

## Equities

2 February 2011 | 14 pages

# Ensco plc (ESV)

## With ENSCO 7500 Contract ESV Enters Brazil Market

- Company Update
- Target Price Change
- Estimate Change

- **New Contract on ENSCO 7500** — ESV announced that Petrobras has contracted the ENSCO 7500 for work in Brazil starting in 3Q11. As a result, ESV will book a \$26M demobilization fee from Chevron in 4Q10 rather than 1Q11.
- **Adjusting EPS Estimates** — We have raised our 4Q10 EPS estimate to \$0.69 from \$0.54 and have lowered our 2011 EPS estimate to \$3.32 from \$3.59. The change in estimates partially resulted from the shift forward in the recognition of the Chevron demob fee by one quarter compared to our previous model. The extended shipyard time on the 7500 in 2011 prior to the rig's move to Brazil in 3Q11 also negatively impacted our 2011 EPS estimate.
- **Contract Opens Door to Further Petrobras Work** — This contract may open the door to further work for Petrobras in terms of both the possible 950-day extension on the 7500 at the end of its 950-day term and potential contracts on the three uncommitted 8500-series semisubmersibles under construction in Singapore. The new builds are available in 3Q11, 1H12, and 2H12, respectively. ESV had not won a drilling contract in Brazil until now and the win is an important milestone.
- **Day Rate in Line with our Expectation** — We had assumed a \$340K/day rate, which is in line with the contracted amount of \$320k/day plus the \$16M mob fee amortized at \$20K/day over the contract's life. The \$320k day rate does not include a potential 5% performance bonus and a water depth premium. We have modeled daily cash costs of \$125K, which is typical for offshore Brazil. The 7500 is scheduled to commence in 3Q11 and is having its shipyard time extended to mid-2011 from Feb. 2010 to complete enhancements required by Petrobras.
- **Reiterate Hold-High Risk Rating on ESV** — Our Hold rating on ESV is based on long-term jack-up market concerns. We prefer the more deepwater-oriented drillers DO, NE, and RIG, all rated Buy-High Risk.

<b>Hold/High Risk</b>	<b>2H</b>
Price (02 Feb 11)	US\$55.73
Target price	US\$56.00
	from US\$55.00
Expected share price return	0.5%
Expected dividend yield	2.5%
<b>Expected total return</b>	<b>3.0%</b>
Market Cap	US\$7,967M

### Price Performance (RIC: ESV.N, BB: ESV US)



EPS	Q1	Q2	Q3	Q4	FY	FC Cons
<b>2009A</b>	1.51A	1.56A	1.01A	1.24A	5.35A	5.45A
<b>2010E</b>	<b>1.11A</b>	<b>0.82A</b>	<b>0.92A</b>	<b>0.69E</b>	<b>3.54E</b>	<b>3.51E</b>
Previous	1.11A	0.82A	0.92A	0.54E	3.38E	na
<b>2011E</b>	<b>0.34E</b>	<b>0.76E</b>	<b>1.10E</b>	<b>1.11E</b>	<b>3.32E</b>	<b>3.90E</b>
Previous	0.47E	0.86E	1.14E	1.11E	3.59E	na
<b>2012E</b>	<b>na</b>	<b>na</b>	<b>na</b>	<b>na</b>	<b>5.30E</b>	<b>5.11E</b>
Previous	na	na	na	na	5.37E	na

