

Equities

18 April 2011 | 23 pages

Halliburton Co (HAL)

Raising Estimates and Price Target on NorthAm Momentum

- Company Update
- Target Price Change
- Estimate Change

■ **Raising Estimates** — We have raised our earnings estimates (see table below) to account for the significant momentum in North American volumes and pricing that we believe will more than offset any potential headwinds from ongoing capacity absorption and start-up delays overseas. We have reduced our Eastern Hemisphere forecast to reflect the operational disruptions associated with Middle East and North African geopolitical events and start-up delays in Iraq that continue to cast uncertainty over the pace of the international recovery. However, HAL has greater leverage than the other Big Four diversified service firms to North American service intensity and oil/liquids-rich drilling and completions trends, and we expect these factors will ultimately drive superior growth for the company going forward.

■ **Raising Numbers Substantially in North America** — We are substantially raising our N.A. earnings forecast in 2011. We are now modeling top-line growth of 46% (22% previously) to \$12.8B revenues (\$10.8B previously) and margins expanding to 26.0% (24.0% previously) in 2011. The U.S. rig count's shift to oil (up 11% this quarter) and away from gas (down 5%) accentuates this rate of increase, as HAL's average revenue from an oil/liquids-rich well is typically 1.4x-1.8x that of a dry gas well.

■ **Reducing Eastern Hemisphere Forecast** — We are reducing our Eastern Hemisphere forecast in 2011 following significant 1Q11 shortfalls. We estimate 2011 revenue growth of 2% in Europe/Asia/CIS (previously 10%) and 18% in Middle East/Asia (previously 21%). We are avoiding estimates that are overly aggressive because the recovery rate overseas is typically slower than that of the domestic cycle. We are also taking into account the possibility of further start-up delays (e.g., Iraq).

■ **Reiterate Buy** — Compared to the average of peers SLB, WFT, and BHI, HAL trades at a 14% discount on 2012 P/E (12.7x vs. the 14.8x peer average) and an 8% discount on 2012 EV/EBITDA (6.7x vs. the 7.3x peer average). We reiterate our Buy (1H) rating and have raised our price target to \$61 from \$56 to reflect our earnings revisions.

Buy/High Risk	1H
Price (18 Apr 11)	US\$47.14
Target price	US\$61.00
	from US\$56.00
Expected share price return	29.4%
Expected dividend yield	0.8%
Expected total return	30.2%
Market Cap	US\$43,105M

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



EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2010A	0.28A	0.52A	0.58A	0.68A	2.06A	2.06A
2011E	0.61A	0.74E	0.83E	0.92E	3.05E	2.85E
Previous	0.56E	0.69E	0.73E	0.83E	2.80E	na
2012E	na	na	na	na	3.70E	3.51E
Previous	na	na	na	na	3.45E	na
2013E	na	na	na	na	4.40E	3.99E
Previous	na	na	na	na	4.05E	na

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

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

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Fiscal year end 31-Dec	2009	2010	2011E	2012E	2013E
Valuation Ratios					
P/E adjusted (x)	36.5	22.9	15.5	12.7	10.7
EV/EBITDA adjusted (x)	15.5	10.8	7.9	6.5	5.5
P/BV (x)	4.9	4.1	3.3	2.7	2.2
Dividend yield (%)	0.8	0.8	0.8	0.8	0.8
Per Share Data (US\$)					
EPS adjusted	1.29	2.06	3.05	3.70	4.40
EPS reported	1.27	2.01	3.00	3.70	4.40
BVPS	9.65	11.37	14.39	17.75	21.82
DPS	0.36	0.36	0.36	0.36	0.36
Profit & Loss (US\$M)					
Net sales	14,675	17,973	22,942	26,063	29,250
Operating expenses	-12,735	-14,964	-18,597	-20,757	-23,008
EBIT	1,940	3,009	4,345	5,306	6,241
Net interest expense	-285	-297	-266	-259	-243
Non-operating/exceptionals	27	-57	-4	0	0
Pre-tax profit	1,682	2,655	4,075	5,047	5,998
Tax	-518	-853	-1,312	-1,640	-1,949
Extraord./Min.Int./Pref.div.	-19	33	-8	-8	-8
Reported net income	1,145	1,835	2,755	3,399	4,041
Adjusted earnings	1,164	1,879	2,801	3,399	4,041
Adjusted EBITDA	2,871	4,128	5,655	6,806	7,941
Growth Rates (%)					
Sales	-19.7	22.5	27.6	13.6	12.2
EBIT adjusted	-50.8	55.1	44.4	22.1	17.6
EBITDA adjusted	-38.7	43.8	37.0	20.4	16.7
EPS adjusted	-55.1	59.8	47.8	21.3	18.9
Cash Flow (US\$M)					
Operating cash flow	2,406	2,212	2,901	4,169	4,996
Depreciation/amortization	931	1,119	1,310	1,500	1,700
Net working capital	983	-903	-1,172	-738	-753
Investing cash flow	-3,085	-1,755	-3,000	-3,300	-3,630
Capital expenditure	-1,864	-2,069	-3,000	-3,300	-3,630
Acquisitions/disposals	148	-523	0	0	0
Financing cash flow	1,670	-1,114	-329	-479	-456
Borrowings	1,944	-790	0	-150	-127
Dividends paid	-324	-327	-329	-329	-329
Change in cash	958	-684	-428	390	909
Balance Sheet (US\$M)					
Total assets	16,538	18,297	21,032	24,314	28,269
Cash & cash equivalent	3,394	2,051	2,270	2,660	3,569
Accounts receivable	2,964	3,924	4,588	5,213	5,850
Net fixed assets	5,759	6,842	8,532	10,332	12,262
Total liabilities	7,781	7,910	7,839	8,043	8,278
Accounts payable	787	1,139	1,105	1,230	1,361
Total Debt	4,574	3,824	3,824	3,674	3,547
Shareholders' funds	8,757	10,387	13,193	16,271	19,990
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	19.6	23.0	24.6	26.1	27.1
ROE adjusted	14.1	19.7	23.8	23.1	22.3
ROIC adjusted	13.2	17.6	20.6	21.2	21.6
Net debt to equity	13.5	17.1	11.8	6.2	-0.1
Total debt to capital	34.3	26.9	22.5	18.4	15.1

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1Q11 Key Takeaways

We have raised our earnings estimates to account for the significant momentum in North American volumes and pricing that we believe will more than offset any potential headwinds from ongoing capacity absorption and start-up delays overseas. We have reduced our Eastern Hemisphere forecast to reflect the operational disruptions associated with Middle East and North African geopolitical events and start-up delays in Iraq that continue to cast uncertainty over the pace of the international recovery. However, HAL has greater leverage than the other Big Four diversified service firms to North American service intensity and oil/liquids-rich drilling and completions trends, and we expect these factors will ultimately drive superior growth for the company going forward.

North America Shifts to a Higher Gear

In North America, we are substantially raising our earnings forecast in 2011.

Our previous full-year assumptions were predicated on a significant 8% pullback in revenues to \$2,421M in 1Q11 and a 100 bps decline in operating margins to 23.0% in 1Q11. Instead, the company reported a 13% q/q increase in revenues to \$2,982M and a 50 bps increase in operating margins to 24.5% in 1Q11 from 24.0% in 4Q10. In North America, we are now modeling top-line growth of 46% (22% previously) to \$12.8B revenues (\$10.8B previously) in 2011 and margins expanding to 26.0% (24.0% previously) in 2011 from 21.3% in 2010, resulting in \$3.3B operating income for the year (\$2.6B previously).

Several factors support our upwardly revised estimates in North America.

