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Oilfield Equipment Services 2Q11 Preview

What to Own and Avoid Ahead of Second Quarter EPS Reports

- Industry Overview

Robin Shoemaker
+1-212-816-3258
robin.shoemaker@citi.com

Mark Brown
mark.brown@citi.com

Garett Gough
garett.gough@citi.com

- **Conclusion #1: Follow the Leaders** — We recommend that investors gravitate to stocks with the best prospects for positive EPS revisions, as these have historically outperformed. Our top stock picks for a bounce going into the quarter are BHI, HAL, HP, NOV, PTEN, SLB, and SPN. The stocks in our coverage with the most 2Q11 earnings risk are CAM, DO, DRC, FTI, HERO, NE, RIG, and WFT. We remain on the sidelines with respect to ESV, NBR, and RDC ahead of earnings.
- **Conclusion #2: No Shifts Expected in Sector Momentum** — We believe the same sector trends that have dominated the last few quarterly earnings periods will appear again in 2Q11. In that vein, we favor stocks with exposure to North American services and U.S. land drilling. Companies that stand to benefit from the resurgence in new offshore rig orders (e.g., NOV) and long-term Gulf of Mexico recovery (e.g., SPN) are also well positioned. On the other hand, we would avoid stocks with exposure to subsea markets, as a pre-earnings trade, given that estimates may be trimmed due to project deferrals. Similarly, international oil services and offshore drillers may be subject to near-term earnings shortfalls.
- **Conclusion #3: Earnings Revisions Drive Stock Performance** — We believe earnings growth will continue to be the primary driver of stock outperformance in the coming earnings report cycle. The top-performing stocks in the past quarter were those with the largest positive consensus estimate revisions since the previous quarter's earnings report. Companies that exhibited positive stock returns and EPS revisions since reporting 1Q11 earnings include BHI, DRC, HAL, HP, NOV, PTEN, SLB, and SPN. We expect a similar pattern to be revealed after 2Q11.
- **Our Sector-Level Previews Anticipate the Critical Themes** — We have included in this report an analytical breakdown of six sectors that span the oil service and contract drilling industries in a comprehensive manner. For each industry sector, we provide our evolving views on the quarter, our analyses of key data trends, and our succinct conclusions on how to position a trade ahead of earnings. Sectors that we have analyzed include the Gulf of Mexico, U.S. Onshore Services, Canada, International Services, Oilfield Equipment Manufacturers, and Offshore Drillers.
- **Our Company-Specific Previews Focus on What Really Matters** — We have also included in this report a detailed analysis of how we would position a trade for each of the 18 companies in our coverage. On a summary level, we provide an earnings calendar, metrics on changes to share prices and consensus EPS since last quarter's earnings report, and a trading comp sheet. In addition, we provide for each company a one-page synthesis encapsulating the most useful data on 2Q11 prospects ("2Q11 Cheat Sheet"), an annotated stock price chart specifying catalysts and news events that have driven OSX-indexed performance since the last quarter, and our short-term and long-term trading calls.

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

2Q11 Earnings Preview Conclusions

Our top stock picks for a bounce going into the quarter are BHI, HAL, HP, NOV, PTEN, SLB, and SPN.

Our top stock picks for a bounce going into the quarter are BHI, HAL, HP, NOV, PTEN, SLB, and SPN. On the other hand, we believe the stocks in our coverage with the most 2Q11 earnings risk are CAM, DO, DRC, FTI, HERO, NE, RIG, and WFT. We remain on the sidelines in our pre-quarter positioning of ESV, NBR, and RDC. These views are not meant to represent our long-term recommendations but instead our trading calls on the forthcoming quarter based on prevailing sector trends, earnings growth drivers, and other company-specific factors. (For company-specific factors, see the "2Q11 Earnings Preview by Company" section of this report.)

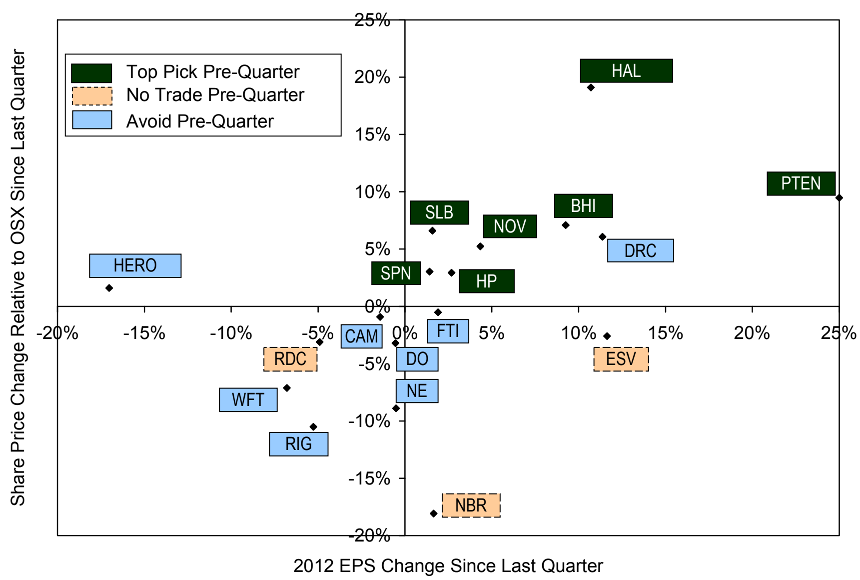
We believe the same sector trends that have dominated the past couple of earnings reports will take prominence again in 2Q11.

We believe the same sector trends that have dominated the past couple of earnings seasons will take prominence again in 2Q11. In that vein, our pre-earnings call is to favor stocks with exposure to North American services and U.S. land drilling. Also, we believe companies that stand to benefit from the resurgence in new offshore rig orders (e.g., NOV) and long-term Gulf of Mexico recovery (e.g., SPN) are well positioned. On the other hand, we would avoid stocks with exposure to subsea markets, as a pre-earnings trade, given that estimates may be lagging due to project deferrals. Similarly, we believe international oil services and offshore drillers will be subject to near-term disappointments, although these sectors should emerge as industry leaders beyond 2011. A Gulf of Mexico recovery remains in slow motion though is moving in the right direction. Canada's seasonal impact will be negative, but the Canadian rig count's sequential percentage decline is in line with the five-year trend. (For further sector detail, see the "2Q11 Earnings Preview by Sector" section of this report.)

We believe earnings growth will continue to be the primary driver of stock outperformance after 2Q11.

We believe earnings growth will continue to be the primary driver of stock outperformance after 2Q11. The top-performing stocks in the past quarter have nearly mirrored those with upward consensus estimate revisions since the previous quarter's earnings report. Companies that exhibited both positive stock returns and EPS revisions since reporting 1Q11 earnings include BHI, DRC, HAL, HP, NOV, PTEN, SLB, and SPN (see Figure 1). We expect a similar pattern to emerge after 2Q11. (For further detail on the components of this chart, see Figure 15.)

Figure 1. Oil Service Stocks - Street Revisions vs. Stock Performance



Source: Thomson, Citi Investment Research and Analysis

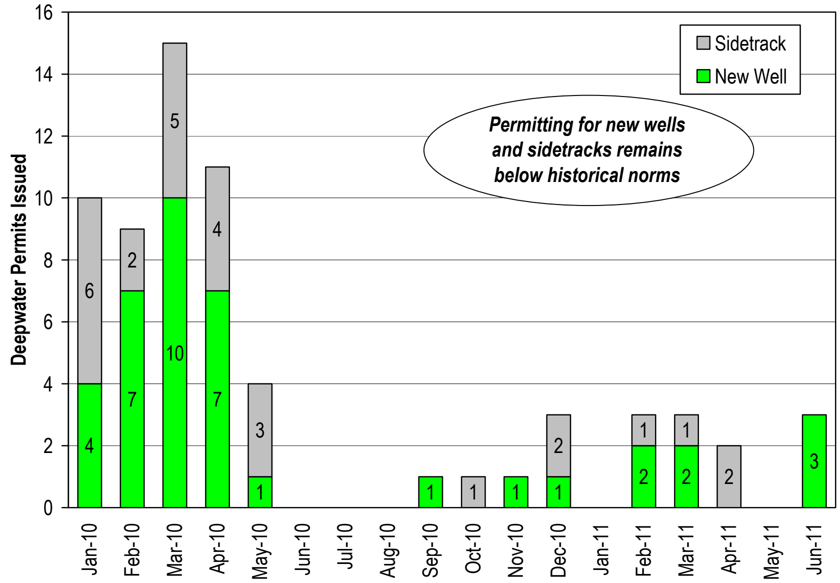
2Q11 Earnings Preview by Sector

The Gulf of Mexico is showing signs of improvement, but the pace has not accelerated as much as companies had anticipated after the initial series of deepwater permits were issued.

The Gulf of Mexico is showing signs of improvement, but the pace has not accelerated as much as companies had anticipated after the initial deepwater drilling permits were issued. Deepwater permitting in the GOM remains well below historical norms, with little visibility as to how quickly the Bureau of Ocean Energy, Management, Regulation, and Enforcement (BOEMRE) will work through its processes and procedural issues (see Figure 2). Despite the near-term uncertainties, offshore drillers generally remain optimistic that conditions will improve as historical levels of demand return. We expect a scarcity of GOM deepwater rigs to emerge by 2012 as a consequence of the growing exodus of rigs from that market. New departures announced since June include the Ocean Monarch (10K' semi), Discoverer Spirit (10K' drillship), and Transocean Amirante (3.5K' semi). Going forward, recent tenders from Petrobras, Pemex, and Saudi Aramco may draw even more rigs out of the GOM. For the shallow-water market, we believe activity will remain light in 2Q11 and 3Q11. The opportunities for HERO to put stacked jackups to work are subject to the vagaries of natural gas pricing and the uncertainties of hurricane season. SPN, another GOM-leveraged name, is less dependent on a drilling revival and should benefit from an increase in decommissioning activity and in construction and well intervention work.

- ***Conclusion*** **–** We expect HERO as well as deepwater drillers levered to the GOM to struggle with rig downtime issues near-term. We like SPN on its solid bookings for 2011 related to well intervention projects and idle infrastructure removal projects.

Figure 2. Number of Deepwater Permits by Month (Gulf of Mexico)



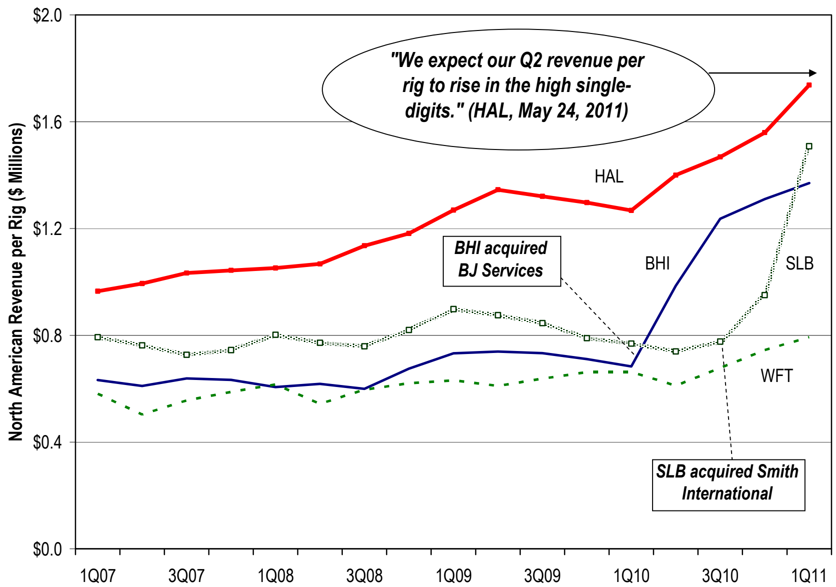
Source: BOEMRE, Citi Investment Research and Analysis

U.S. onshore services remains buoyed by an immense wave of oil shale demand while crewing and equipment continues to be inadequate to address the deluge of drilling projects.

U.S. onshore services remain buoyed by a tidal wave of oil shale demand that has strained industry capacity in terms of personnel and equipment. The rate of rig count and service intensity growth continues to exceed expectations due to sustained unconventional drilling demand, higher horsepower requirements, and increased oily/liquids-rich reservoir discoveries. Due to greater service intensity, costs of oily/liquids-rich wells are 40% to 80% higher than those of dry gas wells. The importance of these drivers is underscored by comments from HAL on May 24 forecasting that in 2Q11 it will achieve high single-digit sequential increases in revenue per rig and high incremental margins in line with those achieved a year ago (see Figure 3). At the same time, investors appear ready to cut and run as soon as signs emerge that service intensity and horizontal drilling are beginning to slow, but so far the demand imbalance in oily/liquids-rich plays has yet to show any indications of slowing or reversing (see Figure 4). IOCs and NOCs that have acquired a foothold in unconventional reservoirs prefer long-term contracts for drilling and completions, contributing to the supply bottlenecks in the North American markets. Of note, the number of drilled but not completed onshore wells stood at 3,500 in 1Q11, up from approximately 1,150 a year earlier as a result of the ongoing shortage of fracturing equipment combined with improvements in rig efficiency that allow faster drilling times.

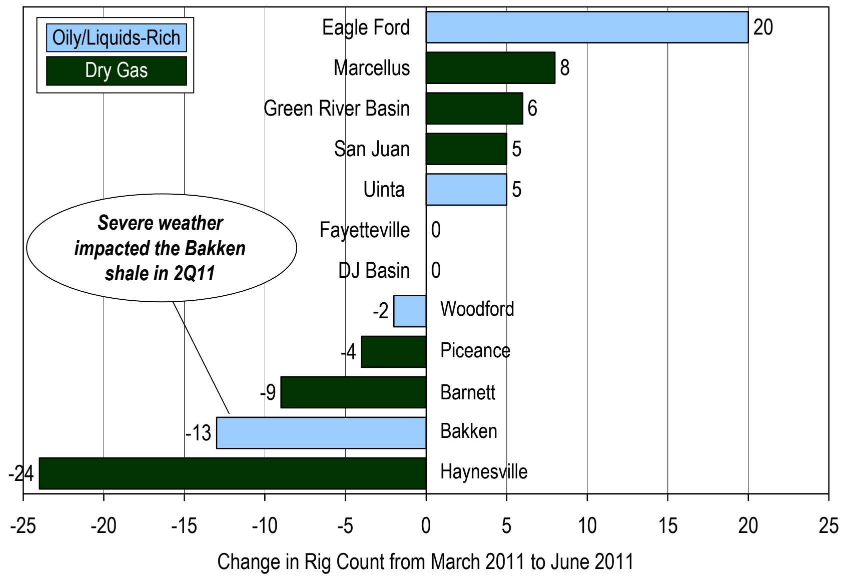
- ***Conclusion*** **–** We favor North American companies with exposure to land rigs, pressure pumping, coiled tubing, and directional drilling services. We anticipate that the domestic results of the land drillers, the North American earnings of the “Big Four” service companies, and the shorter-cycle businesses of the oilfield equipment manufacturers will continue to exceed expectations.

Figure 3. North American Revenue per Rig (“Big Four” Service Companies)



Source: Company Reports, Baker Hughes, Citi Investment Research and Analysis

Figure 4. Rig Count Change by Unconventional Reservoir from March to June 2011



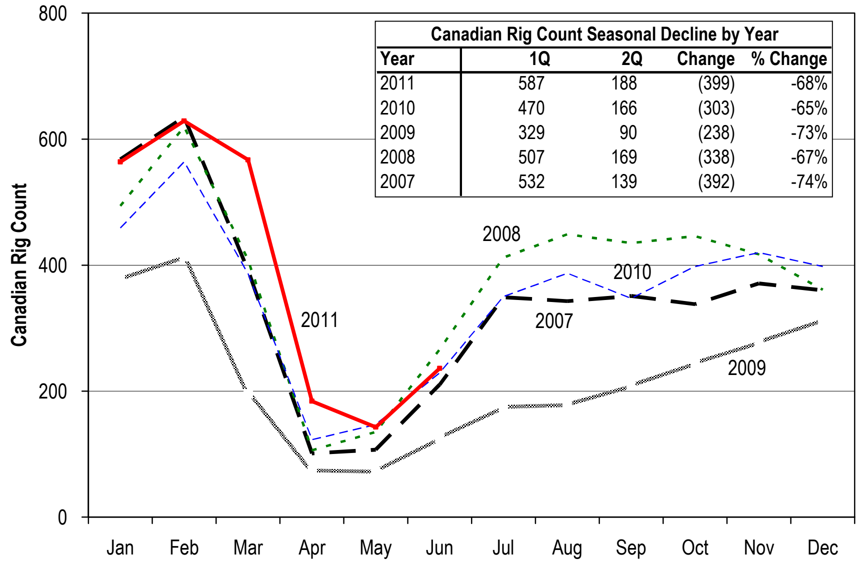
Source: The Land Rig Newsletter, Citi Investment Research and Analysis

Canada experienced a severe rig count contraction from 1Q to 2Q, but the impact relative to historical norms is not exceptional.

Canada experienced a severe seasonal contraction in 2Q11, but the impact relative to historical norms is not meaningful. The percentage rig count decline in 2Q11 vs. 1Q11 was in line with the preceding four-year range of 65%-74%. The sequential decline of 399 rigs in the spring 2011 break-up season, however, was more than the 303-392 range of the four previous years (see Figure 5).

- ***Conclusion*** **–** Concerns of an abnormally severe earnings impact on the Canadian-exposed WFT, BHI, and NBR may be overblown relative to historical averages, but even a normal spring breakup impact may be underappreciated in analyst models given the backdrop of the booming shale markets throughout North America.

Figure 5. Canadian Rig Count by Year



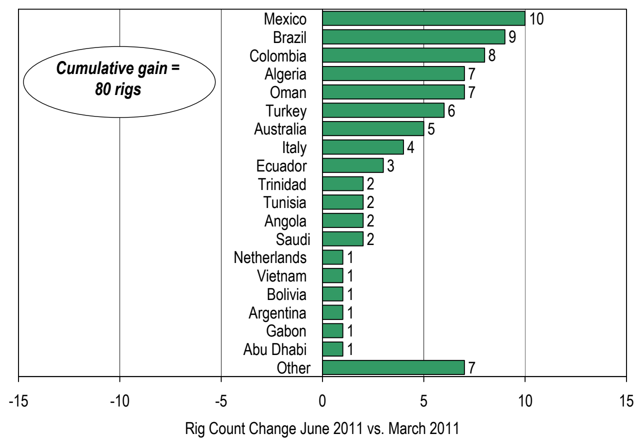
Source: Baker Hughes, Citi Investment Research and Analysis

International drilling services activity is likely to continue gaining traction in 2Q11 but at a slow pace and without pricing power.

International services activity is likely to continue gaining traction in 2Q11 but at a slow pace and without pricing power. We expect that what HAL referred to as "downturn pricing" will continue to weigh on international results, so margin improvements likely remained volume-driven and experienced less of a seasonal upturn in 2Q11 than would be predicted by historical norms. Capacity absorption has been piecemeal by country, and the quarter-ending international rig count increased by only 11 rigs in 2Q11 vs. 1Q11 (see Figures 6-7). In particular, North African disruptions fueled by the Arab Spring uprisings in Tunisia, Egypt, and Libya have kept a lid on the global recovery. Despite all the markings of a weak 2Q11, we believe that pricing is stabilizing, and we expect service providers to remain unambiguously bullish on the long-term strength of the international cycle. Assuming oil prices remain supportive, we expect that pricing-driven margin improvements will contribute minimally in the second half of 2011 but will become more globally widespread by mid-2012 (see Figure 8).