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

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

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Fiscal year end 31-Dec	2008	2009	2010E	2011E	2012E
<b>Valuation Ratios</b>					
P/E adjusted (x)	6.9	10.4	15.8	16.8	10.5
EV/EBITDA adjusted (x)	4.8	6.4	8.9	9.0	5.9
P/BV (x)	1.7	1.4	1.4	1.3	1.2
Dividend yield (%)	0.2	0.2	1.9	2.5	2.5
<b>Per Share Data (US\$)</b>					
EPS adjusted	8.13	5.35	3.54	3.32	5.30
EPS reported	8.13	5.41	3.64	3.42	5.40
BVPS	33.03	39.15	40.39	43.46	48.06
DPS	0.10	0.10	1.08	1.40	1.40
<b>Profit &amp; Loss (US\$M)</b>					
Net sales	2,394	1,914	1,670	1,853	2,389
Operating expenses	-992	-979	-1,074	-1,285	-1,441
<b>EBIT</b>	<b>1,401</b>	<b>935</b>	<b>596</b>	<b>567</b>	<b>948</b>
Net interest expense	0	0	0	0	5
Non-operating/exceptionals	-10	5	19	0	0
<b>Pre-tax profit</b>	<b>1,391</b>	<b>940</b>	<b>615</b>	<b>567</b>	<b>953</b>
Tax	-237	-179	-102	-85	-191
Extraord./Min.Int./Pref.div.	0	0	0	0	0
<b>Reported net income</b>	<b>1,154</b>	<b>761</b>	<b>513</b>	<b>482</b>	<b>763</b>
Adjusted earnings	1,154	751	499	469	749
Adjusted EBITDA	1,588	1,135	817	829	1,244
<b>Growth Rates (%)</b>					
Sales	16.3	-20.0	-12.8	11.0	29.0
EBIT adjusted	19.0	-33.3	-36.2	-4.8	67.2
EBITDA adjusted	17.2	-28.5	-28.0	1.5	50.1
EPS adjusted	24.2	-34.3	-33.8	-6.2	59.7
<b>Cash Flow (US\$M)</b>					
<b>Operating cash flow</b>	<b>1,125</b>	<b>1,216</b>	<b>686</b>	<b>999</b>	<b>1,012</b>
Depreciation/amortization	187	200	221	262	296
Net working capital	-291	148	-103	171	-131
<b>Investing cash flow</b>	<b>-722</b>	<b>-854</b>	<b>-936</b>	<b>-760</b>	<b>-480</b>
Capital expenditure	-772	-861	-750	-760	-480
Acquisitions/disposals	45	5	0	0	0
<b>Financing cash flow</b>	<b>-264</b>	<b>-34</b>	<b>-169</b>	<b>-215</b>	<b>-215</b>
Borrowings	-19	-17	-17	-17	-17
Dividends paid	-14	-14	-152	-198	-198
<b>Change in cash</b>	<b>160</b>	<b>346</b>	<b>-418</b>	<b>25</b>	<b>317</b>
<b>Balance Sheet (US\$M)</b>					
<b>Total assets</b>	<b>5,830</b>	<b>6,747</b>	<b>6,914</b>	<b>7,355</b>	<b>7,992</b>
Cash & cash equivalent	790	1,141	717	742	1,059
Accounts receivable	483	325	392	362	466
Net fixed assets	3,871	4,477	5,006	5,504	5,688
<b>Total liabilities</b>	<b>1,147</b>	<b>1,240</b>	<b>1,214</b>	<b>1,223</b>	<b>1,211</b>
Accounts payable	196	159	138	169	189
Total Debt	292	274	257	240	223
<b>Shareholders' funds</b>	<b>4,684</b>	<b>5,507</b>	<b>5,700</b>	<b>6,132</b>	<b>6,782</b>
<b>Profitability/Solvency Ratios (%)</b>					
EBITDA margin adjusted	66.3	59.3	49.0	44.8	52.1
ROE adjusted	27.4	14.8	8.9	7.9	11.6
ROIC adjusted	27.4	15.5	9.1	8.1	12.1
Net debt to equity	-10.6	-15.7	-8.1	-8.2	-12.3
Total debt to capital	5.9	4.7	4.3	3.8	3.2

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## EnSCO plc

### Valuation

We derive our \$56 ESV price target by averaging P/E and EV/EBITDA methodologies. Our target is based on historical analysis of ESV and group multiples, which exhibit very high correlations to both the level and direction of forward earnings expectations.