First, we expect pricing and service intensity improvements to continue over the remaining quarters of 2011 in addition to the reversal of this past quarter's weather-related seasonal slowdown. The U.S. rig count's shift to oil (up 11% this quarter) and away from gas (down 5%) accentuates the rate of service intensity increases, as HAL's average revenue from an oil/liquids-rich well is typically 1.4x-1.8x that of a dry gas well. The service intensity effect is clear from HAL's 13% and 16% q/q growth rates in 1Q11 revenues and operating income, respectively, which far exceeded the 2% U.S. rig count growth over the period. HAL posted these improvements despite the severe impact this quarter of harsh weather in the Midcontinent and Rockies (and particularly in the Bakken where HAL has a large market share). Second, overcapacity concerns continue to be pushed to the right, as demonstrated by the increased U.S. uncompleted well count to 3,500 wells at the end of 1Q11 from 3,100 wells at the end of 4Q10. Third, the geopolitical turmoil overseas is prompting customers to look again to more stable markets in the U.S. WTI oil currently trading in the \$100-\$110/barrel range highlights that geopolitical risks in other regions of the world further support increasing levels of investment in North American oil shale drilling. Consistent with this premise, HAL is directing the majority of its ~\$3B in planned 2011 capital expenditures to North America. Fourth, in addition to the fundamental strength in U.S. land activity, we expect the company to benefit from an emerging recovery in U.S. GOM drilling. So far, the initial recovery phase has played to its advantage, as HAL has won approximately 30% of the drilling services and 40% of the completion work for the 10 deepwater drilling permits issued since the end of the offshore permit moratorium.

Eastern Hemisphere Expectations Lowered

In the Eastern Hemisphere, we are reducing our earnings expectations in 2011 following the significant 1Q11 shortfalls in both Europe/Africa/CIS and the Middle East & Asia.

We have forecast 2011 revenue growth of 2% in Europe/Asia/CIS (previously 10%) and 18% in Middle East/Asia (previously 21%). In Europe/Africa/CIS, we expect 2011 operating margins of 10.5% (previously 15.0%), down from 14.9% in 2010. In Middle East/Asia, we expect 2011 operating margins of 15.0% (previously 20.5%), down from 16.5% in 2010. Results in 1Q11 were impacted significantly by one-time earnings hits in 1Q11, and we believe a reversal of these impacts provides upside for the remaining quarters of the year. The company estimated operating income impacts in 1Q11 of \$110M from

seasonality, \$105M from the Libyan charge, and \$20M from Iraq start-up delays. Although Libya continues to provide an ongoing source of concern, we expect to see a reversal of the other impacts going forward.

Good News: Manifa Back on Track

In the Eastern Hemisphere, we are avoiding estimates that are overly aggressive because the cycle typically progresses at a slower rate compared to that of the domestic cycle. We are also taking into account the possibility of further start-up delays and competitive pressures from various regions over at least a few more quarters. For example, project start-ups in Iraq were delayed until 2Q11 and 3Q11 instead of 1Q11 initially. At the same time, we expect the company to approach or exceed the margins achieved in 2010 by the second half of 2011. HAL stands to benefit from a significant number of international contract awards since the beginning of 2010 (see Figure 1). HAL was awarded the offshore portion of the Manifa project by Saudi Aramco in 2008, and although the commencement was delayed due to the global downturn, the company expects to begin mobilizing in the next seven months and see a positive impact in terms of revenues in the second half of 2011. Approximately 60% of Saudi Arabia's expected 30% rig count increase in 2011 is expected to come from Manifa.

Figure 1. Halliburton: Recent Contract Announcements

Announced	Customer	Region	(\$M)	Timing	Notes
4/14/2011	Stabil	Norway	NA	Up to 8 yrs.	Integrated well services
4/11/2011	ExxonMobil	Iraq	NA	NA	Well construction services
4/6/2011	Stabil	Norway	\$200	Starting 3Q11	HP/HT directional drilling, LWD, cementing, drilling fluids, completions
3/24/2011	NA	Offshore China	NA	Starting 3Q11	HP/HT directional drilling, MWD, LWD, well completion, surface well testing and downhole drillstem testing, and cementing equipment, fluids and pumping services
3/21/2011	Chevron	Thailand	\$120	3 yr. extension	HP/HT MWD, LWD, and directional drilling
12/20/2010	ConocoPhillips	North Sea	NA	NA	HP/HT directional drilling, LWD, surface logging
10/14/2010	ExxonMobil	Iraq	NA	NA	Workovers, coiled tubing, slickline, logging, production enhancement, well testing
8/31/2010	Eni	Iraq	NA	20 wells	Wire-line logging, perforating, acidizing, well testing
8/18/2010	Shell	Iraq	NA	NA	Production enhancement at Majnoon oilfield
4/19/2010	NA	Angola	\$1,300	NA	Cementing, production enhancement, completion tools, wireline, and perforating services
4/19/2010	NA	United States	\$750	NA	Stimulation services
4/19/2010	Pemex	Mexico	NA	NA	Perform a reservoir study and execute findings in Chicontepec
2/16/2010	ConocoPhillips	Offshore China	\$40	2 yrs.	Directional-drilling, LWD
2/9/2010	Chevron	NA	NA	NA	Openworks R5000 data management system

Source: Company Reports, Citi Investment Research and Analysis

Slightly Better Outlook for Latin America

In Latin America, we are slightly increasing our forecast for 2011. We assume 15.0% revenue growth in 2011 (previously 13.0%) and are leaving our 2011 operating margin estimate unchanged at 13.5%. Latin America is benefiting from improved pricing for production enhancement services in Argentina and higher cementing activity in Colombia, although activity in Mexico remains subdued. Mexico onshore activity is likely to remain challenging going forward, although we expect to see solid growth in Brazil, Colombia, Venezuela, and Argentina.

Valuation

Compared to the average of peers Schlumberger, Weatherford, and Baker Hughes, HAL trades at a 14% discount on 2012 P/E (12.7x vs. the 14.8x peer average) and an 8% discount on 2012 EV/EBITDA (6.7x vs. the 7.3x peer average) (see Figure 2). We believe the company remains well positioned to grow revenues at a rate higher than the rig count in both North America and international regions going forward. We reiterate our Buy rating on HAL and have raised our price target to \$61 from \$56 to reflect our upwardly revised earnings estimates.

Figure 2. Diversified Oil Services: Comparable Company Analysis

Company	Citi Rating	Price Target	4/18/2011		% Ch YTD	% Ch LTM	P/E		EV/EBITDA		Debt/ EBITDA	Net Debt/ EBITDA
			MCap \$B	Price			2011E	2012E	2011E	2012E		
Schlumberger	1M	\$110.00	\$117.1	\$84.75	1%	29%	21.4 x	17.0 x	11.1 x	9.2 x	1.1 x	0.4 x
Weatherford	1H	27.00	\$15.5	\$20.78	-9%	26%	19.7 x	13.0 x	7.9 x	6.2 x	3.5 x	3.3 x
Baker Hughes	2H	69.00	\$29.3	\$70.71	24%	49%	17.3 x	14.4 x	7.6 x	6.6 x	1.5 x	0.8 x
Peer Average					5%	34%	19.5 x	14.8 x	8.9 x	7.3 x	2.0 x	1.5 x
Halliburton	1H	\$61.00	\$41.4	\$47.14	15%	49%	15.5 x	12.7 x	8.1 x	6.7 x	0.9 x	0.7 x
Premium/(Discount) to Peers							-21%	-14%	-8%	-8%		