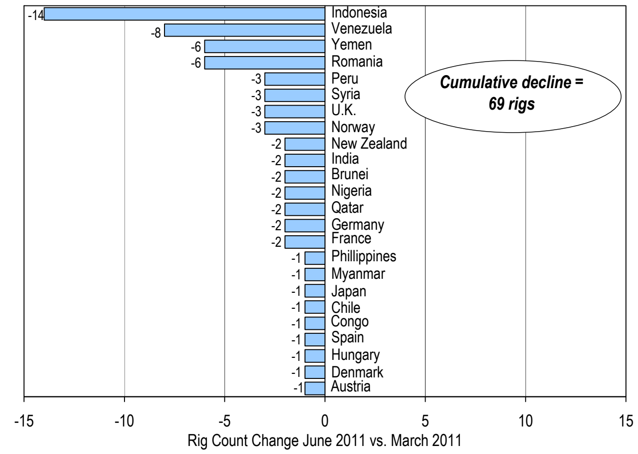
- ***Conclusion*** **–** We believe near-term North American strength will overwhelm international weakness for HAL, BHI, and SLB, although we leave WFT out of the mix for now due to its limited pressure pumping footprint, heavy Canadian exposure, and past execution issues. WFT and NBR will benefit the most once international margins solidly resume their cyclical ascent, but we believe there is still a ways to go before this rotation takes hold.

Figure 6. Countries with 2Q11 Rig Count Gains



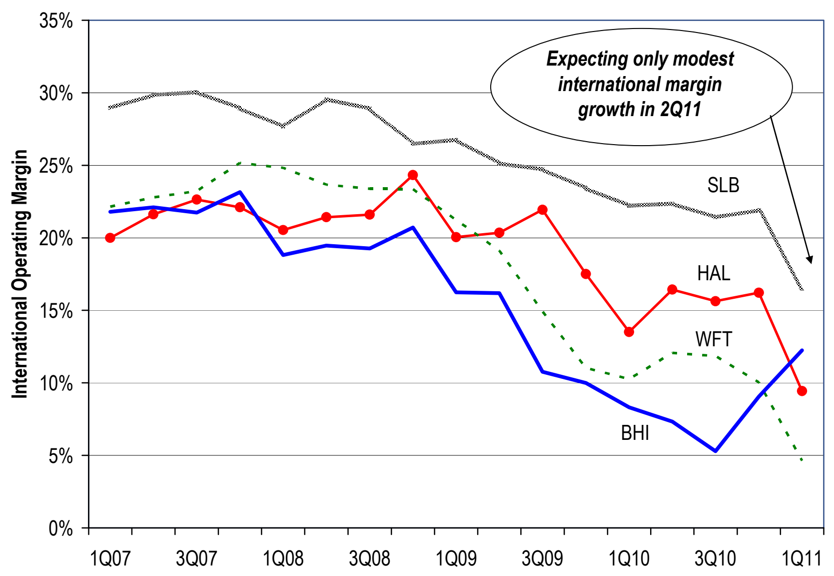
Source: Baker Hughes, Citi Investment Research and Analysis

Figure 7. Countries with 2Q11 Rig Count Declines



Source: Baker Hughes, Citi Investment Research and Analysis

Figure 8. International Operating Margins ("Big Four" Service Companies)



Source: Baker Hughes, Citi Investment Research and Analysis

Oilfield equipment manufacturers will likely have varied outlooks, as suppliers of subsea trees may see projects being deferred whereas providers of offshore rigs, land rigs, and fracturing equipment should see a sustained inflow of new orders.

Oilfield equipment manufacturers will likely have varied outlooks, as suppliers of subsea trees may report project deferrals whereas builders of offshore rigs, land rigs, and fracturing equipment should see a sustained inflow of new orders. On May 27, 2011, Quest Offshore lowered its global subsea tree order forecast, and we believe street estimates have yet to adjust to the tempered growth expectations for 2011 (see Figure 9). Going forward, we anticipate delays and slack capacity available to meet newly awarded projects. In contrast, we believe that market conditions will remain strong for rig equipment suppliers. We have forecasted that upwards of 100 incremental rig orders will be necessary to meet both drilling demand and rig attrition against a stricter regulatory backdrop over the next 10 years.

- ***Conclusion*** – While companies have previously noted potential subsea project deferrals, we believe street estimates have yet to fully reflect the impact of these order delays in 2011 and 2012 on earnings in 2012 and 2013, and such adjustments could work against CAM and FTI. On the other hand, we believe NOV should continue to surprise to the upside as it secures a record inflow of orders for rig equipment packages on the growing backlog of offshore rig orders announced since October 2010 (see Figure 10).

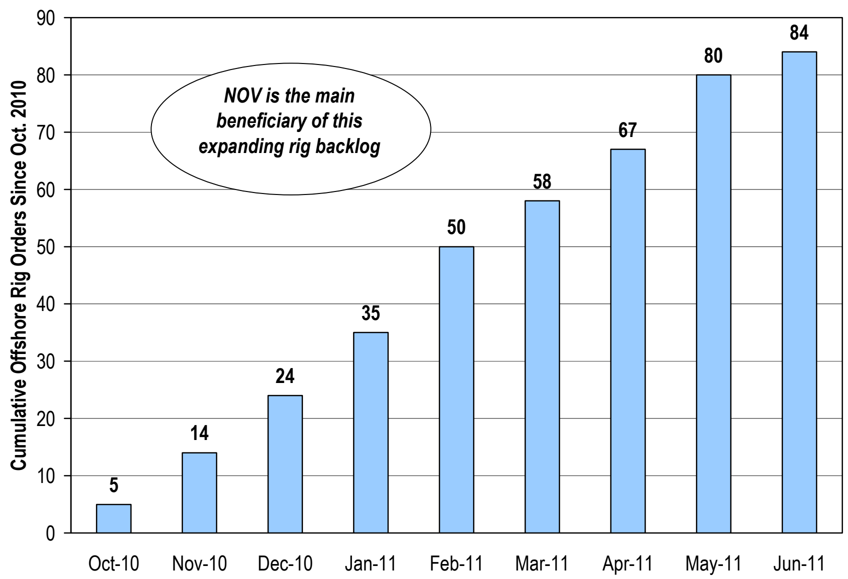
Figure 9. Quest Subsea Tree Forecast Revision (May 2011 vs. March 2011)

May 2011	2011E	2012E	2013E	2014E	2015E
Africa	102	161	154	129	169
Asia Pacific/MidEast	78	98	80	103	101
North Sea	64	79	87	86	84
North America	35	51	77	83	92
South America	136	149	145	166	212
Total	**415**	**538**	**543**	**567**	**658**
Growth rate	***11.3%***	***29.6%***	***0.9%***	***4.4%***	***16.0%***
CAGR (2010-2015E)	***12.0%***				

March 2011	2011E	2012E	2013E	2014E	2015E
Africa	116	160	140	170	139
Asia Pacific/MidEast	56	111	81	79	101
North Sea	80	98	94	84	100
North America	45	51	84	77	89
South America	155	163	145	202	236
Total	**452**	**583**	**544**	**612**	**665**
Growth rate	***21.2%***	***29.0%***	***-6.7%***	***12.5%***	***8.7%***
CAGR (2010-2015E)	***12.3%***				

Source: Quest Offshore Resources, Inc., Citi Investment Research and Analysis

Figure 10. Cumulative Offshore Rig Orders Since October 2010



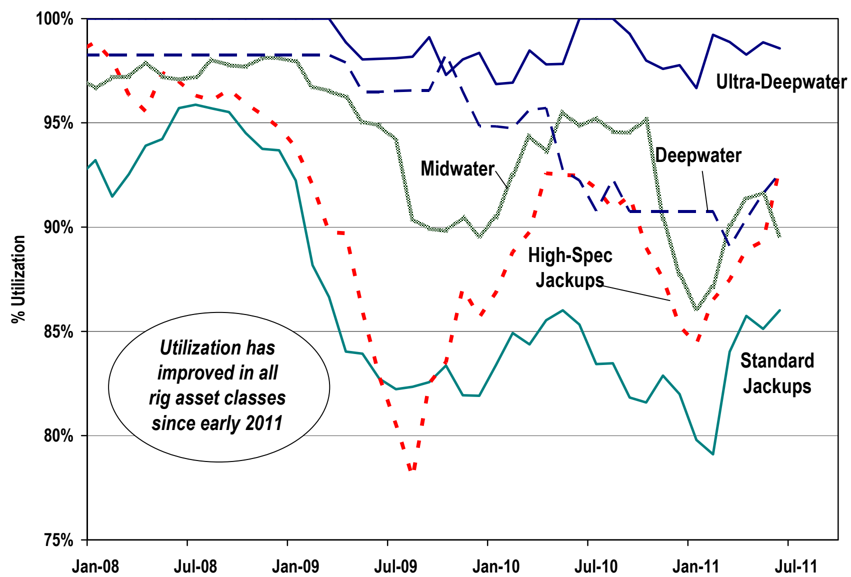
Source: ODS-Petrodata, Citi Investment Research and Analysis

Offshore drillers face near-term challenges due to unexpected downtime and choppy transitory conditions, but global utilization improved significantly in 2Q11, and recent NOC tenders support a favorable long-term outlook.

Offshore drillers face near-term challenges due to unexpected downtime and choppy transitory conditions, but global utilization improved significantly in 2Q11, and recent NOC tenders support a favorable long-term outlook. A slowly recovering market, speculative newbuild backlog, and lingering Macondo uncertainty were formidable headwinds in 2009 and 2010. However, market conditions have tightened significantly over the past six months, with management commentary becoming increasingly bullish on ultra-deepwater, midwater, and high-spec jackup rigs. Global average utilization increased in 2Q11 for all classes of rigs, with the greatest utilization gains shown by midwater floaters (+300 bps q/q), high-spec jackups (+420 bps q/q), and standard jackups (+460 bps q/q) (see Figures 11 and 12). At the same time, offshore rig inquiries and tenders from national oil companies have picked up significantly in recent months. In early July, Petrobras announced new deepwater tenders for both DP and moored floaters that we view as a highly positive development. Petrobras has proven adept at timing the market, so we see the tenders as supportive of our bullish deepwater thesis.

- ***Conclusion*** **–** We would be wary of the offshore drillers going into earnings reports for 2Q11, as most of our models forecast below-consensus EPS in 2Q11 and 3Q11. We have modeled higher levels of downtime in 2Q and episodic idle time as rigs come off contract in 3Q. Despite the potential for negative near-term EPS revisions, we have become more constructive long-term on the group given the rapidly improving fundamental demand picture, which is reflected in our generally above-consensus estimates in 2012 and 2013.

Figure 11. Offshore Rig Utilization Trend by Rig Class



Source: ODS-Petrodata, Citi Investment Research and Analysis

Figure 12. Utilization for Ultra Deepwater, Conventional Deepwater, Mid Water, and Jackups

	Floaters			Jackups	
	UDW	**DW**	**MW**	**High-Spec**	**Standard**
Jan-11	96.7%	90.7%	86.1%	84.4%	79.8%
Feb-11	99.2%	90.7%	87.1%	86.5%	79.1%
Mar-11	98.9%	89.1%	90.1%	87.5%	84.0%
1Q11 Average	**98.3%**	**90.2%**	**87.8%**	**86.1%**	**81.0%**
Apr-11	98.3%	90.4%	91.3%	88.9%	85.7%
May-11	98.9%	91.6%	91.7%	89.3%	85.1%
Jun-11	98.6%	92.6%	89.6%	92.8%	86.0%
2Q11 Average	**98.6%**	**91.5%**	**90.9%**	**90.3%**	**85.6%**
Q/Q Change	***+30 bps***	***+130 bps***	***+300 bps***	***+420 bps***	***+460 bps***

Source: ODS-Petrodata, Citi Investment Research and Analysis

2Q11 Earnings Preview by Company

The tables below show when the companies in our coverage universe report earnings, how our estimates compare to those of consensus, and how much share prices and consensus EPS estimates have changed since earnings were reported one quarter ago (see Figures 13-15).

Figure 13. 2Q11 Earnings Calendar

	2Q11 Conference Calls				Citi View	2Q11 EPS			2Q11 Revenue			2Q11 EBITDA		
Company	Date	Day	EST	Dial-in	Pre-Quarter	Citi	Street	Call	Citi	Street	Call	Citi	Street	Call
HAL	07/18/11	Mon	9:00 AM	703-639-1306	Top Pick	$0.74	$0.72	Beat	$5,557	$5,649	Miss	$1,336	$1,362	Miss
NE	07/21/11	Thu	9:00 AM	866-461-7129	Avoid	$0.27	$0.35	Miss	$652	$659	Miss	$265	$290	Miss
DO	07/21/11	Thu	10:00 AM	800-247-9979	Avoid	$1.88	$1.89	Miss	$848	$872	Miss	$465	$460	Beat
SLB	07/22/11	Fri	9:00 AM	800-230-1096	Top Pick	$0.87	$0.85	Beat	$9,310	$9,197	Beat	$2,439	$2,413	Beat
BHI	07/25/11	Mon	8:30 AM	800-374-2469	Top Pick	$0.89	$0.90	Miss	$4,547	$4,521	Beat	$969	$1,003	Miss
WFT	07/26/11	Tue	8:00 AM	866-393-8572	Avoid	$0.15	$0.15	Inline	$2,917	$2,894	Beat	$593	$577	Beat
FTI	07/26/11	Tue	9:00 AM	866-394-0571	Avoid	$0.39	$0.38	Beat	$1,161	$1,185	Miss	$169	$164	Beat
NOV	07/26/11	Tue	9:00 AM	800-446-1671	Top Pick	$1.03	$1.00	Beat	$3,227	$3,226	Beat	$775	$761	Beat
NBR	07/27/11	Wed	11:00 AM	877-941-1427	No Trade	$0.26	$0.25	Beat	$1,216	$1,327	Miss	$390	$410	Miss
CAM	07/28/11	Thu	9:30 AM	201-689-8262	Avoid	$0.64	$0.64	Inline	$1,580	$1,656	Miss	$284	$280	Beat
PTEN	07/28/11	Thu	10:00 AM	800-510-9691	Top Pick	$0.50	$0.49	Beat	$591	$586	Beat	$227	$223	Beat
SPN	07/28/11	Thu	11:00 AM	480-629-9835	Top Pick	$0.40	$0.41	Miss	$475	$482	Miss	$136	$133	Beat
HP	07/29/11	Fri	11:00 AM	800-895-0198	Top Pick	$0.97	$0.98	Miss	$635	$632	Beat	$256	$255	Beat
RDC	08/02/11	Tue	11:00 AM	877-869-3847	No Trade	$0.46	$0.41	Beat	$448	$363	Beat	$129	$121	Beat
ESV	08/09/11	Tue	11:00 AM	800-314-5962	No Trade	$0.65	$0.69	Miss	$518	$537	Miss	$234	$220	Beat
RIG	NA	NA	NA	NA	Avoid	$0.84	$0.83	Beat	$2,385	$2,357	Beat	$882	$893	Miss
HERO	NA	NA	NA	NA	Avoid	($0.16)	($0.15)	Miss	$181	$178	Beat	$38	$40	Miss
DRC	NA	NA	NA	NA	Avoid	$0.46	$0.47	Miss	$605	$571	Beat	$78	$84	Miss

Source: Thomson, Citi Investment Research and Analysis

Figure 14. Citi EPS Estimates vs. Street

	(Current Quarter) 2Q11 EPS			*(Next Quarter)* 3Q11 EPS			2011 EPS			2012 EPS			2013 EPS		
Company	Citi	Street	Gap	Citi	Street	Gap	Citi	Street	Gap	Citi	Street	Gap	Citi	Street	Gap
HAL	$0.74	$0.72	$0.02	$0.83	$0.82	$0.01	$3.05	$3.05	$0.00	$3.70	$3.93	($0.23)	$4.40	$4.49	($0.09)
NE	$0.27	$0.35	($0.08)	$0.58	$0.66	($0.08)	$1.90	$1.96	($0.06)	$4.05	$3.91	$0.14	$4.35	$4.26	$0.09
DO	$1.88	$1.89	($0.01)	$1.41	$1.52	($0.11)	$6.45	$6.57	($0.12)	$6.17	$5.44	$0.73	$6.87	$5.66	$1.21
SLB	$0.87	$0.85	$0.02	$0.99	$1.01	($0.02)	$3.75	$3.73	$0.02	$5.00	$5.14	($0.14)	$6.00	$6.19	($0.19)
BHI	$0.89	$0.90	($0.01)	$1.12	$1.11	$0.01	$4.10	$4.14	($0.04)	$5.15	$5.43	($0.28)	$6.10	$6.58	($0.48)
WFT	$0.15	$0.15	$0.00	$0.21	$0.26	($0.05)	$0.75	$0.84	($0.09)	$1.30	$1.51	($0.21)	$2.10	$2.08	$0.02
FTI	$0.39	$0.38	$0.01	$0.43	$0.46	($0.03)	$1.69	$1.69	$0.00	$2.20	$2.14	$0.06	$2.55	$2.55	$0.00
NOV	$1.03	$1.00	$0.03	$1.10	$1.05	$0.05	$4.35	$4.17	$0.18	$5.35	$5.29	$0.06	$6.10	$6.06	$0.04
NBR	$0.26	$0.25	$0.01	$0.45	$0.41	$0.04	$1.65	$1.52	$0.13	$2.45	$2.46	($0.01)	$2.90	$2.89	$0.01
CAM	$0.64	$0.64	$0.00	$0.68	$0.71	($0.03)	$2.58	$2.58	$0.00	$3.30	$3.44	($0.14)	$4.00	$4.04	($0.04)
PTEN	$0.50	$0.49	$0.01	$0.58	$0.57	$0.01	$2.20	$2.16	$0.04	$2.80	$2.75	$0.05	$3.20	$3.01	$0.19
SPN	$0.40	$0.41	($0.01)	$0.67	$0.60	$0.07	$2.00	$1.84	$0.16	$2.95	$2.86	$0.09	$3.60	$3.47	$0.13
HP	$0.97	$0.98	($0.01)	$0.97	$1.04	($0.07)	$3.81	$3.90	($0.09)	$4.50	$4.60	($0.10)	$4.90	$5.11	($0.21)
RDC	$0.46	$0.41	$0.05	$0.48	$0.58	($0.10)	$2.06	$2.02	$0.04	$3.84	$3.68	$0.16	$4.30	$3.88	$0.42
ESV	$0.65	$0.69	($0.04)	$1.01	$1.09	($0.08)	$3.80	$3.76	$0.04	$6.05	$5.95	$0.10	$6.40	$6.35	$0.05
RIG	$0.84	$0.83	$0.01	$1.15	$1.21	($0.06)	$3.93	$4.22	($0.29)	$7.13	$6.29	$0.84	$7.62	$6.57	$1.05
HERO	($0.16)	($0.15)	($0.01)	($0.19)	($0.10)	($0.09)	($0.67)	($0.56)	($0.11)	($0.39)	($0.47)	$0.08	($0.21)	($0.37)	$0.16
DRC	$0.46	$0.47	($0.01)	$0.61	$0.69	($0.08)	$2.13	$2.16	($0.03)	$3.00	$3.33	($0.33)	$4.05	$4.12	($0.07)