Our P/E derivation generates a price target of \$55 by applying a 11.5x multiple to our \*forward-12-month EPS estimate of \$4.81. The multiple is below the 33.0x peak ESV multiple reached in the most recent downturn and is well above the 3.6x trough reached at the peak of the last upturn. The multiple is based on historical analysis of ESV and relative market multiples and is within the 4.5x–47.0x historical range where the average of offshore driller stocks traded over the past ten years. The median group P/E multiple was 13.1x in the most recent cycle.

Our EV/EBITDA derivation generates a price target of \$56 by applying a 6.5x EV/EBITDA multiple to our \*forward-12-month EBITDA of \$1.11 billion. The multiple is below the 13.8x peak ESV multiple reached in the most recent downturn and is well above the 2.1x trough reached at the peak of the last upturn. The multiple is based on historical analysis of ESV and relative market multiples and is within the 2.9x–15.6x historical range where the average of offshore driller stocks traded over the past ten years. The median group EV/EBITDA multiple was 7.6x in the most recent cycle.

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

### Risks

Our High Risk rating on ENSCO is based on a combination of quantitative and qualitative factors compared to other stocks covered by Citi Investment Research and Analysis (CIRA). Our price target and resulting Expected Total Return (ETR) are based on projected financial performance, which is highly dependent on the level of oil and natural gas exploration and production (E&P) activity. E&P activity can be significantly impacted by oil and natural gas prices. ENSCO's financial performance is sensitive to both rig demand and day rates. Oil and gas companies that operate in the GOM tend to be smaller, with capital spending plans that are heavily influenced by short-term commodity price expectations. We estimate that under conditions of strong rig demand and full fleet utilization, ENSCO's annual EPS would change by \$0.10 for every \$1,000/day change in rig rates.

If the impact on the company from any of these factors proves to be greater/less than we anticipate, we believe the stock will likely have difficulty achieving our target price or could outperform it.

## Diamond Offshore Drilling Inc

(DO.N; US\$72.35; 1H)

### Valuation

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

Our P/E derivation generates a price target of \$75 by applying an 11.0x multiple to our \*forward 12-month EPS estimate of \$6.83. The multiple is below the 97.1x peak DO multiple reached in the most recent downturn and is above the 5.6x trough reached at the peak of the last upturn. The multiple is based on historical analysis of DO and relative market multiples and is within the 4.5x–47.0x historical range where the average of offshore driller stocks traded over the past ten years. The median group P/E multiple was 13.1x in the most recent cycle.

Our EV/EBITDA derivation generates a price target of \$85 by applying a 6.5x EV/EBITDA multiple to our \*forward-12-month EBITDA of \$1.9 billion. The multiple is below the 15.5x peak DO multiple reached in the most recent downturn and is above the 3.4x trough reached at the peak of the last upturn. The multiple is based on historical analysis of DO and relative market multiples and is within the 2.9x–15.6x historical range where the average of offshore driller stocks traded over the past ten years. The median group EV/EBITDA multiple was 7.6x in the most recent cycle.

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

### Risks

Our High Risk rating on Diamond Offshore is based on a combination of quantitative and qualitative risk assessments compared to other stocks covered by Citi Investment Research and Analysis (CIRA). The broader context of our risk rating system leads us to assign the stock a higher risk rating. The principal elements of risk for Diamond, relative to the CIRA coverage universe, are price and earnings volatility. Our price target and resulting Expected Total Return (ETR) are based on projected financial performance, which is highly dependent on the level of oil and natural gas exploration and production (E&P) activity. E&P activity, in turn, can be significantly impacted by rising and falling oil and natural gas prices. Diamond's financial performance is particularly sensitive to both rig demand and day rates. We estimate that under conditions of strong rig demand and full fleet utilization, Diamond's annual earnings per share would change by \$0.08 for every \$1,000 change in its average daily revenue per rig. If the balance of these risk factors is more positive than we anticipate, the stock may exceed our target price. If the balance of these factors is more negative than we anticipate, DO's share price may not achieve our target price.