Source: Citi Investment Research and Analysis

1Q11 Earnings Recap

- HAL reported 1Q11 EPS of \$0.61 vs. our \$0.56 estimate and the \$0.58 consensus. Revenues of \$5.28B were well above our \$4.76B estimate and the consensus \$4.89B estimate. EBITDA of \$1.19B exceeded our \$1.13B estimate and the \$1.18B consensus estimate. EPS and EBITDA are adjusted to exclude the \$46M after-tax charge (\$0.05/share) related to Libya asset impairments.
- The primary driver of the beat was stronger-than-expected North American operating income (+\$0.19/share), which more than offset weaker-than-expected earnings in Europe/CIS/Africa (-\$0.08/share) and in the Middle East & Asia (-\$0.05/share). Latin American operating income was in line with our expectations. The company also reported a lower-than-expected effective tax rate of 30.9% vs. our 32.0% estimate (+\$0.02/share) and higher-than-expected corporate expenses (-\$0.02/share).
- North American revenues grew by 13% sequentially to \$2,982M from \$2,631M vs. our estimate of an 8% q/q decline to \$2,421M. Operating margins in North America increased to 24.5% in 1Q11 from 24.0% in 4Q10 vs. our 23.0% expectation. Higher drilling intensity in oil/liquids-rich basins more than offset the lower Gulf of Mexico drilling activity and severe weather-related seasonality in the quarter. Revenues and operating income grew by 13% and 16%, respectively, exceeding the 2% North American rig count growth.
- Europe/CIS/Africa revenues declined by 15% q/q to \$911M from \$1,066M vs. our estimate of a 10% sequential drop to \$959M. Operating margins declined to 6.0% in 1Q11 (excluding the Libya non-recurring charge) from 15.7% in 4Q10 vs. our 13.0% expectation.
- Middle East & Asia revenues declined by 10% to \$777M from \$864M and were in line with our estimate of a 10% drop to \$778M. Operating margins fell to 11.1% from 19.1% vs. our 17.0% expectation.
- Latin American revenues increased by 2% q/q to \$612M from \$599M vs. our estimate of a flat sequential trend. Operating margins declined to 12.4% in 1Q11 from 13.0% in 4Q10 vs. our 13.0% expectation.

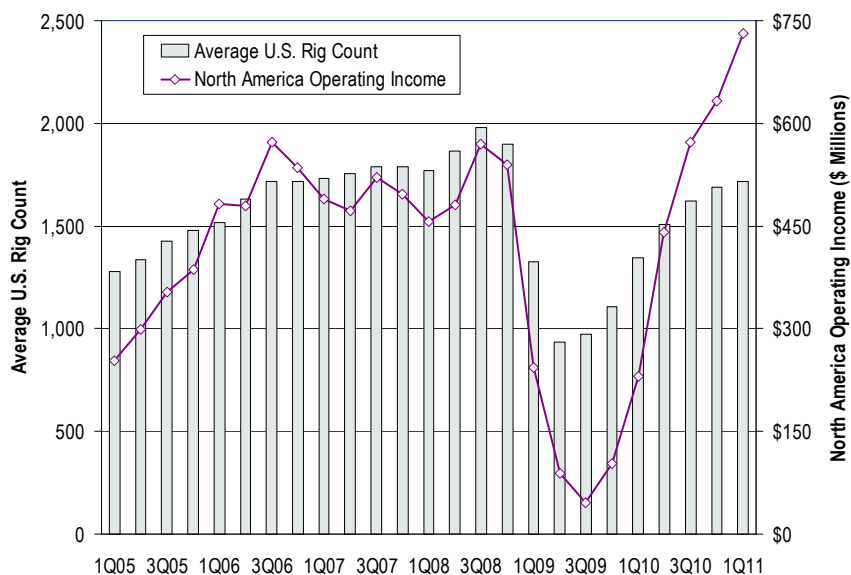
Figures 3-14 depict segment trends of financial and operating data compared to our estimates and over historical periods.

Figure 3. Halliburton: Actual Results vs. Estimates and Prior Period Results

Halliburton (HAL) Quarterly Analysis										
	1Q'11A	1Q'11E	Difference		4Q'10A	Sequential		1Q'10A	Y-o-Y	
Revenue	\$5,282	\$4,757	\$525	11%	\$5,160	\$122	2%	\$3,761	\$1,521	40%
Operating Income	949	892	57	6%	1,042	(93)	-9%	508	441	87%
General Corporate Expenses	76	62	14	23%	62	14	23%	59	17	29%
EBIT	873	830	43	5%	980	(107)	-11%	449	424	94%
Interest Expense (Income)	69	67	2	3%	69	0	0%	76	(7)	-9%
Other Expense (Income)	63	0	63	NA	1	62	6200%	40	23	58%
Pretax Income	741	763	(22)	-3%	910	(169)	-19%	333	408	123%
Taxes	229	244	(15)	-6%	283	(54)	-19%	121	108	89%
Other	0	(2)	2	-100%	(2)	2	-100%	(1)	1	-100%
Clean Net Income	558	517	41	8%	625	(67)	-11%	252	306	121%
Shares	919.0	915.0	4	0%	915.0	4	0%	908.0	11	1%
EPS	\$0.61	\$0.56	\$0.04	8%	\$0.68	-\$0.08	-11%	\$0.28	\$0.33	119%
Tax Rate	30.9%	32.0%	(110) bp		31.1%	(19) bp		36.3%	(543) bp	
Margin Analysis										
Corporate Margin	1.4%	1.3%	14 bp		1.2%	24 bp		1.6%	(13) bp	
EBIT Margin	16.5%	17.4%	(91) bp		19.0%	(246) bp		11.9%	459 bp	
Pretax Margin	14.0%	16.0%	(200) bp		17.6%	(361) bp		8.9%	517 bp	
Segment Analysis										
Revenue										
North America	2,982	2,421	561	23%	2,631	351	13%	1,704	1,278	75%
Latin America	612	599	13	2%	599	13	2%	495	117	24%
Europe/CIS/Africa	911	959	(48)	-5%	1,066	(155)	-15%	920	(9)	-1%
Middle East & Asia	777	778	(1)	0%	864	(87)	-10%	642	135	21%
Operating Income										
North America	732	557	175	31%	632	100	16%	230	502	218%
Latin America	76	78	(2)	-2%	78	(2)	-3%	46	30	65%
Europe/CIS/Africa	55	125	(70)	-56%	167	(112)	-67%	130	(75)	-58%
Middle East & Asia	86	132	(46)	-35%	165	(79)	-48%	102	(16)	-16%
Margins										
North America	24.5%	23.0%	155 bp		24.0%	53 bp		13.5%	1,105 bp	
Latin America	12.4%	13.0%	(58) bp		13.0%	(60) bp		9.3%	313 bp	
Europe/CIS/Africa	6.0%	13.0%	(696) bp		15.7%	(963) bp		14.1%	(809) bp	
Middle East & Asia	11.1%	17.0%	(593) bp		19.1%	(803) bp		15.9%	(482) bp	

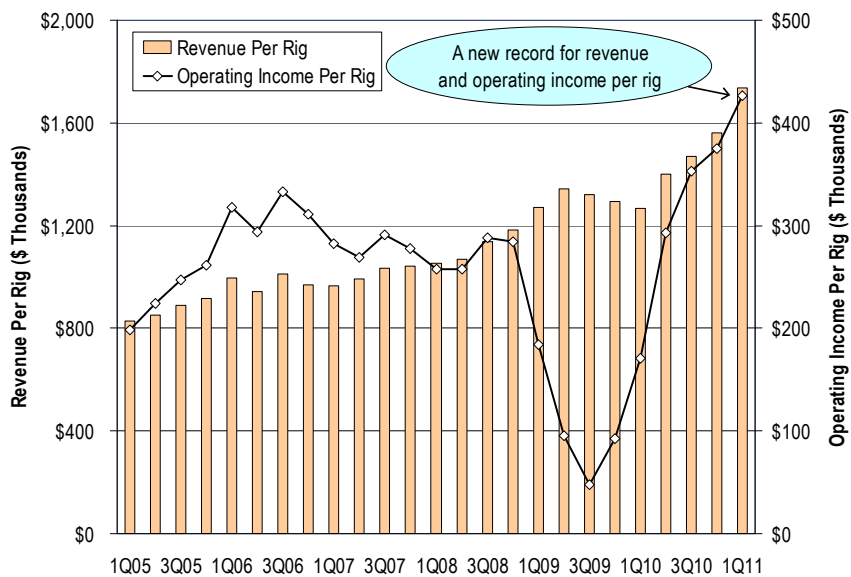
Source: Company Reports, Citi Investment Research and Analysis

