Notwithstanding other departments within the Firm advising the companies discussed in this Product, information obtained in such role is not used in the preparation of the Product. Although Citi Investment Research & Analysis (CIRA) does not set a predetermined frequency for publication, if the Product is a fundamental research report, it is the intention of CIRA to provide research coverage of the/those issuer(s) mentioned therein, including in response to news affecting this issuer, subject to applicable quiet periods and capacity constraints. The Product is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security. Any decision to purchase securities mentioned in the Product must take into account existing public information on such security or any registered prospectus.

Investing in non-U.S. securities, including ADRs, may entail certain risks. The securities of non-U.S. issuers may not be registered with, nor be subject to the reporting requirements of the U.S. Securities and Exchange Commission. There may be limited information available on foreign securities. Foreign companies are generally not subject to uniform audit and reporting standards, practices and requirements comparable to those in the U.S. Securities of some foreign companies may be less liquid and their prices more volatile than securities of comparable U.S. companies. In addition, exchange rate movements may have an adverse effect on the value of an investment in a foreign stock and its corresponding dividend payment for U.S. investors. Net dividends to ADR investors are estimated, using withholding tax rates conventions, deemed accurate, but investors are urged to consult their tax advisor for exact dividend computations. Investors who have received the Product from the Firm may be prohibited in certain states or other jurisdictions from purchasing securities mentioned in the Product from the Firm. Please ask your Financial Consultant for additional details. Citigroup Global Markets Inc. takes responsibility for the Product in the United States. Any orders by US investors resulting from the information contained in the Product may be placed only through Citigroup Global Markets Inc.

Important Disclosures for Morgan Stanley Smith Barney LLC Customers: Morgan Stanley & Co. LLC (Morgan Stanley) research reports may be available about the companies that are the subject of this Citi Investment Research & Analysis (CIRA) research report. Ask your Financial Advisor or use smithbarney.com to view any available Morgan Stanley research reports in addition to CIRA research reports.
Important disclosure regarding the relationship between the companies that are the subject of this CIRA research report and Morgan Stanley Smith Barney LLC and its affiliates are available at the Morgan Stanley Smith Barney disclosure website at www.morganstanleysmithbarney.com/researchdisclosures.
For Morgan Stanley and Citigroup Global Markets, Inc. specific disclosures, you may refer to www.morganstanley.com/researchdisclosures and https://www.citivelocity.com/cvr/eppublic/citi_research_disclosures.
This CIRA research report has been reviewed and approved on behalf of Morgan Stanley Smith Barney LLC. This review and approval was conducted by the same person who reviewed this research report on behalf of CIRA. This could create a conflict of interest.