## Noble Corp

(NE.N; US\$38.13; 1H)

### Valuation

We derive our \$49 NE price target by averaging P/E and EV/EBITDA methodologies. Our target is based on historical analysis of NE and group multiples.

Our P/E derivation generates a price target of \$48 by applying a 11.4x multiple to our \*forward 12-month EPS estimate of \$4.25. The multiple is below the 28.2x peak NE multiple reached in the most recent downturn and is well above the 3.4x trough reached at the peak of the last upturn. The multiple is based on historical analysis of NE and relative market multiples and is within the 4.5x–47.0x historical range where the average of offshore driller stocks traded over the past ten years. The median group P/E multiple was 13.1x in the most recent cycle.

Our EV/EBITDA derivation generates a price target of \$50 by applying a 7.3x EV/EBITDA multiple to our \*forward-12-month EBITDA of \$2.2 billion. The multiple is below the 13.5x peak NE multiple reached in the most recent downturn and is well above the 2.4x trough reached at the peak of the last upturn. The multiple is based on historical analysis of NE and relative market multiples and is within the 2.9x–15.6x historical range where the average of offshore driller stocks traded over the past ten years. The median group EV/EBITDA multiple was 7.6x in the most recent cycle.

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

### Risks

Our High Risk rating on Noble Corp. is based on a combination of quantitative and qualitative risk assessments compared to other stocks covered by Citi Investment Research and Analysis (CIRA). The principal element of risk for Noble, relative to the CIRA coverage universe, is price and earnings volatility. Our price target and resulting Expected Total Return (ETR) are based on projected financial performance, which is highly dependent on the level of oil and natural gas exploration and production (E&P) activity. E&P activity, in turn, can be significantly impacted by rising and falling oil and natural gas prices. Noble's financial performance is particularly sensitive to rig demand and day rates. We estimate that under conditions of strong rig demand and full utilization of its fleet, Noble's earnings per share would change by \$0.07 for every \$1,000 change in its average daily revenue per rig. If the impact on the company from any of these factors proves to be greater/less than we anticipate, we believe the stock will likely have difficulty achieving our target price or could outperform it.

## Transocean Inc

(RIG.N; US\$80.15; 1H)

### Valuation

We derive our \$88 RIG price target by averaging P/E and EV/EBITDA methodologies. Our target is based on historical analysis of RIG and group multiples.

Our P/E derivation generates a price target of \$83 by applying an 10.0x multiple to our \*forward 12-month EPS estimate of \$8.30. The multiple is below the 28.2x peak RIG multiple reached in the most recent downturn and is above the 3.4x trough reached at the peak of the last upturn. The multiple is based on historical analysis of RIG and relative market multiples and is within the 4.5x–47.0x historical range where the average of offshore driller stocks traded over the past ten years. The median group P/E multiple was 13.1x in the most recent cycle.

Our EV/EBITDA derivation generates a price target of \$93 by applying a 6.7x EV/EBITDA multiple to our \*forward-12-month adjusted EBITDA of \$5.37 billion. The multiple is below the 17.1x peak RIG multiple reached in the most recent downturn and is above the 3.8x trough reached at the peak of the last upturn. The multiple is based on historical analysis of RIG and relative market multiples and is within the 2.9x–15.6x historical range where the average of offshore driller stocks traded over the past ten years. The median group EV/EBITDA multiple was 7.6x in the most recent cycle.