Figure 4. Halliburton: Average U.S. Rig Count and North America Operating Income



Source: Company Reports, Citi Investment Research and Analysis

Figure 5. Halliburton: North America Revenue Per Rig and Operating Income Per Rig



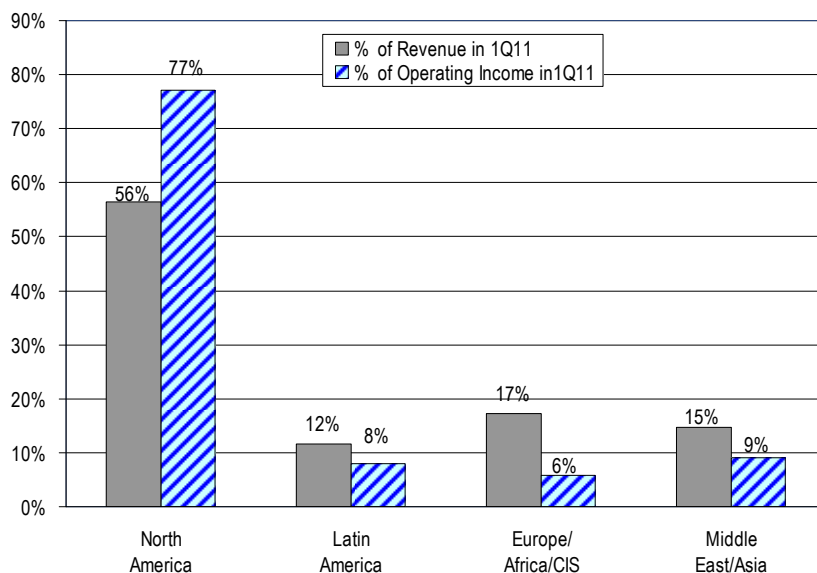
Source: Company Reports, Citi Investment Research and Analysis

Figure 6. Halliburton: Revenue and Operating Income by Region

	North America	Latin America	Europe/Africa/CIS	Middle East/Asia	Total Int'l	Corporate & Other	Total Company
Revenue (\$ Millions):							
1Q10	\$1,704	\$495	\$920	\$642	\$2,057	-	\$3,761
4Q10	2,631	599	1,066	864	2,529	-	5,160
1Q11	2,982	612	911	777	2,300	-	5,282
Revenue Growth:							
Year-over-year	75%	24%	-1%	21%	12%	-	40%
Sequential	13%	2%	-15%	-10%	-9%	-	2%
Pre-Tax Operating Income (\$ Millions):							
1Q10	\$230	\$46	\$130	\$102	\$278	(\$59)	\$449
4Q10	632	78	167	165	410	(62)	980
1Q11	732	76	55	86	217	(76)	873
Pre-Tax Operating Margin:							
1Q10	13.5%	9.3%	14.1%	15.9%	13.5%	-	11.9%
4Q10	24.0%	13.0%	15.7%	19.1%	16.2%	-	19.0%
1Q11	24.5%	12.4%	6.0%	11.1%	9.4%	-	16.5%
Incremental (Decremental) Margin:							
Year-over-year	39%	26%	-833%	NA	NA	-	28%
Sequential	28%	NA	-72%	-91%	-84%	-	NA
Margin Change:							
Year-over-year	1104bp	312bp	-810bp	-482bp	-409bp	-	458bp
Sequential	52bp	-61bp	-963bp	-803bp	-678bp	-	-247bp

Source: Company Reports, Citi Investment Research and Analysis

Figure 7. Halliburton: Revenue and Operating Income Contribution by Region



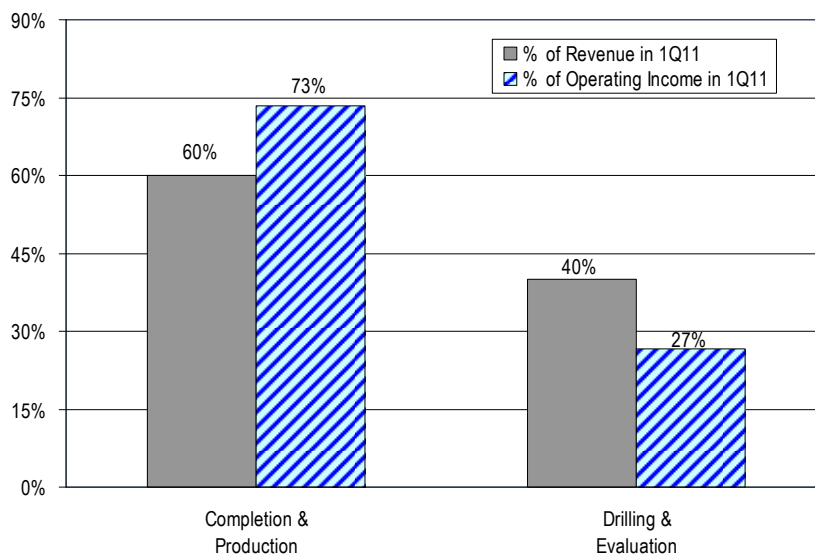
Source: Company Reports, Citi Investment Research and Analysis

Figure 8. Halliburton: Revenue and Operating Income by Segment

	Completion & Production	Drilling & Evaluation	Corporate & Other	Total Company
Revenue (\$ Millions):				
1Q10	\$1,964	\$1,797	-	\$3,761
4Q10	2,985	2,175	-	5,160
1Q11	3,172	2,110	-	5,282
Revenue Growth:				
Year-over-year	62%	17%	-	40%
Sequential	6%	-3%	-	2%
Pre-Tax Operating Income (\$ Millions):				
1Q10	\$238	\$270	(\$59)	\$449
4Q10	688	354	(62)	980
1Q11	696	253	(76)	873
Pre-Tax Operating Margin:				
1Q10	12.1%	15.0%	-	11.9%
4Q10	23.0%	16.3%	-	19.0%
1Q11	21.9%	12.0%	-	16.5%
Incremental/(Decremental) Margin:				
Year-over-year	38%	NA	-	28%
Sequential	4%	-155%	-	NA
Margin Change:				
Year-over-year	980 bps	-310 bps	-	450 bps
Sequential	-120 bps	-430 bps	-	-250 bps

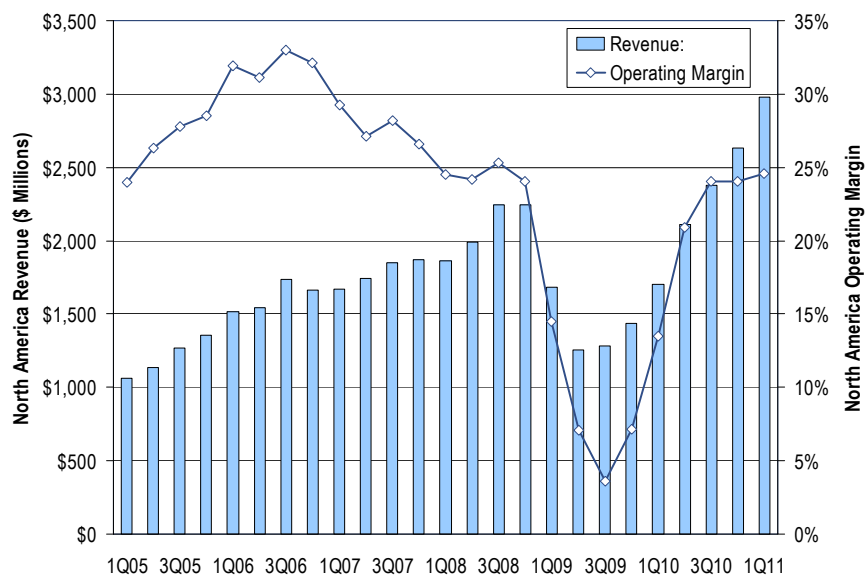
Source: Company Reports, Citi Investment Research and Analysis

Figure 9. Halliburton: Revenue and Operating Income by Segment



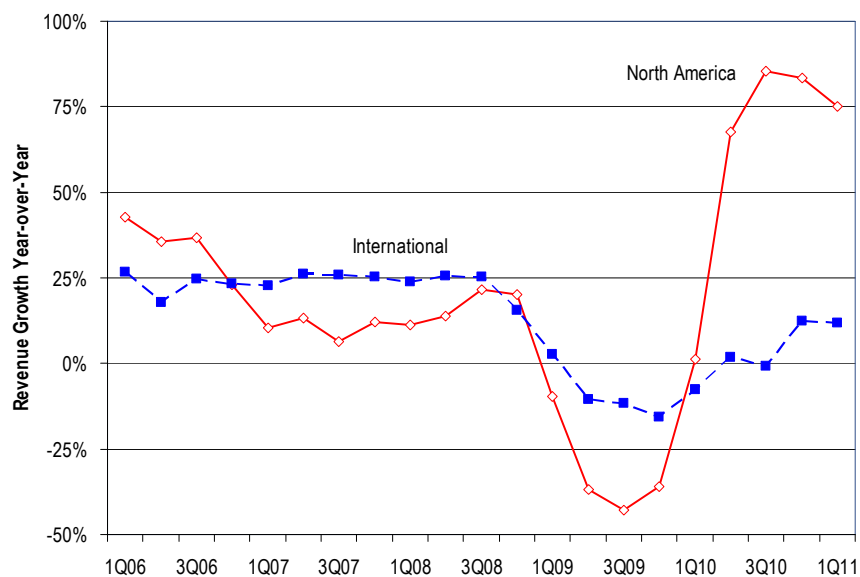
Source: Company Reports, Citi Investment Research and Analysis

Figure 10. Halliburton: North American Oilfield Services Revenue and Operating Margin



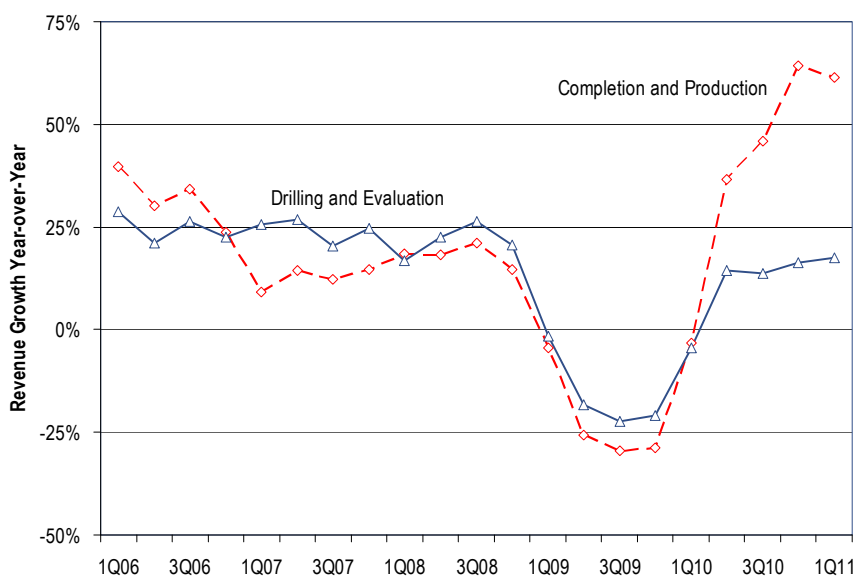
Source: Company Reports, Citi Investment Research and Analysis

Figure 11. Halliburton: Revenue Growth Rate by Region (Year-on-Year)



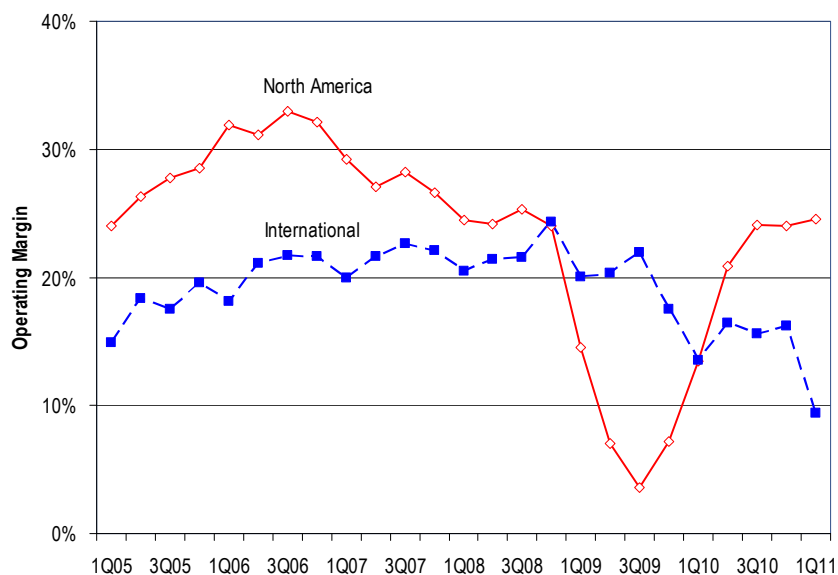
Source: Company Reports, Citi Investment Research and Analysis

Figure 12. Halliburton: Revenue Growth Rate by Product Line (Year-on-Year)



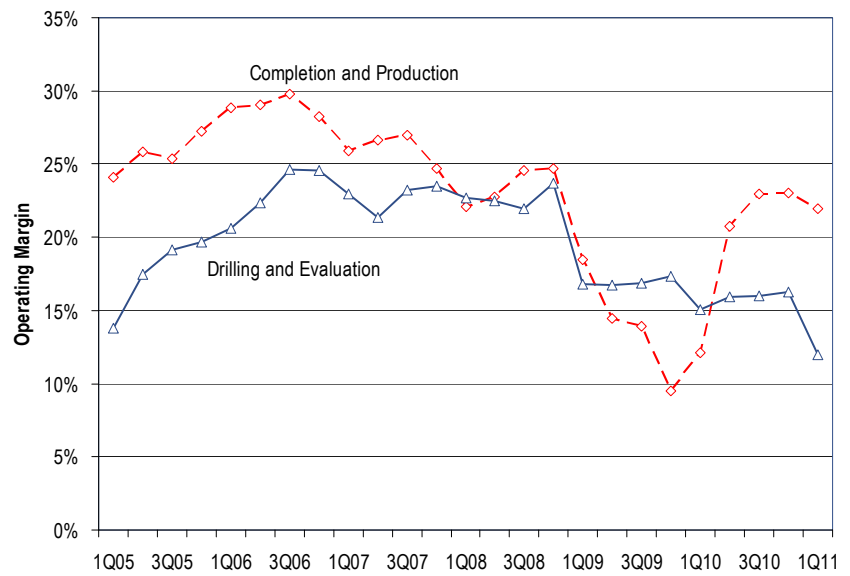
Source: Company Reports, Citi Investment Research and Analysis

Figure 13. Halliburton: Operating Margin by Region



Source: Company Reports, Citi Investment Research and Analysis

Figure 14. Halliburton Operating Margin by Product Line



Source: Company Reports, Citi Investment Research and Analysis

(BHI.N; US\$70.71; 2H); (SLB.N; US\$84.75; 1M); (WFT.N; US\$20.78; 1H)

Halliburton Co

Company description

Halliburton provides a comprehensive scope of products and services in well construction, production infrastructure, and energy-related capital equipment. The company provides discrete services and products and integrated solutions to customers in the exploration, development, and production of oil and gas. Halliburton has three segments: Drilling and Formation Evaluation, Fluids, Production Optimization, and Digital Solutions. The Drilling, Evaluation, and Digital Solutions division offers software and hardware solutions to help visualize and simulate well activity as well as drilling tools, logging, and perforating technology. The Fluid Systems Division focuses on fluid management and technologies to assist in the drilling and construction of oil and gas wells. The Production Optimization division tests, measures, and provides means to manage and improve well production — immediately after a well is drilled or after it has been producing for some time.

Investment strategy

We rate Halliburton shares Buy/High Risk (1H). Halliburton looks attractive to us despite the recent worldwide retrenchment in demand for oilfield services because of its geographic and product line diversity and its strong balance sheet. Halliburton is focused on four key technology areas related to finding, producing, and enhancing production of oil and natural gas: Drilling and Formation Evaluation, Fluids, Production Optimization, and Digital Solutions. Among its core businesses, pressure pumping services is the largest, providing significant earnings leverage to worldwide E&P activity. Merger related distractions at two of Halliburton's peers appear to be creating some opportunity for market share gains, particularly in Halliburton's large NAM operations, which contribute 40%-45% on total operating profit.

Valuation

We derive our \$61 HAL price target by averaging P/E and EV/EBITDA methodologies. Our target is based on historical analysis of HAL and group multiples.

Our P/E derivation generates a price target of \$62 by applying a 16.0x multiple to our forward 12-month EPS estimate of \$3.87. The multiple is below the 23.3x peak HAL multiple reached in the most recent downturn and is well above the 6.3x trough reached at the peak of the last upturn. The multiple is based on historical analysis of HAL and relative market multiples and is within the 7.8x–33.8x historical range where the average of large cap services stocks traded over the past ten years. The median group P/E multiple was 19.9x in the most recent cycle.

Our EV/EBITDA derivation generates a price target of \$60 by applying an 8.0x EV/EBITDA multiple to our forward 12-month EBITDA of \$7.09 billion. The multiple is below the 10.9x peak HAL multiple reached in the most recent downturn and is well above the 3.7x low multiple reached at the peak of the last upturn. The multiple is based on historical analysis of HAL and relative market multiples and is within the 4.3x–14.7x historical range where the average of large cap services stocks traded over the past ten years. The median group EV/EBITDA multiple was 9.6x in the most recent cycle.

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

Risks

Our High Risk rating on Halliburton is based on a combination of quantitative and qualitative assessments compared with those faced by other stocks covered by Citigroup Investment Research and Analysis (CIRA). Derivation of our price target and Expected Total Return (ETR) is based on projected financial performance, which is highly dependent on the level of oil and gas exploration and production (E&P) activity. E&P activity can be significantly affected by changes in oil and gas prices. HAL's performance is particularly sensitive to the NAM natural gas and pressure-pumping markets. If the impact on the company from any of these factors proves to be greater/less than we anticipate, we believe the stock will likely have difficulty achieving our target price or could outperform it.

Schlumberger Ltd

(SLB.N; US\$84.75; 1M)

Valuation

We derive our \$110 SLB price target by averaging P/E and EV/EBITDA methodologies. Our target is based on historical analysis of SLB and group multiples.

Our P/E derivation generates a price target of \$110 by applying a 22.0x multiple to our *forward 12-month EPS estimate of \$5.00. The multiple is below the 33.6x peak SLB multiple reached in the most recent downturn and is well above the 10.2x trough reached at the peak of the last upturn. The multiple is based on historical analysis of SLB and relative market multiples and is within the 7.8x–33.8x historical range where the average of large cap services stocks traded over the past ten years. The median group P/E multiple was 19.9x in the most recent cycle.

Our EV/EBITDA derivation generates a price target of \$109 by applying a 11.8x EV/EBITDA multiple to our *forward-12-month EBITDA of \$12.7 billion. The multiple is below the 14.3x peak SLB multiple reached in the most recent downturn and is well above the 5.6x trough reached at the peak of the last upturn. The multiple is based on historical analysis of SLB and relative market multiples and is within the 4.3x–14.7x historical range where the average of large cap services stocks traded over the past ten years. The median group EV/EBITDA multiple was 9.6x in the most recent cycle.

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

Risks

Our Medium Risk rating on SLB is based on a combination of quantitative and qualitative risk assessments compared with those faced by other stocks covered by Citi Investment Research and Analysis (CIRA). Derivation of our price target and resulting Expected Total Return (ETR) is based on projected financial performance, which is highly dependent on the level of oil and natural gas exploration and production (E&P) activity. E&P activity can be significantly affected by changes in oil and gas prices, which tend to be highly volatile. International competition has also

intensified and if the trend proves more severe than anticipate, the stock may not achieve our price target. If the impact on the company from any of these factors proves to be greater/less than we anticipate, we believe the stock will likely have difficulty achieving our target price or could outperform it.

Weatherford International Inc

(WFT.N; US\$20.78; 1H)

Valuation

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

Our P/E derivation generates a price target of \$26 by applying a 16.0x multiple to our *forward 12-month EPS estimate of \$1.62. The multiple is below the 29.4x peak WFT multiple reached in the most recent downturn and is well above the 5.8x trough reached at the peak of the last upturn. The multiple is based on historical analysis of WFT and relative market multiples and is within the 7.8x–33.8x historical range where the average of large cap services stocks traded over the past ten years. The median group P/E multiple was 19.9x in the most recent cycle.

Our EV/EBITDA derivation generates a price target of \$28 by applying a 7.5x EV/EBITDA multiple to our *forward-12-month EBITDA of \$3.5 billion. The multiple is below the 14.8x peak WFT multiple reached in the most recent downturn and is well above the 4.2x low multiple reached at the peak of the last upturn. The multiple is based on historical analysis of WFT and relative market multiples and is within the 4.3x–14.7x historical range where the average of large cap services stocks traded over the past ten years. The median group EV/EBITDA multiple was 9.6x in the most recent cycle.

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

Risks

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

Baker Hughes Inc

(BHI.N; US\$70.71; 2H)

Valuation

We derive our \$69 BHI price target by averaging P/E and EV/EBITDA methodologies. Our target is based on historical analysis of BHI and group multiples.

Our P/E derivation generates a \$69 price target by applying a 14.0x multiple to our *forward 12-month EPS estimate of \$4.90. The multiple is below the 34.5x peak BHI multiple reached in the most recent downturn and is well above the 6.8x trough reached at the peak of the last upturn. The multiple is based on historical analysis of BHI and relative market multiples and is within the 7.8x–33.8x historical range within which the average of large cap services stocks traded over the past ten years. The median group P/E multiple was 19.9x in the most recent cycle.

Our EV/EBITDA derivation generates a \$69 price target by applying a 6.5x EV/EBITDA multiple to our *forward-12-month EBITDA of \$5.01 billion. The multiple is below the 15.5x peak BHI multiple reached in the most recent downturn and is well above the 3.4x low multiple reached at the peak of the last upturn. The multiple is based on historical analysis of BHI and relative market multiples and is within the 4.3x–14.7x historical range within which the average of large cap services stocks traded over the past ten years. The median group EV/EBITDA multiple was 9.6x in the most recent cycle.

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

Risks

Our High Risk rating on BHI is based on a combination of quantitative and qualitative risk assessments compared with those faced by other stocks covered by Citi Investment Research and Analysis (CIRA). The principal elements of risk are price and earnings volatility. Derivation of our price target and resulting Expected Total Return (ETR) is based on projected financial performance, which is highly dependent on the level of oil and natural gas exploration and production (E&P) activity. E&P activity can be significantly affected by changes in oil and gas prices, which tend to be highly volatile. Other risks to BHI's stock price performance include political risks related to the company's broad international presence, particularly in South America, Africa, and Russia, and management risks associated with the rapid growth seen in several of its business segments. If the balance of these factors is more negative than we anticipate, the stock may not achieve our price target. If the impact on the company from any of these factors proves to be greater/less than we anticipate, we believe the stock will likely have difficulty achieving our target price or could outperform it.

