

## Equities

12 October 2011 | 39 pages

# Oilfield Equipment Services 3Q11 Preview

## Go Long Service Stocks After EPS Expectations Are Revised

### ■ Industry Overview

- **Our Sector Call: Stay on the Sidelines Ahead of Estimate Cuts** — Stocks look cheap, but based on the expectation that analysts may lower their EPS forecasts against a backdrop of global economic uncertainty, we recommend staying on the sidelines ahead of 3Q11 EPS reports.
- **Conclusion #1: First Cuts Could Be a Negative Catalyst** — The severe OSX decline in 3Q11 is ample evidence that investors do not believe current earnings forecasts for the oil service and drilling companies. Recent weak oil and gas prices and increased prospects for economic recession weigh heavily on sentiment despite multiple evidences of strong global demand for oil and gas drilling services. We believe that stocks could react negatively to an initial wave of downward revisions even though some portion of those revisions is already discounted. The overall tenor of this strong earnings season may be negative for stocks.
- **Conclusion #2: Expect Only Tentative Guidance from Management** — Outlook and guidance will take precedence over current earnings results in 3Q11. However, management commentary is unlikely to include any forecasts beyond the near-term horizon due to the current uncertainty in the global economy and in energy prices. This is not due to a lack of transparency but instead to a lack of information. It is still too early for oil service companies to model the consequences of a new recession, and it is too early for the major oil companies, national oil companies, and independent producers to articulate the potential impact on their capital spending programs.
- **Conclusion #3: Buy Stocks Once Earnings Revisions Begin** — In past cycles, analysts have been just as slow to reduce estimates in downturns as they have been slow to raise estimates in upturns. We believe this pattern will repeat this time around. We expect a gradual reduction in 2012 and 2013 estimates to begin this earnings season. Once this downward revision process begins, we advise being quick to take positions in these stocks because fundamentals should remain strong over the long-term, and past cycles suggest that lagging EPS revisions may coincide with a rebound in oil service stocks.
- **Conclusion #4: Focus on Defensive Stocks With Offensive Potential** — We believe companies that take actions to reduce balance sheet risk and fight cost inflation will be rewarded in these still uncertain times. The stocks of companies that buy back shares to demonstrate the dissonance between strong long-term fundamentals and cheap valuations also should benefit. When forward earnings estimates begin to fall, we recommend first focusing on financially and operationally defensive stocks. Companies meeting these criteria include HAL, SLB, NOV, DRC, HP, and LUFK.

### Robin Shoemaker

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

### Mark Brown

mark.brown@citi.com

### Garett Gough

garett.gough@citi.com

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

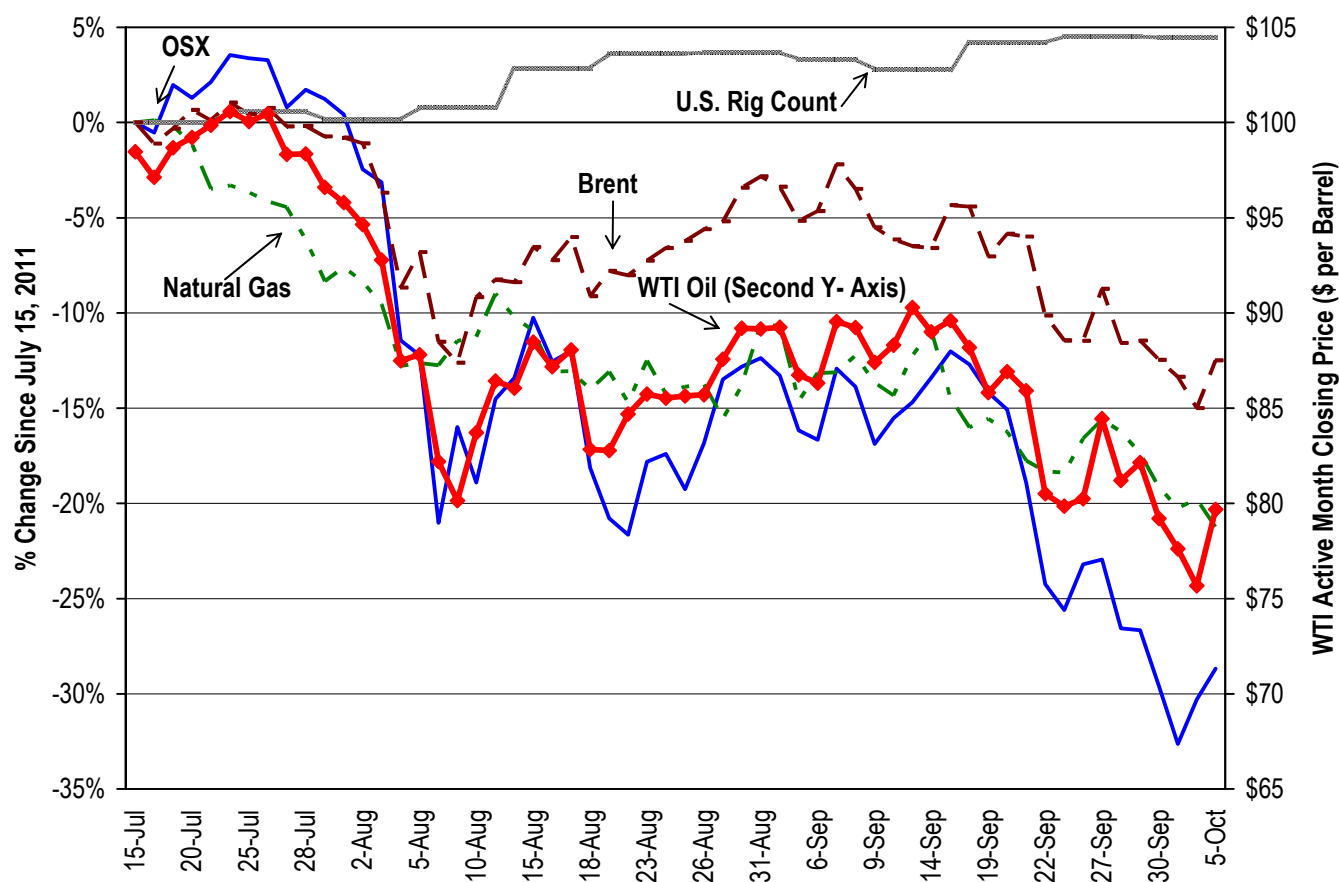
Citi Investment Research & Analysis is a division of Citigroup Global Markets Inc. (the "Firm"), which does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

## 3Q11 Factors Impacting All Sectors

The OSX has fallen by slightly more than WTI and significantly more than Brent, which suggests that the OSX is oversold.

*The OSX has fallen by slightly more than the WTI price and significantly more than the Brent price over the last three months, which suggests to us that the OSX is oversold.* The chart below shows that the decline in West Texas Intermediate (WTI) roughly coincided with the fall in the oil service index (OSX). We believe that Brent is more reflective of the true benchmark oil price that is relevant to oil company budget decisions on a global, long-term basis. Brent has traded at a premium to WTI in part because of the impact of the loss of Libya production on Brent and the glut of oil in Cushing, which is due to the completion of the second phase of the Keystone Pipeline in February, among other factors. The OSX has traded down far more than the Brent oil price, somewhat surprising since these benchmarks typically trade in parallel. We note, the OSX has actually fallen by more than both WTI and U.S. natural gas prices (as shown in Figure 1), and this suggests to us that the stocks are significantly oversold. The U.S. rig count has held its ground throughout the stock market decline, and we expect the oil service companies to signal a continuing strong market when they report third quarter earnings.

Figure 1. Commodity and Equity Pricing Trends Since Start of 2Q11 Earnings Season<sup>(1)</sup>



(1) Start of 2Q11 earnings season represented by closing prices one trading day prior to the day HAL reported.  
Source: Citi Investment Research and Analysis

## 3Q11 Earnings Preview by Sector

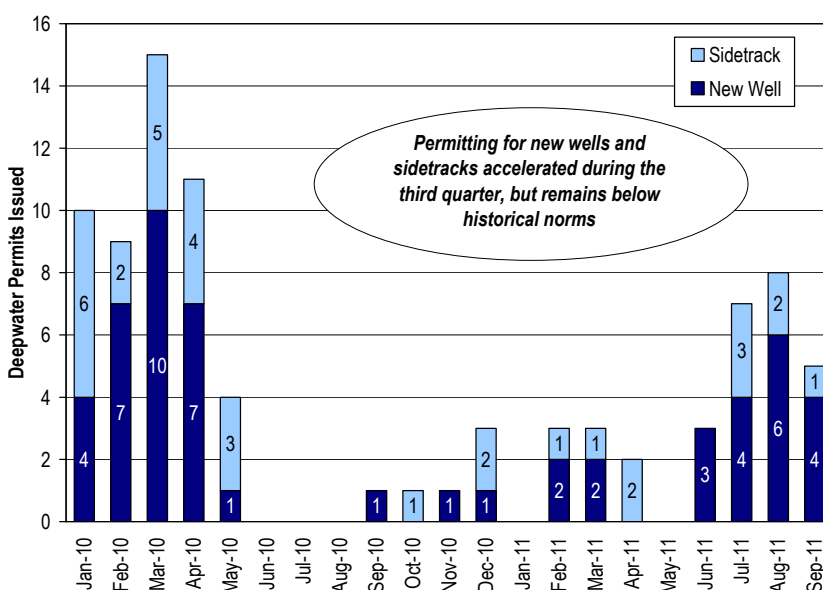
The Gulf of Mexico has shown signs of improvement, and recent market color from offshore drillers has been positive.

*The Gulf of Mexico has shown steady improvement in 2011, and recent commentary from offshore drillers has been encouraging. The permitting process for drilling new offshore wells has gained more clarity, although it is still proceeding more slowly than companies had anticipated after the initial deepwater drilling permits were issued.* Deepwater permitting in the GOM still remains well below historical norms (see Figure 2), although visibility appears to be improving, and the Bureau of Ocean Energy, Management, Regulation, and Enforcement (BOEMRE) is addressing its processes and procedural issues.

Despite the near-term uncertainties, offshore drillers generally remain optimistic that conditions will improve and eventually return to pre-Macondo levels of drilling and development activity. We expect a scarcity of GOM deepwater rigs to emerge by 2012 as a consequence of the exodus of rigs from that market. Going forward, recent tenders from Petrobras and Saudi Aramco may draw even more rigs from the GOM. For the shallow-water market, activity clearly improved in 3Q11, as indicated by the substantial increases in GOM jackup dayrates and backlog per rig in recent HERO fleet status reports. However, the opportunities for HERO to put stacked jackups to work are subject to the vagaries of natural gas pricing. 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. On October 4, SPN described a “pretty extreme upward tug” in the GOM market and expressed optimism that 15 deepwater rigs will be drilling by December and another four to six returning to work in 2012.

■ **Conclusion** – NE has all five of its GOM rigs on full dayrate and could benefit from additional opportunities longer-term driven by recent discoveries in the region. Still, deepwater drillers with exposure to the GOM are likely to struggle with rig downtime issues near-term. Despite the hard landing for HERO and SPN, fundamentals in the region remain solid. HERO has picked up significant backlog at higher rates in the shallow-water, and SPN has had solid bookings related to well intervention projects and idle infrastructure removal projects.

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



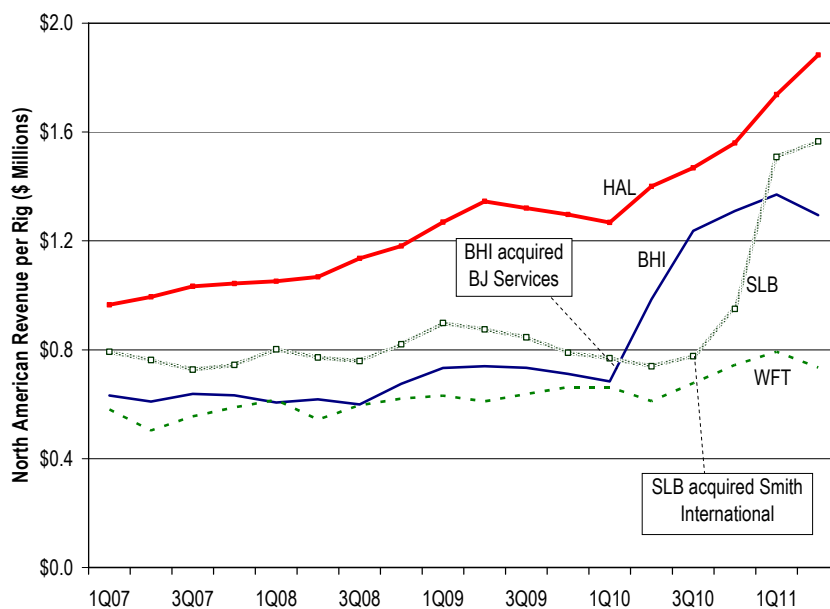
Source: BOEMRE, Citi Investment Research and Analysis

U.S. onshore services stocks have had a hard landing as investors recently cut and run in the face of macroeconomic concerns, but we expect the cycle to last several more years.

**U.S. onshore services stocks have had a hard landing as investors recently cut and run out of oversupply concerns, but we expect the cycle to extend longer than expected due to robust demand growth for horizontal drilling and hydraulic fracturing services. We believe demand will continue to strain industry capacity in terms of personnel and equipment.** The rig count momentum has not subsided, and service intensity continues to grow. This is due to unconventional drilling demand with higher horsepower requirements, the shift in drilling toward oily/liquids-rich reservoirs with 40%-80% higher service intensity, and rising average land rig day rates (see Figures 3-5). The importance of these drivers is underscored by comments from HAL on September 7 indicating that the introduction of larger players like the IOCs should create a more resilient U.S. market. At the same time, investors have shown a readiness to sell shares as soon as signs emerge that service intensity and horizontal drilling are beginning to slow. But except for erroneous or speculative comments, we have not yet seen any hard data of slowing or reversing. Baker Hughes recently reiterated that although North America can turn quickly, it sees no indications of that happening, as its clients are still active and still short of people and equipment. IOCs and NOCs that have acquired a foothold in unconventional reservoirs prefer long-term contracts for drilling and completions, taking capacity off the spot market and contributing to the supply bottlenecks in the North American markets.

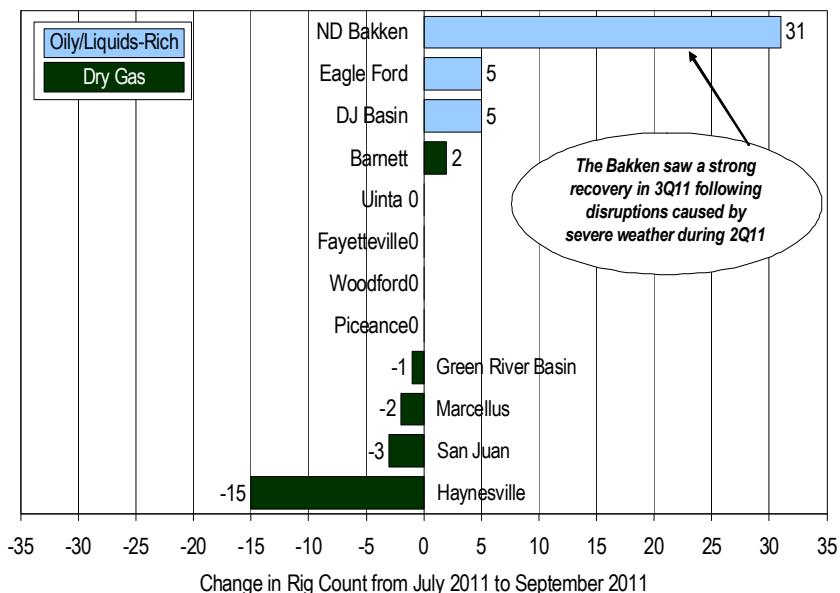
■ **Conclusion** – We believe companies with exposure to land rigs, pressure pumping, coiled tubing, and directional drilling services in North America are oversold. We anticipate that the domestic results of the land drillers, the North American earnings of the “Big Four” service companies, and the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

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



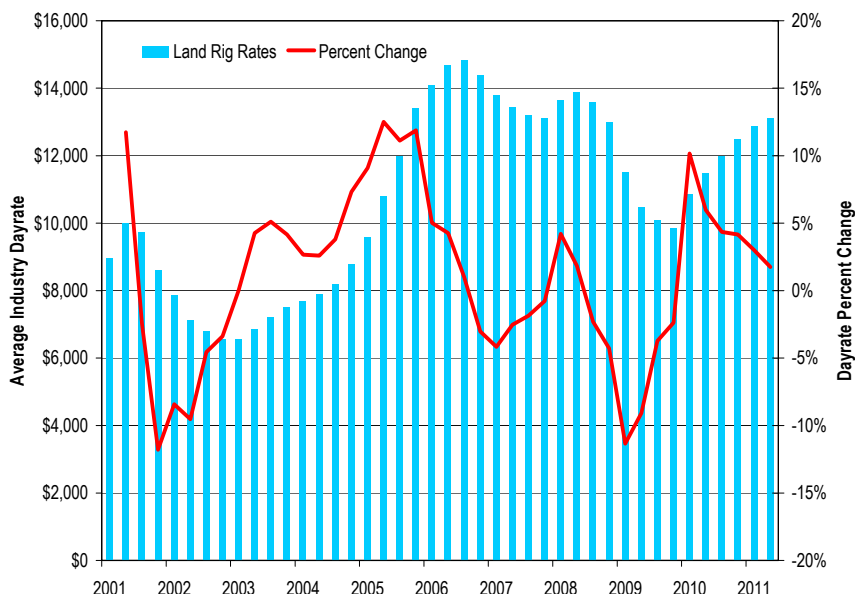
Source: Company Reports, Baker Hughes, Citi Investment Research and Analysis

Figure 4. Rig Count Change by Unconventional Reservoir from July to September 2011



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

Figure 5. U.S. Land Average Rig Dayrate



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

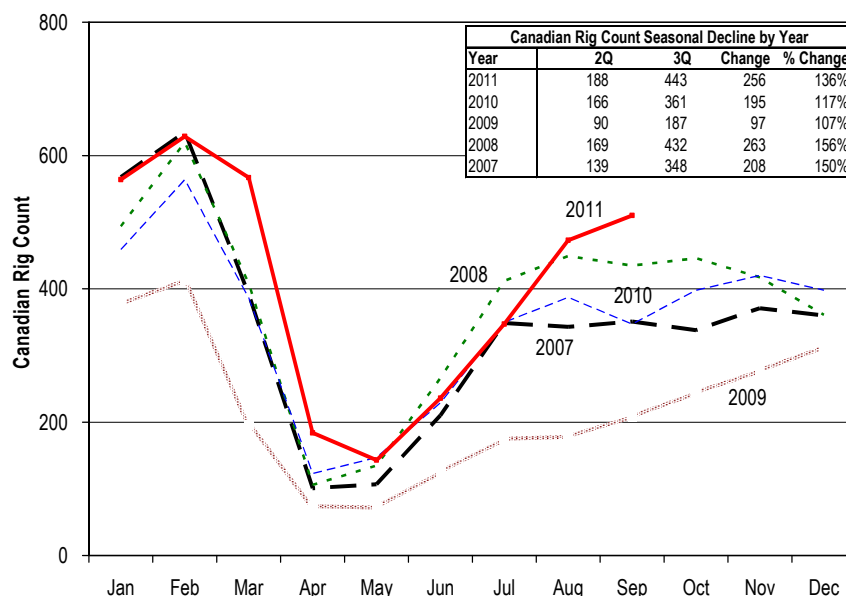
In Canada the seasonal upswing in 3Q11 has been stronger than expected.

**Canada experienced a severe seasonal contraction in 2Q11, but the seasonal upswing has been stronger than expected in 3Q11.** The 136% rig count improvement in 3Q11 vs. 2Q11 was higher than the increases of 117% in 2010 and 107% in 2009 but lower than the 156% increase in 2008. In unit terms, the sequential increase of 256 rigs in 2011 was a larger quarter-over-quarter

improvement than the increases of 195 rigs in 2010 and 97 rigs in 2009 and only a slightly lower unit change than the increase of 263 rigs in 2008 (see Figure 6).

- **Conclusion** – We believe the rig count progression in Canada will be more favorable than many are modeling for Canadian-exposed WFT, BHI, and NBR, although concerns about the overall direction of shale drilling markets in North America are likely to take precedence when earnings are reported.

Figure 6. Canadian Rig Count by Year



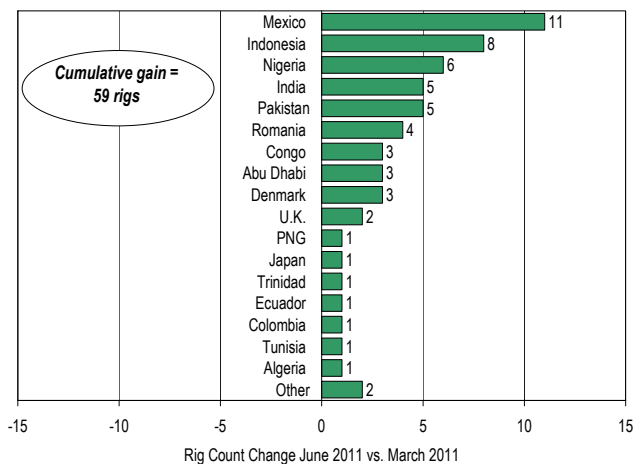
Source: Baker Hughes, Citi Investment Research and Analysis

International services activity increased in 3Q11 although concerns are mounting that the recovery will proceed at a slower pace and/or with little pricing power.