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

### Risks

Our High Risk rating on Transocean is based on projected financial performance, which is highly dependent on the level of oil and natural gas exploration and production (E&P) activity. E&P activity, in turn, can be significantly impacted by rising and falling oil and natural gas prices. Transocean's financial performance is particularly sensitive to both rig demand and day rates. We estimate that under conditions of strong rig demand and full utilization of its fleet, Transocean's earnings per share would change by \$0.13 for every \$1,000 change in its average daily revenue per rig. If the impact on the company from any of these factors proves to be greater/less than we anticipate, we believe the stock will likely have difficulty achieving our target price or could outperform it.

## Appendix A-1

### Analyst Certification

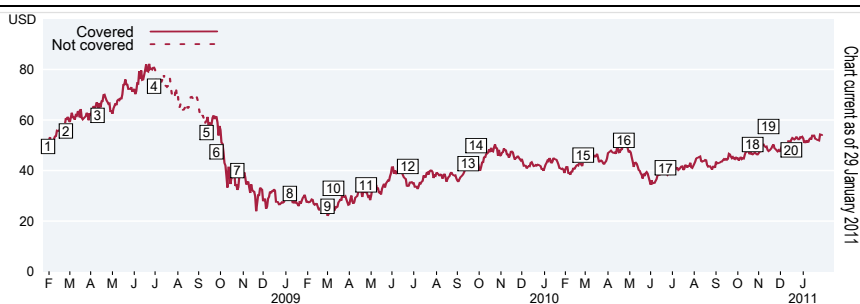
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### IMPORTANT DISCLOSURES

#### EnSCO plc (ESV)

##### Ratings and Target Price History Fundamental Research

Analyst: Robin Shoemaker  
Covered since September 12 2008



	Date	Rating	Target Price	Closing Price
1	30-Jan-08	1H	*64.00	49.53
2	26-Feb-08	1H	*73.00	60.72
3	10-Apr-08	*2H	*77.00	66.43
4	30-Jun-08	Coverage terminated		
5	11-Sep-08	2H	*68.00	59.49
6	25-Sep-08	2H	*66.00	61.20
7	24-Oct-08	2H	*39.00	32.34

\* Indicates change

	Date	Rating	Target Price	Closing Price
8	7-Jan-09	2H	*36.00	29.83
9	1-Mar-09	2H	*29.50	24.58
10	10-Mar-09	2H	*28.00	24.47
11	24-Apr-09	2H	*36.00	32.58
12	23-Jun-09	2H	*40.00	33.85
13	16-Sep-09	2H	*42.00	42.64
14	28-Sep-09	2H	*46.00	42.52

	Date	Rating	Target Price	Closing Price
15	25-Feb-10	2H	*51.00	43.97
16	23-Apr-10	2H	*54.00	51.95
17	22-Jun-10	2H	*42.00	39.68
18	22-Oct-10	2H	*47.00	46.37
19	15-Nov-10	2H	*50.00	47.68
20	16-Dec-10	2H	*55.00	52.25

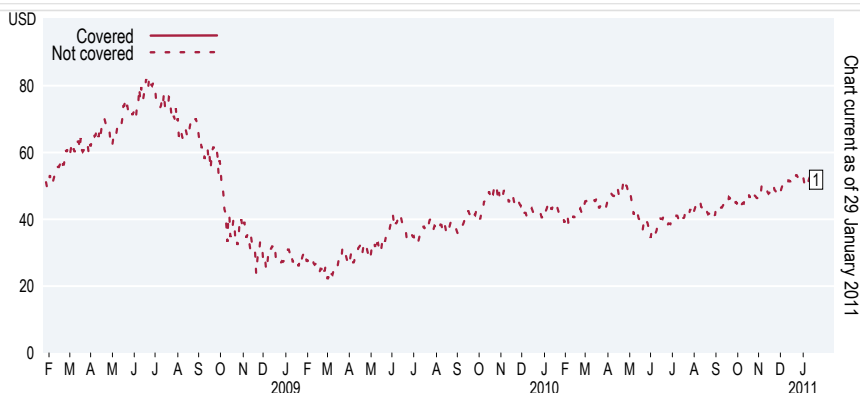
Rating/target price changes above reflect Eastern Standard Time