Appendix A-1

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

Halliburton Co (HAL)

Ratings and Target Price History Fundamental Research

Analyst: Robin Shoemaker
Covered since July 1 2008

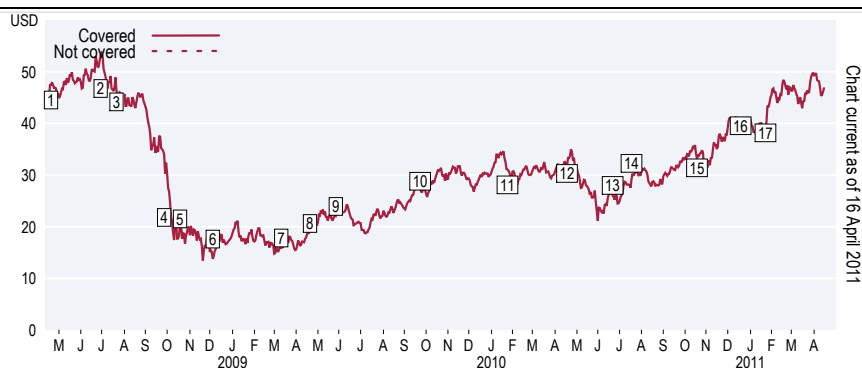


Chart current as of 16 April 2011

Date	Rating	Target Price	Closing Price
1 21-Apr-08	1H	*60.00	47.46
2 30-Jun-08	1H	*63.00	53.07
3 22-Jul-08	1H	*64.00	46.30
4 26-Sep-08	1H	*46.00	34.00
5 20-Oct-08	1H	*36.00	20.80
6 4-Dec-08	1H	*25.00	13.78

* Indicates change

Date	Rating	Target Price	Closing Price
7 11-Mar-09	1H	*20.00	15.77
8 21-Apr-09	1H	*23.00	19.96
9 27-May-09	1H	*27.00	22.06
10 23-Sep-09	1H	*34.00	27.35
11 25-Jan-10	1H	*40.00	31.07
12 19-Apr-10	1H	*43.00	31.57

Date	Rating	Target Price	Closing Price
13 22-Jun-10	1H	*34.00	25.99
14 19-Jul-10	1H	*42.00	29.17
15 19-Oct-10	1H	*47.00	33.18
16 19-Dec-10	1H	*50.00	39.89
17 24-Jan-11	1H	*56.00	39.55

Rating/target price changes above reflect Eastern Standard Time

Halliburton Co (HAL)

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

Analyst: Robin Shoemaker
Covered since July 1 2008

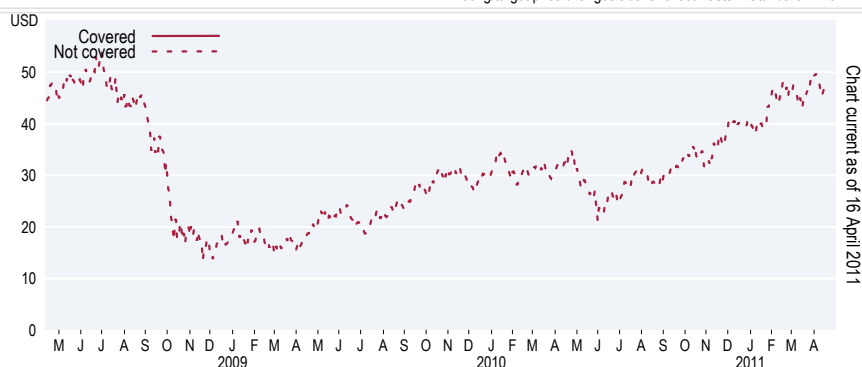


Chart current as of 16 April 2011

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Baker Hughes Inc (BHI)

Ratings and Target Price History Fundamental Research

Analyst: Robin Shoemaker
Covered since July 1 2008

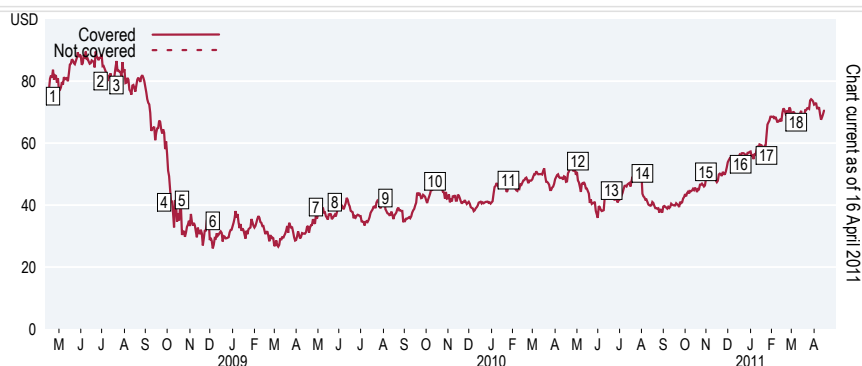


Chart current as of 16 April 2011

Date	Rating	Target Price	Closing Price
1 23-Apr-08	2H	*85.00	83.68
2 30-Jun-08	2H	*90.00	87.34
3 22-Jul-08	2H	*92.00	86.50
4 26-Sep-08	2H	*71.00	63.40
5 22-Oct-08	2H	*35.00	30.35
6 4-Dec-08	2H	*31.00	26.02

* Indicates change

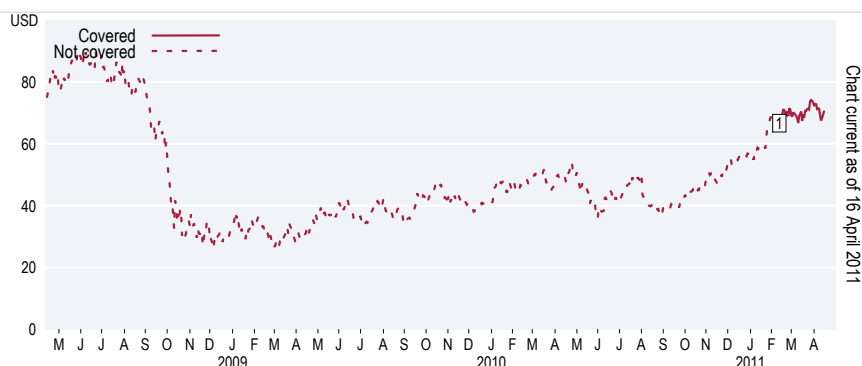
Date	Rating	Target Price	Closing Price
7 29-Apr-09	2H	*37.00	36.95
8 26-May-09	2H	*40.00	36.88
9 5-Aug-09	2H	*39.00	38.68
10 14-Oct-09	*3H	39.00	46.21
11 26-Jan-10	3H	*46.00	46.89
12 4-May-10	*2H	*53.00	47.94

Date	Rating	Target Price	Closing Price
13 21-Jun-10	2H	*47.00	44.09
14 3-Aug-10	2H	*49.00	43.66
15 1-Nov-10	2H	*56.00	48.37
16 19-Dec-10	2H	*58.00	56.25
17 25-Jan-11	2H	*63.00	62.32
18 8-Mar-11	2H	*69.00	68.96