The Citigroup legal entity that takes responsibility for the production of the Product is the legal entity which the first named author is employed by. The Product is made available in **Australia** through Citigroup Global Markets Australia Pty Ltd. (ABN 64 003 114 832 and AFSL No. 240992), participant of the ASX Group and regulated by the Australian Securities & Investments Commission. Citigroup Centre, 2 Park Street, Sydney, NSW 2000. The Product is made available in Australia to Private Banking wholesale clients through Citigroup Pty Limited (ABN 88 004 325 080 and AFSL 238098). Citigroup Pty Limited provides all financial product advice to Australian Private Banking wholesale clients through bankers and relationship managers. If there is any doubt about the suitability of investments held in Citigroup Private Bank accounts, investors should contact the Citigroup Private Bank in Australia. Citigroup companies may compensate affiliates and their representatives for providing products and services to clients. The Product is made available in **Brazil** by Citigroup Global Markets Brasil - CCTVM SA, which is regulated by CVM - Comissão de Valores Mobiliários, BACEN - Brazilian Central Bank, APIMEC - Associação dos Analistas e Profissionais de Investimento do Mercado de Capitais and ANBID - Associação Nacional dos Bancos de Investimento. Av. Paulista, 1111 - 11º andar - CEP. 01311920 - São Paulo - SP. If the Product is being made available in certain provinces of **Canada** by Citigroup Global Markets (Canada) Inc. ("CGM Canada"), CGM Canada has approved the Product. Citigroup Place, 123 Front Street West, Suite 1100, Toronto, Ontario M5J 2M3. This product is available in **Chile** through Banchile Corredores de Bolsa S.A., an indirect subsidiary of Citigroup Inc., which is regulated by the Superintendencia de Valores y Seguros. Agustinas 975, piso 2, Santiago, Chile. The Product is made available in **France** by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. 1-5 Rue Paul Cézanne, 8ème, Paris, France. The Product is distributed in **Germany** by Citigroup Global Markets Deutschland AG ("CGMD"), which is regulated by Bundesanstalt fuer Finanzdienstleistungsaufsicht (BaFin). CGMD, Reuterweg 16, 60323 Frankfurt am Main. Research which relates to "securities" (as defined in the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)) is issued in **Hong Kong** by, or on behalf of, Citigroup Global Markets Asia Limited which takes full responsibility for its content. Citigroup Global Markets Asia Ltd. is regulated by Hong Kong Securities and Futures Commission. If the Research is made available through Citibank, N.A., Hong Kong Branch, for its clients in Citi Private Bank, it is made available by Citibank N.A., Citibank Tower, Citibank Plaza, 3 Garden Road, Hong Kong. Citibank N.A. is regulated by the Hong Kong Monetary Authority. Please contact your Private Banker in Citibank N.A., Hong Kong, Branch if you have any queries on or any matters arising from or in connection with this document. The Product is made available in **India** by Citigroup Global Markets India Private Limited, which is regulated by Securities and Exchange Board of India. Bakhtawar, Nariman Point, Mumbai 400-021. The Product is made available in **Indonesia** through PT Citigroup Securities Indonesia. 5/F, Citibank Tower, Bapindo Plaza, Jl. Jend. Sudirman Kav. 54-55, Jakarta 12190. Neither this Product nor any copy hereof may be distributed in Indonesia or to any Indonesian citizens wherever they are domiciled or to Indonesian residents except in compliance with applicable capital market laws and regulations. This Product is not an offer of securities in Indonesia. The securities referred to in this Product have not been registered with the Capital Market and Financial Institutions Supervisory Agency (BAPEPAM-LK) pursuant to relevant capital market laws and regulations, and may not be offered or sold within the territory of the Republic of Indonesia or to Indonesian citizens through a public offering or in circumstances which constitute an offer within the meaning of the Indonesian capital market laws and regulations. The Product is made available in **Israel** through Citibank NA, regulated by the Bank of Israel and the Israeli Securities Authority. Citibank, N.A, Platinum Building, 21 Ha'arba'ah St, Tel Aviv, Israel. The Product is made available in **Italy** by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. Via dei Mercanti, 12, Milan, 20121, Italy. The Product is made available in **Japan** by Citigroup Global Markets Japan Inc. ("CGMJ"), which is regulated by Financial Services Agency, Securities and Exchange Surveillance Commission, Japan Securities Dealers Association, Tokyo Stock Exchange and Osaka Securities Exchange. Shin-Marunouchi Building, 1-5-1 Marunouchi, Chiyoda-ku, Tokyo 100-6520 Japan. If the Product was distributed by SMBC Nikko Securities Inc. it is being so distributed under license. In the event that an error is found in an CGMJ research report, a revised version will be posted on the Firm's Citi Velocity website. If you have questions regarding Citi Velocity, please call (81 3) 6270-3019 for help. The Product is made available in **Korea** by Citigroup Global Markets Korea Securities Ltd., which is regulated by the Financial Services Commission, the Financial Supervisory Service and the Korea Financial Investment Association (KOFIA). Citibank Building, 39 Da-dong, Jung-gu, Seoul 110-180, Korea. KOFIA makes available registration information of research analysts on its website. Please visit the following website if you wish to find KOFIA registration information on research analysts of Citigroup Global Markets Korea Securities Ltd. http://dis.kofia.or.kr/fs/dis2/fundMgr/DISFundMgrAnalystPop.jsp?companyCd2=A03030&pageDiv=02. The Product is made available in **Malaysia** by Citigroup Global Markets Malaysia Sdn Bhd (Company No. 460819-D) ("CGMM") to its clients and CGMM takes responsibility for its contents. CGMM is regulated by the Securities Commission of Malaysia. Please contact CGMM at Level 43 Menara Citibank, 165 Jalan Ampang, 50450 Kuala Lumpur, Malaysia in respect of any matters arising from, or in connection with, the Product. The Product is made available in **Mexico** by Acciones y Valores Banamex, S.A. De C. V., Casa de Bolsa, Integrante del Grupo Financiero Banamex ("Accival") which is a wholly owned subsidiary of Citigroup Inc. and is regulated by Comision Nacional Bancaria y de Valores. Reforma 398, Col. Juarez, 06600 Mexico, D.F. In **New Zealand** the Product is made available to