Source: Thomson, Citi Investment Research and Analysis

Figure 15. Citi Ratings and Price Targets vs. Street Revisions and Stock Performance

		Share Price			EPS Changes, Month			% Ch. in Street EPS Since 1Q11 Call				Stock Since 1Q11 Call	
Company	Rating	Target	7/8/2011	% Upside	Higher	Lower	Ave. Ch.	2Q11	2011	2012	2013	Absolute	Relative
HAL	Buy	$61.00	$54.04	13%	5	0	$0.05	6%	7%	11%	11%	15%	19%
NE	Buy	$52.00	$37.34	39%	0	15	($0.18)	-27%	-10%	-1%	0%	-14%	-9%
DO	Buy	$90.00	$70.71	27%	6	4	($0.13)	8%	8%	-1%	9%	-7%	-3%
SLB	Buy	$115.00	$89.96	28%	3	1	$0.00	-4%	-2%	2%	2%	2%	7%
BHI	Hold	$80.00	$75.07	7%	4	0	$0.02	5%	8%	9%	10%	1%	7%
WFT	Buy	$27.00	$18.73	44%	1	4	($0.01)	-25%	-18%	-7%	0%	-11%	-7%
FTI	Buy	$57.00	$45.07	26%	2	0	$0.01	-5%	-1%	2%	2%	-6%	-1%
NOV	Buy	$92.00	$80.21	15%	2	0	$0.03	0%	0%	4%	15%	0%	5%
NBR	Buy	$35.00	$24.43	43%	0	18	($0.07)	-26%	-14%	2%	4%	-24%	-18%
CAM	Hold	$58.00	$51.15	13%	1	0	$0.01	-3%	-4%	-1%	-2%	-6%	-1%
PTEN	Buy	$42.00	$32.37	30%	1	0	$0.01	9%	11%	25%	31%	4%	9%
SPN	Buy	$46.00	$39.19	17%	3	0	$0.07	-9%	-8%	1%	8%	-2%	3%
HP	Buy	$78.00	$68.45	14%	2	0	$0.03	-5%	-3%	3%	7%	-2%	3%
RDC	Hold	$45.00	$38.47	17%	3	8	($0.05)	-15%	-15%	-5%	-6%	-5%	-3%
ESV	Hold	$56.00	$53.13	5%	1	3	($0.05)	-8%	4%	12%	4%	-7%	-3%
RIG	Buy	$90.00	$62.01	45%	1	18	($0.14)	-29%	-18%	-5%	-6%	-10%	-11%
HERO	Hold	$6.00	$5.48	9%	0	7	($0.03)	-7%	-16%	-17%	27%	-4%	2%
DRC	Buy	$65.00	$55.52	17%	1	2	($0.05)	-13%	4%	11%	13%	1%	6%

Source: Thomson, Citi Investment Research and Analysis

Cameron International (Hold, $58)

Figure 16. CAM - 2Q11 Cheat Sheet

Citi's 2Q Conclusion:
We would avoid the stock before the quarter. Our 2Q EPS is inline, but we believe potential subsea order delays have not been fully reflected in 2012 earnings estimates.

View:	Stock	Rating	Target
Avoid Pre-Quarter	CAM	Hold	$58.00

Quarter Estimates:	EPS	Revenue ($MM)	EBITDA ($MM)
Citi	$0.64	$1,580	$284
Consensus	$0.64	$1,656	$280
% Gap vs. Street	*0%*	*-5%*	*1%*

Earnings Revisions in Last Month:	Higher	Lower	Ave. Change
2Q11	1	0	$0.01

Forward Estimates:	Citi EPS	Street EPS	% Gap
3Q11	$0.68	$0.71	*-4%*
2011	$2.58	$2.58	*0%*
2012	$3.30	$3.44	*-4%*
2013	$4.00	$4.04	*-1%*

Stock Change Since Last Quarter's Call:	Stock Price	OSX Index	Relative Change
4/27/11	$54.44	$287.41	NA
7/8/11	$51.15	$272.68	NA
% Change Since Call	*-6.0%*	*-5.1%*	*-0.9%*

Street EPS Change Since Last Quarter:	Quarter Ago	Current	% Change
2Q11	$0.66	$0.64	-3%
2011	$2.68	$2.58	-4%
2012	$3.49	$3.44	-1%
2013	$4.12	$4.04	-2%

EPS Surprises, Last Eight Quarters:	Street	Actual	% Gap
1Q11	$0.50	$0.46	8% Miss
4Q10	$0.67	$0.69	3% Beat
3Q10	$0.60	$0.64	7% Beat
2Q10	$0.54	$0.58	7% Beat
1Q10	$0.51	$0.51	Inline
4Q09	$0.53	$0.54	2% Beat
3Q09	$0.53	$0.58	9% Beat
2Q09	$0.47	$0.60	28% Beat

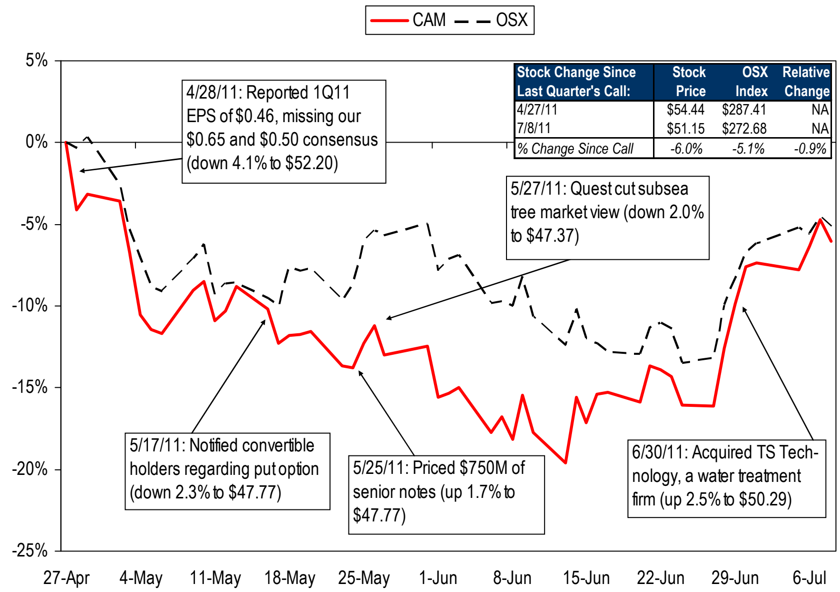
Conference Call Logistics:		
Call Date	7/28/11	
Call Time (EST)	9:30 AM	
Dial-in / Password	201-689-8262	/373770
Replay Dial-in	201-612-7415	

Source: Thomson, Citi Investment Research and Analysis

We would not buy CAM shares in front of 2Q11 earnings and continue to rate the stock a Hold (2H). Since CAM last reported, third-party data providers have lowered their subsea tree order market forecasts, and we believe street estimates have yet to adjust to the tempered growth expectations. While the potential delays in the subsea market are not new information, we believe the degree to which forecasts were reduced has not been reflected in street estimates. Specifically, Quest Offshore downwardly revised its subsea tree order expectations on May 27, 2011. In the revision, Quest lowered its worldwide order forecast by 5.1% to 2,718 trees from 2,865 trees over the 2011-2015 four-year timeframe. The largest changes over the four-year period were reductions of the North Sea forecast by 12.3% to 398 trees due to new tax laws in the U.K. and a haircut to the South America forecast by 10.2% to 808 trees due to uncertainty on the level of awards off Brazil. For each of the next two years, Quest significantly reduced its forecasts -- by 11.0% to 415 trees in 2011 and by 7.6% to 538 trees in 2012. Quest now expects the market to grow by 11.3% in 2011, 29.6% in 2012, and 0.9% in 2013.

Although more analysts have recently gravitated toward upgrading CAM due to its low relative valuation, we remain skeptical that the market has fully digested the potential headwinds in the subsea tree market. Our 2Q11 EPS estimate is in line with consensus (both $0.64) and within the $0.60-$0.65 guidance range, but we have become more cautious on CAM due to the apparent paucity of new subsea award announcements in 2Q11. Going forward, we expect to see delays and slack capacity available to meet newly awarded projects. Our CAM order forecast is for a 7.3% sequential increase to $1.63B in 2Q11. For full-year 2011, we have modeled a 17.4% increase in orders to $6.80B, although this may prove aggressive based on the Quest forecast of only 11.3% market growth for the subsea tree component in 2011. As a result, we would be surprised if the company raised EPS guidance for 2011, as CAM has done in past years (given the slippage in subsea forecasts). On its 1Q11 conference call, CAM actually lowered 2011 guidance by $0.15 per share to a range of $2.50-$2.60 per share, but this was due to Usan cost overruns and Libya sanction charges as opposed to fundamental project deferral issues.

Figure 17. CAM Stock Price vs. OSX Indexed to Closing Price Before 1Q11 Earnings Report



Source: Citi Investment Research and Analysis

FMC Technologies (Buy, $57)

Figure 18. FTI – 2Q11 Cheat Sheet

Citi's 2Q Conclusion:
Avoid buying pre-quarter, but stay with the stock long-term. FTI could face subsea market pressures for the same reasons alluded to in our CAM commentary.

View:	Stock	Rating	Target
Avoid Pre-Quarter	FTI	Buy	$57.00

Quarter Estimates:	EPS	Revenue ($MM)	EBITDA ($MM)
Citi	$0.39	$1,161	$169
Consensus	$0.38	$1,185	$164
% Gap vs. Street	*3%*	*-2%*	*3%*

Earnings Revisions in Last Month:	Higher	Lower	Ave. Change
2Q11	2	0	$0.01

Forward Estimates:	Citi EPS	Street EPS	% Gap
3Q11	$0.43	$0.46	*-7%*
2011	$1.69	$1.69	*0%*
2012	$2.20	$2.14	*3%*
2013	$2.55	$2.55	*0%*

Stock Change Since Last Quarter's Call:	Stock Price	OSX Index	Relative Change
4/26/11	$48.07	$289.23	NA
7/8/11	$45.07	$272.68	NA
% Change Since Call	*-6.2%*	*-5.7%*	*-0.5%*

Street EPS Change Since Last Quarter:	Quarter Ago	Current	% Change
2Q11	$0.40	$0.38	-5%
2011	$1.70	$1.69	-1%
2012	$2.10	$2.14	2%
2013	$2.49	$2.55	2%

EPS Surprises, Last Eight Quarters:	Street	Actual	% Gap
1Q11	$0.37	$0.35	5% Miss
4Q10	$0.35	$0.35	Inline
3Q10	$0.34	$0.33	3% Miss
2Q10	$0.35	$0.39	11% Beat
1Q10	$0.32	$0.40	25% Beat
4Q09	$0.37	$0.38	3% Beat
3Q09	$0.31	$0.37	19% Beat
2Q09	$0.31	$0.42	35% Beat

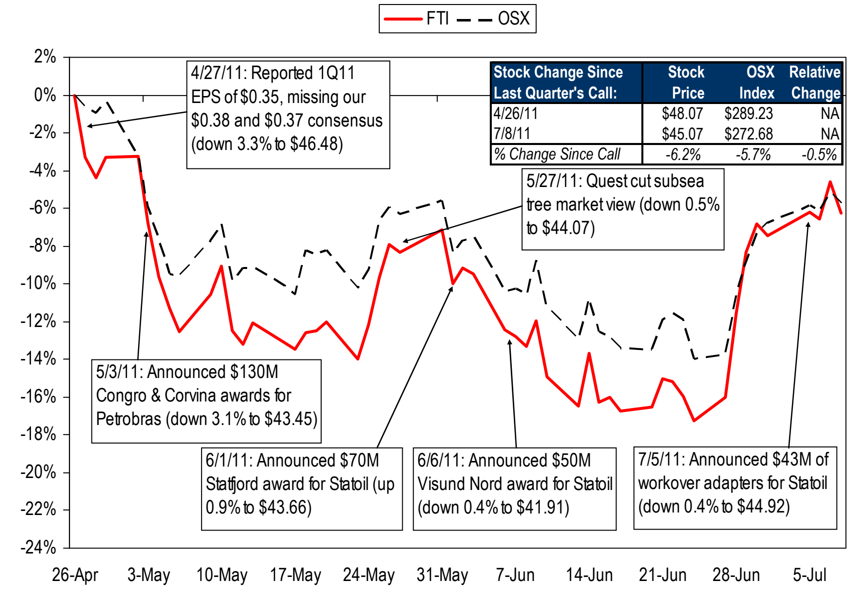
Conference Call Logistics:		
Call Date	7/26/11	
Call Time (EST)	9:00 AM	
Dial-in / Password	866-394-0571	/62669052
Replay Dial-in	822-642-1687	/62669052

Source: Thomson, Citi Investment Research and Analysis

We are slightly higher than consensus in 2Q11 on EPS ($0.39 vs. $0.38) and slightly lower on revenues ($1.16B vs. $1.19B). Overall, we would be wary of buying the stock in front of earnings for the same subsea tree market factors alluded to in our CAM commentary. FTI has announced an estimated $445M of consolidated orders in 2Q11, including an estimated $90M for the six trees in the Hibernia field for Exxon Mobil and $105M for the seven trees in the Prelude field for Shell (assuming $15M per tree), $130M for the subsea separation and boosting systems ordered in the Congro and Corvina fields for Petrobras, $70M toward a workover system at Statfjord for Statpol, and $50M toward the Visund Nord project for Statoil. Relative to the estimated $445M this quarter, FTI had announced an estimated $420M of orders in 1Q11 and $500M in 4Q10. While these are only a subset of the total orders (since many orders are not announced via a press release), the flattish announced order trend coupled with the more cautious Quest market forecast suggests some risk to its bookings outlook. Note that this risk is not likely to impact 2Q11 EPS but could instead result in tempered commentary on the earnings call. Our model forecasts $1.03B subsea orders and $1.50B total orders in 2Q11. We are estimating $4.0B subsea orders (in line with guidance) and $6.0B total orders for full-year 2011.

We continue to like the stock as a long-term holding even though FTI has become a popular "Hold" downgrade call on valuation by the street (rather than "Buy"). That said, we would still wait for a better entry point than the days in front of earnings. We reiterate that some of the subsea trees orders expected to materialize in 2011 will likely be deferred until late 2011 or early 2012, and these delays coupled with ample available capacity could result in pricing pressures on any major tree clusters awarded in 2011. Despite the soft market, the frame agreements that have advantaged FTI in the past will likely continue to do so relative to its primary competitors (e.g., AKSO-OSL, CAM, DRQ, GE). Our Buy (1H) rating focuses on the long-term and expects deepwater production to drive continued secular strength, making FTI an effective investment vehicle and a potential takeover candidate notwithstanding our near-term caution.

Figure 19. FTI Stock Price vs. OSX Indexed to Closing Price Before 1Q11 Earnings Report



Source: Citi Investment Research and Analysis

National Oilwell Varco (Buy, $92)

Figure 20. NOV – 2Q11 Cheat Sheet

Citi's 2Q Conclusion:
Buy NOV ahead of the quarter. N.A.-leveraged, shorter-cycle businesses (PS&S, Distribution) should drive 2Q results. Street estimates are likely to increase post-call.

View:	Stock	Rating	Target
Top Pick Pre-Quarter	NOV	Buy	$92.00

Quarter Estimates:	EPS	Revenue ($MM)	EBITDA ($MM)
Citi	$1.03	$3,227	$775
Consensus	$1.00	$3,226	$761
% Gap vs. Street	*3%*	*0%*	*2%*

Earnings Revisions in Last Month:	Higher	Lower	Ave. Change
2Q11	2	0	$0.03

Forward Estimates:	Citi EPS	Street EPS	% Gap
3Q11	$1.10	$1.05	5%
2011	$4.35	$4.17	4%
2012	$5.35	$5.29	1%
2013	$6.10	$6.06	1%

Stock Change Since Last Quarter's Call:	Stock Price	OSX Index	Relative Change
4/26/11	$80.60	$289.23	NA
7/8/11	$80.21	$272.68	NA
% Change Since Call	*-0.5%*	*-5.7%*	*5.2%*

Street EPS Change Since Last Quarter:	Quarter Ago	Current	% Change
2Q11	$1.00	$1.00	0%
2011	$4.16	$4.17	0%
2012	$5.07	$5.29	4%
2013	$5.29	$6.06	15%

EPS Surprises, Last Eight Quarters:	Street	Actual	% Gap
1Q11	$1.00	$1.00	Inline
4Q10	$0.96	$1.05	9% Beat
3Q10	$0.90	$0.97	8% Beat
2Q10	$0.93	$0.97	4% Beat
1Q10	$0.86	$1.10	28% Beat
4Q09	$0.77	$0.96	25% Beat
3Q09	$0.79	$0.95	20% Beat
2Q09	$0.87	$0.90	3% Beat

Conference Call Logistics:	
Call Date	7/26/11
Call Time (EST)	9:00 AM
Dial-in / Password	800-446-1671
Replay Dial-in	NOV website

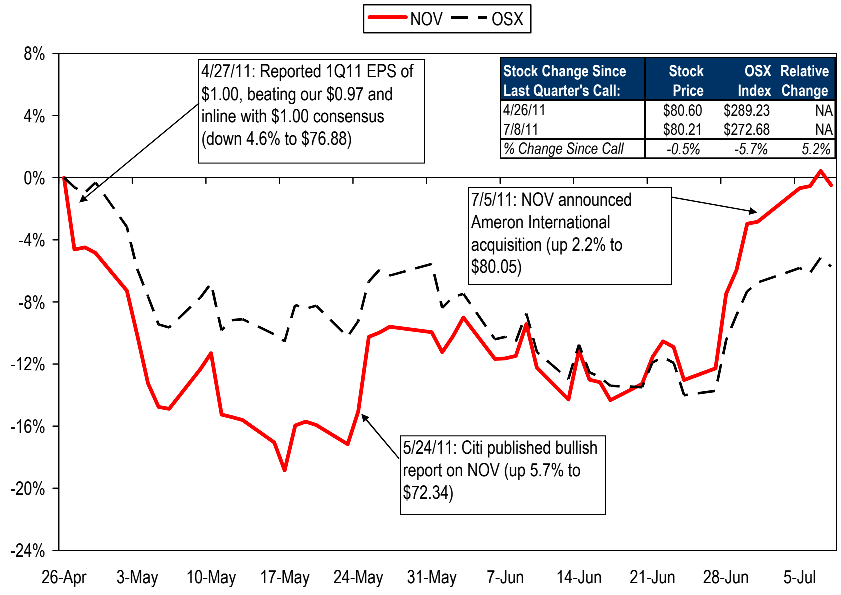
Source: Thomson, Citi Investment Research and Analysis

We would buy the stock ahead of the quarter on our expectation of an EPS beat ($1.03 vs. $1.00) and likely upward revisions to consensus estimates following the earnings call. In particular, we believe that its shorter-cycle businesses (Petroleum Services & Supplies, Distribution Services) will outperform this quarter due to the sustained strength of North American shale drilling and growing demand for premium drill pipe, coiled tubing, and oilfield consumables. Although our EPS projections are already above consensus levels for 2011-2013, our numbers may prove to be conservative.

NOV typically errs on the side of caution when it issues prompt-quarter guidance in its three business segments, and we believe this conservatism may apply to 2Q11 results. In both PS&S and Distribution Services, the company called for flat sales and margins in 2Q11. We have modeled 1% sequential top-line growth and slightly improving EBIT margins in both segments (to 20.0% from 19.4% in PS&S and to 7.0% from 6.8% in Distribution). In Rig Technology, the company guided to only slight revenue growth in 2Q11 and forecasted margin pressures due to the adverse mix impact of the 2010-2011 land rig order pickup and the winding-down of the 2005-2008 backlog. We have assumed modest 5% sequential top-line growth and a 120 bps EBIT margin compression to 25.0% in 2Q11 from 26.2% in 1Q11 for the Rig Tech segment. We have modeled Rig Tech orders growing by 3% sequentially to $2.34B in 2Q11, backlog building by 18% to $7.24B from $6.2B at the end of 1Q11, and a book-to-bill ratio of 1.9.

NOV remains our top long-term pick in oil services. We believe the company will benefit from a continuation of the healthy order flow seen over the last few quarters, from indications that pricing leverage has come back to Rig Technology, and from efficiency improvements that NOV implemented during and after the 2008 downturn. NOV also expects to be awarded the rig equipment packages for seven deepwater rigs that Petrobras intends to build in Brazil. We continue to see NOV as the primary beneficiary of an extended offshore rig newbuild cycle in a market that we believe can support an additional 110 incremental rig orders, which would equate to a potential $18B sales opportunity over the next 10 years.

Figure 21. NOV Stock Price vs. OSX Indexed to Closing Price Before 1Q11 Earnings Report



Source: Citi Investment Research and Analysis

Dresser-Rand Group (Buy, $65)

Figure 22. DRC – 2Q11 Cheat Sheet

Citi's 2Q Conclusion:
We would avoid DRC pre-quarter because we believe street models have been slow to account for Dresser-Rand's facility flooding and near-term acquisition costs in 2Q11.

View:	Stock	Rating	Target
Avoid Pre-Quarter	DRC	Buy	$65.00

Quarter Estimates:	EPS	Revenue ($MM)	EBITDA ($MM)
Citi	$0.46	$605	$78
Consensus	$0.47	$571	$84
% Change vs. Street	*-2%*	*6%*	*-8%*

Earnings Revisions in Last Month:	Higher	Lower	Ave. Change
2Q11	1	2	($0.05)

Forward Estimates:	Citi EPS	Street EPS	% Gap
3Q11	$0.61	$0.69	*-12%*
2011	$2.13	$2.16	*-1%*
2012	$3.00	$3.33	*-10%*
2013	$4.05	$4.12	*-2%*

Stock Change Since Last Quarter's Call:	Stock Price	OSX Index	Relative Change
4/28/11	$54.82	$286.42	NA
7/8/11	$55.52	$272.68	NA
% Change Since Call	*1.3%*	*-4.8%*	*6.1%*

Street EPS Change Since Last Quarter:	Quarter Ago	Current	% Change
2Q11	$0.54	$0.47	-13%
2011	$2.07	$2.16	4%
2012	$2.99	$3.33	11%
2013	$3.66	$4.12	13%

EPS Surprises, Last Eight Quarters:	Street	Actual	% Gap
1Q11	$0.10	$0.13	30% Beat
4Q10	$0.54	$0.64	19% Beat
3Q10	$0.46	$0.46	Inline
2Q10	$0.33	$0.43	30% Beat
1Q10	$0.32	$0.44	38% Beat
4Q09	$0.66	$0.61	8% Miss
3Q09	$0.61	$0.91	49% Beat
2Q09	$0.56	$0.74	32% Beat

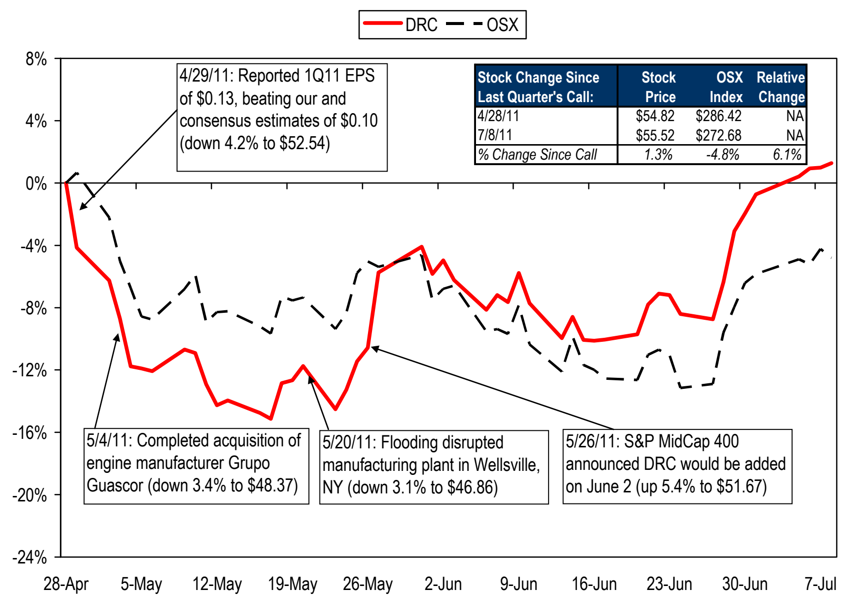
Conference Call Logistics:	
Call Date	NA
Call Time (EST)	NA
Dial-in / Password	NA
Replay Dial-in	NA

Source: Thomson, Citi Investment Research and Analysis

We would not buy DRC into the quarter because we believe analysts have been slow to account for the impacts of Dresser-Rand's facility flooding and acquisition-related costs in 2Q11. After the company reported severe flooding on May 20 at its manufacturing plant in Wellsville, New York, we lowered our 2Q11 EPS estimate by $0.04 to $0.46 (vs. $0.47 consensus as of July 8). We believe consensus estimates may not reflect the impact of the operational disruptions, as only seven of 13 analysts disclosed by Thomson have changed EPS estimates since the issue was disclosed. Second, we infer from management comments on May 23 that the street has not lowered estimates sufficiently in 2Q11 to account for costs associated with the Grupo Guascor acquisition, which was completed on May 4. DRC reiterated guidance that the transaction would result in $0.05 EPS accretion for full-year 2011, but the company indicated on the May 23 conference call that analysts had not sufficiently adjusted models for higher legal and D&A costs in 2Q11. We note that the 2Q11 consensus EPS estimate has only declined to $0.47 from $0.50 since that conference call. DRC plans to disclose its acquisition-related costs for 2Q11.

We continue to recommend DRC long-term and would buy shares opportunistically should its results disappoint. We estimate that new unit plus aftermarket orders will increase to $579M in 2Q11 from $522M in 1Q11, which is roughly in line with the seasonal pace required for the company to achieve its $2.2-$2.6B order guidance for 2011. Shares of DRC are up by only 1.3% but have outperformed the OSX by 6.1% since its 1Q11 earnings report despite the manufacturing disruptions and acquisition adjustments that are expected to impact the quarter. Of note, shares have outperformed since the S&P MidCap 400 announced on May 26 that DRC would be added to the index. Beyond the quarter EPS report, we believe that the Grupo Guascor acquisition positions DRC for multiple growth opportunities and broader risk diversification.

Figure 23. DRC Stock Price vs. OSX Indexed to Closing Price Before 1Q11 Earnings Report



Source: Citi Investment Research and Analysis

Transocean Ltd. (Buy, $90)

Figure 24. RIG – 2Q11 Cheat Sheet

Citi's 2Q Conclusion:
Avoid buying the stock before the quarter. RIG reported significant downtime in its June 2011 fleet status report, and a repeat of the 1Q11 earnings miss is possible.

View:	Stock	Rating	Target
Avoid Pre-Quarter	RIG	Buy	$90.00

Quarter Estimates:	EPS	Revenue ($MM)	EBITDA ($MM)
Citi	$0.84	$2,385	$882
Consensus	$0.83	$2,357	$893
% Change vs. Street	*1%*	*1%*	*-1%*

Earnings Revisions in Last Month:	Higher	Lower	Ave. Change
2Q11	1	18	($0.14)

Forward Estimates:	Citi EPS	Street EPS	% Gap
3Q11	$1.15	$1.21	*-5%*
2011	$3.93	$4.22	*-7%*
2012	$7.13	$6.29	*13%*
2013	$7.62	$6.57	*16%*

Stock Change Since Last Quarter's Call:	Stock Price	OSX Index	Relative Change
5/3/11	$69.12	$272.08	NA
7/8/11	$62.01	$272.68	NA
% Change Since Call	*-10.3%*	*0.2%*	*-10.5%*

Street EPS Change Since Last Quarter:	Quarter Ago	Current	% Change
2Q11	$1.17	$0.83	-29%
2011	$5.14	$4.22	-18%
2012	$6.64	$6.29	-5%
2013	$7.01	$6.57	-6%

EPS Surprises, Last Eight Quarters:	Street	Actual	% Gap
1Q11	$0.76	$0.59	22% Miss
4Q10	$0.89	$0.68	24% Miss
3Q10	$1.36	$1.36	Inline
2Q10	$1.68	$1.67	1% Miss
1Q10	$2.10	$2.22	6% Beat
4Q09	$2.56	$2.21	14% Miss
3Q09	$2.67	$2.65	1% Miss
2Q09	$3.03	$2.79	8% Miss

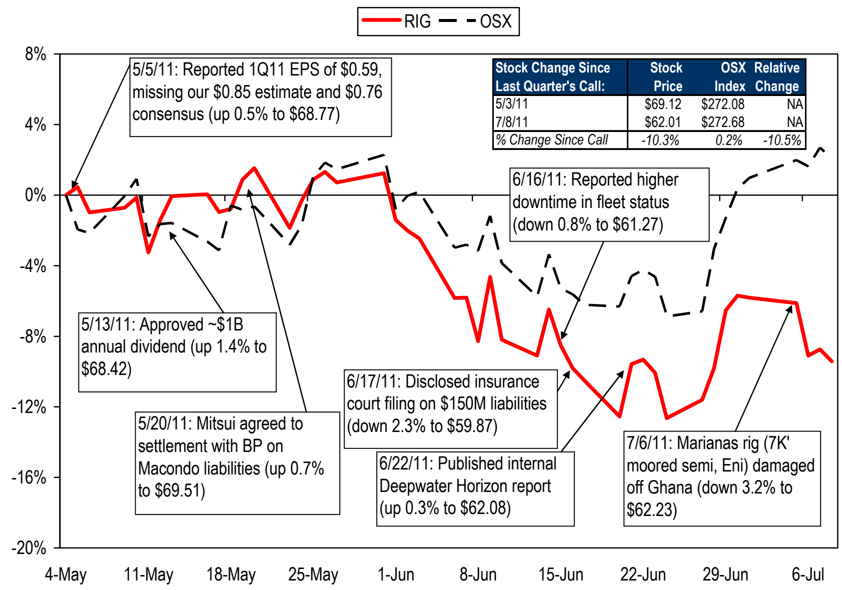
Conference Call Logistics:	
Call Date	NA
Call Time (EST)	NA
Dial-in / Password	NA
Replay Dial-in	NA

Source: Thomson, Citi Investment Research and Analysis

We lowered our 2Q11 EPS estimate by $0.11 more than three weeks ago following increased rig downtime reported in the company's June 16 fleet status report. We had been well below the previous $0.96 consensus estimate until this past week when street estimates came down (our estimate is $0.84 vs. $0.83 consensus). Even so, the significant additions to out-of-service rig time may still pose a downside risk to earnings for 2Q11. We could even see a repeat of the 1Q11 earnings report in which EPS estimates failed to incorporate a sufficient level of out-of-service rig time and its associated costs. In addition, we are awaiting guidance from the company on the EPS implications of the July 6 damage to the Transocean Marianas rig (a moored deepwater semisubmersible), which suffered damage to one of its pontoons while working for Eni off the coast of Ghana for $450K/day.

Despite our near-term concerns about the quarter, we remain confident in our long-term positive view. The company has indicated that out-of-service time should decline in the second-half of 2011, and we believe the first-half 2011 spike will prove to be a passing phenomenon. Much of the 1Q11 increases were driven by one-time events: retrofitting equipment, contract prep, and rig reactivations. In 2Q11, a substantial portion of the downtime was on two rigs mobilizing from the Gulf of Mexico: the Discoverer Spirit (an ultra-deepwater drillship, to Liberia) and the Transocean Amirante (a mid-water semisubmersible, to Egypt). Also, the last fleet status announced seven new contracts, some of which required shipyard prep work to meet new customer specifications. Beyond these near-term issues, RIG remains well-positioned for the ongoing recovery in the ultra-deepwater and deepwater markets. The Sedco Energy's (an ultra-deepwater semi) recent $440K/day fixture represents a solid rate for a fifth-gen DP semi and is close to what sixth-generation floaters capable of drilling in 10K' water depths were obtaining a few quarters ago.

Figure 25. RIG Stock Price vs. OSX Indexed to Closing Price Before 1Q11 Earnings Report



Source: Citi Investment Research and Analysis

Ensco plc (Hold, $56)

Figure 26. ESV – 2Q11 Cheat Sheet

Citi's 2Q Conclusion:
We remain on the sidelines in front of 2Q11 because limited post-acquistion, line-item guidance suggests a great deal of earnings uncertainty in 2Q11.

View:	Stock	Rating	Target
No Trade Pre-Quarter	ESV	Hold	$56.00

Quarter Estimates:	EPS	Revenue ($MM)	EBITDA ($MM)
Citi	$0.65	$518	$234
Consensus	$0.69	$537	$220
% Change vs. Street	*-6%*	*-3%*	*6%*

Earnings Revisions in Last Month:	Higher	Lower	Ave. Change
2Q11	1	3	($0.05)

Forward Estimates:	Citi EPS	Street EPS	% Gap
3Q11	$1.01	$1.09	*-7%*
2011	$3.80	$3.76	*1%*
2012	$6.05	$5.95	*2%*
2013	$6.40	$6.35	*1%*

Stock Change Since Last Quarter's Call:	Stock Price	OSX Index	Relative Change
4/20/11	$57.03	$284.76	NA
7/8/11	$53.13	$272.68	NA
% Change Since Call	*-6.8%*	*-4.2%*	*-2.6%*

Street EPS Change Since Last Quarter:	Quarter Ago	Current	% Change
2Q11	$0.75	$0.69	-8%
2011	$3.61	$3.76	4%
2012	$5.33	$5.95	12%
2013	$6.13	$6.35	4%

EPS Surprises, Last Eight Quarters:	Street	Actual	% Gap
1Q11	$0.47	$0.45	4% Miss
4Q10	$0.74	$0.90	22% Beat
3Q10	$0.90	$0.92	2% Beat
2Q10	$0.81	$0.85	5% Beat
1Q10	$1.01	$1.12	11% Beat
4Q09	$1.23	$1.24	1% Beat
3Q09	$1.03	$1.05	2% Beat
2Q09	$1.47	$1.59	8% Beat

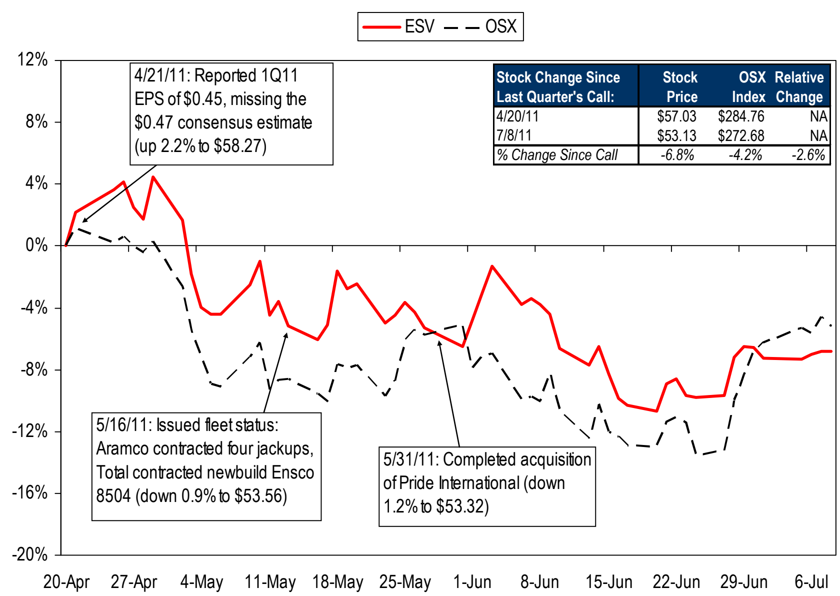
Conference Call Logistics:		
Call Date	8/9/11	
Call Time (EST)	11:00 AM	
Dial-in / Password	800-314-5962	/80137763
Replay Dial-in	800-642-1687	

Source: Thomson, Citi Investment Research and Analysis

We remain on the sidelines in front of a potentially messy 2Q11 report. The myriad moving parts (2Q11 will be the first quarter with Pride International reflected for one month in operating results) and the company's limited post-acquisition, line-item guidance suggest a great deal of earnings uncertainty. It is possible that ESV will report a strong out-of-the-gate, post-merger number (excluding acquisition-related costs which will be spelled out to avoid confusion). However, the lack of cost guidance prevents a good read on the number, and our model forecasts a 2Q11 EPS miss ($0.65 vs. $0.69 consensus). Although we assume an EBITDA beat ($234M vs. $220M consensus), our below-consensus EPS estimate suggests that other analysts are using a net interest expense assumption that is too low.

Despite our Hold (2H) rating, we have become more constructive on ESV following the Pride acquisition, which was completed on May 31. For the aforementioned reasons, we believe investors will look past the 2Q11 results when the company reports earnings. Most importantly, we believe positive rather than negative takeaways will dominate the commentary on the earnings call, which may present a buying opportunity after the financial results are digested. Specifically, we believe ESV will provide favorable guidance for the combined companies in terms of synergy expectations—both costs and revenues—as well as other line-items that may result in improvements to consensus forecasts. Our full-year estimates are currently ahead of consensus by 2% at $6.05 (vs. $5.95) in 2012 and by 1% at $6.40 (vs. $6.35) in 2013.

Figure 27. ESV Stock Price vs. OSX Indexed to Closing Price Before 1Q11 Earnings Report



Source: Citi Investment Research and Analysis

Diamond Offshore (Buy, $90)

Figure 28. DO – 2Q11 Cheat Sheet

Citi's 2Q Conclusion:
We would only buy on weakness pre-quarter. We had raised our EPS estimate by $0.03 due to avoided downtime on the Ocean Patriot, but our numbers are still below the street.

View:	Stock	Rating	Target
Avoid Pre-Quarter	DO	Buy	$90.00

Quarter Estimates:	EPS	Revenue ($MM)	EBITDA ($MM)
Citi	$1.88	$848	$465
Consensus	$1.89	$872	$460
% Change vs. Street	*-1%*	*-3%*	*1%*

Earnings Revisions in Last Month:	Higher	Lower	Ave. Change
2Q11	6	4	($0.13)

Forward Estimates:	Citi EPS	Street EPS	% Gap
3Q11	$1.41	$1.52	*-7%*
2011	$6.45	$6.57	*-2%*
2012	$6.17	$5.44	*13%*
2013	$6.87	$5.66	*21%*

Stock Change Since Last Quarter's Call:	Stock Price	OSX Index	Relative Change
4/20/11	$76.40	$284.76	NA
7/8/11	$70.71	$272.68	NA
% Change Since Call	*-7.4%*	*-4.2%*	*-3.2%*

Street EPS Change Since Last Quarter:	Quarter Ago	Current	% Change
2Q11	$1.75	$1.89	8%
2011	$6.08	$6.57	8%
2012	$5.47	$5.44	-1%
2013	$5.18	$5.66	9%

EPS Surprises, Last Eight Quarters:	Street	Actual	% Gap
1Q11	$1.43	$1.73	21% Beat
4Q10	$1.47	$1.73	18% Beat
3Q10	$1.34	$1.27	5% Miss
2Q10	$1.78	$1.61	10% Miss
1Q10	$1.93	$2.09	8% Beat
4Q09	$2.32	$1.98	15% Miss
3Q09	$2.30	$2.62	14% Beat
2Q09	$2.63	$2.79	6% Beat

Conference Call Logistics:		
Call Date	7/21/11	
Call Time (EST)	10:00 AM	
Dial-in / Password	800-247-9979	/78956725
Replay Dial-in	800-642-1687	/78956725

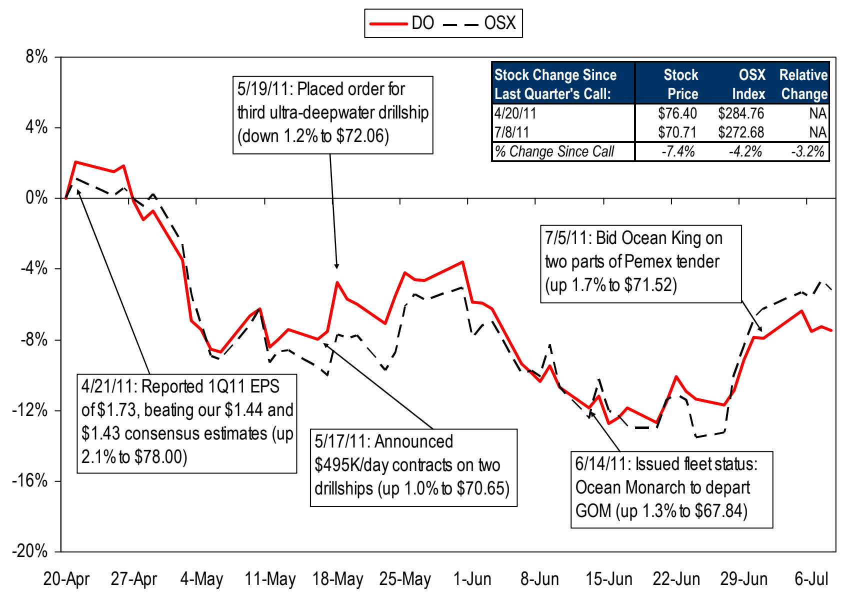
Source: Thomson, Citi Investment Research and Analysis

We expect possibly choppy earnings over the next few quarters, and we would buy DO only on a pre-quarter fade. We raised our 2Q11 EPS estimate by $0.03 on June 14 as a result of reduced downtime expected on the Ocean Patriot (midwater semi), but our estimate is still slightly below the street ($1.88 vs. $1.89 consensus). While the company beat earnings significantly last quarter, the outperformance was driven by a lower-than-expected tax rate as opposed to operating earnings.

In terms of catalysts, we expect that positive news will emerge supporting the thesis of a broad global recovery in offshore rig demand, although it is difficult to say whether significant progress relative to expectations will be shown in this quarter's earnings. DO shares have continued to struggle to find a rebuttal to the view that the company is disadvantaged by its aging rig fleet. The company's deepwater newbuild program consists of a relatively modest three drillships (although two of the three have been contracted to Anadarko under five-year contracts).

We would view as helpful any new data points showing that the floater market is getting stronger in Southeast Asia and West Africa or comments confirming that Mexico is a potential destination for DO's cold-stacked floaters and jackups. We were encouraged by the ODS-Petrodata report on July 5 that DO was the sole bidder on parts three and four of a recent Pemex tender. The Ocean King (300' IC jackup), which has been warm-stacked in Montenegro since 2Q10, stands a good chance of being hired by Pemex for up to three years. Also, in the June 14 fleet status report, the Ocean Guardian (midwater semisubmersible) was awarded an extension at $275K/day, beating our $250K/day estimate, a sign that midwater rig demand is rebounding. Finally, in its May fleet status report, DO disclosed that Anadarko awarded five-year contracts to the Ocean BlackHawk and Ocean BlackHornet, two of its three ultra-deepwater newbuild drillships. The rate of $495K/day was a bit higher than the $440K-$460K/day range posted by a number of other recent UDW market fixtures, and although it was lower than our $530K/day estimate, we still consider these contracts to be important milestones.

Figure 29. DO Stock Price vs. OSX Indexed to Closing Price Before 1Q11 Earnings Report



Source: Citi Investment Research and Analysis

Noble Corp. (Buy, $52)

Figure 30. NE – 2Q11 Cheat Sheet

Citi's 2Q Conclusion:
Avoid buying pre-quarter because downtime in its June and July fleet status reports poses 2Q11 EPS risk. Most of the good news was probably disclosed at its Analyst Day.

View:	Stock	Rating	Target
Avoid Pre-Quarter	NE	Buy	$52.00

Quarter Estimates:	EPS	Revenue ($MM)	EBITDA ($MM)
Citi	$0.27	$652	$265
Consensus	$0.35	$659	$290
% Change vs. Street	*-23%*	*-1%*	*-9%*

Earnings Revisions in Last Month:	Higher	Lower	Ave. Change
2Q11	0	15	($0.18)

Forward Estimates:	Citi EPS	Street EPS	% Gap
3Q11	$0.58	$0.66	*-12%*
2011	$1.90	$1.96	*-3%*
2012	$4.05	$3.91	*4%*
2013	$4.35	$4.26	*2%*

Stock Change Since Last Quarter's Call:	Stock Price	OSX Index	Relative Change
4/27/11	$43.43	$287.41	NA
7/8/11	$37.34	$272.68	NA
% Change Since Call	*-14.0%*	*-5.1%*	*-8.9%*

Street EPS Change Since Last Quarter:	Quarter Ago	Current	% Change
2Q11	$0.48	$0.35	-27%
2011	$2.17	$1.96	-10%
2012	$3.93	$3.91	-1%
2013	$4.25	$4.26	0%

EPS Surprises, Last Eight Quarters:	Street	Actual	% Gap
1Q11	$0.17	$0.15	12% Miss
4Q10	$0.32	$0.39	22% Beat
3Q10	$0.35	$0.34	3% Miss
2Q10	$1.03	$0.85	17% Miss
1Q10	$1.33	$1.43	8% Beat
4Q09	$1.58	$1.69	7% Beat
3Q09	$1.53	$1.58	3% Beat
2Q09	$1.50	$1.54	3% Beat

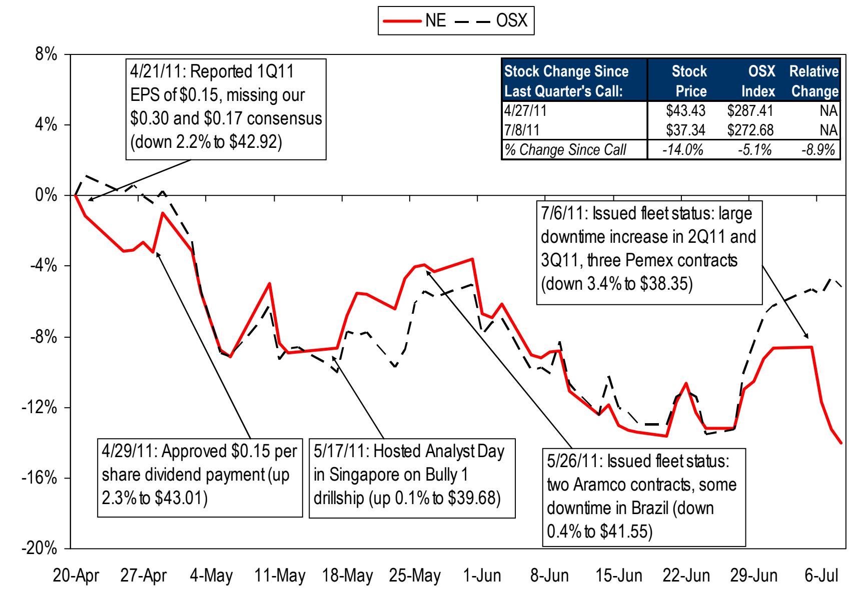
Conference Call Logistics:		
Call Date	7/21/11	
Call Time (EST)	9:00 AM	
Dial-in / Password	866-461-7129	/27255924
Replay Dial-in	800-642-1687	

Source: Thomson, Citi Investment Research and Analysis

We would avoid buying NE immediately before 2Q11 earnings but would recommend the stock on any post-earnings weakness. For 2Q11, we estimate that NE will miss on EPS ($0.27 vs. $0.35 consensus), driven by incremental 2Q11 downtime on various rigs that will impact 3Q11 earnings as well. On July 6, NE increased its estimate of 2011 rig downtime by 28% from 1,439 days to 1,840 days, with the greatest impacts in 2Q (from 562 to 766 days) and in 3Q (from 329 to 540 days). We lowered our 2Q11 EPS forecast to $0.27 from $0.47, and we expect that the consensus estimate will continue to drop before NE reports earnings on July 21. We also raised our operating expenses in 2Q11 from the midpoint to the high end of the $325M-$335M guidance range. Also, NE shares already received a boost of more than 200 bps vs. the OSX in the week after its May 17 Analyst Day in Singapore, and any positive market color on its 2Q11 call (approximately two months later on July 21) may be only marginally incremental.

This coming quarter notwithstanding, we recommend NE as a long-term investment and rate the stock a Buy (1H). In our view, NE has made significant strides in renewing its fleet and is one of the best value plays on tightening offshore drilling markets. Our EPS estimates are currently ahead of consensus by 4% in 2012 and by 2% in 2013. To be clear, we expect earnings risk in the quarter and a minimally changed outlook on its conference call, but we expect the stock to react favorably to improved markets--including markets in the Middle East, North Sea, and Mexico--as it progresses through the second half of 2011. In the Middle East, the Noble Joe Bael (300' jackup) and Noble Gene House (300' jackup) were contracted to three-year terms. In the North Sea, the Noble Al White (360' jackup) was extended for 10 months, the Byron Welliver (300' jackup) was contracted for three wells, and the Lynda Bossler (250' jackup) was contracted for two wells. NE now has all of its North Sea jackups under contract through late 2011. In Mexico, NE secured contracts on the warm-stacked Eddie Paul (390' jackup) and Sam Noble (300' jackup), both through the end of 2011. Also in Mexico, NE has agreed to a 20% extension option on the Max Smith (moored deepwater semi) through March 2012 and is looking at the possibility of bidding the cold-stacked Lorris Bouzigard (midwater semi) to Pemex in response to a recent tender.

Figure 31. NE Stock Price vs. OSX Indexed to Closing Price Before 1Q11 Earnings Report



Source: Citi Investment Research and Analysis

Rowan Companies (Hold, $45)

Figure 32. RDC – 2Q11 Cheat Sheet

Citi's 2Q Conclusion:
Proceed with caution as models may be subject to revision when updated for the EPS-dilutive LeTourneau sale. RDC also risks idle time during hurricane season in 3Q11.

View:	Stock	Rating	Target
No Trade Pre-Quarter	RDC	Hold	$45.00

Quarter Estimates:	EPS	Revenue ($MM)	EBITDA ($MM)
Citi	$0.46	$448	$129
Consensus	$0.41	$363	$121
% Change vs. Street	*13%*	*23%*	*6%*

Earnings Revisions in Last Month:	Higher	Lower	Ave. Change
2Q11	3	8	($0.05)

Forward Estimates:	Citi EPS	Street EPS	% Gap
3Q11	$0.48	$0.58	*-17%*
2011	$2.06	$2.02	*2%*
2012	$3.84	$3.68	*4%*
2013	$4.30	$3.88	*11%*

Stock Change Since Last Quarter's Call:	Stock Price	OSX Index	Relative Change
5/2/11	$40.53	$278.16	NA
7/8/11	$38.47	$272.68	NA
% Change Since Call	*-5.1%*	*-2.0%*	*-3.1%*

Street EPS Change Since Last Quarter:	Quarter Ago	Current	% Change
2Q11	$0.48	$0.41	-15%
2011	$2.39	$2.02	-15%
2012	$3.87	$3.68	-5%
2013	$4.12	$3.88	-6%

EPS Surprises, Last Eight Quarters:	Street	Actual	% Gap
1Q11	$0.29	$0.24	17% Miss
4Q10	$0.29	$0.42	45% Beat
3Q10	$0.51	$0.57	12% Beat
2Q10	$0.68	$0.79	16% Beat
1Q10	$0.74	$0.81	9% Beat
4Q09	$0.50	$0.52	4% Beat
3Q09	$0.52	$0.54	4% Beat
2Q09	$0.75	$0.78	4% Beat

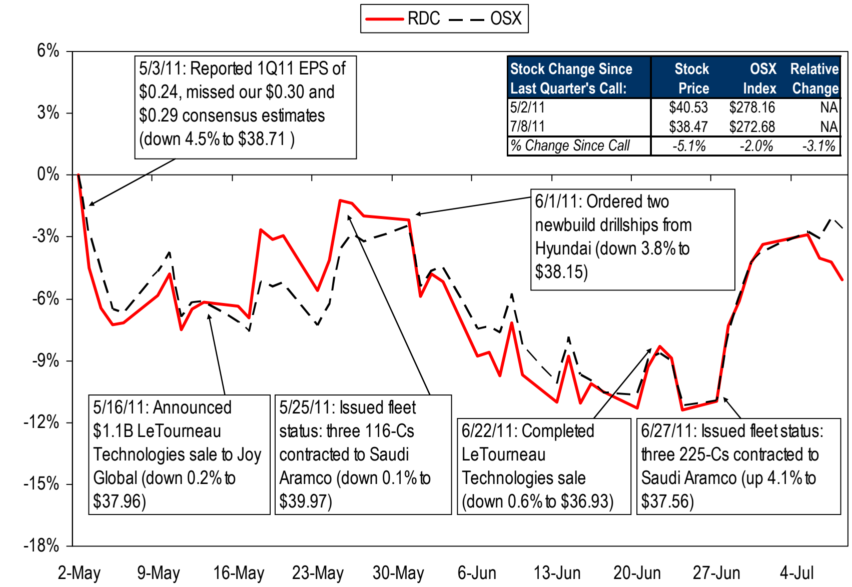
Conference Call Logistics:	
Call Date	8/2/11
Call Time (EST)	11:00 AM
Dial-in / Password	877-869-3847
Replay Dial-in	NA

Source: Thomson, Citi Investment Research and Analysis

We believe RDC will report a 2Q11 EPS beat ($0.46 vs. $0.41 consensus), but downward revisions in subsequent periods are a risk for two reasons. First, about half of the analysts covering the stock have not lowered EPS estimates to reflect the LeTourneau divestiture on June 22. Second, our 3Q11 EPS estimate is much lower than consensus ($0.48 vs. $0.58 consensus), so even if the company reports a better-than-expected 2Q11 number, the next quarter's consensus estimate may still come down. In 3Q11, we have assumed that several rigs will be idle for all or a part of the quarter, including the J.P. Bussell (225' jackup), Rowan-Mississippi (240' jackup), Rowan-Juneau (250' jackup), Rowan-Alaska (350' jackup), and Rowan-Louisiana (350' jackup).

Despite these near-term uncertainties and our Hold (2S) rating, we have become more constructive on RDC over the last few months. First, we believe Saudi Aramco will continue to feed off the company's high-spec jackup fleet to meet its growing appetite for HPHT gas drilling over the coming years. As disclosed in the May 25 fleet update, Aramco signed three of RDC's 116-Cs to three-year contracts at $80K/day, including the Arch Rowan, Charles Rowan, and Rowan Middletown. On June 27, Aramco also awarded contracts to RDC's three 225-Cs in the region—Hank Boswell, Bob Keller, and Scooter Yeargain—each at $125K-$130K/day over three-year terms. We expect RDC to secure long-term contracts on its other Middle East 116-Cs (Rowan-California, Gilbert Rowe, and Rowan-Paris). Second, its pending land rig fleet sale could provide a short-term catalyst, assuming it can achieve a price in the $450M-$540M range, which would imply a per-rig valuation of $15M-$18M. We would be less enthusiastic on any deal below the $14.3M per rig received by Bronco Drilling when it was acquired by Chesapeake. Third, consensus estimates already appear overly cautious in 2012 and 2013, so upward revisions due to the gradual acceptance of the high-spec jackup market's strength may offset any downward revisions on LeTourneau and on potentially idle rigs. Although we have already adjusted our model to reflect LeTourneau, our EPS still remains higher than consensus by 4% in 2012 ($3.84 vs. $3.68 consensus) and 11% in 2013 ($4.30 vs. $3.88 consensus).

Figure 33. RDC Stock Price vs. OSX Indexed to Closing Price Before 1Q11 Earnings Report



Source: Citi Investment Research and Analysis

Hercules Offshore (Hold, $6)

Figure 34. HERO – 2Q11 Cheat Sheet

Citi's 2Q Conclusion:
Avoid the stock in front of earnings because consensus EPS estimates may be reduced due to its low international jackup activity and EPS-dilutive sale of Delta Towing.

View:	Stock	Rating	Target
Avoid Pre-Quarter	HERO	Hold	$6.00

Quarter Estimates:	EPS	Revenue ($MM)	EBITDA ($MM)
Citi	($0.16)	$181	$38
Consensus	($0.15)	$178	$40
% Change vs. Street	*-7%*	*2%*	*-5%*

Earnings Revisions in Last Month:	Higher	Lower	Ave. Change
2Q11	0	7	($0.03)

Forward Estimates:	Citi EPS	Street EPS	% Gap
3Q11	($0.19)	($0.10)	*-90%*
2011	($0.67)	($0.56)	*-20%*
2012	($0.39)	($0.47)	*17%*
2013	($0.21)	($0.37)	*43%*

Stock Change Since Last Quarter's Call:	Stock Price	OSX Index	Relative Change
4/27/11	$5.68	$287.41	NA
7/8/11	$5.48	$272.68	NA
% Change Since Call	*-3.5%*	*-5.1%*	*1.6%*

Street EPS Change Since Last Quarter:	Quarter Ago	Current	% Change
2Q11	($0.16)	($0.15)	-7%
2011	($0.65)	($0.56)	-16%
2012	($0.55)	($0.47)	-17%
2013	($0.27)	($0.37)	27%

EPS Surprises, Last Eight Quarters	Street	Actual	% Gap
1Q11	($0.13)	($0.12)	8% Beat
4Q10	($0.11)	($0.03)	73% Beat
3Q10	($0.15)	($0.13)	13% Beat
2Q10	($0.19)	($0.17)	11% Beat
1Q10	($0.27)	($0.14)	48% Beat
4Q09	($0.27)	($0.23)	15% Beat
3Q09	($0.35)	($0.38)	9% Miss
2Q09	($0.20)	($0.09)	55% Beat

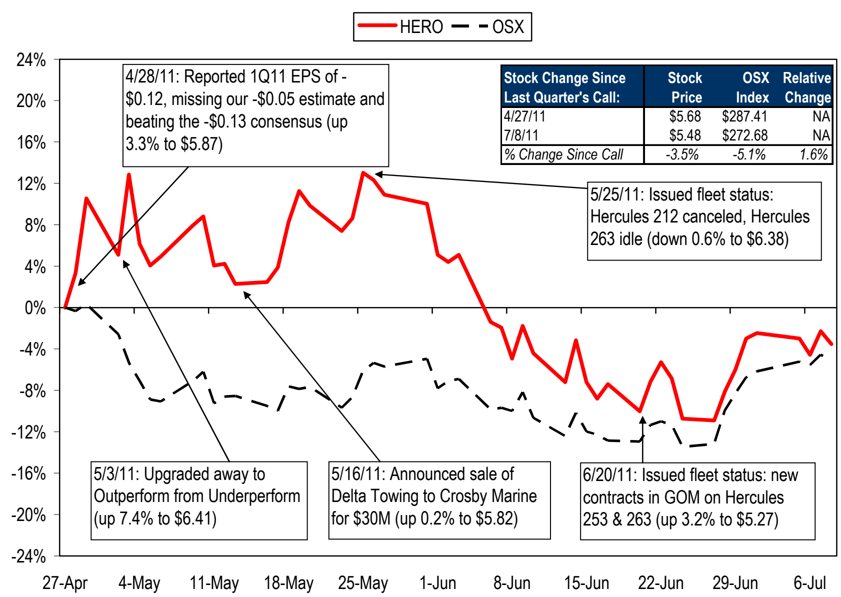
Conference Call Logistics:	
Call Date	NA
Call Time (EST)	NA
Dial-in / Password	NA
Replay Dial-in	NA

Source: Thomson, Citi Investment Research and Analysis

We would not buy HERO in front of the 2Q11 earnings release and we believe that 3Q and 4Q earnings are subject to downward revisions given the weak GOM commodity jackup market and Delta Towing model adjustments. Our 2Q11 EPS estimate is -$0.16 (vs. -$0.15 consensus). Internationally, HERO has been left out of the incremental tenders issued by Pemex and Saudi Aramco (aside from a Pemex extension on its Platform Rig 3). The Hercules 258 (250' mat jackup), on which the company had hoped to land an extension with ONGC, rolled off contract on June 4 without an extension. The Hercules 208 (200' mat jackup) rolls off contract in August, and the Hercules 261 and 262 (250'-ILC jackups) both roll off contract in September. In the GOM, mat jackup utilization remains low due to weak gas prices and a lack of drilling permits. Unpredictable delays on pending permits have forced rigs that would usually string jobs together seamlessly to shut down for a week or two. Since a full crew complement must be maintained on these rigs, HERO is forced to not only lose dayrate revenues but also to absorb the full costs. Separately, our model has been adjusted for the $30M sale of Delta Towing, for which we estimate annual EPS dilution of approximately $0.07, and we expect consensus estimates will decline upon adjusting for this transaction post-call.

We reiterate our long-term Hold (2S) on HERO. As a positive, GOM liftboat utilization had seasonally increased from 39% in 1Q11 to 70% in the latter part of 2Q11, exceeding our 65% estimate. We believe the company will see firming domestic liftboat utilization due to the P&A backlog generated by the NTL-05 announced last September. Our EPS estimates are also above consensus in 2012 and 2013. However, if domestic labor conditions tighten in response to new deepwater and onshore rig demand, HERO's labor costs may trend higher. In that case, the modest 5% per rig-day cost increase we have modeled in 2012 and 2013 may prove conservative, requiring us to reduce EPS estimates.

Figure 35. HERO Stock Price vs. OSX Indexed to Closing Price Before 1Q11 Earnings Report



Source: Citi Investment Research and Analysis

Halliburton Company (Buy, $61)

Figure 36. HAL – 2Q11 Cheat Sheet

Citi's 2Q Conclusion:
Buy the stock on observed strength in North America. HAL has posted EPS beats in each of at least the last eight quarters, and we believe models are still playing catch-up.

View:	Stock	Rating	Target
Top Pick Pre-Quarter	HAL	Buy	$61.00

Quarter Estimates:	EPS	Revenue ($MM)	EBITDA ($MM)
Citi	$0.74	$5,557	$1,336
Consensus	$0.72	$5,649	$1,362
% Change vs. Street	*3%*	*-2%*	*-2%*

Earnings Revisions in Last Month:	Higher	Lower	Ave. Change
2Q11	5	0	$0.05

Forward Estimates:	Citi EPS	Street EPS	% Gap
3Q11	$0.83	$0.82	1%
2011	$3.05	$3.05	0%
2012	$3.70	$3.93	-6%
2013	$4.40	$4.49	-2%

Stock Change Since Last Quarter's Call:	Stock Price	OSX Index	Relative Change
4/15/11	$46.82	$283.10	NA
7/8/11	$54.04	$272.68	NA
% Change Since Call	*15.4%*	*-3.7%*	*19.1%*

Street EPS Change Since Last Quarter:	Quarter Ago	Current	% Change
2Q11	$0.68	$0.72	6%
2011	$2.86	$3.05	7%
2012	$3.55	$3.93	11%
2013	$4.05	$4.49	11%

EPS Surprises, Last Eight Quarters	Street	Actual	% Gap
1Q11	$0.58	$0.61	5% Beat
4Q10	$0.63	$0.68	8% Beat
3Q10	$0.56	$0.58	4% Beat
2Q10	$0.37	$0.52	41% Beat
1Q10	$0.25	$0.28	12% Beat
4Q09	$0.27	$0.28	4% Beat
3Q09	$0.26	$0.29	12% Beat
2Q09	$0.27	$0.29	7% Beat

Conference Call Logistics:		
Call Date	7/18/11	
Call Time (EST)	9:00 AM	
Dial-in / Password	703-639-1306	
Replay Dial-in	888-266-2081	/1526921

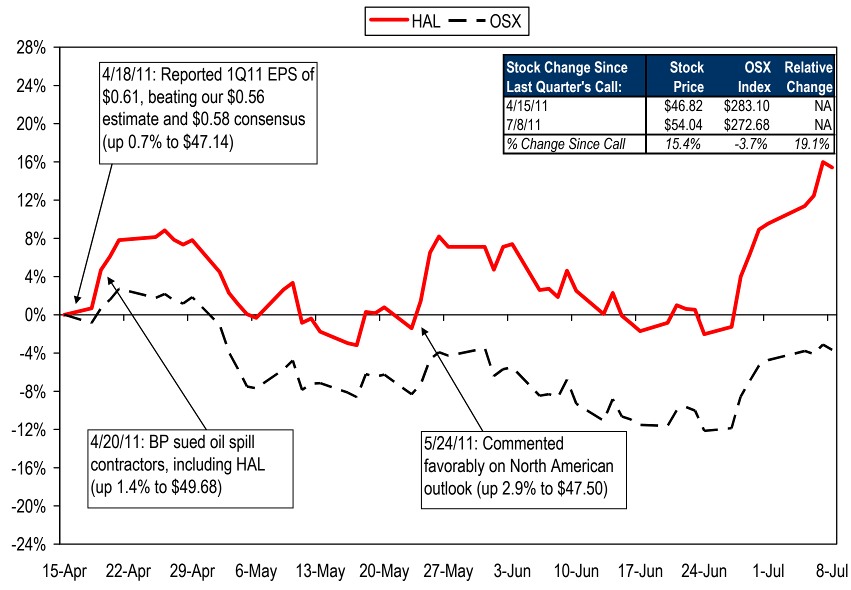
Source: Thomson, Citi Investment Research and Analysis

Our 2Q11 EPS estimate for HAL is slightly ahead of consensus ($0.74 vs. $0.72), and we would buy the stock in front of its earnings report on July 18. In our view, recent bullish management comments put HAL in a position to have a very strong quarter in 2Q11, so it is not surprising that the stock has been the best performer of the stocks in our coverage, outperforming the OSX by 19.1% since its 1Q11 earnings release. In our opinion, the question is not whether HAL will have a strong quarter but whether a strong quarter is already baked into the stock. We believe both consensus estimates and the stock have yet to reflect the full benefit of the robust North American markets.

At a May 24 investor conference, HAL indicated that it expects 2Q11 revenues per rig in North America to rise sequentially in the high single-digits. (In contrast, our 2Q11 estimate implies a slight sequential decline in revenues per rig given the 6.6% q/q rig count growth vs. our 5.0% q/q estimated revenue growth.) Due to higher activity and pricing, HAL expects North American incremental margins in 2Q11 to be at the same level as last year. The 2Q10 sequential incremental margin was 52% (vs. our 45% assumption in 2Q11). Further indications of strength in North America include the trend of operators signing fracturing equipment to long-term contracts. HAL recently secured a two-year gas fracturing contract that will not even start until 2012. Bigger picture, HAL expects North American strength to extend into late 2012 or early 2013. Beyond this timeframe, the company plans to consider reallocating growth capital away from the U.S. and toward international opportunities.

HAL also suggested a slower-than-expected international recovery in 2011. Issues include the absence of Libya and potentially ongoing delays in Iraq. International margins are likely to be only modestly higher in 2Q11 with less seasonal improvement than a typical second quarter. Our sequential margin expansion assumption of 490 bps in 2Q11 may prove aggressive vs. the 290 bps improvement in 2Q10. Beyond 2Q11, the company expects the Middle East and Latin America ex-Brazil to tighten significantly and show potential pricing improvements for work tendered this year and starting in 2012. Weaker markets for services work include the North Sea and certain other offshore drilling markets.

Figure 37. HAL Stock Price vs. OSX Indexed to Closing Price Before 1Q11 Earnings Report



Source: Citi Investment Research and Analysis

Schlumberger Ltd. (Buy, $115)

Figure 38. SLB – 2Q11 Cheat Sheet

Citi's 2Q Conclusion:
Buy SLB in front of the quarter. Earnings should outperform in North America, and guidance was sufficiently cautious to mitigate any international risk.

View:	Stock	Rating	Target
Top Pick Pre-Quarter	SLB	Buy	$115.00

Quarter Estimates:	EPS	Revenue ($MM)	EBITDA ($MM)
Citi	$0.87	$9,310	$2,439
Consensus	$0.85	$9,197	$2,413
% Change vs. Street	*2%*	*1%*	*1%*

Earnings Revisions in Last Month:	Higher	Lower	Ave. Change
2Q11	3	1	$0.00

Forward Estimates:	Citi EPS	Street EPS	% Gap
3Q11	$0.99	$1.01	-2%
2011	$3.75	$3.73	1%
2012	$5.00	$5.14	-3%
2013	$6.00	$6.19	-3%

Stock Change Since Last Quarter's Call:	Stock Price	OSX Index	Relative Change
4/20/11	$87.89	$284.76	NA
7/8/11	$89.96	$272.68	NA
% Change Since Call	*2.4%*	*-4.2%*	*6.6%*

Street EPS Change Since Last Quarter:	Quarter Ago	Current	% Change
2Q11	$0.89	$0.85	-4%
2011	$3.79	$3.73	-2%
2012	$5.06	$5.14	2%
2013	$6.06	$6.19	2%

EPS Surprises, Last Eight Quarters	Street	Actual	% Gap
1Q11	$0.76	$0.71	7% Miss
4Q10	$0.77	$0.85	10% Beat
3Q10	$0.69	$0.70	1% Beat
2Q10	$0.68	$0.68	Inline
1Q10	$0.61	$0.62	2% Beat
4Q09	$0.64	$0.67	5% Beat
3Q09	$0.63	$0.66	4% Beat
2Q09	$0.63	$0.68	8% Beat

Conference Call Logistics:		
Call Date	7/22/11	
Call Time (EST)	9:00 AM	
Dial-in / Password	800-230-1096	
Replay Dial-in	800-475-6701	/202491

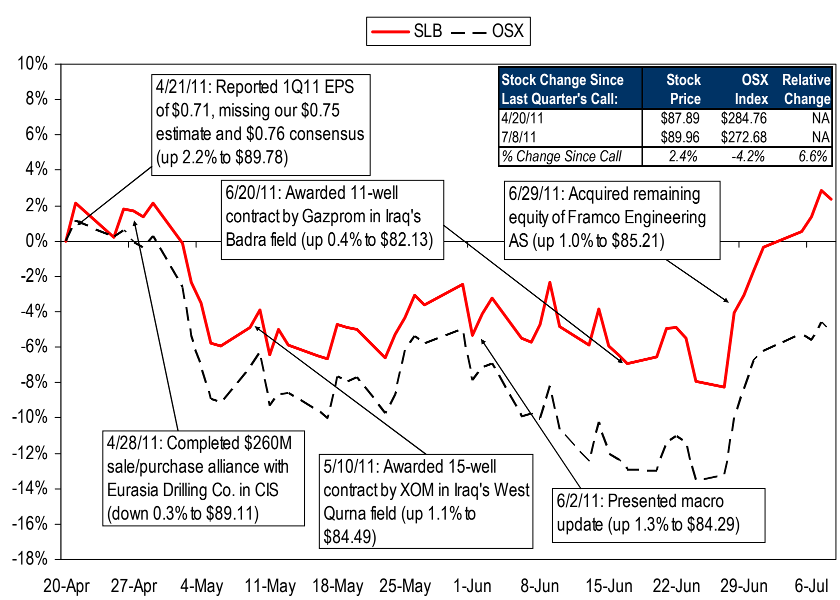
Source: Thomson, Citi Investment Research and Analysis

Our 2Q11 EPS estimate for SLB is above consensus ($0.87 vs. $0.85), and we would buy the stock in front of its earnings report. Although market expectations of only limited international gains in 2Q11 could present a risk to SLB, we believe our 8% international q/q revenue growth assumption is sufficiently cautious even if the international recovery is more subdued than had been expected three months ago. Also, our 12% North American q/q revenue growth assumption now appears to set a low bar for SLB if its revenue per rig can match the HAL expectation of "high-single-digit" sequential growth. Similarly, N.A. margin improvement to 25% from 23%, as we have modeled, seems achievable given the strong market environment.

The primary risk to the quarter is whether the slow pace of international margin improvement will impact SLB disproportionately given its greater overseas exposure (68% of projected 2011 revenues). However, we are assuming only 240 bps q/q international margin improvement for SLB in 2Q11, and we consider this achievable.

Beyond 2Q11, we remain encouraged by the company's prospects for several reasons. First, SLB's EPS miss last quarter was largely driven by adverse seasonal effects that are expected to reverse and by geopolitical unrest that we believe will begin to dissipate in 2Q11. Although the loss of Libya continues to be a headwind, large Middle Eastern operators have reacted by ramping up drilling programs (e.g., Manifa), which may begin to benefit SLB this year. Second, SLB has achieved important milestones in Iraq. As of June 2, the company had three rigs drilling for BP, two for Exxon Mobil, and two more being mobilized. On June 20, SLB was awarded an 11-well contract at Badra field by a consortium led by Russia's Gazprom Neft. Third, SLB has begun to accelerate technology introductions in 2011 after putting the brakes on these during the low-price environment of 2009 and 2010. We believe new introductions in 2011 (e.g., Power Drive Archer, Dielectric Scanner, HIWAY, etc.) will help SLB expand its market share going forward.

Figure 39. SLB Stock Price vs. OSX Indexed to Closing Price Before 1Q11 Earnings Report



Source: Citi Investment Research and Analysis

Weatherford International (Buy, $27)

Figure 40. WFT – 2Q11 Cheat Sheet

Citi's 2Q Conclusion:
Avoid WFT pre-quarter. Regardless of the guidance-telegraphed 2Q11, our below-consensus 2011 and 2012 EPS estimates suggest street numbers need to come down.

View:	Stock	Rating	Target
Avoid Pre-Quarter	WFT	Buy	$27.00

Quarter Estimates:	EPS	Revenue ($MM)	EBITDA ($MM)
Citi	$0.15	$2,917	$593
Consensus	$0.15	$2,894	$577
% Change vs. Street	*0%*	*1%*	*3%*

Earnings Revisions in Last Month:	Higher	Lower	Ave. Change
2Q11	1	4	($0.01)

Forward Estimates:	Citi EPS	Street EPS	% Gap
3Q11	$0.21	$0.26	*-19%*
2011	$0.75	$0.84	*-11%*
2012	$1.30	$1.51	*-14%*
2013	$2.10	$2.08	*1%*

Stock Change Since Last Quarter's Call:	Stock Price	OSX Index	Relative Change
4/20/11	$21.13	$284.76	NA
7/8/11	$18.73	$272.68	NA
% Change Since Call	*-11.4%*	*-4.2%*	*-7.1%*

Street EPS Change Since Last Quarter:	Quarter Ago	Current	% Change
2Q11	$0.20	$0.15	-25%
2011	$1.02	$0.84	-18%
2012	$1.62	$1.51	-7%
2013	$2.08	$2.08	0%

EPS Surprises, Last Eight Quarters	Street	Actual	% Gap
1Q11	$0.18	$0.10	44% Miss
4Q10	$0.23	$0.21	9% Miss
3Q10	$0.17	$0.18	6% Beat
2Q10	$0.07	$0.11	57% Beat
1Q10	$0.09	$0.06	33% Miss
4Q09	$0.11	$0.02	82% Miss
3Q09	$0.13	$0.13	Inline
2Q09	$0.16	$0.10	38% Miss

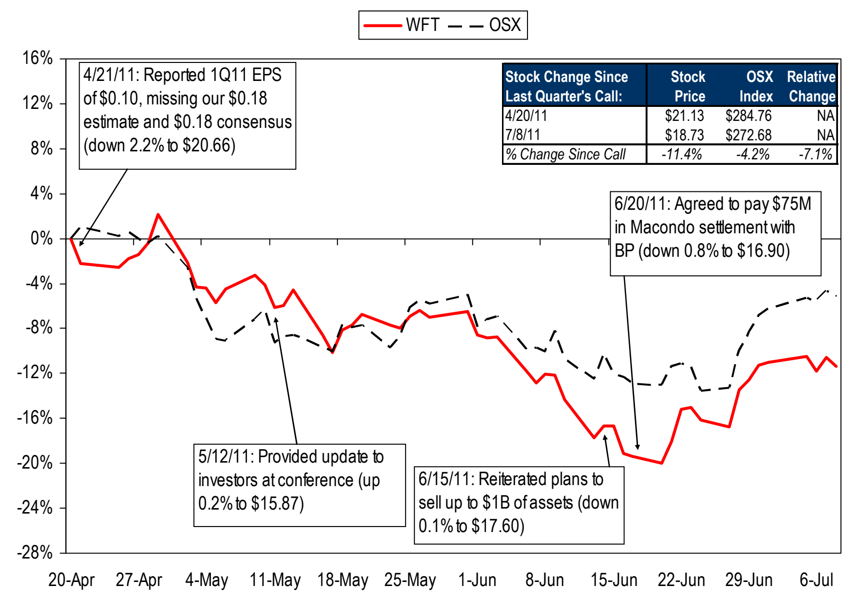
Conference Call Logistics:		
Call Date	7/26/11	
Call Time (EST)	8:00 AM	
Dial-in / Password	866-393-8572	/weatherford
Replay Dial-in	800-642-1687	/75371977

Source: Thomson, Citi Investment Research and Analysis

Although WFT has been one of the worst-performing stock since its 1Q earnings release (-11.4% absolute return, -7.1% relative return vs. the OSX), we would still refrain from buying ahead of 2Q earnings. Our 2Q11 EPS estimate is in line with consensus (both $0.15) and $0.15-$0.17 guidance. For the quarter, the concerns voiced by HAL regarding slower margin expansion in international regions may also impact WFT. WFT is further disadvantaged by its heavy Canadian exposure in the face of the seasonal spring breakup and its limited North American pressure pumping operations. Beyond 2Q11, we believe the street's expectations still have too much enthusiasm baked in. Our EPS estimates are 19% below consensus in 3Q11 ($0.21 vs. $0.26), 11% below in 2011 ($0.75 vs. $0.84), and 14% below in 2012 ($1.30 vs. $1.52). We are thus concerned not as much on the quarter as on the risk that the stock will react negatively if consensus estimates are reduced following the conference call. Even if WFT posts a modest beat, investors are likely to ascribe greater importance to its long-term outlook than near-term results.