Rating/target price changes above reflect Eastern Standard Time

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

Analyst: Robin Shoemaker
Covered since July 1 2008



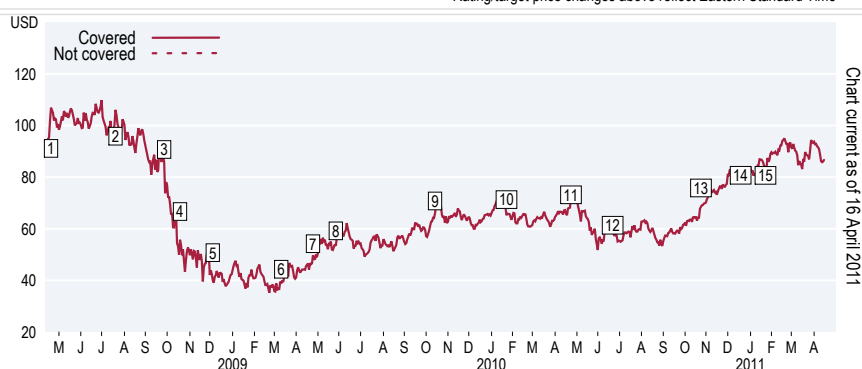
	Date	Rating	Target Price	Closing Price
1	11-Feb-11	*ADD LP	-	67.13

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Schlumberger Ltd (SLB) Ratings and Target Price History Fundamental Research

Analyst: Robin Shoemaker
Covered since July 1 2008



	Date	Rating	Target Price	Closing Price
1	20-Apr-08	1M	*120.00	101.85
2	20-Jul-08	1M	*123.00	100.55
3	26-Sep-08	1M	*109.00	86.03
4	20-Oct-08	1M	*80.00	55.74
5	4-Dec-08	1M	*65.00	40.00

* Indicates change

	Date	Rating	Target Price	Closing Price
6	11-Mar-09	*2M	*41.00	38.80
7	24-Apr-09	2M	*53.00	49.73
8	27-May-09	2M	*56.00	53.41
9	14-Oct-09	*1M	*80.00	66.04
10	22-Jan-10	1M	*84.00	65.24

	Date	Rating	Target Price	Closing Price
11	23-Apr-10	1M	*92.00	72.68
12	22-Jun-10	1M	*77.00	58.26
13	24-Oct-10	1M	*82.00	67.77
14	19-Dec-10	1M	*100.00	81.34
15	23-Jan-11	1M	*110.00	83.48

Rating/target price changes above reflect Eastern Standard Time

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

Analyst: Robin Shoemaker
Covered since July 1 2008



* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Weatherford International Inc (WFT)

Ratings and Target Price History Fundamental Research

Analyst: Robin Shoemaker
Covered since July 1 2008

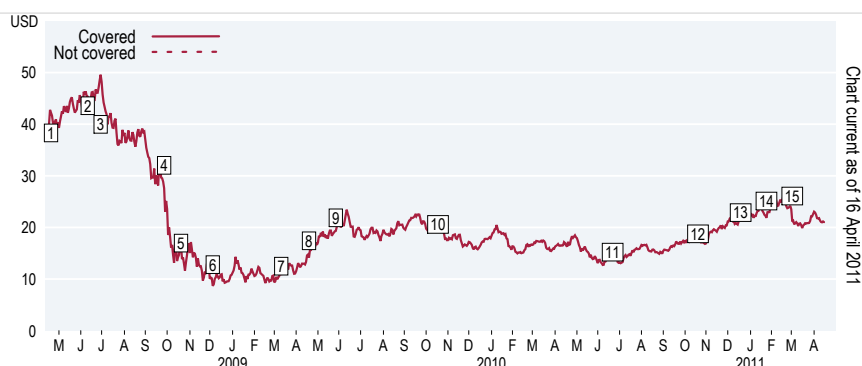


Chart current as of 16 April 2011

	Date	Rating	Target Price	Closing Price
1	21-Apr-08	1H	*\$51.50	42.21
2	11-Jun-08	1H	*\$52.00	45.34
3	30-Jun-08	*2H	52.00	49.59
4	26-Sep-08	2H	*\$34.00	27.60
5	21-Oct-08	*1H	*\$30.00	16.61

* Indicates change

	Date	Rating	Target Price	Closing Price
6	4-Dec-08	1H	*\$22.00	8.68
7	11-Mar-09	1H	*\$15.00	10.83
8	20-Apr-09	1H	*\$17.00	14.17
9	27-May-09	1H	*\$24.00	19.33
10	19-Oct-09	1H	*\$25.00	19.92

	Date	Rating	Target Price	Closing Price
11	22-Jun-10	1H	*\$19.00	14.61
12	20-Oct-10	1H	*\$21.00	17.37
13	19-Dec-10	1H	*\$27.00	21.99
14	25-Jan-11	1H	*\$29.00	21.86
15	2-Mar-11	1H	*\$27.00	21.14

Rating/target price changes above reflect Eastern Standard Time

Weatherford International Inc (WFT)

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

Analyst: Robin Shoemaker
Covered since July 1 2008

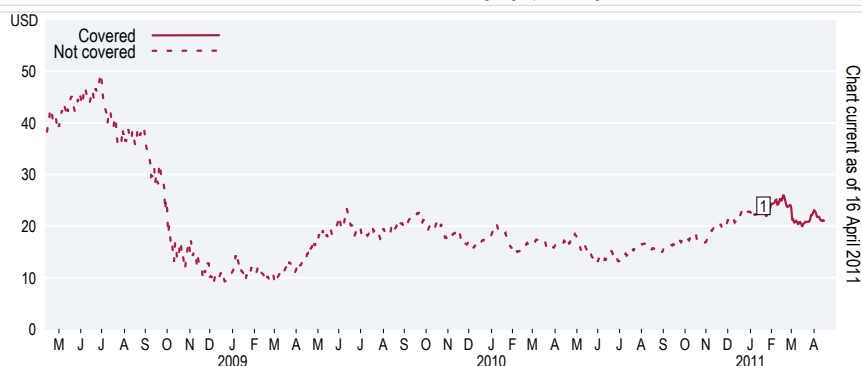


Chart current as of 16 April 2011

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

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Citigroup Global Markets Inc. or its affiliates beneficially owns 1% or more of any class of common equity securities of 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, Schlumberger Ltd.

Citigroup Global Markets Inc. or its affiliates has received compensation for investment banking services provided within the past 12 months from Halliburton Co, Baker Hughes Inc, 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 Schlumberger Ltd.

Citigroup Global Markets Inc. or an affiliate received compensation for products and services other than investment banking services from Halliburton Co, Baker Hughes Inc, Schlumberger Ltd, 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): Halliburton Co, Baker Hughes Inc, Schlumberger Ltd.

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: Halliburton Co, Baker Hughes Inc, Schlumberger Ltd.

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: Halliburton Co, Baker Hughes Inc, Schlumberger Ltd, 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.

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Citi Investment Research & Analysis Ratings Distribution

Data current as of 31 Mar 2011	12 Month Rating			Relative Rating		
	Buy	Hold	Sell	Buy	Hold	Sell
Citi Investment Research & Analysis Global Fundamental Coverage	52%	37%	11%	9%	82%	9%
% of companies in each rating category that are investment banking clients	43%	41%	41%	51%	41%	45%

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Risk ratings, which take into account both price volatility and fundamental criteria, are: Low (L), Medium (M), High (H), and Speculative (S).

Investment ratings are a function of CIRA's expectation of total return (forecast price appreciation and dividend yield within the next 12 months) and risk rating.

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). Stocks placed "Under Review" will be monitored daily by management. 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 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 analyst's coverage universe 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 his coverage universe, 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.

For securities in developed markets (US, UK, Europe, Japan, and Australia/New Zealand), investment ratings are: 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).

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.

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Citigroup Global Markets Inc

Robin Shoemaker; Mark Brown; Garrett Gough

OTHER DISCLOSURES

The subject company's share price set out on the front page of this Product is quoted as at 18 April 2011 04:00 PM on the issuer's primary market.

Citigroup Global Markets Inc. and/or its affiliates has a significant financial interest in relation to Halliburton Co, Baker Hughes Inc, 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.)

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

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