#### EnSCO plc (ESV)

##### Ratings and Target Price History

##### Best Ideas Research Relative Call (3 Month)

Analyst: Robin Shoemaker  
Covered since September 12 2008



	Date	Rating	Target Price	Closing Price
1	20-Jan-11	*ADD LP	-	52.44

\* Indicates change

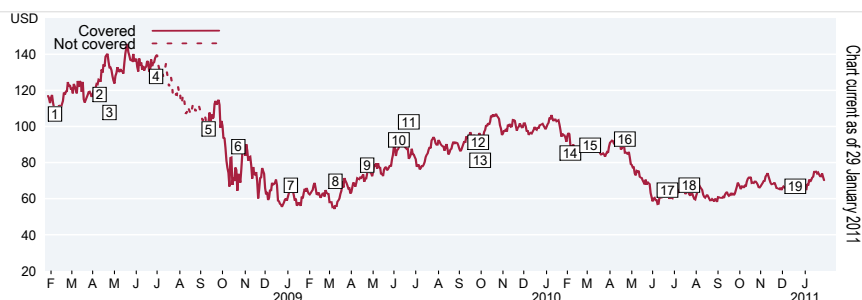
Rating/target price changes above reflect Eastern Standard Time



## Diamond Offshore Drilling Inc (DO)

### Ratings and Target Price History Fundamental Research

Analyst: Robin Shoemaker  
Covered since September 12 2008



	Date	Rating	Target Price	Closing Price
1	7-Feb-08	1H	*136.00	106.91
2	10-Apr-08	1H	*145.00	125.67
3	24-Apr-08	1H	*158.00	132.65
4	30-Jun-08	Coverage terminated		
5	11-Sep-08	1H	*126.00	102.90
6	23-Oct-08	1H	*98.00	73.73
7	6-Jan-09	1H	*92.00	67.41

\* Indicates change

	Date	Rating	Target Price	Closing Price
8	10-Mar-09	1H	*78.00	56.33
9	23-Apr-09	1H	*86.00	74.04
10	8-Jun-09	1H	*103.00	88.41
11	22-Jun-09	1H	*102.00	82.06
12	28-Sep-09	1H	*110.00	93.37
13	30-Sep-09	1H	*113.00	95.52
14	4-Feb-10	1H	*110.00	89.79

	Date	Rating	Target Price	Closing Price
15	4-Mar-10	1H	*99.00	87.09
16	22-Apr-10	1H	*103.00	85.43
17	22-Jun-10	1H	*75.00	62.85
18	22-Jul-10	1H	*74.00	62.31
19	19-Dec-10	1H	*80.00	64.00

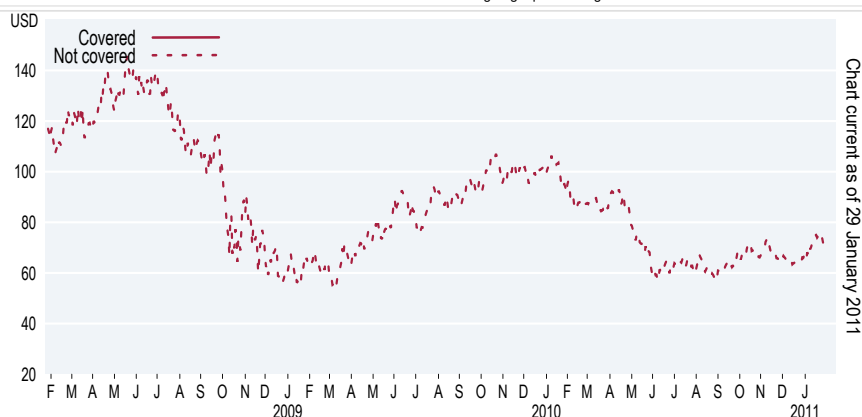
Rating/target price changes above reflect Eastern Standard Time

## Diamond Offshore Drilling Inc (DO)

### Ratings and Target Price History

#### Best Ideas Research Relative Call (3 Month)

Analyst: Robin Shoemaker  
Covered since September 12 2008



\* Indicates change

Rating/target price changes above reflect Eastern Standard Time

## Noble Corp (NE)

### Ratings and Target Price History Fundamental Research

Analyst: Robin Shoemaker  
Covered since September 12 2008



	Date	Rating	Target Price	Closing Price
1	10-Apr-08	1H	*68.00	54.30
2	24-Apr-08	1H	*70.00	56.92
3	30-Jun-08	Coverage terminated		
4	11-Sep-08	1H	*59.00	44.54
5	24-Oct-08	1H	*49.00	25.90
6	7-Jan-09	1H	*45.00	23.97

\* Indicates change

	Date	Rating	Target Price	Closing Price
7	10-Mar-09	1H	*40.00	23.51
8	23-Apr-09	1H	*47.00	27.86
9	23-Jun-09	1H	*50.00	30.84
10	25-Aug-09	1H	*46.00	35.96
11	28-Jan-10	1H	*49.00	41.42
12	22-Jun-10	1H	*39.00	30.09

	Date	Rating	Target Price	Closing Price
13	24-Jun-10	1H	*38.00	28.46
14	20-Jul-10	1H	*36.00	32.06
15	22-Oct-10	1H	*42.00	34.17
16	19-Dec-10	1H	*45.00	35.10
17	18-Jan-11	1H	*46.00	38.07
18	27-Jan-11	1H	*49.00	37.30