Despite the earnings risk, the stock remains a solid long-term recommendation. WFT is an unloved, much maligned value play, which is usually the kind of stock we like, but we would wait to buy WFT until after the quarter unless meaningful market weakness brings the price down prior to July 26. Although WFT has not benefitted from the oil service upturn to the same extent as its peers due to its limited pressure pumping operations and various operational and administrative issues, clearer signs of an international margin recovery would draw skeptics back into the stock. Although 3Q11 may be too early, we expect the internationally levered stocks will soon anticipate international markets picking up steam as North American markets settle down, which we expect to occur in late 2012 or early 2013. HAL indicated it is beginning to shift capital expenditures from North America toward international markets. Companies with substantial exposure to international growth, such as WFT, are the potential winners in 2012 and beyond.

Figure 41. WFT Stock Price vs. OSX Indexed to Closing Price Before 1Q11 Earnings Report



Source: Citi Investment Research and Analysis

Baker Hughes (Hold, $80)

Figure 42. BHI – 2Q11 Cheat Sheet

Citi's 2Q Conclusion:
Buy BHI in front of the quarter. Given that 65% of EBIT is levered to North America, the robust drilling and fracturing trends are likely to result in a strong quarter and outlook.

View:	Stock	Rating	Target
Top Pick Pre-Quarter	BHI	Hold	$80.00

Quarter Estimates:	EPS	Revenue ($MM)	EBITDA ($MM)
Citi	$0.89	$4,547	$969
Consensus	$0.90	$4,521	$1,003
% Change vs. Street	*-1%*	*1%*	*-3%*

Earnings Revisions in Last Month:	Higher	Lower	Ave. Change
2Q11	4	0	$0.02

Forward Estimates:	Citi EPS	Street EPS	% Gap
3Q11	$1.12	$1.11	*1%*
2011	$4.10	$4.14	*-1%*
2012	$5.15	$5.43	*-5%*
2013	$6.10	$6.58	*-7%*

Stock Change Since Last Quarter's Call:	Stock Price	OSX Index	Relative Change
4/26/11	$74.06	$289.23	NA
7/8/11	$75.07	$272.68	NA
% Change Since Call	*1.4%*	*-5.7%*	*7.1%*

Street EPS Change Since Last Quarter:	Quarter Ago	Current	% Change
2Q11	$0.86	$0.90	5%
2011	$3.85	$4.14	8%
2012	$4.97	$5.43	9%
2013	$5.97	$6.58	10%

EPS Surprises, Last Eight Quarters	Street	Actual	% Gap
1Q11	$0.78	$0.87	12% Beat
4Q10	$0.65	$0.84	29% Beat
3Q10	$0.47	$0.59	26% Beat
2Q10	$0.43	$0.36	16% Miss
1Q10	$0.38	$0.43	13% Beat
4Q09	$0.35	$0.43	23% Beat
3Q09	$0.35	$0.26	26% Miss
2Q09	$0.46	$0.41	11% Miss

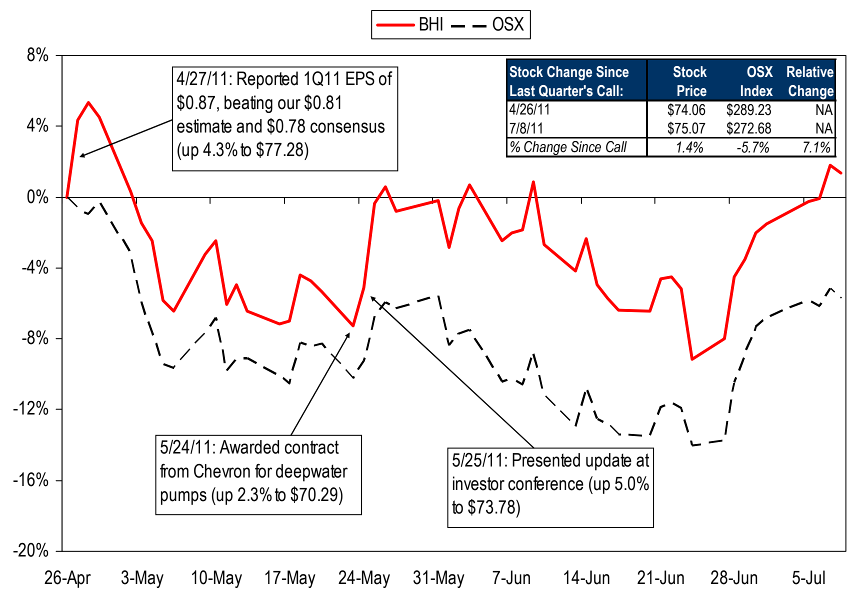
Conference Call Logistics:		
Call Date	7/25/11	
Call Time (EST)	8:30 AM	
Dial-in / Password	800-374-2469	
Replay Dial-in	800-642-1687	/77447493

Source: Thomson, Citi Investment Research and Analysis

Despite our long-term Hold (2H) on BHI, we believe the company may surprise to the upside vs. our 2Q11 EPS estimate, and we would buy the stock short-term for the expected bounce. North American rig count and service intensity trends remain strong, and the company should experience a similar level of outperformance as other companies with North American shale play exposure. Going forward, we believe that a gradual recovery in North Africa and rig expansions in the Middle East (e.g., Saudi Arabia, Abu Dhabi, and Iraq) will reverse the subdued Middle East/North Africa margins that negatively impacted virtually all of the globally diversified service companies in 1Q11. As a near-term earnings risk, the seasonal impact of the Canadian spring breakup will impact BHI, but we believe this will be more than offset by favorable activity in U.S. unconventional basins. For BHI, we estimate that 52% of revenues and 65% of operating profits will be generated in North America in 2011, so the company is geographically aligned with the region in which the most growth is expected. Further, we believe earnings are less prone to blind-sided misses than they had been in the past due to the company's renewed focus on operating efficiency and cost reduction, as articulated at its Analyst Day presentation in March 2011. Still, we continue to harbor some reservations on how effectively BHI will convert these heady prospects to the bottom line, as BHI is in the process of relocating manufacturing facilities to low-cost geographies in the Eastern Hemisphere. Hence, we are leaving our estimates unchanged at this time.

Despite our expectation that BHI will report a strong quarter, we reiterate our long-term Hold (2H) rating primarily because we believe that much of the good news is already priced in. The stock has performed better than its "Big Four" peers year-to-date, and since last quarter, BHI shares have appreciated by 1.4% compared to a 5.7% decline in the OSX, with the 7.1% relative outperformance significantly higher than all but a handful of the companies in our coverage. Still, we have become more constructive on the stock because its footprint is well-suited for drilling in unconventional reservoirs, including its strong North American market share in pressure pumping (#2) and leading global position in completions (#1), drill bits (#1), and specialty chemicals (#1). These are also largely priced into the company's valuation today, in our view.

Figure 43. BHI Stock Price vs. OSX Indexed to Closing Price Before 1Q11 Earnings Report



Source: Citi Investment Research and Analysis

Superior Energy Services (Buy, $46)

Figure 44. SPN – 2Q11 Cheat Sheet

Citi's 2Q Conclusion:
Buy SPN pre-quarter. Our intuition says that the company has guided conservatively with upside possible in shallow-water permitting, P&A activity, or subsea construction.

View:	Stock	Rating	Target
Top Pick Pre-Quarter	SPN	Buy	$46.00

Quarter Estimates:	EPS	Revenue ($MM)	EBITDA ($MM)
Citi	$0.40	$475	$136
Consensus	$0.41	$482	$133
% Change vs. Street	*-2%*	*-1%*	*2%*

Earnings Revisions in Last Month:	Higher	Lower	Ave. Change
2Q11	3	0	$0.07

Forward Estimates:	Citi EPS	Street EPS	% Gap
3Q11	$0.67	$0.60	*12%*
2011	$2.00	$1.84	*9%*
2012	$2.95	$2.86	*3%*
2013	$3.60	$3.47	*4%*

Stock Change Since Last Quarter's Call:	Stock Price	OSX Index	Relative Change
4/27/11	$40.03	$287.41	NA
7/8/11	$39.19	$272.68	NA
% Change Since Call	*-2.1%*	*-5.1%*	*3.0%*

Street EPS Change Since Last Quarter:	Quarter Ago	Current	% Change
2Q11	$0.45	$0.41	-9%
2011	$2.01	$1.84	-8%
2012	$2.82	$2.86	1%
2013	$3.20	$3.47	8%

EPS Surprises, Last Eight Quarters	Street	Actual	% Gap
1Q11	$0.19	$0.19	Inline
4Q10	$0.43	$0.42	2% Miss
3Q10	$0.39	$0.42	8% Beat
2Q10	$0.38	$0.43	13% Beat
1Q10	$0.21	$0.27	29% Beat
4Q09	$0.22	$0.21	5% Miss
3Q09	$0.34	$0.36	6% Beat
2Q09	$0.44	$0.35	20% Miss

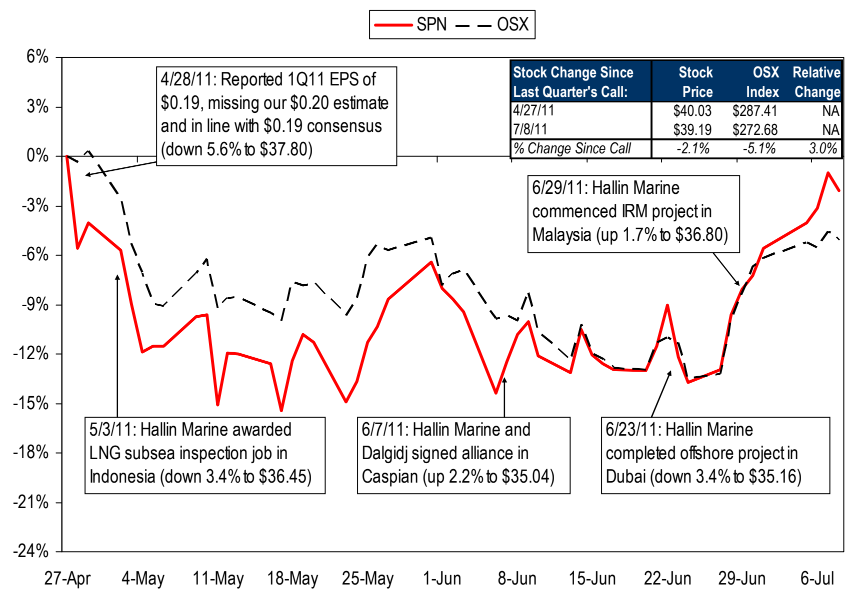
Conference Call Logistics:		
Call Date	7/28/11	
Call Time (EST)	11:00 AM	
Dial-in / Password	480-629-9835	
Replay Dial-in	303-590-3030	/4451411

Source: Thomson, Citi Investment Research and Analysis

We predict a modest 2Q11 EPS beat from SPN and we see no reason to hold off on buying shares before the quarter. We are essentially in line with consensus EPS ($0.40 vs. $0.41) in 2Q11. We expect SPN to see sustained strength in the U.S. land business and a gradual GOM and international recovery for the remainder of 2011 and into 2012. First, domestic land markets have remained strong since the end of the quarter. The Baker Hughes U.S. rig count increased 6.6% from 1Q11 to 2Q11, and this trend should benefit sales of SPN's coiled tubing, downhole drilling tools, drillpipe, specialty tubulars, and stabilization equipment. Second, SPN is in a seasonally strong period for GOM activity—including workovers, platform decommissioning, and completions—as the weather window provides work opportunities in 2Q and 3Q following a seasonally weak 1Q. However, a material uptick in plugging & abandonment and decommissioning may not come until 4Q11 because SPN has scheduled other unrelated jobs in 2Q11 and 3Q11.

We believe SPN may report better-than-expected earnings for the remainder of the year, and our 2011 EPS estimate is 9% ahead of consensus ($2.00 vs. $1.83). Two points in particular support this view. First, the company has taken a fairly conservative approach to forecasting a GOM recovery, as it had guided on its April 2011 earnings call that BOEMRE would issue only 15 deepwater permits by the end of 2011. However, as of early June 2011, BOEMRE had already approved 15 deepwater projects and had another 24 deepwater drilling permits pending at the agency and 18 proposals returned to operators with requests for additional information. A stronger return of permitting would benefit SPN for a variety of reasons, including increased sales of downhole drilling tools to offshore operators. We note that BOEMRE launched a more streamlined permit vetting process in early June, although whether this move was purely political remains to be seen. Second, the global subsea construction market appears to be improving, and we expect to see Hallin Marine returning to at least 4Q10 levels in 2Q11, as 1Q11 was beset with seasonal issues. Although we are not anticipating a total recovery in Hallin until 2012, significant improvement should occur by 4Q11.

Figure 45. SPN Stock Price vs. OSX Indexed to Closing Price Before 1Q11 Earnings Report



Source: Citi Investment Research and Analysis

Helmerich & Payne (Buy, $78)

Figure 46. HP – FY3Q11 Cheat Sheet

Citi's 2Q Conclusion:
Buy HP pre-quarter. We are hard-pressed to see how HP misses given the North American gains. HP has also anticipated international risks and mitigated their potential impact.

View:	Stock	Rating	Target
Top Pick Pre-Quarter	HP	Buy	$78.00

Quarter Estimates:	EPS	Revenue ($MM)	EBITDA ($MM)
Citi	$0.97	$635	$256
Consensus	$0.98	$632	$255
% Change vs. Street	*-1%*	*0%*	*0%*

Earnings Revisions in Last Month:	Higher	Lower	Ave. Change
FY3Q11	2	0	$0.03

Forward Estimates:	Citi EPS	Street EPS	% Gap
FY4Q11	$0.97	$1.04	-7%
FY2011	$3.81	$3.90	-2%
FY2012	$4.50	$4.60	-2%
FY2013	$4.90	$5.11	-4%

Stock Change Since Last Quarter's Call:	Stock Price	OSX Index	Relative Change
4/27/11	$69.98	$287.41	NA
7/8/11	$68.45	$272.68	NA
% Change Since Call	*-2.2%*	*-5.1%*	*2.9%*

Street EPS Change Since Last Quarter:	Quarter Ago	Current	% Change
FY3Q11	$1.03	$0.98	-5%
FY2011	$4.03	$3.90	-3%
FY2012	$4.48	$4.60	3%
FY2013	$4.76	$5.11	7%

EPS Surprises, Last Eight Quarters	Street	Actual	% Gap
FY2Q11	$0.97	$0.93	4% Miss
FY1Q11	$0.82	$0.94	15% Beat
FY4Q10	$0.70	$0.77	10% Beat
FY3Q10	$0.59	$0.60	2% Beat
FY2Q10	$0.56	$0.61	9% Beat
FY1Q10	$0.50	$0.58	16% Beat
FY4Q09	$0.43	$0.47	9% Beat
FY3Q09	$0.51	$0.49	4% Miss

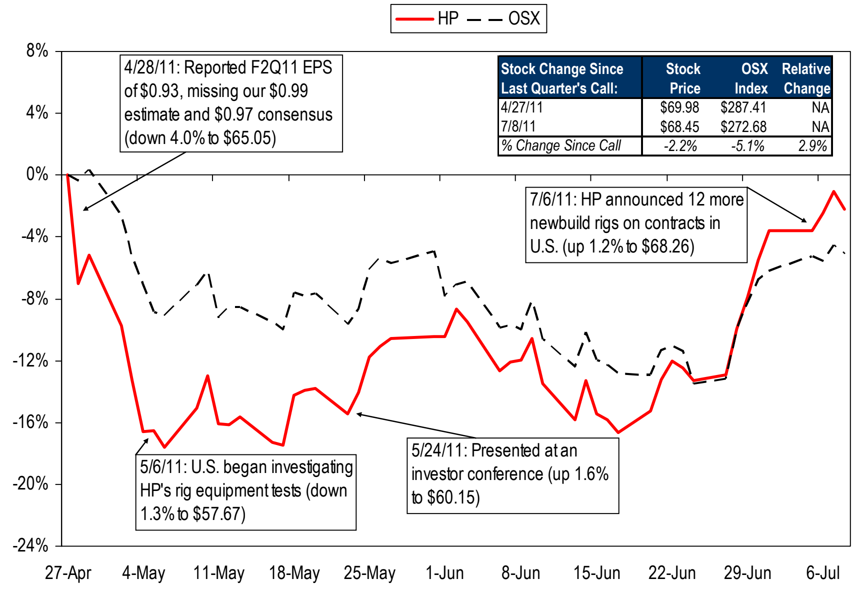
Conference Call Logistics:		
Call Date	7/29/11	
Call Time (EST)	11:00 AM	
Dial-in / Password	800-895-0198	/helmerich
Replay Dial-in	NA	

Source: Thomson, Citi Investment Research and Analysis

Given the strength in the land drilling market, we can easily imagine a sizzling FY3Q11 from HP. The U.S. rig count is already up another 100 rigs to 1,882 from 1,782 rigs since HP reported its FY2Q11 earnings in mid-April. As virtually all of the U.S. rig count growth is coming from the high-service-intensity shale plays in which HP reigns supreme, it is difficult to see the company stumbling this quarter. Based on recent management comments, HP increased its working U.S. land rig count from 198 rigs last quarter to 210 rigs as of May 24. Our estimate is an average of 208 rigs working in FY3Q11. The HP international rig count has increased from six rigs last quarter to seven rigs as of May 24 (in line with our estimate for FY3Q11), and the HP offshore rig count has fallen from 21 rigs last quarter to 17 rigs as of May 24 (vs. our 16-rig estimate and guidance of 25% fewer operating days).

A risk/reward assessment of the quarter increases our conviction on HP. One potential risk, higher operating costs, is unlikely to trip it up, given that the company addressed potential operating cost inflation with its cost guidance a quarter ago. Specifically, HP expects land rig operating expenses to remain flat sequentially, as the start-up expenses incurred by the reactivation of approximately 90 rigs over the past year have already had a significant impact. Second, international drilling is a frequent driver of earnings variance, but we expect that conservative guidance will mitigate the downside risk. Last quarter, HP guided average sequential international margins to decline by 35%-40% and days drilling to fall by 25% due to political unrest in Tunisia, rigs rolling off contract in Ecuador, a third rig expected to start in Bahrain in FY3Q, and the return of the remaining rigs from Mexico by the end of January. Third, the company has already announced its expectation that a significant upturn in international shale drilling is a 2012 rather than a 2011 event, so this otherwise potential timing risk may already be priced in. HP remains upbeat on international shale prospects, particularly in Poland and Romania, but expects customers to require more time to evaluate how to drill and complete such wells. Finally, a potential reward that could help the stock immensely would be HP increasing its rig manufacturing throughput to more than three rigs per month. In our opinion, it's a question of when, rather than if, this will happen.

