

<b>Schlumberger Limited</b> <b>Ticker:</b> SLB <b>Sector:</b> Energy <b>Industry:</b> Oil Services	<b>Intrinsic Value:</b> \$109.91 <b>Current Price:</b> \$90.45 <b>Stop/Loss:</b> \$82.43 <b>Upside Review:</b> \$137.39	<b>TTM P/E:</b> 17.92 <b>Forward P/E:</b> 15.85 <b>FV Imp. P/E:</b> 12.34 <b>Beta:</b> 1.18	<b>Market Cap:</b> \$118.25 B <b>Dividend Yield:</b> 1.38% <b>52 Wk Range:</b> 69.08 – 94.91
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**Industry Trends:** Capital expenditures expected to rise 4.9% yoy for independent E&Ps, while integrated oil companies are expected to cut costs by 1.6%. Resurgence in the U.S., especially the Gulf region, will offset weaker activity in Mexico and Brazil as Gulf permitting has risen to pre-Deepwater Horizon activity. Market share, pricing, and lower costs are the key to servicers in 2014.

**Investment Thesis:** Schlumberger is the global leader of oil services in terms of size and scope of operations, providing everything from wireline and testing to artificial lift and coiled tubing. The cost of oil exploration and production has risen dramatically, as the low-hanging fruit has now been plucked. Producers face the challenge of finding new reserves in increasingly remote locations, and greater water depths offshore. The ability to quickly and accurately locate, assess, and exploit these hard-to-reach reserves places greater importance on the capabilities of oil-service firms--a trend expected to continue for the foreseeable future. As state-run oil increasingly seek project management for oil fields facing declining production and deep-water operations, Schlumberger's size and brand recognition plays an important factor.

**Business Summary:** Schlumberger NV is a supplier of technology, integrated project management and information solutions to customers working in the oil and gas industry worldwide.

**Competitive Analysis:**

Schlumberger splits its 15 product lines into three segments: reservoir characterization, drilling, and production. The breadth of Schlumberger's products and services allows the company to package its offering, thereby creating cost efficiencies for the customer by streamlining processes and reducing delays. The company claims it holds a leading market share in nine of its product lines, mostly in the characterization and drilling segments. Main competitors include: Baker Hughes, Halliburton, and Weatherford Int.

**Pros:**

- Oil demand has remained steady, yet oil has become more expensive to extract, benefiting oil-service firms
- Schlumberger has a lead in Russian oil plays, which continue to grow
- Spending on R&D and acquisitions, extends the product portfolio and which increases market share and profitability

**Risk Factors:**

- An oversupply of pressure pumping capacity has negatively affected margins
- Schlumberger is active in Russia and China, where intellectual property rights may not be honored
- Brazil's Petrobras controls the largest deep-water exploration opportunities in the world, but has shifted its focus away from new deep-water exploration work through 2014 as it seeks to cut costs.

**FEB: 5 year stock performance**



**Total Return Estimates:**

**3 Yr FV Reversion\*:** 7.91% p.a.  
**5 Yr FV Reversion\*:** 5.13% p.a.  
 (\* - From limit order price of \$90.45)

**Key Valuation Assumptions:**

Est. Revenue Growth	11.72%
WACC	10.51%
Expected Inflation	3.5%
Terminal Growth Rate	3.5%
10 yr. Risk Free Rate	2.74%
Equity Risk Premium	5.9%
Tax Rate	21.26%

**Key Financial Data:**

Est. 2013 EPS	5.09
Est. 2014 EPS	5.73
3-5 Yr. Est. EPS Growth	8.9
PEG (TTM)	1.14
Credit Quality	BBB
ROE	18.1%
ROA	10.47%
Price /Book	3.01
Price/Cash Flow	13.17
Debt/Equity	33.24%
Current Ratio	1.94
Quick Ratio	1.47

**CSR Scores**

Human Rights	SLB/Ind. Avg. 1/0
Business Ethics Policy	1/1
ESG Disclosure Score	38.43/22.21
Equal Opportunity Score	1/1
Emission Reduction	1/0
Environmental Disclosure Score	30.23/21.59

Prepared By: Robert Shedrawy on Feb 17, 2014

**Direct Competitor Comparison**

	SLB	BHI	HAL	WFT	Ind
Market Cap:	118.25B	26.09B	45.58B	11.37B	706
Employees:	123,000	59,400	77,000	70,000	1
Qtrly Rev Growth (yoy):	0.07	0.10	N/A	0.00	
Revenue (ttm):	45.27B	22.36B	29.40B	15.58B	449
Gross Margin (ttm):	0.22	0.17	0.15	0.21	
EBITDA (ttm):	12.01B	3.65B	6.04B	2.34B	58
Operating Margin (ttm):	0.18	0.09	0.14	0.06	
Net Income (ttm):	6.80B	1.10B	2.11B	-196.00M	
EPS (ttm):	5.05	2.47	2.35	-0.26	
P/E (ttm):	17.92	24.16	22.79	N/A	2
PEG (5 yr expected):	0.85	0.81	0.62	0.44	
P/S (ttm):	2.60	1.17	1.55	0.73	