‘wholesale clients’ only as defined by s5C(1) of the Financial Advisers Act 2008 (‘FAA’) through Citigroup Global Markets Australia Pty Ltd (ABN 64 003 114 832 and AFSL No. 240992), an overseas financial adviser as defined by the FAA, participant of the ASX Group and regulated by the Australian Securities & Investments Commission. Citigroup Centre, 2 Park Street, Sydney, NSW 2000. The Product is made available in **Pakistan** by Citibank N.A. Pakistan branch, which is regulated by the State Bank of Pakistan and Securities Exchange Commission, Pakistan. AWT Plaza, 1.1. Chundrigar Road, P.O. Box 4889, Karachi-74200. The Product is made available in the **Philippines** through Citicorp Financial Services and Insurance Brokerage Philippines, Inc., which is regulated by the Philippines Securities and Exchange Commission. 20th Floor Citibank Square Bldg. The Product is made available in the Philippines through Citibank NA Philippines branch, Citibank Tower, 8741 Paseo De Roxas, Makati City, Manila. Citibank NA Philippines NA is regulated by The Bangko Sentral ng Pilipinas. The Product is made available in **Poland** by Dom Maklerski Banku Handlowego SA an indirect subsidiary of Citigroup Inc., which is regulated by Komisja Nadzoru Finansowego. Dom Maklerski Banku Handlowego S.A. ul.Senatorska 16, 00-923 Warszawa. The Product is made available in the **Russian Federation** through ZAO Citibank, which is licensed to carry out banking activities in the Russian Federation in accordance with the general banking license issued by the Central Bank of the Russian Federation and brokerage activities in accordance with the license issued by the Federal Service for Financial Markets. Neither the Product nor any information contained in the Product shall be considered as advertising the securities mentioned in this report within the territory of the Russian Federation or outside the Russian Federation. The Product does not constitute an appraisal within the meaning of the Federal Law of the Russian Federation of 29 July 1998 No. 135-FZ (as amended) On Appraisal Activities in the Russian Federation. 8-10 Gasheka Street, 125047 Moscow. The Product is made available in **Singapore** through Citigroup Global Markets Singapore Pte. Ltd. (“CGMSPL”), a capital markets services license holder, and regulated by Monetary Authority of Singapore. Please contact CGMSPL at 1 Temasek Avenue, #39-02 Millenia Tower, Singapore 039192, in respect of any matters arising from, or in connection with, the analysis of this document. This report is intended for recipients who are accredited, expert and institutional investors as defined under the Securities and Futures Act (Cap. 289). The Product is made available by The Citigroup Private Bank in Singapore through Citibank, N.A., Singapore Branch, a licensed bank in Singapore that is regulated by Monetary Authority of Singapore. Please contact your Private Banker in Citibank N.A., Singapore Branch if you have any queries on or any matters arising from or in connection with this document. This report is intended for recipients who are accredited, expert and institutional investors as defined under the Securities and Futures Act (Cap. 289). This report is distributed in Singapore by Citibank Singapore Ltd ("CSL") to selected Citigold/Citigold Private Clients. CSL provides no independent research or analysis of the substance or in preparation of this report. Please contact your Citigold//Citigold Private Client Relationship Manager in CSL if you have any queries on or any matters arising from or in connection with this report. This report is intended for recipients who are accredited investors as defined under the Securities and Futures Act (Cap. 289). Citigroup Global Markets (Pty) Ltd. is incorporated in the **Republic of South Africa** (company registration number 2000/025866/07) and its registered office is at 145 West Street, Sandton, 2196, Saxonwold. Citigroup Global Markets (Pty) Ltd. is regulated by JSE Securities Exchange South Africa, South African Reserve Bank and the Financial Services Board. The investments and services contained herein are not available to private customers in South Africa. The Product is made available in **Spain** by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. 29 Jose Ortega Y Gasset, 4th Floor, Madrid, 28006, Spain. The Product is made available in the **Republic of China** through Citigroup Global Markets Taiwan Securities Company Ltd. ("CGMTS"), 14 and 15F, No. 1, Songzhi Road, Taipei 110, Taiwan and/or through Citibank Securities (Taiwan) Company Limited ("CSTL"), 14 and 15F, No. 1, Songzhi Road, Taipei 110, Taiwan, subject to the respective license scope of each entity and the applicable laws and regulations in the Republic of China. CGMTS and CSTL are both regulated by the Securities and Futures Bureau of the Financial Supervisory Commission of Taiwan, the Republic of China. No portion of the Product may be reproduced or quoted in the Republic of China by the press or any third parties [without the written authorization of CGMTS and CSTL]. If the Product covers securities which are not allowed to be offered or traded in the Republic of China, neither the Product nor any information contained in the Product shall be considered as advertising the securities or making recommendation of the securities in the Republic of China. The Product is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security or financial products. Any decision to purchase securities or financial products mentioned in the Product must take into account existing public information on such security or the financial products or any registered prospectus. The Product is made available in **Thailand** through Citicorp Securities (Thailand) Ltd., which is regulated by the Securities and Exchange Commission of Thailand. 18/F, 22/F and 29/F, 82 North Sathorn Road, Silom, Bangrak, Bangkok 10500, Thailand. The Product is made available in **Turkey** through Citibank AS which is regulated by Capital Markets Board. Tekfen Tower, Eski Buyukdere Caddesi # 209 Kat 2B, 23294 Levent, Istanbul, Turkey. In the **U.A.E**, these materials (the "Materials") are communicated by Citigroup Global Markets Limited, DIFC branch ("CGML"), an entity registered in the Dubai International Financial Center ("DIFC") and licensed and regulated by the Dubai Financial Services Authority ("DFSA") to Professional Clients and Market Counterparties only and should not be relied upon or distributed to Retail Clients. A distribution of the different CIRA ratings distribution, in percentage terms for Investments in each sector covered is made available on request. Financial products and/or services to which the Materials relate will only be made available to Professional Clients and Market Counterparties. The Product is made available in **United Kingdom** by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. This material may relate to investments or services of a person outside of the UK or to other matters which are not regulated by the FSA and further details as to where this may be the case are available upon request in respect of this material. Citigroup Centre, Canada Square, Canary Wharf, London, E14 5LB. The Product is made available in **United States** by Citigroup Global Markets Inc, which is a member of FINRA and registered with the US Securities and Exchange Commission. 388 Greenwich Street, New York, NY 10013. Unless specified to the contrary, within EU Member States, the Product is made available by Citigroup Global Markets Limited, which is regulated by Financial Services Authority.