**International services activity is likely to continue gaining traction in 3Q11 although concerns are mounting that the recovery will proceed at a slower pace and without pricing power.** We expect that what HAL has previously referred to as “downturn pricing” will continue to weigh on international results, so margin improvements likely remained volume-driven. Capacity absorption has been piecemeal by country, and the quarter-ending international rig count increased by only 16 rigs in 3Q11 vs. 2Q11 (see Figures 7-8). Although quarter-over-quarter rig count gains were exhibited by countries such as Mexico (+11 rigs), Indonesia (+8), Nigeria (+6), India (+5), Pakistan (+5), and Romania (+4), rig count declines were experienced by other countries, including Argentina (-12 rigs), Oman (-4), Thailand (-3), and Venezuela (-3). Despite the potential for a strong 3Q11 due to investment decisions made in prior quarters, we expect the lowered oil price outlook to increase the likelihood of a weakening activity trend in 2012. Service pricing appeared to be on the verge of improving three months ago, but investors have worried that pricing and activity levels may be stabilizing rather than rising in 2012 given the altered macro conditions. We expect that pricing-driven margin improvements in some international markets may be pushed out to the second half of 2012 (see Figure 9).

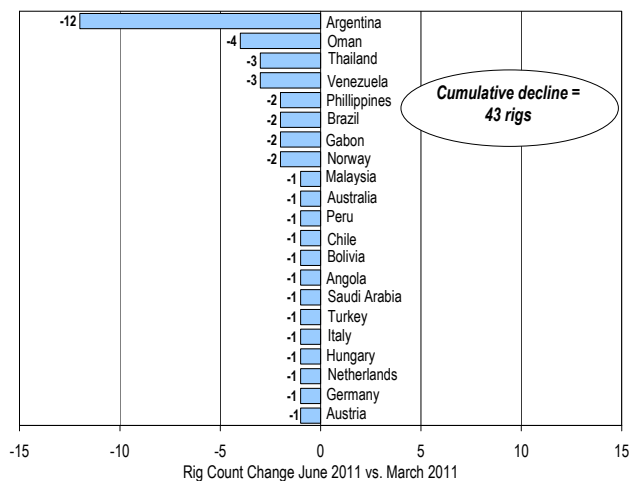
- **Conclusion** – We believe that international activity was strong in 3Q11 for HAL, BHI, SLB, and WFT. However, macro concerns translated into reduced estimates are likely to dominate investor sentiment on oil service stocks. WFT and NBR are likely to be most negatively impacted if international margin forecasts are lowered for 2012 and 2013.

Figure 7. Countries with 3Q11 Rig Count Gains



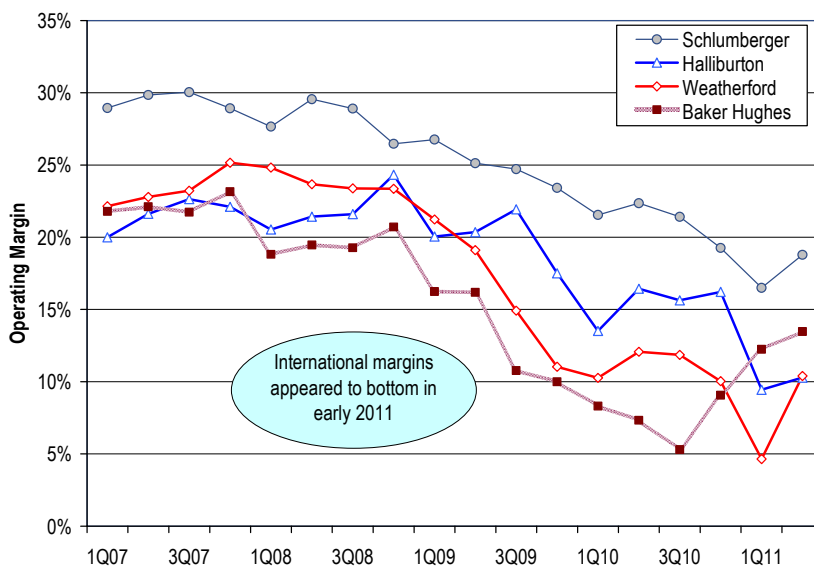
Source: Baker Hughes, Citi Investment Research and Analysis

Figure 8. Countries with 3Q11 Rig Count Declines



Source: Baker Hughes, Citi Investment Research and Analysis

Figure 9. International Operating Margins ("Big Four" Service Companies)



Source: Company Reports, Citi Investment Research and Analysis

For the oilfield equipment manufacturers, 3Q11 orders were likely unaffected by the economic uncertainties. We expect some companies like DRC and NOV to post record bookings.

***Oilfield equipment manufacturers will have only slightly less conviction in their outlooks than three months ago despite the potential macroeconomic shocks, and 3Q11 orders were strong despite the economic uncertainty. We expect that suppliers of subsea trees will continue to focus investors on the long-term project order forecasts while builders of offshore rigs, land rigs, and fracturing equipment will express only modestly lower visibility as to the sustainability of new inflows.*** On September 9, 2011, Quest Offshore lowered its 2011 global subsea tree order forecast by 13.0% to 361 trees from 415 trees, and we believe street estimates have yet to adjust to the consequential tempered earnings growth expectations for 2012 (see Figure 10). Specifically, forecasts for all regions except the North Sea were lowered, including West Africa (large projects slated for late 2011 are getting pushed to early 2012), North America (remains depressed due to the drilling moratorium), and Brazil (third tranche of trees has become less urgent). Going forward, we anticipate delays and slack capacity available to meet any newly awarded projects in 2011. Quest slightly raised its 2012 worldwide subsea tree forecast by 4.2% to 561 trees from 538 trees due to higher-than-expected standard and sub-salt demand in Brazil.

Orders of new offshore rigs have not stopped, but the pace has been slowing (see Figure 11). On October 6, Ensco announced a newbuild jackup order but also stated that it would not exercise a newbuild jackup option and would only extend a deepwater floater option rather than exercise the option now. This is not indicative of a market in decline, but some of the initial urgency seems to have dissipated. Since October 2010, a total of 98 new offshore rigs (comprised of jackups and drillships) have been ordered from shipyards. We remain steadfast in our forecast that 180-190 offshore rig orders will be necessary to meet both drilling demand and rig attrition against a stricter regulatory backdrop over the next five years. We are only slightly more than halfway to that forecasted goal as of October 2011.

- **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 on earnings in 2012, and such adjustments could work against CAM and FTI. On the other hand, we believe NOV orders should continue to surprise to the upside in 3Q11, as it secured a record \$1.5 billion Petrobras order for seven drillship equipment packages early in the quarter. However, the pace of backlog additions is likely to slow for NOV going forward.



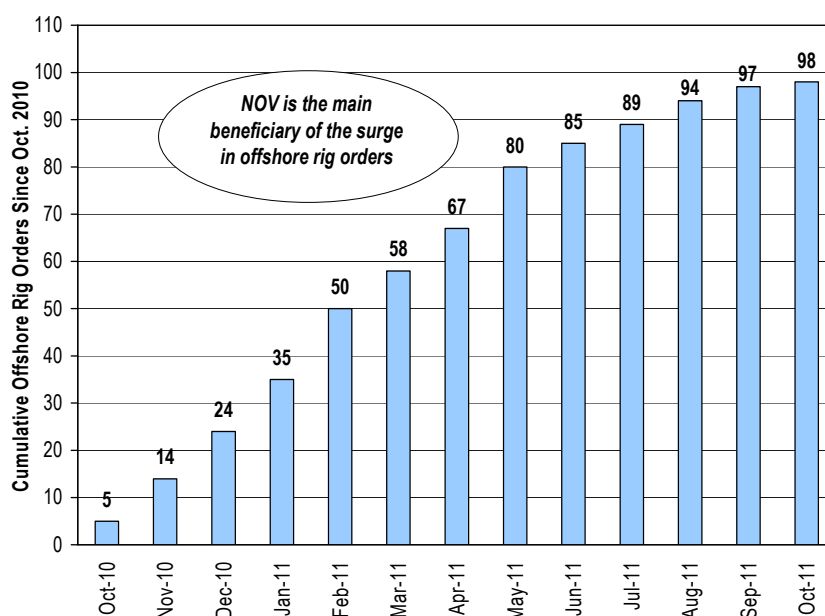
Figure 10. Subsea Tree Forecast Revision (August 2011 vs. May 2011)

August 2011	2011E	2012E	2013E	2014E	2015E
Africa	72	156	150	136	165
Asia Pacific/MidEast	75	84	81	98	95
North Sea	75	79	87	93	92
North America	29	49	72	81	91
South America	111	193	164	171	219
<b>Total</b>	<b>361</b>	<b>561</b>	<b>554</b>	<b>577</b>	<b>661</b>
<b>Growth rate</b>	<b>-3.4%</b>	<b>55.5%</b>	<b>-1.2%</b>	<b>4.2%</b>	<b>14.5%</b>
<b>CAGR (2010-2015E)</b>	<b>12.1%</b>				

May 2011	2011E	2012E	2013E	2014E	2015E
Africa	102	161	154	129	169
Asia Pacific/MidEast	79	98	80	103	101
North Sea	63	79	87	86	84
North America	35	51	77	83	92
South America	136	149	145	166	212
<b>Total</b>	<b>415</b>	<b>538</b>	<b>542</b>	<b>567</b>	<b>657</b>
<b>Growth rate</b>	<b>11.1%</b>	<b>29.8%</b>	<b>0.7%</b>	<b>4.6%</b>	<b>16.0%</b>
<b>CAGR (2010-2015E)</b>	<b>12.0%</b>				

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

Figure 11. Cumulative Offshore Rig Orders Since October 2010



Source: ODS-Petrodata, Citi Investment Research and Analysis

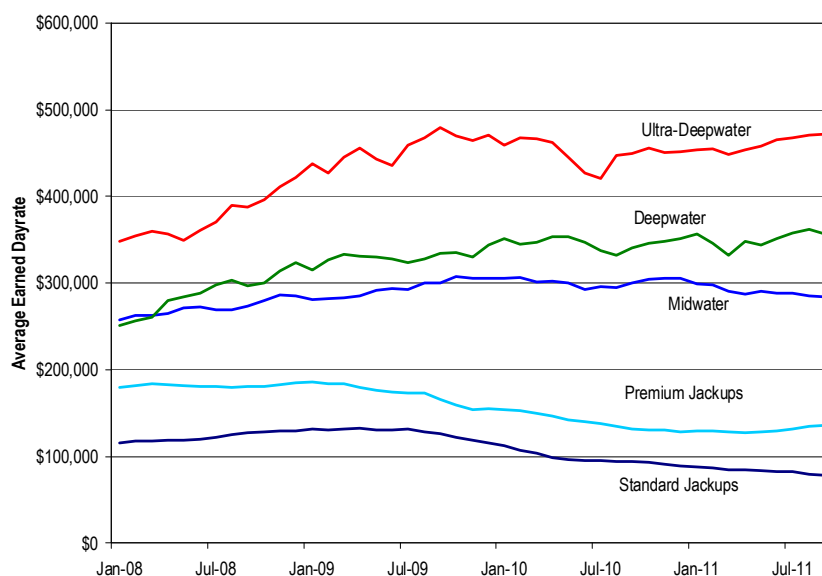
Offshore drillers face near-term challenges due to downtime related to subsea control system repairs, but global utilization improved in 3Q11, and recent NOC tenders support a favorable long-term outlook for rig demand.

**Offshore drillers face near-term challenges due to unexpected downtime and choppy transitory conditions, but global utilization improved significantly in 3Q11, and recent national oil company tenders support a favorable long-term outlook.** A slowly recovering market, speculative newbuild backlog, and lingering Macondo uncertainty were formidable headwinds in 2010. However, market conditions have tightened significantly over the past nine months, with average dayrates improving and management commentary becoming increasingly bullish, particularly on ultra-deepwater floater and high-spec jackup rigs (see Figure 12).

Global average utilization increased in 3Q11 for all classes of rigs except midwater floaters (-90 bps q/q), with the greatest utilization gains shown by high-spec jackups (+510 bps q/q), deepwater floaters (+370 bps q/q), and standard jackups (+220 bps q/q) (see Figures 13-14). At the same time, offshore rig inquiries and tenders from national oil companies have been picking 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.

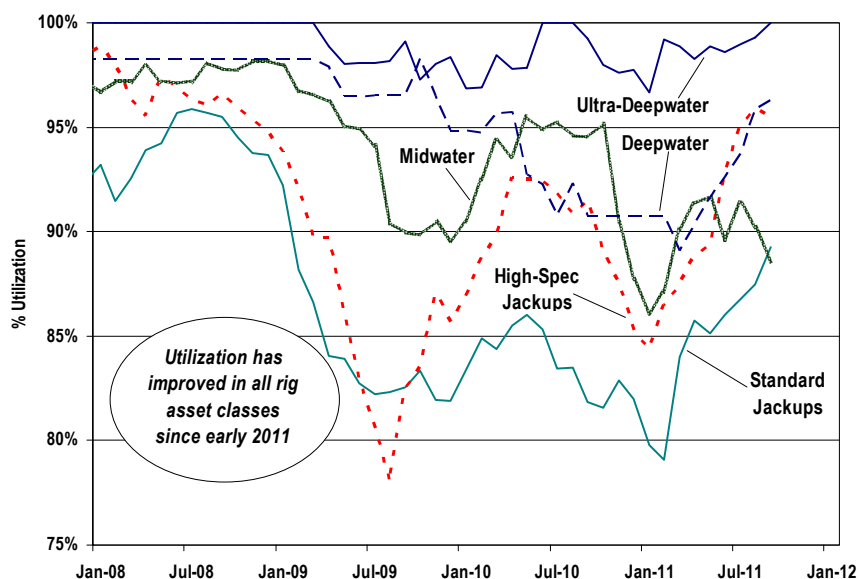
■ **Conclusion** – We are wary of the offshore drillers going into earnings reports for 3Q11, as many of our models forecast below-consensus EPS in 3Q11 and 4Q11. We have modeled higher levels of downtime in 3Q11 and episodic idle time as rigs come off contract in 4Q11. Despite the potential for negative near-term EPS revisions, we believe demand will remain sufficient to absorb new rig supply entering the global fleet, which is reflected in our generally above-consensus estimates in 2012 and 2013.

Figure 12. Offshore Rig Average Earned Dayrate



Source: ODS-Petrodata, Citi Investment Research and Analysis

Figure 13. Offshore Rig Utilization Trend by Rig Class



Source: ODS-Petrodata, Citi Investment Research and Analysis

Figure 14. Utilization for Ultra-Deepwater, Deepwater, Midwater, and Jackups

	Floaters			Jackups	
	UDW	DW	MW	High-Spec	Standard
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%
<b>2Q11 Average</b>	<b>98.6%</b>	<b>91.5%</b>	<b>90.9%</b>	<b>90.3%</b>	<b>85.6%</b>
Jul-11	99.0%	93.7%	91.4%	95.1%	86.8%
Aug-11	99.3%	95.9%	90.2%	95.9%	87.5%
Sep-11	100.0%	96.3%	88.5%	95.5%	89.3%
<b>3Q11 Average</b>	<b>99.4%</b>	<b>95.3%</b>	<b>90.0%</b>	<b>95.5%</b>	<b>87.8%</b>
<b>Q/Q Change</b>	<b>+80 bps</b>	<b>+370 bps</b>	<b>-90 bps</b>	<b>+510 bps</b>	<b>+220 bps</b>

Source: ODS-Petrodata, Citi Investment Research and Analysis

## 3Q11 Earnings Preview by Company

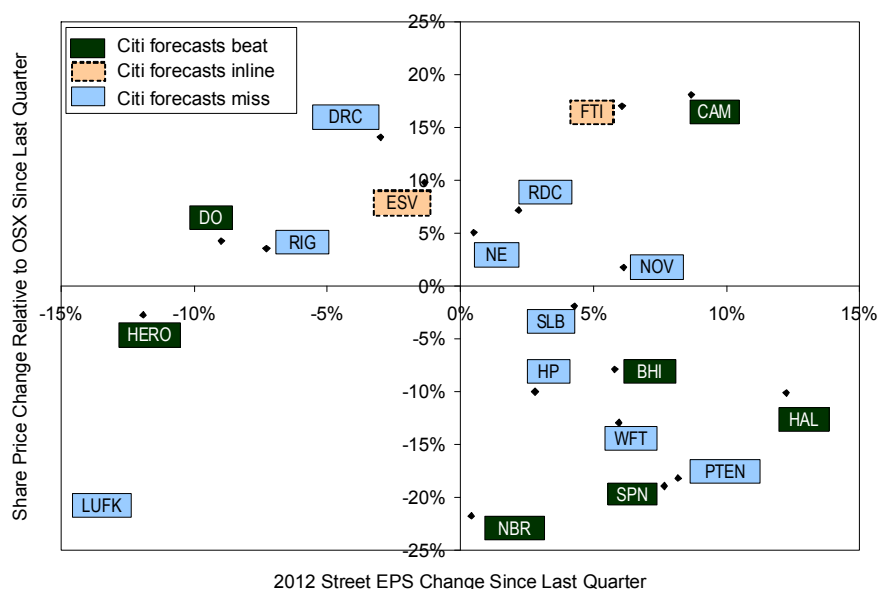
The tables below show when the companies in our coverage universe report earnings, how our estimates compare to those of consensus, and how much share prices and consensus EPS estimates have changed since earnings were reported one quarter ago (see Figures 15-18). The subsequent 20 pages provide company-specific previews in the order of their conference calls this earnings season. We also include a trading comp sheet in the appendix.

Figure 15. 3Q11 Earnings Calendar

3Q11 Conference Calls					3Q11 EPS			3Q11 Revenue			3Q11 EBITDA		
Company	Date	Day	EST	Dial-in	Citi	Street	Call	Citi	Street	Call	Citi	Street	Call
HAL	10/17/11	Mon	9:00 AM	703-639-1106	\$0.94	\$0.92	Beat	\$6,444	\$6,380	Beat	\$1,708	\$1,681	Beat
LUFK	10/19/11	Wed	10:00 AM	480-629-9771	\$0.58	\$0.60	Miss	\$231	\$243	Miss	\$34	\$40	Miss
NE	10/20/11	Thu	9:00 AM	866-461-7129	\$0.48	\$0.56	Miss	\$738	\$759	Miss	\$333	\$360	Miss
DO	10/20/11	Thu	10:00 AM	800-247-9979	\$1.57	\$1.48	Beat	\$830	\$821	Beat	\$407	\$386	Beat
SLB	10/21/11	Fri	9:00 AM	800-230-1059	\$1.00	\$1.02	Miss	\$10,330	\$10,292	Beat	\$2,688	\$2,758	Miss
WFT	10/25/11	Tue	8:00 AM	866-393-8572	\$0.25	\$0.26	Miss	\$3,373	\$3,322	Beat	\$691	\$708	Miss
NOV	10/25/11	Tue	9:00 AM	800-447-0521	\$1.14	\$1.16	Miss	\$3,653	\$3,657	Miss	\$854	\$865	Miss
NBR	10/25/11	Tue	11:00 AM	877-941-1427	\$0.43	\$0.40	Beat	\$1,478	\$1,505	Miss	\$463	\$479	Miss
FTI	10/26/11	Wed	9:00 AM	866-394-0571	\$0.46	\$0.46	Inline	\$1,291	\$1,309	Miss	\$192	\$193	Miss
CAM	10/27/11	Thu	9:30 AM	201-689-8261	\$0.75	\$0.74	Beat	\$1,703	\$1,811	Miss	\$313	\$306	Beat
SPN	10/27/11	Thu	11:00 AM	480-629-9770	\$0.72	\$0.69	Beat	\$540	\$546	Miss	\$179	\$173	Beat
BHI	11/01/11	Tue	8:30 AM	800-374-2469	\$1.25	\$1.21	Beat	\$5,245	\$5,167	Beat	\$1,227	\$1,218	Beat
RDC	11/01/11	Tue	11:00 AM	877-869-3847	\$0.33	\$0.41	Miss	\$237	\$254	Miss	\$96	\$111	Miss
ESV	11/03/11	Thu	11:00 AM	800-314-5962	\$0.88	\$0.88	Inline	\$925	\$930	Miss	\$403	\$407	Miss
CJES	TBD	TBD	TBD	TBD	\$0.76	\$0.79	Miss	\$200	\$209	N/A	\$70	\$72	N/A
DRC	TBD	TBD	TBD	TBD	\$0.41	\$0.44	Miss	\$605	\$670	Miss	\$84	\$93	Miss
HERO	TBD	TBD	TBD	TBD	(\$0.09)	(\$0.14)	Beat	\$183	\$172	Beat	\$47	\$37	Beat
HP	TBD	TBD	TBD	TBD	\$0.98	\$1.04	Miss	\$683	\$674	Beat	\$263	\$271	Miss
PTEN	TBD	TBD	TBD	TBD	\$0.54	\$0.63	Miss	\$674	\$669	Beat	\$247	\$266	Miss
RIG	TBD	TBD	TBD	TBD	\$0.78	\$0.80	Miss	\$2,365	\$2,359	Beat	\$860	\$863	Miss

Source: Thomson, Citi Investment Research and Analysis

Figure 16. Oil Service Stocks – Street Revisions vs. Stock Performance Since 2Q11 Call