Figure 47. HP Stock Price vs. OSX Indexed to Closing Price Before FY3Q11 Earnings Report



Source: Citi Investment Research and Analysis

Nabors Industries (Buy, $37)

We expect that the 2Q11 report will be anticlimactic for NBR given the company's pre-announced profit warning on June 20. Following that disclosure, we lowered our 2Q11 EPS estimate to $0.26 from $0.31 and our 2011 EPS estimate to $1.65 from $1.80 (vs. $1.52 consensus as of July 8). The stock has been one of the worst performers over the past 90 days (-23.8% vs. the -5.7% OSX return), so the 2Q11 earnings report appears largely anticipated. However, we remain cautious short-term given that more operational issues could arise. First, the equipment delays and weather issues cited as drivers of pressure pumping shortfalls appear to have impacted NBR more severely than peers and may point to ongoing Superior Well Services integration difficulties. Second, the company needs to explain what prevented it from foreseeing the rather unexceptional international issues cited in its profit warning (delays in awards, requirements to recertify or upgrade rigs, importation obstacles). As a positive, we expect that the quarter will be a show of strength for its U.S. Lower 48 Land Drilling segment (six more newbuild contracts secured, nine more legacy rigs getting work). We expect that the nearly full utilization of 1,000+ hp rigs and limited overhang of spec newbuilds in the U.S. land market lay the groundwork for continued Lower 48 outperformance through at least 2012. That said, we prefer HP and PTEN as better plays this quarter due to their higher U.S. land rig exposures. Only about 29% of NBR's revenues are from U.S. Lower 48 Land Drilling in 2011.

Despite the forthcoming quarter's ambiguities, we recommend NBR as a long-term Buy (1H) anticipating a sustainable level of North American activity and an eventual sharp recovery in its international business. Also, we expect that NBR will get the kinks out of the pressure pumping equipment delays and supply-chain issues affecting 2Q11 results. Big picture, what may be lost in this story is that the NBR international recovery, long-anticipated to the point of exasperation, is ultimately obtainable and almost inevitable. Although NBR has proven less nimble than peers in turning around its diverse global businesses, we believe its momentum will be difficult to slow by 4Q11 (when we expect the NBR armada will be back on course).

Figure 48. NBR – 2Q11 Cheat Sheet

Citi's 2Q Conclusion:
We expect the 2Q11 report will be anticlimactic given its profit warning on June 20. Buy NBR on weakness, as an international recovery is ultimately obtainable and almost inevitable.

View:	Stock	Rating	Target
No Trade Pre-Quarter	NBR	Buy	$35.00

Quarter Estimates:	EPS	Revenue ($MM)	EBITDA ($MM)
Citi	$0.26	$1,216	$390
Consensus	$0.25	$1,327	$410
% Change vs. Street	*4%*	*-8%*	*-5%*

Earnings Revisions in Last Month:	Higher	Lower	Ave. Change
2Q11	0	18	($0.07)

Forward Estimates:	Citi EPS	Street EPS	% Gap
3Q11	$0.45	$0.41	*10%*
2011	$1.65	$1.52	*9%*
2012	$2.45	$2.46	*0%*
2013	$2.90	$2.89	*0%*

Stock Change Since Last Quarter's Call:	Stock Price	OSX Index	Relative Change
4/26/11	$32.06	$289.23	NA
7/8/11	$24.43	$272.68	NA
% Change Since Call	*-23.8%*	*-5.7%*	*-18.1%*

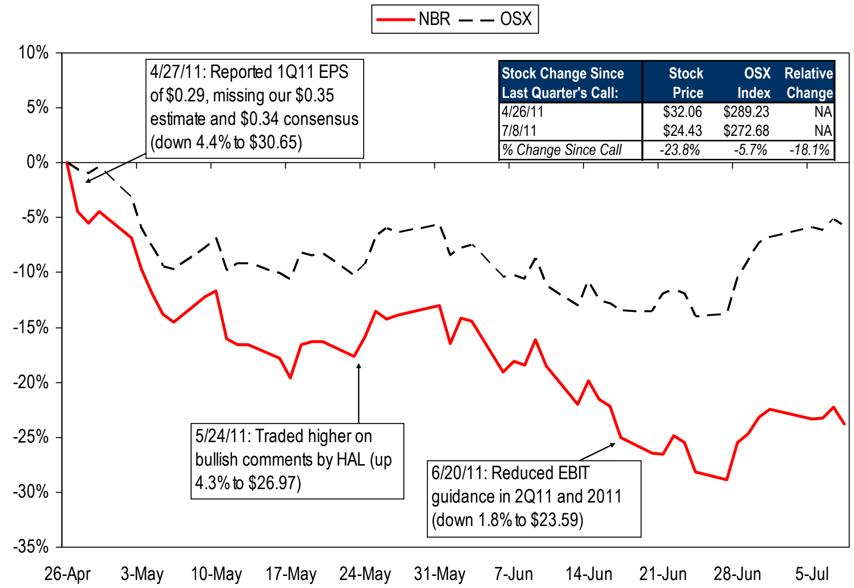
Street EPS Change Since Last Quarter:	Quarter Ago	Current	% Change
2Q11	$0.34	$0.25	-26%
2011	$1.77	$1.52	-14%
2012	$2.42	$2.46	2%
2013	$2.78	$2.89	4%

EPS Surprises, Last Eight Quarters	Street	Actual	% Gap
1Q11	$0.34	$0.29	15% Miss
4Q10	$0.37	$0.44	19% Beat
3Q10	$0.23	$0.29	26% Beat
2Q10	$0.18	$0.19	6% Beat
1Q10	$0.20	$0.21	5% Beat
4Q09	$0.18	$0.18	Inline
3Q09	$0.16	$0.15	6% Miss
2Q09	$0.26	$0.32	23% Beat

Conference Call Logistics:		
Call Date	7/27/11	
Call Time (EST)	11:00 AM	
Dial-in / Password	877-941-1427	/4451031
Replay Dial-in	NA	

Source: Thomson, Citi Investment Research and Analysis

Figure 49. NBR Stock Price vs. OSX Indexed to Closing Price Before 1Q11 Earnings Report



Source: Citi Investment Research and Analysis

Patterson-UTI Energy (Buy, $42)

Figure 50. PTEN – 2Q11 Cheat Sheet

Citi's 2Q Conclusion:
Buy PTEN shares pre-quarter. The company's U.S. land rig count of 202 rigs has tracked below our 209 estimate for 2Q11, but pressure pumping gains should more than offset this.

View:	Stock	Rating	Target
Top Pick Pre-Quarter	PTEN	Buy	$42.00

Quarter Estimates:	EPS	Revenue ($MM)	EBITDA ($MM)
Citi	$0.50	$591	$227
Consensus	$0.49	$586	$223
% Change vs. Street	*2%*	*1%*	*2%*

Earnings Revisions in Last Month:	Higher	Lower	Ave. Change
2Q11	1	0	$0.01

Forward Estimates:	Citi EPS	Street EPS	% Gap
3Q11	$0.58	$0.57	*2%*
2011	$2.20	$2.16	*2%*
2012	$2.80	$2.75	*2%*
2013	$3.20	$3.01	*6%*

Stock Change Since Last Quarter's Call:	Stock Price	OSX Index	Relative Change
4/26/11	$31.20	$289.23	NA
7/8/11	$32.37	$272.68	NA
% Change Since Call	*3.7%*	*-5.7%*	*9.5%*

Street EPS Change Since Last Quarter:	Quarter Ago	Current	% Change
2Q11	$0.45	$0.49	9%
2011	$1.94	$2.16	11%
2012	$2.20	$2.75	25%
2013	$2.29	$3.01	31%

EPS Surprises, Last Eight Quarters	Street	Actual	% Gap
1Q11	$0.44	$0.46	5% Beat
4Q10	$0.33	$0.37	12% Beat
3Q10	$0.18	$0.21	17% Beat
2Q10	$0.06	$0.11	83% Beat
1Q10	$0.00	$0.03	3c Beat
4Q09	-$0.08	-$0.06	25% Beat
3Q09	-$0.16	-$0.12	25% Beat
2Q09	-$0.12	-$0.12	Inline

Conference Call Logistics:		
Call Date	7/28/11	
Call Time (EST)	10:00 AM	
Dial-in / Password	800-510-9691	/39460301
Replay Dial-in	888-286-8010	/69114221

Source: Thomson, Citi Investment Research and Analysis

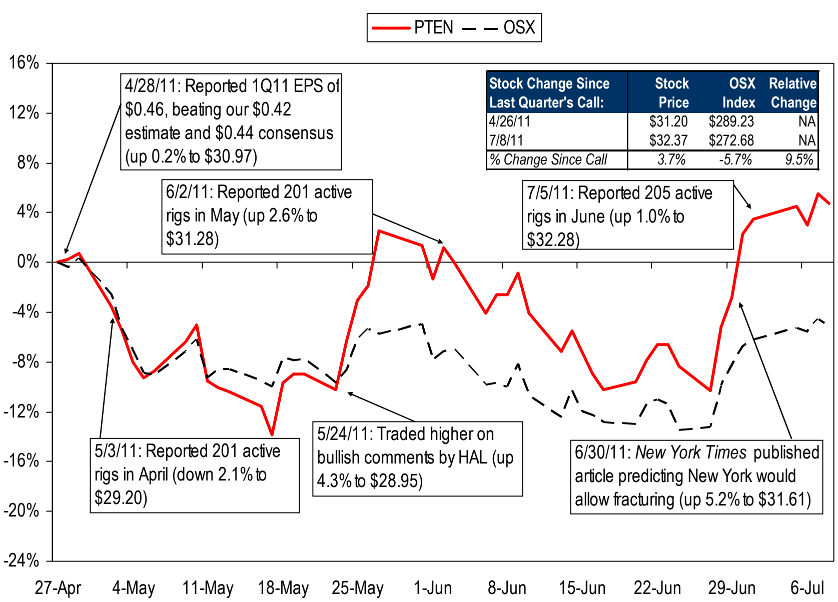
We recommend buying PTEN before the quarter because street EPS estimates still appear subject to upward revisions on the strength of its U.S. land drilling (#2 market share) and pressure pumping (#6 market share) businesses. Consensus EPS estimates for PTEN have risen by a larger percentage than those of any other stock in our coverage since its last earnings release: by 11% in 2011, by 25% in 2012, and by 31% in 2013. Our estimates are still higher by 2%, 2%, and 6%, respectively, than consensus estimates for these years.

Land drilling rig counts for PTEN may come in lighter than expected based on its monthly activity reports in 2Q11. We had assumed the company would gain marginal share in a rising U.S. rig count, offsetting the seasonal impacts of the Canadian spring breakup. Instead, the company appears to have lost momentum slightly, with its North American rig count trending down from 207 rigs in 1Q11 to an average of 202 rigs operating in 2Q11, which is tracking below our estimated 209 rigs. Severe weather in the Marcellus (29 working rigs previously) and the Bakken (14 rigs) may have contributed to this lower-than-expected trend.

Notwithstanding these short-term issues, we believe PTEN has significant near-term upside from deploying conventional rigs to meet the increasing demand in the spot market (only 77 of its 230 conventional rigs were working in 1Q11). As a longer-term consideration, we view PTEN as the primary beneficiary of the possible opening of the Marcellus shale play in New York state to horizontal drilling and hydraulic fracturing. However, any potential regulatory changes in New York would only be implemented over an extended timeframe if they are approved. The earliest impact on PTEN would be in 2012.

In pressure pumping the company could outperform our modest growth assumptions for 2Q11 (4% sequential revenue growth and flat 34% operating margins), particularly if we see the first phase of its capacity expansion from 435,000 horsepower at the end of 2010 to 640,000 horsepower at the end of 2011.

Figure 51. PTEN Stock Price vs. OSX Indexed to Closing Price Before 1Q11 Earnings Report



Source: Citi Investment Research and Analysis

Appendix: Trading Comparables

Figure 52. Oilfield Equipment Services – Comparable Companies Analysis

	Citi	Price	7/8/2011		% Ch	% Ch	P/E			EV/EBITDA			EV/Sales			Debt/	Net Debt/
Company	**Rating**	**Target**	**MCap $B**	**Price**	**YTD**	**LTM**	**2011E**	**2012E**	**2013E**	**2011E**	**2012E**	**2013E**	**2011E**	**2012E**	**2013E**	**EBITDA**	**EBITDA**
Diversified Services:																	
Schlumberger	1M	$115.00	$122.1	$89.96	8%	54%	24.0 x	18.0 x	15.0 x	12.2 x	9.9 x	8.5 x	3.3 x	2.8 x	2.5 x	1.2 x	0.6 x
Halliburton	1H	61.00	49.4	54.04	32%	88%	17.7 x	14.6 x	12.3 x	12.6 x	7.6 x	6.5 x	2.2 x	2.0 x	1.8 x	0.9 x	0.5 x
Baker Hughes	2H	80.00	32.6	75.07	31%	63%	18.3 x	14.6 x	12.3 x	8.0 x	6.7 x	5.9 x	1.8 x	1.6 x	1.4 x	1.5 x	0.9 x
Weatherford	1H	27.00	14.0	18.73	-18%	30%	24.8 x	14.4 x	8.9 x	8.6 x	6.5 x	5.0 x	1.7 x	1.5 x	1.2 x	3.7 x	3.6 x
Average Diversified Services					**13%**	**59%**	**21.2 x**	**15.4 x**	**12.1 x**	**10.4 x**	**7.7 x**	**6.5 x**	**2.3 x**	**2.0 x**	**1.7 x**	**1.8 x**	**1.4 x**
Oilfield Equipment:																	
National Oilwell Varco	1H	$92.00	$33.9	$80.21	19%	125%	18.4 x	15.0 x	13.1 x	9.7 x	8.1 x	7.2 x	2.3 x	2.0 x	1.8 x	0.2 x	(0.8)x
Cameron	2H	58.00	12.5	51.15	1%	46%	19.8 x	15.5 x	12.8 x	11.0 x	9.0 x	7.6 x	1.9 x	1.7 x	1.5 x	1.3 x	(0.2)x
FMC Technologies	1M	57.00	10.8	45.07	1%	46%	26.5 x	20.5 x	17.7 x	15.4 x	11.9 x	10.3 x	2.3 x	2.0 x	1.8 x	0.7 x	0.1 x
Dresser-Rand	1H	65.00	4.3	55.52	30%	70%	26.1 x	18.5 x	13.7 x	12.6 x	9.1 x	7.2 x	1.9 x	1.5 x	1.3 x	2.0 x	1.1 x
Average Oilfield Equipment					**13%**	**72%**	**22.7 x**	**17.4 x**	**14.3 x**	**12.2 x**	**9.5 x**	**8.1 x**	**2.1 x**	**1.8 x**	**1.6 x**	**1.1 x**	**0.0 x**
Offshore Drillers:																	
Transocean	1H	$90.00	$19.8	$62.01	-11%	19%	15.8 x	8.7 x	8.1 x	7.5 x	5.6 x	5.3 x	2.9 x	2.4 x	2.2 x	2.7 x	1.8 x
Ensco plc	2H	56.00	12.2	53.13	0%	29%	14.0 x	8.8 x	8.3 x	10.5 x	6.2 x	5.9 x	5.2 x	3.4 x	3.3 x	3.3 x	1.6 x
Diamond Offshore	1H	90.00	9.8	70.71	6%	8%	11.0 x	11.5 x	10.3 x	6.4 x	6.2 x	5.7 x	3.2 x	3.1 x	2.8 x	0.8 x	0.3 x
Noble Corp.	1H	52.00	9.4	37.34	4%	14%	19.7 x	9.2 x	8.6 x	8.8 x	5.3 x	5.0 x	4.0 x	2.9 x	2.7 x	1.8 x	1.5 x
Rowan Companies	2S	45.00	4.9	38.47	10%	57%	18.7 x	10.0 x	8.9 x	10.8 x	7.1 x	6.5 x	3.9 x	3.5 x	3.3 x	1.9 x	1.6 x
Hercules Offshore	2S	6.00	0.8	5.48	57%	114%	NM	NM	NM	9.8 x	7.1 x	5.8 x	2.0 x	1.6 x	1.5 x	4.9 x	3.9 x
Average Offshore Drillers					**11%**	**40%**	**15.8 x**	**9.6 x**	**8.9 x**	**8.9 x**	**6.3 x**	**5.7 x**	**3.5 x**	**2.8 x**	**2.6 x**	**2.6 x**	**1.8 x**
Land Drillers:																	
Helmerich & Payne	1H	$78.00	$7.3	$68.45	41%	71%	17.9 x	15.2 x	14.0 x	7.4 x	6.3 x	5.8 x	3.0 x	2.6 x	2.3 x	0.5 x	0.2 x
Nabors Industies	1H	35.00	7.0	24.43	4%	36%	14.8 x	10.0 x	8.4 x	6.0 x	5.2 x	4.9 x	1.9 x	1.7 x	1.6 x	3.1 x	2.6 x
Patterson-UTI	1S	42.00	5.0	32.37	50%	124%	14.7 x	11.6 x	10.1 x	5.5 x	4.5 x	4.1 x	2.1 x	1.7 x	1.6 x	0.8 x	0.7 x
Average Land Drillers					**32%**	**77%**	**15.8 x**	**12.3 x**	**10.8 x**	**6.3 x**	**5.4 x**	**5.0 x**	**2.3 x**	**2.0 x**	**1.8 x**	**1.4 x**	**1.1 x**
Gulf of Mexico:																	
Superior Energy	1H	$46.00	$3.1	$39.19	12%	92%	19.6 x	13.3 x	10.9 x	6.6 x	5.4 x	4.8 x	2.0 x	1.7 x	1.6 x	2.0 x	1.8 x
Average Gulf of Mexico					**12%**	**92%**	**19.6 x**	**13.3 x**	**10.9 x**	**6.6 x**	**5.4 x**	**4.8 x**	**2.0 x**	**1.7 x**	**1.6 x**	**2.0 x**	**1.8 x**

Note: Debt/EBITDA and Net Debt/EBITDA for Ensco plc adjusted to include additional debt and EBITDA contribution from its acquisition of Pride International on May 27, 2011. Helmerich & Payne uses a September fiscal year-end; all other companies use a December fiscal year-end.
Source: Citi Investment Research and Analysis

(BHI.N; US$72.92; 2H); (CAM.N; US$49.58; 2H); (DO.N; US$68.94; 1H); (DRC.N; US$53.77; 1H); (FTI.N; US$43.98; 1M); (HAL.N; US$52.49; 1H); (HERO.O; US$5.12; 2S); (HP.N; US$66.71; 1H); (NBR.N; US$23.85; 1H); (NE.N; US$36.71; 1H); (NOV.N; US$77.29; 1H); (PTEN.O; US$31.66; 1S); (RDC.N; US$37.04; 2S); (RIG.N; US$60.47; 1H); (SLB.N; US$88.07; 1M); (SPN.N; US$38.21; 1H); (WFT.N; US$18.33; 1H); (ESV.N; US$51.68; 2H) - Prices as of July 11, 2011

Appendix A-1

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