Rating/target price changes above reflect Eastern Standard Time

## Noble Corp (NE)

### Ratings and Target Price History

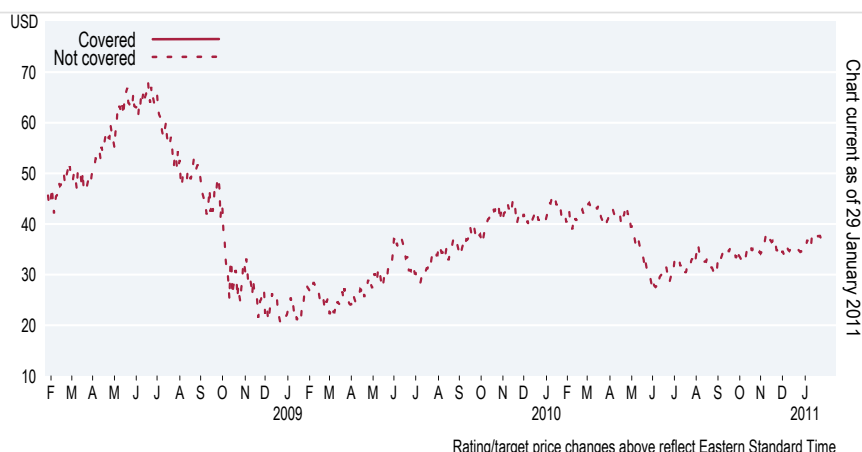
#### Best Ideas Research

#### Relative Call (3 Month)

Analyst: Robin Shoemaker

Covered since September 12 2008

\* Indicates change



## Transocean Inc (RIG)

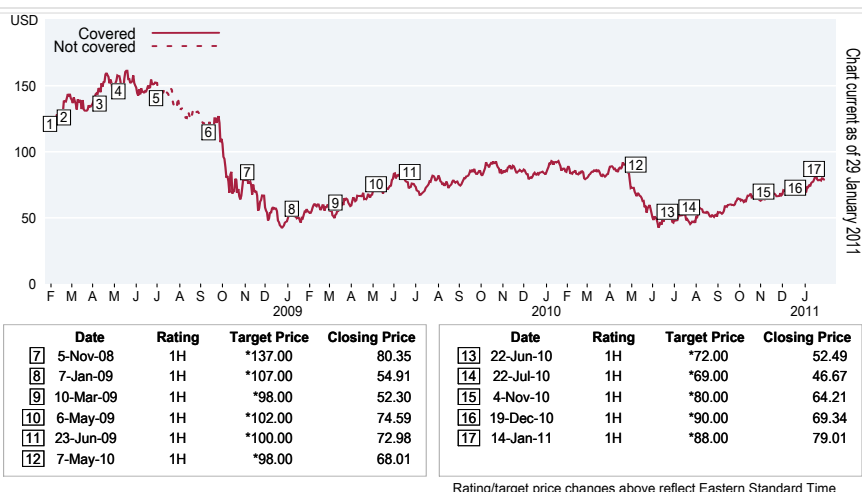
### Ratings and Target Price History

#### Fundamental Research

Analyst: Robin Shoemaker

Covered since September 12 2008

\* Indicates change



	Date	Rating	Target Price	Closing Price
1	30-Jan-08	1H	*157.00	123.27
2	20-Feb-08	1H	*165.00	138.73
3	10-Apr-08	1H	*179.00	147.41
4	7-May-08	1H	*197.00	157.40
5	30-Jun-08	Coverage terminated		
6	11-Sep-08	1H	*159.00	119.92

	Date	Rating	Target Price	Closing Price
7	5-Nov-08	1H	*137.00	80.35
8	7-Jan-09	1H	*107.00	54.91
9	10-Mar-09	1H	*98.00	52.30
10	6-May-09	1H	*102.00	74.59
11	23-Jun-09	1H	*100.00	72.98
12	7-May-10	1H	*98.00	68.01

	Date	Rating	Target Price	Closing Price
13	22-Jun-10	1H	*72.00	52.49
14	22-Jul-10	1H	*69.00	46.67
15	4-Nov-10	1H	*80.00	64.21
16	19-Dec-10	1H	*90.00	69.34
17	14-Jan-11	1H	*88.00	79.01

## Transocean Inc (RIG)

### Ratings and Target Price History

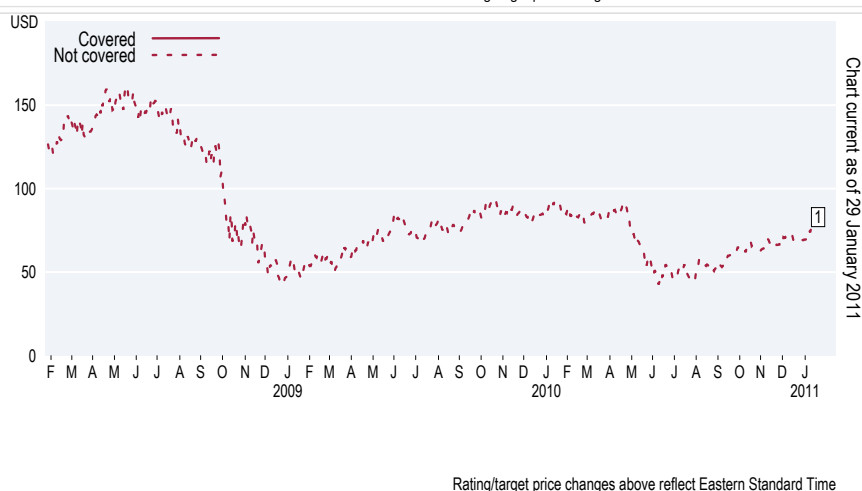
#### Best Ideas Research

#### Relative Call (3 Month)

Analyst: Robin Shoemaker

Covered since September 12 2008

\* Indicates change



	Date	Rating	Target Price	Closing Price
1	20-Jan-11	*ADD MP	-	78.37

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% of companies in each rating category that are investment banking clients

12 Month Rating			Relative Rating		
Buy	Hold	Sell	Buy	Hold	Sell
52%	37%	11%	0%	100%	0%
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