Source: Citi Investment Research and Analysis

Figure 17. Citi EPS Estimates vs. Street

Company	(Current Quarter)			(Next Quarter)			2011 EPS			2012 EPS			2013 EPS		
	3Q11 EPS			4Q11 EPS			Citi Street Gap			Citi Street Gap			Citi Street Gap		
HAL	\$0.94	\$0.92	\$0.02	\$1.12	\$1.03	\$0.09	\$3.48	\$3.36	\$0.12	\$5.00	\$4.49	\$0.51	\$6.15	\$5.09	\$1.06
LUFK	\$0.58	\$0.60	(\$0.02)	\$0.76	\$0.75	\$0.01	\$2.37	\$2.41	(\$0.04)	\$4.00	\$4.34	(\$0.34)	\$5.50	\$5.75	(\$0.25)
NE	\$0.48	\$0.56	(\$0.08)	\$0.68	\$0.75	(\$0.07)	\$1.48	\$1.67	(\$0.19)	\$4.06	\$3.93	\$0.13	\$4.35	\$4.45	(\$0.10)
DO	\$1.57	\$1.48	\$0.09	\$1.19	\$1.10	\$0.09	\$6.47	\$6.33	\$0.14	\$5.55	\$4.97	\$0.58	\$6.50	\$5.32	\$1.18
SLB	\$1.00	\$1.02	(\$0.02)	\$1.37	\$1.20	\$0.17	\$3.95	\$3.80	\$0.15	\$5.85	\$5.35	\$0.50	\$7.50	\$6.69	\$0.81
WFT	\$0.25	\$0.26	(\$0.01)	\$0.37	\$0.35	\$0.02	\$0.89	\$0.88	\$0.01	\$1.95	\$1.60	\$0.35	\$2.85	\$2.16	\$0.69
NOV	\$1.14	\$1.16	(\$0.02)	\$1.22	\$1.19	\$0.03	\$4.50	\$4.47	\$0.03	\$5.70	\$5.71	(\$0.01)	\$6.90	\$6.55	\$0.35
NBR	\$0.43	\$0.40	\$0.03	\$0.60	\$0.54	\$0.06	\$1.55	\$1.47	\$0.08	\$2.60	\$2.46	\$0.14	\$3.30	\$2.94	\$0.36
FTI	\$0.46	\$0.46	\$0.00	\$0.54	\$0.54	\$0.00	\$1.73	\$1.72	\$0.01	\$2.40	\$2.27	\$0.13	\$2.95	\$2.75	\$0.20
CAM	\$0.75	\$0.74	\$0.01	\$0.89	\$0.82	\$0.07	\$2.75	\$2.68	\$0.07	\$3.70	\$3.76	(\$0.06)	\$4.70	\$4.43	\$0.27
SPN	\$0.72	\$0.69	\$0.03	\$0.71	\$0.69	\$0.02	\$2.15	\$2.09	\$0.06	\$3.35	\$3.09	\$0.26	\$4.50	\$3.97	\$0.53
BHI	\$1.25	\$1.21	\$0.04	\$1.45	\$4.38	(\$2.93)	\$4.50	\$4.36	\$0.14	\$6.40	\$5.84	\$0.56	\$7.70	\$6.89	\$0.81
RDC	\$0.33	\$0.41	(\$0.08)	\$0.63	\$0.66	(\$0.03)	\$1.58	\$1.71	(\$0.13)	\$3.66	\$3.73	(\$0.07)	\$4.01	\$3.95	\$0.06
ESV	\$0.88	\$0.88	\$0.00	\$1.46	\$1.31	\$0.15	\$3.75	\$3.50	\$0.25	\$6.50	\$5.89	\$0.61	\$7.10	\$6.37	\$0.73
CJES	\$0.76	\$0.79	N/A	\$0.80	\$0.84	N/A	\$2.95	\$3.08	(\$0.13)	\$3.90	\$4.09	(\$0.19)	\$4.60	\$5.60	(\$1.00)
DRC	\$0.41	\$0.44	(\$0.03)	\$1.25	\$1.20	\$0.05	\$1.94	\$1.91	\$0.03	\$3.00	\$3.25	(\$0.25)	\$4.05	\$4.07	(\$0.02)
HERO	(\$0.09)	(\$0.14)	\$0.05	(\$0.15)	(\$0.18)	\$0.03	(\$0.47)	(\$0.55)	\$0.08	(\$0.12)	(\$0.42)	\$0.30	\$0.08	(\$0.37)	\$0.45
HP	\$0.98	\$1.04	(\$0.06)	\$1.11	\$1.12	(\$0.01)	\$3.85	\$3.92	(\$0.07)	\$4.85	\$4.76	\$0.09	\$5.75	\$5.54	\$0.21
PTEN	\$0.54	\$0.63	(\$0.09)	\$0.69	\$0.70	(\$0.01)	\$2.22	\$2.30	(\$0.08)	\$3.10	\$3.04	\$0.06	\$3.60	\$3.35	\$0.25
RIG	\$0.78	\$0.80	(\$0.02)	\$1.20	\$1.34	(\$0.14)	\$3.22	\$3.39	(\$0.17)	\$6.02	\$5.73	\$0.29	\$6.40	\$5.78	\$0.62

Source: Thomson, Citi Investment Research and Analysis

Figure 18. Citi Ratings and Price Targets vs. Street Revisions and Stock Performance

Company	Rating	Share Price			EPS Changes, Month			% Ch. in Street EPS Since 2Q11 Call				Stock Since 2Q11 Call	
		Target	10/12/2011	% Upside	Higher	Lower	Ave. Ch.	3Q11	2011	2012	2013	Absolute	Relative
HAL	Buy	\$46.00	\$35.48	30%	6	1	\$0.04	10%	8%	12%	14%	-33%	-10%
LUFK	Buy	\$65.00	\$49.29	32%	0	4	(\$0.20)	-33%	-20%	-19%	-12%	-44%	-20%
NE	Buy	\$42.00	\$30.50	38%	0	5	(\$0.09)	-13%	-10%	1%	-2%	-19%	5%
DO	Buy	\$75.00	\$58.37	28%	5	3	\$0.00	-3%	-3%	-9%	-7%	-20%	4%
SLB	Buy	\$88.00	\$66.82	32%	1	10	(\$0.04)	1%	2%	4%	8%	-27%	-2%
WFT	Buy	\$18.00	\$13.85	30%	2	3	(\$0.01)	4%	6%	6%	5%	-38%	-13%
NOV	Buy	\$85.00	\$62.74	35%	1	1	\$0.00	9%	7%	6%	7%	-24%	2%
NBR	Buy	\$18.00	\$14.31	26%	1	2	(\$0.03)	0%	-2%	0%	2%	-47%	-22%
FTI	Buy	\$54.00	\$42.29	28%	0	2	(\$0.01)	0%	2%	6%	7%	-9%	17%
CAM	Neutral	\$46.00	\$47.76	-4%	1	0	\$0.03	4%	4%	9%	10%	-6%	18%
SPN	Buy	\$35.00	\$23.52	49%	1	0	\$0.04	15%	14%	8%	14%	-43%	-19%
BHI	Neutral	\$51.00	\$53.23	-4%	3	2	(\$0.01)	8%	4%	6%	5%	-33%	-8%
RDC	Neutral	\$33.00	\$32.70	1%	2	7	(\$0.06)	-20%	-8%	2%	3%	-16%	7%
ESV	Neutral	\$44.00	\$43.34	2%	2	10	(\$0.04)	-16%	-5%	-1%	-2%	7%	10%
CJES	Buy	\$25.00	\$16.95	47%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	-44%	N/A
DRC	Buy	\$58.00	\$47.55	22%	1	1	(\$0.18)	-36%	-11%	-3%	-1%	1%	14%
HERO	Neutral	N/A	\$3.21	N/A	3	3	\$0.01	21%	-2%	-12%	3%	-26%	-3%
HP	Buy	\$60.00	\$45.59	32%	2	0	\$0.04	0%	0%	3%	6%	-34%	-10%
PTEN	Buy	\$24.00	\$18.84	27%	0	0	N/A	9%	6%	8%	11%	-42%	-18%
RIG	Buy	\$72.00	\$48.99	47%	5	5	(\$0.06)	-20%	-15%	-7%	-12%	-17%	4%

Source: Thomson, Citi Investment Research and Analysis

## Halliburton Company (Buy, Target Price \$46)

Figure 19. HAL – 3Q11 Cheat Sheet

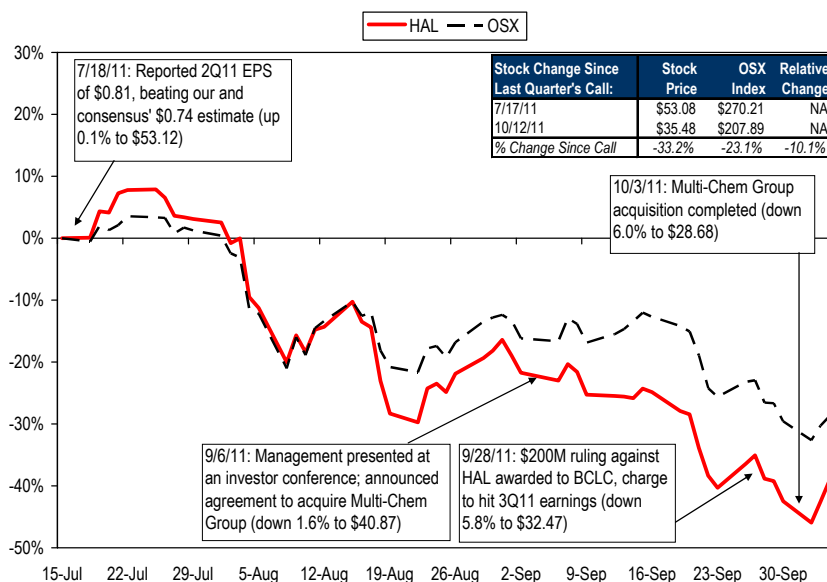
Quarter Estimates:	EPS	Revenue (\$MM)	EBITDA (\$MM)
Citi	\$0.94	\$6,444	\$1,708
Consensus	\$0.92	\$6,380	\$1,681
% Change vs. Street	3%	1%	2%
Earnings Revisions in Last Month:	Higher	Lower	Ave. Change
3Q11	6	1	\$0.04
Forward Estimates:	Citi EPS	Street EPS	% Gap
4Q11	\$1.12	\$1.03	9%
2011	\$3.48	\$3.36	4%
2012	\$5.00	\$4.49	11%
2013	\$6.15	\$5.09	21%
Stock Change Since Last Quarter's Call:	Stock Price	OSX Index	Relative Change
7/17/11	\$53.08	\$270.21	NA
10/12/11	\$35.48	\$207.89	NA
% Change Since Call	-33.2%	-23.1%	-10.1%
Street EPS Change Since Last Quarter:	Quarter Ago	Current	% Change
3Q11	\$0.84	\$0.92	10%
2011	\$3.10	\$3.36	8%
2012	\$4.00	\$4.49	12%
2013	\$4.45	\$5.09	14%
EPS Surprises, Last Eight Quarters	Street	Actual	% Gap
2Q11	\$0.74	\$0.81	9% Beat
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	10/17/11		
Call Time (EST)	9:00 AM		
Dial-in / Password	703-639-1106		
Replay Dial-in	888-266-2081 /1542785		

Source: Thomson, Citi Investment Research and Analysis

Our 3Q11 EPS estimate for HAL is slightly ahead of consensus (\$0.94 vs. \$0.92), and we consider HAL one of the best stocks to buy in the days following its earnings report. In our view, recent bullish management comments put HAL in a position to have a very strong quarter in 3Q11. Despite the global economic worries, we believe management's tone will be consistent with its commentary from last month, which was given at a time after share prices and oil prices had both fallen significantly. On the 3Q11 earnings call, we expect that HAL will indicate that the deepwater and international markets will continue to be characterized by a long, sustainable cycle and that its customer base will be less reactive to volatile market conditions. HAL is likely to reiterate that the recent downtick in commodity prices will have only limited impact on deepwater and international programs. In North America, HAL will likely note the longer development horizon and greater willingness on the part of IOCs and NOCs to drill through weakness in commodity prices than the independent E&Ps had in the past. Although we expect that HAL will indicate potential balancing of the market by the end of 2012 if the rig count flattens, we believe the overall message will be positive.

At a September 6 investor conference, HAL highlighted the ongoing strength of its business and appeared to suggest that investors take a long view despite the challenges facing markets around the world. HAL also mentioned the wave of 67 newbuild floaters entering the market over the next three years, each with a service intensity that is 10-20 times that of a land rig. HAL mentioned on its 2Q11 call that it is mobilizing on 31 projects, many of which are recent deepwater wins. The market is also likely to be receptive to any updates to its "reinvention strategy" introduced at its Analyst Day in November 2010 in which HAL committed to lowering its capital investment in North America and positioning itself as the lowest cost service provider. Big picture, HAL has continued to expect 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.

Figure 20. HAL Stock Price vs. OSX Indexed to Closing Price Before 2Q11 Earnings Report



Source: Citi Investment Research and Analysis

## Lufkin Industries (Buy, Target Price \$65)

Figure 21. LUFK – 3Q11 Cheat Sheet

Quarter Estimates:	EPS	Revenue (\$MM)	EBITDA (\$MM)
Citi	\$0.58	\$231	\$34
Consensus	\$0.60	\$243	\$40
% Change vs. Street	-4%	-5%	-15%

Earnings Revisions in Last Month:	Higher	Lower	Ave. Change
3Q11	0	4	(\$0.20)

Forward Estimates:	Citi EPS	Street EPS	% Gap
4Q11	\$0.76	\$0.75	1%
2011	\$2.37	\$2.41	-2%
2012	\$4.00	\$4.34	-8%
2013	\$5.50	\$5.75	-4%

Stock Change Since Last Quarter's Call:	Stock Price	OSX Index	Relative Change
7/19/11	\$88.49	\$275.54	NA
10/12/11	\$49.29	\$207.89	NA
% Change Since Call	-44.3%	-24.6%	-19.7%

Street EPS Change Since Last Quarter:	Quarter Ago	Current	% Change
3Q11	\$0.90	\$0.60	-33%
2011	\$3.02	\$2.41	-20%
2012	\$5.39	\$4.34	-19%
2013	\$6.50	\$5.75	-12%

EPS Surprises, Last Eight Quarters	Street	Actual	% Gap
2Q11	\$0.69	\$0.60	13% Miss
1Q11	\$0.45	\$0.44	2% Miss
4Q10	\$0.50	\$0.47	6% Miss
3Q10	\$0.44	\$0.44	Inline
2Q10	\$0.30	\$0.35	17% Beat
1Q10	\$0.19	\$0.20	5% Beat
4Q09	\$0.08	\$0.14	75% Beat
3Q09	\$0.10	\$0.17	70% Beat
2Q09	NA	\$0.20	NA

Conference Call Logistics:			
Call Date	10/19/11		
Call Time (EST)	10:00 AM		
Dial-in / Password	480-629-9771		
Replay Dial-in	303-590-3030	/4473678#	

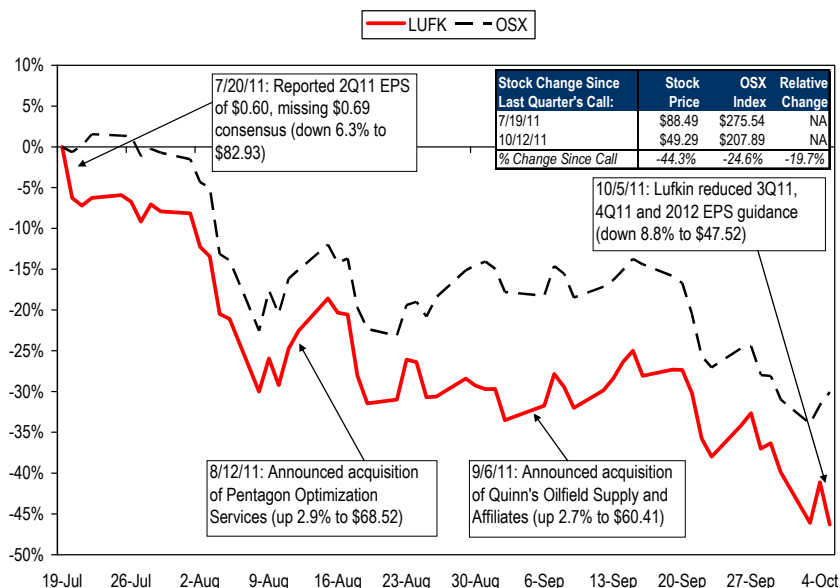
Source: Citi Investment Research and Analysis

We have previously reduced our LUFK earnings estimates to reflect the company's profit warning from October 5. Our 3Q11 EPS estimate has been reduced from \$0.81 to \$0.58, in line with guidance, which was reduced from \$0.72-\$0.82 to \$0.55-\$0.60. Our 4Q11 EPS estimate has been reduced from \$0.93 to \$0.76, in line with guidance, which was reduced from \$0.85-\$0.95 to \$0.70-\$0.80. We have also lowered our EPS estimates from \$5.00 to \$4.00 in 2012 and from \$6.60 to \$5.50 in 2013.

The preannouncement for the third quarter was in part due to manufacturing inefficiencies in Power Transmission. The company actually cited several specific factors that would impact its 3Q11 EPS: (1) material shortages in U.S. factories that reduced Oilfield capacity utilization, (2) ongoing labor unrest in Argentina, (3) manufacturing inefficiencies in Power Transmission, (4) unscheduled machine downtime in both Oilfield and Power Transmission, (5) customer-driven shipment delays, and (6) higher-than-expected impacts from non-cash LIFO expenses. The company appears to have addressed the issues within its control. LUFK has largely righted its materials supply challenges and expects its machine reliability to improve significantly going forward. Some of the reliability issues were driven by record high temperatures in Texas during 3Q11, which have subsided.

The company also signaled a concern about artificial lift demand in the medium term. Although LUFK has yet to see any slowdown in orders of artificial lift, reduced sales are possible in 4Q11 and early 2012 given the softened oil price outlook. LUFK is the first oil service company talking down numbers. Despite this, we view LUFK as strongly positioned in its market niche and may be an attractive takeover candidate.

Figure 22. LUFK Stock Price vs. OSX Indexed to Closing Price Before 2Q11 Earnings Report



Source: Citi Investment Research and Analysis



## Noble Corp. (Buy, Target Price \$42)

Figure 23. NE – 3Q11 Cheat Sheet

Quarter Estimates:	EPS	Revenue (\$MM)	EBITDA (\$MM)
Citi	\$0.48	\$738	\$333
Consensus	\$0.56	\$759	\$360
% Change vs. Street	-14%	-3%	-8%
Earnings Revisions in Last Month:	Higher	Lower	Ave. Change
3Q11	0	5	(\$0.09)
Forward Estimates:	Citi EPS	Street EPS	% Gap
4Q11	\$0.68	\$0.75	-9%
2011	\$1.48	\$1.67	-11%
2012	\$4.06	\$3.93	3%
2013	\$4.35	\$4.45	-2%
Stock Change Since Last Quarter's Call:	Stock Price	OSX Index	Relative Change
7/20/11	\$37.63	\$273.70	NA
10/12/11	\$30.50	\$207.89	NA
% Change Since Call	-18.9%	-24.0%	5.1%
Street EPS Change Since Last Quarter:	Quarter Ago	Current	% Change
3Q11	\$0.64	\$0.56	-13%
2011	\$1.86	\$1.67	-10%
2012	\$3.91	\$3.93	1%
2013	\$4.55	\$4.45	-2%
EPS Surprises, Last Eight Quarters:	Street	Actual	% Gap
2Q11	\$0.26	\$0.17	35% Miss
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	10/20/11		
Call Time (EST)	9:00 AM		
Dial-in / Password	866-461-7129 /27255925		
Replay Dial-in	800-642-1687 /27255925		

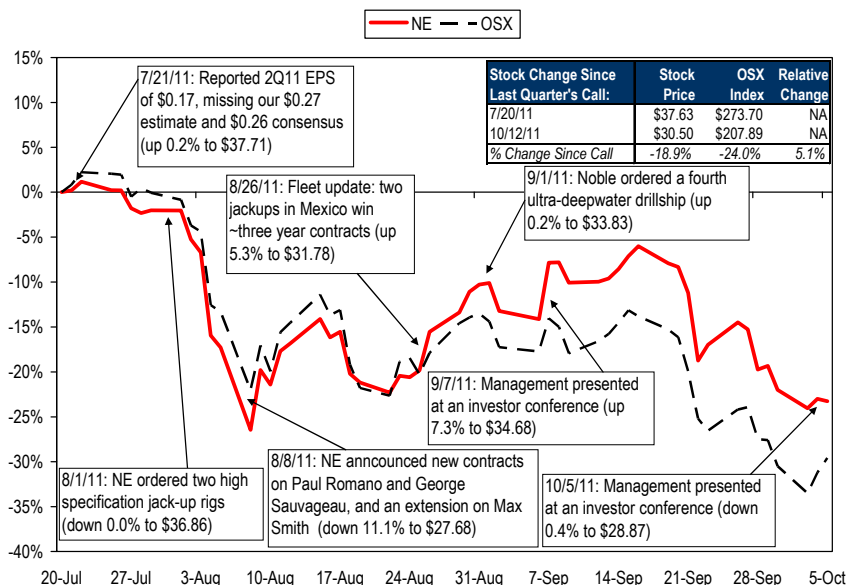
Source: Thomson, Citi Investment Research and Analysis

We have lowered our 3Q11 EPS estimate to \$0.48 from \$0.55 (vs. \$0.56 consensus) and our 4Q11 EPS estimate to \$0.68 from \$0.88 (vs. \$0.75 consensus), and 2011 EPS estimate to \$1.48 to \$1.75 to reflect downtime reported in the October 6 fleet status report. We have raised our 2012 EPS estimate to \$4.06 from \$4.05 and our 2013 estimate to \$4.35 from \$4.30 (vs. \$4.45 consensus) primarily due to a new letter of intent on the Noble Dutchess (1,500' midwater drillship, India) on a three-year term at a \$180K/day rate vs. our previous expectation that the rig would be idle. In its October 6 fleet status report, Noble announced a number of contracts for jackups in the Middle East, Mexico, and the North Sea at generally improving or better-than-expected day rates.

We expect earnings risk heading into the quarter, but we expect that the stock will subsequently react favorably to improved markets—including those in the Middle East, North Sea, and Mexico—as it progresses through the fourth quarter of 2011. At an October 5 conference, the company reiterated that the outlook for all classes of rigs was improving. The company has all of its rigs that were active prior to the Macondo incident working in the Gulf of Mexico (GOM) on full operating rates. The Amos Runner was recently signed at \$360K/day, up from \$335K/day on the prior contract, for a year's work between two operators in the GOM. The Paul Romano (6K' EVA semisubmersible, Egypt) was reallocated out of the GOM on a new contract at \$325K/day for at least six months of work and likely extensions. Also, the Max Smith (7K' semisubmersible, Bay of Campeche) was awarded a \$380K/day contract. Noble also indicated on October 5 that the permitting process in the GOM is becoming better understood by the client base and that both the clients and the BOEMRE are working closely to make the process work better.

NE has made significant strides in renewing its fleet and is one of the best long-term value plays on tightening offshore drilling markets, in our view. On September 1, NE announced that it would exercise an option with Hyundai Heavy Industries for the construction of a fourth ultra-deepwater drillship ordered in 2011.

Figure 24. NE Stock Price vs. OSX Indexed to Closing Price Before 2Q11 Earnings Report



Source: Citi Investment Research and Analysis



## Diamond Offshore (Buy, Target Price \$75)

Figure 25. DO – 3Q11 Cheat Sheet

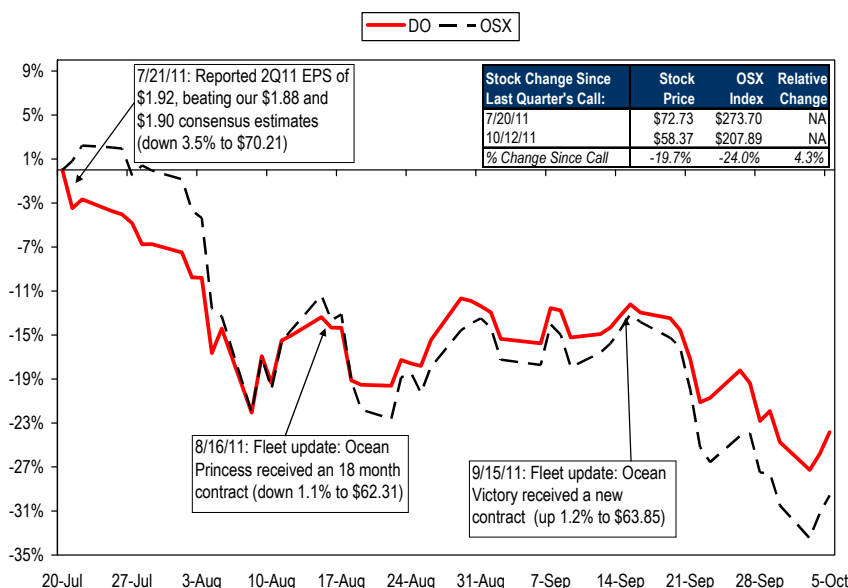
Quarter Estimates:	EPS	Revenue (\$MM)	EBITDA (\$MM)
Citi	\$1.57	\$830	\$407
Consensus	\$1.48	\$821	\$386
% Change vs. Street	6%	1%	5%
Earnings Revisions in Last Month:	Higher	Lower	Ave. Change
3Q11	5	3	\$0.00
Forward Estimates:	Citi EPS	Street EPS	% Gap
4Q11	\$1.19	\$1.10	8%
2011	\$6.47	\$6.33	2%
2012	\$5.55	\$4.97	12%
2013	\$6.50	\$5.32	22%
Stock Change Since Last Quarter's Call:	Stock Price	OSX Index	Relative Change
7/20/11	\$72.73	\$273.70	NA
10/12/11	\$58.37	\$207.89	NA
% Change Since Call	-19.7%	-24.0%	4.3%
Street EPS Change Since Last Quarter:	Quarter Ago	Current	% Change
3Q11	\$1.52	\$1.48	-3%
2011	\$6.55	\$6.33	-3%
2012	\$5.46	\$4.97	-9%
2013	\$5.69	\$5.32	-7%
EPS Surprises, Last Eight Quarters:	Street	Actual	% Gap
2Q11	\$1.90	\$1.92	1% Beat
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	10/20/11		
Call Time (EST)	10:00 AM		
Dial-in / Password	800-247-9979 /13267272		
Replay Dial-in	855-859-2056 /13267272		

Source: Thomson, Citi Investment Research and Analysis

Our 3Q11 EPS is higher than consensus (\$1.57 vs. \$1.48 consensus), and we also expect further better-than-consensus earnings reports over the next few quarters. After the company's September 15 fleet status report, we increased our EPS by \$0.07 to \$1.57 in 3Q11 and by \$0.07 to \$1.19 (vs. \$1.12 consensus) in 4Q11. DO was awarded a solid \$325K/day rate on the Ocean Victory and benefited from 1.5 months of added duration at \$620K/day on the Ocean Valiant. Downtime increased for contract prep on the Ocean Princess, and the 3% (32 days) incremental downtime in 2011 was modest relative to peers. Our estimates in 2012 (\$5.55 vs. \$4.97 consensus) and 2013 (\$6.50 vs. \$5.32 consensus) are also significantly better than peers. Downtime in 2011 increased from 988 to 1,020 days and remains lower than both the 1,200-1,300 days five-year average and 2,190 days in 2010. The Ocean Princess (1.5K' semi, North Sea) added 51 days due to extending its five-year survey from September to November to address opportunistic maintenance before the start of its 600-day term (+ options) with Enquest in January 2012. Downtime increased by a minimal five days to 329 days in 3Q11.

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 against the widely held view that the company is disadvantaged by its aging rig fleet. The company's deepwater newbuild program consists of a relatively modest three drillships (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.

Figure 26. DO Stock Price vs. OSX Indexed to Closing Price Before 2Q11 Earnings Report



Source: Citi Investment Research and Analysis

## Schlumberger Ltd. (Buy, Target Price \$88)

Figure 27. SLB – 3Q11 Cheat Sheet

Quarter Estimates:	EPS	Revenue (\$MM)	EBITDA (\$MM)
Citi	\$1.00	\$10,330	\$2,688
Consensus	\$1.02	\$10,292	\$2,758
% Change vs. Street	-2%	0%	-3%
Earnings Revisions in Last Month:			
	Higher	Lower	Ave. Change
3Q11	1	10	(\$0.04)
Forward Estimates:			
	Citi EPS	Street EPS	% Gap
4Q11	\$1.37	\$1.20	14%
2011	\$3.95	\$3.80	4%
2012	\$5.85	\$5.35	9%
2013	\$7.50	\$6.69	12%
Stock Change Since Last Quarter's Call:			
	Stock Price	OSX Index	Relative Change
7/21/11	\$90.96	\$275.94	NA
10/12/11	\$66.82	\$207.89	NA
% Change Since Call	-26.5%	-24.7%	-1.9%
Street EPS Change Since Last Quarter:			
	Quarter Ago	Current	% Change
3Q11	\$1.01	\$1.02	1%
2011	\$3.73	\$3.80	2%
2012	\$5.13	\$5.35	4%
2013	\$6.19	\$6.69	8%
EPS Surprises, Last Eight Quarters			
	Street	Actual	% Gap
2Q11	\$0.85	\$0.87	2% Beat
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	10/21/11		
Call Time (EST)	9:00 AM		
Dial-in / Password	800-230-1059		
Replay Dial-in	800-475-6701 /211522		

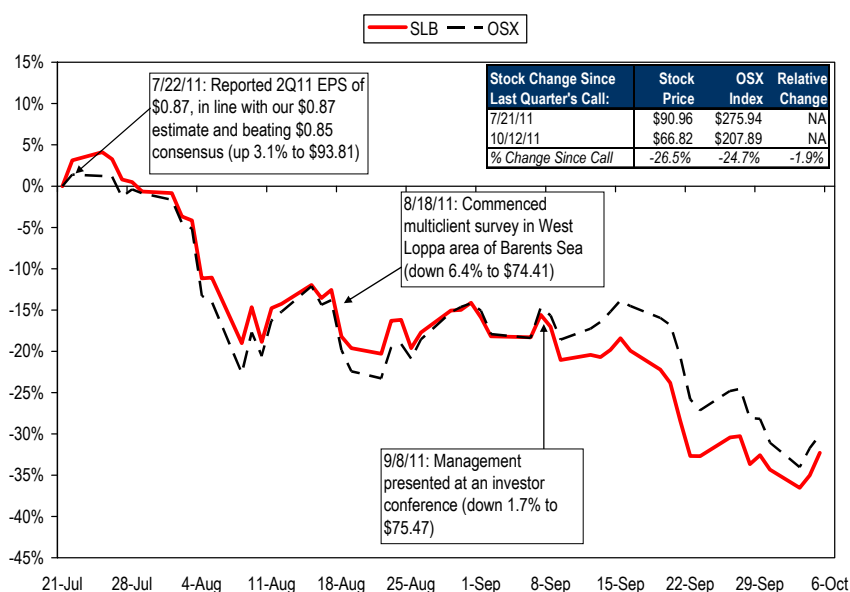
Source: Thomson, Citi Investment Research and Analysis

We have reduced our 3Q11 EPS estimate from \$1.10 to \$1.00 (vs. consensus of \$1.02), and our 2011 EPS estimate from \$4.05 to \$3.95 due to expectations of lower seismic margins and lower vessel utilization. We would buy the stock following its earnings report. Although market expectations of only limited international gains in 3Q11 could present a risk to SLB, we believe our 9% 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 appears to set an achievable bar for SLB as drilling and services remained undersupplied through the quarter. Similarly, N.A. margin improvement to 23% in 3Q11 from 21% in 2Q11, as we have modeled, seems achievable given the recently strong market conditions.

The company indicated at a recent conference that the fundamentals for oil and gas remain strong in spite of the uncertainties in short-term GDP growth. In that August 30 investor conference, SLB indicated that fundamentals in the industry remain positive providing an underlying trend of higher investments in exploration and production. We expect that the company may tilt to the cautious side relative to peers in discussing near-term impacts of the recent commodity price fluctuations, and we continue to believe the international message in particular will remain favorable. 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 210 bps q/q international margin improvement for SLB in 3Q11, and we consider this achievable.

Beyond 3Q11, we remain encouraged by the company's prospects due to a likely recovery underway in Libya and an ongoing ramp in Iraq. Although the loss of Libya has been 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 and is expected to continue progressing. Also, we believe new product introductions in 2011 (e.g., Power Drive Archer, Dielectric Scanner, HIWAY, etc.) will help SLB expand its market share.

Figure 28. SLB Stock Price vs. OSX Indexed to Closing Price Before 2Q11 Earnings Report



Source: Citi Investment Research and Analysis

## Weatherford Int'l (Buy, Target Price \$18)

Figure 29. WFT – 3Q11 Cheat Sheet

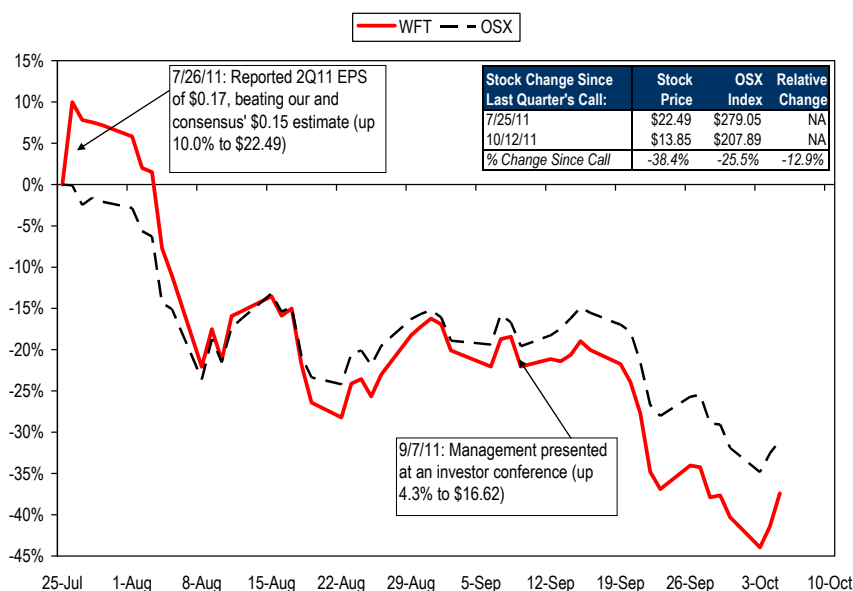
Quarter Estimates:	EPS	Revenue (\$MM)	EBITDA (\$MM)
Citi	\$0.25	\$3,373	\$691
Consensus	\$0.26	\$3,322	\$708
% Change vs. Street	-3%	2%	-2%
Earnings Revisions in Last Month:	Higher	Lower	Ave. Change
3Q11	2	3	(\$0.01)
Forward Estimates:	Citi EPS	Street EPS	% Gap
4Q11	\$0.37	\$0.35	5%
2011	\$0.89	\$0.88	1%
2012	\$1.95	\$1.60	22%
2013	\$2.85	\$2.16	32%
Stock Change Since Last Quarter's Call:	Stock Price	OSX Index	Relative Change
7/25/11	\$22.49	\$279.05	NA
10/12/11	\$13.85	\$207.89	NA
% Change Since Call	-38.4%	-25.5%	-12.9%
Street EPS Change Since Last Quarter:	Quarter Ago	Current	% Change
3Q11	\$0.25	\$0.26	4%
2011	\$0.83	\$0.88	6%
2012	\$1.51	\$1.60	6%
2013	\$2.05	\$2.16	5%
EPS Surprises, Last Eight Quarters	Street	Actual	% Gap
2Q11	\$0.15	\$0.17	13% Beat
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	10/25/11		
Call Time (EST)	8:00 AM		
Dial-in / Password	866-393-8572 /weatherford		
Replay Dial-in	855-859-2056 /88391429		

Source: Thomson, Citi Investment Research and Analysis

Our 3Q11 EPS estimate is slightly below the street estimate (\$0.25 vs. \$0.26 consensus) and within the range of guidance (\$0.24-\$0.26). Although WFT has been one of the worst-performing stocks since its 2Q earnings release (-38.4% absolute return, -12.9% relative return vs. the OSX), we would still refrain from buying ahead of 3Q earnings. For the quarter, the macroeconomic concerns and their impact on WFT's earnings will likely take precedence. WFT is somewhat advantaged by its heavy Canadian exposure in the face of the seasonal rebound. Beyond 3Q11, we believe the street's expectations are overly cautious. Our EPS estimates are 5% above consensus in 4Q11 (\$0.37 vs. \$0.35), 22% above in 2012 (\$1.95 vs. \$1.60), and 32% above in 2013 (\$2.85 vs. \$2.16). We are thus not as much concerned with the earnings risk on the quarter. Even if WFT posts a modest miss, investors are likely to ascribe greater importance to its long-term outlook than near-term results.

Despite the near-term 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. However, while we recommend buying WFT after the quarter, we believe its financial leverage and recent operational issues suggest that HAL and SLB are better vehicles at the moment. However, 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 2012. 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 30. WFT Stock Price vs. OSX Indexed to Closing Price Before 2Q11 Earnings Report



Source: Citi Investment Research and Analysis

Figure 31. NOV – 3Q11 Cheat Sheet

Quarter Estimates:	EPS	Revenue (\$MM)	EBITDA (\$MM)
Citi	\$1.14	\$3,653	\$854
Consensus	\$1.16	\$3,657	\$865
% Gap vs. Street	-2%	0%	-1%

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

Forward Estimates:	Citi EPS	Street EPS	% Gap
4Q11	\$1.22	\$1.19	3%
2011	\$4.50	\$4.47	1%
2012	\$5.70	\$5.71	0%
2013	\$6.90	\$6.55	5%

Stock Change Since Last Quarter's Call:	Stock Price	OSX Index	Relative Change
7/25/11	\$82.31	\$279.33	NA
10/12/11	\$62.74	\$207.89	NA
% Change Since Call	-23.8%	-25.6%	1.8%

Street EPS Change Since Last Quarter:	Quarter Ago	Current	% Change
3Q11	\$1.06	\$1.16	9%
2011	\$4.19	\$4.47	7%
2012	\$5.38	\$5.71	6%
2013	\$6.12	\$6.55	7%

EPS Surprises, Last Eight Quarters:	Street	Actual	% Gap
2Q11	\$1.01	\$1.14	13% Beat
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	10/25/11
Call Time (EST)	9:00 AM
Dial-in / Password	800-447-0521
Replay Dial-in	NOV website

Source: Thomson, Citi Investment Research and Analysis

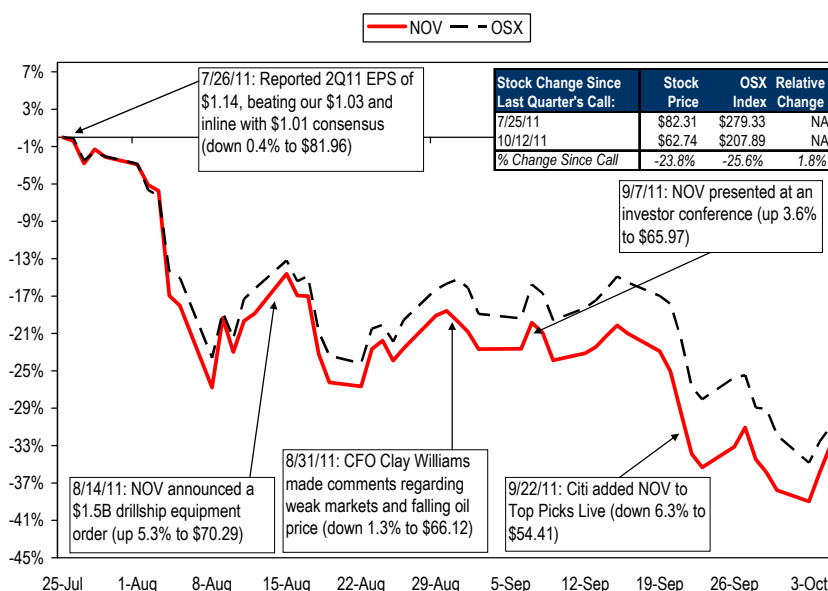
## National Oilwell Varco (Buy, Target Price \$85)

Although we expect that NOV will be slightly below consensus EPS expectations in 3Q11 (\$1.14 vs. \$1.16 consensus), we believe that capital equipment orders and backlog growth will be favorable. NOV's customers have recently signaled that the company is raising prices across its full range of rig technology products. We believe the price increases are consistent with NOV's competitive advantages and its notable market share gains in the new offshore rig ordering and construction cycle that began in late 2010.

We expect drilling contractors to start ordering rigs again in early 2012, as recent strength in deepwater rig rates has been tied to the strong pace of deepwater oil discoveries and the shortage of rigs available for 2011 and 2012 drilling programs. A flurry of deepwater rig orders in the first half of 2011 has tied up shipyard slots for deepwater rig construction through 2014. In addition, we believe that its shorter-cycle business (Petroleum Services & Supplies) 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 2013, our numbers may prove to be conservative.

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. In its recent orders, NOV was 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 180-190 offshore rig orders, which would equate to a potential \$18B sales opportunity over the next 10 years.

Figure 32. NOV Stock Price vs. OSX Indexed to Closing Price Before 2Q11 Earnings Report



Source: Citi Investment Research and Analysis

## Nabors Industries (Buy, Target Price \$18)

Figure 33. NBR – 3Q11 Cheat Sheet

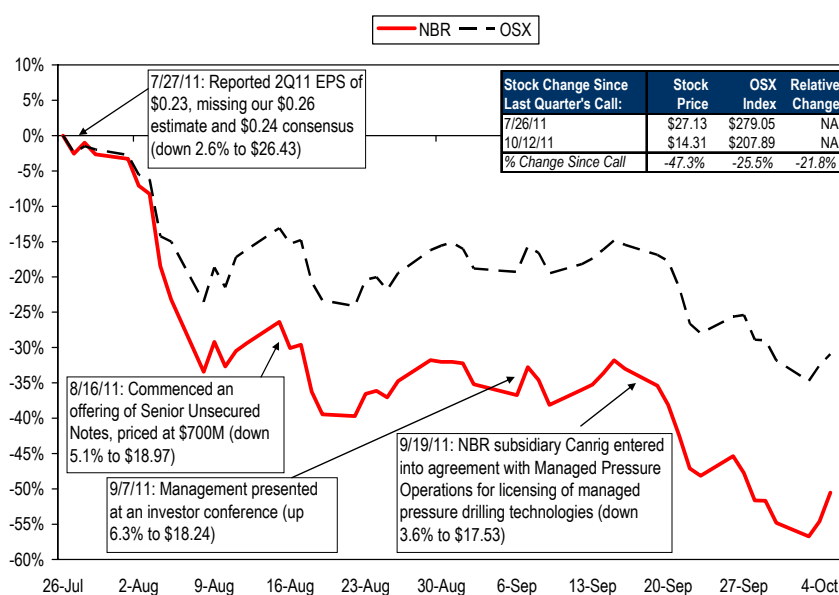
Quarter Estimates:	EPS	Revenue (\$MM)	EBITDA (\$MM)
Citi	\$0.43	\$1,478	\$463
Consensus	\$0.40	\$1,505	\$479
% Change vs. Street	6%	-2%	-3%
Earnings Revisions in Last Month:			
	Higher	Lower	Ave. Change
3Q11	1	2	(\$0.03)
Forward Estimates:			
	Citi EPS	Street EPS	% Gap
4Q11	\$0.60	\$0.54	11%
2011	\$1.55	\$1.47	5%
2012	\$2.60	\$2.46	6%
2013	\$3.30	\$2.94	12%
Stock Change Since Last Quarter's Call:			
	Stock Price	OSX Index	Relative Change
7/26/11	\$27.13	\$279.05	NA
10/12/11	\$14.31	\$207.89	NA
% Change Since Call	-47.3%	-25.5%	-21.8%
Street EPS Change Since Last Quarter:			
	Quarter Ago	Current	% Change
3Q11	\$0.40	\$0.40	0%
2011	\$1.50	\$1.47	-2%
2012	\$2.45	\$2.46	0%
2013	\$2.89	\$2.94	2%
EPS Surprises, Last Eight Quarters			
	Street	Actual	% Gap
2Q11	\$0.24	\$0.23	4% Miss
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	10/25/11		
Call Time (EST)	11:00 AM		
Dial-in / Password	877-941-1427	/4470394	
Replay Dial-in	877-871-5176	/4470394	

Source: Thomson, Citi Investment Research and Analysis

Our EPS estimates are above the street in 3Q11 (\$0.43 vs. \$0.40 consensus) and 4Q11 (\$0.60 vs. \$0.54 consensus). Despite our positive take on earnings, we are trading with some caution given that NBR has missed expectations over the past two quarters, and unforeseen short-term operational issues could arise. First, the equipment delays that have been cited as drivers of pressure pumping shortfalls in previous quarters could impact NBR more severely than peers given its relatively short time as an integrated company with its acquired Superior Well Services assets. Second, the company may see a resurfacing of start-up issues and delays in Saudi Arabia and other overseas locations that could depress margins near-term. However, the company's geographical business mix across U.S. land, international land, and offshore markets is likely to provide some diversification benefits going forward. We believe these benefits have been underappreciated in the stock, which has been one of the worst performers since its 2Q11 earnings report (-47.3% vs. the -25.5% OSX return). As a positive, we expect that the quarter will be a show of strength for its U.S. Lower 48 Land Drilling segment. Despite macroeconomic concerns, 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.

Despite the quarter's ambiguities, we recommend NBR long-term, anticipating continued demand for rigs and frac crews in North America. Also, we expect that NBR has more upside than peers as it has taken steps to address its pressure pumping equipment supply-chain issues affecting 2Q11 results. Big picture, we have not given up hope on an eventual NBR international recovery and consider such an outcome 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 2012 when we expect the NBR ship to be back on course.

Figure 34. NBR Stock Price vs. OSX Indexed to Closing Price Before 2Q11 Earnings Report



Source: Citi Investment Research and Analysis



## FMC Technologies (Buy, Target Price \$54)

Figure 35. FTI – 3Q11 Cheat Sheet

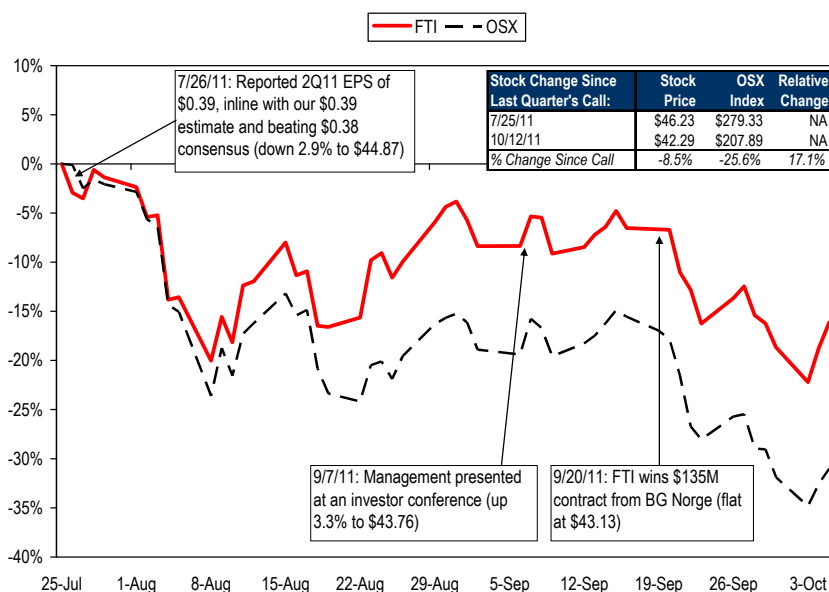
Quarter Estimates:	EPS	Revenue (\$MM)	EBITDA (\$MM)
Citi	\$0.46	\$1,291	\$192
Consensus	\$0.46	\$1,309	\$193
% Gap vs. Street	0%	-1%	-1%
Earnings Revisions in Last Month:	Higher	Lower	Ave. Change
3Q11	0	2	(\$0.01)
Forward Estimates:	Citi EPS	Street EPS	% Gap
4Q11	\$0.54	\$0.54	0%
2011	\$1.73	\$1.72	1%
2012	\$2.40	\$2.27	6%
2013	\$2.95	\$2.75	7%
Stock Change Since Last Quarter's Call:	Stock Price	OSX Index	Relative Change
7/25/11	\$46.23	\$279.33	NA
10/12/11	\$42.29	\$207.89	NA
% Change Since Call	-8.5%	-25.6%	17.1%
Street EPS Change Since Last Quarter:	Quarter Ago	Current	% Change
3Q11	\$0.46	\$0.46	0%
2011	\$1.69	\$1.72	2%
2012	\$2.14	\$2.27	6%
2013	\$2.57	\$2.75	7%
EPS Surprises, Last Eight Quarters:	Street	Actual	% Gap
2Q11	\$0.38	\$0.39	3% Beat
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	10/26/11		
Call Time (EST)	9:00 AM		
Dial-in / Password	866-394-0571 /87746813		
Replay Dial-in	855-859-2056 /87746813		

Source: Thomson, Citi Investment Research and Analysis

We are in line with consensus in 3Q11 on EPS (\$0.46 vs. \$0.46 consensus) and slightly lower on revenues (\$1.29B vs. \$1.31B consensus). Overall, we believe FTI may be more insulated from an earnings decline because the subsea production growth to which it is levered is a longer-term and secular trend. However, FTI has publicly announced only a single \$135M award in 3Q11 (BG Norge in the Knarr field of the Norwegian North Sea), and this pales in comparison to the announced orders of \$445M in 2Q11, \$420M 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 drop in announced order trend coupled with the more cautious Quest market forecast suggests some risk to its bookings near-term. Note that this risk is not likely to impact 3Q11 EPS but could instead result in tempered commentary on the earnings call. Our model forecasts \$1.10 billion subsea orders and \$1.69 billion total orders in 3Q11. We estimate \$4.08 billion subsea orders (in line with guidance) and \$6.28 billion total orders for full-year 2011.

We continue to like the stock as a long-term holding, and our thesis remains unchanged. 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 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. Our favorable view on the stock focuses on the long-term deepwater production growth that is expected to drive continued secular strength, making FTI an effective investment vehicle and a potential takeover candidate notwithstanding our near-term caution.

Figure 36. FTI Stock Price vs. OSX Indexed to Closing Price Before 2Q11 Earnings Report



Source: Citi Investment Research and Analysis

## Cameron Int'l (Neutral, Target Price \$46)

Figure 37. CAM - 3Q11 Cheat Sheet

Quarter Estimates:	EPS	Revenue (\$MM)	EBITDA (\$MM)
Citi	\$0.75	\$1,703	\$313
Consensus	\$0.74	\$1,811	\$306
% Gap vs. Street	1%	-6%	2%

Earnings Revisions in Last Month:	Higher	Lower	Ave. Change
3Q11	1	0	\$0.03

Forward Estimates:	Citi EPS	Street EPS	% Gap
4Q11	\$0.89	\$0.82	8%
2011	\$2.75	\$2.68	3%
2012	\$3.70	\$3.76	-2%
2013	\$4.70	\$4.43	6%

Stock Change Since Last Quarter's Call:	Stock Price	OSX Index	Relative Change
7/27/11	\$50.56	\$272.36	NA
10/12/11	\$47.76	\$207.89	NA
% Change Since Call	-5.5%	-23.7%	18.1%

Street EPS Change Since Last Quarter:	Quarter Ago	Current	% Change
3Q11	\$0.71	\$0.74	4%
2011	\$2.58	\$2.68	4%
2012	\$3.46	\$3.76	9%
2013	\$4.01	\$4.43	10%

EPS Surprises, Last Eight Quarters:	Street	Actual	% Gap
2Q11	\$0.64	\$0.66	3% Beat
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

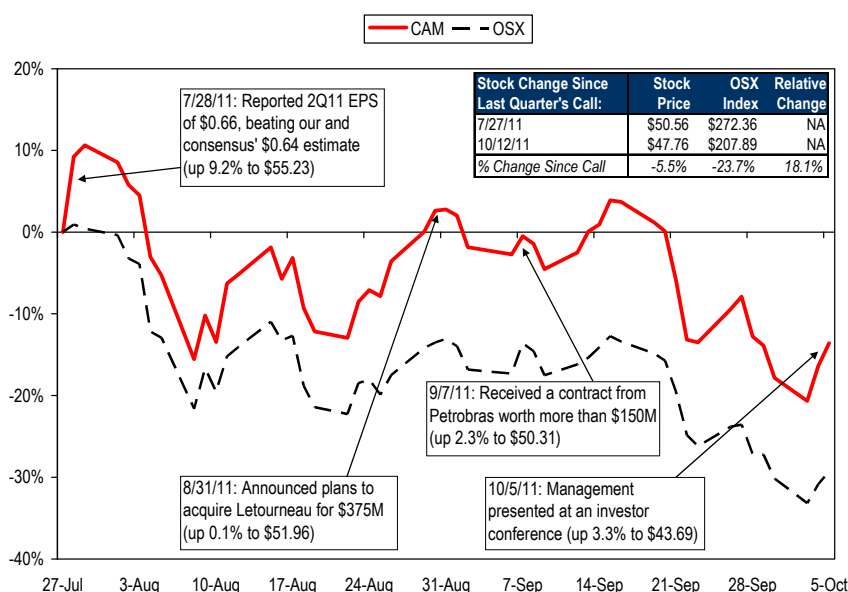
Conference Call Logistics:	
Call Date	10/27/11
Call Time (EST)	9:30 AM
Dial-in / Password	201-689-8261
Replay Dial-in	201-612-7415

Source: Thomson, Citi Investment Research and Analysis

We believe CAM will modestly beat 3Q11 EPS expectations (\$0.75 vs. \$0.74) and that the street is overly conservative as to growth next quarter, as our 4Q11 EPS of \$0.89 is 8% higher than the \$0.82 street expectation. However, we believe the earnings outlook will be under more pressure in 2012 as a result of expected weak orders in 2011. Our 2012 EPS estimate of \$3.70 is slightly below the \$3.76 consensus estimate. Since CAM last reported, third-party data providers have lowered their 2011 subsea tree order market forecasts, and we believe street estimates have yet to adjust to the consequentially tempered 2012 earnings growth expectations. While the potential delays in the subsea market is not new information, we believe the degree to which forecasts were reduced has not been reflected in street estimates. On September 9, 2011, Quest lowered its global subsea tree order forecast by 13.0% to 361 trees from 415 trees in 2011. Specifically all regions except the North Sea were lowered. First, large West African projects slated for late 2011 are getting pushed to early 2012. Second, North America remains depressed due to the drilling moratorium. Third, Brazil's third tranche of trees has become less urgent. Going forward, we anticipate delays and slack capacity available to meet newly awarded projects. Quest slightly raised its worldwide subsea tree forecast by 4.2% to 561 trees from 538 trees in 2012 due to higher-than-expected standard and sub-salt demand in Brazil. Longer-term, Quest lowered its worldwide order forecast by 0.2% to 2,713 trees from 2,718 trees over the 2011-2015 five-year timeframe. The largest change over the five-year period were reductions of the Africa/Mediterranean forecast by 5.1% to 679 trees from 715 trees previously due to issues in Nigeria.

Going forward, we expect to see delays and slack capacity available to meet newly awarded projects. As a result, we do not expect the company to raise its \$2.50-\$2.60 EPS guidance for 2011, as CAM has done in past years. Our CAM order forecast is for a 7% sequential decrease to \$2.22 billion in 2Q11. For full-year 2011, we continue to expect a 44% increase in orders to \$8.35 billion. For the subsea tree component of orders only, Quest forecast a 3.2% market decline from 373 trees in 2010 to 361 trees in 2011.

Figure 38. CAM Stock Price vs. OSX Indexed to Closing Price Before 2Q11 Earnings Report



Source: Citi Investment Research and Analysis

Figure 39. SPN – 3Q11 Cheat Sheet

Quarter Estimates:	EPS	Revenue (\$MM)	EBITDA (\$MM)
Citi	\$0.72	\$540	\$179
Consensus	\$0.69	\$546	\$173
% Change vs. Street	4%	-1%	4%
Earnings Revisions in Last Month:	Higher	Lower	Ave. Change
3Q11	1	0	\$0.04
Forward Estimates:	Citi EPS	Street EPS	% Gap
4Q11	\$0.71	\$0.69	3%
2011	\$2.15	\$2.09	3%
2012	\$3.35	\$3.09	8%
2013	\$4.50	\$3.97	13%
Stock Change Since Last Quarter's Call:	Stock Price	OSX Index	Relative Change
7/27/11	\$41.45	\$274.84	NA
10/12/11	\$23.52	\$207.89	NA
% Change Since Call	-43.3%	-24.4%	-18.9%
Street EPS Change Since Last Quarter:	Quarter Ago	Current	% Change
3Q11	\$0.60	\$0.69	15%
2011	\$1.84	\$2.09	14%
2012	\$2.87	\$3.09	8%
2013	\$3.47	\$3.97	14%
EPS Surprises, Last Eight Quarters	Street	Actual	% Gap
2Q11	\$0.41	\$0.53	29% Beat
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	10/27/11		
Call Time (EST)	11:00 AM		
Dial-in / Password	480-629-9770		
Replay Dial-in	303-590-3030 /4478563		

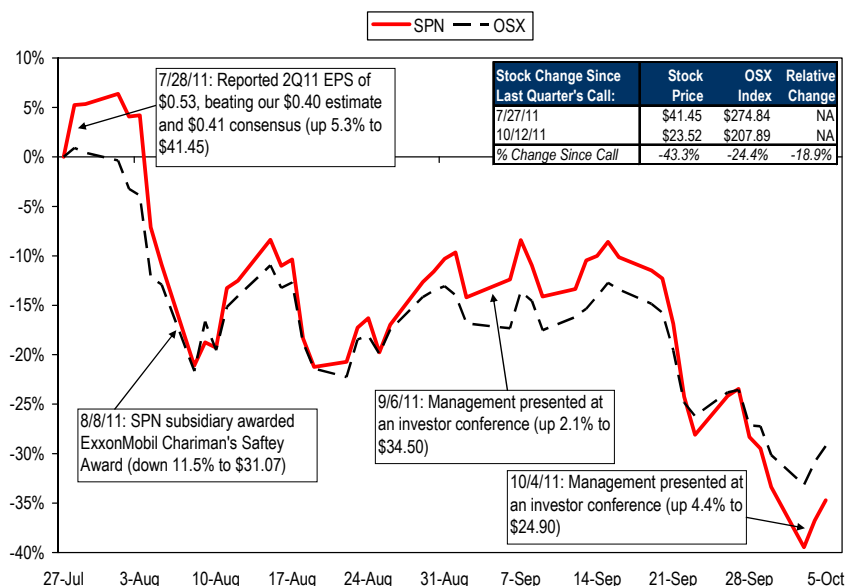
Source: Thomson, Citi Investment Research and Analysis

## Superior Energy Svcs (Buy, Target Price \$35)

We expect that SPN will have another strong quarter and outlook. Our 3Q11 EPS estimate is \$0.72 vs. \$0.69 consensus, and our 3Q11 EBITDA is \$179M vs. \$173M consensus. Management comments were positive about its current strategic positioning at an October 4 investor conference and at the October 10 Complete Production Services acquisition teleconference. The North American land market remains very busy. On October 4, the company said, "We're very busy in the North American land market right now. We've not heard any customers that are planning on pulling back any time soon. We were busy in September. We will be busy in October. I expect to be busy in November and December and January and February. I think if there's a risk of any kind of a slowdown in the U.S. market, it's probably second-half-of-the-year-weighted, but I don't have a reason to believe that's a big risk at this point -- not based on what our customers are telling us." SPN is particularly well positioned because some of the markets that it participates in, coiled tubing and premium drillpipe, have significant pent-up demand and can withstand a hypothetical pullback in overall drilling demand. U.S. coiled tubing supply has grown from 450 units in 2008 all working on intervention to 600 units working on completion, suggesting that there is a lot of room for capacity growth. Premium drillpipe has become undersupplied due to the changes in wellbore geometry predicated by the demands of horizontal drilling and longer laterals.

We also expect a solid outlook in the Gulf of Mexico as permitting continues to gradually return. The moratorium negatively impacted SPN by \$100M of annualized high-margin revenues primarily from rental tools, and we expect the company to continue to recover this lost revenue going forward. The company has already benefited from the return of deepwater drilling in the GOM in terms of its domestic completion tools business. SPN has reiterated its expectation that 15 incremental rigs will be drilling in the deepwater GOM by 2011 and has indicated that another four to six rigs will be drilling in 2012. SPN has also established a containment business on a global basis following the Macondo incident. SPN has been contracted to provision containment systems in the North Sea and is working on a similar arrangement with Petrobras as well as several operators that have plans to drill in Alaska.

Figure 40. SPN Stock Price vs. OSX Indexed to Closing Price Before 2Q11 Earnings Report



Source: Citi Investment Research and Analysis



## Baker Hughes (Neutral, Target Price \$51)

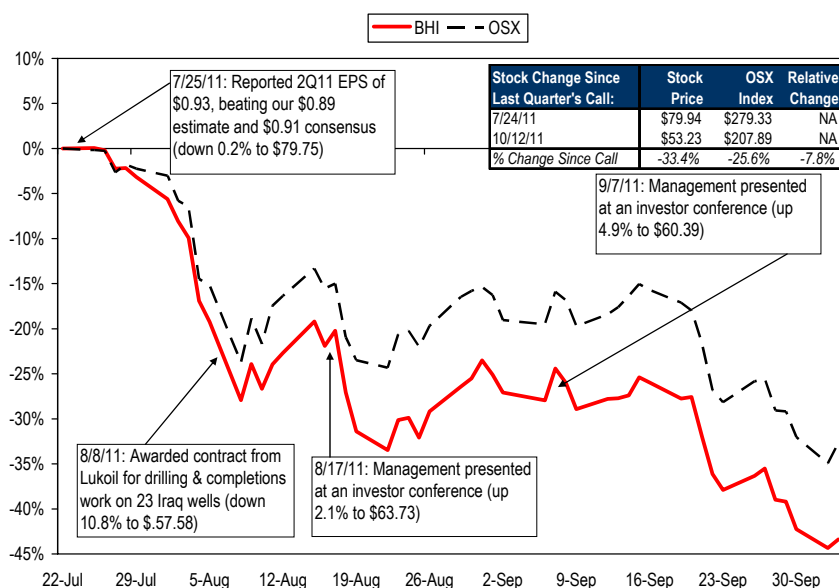
Figure 41. BHI – 3Q11 Cheat Sheet

Quarter Estimates:	EPS	Revenue (\$MM)	EBITDA (\$MM)
Citi	\$1.25	\$5,245	\$1,227
Consensus	\$1.21	\$5,167	\$1,218
% Change vs. Street	3%	2%	1%
Earnings Revisions in Last Month:			
	Higher	Lower	Ave. Change
3Q11	3	2	(\$0.01)
Forward Estimates:			
	Citi EPS	Street EPS	% Gap
4Q11	\$1.45	\$4.38	-67%
2011	\$4.50	\$4.36	3%
2012	\$6.40	\$5.84	10%
2013	\$7.70	\$6.89	12%
Stock Change Since Last Quarter's Call:			
	Stock Price	OSX Index	Relative Change
7/24/11	\$79.94	\$279.33	NA
10/12/11	\$53.23	\$207.89	NA
% Change Since Call	-33.4%	-25.6%	-7.8%
Street EPS Change Since Last Quarter:			
	Quarter Ago	Current	% Change
3Q11	\$1.12	\$1.21	8%
2Q11	\$4.18	\$4.36	4%
2012	\$5.52	\$5.84	6%
2013	\$6.57	\$6.89	5%
EPS Surprises, Last Eight Quarters			
	Street	Actual	% Gap
2Q11	\$0.91	\$0.93	2% Beat
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	11/1/11		
Call Time (EST)	8:30 AM		
Dial-in / Password	800-374-2469		
Replay Dial-in	855-859-2056 /11523813		

Source: Thomson, Citi Investment Research and Analysis

Despite our long-term Neutral (2) on BHI, we believe the company may surprise to the upside vs. our 3Q11 EPS estimate. Our EPS estimate is \$0.04 ahead of consensus (\$1.25 vs. \$1.21 consensus). Despite macroeconomic concerns, the North American rig count and service intensity trends have not declined, and we believe that the company should continue to perform as strongly this quarter 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 earlier in the year. As a near-term earnings benefit, the seasonal impact from Canada will help BHI, and we believe that the company will also benefit from favorable activity in U.S. unconventional basins. 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.

Figure 42. BHI Stock Price vs. OSX Indexed to Closing Price Before 2Q11 Earnings Report



Source: Citi Investment Research and Analysis

## Rowan Companies (Neutral, Target Price \$33)

Figure 43. RDC – 3Q11 Cheat Sheet

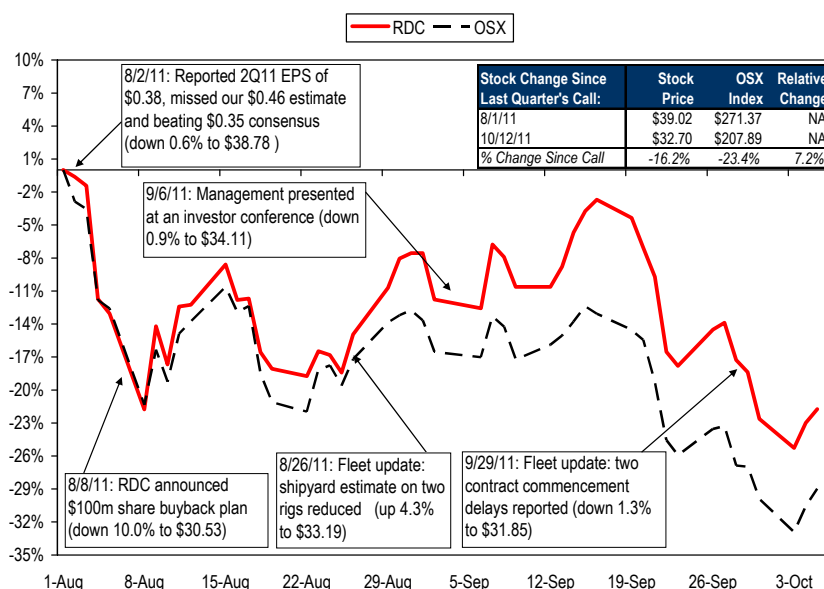
Quarter Estimates:	EPS	Revenue (\$MM)	EBITDA (\$MM)
Citi	\$0.33	\$237	\$96
Consensus	\$0.41	\$254	\$111
% Change vs. Street	-20%	-7%	-14%
Earnings Revisions in Last Month:	Higher	Lower	Ave. Change
3Q11	2	7	(\$0.06)
Forward Estimates:	Citi EPS	Street EPS	% Gap
4Q11	\$0.63	\$0.66	-5%
2011	\$1.58	\$1.71	-8%
2012	\$3.66	\$3.73	-2%
2013	\$4.01	\$3.95	2%
Stock Change Since Last Quarter's Call:	Stock Price	OSX Index	Relative Change
8/1/11	\$39.02	\$271.37	NA
10/12/11	\$32.70	\$207.89	NA
% Change Since Call	-16.2%	-23.4%	7.2%
Street EPS Change Since Last Quarter:	Quarter Ago	Current	% Change
3Q11	\$0.51	\$0.41	-20%
2011	\$1.86	\$1.71	-8%
2012	\$3.65	\$3.73	2%
2013	\$3.83	\$3.95	3%
EPS Surprises, Last Eight Quarters:	Street	Actual	% Gap
2Q11	\$0.35	\$0.38	9% Beat
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	11/1/11		
Call Time (EST)	11:00 AM		
Dial-in / Password	877-869-3847		
Replay Dial-in	N/A		

Source: Thomson, Citi Investment Research and Analysis

We believe RDC will report a 3Q11 EPS miss (\$0.33 vs. \$0.41 consensus). As a result of changes disclosed in the recent fleet status update, we have lowered our EPS estimates to \$0.33 from \$0.40 in 3Q11, to \$0.63 from \$0.82 in 4Q11, to \$1.58 from \$1.84 in 2011, to \$3.66 from \$3.70 in 2012, and to \$4.01 from \$4.00 in 2013. The Rowan Gorilla IV (200-C 450', Mexico) experienced a delayed rig move since mid-August due to a stuck bow leg, we are assuming 50% of the full dayrate in 3Q11. The Rowan Norway (N-Class 400', UKNS) had its contract commencement delayed from November 2011 to December 2011, which we calculate was a \$0.10/share hit to 4Q11 EPS. We also expect a higher penalty due to late commencement than we had initially assumed on the Rowan Mississippi (240-C, 375', Middle East).

Despite these near-term uncertainties and our neutral view of the stock, 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 high pressure/high temperature (HPHT) gas drilling over the coming years. Second, its recently completed land rig fleet sale as well as the divestiture of the LeTourneau manufacturing business makes the company a more digestible M&A target. Third, consensus estimates already appear overly cautious in 2012 and 2013, so upward revisions are likely due to the gradual acceptance of the high-spec jackup market's strength. We believe RDC has significant leverage to increasing rates in the jackup market due to its nearly 20 jackup rigs with capacity available by the end of 2012.

Figure 44. RDC Stock Price vs. OSX Indexed to Closing Price Before 2Q11 Earnings Report



Source: Citi Investment Research and Analysis

## Ensco plc (Neutral, Target Price \$44)

Figure 45. ESV – 3Q11 Cheat Sheet

Quarter Estimates:	EPS	Revenue (\$MM)	EBITDA (\$MM)
Citi	\$0.88	\$925	\$403
Consensus	\$0.88	\$930	\$407
% Change vs. Street	0%	-1%	-1%

Earnings Revisions in Last Month:	Higher	Lower	Ave. Change
3Q11	2	10	(\$0.04)

Forward Estimates:	Citi EPS	Street EPS	% Gap
4Q11	\$1.46	\$1.31	12%
2011	\$3.75	\$3.50	7%
2012	\$6.50	\$5.89	10%
2013	\$7.10	\$6.37	11%

Stock Change Since Last Quarter's Call:	Stock Price	OSX Index	Relative Change
8/8/11	\$40.42	\$213.39	NA
10/12/11	\$43.34	\$207.89	NA
% Change Since Call	7.2%	-2.6%	9.8%

Street EPS Change Since Last Quarter:	Quarter Ago	Current	% Change
3Q11	\$1.05	\$0.88	-16%
2011	\$3.68	\$3.50	-5%
2012	\$5.97	\$5.89	-1%
2013	\$6.49	\$6.37	-2%

EPS Surprises, Last Eight Quarters:	Street	Actual	% Gap
2Q11	\$0.67	\$0.71	6% Beat
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	11/3/11		
Call Time (EST)	11:00 AM		
Dial-in / Password	800-314-5962	/17448769	
Replay Dial-in	800-585-8367	/17448769	

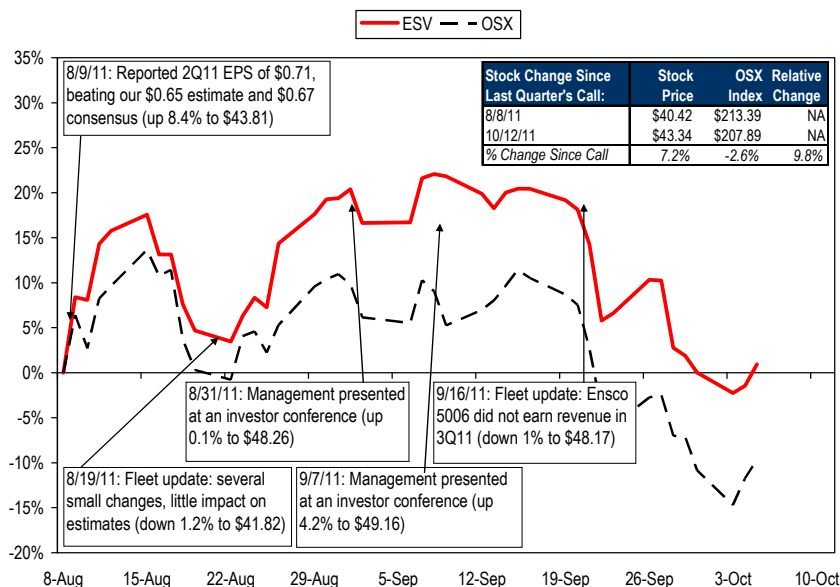
Source: Thomson, Citi Investment Research and Analysis

On September 19<sup>th</sup>, we reduced our 3Q11 EPS estimate to \$0.88 from \$0.93 (vs. \$0.88 consensus) and reduced our 4Q11 EPS estimate to \$1.46 from \$1.52 (vs. \$1.31 consensus) due to incremental downtime announced in its fleet status report. Notably, the company reported unplanned downtime on the ENSCO 5006 (7.5K' semisubmersible, Israel) such that it operated for all of 3Q11 at zero dayrate, although the company has been addressing the downtime issues with Noble Energy and expects the rig to return to the full rate of \$270K/day in late October 2011. In the jackup fleet, ESV received a new contract on the previously idle ENSCO 81 (116-C 350', GOM) at ~\$80K/day, which was in line with our expectation. The ENSCO 85 (116-C 300', Tunisia) received an extension for one month. The ENSCO 54 (300', UAE) received a rate increase to ~\$70K/day, vs. our forecasted rate of \$90K/day, over the timeframe from February 2012 to June 2012.

ESV announced on October 6 that it had ordered a newbuild jackup by Keppel FELS in Singapore, bringing its total newbuild count to seven, including three jackups, two drillships, and two semisubmersibles. The construction price was \$245M (\$260M including commissioning, systems integration testing, and project management). ESV will pay attractive terms: 20% on signing, 80% on delivery. The rig is due in 3Q14 and will use the same design as its previous newbuild jackups scheduled for delivery in 2013. At the same time, ESV declined to exercise an option for an additional jackup and has extended a drillship option to 4Q11.

Despite our neutral view of the stock, we have become more constructive on ESV following the Pride acquisition, which was completed on May 31. As with most other stocks in the sector, we believe investors will look past the 3Q11 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. Our full-year estimates are currently ahead of consensus by 10% at \$6.50 (vs. \$5.89) in 2012 and by 11% at \$7.10 (vs. \$6.37) in 2013.

Figure 46. ESV Stock Price vs. OSX Indexed to Closing Price Before 2Q11 Earnings Report



Source: Citi Investment Research and Analysis

## C&J Energy Services (Buy, Target Price \$25)

Figure 47. CJES – 3Q11 Cheat Sheet

Quarter Estimates:	EPS	Revenue (\$MM)	EBITDA (\$MM)
Citi	\$0.76	\$200	\$70
Consensus	\$0.79	\$209	\$72
% Change vs. Street	-4%	-4%	-4%
Earnings Revisions in Last Month:	Higher	Lower	Ave. Change
3Q11	N/A	N/A	N/A
Forward Estimates:	Citi EPS	Street EPS	% Gap
4Q11	\$0.80	\$0.84	-4%
2011	\$2.95	\$3.08	-4%
2012	\$3.90	\$4.09	-5%
2013	\$4.60	\$5.60	-18%
Stock Change Since IPO:	Stock Price	OSX Index	Relative Change
7/29/11	\$30.50	\$273.55	NA
10/12/11	\$16.95	\$207.89	NA
% Change Since IPO	-44.4%	-24.0%	N/A
Street EPS Change Since Last Quarter:	Quarter Ago	Current	% Change
3Q11	N/A	\$0.79	N/A
2011	N/A	\$3.08	N/A
2012	N/A	\$4.09	N/A
2013	N/A	\$5.60	N/A
EPS Surprises, Last Eight Quarters	Street	Actual	% Gap
2Q11	N/A	N/A	N/A
1Q11	N/A	N/A	N/A
4Q10	N/A	N/A	N/A
3Q10	N/A	N/A	N/A
2Q10	N/A	N/A	N/A
1Q10	N/A	N/A	N/A
4Q09	N/A	N/A	N/A
3Q09	N/A	N/A	N/A
2Q09	N/A	N/A	N/A
Conference Call Logistics:			
Call Date	TBD		
Call Time (EST)	TBD		
Dial-in / Password	TBD		
Replay Dial-in	TBD		

Source: Citi Investment Research and Analysis

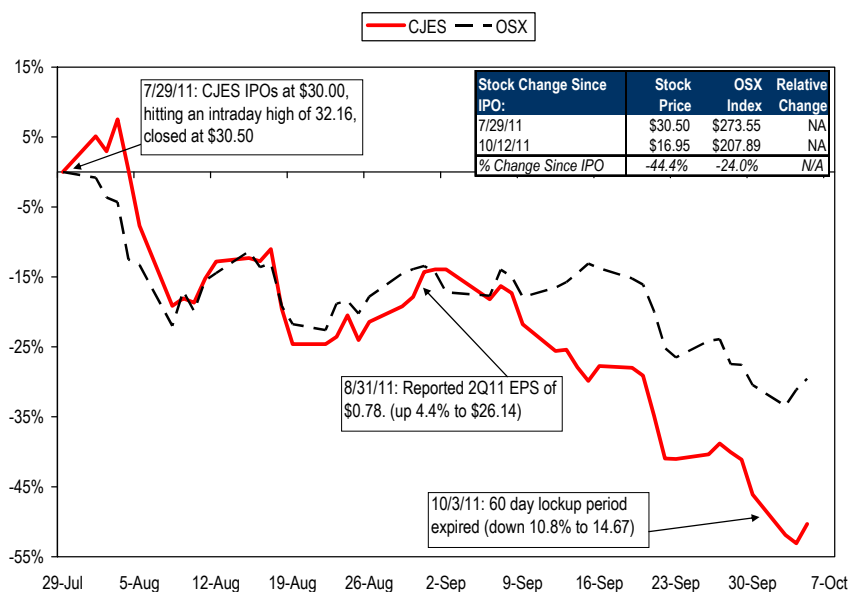
We expect CJES to report 3Q11 EPS slightly below consensus (\$0.76 vs. \$0.79 consensus). We also expect 3Q11 revenues to come in light (\$200 million vs. \$209 million consensus). Our EPS estimates are also below consensus estimates in 2011 (\$2.95 vs. \$3.08 consensus), 2012 (\$3.90 vs. \$4.09), and 2013 (\$4.60 vs. \$5.60). Therefore, we are not recommending buying in front of the quarter due to a potential near-term miss and downward estimate revisions in 2012 and 2013. However, we would use any weakness as a buying opportunity for three reasons.

First, on October 10, Superior Energy Services (SPN) made a stock-and-cash offer to acquire the assets of Complete Production Services (CPX) at a 29% premium to the average CPX share price over the two months preceding the deal announcement. We believe that the strategic logic supporting oil services consolidation remains compelling for small-cap North American companies. On 2011 EV/EBITDA, CJES trades relative to CPX at a discount of 23%, which reflects the SPN offer to acquire CPX on October 10.

Second, the 60-day lockup affecting 26.2 million shares (50.6% of total shares outstanding) expired 10 days ago. We believe that the selling pressure from the expiration of the lockup is now probably behind us. The shares that will be affected by the 180-day lockup are 12.0 million (23.1% of total shares outstanding).

Third, the company is achieving high utilization on its term contracts and strong rates in the spot market when it has availability. We believe that the recent stock selloff was tied to concerns about the sustainability of current high activity in the U.S. shale plays. We see no indications of slowing momentum in the shale plays.

Figure 48. CJES Stock Price vs. OSX Indexed to Closing Price on Date of IPO



Source: Citi Investment Research and Analysis

## Dresser-Rand Group (Buy, Target Price \$58)

Figure 49. DRC – 3Q11 Cheat Sheet

Quarter Estimates:	EPS	Revenue (\$MM)	EBITDA (\$MM)
Citi	\$0.41	\$605	\$84
Consensus	\$0.44	\$670	\$93
% Change vs. Street	-8%	-10%	-9%
Earnings Revisions in Last Month:			
	Higher	Lower	Ave. Change
3Q11	1	1	(\$0.18)
Forward Estimates:			
	Citi EPS	Street EPS	% Gap
4Q11	\$1.25	\$1.20	4%
2011	\$1.94	\$1.91	1%
2012	\$3.00	\$3.25	-8%
2013	\$4.05	\$4.07	0%
Stock Change Since Last Quarter's Call:			
	Stock Price	OSX Index	Relative Change
8/4/11	\$47.08	\$239.28	N/A
10/12/11	\$47.55	\$207.89	N/A
% Change Since Call	1.0%	-13.1%	14.1%
Street EPS Change Since Last Quarter:			
	Quarter Ago	Current	% Change
3Q11	\$0.69	\$0.44	-36%
2011	\$2.15	\$1.91	-11%
2012	\$3.35	\$3.25	-3%
2013	\$4.12	\$4.07	-1%
EPS Surprises, Last Eight Quarters:			
	Street	Actual	% Gap
2Q11	\$0.46	\$0.14	70% Miss
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	TBD		
Call Time (EST)	TBD		
Dial-in / Password	TBD		
Replay Dial-in	TBD		

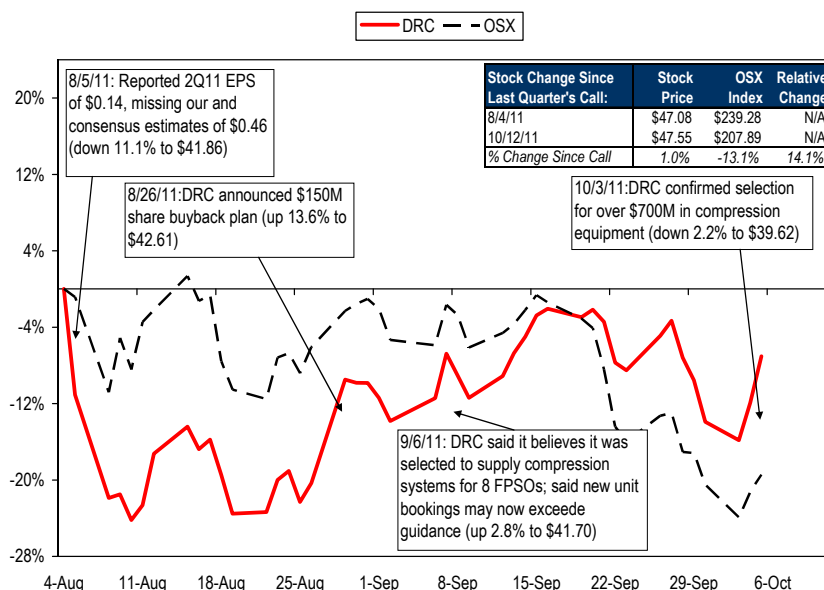
Source: Thomson, Citi Investment Research and Analysis

DRC always provides guidance for the year ahead on its third quarter conference call, so it should provide guidance for orders and operating income for 2012 when it reports 3Q11 earnings. This will be the principal focus of the call. Recently the company has seen an uptick in orders (new units and aftermarket) and we expect a positive assessment of orders and operating earnings potential in 2012.

We expect DRC to report 3Q11 EPS below the consensus estimate (\$0.41 vs. \$0.44 consensus) and would avoid DRC prior to the quarter. We continue to recommend DRC long-term and suggest buying the shares on weakness should its results disappoint. We estimate that new unit plus aftermarket orders will decline slightly to \$575 million in 3Q11 from \$604 million in 2Q11, which is roughly in line with the seasonal pace required for the company to achieve its \$2.5-\$2.9 billion order guidance for 2011 (aftermarket plus new unit orders).

We expect orders to increase to \$849 million in 4Q11 including the benefit of additional orders from Brazil. On October 3, DRC was awarded over \$700 million of compression equipment and aftermarket services by Petrobras. The \$400 million of equipment includes up to 80 DATUM compressor trains to be installed on eight FPSO vessels. Another \$300 million of aftermarket services is included in the Petrobras contract. The FPSOs will be built for the Brazil sub-salt, with six in the Lula field and two in the Guara field. Due to the Brazil orders of New Units, DRC is now guiding 2011 New Unit bookings to reach or exceed \$1.6 billion, which is the upper bracket of the previous \$1.4 billion-\$1.6 billion guidance range. This is a 33% increase from the \$1.21 billion of New Unit orders in 2010.

Figure 50. DRC Stock Price vs. OSX Indexed to Closing Price Before 2Q11 Earnings Report



Source: Citi Investment Research and Analysis



## Hercules Offshore (Neutral)

Figure 51. HERO – 3Q11 Cheat Sheet

Quarter Estimates:	EPS	Revenue (\$MM)	EBITDA (\$MM)
Citi	(\$0.09)	\$183	\$47
Consensus	(\$0.14)	\$172	\$37
% Change vs. Street	36%	7%	26%
Earnings Revisions in Last Month:			
	Higher	Lower	Ave. Change
3Q11	3	3	\$0.01
Forward Estimates:			
	Citi EPS	Street EPS	% Gap
4Q11	(\$0.15)	(\$0.18)	15%
2011	(\$0.47)	(\$0.55)	15%
2012	(\$0.12)	(\$0.42)	72%
2013	\$0.08	(\$0.37)	122%
Stock Change Since Last Quarter's Call:			
	Stock Price	OSX Index	Relative Change
7/27/11	\$4.36	\$272.36	NA
10/12/11	\$3.21	\$207.89	NA
% Change Since Call	-26.4%	-23.7%	-2.7%
Street EPS Change Since Last Quarter:			
	Quarter Ago	Current	% Change
3Q11	(\$0.11)	(\$0.14)	21%
2011	(\$0.56)	(\$0.55)	-2%
2012	(\$0.47)	(\$0.42)	-12%
2013	(\$0.36)	(\$0.37)	3%
EPS Surprises, Last Eight Quarters			
	Street	Actual	% Gap
2Q11	(\$0.16)	(\$0.11)	31% Beat
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	TBD		
Call Time (EST)	TBD		
Dial-in / Password	TBD		
Replay Dial-in	TBD		

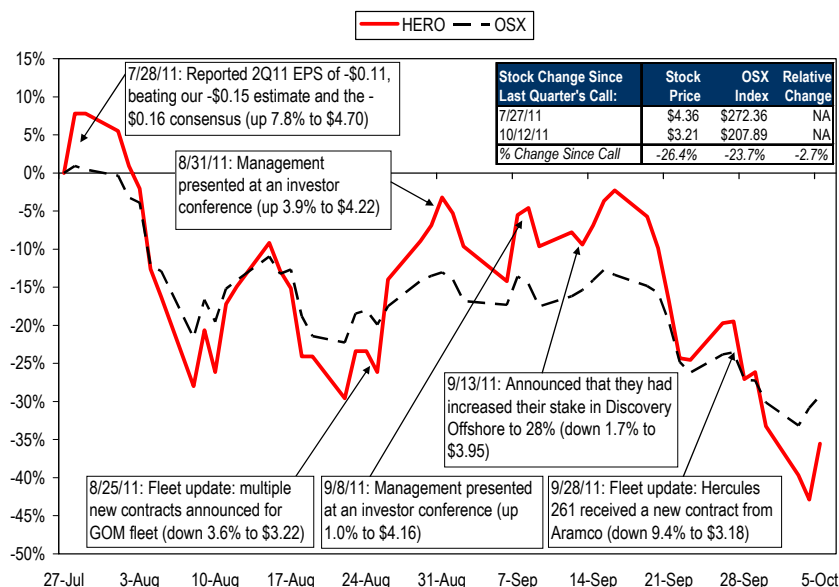
Source: Thomson, Citi Investment Research and Analysis

Our revised 3Q11 EPS estimate of a \$0.09 per share loss relative to a consensus \$0.14 per share loss suggests that the street may be lagging in updating models to reflect an improved market during this quarter. Based on the September 28 fleet status report, we revised our 3Q11 EPS estimate from (\$0.10) to (\$0.09), our 2011 EPS estimate from (\$0.48) to (\$0.47) and have raised our 2013 EPS estimate from \$0.06 to \$0.08. In that report, HERO was awarded a better-than-expected contract on the Hercules 261 (250'-ILC jackup, Saudi Arabia) for three years at a rate of \$84K/day, higher than our forecast of \$71K/day but lower than the previous rate of \$137K/day. Slightly offsetting this, the Hercules 185 (150'-ILC, Angola) will require repairs for six months.

Following the August 26 fleet status report, we raised our estimates significantly to reflect strong additions to the HERO backlog and higher-than-expected rates for its Gulf of Mexico jackups. In our opinion, this fleet status update provided evidence that the jackup picture has been brightening for HERO due to the improving drilling dynamics in the GOM and the ongoing exodus of supply to other regions. The newly contracted jackups in the GOM priced above our expectations. The dayrates suggest that 200'-MC jackup leading-edge rates have increased from the mid-to-high-30's to the low-to-mid-40's, and we have increased our forecasted rates on these rigs to \$45K/day. Leading-edge rates for a 250'-MC jackup appear to have increased from the low-40's to the high-50's/low-60's, and we have raised our forecasted rate to \$58K/day for these units. The total backlog increased from 1,094 days to 1,516 days (up 422 days, or 39% vs. the previous month). The average backlog per marketed rig increased from 52 days to 84 days (+32 days per rig).

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 our EPS estimates for those years.

Figure 52. HERO Stock Price vs. OSX Indexed to Closing Price Before 2Q11 Earnings Report



Source: Citi Investment Research and Analysis

## Helmerich & Payne (Buy, Target Price \$60)

Figure 53. HP – FY4Q11 Cheat Sheet

Quarter Estimates:	EPS	Revenue (\$MM)	EBITDA (\$MM)
Citi	\$0.98	\$683	\$263
Consensus	\$1.04	\$674	\$271
% Change vs. Street	-6%	1%	-3%

Earnings Revisions in Last Month:	Higher	Lower	Ave. Change
FY4Q11	2	0	\$0.04

Forward Estimates:	Citi EPS	Street EPS	% Gap
FY1Q12	\$1.11	\$1.12	-1%
FY2011	\$3.85	\$3.92	-2%
FY2012	\$4.85	\$4.76	2%
FY2013	\$5.75	\$5.54	4%

Stock Change Since Last Quarter's Call:	Stock Price	OSX Index	Relative Change
7/28/11	\$69.05	\$273.55	NA
10/12/11	\$45.59	\$207.89	NA
% Change Since Call	-34.0%	-24.0%	-10.0%

Street EPS Change Since Last Quarter:	Quarter Ago	Current	% Change
FY4Q11	\$1.04	\$1.04	0%
FY2011	\$3.92	\$3.92	0%
FY2012	\$4.63	\$4.76	3%
FY2013	\$5.25	\$5.54	6%

EPS Surprises, Last Eight Quarters	Street	Actual	% Gap
FY3Q11	\$0.98	\$1.00	2% Beat
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	TBD
Call Time (EST)	TBD
Dial-in / Password	TBD
Replay Dial-in	TBD

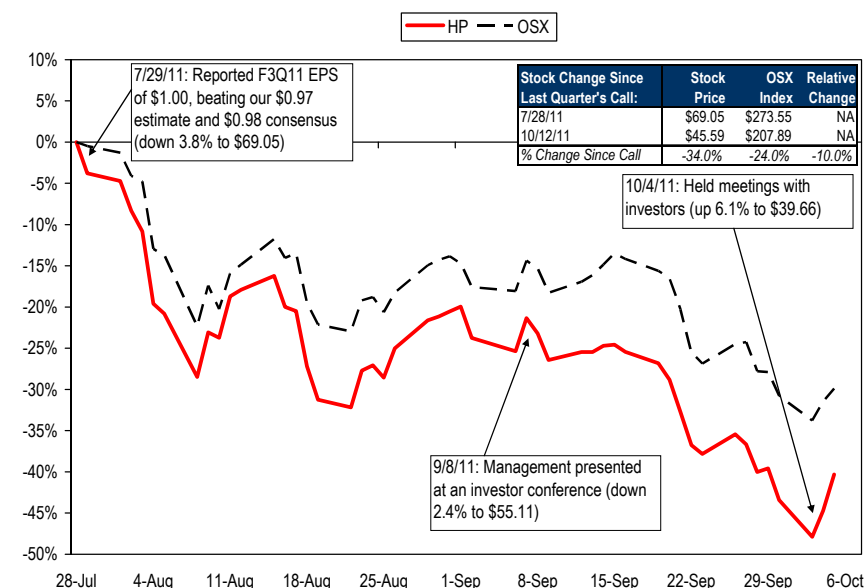
Source: Thomson, Citi Investment Research and Analysis

Our 3Q11 EPS is below expectations (\$0.98 vs. \$1.04 consensus). Although we believe that the consensus revenue estimate may be conservative based on recent management comments regarding ongoing strength in premium rig demand in the U.S. Land segment, there is a modest risk is that HP could face cost pressures similar to those disclosed by PTEN in its October 12 pre-announcement. However, we also believe the current quarter will show continued growth in revenues despite the concerns recently manifested in the HP stock price. The U.S. rig count is up 130 rigs to 2,012 as of October 7 from 1,882 when HP reported its FY3Q11 earnings in late July. 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 revenues falling short of our expectations this quarter.

Based on recent management comments, HP continues to have a positive outlook. At an October 3 presentation, the company reiterated that U.S. land drilling rig counts and spot pricing remain strong. U.S. Land activity continues to expand as new FlexRigs commence operations, and customer conversations remain encouraging regarding additional newbuild contracts. The company had 224 active rigs as of September 30 (vs. our estimate of an average of 217 rigs in the quarter), which is an increase from the 209 average rigs in the quarter ending on June 30. The 224 active rigs consisted of 149 rigs on term (vs. our estimate of an average of 143 rigs) and 75 rigs on the spot market (vs. our estimate of an average of 74 rigs).

Like other land drillers, its shares have fallen significantly in 3Q11, although HP is one of the higher quality stocks to own due to its strong balance sheet and defensive characteristics. HP has a large percentage of rigs on term contracts and a track record of enforcing those contracts. Also, HP has more than 75% of its U.S. rigs contracted to majors and large operators relative to ~50% of the industry's rigs as a whole. We believe the company will continue to find demand sufficient to absorb its new rigs in North America and in certain international markets.

Figure 54. HP Stock Price vs. OSX Indexed to Closing Price Before FY3Q11 Earnings Report



Source: Citi Investment Research and Analysis

## Patterson-UTI Energy (Buy, Target Price \$24)

Figure 55. PTEN – 3Q11 Cheat Sheet

Quarter Estimates:	EPS	Revenue (\$MM)	EBITDA (\$MM)
Citi	\$0.54	\$674	\$247
Consensus	\$0.63	\$669	\$266
% Change vs. Street	-14%	1%	-7%
Earnings Revisions in Last Month:			
	Higher	Lower	Ave. Change
3Q11	0	0	N/A
Forward Estimates:			
	Citi EPS	Street EPS	% Gap
4Q11	\$0.69	\$0.70	-2%
2011	\$2.22	\$2.30	-4%
2012	\$3.10	\$3.04	2%
2013	\$3.60	\$3.35	7%
Stock Change Since Last Quarter's Call:			
	Stock Price	OSX Index	Relative Change
7/27/11	\$32.38	\$272.36	NA
10/12/11	\$18.84	\$207.89	NA
% Change Since Call	-41.8%	-23.7%	-18.1%
Street EPS Change Since Last Quarter:			
	Quarter Ago	Current	% Change
3Q11	\$0.58	\$0.63	9%
2011	\$2.17	\$2.30	6%
2012	\$2.81	\$3.04	8%
2013	\$3.02	\$3.35	11%
EPS Surprises, Last Eight Quarters			
	Street	Actual	% Gap
2Q11	\$0.49	\$0.52	6% Beat
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	TBD		
Call Time (EST)	TBD		
Dial-in / Password	TBD		
Replay Dial-in	TBD		

Source: Thomson, Citi Investment Research and Analysis

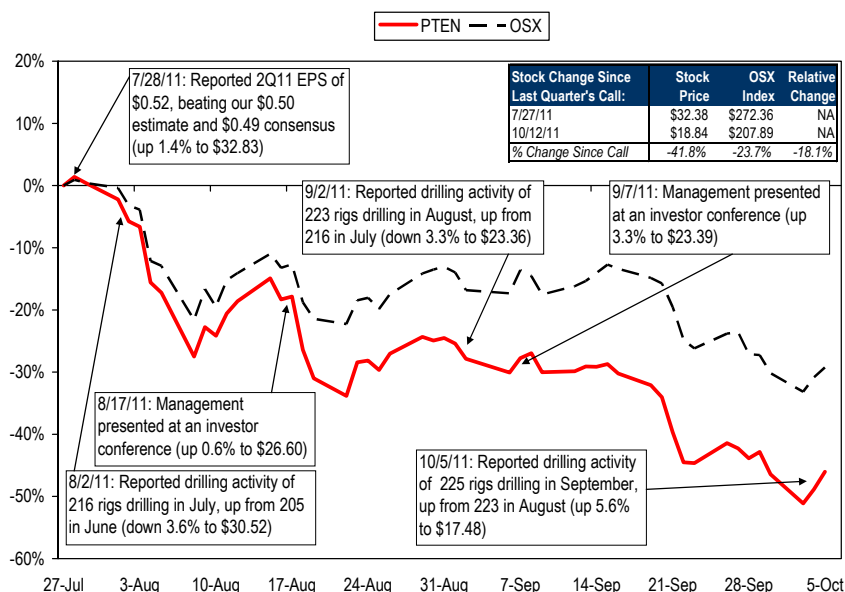
On October 12, PTEN pre-announced 3Q11 earnings coming in "similar to" the 2Q11 reported EPS of \$0.52 (vs. consensus of \$0.63 and our previous estimate of \$0.63). The earnings shortfall was attributed to higher operating costs and non-cash expenses, including DD&A and impairments. Cost drivers for both drilling and pressure pumping included higher activity levels, cost inflation, "unusually high" R&M expenses on the conventional fleet, and higher wages and training costs in certain markets. Pressure pumping margins were also negatively impacted by weather delays in Appalachia. We have reduced our margin assumptions in both segments, lowering 3Q11 EPS to \$0.54 from \$0.63, and 2011 EPS estimates to \$2.22 from \$2.30.

Drilling and completion activity remained robust, as revenues came in slightly higher than expected at \$674M (vs. our \$672M and \$669M consensus). Drilling revenues increased q/q by ~\$50M to ~\$436M (vs. our \$434M estimate), and pressure pumping revenues grew q/q by ~\$25M to ~\$225M (vs. our \$227M estimate) in 3Q11. The company is retiring 22 mechanical rigs, and the costs incurred in the quarter are inclusive of the financial impacts of these retirements.

Land drilling rig counts for PTEN appear to be tracking with our expectations of an average of 220 rigs in 3Q11 based on its monthly activity reports. Despite the macro economic concerns, the company appears to have continued to expand its working rig count, benefiting from the Canadian rebound, with its North American rig count trending higher from 202 rigs in 2Q11 to an average of approximately 221 rigs operating in 3Q11 (216 in July, 223 in August, and 225 in September).

Given the sources of margin pressure and strong demand, the profit warning suggest more growing pains associated with refurbishing the conventional fleet as rigs are readied to operate at higher levels of efficiency in the field. We would not consider this announcement a cause of concern, although margins are likely to face additional pressures as cold-stacked or otherwise idle rigs are reactivated.

Figure 56. PTEN Stock Price vs. OSX Indexed to Closing Price Before 2Q11 Earnings Report



Source: Citi Investment Research and Analysis



## Transocean Ltd. (Buy, Target Price \$72)

Figure 57. RIG – 3Q11 Cheat Sheet

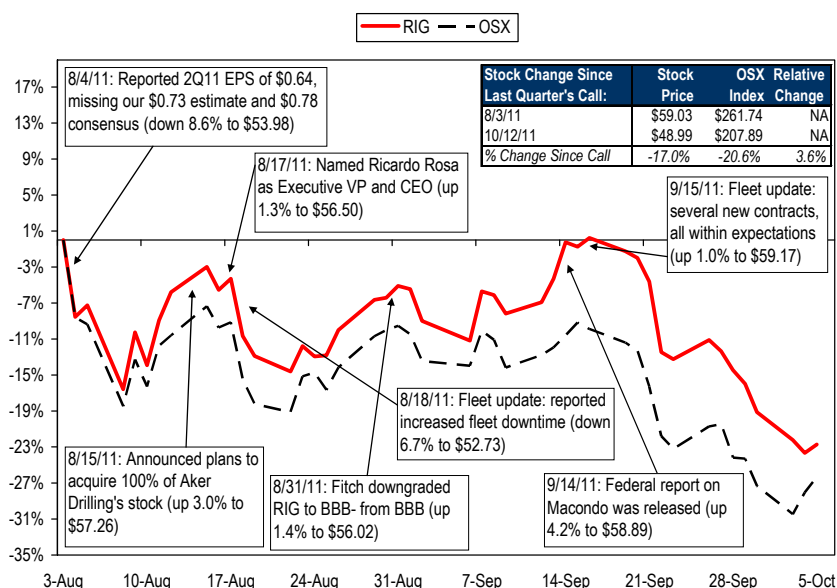
Quarter Estimates:	EPS	Revenue (\$MM)	EBITDA (\$MM)
Citi	\$0.78	\$2,365	\$860
Consensus	\$0.80	\$2,359	\$863
% Change vs. Street	-2%	0%	0%
Earnings Revisions in Last Month:			
	Higher	Lower	Ave. Change
3Q11	5	5	(\$0.06)
Forward Estimates:			
	Citi EPS	Street EPS	% Gap
4Q11	\$1.20	\$1.34	-10%
2011	\$3.22	\$3.39	-5%
2012	\$6.02	\$5.73	5%
2013	\$6.40	\$5.78	11%
Stock Change Since Last Quarter's Call:			
	Stock Price	OSX Index	Relative Change
8/3/11	\$59.03	\$261.74	NA
10/12/11	\$48.99	\$207.89	NA
% Change Since Call	-17.0%	-20.6%	3.6%
Street EPS Change Since Last Quarter:			
	Quarter Ago	Current	% Change
3Q11	\$1.00	\$0.80	-20%
2Q11	\$4.01	\$3.39	-15%
2012	\$6.18	\$5.73	-7%
2013	\$6.56	\$5.78	-12%
EPS Surprises, Last Eight Quarters:			
	Street	Actual	% Gap
2Q11	\$0.78	\$0.64	18% Miss
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	TBD		
Call Time (EST)	TBD		
Dial-in / Password	TBD		
Replay Dial-in	TBD		

Source: Thomson, Citi Investment Research and Analysis

Our 3Q11 EPS estimate suggests that RIG will miss for the fourth consecutive quarter (\$0.78 vs. \$0.80 consensus). We lowered our 3Q11 EPS estimate by \$0.11 more than six weeks ago following increased rig downtime reported in the company's August 18 fleet status report. The significant additions to out-of-service rig time may still pose a downside risk to earnings for 3Q11 and 4Q11. The company added 498 days of out-of-service time in 2H11, with downtime increasing from 858 to 1,133 days (+275 days or 32%) in 3Q11 and from 333 to 556 days (+223 days or 67%) in 4Q11. Further, most of the incremental downtime was attributed to the high-margin fleet (+108 days for ultradeepwater and 324 days for deepwater/midwater vs. 66 days for jackups). We could see a repeat of the 1Q11 and 2Q11 earnings reports in which EPS estimates failed to incorporate a sufficient level of out-of-service rig time and its associated costs.

Despite our near-term concerns about the third quarter, we remain confident in our long-term positive view on the stock. We believe that out-of-service time should stabilize in 2012. The longer-than-expected shipyard stays have been due to the challenges of getting BOP-related upgrades and repairs completed in a timely manner, for which RIG relies on third-party vendors. Some of the downtime was due to contract preparations on the M.G. Hulme, Jr. (5K' semi, India) and GSF Key Hawaii (300', Vietnam). These costs were incurred by RIG because customers are not paying such expenses in today's market. We expect RIG to give a positive outlook for the ultra-deepwater rig market on its third quarter conference call. The company may also announce some new contracts with Petrobras, which is conducting a tender for multiple new deepwater rigs that are needed to develop its pre-salt oil reserves.

Figure 58. RIG Stock Price vs. OSX Indexed to Closing Price Before 2Q11 Earnings Report



Source: Citi Investment Research and Analysis

## Appendix: Trading Comparables

Figure 59. Oilfield Equipment Services – Comparable Companies Analysis

Company	Citi	Price	10/12/2011		% Ch	% Ch	% Below	P/E			EV/EBITDA			Debt/	Net Debt/
	Rating	Target	MCap \$B	Price	YTD	LTM	Peak	2011E	2012E	2013E	2011E	2012E	2013E	EBITDA	EBITDA
Diversified Services:															
Schlumberger	1	\$88.00	\$90.8	\$67.31	-19%	7%	-30%	17.0 x	11.5 x	9.0 x	9.0 x	6.6 x	5.4 x	1.3 x	0.6 x
Halliburton	1	46.00	32.3	35.07	-14%	1%	-39%	10.1 x	7.0 x	5.7 x	9.7 x	4.0 x	3.3 x	0.9 x	0.5 x
Baker Hughes	2	51.00	23.3	53.48	-6%	20%	-34%	11.9 x	8.4 x	6.9 x	5.7 x	4.4 x	3.8 x	1.4 x	1.0 x
Weatherford	1	18.00	10.4	13.95	-39%	-22%	-50%	15.7 x	7.2 x	4.9 x	6.6 x	4.5 x	3.5 x	4.0 x	3.9 x
Average Diversified Services					-20%	1%	-38%	13.7 x	8.5 x	6.6 x	7.7 x	4.9 x	4.0 x	1.9 x	1.5 x
Oilfield Equipment:															
National Oilwell Varco	1	\$85.00	\$26.6	\$62.85	-7%	34%	-28%	14.0 x	11.0 x	9.1 x	7.1 x	5.7 x	4.8 x	0.2 x	(1.0)x
Cameron	2	46.00	11.6	47.48	-6%	10%	-25%	17.2 x	12.8 x	10.1 x	10.1 x	7.8 x	6.3 x	1.9 x	(0.1)x
FMC Technologies	1	54.00	10.2	42.43	-5%	18%	-16%	24.5 x	17.7 x	14.4 x	14.3 x	10.4 x	8.6 x	0.7 x	0.1 x
Dresser-Rand	1	58.00	3.7	46.49	9%	22%	-18%	24.0 x	15.5 x	11.5 x	12.9 x	9.0 x	7.1 x	3.2 x	2.8 x
Lufkin Industries	1	65.00	1.5	49.29	-21%	3%	-49%	20.8 x	12.3 x	9.0 x	10.4 x	6.6 x	4.9 x	0.0 x	(0.7)x
Average Oilfield Equipment					-6%	17%	-27%	20.1 x	13.9 x	10.8 x	11.0 x	7.9 x	6.4 x	1.2 x	0.2 x
Offshore Drillers:															
Transocean	1	\$72.00	\$15.7	\$49.05	-29%	-24%	-43%	15.3 x	8.1 x	7.7 x	7.0 x	5.1 x	4.9 x	2.7 x	1.9 x
Ensco plc	2	44.00	10.4	44.92	-16%	-3%	-26%	12.0 x	6.9 x	6.3 x	11.0 x	6.0 x	5.6 x	3.8 x	3.3 x
Diamond Offshore	1	75.00	8.1	58.53	-12%	-16%	-28%	9.0 x	10.6 x	9.0 x	5.3 x	5.7 x	5.0 x	0.8 x	0.3 x
Noble Corp.	1	42.00	7.7	30.57	-15%	-12%	-35%	20.6 x	7.5 x	7.0 x	9.2 x	5.1 x	4.8 x	1.8 x	2.3 x
Rowan Companies	2	33.00	4.2	33.01	-5%	4%	-26%	20.9 x	9.0 x	8.2 x	10.9 x	6.1 x	5.5 x	2.7 x	1.1 x
Hercules Offshore	2	N/A	0.4	3.21	-8%	26%	-54%	NM	NM	38.6 x	7.3 x	4.7 x	3.9 x	4.8 x	4.1 x
Average Offshore Drillers					-14%	-7%	-31%	15.3 x	8.1 x	7.9 x	8.2 x	5.4 x	5.0 x	2.7 x	2.1 x
Land Drillers:															
Helmerich & Payne	1	\$60.00	\$5.0	\$46.53	-4%	10%	-37%	12.1 x	9.6 x	8.1 x	5.1 x	4.1 x	3.5 x	0.5 x	0.1 x
Nabors Industries	1	18.00	4.2	14.65	-38%	-22%	-55%	9.5 x	5.6 x	4.4 x	4.4 x	3.5 x	3.1 x	2.9 x	2.5 x
Patterson-UTI	1	24.00	2.9	18.84	-13%	6%	-45%	8.5 x	6.1 x	5.2 x	3.3 x	2.5 x	2.2 x	0.8 x	0.6 x
Average Land Drillers					-18%	-2%	-45%	10.0 x	7.1 x	5.9 x	4.3 x	3.4 x	2.9 x	1.4 x	1.1 x
Other Services:															
Superior Energy	1	\$35.00	\$1.9	\$24.09	-31%	-10%	-44%	11.2 x	7.2 x	5.4 x	4.5 x	3.4 x	2.8 x	2.8 x	1.9 x
C&J Energy Services	1	25.00	0.9	17.87	NM	NM	-46%	6.1 x	4.6 x	3.9 x	3.5 x	2.6 x	2.2 x	1.3 x	0.0 x
Average Other Services					-31%	-10%	-45%	8.6 x	5.9 x	4.6 x	4.0 x	3.0 x	2.5 x	2.0 x	0.9 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

## Appendix A-1

### Analyst Certification

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

### IMPORTANT DISCLOSURES

A director of Citi serves on the board of Nabors Industries.

Citigroup Global Markets Inc. or its affiliates beneficially owns 1% or more of any class of common equity securities of C&J Energy Services Inc., Hercules Offshore Inc, Schlumberger Ltd, Weatherford International Inc. This position reflects information available as of the prior business day.

Within the past 12 months, Citigroup Global Markets Inc. or its affiliates has acted as manager or co-manager of an offering of securities of Baker Hughes Inc, Cameron International Corporation, C&J Energy Services Inc., Diamond Offshore Drilling Inc, Ensco plc, Nabors Industries, Noble Corp, Schlumberger Ltd.

Citigroup Global Markets Inc. or its affiliates has received compensation for investment banking services provided within the past 12 months from Baker Hughes Inc, Cameron International Corporation, C&J Energy Services Inc., Diamond Offshore Drilling Inc, Dresser-Rand Group, Ensco plc, FMC Technologies, Halliburton Co, Nabors Industries, Noble Corp, Rowan Companies Inc, Transocean Ltd., Schlumberger Ltd.

Citigroup Global Markets Inc. or its affiliates expects to receive or intends to seek, within the next three months, compensation for investment banking services from Cameron International Corporation, Diamond Offshore Drilling Inc, Dresser-Rand Group, Ensco plc, Weatherford International Inc.

Citigroup Global Markets Inc. or an affiliate received compensation for products and services other than investment banking services from Baker Hughes Inc, Cameron International Corporation, C&J Energy Services Inc., Diamond Offshore Drilling Inc, Dresser-Rand Group, Ensco plc, FMC Technologies, Halliburton Co, Hercules Offshore Inc, Helmerich & Payne, Lufkin Industries, Inc., Nabors Industries, Noble Corp, National Oilwell Varco Inc, Rowan Companies Inc, Transocean Ltd., Schlumberger Ltd, Superior Energy Services Inc., Weatherford International Inc in the past 12 months.

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following as investment banking client(s): Ensco plc, C&J Energy Services Inc., Baker Hughes Inc, Cameron International Corporation, Diamond Offshore Drilling Inc, Dresser-Rand Group, FMC Technologies, Halliburton Co, Nabors Industries, Noble Corp, Rowan Companies Inc, Transocean Ltd., Schlumberger Ltd, Weatherford International Inc.

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following as clients, and the services provided were non-investment-banking, securities-related: Baker Hughes Inc, Cameron International Corporation, Diamond Offshore Drilling Inc, Dresser-Rand Group, Ensco plc, FMC Technologies, Halliburton Co, Hercules Offshore Inc, Helmerich & Payne, Nabors Industries, Noble Corp, National Oilwell Varco Inc, Rowan Companies Inc, Transocean Ltd., Schlumberger Ltd, Superior Energy Services Inc., Weatherford International Inc.

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following as clients, and the services provided were non-investment-banking, non-securities-related: Baker Hughes Inc, Cameron International Corporation, C&J Energy Services Inc., Diamond Offshore Drilling Inc, Dresser-Rand Group, Ensco plc, FMC Technologies, Halliburton Co, Hercules Offshore Inc, Helmerich & Payne, Lufkin Industries, Inc., Nabors Industries, Noble Corp, National Oilwell Varco Inc, Rowan Companies Inc, Transocean Ltd., Schlumberger Ltd, Superior Energy Services Inc., Weatherford International Inc.

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

The Firm is a market maker in the publicly traded equity securities of Hercules Offshore Inc, Lufkin Industries, Inc., Patterson-UTI Energy.

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

### Citi Investment Research & Analysis Ratings Distribution

Data current as of 9 Oct 2011

	12 Month Rating			Relative Rating		
	Buy	Hold	Sell	Buy	Hold	Sell
Citi Investment Research & Analysis Global Fundamental Coverage	59%	34%	7%	10%	79%	10%
% of companies in each rating category that are investment banking clients	45%	42%	37%	50%	43%	46%

### Guide to Citi Investment Research & Analysis (CIRA) Fundamental Research Investment Ratings:

CIRA's stock recommendations include an investment rating and an optional risk rating to highlight high risk stocks.

**Risk rating** takes into account both price volatility and fundamental criteria. Stocks will either have no risk rating or a High risk rating assigned.

**Investment Ratings:** CIRA's investment ratings are Buy, Neutral and Sell. Our ratings are a function of analyst expectations of expected total return ("ETR") and risk. ETR is the sum of the forecast price appreciation (or depreciation) plus the dividend yield for a stock within the next 12 months. The Investment rating definitions are: Buy (1) ETR of 15% or more or 25% or more for High risk stocks; and Sell (3) for negative ETR. Any covered stock not assigned a Buy or a Sell is a Neutral (2). For stocks rated Neutral (2), if an analyst believes that there are insufficient valuation drivers and/or investment catalysts to derive a

positive or negative investment view, they may elect with the approval of CIRA management not to assign a target price and, thus, not derive an ETR. Analysts may place covered stocks "Under Review" in response to exceptional circumstances (e.g. lack of information critical to the analyst's thesis) affecting the company and / or trading in the company's securities (e.g. trading suspension). As soon as practically possible, the analyst will publish a note re-establishing a rating and investment thesis. To satisfy regulatory requirements, we correspond Under Review and Neutral to Hold in our ratings distribution table for our 12-month fundamental rating system. However, we reiterate that we do not consider Under Review to be a recommendation.

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

---

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

---

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

---

#### **NON-US RESEARCH ANALYST DISCLOSURES**

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

Citigroup Global Markets Inc

Robin Shoemaker; Mark Brown; Garrett Gough

---

#### **OTHER DISCLOSURES**

Citigroup Global Markets Inc. and/or its affiliates has a significant financial interest in relation to Baker Hughes Inc, Cameron International Corporation, Enscopl, Halliburton Co, Noble Corp, National Oilwell Varco Inc, Rowan Companies Inc, Transocean Ltd., Schlumberger Ltd, Weatherford International Inc. (For an explanation of the determination of significant financial interest, please refer to the policy for managing conflicts of interest which can be found at [www.citigroupgeo.com](http://www.citigroupgeo.com).)

---

Citigroup Global Markets Inc. or its affiliates beneficially owns 2% or more of any class of common equity securities of C&J Energy Services Inc., Weatherford International Inc.

---

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

---

Securities recommended, offered, or sold by the Firm: (i) are not insured by the Federal Deposit Insurance Corporation; (ii) are not deposits or other obligations of any insured depository institution (including Citibank); and (iii) are subject to investment risks, including the possible loss of the principal amount invested. Although information has been obtained from and is based upon sources that the Firm believes to be reliable, we do not guarantee its accuracy and it may be incomplete and condensed. Note, however, that the Firm has taken all reasonable steps to determine the accuracy and completeness of the disclosures made in the Important Disclosures section of the Product. The Firm's research department has received assistance from the subject company(ies) referred to in this Product including, but not limited to, discussions with management of the subject company(ies). Firm policy prohibits research analysts from sending draft research to subject companies. However, it should be presumed that the author of the Product has had discussions with the subject company to ensure factual accuracy prior to publication. All opinions, projections and estimates constitute the judgment of the author as of the date of the Product and these, plus any other information contained in the Product, are subject to change without notice. Prices and availability of financial instruments also are subject to change without notice. Notwithstanding other departments within the Firm advising the companies



discussed in this Product, information obtained in such role is not used in the preparation of the Product. Although Citi Investment Research & Analysis (CIRA) does not set a predetermined frequency for publication, if the Product is a fundamental research report, it is the intention of CIRA to provide research coverage of the/those issuer(s) mentioned therein, including in response to news affecting this issuer, subject to applicable quiet periods and capacity constraints. The Product is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security. Any decision to purchase securities mentioned in the Product must take into account existing public information on such security or any registered prospectus.

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

**Important Disclosures for Morgan Stanley Smith Barney LLC Customers:** Morgan Stanley & Co. LLC (Morgan Stanley) research reports may be available about the companies that are the subject of this Citi Investment Research & Analysis (CIRA) research report. Ask your Financial Advisor or use smithbarney.com to view any available Morgan Stanley research reports in addition to CIRA research reports.

Important disclosure regarding the relationship between the companies that are the subject of this CIRA research report and Morgan Stanley Smith Barney LLC and its affiliates are available at the Morgan Stanley Smith Barney disclosure website at [www.morganstanleysmithbarney.com/researchdisclosures](http://www.morganstanleysmithbarney.com/researchdisclosures). For Morgan Stanley and Citigroup Global Markets, Inc. specific disclosures, you may refer to [www.morganstanley.com/researchdisclosures](http://www.morganstanley.com/researchdisclosures) and [https://www.citigroupgeo.com/geopublic/Disclosures/index\\_a.html](https://www.citigroupgeo.com/geopublic/Disclosures/index_a.html).

This CIRA research report has been reviewed and approved on behalf of Morgan Stanley Smith Barney LLC. This review and approval was conducted by the same person who reviewed this research report on behalf of CIRA. This could create a conflict of interest.

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

**Malaysia** by Citigroup Global Markets Malaysia Sdn Bhd, which is regulated by Malaysia Securities Commission. Menara Citibank, 165 Jalan Ampang, Kuala Lumpur, 50450. The Product is made available in **Mexico** by Acciones y Valores Banamex, S.A. De C. V., Casa de Bolsa, Integrante del Grupo Financiero Banamex ("Accival") which is a wholly owned subsidiary of Citigroup Inc. and is regulated by Comision Nacional Bancaria y de Valores. Reforma 398, Col. Juarez, 06600 Mexico, D.F. In **New Zealand** the Product is made available to 'wholesale clients' only as defined by s5C(1) of the Financial Advisers Act 2008 ("FAA") through Citigroup Global Markets Australia Pty Ltd (ABN 64 003 114 832 and AFSL No. 240992), an overseas financial adviser as defined by the FAA, participant of the ASX Group and regulated by the Australian Securities & Investments Commission. Citigroup Centre, 2 Park Street, Sydney, NSW 2000. The Product is made available in **Pakistan** by Citibank N.A. Pakistan branch, which is regulated by the State Bank of Pakistan and Securities Exchange Commission, Pakistan. AWT Plaza, 1.1. Chundrigar Road, P.O. Box 4889, Karachi-74200. The Product is made available in the **Philippines** through Citicorp Financial Services and Insurance Brokerage Philippines, Inc., which is regulated by the Philippines Securities and Exchange Commission. 20th Floor Citibank Square Bldg. The Product is made available in **Poland** by Dom Maklerski Banku Handlowego SA an indirect subsidiary of Citigroup Inc., which is regulated by Komisja Nadzoru Finansowego. Dom Maklerski Banku Handlowego S.A. ul.Senatorska 16, 00-923 Warszawa. The Product is made available in the **Russian Federation** through ZAO Citibank, which is licensed to carry out banking activities in the Russian Federation in accordance with the general banking license issued by the Central Bank of the Russian Federation and brokerage activities in accordance with the license issued by the Federal Service for Financial Markets. Neither the Product nor any information contained in the Product shall be considered as advertising the securities mentioned in this report within the territory of the Russian Federation or outside the Russian Federation. The Product does not constitute an appraisal within the meaning of the Federal Law of the Russian Federation of 29 July 1998 No. 135-FZ (as amended) On Appraisal Activities in the Russian Federation. 8-10 Gasheka Street, 125047 Moscow. The Product is made available in **Singapore** through Citigroup Global Markets Singapore Pte. Ltd. ("CGMSPL"), a capital markets services license holder, and regulated by Monetary Authority of Singapore. Please contact CGMSPL at 1 Temasek Avenue, #39-02 Millenia Tower, Singapore 039192, in respect of any matters arising from, or in connection with, the analysis of this document. This report is intended for recipients who are accredited, expert and institutional investors as defined under the Securities and Futures Act (Cap. 289). The Product is made available by The Citigroup Private Bank in Singapore through Citibank, N.A., Singapore Branch, a licensed bank in Singapore that is regulated by Monetary Authority of Singapore. Please contact your Private Banker in Citibank N.A., Singapore Branch if you have any queries on or any matters arising from or in connection with this document. This report is intended for recipients who are accredited, expert and institutional investors as defined under the Securities and Futures Act (Cap. 289). This report is distributed in Singapore by Citibank Singapore Ltd ("CSL") to selected Citigold/Citigold Private Clients. CSL provides no independent research or analysis of the substance or in preparation of this report. Please contact your Citigold/Citigold Private Client Relationship Manager in CSL if you have any queries on or any matters arising from or in connection with this report. This report is intended for recipients who are accredited investors as defined under the Securities and Futures Act (Cap. 289). Citigroup Global Markets (Pty) Ltd. is incorporated in the **Republic of South Africa** (company registration number 2000/025866/07) and its registered office is at 145 West Street, Sandton, 2196, Saxonwold. Citigroup Global Markets (Pty) Ltd. is regulated by JSE Securities Exchange South Africa, South African Reserve Bank and the Financial Services Board. The investments and services contained herein are not available to private customers in South Africa. The Product is made available in **Spain** by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. 29 Jose Ortega Y Gassef, 4th Floor, Madrid, 28006, Spain. The Product is made available in the **Republic of China** through Citigroup Global Markets Taiwan Securities Company Ltd. ("CGMTS"), 14 and 15F, No. 1, Songzhi Road, Taipei 110, Taiwan and/or through Citibank Securities (Taiwan) Company Limited ("CSTL"), 14 and 15F, No. 1, Songzhi Road, Taipei 110, Taiwan, subject to the respective license scope of each entity and the applicable laws and regulations in the Republic of China. CGMTS and CSTL are both regulated by the Securities and Futures Bureau of the Financial Supervisory Commission of Taiwan, the Republic of China. No portion of the Product may be reproduced or quoted in the Republic of China by the press or any third parties [without the written authorization of CGMTS and CSTL]. If the Product covers securities which are not allowed to be offered or traded in the Republic of China, neither the Product nor any information contained in the Product shall be considered as advertising the securities or making recommendation of the securities in the Republic of China. The Product is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security or financial products. Any decision to purchase securities or financial products mentioned in the Product must take into account existing public information on such security or the financial products or any registered prospectus. The Product is made available in **Thailand** through Citicorp Securities (Thailand) Ltd., which is regulated by the Securities and Exchange Commission of Thailand. 18/F, 22/F and 29/F, 82 North Sathorn Road, Silom, Bangrak, Bangkok 10500, Thailand. The Product is made available in **Turkey** through Citibank AS which is regulated by Capital Markets Board. Tekfen Tower, Eski Buyukdere Caddesi # 209 Kat 2B, 23294 Levent, Istanbul, Turkey. In the **U.A.E.**, these materials (the "Materials") are communicated by Citigroup Global Markets Limited, DIFC branch ("CGML"), an entity registered in the Dubai International Financial Center ("DIFC") and licensed and regulated by the Dubai Financial Services Authority ("DFSA") to Professional Clients and Market Counterparties only and should not be relied upon or distributed to Retail Clients. A distribution of the different CIRA ratings distribution, in percentage terms for Investments in each sector covered is made available on request. Financial products and/or services to which the Materials relate will only be made available to Professional Clients and Market Counterparties. The Product is made available in **United Kingdom** by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. This material may relate to investments or services of a person outside of the UK or to other matters which are not regulated by the FSA and further details as to where this may be the case are available upon request in respect of this material. Citigroup Centre, Canada Square, Canary Wharf, London, E14 5LB. The Product is made available in **United States** by Citigroup Global Markets Inc, which is a member of FINRA and registered with the US Securities and Exchange Commission. 388 Greenwich Street, New York, NY 10013. Unless specified to the contrary, within EU Member States, the Product is made available by Citigroup Global Markets Limited, which is regulated by Financial Services Authority.

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

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

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

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

Subject to the nature and contents of the Product, the investments described therein are subject to fluctuations in price and/or value and investors may get

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

---

© 2011 Citigroup Global Markets Inc. Citi Investment Research & Analysis is a division of Citigroup Global Markets Inc. Citi and Citi with Arc Design are trademarks and service marks of Citigroup Inc. and its affiliates and are used and registered throughout the world. All rights reserved. Any unauthorized use, duplication, redistribution or disclosure of this report (the "Product"), including, but not limited to, redistribution of the Product by electronic mail, posting of the Product on a website or page, and/or providing to a third party a link to the Product, is prohibited by law and will result in prosecution. The information contained in the Product is intended solely for the recipient and may not be further distributed by the recipient to any third party. Where included in this report, MSCI sourced information is the exclusive property of Morgan Stanley Capital International Inc. (MSCI). Without prior written permission of MSCI, this information and any other MSCI intellectual property may not be reproduced, redisseminated or used to create any financial products, including any indices. This information is provided on an "as is" basis. The user assumes the entire risk of any use made of this information. MSCI, its affiliates and any third party involved in, or related to, computing or compiling the information hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of this information. Without limiting any of the foregoing, in no event shall MSCI, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind. MSCI, Morgan Stanley Capital International and the MSCI indexes are services marks of MSCI and its affiliates. The Firm accepts no liability whatsoever for the actions of third parties. The Product may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the Product refers to website material of the Firm, the Firm has not reviewed the linked site. Equally, except to the extent to which the Product refers to website material of the Firm, the Firm takes no responsibility for, and makes no representations or warranties whatsoever as to, the data and information contained therein. Such address or hyperlink (including addresses or hyperlinks to website material of the Firm) is provided solely for your convenience and information and the content of the linked site does not in anyway form part of this document. Accessing such website or following such link through the Product or the website of the Firm shall be at your own risk and the Firm shall have no liability arising out of, or in connection with, any such referenced website.

---

ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST

---