Pursuant to Comissão de Valores Mobiliários Rule 483, Citi is required to disclose whether a Citi related company or business has a commercial relationship with the subject company. Considering that Citi operates multiple businesses in more than 100 countries around the world, it is likely that Citi has a commercial relationship with the subject company.

Many European regulators require that a firm must establish, implement and make available a policy for managing conflicts of interest arising as a result of publication or distribution of investment research. The policy applicable to CIRA's Products can be found at https://www.citivelocity.com/cvr/eppublic/citi_research_disclosures.

Compensation of equity research analysts is determined by equity research management and Citigroup's senior management and is not linked to specific transactions or recommendations.

The Product may have been distributed simultaneously, in multiple formats, to the Firm's worldwide institutional and retail customers. The Product is not to be construed as providing investment services in any jurisdiction where the provision of such services would not be permitted.

Subject to the nature and contents of the Product, the investments described therein are subject to fluctuations in price and/or value and investors may get back less than originally invested. Certain high-volatility investments can be subject to sudden and large falls in value that could equal or exceed the amount invested. Certain investments contained in the Product may have tax implications for private customers whereby levels and basis of taxation may be subject

to change. If in doubt, investors should seek advice from a tax adviser. The Product does not purport to identify the nature of the specific market or other risks associated with a particular transaction. Advice in the Product is general and should not be construed as personal advice given it has been prepared without taking account of the objectives, financial situation or needs of any particular investor. Accordingly, investors should, before acting on the advice, consider the appropriateness of the advice, having regard to their objectives, financial situation and needs. Prior to acquiring any financial product, it is the client's responsibility to obtain the relevant offer document for the product and consider it before making a decision as to whether to purchase the product.
With the exception of our product that is made available only to Qualified Institutional Buyers (QIBs), CIRA concurrently disseminates its research via proprietary and non-proprietary electronic distribution platforms. Periodically, individual CIRA analysts may also opt to circulate research posted on such platforms to one or more clients by email. Such email distribution is discretionary and is done only after the research has been disseminated via the aforementioned distribution channels. CIRA simultaneously distributes product that is limited to QIBs only through email distribution.
The level and types of services provided by CIRA analysts to clients may vary depending on various factors such as the client's individual preferences as to the frequency and manner of receiving communications from analysts, the client's risk profile and investment focus and perspective (e.g. market-wide, sector specific, long term, short-term etc.), the size and scope of the overall client relationship with Citi and legal and regulatory constraints.
CIRA product may source data from dataCentral. dataCentral is a CIRA proprietary database, which includes Citi estimates, data from company reports and feeds from Reuters and Datastream.

ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST