8 May 2019
Europe
Equity Research
Oil & Gas Equipment & Services

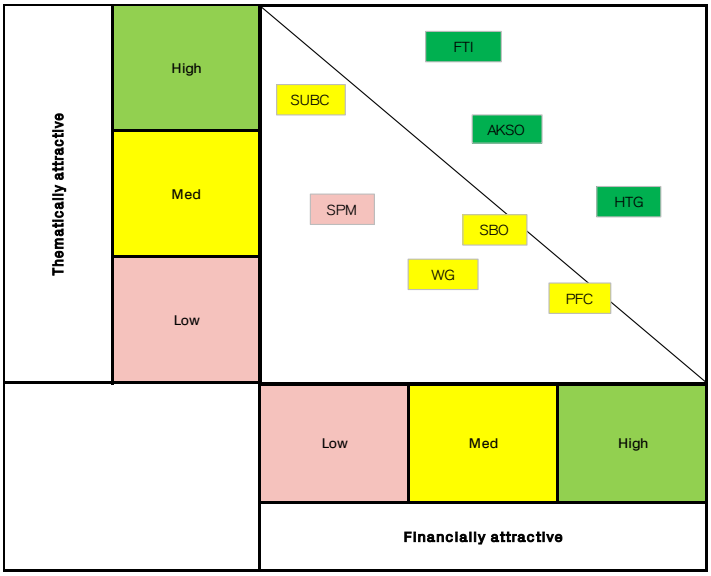
European Oil Services

INITIATION

Back on their feet, but work to do

- **We initiate coverage of the European Oil Services sector with a positive view, based on our deep dive into the progress made on the new supplier-led 'integrated' subsea model.** However, we still see work to do: our Credit Suisse HOLT® analysis in this report shows the European sector has seen returns decline since 2007, consistently below the levels delivered by its US counterparts. We initiate coverage of the following stocks and highlight TechnipFMC as our thematic winner: Aker Solutions (Outperform, TP Nkr 52), TechnipFMC (Outperform, TP €26 European listing; David Farrell also assumes primary coverage of TechnipFMC's US listing, TP US$29, from US$24), Hunting (Outperform, TP 745p), Saipem (Underperform, TP €4.1), Wood PLC (Neutral, TP 505p), Petrofac (Neutral, TP 539p), Subsea 7 (Neutral, TP Nkr 117) and Schoeller-Bleckmann (Neutral, TP €84).
- **Outside of US shale, the recovery in activity levels does not appear to have been derailed,** despite the 4Q18 wobble in oil prices. Cyclical and structural dynamics are positively affecting both offshore and LNG developments, and in US shale we believe the worst should be behind us.
- **Outperform-rated names offer thematic and financial attractiveness:** We have focused on two major themes – the subsea integrated contracting model and the ability of E&C companies to meet the upcoming wave of LNG project sanctions. However, our coverage universe has diverse end markets and is exposed to more than just these two trends.

Figure 1: European OFS: Thematic/financial attractiveness



Financial attractiveness is based on a mixture of valuation, (focus on) corporate returns, upside risk to consensus estimates, FCF and dividend yields, leverage. Source: Credit Suisse estimates

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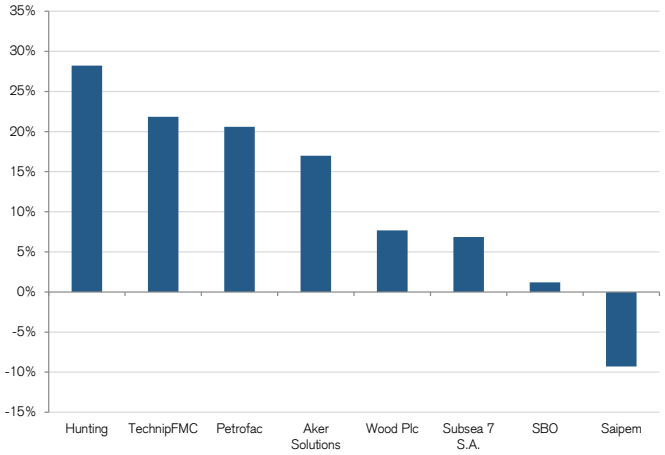
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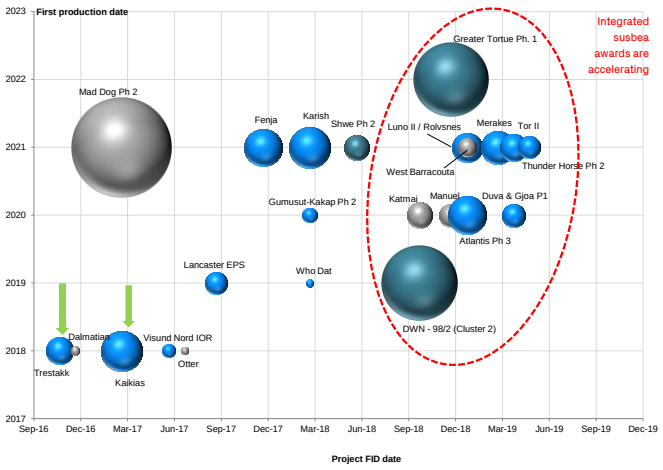
Key charts

Figure 2: Upside/(downside) to target price



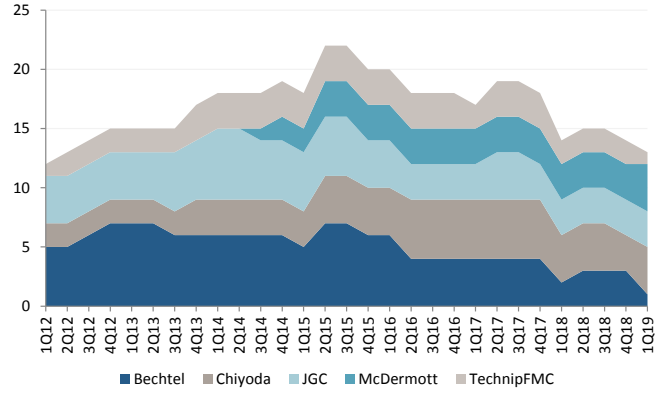
Source: Refinitiv, Credit Suisse estimates. Priced as at close on 1st May 2019

Figure 3: Integrated subsea awards accelerating



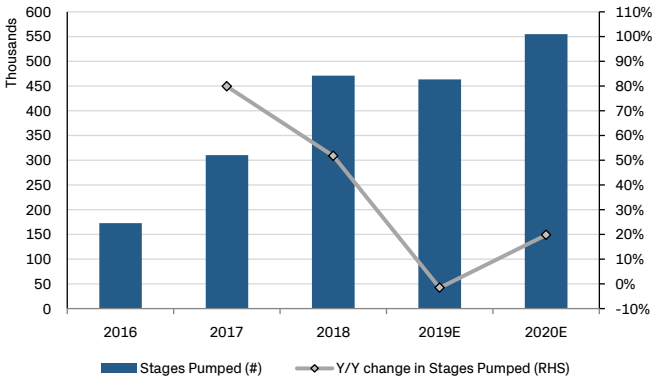
Source: Company data, Credit Suisse research. (Blue = TechnipFMC; Grey = Subsea Integration Alliance; Green= Baker Hughes GE/McDermott. Bubble size = project cost $m

Figure 4: Bechtel & TechnipFMC have capacity for new LNG projects (# of projects being worked on)



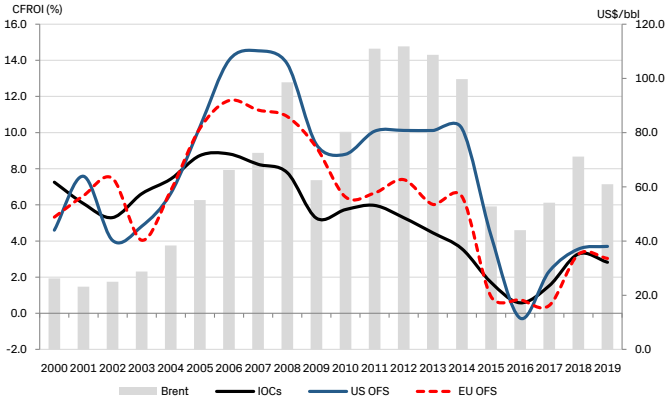
Source: Company data, Credit Suisse research

Figure 5: Frac stages in US shale expected to be flat year-on-year before growing strongly



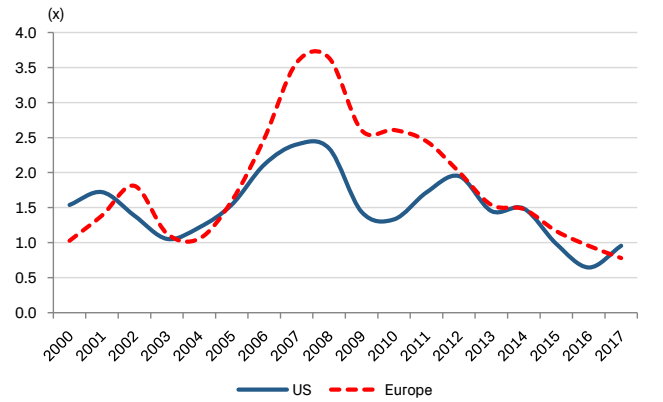
Source: Company data, Credit Suisse estimates

Figure 6: Sector returns have been in decline since 2007 and consistently underperformed the US



Source: Credit Suisse HOLT®

Figure 7: European Oil Service Companies need to harvest 2007-14 capex (capex to depreciation ratio)



Source: Credit Suisse HOLT®

Executive summary

We initiate coverage of the European Oil Services sector with an overall positive stance (see Figure 2) given industry dynamics and valuations. This report is divided into seven sections:

- **Investment snapshots & comps table (from page 5):** We summarise the drivers of our Outperform ratings on TechnipFMC, Hunting and Aker Solutions, our Underperform rating on Saipem and Neutral ratings on Schoeller-Bleckmann, Subsea 7, Petrofac and Wood PLC.
- **Attractively valued sector (from page 8):** Share prices have had to contend with a slower recovery in earnings as Integrated Oil Companies and E&Ps have prioritised returns over production growth. We think the sector is now attractively valued, with the majority of stocks trading below their long-term multiples. Overall, our coverage universe is currently trading on 5.8x 2020E EV/EBITDA, below the 6.5x average multiple for the sector over the past decade.
- **Focus on returns now needed (from page 16):** Balance sheets are strong and free cash flow yields expanding as we pass through the nadir of revenue and margins. This should bode well for rising shareholder distributions. At this stage, we think it would make sense for the companies' management teams to consider the return profiles of incremental capex or M&A. Sector returns, as defined by HOLT CFROI®, have been in decline since 2007 and consistently below US counterparts. We believe over-investment has been a key reason for this.
- **Subsea: The "vertically integrated" model takes off (from page 22):** We have undertaken a comprehensive review of the 23 supplier-led "integrated" contracts awarded since 4Q16. TechnipFMC has been the clear winner in this market with ~60% market share (Figure 3) and an even more dominant position amongst the Independents. We see the take-up from Global IOCs as encouraging for the model.
- **LNG: Multiple opportunities, but beware the execution risks (from page 30):** New LNG developments are set to accelerate with some of the self-regulating brakes on the market having less of an effect than they have historically. This is a positive dynamic for E&C companies, but we are aware of the risks of executing these projects. Our review of projects brought on-stream since 2010 shows that roughly two-thirds were late. We think markets should remain circumspect on de-risking profits from associated order intake.
- **US shale: Recovery expected from 2020 (from page 36):** Shale operators are under pressure to deliver capital back to shareholders and live within cash flow. With budgets set in the 4Q oil price nadir, this has negatively affected planned activity levels and bottom-up CS modelling indicates high-single-digit capex declines in 2019. From 2020E, however, we see capex growing again and completed stages up ~20%.
- **Company sections (page 40 onwards):** For each company, in addition to divisional reviews and valuation, we analyse a specific key issue.

Aker Solutions (O/P, TP Nkr 52): Order intake required to meet consensus 2020 revenue

Hunting (O/P, TP 745p): Positioning of Hunting Titan versus independent competitors

Petrofac (N, TP 539p): Workings behind our SFO settlement assumption

Saipem (U/P, TP €4.1): Review of ongoing legal disputes

Schoeller-Bleckmann (N, TP €84): Sector-leading returns justify the multiple

Subsea 7 (N, TP Nkr 117): Competitive positioning of Renewables business

TechnipFMC (O/P, TP €26/US$29): Drivers of 2019 cash flow

Wood plc (N, TP 505p): Exploring hypothetical sale of the UK North Sea MMO business

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Note: Due to the 1 May holiday in parts of Europe, pricing in this report is as of 1 May for stocks listed in London and the US and 30 April for all others.

Investment snapshots & comps table

Although we have a positive view on the European Oil Services sector overall, we take a selective view on the stocks, with three Outperforms, four Neutrals and one Underperform.

Outperforms

Aker Solutions – TP Nkr 52

- Our positive view on Aker Solutions counters to its poor positioning in the supplier-led "integrated" subsea model, but we recognise that i) as the model moves into West Africa, the Aker Solutions/Saipem Alliance should see its prospects for awards improve; ii) it has significant exposure to Brazil, where the pipeline for new awards is strong and unlikely to be contracted on an integrated basis; and iii) its gas compression technology fits the trend of monetising resources through subsea infrastructure. The company is starting to generate revenue and profits from its Carbon Capture Storage technology and over the more medium term is positioning for floating wind.
- The company has weathered the downturn well, holding margins much better than many expected, which we see as a testament to the operational efficiencies put in place. This should provide some operational leverage in the recovery. We also like its earlier-stage exposure to engineering and equipment manufacturing, compared to its European peers which are focused later-stage installations. Our analysis shows that 2020 revenue growth of 5% (on upgraded 2019 revenue guidance) can be achieved with <10% order intake growth in 2019.
- We believe that many of the headwinds to the investment case, such as the impact of IFRS 16 on the balance sheet, negative near-term free cash flow and paucity of 1H19 awards, are appropriately reflected in the current share price. The current 2-year forward EV/EBITDA of ~6.5x compares with a historical average of 7.4x.

Hunting – 745p

- Hunting's share price has fallen the most across our coverage universe over the past 12 months (-28% vs the FTSE All-Share index down 4%) as investors have questioned the demand outlook for Hunting's Titan products given its US shale customer base is transitioning towards living within cash-flow. Hunting may well experience some pressure on Titan profits in 2019; however we believe that this has been well telegraphed by both the company itself and the broader North America Land service companies and we would expect the stock to perform well as we move into a more buoyant market in 2020E. Best-in-class margins for Titan in 2H18 suggest that the division can weather the pressure from the competition catching up in the smart gun perforating market. In our view, the market is also failing to value the positive developments: i) within the corporate cost structure where there has been a sharp focus on improving utilization levels, and ii) the markets outside US well completions, where Hunting has significant earnings power and which are starting to see cyclical recovery come through. These businesses contributed negative EBITA in 2018 but in 2014 were supporting EBITA to the tune of ~US$135m. Asia Pacific in particular should see a decent improvement in 2019.
- Management has stated that revenue levels are on a recovery trajectory following a soft 4Q18, but we think the market remains unconvinced. Hunting trades on under ~6.0x 2020E EV/EBITDA, below its long-term average and that of peers. The current multiple fails to recognize the position of shale as a baseload production source and scope for profit contribution from the international divisions, in our view.

TechnipFMC – TP US$29 (€26 for FTI PA)

- TechnipFMC is our top thematic pick in the sector. Momentum behind TechnipFMC's integrated subsea offering is building and the company accounts for ~60% of all industry awards under this model. It is the only company to have fully delivered a new field development under this model, with completed contracts by peers being well-boosting projects on existing fields. We think the company has a competitive advantage on near-term tendering.
- We also recognise TechnipFMC's more streamlined vessel fleet as an attempt to improve returns over the medium term, allowing the more commoditised elements to be outsourced. Given its US as well as European listing, we think the push from investors for greater focus on returns is already being heeded.
- Although we are hesitant to favour companies just because they have LNG exposure, we do believe that TechnipFMC has earned the right to be considered one of the leading providers in the industry given its track record on Yamal LNG. Importantly, new LNG contract awards can be executed by the company's A/B teams with Coral FLNG its only major ongoing contract. This reduces execution risk, in our view.
- Financially, we see upside risk to 2019 consensus forecasts, even post the updated 1Q guidance. We are optimistic that upside risk to P&L items can offset the well-telegraphed drag on cash flow as working capital positions unwind.

Underperform

Saipem – TP €4.10

- Saipem has outperformed our coverage universe by more than 50% over the past year, aided by a recovery to "predictable" earnings and spurred by the company announcing a strategic review of the drilling businesses. with investors looking at the strategic review potential of the drilling businesses as a potential catalyst to keep the momentum going (potential disposal). We remain unconvinced that Saipem will be able to complete a clean exit via industry sale. Saipem's Offshore fleet is old and rig type too diverse to attract a bidder in our view whilst the diverse geographical footprint of the Onshore drilling business is too broad to appeal in our opinion.
- Whereas we see margins inflecting for offshore contractors as we pass through 2020, we are concerned that as the favourable Zohr contract concludes and revenue mix tilts towards the Middle East, for Saipem margin progression will be harder to achieve.
- Saipem has set out its plan to grow its LNG market share. We believe that this strategy, at the bottom of the cycle, exposes it to execution risks. The award of Rovuma Area 1 LNG (alongside Chiyoda/McDermott) when it comes should be no surprise given this consortium has been named preferred bidder for some time.
- Saipem has the second-worst corporate returns across our universe and has the lowest 2020E FCF yield in our coverage universe. The stock now trades in line with the sector and we see limited catalysts for a further re-rating.

Neutrals

Petrofac – TP 539p

- We expect the company to agree to a settlement with the SFO this year, which should relieve some of the negative overhang on the stock. However, its cautiousness on winning work in Saudi Arabia is a concern and a negative on the valuation multiple, in

our opinion. The company delivered significant self-help last year, but we do not see any room for this to be repeated in 2019, removing a non-SFO catalyst from the investment case. Upside potential to our TP is relatively high for a Neutral rating; however, we think the investment case carries significantly higher risk vs. our Outperform-rated names.

Schoeller-Bleckmann – TP €84

- The 100% increase in dividends in 2018, in the face of acquisition-led gearing expansion, sends a strong signal about the health of the business. Historically, Schoeller-Bleckmann has traded at a premium to the sector owing to its ability to deliver superior returns and this continues to be the case. Strong growth in revenue outside of US shale should underpin 2019 consensus forecasts.

Subsea 7 – TP Nkr 117

- Subsea 7's alliance with Schlumberger is proving to be a viable alternative to TechnipFMC in the vertically integrated solutions market, which is contributing to order intake in the core SURF & Conventional division remaining strong. However, we are concerned about the near-term (18-month) trajectory for Renewables & Heavy Lift, which could weigh on numbers for longer than consensus anticipates.

Wood Group – TP 505p

- In a more buoyant oil market environment, we think it will be the group's lower-margin divisions that grow fastest. We expect the market to remain unimpressed by the lack of organic margin expansion, with all growth in 2019 pertaining to the delivery of cost synergies. The company's de-leveraging is taking longer than initially expected by management and the market. In the absence of disposals, the organic reduction in net debt during 2019 will be minimal.

Figure 8: Sector comps sheet

Company	Ticker	Mkt Cap					Up/(down)	SP Performance		P/E			EV/EBITDA			PRICE / BOOK		
		(US$m)	Rating	Currency	Current	TP	side	1M	6M	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E
Aker Solutions	AKSOL.OL	1,388	Outperform	NOK	44	52	17%	-1%	-17%	22.5	16.2	12.7	7.8	6.6	5.7	1.6	1.5	1.4
Hunting	HTG.L	1,266	Outperform	GBp	581	745	28%	-5%	-13%	16.3	11.6	9.8	7.9	5.6	4.4	1.0	1.0	0.9
Petrofac	PFC.L	2,015	Neutral	GBp	447	539	21%	-12%	-21%	7.0	6.9	6.3	3.4	3.1	2.5	2.4	2.0	1.7
Saipem	SPMI.MI	5,114	Underperform	EUR	4.52	4.10	-9%	-7%	-2%	32.8	24.8	17.9	5.7	5.2	4.5	1.1	1.1	1.0
SBO	SBOE.VI	1,494	Neutral	EUR	83	84	1%	9%	5%	20.7	16.4	14.0	9.7	7.9	6.7	3.2	2.8	2.5
Subsea 7 S.A.	SUBC.OL	4,135	Neutral	NOK	110	117	7%	-2%	6%	128.0	34.6	20.3	6.9	5.4	4.1	0.7	0.7	0.7
TechnipFMC	FTI.N	10,652	Outperform	USD	23.8	29.0	22%	-1%	-10%	16.7	12.9	11.6	7.5	6.6	5.8	1.0	0.9	0.9
Wood Plc	WG.L	4,171	Neutral	GBp	469	505	8%	-8%	-31%	10.7	8.7	7.6	6.8	5.7	5.0	0.9	0.9	0.9
Average							**12%**	**-3%**	**-10%**	**31.8**	**16.5**	**12.5**	**7.0**	**5.8**	**4.8**	**1.5**	**1.4**	**1.2**
	Net Debt / EBITDA			**ROE (Avg)**			**ROIC (Avg)**			**Dividend Yield**			**FCF Yield**			**FY 1 EBITDA**		
	2019E	**2020E**	**2021E**	**2019E**	**2020E**	**2021E**	**2019E**	**2020E**	**2021E**	**2019E**	**2020E**	**2021E**	**2019E**	**2020E**	**2021E**	**C.S.**	**Consensus**	**Diff (%)**
Aker Solutions	2.9	2.3	1.9	7.0%	9.4%	11.1%	7.2%	7.0%	8.3%	1.5%	2.1%	2.7%	-7.0%	7.6%	8.8%	2,469	2,342	5%
Hunting	-0.5	-0.8	-1.3	6.6%	8.9%	9.7%	7.2%	9.9%	11.6%	1.2%	1,3%	1.4%	6.1%	8.3%	11.0%	151	154	-2%
Petrofac	0.0	-0.5	-0.8	37.4%	32.1%	29.7%	31.4%	29.2%	33.8%	6.5%	6.7%	6.9%	6.9%	12.1%	17.5%	586	568	3%
Saipem	1.5	1.3	1.0	3.5%	4.4%	5.8%	4.9%	5.4%	6.6%	0.0%	0.0%	0.0%	3.4%	3.1%	5.1%	1,096	1,038	6%
SBO	0.9	0.5	0.0	16.4%	18.2%	18.6%	14.6%	16.0%	18.5%	1.7%	2.0%	2.2%	6.5%	6.3%	7.8%	152	149	2%
Subsea 7 S.A.	-0.3	-0.4	-0.8	0.5%	2.0%	3.4%	0.9%	2.2%	3.7%	1.4%	1.4%	1.7%	6.3%	7.5%	10.4%	572	594	-4%
TechnipFMC	-0.1	-0.6	-0.8	5.9%	7.6%	7.9%	8.4%	8.0%	8.9%	2.2%	2.2%	2.2%	-5.4%	12.0%	10.1%	1,608	1,495	8%
Wood Plc	2.3	1.8	1.3	8.6%	10.6%	11.8%	5.5%	6.8%	8.0%	5.8%	5.8%	6.0%	9.1%	13.5%	15.7%	917	870	5%
Average	**0.8**	**0.4**	**0.1**	**10.7%**	**11.6%**	**12.2%**	**10.0%**	**10.6%**	**12.4%**	**2.5%**	**2.9%**	**2.9%**	**3.2%**	**8.8%**	**10.8%**			**3%**

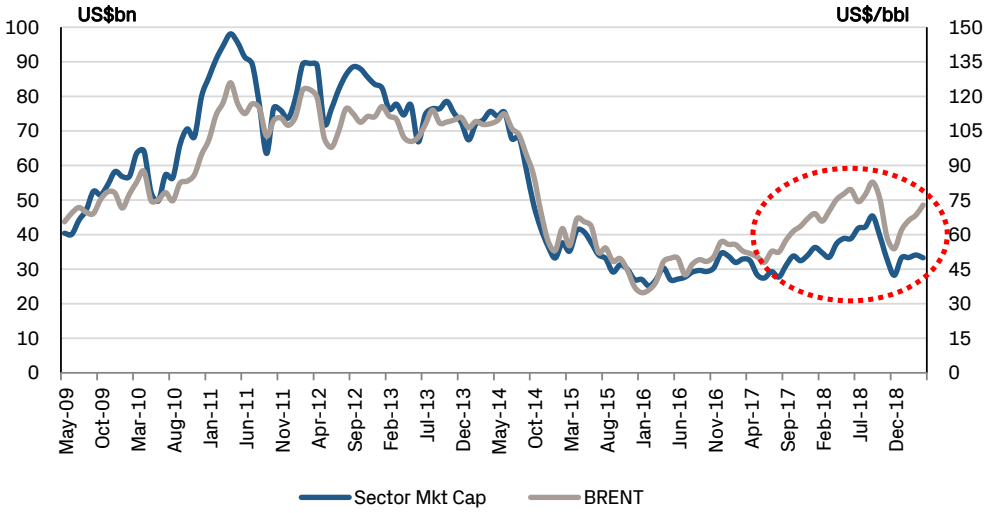
Priced as at close on 1st May 2019
Source: Credit Suisse estimates. Refinitiv (Consensus EBITDA)

Attractively valued sector

Coming to terms with a slower recovery

Over the past decade, the valuation of the Oil Services sector has moved consistently with the oil price. The equation was simple. Higher oil prices drove higher cash flows, which then funded higher capex and therefore demand for Oil Services companies' products. However, the strength of this relationship has fallen significantly since September 2017, with the R-squared dropping from 0.94 (Jan 2009 – Sept 2017) to 0.83 (Oct 2017 – Feb 2019). As a result, despite the oil price rising over 70% from its lows to end of March 2019, the market capitalization of the sector is up only 12%.

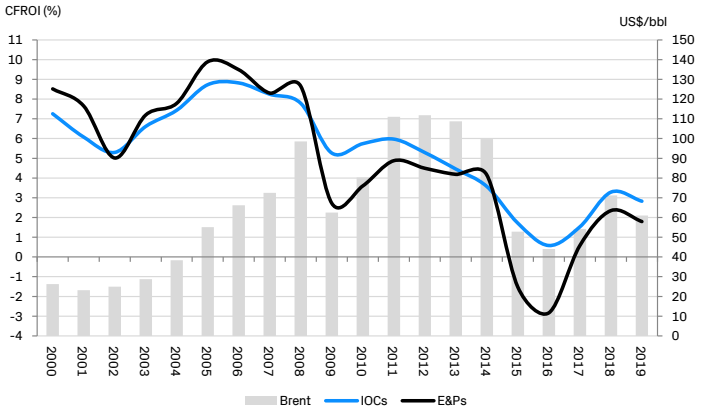
Figure 9: The aggregate sector value has not recovered as quickly as the oil price as clients exercise expenditure restraint



Source: Refinitiv, Credit Suisse research. Note: Excludes companies where data is not available for the full time period including TechnipFMC, Kvaerner, Odjfell Drilling

Referencing Credit Suisse's proprietary HOLT database, which analyses returns on the basis of CFROI, we can see that the CFROI for global E&Ps and IOCs peaked in 2005 and 2006, respectively, when Brent was less than US$70/bbl. The subsequent surge in oil prices was not captured via improved returns, with this value slipping down the value chain (and as we show later, only for a small period to the oil service companies).

Figure 10: CFROI returns for E&Ps and IOCs were in decline for a decade prior to the recent oil price collapse

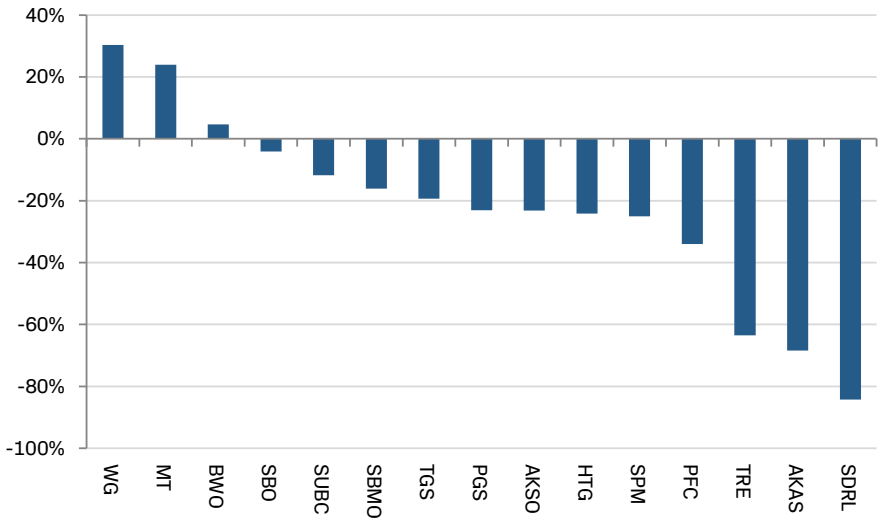


Source: Refinitiv, Credit Suisse HOLT

After a decade of declining returns, producer management teams were already under pressure from shareholders to prioritize value and returns ahead of production growth, even before oil prices collapsed (IOCs slipped below the global CFROI average of 6% in 2012).

Even though these commitments had been well publicised (and welcomed), EBITDA estimates for oil service companies still proved too ambitious when the recovery came through. Nearly every company in the sector saw downward revisions to 2018 EBITDA forecasts over the period from 1 January 2016. These revisions were not trivial. The only true exception was Maire Tecnimont, where the €3.9bn Amursky contract materially changed the outlook (Wood Group should be ignored as 2018 results benefitted from the AMEC Foster Wheeler acquisition).

Figure 11: 2018 EBITDA results relative to market expectations on 1 January 2016; Nearly all companies undershot

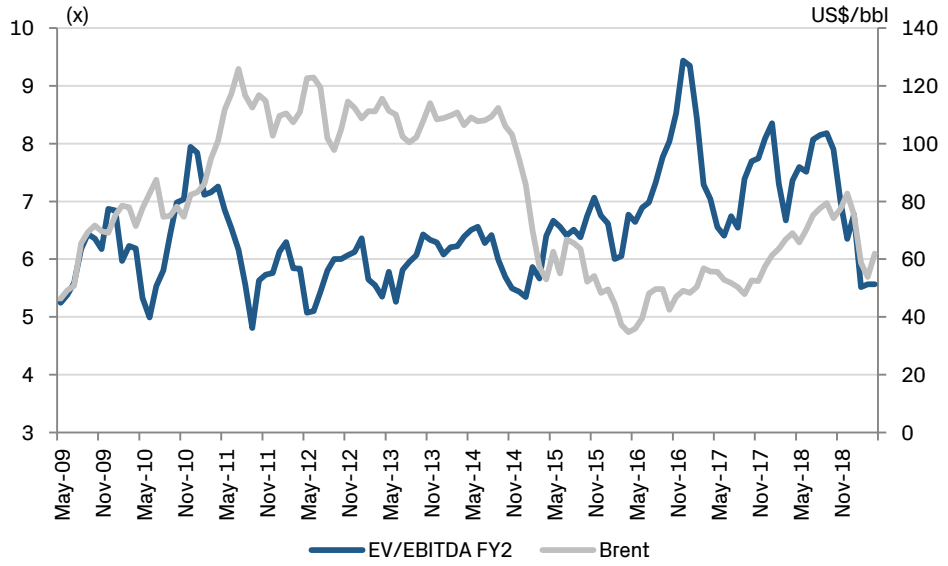


Source: Refinitiv, Company data

Market looks at FY2 EV/EBITDA as key multiple

With earnings across the sector decimated, and in many cases dropping into negative territory, near-term PE multiples were meaningless for investors. Instead, the market gravitated towards EV/EBITDA as the metric of choice. In particular, given i) the point in the cycle, and ii) visibility on revenues, investors have been willing to look at FY2 EBITDA. At a sector level, using consensus data, Oil Services look attractively valued, trading on an EV/EBITDA <6.0 x (vs 6.5x over the past decade).

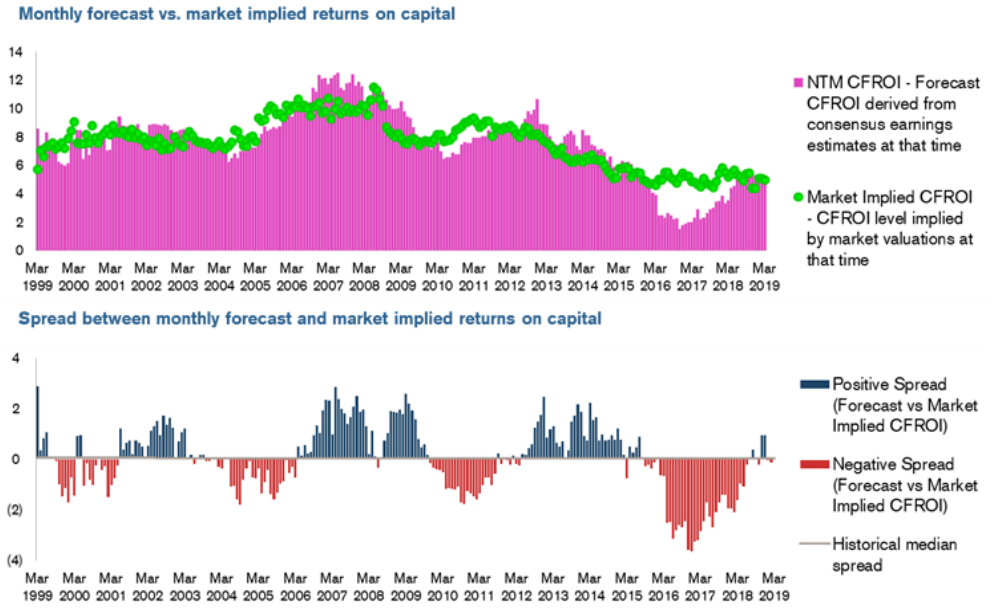
Figure 12: European Oil Service Sector EV/EBITDA (FY2) vs Oil Price. The two tend to move in opposite directions. When oil prices fall, the market will look through the cuts to EBITDA



Source: Refinitiv

The expansion in EV/EBITDA multiple seen above is consistent with HOLT's comparison of buy-side and sell-side expectations of forecast CFROI. The pink bars in Figure 13 reflect the CFROI implied by consensus EPS forecasts, whereas the green dots reflect the CFROI that HOLT models is discounted within share prices. What is clear is that the current downturn has caused the largest diversion over the past two decades. However, as of March, the divergence was negligible, suggesting that the sector is perhaps getting closer to fair value.

Figure 13: Analyst- and market-implied CFROI at similar levels suggesting fairly valued sector



Source: Credit Suisse HOLT

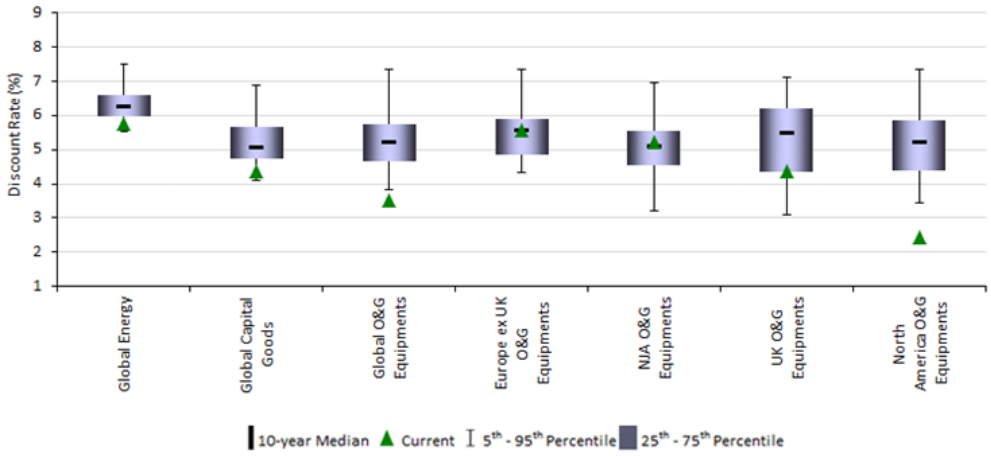
Given this backdrop, we think two distinct observations can be made. One is that stock selection is critical. The market appears convinced that a recovery is inevitable, but with the correlation towards cost of capital levels, there are likely to be winners and losers. Second, it is interesting to position the Oil and Gas Services firms versus the Energy or Capital Goods sectors as a whole. We use the HOLT Discount Rate to help us distinguish between sectors and regions within the Oil and Gas Services industry.

HOLT discount rates are solved for using firms' forecast cash flows and market prices. HOLT derives discount rates by equating firms' enterprise values to the net present value of their forecast free cash flows (FCFFs). Therefore, we solve for a forward-looking, or ex ante, yield as opposed to ex post as described by CAPM. The HOLT discount rate thus results in a relative valuation approach and is similar to calculating a yield-to-maturity on a bond.

In Figure 14, we compare the discount rate of Global Energy at 5.8% vs. Global Oil and Gas Services at 3.5% – a spread of 230bp. On this measure, a strong recovery appears to be well priced in relative to the wider Energy sector.

Within the aggregate of Global Oil & Equipment Services, it is clear that the US is pulling down the average, displaying its lowest yield in history at 2.5%. However, it is not alone: UK firms are at their 25th percentiles at c4.4% and below historical medians. Europe ex UK on this measure is the most attractive at 5.6%, equivalent to its 10-year median.

Figure 14: HOLT discount rates. Europe (ex UK) is the most attractive region



Source: Credit Suisse HOLT

IFRS 16 will impact both EBITDA and EV estimates

We do not think that the sector is quite as cheap as Figure 12 makes out. Our concern is that, since FY18 results, consensus EBITDA forecasts are likely to have increased on the back of IFRS 16 guidance (Accounting for Operating Leases). However, we have far less confidence that consensus aggregators are correctly calculating net debt figures, which should include the Lease Liabilities (as the offset).

The implementation of IFRS 16 from 1 January 2019 will have a meaningful impact on a number of European Oil Service companies. This is either through the lease of offices/ manufacturing plants or for the more asset-intensive companies, the lease of vessels. The average EBITDA uplift across our coverage is ~15% with Aker Solutions and Wood Group the most affected. From a net debt perspective, Aker Solutions is the most impacted.

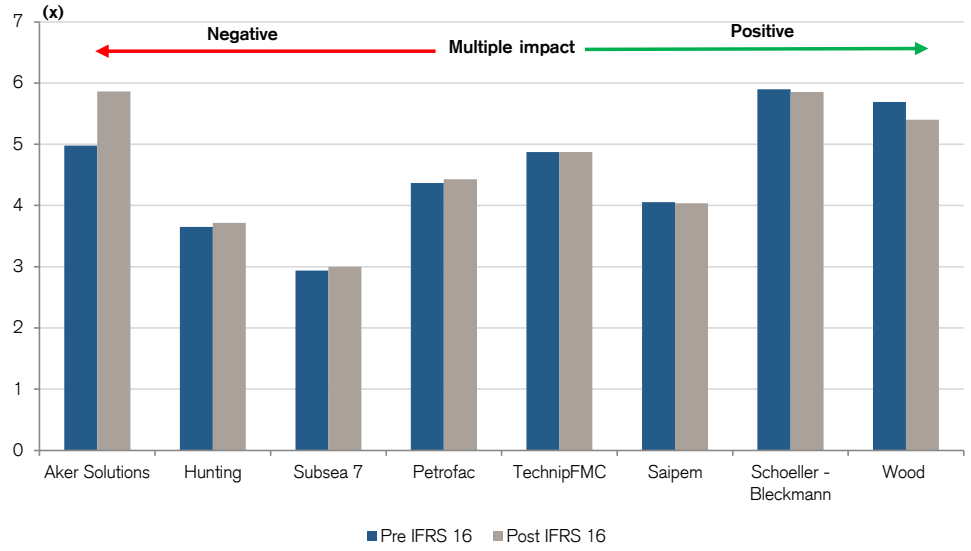
Figure 15: Impact of IFRS 16 - Sector EBITDA uplift of 14% while net debt/EBITDA increases by 0.5x, 2018

		EBITDA				Net Debt			Net Debt / EBITDA		Lease Liabilty /
Company	Currency	Reported	Impact	Pro-Forma	Uplift	Reported	Impact	Pro-Forma	Reported	Pro-Forma	EBITDA
Aker Solutions	Nok m	1,810	600	2,410	33%	347	5,500	5,847	0.2	2.4	9.2
Hunting	US$ m	142	9	151	6%	-61	49	-12	-0.4	-0.1	5.4
Petrofac	US$ m	671	11	682	2%	-90	83	-8	-0.1	0.0	7.5
Saipem	€m	1,002	140	1,142	14%	1,160	550	1,710	1.2	1.5	3.9
Schoeller - Bleckmann	€m	120	3	123	2%		8	8	0.0	0.1	3.0
Subsea 7	US$ m	669	105	774	16%	-507	360	-147	-0.8	-0.2	3.4
TechnipFMC	US$ m	Not disclosed but reports under US GAAP									
Wood	US$ m	630	170	800	27%	1,549	650	2,199	2.5	2.7	3.8
Average					**14%**				**0.4**	**0.9**	**5.2**

Source: Company data, Credit Suisse estimates

Based on consensus data as of 31 December 2018, we show in Figure 16 the impact that the IFRS 16 adjustments above would have on 2020E EV/EBITDA multiples. This assumes that the EBITDA and Net Debt guidance for 2019 holds for 2020 as well. Across our coverage universe, from a multiple perspective, the rise in Net Debt largely offsets the increases in EBITDA. However, this is not the case for Aker Solutions and Wood Group. Aker Solutions' valuation is penalized by the accounting change, shifting from a 5.0x multiple to a 5.9x multiple. Conversely, Wood benefits from the change, moving from a 5.7x multiple down to 5.3x.

Figure 16: Aker Solutions looks more expensive under IFRS 16 whereas Wood looks cheaper (2020E EV/EBITDA)

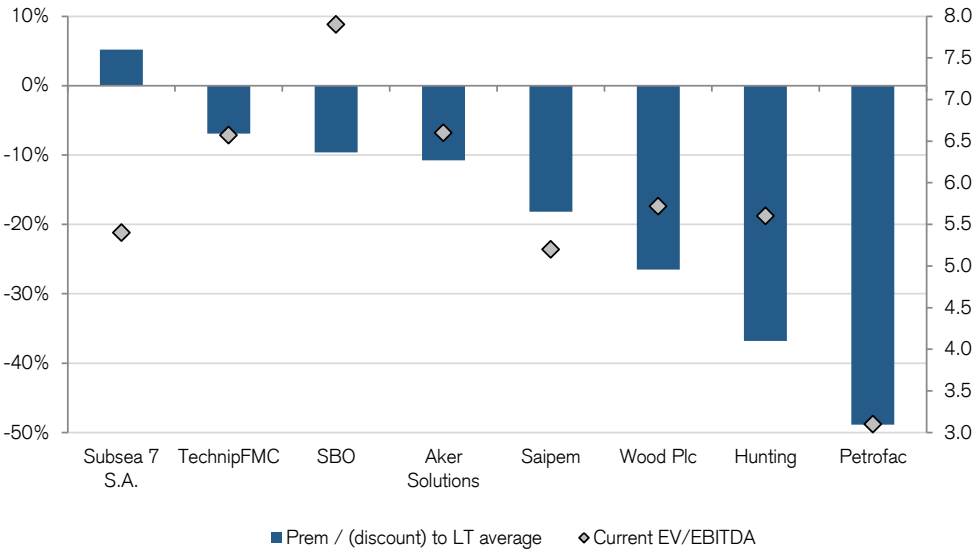


Source: Refinitiv, Credit Suisse research. Priced as of 31st December 2018

Most stocks trading below long-term multiples

As we do not know the extent to which consensus estimates have been updated for IFRS 16 (we believe that many have not), we prefer to look at *current value* using our own EV/EBITDA (FY2) forecasts which are updated for IFRS 16. These are compared to historical multiples, which, bar the last couple of months, will be free of IFRS 16 impacts. On this basis, our entire coverage universe with the exception of Subsea 7 trades below its long-term FY2 averages. At the bottom end, Petrofac is heavily weighed down by concerns over potential litigation. However Hunting's substantial discount is harder to reconcile, especially given that peer SBO's discount is much smaller.

Figure 17: All stocks, bar Subsea 7, trade below LT multiples (based on EV/EBITDA FY2)

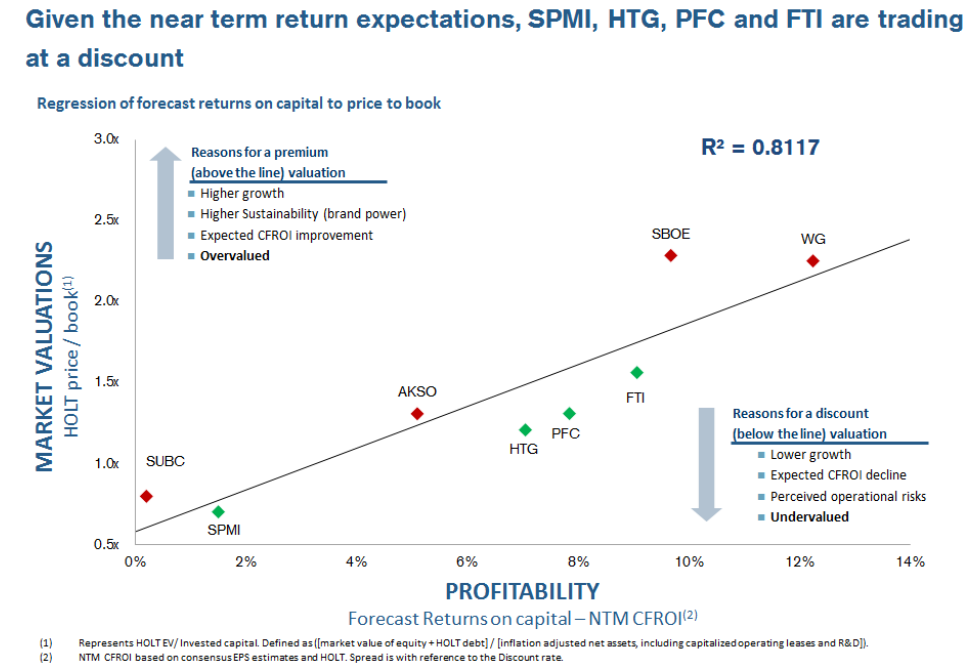


Source: Refinitiv, Credit Suisse estimates. Priced as of 1 May 2019

Figure 17 shows how the market is valuing 2yr forward EBITDA. In Figure 18, we use HOLT to analyse how the market is valuing the future economic returns for these players. By using HOLT to compare systematically what the market is pricing in to the invested capital today (HOLT Price to Book), versus the near-term expectations for corporate profitability (HOLT forecast CFROI), we can scope out over-valued and under-valued names. For this portfolio of eight companies under our coverage, there is high correlation of 75% between the corporate performance as expressed by the HOLT CFROI and near-term valuation.

Schoeller-Bleckmann, Wood Group, Subsea 7 S.A., and Saipem S.p.A. are currently trading at a premium relative to other European players, while Aker Solutions appears to be fairly valued in the regression chart shown in Figure 18. Hunting PLC, Petrofac and TechnipFMC appear the most attractive on a P/B vs CFROI relationship. Interestingly, this is exactly the same outcome as our EV/EBITDA analysis.

Figure 18: Regression of forecast returns on capital price to book value



Source: Credit Suisse HOLT

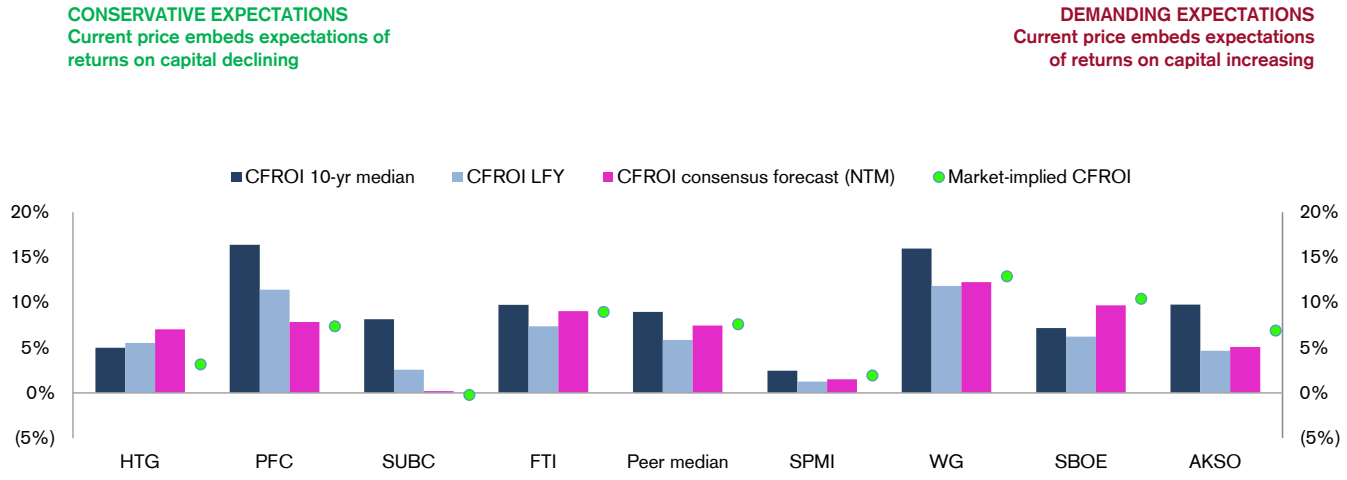
Market questioning Hunting's ability to grow returns

From our coverage universe of eight companies, the levels and trends of CFROI by the individual companies vary markedly, but the near-term return expectations for most of our coverage universe (see pink bars in Figure 19) are at least in line with Last Full Year (LFY) levels, if not higher. The companies below are ranked from the least to the most demanding market expectations compared with near-term consensus forecasts.

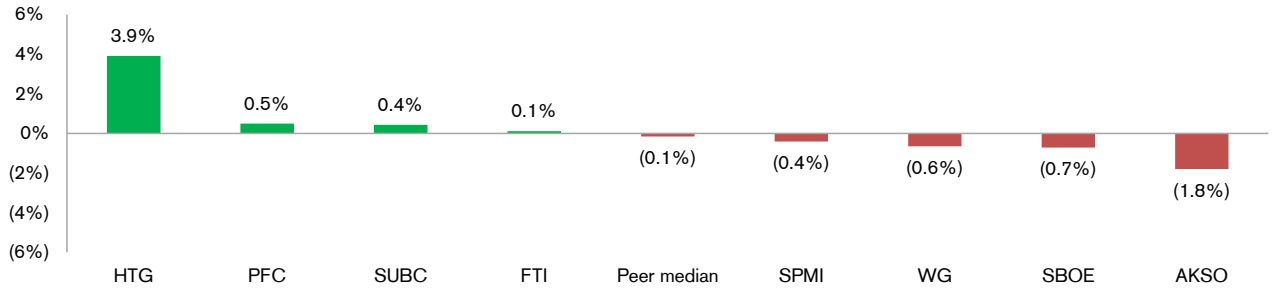
On this measure, Hunting is the most attractive company by some distance. The market is implying that CFROI will fall to below 10-year median levels. At the other end is Saipem, where the market is embedding returns recovering materially and back almost to 10-year median levels.

Figure 19: Market pricing much lower than consensus returns for Hunting

Returns on capital (CFROI): historical, forecast and market-implied



Spread between NTM forecast returns on capital vs. market-implied



Source: Credit Suisse HOLT

Focus on returns now needed

Companies in our coverage universe employ conservative balance sheets and the "worst oil market downturn in history"[1] has meant companies have had to fight to maintain this. By and large, this has been done through capex and dividend reductions although in the case of Hunting and Saipem, fresh equity has been required. Looking forward, recovering profitability and lower dividend burdens should see balance sheets go from strength to strength. We think management teams should be cautious about using this liquidity to rush out and add capacity. HOLT shows sector returns have been in decline since 2006. This has led to the general investor malaise towards the space. **We think management teams would be rewarded for using the upturn and tightening market to put returns back on the agenda, following the leads of the global IOCs and their US OFS counterparts.**

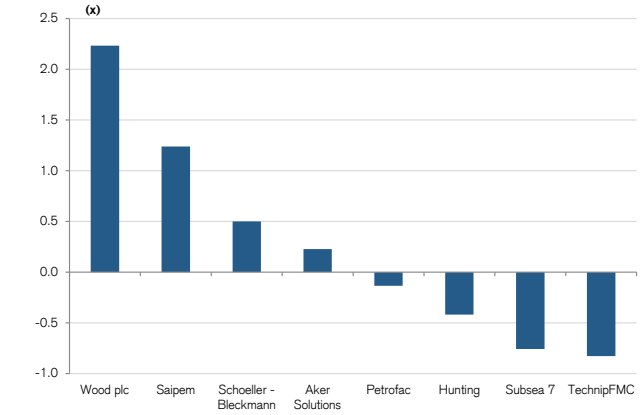
Balance sheets should allow for higher distributions

Sector moves out of net debt by 2021E

Our coverage universe, in theory, should run conservative balance sheets. Companies delivering lump sum projects (Petrofac, Saipem, Subsea7, TechnipFMC) need to have a financial buffer in case of a poorly performing contracts. The companies oriented towards equipment manufacturing (Hunting, Schoeller-Beckmann) need to be wary of the operational leverage in their business and the speed with which activity, and therefore EBITDA, can dry up.

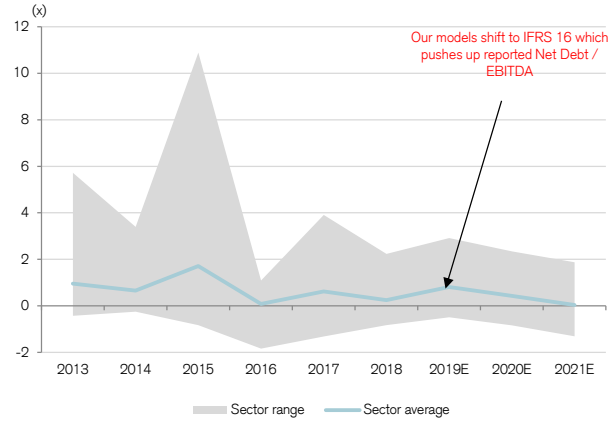
Since the downturn took hold in 2015, balance sheets have strengthened. Any issues have largely been redressed through dividend cuts, asset sales or in extreme cases new capital raisings. Even upon the adoption of IFRS 16 from 1 January 2019, the sector will still have an average Net Debt/EBITDA of <1x, which falls to 0x by 2021E.

Figure 20: Half of our coverage universe reported a net cash position at FY18



Source: Company data, Credit Suisse research

Figure 21: IFRS 16 will raise reported net debt/EBITDA in 2019E, but sector trends back towards net cash



Source: Company data, Credit Suisse estimates

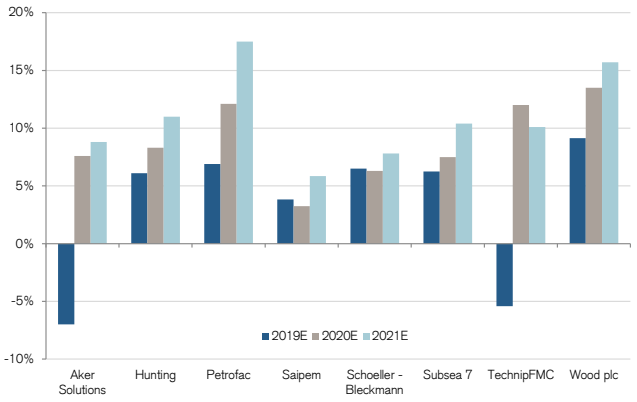
Sector should see rising free cash flow

The deleveraging is driven by strong free cash flow generation across our coverage universe. By and large, revenue has (or will) inflect by 2019E whilst we also see tightening

[1] Quote from OPEC Secretary General on 30th May 2018 – Oil market perspectives beyond the short term

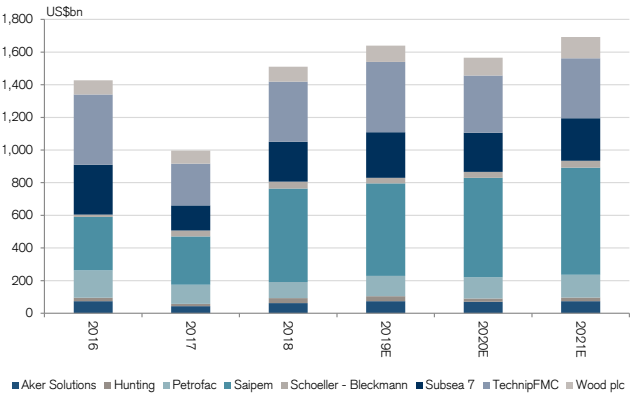
markets allowing for some margin expansion. Working capital works against Aker Solutions, TechnipFMC and to a lesser extent Petrofac in 2019 but all are on >5% FCF yields in 2020E. At this stage we do not envisage the sector adding materially to capex, with a small drop likely in 2020E as expansionary capex plans in 2019 complete. As we explain later, we see capital discipline as a lever management teams can pull in order to try and improve corporate return metrics.

Figure 22: Free cash-flow yields are strong and getting better; AKSO and FTI are negative in 2019E while our forecasts for SPM are underwhelming



Source: Refinitiv, Credit Suisse estimates. Priced as of 1st May 2019

Figure 23: Capex to remain flat near term as lower expansion capex is offset by higher maintenance spend



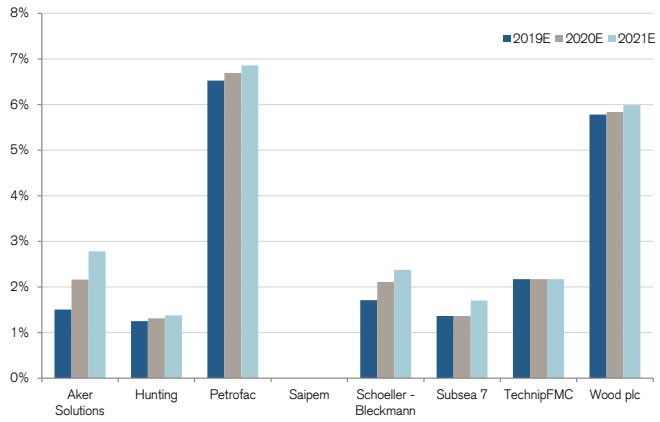
Source: Company data, Credit Suisse estimates

Rising shareholder distributions

While the market may have reservations about the outlook for the sector, rising cash distributions to shareholders suggest that the companies are increasingly confident about the sustainability of the recovery. Hunting, Schoeller-Bleckmann and Subsea 7, all of which stopped dividends during the downturn, have re-instated them. They have done so at sustainable levels and all three companies have the highest cash-dividend cover in our universe. Should the recovery continue and capital is not invested in capacity additions/M&A, then we think these three companies would be under pressure to return additional capital to shareholders. Given they will want to ensure dividend sustainability, the most likely route is likely to be a special dividend. We expect Aker Solutions to follow suit this year, and we think it might have paid a special dividend in 2018 had it not been looking at M&A opportunities.

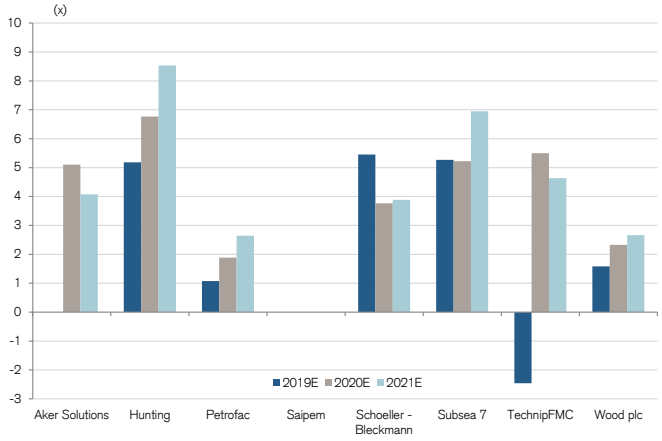
Saipem is the only company in our coverage that we expect to not pay a dividend in 2018 as it deleverages and aims for a balance sheet more in line with a lump sum contractor (and reflective of the lower debt carrying potential of its drilling rigs).

Figure 24: Petrofac and Wood Group currently have the most attractive dividend yields



Source: Refinitiv, Credit Suisse estimates. Priced as of 1st May 2019

Figure 25: Cash dividend cover is strongest at Hunting and Subsea 7



Source: Credit Suisse estimates

Investors need to start to push management teams to think about returns

Faced with improving customer activity and strong balance sheets, we think there is a risk that the sector will move too quickly to add new capacity. We have already seen this in the US shale market, where a limited period of pricing power in perforating charges led to manufacturing capacity being added by two of the major players.

We would urge restraint and consideration. The major US OFS companies are following the lead of the global IOCs and increasingly prioritising returns. If their European counterparts do not follow suit, then they are likely to drop further down the list as a destination for capital, in our view. A decade-long period of lower CFROI for European oil companies relative to their US peers can in part be explained by over investment, in our view.

Returns lag US counterparts and have been in decline for more than 10 years

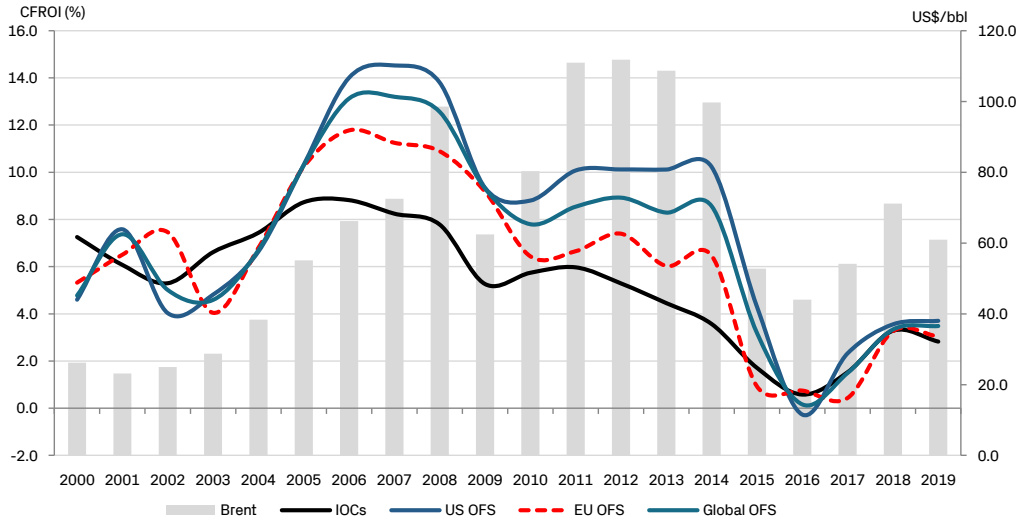
Major US OFS companies are becoming increasingly vocal about a returns and efficiency focus, particularly in markets outside of North America. Transformation programmes at Schlumberger have focused on deploying capital much more effectively, for example, by having the optionality to increase effective capacity through OpEx investments – which are typically shorter lead time and easier to scale up/down (compared to CapEx spend). Additionally, Schlumberger announced at its Q4 results that working capital as a percentage of revenue is at an all-time low.

The sentiment is echoed by the likes of Baker Hughes and Halliburton; Halliburton's recent Q4 call was heavily focused on maintaining capital disciple, and a strong focus on returns as explained by the CEO - ***"Managing capital spend and also the willingness to stack equipment that is not making a return, is critical. So that way we do make those returns, and it allows us to flex both down to the market where we see it."***

Figure 26 (extracted from HOLT) compares CFROI of the Global, US and European Oil & Gas Equipment Services sectors as well as the Global IOCs. The information extracted is extremely useful as i) the extended timeframe provides a clearer picture of trends, and ii) CFROI is calculated on a consistent basis across all companies. We draw three conclusions from this data:

- CFROI for the Global Oil Service sector, like the Global IOCs, peaked well before the oil price moved above US$80/bbl for a sustained period, suggesting that the benefit of higher oil prices seeped further down the value chain. It was in decline for the decade between 2007 and 2016.
- The European Oil Services Sector has delivered inferior CFROI performance to the US and Global average since 2006.
- CFROI for both Oil Services and IOCs have converged over the past three years. Looking forward, CFROI is expected to hold steady for Oil Services and diminish modestly for IOCs.

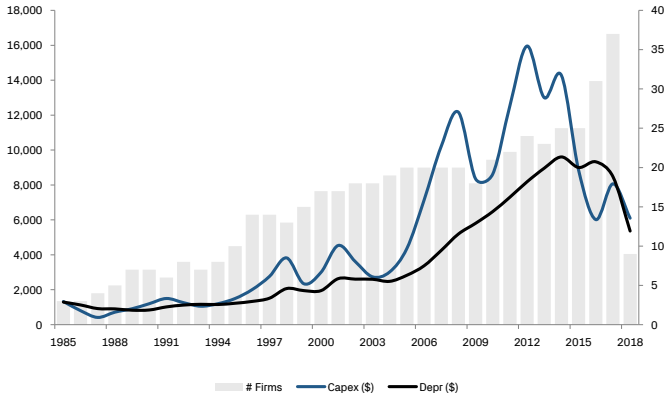
Figure 26: CFROI for European Oil Services has been in decline since 2007 and consistently underperformed US counterparts



Source: Credit Suisse HOLT, Refinitiv

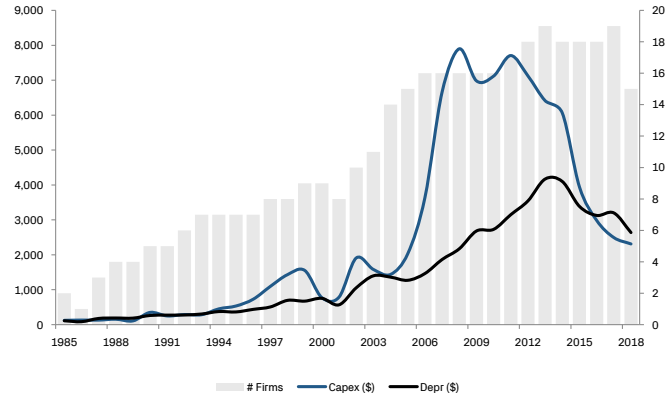
In Figure 27 and Figure 28, we draw on another data set from HOLT, showing the evolution of capex and depreciation in the US and European Oil Service sectors. Both regions saw capex pick up materially from 2004/05, precisely when CFROI started to accelerate.

Figure 27: Capex & Depreciation for US Oil Services companies



Source: Credit Suisse HOLT

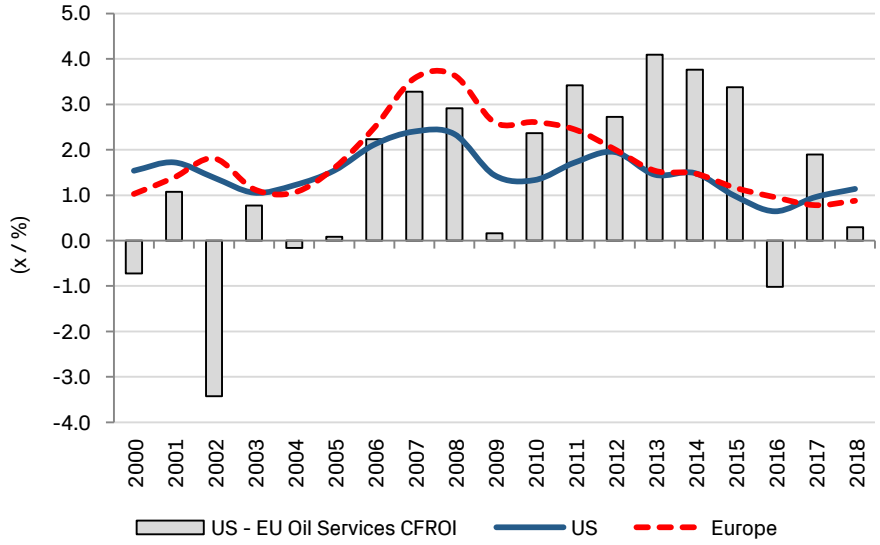
Figure 28: Capex & Depreciation for European Oil Services companies



Source: Credit Suisse HOLT

More importantly, however, is the level of capex relative to depreciation. Below we show this ratio for both regions, as well as the spread of US CFROI to European CFROI. For 2005-14, the ratio for European companies was between 1x and 4x. The US companies, however, were more restrained, spending only between 1x and 2.5x. Therefore, we do not think it is any coincidence that CFROI of US companies consistently exceeded that of their European counterparts over this period.

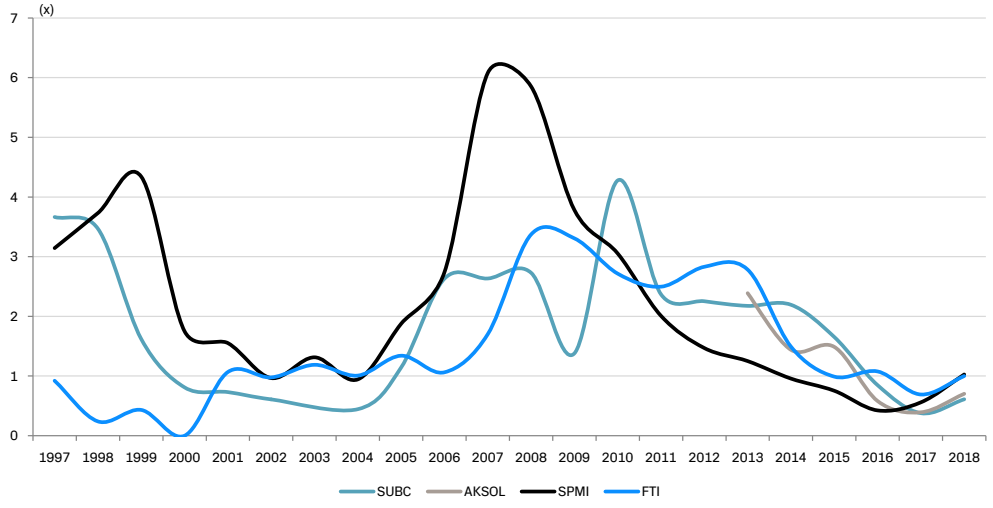
Figure 29: Ratio of capex/depreciation for European and US Oil Services companies and the spread of CFROI



Source: Credit Suisse HOLT

Looking at the asset-intense offshore names under our coverage, Saipem's expenditure levels really stand out in this analysis. Interestingly, though, because of balance sheet issues, it was also the first company to drop back under 1x.

Figure 30: In 2007/08, Saipem was spending 6x more on capex than its depreciation charge



Source: Credit Suisse HOLT

M&A could lead to further revenue diversification

Both Aker Solutions and Hunting used their latest analyst calls to discuss plans for near-term M&A. Aker Solutions believes that a number of targets will struggle in the current year as the subsea industry moves through its nadir (order books have supported workloads until now). We believe both companies are likely to undertake bolt-on acquisitions which improve the technology content of their offerings.

More interesting will be whether any larger, strategically driven, M&A occurs. The Energy Transition debate has driven Wood Group and Subsea 7 to invest in diversifying away from upstream oil and gas. We believe that Subsea 7 may *ultimately* have to add further capability in offshore wind (wind turbine installation) in order to remain a leading EPCI contractor. Conversely, we argue that Wood Group could further shift the balance of revenue away from upstream oil and gas through the disposal of its UK North Sea MMO business. Petrofac and Aker Solutions have small offshore wind businesses and may, like Subsea 7, pursue further market penetration through inorganic means.

Subsea: The 'vertically integrated' model takes off

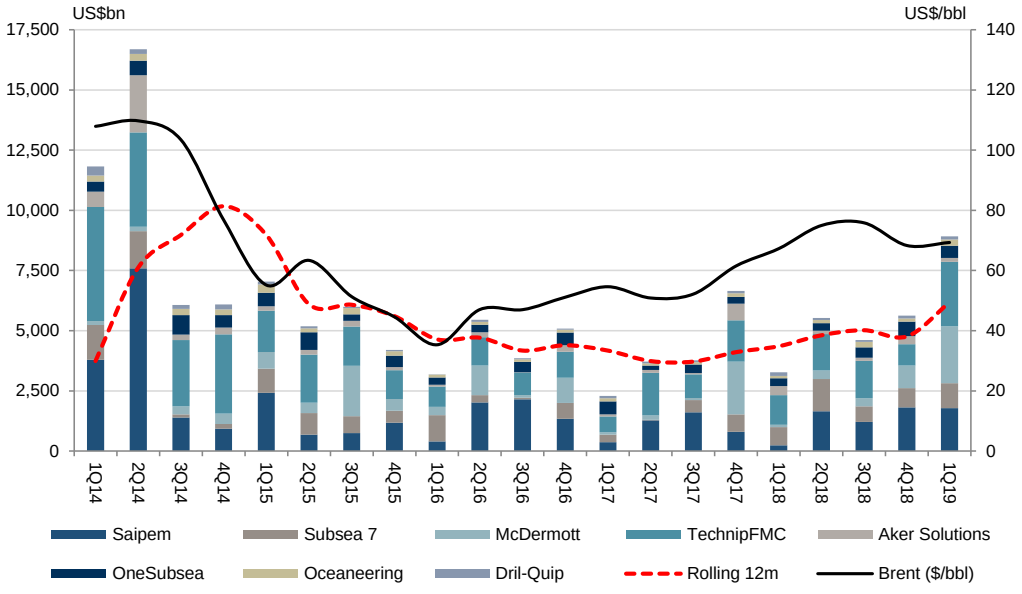
Relative 'winners' (in order of preference): TechnipFMC, Subsea 7, Aker Solutions, Saipem

Relative 'losers': Wood plc

The subsea market should continue to bounce back in 2019

Our industry offshore order intake tracker[2] shows that there was a five-quarter gap between the oil price bottoming (1Q16) and a recovery in subsea orders (2Q17). The recovery since then has been gradual rather than outstanding and we are still significantly below the heights of early 2014. However, there is clear momentum to the recovery and 1Q19 order intake data provides further encouragement. Wider industry adoption of the supplier-led "integrated" subsea model and a raft of contracts from the Middle East (Saudi Aramco and Qatar Petroleum) have ensured the sector delivered its best quarter for order intake since 2014.

Figure 31: Offshore order intake recovery is gradual rather than outstanding but 1Q19 data was very encouraging

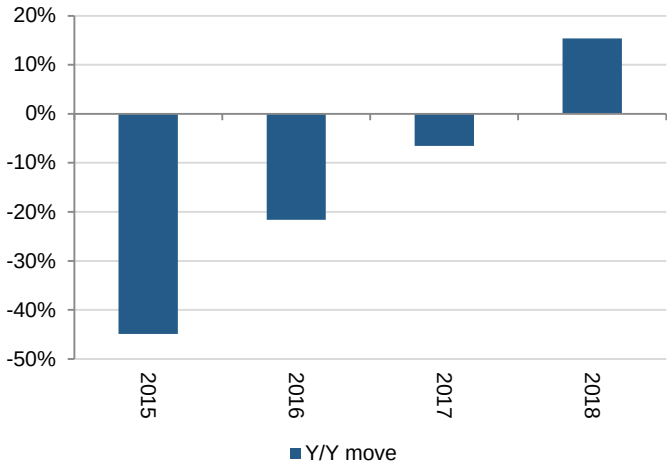


Source: Refinitiv, Company data, Credit Suisse research

Looking at the data on a yearly basis, 2018 was the first year since 2014 that delivered growth in awards. We estimate that awards rose by ~15% vs 2017 with Subsea 7, Dril-Quip, OneSubsea, Oceaneering and Saipem being the biggest gainers. Only McDermott saw a drop.

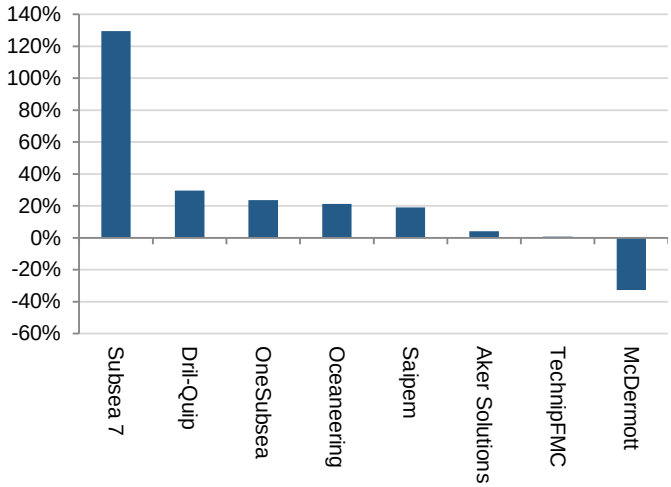
[2] Aggregates the order intake for the following: Aker Solutions – Subsea Projects; Subsea 7 – SURF& Conventional; TechnipFMC – Subsea Technologies; Saipem – Offshore E&C; McDermott – Offshore & Subsea; OneSubsea – As disclosed by Schlumberger; Dril-Quip – Company; Oceaneering – Subsea Products

Figure 32: Subsea awards rose ~15% in 2018 after three consecutive years of declines



Source: Company data, Credit Suisse research

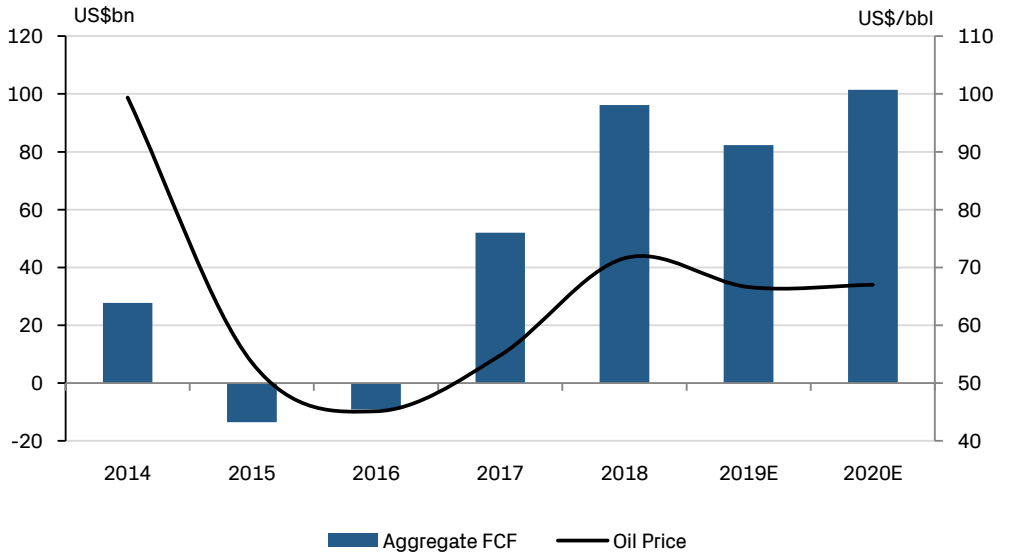
Figure 33: Subsea 7 was the stand-out company for growth in 2018; only McDermott saw a drop



Source: Company data, Credit Suisse research

Key to our belief that offshore orders will continue to recover is the current strong free cash flow generation of the global IOCs. Aggregate free cash flow is significantly higher now than it was when oil surpassed US$100/bbl. Cash, unlike in 2015 and 2016, is no longer a constraint.

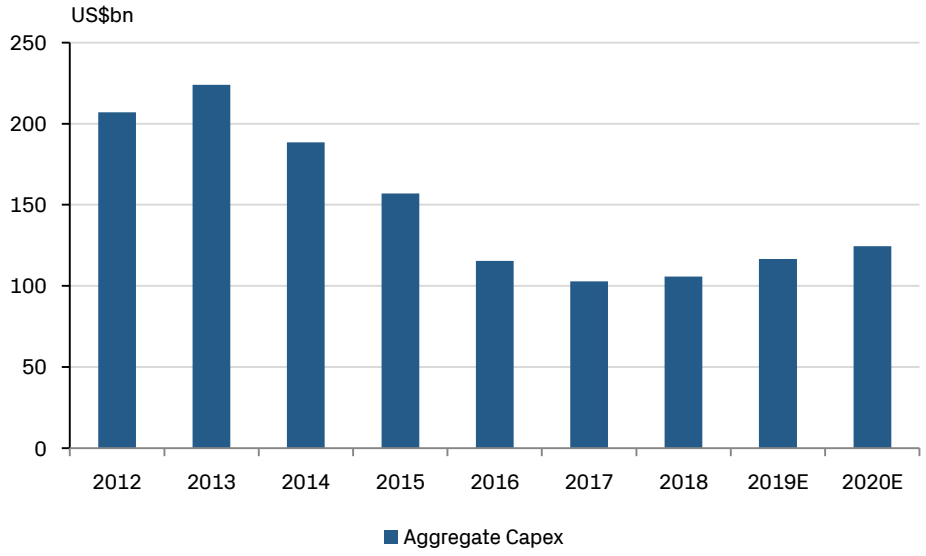
Figure 34: Global Integrated free cash flow generation is significantly higher now than it was when the oil price was over US$100/bbl



Source: Company data, Credit Suisse estimates

This is not to say that the shackles are entirely off by any means. IOCs are still very much about returns and increasingly about energy transition. Capex in 2018, pre-acquisitions, showed the first annual increase since 2013, growing at a modest 2%. We expect growth in capex to be closer to 10% in 2019E and >5% in 2020E, with ExxonMobil's surge in activity levels underpinning these growth rates.

Figure 35: Our capex forecasts across the global Integrated Oil universe implies growth of ~10% in 2019 and >5% in 2020

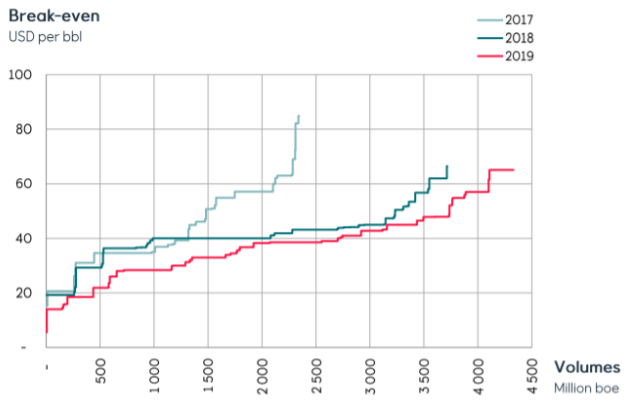


Source: Company data, Credit Suisse estimates

US shale is now a much larger component of capex than it was pre-downturn. ExxonMobil, Chevron and BP, in particular, are investing heavily in the Permian basin whilst RDS's relatively underweight position in US shale should also see it allocate more capital over the medium-to-long term (both organically and inorganically). However, offshore projects will remain a key component of portfolios, in our view.

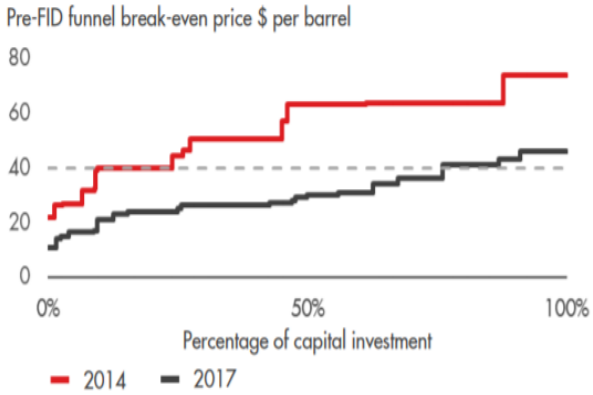
One argument for this is that project break-evens have, through cyclical and structural cost savings, come down to levels on par with US shale (half-cycle economics). IOCs are now looking to sanction projects at US$50/bbl break-even (or lower) and many portfolios now meet that threshold.

Figure 36: Equinor has 2.5bn boe of pre-FID resources break-even below US$40/bbl…



Source: Equinor 4Q 18 Results Presentation

Figure 37: …while close to 75% of Shell's pre-FID portfolio is break-even below US$40/bbl



Source: Shell 2Q18 Results Presentation

The rise of the Integrated Award

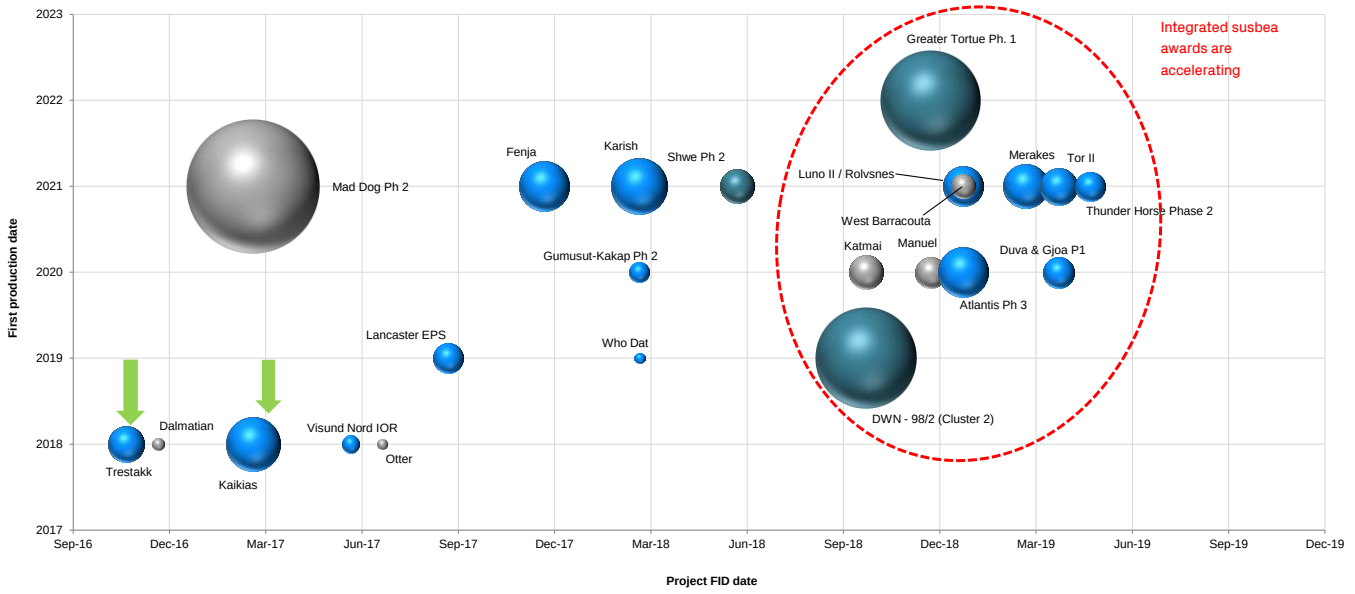
Cyclical cost deflation has helped bring down break-evens. But we believe that structural changes have also helped, perhaps even more. The industry is standardising equipment and new technology is being deployed. Overlaying this is the emergence of the vendor-led

or vertically-integrated contracts. Here the subsea equipment and subsea installation providers are working together from the outset to design the field and take costs out. In many cases, these same companies are involved in the early-stage engineering prior to project sanction.

First emerging in 1H15, the first wave of awards made under this model are starting to be delivered. The early results appear to validate the model. TechnipFMC delivered both Trestakk and Kaikias one year ahead of schedule, with the latter described by operator Shell at the time of start-up as *"the most cost competitive subsea development in the GoM"* .Visund Nord IOR was two months early, with operator Equinor describing the speed between concept selection and production as "*a record for the company*". This acceleration to first production is very important, in our view. It is enabling long-cycle projects to become mid (or even short) cycle projects, meaning not only can they compete on a break-even basis with shale, but they are becoming comparable on time-frames.

Since inception, we count 24 integrated awards, of which 23 have been named (TechnipFMC has not disclosed details on one of its awards). Of these, 11 have been announced since 3Q18, demonstrating a clear acceleration of industry adoption. TechnipFMC (blue bubbles in Figure 38) has secured the most contracts with the Subsea Integration Alliance (S.I.A.) of Subsea 7/Schlumberger (grey bubbles) also having early success. McDermott/Baker Hughes GE (green bubbles) announced its first awards through 2018, whilst it is only the Saipem/Aker Solutions alliance that has yet to pick up work.

Figure 38: The 'integrated' award model has picked up steam since 3Q18



Source: Company data, Credit Suisse research. Size of bubble reflect total field development capex

Although the number of data points is still relatively thin, we think there are some initial early observations that can be made.

By operator and geography

Figure 39: BP has been the biggest adopter of the integrated award model in the industry

	GoM	Norway	UK N. Sea	Israel	India	Indonesia	Myanmar	Australia	Malaysia	Mauritania	Total
Integrated Oil Companies											**11**
BP	4	0	0	0	0	0	0	0	0	1	5
Equinor	0	2	0	0	0	0	0	0	0	0	2
RDS	1	0	0	0	0	0	0	0	1	0	2
ExxonMobil	0	0	0	0	0	0	0	1	0	0	1
ENI	0	0	0	0	0	1	0	0	0	0	1
National Oil Companies											**2**
TAQA	0	0	1	0	0	0	0	0	0	0	1
ONGC	0	0	0	0	1	0	0	0	0	0	1
Independents											**10**
Energean	0	0	0	1	0	0	0	0	0	0	1
Neptune Energy	0	2	0	0	0	0	0	0	0	0	2
Hurricane Energy	0	0	1	0	0	0	0	0	0	0	1
POSCO DAEWOO	0	0	0	0	0	0	1	0	0	0	1
LLOG Exploration	1	0	0	0	0	0	0	0	0	0	1
Fieldwood Energy	1	0	0	0	0	0	0	0	0	0	1
Lundin Petroleum	0	1	0	0	0	0	0	0	0	0	1
ConocoPhillips	0	1	0	0	0	0	0	0	0	0	1
Murphy	1	0	0	0	0	0	0	0	0	0	1
Total	**8**	**6**	**2**	**1**	**1**	**1**	**1**	**1**	**1**	**1**	**23**

Source: Company data, Credit Suisse research

- IOCs account for almost 50% of integrated model awards. This is probably a higher proportion than would have been expected as this model was originally expected to appeal more to Independents, which lack the infrastructure to have multiple interfaces. One factor perhaps influencing this outcome is that Independents are yet to fully rebuild their balance sheets and have therefore been more hesitant in sanctioning projects. The model has most recently been adopted by ENI (Merakes – March 2019) leaving Total and Chevron as the only super-majors yet to trial it.
- BP has been the biggest adopter of the model, with more than twice the number of awards as anyone else. These awards have been focused on the Gulf of Mexico (GoM).
- 70% of awards have been to the GoM, Norwegian and UK North Sea markets. We think this is to be expected as brownfield developments, utilizing existing infrastructure, tend to recover more quickly than greenfield projects in an upturn. The GoM, Norway and UK North Sea are mature markets and therefore supportive of brownfield activity, whilst equipment awards from Independents have also centred on these regions.
- The model has yet to gain traction in West Africa, where Nigeria and Angola in particular have existing infrastructure. We think this has more to do with a slower recovery in project awards due to political overhangs in both countries. We think that Total could tender both the Preowei and ACCE tie-backs in Nigeria and Angola, respectively, as integrated projects.
- National oil company take-up has been limited. The model is predicated on early engagement and collaboration through the development process. This pushes operators to a direct award, which is contrary to the competitive bidding processes that most NOCs require.

By service company and geography

Figure 40: TechnipFMC and the Subsea Integration Alliance lead the awards

	GoM	Norway	UK N. Sea	Israel	India	Indonesia	Myanmar	Australia	Malaysia	Mauritania	Total
TechnipFMC	4	6	1	1	0	1	0	0	1	0	**14**
S.I.A.	4	0	1	0	0	0	0	1	0	0	**6**
MDR / BHGE	0	0	0	0	1	0	1	0	0	1	**3**
SPM / AKSO	0	0	0	0	0	0	0	0	0	0	**0**
Total	**8**	**6**	**2**	**1**	**1**	**1**	**1**	**1**	**1**	**1**	**23**

Source: Company data, Credit Suisse research

- TechnipFMC has won 14 (13 including the one unannounced) of the 22 awards. These awards have been centered on GoM (where FTI Technologies had a leading position pre-merger) and Norway. In our analysis, it is the only company to have secured integrated awards in Norway, although this is perhaps not strictly fair. AkerBP engages Aker Solutions and Subsea 7 as sole service providers for its developments and they operate on a 'quasi'-integrated model, in our view.
- The Subsea Integration Alliance footprint in mature areas is mostly the Gulf of Mexico. This is the home market for Schlumberger. The McDermott/Baker Hughes GE Alliance has secured work largely in frontier markets. This may reflect that historically both sides of the alliance have had limited penetration in the more mature markets.
- The Aker Solutions/Saipem Alliance has yet to secure any projects. In our view this is largely down to the model being taken up in areas where the two companies are not simultaneously strong (Saipem does little SURF work in Norway and neither has much of a track record in GoM). As the model moves towards West Africa, we expect the alliance to have a greater chance of securing work. For example, ACCE will be tied back to infrastructure on the Kaombo field, in which both Saipem (FPSO) and Aker Solutions (subsea trees) were involved in delivering.

By service company and operator

Figure 41: TechnipFMC has 60% of awards

	TechnipFMC	S.I.A.	MDR / BHGE	SPM / AKSO	Total
Integrated Oil Companies	7	3	1	0	**11**
BP	2	2	1	0	5
Equinor	2	0	0	0	2
RDS	2	0	0	0	2
ExxonMobil	0	1	0	0	1
ENI	1	0	0	0	1
National Oil Companies	0	1	1	0	**2**
TAQA	0	1	0	0	1
ONGC	0	0	1	0	1
Independents	7	2	1	0	**10**
Energean	1	0	0	0	1
Neptune Energy	2	0	0	0	2
Hurricane Energy	1	0	0	0	1
POSCO DAEWOO	0	0	1	0	1
LLOG Exploration	1	0	0	0	1
Fieldwood Energy	0	1	0	0	1
Lundin Petroleum	1	0	0	0	1
ConocoPhillips	1	0	0	0	1
Murphy	0	1	0	0	1
Total	**14**	**6**	**3**	**0**	**23**

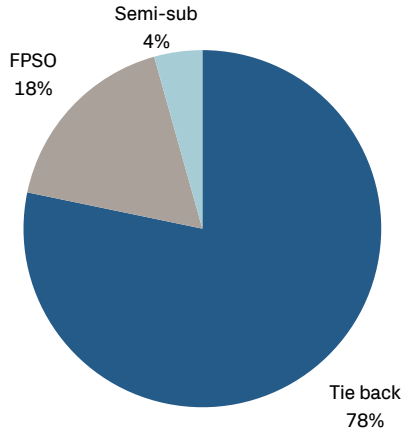
Source: Company data, Credit Suisse research

- BP has spread its contracts across three of the four potential service combinations. Conversely, both Equinor and RDS, which are the only other companies with multiple awards, have concentrated these on a single entity (in both cases TechnipFMC).
- Outside of the IOCs, TechnipFMC has gained traction with the Independents rather than National Oil Companies. It has established a global subsea alliance with Neptune Energy. We think that there are two factors behind TechnipFMC's success.
  - *i)* *A willingness to use its balance sheet:* Energean's IPO documentation showed that 9% of its contract value with TechnipFMC was to be paid post first production from the Karish & Tanin fields. Hurricane Energy stated at its FY18 results in March that £18m of invoices were deferred until after first oil at an annual interest rate of 7%.
  - *ii)* *Expertise in FPSOs:* TechnipFMC is also a leading contractor for delivering FPSOs (as is Saipem). The Energean contract encompasses both the integrated subsea work (US$517m) and FPSO (US$905m). The option for Independents to wrap up even more work into one contractor is likely to be appealing.
- The Subsea Integration Alliance (Subsea 7 / Schlumberger) has won two FEED studies with Woodside (SNE, Scarborough) which will convert into awards upon FIDs on the projects (widely expected in 2019 and 2020, respectively).

Development concepts

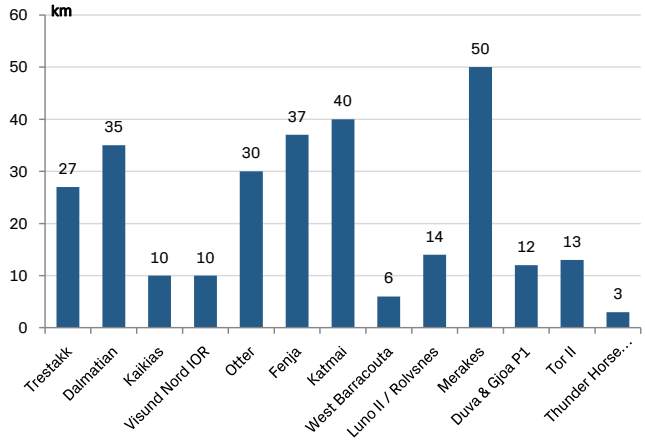
- Over 75% of awards have taken the shape of tie-back projects, with the remainder split between FPSOs (new builds, conversions and revamps) and semi-subs.
- We are not surprised by the data for two reasons.
  - i) At the beginning of an upcycle, companies tend to focus on lower cost, brownfield activity as opposed to larger greenfield developments where the payback time is longer;
  - ii) The essence of vertical integration is to deploy technology, pull out costs and make previously uneconomic deposits viable. This works well for fields which can be quickly tied into existing infrastructure. Some of the accolades taken by vertically-integrated projects include: longest deep-water subsea multiphase boosting tie back (Dalmatian); longest Electrically Traced Heated pipeline in the world at 37km (Fenja) and longest subsea boosting development in the UK (Otter). Merakes is also an impressive 50km tie-back.

Figure 42: >75% of Integrated Awards have been for tie-backs (of the total 21 projects announced)



Source: Credit Suisse research

Figure 43: Tie-back distances in km where information is available



Source: Credit Suisse research

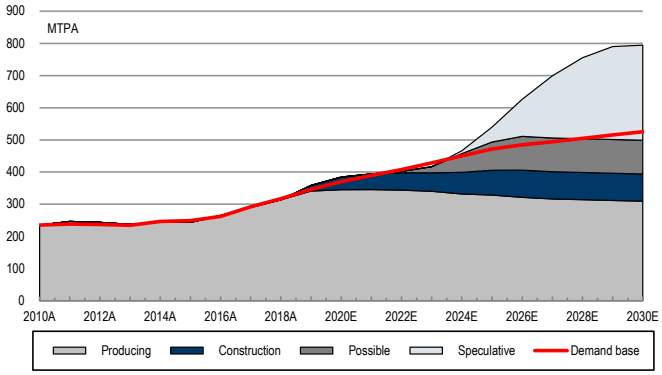
LNG: Large opportunity but beware execution risk

Relative 'winners' (in order of preference): TechnipFMC, Saipem

The race for new supply is on

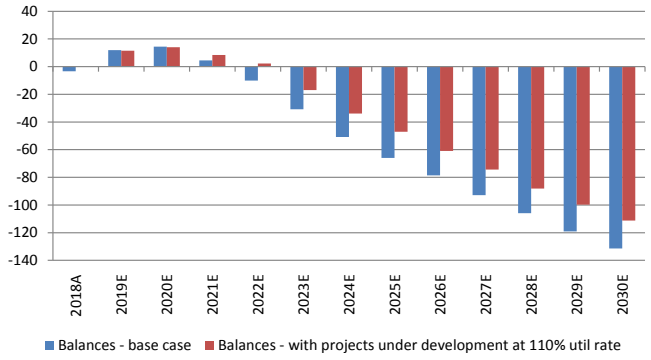
The shortfall in LNG supply, previously expected in the mid-2020s, has been brought forward to as early as 2022E. Demand has surprised to the upside, especially in China, whilst limited new supply was sanctioned in 2H15-1H18 as the IOCs allocated capital towards deleveraging and dividends.

Figure 44: LNG demand has picked up considerably since 2016, rising at 12% p.a. in both 2017 and 2018



Source: Company data, Credit Suisse estimates

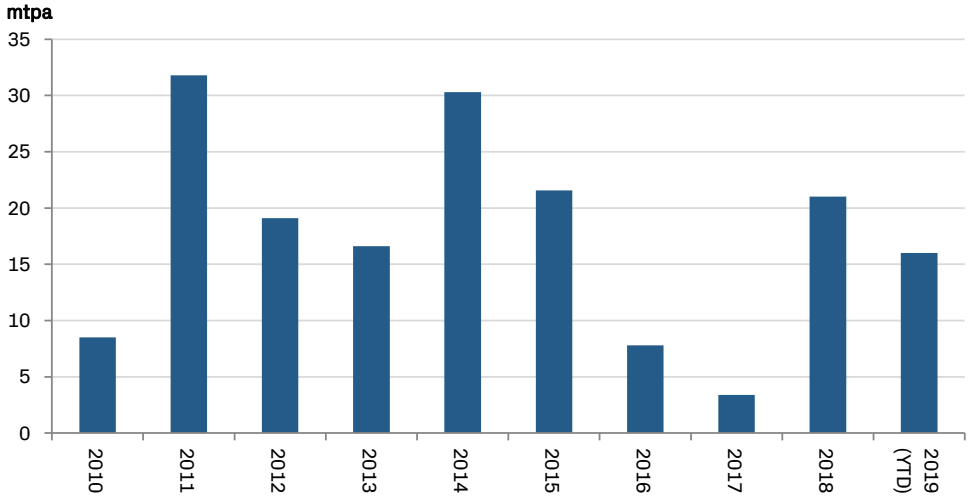
Figure 45: Near-term over-supply evaporates by 2022 with a significant deficit forming by 2030



Source: Company data, Credit Suisse estimates

With this tightening market increasingly evident, LNG developments, even mega-projects, are back on the agenda. In 4Q18 and 1Q19, the market sanctioned over 32mtpa of developments, more than it had done over the combined 1Q16-3Q18 time-frame.

Figure 46: Developers have sanctioned >15mpta of new projects already in 2019; it is likely that 2019E will prove to be a record year



Source: Company data, Credit Suisse research

This supply, and more, is needed. To meet our 2030 demand estimate, we need ~17mtpa of new capacity per annum to be brought on stream. We also acknowledge that

historically, the market has underestimated demand growth, in particular due to rapid policy changes.

Fortunately, there is no shortage of projects being lined up. We are tracking over 350mpta of LNG projects at various stages of maturity. However, we note that for the LNG market, half of this volume has the potential to be sanctioned this year.

Figure 47: Projects with a total capacity of 142mtpa are provisionally due for sanctioning in 2019 (excluding speculative projects)

Project	Status	Est. FID	Est. In-Service	Location	Operator	FEED	EPC	# of trains	MMtpa	Est. Cost ($M)
Calcasieu Pass LNG	Awaiting FID	imminently	2H 2022	Cameron Parish, LA	Venture Global LNG	Tecnicas Reunidas, McDermott,	Kiewit	18	10	4,250
Sabine Pass Train 6	Awaiting FID	Early 2019	2023	Cameron Parish, LA	Cheniere	Bechtel	Bechtel	1	5	--
Mozambique Area 1	Awaiting FID	1H 2019	2024	Mozambique	Anadarko	2 FEEDs: FLR/JGC and MDR/C	MDR/Chiyoda/Saipem	2	12	10,000
Mozambique Area 4 (Rovuma LNG)	Awaiting FID	Mid 2019	2024	Mozambique	Eni, ExxonMobil, CNODC	McDermott, Chiyoda, Saipem	FLR/JGC/TechnipFMC vs MDR/Chiyoda/Saip	2	15	10,000
Driftwood LNG Phase 1	Awaiting FID	1H 2019	2H 2023	Lake Charles, LA	Tellurian	Bechtel	Bechtel	8	10	15,200
Arctic LNG 2	Awaiting FID	2H 2019	2023	Russia	Novatek, Total	TechnipFMC	TechnipFMC	3	20	27,000
Freeport LNG Train 4	Awaiting FID	Late 2019	2024	Quintana, TX	Freeport LNG	--	Bids include KBR	1	5	
Rio Grande LNG Phase 1	Awaiting FID	Q3 2019	2024	Brownsville, TX	NextDecade	McDermott	Bids: MDR/Saipem JV; FLR; Bechtel	2	9	7,000
Nigeria LNG Train 7	Awaiting FID	Oct 2019	2024	Bonny Island, Nigeria	Nigeria National Petroleum, She	KBR/Technip/JGC	Bids: KBR/Technip/JGC vs Saipem/Chiyoda	1	8	12,000
Energia Costa Azul LNG Ph 1	Awaiting FID	Late 2019	2023	Baja California, Mexico	Sempra	TechnipFMC, Kiewit	TechnipFMC, Kiewit	1	3	--
Magnolia LNG	Awaiting FID	2019	2023	Lake Charles, LA	LNG Limited	KBR; SK E&C	KBR/SK E&C (70%/30%)	4	9	4,350
Woodfibre LNG	Awaiting FID	2019	2023	Squamish, Canada	PO&G	KBR	Likely KBR	1	2	1,300
Port Arthur LNG	Awaiting FID	Late 2019	2024	Jefferson County, TX	Sempra Energy	Bechtel	Bechtel	2	14	8,500
Plaquemines LNG Phase 1	Awaiting FID	Aug 2019	2023	Plaquemines, LA	Venture Global LNG	--	--	18	10	4,250
Texas LNG	Awaiting FID	Late 2019	2024	Brownsville, TX	Texas LNG	Samsung Engineering	KBR, Samsung Engineering	2	4	1,000
Lake Charles LNG	Awaiting FID	2020	2024	Lake Charles, LA	Shell, Energy Transfer Partners	Technip	Will be KBR/Technip JV or Bechtel	3	15	11,000
Pluto Train 2	Awaiting FID	2020	2025	Australia	Woodside	Bechtel	Bechtel	1	5	--
Driftwood LNG Phases 2-4	Awaiting FID	2020	2024-2025	Lake Charles, LA	Tellurian	Bechtel	Bechtel	12	16	9,000
Papua LNG Expansion	Awaiting FID	2020	2025	Papua New Guinea	Total, ExxonMobil, Oil Search	--	--	2	8	1,300
Annova LNG	Awaiting FID	2020	2024	Brownsville, TX	Exelon Corp	Black & Veatch	Black & Veatch	2	6	3,000
Delfin FLNG	Awaiting FID	2020	2023	Cameron Parish, LA	Delfin LNG, Golar LNG, Enbridg	Bechtel	--	4	13	--
Jordan Cove LNG	Awaiting FID	2019	2025	Coos Bay, Oregon	Pembina Resources	Kiewit / Black & Veatch / JGC	Kiewit / Black & Veatch / JGC	5	8	10,000
QP New Megatrains	Speculative	Late 2019	2023	Qatar	Qatar Petroleum	Chiyoda	--	4	33	24,000
Cameron LNG Trains 4-5	Speculative	--	2024	Hackberry, LA	Sempra	--	--	2	10	--
Corpus Christi Expansion	Speculative	2020	2022	Corpus Christi, TX	Chenerie Energy	--	--	7	10	--
Monkey Island LNG	Speculative	Q4 2020	--	Cameron Parish, LA	Monkey Island LNG	Technip	--	3	12	6,900
Sakhalin-2 T3	Speculative	2020	2024	Russia	Gazprom, Shell + Japanese	Chiyoda	--	1	5	8,000
Bear Head LNG	Speculative	--	--	Nova Scotia, Canada	LNG Limited	KBR	--	4	8	2,200
Rio Grande LNG Phase 2	Speculative	--	2025	Brownsville, TX	NextDecade	McDermott	--	4	18	10,000
Energia Costa Azul LNG Ph 2	Speculative	--	2030	Baja California, Mexico	Sempra	--	TechnipFMC, Kiewit	2	11	--
Galveston Bay LNG	Speculative	2022	Jul 1905	Galveston County, TX	NextDecade	--	--	3	17	--
Jacksonville LNG	Speculative	--	2023	Jacksonville, FL	Eagle LNG	--	--	3	1	550
Alaska LNG	Speculative	--	2028	Nikiski, AK	AGDC, China Sinopec	--	--	3	20	65,000
Gulf LNG Liquefaction Project	Speculative	--	--	Jackson County, MI	Kinder Morgan	--	--	2	10	8,000

Total Awaiting FID	204
Total Speculative	154
Awaiting FID - 2019	142
Awaiting FID - 2020	62

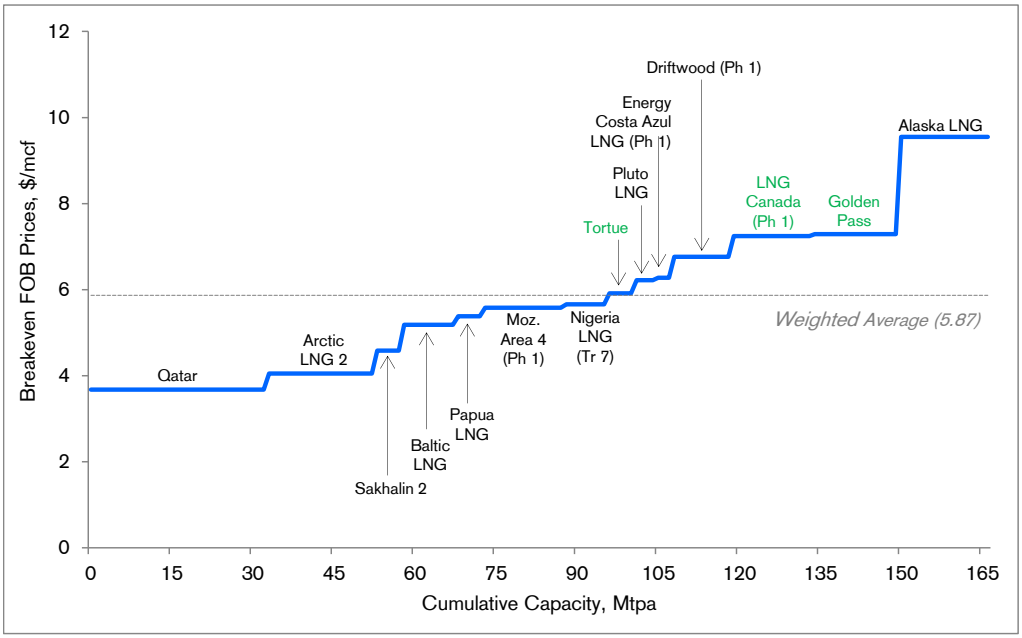
Source: Company data, Credit Suisse estimates

Historically, when LNG was the domain solely of IOCs, we would have expected internal competition for capital and the ability to secure Sale & Purchase Agreements (and therefore financing) as ensuring that the temptation to over-supply the market was tempered. This time, however, we see no such brake.

- IOCs see an unattractive LNG contracting market and want to wait until the market tightens before locking in prices. However, this has not prevented FIDs, as projects are being developed using company balance sheets rather than project finance. Neither LNG Canada (14mtpa) nor Golden Pass LNG (16mtpa) had any signed SPAs prior to sanction.
- This is allowing other developers without balance sheets to access SPAs and thereby finance their projects. Most notably, this is occurring in the US where LNG developers are able to merely own the LNG liquefaction units and buy gas in the market. Names such as Venture Global, Tellurian and Next Decade have made more progress on moving their projects towards FID than many expected.
- The ownership of LNG resource base is now more diverse than it ever has been in the past. This means companies are being forced to move ahead with projects not always at the attractive end of the cost curve if they want to ensure they retain market share (LNG Canada for RDS being a prime example).

- The E&C contractors are only just starting to replenish backlogs. It makes sense therefore to try and lock in development costs at this point in the cycle rather than wait 1-2 years when more pricing power will likely lie in the hands of the E&Cs.
- In an increasingly climate change conscious industry, where there are high levels of associated liquids in a project, developers may wish to accelerate FID in order to maximise liquids value.

Figure 48: Recent LNG project sanctions have been at the top end of the cost curve. This reflects, in our view, the resource base being spread across a wider range of owners



Source: Company data, Credit Suisse estimates

Capacity of the E&Cs may be the limiting factor

If the LNG developers do not self-regulate, then it may be that the supply chain is the limiting factor. We see three potential issues:

- **Experienced LNG E&C companies pushing back on Terms and Conditions**

In particular, TechnipFMC and KBR, both of which have suffered significant cost overruns on previous projects (Qatar in 2010 and Ichthys in 2016, respectively) have both actively reduced their risk tolerances on projects. TechnipFMC now only pursues projects where it has been engaged in the FEED process and, for onshore projects at least, appears to insist on having a reimbursable element within the construction part of the contract. KBR in a similar vein has become much more cautious about taking construction risk in countries with unionized labour forces, as well as remote locations and those subject to severe weather variability.

New participants are coming in behind. Notably, Fluor has recently secured its first LNG work with the LNG Canada project and is also part of the consortium bidding for Mozambique Area 4. In the US, domestic players who are more comfortable with local labour markets and construction risk are also participating (e.g. Kiewit). However, these companies are unproven and therefore a leap of faith is required. At present, this willingness of other E&Cs to step into the void and take on the risk that others are shunning makes LNG still a buyers' market; however, this could change swiftly.

- **Heightened counter-party risk**

Lump sum E&C contracting is risky whether it is LNG or any other type of construction work. Traditionally, therefore, E&C companies have operated with a net cash position, giving them a financial buffer should the worst occur. The current problem is that many of the traditional leaders in LNG development are not in a solid financial position and, in some cases, are looking closer to distress. Developers therefore need to consider the financial viability of these companies should project losses arise.

The table below shows gearing levels (ND/(ND + Equity) for the most active (listed) LNG contractors. Most of the companies, as we would expect, are in a net cash position. However, there are some data points we would pull out. First, McDermott's acquisition of CB&I and subsequent additional loss on contracts has pushed gearing to a critical level. Saipem's gearing has come down significantly following its €3.5bn equity raise in 2016; however, alongside McDermott, it is the only company in net debt. Last, all other companies bar KBR saw net cash reduce in 2018 relative to 2017.

Figure 49: McDermott's gearing level stands out compared to its LNG competitors

	2016	2017	2018	2019E	2020E
Chiyoda	-170%	-616%	-117%	0%	-55%
McDermott	8%	7%	71%	71%	60%
JGC	-102%	-71%	-48%	-37%	-63%
TechnipFMC	-36%	-27%	-15%	-2%	-9%
Saipem	23%	22%	23%	28%	26%
Fluor	-15%	-6%	-3%	-8%	-16%
KBR	-196%	-49%	-69%	-77%	-138%

Source: Company data, Credit Suisse estimates

Arguably, analysing Leverage (Total Assets/Total Equity) is more helpful in assessing the financial strength of the E&C contractors. In broad terms, we tend to think of a level >3 as problematic from the point of view of demonstrating financial strength to counterparties.

Here, both McDermott and Chiyoda are showing signs of stress, a direct consequence of cost-overruns on current US LNG projects. KBR, Fluor and Saipem are on the cusp of 3x gearing while TechnipFMC and JGC are in the strongest positions.

Figure 50: Leverage levels are problematic for McDermott whilst Chiyoda, Saipem and KBR are on the cusp of the significant 3x level (or higher)

	2016	2017	2018	2019E	2020E
Chiyoda	2.6	2.9	2.6	4.3	4.1
McDermott	2.0	1.8	9.0	8.9	6.8
JGC	1.6	1.7	1.7	1.8	1.7
TechnipFMC	2.3	2.1	2.4	2.4	2.4
Saipem	2.9	2.7	2.9	3.2	3.1
Fluor	2.8	2.7	2.9	2.7	2.5
KBR	5.6	3.0	2.9	3.0	2.8

Source: Company data, Credit Suisse estimates

McDermott's financial position has already caused one potential client to solicit a re-bid alongside a more financially stable partner. In September 2018, it was asked by NextDecade to bring in a JV partner for its proposed 27 mtpa Rio Grande development in Texas in order to financially guarantee the project. McDermott tried to finalise a JV with

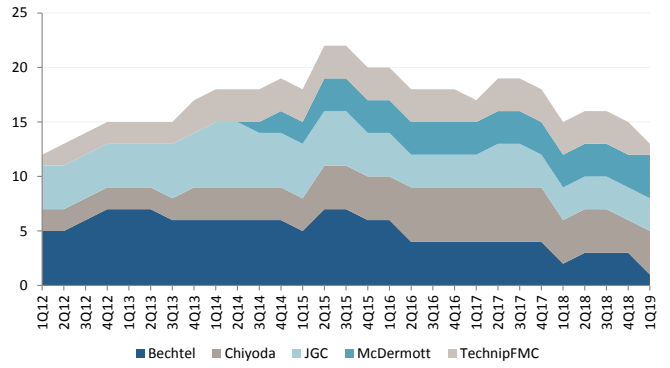
Saipem but failed, leaving Bechtel and Fluor as the sole bids for a contract that may be awarded in 3Q19. Deleveraging is now a critical focus for McDermott and it is starting to pull levers, the most notable of which are the planned divestitures of the pipe fabrication and tank storage businesses. The asset sales are on track, with proceeds expected to be just north of $1bn with the pipe business expected to close in Q219 and the tank sale in Q319 (according to the company). Advanced payments on awards that are fixed price could also help build cash more quickly in the US.

- **There is only one 'A Team' per company**

What human capital capacity do the E&Cs have to execute this work?

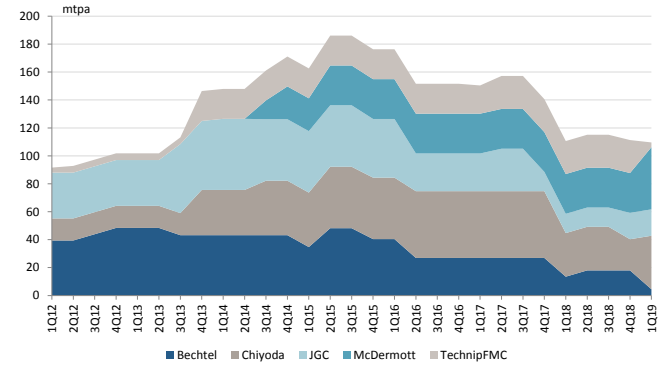
Figures 50 and 51 below show the number of projects being worked on at any one time by the five leading LNG contractors (Bechtel, Chiyoda, JGC, McDermott and TechnipFMC).

Figure 51: Number of LNG projects being worked on by the leading five contractors



Source: Company data, Credit Suisse research

Figure 52: Total volume of LNG projects being worked on by the leading five contractors (mtpa)



Source: Company data, Credit Suisse research

With the current number of projects below the 2015 peak, this suggests that there is spare capacity, assuming senior project managers have not exited the industry. Both Bechtel and TechnipFMC are fully operational on only one project each (we count Prelude FLNG and Yamal LNG as being in the wind-down stage). Bechtel does limit its opportunity set of LNG projects by focusing on OECD markets, but we would expect it to replenish its LNG workload in the coming quarters with the awards of Sabine Pass Tr. 6 and Tellurian's Driftwood LNG Ph. 1. TechnipFMC also appears to have become more selective in its target list and is currently pursuing five projects (ECA LNG, Mozambique Area 4, Arctic LNG 2, NLNG 7 and Qatar expansions).

Developers contracting these companies can realistically expect to get the A/B teams. However, at the other end of the spectrum, McDermott, and to a lesser extent Chiyoda, are both working on more projects now than at any point in their recent history.

Project execution makes LNG contract wins a risky source of profits

Naturally given the size of the prize, investors are enthusiastic about the LNG opportunity set in front of the E&Cs. However, we believe there are reasons to be hesitant.

We have scrutinised the 36 LNG projects which have started up post 2009 or are currently under construction, examining these projects for any timing/cost over-runs.

Of the 22 projects which are currently operational, 64% were delivered late, with the average delay being just over shy of 10 months. Developers have been more circumspect on cost over-run information but our data show that 41% were over budget (although we

think the real figure is probably closer to the 64% delayed). Average cost over-runs came in at 26%.

Naturally, the figures are better for projects still in the development phase. But even here, 50% of projects are currently behind schedule.

What is interesting to us is that when we look at the causes of cost over-runs/delays, the reasons are wide-ranging and often multiple. This illustrates the numerous risks that that E&C companies take on when securing large LNG projects.

Figure 53: The causes of LNG cost over-runs and delays are wide-ranging

Project	Country	Operator	Delay (months)	Rise (%)	Contractor(s)	Labour	Raw Materials	Land	Government / Regulatory	Weather	FX	Other
Qatargas 3	Qatar	Qatar Petroleum	16	0%	Chiyoda; TechnipFMC	✓	✓					
Pluto LNG	Australia	Woodside	14	29%	Foster Wheeler; WorleyParsons							
Qatargas 4	Qatar	Qatar Petroleum	12	0%	Chiyoda; TechnipFMC	✓	✓					
Angola LNG	Angola	Chevron	15	40%	Bechtel							✓
PNG LNG	PNG	ExxonMobil	3	27%	JGC; Chiyoda	✓		✓			✓	
QC LNG	Australia	BG	0	36%	Bechtel	✓	✓				✓	
Gladstone LNG	Australia	Santos	0	16%	Bechtel							✓
Donggi Senoro	Indonesia	Mitsubishi	8	0%	JGC							
Gorgon LNG (Tr 1-3)	Australia	Chevron	15	46%	KBR; JGC;	✓	✓	✓		✓	✓	
Australia Pacific LNG	Australia	Origin	3	7%	Bechtel				✓			✓
PFLNG - Satu	Malaysia	Petronas	12	0%	TechnipFMC; DSME							
Ichthys LNG	Australia	Inpex	21	18%	JGC; KBR; Chiyoda	✓				✓		✓
Wheatstone	Australia	Chevron	9	17%	Bechtel	✓	✓					
Cove Point	US	Dominion Energy	2	0%	IHI E&C; Kiewit							✓
Cameroon FLNG	Cameroon	Perenco	12	-4%	Golar LNG							✓
Sabine Pass (Train 5)	US	Cheniere Energy	7	0%	Bechtel							
		Average	**9**	**14%**								

Source: Credit Suisse research

Credit Suisse recently hosted its 2nd Annual LNG summit in New York and understandably the ability to deliver projects on time and on budget was high on the list of topics for discussion given recent high-profile issues (see Takeaways from the 2nd Annual Mini LNG Conference).

One clear way of mitigating the risk is to develop sites on a modular basis, especially in locations which are remote, lack infrastructure or have high labour costs. This is Fluor's strategy for LNG Canada. It was also the method employed by TechnipFMC for Yamal LNG which, in contrast to most projects, has been delivered ahead of expectations and has been profitable for its contractors.

Another option being put forward is the use of mid-scale rather than mega-scale developments. These developments can commence sooner (2-3 years vs 4-5 years) and therefore improve project economics. The primary example of this is Venture Global's 10mtpa Calcasieu Pass project in Louisiana. This consists of 18x 0.6mtpa LNG process trains from BHGE, which compares with LNG Canada being developed using 2x 7mtpa trains.

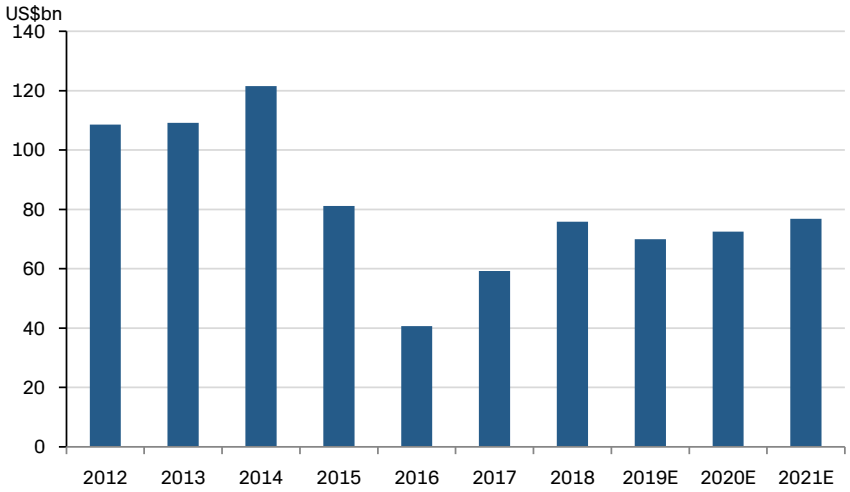
US shale: Recovery expected from 2020

Relative 'winners' (in order of preference): Hunting, Schoeller-Bleckmann, Wood plc, TechnipFMC

We hear a consistent message from US E&Ps, which is that they want to be able to live within their cash flows, assuming US$50/bbl WTI and US$3/mcf gas. Companies are actively flexing capex budgets in 2019 in order to achieve this goal and increasingly bowing to shareholder pressure.

Using bottom-up data from 35 US E&Ps covered by Credit Suisse points to a capex reduction in 2019E of 8% vs 2018 levels, with subsequent growth of ~5% p.a. over the following two years.

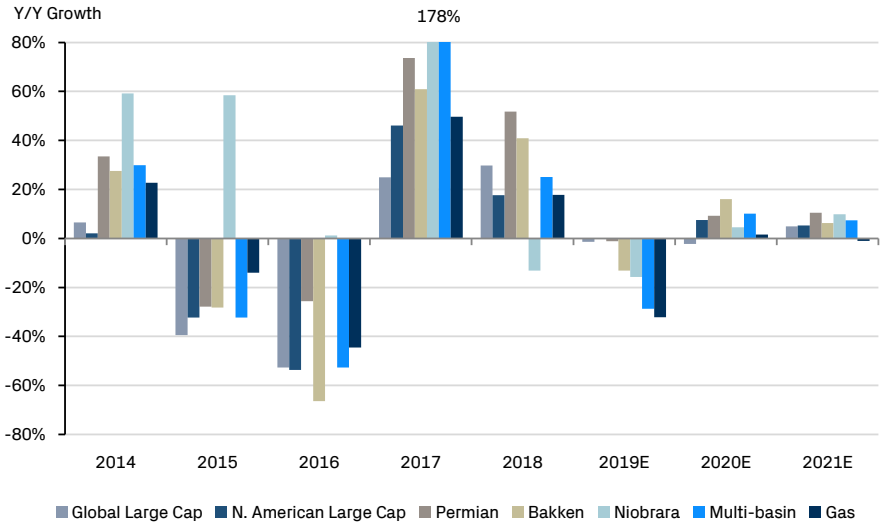
Figure 54: Capex across US shale focused companies to fall 8% in 2019E before recovering at ~5% per annum



Source: Company data, Credit Suisse estimates

We forecast no spending group to be up in 2019, but expect North American Large Cap (0% change to capex) and Permian (-1% cut to capex) to be the most insulated areas. Conversely, gas and multi-basin players are likely to see capex fall ~30%, on our forecasts.

Figure 55: Permian-focused operators and large cap North American companies likely to see little to no change in capex budgets in 2019E



Source: Company data, Credit Suisse estimates

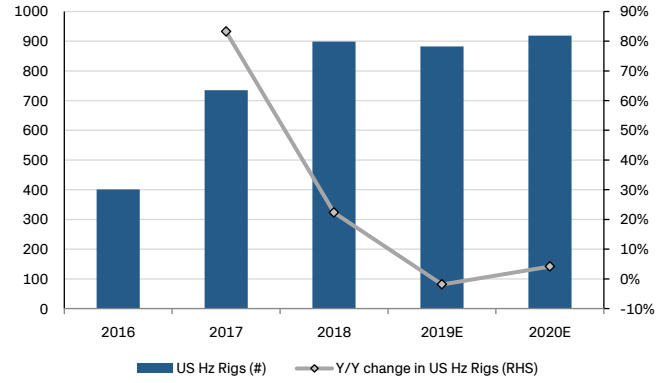
One small offset to the above is the capex plans of the IOCs. These companies are directing more capital to US shale basins given the near-term production implications and are willing at this stage of their evolution to invest beyond cash flow.

- **BP:** Combined BP Lower 48 and BHP acreage was running ~12 rigs in 2018. That will expand to 15 in 2019 with growth in Eagle Ford and Haynesville and Permian to a lesser extent.
- **Chevron:** The company is raising Permian capex by 9% in 2019 to US$3.6bn, and raising other shale & tight oil from US$1.0bn to US$1.6bn (not all US). As part of its acquisition of Anadarko it has said it will accelerate development of its Permian basin position.
- **ExxonMobil:** Raised its 2019 group capex budget by US$2bn to US$30bn compared to previous guidance in part due to greater opportunities in the Permian as it matures its acreage (Brazil being the other part of the equation). The company is now aiming for >1mmboe/d of Permian production by 2024 vs previous guidance of 600kboe/d by 2025.

Private E&P companies may soften the capex decline given that they are under less shareholder pressure to return cash, and therefore may spend incremental cash flow arising from higher oil prices on capex.

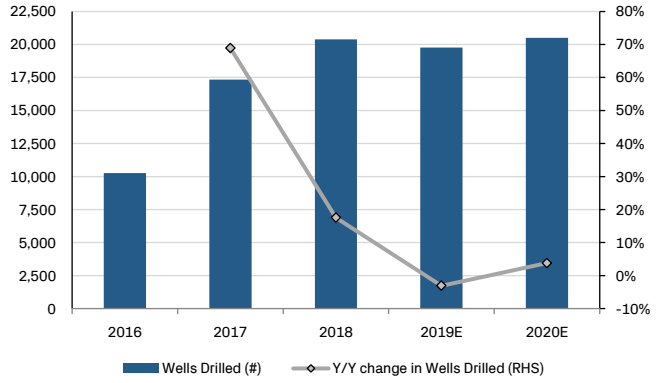
In terms of demand for services, we expect rig count and wells drilled to show low single-digit declines, a slightly better outcome than the capex cuts announced by the Independent E&Ps.

Figure 56: US horizontal rigs to remain at about 900 over the 2018-20E period



Source: Company data, Credit Suisse estimates

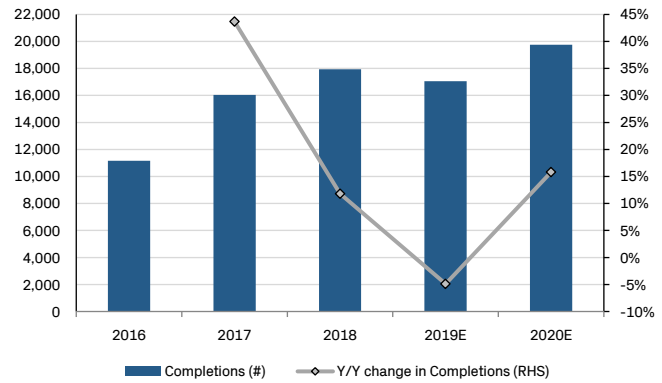
Figure 57: With limited productivity, expansion wells drilled will follow a similar trajectory



Source: Company data, Credit Suisse estimates

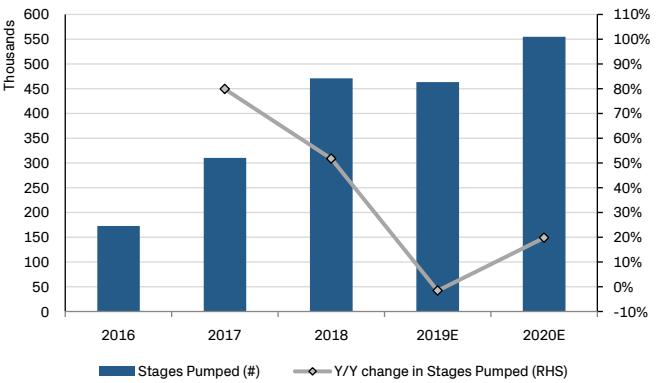
Looking at well completions and completed stage count, we see a similar decline on a year-on-year basis, down 5% and down 2%, respectively. Although 1Q19 looks weak with sequential declines of -12%/-17%, we expect to see a sustained recovery over the rest of the year. The caveat here is that if 1Q has been more resilient (as some evidence, such as DMC Global's upgraded revenue guidance, suggests) there is some risk to 2H numbers if budgets are close to exhaustion.

Figure 58: We forecast 5% declines in well completions in 2019, with 15% growth in 2020E



Source: Company data, Credit Suisse estimates

Figure 59: We model stage counts remaining flat before growing 20% in 2020E



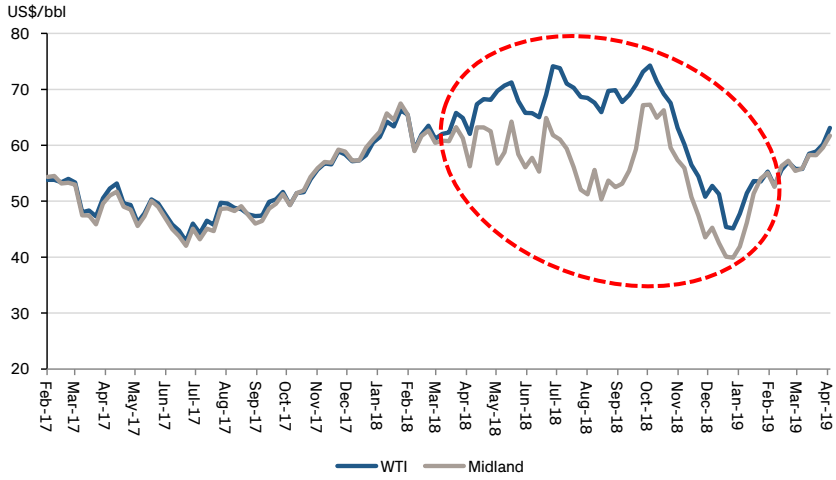
Source: Company data, Credit Suisse estimates

Permian capacity constraints will soon be in the rearview mirror

In 2018, US shale production, most notably from the Permian, overwhelmed the market. This not only negatively affected the global oil price through 4Q but also from a logistics perspective meant that much of the Permian take-away capacity was utilised. This manifested in a widening WTI-Midland crude differential, which over the course of the summer exceeded US$15/bbl.

However, a combination of slowing well completions in the basin and accelerated completion of take-away capacity means that this differential has closed and there is no longer an incremental incentive for Permian producers to slow activity. That said, the difference was still apparent in November/December, which may have had some negative impact on budgeting decisions.

Figure 60: Midland discount to WTI has closed and there is no longer an additional incentive to slow production growth



Source: Refinitiv, Credit Suisse research

Aker Solutions (AKSOL.OL)

Rating	**OUTPERFORM**
Price (30 Apr 19, Nkr)	44.27
Target price (Nkr)	52.00
Market Cap (Nkr m)	12,043.4
Enterprise value (Nkr m)	19,226.0

Target price is for 12 months.

Tendering pipeline building at the right time

- **Initiate coverage with an Outperform rating and Nkr52 TP:** Aker Solutions was a primary beneficiary of the offshore market's recovery starting in its home Norwegian market in 2017. Higher activity levels have helped mitigate margin pressure but have also resulted in tough order intake comps, and the stock price has suffered accordingly, with the share price the second-worst performer in our coverage on a six-month view. We expect order intake momentum to recover in 2H19-2020, providing a positive investment backdrop.
- **Rising bidding pipeline supporting 2020 growth:** We believe that concerns about 2020 revenue have been the biggest headwind to the investment case this year. The order book at the start of 2019 was not supportive of continued revenue growth in 2020 and this data point did not change with 1Q19 results on 30 April. However the CFO *is* confident of growth and expressed this view during the results analyst meeting. Our analysis shows that a <10% increase in order intake this year compared to last year would support revenue growth of 5% in 2020 (even taking into consideration the upgrade to 2019 revenue guidance). With the bidding pipeline swelling to Nkr 55bn at 1Q results, the highest level in almost two years, we think that this is a realistic outcome.
- **Catalysts: 1)** Order intake for execution in 2020; **2)** Further expansion in the bidding pipeline; **3)** Indications of improving pricing power; **4)** Longer-term trends to which AKSO is exposed (100% subsea developments; floating wind; Carbon, Capture & Storage).
- **Risks: 1)** Working capital reversal is more severe than we model. **2)** Alliance with Saipem fails to secure a subsea contract in 2019 / target subsea projects face delays in sanctioning **3)** Margins continued to come under pressure with a poor exit rate into 2020.
- **Valuation:** Our Nkr 52 TP is based on an equal weighting of our SOTP (2020E EBITDA) and DCF valuations. We expect the stock to re-rate from our current ~6.5x 2-year forward EV/EBITDA estimate as market confidence in top-line growth returns.

Research Analysts

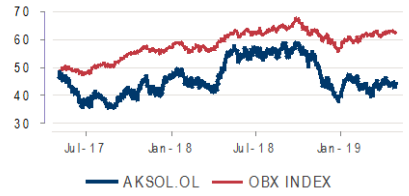
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Share price performance



The price relative chart measures performance against the OBX INDEX which closed at 812.1 on 30/04/19
On 30/04/19 the spot exchange rate was Nkr9.71/Eu 1.-Eu.89/US$1

Performance	1M	3M	12M
Absolute (%)	-6.0	-8.8	-21.5
Relative (%)	-4.7	-9.9	-22.0

Financial and valuation metrics

Year	12/18A	12/19E	12/20E	12/21E
Revenue (Nkr m)	25,232	27,626	28,449	30,107
EBITDA (Nkr m)	1813.9	2469.4	2822.5	3180.4
Adjusted net income (Nkr m)	534.6	533.6	742.1	945.8
CS EPS (adj.) (Nkr)	1.97	1.96	2.73	3.48
Prev. EPS (Nkr)				
ROIC avg (%)	9.2	7.2	7.0	8.3
P/E (adj.) (x)	22.5	22.5	16.2	12.7
P/E rel. (%)	154.9	157.1	131.0	110.5
EV/EBITDA (x)	6.9	7.8	6.6	5.7

Dividend (12/19E, Nkr)	0.66	Net debt/equity (12/19E,%)	92.9
Dividend yield (12/19E,%)	1.5	Net debt (12/19E, Nkr m)	7,182.6
BV/share (12/19E, Nkr)	28.1	IC (12/19E, Nkr m)	14,917.6
Current WACC (%)	10.0	EV/IC (12/19E, (x)	1.3
Free float (%)	52.9	Number of shares (m)	272.0

Source: Company data, Refinitiv, Credit Suisse estimates

Aker Solutions (AKSOL.OL)

Price (30 Apr 2019): **Nkr44.27**; Rating: **OUTPERFORM**; Target Price: **52.00**; Analyst: **David Farrell**

Income statement (Nkr m)	12/18A	12/19E	12/20E	12/21E
Revenue	25,232	27,626	28,449	30,107
EBITDA	**1,814**	**2,469**	**2,823**	**3,180**
Depr. & amort.	(741)	(1,237)	(1,287)	(1,354)
EBIT	**1,072**	**1,232**	**1,535**	**1,827**
Net interest exp.	(229)	(290)	(244)	(236)
Associates	0	0	0	0
PBT	**791**	**793**	**1,091**	**1,391**
Income taxes	(238)	(259)	(349)	(445)
Profit after tax	**554**	**535**	**742**	**946**
Minorities	(43)	(1)	-0	-0
Preferred dividends	-	-	-	-
Associates & other	24	(0)	0	0
Net profit	**535**	**534**	**742**	**946**
Other NPAT adjustments	(24)	0	0	0
Reported net income	**510**	**534**	**742**	**946**

Cash flow (Nkr m)	12/18A	12/19E	12/20E	12/21E
EBIT	1,072	1,232	1,535	1,827
Net interest	0	0	0	0
Cash taxes paid	0	0	0	0
Change in working capital	(375)	(1,437)	25	(89)
Other cash and non-cash items	223	540	494	473
Cash flow from operations	**920**	**335**	**2,054**	**2,211**
CAPEX	(331)	(452)	(400)	(420)
Free cashflow to the firm	**414**	**(838)**	**918**	**1,045**
Acquisitions	0	(14)	0	0
Divestments	0	0	0	0
Other investment/(outflows)	34	(218)	(200)	(210)
Cash flow from investments	**(297)**	**(684)**	**(600)**	**(630)**
Net share issue/(repurchase)	0	0	0	0
Dividends paid	0	0	(180)	(256)
Issuance (retirement) of debt	(99)	(22)	0	0
Other financing	0	(536)	(536)	(536)
Cashflow from financing	**(99)**	**(558)**	**(716)**	**(792)**
Changes in net cash/debt	697	(6,743)	590	640
Net debt at start	1,137	440	7,183	6,592
Change in net debt	**(697)**	**6,743**	**(590)**	**(640)**
Net debt at end	440	7,183	6,592	5,952

Balance sheet (Nkr m)	12/18A	12/19E	12/20E	12/21E
Assets				
Total current assets	**11,408**	**11,207**	**12,060**	**13,296**
Total assets	**20,964**	**25,873**	**26,723**	**27,920**
Liabilities				
Total current liabilities	**10,721**	**10,256**	**10,410**	**10,784**
Total liabilities	**13,356**	**18,138**	**18,426**	**18,933**
Total equity and liabilities	**20,964**	**25,873**	**26,723**	**27,920**

Per share	12/18A	12/19E	12/20E	12/21E
No. of shares (wtd avg.) (mn)	272	272	272	272
CS EPS (adj.) (Nkr)	**1.97**	**1.96**	**2.73**	**3.48**
Prev. EPS (Nkr)				
Dividend (Nkr)	**0.00**	**0.66**	**0.94**	**1.21**
Free cash flow per share (Nkr)	1.52	(3.09)	3.38	3.85

Valuation	12/18A	12/19E	12/20E	12/21E
EV/Sales (x)	0.5	0.7	0.7	0.6
EV/EBITDA (x)	6.9	7.8	6.6	5.7
EV/EBIT (x)	11.6	15.6	12.1	9.9
Dividend yield (%)	0.00	1.50	2.13	2.73
P/E (x)	22.5	22.5	16.2	12.7

ROE analysis (%)	12/18A	12/19E	12/20E	12/21E
ROE (%)	7.4	7.0	9.4	11.1
ROIC (avg.) (%)	9.2	7.2	7.0	8.3

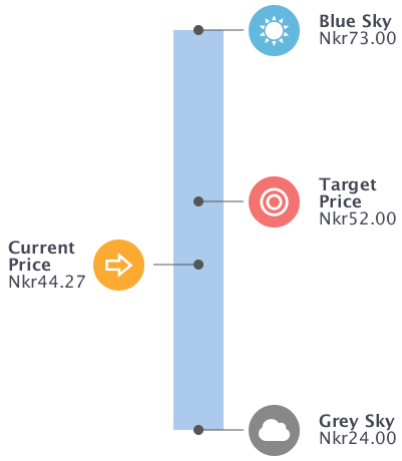
Credit ratios	12/18A	12/19E	12/20E	12/21E
Net debt/equity (%)	5.8	92.9	79.5	66.2
Dividend payout ratio (%)	0.0	33.7	34.6	34.7

Source: FTI, Company data, Refinitiv, Credit Suisse Securities (EUROPE) LTD. Estimates

Company Background

Aker Solutions is a Norwegian based provider of subsea equipment, offshore field design, Maintenance & Modification services and field life extension solutions. It employs ~14,000 people globally. AKER KVAERNER has a majority ownership

Blue/Grey Sky Scenario



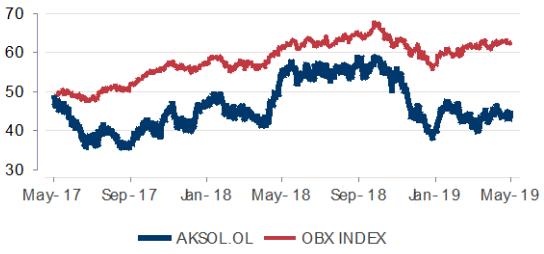
Our Blue Sky Scenario (Nkr) 73.00

In the Projects Division, order intake in 2019 is greater than we expect, driving high single digit growth in revenue in 2020 (in line with our assumption for broader offshore growth rates) and EBIT margin rise of 100bps. Services revenue grows in line with high case consultancy forecasts at 12.5% and EBIT margins recover to 2015 highs of 12%. We boost our multiple for the company to 8.3x which is 1x above our base case target multiple

Our Grey Sky Scenario (Nkr) 24.00

In both divisions we model revenue declines in line with those experienced in 2017 (14% and 9% respectively) and that EBIT margins for both fall back to cyclical lows. Our multiple for the group drops to 6.3x which is 1x below our base case target multiple

Share price performance

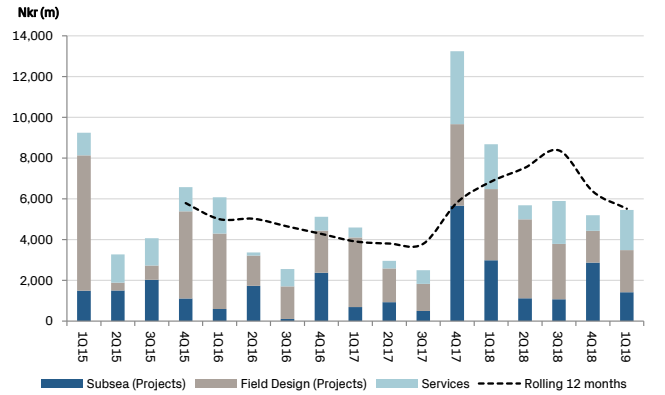


The price relative chart measures performance against the OBX INDEX which closed at 812.1 on 30/04/19

On 30/04/19 the spot exchange rate was Nkr9.71/Eu 1.- Eu.89/US$1

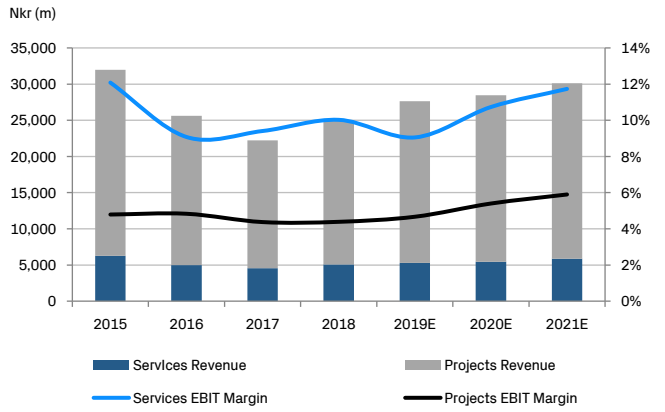
Key charts

Figure 61: Order intake comps should start to get easier



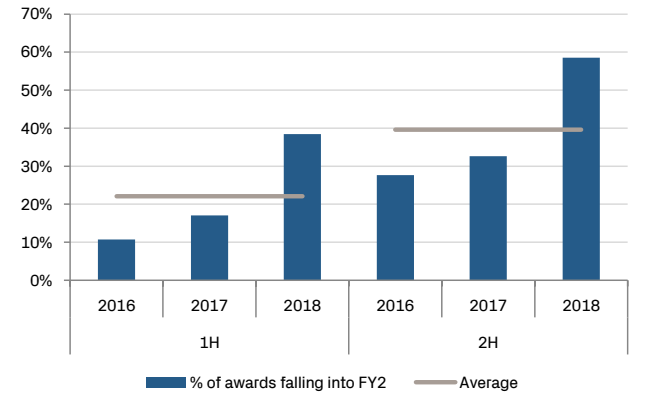
Source: Company data, Credit Suisse estimates

Figure 62: Upgraded 2019 revenue guidance of ~10% just slightly down on the 12% seen in 2018



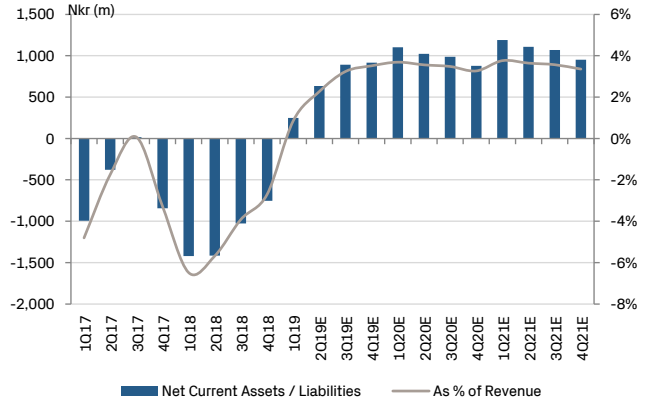
Source: Company data, Credit Suisse estimates

Figure 63: A strong 2H19 for awards should support 2020 revenue forecasts



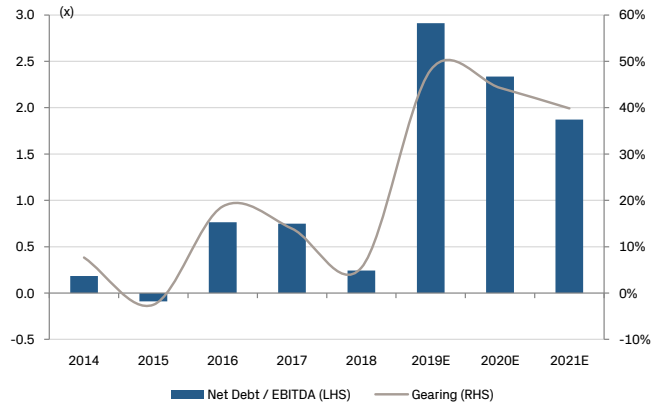
Source: Company data, Credit Suisse estimates

Figure 64: Market should not be surprised by working capital reversal – it has been well flagged



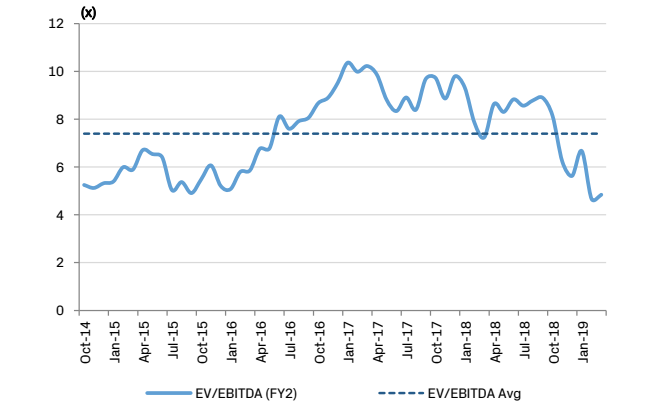
Source: Company data, Credit Suisse estimates

Figure 65: As has the IFRS 16 impact on Net Debt



Source: Company data, Credit Suisse estimates

Figure 66: AKSO is trading on ~6.5x 2020E EV/EBITDA, which we think offers good value



Source: Refinitiv. Monthly period end data

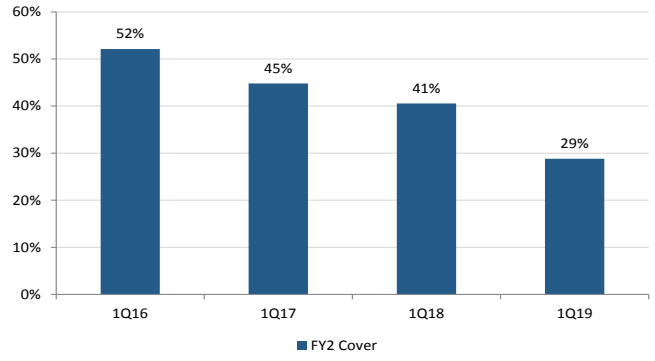
Strong uptick in orders can support 2020 forecasts

Aker Solutions navigated the downturn well, aided by the fact that its domestic Norwegian market has been one of the most resilient in the industry. The company delivered 12% revenue growth in 2018 and upgraded its guidance for 2019 revenue to ~+10% from up "slightly" at 1Q19 results.

But what about 2020? Aker Solutions provides more detail on its bidding pipeline and phasing of its backlog than peers. Currently (as of 1Q19), it has Nkr 8.2bn of backlog for execution in 2020. This quantum of backlog provides just 29% cover to a 2020 revenue forecast growing at 5% vs 2019 (we believe if the CFO is guiding to revenue growth in 2020 then this means at least 5%). This is not encouraging and coverage has been better in all of the past three years (Figure 67).

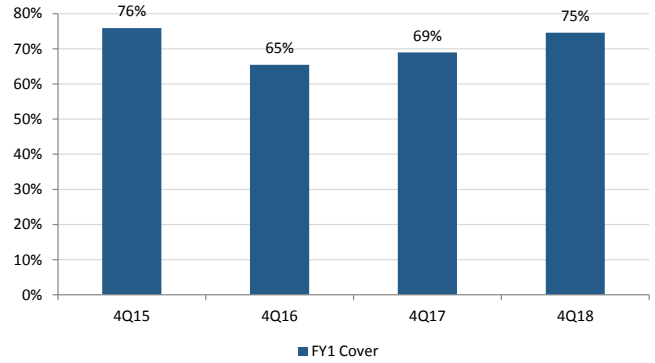
Fast forward to year-end, and Aker Solutions typically has 71% backlog cover for the year ahead. Unlike the FY2 data, this data is relatively clustered between 65% and 75% (Figure 68).

Figure 67: Backlog cover of FY 2 revenue 1.75 years out; 5% revenue growth in 2020 only 29% covered



Source: Company data, Credit Suisse estimates

Figure 68: Backlog cover for the year ahead at 4Q results has tended to be around 71%



Source: Company data, Credit Suisse estimates

Despite the poor starting point for 2020, we believe that Aker Solutions can turn it around with strong order intake over the remainder of 2019. The table below shows how much of order intake over the 2Q to 4Q period falls for execution the following year. For example, in 2016, 27% of what was won over 2Q16 to 4Q16 was for execution in 2017.

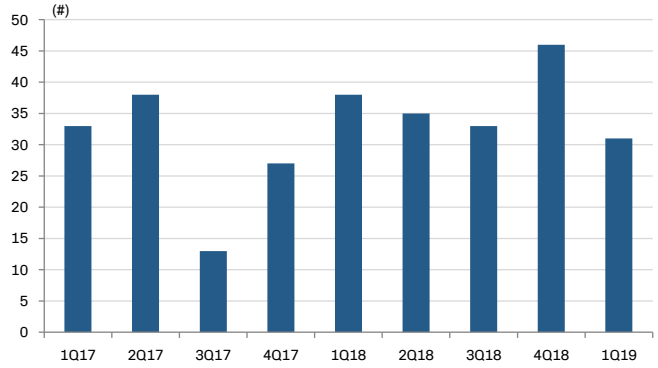
Figure 69: Order intake required in 2019 to reach Nkr20.7bn of backlog for execution at 2020 year-end

(Nkrm)	Backlog for FY2		2Q - 4Q	Additions	% falling
Year	1Q	4Q	Orders	to FY2	into FY2
2016	11,700	14,700	10,947	3,000	27%
2017	11,300	17,400	18,961	6,100	32%
2018	11,200	20,600	16,782	9,400	56%
2019E	8,200	20,659	22,244	12,459	56%
Implied total orders in 2019					27,768
Total orders in 2018					25,421
Required growth					9%
Equivalent quarterly orders for remainder of 2019					7,415

Source: Company data, Credit Suisse estimates

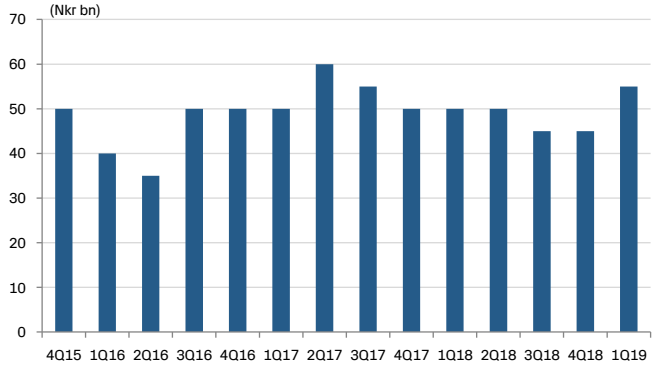
Assuming that 2018 provides a fair representation of cycle times in the new market environment (in terms of the shortened timeframe between winning and completing work), in order to achieve 71% backlog cover for 2020 revenues by the end of the current year (i.e. in line with recent averages), Aker Solutions would need to secure Nkr 22bn of orders over 2Q19 to 4Q19. Combined with the order intake already secured in 2019, this implies 9% order intake growth year over year. This does not seem overly aggressive to us considering the improving environment for offshore contracts. Indeed, the growth in Front End Engineering Design (FEED) awards in 2018 vs 2H17 provides another supportive data point given these should covert into contract awards over a 6-12 month timeframe. Furthermore, compared to FY18, the bidding pipeline has picked up substantially and this should generate awards over the next 6-12 months.

Figure 70: A 37% increase in FEED studies in 2018 vs 2017 supports higher tendering activity



Source: Company data, Credit Suisse research

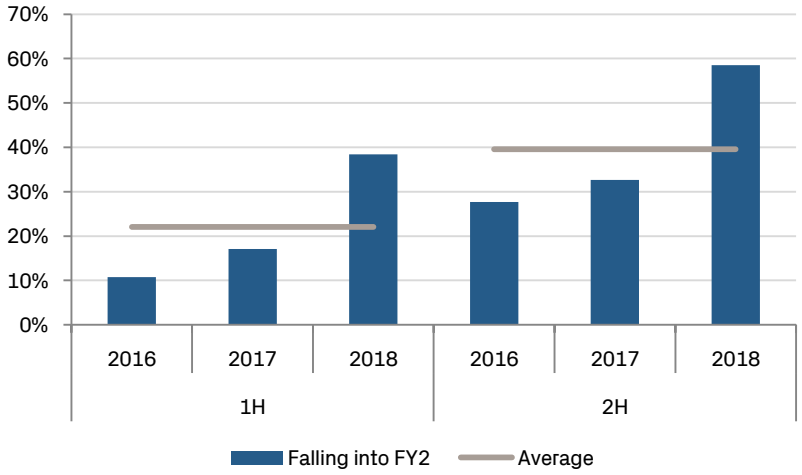
Figure 71: Group tendering has recovered to its highest level in almost two years



Source: Company data, Credit Suisse research

Providing another layer of dissection into Aker Solutions' historical backlog evolution shows that it is second-half awards that matter more when building up the following year's backlog. On average, 40% of the value of contracts won in 2H is executed the following year, versus 22% won in 1H. Furthermore, last year almost 60% of what was won in 2H was for execution in 2019.

Figure 72: Second-half awards contribute more to the FY2 backlog than those won in 1H



Source: Company data, Credit Suisse research

Divisional & group forecasts

Aker Solutions currently reports under two segments: Projects and Services. This reporting structure has been in place since 2Q15. Previously the reporting structure consisted of Subsea; Maintenance, Modifications & Operations (MMO) and Engineering.

Projects

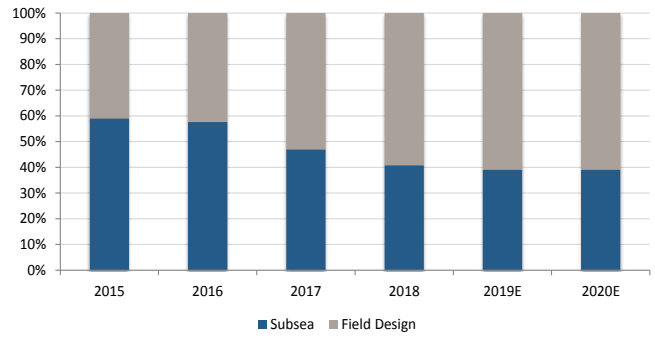
In essence, the Projects division captures revenue that the group derives from capex-related work. It is split into Subsea and Field Design.

- The Subsea division is an equipment manufacturer of components for subsea production systems such as control modules, trees and umbilicals. It typically delivers lower than group margins.
- Field Design encompasses early-stage feasibility, concept studies, detailed design (offshore production facilities) and project management. This tends to be higher-margin, achieving low double-digit EBITDA margins.

Order backlog for Projects overall is still some way below its early 2015 level; however, Field Design has substantially recovered. This has led to a change in the composition of Projects revenue from Subsea to Field Design which Aker Solutions suggest has been detrimental to margins (although excellent project execution on legacy subsea work has played a part in minimising margin contraction).

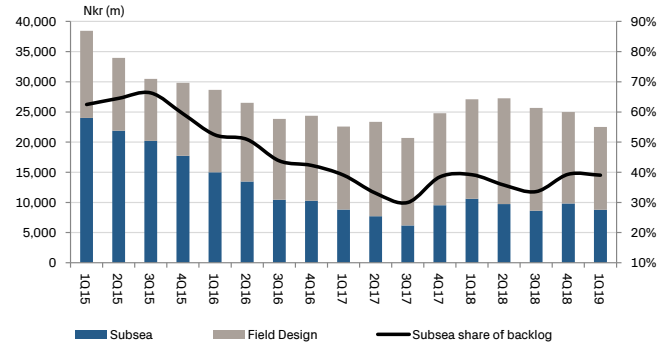
Looking forward, the quantum and composition of the order book is unchanged year-on-year. Although Aker Solutions was relatively successful for Subsea awards in 2018 (Mero - 1; Troll Phase 3/Askeladd; Liuhua) the comps are hard coming up against the exceptional 4Q17 period when it secured work across a number of Norwegian developments.

Figure 73: Shift in revenue mix towards Field Design we believe has been a negative for margins



Source: Company data, Credit Suisse estimates

Figure 74: Subsea remains a smaller % of backlog, therefore revenue mix unlikely to change near term



Source: Company data, Credit Suisse research

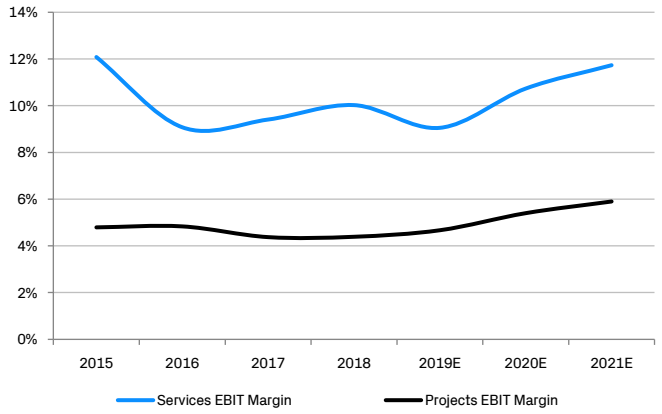
Services

The Services segment provides Subsea Lifecycle Services (SLS) to Aker Solutions' installed base of subsea equipment. This includes intervention, maintenance, repair, refurbishment and recertification. This is the highest-margin part of the group. The Production Asset Services (PAS) division provides outsourced asset management services and asset integrity management services. This business is largely Norway-focused and tends to achieve mid-single-digit EBITDA margins and, in contrast to SLS, is the lowest-margin part of the business. Note that not all of the revenue reported under legacy Maintenance, Modifications and Operations is reported in PAS, as the larger framework agreements and work that is organised around a project with a specific time-line (such as hook-ups) falls within Field Design.

In 4Q18, AKSOL acquired the remaining 30% of C.S.E. Mecânica e Instrumentação Ltda (C.S.E.) a Brazilian offshore/onshore servicing company, after acquiring an initial 70% stake in 2016. The acquisition follows a string of Petrobras contract wins in Brazil including a subsea production system and related services for Mero 1, maintenance and modifications services for nine platforms at oil and gas fields in the Campos Basin and a four-year contract plus one-year extension valued at ~NOK 800m to cover a range of services to renovate, repair and upgrade the FPSO platforms at the Barracuda, Caratinga and Albacora Leste fields also in the Campos Basin.

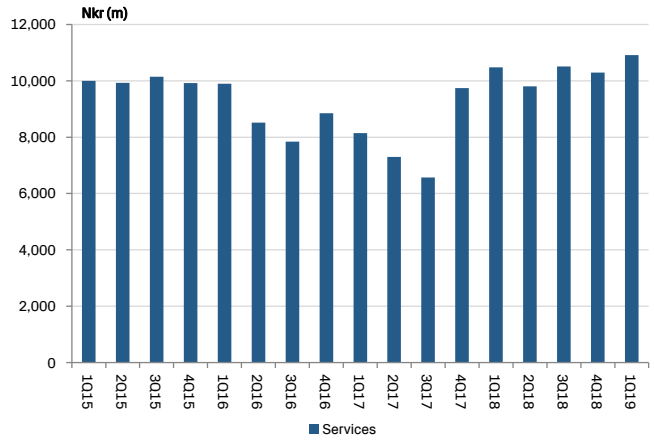
Overall, we believe that PAS accounts for 55% of divisional revenues and the higher-margin Subsea Lifecycle Services the remaining 45%.

Figure 75: Services EBIT margins are almost 2x those in Projects



Source: Company data, Credit Suisse estimates

Figure 76: Services backlog was rebuilt in late 2017 / early 2018 and has trended up subsequently



Source: Company data, Credit Suisse research

Credit Suisse vs consensus

Below we show our P&L forecasts for Aker Solutions relative to current IBES consensus estimates. As discussed in the sector section of this report, Aker Solutions is the most impacted company in our universe by the adoption of IFRS 16. EBITDA is expected to increase by Nkr 600m. We do not think that consensus numbers yet fully reflect the impact and therefore we think comparison at the EBITDA level in particular is not overly helpful.

In terms of guidance, Aker Solutions has said:

- 2019 revenues will be up ~10%; and
- EBITDA margins (pre-IFRS) should remain at around 1Q19 levels (6.8%).

Figure 77: CS vs consensus – IFRS 16 has a major impact and we do not believe that all consensus estimates have been updated for guidance

	2018	2019E			2020E			2021E		
Nkr (m)	Actuals	CS	Cons.	Diff	CS	Cons.	Diff	CS	Cons.	Diff
Revenue	25,232	27,626	27,227	1%	28,449	28,924	-2%	30,107	31,026	-3%
EBITDA	1,814	2,469	2,342	5%	2,823	2,545	11%	3,180	2,866	11%
EBITDA margin	7.2%	8.9%	8.6%		9.9%	8.8%		10.6%	9.2%	
Net Income (Adj)	535	534	588	-9%	742	734	1%	946	927	2%
EPS (Nkr/sh)	1.97	1.96	2.20	-11%	2.73	2.74	0%	3.48	3.43	2%
DPS (Nkr/sh)	0.00	0.66	0.30	122%	0.94	0.58	63%	1.21	0.67	81%
Net Debt	440	7,183	1,515	374%	6,592	978	574%	5,952	-956	-722%

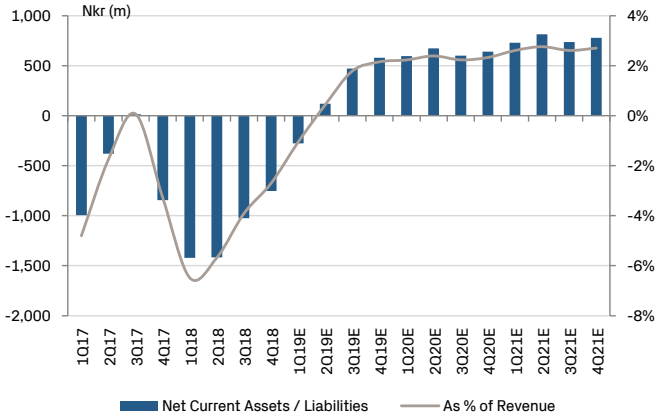
Source: Company data, Refinitiv (for consensus), Credit Suisse estimates. Data as of 1st May 2019

Balance sheet and shareholder returns

Since Aker Solutions demerged the Akastor group of companies in 2014, its balance sheet has benefited from carrying a Net Construction Liability position. We believe this is largely down to generous upfront cash payments on the Kaombo project, as well as excellent project execution. The position has gone on for (much) longer than expected, however, and is finally unwinding, with management guiding to net current assets trending to 4% of revenue over the next 12 months. This working capital will more than offset underlying operating cash flow and we forecast a FCF yield of ~-7% in 2019.

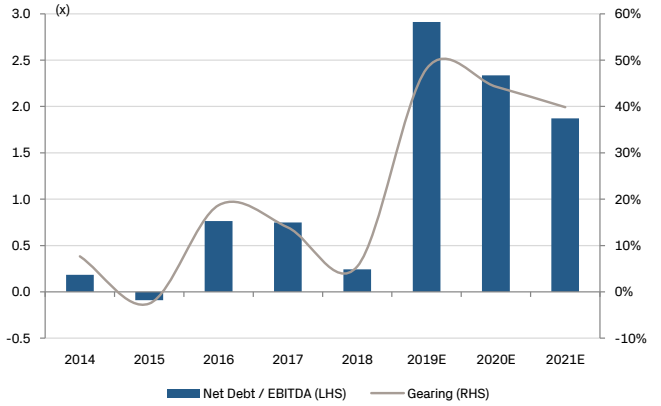
Within our coverage universe, Aker Solutions is the most affected by the adoption of IFRS 16. The lease liability recorded in 1Q19 was Nkr 5.8bn. Hence, reported Net Debt / EBITDA and gearing take a material step up this year.

Figure 78: Working capital to consume cash flow in coming quarters



Source: Company data, Credit Suisse estimates

Figure 79: Adoption of IFRS 16 will significantly push up headline net debt/EBITDA and gearing



Source: Company data, Credit Suisse estimates

A negative arising from FY18 results was a lack of dividend re-instatement – something that had been widely anticipated given the upturn in industry activity. The rationale for delaying this event is that the company is: i) seeing M&A opportunities and expects 2019 to be a year of significant pressure for some of its targets; ii) maintaining some cash in the face of the balance sheet/net current operating assets unwinding.

We do not think that management will be able to prolong re-instating the dividend again should our 2019 forecasts play out. We model a pay-out ratio of 34% for the year (guidance is that it will pay out 30-50% of net income).

Rating & target price

We initiate with an Outperform rating and Nkr 52 target price. We adopt a two-pronged approach to our valuation, equally weighting our EV/EBITDA sum-of-the-parts and a three-stage DCF.

Figure 80: Aker Solutions target price

Blended Valuation (Nkr / sh)	
SOTP fair value	51
DCF fair value	52
Average Fair Value (50% SOTP / 50% DCF)	**52**

Source: Credit Suisse estimates.

Sum-of-the-parts

As we highlighted in the main section of this report, IFRS 16 has a meaningful impact on Aker Solutions' valuation multiple. Based on consensus numbers for 2020E, IFRS 16 increases the 2020E EV/EBITDA multiple by 0.7x. All else being equal, the stock should trade at higher EV/EBITDA multiples going forward.

Aker Solutions' revenue mix means that there is no obvious peer on which to base valuation. Instead we have used a range of companies where there is a revenue overlap to shape our target multiple. These companies (ex Dril-Quip) trade on an average 7.6x 2020E EV/EBITDA multiple (based on consensus forecasts). We have applied a 10% haircut to this to get to our 6.8x target multiple, reflecting: i) prudency in setting target multiples given the lack of clear peer group; ii) current lack of visibility into 2020 revenue. The valuation multiples below for our reference companies we do not think have not been impacted by IFRS 16 and are therefore valid to use.

Figure 81: Multiples for AKSO's 'peer' group

	EV/EBITDA 2019	EV/EBITDA 2020	PE 2019	PE 2020	ND / EBITDA 2019	ND / EBITDA 2020
Oceaneering International Inc	14.7	10.2	-19.7	-67.6	2.7	1.9
Dril-Quip Inc	29.0	13.3	-36914.4	43.4	-10.6	-4.9
TechnipFMC PLC	6.6	6.2	18.7	15.2	-0.7	-0.9
Schlumberger NV	10.8	9.3	27.5	19.6	2.0	1.7
Bilfinger SE	8.1	5.7	20.1	12.4	0.7	0.2
WorleyParsons Ltd	15.9	8.5	25.1	13.0	3.2	1.5
John Wood Group PLC	6.6	5.7	10.9	9.1	1.7	1.3
KBR Inc	8.7	7.8	13.6	12.3	1.4	1.1
Average	**12.6**	**8.3**	**-4602.3**	**7.2**	**-0.1**	**0.1**
Average (ex DRQ)	**10.2**	**7.6**	**13.7**	**2.0**	**1.6**	**1.0**

Source: Refinitiv. (All multiples are based on consensus estimates) Priced as of 1st May 2019

Our 6.8x target EV/EBITDA multiple translates into a 7.3x multiple on a post-IFRS 16 basis. We apply this to multiple to both divisions. We think applying the same multiple across divisions (rather than trying to derive divisional multiples which achieve the group 7.3x target multiple) is fair due to the fact that the mix of revenue in each division is a blend of high- and low-margin work.

- Projects: In our target 2020E year, Subsea accounts for 40% of divisional revenues, with the remainder coming from Field Design. The margins on both we believe are likely to be similar (as more favourable Subsea contracts have been completed) and more in line with overall group margins.
- Services: The Maintenance, Modification and Operations revenue which accounts for ~55% of revenues is low-margin. We would expect it to trade on a 5x-6x (see our analysis of the AFW transaction in the Wood Plc section of this report). Conversely the Subsea Lifecycle Services business can command EBITDA margins towards 20% and therefore should warrant a multiple towards that of Dril-Quip.

Figure 82: SOTP valuation based on 2020E EBITDA forecasts

2020 SOTP - Nkr (m)						
	EBITDA	Sales	Multiple (x)	EV/Sales (Implied)	EV	Share
Projects	2,069	22,989	7.3	0.7	15,000	73%
Services	874	5,459	7.3	1.2	6,333	31%
Corporate	-120		7.3	0.0	-870	-4%
Total	2,823	28,449	7.3	0.7	20,463	
Net Debt / (Cash) - 2020E					567	
Lease Liability					6,025	
Minority Adjustments					107	
Shareholders' Equity					13,764	
Shares Outstanding - 2020E					272	
Implied Share price (Nkr / sh)					**51**	

Source: Credit Suisse estimates.

DCF

We use a three-stage DCF valuation, comprising forecasts out to 2025, a 10-year normalisation period to 2035 with revenue growth of 3% p.a., and subsequent terminal value based on a long-term growth rate of 2%.

Our WACC of 10.0% is based on the following inputs:

- a risk-free rate of 2.9% (30-year US Treasury);
- beta of 1.4 based on weekly regression of AKSO's share price vs the Norwegian OBX Index over the past two years;
- a market risk premium for the Norwegian market of 6.0% - we use NYU Stern School of Business dataset on global equity risk premiums (LINK);
- a long-term cost of debt of 5.9% (pre-tax); and
- an 85%/15% split of equity/debt.
- our long-term EBITDA margin assumption is 9.5%, which leads to a terminal value EV/EBITDA multiple of 4.8x.

Figure 83: Three-stage DCF model

DCF - Nkr (m)					
Assumptions	**Beta**	**Risk Prem.**	**WACC**	**LT Growth**	
	1.4	6.0%	10.0%	2.0%	
				EV	**Share**
Present Value Forecast Period (2019-25)				4,663	32%
Present Value Normalisation Period (2026-35)				6,140	42%
Present Value of Terminal Value				3,963	27%
Total Enterprise Value				**14,766**	
Net Debt / (Cash) - 2018				440	
Non Contolling Interest - 2018				89	
Implied Equity Value				**14,237**	
Share Count - 2018				272	
DCF Implied Fair Value				**52**	

Source: Company data, Credit Suisse estimates.

Blue Sky/Grey Sky scenarios

Our Blue Sky and Grey Sky valuations are based on flexing our 2020 revenue and margin assumptions and adjusting the target multiple in our SOTP valuation.

- *Blue Sky:* In Projects, we assume that order intake in 2019 grows faster than we expect in our base case and high single-digit revenue growth is achieved, in line with our assumption for growth across the broader offshore industry (vs 3% in our base case). We assume EBITDA margins rise 110bp vs 2019 levels leading to EBIT margins +100bps year on year. In Services, we assume revenue grows in line with high-case consultancy forecasts, at 12.5% (vs 3% in our base case), and EBITDA margins move to 17.3% (vs 16% in our base case) with consequent EBIT margins on a par with 2015 levels. We boost our multiple for the company to 8.3x, which is 1 turn above our target multiple.
- *Grey Sky:* In both divisions we model revenue declines in line with those experienced in 2017 (14% and 9%, respectively) and that EBITDA margins for both fall back to levels which ensure cyclical low EBIT margins. Our multiple for the group drops to 6.3x, which is 1 turn below our target multiple.

Figure 84: Blue Sky/Grey Sky

Blue Sky Valuation		Vs Base
EBITDA (2020 - Nkr m)	3,187	13%
Multiple	8.3	14%
Equity value (Nkr / sh)	**73**	
Grey Sky Valuation		**Vs Base**
EBITDA (2020 - Nkr m)	2,108	-25%
Multiple	6.3	-13%
Equity value (Nkr / sh)	**24**	

Source: Credit Suisse estimates.

Risks

The major risks to our investment case and target price include the following.

- The company fails to secure sufficient contract wins in 2H19 to validate 2020 revenue estimates, and these have to be revised down.
- The company loses market share as its alliance with Saipem fails to compete with the more established models (TechnipFMC, Subsea 7/Schlumberger, McDermott/Baker Hughes GE).
- Margins deteriorate in 2020 relative to 2019 as we underappreciate the benefit of legacy contracts in the current revenue mix.
- The working capital unwind to 4% of revenue overshoots, accentuating disappointing free cash-flow generation.
- The company overpays for M&A targets.

Credit Suisse HOLT

The extended seven-year forecast shown in Figure 85 for sales, margins and returns allow us to express our long-term view of the near-term recovery and factor the next cycle into this business.

Based on our key estimates from 2019-2021, CFROI is expected to improve from 4.4% in 2019 to c.7.2% by 2021. This is supported by our expectations of order intake momentum to recover into 2020 and margins to continue to recover as the subsea recovery takes hold and pricing conditions improve. Thereafter we forecast continued strength and model returns to improve further to 11% by 2025.

Beyond the explicit 7-year forecast period (2019-2025), HOLT uses a fade model to arrive at its warranted price. CFROI® levels are faded to 6.0% and asset growth is faded to 2.5% (mean reversion to long-term observed levels). The default fade rate is 10%. For this analysis we have used a Market Implied Discount Rate of c.5.5% for European Oil & Gas aggregate.

The above assumptions suggest a HOLT warranted value of Nkr 55.65 which is approximately in line with our Nkr 52 target price.

Figure 85: Aker Solutions in HOLT

AKER SOLUTIONS ASA (AKSO)

Current Price: NOK 44.27 **Warranted Price: NOK 55.65**

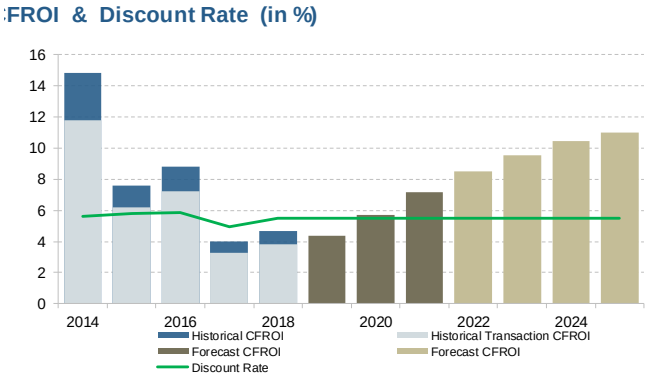
Valuation date: 30-Apr-19

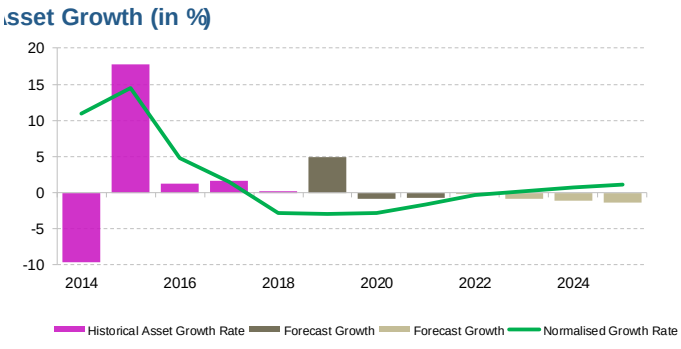
EBITDA Margin (parallel % point change to forecasts)	Sales Growth (parallel % point change to forecasts)				
NOK	-2.0%	-1.0%	0.0%	1.0%	2.0%
-2.0%	-48%	-38%	-28%	-17%	-5%
-1.0%	-24%	-13%	-1%	11%	26%
0.0%	0%	12%	26%	40%	56%
1.0%	24%	38%	53%	69%	86%
2.0%	47%	63%	79%	97%	117%

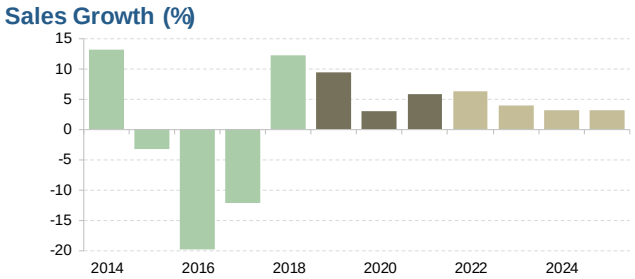
	Dec 17A	Dec 18A	Dec 19E	Dec 20E	Dec 21E
Sales Growth, %	-12.1	12.3	9.5	3.0	5.8
EBITDA Mgn, %	6.8	7.2	6.4	7.5	8.2
Asset Turns, x	1.03	1.1	1.1	1.2	1.2
CFROI®, %	4.0	4.7	4.4	5.7	7.2
Disc Rate, %	4.9	5.5	5.5	5.5	5.5
Asset Grth, %	1.6	0.2	4.9	-0.9	-0.7
Price to Book, x	1.4	1.2	1.2	1.2	1.2
Economic PE, x	35.1	26.0	27.2	20.9	16.3
Leverage, %	39.6	35.8	40.8	41.2	41.4

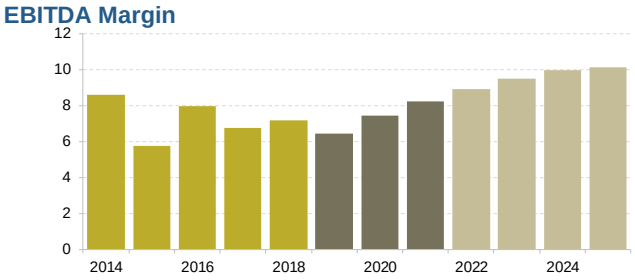
More than 10% downside | Within 10% | More than 10% upside

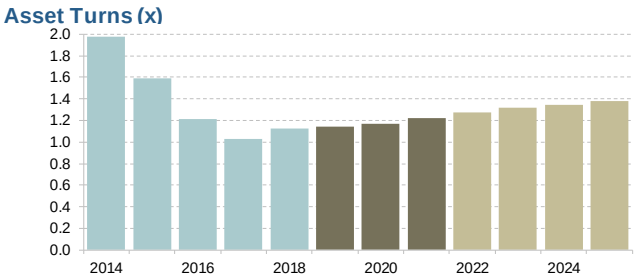












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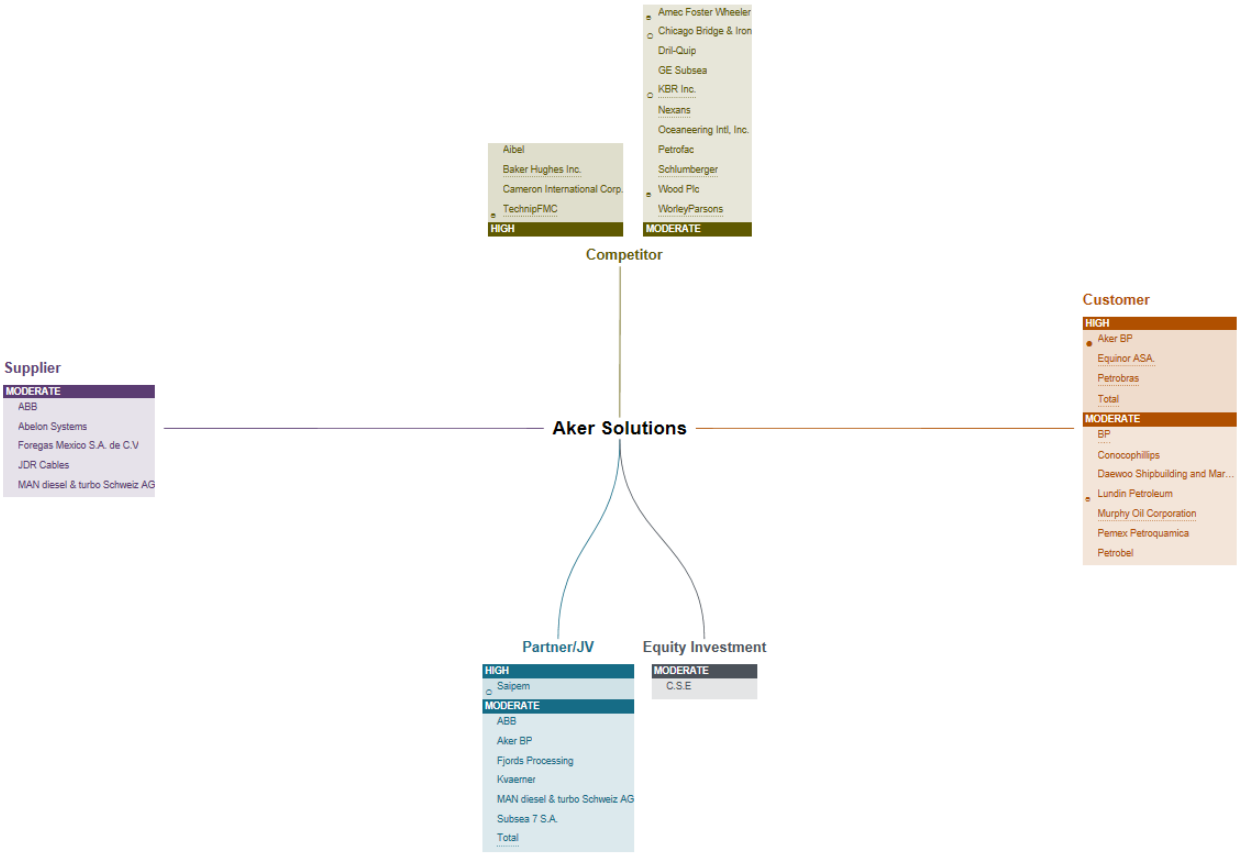
Source: Credit Suisse HOLT

PEERs

PEERs is a global database that captures unique information about companies within the Credit Suisse coverage universe, based on their relationships with other companies – their customers, suppliers and competitors. The database is built from our research analysts' insight regarding these relationships. Credit Suisse covers over 3,000 companies globally. These companies form the core of the PEERs database, but it also includes relationships on stocks that are not under coverage.

For more information, see our November 2016 PEERs report: A chain reaction: Supply chain strategies.

Figure 86: Aker Solutions: Credit Suisse PEERs



Source: Credit Suisse PEERs

Management

Luis Araujo – CEO

Mr Araujo was named CEO in July 2014, having been president of Aker Solutions' Brazilian operations for three years. He has spent more than 30 years in the Oil & Gas industry including senior posts at GE, Wellstream, ABB and FMC Technologies.

Svein Stoknes – CFO

Mr Stoknes was named CFO in September 2014. He joined Aker Solutions in 2007 and has held numerous key posts, including as head of finance of Aker Solutions' subsea business.

Dean Watson – COO

Mr Watson was named Chief Operating Officer in September 2016, and head of the subsea lifecycle services delivery centre in October 2018. He has more than 20 years of oil industry experience, much of it in various leadership and operational management positions within Schlumberger.

P&L, cash flow and balance sheet

Figure 87: Divisional & group P&Ls

Divisional (NOKm)	2017A	2018A	2019E	2020E	2021E
Projects					
Subsea	8,336	8,161	8,732	8,994	9,894
Field Design / Other	9,324	11,759	13,588	13,995	14,345
Revenue	**17,660**	**19,920**	**22,321**	**22,989**	**24,238**
Growth	-14%	13%	12%	3%	5%
EBITDA	1,217	1,355	1,827	2,069	2,303
Margin	6.9%	6.8%	8.2%	9.0%	9.5%
Growth	-21%	11%	35%	13%	11%
Services					
Revenue	**4,560**	**5,097**	**5,300**	**5,459**	**5,869**
Growth	-9%	12%	4%	3%	8%
EBITDA	605	678	759	874	998
Margin	13.3%	13.3%	14.3%	16.0%	17.0%
Growth	1%	12%	12%	15%	14%
Other / Eliminations					
Revenue	**241**	**215**	**5**	**0**	**0**
EBITDA	-303	-222	-120	-120	-120

P&L (NOKm)	2017A	2018A	2019E	2020E	2021E
Revenue	22,461	25,232	27,626	28,449	30,107
Growth	-12%	12%	9%	3%	6%
EBITDA	1,519	1,811	2,466	2,823	3,180
EBITDA (ex-special items)	**1,666**	**1,814**	**2,469**	**2,823**	**3,180**
Margin	7.4%	7.2%	8.9%	9.9%	10.6%
Growth	-21.5%	8.9%	36.1%	14.3%	12.7%
D&A	-791	-741	-1,237	-1,287	-1,354
EBIT	728	1,070	1,229	1,535	1,827
EBIT (ex special items)	**876**	**1,072**	**1,232**	**1,535**	**1,827**
Margin	3.9%	4.3%	4.5%	5.4%	6.1%
Net finance expense	-250	-229	-290	-244	-236
Other items	-227	-52	-149	-200	-200
Adj pre-tax profit	**399**	**791**	**793**	**1,091**	**1,391**
Tax	-160	-238	-259	-349	-445
Effective tax rate	*40%*	*30%*	*33%*	*32%*	*32%*
Minority interests	-18	-43	-1	0	0
Net profit	221	510	534	742	946
Adj net profit	**310**	**535**	**534**	**742**	**946**
Diluted shares	272	272	272	272	272
EPS (CS, Adj) NOK	**1.14**	**1.97**	**1.96**	**2.73**	**3.48**
EPS (IFRS)	0.81	1.88	1.96	2.73	3.48
DPS	0.00	0.00	0.66	0.94	1.21

Source: Company data, Credit Suisse estimates

Figure 88: Condensed cash flow and balance sheet

Cash flow (NOKm)	2017A	2018A	2019E	2020E	2021E
Profit for the period	239	554	535	742	946
Operating cash flows	831	741	1,237	1,287	1,354
Working capital	-482	-375	-1,437	25	-89
Net cashflow from operations	**588**	**920**	**335**	**2,054**	**2,211**
Capex (net, inc intangible)	-361	-506	-637	-600	-630
M&A spend (net)	-221	0	-14	0	0
Other investing cash flows	275	209	-33	0	0
Net cash flow from investing	**-307**	**-297**	**-684**	**-600**	**-630**
Change in borrowings	-761	-99	-22	0	0
DPS cash cost	0	0	0	-180	-256
IFRS 16 leases paid	0	0	-536	-536	-536
Other financing cashflows	-74	0	0	0	0
Net cash flow from financing	**-835**	**-99**	**-558**	**-716**	**-792**
FX	54	-29	17	0	0
Net cash flow	**-501**	**495**	**-890**	**738**	**788**
Cash and cash equivalents	**1,978**	**2,473**	**1,583**	**2,322**	**3,110**
Net Debt / (cash)	**1,137**	**440**	**1,306**	**567**	**-221**
IFRS 16 Lease Liability	-	-	5,877	6,025	6,173
Net Debt / (cash) under IFRS 16			**7,183**	**6,592**	**5,952**
FCF	**227**	**414**	**-838**	**918**	**1,045**

Balance Sheet (NOKm)	2017A	2018A	2019E	2020E	2021E
Property, plant and equipment	3,316	3,044	2,971	2,858	2,699
Intangible assets	5,798	5,705	5,772	5,697	5,633
Other non-current assets	846	807	5,924	6,108	6,292
Total Non-Current Assets	**9,960**	**9,556**	**14,667**	**14,664**	**14,624**
Other Current Operating Assets	3,967	5,000	5,284	5,442	5,747
Other current assets	3,831	3,935	4,340	4,296	4,439
Cash and cash equivalents	1,978	2,473	1,583	2,322	3,110
Total Current Assets	**9,776**	**11,408**	**11,207**	**12,060**	**13,296**
Total Assets	**19,736**	**20,964**	**25,873**	**26,723**	**27,920**
Pensions	0	0	0	0	0
Non-current borrowings	2,576	1,788	1,764	1,764	1,764
Other non-current liabilities	877	847	6,118	6,252	6,385
Total non-current liabilities	**3,453**	**2,635**	**7,882**	**8,016**	**8,149**
Other current Operating Liabilities	5,439	6,770	5,456	5,561	5,831
Current borrowings	539	1,125	1,125	1,125	1,125
Other Current Liabilities	3,257	2,826	3,675	3,724	3,828
Total Current Liabilities	**9,235**	**10,721**	**10,256**	**10,410**	**10,784**
Equity	6,981	7,519	7,628	8,190	8,880
Minority interest	67	89	107	107	107
Total shareholders equity	**7,048**	**7,608**	**7,735**	**8,297**	**8,987**
S/H Equity & Liabilities	**19,736**	**20,964**	**25,873**	**26,723**	**27,920**

Source: Company data, Credit Suisse estimates

Hunting (HTG.L)

Rating	**OUTPERFORM**
Price (01 May 19, p)	581.00
Target price (p)	745.00
Market Cap (£ m)	969.9
Enterprise value (£ m)	913.7

Target price is for 12 months.

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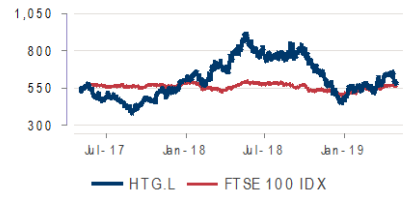
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Integrated subsea awards accelerating

- **We initiate coverage with an Outperform rating and 745p TP:** We believe that the competitive threat faced by Titan, the group's market-leading US completions business, is more than accounted for in a depressed multiple.
- **Titan fighting to stay at the top:** We expect softness in Hunting Titan to prove temporary. Revenue growth should return in 2020E, driven by secular growth in US shale activity and an expansion in the international footprint. Revenue mix and improved manufacturing efficiency through automation and in-housing should also aid margins, which were hit in 1Q19. Our review of Titan's competitive positioning shows that has risen to best-in-class status and continued to deliver leading edge margins in 2H18 despite a loss of market share (partly driven by lack of international exposure).
- **Catalysts: 1)** Evidence that the geographical regions are starting to make a reasonable contribution to profits (US$135m of EBITA in 2014 vs -US$1m in 2018); **2)** Signs that excess industry inventories in perforating lines have been worked through; **3)** US E&Ps directing higher cash-flow to capex.
- **Risks: 1)** Cadence of US E&Ps capex, with concerns that spend will taper more than usual through 2H; **2)** Company overpays for M&A; **3)** Working capital consumes more cash flow than we expect.
- **Valuation:** Our 745p target price is based on an equal weighting of our SOTP (2020E EBITDA) and DCF valuations. The 2-year forward EBITDA multiple has contracted from ~10x to under 6x over the past year. We think this ignores the secular growth in US shale and potential for the geographical regions to make a more meaningful contribution to profits as the later-stage international/offshore markets recover. Credit Suisse HOLT® ranks Hunting as the most attractive stock in our coverage universe, when looked at in the context of the difference between market and sell-side implied CFROI.

Share price performance



The price relative chart measures performance against the FTSE 100 IDX which closed at 7385.3 on 01/05/19
On 01/05/19 the spot exchange rate was £.86/Eu 1.-Eu.89/US$1

Performance	1M	3M	12M
Absolute (%)	-13.2	-0.3	-29.8
Relative (%)	-12.3	-3.1	-27.4

Financial and valuation metrics

Year	12/18A	12/19E	12/20E	12/21E
Revenue (US$ m)	911	930	1,032	1,098
EBITDA (US$ m)	146.5	151.2	195.9	222.1
Pre-tax profit adjusted (US$ m)	104.0	100.9	142.1	167.4
CS EPS (adj.) (US$)	0.50	0.46	0.65	0.77
Prev. EPS (US$)				
ROIC avg (%)	7.5	7.2	9.9	11.6
P/E (adj.) (x)	15.1	16.3	11.6	9.8
P/E rel. (%)	112.4	123.5	94.7	84.9
EV/EBITDA (x)	8.2	7.9	5.6	4.4

Dividend (12/19E, p)	0.09	Net debt/equity (12/19E,%)	-6.0
Dividend yield (12/19E,%)	1.2	Net debt (12/19E, US$ m)	-73.5
BV/share (12/19E, US$)	7.4	IC (12/19E, US$ m)	1,156.9
Current WACC (%)	10.2	EV/IC (12/19E, (x)	1.0
Free float (%)	79.4	Number of shares (m)	166.9

Source: Company data, Refinitiv, Credit Suisse estimates

Hunting (HTG.L)

Price (01 May 2019): **581.00p**; Rating: **OUTPERFORM**; Target Price: **745.00**; Analyst: **David Farrell**

Income statement (US$ m)	12/18A	12/19E	12/20E	12/21E
Revenue	911	930	1,032	1,098
EBITDA	**147**	**151**	**196**	**222**
Depr. & amort.	(64)	(66)	(67)	(66)
EBIT	**105**	**105**	**145**	**168**
Net interest exp.	(1)	(2)	(1)	1
Associates	-	-	-	-
PBT	**104**	**101**	**142**	**167**
Income taxes	(22)	(22)	(31)	(36)
Profit after tax	**82**	**79**	**111**	**131**
Minorities	4	-0	-0	-0
Preferred dividends	-	-	-	-
Associates & other	(4)	0	0	0
Net profit	**82**	**79**	**111**	**131**
Other NPAT adjustments	7	(16)	(13)	(10)
Reported net income	**89**	**63**	**99**	**121**

Cash flow (US$ m)	12/18A	12/19E	12/20E	12/21E
EBIT	105	105	145	168
Net interest	(1)	(2)	(1)	1
Cash taxes paid	(3)	(17)	(27)	(33)
Change in working capital	(97)	(14)	(29)	(13)
Other cash and non-cash items	48	48	52	53
Cash flow from operations	**53**	**120**	**139**	**175**
CAPEX	(24)	(26)	(16)	(17)
Free cashflow to the firm	**22**	**78**	**107**	**142**
Acquisitions	0	0	0	0
Divestments	14	0	0	0
Other investment/(outflows)	4	(4)	(3)	(1)
Cash flow from investments	**(6)**	**(29)**	**(19)**	**(18)**
Net share issue/(repurchase)	0	0	0	0
Dividends paid	(7)	(15)	(16)	(17)
Issuance (retirement) of debt	1	0	0	0
Other financing	(8)	(14)	(14)	(14)
Cashflow from financing	**(14)**	**(29)**	**(30)**	**(31)**
Changes in net cash/debt	31	12	91	127
Net debt at start	(30)	(61)	(74)	(164)
Change in net debt	**(31)**	**(12)**	**(91)**	**(127)**
Net debt at end	(61)	(74)	(164)	(291)

Balance sheet (US$ m)	12/18A	12/19E	12/20E	12/21E
Assets				
Total current assets	**647**	**719**	**849**	**996**
Total assets	**1,369**	**1,454**	**1,547**	**1,659**
Liabilities				
Total current liabilities	**159**	**156**	**167**	**174**
Total liabilities	**178**	**224**	**234**	**241**
Total equity and liabilities	**1,369**	**1,454**	**1,547**	**1,659**

Per share	12/18A	12/19E	12/20E	12/21E
No. of shares (wtd avg.) (mn)	171	170	170	170
CS EPS (adj.) (US$)	**0.50**	**0.46**	**0.65**	**0.77**
Prev. EPS (US$)				
Dividend (US$)	**0.09**	**0.09**	**0.10**	**0.10**
Free cash flow per share (US$)	0.13	0.46	0.63	0.84

Valuation	12/18A	12/19E	12/20E	12/21E
EV/Sales (x)	1.3	1.3	1.1	0.9
EV/EBITDA (x)	8.2	7.9	5.6	4.4
EV/EBIT (x)	11.5	11.4	7.6	5.8
Dividend yield (%)	1.19	1.25	1.31	1.37
P/E (x)	15.1	16.3	11.6	9.8

ROE analysis (%)	12/18A	12/19E	12/20E	12/21E
ROE (%)	7.2	6.6	8.9	9.7
ROIC (avg.) (%)	7.5	7.2	9.9	11.6

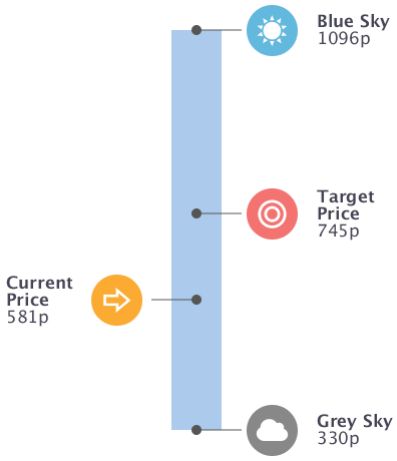
Credit ratios	12/18A	12/19E	12/20E	12/21E
Net debt/equity (%)	(5.1)	(6.0)	(12.5)	(20.5)
Dividend payout ratio (%)	17.9	20.3	15.2	13.5

Source: FTI, Company data, Refinitiv, Credit Suisse Securities (EUROPE) LTD. Estimates

Company Background

Hunting is a leading provider of perforating charges and guns to the US shale market through its Hunting Titan business. The company also provides equipment used in directional drilling as well as premium products for offshore wells.

Blue/Grey Sky Scenario



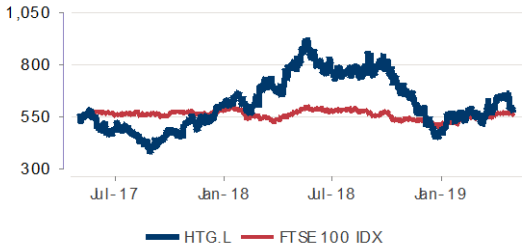
Our Blue Sky Scenario (p) 1096.00

We assume that 2020 Titan revenue grows by 25%, in line with the 2014 growth rate. EBITA margins move to 28%, 300bps above 2018 levels. We value Titan on a best in class 10x EBITDA multiple. For the geographic regions we assume revenue growth of 20% for US, Asia Pacific and M. East / Africa / Other whilst for Canada and Europe post 10% growth. Margins in all regions +250-300bps. We raise our target multiple by 1x to 8.0x.

Our Grey Sky Scenario (p) 330.00

We assume Titan revenue and margins fall back to 2017 levels. Revenue and margins for US, Asia Pacific and M. East / Africa / Other all fall back to 2018 levels. For Canada and Europe we assume 10% revenue decline, margin in Europe fall to 2018 levels and for Canada slightly worse than 2018. We assume the entire business is valued on 5.7x, which is the bottom end of the group's historic range.

Share price performance

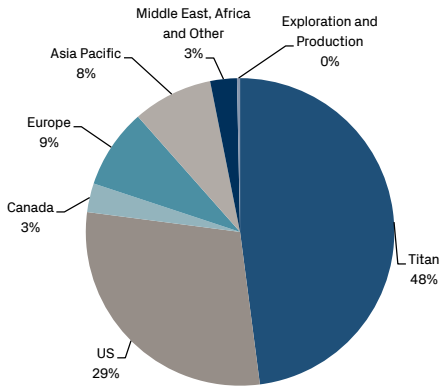


The price relative chart measures performance against the FTSE 100 IDX which closed at 7385.3 on 01/05/19

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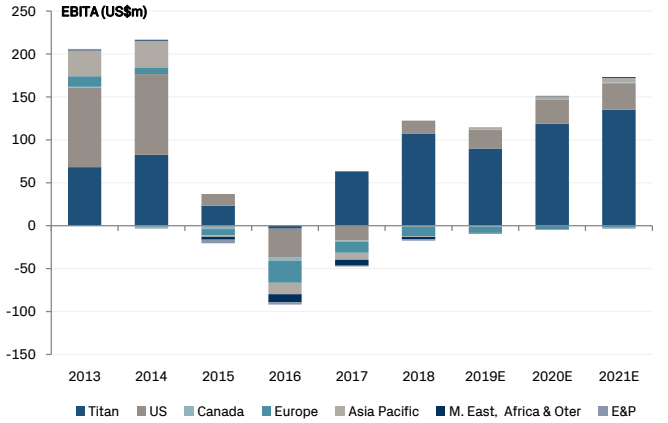
Key charts

Figure 89: Titan accounts for almost 50% of revenue and the US in aggregate ~75% (2018 data)



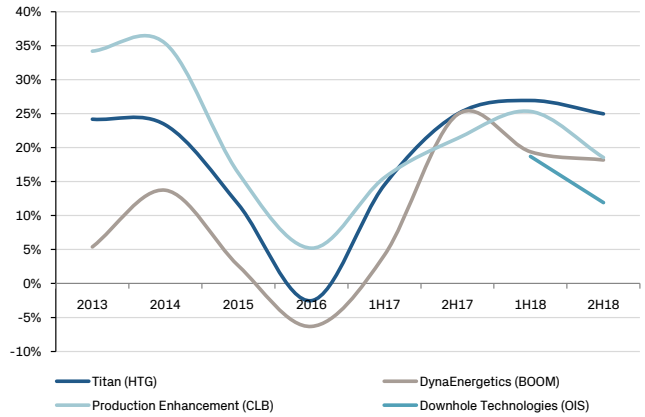
Source: Company data, Credit Suisse research

Figure 90: Titan has been the driver of the group's return to profitability since 2016



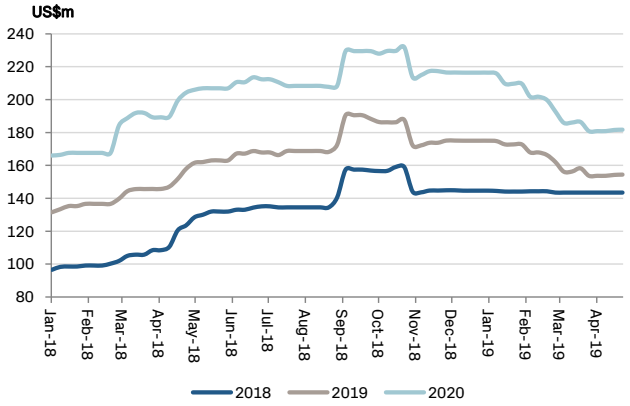
Source: Company data, Credit Suisse estimates

Figure 91: Hunting Titan has established sector-leading margins



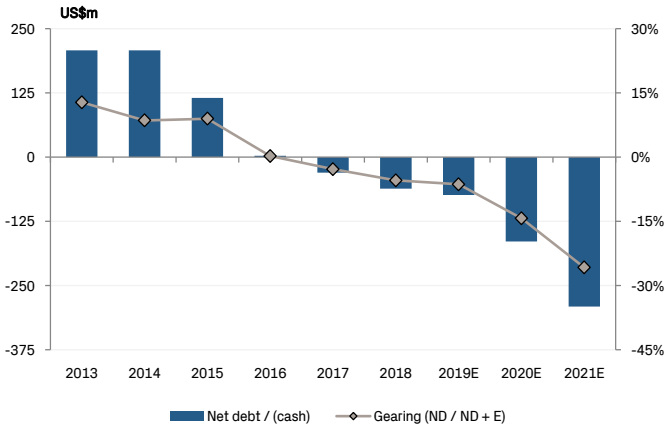
Source: Company data, Credit Suisse research

Figure 92: Consensus EBITDA growth in 2019 now <10%



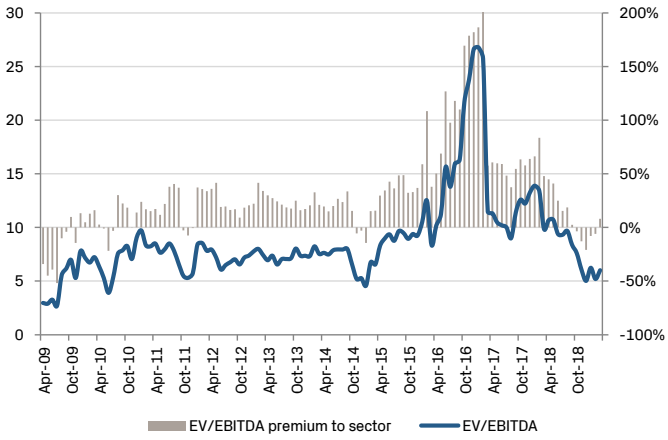
Source: Refinitiv

Figure 93: The net cash position of the company is set to build (good for shareholder returns)



Source: Company data, Credit Suisse estimates. 2019E onwards under IFRS 16

Figure 94: Hunting's absolute and relative EV/EBITDA multiple has contracted significantly



Source: Refinitiv, Credit Suisse research. Monthly end data

Titan demonstrating sector-leading margins

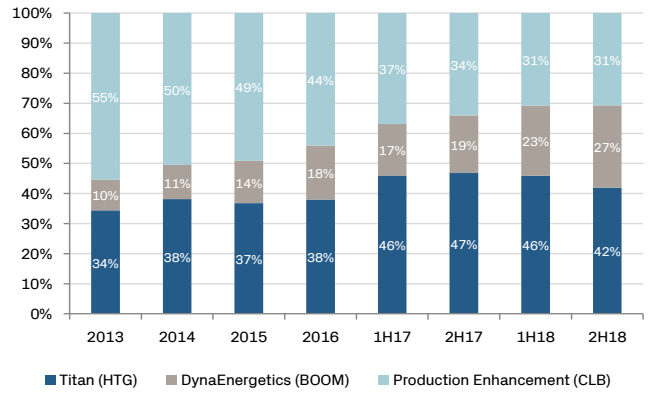
Titan's perforating equipment and products have been at the forefront of driving efficiency gains in US shale. It is not surprising, therefore, that the division's performance has improved significantly since the lowest point of the sector downturn in 2016 and has led the group's return to profitability.

The division has also compared favourably to peers over the course of the recovery. We have aggregated revenue data from its major independent competitors since 2013. Combined, these companies account for ~70% of the market's perforating revenues (excluding Russia and China).

Titan saw its share of revenue rise from 38% in 2016 to 42% in 2H18 (and as high as 47% in 2H17). DynaEnergetics, part of DMC Global, has also delivered strong market share gains. The offset to both is Core Labs where revenue share has fallen from 55% in 2013 to 31% in 2H18 (Figure 95). From a margin perspective, having lagged Core Labs materially in 2013/2014, Titan is now delivering sector-leading margins (Figure 96).

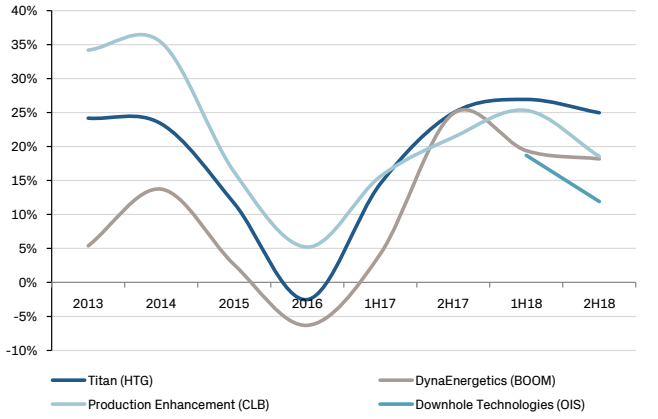
In part, we believe that this margin performance reflects Titan's greater concentration on the US which has been *the* growth market. However, it also talks to the products being developed by Titan. The H-1 gun in particular has seen significant adoption. This 'smart-gun' arrives to a site pre-assembled and contains much fewer wires than traditional perforation guns. This has enabled operators to cut significantly the number of man-hours dedicated to gun preparation whilst decreasing the number of run failures. It can therefore be priced at a premium. Additionally, margins have benefited from revenue mix, with Instrumentation (which has higher margins than Energetics or Perforating Guns/Hardware) leading the revenue growth in 2018.

Figure 95: Share of aggregate revenue from the three leading players in the Perforating market



Source: Company data, Credit Suisse research. Excludes Oil States International as data only available from 1Q18.

Figure 96: Titan has become the benchmark for margins



Source: Company data, Credit Suisse research

Unsurprisingly, Hunting is seeing its peers trying to replicate its success in the smart gun segment.

- DMC Global - DynaEnergetics: Appears the most advanced with its DynaStage factory assembled gun. Over 0.5m units were sold in 2018 which may have helped the company gain market share.
- Core Labs: The recent acquisition of Guardian Global Technologies has allowed Core Labs to move towards a pre-assembled GoGun, which will be delivered to market in 2019.
- Oil States International: Currently performing field trials of its integrated gun solution, which it hopes to bring to market in 2Q19.

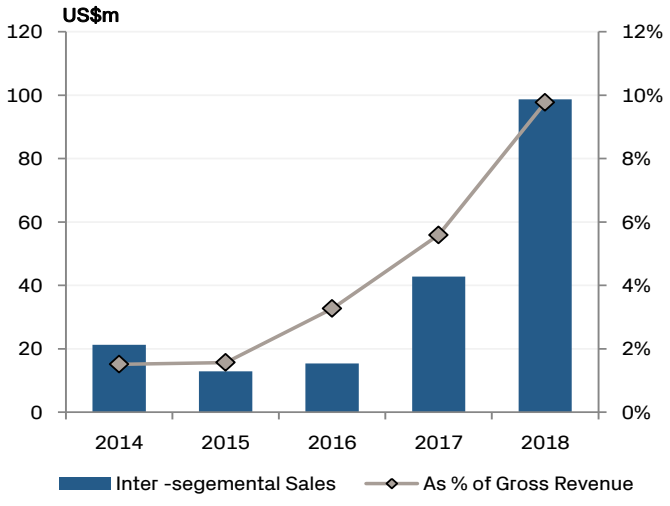
We are not naïve to the competitive threat posed by the peer group. Hunting's 1Q trading statement cites pricing pressure in Titan which we assume includes the smart gun lines. However, we believe that the broader market may be trending towards smart gun solutions given their efficiency (helps square the guidance detailed below with the more negative tones coming from other US shale oriented companies). This means that it is the more competitively priced low-spec guns, where Hunting is less focused that are being pushed out (and even here Hunting is innovating with the H-2 gun). Thus, even if Hunting's share of the smart gun market does shrink, it can still grow revenue in an expanding market. Analysing 1Q19 results and guidance from Hunting's peers supports our view of market expansion:

- DMC Global: DynaEnergetics: Upgraded its 1Q19 revenue growth forecast to 27% from 4% in early April, citing improved demand for its 'advanced well perforating systems', with 1Q seeing an improvement in industry conditions and an uptick in domestic completion activity.
- Core Labs: Delivered 1% sequential revenue fall, with operating margins rising to 15% from 11.5% in 4Q18. It *had* guided to revenue and margins increasing "modestly" in 1Q19, defined as low-single-digit revenue growth.
- Oil States International: Revenue grew by 4% in 1Q19 with EBITDA margins remaining stable at 17%. The realized revenue figure of US$54m was above the top end of the guided US$48-52m range.

Furthermore, we suspect that some of Titan's apparent loss of market share in 2H18 reflects the fact that the US market contracted heavily in 4Q18. Unlike its peers, Titan has limited international exposure. This market is likely to have expanded in 4Q18, helping Titan's peers offset lower US revenues.

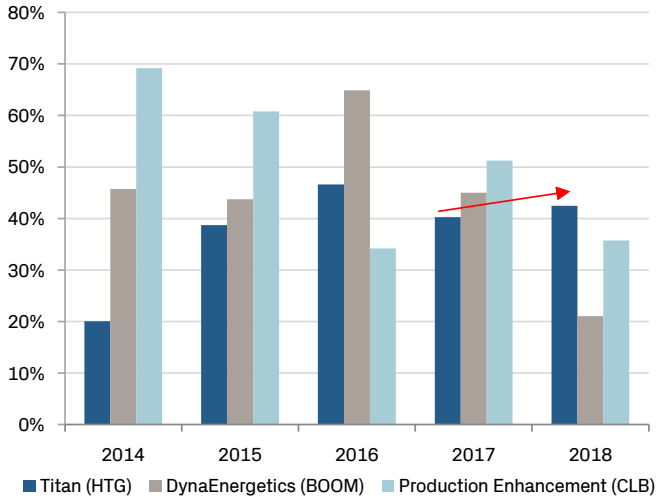
On the margin side, what is impressive is that Hunting was able to hold up margins despite having the greatest revenue decline HoH of all the four companies we track. This we think talks to the emphasis that Hunting is putting on automation and in-housing manufacturing. Hunting is currently undertaking expansion plans for shaped charges, perforating guns and power charges, all of which should help improve automation and reduce supplier costs and therefore support margins.

Figure 97: Hunting is deliberately in-housing manufacturing and this is helping Titan (and group) margins



Source: Company data, Credit Suisse research

Figure 98: Hunting Titan saw an improvement in incremental margins in 2018, which reduces some of our concern about the impact of industry pricing

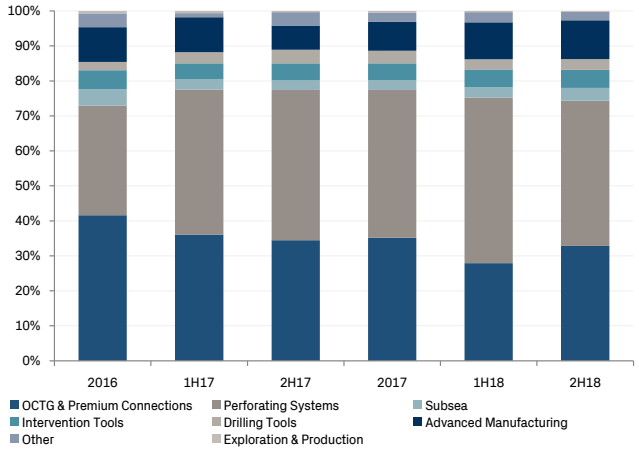


Source: Company data, Credit Suisse research

Divisional and group forecasts

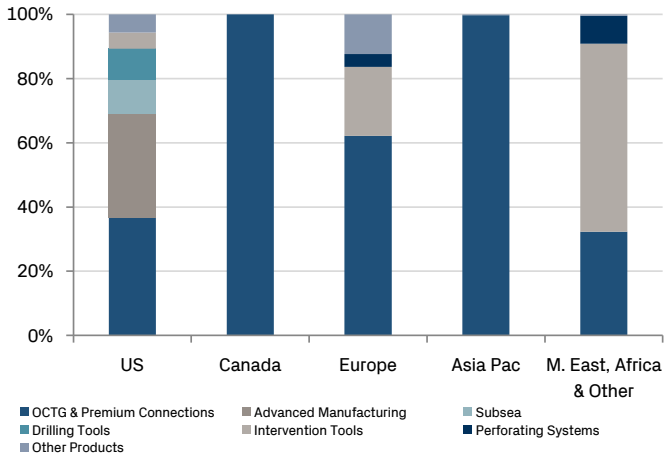
Hunting manufactures equipment used within the well bore, with its products used across the construction, completion and producing stages of a well's life. Perforating Systems has grown to be the largest segment and delivers the highest margins. Hunting's reporting structure sees the North American sales of Perforating Systems reported under Titan, whilst all other reporting is at a geographical level.

Figure 99: Split of revenue by product type: Perforating Systems gaining share through time



Source: Company data, Credit Suisse research

Figure 100: Revenue of Geographical Regions Split by product type (2018A)



Source: Company data, Credit Suisse research

Titan

Hunting Titan sells the group's Perforating Systems, namely equipment such as guns, charges and switches used in the completion stage of a well's life. With ~20% market share, it has one of the leading positions alongside Core Labs, DMC Global (DynaEnergetics) and Oil States International (GeoDynamics).

Hunting is investing in Titan in order to meet higher demand and improve efficiency. The shaped charge manufacturing capacity is being increased by 30% (US$11.9m investment, May 2019 completion). The investment also brings growing levels of automation, which should improve margins. A US$2.9m investment to construct a highly automated power charge manufacturing line in-house is expected by the company to save US$3m per annum (1H18 run rates). Lastly, US$3.6m is being invested to expand and automate the Perforating Gun production line in Pampa, TX. Indeed, whilst many of the 2018 Titan numbers are impressive, we would note that revenue per employee was stagnant year-on-year, reducing the operational leverage in the business (2018: $0.64m/employee; 2017: $0.63m/employee; 2016: $0.32m/employee).

We expect Titan's revenue in 2019 to fall modestly (-5%) given the commentary from US E&P companies pulling back capex in order to live within their cash flows. There is perhaps a more acute risk than usual of a tail off in 4Q19 spend given the capex profiles of US E&Ps which look to be front-end loaded. On margins, there is clearly some pricing pressure which will hit 1H results. In the second half, margins will hopefully improve on less inventory oversupply and more efficient manufacturing once the investments complete. Some margin support should also come from the mix shift in revenue (leading edge H-1 Perforating System rising to one-third of gun sales) while Titan is also introducing the H-2 Perforating System which is aimed at the more commoditized end of the market and therefore is not expected to cannibalize H-1 sales. Overall we forecast Titan EBITA margins to drop to 23% in 2019 from 26% in 2018.

One unknown in our forecasts is the potential internationalisation of Titan. To date it has been very North America centric, with only 1% of sales derived from international markets. Historically, capacity limitations have hampered the amount of product available to sell internationally. Now there is some slack in the system, management said at FY18 results that expanding internationally would be a greater focus. Hunting has already introduced products into Norway and Argentina that are margin-accretive.

Geographical divisions

US

The US is exceptional amongst the geographic divisions as it generates revenues from all product ranges. Geared towards the construction stage of a well's life, the main drivers of the division are the number of wells drilled, both within US shale but also the Gulf of Mexico, where it has key supplier relationships with companies including Chevron, LLOG and Anadarko. Lastly, some product lines (Hunting Electronics/Subsea) are sold internationally.

FY18 results have given us greater confidence in the sustainability of Hunting's revenue recovery. Overall group backlog currently stands at US$300m vs US$150m a year ago and over half of this we believe is related to the US division in areas such as OCTG & Premium Connections, Advanced Manufacturing and Subsea. We believe that a relatively stable US rig count and expansion into the semi-premium connections market will aid revenue alongside continued recovery in the Subsea market. Margins came under pressure in 2H18 we believe as a result of lower intersegmental sales due to less equipment being manufactured for Hunting Titan (negative for utilisation). As a result, we do not see any immediate reversal of this in 1H19 given likelihood that Titan remains suppressed through 1H. However, news on product pricing is more encouraging, with Hunting able to push through pricing within well intervention (Pressure Control Equipment) in January.

Canada

Hunting's revenues in Canada are predominantly OCTG and premium connections oriented; however, it does derive intersegmental revenue as some of its manufacturing footprint is used for Titan products (thus fixed costs are better absorbed than would otherwise be the case). With Canadian oil sands activity slowing materially post 2014 (owing to questionable economics and environmental considerations) the division has been consistently loss-making. Over the medium to long term, there may be some light with the emergence of LNG development; however, the near term appears to remain highly challenging. The Petroleum Services Association of Canada recently revised down its forecast for 2019 drilled wells to 5,600 from the 6,600 it forecast in November 2018 as wide crude differentials arising from take-away constraints limit the appeal for capital. If realised, this would mean a 20% y/y fall in wells drilled.

With almost no visibility on a return to profitability, we believe that Hunting will need to consider its ongoing presence in the market, especially given a reduced requirement to manufacture Titan products given new spare capacity closer to US shale markets.

Europe

In Europe, Hunting's business is largely the delivery of OCTG and premium connections to the UK North Sea, although historically it has supported utilization by completing OCTG threading activity for clients in the US and the Middle East. Key clients include Enquest, Apache and CNR. Offshore activity on the UK side of the North Sea continued to fall in 2018, with eight exploration wells marking the lowest figure since the 1960s. Consultancies believe that 2019 should see a bounce back to mid-single digits and the current UK offshore rig count of 12 (its highest since mid-2017) supports a view that the

Hunting should deliver modest growth for the division at the top line (although EBITA will still be negative).

Asia Pacific

Over the last couple of years, the Asia Pacific region has become the group's largest market for OCTG and premium connections, overtaking the US, where the decline in the offshore market has played off against the growth in shale. At the FY18 results, Hunting's CEO painted a positive picture for the region, indicating that current OCTG and premium connections backlog almost exceeded the FY18 revenue figure, and that he was expecting "really big things" from the division in 2019. A lot of this product is destined for the Middle East (e.g., Oman and Kuwait); however, Hunting has also won major tenders in Australia and is pursuing opportunities in India.

Middle East, Africa & Other

The Middle East, Africa & Other region is a small part of Hunting's business but there are some growth opportunities, especially in Saudi Arabia where the company's Pressure Control Equipment offering is seeing growth while Titan products are also seeing some take-up. During 2018, the Kenyan JV was shut down and the South African manufacturing facility sold as these markets struggled to take off. A reorganization during 2019 will see this division merge into the European business, which should create some cost savings.

CS vs consensus

Our forecasts incorporate the IFRS 16 impact, which management preliminarily expects to benefit EBITDA by US$9m. We do not believe that most of consensus yet reflects the accounting change.

Figure 101: Credit Suisse vs consensus

	2018	2019E			2020E			2021E		
$m	Actuals	CS	Cons.	Diff	CS	Cons.	Diff	CS	Cons.	Diff
Revenue	911	930	962	-3%	1,032	1,048	-2%	1,098	1,114	-2%
EBITDA	147	151	154	-2%	196	182	8%	222	207	7%
EBITDA margin	16.1%	16.3%	16.1%		19.0%	17.3%		20.2%	18.6%	
EBITA	105	105	116	-9%	145	145	0%	168	157	7%
Net Income (Adj)	82	79	81	-3%	111	103	8%	131	126	5%
EPS ($/sh)	0.50	0.46	0.49	-6%	0.65	0.62	6%	0.77	0.74	4%
DPS ($/sh)	0.09	0.09	0.11	-13%	0.10	0.13	-26%	0.10	0.16	-34%
Net Debt / (cash)	-61	-74	-122	-40%	-164	-188	-12%	-292	-268	9%

Source: Company data, Refinitiv, Credit Suisse estimates. Data as of 1st May 2019

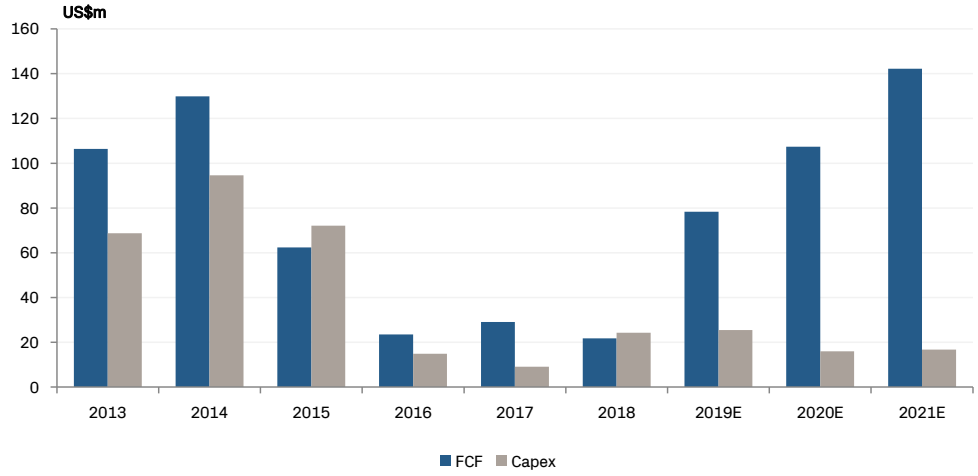
Balance sheet and shareholder returns

Balance sheet strength could allow the company to look at M&A

Hunting has a strong balance sheet, a function of a US$86m equity raise in 2016 undertaken to clear its net debt position as it was in covenant breach (EBITDA was negative, net debt was US$111m at the start of 2016).

Over the subsequent two years, the company has continued to move further into a net cash position. Operating cash-flow has picked up, notwithstanding the need for greater working capital to meet higher customer needs, while capex has also come down. Indeed, there is probably some scope for capex to fall slightly in the coming years as the US$18.4m capex investment in Titan draws to a close in mid-2019.

Figure 102: Capex should stay at modest levels with minimal new roof-line required, allowing for free cash-flow generation to recover towards 2014 levels



Source: Company data, Credit Suisse estimates

Hunting's balance sheet strength is allowing the management team to look at M&A opportunities, as stated by the CEO at FY18 results. With the equity raise still relatively recent (alongside the dividend cut detailed below) we believe that any theoretical acquisition would be in the US$50-100m range, as this is the amount it could pay without pushing the group back into debt. In terms of the types of business, we believe something within either completions or subsea would be the most complementary to its business.

IFRS 16 has only a limited impact on the balance sheet. A lease liability of US$49m is guided to by the company, which would reduce net cash from US$61m to US$12m on a FY18 basis.

Scope to increase dividend payments

When Hunting was battling with its covenant breach in 2015, it took the decision to pare back and ultimately cancel its dividend. With a refreshed balance sheet and improving end markets, the dividend was re-introduced at 1H18. The total 2018 dividend of US$0.09/sh (split US$0.04/sh and US$0.05/sh) was comfortably covered by both earnings and cash. Indeed, the lack of growth in 2H was a slight surprise to us given that pre-cut Hunting had worked on a one-third vs two-thirds payment split.

The company has no stated dividend policy; however, clearly there is scope for Hunting to provide what we would consider a progressive policy. We model 5% growth but even under these circumstances, in the absence of material M&A, a large cash-pile starts to emerge in the early part of the 2020s. This could prompt calls for a more aggressive expansion (the 1% yield is below the sector average of ~2.5%) or a special dividend.

Figure 103: 5% dividend growth (2019-21E) is well covered by earnings and cash

	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
Absolute	0.30	0.31	0.08	0.00	0.00	0.09	0.09	0.10	0.10
Growth	4%	5%	-74%	-100%	N/A	N/A	5%	5%	5%
Cover (EPS)	3.2	3.2	0.4	N/A	N/A	5.6	4.9	6.6	7.4
Cover (Cash)	2.4	2.8	5.2	N/A	N/A	1.4	4.9	6.4	8.0
Dividend yield (projected)							1.2%	1.3%	1.4%

Source: Company data, Credit Suisse estimates

Rating and target price

We initiate coverage of Hunting with an Outperform rating and a target price of 745p. Our target price is based on an equally weighted EV/EBITDA-based SOTP and a three-stage DCF.

Figure 104: Hunting target price

Blended Valuation (p/sh)	
SOTP fair value	747
DCF fair value	744
Average Fair Value	**745**

Source: Credit Suisse estimates

Sum-of-the-parts

We use a 7.6x 2020E EV/EBITDA multiple in our SOTP valuation, derived by applying different multiples as follows.

- Hunting Titan: Our 8.0x target multiple compares with multiples for Oil States (7.8x), DMC Global (9.8x) and Core Labs (15.5x), which are the division's main competitors. As per our analysis outlined above, we believe Titan should be considered a leader in this space. Note that Core Labs' non perforating business generates superior returns, hence the much higher multiple whilst at a top line at least, DMC Global is displaying higher growth trajectory.
- Geographical regions: We apply a 7.0x multiple to the geographical regions, which is a ~10% discount to the broader equipment manufacturing sector given the higher return part of Hunting is within the separately valued Titan business. We think this is a fair multiple considering the multiples of Vallourec (6.5x), Tenaris (7.6x), Forum Energy Technologies (7.3x) and Schoeller-Bleckmann (8.1x), which all have overlapping products.

Figure 105: Multiples for HTG's peer group

	EV/EBITDA 2019	EV/EBITDA 2020	PE 2019	PE 2020	EV/Sales 2019	EV/Sales 2020	ND / EBITDA 2019	ND / EBITDA 2020
Schoeller Bleckmann Oilfield Equipment AG	9.9	8.1	19.1	14.5	3.0	2.6	1.1	0.6
DMC Global Inc	11.5	9.8	18.8	15.8	2.6	2.3	0.3	0.3
Core Laboratories NV	19.9	15.5	29.6	21.6	4.1	3.6	1.8	1.3
Oil States International Inc	11.9	7.8	-45.6	41.4	1.3	1.1	2.5	1.5
Forum Energy Technologies Inc	11.1	7.3	-73.2	24.5	0.9	0.8	4.4	2.5
National Oilwell Varco Inc	14.0	9.8	-602.5	40.4	1.3	1.1	1.7	0.9
NCS Multistage Holdings Inc	7.0	3.3	-80.3	11.7	0.8	0.6	-0.3	-0.4
Tenaris SA	9.2	7.6	16.8	13.6	1.9	1.7	-0.6	-0.7
Vallourec SA	10.4	6.5	-4.8	-146.3	0.8	0.7	7.2	4.5
Franks International NV	17.2	10.2	-27.2	-100.7	1.8	1.5	-3.6	-2.6
Gardner Denver Holdings Inc	11.9	10.6	17.8	16.2	3.0	2.7	1.6	1.0
Cactus Inc	10.3	8.2	17.9	14.9	3.9	3.2	-0.8	-1.2
Nine Energy Service Inc	5.4	3.5	12.7	7.0	0.9	0.7	1.8	0.8
Average	**11.5**	**8.3**	**-53.9**	**-2.0**	**2.0**	**1.7**	**1.3**	**0.6**
Average (excl CLB, VK, FI)	**10.2**	**7.6**	**-69.9**	**20.0**	**1.9**	**1.7**	**1.1**	**0.5**

Source: Refinitiv (all numbers are consensus). Priced as of 1st May 2019

Hunting is sometimes thought of in the context of an industrial company rather than an Oilfield Services company. We note that the median multiple for the UK SMID Industrial sector is 9.6x 2020E EV/EBITDA (range of 7x to 22x).

Figure 106: SOTP valuation based on 2020E EBITDA forecasts

2020 SOTP - US$m						
	EBITDA	Sales	Multiple (x)	EV/Sales (implied)	EV	Share
Hunting Titan	128	449	8.0	2.3	1018	68%
Geographic Regions	68	581	7.0	0.8	477	32%
E&P	0	2	4.0	-0.7	-1	0%
Total	196	1032	7.6	1.4	1494	
Net Debt / (Cash)					-213	
IFRS 16 Adjustment					49	
Minority Adjustments					14	
Shareholders' Equity					1644	
Shares Outstanding (2020E)					170	
Implied Share price (US$/sh)					9.7	
FX					1.29	
Implied Share price (GBp)					**747**	

Source: Credit Suisse estimates. Priced as of 1st May 2019

DCF

We use a three-stage DCF, comprising forecasts out to 2025, a 10-year normalisation period to 2035 with revenue growth of 3% pa, and subsequent terminal value based on a long-term growth rate of 2%.

Our WACC is 10.2% and is based on the following inputs:

- a risk-free rate of 2.9% (30-year US Treasury);
- a Beta of 1.2 based on a weekly regression of Hunting's share price vs UK market over the past two years;
- a risk premium for the UK market of 6.7% based on NYU Stern School of Business (Country Default Spreads and Risk Premiums) calculations;
- a long-term cost of debt of 5.7% based on historical premium the company has paid (there is currently no debt); and
- a 90%/10% split of equity/debt.

Our long-term EBITDA margin assumption is 15%, which leads to a terminal value EV/EBITDA multiple of 6.8x (vs our current 1-year forward estimate of 8.2x).

Figure 107: We use a three-stage DCF model

DCF - US$m					
Assumptions	**Beta**	**Risk Prem.**	**WACC**	**LT Growth**	
	1.2	6.7%	10.2%	2.0%	
				EV	**Share**
Present Value Forecast Period				680	43%
Present Value Normalisation Period				589	37%
Present Value of Terminal Value				326	20%
Total Enterprise Value				**1,595**	
Net Debt / (Cash) - 2018				-61	
Non Contolling Interest - 2018				14	
Implied Equity Value				**1,642**	
Share Count - 2018				171	
Fair value (US$/sh)				9.62	
FX				1.29	
Implied share price (p/sh)				**744**	

Source: Refinitiv, Credit Suisse estimates. Priced as of 1st May 2019

Blue Sky/Grey Sky scenarios

We establish Blue Sky and Grey Sky valuations by flexing our 2020 revenue and EBITA margin assumptions and adjusting the target multiple in our SOTP valuation.

- *Blue Sky:* We assume that Titan revenue grows by 25% (vs 15% growth in our base case), in line with the 2014 growth rate. Margins move to 29% (vs 27% in our base case), surpassing the 2018 high by 300bps. We value Titan on a best-in-class 10x EBITDA multiple (vs 8.0x in our base case). For the geographical regions we assume revenue growth of 20% for US, Asia Pacific and Middle East/Africa/other while Canada and Europe post 10% revenue growth. We assume that margins in all regions increase 250-300bp, and raise our target multiple for the geographical regions by 1.0x to 8.0x, slightly above the current 7.5x average for equipment manufacturers/service companies.
- *Grey Sky:* We assume Titan revenue and margins fall back to 2017 levels as competition erodes pricing power and US completion activity retrenches. Revenue and margins for the US, Asia Pacific and Middle East/Africa/other fall back to depressed 2018 levels. For Canada and Europe we assume a 10% revenue decline and margins falling back to 2018 levels. Both Titan and geographical regions are valued at 5.7x EV/EBITDA, which is the bottom end of the group's historical range.

Figure 108: Blue Sky/Grey Sky

Blue Sky SOTP		Vs Base
EBITDA (2020 - US$m)	244	25%
Multiple	9.2	21%
Equity value (p/sh)	1096	
Grey Sky SOTP		**Vs Base**
EBITDA (2020 - US$m)	96	-51%
Multiple	5.7	-26%
Equity value (p/sh)	330	

Source: Credit Suisse estimates. Priced as of 1 May 2019

Risks

The major risks to our investment case and target price include the following:

- Hunting's Titan business proves not to be as resilient as we expect, and it permanently loses market share.
- Hunting Titan's peers over-invest in new capacity, leading to a period of oversupply and therefore competitive pricing and less resilient margins.
- US E&P companies pull capex back even further in order to prioritise cash returns to shareholders.
- International recovery and Titan's push outside of North America results in greater working capital consumption than we model.
- The company overpays for any M&A.

Credit Suisse HOLT

The extended seven-year forecast shown in Figure 109 for sales, margins and returns allow us to express our long-term view of the near-term recovery and factor the next cycle into this business. Based on our estimates for 2019-2021, returns are expected to improve from 5.3% in 2019 to 7.2% by 2021. This is supported by our expectations of EBITDA margins improving to 19.2% due to a pickup in Hunting's Titan business and an improvement in profitability in international markets.

Beyond the explicit seven-year forecast period (2019-2025), HOLT uses a fade model to arrive at its warranted price. CFROI® levels are faded to 6.0% and asset growth is faded to 2.5% (mean reversion to long-term observed levels). For this analysis we have used a market implied discount rate of c.5.5% for European Oil & Gas aggregate. The above assumptions suggest a HOLT warranted value of 751p which is only 2% above our 745 target price.

Figure 109: Hunting in HOLT

HOLT - Credit Suisse Analyst Scenario Data

HUNTING PLC (HTG)

Current Price: GBp 589.00 **Warranted Price: GBp 750.89**

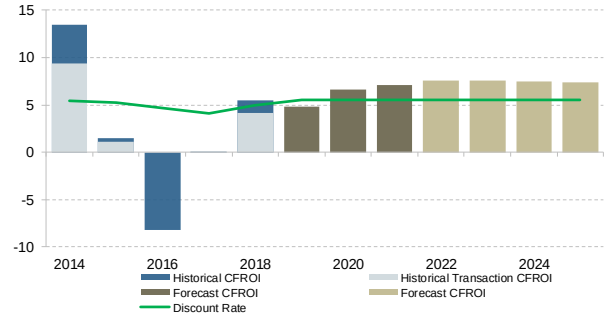
Valuation date: 30-Apr-19

EBITDA Margin (parallel % point change to forecasts) \ Sales Growth (parallel % point change to forecasts)	-2.0%	-1.0%	0.0%	1.0%	2.0%
-2.0%	-8%	0%	9%	19%	30%
-1.0%	0%	8%	18%	29%	41%
0.0%	8%	17%	27%	39%	51%
1.0%	16%	26%	37%	49%	62%
2.0%	24%	35%	46%	59%	73%

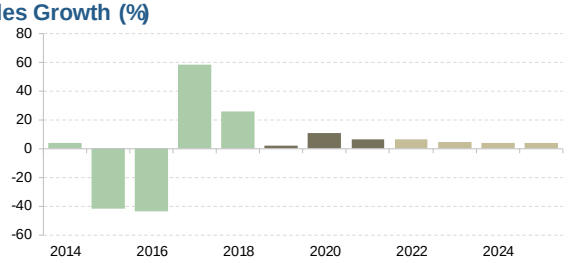
	Dec 17A	Dec 18A	Dec 19E	Dec 20E	Dec 21E
Sales Growth, %	58.6	26.1	2.0	11.0	6.3
EBITDA Mgn, %	7.1	15.4	15.1	17.9	19.2
Asset Turns, x	0.45	0.5	0.5	0.5	0.5
CFROI®, %	0.1	5.5	4.8	6.6	7.1
Disc Rate, %	4.1	5.0	5.5	5.5	5.5
Asset Grth, %	-2.3	9.6	0.2	4.0	4.6
Price to Book, x	1.3	0.9	1.0	1.0	0.9
Economic PE, x	1985.1	16.6	21.5	14.5	12.2
Leverage, %	10.4	8.9	8.3	8.5	8.6

More than 10% downside | Within 10% | More than 10% upside

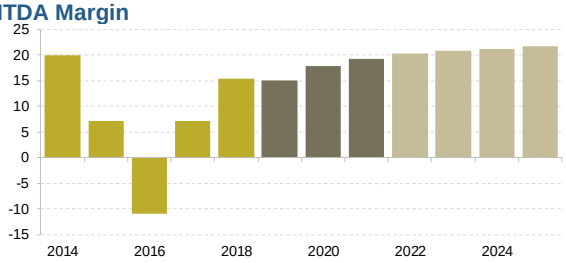
CFROI & Discount Rate (in %)



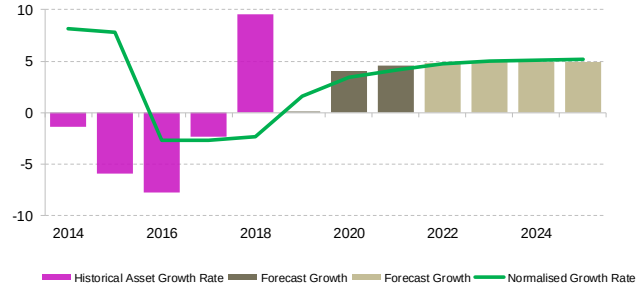
Sales Growth (%)



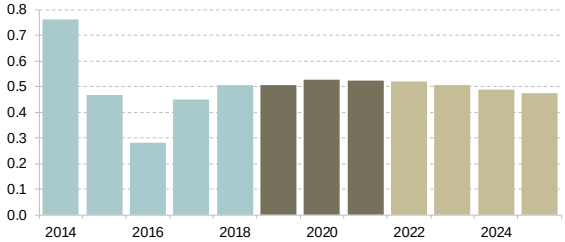
EBITDA Margin



Asset Growth (in %)



Asset Turns (x)



Source: Credit Suisse HOLT®. CFROI and HOLTare trademarks or registered trademarks of Credit Suisse Group AG or its affiliates in the United States and other countries.

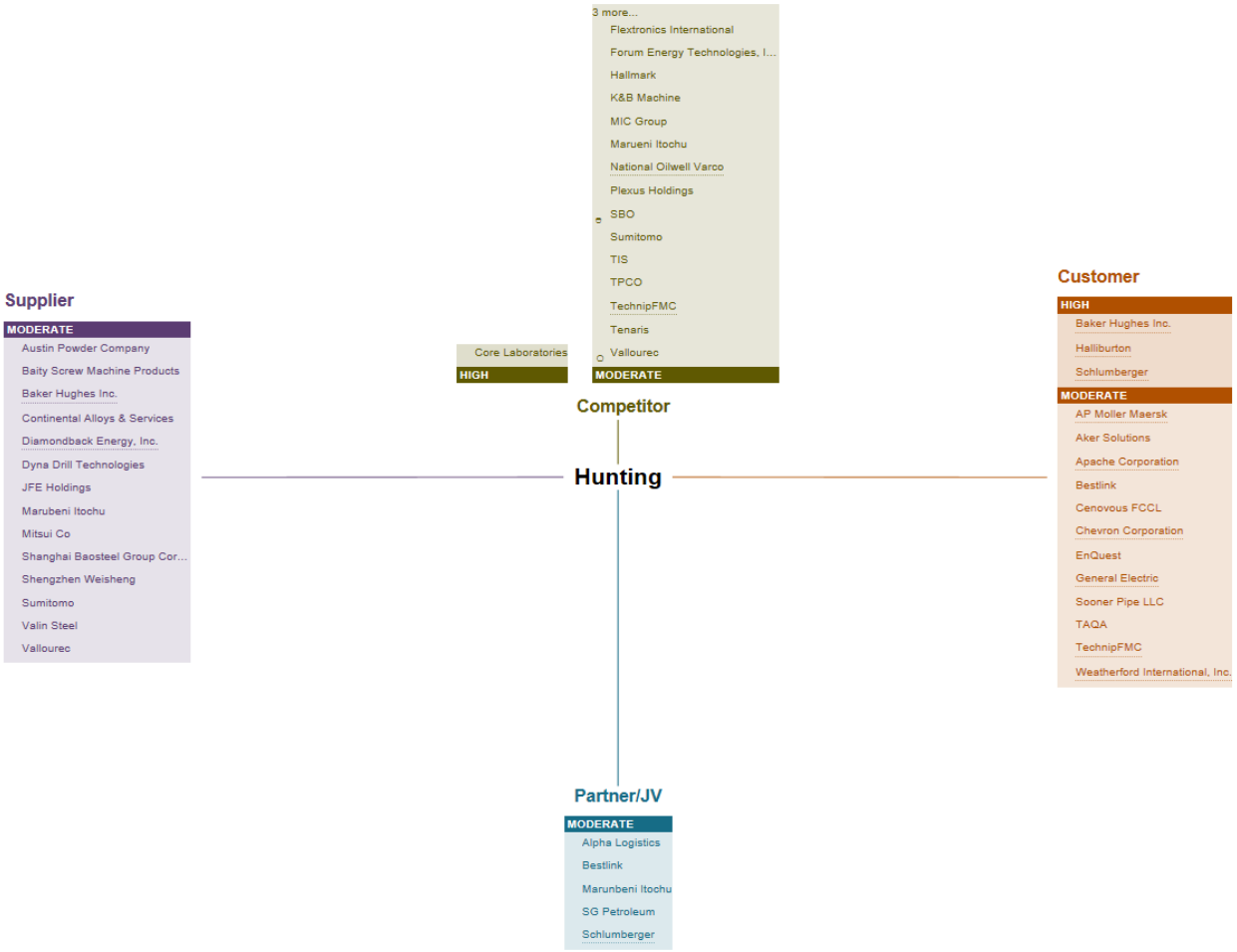
Source: Credit Suisse HOLT, Credit Suisse estimates

PEERs

PEERs is a global database that captures unique information about companies within the Credit Suisse coverage universe based on their relationships with other companies – their customers, suppliers and competitors. The database is built from our research analysts' insight regarding these relationships. Credit Suisse covers over 3,000 companies globally. These companies form the core of the PEERs database, but it also includes relationships on stocks that are not under coverage.

For more information, see our November 2016 PEERs report: A chain reaction: Supply chain strategies.

Figure 110: Hunting in PEERs



Source: Credit Suisse PEERs

Management

Jim Johnson – CEO

Mr Johnson has been with Hunting since 1992 and became CEO in 2017, having occupied the COO seat since 2011. He is based in Texas.

Peter Rose – Finance Director

Mr Rose has been Finance Director of Hunting since 2008, and has worked at Hunting since 2008. Prior to this this he worked for Babcock International and PWC. Peter is based in the group's corporate headquarters in London.

P&L, cash flow and balance sheet

Figure 111: Divisional & group P&Ls

Divisionals (US$m)	2017A	2018A	2019E	2020E	2021E
Hunting Titan					
Revenue	**309**	**411**	**391**	**449**	**483**
Growth	117%	33%	-5%	15%	8%
EBITDA	71	114	98	128	145
Margin	23.0%	27.7%	25.0%	28.5%	30.0%
Growth	-1858%	69%	-16%	33%	14%
Hunting US					
Revenue	**204**	**284**	**313**	**344**	**361**
Growth	26%	40%	10%	10%	5%
EBITDA	6	39	50	58	63
Margin	3.1%	13.8%	16.0%	17.0%	17.5%
Growth	-49%	-191%	40%	26%	12%
Other (Canada, Europe, Asia Pac, Middle East & Africa, E&P)					
Revenue	**211**	**216**	**227**	**239**	**254**
Growth	40%	3%	5%	6%	6%
EBITDA	-19	-7	4	9	14
Margin	-8.8%	-3.1%	1.5%	3.9%	5.5%
Growth	-50%	-65%	-153%	168%	49%

P&L (US$m)	2017A	2018A	2019E	2020E	2021E
Revenue	723	911	930	1032	1098
Growth	59%	26%	2%	11%	6%
EBITDA	**59**	**147**	**151**	**196**	**222**
Margin	8.1%	16.1%	16.3%	19.0%	20.2%
Growth	-215%	149%	3%	30%	13%
Depreciation	-40	-35	-46	-51	-54
Other gains / losses	-6	-7	0	0	0
Net finance expense	-2	-1	-4	-3	-1
Share of JV profits	-1	0	0	0	0
Adj pre-tax profit	**11**	**104**	**101**	**142**	**167**
Acq. Amort./ Impairments / Other	-31	-29	-20	-16	-13
Pre-tax profit	-20	75	81	126	155
Tax (pre-exceptional)	-1	-22	-22	-31	-36
Effective tax rate	*9%*	*21%*	*22%*	*22%*	*22%*
Adj net profit	**10**	**82**	**79**	**111**	**131**
Net Profit	-21	86	63	99	121
Minority interest	3	4	0	0	0
Shares (diluted)	170	171	170	170	170
EPS (CS, Adj), $/sh	**0.07**	**0.50**	**0.46**	**0.65**	**0.77**
EPS (IFRS), $/sh	-0.11	0.52	0.37	0.58	0.71
DPS, $/sh	0.00	0.09	0.09	0.10	0.10

Source: Company data, Credit Suisse estimates

Figure 112: Group cash flow and balance sheet

Cash flow (US$m)	2017A	2018A	2019E	2020E	2021E
(Loss) / profit from operations	-23	75	85	129	156
Operating cash flows	106	74	49	40	33
Working capital	-39	-97	-14	-29	-13
Cashflow from Operations	**44**	**53**	**120**	**139**	**175**
Capex (net, inc intangible)	-13	-18	-31	-21	-22
M&A spend (net)	1	1	0	0	0
Other investing cash flows	2	11	1	2	4
Cashflow from Investing	**-10**	**-6**	**-29**	**-19**	**-18**
Change in borrowings	-21	1	0	0	0
DPS cash cost	0	-7	-15	-16	-17
IFRS 16 lease payments	0	0	-11	-11	-11
Other financing cash flows	-3	-8	-3	-3	-3
Cashflow from Financing	**-23**	**-14**	**-29**	**-30**	**-31**
Net cash flow	11	33	61	91	127
Cash and cash equivalents	34	66	127	218	344
Net Debt / (Cash)	**-30**	**-61**	**-123**	**-213**	**-340**
Finance Lease Liability	-	-	49	49	49
Net Debt / (Cash) - IFRS 16	**-30**	**-61**	**-74**	**-164**	**-291**
Free Cash Flow	**31**	**34**	**78**	**107**	**142**

Balance Sheet (US$m)	2017A	2018A	2019E	2020E	2021E
Property, plant and equipment	383	360	348	323	295
Goodwill and intangibles	356	330	315	304	296
Other non-current assets	10	32	72	72	72
Non-Current Assets	**749**	**722**	**735**	**698**	**663**
Inventories	286	348	350	370	381
Trade and other receivables	179	231	240	260	268
Other current assets	30	0	0	0	0
Cash and Cash equivalents	36	68	129	220	346
Current Assets	**532**	**647**	**719**	**849**	**996**
Total Assets	**1,281**	**1,369**	**1,454**	**1,547**	**1,659**
Trade and other payables	131	141	138	148	155
Borrowings	2	3	3	3	3
Other Current Liabilities	12	16	16	16	16
Current Liabilities	**145**	**160**	**156**	**167**	**174**
Borrowings	4	4	4	4	4
Other non-current liabilities	22	15	64	64	64
Non-Current Liabilities	**26**	**18**	**67**	**67**	**67**
Shareholders equity	1,092	1,177	1,216	1,299	1,404
Non-controlling interests	19	14	14	14	14
Total equity	**1,111**	**1,191**	**1,230**	**1,313**	**1,418**
S/H Equity & Liabilities	**1,281**	**1,369**	**1,454**	**1,547**	**1,659**

Source: Company data, Credit Suisse estimates

Petrofac (PFC.L)

Rating	**NEUTRAL [V]**
Price (01 May 19, p)	446.50
Target price (p)	539.00
Market Cap (£ m)	1,544.5
Enterprise value (£ m)	1,535.2

Target price is for 12 months.
[V] = Stock Considered Volatile (see Disclosure Appendix)

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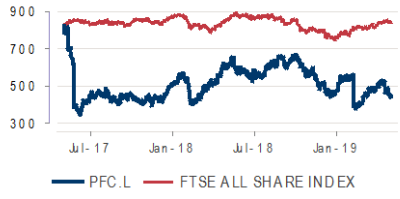
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We expect an SFO settlement this year

- **We initiate with a Neutral rating and TP of 539p TP:** Petrofac delivered on multiple fronts in 2018. The most notable of which was transitioning back to a net cash position two years ahead of guidance as a result of exceptional working capital management and progress on asset disposals. However the Serious Fraud Office (SFO) investigation into potential bribery continues to severely hamper the investment case, especially as it is starting to negatively impact the company commercially.
- **Assuming a potential US$821m settlement with the SFO:** Specific details on the SFO's investigation are very limited and therefore evaluating the potential financial impact from an SFO settlement is challenging. Our approach though is systematic, based upon the 10 counts of corruption Petrofac's former head of sales has been convicted on and precedent Deferred Prosecution Agreements the SFO has concluded (most notably the £497m settlement with Rolls Royce in January 2017). We assume a total settlement of US$821m (disgorged profit + fine). Whilst very large, we model Petrofac delivering positive FCF in all but the current year assuming that the settlement is paid out over a four-year timeframe.
- **Catalysts: 1)** Positive comments on tendering pipeline within the AGM update (3 May). **2)** Delivering order intake ahead of the 1x book-to-bill guidance; **3)** Securing contracts in Saudi Arabia or Iraq given the risk of having its licence to operate revoked.
- **Risks: 1)** A more significant fine than we incorporate into our valuation; **2)** Working capital unwinds more than we model
- **Valuation:** Our 539p target price is based on an equal weighting of our SOTP (2020E EBITDA) and DCF valuations. In both cases we incorporate a negative financial impact from the SFO investigation of US$586m (132p/sh), lower than the above headline settlement of US$821m as we discount for: i) the potential that the investigation is dropped; and ii) the schedule of payment terms.

Share price performance



The price relative chart measures performance against the FTSE ALL SHARE INDEX which closed at 4052.6 on 01/05/19
On 01/05/19 the spot exchange rate was £.86/Eu 1.-Eu.89/US$1

Performance	1M	3M	12M
Absolute (%)	-16.1	-22.0	-28.6
Relative (%)	-15.6	-25.1	-25.9

Financial and valuation metrics

Year	12/18A	12/19E	12/20E	12/21E
Revenue (US$ m)	5,829	5,766	5,756	5,981
EBITDA (US$ m)	671.0	586.3	566.0	602.1
Pre-tax profit adjusted (US$ m)	463.0	395.6	397.6	436.3
CS EPS (adj.) (US$)	1.03	0.83	0.84	0.93
Prev. EPS (US$)				
ROIC avg (%)	32.3	31.4	29.2	33.8
P/E (adj.) (x)	5.6	7.0	6.9	6.3
P/E rel. (%)	42.0	53.1	56.5	54.1
EV/EBITDA (x)	2.9	3.4	3.1	2.5
Dividend (12/19E, p)	0.38	Net debt/equity (12/19E,%)		-1.1
Dividend yield (12/19E,%)	6.5	Net debt (12/19E, US$ m)		-12.2
BV/share (12/19E, US$)	2.4	IC (12/19E, US$ m)		1,114.7
Current WACC (%)	10.0	EV/IC (12/19E, (x)		1.8
Free float (%)	73.8	Number of shares (m)		345.9

Source: Company data, Refinitiv, Credit Suisse estimates

Petrofac (PFC.L)

Price (01 May 2019): **446.50p**; Rating: **NEUTRAL [V]**; Target Price: **539.00**; Analyst: **David Farrell**

Income statement (US$ m)	12/18A	12/19E	12/20E	12/21E
Revenue	5,829	5,766	5,756	5,981
EBITDA	**671**	**586**	**566**	**602**
Depr. & amort.	(141)	(146)	(137)	(136)
EBIT	**530**	**441**	**429**	**466**
Net interest exp.	(57)	(44)	(31)	(29)
Associates	15	10	10	10
PBT	**463**	**396**	**398**	**436**
Income taxes	(113)	(109)	(107)	(116)
Profit after tax	**350**	**286**	**291**	**321**
Minorities	3	-0	-0	-0
Preferred dividends	-	-	-	-
Associates & other	0	0	0	0
Net profit	**353**	**286**	**291**	**321**
Other NPAT adjustments	(289)	0	0	0
Reported net income	**64**	**286**	**291**	**321**

Cash flow (US$ m)	12/18A	12/19E	12/20E	12/21E
EBIT	530	441	429	466
Net interest	(69)	(50)	(37)	(37)
Cash taxes paid	(104)	(109)	(107)	(116)
Change in working capital	(15)	(152)	(37)	53
Other cash and non-cash items	142	146	137	136
Cash flow from operations	**484**	**275**	**386**	**503**
CAPEX	(90)	(125)	(130)	(140)
Free cashflow to the firm	**399**	**138**	**244**	**351**
Acquisitions	-	-	-	-
Divestments	282	0	122	0
Other investment/(outflows)	21	6	6	8
Cash flow from investments	**213**	**(119)**	**(2)**	**(132)**
Net share issue/(repurchase)	-	-	-	-
Dividends paid	(128)	(128)	(130)	(133)
Issuance (retirement) of debt	(975)	0	0	0
Other financing	180	(12)	(12)	(12)
Cashflow from financing	**(923)**	**(140)**	**(142)**	**(145)**
Changes in net cash/debt	702	(78)	243	226
Net debt at start	612	(90)	(12)	(255)
Change in net debt	**(702)**	**78**	**(243)**	**(226)**
Net debt at end	(90)	(12)	(255)	(481)

Balance sheet (US$ m)	12/18A	12/19E	12/20E	12/21E
Assets				
Total current assets	**4,329**	**4,456**	**4,693**	**4,973**
Total assets	**5,806**	**5,973**	**6,092**	**6,387**
Liabilities				
Total current liabilities	**3,794**	**3,765**	**3,722**	**3,829**
Total liabilities	**4,797**	**4,846**	**4,804**	**4,911**
Total equity and liabilities	**5,806**	**5,973**	**6,092**	**6,387**

Per share	12/18A	12/19E	12/20E	12/21E
No. of shares (wtd avg.) (mn)	342	345	345	345
CS EPS (adj.) (US$)	**1.03**	**0.83**	**0.84**	**0.93**
Prev. EPS (US$)				
Dividend (US$)	**0.38**	**0.38**	**0.39**	**0.40**
Free cash flow per share (US$)	1.17	0.40	0.71	1.02

Valuation	12/18A	12/19E	12/20E	12/21E
EV/Sales (x)	0.3	0.3	0.3	0.3
EV/EBITDA (x)	2.9	3.4	3.1	2.5
EV/EBIT (x)	3.6	4.5	4.1	3.3
Dividend yield (%)	6.52	6.52	6.69	6.85
P/E (x)	5.6	7.0	6.9	6.3

ROE analysis (%)	12/18A	12/19E	12/20E	12/21E
ROE (%)	43.6	37.4	32.1	29.7
ROIC (avg.) (%)	32.3	31.4	29.2	33.8

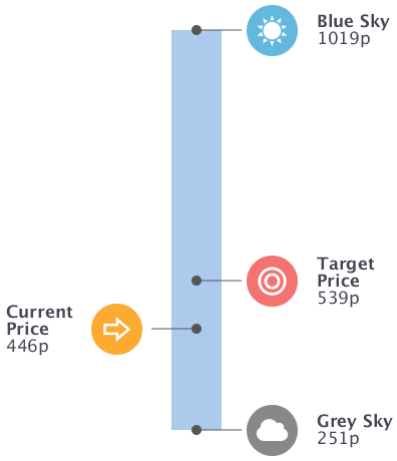
Credit ratios	12/18A	12/19E	12/20E	12/21E
Net debt/equity (%)	(8.9)	(1.1)	(19.8)	(32.6)
Dividend payout ratio (%)	36.8	45.8	46.2	42.9

Source: Company data, Refinitiv, Credit Suisse estimates.

Company Background

Petrofac is a leading Engineering & Construction company, predominantly focused on the Middle East and South East Asia. The company delivers upstream, mid-stream and downstream projects to the Oil & Gas sector and infrastructure to Offshore wind.

Blue/Grey Sky Scenario



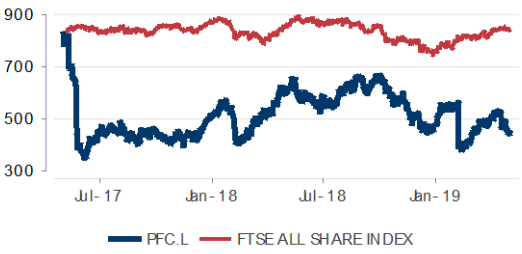
Our Blue Sky Scenario (p) 1019.20

Valuation based upon 2020 EV/EBTIDA. In E&C, 1.25x book to bill in 2019 drives 10% revenue growth in 2020. Our 2020 net income margin is top end of guidance range (6.5% to 7.5%). In E&PS, revenue rises 10% in 2020 and margins recover to 5% (vs 3.5% in 2019E). Multiple for E&C approximates Tecnicas Reunidas and E&PS / IES multiple increased by 1x giving a group multiple of 6.1x. Unaoil fine assumption removed.

Our Grey Sky Scenario (p) 251.17

Valuation based upon 2020 EV/EBTIDA. In E&C, 0.9x book to bill in 2019 drives 5% revenue decline in 2020. Our 2020 net income margin is 50bp below bottom end of guidance range (6.5% to 7.5%). In E&PS, revenue falls 10% in 2020 and margins fall to between current and break-even levels. Multiple for both at bottom end of peers and in line with Maire Tecnimont. We include a fully de-risked SFO settlement of $821m paid immediately

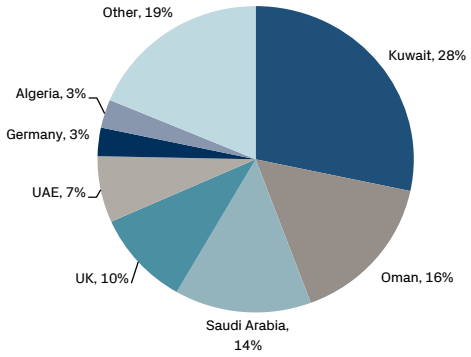
Share price performance



The price relative chart measures performance against the FTSE ALL SHARE INDEX which closed at 4052.6 on 01/05/19
On 01/05/19 the spot exchange rate was £.86/Eu 1.- Eu.89/US$1

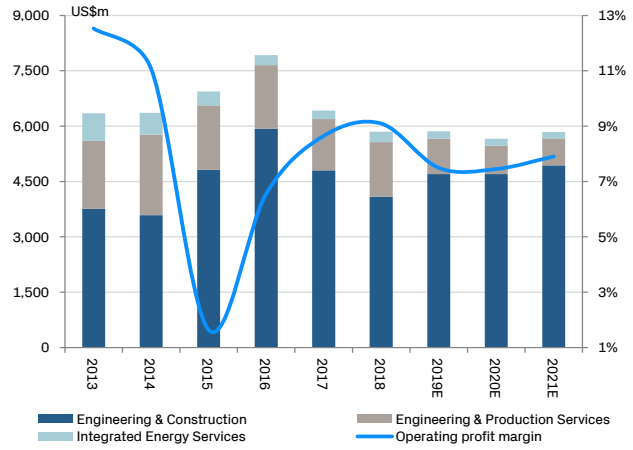
Key charts

Figure 113: Kuwait and Oman were the largest contributors to revenue in 2018



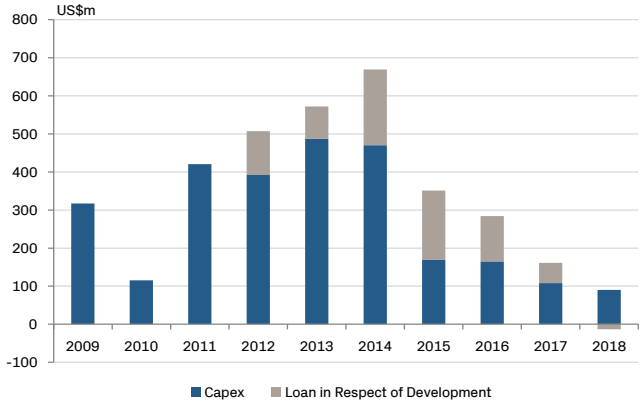
Source: Company data, Credit Suisse research

Figure 114: Delays in Middle East project awards and IES disposals impacting top line growth



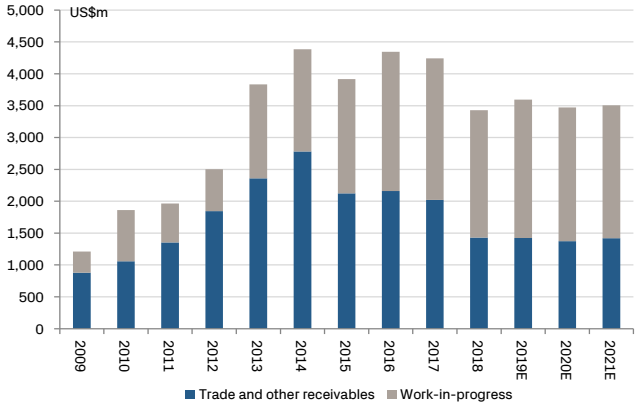
Source: Company data, Credit Suisse estimates. 2019E onwards reflects changed reporting line for EPCM work

Figure 115: Capex down materially as expansionary moves have been curtailed



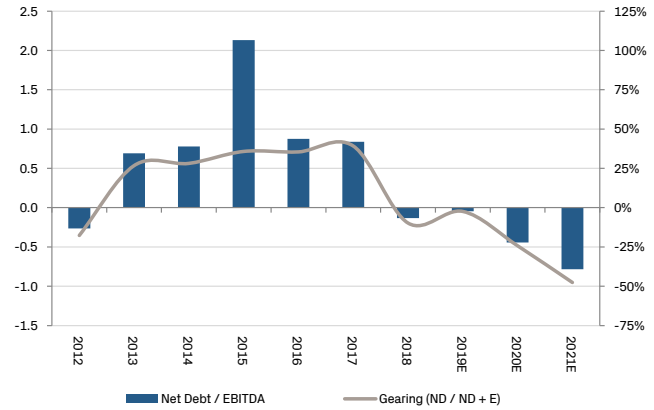
Source: Company data, Credit Suisse research

Figure 116: Cash was released from working capital in 2018 as major projects completed



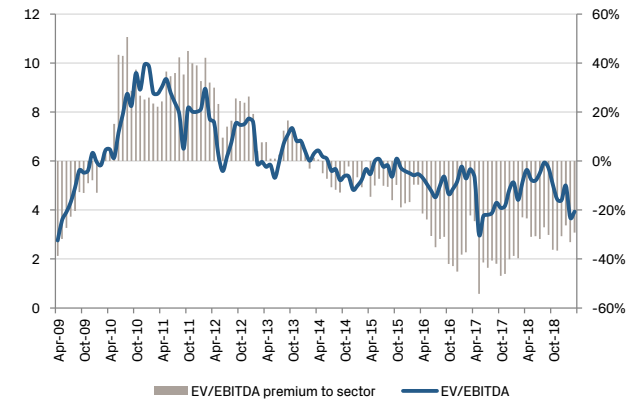
Source: Company data, Credit Suisse estimates

Figure 117: Petrofac back in a net cash position



Source: Company data, Credit Suisse estimates. 2019E onwards under IFRS 16

Figure 118: Premium under pressure before Unaoil



Source: Refinitiv. Monthly period end data

Base case is a settlement with the SFO this year

Note: *From the outset we acknowledge that our modelling of a financial penalty from the Serious Fraud Office (SFO) is premised upon very limited data. We do not know specifically the contracts under investigation nor their profitability. We are equally cognizant of the fact that our calculation makes assumptions about various components of a Deferred Prosecution Agreement (DPA), namely harm multiplies, guilty plea / extra-ordinary co-operation discounts and payment schedules. Finally, it assumes a DPA is agreed which may not be the ultimate outcome. It may be that the SFO does not allow Petrofac to take the DPA route and a criminal prosecution is pursued. Conversely, it may be the SFO finds no / insufficient evidence of wrongdoing and the case is dropped. As financial analysts, we can provide a risk framework but we do not offer a legal opinion. The below is based upon the limited information we have and the albeit small sample set of DPAs already agreed by the SFO and Rolls Royce, "XYZ" Bank, Standard Bank and Tesco Stores.*

The Serious Fraud Office's investigation into possible bribery, corruption and money laundering by Petrofac, launched in May 2017, has overshadowed the work the company has done in terms of asset divestments, geographical expansion and working capital improvement. We believe that there is a strong likelihood that Petrofac can achieve a Deferred Prosecution Agreement (DPA) with the Serious Fraud Office this year. We assume a US$821m fine, discounted back to a negative US$586m impact on our valuation.

The guilty conviction of David Lufkin, Petrofac's former head of sales, of 11 counts of bribery at Westminster Magistrates' Court in February (Former senior executive convicted in Petrofac investigation) has for the first time caused the company to question its ability to win work. In particular, this relates to Saudi Arabia and Iraq, which were the two countries where Mr Lufkin admitted to paying bribes. The reality of this risk is already starting to emerge, with leading industry website, MEED.com, recently writing that Iraq's Southern Gas Company had been asked by Iraq's Oil Ministry to prevent Petrofac from bidding on the upcoming tender for the Ratawi gas project (Iraq's South Gas Company told to block Petrofac from bidding on project). The commercial impact is potentially even greater in Saudi Arabia. Of the US$20bn of projects tendered or in the tendering phase at 31 December 2018, US$5bn relate to the Marjan development in Saudi Arabia. To put the above in context, Saudi Arabia and Iraq accounted for 14% and 4% of Petrofac's total revenue, respectively, in 2018.

Therefore, we think there is now additional pressure on the company's board to reach a resolution to the case. Commentary at the time of the FY18 results – following no comments or only factual references to the case – suggests that progress is being made:

"Petrofac will continue to engage with the SFO and will respond to any further developments as appropriate. We are focused on bringing this matter to closure."

On time-line, we would note that previous DPAs have taken over three years to agree from when the SFO officially launched an investigation. With the Petrofac investigation commencing in May 2017, this points to a May 2020 resolution. However Lisa Osofsky, recently appointed Director of the SFO, has stated that she wants to speed up the investigation process and make a decision whether to prosecute or drop cases sooner. This should also mean that DPAs are accelerated. This focus on timeliness is already evident with a number of cases dropped in recent months including GlaxoSmithKline and Rolls Royce cases. Hence we think that it is reasonable to believe that a DPA is a likely 2019 event.

In the table below we show the calculation of Rolls Royce's settlement and use this as a basis for our Petrofac estimate. Importantly it shows that the financial penalty consists of a) disgorged profits (column 2) and b) a harm penalty that is subject to various discounts

(columns 3-9). This table can be found in Appendix B of the Serious Fraud Office vs Rolls Royce judgement found on the Courts and Tribunals Judiciary website (Serious Fraud Office -v- Rolls Royce).

Figure 119: Appendix B of the SFO vs Rolls Royce judgement shows the SFO's approach to calculating DPA fines

1	2	3	4	5	6	7	8	9	10
by Count with cross references to udg	Gross Profit* for Disgorgement	Gross Profit* as Basis of Fine	Multiplier	Harm Penalty	Equivalent Guilty Plea Discount	Effect of Discount	Additional Extraordinary Cooperation Discount	Effect of Additional Discount	Total Payment
1. [Civil Indonesia] [101]	£ 30,330,000.00	£ 30,330,000.00	3.25	£ 98,572,500.00	33.3%	£ 65,747,857.50	16.7%	£ 49,286,250.00	£ 79,616,250.00
2, 3, 4. [Civil Thailand] [90] [101]	£ 118,150,000.00	£ 39,500,000.00	4	£ 158,000,000.00	33.3%	£ 105,386,000.00	16.7%	£ 79,000,000.00	£ 197,150,000.00
5. [DA False Acc] [91] [117]	£ 7,890,000.00	£ 7,890,000.00	2.5	£ 19,725,000.00	33.3%	£ 13,156,575.00	16.7%	£ 9,862,500.00	£ 17,752,500.00
6. [DA Adviser List] [92] [117]	£	£ 1,850,000.00	3.25	£ 6,012,500.00	33.3%	£ 4,010,337.50	16.7%	£ 3,006,250.00	£ 3,006,250.00
7. [Energy Russia] [101]	£ 36,800,000.00	£ 36,800,000.00	3.25	£ 119,600,000.00	33.3%	£ 79,773,200.00	16.7%	£ 59,800,000.00	£ 96,600,000.00
8. [Energy Indonesia] [79] [94] [112]	£ 2,860,000.00			£ -	33.3%	£	16.7%	£ -	£ 2,860,000.00
9. [Energy Nigeria] [94] [112]		£ 7,055,000.00	2.5	£ 17,637,500.00	33.3%	£ 11,764,212.50	16.7%	£ 8,818,750.00	£ 8,818,750.00
10. [Civil Indonesia] [79] [94] [112]	£ 13,960,000.00			£ -	33.3%	£	16.7%	£ -	£ 13,960,000.00
11. [Civil China] [94] [112]	£ 31,100,000.00	£ 20,713,000.00	2.83	£ 58,617,790.00	33.3%	£ 39,098,065.93	16.7%	£ 29,308,895.00	£ 60,408,895.00
12. [Civil Malaysia] [94] [112]	£ 17,080,000.00			£ -	33.3%	£ -	16.7%	£ -	£ 17,080,000.00
TOTAL FINANCIAL SANCTION	£ 258,170,000.00	£ 114,138,000.00		£ 478,165,290.00	33.3%	£ 318,936,248.43	16.7%	£ 239,082,645.00	**£ 497,252,645.00**
TOTAL COMBINED FINANCIAL TERMS									**£ 497,252,645.00**
COSTS									**£ 12,960,754.00**
TOTAL									**£ 510,213,399.00**

* Gross Profit as here defined is based on calculations reached by accountants instructed by the SFO and Rolls-Royce and agreed by the parties including as to appropriate deductions for these purposes.

Energy s7 Gross Profit is £2,860,000 for count 8 + £11,250,000 for count 9 divided by 2 = £7,055,000
Civil s7 Gross Profit is £13,960,000 for count 10 + £31,100,000 for count 11 + 17,080,000 for count 12 divided by 3 = 20,713,000
Counts 2-4 Gross Profit for basis of fine is prorated according to the number of engine sales attributable to count 4

Source: Courts and Tribunals Judiciary

We use information arising from Mr Lufkin's conviction to identify those contracts which we include in our framework. In this, five specific contracts amounting to US$4.5bn of order intake were cited across both Iraq and Saudi Arabia. We estimate combined that these projects contributed an EBITDA to the group over their execution of US$259m. These contracts were mainly executed by the E&C division which since 2013 has delivered EBITDA margins between 1% and 16% with an average of 10%. In our view, Iraq contracts are likely to be in line with the divisional average whereas those contracts in Saudi Arabia are likely to be below given higher levels of competition. We use this US$259m EBITDA figure as our "Gross Profit as basis of fine" (Column 3 in Fig 118 above).

Figure 120: Our estimate of the profitability of contracts cited in the David Lufkin case

Contract	Award	Size $m	Margin	EBITDA $m	Comment
Badra Field - Iraq	2012	330	10%	33	Med margin, med competition
Fao Terminal- Iraq	2012	400	10%	40	Med margin, med competition
Petro Rabigh Phase II - Saudi Arabia	2012	463	5%	23	Low margin, high competition
Jazan Refinery - Saudi Arabia	2012	1,700	5%	85	Low margin, high competition
Fadhilli Gas Plant - Saudi Arabia	2015	1,560	5%	78	Low margin, high competition
Gross Profit disgorged		**4,453**	**6%**	**259**	

Source: Company data, Credit Suisse estimates

In order to evaluate the fine element of penalty we need to make assumptions on both the harm multiplier and any discount. In 2014, when DPA were first introduced into the UK, The Sentencing Council set out guidelines for corporate offences which are aimed at informing prosecutors when making DPAs. This prescribes a starting point and range of multipliers according to the company's culpability level. Full details can be found on p.47-p.53 of "Fraud, Bribery and Money Laundering Offences – Definitive Guideline" however we summarise the culpability classification and guidance on multipliers below.

Figure 121: Guidelines for a corporation's culpability level

A – High culpability	B – Medium culpability	C – Lesser culpability
Corporation plays a leading role in organised, planned unlawful activity (whether acting alone or with others)	Corporation plays a significant role in unlawful activity organised by others	Corporation plays a minor, peripheral role in unlawful activity organised by others
Willful obstruction of detection (for example destruction of evidence, misleading investigators, suborning employees)	Activity not unlawful from the outset	Some effort made to put bribery prevention measures in place but insufficient to amount to a defence (section 7 Bribery Act only)
Involving others through pressure or coercion (for example employees or suppliers)	Corporation reckless in making false statement (section 72 VAT Act 1994)	Involvement through coercion, intimidation or exploitation
Targeting of vulnerable victims or a large number of victims	All other cases where characteristics for categories A or C are not present	
Corruption of local or national government officials or ministers		
Corruption of officials performing a law enforcement role Abuse of dominant market position or position of trust or responsibility		
Offending committed over a sustained period of time		
Culture of willful disregard of commission of offences by employees or agents with no effort to put effective systems in place (section 7 Bribery Act only)		

Source: The Sentencing Council

Figure 122: Guidelines for harm multipliers

	Culpability level		
	A	B	C
Harm figure multiplier	Starting point 300% Category range 250% to 400%	Starting point 200% Category range 100% to 300%	Starting point 100% Category range 20% to 150%

Source: The Sentencing Council

In our assumptions, we model that the allegations against Petrofac are sufficiently grave to warrant a "High Culpability" charge, although we have no guidance on this. From here, we assume a harm multiplier of 3.25x, halfway between the 2.5x to 4.0x guidance range. In terms of discount, we factor in a 33% Equivalent Guilty Plea Discount, in line with the minimum awarded in previous DPAs ("XYZ" Bank had a higher 50%). We assume no "Additional extraordinary cooperation discount" as this appears so far to have been unique to the Rolls Royce DPA. The table below shows the sensitivity of our calculation to the harm multiplier and applied discount.

Figure 123: Sensitivity of fine figure to harm multiplier and discount (US$m)

		Harm multiplier (x)							
		2.00	2.25	2.50	2.75	3.00	3.25	3.75	4.00
Discount	0%	518	583	648	713	777	842	972	1037
	17%	432	486	540	594	648	702	810	864
	33%	346	389	432	475	518	561	648	691
	50%	259	292	324	356	389	421	486	518

Source: Credit Suisse research

Combining both constituents, we arrive at a Total Payment of US$821m (excluding costs).

Figure 124: We arrive at a total payment of US$821m

Agreed Deferred Prosecution Agreement Fine - US$m		
		Comment
Gross Profit disgorged	259	Based upon 5 contracts in Saudi Arabia and Iraq
Harm multiplier (x)	3.25	Depending on Culpability Level will range from 0.2x to 4.0x
Equivalent Guilty Plea Discount	33%	In line with majority of previous DPAs
Additional extraordinary cooperation discount	0%	Has only been applied in the DPA of Rolls Royce
Fine	**561**	
Gross Profit disgorged	259	
Fine	561	
Total Payment	**821**	

Source: Credit Suisse research

However, this is not the financial impact we model. We believe that there are two adjustments that need to be made to the US$821m which reduces the negative impact on our valuation down to US$586m (or 132p/sh).

- Chance of DPA: There is a chance, albeit small we currently believe, that the Petrofac case is dropped. We account for this by assuming a 90% chance of a DPA.
- Net Present Value: The Rolls Royce precedent is for large fines to be paid over a number of years. We assume that Petrofac would make payments over four years, starting in 2019.

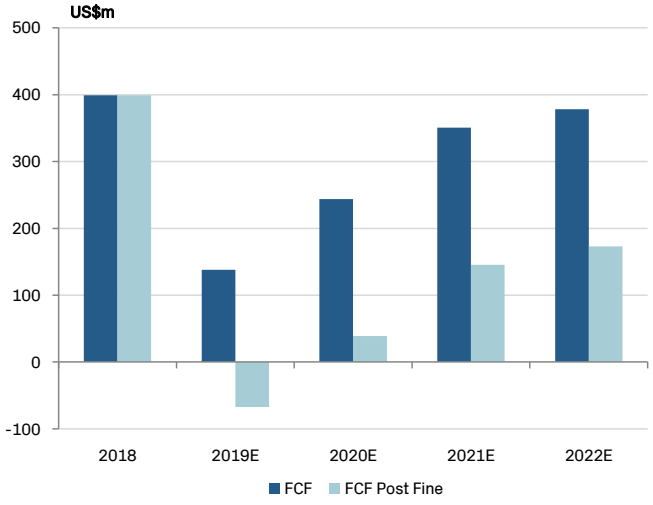
Figure 125: Our fine equates to a negative 132p/sh valuation impact

Modelling Impact - $m				
Total Fine	821			
Chance of DPA	90%			
Risked Financial Impact	739			
Assumed Payment Period	4			
Fine per year	185			
Year	**2019**	**2020**	**2021**	**2022**
Payment Schedule	185	185	185	185
Discount Rate	10%			
NPV	586			
Value / share (p)	132			

Source: Credit Suisse research

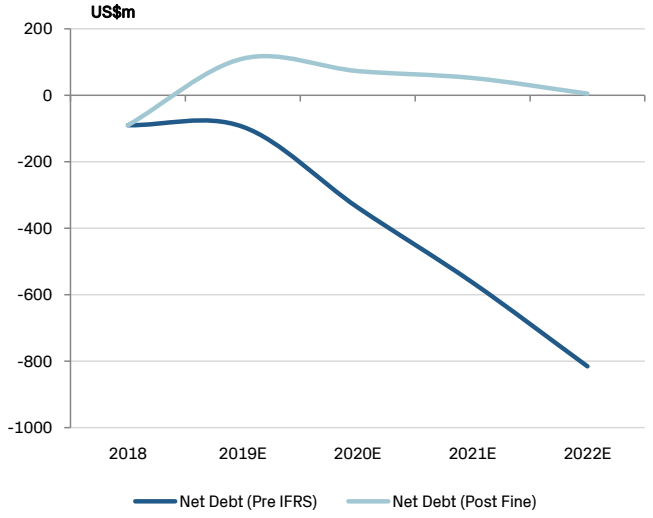
The charts below show our forecasts for Petrofac's FCF and net debt with and without the above financial settlement. We model that Petrofac should still be able to generate FCF in all but the current year and while net debt would rise initially, it would subsequently hold stable (as group dividends consume residual FCF).

Figure 126: Under our DPA assumptions PFC would still generate FCF in all but the current year



Source: Company data, Credit Suisse estimates. Includes benefits of deferred payments on disposals

Figure 127: Net debt would hold steady as dividends consume what FCF there is left



Source: Company data, Credit Suisse estimates

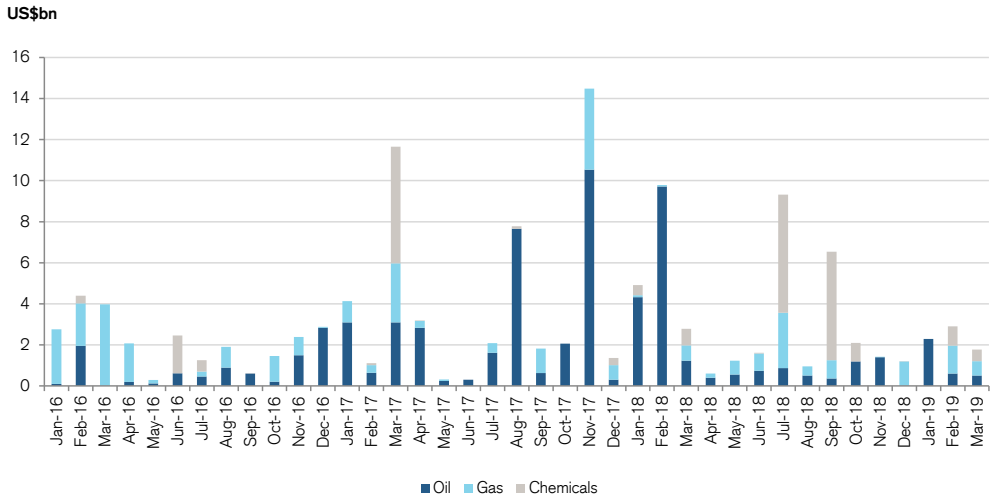
Divisional and group forecasts

Petrofac reports across three divisions: Engineering & Construction (E&C), Engineering & Production Services (E&PS), and Integrated Energy Services (IES). The former now includes the Engineering, Procurement and Construction Management (EPCM) which undertakes reimbursable EPC work, after a recent change from Engineering & Production Services.

Engineering & Construction (including EPCM)

Order intake momentum for the division has been disappointing, failing to break above 1.0x book-to-bill despite the improvement in oil prices. Although the core National Oil Companies (NOCs) of the Middle East are benefitting from improved cash flow, this is yet to translate into a sustained upturn in awards. Projects are not being cancelled, just delayed. That said, the bidding pipeline at the start of 2019 has the highest value of prospects in the tendered or tendering phase than at any point since Petrofac starting disclosing this information five years ago. Although the Middle East has disappointed, Petrofac has seen its non-MENA region order intake expand, especially in South-East Asia (Thailand/India). In theory, this work should be less competitively bid, and therefore supportive for margins. In terms of the current bid pipeline, 28% pertains to growth regions (US$9bn) versus 19% at the start of 2018 (US$5bn).

Figure 128: Oil & Gas EPC awards in the MENA region failed to accelerate in 2019, with Chemicals (Egypt) the big winner; 2019 should be better as major gas projects move forward in Saudi Arabia and UAE



Source: Middle East Energy Digest, Company data, Credit Suisse research

In the offshore wind market, in which Petrofac has established itself as a leading provider of substations, it won a US$200m contract for two HVAC substations in July 2018 and before that, a larger US$600m contract for the HVDC substation on the Borwin development. This year it is bidding on projects across the Netherlands, France and Germany.

At its FY18 results, Petrofac announced that it will incorporate results from its EPCM business within the E&C division rather than in E&PS. This should boost backlog by US$700m (10%). However, despite historically superior margins, we expect this to be margin dilutive as strong legacy projects, specifically in Oman, roll off. This organizational change, together with some tax pressure, means that the company is now guiding to the E&C division delivering 6.5% to 7.5% net income margins against the historical guidance of 7% to 8%.

Engineering & Production Services (E&PS)

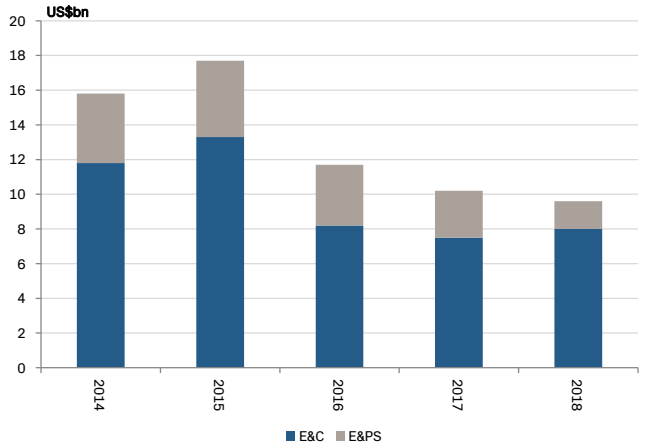
Following the recent changes in divisional make-up, E&PS is Petrofac's Operations & Maintenance business, split approximately 50/50 between North Sea and the Middle East/Asia.

The UK market remains competitive. In the absence of an upturn in brownfield modification work, we believe this part of E&PS delivers roughly break-even results once corporate overheads are taken into account. Petrofac has said it is looking to expand into North America, specifically in the Gulf of Mexico, however progress has been slow.

The Middle East/Asia business fares better, operating in less competitive markets, such as Iraq (where PFC is a significant operator although clearly with heightened renewal risks), Kuwait, Oman and, to a lesser, extent South-East Asia. We estimate that these markets are achieving 5% margins, leading to overall divisional margins of ~2.5%.

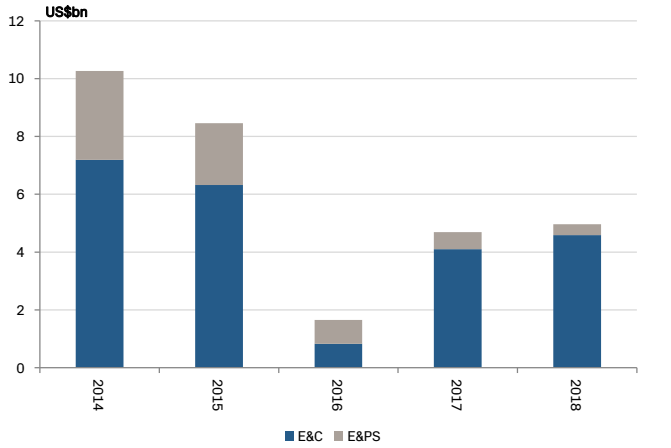
We see some potential for margins to expand as brownfield modification slowly returns to the UK North Sea, aided by independent companies assuming the positions of less enthusiastic larger oil companies (i.e. Chrysaor's recent acquisition of ConocoPhillips' UK North Sea assets).

Figure 129: Backlog evolution of E&C and E&PS divisions



Source: Company data, Credit Suisse research

Figure 130: Order intake levels have started to build again after a very weak 2016



Source: Company data, Credit Suisse research

Integrated Energy Services (IES)

Petrofac reduced its capital exposure to the IES business considerably in 2019. The company now has exposure to only three projects (Mexico, PM304, Other holdings) with a combined book value of US$490m.

The company recorded a large increase in non-controlling interests as a result of these disposals as the Mexican portfolio remains fully consolidated, with only 49% of the assets sold to Perenco.

Overall, the CFO says that the division will make a small net loss in 2019.

CS vs consensus

The impact of IFRS 16 is minimal to Petrofac (~US$10m at the EBITDA line), therefore our forecasts and those of consensus are more comparable than the other companies on which we are initiating coverage.

In terms of guidance, Petrofac has provided no group P&L level information. It has said:

- it aims to retain its net cash position at FY19;
- net income margin for the E&C division should come in at 6.5% to 7.5%;
- it aims for a book-to-bill ratio in E&C of >1x; and
- the IES division is expected to deliver a loss at the net income level.

Figure 131: We are slightly ahead of consensus for 2019E EBITDA

	2018	2019E			2020E			2021E		
$m	Actuals	CS	Cons.	Diff	CS	Cons.	Diff	CS	Cons.	Diff
Revenue	5,829	5,766	5,755	0%	5,756	5,810	-1%	5,981	5,858	2%
EBITDA	671	586	568	3%	566	561	1%	602	557	8%
EBITDA margin	11.5%	10.2%	9.9%		9.8%	9.7%		10.1%	9.5%	
Net Income (Adj)	350	286	304	-6%	291	311	-6%	321	312	3%
EPS ($/sh)	1.03	0.83	0.89	-6%	0.84	0.88	-4%	0.93	0.93	-1%
DPS ($/sh)	0.38	0.38	0.40	-4%	0.39	0.41	-6%	0.40	0.43	-6%
Net Debt / (cash)	-90	-12	3	-473%	-255	-47	441%	-481	-189	154%

Source: Refinitiv, Credit Suisse estimates. Data as of 1st May 2019

Balance sheet and shareholder returns

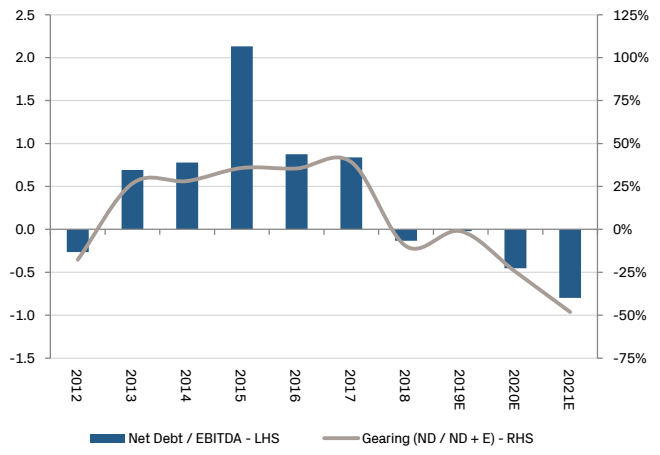
Petrofac's balance sheet has undergone significant change over the past decade. Growth avenues, namely the creation and expansion of the IES business and the subsequent (and ultimately abandoned) push into the offshore installation market, were both significant capex consumers. Together with the loss-making Laggan-Tormore contract, this saw Petrofac transition from net cash to net debt, with shareholder equity eroded correspondingly. In 1H17, with net debt approaching US$1bn, the dividend was cut by 42%.

Since then, the company has achieved significant progress in a) reducing capex; b) disposing of assets; and c) improving working capital efficiency. This culminated in the group returning to net cash in FY18, two years ahead of management guidance.

There was a significant improvement in working capital (amounting to US$452m) in 2H18, some of which management cautions will reverse in 2019. Capex is also set to increase to meet the group's push for digitalization. Nevertheless, we expect Petrofac to remain in a net cash position at FY19 (before IFRS 16 adjustment), which bodes well for augmented shareholder returns. However, it is contingent on the SFO resolution. We doubt that Petrofac will want to increase shareholder returns prior to a resolution and, given the magnitude of any settlement is unknown, the company is likely keen to maintain as much financial flexibility as possible.

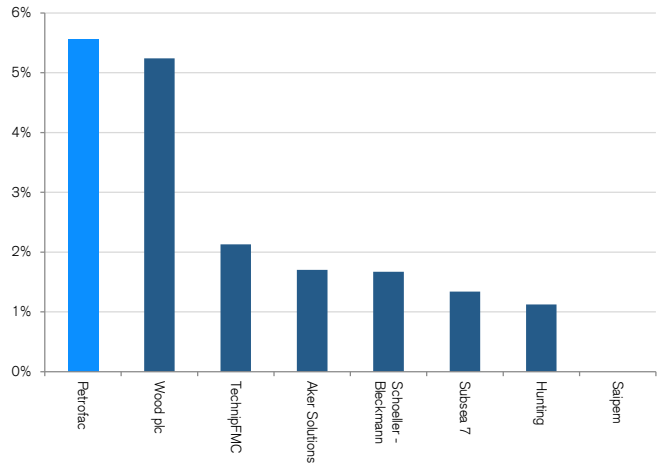
Further, Petrofac has US$677m of senior notes expiring in 2019, which we expect will be repaid from current liquidity rather than refinancing.

Figure 132: Petrofac moved back into net cash two years ahead of schedule



Source: Company data, Credit Suisse estimates. 2019E onwards under IFRS 16

Figure 133: Petrofac's dividend yield is currently the highest in the sector (2019E)



Source: Refinitiv (for current share prices), Credit Suisse estimates. Priced as of 1st May 2019

Rating and target price

We initiate coverage of Petrofac with a Neutral rating and 539p target price. Our target price is based on an equally weighted EV/EBITDA based SOTP and three stage DCF.

Figure 134: Petrofac target price

Blended Valuation (p/sh)	
SOTP fair value	526
DCF fair value	552
Average Fair Value (50% SOTP / 50% DCF)	**539**

Source: Credit Suisse estimates

Sum-of-the-parts

At a group level, we value Petrofac on a 5.1x multiple, and 5.4x for the core E&C and E&PS divisions. Our divisional target multiples have been shaped by Petrofac's peer group, shown below in Figure 135.

Figure 135: Multiples for PFC's peer group

	EV/EBITDA 2019	EV/EBITDA 2020	PE 2019	PE 2020	Div Yield 2019	Div Yield 2020	ND / EBITDA 2019	ND / EBITDA 2020
John Wood Group PLC	6.5	5.7	10.9	9.1	5.9%	6.0%	1.7	1.3
Tecnicas Reunidas SA	8.2	6.5	17.1	13.6	3.2%	4.3%	-1.6	-1.6
Maire Tecnimont SpA	4.1	3.8	8.8	8.7	4.2%	4.1%	-0.5	-0.7
WorleyParsons Ltd	17.9	9.5	28.8	14.9	2.1%	3.6%	3.2	1.5
Chiyoda Corp	-0.4	6.5	-0.9	16.7	0.0%	0.7%	0.5	-1.5
JGC Corp	8.0	6.5	19.6	22.1	1.1%	1.4%	-4.9	-5.1
Fluor Corp	6.1	5.0	13.9	10.9	2.1%	2.3%	-0.4	-0.4
KBR Inc	8.8	7.9	13.7	12.3	1.4%	1.4%	1.4	1.2
Daewoo Engineering & Construction Co Ltd	5.2	4.4	6.7	5.8	0.0%	0.0%	1.8	1.4
GS Engineering & Construction Corp	3.9	3.4	6.3	5.9	2.1%	2.2%	0.3	-0.1
Samsung Engineering Co Ltd	9.3	7.8	14.0	11.8	0.0%	0.0%	0.3	-0.3
Bilfinger SE	8.1	5.7	20.1	12.4	3.2%	3.7%	0.7	0.2
McDermott International Inc	1.2	2.2	5.1	3.7	0.0%	0.0%	-0.2	0.9
Daelim Industrial Co Ltd	3.8	3.4	5.8	5.8	1.6%	1.6%	-0.2	-0.5
Toyo Engineering Corp	-17.8	-10.2	11.5	7.7	0.0%	0.0%	-24.0	-13.6
Average	**4.9**	**4.6**	**12.1**	**10.8**	**1.8%**	**2.1%**	**-1.4**	**-1.2**
Average (Excl Chiyoda, MDR, Daelim, Toyo)	**7.8**	**6.0**	**14.5**	**11.6**	**2.3%**	**2.6%**	**0.2**	**-0.2**

Source: Refinitiv. All numbers are consensus. Priced as of 1st May 2019

- For the E&C business, we use a 5.5x multiple, which is between Tecnicas Reunidas and Maire Tecnimont which are Petrofac's closest peers in Europe. This equates to a 8% discount to the adjusted sector multiple which seems reasonable given the potential risk that it may have its licence to operate in Iraq and Saudi Arabia revoked.
- The E&PS division becomes less attractive as it is now a low-margin, largely blue collar (manual labour) business unit with the EPCM higher margin work now part of the E&C results. We adopt a 5.0x multiple, a ~20% discount to the sector. The company has been successful in growing this business in the Middle East, especially Iraq, so there is some potential risk from the current Unaoil fall-out.
- For the IES division, we use a 3.0x multiple, the average multiple across other UK listed E&Ps. Our EV equates to ~50% of the book value.
- We discount the minority interest by 50% given that our IES valuation is 50% of book value.

Figure 136: SOTP valuation is based on 2020E EBITDA forecasts

2020 SOTP - US$m						
	EBITDA	Sales	Multiple (x)	EV / Sales (x)	EV	Share
Engineering & Construction	458	4700	5.5	0.5	2,521	84%
Engineering & Production Services	51	887	5.0	0.3	255	9%
IES	72	188	3.0	1.1	215	7%
Corporate	-15	-19	5.1	4.0	-77	0%
Total	566	5756	5.1	0.5	2,914	0%
Net Debt / (Cash) - 2020E					-255	
IFRS 16 Adjustment					83	
Minority Adjustments (50% hair cut to reflect IES valuation being at 50% of book value)					151	
SFO Settlement					586	
Shareholders' Equity					2,349	
Shares Outstanding - 2020E					345	
Implied Share price (US$/sh)					6.81	
FX					1.29	
Implied Share price (p/sh)					**526**	

Source: Credit Suisse estimates. Priced as of 1st May 2019

DCF

We use a three-stage DCF consisting of explicit forecasts out to 2025, a 10-year normalization period to 2035 with revenue growth of 3% p.a. and subsequent terminal value based upon a long-term growth rate of 2%.

Our WACC is 10.0% and is based upon the following inputs:

- a risk free rate of 2.9% (30-year US Treasury);
- beta of 1.1 based upon two-year weekly regression of PFC's share price vs UK market;
- a Risk Premium for the UK market of 6.7% as estimated by the NYU Stern School of Business (Country Default Spreads and Risk Premiums);
- we assume no debt in the company and that it is 100% equity financed. Therefore the WACC is set at the cost of equity. Our long-term EBITDA margin assumption is 6% which in turns leads to a terminal value EV/EBITDA multiple of 5.9x (vs current 1 year forward of 4.0x). We note that the current market EV/EBITDA is depressed by the ongoing SFO investigation.

Figure 137: We use a three-stage DCF model

DCF (US$m)				
Assumption	**Beta**	**Risk Prem.**	**WACC**	**LT Growth**
	1.1	6.7%	10.0%	2.0%
				Share
Present Value Forecast Period			1,545	50%
Present Value Normalisation Period			944	31%
Present Value of Terminal Value			601	19%
Total Enterprise Value			**3,090**	
Net Debt / (Cash) - 2018			-90	
SFO Settlement			586	
Non Contolling Interest - 2018 (50%)			151	
Implied Equity Value			**2,443**	
Share Count - 2018			342	
DCF Implied Fair Value			7.14	
FX			1.29	
Fair Value (p/sh)			**552**	

Source: Credit Suisse estimates. Priced 1st May 2019

Blue Sky/Grey Sky scenarios

We establish Blue Sky and Grey Sky valuation scenarios with reference to our SOTP valuation and flexing of our 2020 revenue growth, net income margin and target multiple assumptions. In Petrofac's case we have also overlaid this with some potential outcomes of the bribery investigation. This means that the divergence between Blue Sky/Grey Sky and our base case is larger than for other companies under our coverage.

- *Blue Sky:* In E&C, 1.25x book to bill in 2019 drives 10% revenue growth in 2020 (vs 0% in our base case). Our 2020 net income margin is top end of guidance range (6.5% to 7.5%, vs. our base case of 6.5%). In E&PS, revenue rises 10% in 2020 (vs 0% in base case) and margins recover to 5% from 3.5% in 2019 (vs 3.75% base case). Our E&C multiple is 6.5x (vs 5.5x in our base case) and we lift target multiples for both E&PS and IES by 1.0 turn giving an overall group multiple of 6.1x (vs 5.1x in our base case), vs 5.1x for E&C and 5.4x for E&PS in our base case. We remove our SFO settlement assumption in this scenario.
- *Grey Sky:* In E&C, 0.9x book to bill in 2019 drives 5% revenue decline in 2020. Our 2020 net income margin is 50bp below bottom end of guidance range (6.5% to 7.5%). In E&PS, revenue falls 10% in 2020 and margins fall to between current and break-even levels. We lower our target multiple by each division by 1x to give a group target EV/EBITDA multiple of 4.2x which closely approximates current Maire Tecnimont level. We include a fully de-risked SFO settlement of $821m paid immediately.

Figure 138: Blue Sky/Grey Sky

Blue Sky SOTP		vs Base
EBITDA (2020 - US$m)	735	30%
Multiple	6.1	19%
Equity value (p/sh)	**1,019**	
Grey Sky SOTP		**vs Base**
EBITDA (2020 - US$m)	464	-18%
Multiple	4.2	-18%
Equity value (p/sh)	**251**	

Source: Credit Suisse estimates. Priced 1st May 2019

Risks

The main risks we see to our rating and target price are:

- Timing and quantum of any fine relating to the current SFO investigation. We have approached the issues as factually as we can but clearly the range of outcomes is significant and there are only few precedent cases on which to build our assumptions.
- Higher-than-expected order intake in the E&C business, possible given the high volume of current tendering, near-term market outlook and historic win rate, could cause our 2020 forecasts to be revised. Conversely, confirmation that it is being blocked from winning work in Saudi Arabia would likely cause the multiple to contract.
- Petrofac secured a number of contracts in India in 2018. Given it has not operated in this market for a number of years it may be that it mispriced these contracts and therefore it struggles to keep within the current net income margin guidance.
- We see potential for the company to pursue M&A activity in down-stream technology. We believe that this would be well received given the current reliance on third parties.

Credit Suisse HOLT

The extended seven-year forecast shown in Figure 139 for sales, margins and returns allow us to express our long-term view of the near-term recovery and factor the next cycle into this business. Based on our key estimates from 2019-2021, returns are expected to dip to 8.0% in 2020 and recover in 2021 to average c.8.5%. This is supported by our forecast that margins come under pressure from i) asset disposals and therefore revenue mix, and ii) execution of more competitively priced work in the core E&C business. Thereafter we forecast returns to improve gradually to 9.05% by 2025.

Beyond the explicit seven-year forecast period (2019-2025), HOLT uses a fade model to arrive at its warranted price. CFROI® levels are faded to 6.0% and asset growth is faded to 2.5% (mean reversion to long-term observed levels). The default fade rate is 10%. For this analysis we have used a Market Implied Discount Rate of c.5.5% for European Oil & Gas aggregate. The above assumptions suggest a HOLT warranted value of 510p, which compares with our target price of 539p. HOLT's use of a sector wide discount rate of 5.5% in its calculations rather than the company-specific 5.29% discount rate contributes to the lower HOLT outcome.

Figure 139: Petrofac in HOLT

PETROFAC LIMITED (PFC)

Current Price: GBp 443.30 **Warranted Price: GBp 510.29**

Valuation date: 30-Apr-19

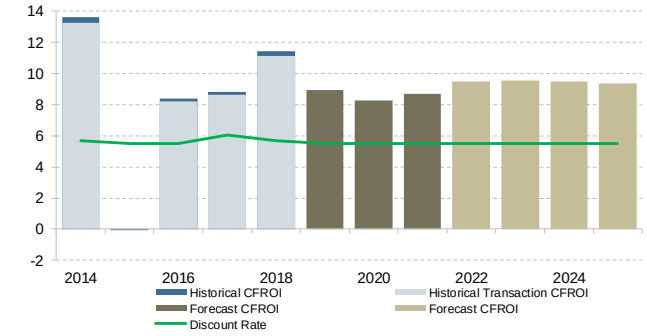
EBITDA Margin (parallel % point change to forecasts) / Sales Growth (parallel % point change to forecasts)	USD	-2.0%	-1.0%	0.0%	1.0%	2.0%
	-2.0%	-42%	-35%	-27%	-18%	-9%
	-1.0%	-24%	-15%	-6%	4%	15%
	0.0%	-5%	5%	15%	27%	39%
	1.0%	13%	24%	36%	49%	63%
	2.0%	32%	44%	58%	73%	89%

	Dec 17A	Dec 18A	Dec 19E	Dec 20E	Dec 21E
Sales Growth, %	-18.8	-8.9	-1.1	-0.2	3.9
EBITDA Mgn, %	11.3	11.3	9.8	9.5	9.7
Asset Turns, x	1.31	1.4	1.5	1.5	1.5
CFROI®, %	8.8	11.4	8.9	8.3	8.7
Disc Rate, %	6.1	5.7	5.5	5.5	5.5
Asset Grth, %	-4.2	-18.4	-6.2	-2.2	-0.5
Price to Book, x	1.2	1.3	1.2	1.1	1.1
Economic PE, x	13.4	11.2	13.0	13.7	12.6
Leverage, %	51.3	28.9	29.6	30.4	31.0

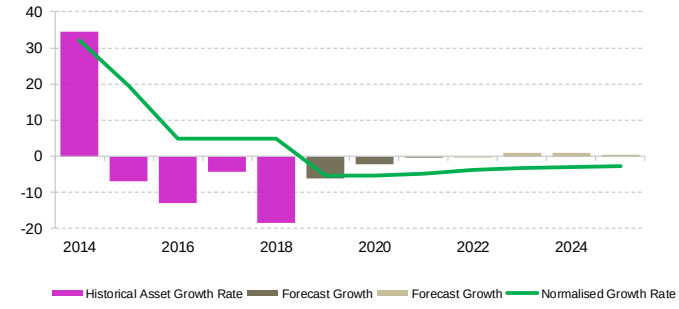
More than 10% downside | Within 10% | More than 10% upside



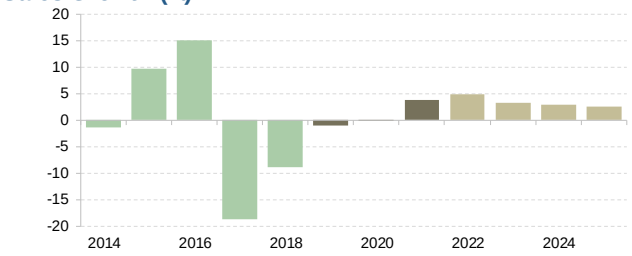
CFROI & Discount Rate (in %)



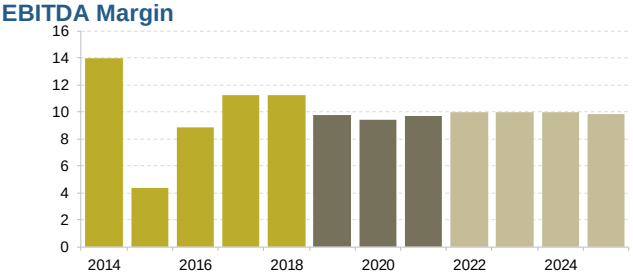
Asset Growth (in %)



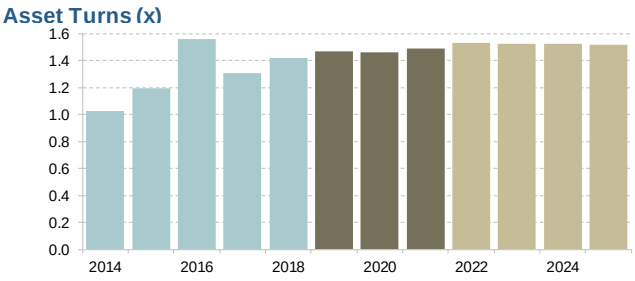
Sales Growth (%)



EBITDA Margin



Asset Turns (x)



Source: Credit Suisse HOLT®. CFROI and HOLTare trademarks or registered trademarks of Credit Suisse Group AG or its affiliates in the United States and other countries.

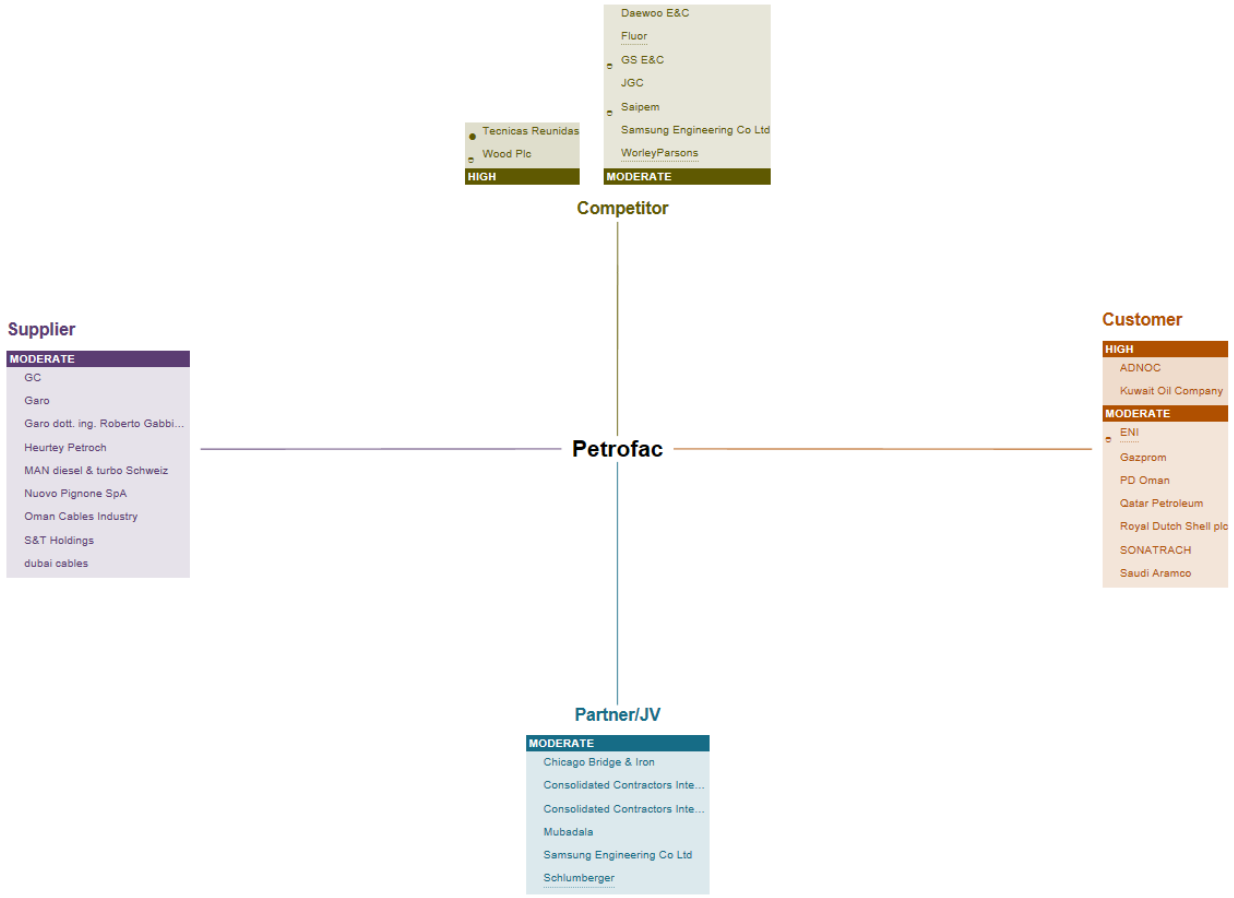
Source: Credit Suisse HOLT

PEERs

PEERs is a global database that captures unique information about companies within the Credit Suisse coverage universe based on their relationships with other companies – their customers, suppliers and competitors. The database is built from our research analysts' insight regarding these relationships. Credit Suisse covers over 3,000 companies globally. These companies form the core of the PEERs database, but it also includes relationships on stocks that are not under coverage.

For more information, see our November 2016 PEERs report: A chain reaction: Supply chain strategies.

Figure 140: Petrofac in PEERs



Source: Credit Suisse PEERs

Management

Ayman Asfari - CEO

Mr Asfari became Group Chief Executive in 2002; he joined Petrofac in 1990 to establish Petrofac International, before which he led a civil and mechanical construction business in Oman.

Alastair Cochran, Chief Financial Officer

Mr Cochran joined Petrofac in 2016 as Chief Financial Officer from BG Group where his responsibilities included corporate finance, M&A, strategy and business development.

P&L, cash flow and balance sheet

Figure 141: Divisional and group P&L

Divisional Analysis (US$m)	2017A	2018A	2019E	2020E	2021E
E&C					
Revenue	**4,801**	**4,087**	**4,700**	**4,700**	**4,935**
Growth	-19%	-15%	15%	0%	5%
Net profit	342	285	317	306	333
Margin	7.1%	7.0%	6.8%	6.5%	6.8%
Growth	10%	-17%	11%	-4%	9%
E&PS					
Revenue	**1,392**	**1,479**	**887**	**887**	**887**
Growth	-19%	6%	-40%	0%	0%
Net profit	90	96	31	33	33
Margin	6.5%	6.5%	3.5%	3.8%	3.8%
Growth	-19%	7%	-68%	7%	0%
IES					
Revenue	**228**	**282**	**197**	**188**	**178**
Growth	-16%	24%	-30%	-5%	-5%
Net profit	-21	39	-10	-9	-9
Margin	42.5%	56.7%	40.3%	38.2%	38.5%
Growth	-50%	-286%	-125%	-5%	-5%
Corporate & Others					
Net profit	-55	-67	-51	-38	-36
Consolidation & other adj.					
Revenue	-26	-19	-19	-19	-20

Profit & Loss (US$m)	2017A	2018A	2019E	2020E	2021E
Revenue	6,395	5,829	5,766	5,756	5,981
Growth	-19%	-9%	-1%	0%	4%
EBITDA	**730**	**671**	**586**	**566**	**602**
D&A	-177	-141	-146	-137	-136
Operating profit (inc JVs)	553	530	441	429	466
Net finance expense	-70	-67	-45	-32	-30
Pre-tax profit (adjusted)	**483**	**463**	**396**	**398**	**436**
Other gains / losses / impairments	-438	-356	0	0	0
Pre-tax profit	45	107	396	398	436
Tax (pre-exceptional)	-138	-113	-109	-107	-116
Effective tax rate	29%	24%	28%	27%	27%
Tax (exceptional items)	66	67	0	0	0
Minority interest	-2	3	0	0	0
Net Profit	-29	64	286	291	321
Adj net profit	**343**	**353**	**286**	**291**	**321**
Shares (diluted)	340	342	345	345	345
EPS (CS, Adj) - $/sh	**1.01**	**1.03**	**0.83**	**0.84**	**0.93**
EPS (IFRS) - $/sh	-0.09	0.19	0.83	0.84	0.93
DPS - $/sh	**0.38**	**0.38**	**0.38**	**0.39**	**0.40**

Source: Credit Suisse estimates

Figure 142: Condensed cash flow and balance sheet

Cash flow (US$m)	2017A	2018A	2019E	2020E	2021E
Profit before tax and exceptional items	483	463	396	398	436
Operating cash flows	152	36	31	25	13
Working capital	-213	-15	-152	-37	53
Cashflow from Operations	**422**	**484**	**275**	**386**	**503**
Capex (net, inc intangible)	-117	-98	-125	-130	-140
M&A	0	0	0	0	0
Other investing cash flows	-24	311	6	128	8
Cashflow from Investing	**-141**	**213**	**-119**	**-2**	**-132**
Change in borrowings	-241	-975	0	0	0
DPS cash cost	-192	-128	-128	-130	-133
IFRS 16 lease payments	0	0	-12	-12	-12
Other financing cash flows	-39	180	0	0	0
Cashflow from Financing	**-472**	**-923**	**-140**	**-142**	**-145**
Net cash flow	**-191**	**-226**	**16**	**243**	**226**
Cash and cash equivalents	946	715	731	973	1199
Net debt / (cash)	**612**	**-90**	**-95**	**-337**	**-563**
IFRS 16 Lease Liability			83	83	83
Net Debt / (cash) - IFRS 16	**612**	**-90**	**-12**	**-255**	**-481**
Free Cash Flow	**252**	**399**	**138**	**244**	**351**

Balance sheet (US$m)	2017A	2018A	2019E	2020E	2021E
Property, plant and equipment	1,092	685	675	680	695
Goodwill & intangibles	152	129	136	136	136
Other Non-Current Assets	728	663	706	584	584
Non-Current Assets	**1,972**	**1,477**	**1,517**	**1,399**	**1,414**
Work in progress / Contract assets	2,223	1,998	2,147	2,144	2,142
Trade & Other receivables	2,020	1,431	1,404	1,402	1,457
Other Current Assets	381	174	174	174	175
Cash and ST deposits	967	726	731	973	1,199
Current Assets	**5,591**	**4,329**	**4,456**	**4,693**	**4,973**
Total Assets	**7,563**	**5,806**	**5,973**	**6,092**	**6,387**
Trade and other payables	1,675	962	952	952	986
Accrued contract expenses	1,956	1,645	1,647	1,611	1,668
Bank loans and overdrafts	725	260	260	260	260
Other Current Liabilities	626	927	906	899	916
Current Liabilities	**4,982**	**3,794**	**3,765**	**3,722**	**3,829**
Bank loans	854	376	376	376	376
Provisions	269	243	243	243	243
Other Non-Current Liabilities	510	384	462	462	462
Non-Current Liabilities	**1,633**	**1,003**	**1,081**	**1,081**	**1,081**
Shareholders equity	912	707	825	986	1,174
Minority interests	36	302	302	302	302
Total equity	**948**	**1,009**	**1,127**	**1,288**	**1,476**
S/H Equity & Liabilities	**7,563**	**5,806**	**5,973**	**6,092**	**6,387**

Source: Company data, Credit Suisse estimates

Saipem (SPMI.MI)

Rating	**UNDERPERFORM**
Price (30 Apr 19, €)	4.52
Target price (€)	4.10
Market Cap (€ m)	4,566.5
Enterprise value (€ m)	6,213.2

Target price is for 12 months.

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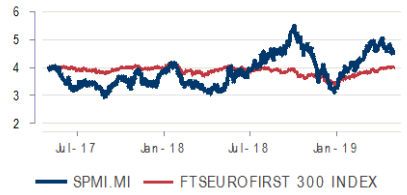
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Upside risks priced in

- **We initiate coverage with an Underperform rating and €4.10 TP:** It has taken some time, but Saipem has returned to delivering predictable results. Together with the potential for monetising its drilling business (as it has said it intends to do) and its exposure to the LNG build-out, the stock has provided a ~50% return over the past year, outperforming our coverage universe by the same amount. We see it as fully valued with little margin for disappointment.
- **Catalysts widely expected:** Much is made of Saipem's positive catalysts, however we think it unlikely that all will transpire. We struggle with the concept of extracting value from an aged offshore drilling fleet that lacks the focus of other packages that have been monetised. Although we appreciate the LNG opportunity, broadly we are cautious on LNG awards until companies can demonstrate that execution has been de-risked. We think Saipem remains a second-tier player in this market. Lastly, there is still a long tail of legal risks associated with the company, which could provide negative headlines (and financial impact) and at the very least impact the upside to target multiples.
- **Catalysts: 1)** A Saipem/McDermott/Chiyoda JV has been selected for the Mozambique LNG project; a final investment decision should prompt booking of the backlog (although timing uncertain with operator Anadarko an M&A target). **2)** An M&A transaction for the drilling business which de-consolidates debt.
- **Risks: 1)** Stagnating Offshore E&C margins due to negative revenue mix **2)** Stuttering onshore E&C margins which would indicate market share being pursued over profitability.
- **Valuation:** Our €4.10 target price is based on an equal weighting of our SOTP (2020E EBITDA) and DCF valuations. Trading on 5.2x 2020E EBITDA, the stock is trading largely in line with the sector for the first time since 2014. At the current valuation, we see little margin for disappointment.

Share price performance



The price relative chart measures performance against the FTSEUROFIRST 300 INDEX which closed at 1536.6 on 30/04/19
On 30/04/19 the spot exchange rate was €1/Eu 1.-Eu.89/US$1

Performance	1M	3M	12M
Absolute (%)	-13.2	3.9	34.2
Relative (%)	-12.8	-1.9	34.7

Financial and valuation metrics

Year	12/18A	12/19E	12/20E	12/21E
Revenue (€ m)	8,587	9,012	9,431	10,046
EBITDA (€ m)	1001.7	1095.7	1162.8	1298.8
Adjusted net income (€ m)	25.0	139.3	183.9	255.3
CS EPS (adj.) (€)	0.02	0.14	0.18	0.25
Prev. EPS (€)				
ROIC avg (%)	3.0	4.9	5.4	6.6
P/E (adj.) (x)	182.7	32.8	24.8	17.9
P/E rel. (%)	1543.4	301.9	249.2	192.7
EV/EBITDA (x)	5.7	5.7	5.2	4.5

Dividend (12/19E, €)	0.00	Net debt/equity (12/19E,%)	39.4
Dividend yield (12/19E,%)	0.0	Net debt (12/19E, € m)	1,646.6
BV/share (12/19E, €)	4.1	IC (12/19E, € m)	5,825.6
Current WACC (%)	9.9	EV/IC (12/19E, (x)	1.1
Free float (%)	55.6	Number of shares (m)	1,011.0

Source: Company data, Refinitiv, Credit Suisse estimates

Saipem (SPMI.MI)

Price (30 Apr 2019): **€4.517**; Rating: **UNDERPERFORM**; Target Price: **4.10**; Analyst: **David Farrell**

Income statement (€ m)	12/18A	12/19E	12/20E	12/21E
Revenue	8,587	9,012	9,431	10,046
EBITDA	**1,002**	**1,096**	**1,163**	**1,299**
Depr. & amort.	(468)	(610)	(640)	(678)
EBIT	**534**	**485**	**522**	**621**
Net interest exp.	(165)	(216)	(216)	(216)
Associates	(88)	(4)	0	0
PBT	**281**	**265**	**306**	**405**
Income taxes	(194)	(117)	(123)	(150)
Profit after tax	**87**	**148**	**184**	**255**
Minorities	(62)	(9)	-0	-0
Preferred dividends	-	-	-	-
Associates & other	0	0	0	0
Net profit	**25**	**139**	**184**	**255**
Other NPAT adjustments	(497)	(8)	0	0
Reported net income	**(472)**	**131**	**184**	**255**

Cash flow (€ m)	12/18A	12/19E	12/20E	12/21E
EBIT	534	485	522	621
Net interest	0	21	28	28
Cash taxes paid	0	0	0	0
Change in working capital	242	27	(43)	(30)
Other cash and non-cash items	(65)	265	302	312
Cash flow from operations	**711**	**798**	**810**	**931**
CAPEX	(485)	(500)	(525)	(551)
Free cashflow to the firm	**252**	**171**	**141**	**236**
Acquisitions	-	-	-	-
Divestments	1	0	0	0
Other investment/(outflows)	(27)	(17)	0	0
Cash flow from investments	**(511)**	**(517)**	**(525)**	**(551)**
Net share issue/(repurchase)	-	-	-	-
Dividends paid	0	0	0	0
Issuance (retirement) of debt	0	0	0	0
Other financing	(79)	(159)	(144)	(144)
Cashflow from financing	**(79)**	**(159)**	**(144)**	**(144)**
Changes in net cash/debt	107	(456)	121	216
Net debt at start	1,298	1,191	1,647	1,526
Change in net debt	**(107)**	**456**	**(121)**	**(216)**
Net debt at end	1,191	1,647	1,526	1,310

Balance sheet (€ m)	12/18A	12/19E	12/20E	12/21E
Assets				
Total current assets	**6,211**	**7,009**	**7,341**	**7,884**
Total assets	**11,677**	**13,072**	**13,424**	**13,977**
Liabilities				
Total current liabilities	**4,430**	**5,107**	**5,255**	**5,533**
Total liabilities	**7,641**	**8,893**	**9,061**	**9,359**
Total equity and liabilities	**11,677**	**13,072**	**13,424**	**13,977**

Per share	12/18A	12/19E	12/20E	12/21E
No. of shares (wtd avg.) (mn)	1,011	1,011	1,011	1,011
CS EPS (adj.) (€)	**0.02**	**0.14**	**0.18**	**0.25**
Prev. EPS (€)				
Dividend (€)	**0.00**	**0.00**	**0.00**	**0.00**
Free cash flow per share (€)	0.25	0.17	0.14	0.23

Valuation	12/18A	12/19E	12/20E	12/21E
EV/Sales (x)	0.7	0.7	0.6	0.6
EV/EBITDA (x)	5.7	5.7	5.2	4.5
EV/EBIT (x)	10.8	12.8	11.7	9.5
Dividend yield (%)	0.00	0.00	0.00	0.00
P/E (x)	182.7	32.8	24.8	17.9

ROE analysis (%)	12/18A	12/19E	12/20E	12/21E
ROE (%)	0.6	3.5	4.4	5.8
ROIC (avg.) (%)	3.0	4.9	5.4	6.6

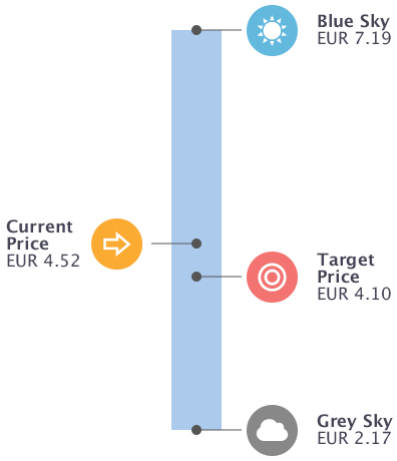
Credit ratios	12/18A	12/19E	12/20E	12/21E
Net debt/equity (%)	29.5	39.4	35.0	28.4
Dividend payout ratio (%)	0.0	0.0	0.0	0.0

Source: FTI, Company data, Refinitiv, Credit Suisse Securities (EUROPE) LTD. Estimates

Company Background

Saipem is a provider of Engineering & Construction services to the oil and gas industry including offshore field development, Refinery, Petrochemical and LNG projects. The company also owns both onshore and offshore drilling rigs

Blue/Grey Sky Scenario



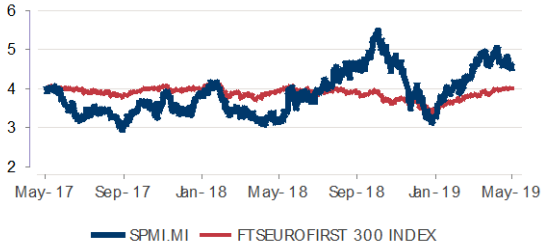
Our Blue Sky Scenario (€) 7.19

Offshore E&C revenue growth of 15% with margins recovering to 2017 levels. Onshore E&C revenue grows 12.5% with margins recovering to bottom end of LT guidance (4%-5%). For Offshore and Onshore Drilling, we assume 15% revenue growth with Offshore Drilling margins recovering to 2018 levels and Onshore Driling margins moving up to 5.5% (from 2.5% base case). Our group target EV/EBITDA expands to 6.1x from 5.1x.

Our Grey Sky Scenario (€) 2.17

Offshore E&C revenue is down 7.5% from 2019 with margins down 100bps vs 2019 forecasts. Onshore revenue falls 10% vs 2019 and and margins contract back to 2018 levels. Offshore and Onshore Drilling revenue both contract 5% vs 2019 with margins falling 200bps and 100bps from our 2019 forecasts. Our group target EV/EBITDA multiple falls to 4.1x.

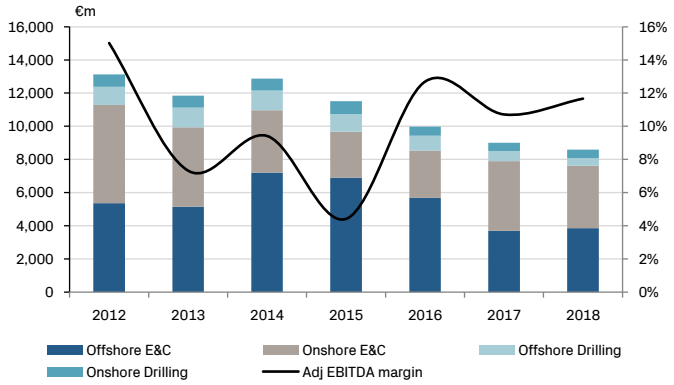
Share price performance



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On 30/04/19 the spot exchange rate was €1/Eu 1.- Eu.89/US$1

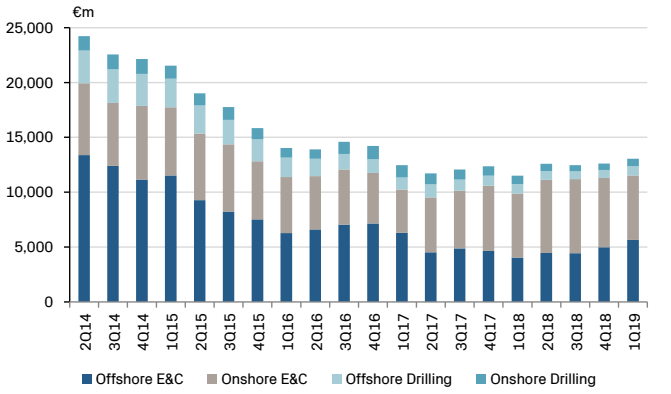
Key charts

Figure 143: Margins have been on the rise as loss-making contracts are completed



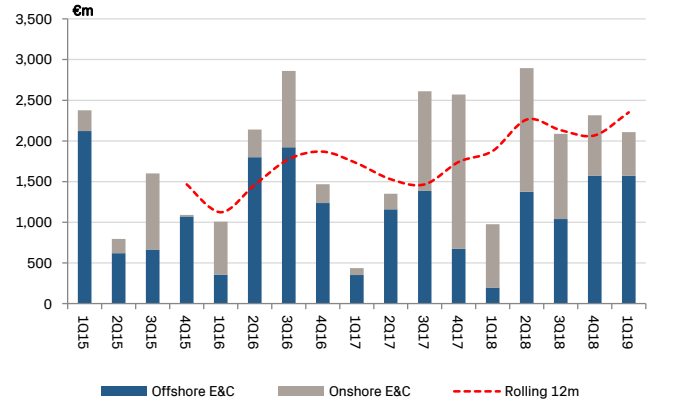
Source: Company data, Credit Suisse research

Figure 144: The group's backlog position has been stable for the past two years



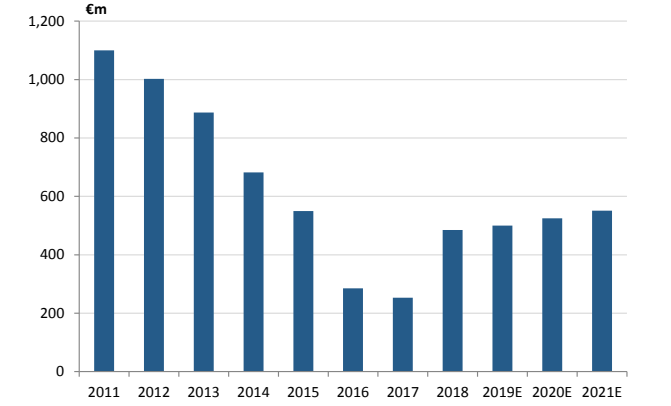
Source: Company data, Credit Suisse research

Figure 145: Onshore and Offshore E&C divisions starting to contribute more equally to orders



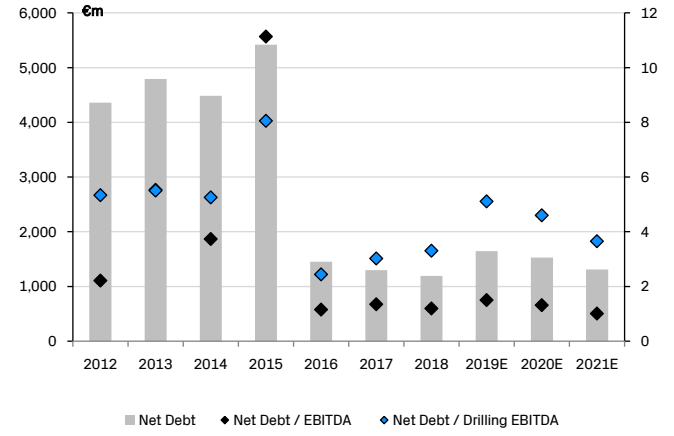
Source: Company data, Credit Suisse research

Figure 146: Capex returning to more normalised levels after large cuts in 2016/17



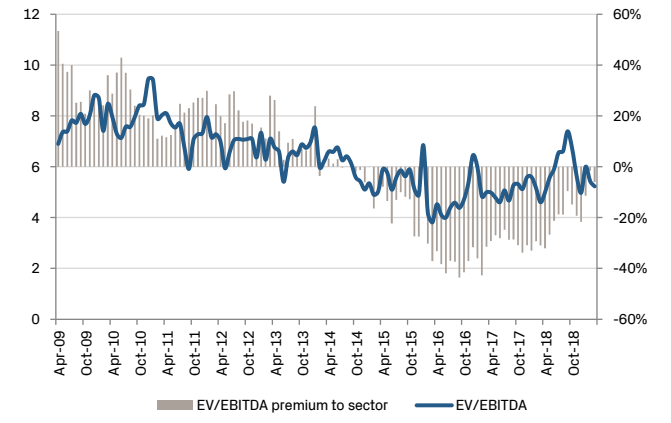
Source: Company data, Credit Suisse estimates

Figure 147: Net Debt / Drilling EBITDA >2x is likely to preclude a resumption of dividend payments



Source: Company data, Credit Suisse estimates

Figure 148: Saipem's discount to the sector has reversed with improved project execution



Source: Refinitiv, monthly period end data

Looking at ongoing legal disputes

Legal tail risk is something to which investors in the sector have become accustomed. Petrofac, TechnipFMC and Wood have all been hit with it in recent years, mostly due to the fall-out from Unaoil. However, the legal risk for Saipem has been evident for many years, and disclosed in its semi-annual updates. In recent quarters, the company has made progress settling disputes in Algeria and Russia (South Stream) but a number of cases remain unresolved. Below we review the current status of legal disputes as disclosed over p177 to p189 of its FY18 report (Saipem's FY18 Annual report).

Figure 149: Summary of Saipem legal disputes

Case	Saipem Claim	Counterparty Claim	Status	Update expected	Details
Algeria Investigations in Italy			Pending	2019	Saipem challenging (non-enforceable) first instance ruling against it (approx. € 197m). Next hearing starts later in 2019
Brazil Cernambi			Pending	Unknown	Saipem served with notice of investigation from Milan Prosecutors Office (2015) - no news flow since. No formal notice of investigation of Saipem from Brazilian judicial authority - focus is on individuals
France Fos Cavaou	€ 7m	€ 40m	Pending	2019	Case is Fosmax vs. STS (Saipem represents 50% of STS). Award from Arbitration Tribunal expected end of 2019
Canada Sunrise Energy Project	CA$ 598m+	CA$ 1.37bn+	Pending	2020	Ruling likely in 2020/21
Australia Gladstone Project	AU$ 254m	AU$ 1.2bn	Pending	2019	Arbitration award expected May 2019
Australia Gorgon LNG Jetty	AU $50m	AU$ 1.39bn	Pending	2020	Arbitration hearing scheduled for Feb 2020
Kharafi Jurassic	€ 153m	€ 283m	Pending	2019	Hearing held in Feb 2019, award expected later in 2019, Kharafi however was declared bankrupt by Kuwaiti courts in Nov 2018.
2012-13 Reporting		€ 169m + € 139m	Pending	2019	One case lies with the Court of Appeals Milan where investors are appealing a ruling in favour of Saipem, another with the Court of Milan. The appeal hearing is scheduled in May 2019.
Iraq Unaoil					Public Prosecutor of the Court of Milan has notified Saipem that it is subject to investigations for international corruption in relation to activities with Unaoil in Iraq. Saipem providing voluntary disclosures to the US DoJ
2016-16 Reporting & Jan 2017 Capital Increase Prospectus					Preliminary investigations under way

Source: Company data (from company annual report)

Algeria – Investigation in Italy

In early 2018, Saipem settled all outstanding litigation issues with Sonatrach relating to three projects for an undisclosed amount. Together with the negative US$135m LPG arbitration ruling in late 2017, this concluded all outstanding issues and allowed Saipem to recommence its Algerian operations. Arbitration with First Calgary, specifically relating to the Menzel Ledjmet East (MLE) project, was suspended until 3Q18 and subsequently resolved with Saipem receiving €250m of payment without prejudice. In September 2018, the Court of Milan pronounced the first instance ruling against Saipem with regards to international corruption relating to a number of contracts the company was awarded in Algeria. Saipem SpA was required to pay a fine of €400,000 and had €197m confiscated. Saipem has challenged the ruling; the second-degree trial is scheduled for 2019. Further, a tolling agreement with the DoJ relating to the group's activities in Algeria was agreed in 2013, and was rolled until November 2015 subsequent to which no extension request has been received.

Brazil – Little news flow since 2015

In 2015, the Milan Prosecutors Office announced that it was investigating possible corruption in relation to a 2011 contract awarded to Saipem from Petrobras. Later that year, local Brazilian press suggested that the Brazilian Public Prosecutor was looking into whether Petrobras was unduly influenced to award Saipem the €115m Cernambi contract; however Saipem is yet to receive any official contact.

Fos Cavaou – Potentially a negligible monetary impact

A minor case, Fosmax LNG is demanding €36m damages and €4m in interest from a Saipem-led consortium relating to the Fos Cavaou regasification project in France. The case was heard in February 2019.

Sunrise Energy Project – Ruling likely in 2020/21

The Sunrise Oil Sands development was won by Saipem in 2010, but after numerous contract and payment term alterations, the contract was ultimately cancelled prior to completion in 2015. In March 2018, both parties agreed to arbitration. Saipem is seeking damages of C$598m (plus interest, damages) while Husky is requesting C$1.37bn (plus interest, damages). There is no arbitration process in Canada, so the case will go to court, and Saipem expects an award to be issued by 2020/21.

Gladstone Project – Ruling imminent

During the execution phase of the project, which was won in 2011, Saipem accrued and presented GLNG contractual claims that were ultimately rejected. Although an amicable resolution was sought, no breakthrough was made, and an arbitration hearing was held in August 2018. Saipem is seeking A$254m while GLNG is counter claiming A$1.2bn for assessed pipeline replacement costs and adoption of temporary adjustment measures. The Arbitral Tribunal informed the parties that the award will probably be issued during May 2019.

Gorgon LNG Jetty – Arbitration hearing set for February 2020

CPB (formerly Leighton Contractors) has alleged contractual breaches by Saipem in the construction of the Gorgon LNG Jetty contract, which was awarded in 2009. CPB is seeking A$1.39bn from Saipem, which Saipem deems as unfounded and is pushing a A$50m counter-claim. The arbitration hearing is due to commence in February 2020, with a ruling later that year.

Kharafi Jurassic Project – Award expected later this year

Saipem initiated arbitration hearings against Kharafi for €153m relating to engineering, procurement and performance bond costs incurred in the Jurassic project. Kharafi is counter-claiming €283m. The hearing was held in February 2019 with an award expected later in 2019, However, Kharafi was declared bankrupt by Kuwaiti courts in November 2018 so any ruling may be moot anyhow.

Court of Cassation – Delays in issuing profit warnings

Saipem will go to trial in May 2019, facing charges of failing to provide a suitable organisation model to prevent the commission of false accounting and manipulation of the market. In November 2018, a case against Saipem in the Court of Milan from a number of foreign investors claiming compensation of €174m was thrown out as they could not prove share ownership during the alleged time period. The plaintiffs were instructed to pay Saipem €0.1m in legal fees. An additional case from 27 investors for unquantified damages is ongoing.

2015 and 2016 Financial Statements, Prospectus of the January 2016 capital increase

In January 2019, the Public Prosecutor's Office of Milan notified Saipem SpA of a 'local search warrant and seize notice of investigation', in relation to the alleged crime of false accounting purportedly committed from April 2016 to April 2017, as well as the alleged crime of manipulation of the market, allegedly committed from October 2015 to April 2017. The CEO and two other managers have also been notified of an investigation regarding false accounting (2015-16), manipulation of the market as mentioned above and false statements in the Prospectus issued for the offer of the capital increase in January 2016.

Unaoil

Public Prosecutor of the Court of Milan has notified Saipem that it is subject to investigations for international corruption in relation to activities with Unaoil in Iraq. Preliminary investigations are in progress. In addition, the US DoJ has asked Saipem if it would be willing to provide 'voluntary production' of documents relating to previous activities of Saipem Group in Iraq with the involvement of Unaoil – Saipem is co-operating.

Overall, prior to the South Stream resolution, pending revenues subject to arbitration were €400m, having been as high as €800m in December 2016.

Divisional and group forecasts

Saipem reports across four business units. There are two Engineering & Construction divisions (Offshore and Onshore) and two Drilling divisions (Offshore and Onshore). Saipem has often stated that only the Offshore E&C division is seen as core. However, we see limited scope for monetising either Drilling business. We think Saipem will want to keep Onshore E&C given the potential for top-line growth and that problematic Floater contracts are now nearing an end.

Offshore E&C

Alongside Subsea 7, TechnipFMC and McDermott, Saipem's subsea business is seen as a market leader. Its positioning is slightly different, competing more within the heavy lift/large diameter trunk line market. Therefore, AllSeas and Heerema are as much competitors as the aforementioned names. Saipem's lack of competitiveness in the more traditional tie-back market prompted the acquisition of the Lewek Constellation vessel in 2018, and this vessel should be deployed on the Liza Phase 2 project.

The division has performed well so far during the downturn for two principal reasons:

- Phasing out of zero-margin contracts in the early part of the downturn, which has aided LFL margin comparisons.
- Success in multi-phase tenders, such as Zohr and Liza. The former, in particular, should have a good margin and phase 2 is a major contributor to 2019 activity levels.

In 2019, there is good backlog coverage for our revenue estimate which we model growing at ~10%. Order intake in 1Q19 sustained the momentum seen in 2H, with awards from Saudi Aramco and BP. The company has tendered and is likely to continue to tender on Liza Phase 3, Bonga South-West Aparo, Mamba and undisclosed Renewable contracts over the course of 2019. Margins have held up well, notwithstanding 4Q18 which included a provision for settlement of the South Stream dispute. We worry that these could start to roll in coming quarters as supportive legacy contracts are completed and are replaced with more competitively won tenders. Furthermore, we sense a greater dependence on Middle East work which, in our view, is likely to carry inferior margins.

Onshore E&C

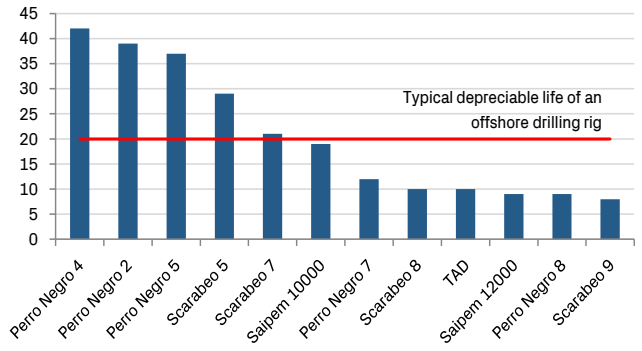
Saipem's onshore E&C division continues to recover following a series of loss-making contracts and bribery allegations that overshadowed it during the middle years of this decade. Profitability is not yet back to where it should be, with EBIT margins still less than 5%. Order intake was good in 2018 (1.08x book-to-bill) and, like Offshore E&C, we expect to see modest revenue growth. However, order intake will need to pick up with material 1Q orders absent. That said, the bidding opportunity looks strong, with €40bn of awards being followed, with Saipem seeking to gain market share in LNG, Green Tech and the Middle East. With regards to LNG, Saipem/McDermott/Chiyoda consortium has previously been selected as contractor for the onshore LNG trains of the Mozambique Area 1 development. Although this would be a big-ticket addition to the backlog, we think some caution is prudent. The development faces numerous challenges, in our view (including remote location, land dispute) and the market is likely to seek constant reassurance that the project is being executed to plan. The recent announcement by Chevron that it was acquiring operator Anadarko heightens the risk of a delay to the project's Final Investment Decision, in our view. Saipem's only other ongoing LNG project, Tangguh Phase 3, is according to partner, Chiyoda, underperforming.

Offshore Drilling

Saipem's Offshore Drilling business faces further rationalisation as it comes to terms with a marketplace in which overcapacity remains likely for the medium term. Of Saipem's 12 rigs, four are well beyond the typical 20 years we would associate with the 'depreciable' life of an offshore rig, and two more are close to that age. It is highly likely, therefore, that Saipem will add to the four rigs that it has already scrapped this downturn (the Scarabeo 5 and Perro Negro 2 are likely candidates).

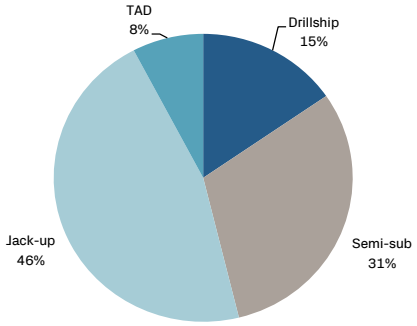
Saipem has indicated that it is looking at "strategic" options for the division, however, we see limited reason for the division to screen well as an M&A candidate. Not only does the fleet have a high average age (20 years), but also the types of rig are too diverse. Further, recent M&A in offshore drilling (Ensco acquisition of Rowan; Transocean's acquisition of Songa Offshore) have focused on securing premium assets, which do not reside within the Saipem portfolio. The CEO effectively ruled out an IPO of the business as it currently stands during the 1Q19 conference call, implying that an industrial tie up would be required first.

Figure 150: Almost 50% of the fleet is beyond the typical 'depreciable' life of a rig



Source: Company data, Credit Suisse research

Figure 151: In our view the split of Saipem's fleet is too broad to be of M&A interest (2018 data)



Source: Company data, Credit Suisse research estimates

Visibility for the division remains difficult, although recent contract wins now ensure that four of the fleet (Saipem 10000, Pioneer, Perro Negro 7 and Perro Negro 5) have contracted work through 2020 whilst the Saipem 12000 is contracted until 2Q20 with subsequent options. Rigs are being extended on a well-by-well basis in some cases. In general, utilisation levels across the rig market remain depressed, therefore we see limited to no pricing power in the near term. EBIT margins fell heavily in 1Q19 (19% vs 26% in 2018) as the division finally caught up with repricing of day rates. The magnitude of the fall was surprising given that all of the major assets had 100% utilisation levels.

Onshore Drilling

Saipem owns/operates a fleet of 87 onshore drilling rigs. Most of these are situated in either South America or the Middle East region with Saipem intentionally shifting the weighting away from the former to the latter in recent years. Although the company secured almost €200m of new orders in 1Q19, backlog cover for FY1 and FY2 look light relative to history, meaning the onus is on Saipem to secure further workloads. Pricing pressure and investments in new countries impacted 1Q19 margins (2.2% EBIT margin vs 3.6% in 2018).

CS vs consensus

On a pre-IFRS 16 basis, Saipem has provided the following guidance for 2019:

- revenue of c. €9bn;
- underlying EBITDA margins >10%;
- capex €500m; and
- net debt of c.€1.0bn

At its FY18 results, Saipem said that, under IFRS 16, it expects EBITDA to increase by €140m and financial net debt by €550m. Our forecasts incorporate this guidance however we do not believe that IFRS 16 is yet fully reflected in consensus numbers.

Figure 152: CS vs consensus

	2018	2019E			2020E			2021E		
€m	Actual	CS	Cons.	Diff	CS	Cons.	Diff	CS	Cons.	Diff
Revenue	8,587	9,012	8,965	1%	9,431	9,435	0%	10,046	10,110	-1%
EBITDA	1,002	1,096	1,038	6%	1,163	1,122	4%	1,299	1,252	4%
Net Income (Adj)	25	139	121	15%	184	239	-23%	255	347	-26%
EPS ($/sh)	0.03	0.14	0.13	10%	0.18	0.24	-24%	0.25	0.34	-26%
DPS ($/sh)	0.00	0.00	0.00	N/A	0.00	0.08	-100%	0.00	0.11	-100%
Net Debt	1,191	1,647	1,165	41%	1,526	851	79%	1,310	556	135%

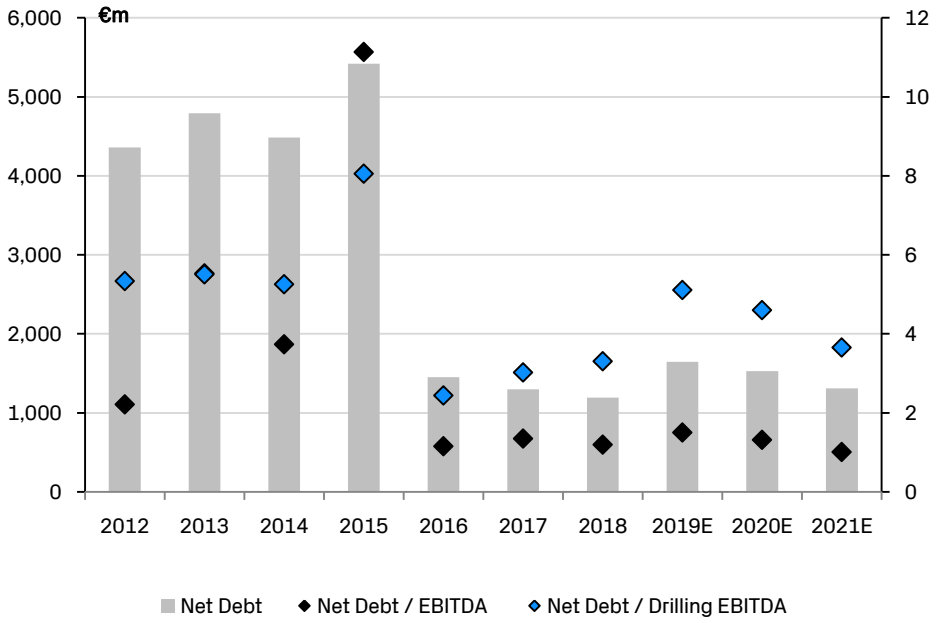
Source: Company data, Refinitiv (for consensus), Credit Suisse estimates. Data as of 1st May 2019

Balance sheet and shareholder returns

Saipem went into the 2014 downturn in poor financial shape. Loss-making contracts across the E&C division added to net debt and eroded equity. Capex was already being curtailed prior to the oil price downturn in order to conserve cash, arguably disadvantaging the company relative to others that continued to spend. Ultimately, Saipem was recapitalised with a €3.5bn rights issue in early 2016. Major shareholder ENI, which prior to the rights issue owned 43% of Saipem, reduced its stake to 30% through the rights issue process

Since 2016, net debt has been reduced, although Saipem has not publicly disclosed any desired gearing level. However, typically we would note that E&C businesses would like to operate in a *net cash* position thus in theory, all debt within the company should be supported by Drilling EBITDA. Our modelling suggests that net debt/drilling EBITDA will remain >2.0x until after our forecast period. Therefore, we do not expect Saipem to reinstate its dividend within our forecast period.

Figure 153: With net debt/Drilling EBITDA still above 2x, we do not expect a near-term resumption of the dividend



Source: Company data, Credit Suisse estimates

Rating and target price

We initiate coverage of Saipem with an Underperform rating. Our target price of €4.10 is based on an equal weighting of our SOTP and DCF valuation approaches.

Figure 154: Saipem target price

Blended Valuation (€/sh)	
SOTP - fair value	4.25
DCF - fair value	4.01
Average Fair Value (50% SOTP / 50% DCF)	**4.10**

Source: Credit Suisse estimates

Sum-of-the-parts

Saipem has clearly defined business units, all of which have close listed peers. We set our target price with reference to our 2020E EBITDA forecasts. We set our target group EV/EBITDA multiple to 5.1x. This is below the 6.4x multiple Saipem has traded at over the past decade, but we believe that legal issues, lack of expansionary capex and more competitive offshore market in Saipem's key focus areas makes this de-rating valid. The average over the past five years has been 5.4x.

In the table below we show peer group multiples for Saipem.

Figure 155: Multiples for SPMI's peer group

	EV/EBITDA 2019	EV/EBITDA 2020	PE 2019	PE 2020	EV/Sales 2019	EV/Sales 2020	ND / EBITDA 2019	ND / EBITDA 2020
Offshore & Onshore E&C								
TechnipFMC PLC	6.4	6.0	18.1	14.7	0.7	0.6	-0.7	-0.9
Subsea 7 SA	6.0	4.8	66.0	28.7	0.9	0.8	-1.0	-1.1
Aker Solutions ASA	5.8	5.1	20.5	16.4	0.6	0.6	0.6	0.4
McDermott International Inc	1.2	2.2	5.1	3.7	0.5	0.5	-0.2	0.9
John Wood Group PLC	6.5	5.7	10.9	9.1	0.5	0.5	1.7	1.3
Tecnicas Reunidas SA	8.2	6.5	17.1	13.6	0.4	0.3	-1.6	-1.6
Maire Tecnimont SpA	4.1	3.8	8.8	8.7	0.3	0.3	-0.5	-0.7
WorleyParsons Ltd	17.9	9.5	28.8	14.9	0.2	0.2	3.2	1.5
Chiyoda Corp	-0.4	6.5	-0.9	16.7	1.4	0.8	0.5	-1.5
JGC Corp	8.0	6.5	19.6	22.1	0.1	0.2	-4.9	-5.1
Fluor Corp	6.1	5.0	13.9	10.9	0.4	0.4	-0.4	-0.4
KBR Inc	8.8	7.9	13.7	12.3	0.3	0.2	1.1	1.2
Daewoo Engineering & Construction Co Ltd	5.2	4.4	6.7	5.8	1.0	0.9	1.4	1.4
GS Engineering & Construction Corp	3.9	3.4	6.3	5.9	0.7	0.6	1.8	-0.1
Samsung Engineering Co Ltd	9.3	7.8	14.0	11.8	0.4	0.3	0.3	-0.3
Average	**6.5**	**5.7**	**16.6**	**13.0**	**0.6**	**0.5**	**0.1**	**-0.3**
Offshore Drilling								
Borr Drilling Ltd	46.9	15.5	-13.6	78.3	7.3	5.3	22.6	9.2
Ensco Rowan PLC	33.5	16.0	-2.9	-3.8	4.2	3.5	24.0	11.5
Diamond Offshore Drilling Inc	24.0	13.7	-4.3	-6.5	3.2	2.9	13.9	7.9
Transocean Ltd	12.4	10.7	-8.3	-16.9	4.0	3.7	7.7	6.9
ADES International Holding PLC	6.1	5.0	6.8	5.7	2.6	2.2	2.7	2.0
Shelf Drilling Ltd	6.5	4.4	-8.4	18.9	2.2	1.7	4.0	2.6
Average	**21.6**	**10.9**	**-5.1**	**12.6**	**3.9**	**3.2**	**12.5**	**6.7**
Onshore Drilling								
Helmerich and Payne Inc	7.6	6.7	33.8	24.1	2.2	2.1	0.2	0.1
Nabors Industries Ltd	5.4	4.3	-4.9	-12.3	1.4	1.2	3.6	2.8
Ensign Energy Services Inc	5.9	5.0	-3.9	-5.3	1.4	1.2	3.9	3.1
ADES International Holding PLC	6.1	5.0	6.8	5.7	2.6	2.2	2.7	2.0
Precision Drilling Corp	5.7	4.4	-21.8	75.0	1.4	1.2	3.5	2.5
Patterson-UTI Energy Inc	4.7	3.8	-19.5	-85.9	1.2	1.0	1.0	0.6
Average	**5.9**	**4.9**	**-1.6**	**0.2**	**1.7**	**1.5**	**2.5**	**1.9**

Source: Refinitiv. All numbers are consensus. Priced as of 1st May 2019

- Offshore E&C: We use a 5.1x multiple (5.25x pre IFRS 16) which is in line with the multiple we estimate Subsea 7 is trading on (above consensus of 4.7x, which likely ignores net debt impact of IFRS 16). Although the division generates strong margins, we are concerned about its competitive positioning and risk of further vessel investment, the latter point being something that it has in common with Subsea 7.
- Onshore E&C: We use a 5.3x multiple (5.4x pre IFRS 16) which sits between Tecnicas Reunidas (6.5x) and Maire Tecnimont (3.8x) which are the closest pure play competitors to the division.
- Offshore Drilling: Listed peers trade on a broad range of multiples (4x to 16x), with the upper end pricing earnings contributions from rigs not yet delivered. As Saipem has no

new rigs on order we use a 5.1x multiple (5.25x pre IFRS 16) which is towards the bottom of the range. The multiple is slightly above ADES (5.0x) and Shelf Drilling (4.4x) to reflect the high end semi-subs and drill-ships in the fleet.

- Onshore Drilling: The sector trades at ~5.0x, although this is largely driven by companies whose primary exposure is North American. Saipem's exposure to S. America, Middle East and Rest of the World provides a less secular demand story and therefore we apply a 5% discount which post IFRS 16 adjustment equates to 4.6x multiple.

Figure 156: SOTP valuation is based on 2020E EBITDA forecasts

2020 SOTP - €m	EBITDA	Multiple (x)	Sales	Implied EV / Sales (x)	EV	Share
Offshore E&C	656	5.1	4,419	0.8	3,347	57%
Onshore E&C	174	5.3	4,001	0.2	925	16%
Offshore Drilling	192	5.1	433	2.3	978	17%
Onshore Drilling	140	4.6	530	1.2	646	11%
Total	1,163	5.1	9,384	0.6	5,895	
Net Debt / (Cash) - 2020E					931	
IFRS 16 Lease Liability					595	
Minority Adjustments					74	
Shareholders' Equity					4,295	
Shares Outstanding - 2020E					1,011	
Implied Share price (€)					**4.25**	

Source: Credit Suisse estimates

DCF

We use a three-stage DCF comprising forecasts out to 2025, a 10-year normalisation period to 2035 with revenue growth of 3% pa, and subsequent terminal value based on a long-term growth rate of 2%.

Our WACC of 9.9% is based on the following inputs:

- A risk-free rate of 2.9% (30-year US Treasury);
- A beta of 0.9 based upon weekly regression of SPM's share price vs Italian MIB Index over a two-year period;
- A risk premium for the Italian market of 9.0% calculated by the NYU Stern School of Business (Country Default Spreads and Risk Premiums);
- A 5.4% cost of debt (pre-tax); and
- An 85%/15% split of equity and debt, reflecting the fact that the drilling business is able to support debt.

Our terminal value equates to an EV/EBITDA of 4.1x.

Figure 157: We use a three-stage DCF model

DCF - €m					
Assumption	**Beta**	**Risk Prem.**	**WACC**	**LT Growth**	
	0.91	9.0%	9.9%	2.0%	
				EV	**Share**
Present Value Forecast Period				1,892	36%
Present Value Normalisation Period				2,057	39%
Present Value of Terminal Value				1,368	26%
Total Enterprise Value				**5,317**	
Net Debt / (Cash) - 2018				1,191	
Non Contolling Interest - 2018				74	
Implied Equity Value				**4,052**	
Share Count - 2018				1,011	
DCF Implied Fair Value				**4.01**	

Source: Refinitiv, Company data, Credit Suisse estimates. Priced as of 1st May 2019

Blue Sky/Grey Sky scenarios

We establish Blue Sky and Grey Sky valuations by flexing our 2020 revenue and EBIT margin assumptions and adjusting the target multiple in our SOTP valuation.

- **Blue Sky:** Offshore E&C revenue growth of 15% (vs 7.5% in our base case) with margins recovering to 2017 levels. Onshore E&C delivers 12.5% revenue growth (vs 2.5% in our base case) and margins recover to the bottom end of the LT target (4%-5%). For Offshore and Onshore Drilling, we assume 15% revenue growth vs 2018 (vs 0% and 2.5% respectively in our base case). In Offshore drilling, we assume margins recover to 2018 levels and Onshore continues to benefit from the recovery, with margins at 5.0% (vs 2.5% in our base case). Our target EV/EBITDA multiple expands to 6.1x (from 5.1x in our base case), which is in line with the long-term average for the group.
- **Grey Sky:** Offshore E&C revenue falls 7.5% relative to 2019, taking revenues back to 2018 levels. Margins fall 100bps vs 2019, hitting low of the cycle. Onshore E&C revenue falls by 10%, in line with the rate of decline seen in 2018 and margins fall 40bps back to 2018 levels. Offshore and Onshore Drilling revenue both contract 5% vs 2019, with margins falling 200bps and 100bps from our 2019 forecasts. Our group target EV/EBITDA multiple falls to 4.1x.

Figure 158: Blue Sky/Grey Sky

Blue Sky SOTP		vs Base
EBITDA (2020 - €/sh)	1,440	24%
Multiple	6.1	20%
Equity value (€/sh)	**7.19**	
Grey Sky SOTP		**vs Base**
EBITDA (2020 - €/sh)	960	-17%
Multiple	4.1	-20%
Equity value (€/sh)	**2.17**	

Source: Credit Suisse estimates.

Risks

The major risks to our investment case and target price include the following.

- Saipem's offshore E&C division is able to increase market share and grow revenues at a faster pace than we model.
- The company's Onshore E&C business wins a run of major LNG projects and is able to execute these successfully, taking margins above long term guidance of 4% to 5%.
- The drilling businesses are sold at higher valuation than we model.
- The supply/demand in offshore drilling tightens sooner than we anticipate, allowing the company to pull through higher pricing and boost margins.
- The company settles all outstanding legal disputes at no monetary cost.

Credit Suisse HOLT

The extended seven-year forecast shown in Figure 159 for sales, margins and returns allow us to express our long-term view of the near-term recovery and factor the next cycle into this business. Based on our estimates from 2019-2021, returns are expected to gradually improve from 1.7% in 2019 to 2.2% by 2021, as the E&C divisions experience higher margins and an improvement in offshore drilling margins filters through in the back end of this period. Thereafter we capture the next cycle and forecast returns to improve further to 2.7% by 2025.

Beyond the explicit seven-year forecast period (2019-2025), HOLT uses a fade model to arrive at its warranted price. CFROI® levels are faded to 6.0% and asset growth is faded to 2.5% (mean reversion to long-term observed levels). The default fade rate is 10%. For this analysis we have used a Market Implied Discount Rate of c.5.5% for European Oil & Gas aggregate.

The above assumptions suggest a HOLT warranted value of €5.08 which compares with our DCF fair value of €4.01 and our target price of €4.10. We would note that the override use of a 5.5% sector discount rate vs the company-specific 6.62% drives the higher HOLT warranted price. Indeed, of all the companies in our coverage universe, Saipem has the highest company-specific discount rate within HOLT.

Figure 159: Saipem in HOLT

SAIPEM SPA (SPMI)

Current Price: EUR 4.52 **Warranted Price: EUR 5.08**

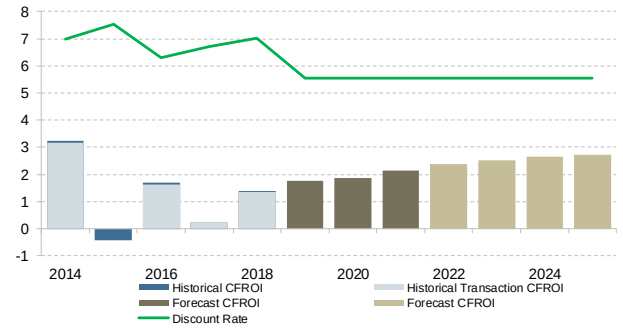
Valuation date: 30-Apr-19

EBITDA Margin (parallel % point change to forecasts) \ Sales Growth (parallel % point change to forecasts)	EUR	-2.0%	-1.0%	0.0%	1.0%	2.0%
	-2.0%	-61%	-59%	-55%	-50%	-45%
	-1.0%	-27%	-24%	-19%	-12%	-5%
	0.0%	0%	6%	12%	21%	30%
	1.0%	25%	33%	41%	52%	63%
	2.0%	49%	59%	69%	81%	95%

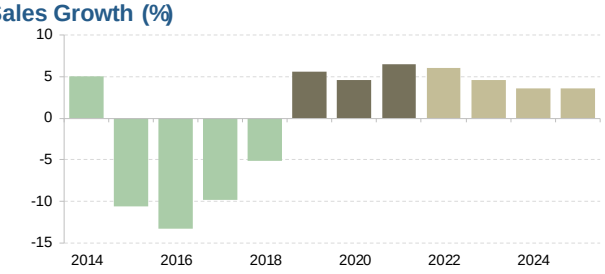
More than 10% downside | Within 10% | More than 10% upside

	Dec 17A	Dec 18A	Dec 19E	Dec 20E	Dec 21E
Sales Growth, %	-9.8	-5.1	5.5	4.6	6.5
EBITDA Mgn, %	10.1	9.9	10.4	10.6	11.3
Asset Turns, x	0.31	0.3	0.3	0.3	0.3
CFROI®, %	0.2	1.4	1.7	1.9	2.2
Disc Rate, %	6.7	7.0	5.5	5.5	5.5
Asset Grth, %	-0.6	10.1	3.0	3.5	3.3
Price to Book, x	0.7	0.7	0.7	0.7	0.7
Economic PE, x	322.7	48.0	40.6	37.4	32.0
Leverage, %	71.2	73.4	73.2	74.3	75.2

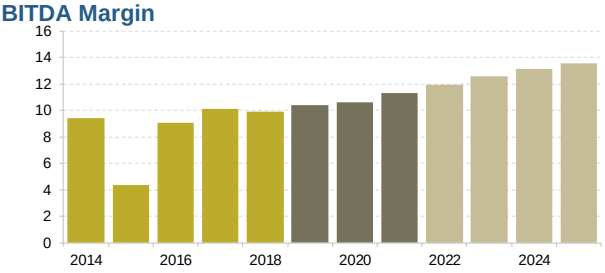
CFROI & Discount Rate (in %)



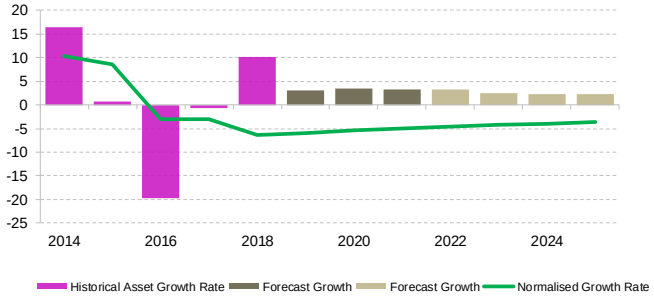
Sales Growth (%)



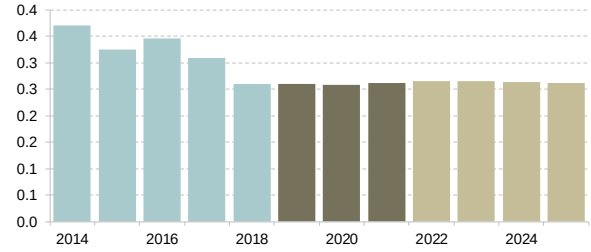
EBITDA Margin



Asset Growth (in %)



Asset Turns (x)



Source: Credit Suisse HOLT®. CFROI and HOLTare trademarks or registered trademarks of Credit Suisse Group AG or its affiliates in the United States and other countries.
For display purposes, these charts have been capped as follows. CFROI levels are kept within 0% and 15%.

Source: Credit Suisse HOLT, Credit Suisse estimates

PEERs

PEERs is a global database that captures unique information about companies within the Credit Suisse coverage universe based on their relationships with other companies – their customers, suppliers and competitors. The database is built from our research analysts' insight regarding these relationships. Credit Suisse covers over 3,000 companies globally. These companies form the core of the PEERs database, but it also includes relationships on stocks that are not under coverage.

For more information, see our November 2016 PEERs report: A chain reaction: Supply chain strategies.

Figure 160: Saipem in PEERs



Source: Credit Suisse PEERs

Management

Stefano Cao – CEO

Mr Cao is in his second stint as CEO of Saipem. He began his career at Saipem in 1976, becoming COO (1996-99) and ultimately CEO (1999-2000). From here he was moved to parent company ENI and to the role of COO for the E&P Division (2000-08). He returned to Saipem in 2015 and set about the task of steadying the ship after a rocky few years. One of his first achievements was a €3.5bn rights issue in early 2016 to redress the balance sheet issues. He was previously on the board of Petrofac.

Stefano Cavacini – CFO

Mr Cavacini was appointed to the CFO role in November 2018. Before Saipem he held similar roles at Esaote and Indesit. His predecessor, Giulio Bozzini, was in the role from June 2016. The preparation of Saipem's financial reports has, since June 2016, been overseen by Mariano Avanzi rather than the CFO.

P&L, cash flow & balance sheet

Figure 161: Divisional and group P&L

Divisionals (EURm)	2017A	2018A	2019E	2020E	2021E
Offshore E&C					
Revenue	**3692**	**3852**	**4111**	**4419**	**4684**
Growth	-35%	4%	7%	8%	6%
EBITDA	555	523	611	656	731
Margin	15.0%	13.6%	14.9%	14.9%	15.6%
Growth	-12%	-6%	17%	7%	11%
Onshore E&C					
Revenue	**4204**	**3769**	**3904**	**4001**	**4302**
Growth	48%	-10%	4%	3%	8%
EBITDA	-21	118	163	174	209
Margin	-0.5%	3.1%	4.2%	4.4%	4.9%
Growth	-151%	-660%	38%	7%	20%
Drilling: Offshore					
Revenue	**613**	**465**	**480**	**480**	**504**
Growth	-32%	-24%	3%	0%	5%
EBITDA	321	226	189	192	209
Margin	52.4%	48.6%	39.4%	39.9%	41.4%
Growth	-29%	-30%	-16%	1%	9%
Drilling: Onshore					
Revenue	**490**	**501**	**517**	**530**	**556**
Growth	-10%	2%	3%	3%	5%
EBITDA	109	135	134	140	150
Margin	22.2%	26.9%	25.8%	26.5%	27.0%
Growth	-23%	24%	-1%	5%	7%

P&L	2017A	2018A	2019E	2020E	2021E
Revenue	8,999	8,587	9,012	9,431	10,046
Growth	-10%	-5%	5%	5%	7%
EBITDA (adj)	**964**	**1,002**	**1,096**	**1,163**	**1,299**
EBITDA margin	11%	12%	12%	12%	13%
D&A	-524	-468	-610	-640	-678
EBIT (adj)	**440**	**534**	**485**	**522**	**621**
Growth	-24%	21%	-9%	8%	19%
Margin	4.9%	6.2%	5.4%	5.5%	6.2%
Net finance expense	-223	-165	-216	-216	-216
Other gains / losses / impairments	-9	-88	-4	0	0
Pre-tax profit (Adj)	**208**	**281**	**265**	**306**	**405**
Exceptionals / other	-314	-497	-8	0	0
Pre-tax profit	-106	-216	257	306	405
Tax	-201	-194	-117	-123	-150
Effective Tax rate (underlying)	97%	68%	44%	40%	37%
Other adjustments	0	0	0	0	0
Minority Interest	-21	-62	-9	0	0
Net Profit (Adj)	**-14**	**25**	**139**	**184**	**255**
Net profit	-328	-472	131	184	255
No. Shares (Diluted)	1,013	1,011	1,011	1,011	1,011
EPS (CS, Adj) - EUR/sh	**-0.01**	**0.03**	**0.14**	**0.18**	**0.25**
EPS (IFRS) - EUR/sh	-0.32	-0.47	0.13	0.18	0.25
DPS - EUR/sh	0.00	0.00	0.00	0.00	0.00

Source: Company data, Credit Suisse estimates

Figure 162: Condensed cash flow and balance sheet

Cash flow (EURm)	2017A	2018A	2019E	2020E	2021E
Net income / (losses)	-328	-472	131	184	255
Operating cash flows	710	941	640	668	706
Working cap movement	77	242	27	-43	-30
Net cash flow from operations	**459**	**711**	**798**	**810**	**931**
Capex (net, inc intangible)	-262	-485	-500	-525	-551
Other investing cash flows	-20	-26	-17	0	0
Net cash flow from investing activities	**-282**	**-511**	**-517**	**-525**	**-551**
Change in borrowings	-207	0	0	0	0
DPS cash cost	0	0	0	0	0
Capital increase	-2	-79	-15	0	0
IFRS 16 payments	0	0	-144	-144	-144
Other financing cash flows	-27	0	0	0	0
Net cash flow from financing activities	**-236**	**-79**	**-159**	**-144**	**-144**
Net cash flow	**-59**	**121**	**122**	**141**	**236**
Cash and cash equivalents	1,705	1,842	1,962	2,102	2,338
Net debt / (cash)	**1298**	**1191**	**1072**	**931**	**695**
IFRS 16 Lease Liability	0	0	575	595	615
Net debt / (cash) - IFRS 16	**1298**	**1191**	**1647**	**1526**	**1310**
Free cash flow	**197**	**226**	**154**	**141**	**236**

Balance Sheet (EURm)	2017A	2018A	2019E	2020E	2021E
Property, plant & equipment, net	4,581	4,326	4,359	4,388	4,407
Intangible assets, net	753	702	690	678	665
Other non-current assets	513	438	1,013	1,017	1,021
Total Non-Current Assets	**5,847**	**5,466**	**6,063**	**6,083**	**6,093**
Trade receivables	2,411	2,644	2,756	2,884	3,072
Inventories	1,893	1,389	1,956	2,019	2,138
Cash and cash equivalents	1,751	1,674	1,793	1,934	2,170
Other current assets	688	504	504	504	504
Total Current Assets	**6,743**	**6,211**	**7,009**	**7,341**	**7,884**
Total assets	**12,590**	**11,677**	**13,072**	**13,424**	**13,977**
Trade and other payables	4,036	3,879	4,556	4,704	4,982
ST borrowings	189	305	305	305	305
Other current liabilities	262	246	246	246	246
Current Liabilities	**4,487**	**4,430**	**5,107**	**5,255**	**5,533**
Long-term debts	2,929	2,646	2,646	2,646	2,646
Provisions for contingencies	340	330	330	330	330
Other non-current liabilities	235	235	810	830	850
Total Non-Current Liabilities	**3,504**	**3,211**	**3,786**	**3,806**	**3,826**
Shareholders equity	4,558	3,962	4,105	4,289	4,544
Minority interest	41	74	74	74	74
Total Shareholders equity	4,599	4,036	4,179	4,363	4,618
S/H Equity & Liabilities	**12,590**	**11,677**	**13,072**	**13,424**	**13,977**

Source: Company data, Credit Suisse estimates

SBO (SBOE.VI)

Rating	**NEUTRAL**
Price (30 Apr 19, €)	83.40
Target price (€)	84.00
Market Cap (€ m)	1,334.4
Enterprise value (€ m)	1,478.8

Target price is for 12 months.

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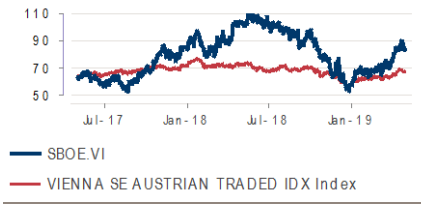
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Return metrics justify multiple

- **We initiate coverage with a Neutral rating and €84 TP:** Schoeller-Bleckmann's business is starting to see an upturn in activity outside the US, which should lead to earnings growth in 2019, despite some temporary sluggishness in the US market. We expect the company to continue delivering sector-leading returns (as defined by HOLT CFROI), but this already looks priced in.
- **Investment overview:** Schoeller-Bleckmann has invested counter-cyclically, expanding its position in the US completions market with the acquisition of a majority stake in Downhole Technologies during 2016. The deal was well timed and the purchase of the outstanding minority stake will be at a value more than 2.5x higher than the 2016 valuation. Despite the current softening in US shale, Schoeller-Bleckmann has confidence in the near-term outlook and cash flow generation of its business. With its FY18 results it announced a 100% increase in dividends, despite net debt/EBITDA that is set to move above 1x for the first time in 2019 as the Downhole Technologies minority buy-out completes.
- **Catalysts: 1)** Continued commentary on the cadence of US E&P capex. **2)** 1Q19 results on 23 May.
- **Risks: 1)** it is unclear whether the current growth trajectory for Advanced Manufacturing & Services can continue. **2)** The current premium valuation makes the stock susceptible to earnings downgrades
- **Valuation:** Our TP is based on a blended EV/EBITDA multiple applied to our 2020 EBITDA forecasts and a multi-stage DCF. SBO has achieved top-quartile returns in the sector for much of the past 15 years, and we expect this to continue in the near term, which supports a premium multiple. However, we believe this is already being applied. SBO is trading at 2020E EV/EBITDA of 7.9x vs the sector on 5.8x.

Share price performance



The price relative chart measures performance against the VIENNA SE AUSTRIAN TRADED IDX Index which closed at 3214.8 on 30/04/19
On 30/04/19 the spot exchange rate was €1/Eu 1.-Eu.89/US$1

Performance	1M	3M	12M
Absolute (%)	3.4	19.7	-20.2
Relative (%)	4.9	16.7	-10.1

Financial and valuation metrics

Year	12/18A	12/19E	12/20E	12/21E
Revenue (€ m)	420	486	542	589
EBITDA (€ m)	121.5	152.4	179.7	200.3
Adjusted net income (€ m)	41.4	64.2	80.9	94.9
CS EPS (adj.) (€)	2.59	4.02	5.07	5.95
Prev. EPS (€)				
ROIC avg (%)	13.7	14.6	16.0	18.5
P/E (adj.) (x)	32.2	20.7	16.4	14.0
P/E rel. (%)	291.1	183.0	158.3	145.1
EV/EBITDA (x)	11.5	9.7	7.9	6.7

Dividend (12/19E, €)	1.40	Net debt/equity (12/19E,%)	34.7
Dividend yield (12/19E,%)	1.7	Net debt (12/19E, € m)	144.4
BV/share (12/19E, €)	26.1	IC (12/19E, € m)	560.8
Current WACC (%)	9.9	EV/IC (12/19E, (x)	2.6
Free float (%)	66.3	Number of shares (m)	16.0

Source: Company data, Refinitiv, Credit Suisse estimates

SBO (SBOE.VI)

Price (30 Apr 2019): **€83.4**; Rating: **NEUTRAL**; Target Price: **84.00**; Analyst: **David Farrell**

Income statement (€ m)	12/18A	12/19E	12/20E	12/21E
Revenue	420	486	542	589
EBITDA	**121**	**152**	**180**	**200**
Depr. & amort.	(47)	(58)	(63)	(67)
EBIT	**75**	**94**	**116**	**133**
Net interest exp.	(9)	(11)	(11)	(10)
Associates	0	0	0	0
PBT	**56**	**83**	**105**	**123**
Income taxes	(15)	(19)	(24)	(28)
Profit after tax	**41**	**64**	**81**	**95**
Minorities	-	-	-	-
Preferred dividends	-	-	-	-
Associates & other	0	0	0	0
Net profit	**41**	**64**	**81**	**95**
Other NPAT adjustments	0	0	0	0
Reported net income	**41**	**64**	**81**	**95**

Cash flow (€ m)	12/18A	12/19E	12/20E	12/21E
EBIT	75	94	116	133
Net interest	(9)	(10)	(11)	(10)
Cash taxes paid	-	-	-	-
Change in working capital	(63)	(3)	(26)	(19)
Other cash and non-cash items	30	39	39	39
Cash flow from operations	**33**	**120**	**119**	**143**
CAPEX	(36)	(30)	(32)	(36)
Free cashflow to the firm	**(3)**	**87**	**84**	**104**
Acquisitions	-	-	-	-
Divestments	5	0	0	0
Other investment/(outflows)	(3)	(145)	0	0
Cash flow from investments	**(34)**	**(175)**	**(32)**	**(36)**
Net share issue/(repurchase)	-	-	-	-
Dividends paid	(8)	(16)	(22)	(27)
Issuance (retirement) of debt	-	-	-	-
Other financing	78	(3)	(3)	(3)
Cashflow from financing	**70**	**(19)**	**(25)**	**(30)**
Changes in net cash/debt	(12)	(82)	62	77
Net debt at start	51	62	144	83
Change in net debt	**12**	**82**	**(62)**	**(77)**
Net debt at end	62	144	83	5

Balance sheet (€ m)	12/18A	12/19E	12/20E	12/21E
Assets				
Total current assets	**521**	**449**	**539**	**637**
Total assets	**901**	**811**	**872**	**942**
Liabilities				
Total current liabilities	**252**	**105**	**108**	**109**
Total liabilities	**533**	**395**	**397**	**399**
Total equity and liabilities	**901**	**811**	**872**	**942**

Per share	12/18A	12/19E	12/20E	12/21E
No. of shares (wtd avg.) (mn)	16	16	16	16
CS EPS (adj.) (€)	**2.59**	**4.02**	**5.07**	**5.95**
Prev. EPS (€)				
Dividend (€)	**1.00**	**1.40**	**1.68**	**1.85**
Free cash flow per share (€)	(0.16)	5.46	5.27	6.52

Valuation	12/18A	12/19E	12/20E	12/21E
EV/Sales (x)	3.3	3.0	2.6	2.3
EV/EBITDA (x)	11.5	9.7	7.9	6.7
EV/EBIT (x)	18.7	15.7	12.2	10.1
Dividend yield (%)	1.20	1.68	2.01	2.22
P/E (x)	32.2	20.7	16.4	14.0

ROE analysis (%)	12/18A	12/19E	12/20E	12/21E
ROE (%)	12.0	16.4	18.2	18.6
ROIC (avg.) (%)	13.7	14.6	16.0	18.5

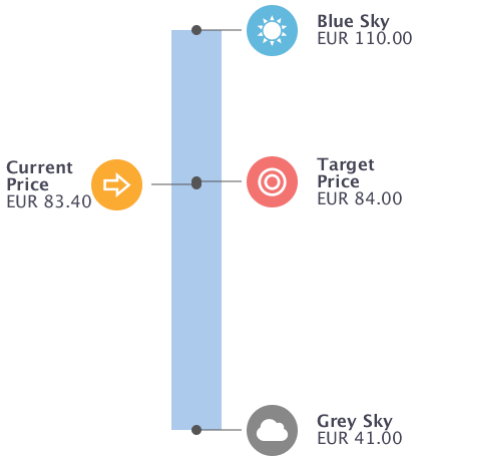
Credit ratios	12/18A	12/19E	12/20E	12/21E
Net debt/equity (%)	17.0	34.7	17.4	1.0
Dividend payout ratio (%)	38.6	34.8	33.1	31.1

Source: FTI, Company data, Refinitiv, Credit Suisse Securities (EUROPE) LTD. Estimates

Company Background

Schoeller-Bleckmann manufactures a suite of products used in shale oil and shale gas drilling. This includes non-magnetic drill collars, MWD / LWD components, drilling motors and down-hole completion tools.

Blue/Grey Sky Scenario



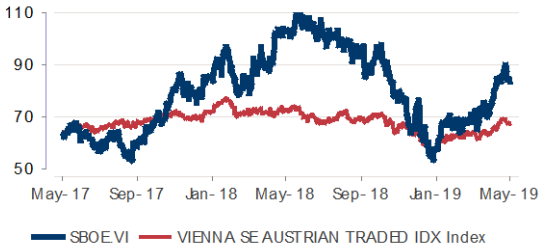
Our Blue Sky Scenario (€) 110.00

AMS delivers 12.5% revenue growth, 500bps higher than our base case. Incremental margins match the high of over 40% reached during the recovery. In Oilfield Equipment, we forecast revenue growth of 20%, 500bps more than our base case. Incremental margins match those of 2017. We apply a 9.5x multiple to AMS (8.5x in base case) and an 8.5x multiple for Oilfield Equipment (8.0x in base case).

Our Grey Sky Scenario (€) 41.00

AMS revenue falls by 15% (vs 7.5% base case growth assumption), with margins in line with 2018 at 8.8% (13.5% base case). Oilfield Equipment sees revenue decline 10%, back down towards 2017 levels. Margins drop 150bp below 2017 levels owing to pricing pressure. Our target multiple for the group falls to 6.4x, which is the bottom end of the historical range.

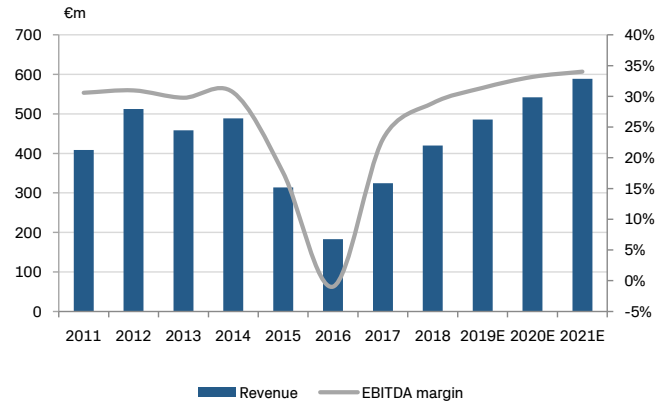
Share price performance



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On 30/04/19 the spot exchange rate was €1/Eu 1.- Eu.89/US$1

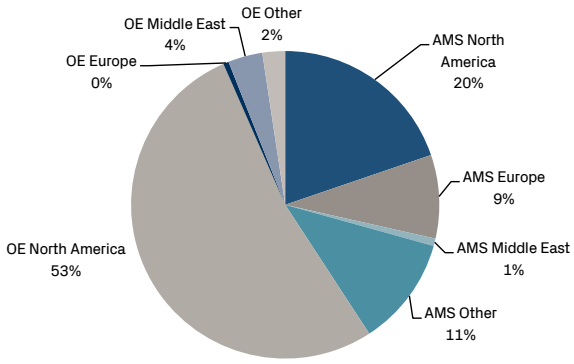
Key charts

Figure 163: Downhole Technologies acquisition (2016) is helping revenues return to 2014 levels



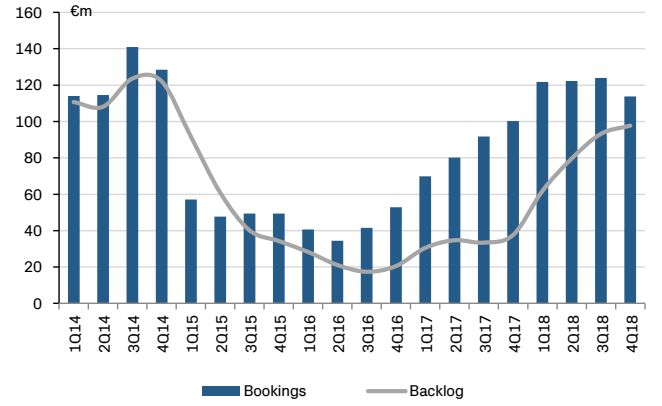
Source: Company data, Credit Suisse estimates

Figure 164: US Oilfield Equipment accounts for >50% of group revenue, 2018



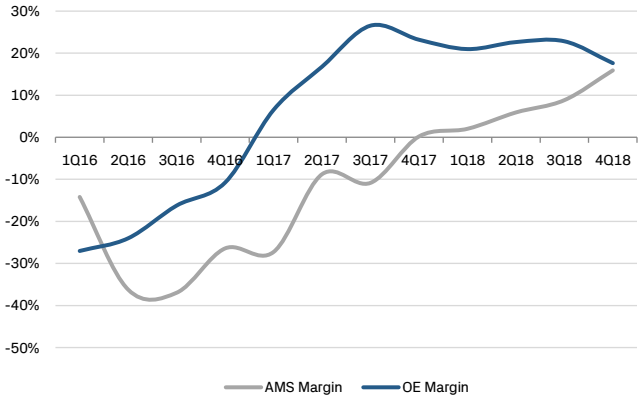
Source: Company data, Credit Suisse research

Figure 165: Group backlog (mostly AMS division) is returning to 2014 levels



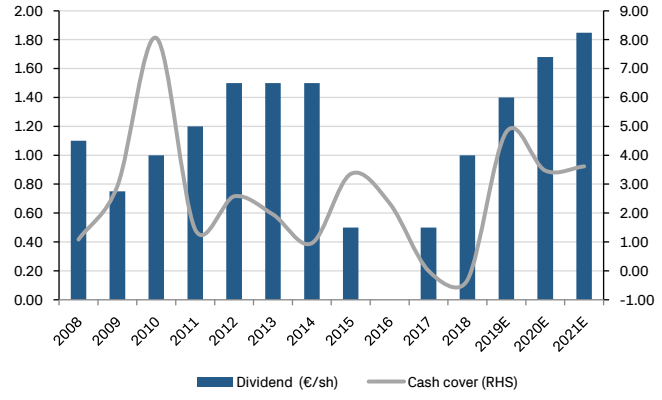
Source: Company data, Credit Suisse research

Figure 166: Rising AMS activity levels are helping to boost divisional margins



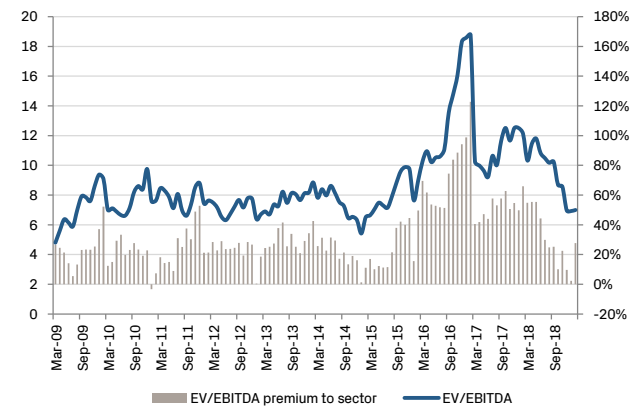
Source: Company data, Credit Suisse research

Figure 167: Dividend should continue to grow strongly and surpass pre-downturn levels



Source: Company data, Credit Suisse estimates

Figure 168: The company has consistently traded at a premium to the sector



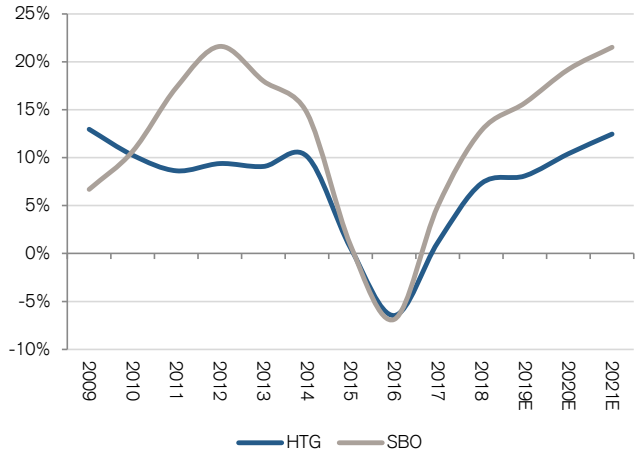
Source: Refinitiv, Credit Suisse research. Monthly period end data

Returns justify the multiple

Schoeller-Bleckmann is the most expensive stock in our coverage universe, trading on 7.9x 2020E EV/EBITDA. However, this premium to our coverage (and to the broader sector) is warranted, in our view, given the company's track record of returns.

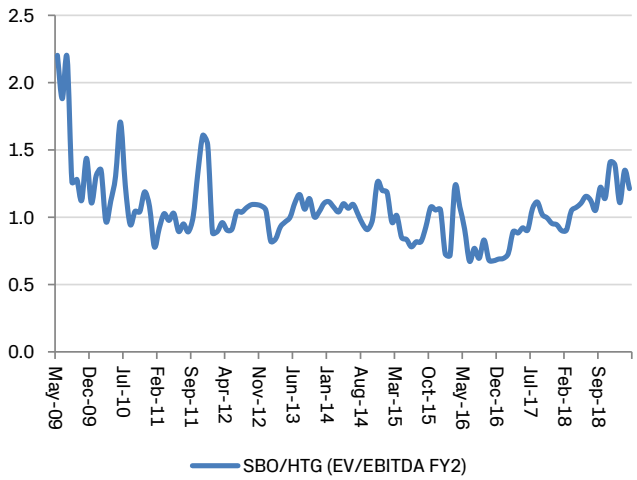
Our model goes back to 2009 and over the past decade, the company has delivered an average ROIC of 10% despite facing perhaps the most severe and prolonged industry downturn on record. This compares to Hunting (HTG), which we see as its closest peer in Europe, which has delivered a ROIC of 6% over the same period. (Note we rate Hunting Outperform in part because we believe the new CEO is taking steps to improve returns.)

Figure 169: SBO has delivered a superior ROIC to HTG over the past decade and its recovery has been stronger despite less exposure to US shale



Source: Company data, Credit Suisse estimates

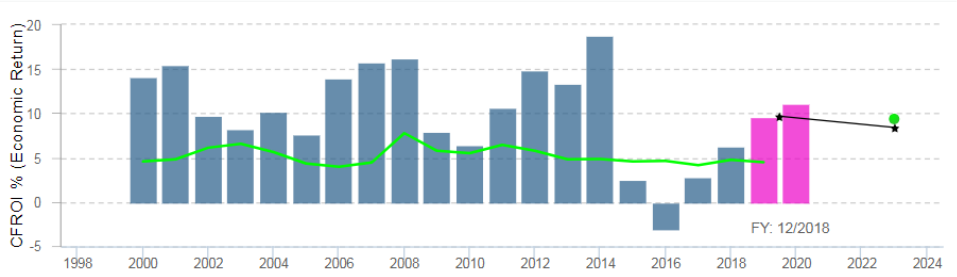
Figure 170: SBO's stronger ROIC recovery helps explain why it trades at a premium to HTG



Source: Refinitiv

Referencing HOLT's CFROI analysis, over a longer timeframe Schoeller-Bleckmann has consistently been able to return a CFROI (pink bars) above its inferred cost of capital (green line). It dropped below this level over the 2015-17 period but surpassed the cost of capital level again in 2018. Consensus estimates point to CFROI returning back to the 10% level in 2020. The current market price is pricing in this level being sustained (green dot).

Figure 171: Market pricing (CFROI) remaining around 10%

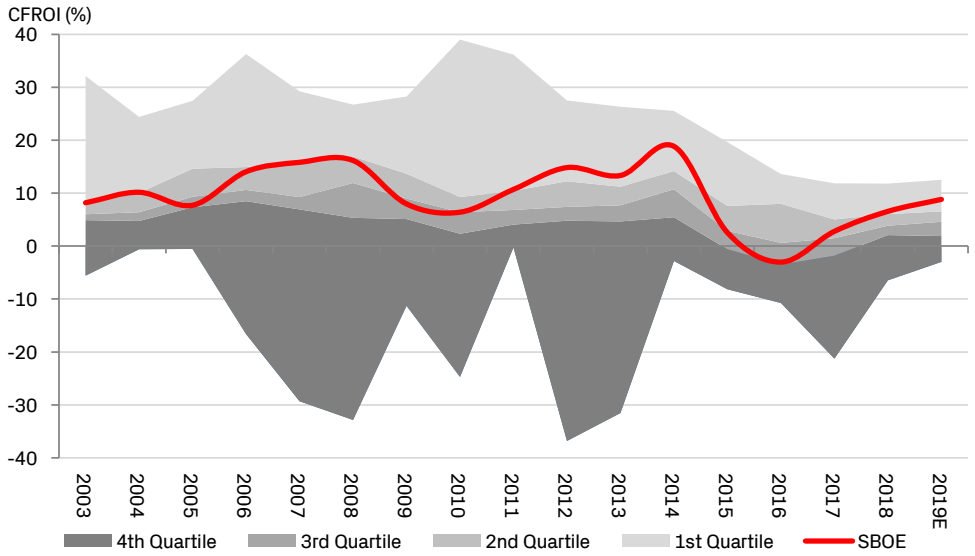


Source: Credit Suisse HOLT

To put the above into context, we have plotted Schoeller-Bleckmann's CFROI against the European Oil & Gas Equipment Sector, broken down into quartiles. Schoeller-Bleckmann has never been in the bottom quartile and, over the period since 2003 it has been in the

top quartile ~50% of the time. Perhaps more importantly, looking into 2019, HOLT forecasts the company to remain in the top quartile.

Figure 172: Schoeller-Bleckmann' CFROI is forecast to move back to the top quartile of the European Oil Services sector



Source: Credit Suisse HOLT. Refinitv (for consensus 2019E data)

Divisional and group forecasts

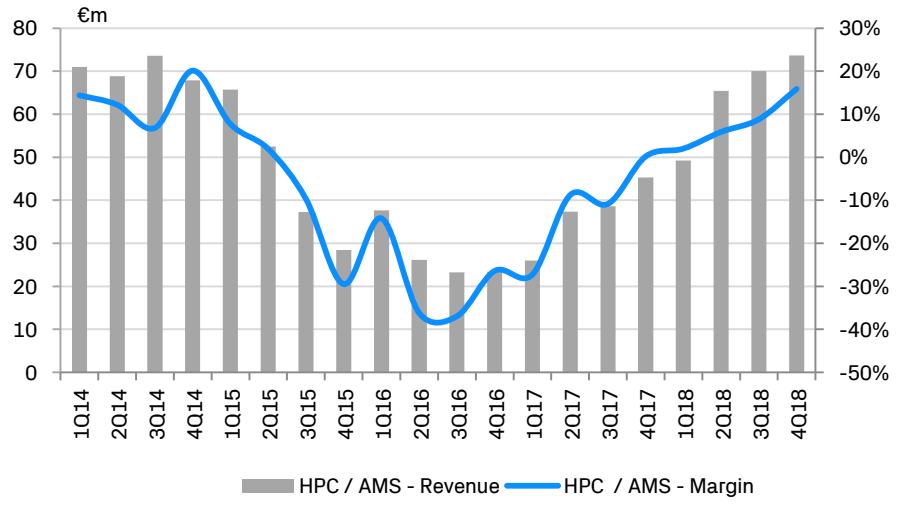
SBO operates with two main divisions – Advanced Manufacturing Services (AMS) and Oilfield Equipment. The Downhole Technologies completions business, which was partially acquired in 2016, is fully consolidated within Oilfield Equipment.

Advanced Manufacturing Services (AMS)

The AMS division manufactures bespoke non-magnetic drill collars using high-alloy steels supplied by Voestalpine. These collars house a number of Measuring Whilst Drilling (MWD) and Logging Whilst Drilling (LWD) components supplied by third parties.

Schoeller-Bleckmann is the market leader in this field, with Hunting the No. 2. Its client base is the large international OFS companies such as Schlumberger and Baker Hughes GE. Given the premium nature of the products manufactured by SBO, they tend to be used internationally rather than in US shale. The Middle East, Russia and Asia are the primary markets. Impressively, revenue has recovered back to 2014 levels and margins are going in a similar direction.

Figure 173: Recovery in revenues and margins back to 2014 levels



Source: Company data, Credit Suisse research

SBO's backlog largely relates to the AMS division and gives it one to two quarters of visibility. The current backlog position of the company, together with broader commentary around international E&P spend rising by mid-single digits, is behind our view that growth should continue for this division through 2019.

Oilfield Equipment

The Oilfield Equipment business is a combination of the group's legacy business, which rents drilling motors and circulation tools, and the recently acquired Downhole Technology completions business. (SBO acquired a 68% stake in 2016 and plans to acquire the remaining share this year.) Both sides derive a significant proportion of their revenues from US shale operations.

- Drilling Motors/Circulation Tools: This business designs a range of products that are manufactured outside SBO and sold directly to drilling crews. This includes drilling motors (sold under the BICO brand name) and downhole circulation tools that prevent

the loss of drilling fluid or for hole cleaning (under the 'Drilling Systems International' brand name).

- Completion Equipment: This business manufactures and supplies composite plugs used in the 'plug and perf' well completion method, which is the predominant approach in US shale. There is also exposure to the Sliding Sleeve completion process through the acquisition of Resource Well Completions for €32m in 2015.

CS vs consensus

The table below displays our forecasts relative to consensus. We are slightly more cautious on revenues going forward.

Figure 174: CS forecasts relative to consensus

	2018	2019E			2020E			2021E		
€m	Actuals	CS	Cons.	Diff	CS	Cons.	Diff	CS	Cons.	Diff
Revenue	420	486	495	-2%	542	558	-3%	589	591	0%
EBITDA	121	152	149	2%	180	177	2%	200	195	3%
EBITDA margin	28.9%	31.4%	30.2%		33.2%	31.7%		34.0%	33.0%	
Net Income (Adj)	41	64	70	-8%	81	91	-11%	95	104	-8%
EPS (€/sh)	2.59	4.02	4.36	-8%	5.07	5.72	-11%	5.95	6.28	-5%
DPS (€/sh)	1.00	1.40	1.40	0%	1.68	1.65	2%	1.85	1.88	-1%
Net Debt	62	144	158	-9%	83	103	-20%	5	66	-92%

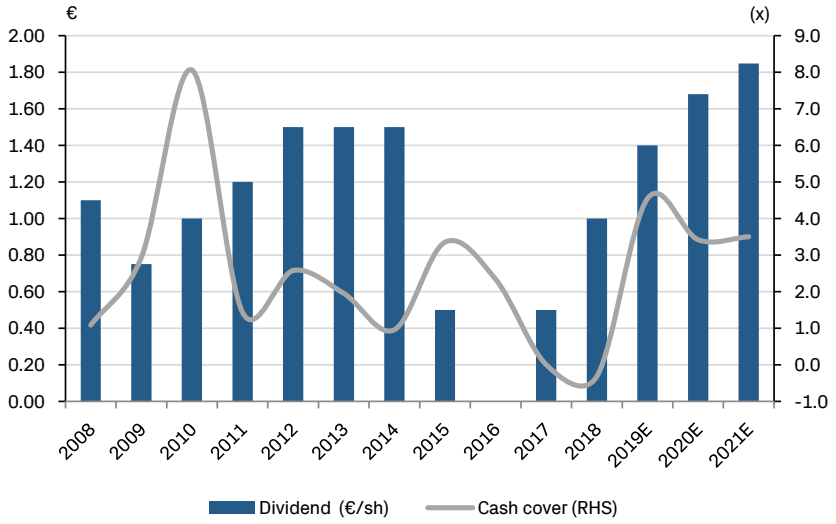
Source: Refinitiv, Credit Suisse estimates. Data as of 1st May 2019

Balance sheet and shareholder returns

SBO has a strong balance sheet. FY18 Net debt of €62m is modest in the context of both equity and EBITDA, with this translating into gearing of 11% and ND/EBITDA of <0.4x. Through the cycle, the company has maintained a conservative balance sheet, with gearing not exceeding 15%. The $118m acquisition of Downhole Technologies in 2016 was financed completely from existing resources, something it was able to do as it had transitioned into a net cash position over the course of 2015. The remaining stake is to be acquired in 2019 through a call option that has been revalued to €145m. This will take net debt to €155m (IFRS 16 basis), gearing to 27% and net debt/EBITDA to 1.1x.

In the depths of the downturn in 2015, SBO cut its divided by two-thirds, and the following year paid no dividend. Although this was probably a means of rebuilding the balance sheet following the Downhole Technologies acquisition, we think it was overly conservative given the positive trajectory of the Oilfield Equipment business. Indeed, the dividend was reinstated in 2017, and in 2018 it was doubled to €1/sh). We expect the dividend pay-out ratio to remain at about ~40% over our forecast period.

Figure 175: The dividend can grow at our forecast rate and still ensure that the company moves into net cash by the end of 2022



Source: Company data, Credit Suisse estimates

Rating and target price

We initiate coverage of Schoeller-Bleckmann with Neutral rating and €84 target price. Our valuation is based on a blended EV/EBITDA multiple applied to our 2020 EBITDA forecasts and a multi-stage DCF.

Figure 176: Schoeller-Bleckmann target price

Valuation - €/sh	
SOTP fair value	87
DCF fair value	80
Average Fair Value (50% SOTP / 50% DCF)	**84**

Source: Credit Suisse estimates.

Sum-of-the-parts

Our 2020E EV/EBITDA blended multiple of 8.2x is slightly above the current peer group average of 7.9x (see Figure 177). We think that this is justified by the leading returns the company delivers.

- AMS: We apply an 8.5x multiple, which reflects the division's niche positioning (Hunting is the only major competitor), robust order book and early stage in recovery given its more international focus. This is towards the upper end of the range given the superior returns delivered by the company.
- Oil Equipment: We use a lower 8.0x multiple to reflect the fact that the division faces stiffer competition, is more capital intensive and is further along in its recovery (being more oriented towards US shale).

We set out the multiples for Schoeller-Bleckmann's peer group below.

Figure 177: Multiples for SBO's peer group

	EV/EBITDA 2019	EV/EBITDA 2020	PE 2019	PE 2020	EV/Sales 2019	EV/Sales 2020	ND / EBITDA 2019	ND / EBITDA 2020
Hunting PLC	7.4	5.9	15.6	12.3	1.2	1.0	-0.8	-1.0
DMC Global Inc	11.2	9.6	18.8	15.8	2.5	2.3	0.0	0.0
Oil States International Inc	11.9	7.8	-45.6	41.4	1.3	1.1	2.5	1.5
Forum Energy Technologies Inc	11.1	7.3	-73.2	24.5	0.9	0.8	4.4	2.5
National Oilwell Varco Inc	14.0	9.8	-602.5	40.4	1.3	1.1	1.7	0.9
NCS Multistage Holdings Inc	7.0	3.3	-80.3	11.7	0.8	0.6	-0.3	-0.4
Weir Group PLC	10.7	9.2	16.3	13.7	1.8	1.7	1.8	1.3
Franks International NV	17.2	10.2	-27.2	-100.7	1.8	1.5	-3.6	-2.6
Gardner Denver Holdings Inc	11.9	10.6	17.8	16.2	3.0	2.7	1.6	1.0
Cactus Inc	10.3	8.2	17.9	14.9	3.9	3.2	-0.8	-1.2
Nine Energy Service Inc	5.4	3.5	12.7	7.0	0.9	0.7	1.8	0.8
Schlumberger NV	10.5	9.0	26.6	19.0	1.3	1.2	2.0	1.7
Baker Hughes A GE Co	9.2	7.3	42.8	25.6	2.1	1.9	1.2	0.9
Average	**10.6**	**7.8**	**-50.8**	**10.9**	**1.8**	**1.5**	**0.9**	**0.4**

Source: Refinitiv. All numbers are consensus. Priced as of 1st May 2019

- Our cash-flow forecasts, which feed into our 2020E net debt figure, include a €145m cash payment in 2019 for the outstanding shares in Downhole Technologies.

Figure 178: SOTP valuation based on 2020E EBITDA forecasts

2020 SOTP - €m	EBITDA	Sales	Multiple (x)	EV/Sales (implied)	EV	Share
Advanced Manufacturing & Services	70	351	8.5	1.7	597	40%
Oilfield Equipment	110	314	8.0	2.8	879	60%
Corporate	0	0	8.2	0.0	-3	0%
Total	180	665	8.2	2.2	1,473	
Net Debt / (Cash) - 2020E					75	
IFRS 16 Adjustment					8	
Minority Adjustments					0	
Shareholders' Equity					1,390	
Shares Outstanding - 2020E					16	
Implied share price (€/sh)					**87**	

Source: Credit Suisse estimates.

DCF

We use a three-stage DCF comprising forecasts out to 2025, a 10-year normalisation period to 2035 with revenue growth of 3% pa, and subsequent terminal value based on a long-term growth rate of 2%.

Our WACC is 9.9% and is based on the following inputs:

- a risk-free rate of 2.9% (30-year US Treasury);
- beta of 1.3 based upon a weekly regression of SBO's share price vs Austrian market over a two-year period;
- a risk premium for the Austrian market of 6.5% calculated by the NYU Stern School of Business (Country Default Spreads and Risk Premiums);
- a pre-tax cost of debt of 5.3%, based on our long-term risk-free rate and the premium implied by the group's FY18 interest rate cost relative to the Fed Funds; and
- an 80% equity/20% debt finance assumption.

Our long-term EBITDA margin assumption is 30%, which leads to a terminal value EV/EBITDA multiple of 6.6x (vs current 1-year forward of 9.8x).

Figure 179: We use a three-stage DCF model

DCF - €m					
Assumption	**Beta**	**Risk Prem**	**WACC**	**LT Growth**	
	1.3	6.5%	9.9%	2.0%	
				EV	**Share**
Present Value Forecast Period				454	34%
Present Value Normalisation Period				518	39%
Present Value of Terminal Value				366	27%
Total Enterprise Value				**1,339**	
Net Debt / (Cash) - 2018				62	
Implied Equity Value				**1,277**	
Share Count - 2018				16	
Implied share price (€/sh)				**80**	

Source: Refinitiv, Company data, Credit Suisse estimates.

Blue Sky/Grey Sky scenarios

We establish Blue Sky and Grey Sky valuations by flexing our 2020 revenue and operating margin assumptions and adjusting the target multiple in our SOTP valuation.

- *Blue Sky:* AMS delivers 12.5% revenue growth in 2020, which is 500bps higher than our base case forecast. Incremental margins match the high of over 40% reached during the recovery. In Oilfield Equipment, we forecast revenue growth of 20%, 500bps more than our base case. Incremental margins match those of 2017 at ~50%. We apply a 9.5x multiple to AMS (vs 8.5x in base case), which is at the top end of the range of equipment manufacturers. For Oilfield Equipment we use a multiple of 8.5x, which is 0.5x higher than our base case. This translates to a group multiple of 8.9x (vs base case of 8.2x), which is at the upper end of the group's historical range.
- *Grey Sky:* AMS revenue falls by 15% (vs 7.5% base case growth assumption), with margins in line with 2018 at 8.8% (13.5% base case). Oilfield Equipment sees revenue decline 10%, back down towards 2017 levels. Margins drop 150bp below 2017 levels owing to pricing pressure. Our target multiple for the group falls to 6.4x, which is the bottom end of the historical range.

Figure 180: Blue Sky/Grey Sky

Blue Sky SOTP		Vs Base
EBITDA (2020 - €m)	205	14%
Multiple	8.9	9%
Equity value (€/sh)	**110**	
Grey Sky SOTP		**Vs Base**
EBITDA (2020 - €m)	116	-36%
Multiple	6.4	-22%
Equity value (€/sh)	**41**	

Source: Credit Suisse estimates.

Risks

The major risks to our investment case include the following.

- On the upside, US E&P companies use rising oil prices to accelerate completions activity, and this drives higher demand for Schoeller-Bleckmann's equipment and greater pricing power. International pricing levels pick up, aiding the top line and margin of the Advanced Manufacturing & Services division.
- On the downside, US E&P companies further withdraw expenditure to focus on cash return to shareholders. There is meaningful price competition across providers of frac plugs. A wide industry downturn occurs that puts focus on Schoeller Bleckmann's balance sheet, which after the payment to buy out the final shares of Downhole Technologies is more levered than it has been at any point this cycle.

Credit Suisse HOLT

The extended seven-year forecast shown in Figure 166 for sales, margins and turns allows us to express our long-term view of the near-term recovery and factor the next cycle into this business. Based on our key estimates from 2019-2021, returns are expected to improve from 9.3% in 2019 to 12.3% by 2021. This is supported by our expectations of activity outside the US picking up leading to margins expansion of c270bps and improvement in asset efficiency to 0.5x by 2021. Thereafter we capture the next cycle and forecast returns to improve further to 15.8% by 2025.

Beyond the explicit seven-year forecast period (2019-2025), HOLT uses a fade model to arrive at its warranted price. CFROI® levels are faded to 6.0% and asset growth is faded to 2.5% (mean reversion to long-term observed levels). The default fade rate is 10%. For this analysis we have used a Market Implied Discount Rate of c.5.5% for European Oil & Gas aggregate. The above assumptions suggest a HOLT warranted value of €88.15 which compares with our DCF valuation of €80 and our target price of €84. The ~10% differential we believe is due to the shape of returns beyond our forecast period with our DCF set-up more bearish in their shape than the HOLT default.

Figure 181: Schoeller Bleckmann in HOLT

HOLT - Credit Suisse Analyst Scenario Data

SCHOELLER-BLECKMANN OILFIELD EQUIP. AG (SBOE)

Current Price: EUR 83.40 **Warranted Price: EUR 88.15**

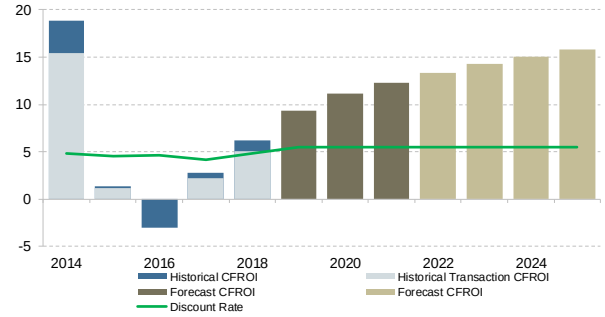
Valuation date: 30-Apr-19

EBITDA Margin (parallel % point change to forecasts) \ Sales Growth (parallel % point change to forecasts)	EUR	-2.0%	-1.0%	0.0%	1.0%	2.0%
	-2.0%	-23%	-14%	-5%	6%	17%
	-1.0%	-18%	-9%	1%	11%	23%
	0.0%	-14%	-4%	6%	17%	29%
	1.0%	-9%	0%	11%	22%	35%
	2.0%	-5%	5%	16%	28%	41%

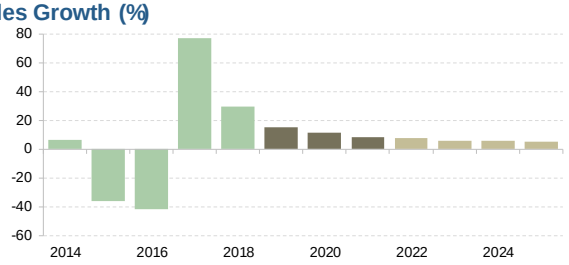
	Dec 17A	Dec 18A	Dec 19E	Dec 20E	Dec 21E
Sales Growth, %	77.2	29.6	15.6	11.6	8.7
EBITDA Mgn, %	23.5	28.4	30.8	32.6	33.5
Asset Turns, x	0.35	0.4	0.5	0.5	0.5
CFROI®, %	2.8	6.2	9.3	11.1	12.3
Disc Rate, %	4.1	4.8	5.5	5.5	5.5
Asset Grth, %	-2.1	5.0	4.5	3.2	2.3
Price to Book, x	2.5	1.7	2.0	1.9	1.8
Economic PE, x	89.2	27.5	21.7	17.1	14.7
Leverage, %	26.0	21.1	22.5	22.5	22.6

More than 10% downside | Within 10% | More than 10% upside

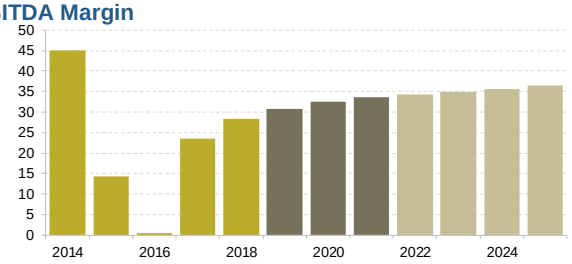
CFROI & Discount Rate (in %)



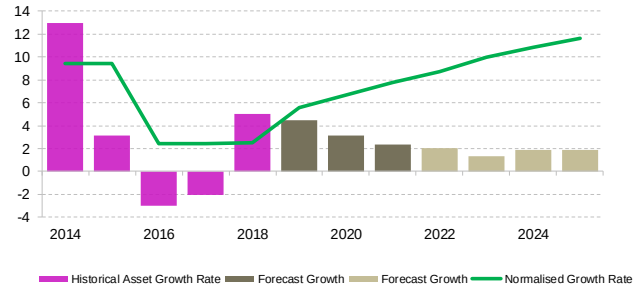
Sales Growth (%)



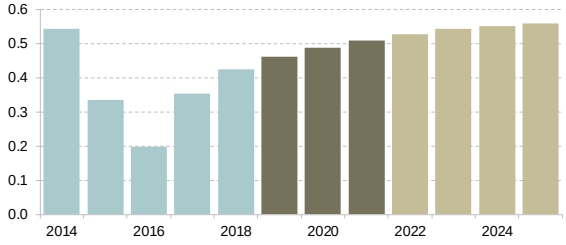
EBITDA Margin



Asset Growth (in %)



Asset Turns (x)



Source: Credit Suisse HOLT®. CFROI and HOLTare trademarks or registered trademarks of Credit Suisse Group AG or its affiliates in the United States and other countries.

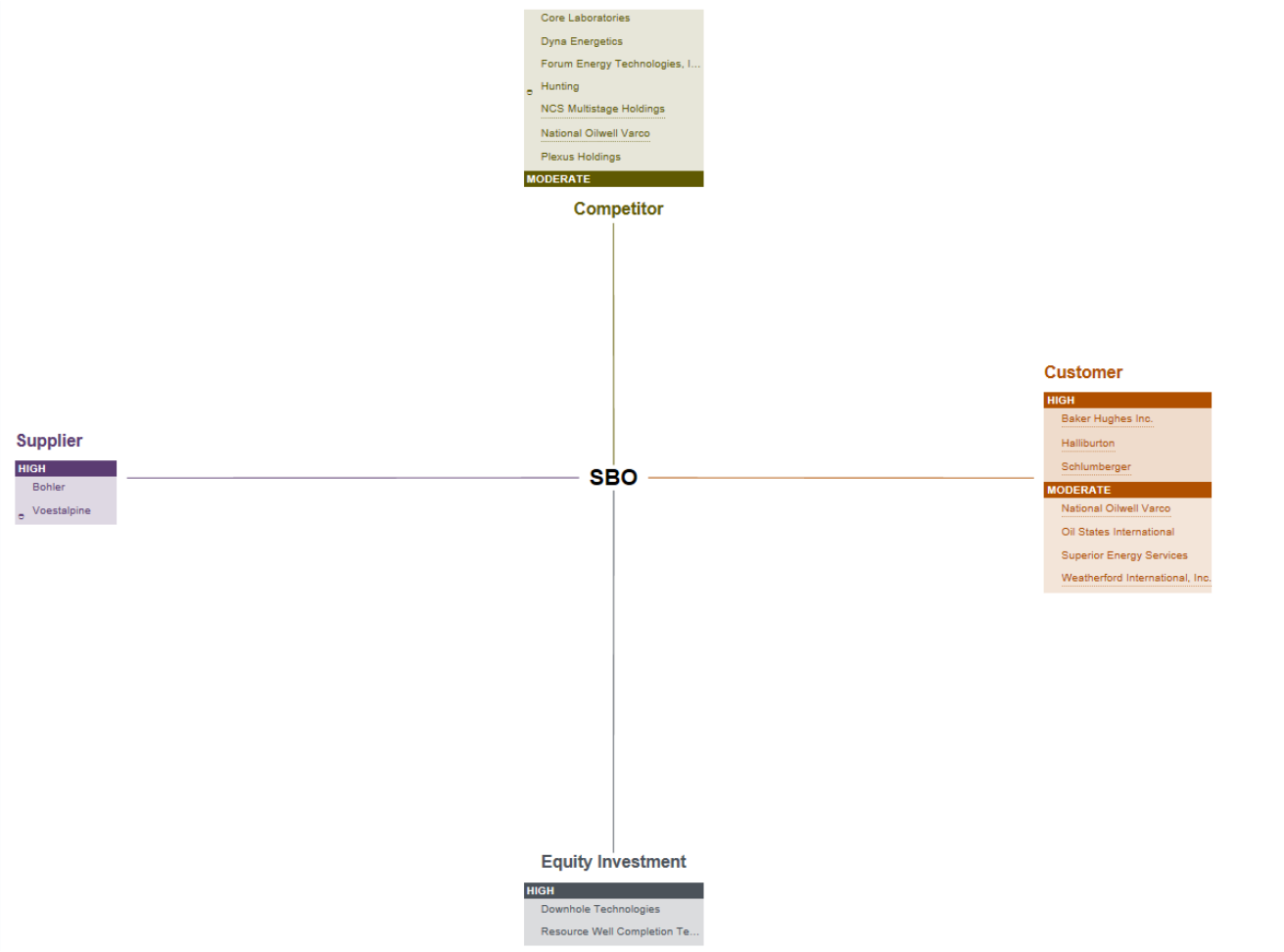
Source: Credit Suisse HOLT

PEERs

PEERs is a global database that captures unique information about companies within the Credit Suisse coverage universe based on their relationships with other companies – their customers, suppliers and competitors. The database is built from our research analysts' insight regarding these relationships. Credit Suisse covers over 3,000 companies globally. These companies form the core of the PEERs database, but it also includes relationships on stocks that are not under coverage.

For more information, see our November 2016 PEERs report: A chain reaction: Supply chain strategies.

Figure 182: Schoeller-Bleckmann in PEERs



Source: Credit Suisse PEERs

Management

Gerald Grohmann – President & CEO

Mr Grohmann has been at the helm of Schoeller-Bleckmann since October 2001. He was a member of the Supervisory Board of ABAG Aktiengesellschaft until February 2011.

Klaus Mader – CFO

Mr Mader was appointed CFO in October 2015 after the retirement of Franz Gritsch. Mr Mader was previously EVP Finance & Administration of Tryolit Group, a supplier of grinding, cutting, drilling, honing, dressing and polishing products to the construction industry. He spent 15 years with Tryolit, before which he worked for Wienerberger Baustoffindustrie AG, Immorent AG and TPA Treuhand Partner Austria.

P&L, cash flow & balance sheet

Figure 183: Divisional and group P&L

Divisionals (EURm)	2017A	2018A	2019E	2020E	2021E
AMS					
Revenue	**147**	**258**	**327**	**351**	**376**
Growth	33%	76%	27%	8%	7%
EBIT	-14	23	40	47	55
Margin	-9.8%	8.8%	12.3%	13.5%	14.8%
Oilfield Equipment					
Revenue	**236**	**262**	**273**	**314**	**345**
Growth	124%	11%	4%	15%	10%
EBIT	46	55	57	72	81
Margin	19.6%	21.1%	21.0%	23.0%	23.5%
Intersegment / Corporate					
Revenue	-59	-100	-114	-123	-132
EBIT	-8	-3	-3	-3	-3

P&L (EURm)	2017A	2018A	2019E	2020E	2021E
Revenue	324	420	486	542	589
Growth	77%	30%	16%	12%	9%
EBITDA (adj)	**75**	**121**	**152**	**180**	**200**
D&A	-49	-47	-58	-63	-67
Other gains / losses / impairments	-2	0	0	0	0
EBIT (Adj)	**24**	**75**	**94**	**116**	**133**
Margin	7.3%	17.7%	19.4%	21.5%	22.6%
Growth	-145%	216%	26%	24%	15%
Net finance expense / other	-93	-19	-11	-11	-10
Pre-tax profit	**-70**	**56**	**83**	**105**	**123**
Tax	15	-15	-19	-24	-28
Effective Tax rate (underlying)	22%	26%	23%	23%	23%
Minority Interest	0	0	0	0	0
Net profit	-54	41	64	81	95
Adj Net profit	**-54**	**41**	**64**	**81**	**95**
No. Shares (FD)	16	16	16	16	16
EPS (CS, Adj)- €/sh	**-3.41**	**2.59**	**4.02**	**5.07**	**5.95**
EPS (IFRS) - €/sh	-3.41	2.59	4.02	5.07	5.95
DPS - €/sh	0.50	1.00	1.40	1.68	1.85

Source: Company data, Credit Suisse estimates

Figure 184: Condensed cash-flow and balance sheet

Cash flow (EURm)	2017A	2018A	2019E	2020E	2021E
Net income / (losses)	-54.4	41	64	81	95
Operating cash flows	31.3	55	59	64	67
Working cap movement	68	-63	-3	-26	-19
Cashflow from Operations	**45**	**33**	**120**	**119**	**143**
Capex (net, inc intangible)	-32	-36	-30	-32	-36
M&A	0	-3	-145	0	0
Other investing cash flows	4	5	0	0	0
Cashflow from Investing	**-28**	**-34**	**-175**	**-32**	**-36**
Change in borrowings	-28	87	0	0	0
Dividend	0	-8	-16	-22	-27
IFRS 16 lease payments	0	0	-3	-3	-3
Other financing cash flows	-2	-9	0	0	0
Cashflow from Financing	**-29**	**70**	**-19**	**-25**	**-30**
Effect of forex differences	-15	6	0	0	0
Net cash flow	**-27**	**76**	**-74**	**62**	**77**
Net debt / (cash)	**51**	**62**	**136**	**75**	**-3**
IFRS 16 Lease Liability	0	0	8	8	8
Net debt / (cash) - IFRS 16	**51**	**62**	**144**	**83**	**5**
Free cash flow	**13**	**-3**	**87**	**84**	**104**

Balance Sheet (EURm)	2017A	2018A	2019E	2020E	2021E
Property, plant & equipment, net	145	145	130	112	95
Goodwill and intangibles	206	199	188	177	166
Other non-current assets	40	36	44	44	44
Total non-current assets	**391**	**380**	**362**	**333**	**305**
Trade accounts recievable	90	125	139	153	163
Inventories	97	146	134	148	158
Cash and cash equivalents	166	242	168	229	307
Other current assets	6	9	9	9	9
Total current assets	**359**	**521**	**449**	**539**	**637**
Total assets	**750**	**901**	**811**	**872**	**942**
Trade accounts payable	17	21	20	22	24
Bank loans and overdrafts	101	50	50	50	50
Other current liabilities	37	181	36	36	36
Total current liabilities	**155**	**252**	**105**	**108**	**109**
Long-term loans	115	254	254	254	254
Other non-current liabilities	158	27	35	35	35
Total non-current liabilities	**273**	**282**	**290**	**290**	**290**
Shareholders equity	**322**	**368**	**416**	**475**	**543**
Minority interest	0	0	0	0	0
S/H Equity & Liabilities	**750**	**901**	**811**	**872**	**942**

Source: Company data, Credit Suisse estimates

Subsea 7 S.A. (SUBC.OL)

Rating	**NEUTRAL**
Price (30 Apr 19, Nkr)	109.60
Target price (Nkr)	117.00
Market Cap (Nkr m)	35,879.4
Enterprise value (Nkr m)	34,339.4

Target price is for 12 months.

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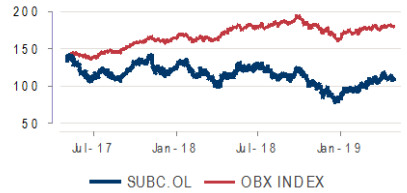
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Renewables investment yet to pay off

- **We initiate coverage with a Neutral rating and Nkr 117 TP:** The Subsea Integration Alliance (SIA) between Subsea 7 and Schlumberger is, in our view, the main competition to TechnipFMC in the 'integrated' subsea contracting model. We believe this model will continue to gain market share and therefore the outlook for the core business is healthy. However, high investment in the Renewable & Heavy Lift market could take longer than the market expects to pay off given the lead times on execution.
- **Further investment in offshore wind a risk:** Subsea 7 has not won any large Engineering, Procurement, Construction and Installation (EPCI) contracts in offshore wind since the Beatrice project in 2016. Our review of the market shows that these contracts have been going to competitors. Worryingly from our perspective, two competitors (DEME Group and Van Oord), have recently added the ability to install wind turbines. This is a capability Subsea 7 does not have and we worry that it may want (or need) to fill this gap in order to stay competitive. This could potentially suck in capital to a division which has already seen US$400m of acquisition spend over the past two years but which is expected to deliver minimal EBITDA contribution in 2019.
- **Catalysts: 1)** Further awards to SIA should reinforce the view that Subsea 7 can go head-to-head with TechnipFMC. **2)** Improvements in working capital.
- **Risks: 1)** EBITA margin assumptions in 2019 are too high given pricing pressure, **2)** Capital allocation which fails to generate a sufficient return, **3)** Failure to secure EPCI work in Renewables.
- **Valuation:** Our Nkr 117 target price is based on an equal weighting of our SOTP (2020E EBITDA) and DCF valuations. Trading at ~5.5x 2020E EBITDA, the company is above its long-term average. At this juncture we see little reason for the stock to re-rate further as returns are set to remain <5% for the medium term.

Share price performance



The price relative chart measures performance against the OBX INDEX which closed at 812.1 on 30/04/19
On 30/04/19 the spot exchange rate was Nkr9.71/Eu 1.-Eu.89/US$1

Performance	1M	3M	12M
Absolute (%)	-3.5	14.6	-1.5
Relative (%)	-2.1	13.5	-2.0

Financial and valuation metrics

Year	12/18A	12/19E	12/20E	12/21E
Revenue (US$ m)	4,074	4,050	4,500	4,950
EBITDA (US$ m)	668.6	572.1	702.5	837.7
Pre-tax profit adjusted (US$ m)	216.2	47.7	167.3	281.4
CS EPS (adj.) (US$)	0.56	0.10	0.37	0.62
Prev. EPS (US$)				
ROIC avg (%)	3.0	0.9	2.2	3.7
P/E (adj.) (x)	22.7	128.1	34.6	20.4
P/E rel. (%)	156.2	893.2	279.7	177.1
EV/EBITDA (x)	5.4	6.9	5.4	4.1

Dividend (12/19E, Nkr)	0.17	Net debt/equity (12/19E,%)	-3.2
Dividend yield (12/19E,%)	1.4	Net debt (12/19E, US$ m)	-177.2
BV/share (12/19E, US$)	17.8	IC (12/19E, US$ m)	5,448.3
Current WACC (%)	11.2	EV/IC (12/19E, (x)	0.7
Free float (%)	76.2	Number of shares (m)	327.4

Source: Company data, Refinitiv, Credit Suisse estimates

Subsea 7 S.A. (SUBC.OL)

Price (30 Apr 2019): **Nkr109.6**; Rating: **NEUTRAL**; Target Price: **117.00**; Analyst: **David Farrell**

Income statement (US$ m)	12/18A	12/19E	12/20E	12/21E
Revenue	4,074	4,050	4,500	4,950
EBITDA	**669**	**572**	**702**	**838**
Depr. & amort.	(430)	(496)	(525)	(551)
EBIT	**203**	**75**	**177**	**286**
Net interest exp.	2	(11)	(10)	(5)
Associates	(3)	0	0	0
PBT	**216**	**48**	**167**	**281**
Income taxes	(52)	(17)	(55)	(93)
Profit after tax	**164**	**31**	**112**	**189**
Minorities	18	(0)	-0	-0
Preferred dividends	-	-	-	-
Associates & other	0	0	0	0
Net profit	**182**	**31**	**112**	**189**
Other NPAT adjustments	0	0	0	0
Reported net income	**182**	**31**	**112**	**189**

Cash flow (US$ m)	12/18A	12/19E	12/20E	12/21E
EBIT	203	75	177	286
Net interest	2	(11)	(10)	(5)
Cash taxes paid	(98)	(62)	(55)	(93)
Change in working capital	(167)	135	(11)	21
Other cash and non-cash items	484	485	535	556
Cash flow from operations	**424**	**621**	**636**	**765**
CAPEX	(238)	(266)	(240)	(260)
Free cashflow to the firm	**180**	**251**	**289**	**398**
Acquisitions	(161)	(0)	0	0
Divestments	11	26	0	0
Other investment/(outflows)	(37)	7	19	24
Cash flow from investments	**(425)**	**(233)**	**(221)**	**(236)**
Net share issue/(repurchase)	(93)	(125)	(100)	0
Dividends paid	(204)	(57)	(54)	(53)
Issuance (retirement) of debt	(25)	(6)	0	0
Other financing	(14)	(117)	(120)	(120)
Cashflow from financing	**(335)**	**(304)**	**(274)**	**(173)**
Changes in net cash/debt	(320)	(329)	136	352
Net debt at start	(826)	(507)	(177)	(313)
Change in net debt	**320**	**329**	**(136)**	**(352)**
Net debt at end	(507)	(177)	(313)	(665)

Balance sheet (US$ m)	12/18A	12/19E	12/20E	12/21E
Assets				
Total current assets	**2,096**	**2,194**	**2,401**	**2,828**
Total assets	**7,569**	**8,017**	**8,035**	**8,266**
Liabilities				
Total current liabilities	**1,401**	**1,652**	**1,709**	**1,801**
Total liabilities	**1,847**	**2,391**	**2,451**	**2,547**
Total equity and liabilities	**7,569**	**8,017**	**8,035**	**8,266**

Per share	12/18A	12/19E	12/20E	12/21E
No. of shares (wtd avg.) (mn)	327	314	307	304
CS EPS (adj.) (US$)	**0.56**	**0.10**	**0.37**	**0.62**
Prev. EPS (US$)				
Dividend (US$)	**0.17**	**0.17**	**0.17**	**0.22**
Free cash flow per share (US$)	0.55	0.80	0.94	1.31

Valuation	12/18A	12/19E	12/20E	12/21E
EV/Sales (x)	0.9	1.0	0.8	0.7
EV/EBITDA (x)	5.4	6.9	5.4	4.1
EV/EBIT (x)	17.9	52.5	21.6	12.1
Dividend yield (%)	1.37	1.37	1.37	1.72
P/E (x)	22.7	128.1	34.6	20.4

ROE analysis (%)	12/18A	12/19E	12/20E	12/21E
ROE (%)	3.1	0.5	2.0	3.4
ROIC (avg.) (%)	3.0	0.9	2.2	3.7

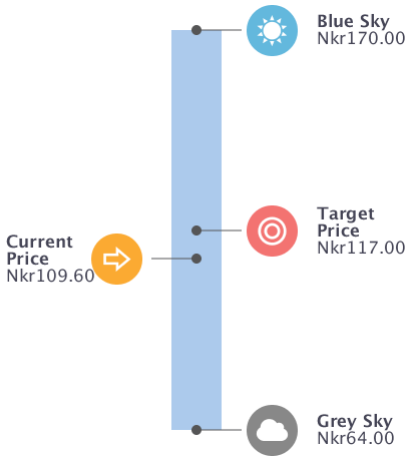
Credit ratios	12/18A	12/19E	12/20E	12/21E
Net debt/equity (%)	(8.9)	(3.2)	(5.6)	(11.6)
Dividend payout ratio (%)	31.1	175.8	47.5	34.9

Source: FTI, Company data, Refinitiv, Credit Suisse Securities (EUROPE) LTD. Estimates

Company Background

Subsea 7 is a Tier 1 provider of engineering, life-of-field and installation services to the offshore oil and gas market. The company has recently expanded its offshore wind offering which now includes foundation and inter-array cable laying.

Blue/Grey Sky Scenario



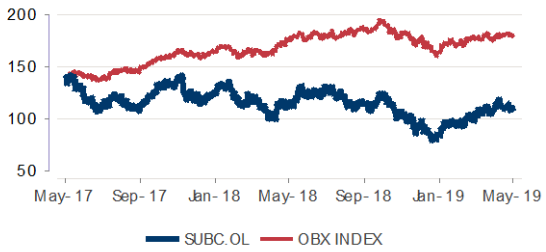
Our Blue Sky Scenario (Nkr) 170.00

Our blue sky scenario is based upon our 2020 SOTP valuation. We assume SURF and Life of Field revenues grow at 17.5%, above optimistic industry expectations of growth of low double digits. Our operating margins in SURF recover to 250bps above our base case and in Life of Field to 5%, close to 2017 levels. For renewables we assume revenue growth of 40% and margins back to 2017 levels.Our target EBITDA multiple is 6.5x, at the top end of the range

Our Grey Sky Scenario (Nkr) 64.00

Our grey sky scenario is based upon our 2020 SOTP valuation. We assume that SURF & Conventional and Life of Field revenues both fall 10%. SURF & Conventional margins fall 150bps to 2% and in Life of Field fall 200bps. In Renewables & Heavy Lift we assume no change year on year relative to 2019, which we expect to mark a low point. Our target multiples for each division drops to 4.0x, which is the bottom of the group's historic range.

Share price performance

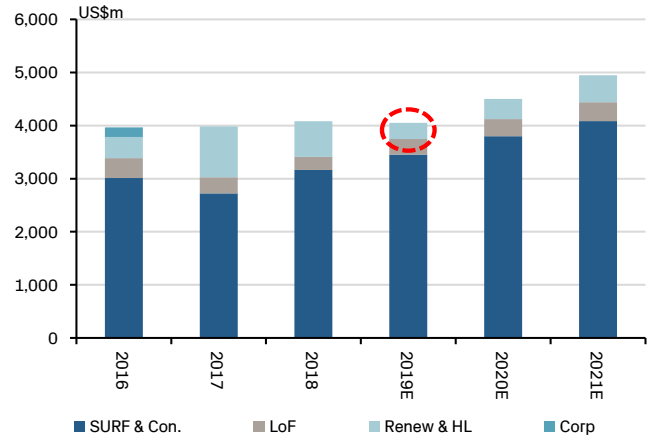


The price relative chart measures performance against the OBX INDEX which closed at 812.1 on 30/04/19

On 30/04/19 the spot exchange rate was Nkr9.71/Eu 1.- Eu.89/US$1

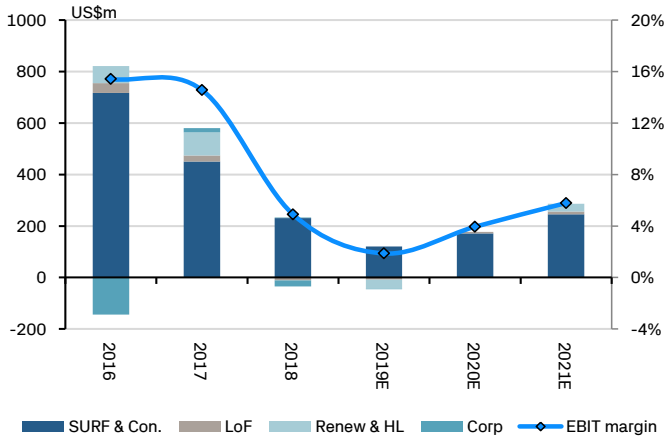
Key charts

Figure 185: Renewables & Heavy Lift revenue will take a big step down in 2019



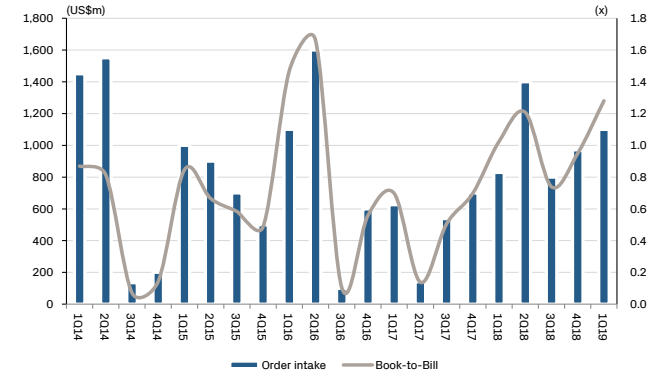
Source: Company data, Credit Suisse estimates

Figure 186: EBIT losses in Renewables will also bring down group EBIT margins



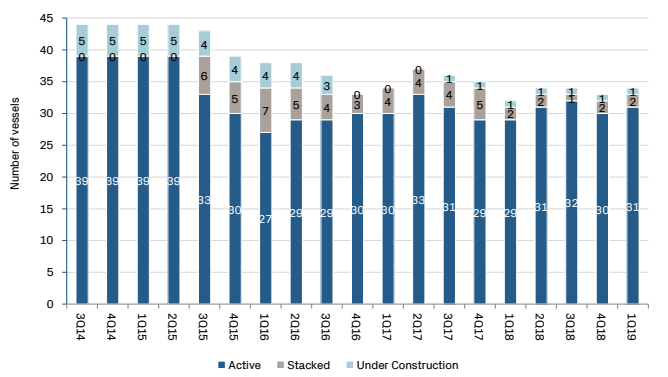
Source: Company data, Credit Suisse estimates

Figure 187: Order intake in 1Q19 resulted in highest book to bill since 2Q16



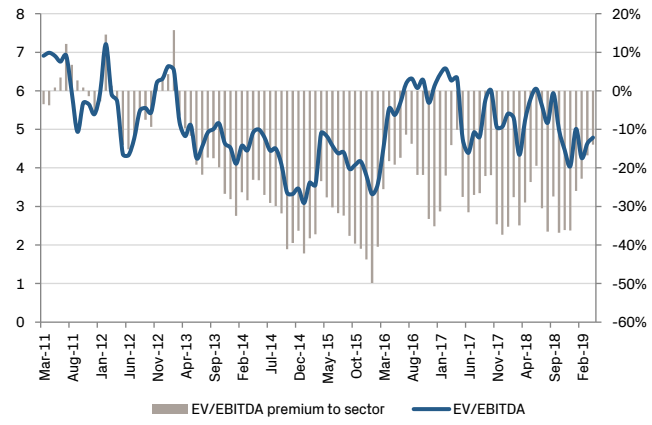
Source: Company data, Credit Suisse research

Figure 188: Subsea 7 retains a high number of vessels in its fleet (-23% from peak)



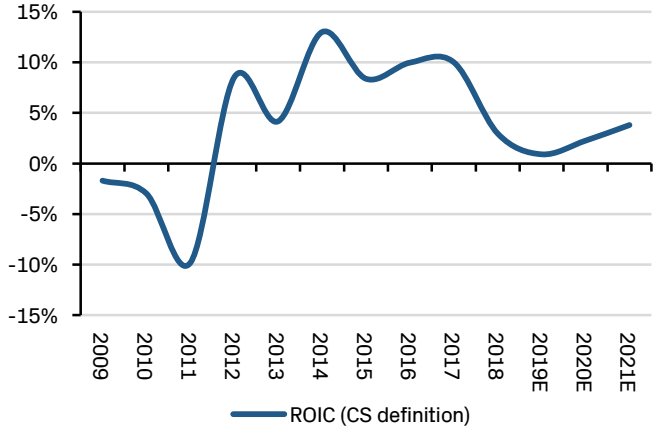
Source: Company data, Credit Suisse research

Figure 189: Subsea 7 has historically traded at a discount to the sector on EV/EBITDA (FY2)



Source: Refinitiv, period sector end data

Figure 190: Returns set to remain sub 5% for next few years

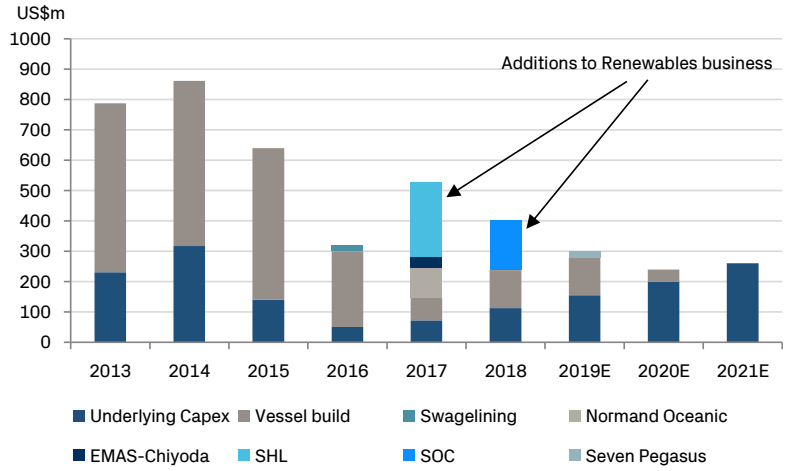


Source: Company data, Credit Suisse estimates

Risk of further investment in offshore wind

Subsea 7, more than any other European Oil Service company in our view, has committed to capitalising on the move towards offshore wind as a source of energy. In 2017 and 2018 the company made sizeable acquisitions along this theme, buying out its 50% JV partner in Seaway Heavy Lifting and then Siem Offshore Contractors in 2018. Combined, the two transactions cost Subsea 7 over US$400m.

Figure 191: Recent M&A activity has been focused on adding to its renewables footprint

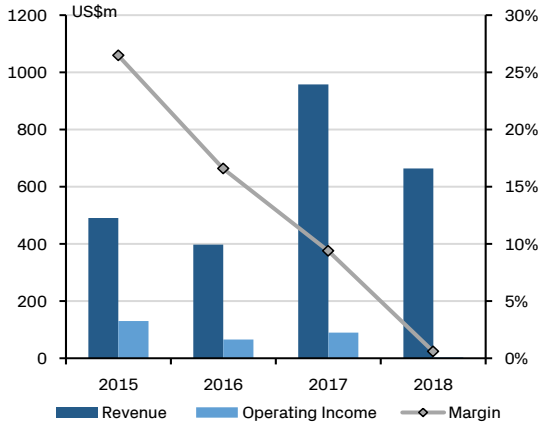


Source: Company data, Credit Suisse estimates

These acquisitions have positioned Subsea 7 as one of the leading providers of installation services for both foundations and inter-array cables. Combined, these activities account for ~15% of a wind farm's total costs. Further, Subsea 7 is able to more credibly bid for EPCI work covering not only the installation of this equipment, but also its design and manufacture. This expands Subsea 7's share of a project towards 40%.

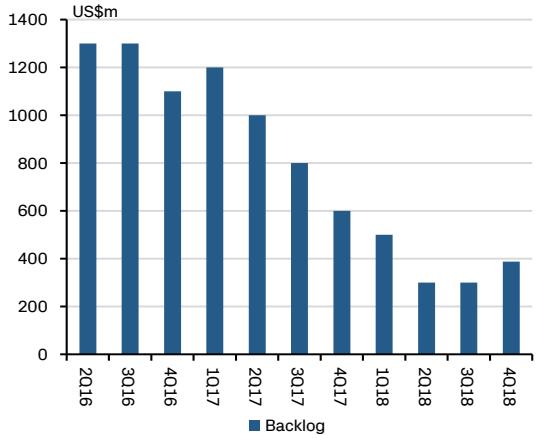
So far, though, Subsea 7 has executed only the Beatrice project on an EPCI basis. This £1.0bn award (38% of total development costs) was secured in May 2016, with offshore installation beginning in April 2017. The project contributed significantly to revenue expansion in the division, but high levels of procurement dented margins while sub-contractor delivery issues for the jackets led to cost over-runs. As a result, the division was only marginally above break-even in 2018.

Figure 192: Performance of Renewables and Heavy Lifting has deteriorated rather than improved



Source: Company data, Credit Suisse research

Figure 193: Subsea 7 has failed to replace the Beatrice wind project



Source: Company data, Credit Suisse research

The EPCI model for Offshore Wind Farms is a relatively new concept, with projects historically developed using multiple contractors. However, Subsea 7 believes its experience in managing large oil & gas projects and associated supply chain gives it an advantage. This may be true; however, it has missed out on a number of EPCI contracts to competitors since the Beatrice award.

Subsea 7's major competitors' press releases since the start of 2016 highlight that their breadth of service is greater than that of Subsea 7. Van Oord and DEME have expanded their capabilities through acquisitions to wind-turbine installation, which is widely viewed as a more sophisticated part of a project than foundation installation. Therefore Subsea 7 may now lack competitive advantage despite its acquisitions. EPCI projects are highlighted in light blue/acquisitions in yellow in Figure 194.

Figure 194: Subsea 7's major competitors in renewables have announced a number of EPCI awards (blue) and some major strategic acquisitions (cream) in the time since the Beatrice contract was won

	Project	Location	Size €m	Comment
Boskalis				
Jan-19	Inch Cape	UK	200*	Pre construction agreement for engineering, supply, T&I of 72 jackets and 84 inter-array cables and T&I of offshore substation
Dec-18	Moray Offshore	UK	110	Inter-array cable installation. Executed in 2020 / 2021
Aug-18	Triton Knoll	UK	90	Export and inter-array cable installation to be executed in 2020
Feb-17	Hohe See	Germany	80	Inter-array cable installation offshore in 2018 and 2019
Van Oord				
Oct-18	Borsesele I & II	Netherlands		Transportation and installation of 94 inter-array cables with a total length of 167km
Aug-18		Netherlands		In consortium with Siemens Gamesa contract to design, fabricate and install 89 foundations and cables. Siemens Gamesa to design, fabricate and commission wind turbines installed by Van Oord
Jul-18				**Acquisition of two vessels from MPI Offshore (part of Vroon Group) enabling entry into the wind turbine installation business**
May-18	Yunlin	Taiwan	500	Design, manufacturing and installation of 80 foundations
Aug-17	Deutsche Bucht	Germany		Design engineering, procurement, construction and installation of the foundations, inter array cables and offshore high voltage station and transportation of the wind turbines
Jan-17	East Anglia One	UK		T&I of 102 jacket foundations. Offshore April to October 2018
Dec-16	Norther Offshore	Belgium		Engineering, procurement, supply and installation of 44 foundations, offshore high voltage station and inter-array and export cables, installation of turbines
DEME Group				
Dec-18	SeaMade	Belgium	500	EPCI for 58 foundations and inter-array cables. Partnership with ENGIE and Smulders to deliver 2x substations. Partnership with Helenic cables to design, manufacture and install 28km of export cables
Oct-18	Borselle 1 & 2	Netherlands		T&I of 94 foundations and wind turbines. Monopile installation in 2020
Nov-17	Triton Knoll	UK		T&I of 90 wind turbines. To commence in 1Q 2021
Oct-17	Moray East	UK		EPCI of ~100 wind turbine foundations, 3 offshore substations foundations and T&I of 3 substation platforms
Jul-17				**Acquisition of A2SEA, a wind turbine installer, from Siemens / DONG**
Jun-17	Albatros	Germany		EPCI contract for 16 foundations and 1 Offshore Transformer Module. Fabrication in 2017 / 18 and installation in 2018
Feb-17	Hohe See	Germany		Design, manufacture and install 71 turbine foundations/ Fabrications in 2017 with installation in 2018
Jun-16	Hornsea Project One	UK		Contract to design, build and install three export cables

* Contract size does not include procurement

Source: Company data, Credit Suisse estimates. * Contract size does not include procurement

Subsea 7's focus on EPCI markets has been to the detriment of spot market work, which served SHL well in 2014/15. This leaves it in a challenging position for 2019, with limited work due for execution, and the possibility of stacking one of its vessels. Subsea 7 has not revealed the projects on which it is bidding in renewables, other than T&I work in Taiwan and medium-sized EPCI work in Europe that is being tendered now. However, we are concerned that given the time lag between award and installation (especially for cable laying), if awards are not won in 1H19, they might have limited impact on 2020 profits.

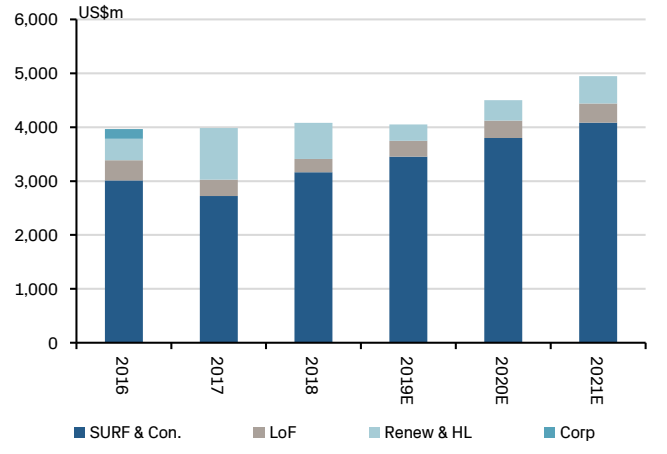
There are also industry factors that raise some concerns for us:

- **Operator pressure:** As offshore wind moves into a zero-subsidy era, we believe that operators will push on the supply chain harder than ever to ensure that projects generate maximum returns.
- **Greater competition:** On the 1Q19 results call the company highlighted that bidding for renewable work, both EPCI and Transport & Installation was competitive with traditional Oil & Gas companies, namely Saipem and Heerema, entering the market.
- **Larger turbines:** Inter-array cables are dependent upon the number of turbines. As turbine sizes expand, fewer turbines are therefore required per given field output.
- **Transition towards floating wind:** As wind power transitions further away from shore, water depths will increase and fixed platforms will not be suitable. We see this as more of an issue in the latter part of the 2020s, however.

Divisional & group forecasts

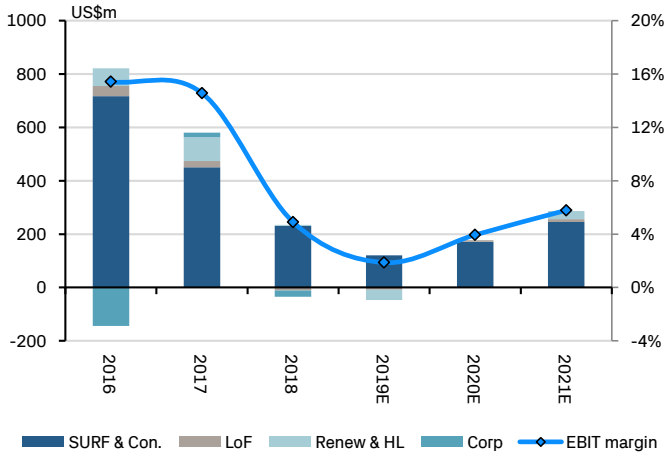
Subsea 7 reports across three divisions: SURF and Conventional, Life of Field and Renewables & Heavy Lifting. There are plans to put the Life of Field business into a JV with Schlumberger (announced in February 2018), however this failed to make meaningful progress in recent quarters..

Figure 195: SURF and Conventional is the dominant contributor to revenue and is already showing some revenue recovery



Source: Company data, Credit Suisse estimates

Figure 196: SURF & Conventional likely to be the only division to post positive operating profit in 2019



Source: Company data, Credit Suisse estimates

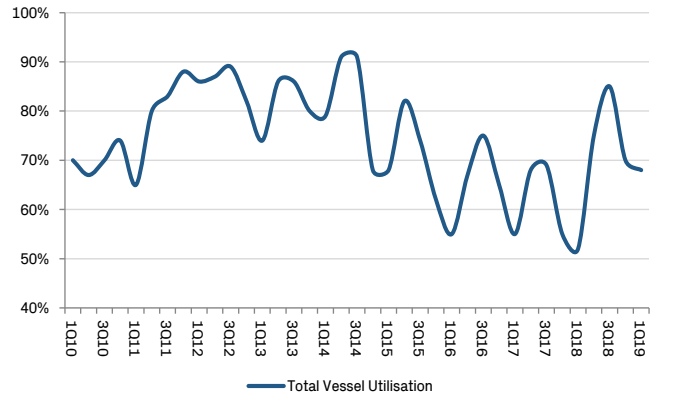
SURF and Conventional

Through M&A, namely the acquisition of EMAS Chiyoda, Subsea 7 has managed to keep revenues relatively stable through the downturn. However EBITDA margins have come down meaningfully on lower contingency releases, more competitive pricing and project mix. Looking forward, we expect EBITDA margins to gain some support from IFRS (although most benefit will accrue to the Life of Field division), however we think operating margins will drop to 3.5% for the year.

Order intake for the division has been healthy. The Subsea Integration Alliance won a contract for the West Barracouta development, whilst Subsea 7 won US$300m of work for the Zuluf/Berri fields in Saudi Arabia and smaller projects in the UK North Sea.

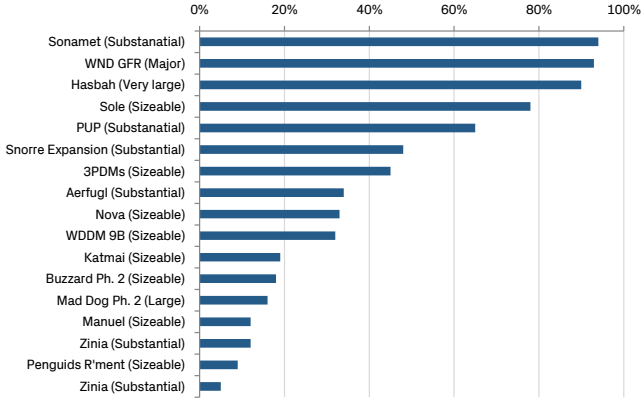
The division continues to benefit from Pipe-Lay Support Vessel (PLSV) revenue, with these contracts accounting for ~20% of backlog. These PLSVs under long-term contract with Petrobras, were constructed specifically for these contracts, and are operated on a day-rate. Their EBITDA margins are therefore accretive, typically >40% we believe. The contracts run until 2021/22 and will then have to be renegotiated.

Figure 197: Subsea 7 achieved a surprisingly high level of vessel utilisation in 1Q19



Source: Company data, Credit Suisse research

Figure 198: Weighting in portfolio is moving towards smaller contracts (1Q19)



Major: >US$750m; Very Large: US$500-750m; Large: US$300-500m; Substantial: US$150-300m; Sizeable: US$50-150m

Source: Company data, Credit Suisse research

Life of Field

Formerly known as i-Tech, the Life of Field division provides inspection, maintenance and repair services to the offshore industry. These consist of vessel-based operations (these vessels are largely leased and therefore the impact of IFRS16 is felt most acutely here) and a large fleet of Remote Operating Vehicles (ROVs), second in size only to Oceaneering. The company has recently renewed major contracts with BP (UK, Azerbaijan) and Equinor (Norway), which has provided some near-term visibility on workload.

The financial performance of the division in 2018 was disappointing, considering the year was meant to mark an upturn in activity levels. Operating margins for the year were negative, with EBITDA margins falling from 20% to 10%. In 2019 we expect revenue to increase, buoyed by the recent contract renewals. The ROV market continues to be oversupplied, and is likely to remain competitive.

Renewables & Heavy Lifting

Activity levels in the Renewables & Heavy Lift segment will take a material step down this year. Although order intake showed some recovery in 2H18, this was mainly associated with the cable laying for Yudlin in Taiwan, which will not be executed until 2020 (current backlog for execution in 2019 is almost identical to backlog for execution in 2020 at US$190m). We believe there is about six months' visibility for short-term installation work, so revenue estimates for the year should be firmed up by the end of the summer. We expect the division to contribute minimal EBITDA in 2019.

CS vs consensus

Subsea 7's guidance is not as granular as that of its peers – more qualitative than quantitative. For 2019, including IFRS 16, it is guiding to:

- revenue on a par with 2019;
- lower adjusted EBITDA, but with double-digit EBITDA margins (which was the case pre IFRS 16); and
- positive net operating income.

This lack of detail means that the range of consensus estimates is wider than for peers. We believe that consensus numbers are yet to fully reflect the pressure on margins, and see a dependency on the opaque spot market to support revenue estimates in both Life of

Field and Renewables/Heavy Lift. Further, we do not believe that consensus estimates include the IFRS 16 impact, so our 2% lower-than-consensus estimate for EBITDA in 2019 is probably larger on a like-for-like basis.

Figure 199: CS vs consensus

	2018	2019E			2020E			2021E		
$m	Actuals	CS	Cons.	Diff	CS	Cons.	Diff	CS	Cons.	Diff
Revenue	4,074	4,050	3,872	5%	4,500	4,232	6%	4,950	4,567	8%
EBITDA	669	572	594	-4%	702	701	0%	838	813	3%
EBITDA margin	16.4%	14.1%	15.3%		15.6%	16.6%		16.9%	17.8%	
Net Income (Adj)	182	31	63	-51%	112	145	-23%	189	218	-14%
EPS ($/sh)	0.56	0.10	0.19	-49%	0.37	0.46	-21%	0.62	0.70	-11%
DPS ($/sh)	0.17	0.17	0.24	-27%	0.17	0.32	-45%	0.22	0.37	-41%
Net Debt	-507	-177	-591	-70%	-313	-804	-61%	-665	-1,023	-35%

Source: Company data, Refinitiv (for consensus), Credit Suisse estimates. Priced as of 1st May 2019

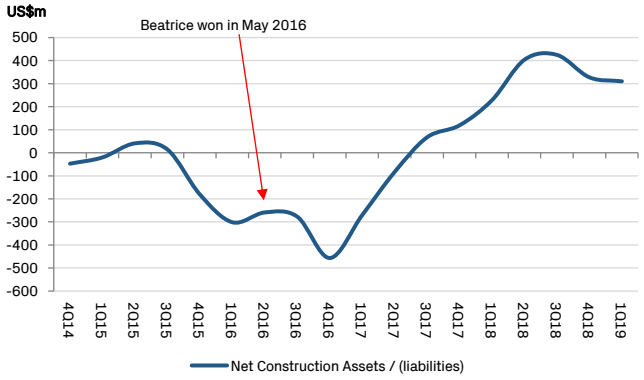
Balance sheet and shareholder returns

Strong balance sheet with record of shareholder distributions

Subsea 7, as a predominantly lump-sum contractor, should operate in a net cash position. The only time this has not been the case in recent years was in 2012-14 when high levels of expansionary capex coincided with project losses on the Guara-Lula project in Brazil. IFRS 16 has added US$412m to net debt via lease liabilities but even with this adjustment Subsea 7 is still (very marginally) in net cash. One of the uncertainties regarding the balance sheet is whether additional cash can be released from net construction assets. This has transitioned in recent years from a liability to an asset, meaning that Subsea 7 is funding clients. This is not surprising to us for a number of reasons: i) deteriorating T&Cs reduced the up-front payment on EPCI contracts; ii) the Beatrice wind-farm project that had high customer prepayments was concluded; iii) revenue mix towards day rate contracts where customers are billed in arrears; and iv) contracts with Saudi Aramco which include stringent payment terms. As Figure 184 shows, although NCAs have fallen slightly since 3Q18, they are still ahead of historical levels. However, we do not believe the make-up of revenue mix in 2019 is likely to be conducive to a major reversal.

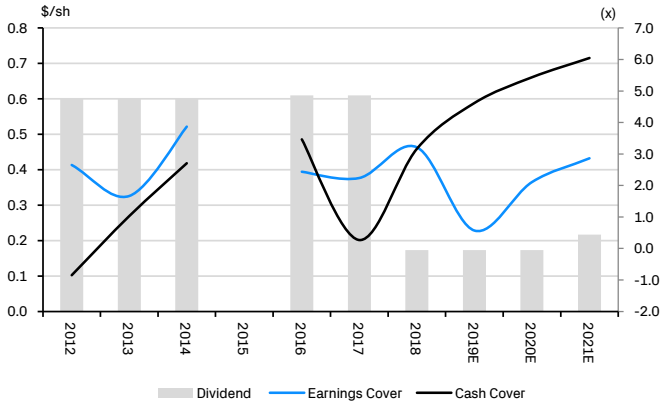
Subsea 7 does not have a formalised dividend policy, believing that the cyclicality in the industry makes committing to a strict dividend too tough (while perhaps also limiting capital-allocation decisions). Instead, its policy is to announce special dividends. The company has announced special dividends every year since 2010, except 2017 when the industry outlook was towards its nadir. The company has overlaid this policy with share-buyback programmes, the most recent committing to US$200m by February 2021.

Figure 200: Net construction assets released some cash in 2H18; we don't expect a big unwind in 2019



Source: Company data, Credit Suisse research

Figure 201: Weak earnings cover *could* limit dividend growth in the near term



Source: Company data, Credit Suisse estimates

Rating and target price

We initiate coverage of Subsea 7 with a Neutral rating and an equally weighted SOTP and DCF derived target price of Nkr 117.

Figure 202: Subsea 7 target price

Blended Valuation (Nkr / sh)	
SOTP fair value	112
DCF fair value	122
Average Fair Value (50% SOTP / 50% DCF)	**117**

Source: Credit Suisse estimates. Priced 1st May 2019

Sum-of-the-parts

We use a 5.3x EV/EBITDA multiple applied to our 2020E EBITDA forecasts (equal to 5.5x pre-IFRS 16) across all divisions. This is above the long-term average of 5.0x, but reflects what we believe to be the company's strong relative positioning within the supplier-led integrated subsea business model which could provide less competitively priced work, and potential growth in renewables, which is not captured because of timing in our 2020 EBITDA forecasts.

Below we show multiples for Subsea 7's peers.

Figure 203: Multiples for SUBC's peer group

	EV/EBITDA 2019	EV/EBITDA 2020	PE 2019	PE 2020	EV/Sales 2019	EV/Sales 2020	ND / EBITDA 2019	ND / EBITDA 2020
TechnipFMC PLC	6.4	6.0	18.1	14.7	0.7	0.6	-0.7	-0.9
Saipem SpA	5.6	4.8	37.9	19.1	0.6	0.6	1.1	0.8
Aker Solutions ASA	5.8	5.1	20.5	16.4	0.5	0.5	0.6	0.4
McDermott International Inc	1.2	2.2	5.1	3.7	0.1	0.2	-0.2	0.9
Oceaneering International Inc	14.9	10.2	-21.3	-71.7	1.1	1.0	2.8	1.8
Koninklijke Boskalis Westminster NV	8.1	6.4	26.5	18.2	1.2	1.1	-0.3	-0.5
Average	**7.0**	**5.8**	**14.5**	**0.1**	**0.7**	**0.7**	**0.6**	**0.4**

Source: Refinitiv. All numbers consensus. Priced as of 1 May 2019

The peer group for Subsea 7 ranges from 2.2x to 10.2x equivalent 2020E EBTIDA multiples, with an average of 5.8x. Subsea 7 should trade below the average given its lack of equipment manufacturing, which commands a higher multiple hence our 5.3x multiple.

Figure 204: SOTP valuation based on 2020 EBITDA forecasts

2020 SOTP - $m						
	EBITDA	Multiple (x)	Sales	Implied EV/Sales (x)	EV	Share
SURF & Conventional	544	5.3	3,801	0.8	2,855	78%
Life of Field	90	5.3	320	1.5	475	13%
Renewables & Heavy Lifting	63	5.3	379	0.9	331	9%
Corporate	5	5.3	0	0.0	28	3%
Total	702	5.3	4,500	0.8	3,688	
Net Debt / (Cash) - 2020E					-733	
IFRS 16 Lease Adjustment					420	
Minority Adjustments					39	
Shareholders' Equity					3,963	
Shares Outstanding - 2020E					307	
Implied Share price (US$/sh)					13	
FX					8.6	
Implied fair value (Nkr / sh)					**112**	

Source: Credit Suisse estimates. Priced as of 1 May 2019

DCF

We use a three-stage DCF, comprising forecasts out to 2025, a 10-year normalisation period to 2035 with revenue growth of 3% pa and subsequent terminal value based on a long-term growth rate of 2%.

Our WACC of 11.2% is based on the following inputs:

- a risk free rate of 2.9% (30-year US Treasury);
- beta of 1.4 based on 2-year weekly regression of SUBC's share price vs Norwegian market;
- a risk premium for the Norwegian market of 6.0% calculated by the NYU Stern School of Business (Country Default Spreads and Risk Premiums); and
- 100% equity financing, therefore a cost of equity that is equal to the WACC.

Our long-term EBITDA margin assumption is 16%, which leads to a terminal value EV/EBITDA multiple of 3.3x.

Figure 205: We use a three-stage DCF model

DCF - $m					
Assumption	**Beta**	**Risk Prem.**	**WACC**	**LT Growth**	
	1.4	6.0%	11.2%	2.0%	
				EV	**Share**
Present Value Forecast Period				1,957	47%
Present Value Normalisation Period				1,567	38%
Present Value of Terminal Value				631	15%
Total Enterprise Value				**4,155**	
Net Debt / (Cash) - 2018				-507	
Non Contolling Interest - 2018				38	
Implied Equity Value				**4,624**	
Share Count - 2018				327	
DCF Implied Fair Value				14	
FX				8.6	
Implied fair value (Nkr / sh)				**122**	

Source: Credit Suisse estimates. Priced as of 1 May 2019

Blue Sky/Grey Sky scenarios

We establish Blue Sky and Grey Sky valuation scenarios with reference to our SOTP valuation, flexing our target multiple and forecasts for revenue growth and operating margins.

- *Blue Sky:* We assume SURF & Conventional and Life of Field revenues both grow at 17.5%, versus our 10% base case assumption. Our SURF & Conventional operating margin recovers to 2018 levels (7% vs 4.5% in base case), while in Life of Field we assume 5% margins (vs base case 2%), which is in line with 2015, and the last time the division posted a positive operating margin. For the Renewables & Heavy Lift division, we forecast revenue growth of 40% (vs 25% base case) and margins of 9.5%, which is back to 2017 levels. We use a target multiple of 6.5x (vs 5.3x in our base case), which is at the top end of the company's historical range.

- *Grey Sky:* We assume that SURF & Conventional and Life of Field revenues both fall 10%. Margins in Surf & Conventional fall by 150bps to 2% and margins in Life of Field contract 200bp becoming even more negative. In Renewables & Heavy Lift we assume no change year on year relative to 2019, a year that is set to deliver highly disappointing results for the division. Our target multiple drops to 4.0x, which is the bottom of the group's historical range.

Figure 206: Blue Sky/Grey Sky

Blue Sky SOTP		vs base
EBITDA (2020 - US$m)	867	23%
Multiple	6.5	24%
Equity value (Nok/sh)	**170**	
Grey Sky SOTP		**vs base**
EBITDA (2020 - US$m)	540	-23%
Multiple	4.0	-24%
Equity value (Nok / sh)	**64**	

Source: Credit Suisse estimates, as of 1st May 2019

Risks

The major risks to our investment case and target price are:

- On the upside, Subsea 7 may secure a higher order intake in 2019 than we currently anticipate, driving higher revenue in 2020. The Remote Operated Vehicle market within the Life of Field division may see supply/demand tighten quicker than we expect, driving margins higher. The Renewables & Heavy Lift division may benefit from quicker offshore wind projects making their way to market. From a financial perspective, the working capital balance may reduce, boosting free-cash-flow yields. The company could increase shareholder payments more than we model.
- On the downside, the alliance with Schlumberger may fail to retain its market share against competitors in the subsea market, negatively affecting vessel utilisation and eating into margins. In the renewables market, failure to secure further EPCI work would make us question the competitive positioning of the company.

Credit Suisse HOLT

The extended seven-year forecast shown in Figure 207 for sales, margins and returns allow us to express our long-term view of the near-term recovery and factor the next cycle into this business.

The decline of CFROI to 2019 coincides with falling sales and EBITDA margins largely due to a competitive pricing environment in SURF and falling revenues from Renewables & Heavy Lifting. We do however expect this to improve as the recovery in subsea market takes hold and value is passed down from the producers, future margins should be supported by an improvement in the Renewables segment. The figures show EBITDA margins recovering 260bps to 2021 and CFROI expected to improve from the 0.0% seen in 2019 to just over 2% by 2021. Thereafter we forecast returns to improve further to 4.4% by 2025.

Beyond the explicit seven-year forecast period (2019-2025), HOLT uses a fade model to arrive at its warranted price. CFROI® levels are faded to 6.0% and asset growth is faded to 2.5% (mean reversion to long-term observed levels). The default fade rate is 10%, combined with the 7-year explicit forecast period this implies that the company will reach the cost of capital over 17 years. For this analysis we have used a Market Implied Discount Rate of c.5.5% for European Oil & Gas aggregate.

The above assumptions suggest a HOLT warranted value of Nkr 145 vs our target price of NKr 117. Working in Subsea 7's favour under HOLT is that CFROI fades back up to 6.0% in a "normalized" fashion which may be too optimistic for the company given that historically returns have not been a strategic focus.

Figure 207: Subsea 7 in HOLT

HOLT - Credit Suisse Analyst Scenario Data

SUBSEA 7 S.A. (SUBC)

Current Price: NOK 109.50 **Warranted Price: NOK 144.68**

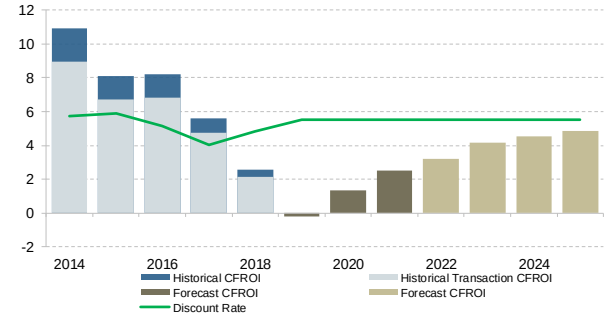
Valuation date: 30-Apr-19

EBITDA Margin (parallel % point change to forecasts)	USD	Sales Growth (parallel % point change to forecasts) -2.0%	-1.0%	0.0%	1.0%	2.0%
	-2.0%	-16%	-6%	5%	16%	29%
	-1.0%	-4%	7%	18%	31%	45%
	0.0%	9%	20%	32%	46%	60%
	1.0%	21%	33%	46%	60%	76%
	2.0%	33%	45%	59%	75%	91%

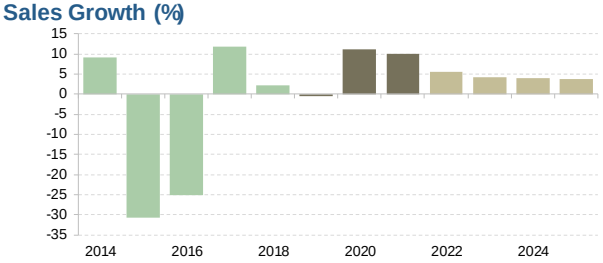
	Dec 17A	Dec 18A	Dec 19E	Dec 20E	Dec 21E
Sales Growth, %	11.7	2.2	-0.6	11.1	10.0
EBITDA Mgn, %	26.8	16.2	11.4	13.2	14.7
Asset Turns, x	0.34	0.4	0.4	0.4	0.4
CFROI®, %	5.6	2.6	-0.2	1.4	2.5
Disc Rate, %	4.0	4.8	5.5	5.5	5.5
Asset Grth, %	9.7	-7.2	-0.8	1.6	2.9
Price to Book, x	0.9	0.6	0.7	0.7	0.7
Economic PE, x	15.8	23.7	-362.7	50.6	25.9
Leverage, %	25.7	26.5	28.3	29.3	31.1

More than 10% downside | Within 10% | More than 10% upside

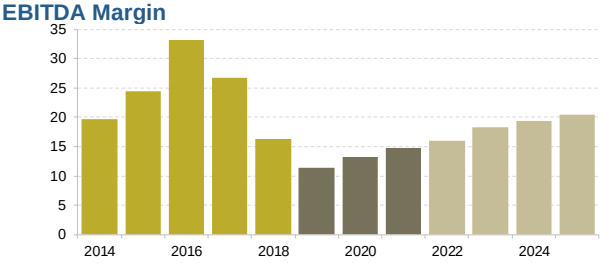
CFROI & Discount Rate (in %)



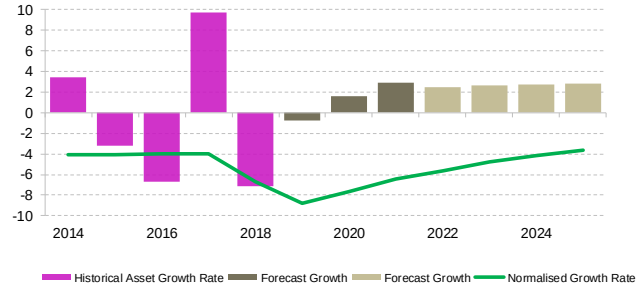
Sales Growth (%)



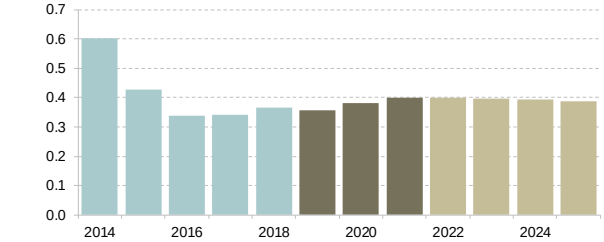
EBITDA Margin



Asset Growth (in %)



Asset Turns (x)



Source: Credit Suisse HOLT®. CFROI and HOLTare trademarks or registered trademarks of Credit Suisse Group AG or its affiliates in the United States and other countries.

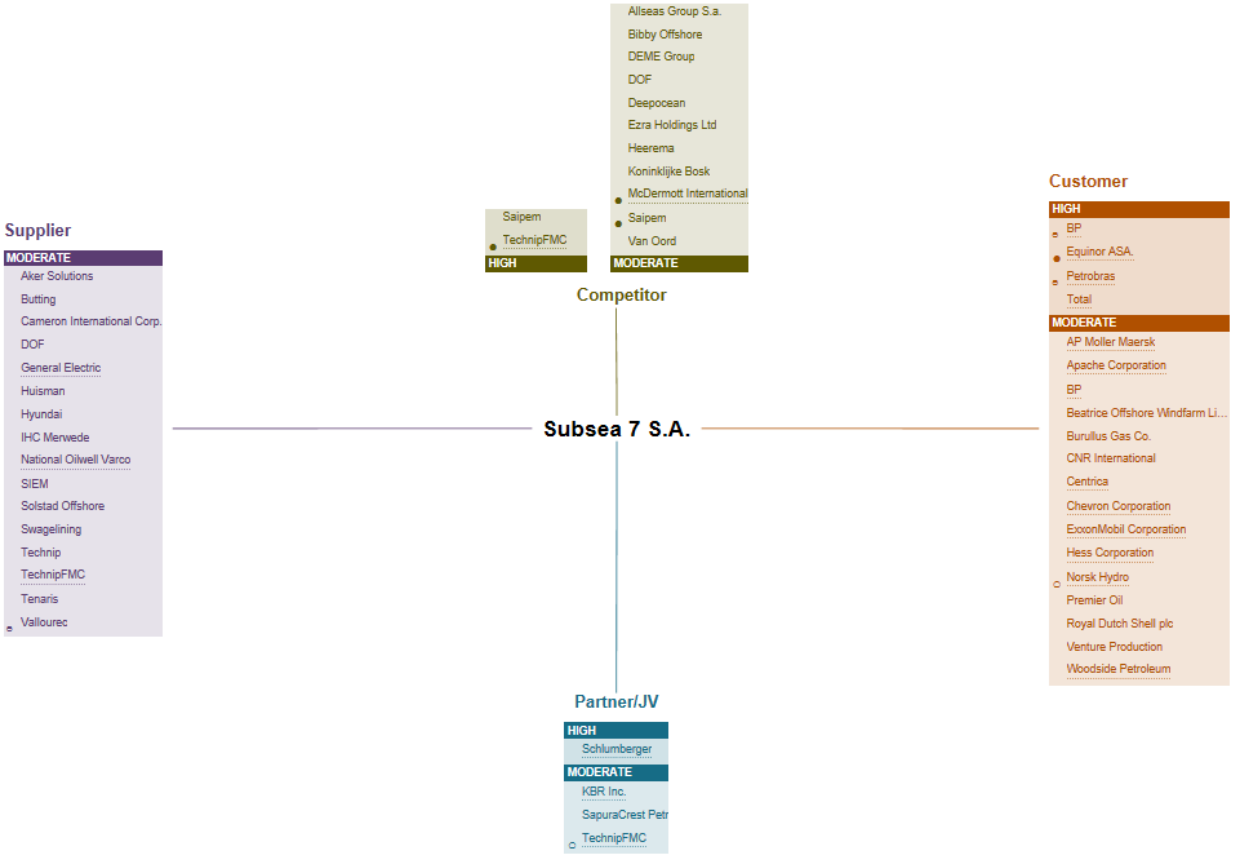
Source: Credit Suisse HOLT

PEERs

PEERs is a global database that captures unique information about companies within the Credit Suisse coverage universe based on their relationships with other companies – their customers, suppliers and competitors. The database is built from our research analysts' insight regarding these relationships. Credit Suisse covers over 3,000 companies globally. These companies form the core of the PEERs database, but it also includes relationships on stocks that are not under coverage.

For more information, see our November 2016 PEERs report: A chain reaction: Supply chain strategies.

Figure 208: Subsea 7 in PEERs



Source: Credit Suisse Research

Management

Jean Cahuzac – CEO

Mr Cahuzac has held the position of Chief Executive Officer since April 2008. He has experience in senior executive roles in the oil and gas services sector spanning a period of 35 years. He worked at Transocean in Houston, USA, from 2000 until April 2008, where he held the positions of Chief Operating Officer and then President. Prior to this, he worked at Schlumberger from 1979 to 2000 where he served in various positions.

Ricardo Rosa – CFO

Mr Rosa has served as Chief Financial Officer of Subsea 7 since July 9, 2012. After starting his career at Price Waterhouse, in 1983, he joined Schlumberger where he held various financial positions in the Group across multiple regions. In 2000, he joined Transocean as Vice President and Controller in Houston, subsequently becoming Senior Vice President for Asia Pacific, and then for Europe and Africa. Prior to joining Subsea 7, he was Transocean's Executive Vice President and CFO.

P&L, cash flow & balance sheet

Figure 209: Divisional and group P&L

Divisionals (USDm)	2017A	2018A	2019E	2020E	2021E
SURF & Conventional					
Revenue	**2,725**	**3,164**	**3,456**	**3,801**	**4,086**
Growth	-10%	16%	9%	10%	8%
EBITDA	786	564	473	544	637
Margin	28.9%	17.8%	13.7%	14.3%	15.6%
Growth	-24%	-28%	-16%	15%	17%
Life of Field					
Revenue	**302**	**245**	**291**	**320**	**352**
Growth	-20%	-19%	19%	10%	10%
EBITDA	60	24	71	90	99
Margin	19.9%	10.0%	24.3%	28.2%	28.0%
Growth	-24.3%	-59.5%	189.5%	28.0%	9.3%
Renewables & H. Lift					
Revenue	**959**	**664**	**303**	**379**	**512**
Growth	141%	-31%	-54%	25%	35%
EBITDA	134	59	25	63	86
Margin	13.9%	8.9%	8.4%	16.6%	16.8%
Growth	28.6%	-55.6%	-57.3%	148.6%	36.2%
Corporate					
Revenue	0	0	0	0	0
EBITDA	17.2	-22.9	-2.2	0	0

P&L (USDm)	2017A	2018A	2019E	2020E	2021E
Revenue	3986	4074	4050	4500	4950
Growth	1%	2%	-1%	11%	10%
EBITDA (adj)	**1035**	**669**	**572**	**702**	**838**
EBITDA margin	26%	16%	14%	16%	17%
Growth	-15%	-35%	-14%	23%	19%
D&A	-422	-430	-496	-525	-551
Impairments	-32	-39	0	0	0
EBIT	**623**	**203**	**75**	**177**	**286**
Income from associates	-43	-3	0	0	0
EBIT (Inc associates)	**581**	**200**	**76**	**177**	**286**
Growth	-5%	-66%	-62%	134%	61%
Margin	15.6%	5.0%	1.9%	3.9%	5.8%
Net finance expense	0	2	4	5	11
Other (Inc Impairments)	-26	14	-17	0	0
Pre-tax profit	**554**	**216**	**48**	**167**	**281**
Tax	-100	-52	-17	-55	-93
Effective Tax rate (underlying)	18%	24%	35%	33%	33%
Minority Interest	0	18	0	0	0
Net profit	454	182	31	112	189
Adj Net profit	**459**	**182**	**31**	**112**	**189**
No. Shares (FD)	338	327	314	307	304
EPS (CS, Adj)- US$/sh	**1.36**	**0.56**	**0.10**	**0.37**	**0.62**
EPS (IFRS) - US$/sh	1.34	0.56	0.10	0.37	0.62
DPS - US$/sh	0.61	0.17	0.17	0.17	0.22

Source: Company data, Credit Suisse estimates

Figure 210: Condensed cash-flow and balance sheet

Cash flow (USDm)	2017A	2018A	2019E	2020E	2021E
Net income / (losses) before taxes	555	216	48	167	281
Operating cash flows	379	374	439	480	463
Working cap movement	-724	-167	135	-11	21
Cashflow from Operations	**209**	**424**	**621**	**636**	**765**
Capex (net, inc intangible)	-154	-244	-267	-240	-260
Other investing cash flows	-16	-181	34	19	24
Cashflow from Investing	**-170**	**-425**	**-233**	**-221**	**-236**
Change in borrowings	-387	-25	-6	0	0
Dividend / Buyback cash cost	-191	-297	-181	-154	-53
IFRS 16 Payments			-103	-107	-107
Other financing cash flows	-24	-13	-14	-13	-13
Cashflow from Financing	**-602**	**-335**	**-304**	**-274**	**-173**
FX	1	-10	-4	0	0
Net cash flow	**-561**	**-346**	**80**	**140**	**356**
Cash and cash equivalents	**1109**	**765**	**845**	**986**	**1342**
Net debt / (cash) - Pre IFRS 16	-826	-507	-593	-733	-1089
IFRS 16 Lease Liability			415	420	424
Net debt / (cash) - IFRS 16	**-826**	**-507**	**-177**	**-313**	**-665**
Free cash flow	**55**	**180**	**251**	**289**	**398**

Balance Sheet (USDm)	2017A	2018A	2019E	2020E	2021E
Property, plant & equipment	4688	4569	4530	4390	4246
Goodwill and intangible assets	701	783	789	740	688
Other Non-Current Assets	173	121	503	504	504
Total Non-Current Assets	**5562**	**5473**	**5822**	**5633**	**5438**
Trade and other receivables	497	608	634	703	770
Construction contracts - assets	319	495	483	483	483
Other accrued income and prepaid ex	176	166	169	169	169
Cash and cash equivalents	1109	765	845	986	1342
Other Current Assets	81	63	63	61	65
Total Current Assets	**2182**	**2096**	**2194**	**2401**	**2828**
Total Assets	**7745**	**7569**	**8017**	**8035**	**8266**
ST borrowing	25	25	25	25	25
Trade & other liabilities	893	978	1134	1190	1281
Construction contracts - liabilities	200	168	173	173	173
Other Current Liabilities	193	230	320	321	322
Total Current Liabilities	**1310**	**1401**	**1652**	**1709**	**1801**
LT borrowings	258	234	228	228	228
Other Non-Current Liabilities	235	213	512	515	518
Total Non-Current Liabilities	**493**	**446**	**739**	**743**	**746**
Shareholders equity	5893	5683	5587	5545	5681
Minority interest	48	38	39	39	39
Total Shareholders Equity	5941	5722	5625	5584	5719
S/H Equity & Liabilities	**7745**	**7569**	**8017**	**8035**	**8266**

Source: Company data, Credit Suisse estimates

TechnipFMC (FTI / FTI.PA)

Rating	**OUTPERFORM**
Price (01-May-19, US$)	23.77
Target price (US$)	(from 24.00) 29.00
52-week price range (US$)	34.19 - 18.54
Market cap(US$ m)	10,652
Enterprise value (US$ m)	12,101
Secondary Ric T	FTI.PA
Rating	OUTPERFORM
Price (01 May 19, €)	22.11
Target price (€)	26.00

Target price is for 12 months.

Research Analysts

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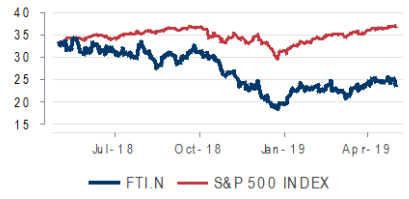
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Moving from words to orders

- **We retain our Outperform rating and increase our TP to US$29 from US$24:** With this report we transfer primary coverage of FTI to David Farrell and initiate coverage of the French listing (FTI.PA) with a TP of €26.
- **Well positioned:** TechnipFMC has taken a dominant position with ~60% market share in the 'integrated' subsea model, especially with independent companies; its willingness to use its balance sheet is proving commercially attractive. Subsea order intake in 1Q19 should comfortably exceed any other period since the recovery commenced, and visibility is much improved. We are equally encouraged that the speed with which these projects move from announcement to execution should ensure 2020 delivers better vessel utilisation and therefore margins. TechnipFMC's recent record on Yamal LNG (completed ahead of schedule) is likely to see the market discount the value of LNG projects sooner than for rival companies with more chequered execution histories.
- **Catalysts: 1)** Further upgrades to 2019 estimates on continued order intake / execution strength **2)** Securing more than one LNG contract in 2019
- **Risk: 1)** Near-term negative operating cash-flow due to working capital downgrades **2)** Failure to secure incremental LNG awards.
- **Valuation:** TechnipFMC's share price has underperformed its most direct peers YTD as EBITDA forecasts reacted negatively to the December 2018 trading update. Although on a 2020E EV/EBITDA metric of ~6.5x (adjusted for net construction liabilities) the company does not screen cheaply vs its European peers, we believe it can grow into this multiple as order intake de-risks valuation beyond the 2020 time frame.

Share price performance



On 01-May-2019 the S&P 500 INDEX closed at 2923.73
Daily May07, 2018 - May01, 2019, 05/07/18 = US$32.8

Quarterly EPS	Q1	Q2	Q3	Q4
2018A	-	-	-	-
2019E	-	-	-	-
2020E	-	-	-	-

Financial and valuation metrics

Year	12/18A	12/19E	12/20E	12/21E
EPS (CS adj.) (US$)	0.78	1.42	1.84	2.04
Prev. EPS (US$)	1.10	1.45	-	-
P/E rel. (%)	168.4	94.9	81.5	81.0
Revenue (US$ m)	12,552.5	13,530.3	15,886.7	17,156.2
EBITDA (US$ m)	1,536.8	1,608.1	1,722.7	1,860.7
OCFPS (US$)	-0.40	-0.32	3.63	3.22
P/OCF (x)	-49.5	-73.7	6.6	7.4
EV/EBITDA (current)	7.7	7.5	6.6	5.8
Net debt (US$ m)	-1,348	-214	-972	-1,563
ROIC (%)	4.50	7.85	8.13	8.91

Number of shares (m)	448.12	IC (current, US$ m)	9,082.61
BV/share (Next Qtr., US$)	-	Dividend (current, US$)	-
Net debt (Next Qtr., US$ m)	-		
Net debt/tot eq (Next Qtr.,%)	-		

Source: Company data, Refinitiv, Credit Suisse estimates

TechnipFMC (FTI)

Price (01 May 2019): **US$23.77**; Rating: **OUTPERFORM**; Target Price: **(from 24.00) 29.00**; Analyst: **David Farrell**

Income Statement	12/18A	12/19E	12/20E	12/21E
Revenue (US$ m)	**12,552.5**	**13,530.3**	**15,886.7**	**17,156.2**
EBITDA (US$ m)	**1,537**	**1,608**	**1,723**	**1,861**
Depr. & amort.	(459)	(500)	(565)	(610)
EBIT (US$)	**1,078**	**1,108**	**1,158**	**1,251**
Net interest exp	(396)	(46)	(10)	(8)
PBT (US$)	**681**	**1,062**	**1,148**	**1,242**
Income taxes	(423)	(271)	(322)	(335)
Profit after tax	**258**	**791**	**827**	**907**
Minorities	(11)	1	-0	-0
Reported net income (US$)	**(1,922)**	**620**	**827**	**907**
Other NPAT adjustments	(2,285)	(24)	0	0
Adjusted net income	**364**	**644**	**827**	**907**

Cash Flow	12/18A	12/19E	12/20E	12/21E
EBIT	1,078	1,108	1,158	1,251
Net interest	(396)	(46)	(10)	(8)
Change in working capital	0	0	0	0
Cash flow from operations	**(185)**	**(146)**	**1,626**	**1,432**
CAPEX	(442)	(559)	(350)	(368)
Free cashflow to the firm	**(554)**	**(576)**	**1,276**	**1,065**
Acquisitions	0	0	0	0
Divestments	0	1	0	0
Cash flow from investments	**(460)**	**(489)**	**(350)**	**(368)**
Net share issue(/repurchase)	(443)	(97)	(86)	(86)
Dividends paid	(238)	(234)	(232)	(230)
Changes in Net Cash/Debt	**(1,534)**	**(1,134)**	**758**	**590**

Balance Sheet (US$)	12/18A	12/19E	12/20E	12/21E
Assets				
Cash & cash equivalents	5,540	4,148	4,906	5,497
Account receivables	2,470	2,790	3,023	3,139
Other current assets	2,520	2,763	3,012	3,146
Total current assets	**11,781**	**11,040**	**12,576**	**13,548**
Total fixed assets	3,260	3,310	3,175	3,019
Investment securities	-	-	-	-
Total assets	**24,784**	**25,323**	**26,644**	**27,373**
Liabilities				
Total current liabilities	**9,134**	**8,978**	**9,991**	**10,287**
Total liabilities	**14,354**	**14,606**	**15,418**	**15,556**
Shareholder equity	10,400	10,686	11,195	11,786
Total liabilities and equity	**24,785**	**25,323**	**26,644**	**27,373**
Net debt	(1,348)	(214)	(972)	(1,563)

Per share	12/18A	12/19E	12/20E	12/21E
No. of shares (wtd avg)	468	452	448	444
CS adj. EPS	0.78	1.42	1.84	2.04
Prev. EPS (US$)	1.10	1.45	-	-
Dividend (US$)	0.52	0.52	0.52	0.52
Free cash flow per share	(1.34)	(1.56)	2.85	2.40

Earnings	12/18A	12/19E	12/20E	12/21E
Sales growth (%)	(16.6)	7.8	17.4	8.0
EBIT growth (%)	(31.2)	2.8	4.5	8.0
Net profit growth (%)	(40.2)	77.0	28.4	9.7
EPS growth (%)	(40.2)	83.4	29.5	10.6
EBITDA margin (%)	12.2	11.9	10.8	10.8
EBIT margin (%)	8.6	8.2	7.3	7.3
Pretax margin (%)	5.4	7.8	7.2	7.2
Net margin (%)	2.9	4.8	5.2	5.3

Valuation	12/18A	12/19E	12/20E	12/21E
EV/Sales (x)	0.94	0.89	0.72	0.63
EV/EBITDA (x)	7.7	7.5	6.6	5.8
EV/EBIT (x)	11.0	10.9	9.9	8.6
P/E (x)	30.6	16.7	12.9	11.6
Price to book (x)	1.1	1.0	0.9	0.9
Asset turnover	0.5	0.5	0.6	0.6

Returns	12/18A	12/19E	12/20E	12/21E
ROE stated-return on (%)	(16.2)	5.9	7.6	7.9
ROIC (%)	4.5	7.9	8.1	8.9

Gearing	12/18A	12/19E	12/20E	12/21E
Net debt/equity (%)	(12.9)	(2.0)	(8.7)	(13.2)
Interest coverage ratio (X)	2.7	24.2	119.8	148.0

Quarterly EPS	Q1	Q2	Q3	Q4
2018A	-	-	-	-
2019E	-	-	-	-
2020E	-	-	-	-

Source: Company data, Refinitiv, Credit Suisse estimates

Company Background

A result of the merger of leading industry players Technip and FMC, TechnipFMC is an integrated provider of subsea, offshore and onshore services to the energy industry. It is the largest provider of subsea equipment to the offshore industry.

Blue/Grey Sky Scenario



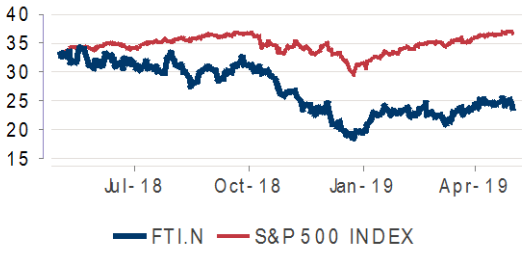
Our Blue Sky Scenario (US$) (from 29.00) 37.90

We assume Subsea revenue grows 25%, margins recover to 2018 levels. In Onshore / Offshore we assume revenue growth of 25% - supported with a favourable phasing of order intake. We assume EBITDA margins of 9.5%. In Surface Technology we model 17.5% revenue growth, 10% more than our base case, and margins recover back original 2019 guidance of 17%. Our group target EV/EBITDA multiple expands to 8.8x from 7.9x.

Our Grey Sky Scenario (US$) (from 16.00) 10.03

In Subsea, we assume 5% revenue decline, margins drop a further 150bps from 2019 guidance down to 9.5%. In Onshore/Offshore, we assume 0% revenue growth and margins drop to LT target level of 6%. In Surface Technologies we model revenues declining 10% and margins falling a further 100bps from depressed 2019 levels of 9%. Multiples compress 2x across each division vs base case leading to target group multiple of 5.8x

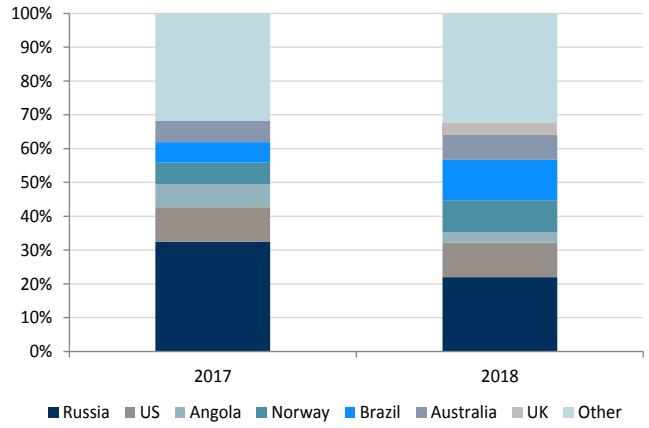
Share price performance



On 01-May-2019 the S&P 500 INDEX closed at 2923.73
Daily May07, 2018 - May01, 2019, 05/07/18 = US$32.8

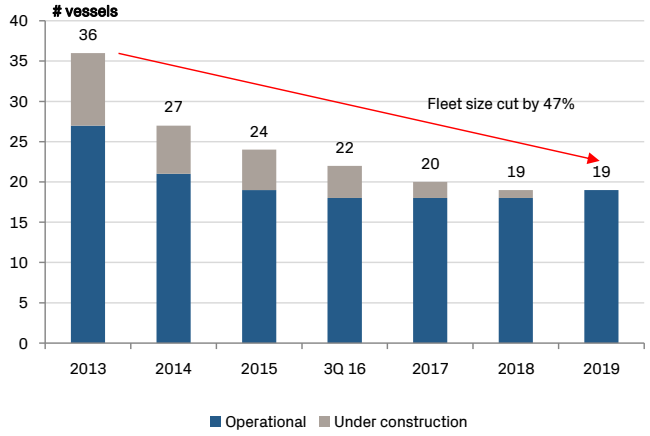
Key charts

Figure 211: Russia's share of revenue fell in 2018 while there was good growth in Brazil



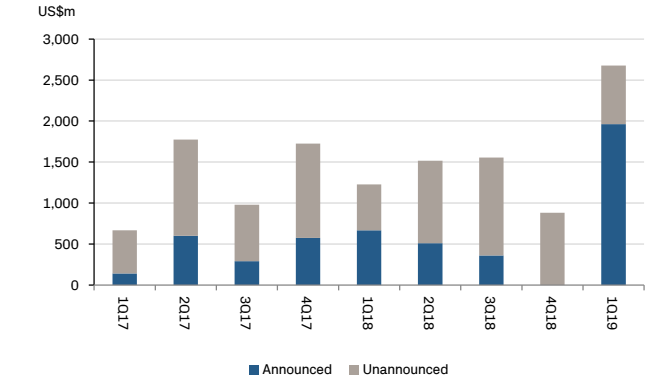
Source: Company data, Credit Suisse research

Figure 212: Technip has reduced its asset intensity with big cuts to its offshore vessel fleet



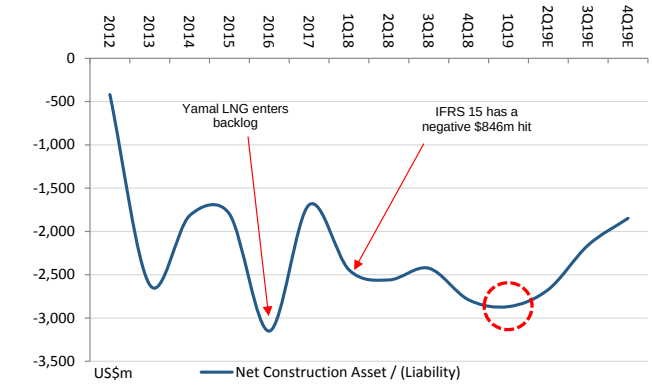
Source: Company data, Credit Suisse research

Figure 213: Subsea contract awards in 1Q19 made up for a disappointing 4Q18



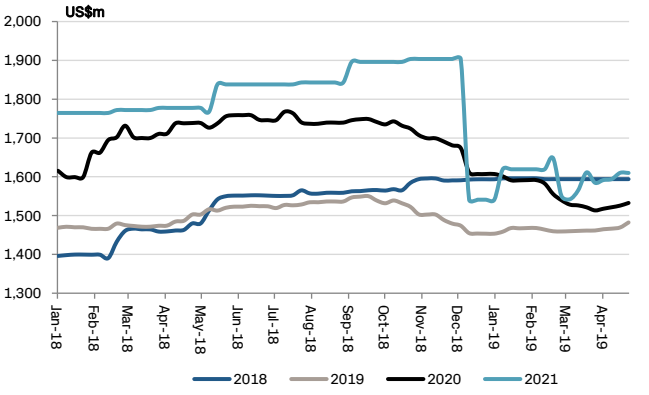
Source: Company data, Credit Suisse research

Figure 214: Unwind of net construction liabilities will prove a headwind to free cash flow in 2019



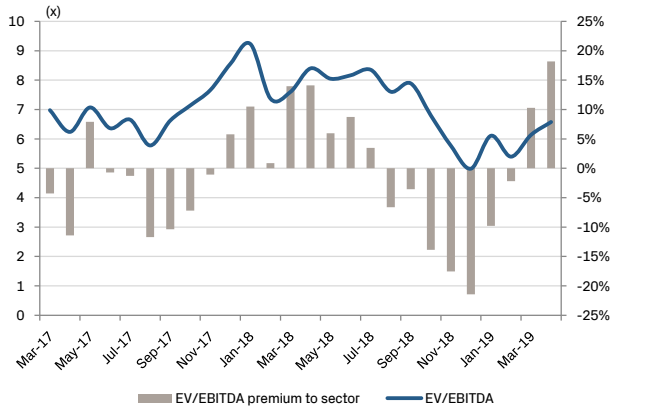
Source: Company data, Credit Suisse estimates

Figure 215: Only in 2021 does the market forecast a recovery in EBITDA back to 2018 levels



Source: Refinitiv

Figure 216: Limited historical data on the merged entities multiple range



Source: Refinitiv. Monthly period end data

Working through the cash-flow drag

TechnipFMC has been unable to generate free cash-flow over the past two years. In 2018, once working capital was included, even operating cash flow was negative. This continued weak cash-conversion has not been well-received by investors and is a major headwind to rewarding some of the structural and cyclical momentum in the business.

The guidance for 2019 has proved only marginally more positive. The CFO has guided to positive operating cash flow and, if Yamal LNG were excluded, to operating cash flow in the US$400-500m range. This is certainly not the step-up investors had been hoping for.

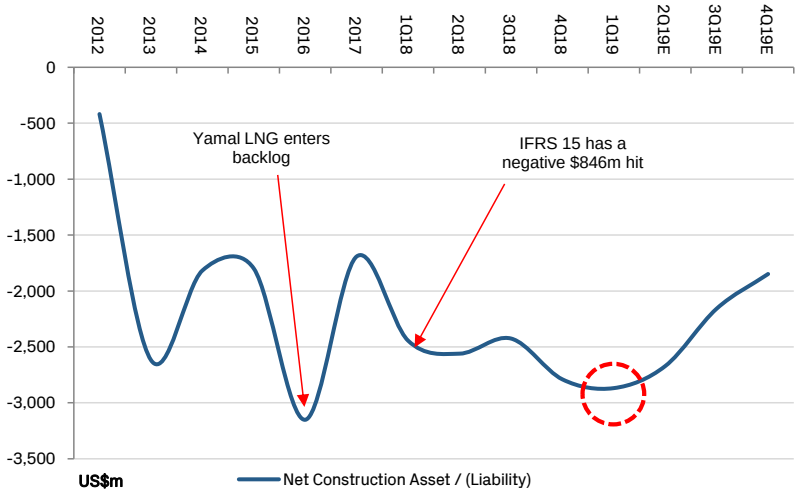
As a result, TechnipFMC is set to rank as the second-weakest company in terms of FCF yield in 2019 among our coverage universe. Looking beyond this, however, we expect FCF yields to step up materially, becoming comparable with the rest of the sector.

Net construction assets/liabilities – Likely to be at 'normal' level by year-end

As a combined entity, TechnipFMC has always run with a net construction liability, reflecting the upfront payments it receives from clients on lump-sum contracts. However, the terms on Yamal LNG have been particularly good with regards to the cash position, while an accounting change in 1Q18, shifting what was previously determined as construction assets into trade receivables (US$846m), also expanded the net liability.

With Yamal LNG coming to a close in 2019/20 (although the three trains were operational by 4Q18, non-critical path work still needs to complete) the net construction liability should unwind. The guidance that operating cash-flow pre Yamal LNG would be US$400-500m and only positive with its contribution infers that the unwind relating to Yamal could be closer to US$500-600m once its profit contribution is also factored in. Even with this move in Yamal, we think the net construction liability will normalise further in 2019. Importantly though, our year-end 2019 position is in line with historical levels for the company, therefore we do not expect this part of working capital to move materially in future years.

Figure 217: The net construction liability was almost at its highest level at FY18; its unwind in 2019, not just on Yamal LNG, will be a big drag to cash flow



Source: Company data, Credit Suisse estimates

Mandatory redeemable liability payments completed by mid-2021

Mandatory Redeemable Liability (MRL) payments have been the most confusing component of cash flow for investors. Set up to distribute dividends to TechnipFMC's partners in the Yamal LNG project (Chiyoda/JGC), the liability is a net present value calculation of future cash distributions. Alterations driven by reassessed profitability of the project flow through the group's interest line and the payment is recorded as part of

Financing cash flow. At 31 December, the value stood at US$409m (vs US$312m in 2018), which also included US$41m relating to the acquisition of Island Offshore.

The annual report and accounts breaks out the timing of these payments between current (US$173m) and non-current (US$276m). In our modelling we assume the current run rates persist, which would mean the MRL is extinguished by mid-2021. However, we understand there is no specified formula for payment timings and therefore TechnipFMC may be under pressure to pay out faster.

Figure 218: Mandatory redeemable liability payment assumptions

US$m	2017	2018	2019E	2020E	2021E
MRL Start of Period	175	312	449	359	159
Additions (Interest)	294	363	85	0	0
Payments (CFF)	-157	-226	-175	-200	-159
MRL End of Period	312	449	359	159	0

Source: Company data, Credit Suisse estimates

Provisions related to bribery settlement/allegations

TechnipFMC's US$280m bribery provision within 4Q18 results was an attempt to draw a line under issues that have been in the background for some time. In order to provision, we think the company must be reasonably confident of the amount, but there is a risk, in our view, that the figure required will be larger (particularly if jurisdictions beyond Brazil, the US and France bring charges). Given that TechnipFMC is a now registered UK company, we find it surprising that the UK's FCA is not involved. In particular, given the FCA's role in leading the Unaoil investigation, we would look for confirmation that it will not be pursue charges at a later date.

We assume that TechnipFMC's payment to regulators will be split over 2019-21 and paid from operating cash flow.

Capex

The one component of 2019 guidance that was altered at FY18 results was capex, which was cut from US$400m to US$350m. Relative to peers, TechnipFMC appears in little rush to expand its offshore installation fleet with new high-end vessels. We welcome this discipline. Indeed, it sounds like TechnipFMC may continue to shed vessels, keeping only those enablers that are unable to be chartered in the market. One of the desired outcomes of vertical integration and Subsea 2.0 is that the subsea equipment has greater 'installability'. Equipment which is lighter and has a smaller footprint can be installed by a greater array of vessels.

Divisional & group forecasts

TechnipFMC reports across three business segments: Subsea; Onshore/Offshore; Surface Technologies. A disproportionate amount of emphasis is put on the Subsea division by investors (in particular order intake and EBITDA margin), likely a consequence of the weight of investor ownership being in the US, which was where the legacy FMC Technologies business was listed.

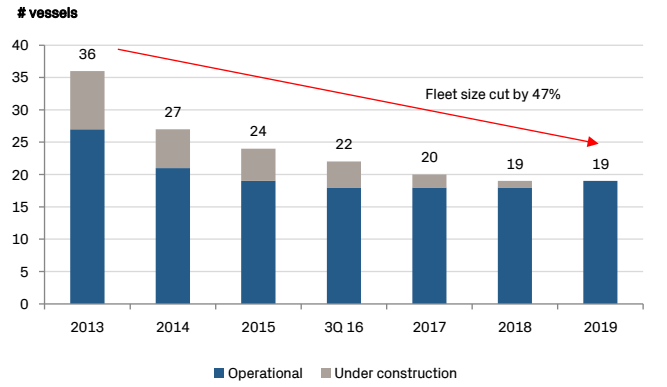
Subsea – Early 2019 contract wins support guidance

With no major announced contracts, subsea orders in 4Q18 were weak, and at their lowest level since 1Q17. This lack of orders put downside risk to FY19 revenue guidance of US$5.4bn to US$5.7bn (+15% y/y growth). However, the start of 2019 has been very strong and intake was ~US$2.6bn in 1Q19. Included in this were three integrated awards (iEPCI), all of which were for new clients (BP, ENI and Lundin). Further, TechnipFMC has indicated that it expects 1H19, in particular, to be strong for awards, suggesting that it has a good line of sight on additional contracts. Already it has announced iEPCI contracts with Neptune Energy, ConocoPhillips and BP in 2Q and formalisation of the award for Mozambique Area 1 (expected to exceed US$1bn) is expected around mid-year (however with operator Anadarko currently subject to M&A activity from both Chevron and Occidental Petroleum (Anadarko backs Occidental's revised bid, pressuring Chevron to respond) this may ultimately push back this timeline).

TechnipFMC's integrated solutions model (iEPCI), new wave of products (Subsea 2.0) and general overcapacity in the market is driving it towards a smaller vessel fleet. The group's vessel ownership has fallen almost 50% since 2013, and the focus is very much on differentiation. The company owns eight vessels outright, and seven through JVs and leases, which boosts its potential to improve returns.

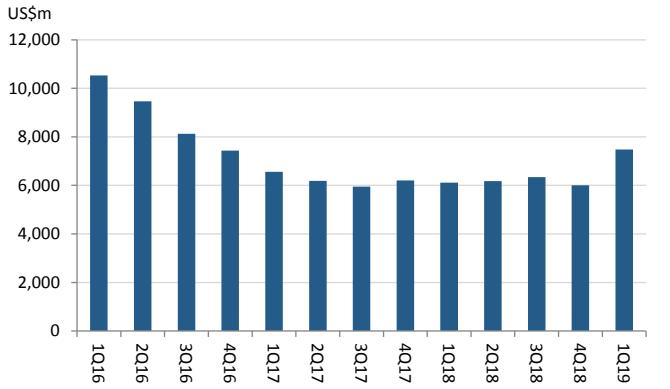
Significant market attention is paid to the EBITDA margin of the division, which is seasonally weak in 4Q/1Q when there is less activity in the Northern Hemisphere (owing to weather). Margins in 2018 benefitted from pre 2016 contracts, namely Egina and Kaombo. Pre-2016 backlog is set to contribute just 10% of 2019 revenue, and margins will fall in the current year, despite higher revenues as lower-margin work is undertaken and projects such as Kaombo and Egina complete. This will be compounded by higher vessel idle costs. However, as we move into 2020, we think the TechnipFMC business has more scope for margin upside than peers as operational leverage in equipment manufacturing contributes positively and iEPCI awards drive higher vessel utilisation. One of the most interesting aspects of 1Q19 results was that over 40% of the order intake was for execution in 2020 and the CEO said on the call that vessel utilization could recover to 2018 levels as soon as 2020.

Figure 219: TechnipFMC has been cutting the capital intensity of its installation fleet



Source: Company data, Credit Suisse research

Figure 220: Sharp inflection seen in 1Q19 Subsea backlog



Source: Company data, Credit Suisse research

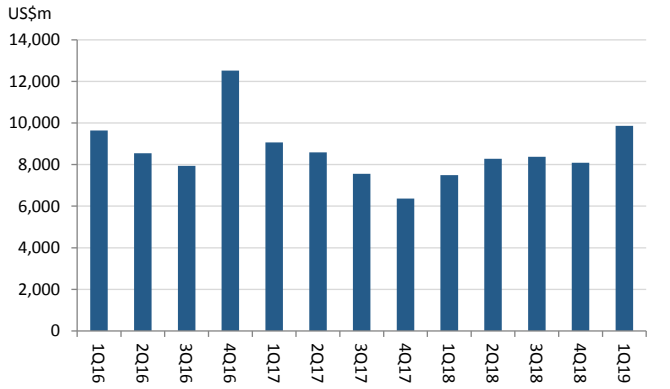
Onshore/Offshore – Strong order intake reducing the Yamal cliff risk

Over the past few years, much has been made of the potential revenue cliff in the On/Offshore division as the giant Yamal LNG project reached completion (TechnipFMC consolidated 100% despite having only a 50% share). However, the company has done well to replenish the backlog, and although the final Train 3 is already operational, we estimate that there is still close to $1bn of non-essential work to be executed in 2019 and 2020. Margins have also remained elevated, partly reflecting strong execution on Yamal LNG, but we also believe a greater share of higher margin technology/project management work in the revenue mix.

Like the Subsea division, 1Q19 awards were a significant step-up over the recent run rate, with contracts announced for the Midor Refinery, Tortue FPSO and Beaumont Refinery. Together with unannounced contracts, total order intake was US$3.1bn. With this strong level of order intake, we believe that Onshore/Offshore revenues will settle around current levels.

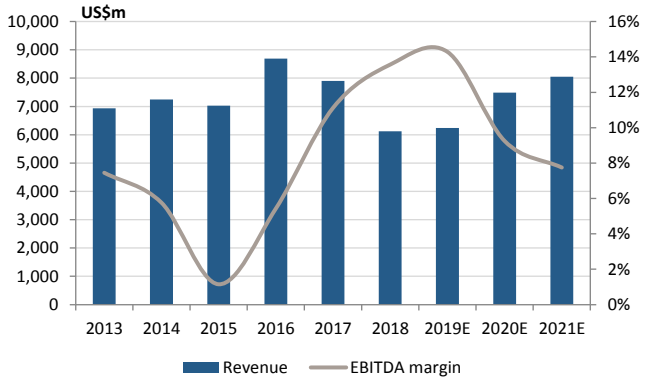
Therefore, we believe there is upside should TechnipFMC replenish its LNG work. Although new work is unlikely to be as profitable as Yamal, it should be accretive to long-term EBITDA margin guidance for the division of 4-6%. TechnipFMC is one of only two established developers which has spare capacity to execute projects. This should ensure that TechnipFMC is able to dedicate its best teams to project execution. The company has consistently said it will be selective on projects, and has targeted five in particular that it believes have a strategic and economic rationale for progressing. It is undertaking early work on Arctic LNG 2, which should be sanctioned by year-end, while the other four projects are NLNG Train 7 (with KBR), Rio Costa Azul (with Kiewet), Mozambique Area 4 (with Fluor and Chiyoda) and Qatar (where it delivered the last four mega trains alongside Chiyoda).

Figure 221: A large jump in backlog seen in 1Q on back of downstream / offshore awards



Source: Company data, Credit Suisse research

Figure 222: Current backlog phasing suggests strong top line growth in 2020

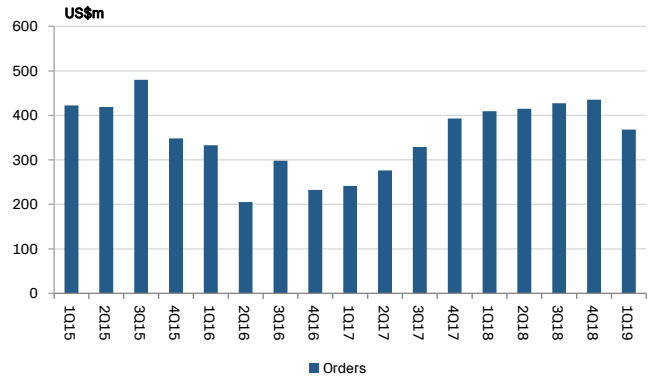


Source: Company data, Credit Suisse estimates

Surface Technologies – Weak N. America is a drag

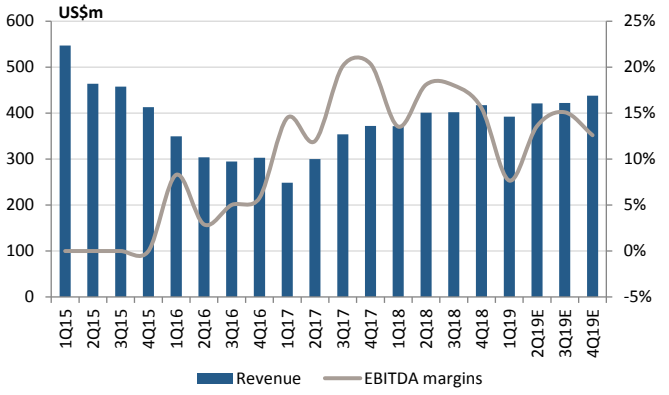
TechnipFMC has struggled to provide accurate guidance on this business, reflecting its more dynamic nature than the other two divisions. When guidance for 2019 was set in December, the company foresaw recovering completions dynamic in North America. However, more constrained capex budgets from E&PS and oversupply have led to pricing pressure and activity levels in North America (~50% of divisional revenue) are expected by the company to remain stagnant for the remainder of the year. Guidance has been cut, predominantly at the EBITDA margin level which is now >12% from >17%. Outside North America, revenue growth of high single digit / low double digits is expected by management.

Figure 223: Order intake dropped in 1Q on North American weakness…



Source: Company data, Credit Suisse research

Figure 224: …with EBITDA margins failing to show any operational leverage



Source: Company data, Credit Suisse estimates

CS vs consensus

As TechnipFMC reports under US GAAP, guidance has not been amended for IFRS 16, and our estimates are comparable with consensus. Our EBITDA estimate for 2019 is over 5% ahead of consensus. We believe that as guidance was set in December when oil prices languished ~US$10/bbl lower than they stand today, the probability is that 2019 is shaping up to be stronger than expected. Looking out to 2020, strong order intake over the course of 1Q gives us confidence to model healthy revenue growth, which is the differentiator between us and the street. We would expect consensus to upgrade revenues with the hard data from 1Q results. One area of caution is the net cash figure.

In terms of explicit guidance around the divisions, TechnipFMC has said:

- Revenue: Group revenue of US$12.8bn to US$13.5bn based on: Subsea revenue of US$5.4bn to US$5.7bn, Onshore/Offshore revenue of US$6.0bn to US$6.3bn and Surface Technologies revenue of US$1.6bn to US$1.7bn.
- EBITDA: Guidance is for EBITDA margins in Subsea >11%, in Onshore/Offshore >14% and Surface Technologies >12%. With corporate expenses expected in the US$160m to US$170m range, this infers a *minimum* EBITDA of US$1.45bn.

Figure 225: We believe that the strong start to 2019 in terms of order intake and oil prices could drive consensus upgrades

	2018	2019E			2020E			2021E		
$m	Actuals	CS	Cons.	Diff	CS	Cons.	Diff	CS	Cons.	Diff
Revenue	12,553	13,530	13,265	2%	15,887	14,497	10%	17,156	15,260	12%
EBITDA	1,537	1,608	1,495	8%	1,723	1,555	11%	1,861	1,588	17%
EBITDA margin	12.2%	11.9%	11.3%		10.8%	10.7%		10.8%	10.4%	
Net Income (Adj)	-1,911	619	590	5%	827	723	14%	907	772	17%
EPS ($/sh)	0.78	1.42	1.29	10%	1.84	1.58	17%	2.04	1.68	21%
DPS ($/sh)	0.52	0.52	0.54	-3%	0.52	0.56	-8%	0.52	0.59	-12%
Net Debt / (cash)	-1,348	-214	-1,083	-80%	-972	-1,358	-28%	-1,563	-1,928	-19%

Source: Company data, Refinitiv, Credit Suisse estimates. Data as of 1st May 2019

CS estimate changes

As we are assuming coverage of TechnipFMC rather than initiating coverage we already had published forecasts for the company. Figure 226 below displays the changes we have made at a Revenue, EBITDA level (reference metric for the company) and Adj EPS level. Our forecasts had not been updated since 3Q18 hence we update not only for FY18 results but also 2019 guidance and 1Q19 actual results.

Figure 226: Summary of Revenue, EBITDA and EPS changes

	2018A			2019E			2020E			2021E		
$m	New	Old	Diff	New	Old	Diff	New	Old	Diff	New	Old	Diff
Revenue	12,553	12,650	-1%	13,530	13,150	3%	15,887	N/A	N/A	17,156	N/A	N/A
EBITDA	1,537	1,532	0%	1,608	1,444	11%	1,723	N/A	N/A	1,861	N/A	N/A
EPS ($/sh)	0.78	1.10	N/A	1.42	1.45	-2%	1.84	N/A	N/A	2.04	N/A	N/A

Source: Credit Suisse estimates

Balance sheet and shareholder returns

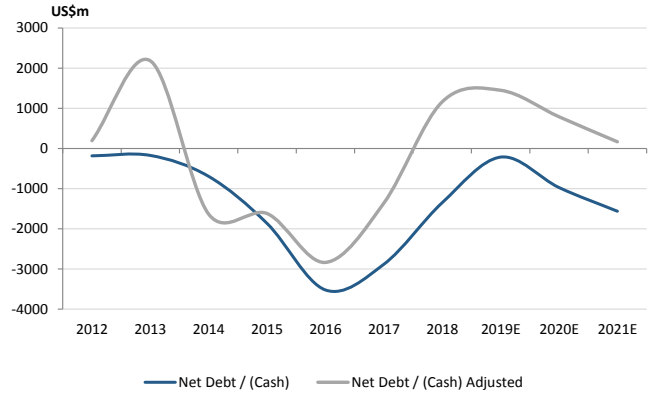
TechnipFMC's balance sheet can be confusing, and historically has been a source of wildly differing enterprise value calculations across consensus. On the face of it, the company has a net cash position, albeit an eroding one. However, the importance of a material net construction liability on the balance sheet is that it means that not all reported cash belongs to the company.

In our EV calculation we adjust net debt by the net construction liability. However, we do not remove it fully, instead keeping 10% (rough EBITDA margin) as a proxy for the cash that will be generated as profit from those contracts.

TechnipFMC returns capital to shareholders through both quarterly dividends and buy-backs. A major US$500m buy-back was completed in 2017/18 with a US$300m open-ended buyback announced in December 2018. Given the focus on cash within the business, we expect this to be used sparingly ~$100m per annum, and do not envisage the dividend being increased over our forecast period (US$0.13/sh per quarter).

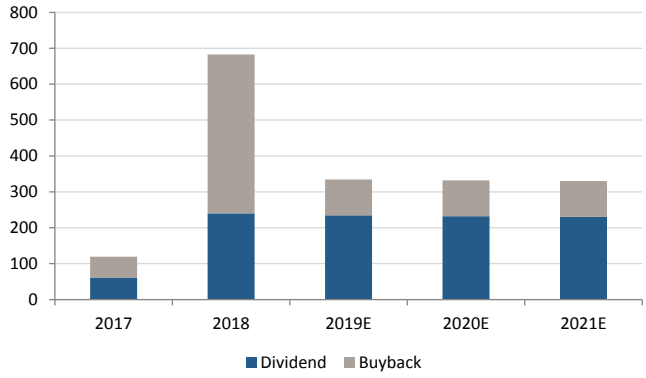
On a total return basis, our shareholder distribution assumptions deliver yields of ~3% over the 2019-21E period.

Figure 227: Net cash on a headline basis, but net debt on an adjusted basis



Source: Company data, Credit Suisse estimates

Figure 228: Sharp drop in shareholder returns in 2019; US$300m buy-back to be used selectively



Source: Company data, Credit Suisse estimates

Rating and target price

We reiterate our Outperform rating on TechnipFMC with a revised target price of US$29/sh, up from US$24/sh. We also initiate coverage of the French listed entity (FTI PA) with €26/sh target price, derived directly from our US target price using a Euro/USD FX rate of 1.11.

Figure 229: TechnipFMC target price

Blended Valuation - US$/sh	
SOTP fair value	28
DCF fair value	29
Target Price (50% SOTP / 50% DCF)	**29**
FX	1.11
Target Price (€/sh)	**26**

Source: Credit Suisse estimates. Priced as of 1st May 2019

Our target price is based on an equally weighted sum-of-the-parts using our 2020E EBITDA forecasts and three-stage DCF calculation.

Sum-of-the-parts

Taking the three divisions in aggregate, we derive a group target multiple of 7.9x. Within our calculations, we adjust reported net cash for the existence of the net construction liability.

Figure 230: Multiples for FTI's peer group

	EV/EBITDA 2019	EV/EBITDA 2020	PE 2019	PE 2020	EV / Sales 2019	EV / Sales 2020	ND / EBITDA 2019	ND / EBITDA 2020
Subsea								
Subsea 7 SA	6.0	4.8	66.0	28.7	0.9	0.8	-1.0	-1.1
Saipem SpA	5.6	4.8	37.9	19.1	0.6	0.6	1.1	0.8
Aker Solutions ASA	5.8	5.1	20.5	16.4	0.5	0.5	0.6	0.4
McDermott International Inc	1.2	2.2	5.1	3.7	0.1	0.2	-0.2	0.9
Oceaneering International Inc	14.9	10.2	-21.3	-71.7	1.1	1.0	2.8	1.8
Dril-Quip Inc	28.2	12.9	-36202.6	42.6	2.9	2.4	-10.6	-4.9
Baker Hughes A GE Co	9.2	7.3	42.8	25.6	1.2	1.1	1.2	0.9
National Oilwell Varco Inc	14.0	9.8	-602.5	40.4	1.3	1.1	1.7	0.9
Average	**10.6**	**7.2**	**-4581.8**	**13.1**	**1.1**	**0.9**	**-0.5**	**-0.1**
Onshore / Offshore								
John Wood Group PLC	6.5	5.7	10.9	9.1	0.5	0.5	1.7	1.3
Tecnicas Reunidas SA	8.2	6.5	17.1	13.6	0.3	0.3	-1.6	-1.6
Maire Tecnimont SpA	4.1	3.8	8.8	8.7	0.2	0.2	-0.5	-0.7
WorleyParsons Ltd	17.9	9.5	28.8	14.9	1.4	0.8	3.2	1.5
Chiyoda Corp	-0.4	6.5	-0.9	16.7	0.1	0.2	0.5	-1.5
JGC Corp	8.0	6.5	19.6	22.1	0.4	0.4	-4.9	-5.1
Fluor Corp	6.1	5.0	13.9	10.9	0.3	0.2	-0.4	-0.4
KBR Inc	8.8	7.9	13.7	12.3	1.0	0.9	1.1	1.2
Daewoo Engineering & Construction Co Ltd	5.2	4.4	6.7	5.8	0.7	0.6	1.4	1.4
GS Engineering & Construction Corp	3.9	3.4	6.3	5.9	0.4	0.3	1.8	-0.1
Samsung Engineering Co Ltd	9.3	7.8	14.0	11.8	0.3	0.3	0.3	-0.3
McDermott International Inc	1.2	2.2	5.1	3.7	0.4	0.3	0.7	0.9
Daelim Industrial Co Ltd	3.8	3.4	5.8	5.8	0.1	0.2	-0.2	-0.5
Average	**6.4**	**5.6**	**11.5**	**10.9**	**0.5**	**0.4**	**0.2**	**-0.3**
Equipment Manufacturers								
Weir Group PLC	10.7	9.2	16.3	13.7	1.8	1.7	1.8	1.3
Forum Energy Technologies Inc	11.1	7.3	-73.2	24.5	0.9	0.8	4.4	2.5
Gardner Denver Holdings Inc	11.9	10.6	17.8	16.2	3.0	2.7	1.6	1.0
Cactus Inc	10.3	8.2	17.9	14.9	3.9	3.2	-0.8	-1.2
Schlumberger NV	10.5	9.0	26.6	19.0	1.3	1.2	2.0	1.7
Average	**10.9**	**8.8**	**1.1**	**17.6**	**2.2**	**1.9**	**1.8**	**1.1**

Source: Refinitiv. All numbers are consensus. Priced as of 1st May 2019

- We apply an 8.5x target multiple to TechnipFMC's subsea business. The manufacturing and service component of this business commands multiples closer to the likes of NOV, Baker Hughes GE and Oceaneering, therefore we use a premium to the ~5x multiple at which Subsea 7 and Saipem trade. As demonstrated by the sharp reduction in vessels owned, TechnipFMC is transitioning more towards the former set of companies than the latter. The strong market share captured by the integrated model also warrants a premium, in our view, as it allows contracts to be won on a less competitive basis.

- The Onshore/Offshore division has superior technology advantages compared with a many of its quoted peers. We apply a 6.5x multiple, which is in line with JGC, which like TechnipFMC has a suite of downstream technologies and Tecnicas Reunidas, which is the highest multiple lump sum contractor on the list.
- The Surface Technologies business commands the highest multiple, which we set in line with peers at 9.0x (Schlumberger, Cactus, Weir, Gardner Denver, Forum Energy Technologies).

Figure 231: SOTP valuation is based on our 2020E EBITDA forecasts

2020 SOTP - US$m						
		Multiple		EV / Sales		
	EBITDA	(x)	Sales	(x)	EV	Share
Subsea	874	8.5	6,595	1.1	7,427	51%
Onshore / Offshore	693	6.5	7,492	0.6	4,504	31%
Surface Technologies	281	9.0	1,800	1.4	2,527	17%
Corporate	-125	7.8	0	0.0	-977	
Total	1,723	7.8	15,887	0.8	13,482	
Reported Net Debt / (Cash) - 2020E					-972	
Adjustment for Net Construction Liability / (Asset)					1,762	
					31	
Shareholders' Equity					12,661	
Shares Outstanding - 2020E					448	
Implied Share price (US$/sh)					**28**	

Source: Credit Suisse estimates. Priced as of 1st May 2019

DCF

We use a three-stage DCF, comprising forecasts out to 2025, a 10-year normalisation period to 2035 with revenue growth of 3.0% p.a., and subsequent terminal value based on a long-term growth rate of 2%.

Our WACC of 9.7% is based on the following inputs:

- a risk free rate of 2.9% (30-year US Treasury);
- beta of 1.2 based upon a weekly regression of FTI's share price vs US S&P500 Index over the past two years;
- a risk premium for the US market of 6.0% calculated by the NYU Stern School of Business (Country Default Spreads and Risk Premiums);
- a cost of debt equal to 5.9%; and
- a 95%/5% equity/debt financing (equipment part of subsea technologies and surface equipment division should both support debt).

Our long-term EBITDA margin assumption is 7%, which leads to a terminal value EV/EBITDA multiple of 6.4x. Note that in our cash-flow forecasts we incorporate the partial unwind of the net construction liability, and because we believe that this will endure, we do not model it separately in the static 2018 net debt calculation.

Figure 232: We employ a three-stage DCF model

DCF - US$m					
Assumption	**Beta**	**Risk Prem.**	**WACC**	**LT Growth**	
	1.2	6.0%	9.7%	2.0%	
				EV	**Share**
Present Value Forecast Period				4,733	39%
Present Value Normalisation Period				4,795	24%
Present Value of Terminal Value				2,735	20%
Total Enterprise Value				**12,264**	
Net Debt / (Cash) - 2018				-1,348	
Non Contolling Interest - 2018				31	
Implied Equity Value				**13,581**	
Share Count - 2018				468	
DCF Implied Fair Value				**29**	

Source: Refinitiv, Company data, Credit Suisse estimates, as of 1st May 2019

Blue Sky/Grey Sky scenarios

We establish Blue Sky and Grey Sky valuation scenarios with reference to our 2020 SOTP. We flex our forecasts for 2020 revenue growth and EBITDA margins and as well as our target multiples.

- *Blue Sky:* In Subsea, we assume that revenue grows 25% (vs base case of 17.5%), more closely approximating the 30% growth in order intake we model for the division this year. Our margins recover to 2018 levels driven by higher plant and vessel utilization. We apply a 9.5x multiple (vs 8.5x in our base case) valuing the division as an equipment manufacturer, influenced by the shift to lower levels of vessel ownership. In Onshore/Offshore we assume revenue growth of 25% (vs base case of 20%), which would be supported with a favourable phasing of further order intake. We assume EBITDA margins of 9.5% (vs base case 8.5%) with the contraction back towards the 6% long-term guidance taking longer due to supporting LNG revenue mix. We apply a 7.2x multiple, halfway between our current target multiple of 6.5x and the KBR / Samsung Engineering level. In Surface Technology we model 17.5% revenue growth, 10ppts more than our base case, and margins in line with the original 2019 guidance of 17%. We apply a 10.5x multiple, which is 1 turn higher than our base case. Overall our group target multiple of 8.8x is ~10% above our base case assumption of 7.9x.
- *Grey Sky:* In Subsea, we assume that despite strong 1Q order intake, order intake for FY19 is only in line with 2018 levels. This leads to 5% revenue decline in 2020. We assume margins drop a further 150bp from 2019 guidance down to 9.5%. In Onshore/Offshore, we assume no revenue growth and margins drop to the 6% long-term guidance range. In Surface Technologies we model revenues declining 10% and margins falling 100bps from 2019E depressed levels. We assume 2x multiple compression across each division from our base case leading to a 5.8x multiple for the group overall.

Figure 233: Blue/Grey Sky scenarios

Blue Sky SOTP		vs Base
EBITDA (2020E - US$m)	2,009	17%
Multiple	8.8	12%
Equity value (US$ / sh)	38	56%
Grey Sky SOTP		**vs Base**
EBITDA (2020E - US$m)	973	-43%
Multiple	5.8	-26%
Equity value (US$ / sh)	10	

Source: Credit Suisse estimates. Priced as of 1st May 2019

Risks

The principal risks we see to our rating and target price include the following.

- Poor project execution in both the Subsea and Onshore/Offshore divisions could result in EBITDA margins not recovering as we forecast. Equally, the competitive environment may be more severe than we currently perceive, meaning that underlying margins are not at the inflection point that we assume.
- Technip FMC's decision to reduce its fleet size may mean that it cannot secure access to vessels should that market tighten, rendering it unable to execute some projects.
- The company has been selective about which LNG projects it pursues, but as always there is a risk that these projects do not proceed.
- Rigid risers may become the solutions of choice in Brazil owing to better durability, meaning less demand for TechnipFMC's flexible risers, and subsequent negative impact on the profitability of its flexibles manufacturing plant in Brazil.
- In Surface Technologies, with 50% of revenue derived from the US, a downturn in US E&P expenditure as companies prioritize shareholder returns over production growth could negatively affect our forecasts.
- Cash outflow from greater-than-expected working capital would reduce the net cash contribution to our EV forecasts and further reduce the company's attractiveness relative to peers on a FCF yield basis.

Credit Suisse HOLT

The extended seven-year forecast shown in Figure 234 for sales, margins and returns allow us to express our long-term view of the near-term recovery and factor the next cycle into this business. Based on our key estimates from 2019-2021, returns are expected to average c.7.2%. This is supported by our expectations of top line CAGR of 11% and improvement in asset efficiency to 0.79x by 2021. Thereafter we capture the next cycle and forecast returns moving up to 7.5% by 2025. The lack of subsequent progression is attributable to our assumption that Onshore / Offshore margins normalize as the period of super-normal profits emanating from the Yamal LNG contract comes to an end. Here we are hopeful that our EBITDA assumptions have upside risk over the medium term due to the execution of replacement LNG contracts (albeit with margins unlikely to be on a par with Yamal LNG).

Beyond the explicit seven-year forecast period (2019-2025), HOLT uses a fade model to arrive at its warranted price. CFROI® levels are typically faded to 6.0% and asset growth is faded to 2.5% (mean reversion to long-term observed levels), however, we argue that TechnipFMC can sustain a 7% CFROI on account of its dominant market position and dedication to R&D in order to sustain its competitive advantage. The default fade rate is 10%. For this analysis we have used a Market Implied Discount Rate of c.5.5% for European Oil & Gas aggregate. The above assumptions suggest a HOLT warranted value of US$26.22, which compares with our target price of US$29. Fading to 6% CFROI with the above assumptions leads to a warranted value of US$20.00.

Figure 234: TechnipFMC in HOLT

HOLT - Credit Suisse Analyst Scenario Data

TECHNIPFMC PLC (FTI)

Current Price: USD 24.59 **Warranted Price: USD 26.22**

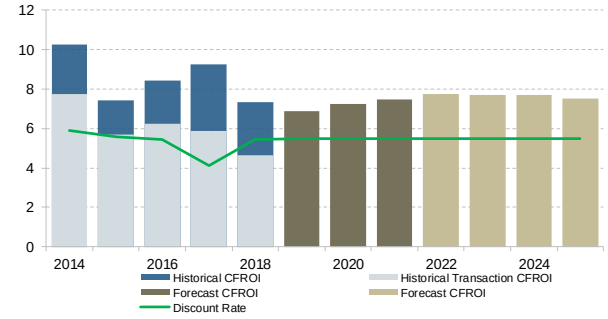
Valuation date: 30-Apr-19

EBITDA Margin (parallel % point change to forecasts) \ Sales Growth (parallel % point change to forecasts)	USD	-2.0%	-1.0%	0.0%	1.0%	2.0%
	-2.0%	-69%	-61%	-53%	-44%	-33%
	-1.0%	-54%	-45%	-36%	-25%	-14%
	0.0%	-39%	-29%	-19%	-7%	5%
	1.0%	-24%	-13%	-2%	11%	25%
	2.0%	-9%	3%	15%	29%	44%

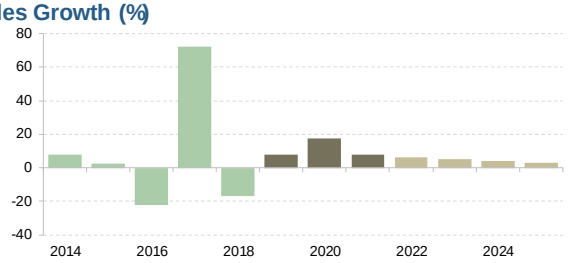
	Dec 17A	Dec 18A	Dec 19E	Dec 20E	Dec 21E
Sales Growth, %	72.1	-16.6	7.8	17.4	8.0
EBITDA Mgn, %	12.4	12.7	11.9	10.8	10.8
Asset Turns, x	0.85	0.7	0.7	0.8	0.8
CFROI®, %	9.2	7.4	6.9	7.2	7.5
Disc Rate, %	4.1	5.5	5.5	5.5	5.5
Asset Grth, %	55.4	-7.3	7.1	6.9	4.8
Price to Book, x	1.6	1.3	1.4	1.3	1.2
Economic PE, x	17.5	17.9	19.8	17.4	15.6
Leverage, %	31.9	39.6	45.4	46.8	47.5

More than 10% downside | Within 10% | More than 10% upside

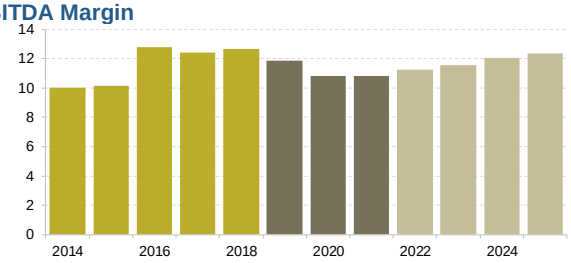
CFROI & Discount Rate (in %)



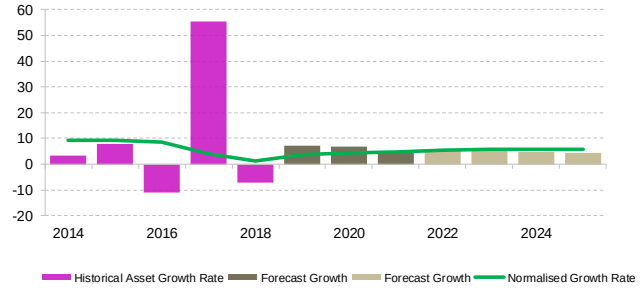
Sales Growth (%)



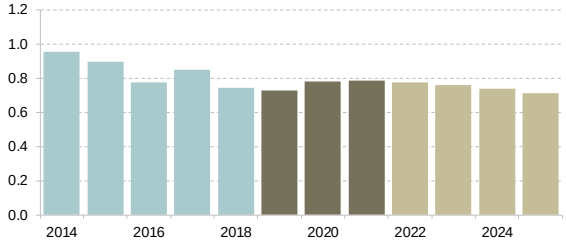
EBITDA Margin



Asset Growth (in %)



Asset Turns (x)



Source: Credit Suisse HOLT®. CFROI and HOLTare trademarks or registered trademarks of Credit Suisse Group AG or its affiliates in the United States and other countries.

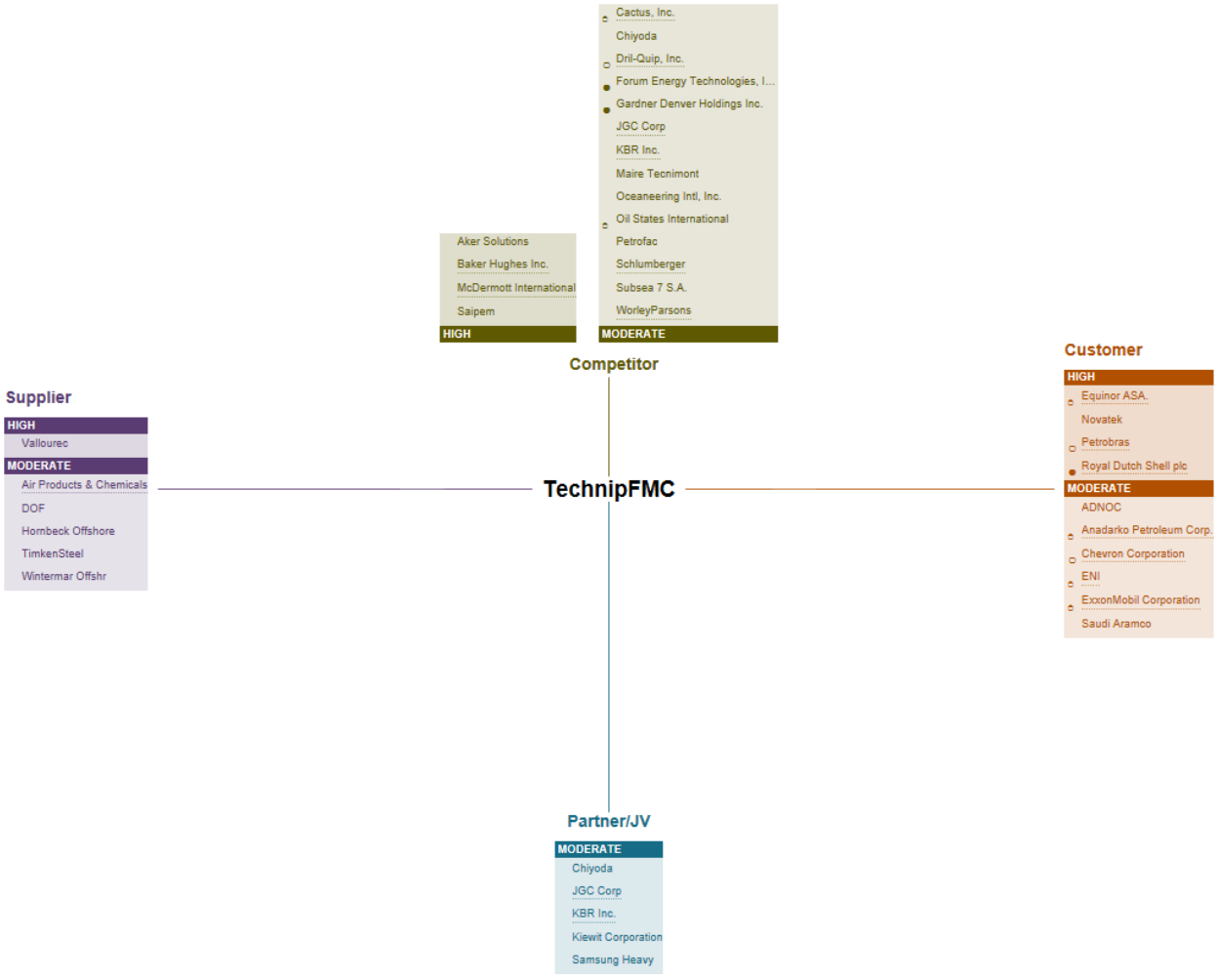
Source: Credit Suisse HOLT

PEERs

PEERs is a global database that captures unique information about companies within the Credit Suisse coverage universe based on their relationships with other companies – their customers, suppliers and competitors. The database is built from our research analysts' insight regarding these relationships. Credit Suisse covers over 3,000 companies globally. These companies form the core of the PEERs database, but it also includes relationships on stocks that are not under coverage.

For more information, see our November 2016 PEERs report: A chain reaction: Supply chain strategies.

Figure 235: TechnipFMC in PEERs



Source: Credit Suisse PEERs

Management

Douglas J. Pferdehirt, Chief Executive Officer

Mr Pferdehirt has been CEO since 2017, previously holding the positions of President and Chief Executive Officer of FMC Technologies. Before joining FMC Technologies in 2012 he spent 26 years at Schlumberger in a succession of executive leadership positions including: VP of Corporate Development and Communications, President of Schlumberger's Reservoir Production Group, VP Investor Relations and Communications, President North and South America Schlumberger, and VP of Oilfield Services U.S. Gulf of Mexico.

Maryann Mannen, Chief Financial Officer

Ms Mannen previously held the position as Executive Vice President and CFO at FMC Technologies and has led multiple business units and functions there. Before joining FMC Technologies in 1986, she served as Finance Manager for Sheller-Globe Corporation. She is also a member of Owens Corning's (Insulation and building materials) board of directors.

P&L, cash flow & balance sheet

Figure 236: Divisional and group P&L

Divisionals (US$m)	2017A	2018A	2019E	2020E	2021E
Subsea					
Revenue	**5,877**	**4,840**	**5,612**	**6,595**	**7,122**
Growth	-36%	-18%	16%	18%	8%
EBITDA	1120	700	672	874	1033
Margin	19.1%	14.5%	12.0%	13.3%	14.5%
Growth	-34%	-37%	-4%	30%	18%
Onshore / Offshore					
Revenue	**7,905**	**6,120**	**6,244**	**7,492**	**8,054**
Growth	-9%	-23%	2%	20%	8%
EBITDA	879	830	892	693	624
Margin	11.1%	13.6%	14.3%	9.2%	7.7%
Growth	86%	-5.5%	7.4%	-22.3%	-9.9%
Surface & Energy Infrastructure					
Revenue	**1,275**	**1,592**	**1,674**	**1,800**	**1,980**
Growth	2%	25%	5%	8%	10%
EBITDA	219	260	206	281	329
Margin	17.2%	16.3%	12.3%	15.6%	16.6%
Growth	212%	18.9%	-20.7%	36.1%	17.1%
Eliminations / Corporate					
Revenue	0	0	0	0	0
Expenses	-191	-259	-178	-140	-140

P&L (US$m)	2017A	2018A	2019E	2020E	2021E
Revenue	15,057	12,553	13,530	15,887	17,156
growth	-21%	-17%	8%	17%	8%
EBITDA	**2,031**	**1,537**	**1,608**	**1,723**	**1,861**
D&A	-464	-459	-500	-565	-610
Share of JV / Associates / Other	0	0	0	0	0
EBIT / OIFRA	**1,567**	**1,078**	**1,108**	**1,158**	**1,251**
growth	13%	-31%	3%	5%	8%
margin	10.4%	8.6%	8.2%	7.3%	7.3%
Net finance expense	-69	-39	-46	-10	-8
Other gains / losses / impairments	-817	-2,527	-172	0	0
Pre-tax profit	**680**	**-1,488**	**890**	**1,148**	**1,242**
Tax	-546	-423	-271	-322	-335
Effective Tax rate (underlying)	36%	41%	30%	28%	27%
Minority Interest	-21	-11	1	0	0
Net profit	114	-1922	620	827	907
Adj Net profit	**608**	**364**	**644**	**827**	**907**
No. Shares (FD)	468	468	452	448	444
EPS (CS, Adj) - US$/sh	**1.30**	**0.78**	**1.42**	**1.84**	**2.04**
EPS (IFRS) - US$/sh	0.24	-4.10	1.37	1.84	2.04
DPS - US$/sh	0.26	0.52	0.52	0.52	0.52

Source: Company data, Credit Suisse estimates

Figure 237: Condensed cash-flow and balance sheet

Cash flow (US$m)	2017A	2018A	2019E	2020E	2021E
Net income / (losses)	134	-1911	620	827	907
Operating cash flows	844	2978	437	471	516
Working cap movement	-767	-1253	-1203	328	9
Cashflow from operations	**211**	**-185**	**-146**	**1626**	**1432**
Capex (net, inc intangible)	-256	-368	-430	-350	-368
M&A	1479	-105	0	0	0
Other investing cash flows	26	13	-59	0	0
Cashflow from investing	**1,250**	**-460**	**-489**	**-350**	**-368**
Change in borrowings	-733.8	461.7	-239.7	0.0	0.0
Dividend / Buybacks	-61	-681	-331	-318	-316
Other financing cash flows	-260	-226	-175	-200	-159
Cashflow from financing	**-1055**	**-445**	**-746**	**-518**	**-475**
Effect of FX	62	-107	-12	0	0
Net cash flow	**468**	**-1197**	**-1392**	**758**	**590**
Cash and cash equivalents	6737	5540	4148	4906	5497
Net cash / (debt)	**2,882**	**1,348**	**214**	**972**	**1,563**
Net construction liabilities	-1,523	-2,511	-1,663	-1,762	-1,729
Adj. Net cash / (debt)	**1,360**	**-1,163**	**-1,449**	**-790**	**-167**
Free cash flow	**-45**	**-554**	**-576**	**1,276**	**1,065**

Balance Sheet (US$m)	2017A	2018A	2019E	2020E	2021E
Property, plant & equipment, net	3,872	3,260	3,310	3,175	3,019
Goodwill & Intangible assets, net	10,264	8,784	8,695	8,615	8,529
Other non-Current assets	1,112	959	2,278	2,278	2,278
Total non-Current assets	**15,247**	**13,003**	**14,282**	**14,068**	**13,825**
Construction contracts - assets	1,770	1,295	1,425	1,674	1,808
Advances paid to suppliers	0	0	0	0	0
Trade receivables	1,735	2,470	2,790	3,023	3,139
Other Current assets	3,082	2,477	2,677	2,972	3,104
Cash and cash equivalents	6,737	5,540	4,148	4,906	5,497
Total Current assets	**13,324**	**11,781**	**11,040**	**12,576**	**13,548**
Total assets	**28,571**	**24,784**	**25,323**	**26,644**	**27,373**
Trade payables	4,003	2,600	2,886	3,633	3,926
Construction contracts - liabilities	3,462	4,085	3,273	3,633	3,730
Provisions	0	0	0	0	0
Current financial debt	77	67	209	209	209
Other Current liabilities	2,634	2,382	2,610	2,516	2,423
Total Current liabilities	**10,177**	**9,134**	**8,978**	**9,991**	**10,287**
Non-Current financial debts	3,778	4,124	3,725	3,725	3,725
Other non-Current liabilities	1,336	1,095	1,903	1,703	1,544
Total non-Current liabilities	**5,114**	**5,219**	**5,628**	**5,428**	**5,269**
Shareholders equity	13,388	10,400	10,686	11,195	11,786
Minority interest	22	31	31	31	31
S/H Equity & Liabilities	**28,701**	**24,785**	**25,323**	**26,644**	**27,373**

Source: Company data, Credit Suisse estimates

Wood Plc (WG.L)

Rating	**NEUTRAL**
Price (01 May 19, p)	469.00
Target price (p)	505.00
Market Cap (£ m)	3,196.4
Enterprise value (£ m)	4,782.8

Target price is for 12 months.

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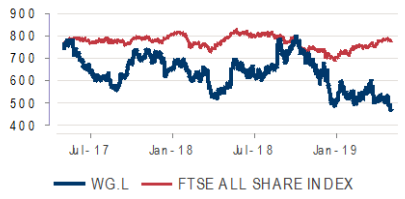
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Waiting for disposals

- **Initiate with a Neutral rating and a 505p TP:** The acquisition of AMEC Foster Wheeler (AFW) in 2017 was strategically sound, in our view, and this has been borne out in strong revenue synergies and access to growth markets outside of Oil & Gas. However, the financial burden of this transaction is high and deleveraging has not been as fast as expected. With management paring back the timeline for asset disposals in order to maximise value, we believe that balance sheet concerns and disappointing progress in underlying margins will continue to weigh on the investment case.
- **We explore a potential sale of the UK North Sea business:** Within the context of a strategic review of its portfolio to identify US$200-300m of disposal candidates, we investigate the value of Wood's (WG) leading position in the UK North Sea Maintenance, Modifications and Operations market. The business is no longer core to the Wood offering and as the market turns for the better, we think there could be credible counterparts. We also consider digitalization as a possible long-term structural threat. We see a mid-case value for the business of ~US$200m, which, if completed by the end of 2019, would reduce net debt/EBITDA to 1.7x.
- **Catalysts:** The next scheduled trading update is the 9 May AGM. This is likely to be largely qualitative and should reiterate guidance around EBITDA, but is unlikely to give net debt or backlog information, in our view.
- **Risks: 1)** Further cost escalations on the AEGIS missile defence contracts **2)** Execution of lump-sum contracts **3)** A return to poor cash conversion.
- **Valuation:** Although on a FY2E EV/EBITDA basis, WG trades at a 20% discount to its long-term average, this discount is in line with our coverage universe and should therefore not be considered inexpensive on a relative basis. Furthermore, the lack of organic growth and a more challenged balance sheet warrant a de-rating, in our view, relative to the "old" Wood Group.

Share price performance



The price relative chart measures performance against the FTSE ALL SHARE INDEX which closed at 4052.6 on 01/05/19
On 01/05/19 the spot exchange rate was £.86/Eu 1.-Eu.89/US$1

Performance	1M	3M	12M
Absolute (%)	-12.9	-16.1	-19.1
Relative (%)	-12.4	-19.2	-16.5

Financial and valuation metrics

Year	12/18A	12/19E	12/20E	12/21E
Revenue (US$ m)	11,036	11,458	12,062	12,633
EBITDA (US$ m)	693.5	916.9	1044.3	1139.7
Pre-tax profit adjusted (US$ m)	244.8	355.9	475.2	561.6
CS EPS (adj.) (US$)	0.57	0.57	0.71	0.80
Prev. EPS (US$)				
ROIC avg (%)	4.0	5.5	6.8	8.0
P/E (adj.) (x)	10.7	10.7	8.7	7.6
P/E rel. (%)	79.3	80.8	70.9	65.8
EV/EBITDA (x)	8.2	6.8	5.7	5.0

Dividend (12/19E, p)	0.35	Net debt/equity (12/19E,%)	45.7
Dividend yield (12/19E,%)	5.8	Net debt (12/19E, US$ m)	2,075.1
BV/share (12/19E, US$)	6.8	IC (12/19E, US$ m)	6,620.5
Current WACC (%)	10.6	EV/IC (12/19E, (x)	0.9
Free float (%)	94.6	Number of shares (m)	681.5

Source: Company data, Refinitiv, Credit Suisse estimates

Wood Plc (WG.L)

Price (01 May 2019): **469.00p**; Rating: **NEUTRAL**; Target Price: **505.00**; Analyst: **David Farrell**

Income statement (US$ m)	12/18A	12/19E	12/20E	12/21E
Revenue	11,036	11,458	12,062	12,633
EBITDA	**693**	**917**	**1,044**	**1,140**
Depr. & amort.	(312)	(453)	(464)	(474)
EBIT	**357**	**464**	**580**	**666**
Net interest exp.	(77)	(78)	(75)	(74)
Associates	-	-	-	-
PBT	**245**	**356**	**475**	**562**
Income taxes	(70)	(85)	(114)	(135)
Profit after tax	**175**	**270**	**361**	**427**
Minorities	(1)	-0	-0	-0
Preferred dividends	-	-	-	-
Associates & other	178	121	121	121
Net profit	**352**	**391**	**482**	**548**
Other NPAT adjustments	(361)	(216)	(201)	(121)
Reported net income	**(9)**	**175**	**281**	**427**

Cash flow (US$ m)	12/18A	12/19E	12/20E	12/21E
EBIT	357	464	580	666
Net interest	(77)	(78)	(75)	(74)
Cash taxes paid	(84)	(85)	(114)	(135)
Change in working capital	228	(87)	(6)	(50)
Other cash and non-cash items	117	436	459	548
Cash flow from operations	**542**	**650**	**845**	**955**
CAPEX	(34)	(40)	(50)	(60)
Free cashflow to the firm	**449**	**380**	**565**	**655**
Acquisitions	(30)	0	0	0
Divestments	38	38	0	0
Other investment/(outflows)	(17)	(54)	(54)	(63)
Cash flow from investments	**(42)**	**(56)**	**(104)**	**(123)**
Net share issue/(repurchase)	-	-	-	-
Dividends paid	(237)	(240)	(242)	(246)
Issuance (retirement) of debt	-	-	-	-
Other financing	(74)	(254)	(251)	(251)
Cashflow from financing	**(310)**	**(494)**	**(493)**	**(497)**
Changes in net cash/debt	105	(526)	247	335
Net debt at start	1,654	1,549	2,075	1,828
Change in net debt	**(105)**	**526**	**(247)**	**(335)**
Net debt at end	1,549	2,075	1,828	1,493

Balance sheet (US$ m)	12/18A	12/19E	12/20E	12/21E
Assets				
Total current assets	**4,033**	**4,303**	**4,693**	**5,163**
Total assets	**11,753**	**12,422**	**12,598**	**12,864**
Liabilities				
Total current liabilities	**3,870**	**3,929**	**4,151**	**4,151**
Total liabilities	**7,144**	**7,877**	**8,014**	**8,099**
Total equity and liabilities	**11,753**	**12,422**	**12,598**	**12,864**

Per share	12/18A	12/19E	12/20E	12/21E
No. of shares (wtd avg.) (mn)	683	683	683	683
CS EPS (adj.) (US$)	**0.57**	**0.57**	**0.71**	**0.80**
Prev. EPS (US$)				
Dividend (US$)	**0.35**	**0.35**	**0.36**	**0.37**
Free cash flow per share (US$)	0.66	0.56	0.83	0.96

Valuation	12/18A	12/19E	12/20E	12/21E
EV/Sales (x)	0.5	0.5	0.5	0.4
EV/EBITDA (x)	8.2	6.8	5.7	5.0
EV/EBIT (x)	16.0	13.5	10.3	8.5
Dividend yield (%)	5.72	5.78	5.83	5.98
P/E (x)	10.7	10.7	8.7	7.6

ROE analysis (%)	12/18A	12/19E	12/20E	12/21E
ROE (%)	7.4	8.6	10.6	11.8
ROIC (avg.) (%)	4.0	5.5	6.8	8.0

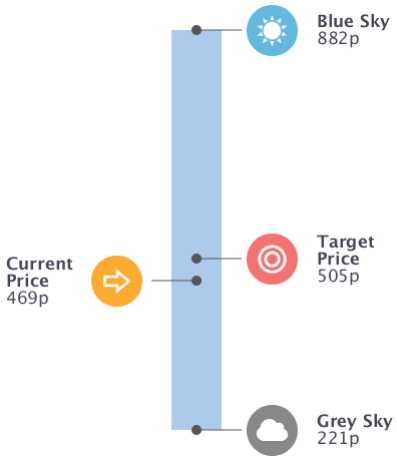
Credit ratios	12/18A	12/19E	12/20E	12/21E
Net debt/equity (%)	33.6	45.7	39.9	31.3
Dividend payout ratio (%)	61.0	61.7	50.6	45.6

Source: FTI, Company data, Refinitiv, Credit Suisse Securities (EUROPE) LTD. Estimates

Company Background

Wood provides engineering services throughout the asset life cycle across a range of industrial markets, including oil & gas, power & process, environment and infrastructure, clean energy, mining, nuclear, and general industrial sectors

Blue/Grey Sky Scenario



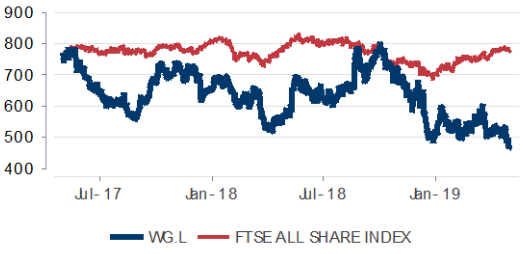
Our Blue Sky Scenario (p) 882.00

Asset Solutions (AS) Americas, AS Europe/Africa/Asia/Aus. and Specialist Technical Solutions we model top line revenue growth in line with the rate seen in 2018 with underlying margins improving 150bps from 2018 levels. For E&IS we assume revenue growth in line with 2018 levels (8%) but with margins moving up 100bps vs 7% guidance for the division. Our multiple expands to 7.5x (7.8x pre IFRS 16) which is at the top end of peers

Our Grey Sky Scenario (p) 221.00

For the Asset Solutions and Specialist Technical Solutions we model mid-single digit revenue declines and no improvement in underlying margins relative to 2018 levels. For E&IS we assume no revenue growth (it is a GDP+ division) and with margins falling 100bps from the 7% guidance. Our multiple contracts to 4.8x (5.1x pre IFRS 16) which is at the bottom end of the peer group

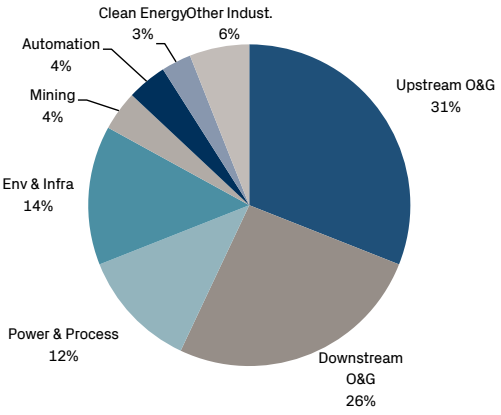
Share price performance



The price relative chart measures performance against the FTSE ALL SHARE INDEX which closed at 4052.6 on 01/05/19
On 01/05/19 the spot exchange rate was £.86/Eu 1.- Eu.89/US$1

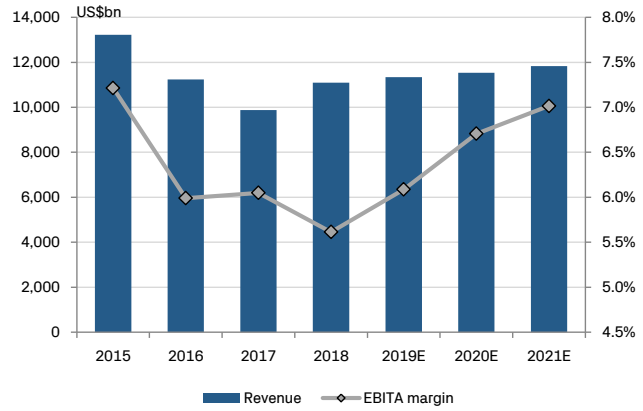
Key charts

Figure 238: Wood has the broadest end-market exposure in the Oil Services sector (2017A)



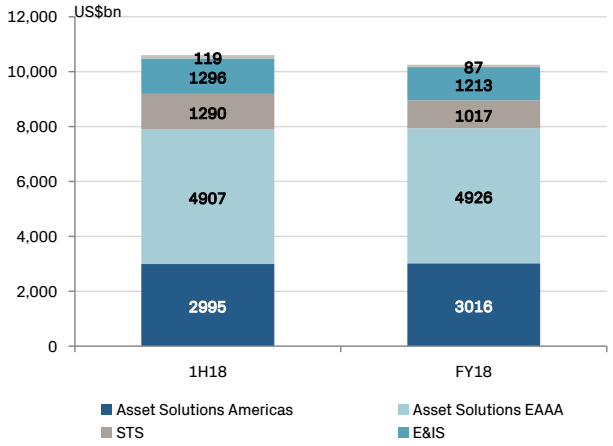
Source: Company data, Credit Suisse research

Figure 239: Revenue growth moderating but cost synergies should drive margin expansion



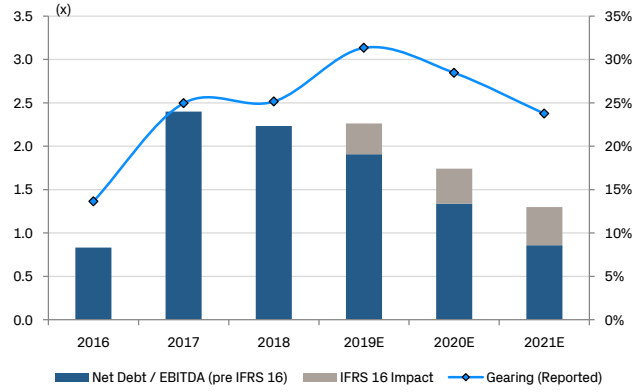
Source: Company data, Credit Suisse estimates

Figure 240: The high-margin STS division saw backlog fall 21% between 1H18 and FY18



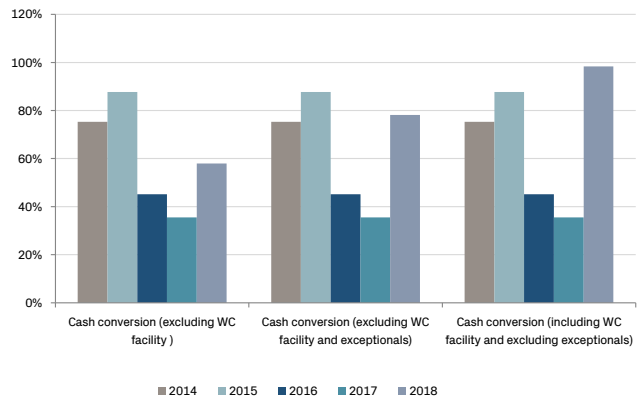
Source: Company data

Figure 241: Absent further disposals we forecast a return to <1.5x ND/EBITDA by end-2020E



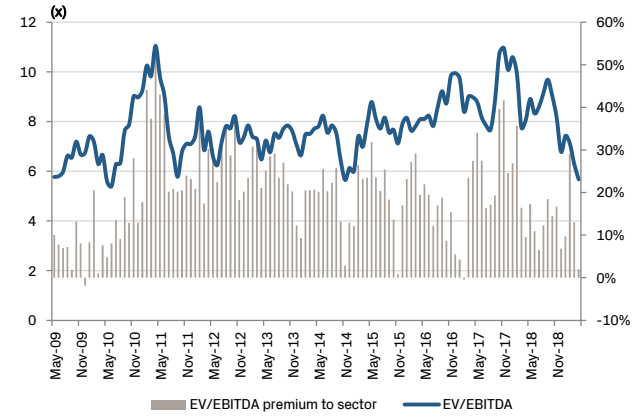
Source: Company data, Credit Suisse estimates

Figure 242: Cash conversion up in 2018 but flattered by working capital facility



Source: Company data, Credit Suisse research

Figure 243: Wood has de-rated on the back of the AFW transaction



Source: Refinitiv. Monthly period end data

Valuing the UK North Sea MMO business

The ability of E&Cs to execute large-scale M&A is debatable. There have been notable successes (SNC Lavalin/Kentz; Jacobs/CH2M) but others have had more chequered outcomes, reducing value materially and stretching balance sheets (McDermott/CB&I; AMEC and Foster Wheeler). The two biggest factors we see are i) the ability to retain top people and integrate two different work forces, and ii) continuity of backlog execution, especially where that work is fixed-price in nature.

It is too soon to judge Wood's acquisition of AMEC Foster Wheeler (AFW). Strategically, we believe the deal makes sense, adding incremental capabilities in both Oil & Gas and new industries, and critical mass in the Middle East and Asia Pacific. Revenue synergies of US$600m substantiate this view. Problem contracts have not been avoided completely, the AEGIS contract in Poland has deteriorated and the large fixed-price contract for the YCI Methanol plant in Louisiana is only just starting to ramp up. However, the impacts thus far have been relatively marginal and Wood has taken active steps to reduce the level of risk embedded in the backlog.

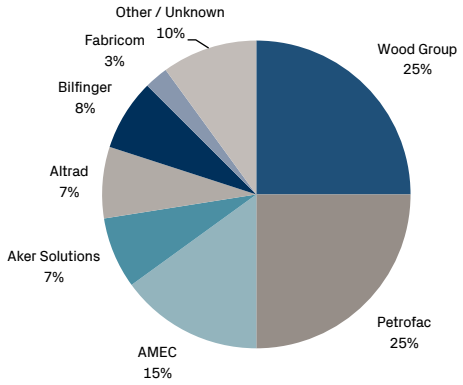
The largest push-back to the transaction has been the state in which it leaves Wood's balance sheet. Historically, Wood has been run conservatively but the AFW acquisition pushed net debt/EBITDA to 2.4x, well above the 1.5-0.5x band management has said it is comfortable working within. Notwithstanding strong cash conversion, deleveraging has been slower than the market had expected initially due to i) lower group profitability levels, and ii) slower asset disposals.

Wood's disposal programme originally centred on non-core assets – Ethos Energy and the infrastructure assets acquired from AFW. However, the lack of disposal progress led to the company updating the market with FY18 results saying it was undertaking a strategic review of its portfolio with subsequent asset disposal set to generate proceeds of US$200m to US$300m. In our view, the company should consider divesting its UK North Sea Maintenance Modifications and Operations business as part of this process. We acknowledge this would not be an easy decision. Wood is headquartered in Aberdeen and North Sea O&M work has been at the core of the business for some time. However there are a number of reasons why we believe the timing would be right to try and exit the business:

- It is a low-margin business that is pulling down group returns.
- Reduces the group's exposure to the more cyclical Upstream Oil & Gas market which was clearly a driver of the AFW transaction.
- Possible structural decline issues as the industry pushes harder on digitalization, typically unmanned platforms and subsea developments/tie-backs. We are not convinced that Wood needs to be in the business of providing personnel to platforms in order to harness the opportunities in digitization.
- Less cross-selling potential between the O&M and Engineering business as the integrated subsea alliances gain market share in mature areas such as the North Sea.
- The North Sea MMO market could start to pick up this year, making a potential disposal easier. We estimate the business is worth ~US$200m, in line with the bottom end of the target disposal range.

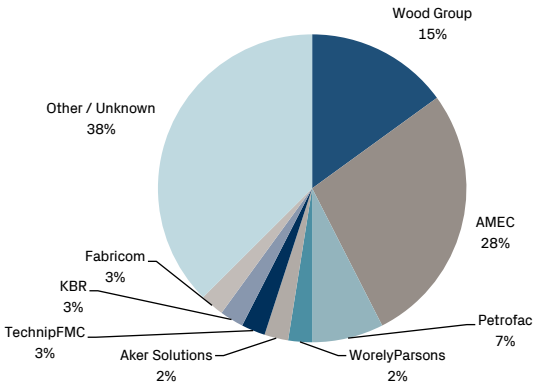
Alongside Petrofac, Wood is the leading provider of Operations & Maintenance and Duty Holder contracts in the UK North Sea. It is also prominent in E&C services and a smaller player in the Hook-up & Commissioning (HUC) market. For companies wishing to gain/expand their footprint in the market, it should therefore be attractive.

Figure 244: Wood Group, alongside Petrofac, is the leading provider of O&M services



Source: Competition & Markets Authority = Anticipated acquisition by John Wood Group plc of Amec Foster Wheeler plc (Aug 2017)

Figure 245: It also has a strong position in the more fragmented E&C market



Source: Competition & Markets Authority = Anticipated acquisition by John Wood Group plc of Amec Foster Wheeler plc (Aug 2017)

We consider a theoretical value of the division, using the price paid by WorleyParsons (WOR) for AFW's North Sea business in October 2017 as a starting point (which WG was required to dispose to receive CMA approval for the deal). On 2016 reported and WOR 2017 forecast numbers, this looked like a low-cost acquisition (3.3x to 3.9x EBITDA). However, as WOR acknowledged at the time, these numbers were supported by a limited number of large, short-term capex-related projects that were not seen as sustainable. Falling within the HUC business, they were also high margin. The multiple based upon WOR's assumption of "maintainable" EBITDA, which excluded any contribution from capex related activity, was more than 9.0x.

Figure 246: Potential transaction multiples derived from WorleyParsons' acquisition of AMEC Foster Wheeler UK in October 2017

£m	EV	Revenue	EBITDA	Margin	EV/Sales	EV/EBITDA
2016 multiples (Act)	182	739	47	6.4%	0.2	3.9
2017 multiples (Forecast)	182	547	55	10.1%	0.3	3.3
Maintainable	182	359	20	5.6%	0.5	9.1

Source: WorleyParsons (Investor Presentation – AFW UK and Capital Raising – Oct 2017) Company data, Credit Suisse estimates

Below we set out our valuation for Wood's North Sea business. As this has shrunk in importance, its disclosure has reduced. Hence there is a healthy degree of uncertainty around our revenue/margin assumptions. In our base case scenario, revenue from the business is 5% of 2019 group total (25% higher for bull case; 10% lower for bear case). In terms of margins, we assume the same 5.6% margins implied for "sustainable" AFW flexing 50bps either side.

Figure 247: Mid-case theoretical scenario is that Wood's UK North Sea business is worth ~US$200m

US$m	Revenue	Margin	EBITDA	Multiple	Value	EV/Sales
Low Scenario	516	5.1%	26	5.0	131	0.3
High Scenario	716	6.1%	44	7.0	306	0.4
Mid Case	**573**	**5.6%**	**32**	**6.0**	**192**	0.3

Source: Credit Suisse estimates

The above potential valuation is below the figure Wood received for the disposal of the AFW business (US$230m when converted into US$). This may seem at odds with Wood's stronger position. However, AFW is the market leader in Hook-up and Commissioning with 75% market share. This is high-margin work and we believe WorleyParsons was willing to

pay for the optionality of this part of the business recovering whilst AFW also had greater market share in the higher margin E&C division.

This leaves the final question as to who would buy the business in the event that it was hypothetically up for sale. At the time of the AFW transaction, SNC Lavalin, Fluor, KBR and Jacobs were all reported to be interested, as reported by The Telegraph (US giants circling for Amec's North Sea assets – 5 August 2017) whilst ultimately, the short-list of bidders is reported by EnergyVoice to have come down to McDermott, private equity backed Blue Water and ultimate winner WorleyParsons (Exclusive: WorleyParsons snaps up AFW's UK business for £228m – 9th October 2017).

Within the context of stated M&A objectives and or recent behavior we believe that the business potentially could be of interest to:

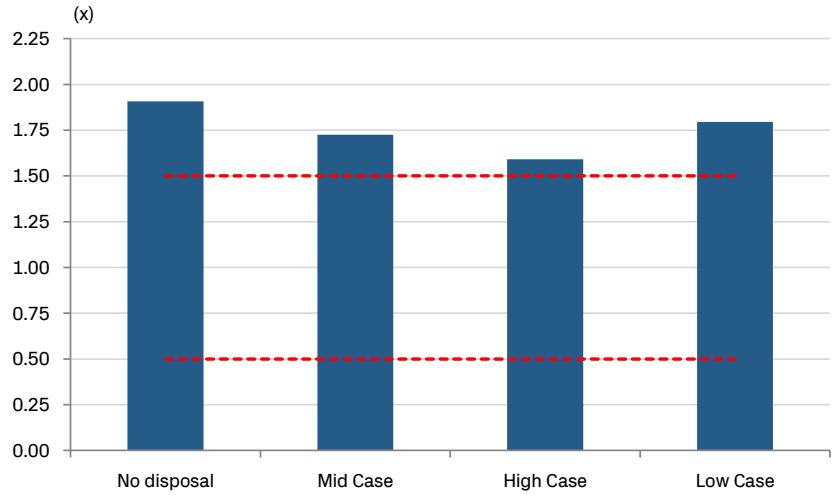
Aker Solutions: The company has a limited presence in the UK North Sea market but is a market leader on the Norwegian side. The company has stated at recent results meetings that it is looking to pursue M&A activity and there should be synergies from the two businesses. The group's most recent acquisition was in the Brazilian MMO market.

Altrad: Private company Altrad acquired UK-listed Cape (a competitor in some areas of MMO) in 2017 for £332m. The company's strategy has been to shift away from equipment manufacturing and towards the provision of services. Acquisitions are one of the 8 "key subjects" for the company (Altrad's FY18 Report & Accounts).

Blue Water Energy: Missed out on the AFW transaction to WorleyParsons. The US$1.1bn Blue Water Energy Fund II which closed in late 2017 will invest (amongst other areas) in Upstream Equipment & Services (LINK). The other short listed company for AFW, McDermott, has subsequently gone on to acquire CB&I.

In terms of the financial impact, we set out below the outcome on net debt/EBITDA under all three scenarios. Interestingly, even with such a radical disposal, we do not see it as a panacea for the leverage position of the company. Under our base case scenario, we only see Net Debt / EBITDA dropping to 1.7x assuming the deal concludes in 2019.

Figure 248: Our mid case scenario only drops Net Debt / EBITDA down to 1.7x



Source: Credit Suisse estimates

Divisional & group forecasts

Wood Group is aiming to deliver US$210m of cost synergies from the AFW acquisition by the end of 2020. We estimate that the current run-rate stands at about US$100m (1Q2019) and the incremental benefit to 2019E should amount to US$60m. This should accrue mostly to the ASA and AS EAAA divisions where there is the greatest overlap between the companies.

Asset Solutions Americas (ASA)

We expect the division to see modest top-line growth in 2019 and for this to be back-half loaded. Although US E&Ps are guiding towards mid-single-digit revenue declines, they continue to grow production and move away from core areas. Hence demand for processing facilities and mid-stream pipelines should continue to perform well. Wood Group should also benefit from the ramp-up of activity on downstream/chemical projects on the Gulf Coast. In particular, we expect the market to pay close attention to the progress on the YCI Methanol project. This US$604m lump-sum contract was inherited from AFW and has been slow to ramp up. Given much publicised losses on Gulf Coast LNG projects due to labour productivity, the risks are obvious. Solar and Wind appear to be more 2H opportunities.

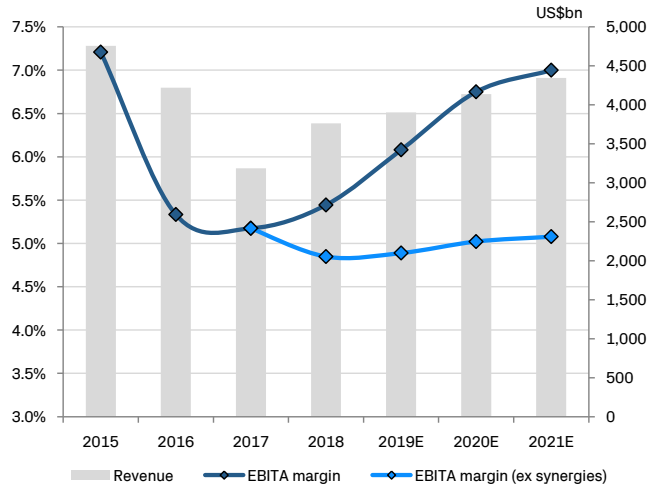
Our concern is that major detailed Upstream engineering contracts (Leviathan, Mad Dog Phase 2) have not been replaced and their roll-off could hit margins disproportionally. Although there have been some decent early-stage engineering projects won, these are typically more competitively priced. Indeed, our margin forecast ex synergy impact is for flat margins.

Asset Solutions Europe, Africa, Asia, Australia (AS EAAA)

We are more positive about growth in this division given ongoing momentum in the Middle East and Asia Pacific (especially Papua New Guinea and Australia) and possible recovery of work in UK North Sea modifications. That said, even though backlog growth was highest in this division between 1H18 and FY18, at just 0.7%, it does suggest that some near-term awards are needed to substantiate the growth rate.

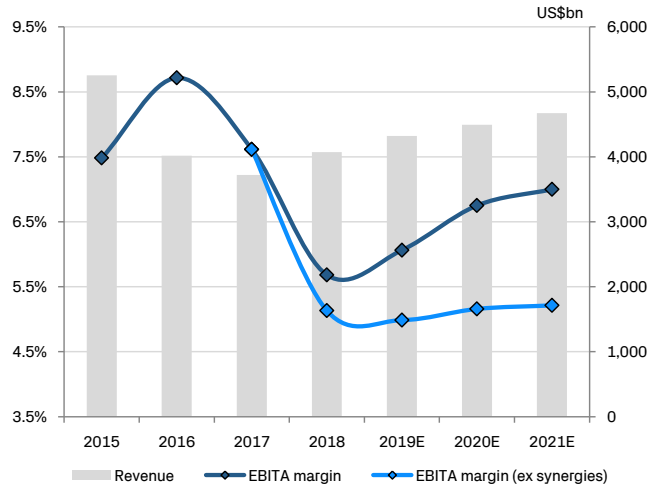
Margins held steady in 2018 despite the benefit of cost savings in 2018; however, we think there could be a small uplift in 2019 (underlying) with management talking about some tightness in the Middle East market, while UK North Sea Modification work tends to come at higher margins than Operations or Maintenance. Furthermore, positive results from the reorganization in EthosEnergy could also help.

Figure 249: We expect margin expansion in ASA to come from cost synergies



Source: Company data, Credit Suisse estimates

Figure 250: And the same is true for the AS EAAA region



Source: Company data, Credit Suisse estimates

Specialist Technical Solutions (STS)

At 19% revenue growth, STS was the best-performing division in 2018 driven by recovering revenues in Mining and Minerals and sustained revenue in Automation & Control, which more than offset a continued subdued market in subsea engineering. Wood Group's position in the latter market may well be structurally challenged in our view given the market trend towards integrated project awards, which reduce significantly the need for independent engineers such as Wood Group.

The largest contract in the division has been the process automation contract for Tengizchevroil (TCO's) Future Growth Project-Wellhead Pressure Management Project in Kazakhstan. This was awarded in 2016 with a US$700m value; however, this is now past its peak contribution and its tail-off will be hard to replace. With backlog down 21% over the 1H18 to FY18 period, there are some apparent challenges to revenue growth. However, Wood Group expects shorter-cycle consulting work, rather than term contracts in, say, Automation & Control, to help deliver some growth in 2019.

The main focus for 2019, though, will be to improve margins as these have been on a downward trajectory for the past three years. However, we believe there is no silver bullet with the plan to broaden the footprint of the high margin Technology and Consulting business in particular.

Environmental & Infrastructure Services (E&IS)

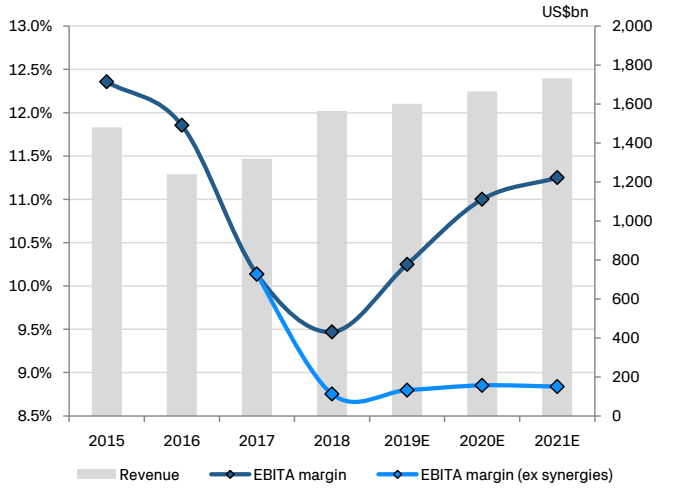
Gaining leverage to the Environmental & Infrastructure Services market was one of the prime rationales for the AFW transaction, alongside diversifying away from Upstream O&G. North America is the most important market, accounting for 80% of 2018 revenues. The division delivers largely engineering and consultancy services to a broad range of customers in diverse end sectors (Government, Industrial, Transport, Power/Energy, Water, Oil & Gas). These services include waste-water treatment; air, land, water impact assessment and permits; road/rail design; flood risk studies.

The division is seeing both top-line and margin expansion. Top line growth is a surprise given the decision to withdraw from overseas lump-sum contracting for the US government. However, as these were construction contracts with onerous cash-flow profiles and low margins, they did not fit the profile of the company. At the time of acquisition there were three such contracts in the portfolio and only one, the AEGIS missile defense system in Poland, is outstanding. This should complete by year-end 2019

and, furthermore, Wood Group has transferred this project into a central “Strategic Projects” team and therefore it is no longer reported within E&IS.

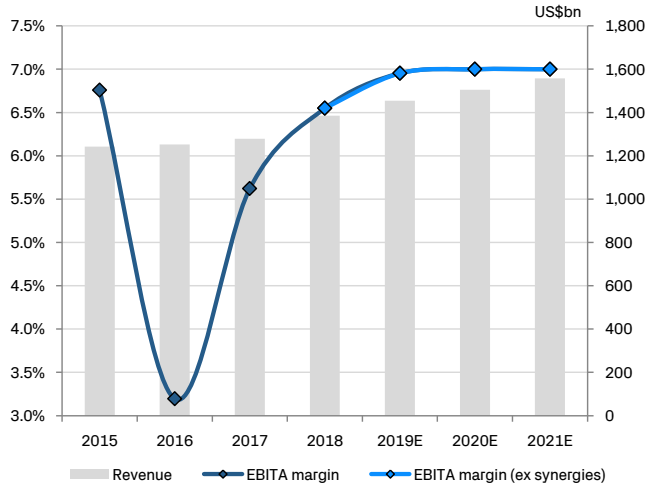
We expect revenue to outpace US GDP growth slightly as there is a focus on business development for the first time and an intention to expand internationally to geographies where Wood Group is already present. With no drag from the overseas US government contracts, margins will likely stay around the 7% level. With no corresponding division within Wood Group, we do not model any benefit from cost synergies.

Figure 251: Top-line growth in STS likely to stall in 2019. Focus on improving underlying margin



Source: Company data, Credit Suisse estimate

Figure 252: Steady top-line growth with no cost synergies available



Source: Company data, Credit Suisse estimates

CS vs consensus

Historically Wood Group has been hesitant to give guidance, but post the acquisition of AFW it has been more forthcoming. For the current year, it has said:

- Revenue will grow by 5%, driven by the ASA and ASEAAA divisions.
- It is comfortable with the current EBITA of US$716m on a pre-IFRS 16 basis. This includes US$60m of cost synergies. IFRS 16 will have a positive US$30m impact on EBITA; so the pro forma figure is US$746m.
- Cash conversion post exceptional items to be in the 80-85% range.
- It has also announced that it will drop the EBITA reporting line and, in line with peers, reference EBITDA. We calculate that the guidance on EBITA for 2019 translates into EBITDA post IFRS 16 adoption of US$934m.

Our forecasts for 2019 are slightly below guidance (EBITDA of US$917m vs US$934m guidance) reflecting that, since this guidance was delivered, WG has announced the disposal of Terra Nova Technologies, which would remove ~US$4m of EBITDA over 2H19.

Figure 253: CS vs consensus

	2018	2019E			2020E			2021E		
US$m	Actuals	CS	Cons.	Diff	CS	Cons.	Diff	CS	Cons.	Diff
Revenue	11,036	11,458	11,143	3%	12,062	11,672	3%	12,633	12,149	4%
EBITDA	694	917	870	5%	1,044	950	10%	1,140	1,040	10%
EBITDA margin	6.3%	8.0%	7.8%		8.7%	8.1%		9.0%	8.6%	
EBITA	630	711	737	-4%	827	823	0%	913	791	15%
Net Income	352	391	384	2%	482	458	5%	548	530	3%
EPS ($/sh)	0.57	0.57	0.60	-5%	0.71	0.69	2%	0.80	0.79	2%
DPS ($/sh)	0.35	0.35	0.36	-2%	0.36	0.37	-3%	0.37	0.38	-3%
Net Debt	1,549	2,075	1,520	37%	1,828	1,268	44%	1,493	1,062	41%

Source: Company data, Refinitiv (for consensus), Credit Suisse estimates, as of 1st May 2019

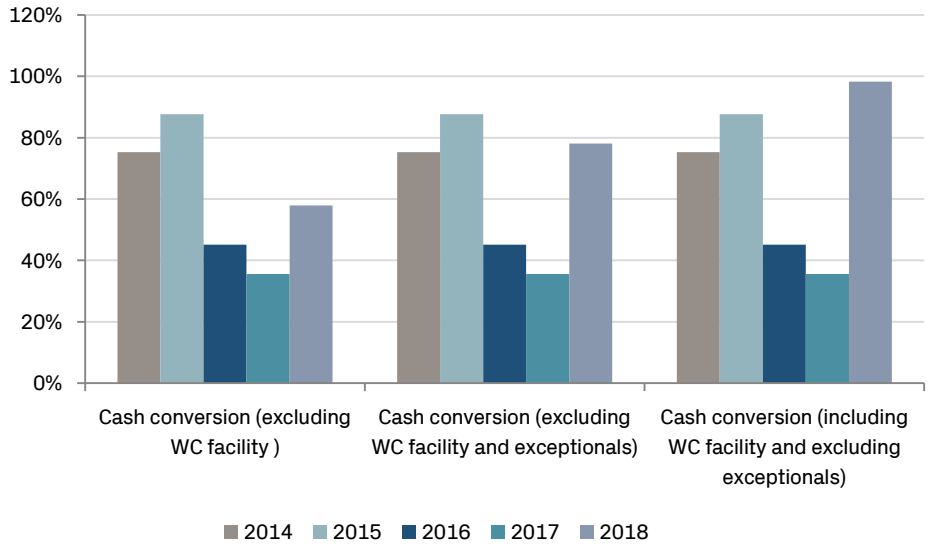
Balance sheet and shareholder returns

Wood Group stands out in the space as one of the few companies running meaningful levels of net debt. Although the company model should support debt (it is asset light with a limited level of fixed-price contracts,) the current 2.2x net debt/EBITDA ratio is well above the 0.5x to 1.5x range in which the company seeks to operate. The company has been trying to deleverage by pulling three levers: i) improving underlying profits; ii) optimizing working capital; and iii) disposing of assets. Reflecting on the success of each strategy, there is more work to be done on improving profits, working capital improvement appears to have gone as far as it can (more or less) while disposal progress has so far disappointed.

At the FY18 results, Wood Group walked away from its target of falling back to the target range by the end of 1H19 citing a slower-than-expected recovery in Oil & Gas activity, a working capital draw on the AEGIS contract in Poland (US$80m) and a lack of progress on disposals with only US$50m of the target US$200m achieved. Instead, it has said that it has identified US$200m to US$300m of potential proceeds that will be executed as and when these are able to achieve a satisfactory return. One such example is EthosEnergy, which has been removed from being a Held for Sale asset. Originally seen as the cornerstone of the disposal programme with a US$100m book value, the focus for this asset is now to restructure and ensure that it is ultimately sold for more than the current written-down value of US$30m.

Wood Group has made much of its improved cash conversion ratio (Operating cash-flow pre-exceptional items as a percentage of EBITDA). Although this has improved, it has been flattered by a draw-down of US$154m working capital facility (capacity US$200m) in 2018. On what we think is the fairest comparison (Cash conversion excluding WC facility and exceptionals) Wood Group's performance has improved relative to 2016 and 2017 but is only back to levels of 2014 and 2015.

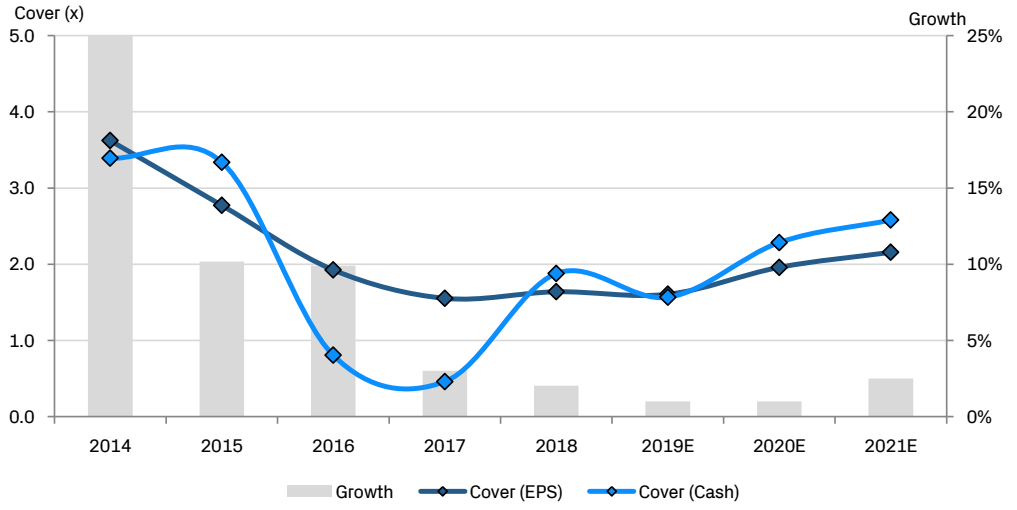
Figure 254: Cash conversion ratios dependent on what is included and excluded. The use of a working capital facility flatters 2018



Source: Company data, Credit Suisse research

Wood Group has made clear a progressive dividend policy that comes second only to debt reduction as a use of cash. In February 2014, it committed to growing the dividend 25% that year and by double digits from 2015. However, the AFW transaction was structured as cash *and* shares, which has increased the dividend burden by US$100m; this, alongside the industry downturn and significantly higher leverage, has led to dividend growth being pared right back.

Figure 255: We forecast Wood Group's dividend to grow at a slower rate as coverage cash is prioritised towards reducing leverage



Source: Company data, Credit Suisse estimates

Rating and target price

We initiate coverage of Wood Group with a Neutral rating and 505p target price. We derive our target price from a 50/50 weighting of our 2020E EBITDA sum-of-the-parts valuation and a three-stage DCF.

Figure 256: Wood Group target price

Valuation (p/sh)	
SOTP fair value	516
DCF fair value	495
Average Fair Value (50% SOTP / 50% DCF)	**505**

Source: Credit Suisse estimates. Priced as of 1st May 2019

Sum of the parts

We value each of the four business segments on a stand-alone basis. We use comparable company multiples, adjusted for IFRS 16. IFRS 16 has the most favourable valuation impact on Wood, among our coverage universe.

We set out below the multiples for Wood Group's peer group in the table below.

Figure 257: Multiples for Wood Group's peer group

	EV/EBITDA 2019	EV/EBITDA 2020	PE 2019	PE 2020	EV / Sales 2019	EV / Sales 2020	ND / EBITDA 2019	ND / EBITDA 2020
Asset Solutions / STS								
Petrofac Ltd	3.5	3.5	6.6	6.4	0.3	0.3	0.0	-0.1
Tecnicas Reunidas SA	8.2	6.5	17.1	13.6	0.3	0.3	-1.6	-1.6
Maire Tecnimont SpA	4.1	3.9	8.8	8.9	0.2	0.2	-0.5	-0.7
SNC-Lavalin Group Inc	8.3	7.4	13.0	11.0	0.8	0.7	1.9	1.6
WorleyParsons Ltd	15.9	8.5	25.1	13.0	1.3	0.7	3.2	1.5
Fluor Corp	6.2	5.1	14.1	11.0	0.3	0.2	-0.4	-0.4
KBR Inc	8.7	7.8	13.6	12.3	1.0	0.9	1.1	1.1
Bilfinger SE	8.1	5.7	20.1	12.4	0.6	0.5	0.3	0.2
Aker Solutions ASA	5.8	5.1	20.5	16.4	0.5	0.5	0.6	0.4
Average	**7.6**	**5.9**	**15.4**	**11.7**	**0.6**	**0.5**	**0.5**	**0.2**
Environmental & Infrastructure Solutions								
AECOM	8.7	7.9	11.7	10.6	0.4	0.4	3.1	2.8
Arcadis NV	7.8	6.8	12.6	10.9	0.6	0.5	1.6	1.1
Stantec Inc	10.2	9.1	16.4	15.0	1.2	1.1	1.6	1.1
Average	**8.9**	**8.0**	**13.6**	**12.1**	**0.7**	**0.7**	**2.1**	**1.7**

Source: Refinitiv. Data as of 1st May 2019

- Asset Solutions: For both divisions we use a 5.6x multiple (6.0x on a pre-IFRS 16 basis), which is in line with the average multiple of direct competitors such as Fluor, KBR and Bilfinger.
- STS: Determining the appropriate multiple for STS is difficult as these competencies tend to lie within larger organizations and therefore have no direct peer group. We use an 7.4x multiple (8.0x pre IFRS 16), which seems reasonable based on the fact that some of its closest peers in this area (SNC Lavalin, WorleyParsons) trade within the 7x – 9x range.
- Environmental & Infrastructure: We apply a 7.4x multiple (8.0x pre IFRS 16), in line with the peer group (AECOM, Arcadis and Stanec).
- Overall, our target group multiple is 6.1x, a 7% discount to the pre IFRS 16 multiple of 6.6x).

Figure 258: SOTP valuation based on 2020E EBITDA forecasts

2020 SOTP- US$m						
	EBITDA	Sales	Multiple (x)	EV/Sales implied (x)	EV	Share
Asset solutions Americas	365	4,177	5.6	0.5	2,039	30%
Asset Solutions EAAA	404	4,536	5.6	0.5	2,253	34%
Specialist Technical Solutions	200	1,665	7.4	0.9	1,487	22%
Environment & Infrastructure Solutions	124	1,505	7.4	0.6	924	14%
Corporate	-49		6.1		-299	
Total	1,044	11,883	6.1	0.5	6,403	
Net Debt / (Cash) - 2020E					1,178	
IFRS 16 Impact					650	
Minority Adjustments					19	
Shareholders' Equity					4,556	
Shares Outstanding - 2020E					683	
Implied Share price (US$/sh)					6.67	
FX					1.29	
Implied Share price (GBp)					**516**	

Source: Credit Suisse estimates. Priced as of 1st May 2019

DCF

We use a three-stage DCF, comprising forecasts out to 2025, a 10-year normalisation period to 2035 with revenue growth of 3% p.a. and subsequent terminal value based on a long-term growth rate of 2%.

We use a WACC of 10.6%. The factors behind this are:

- a risk-free rate of 2.9% (30-year US Treasury);
- beta of 1.2x based on two-year weekly regression of WG's share price vs the UKX Index;
- a Risk Premium for the UK market of 6.7% calculated by the NYU Stern School of Business (Country Default Spreads and Risk Premiums);
- a long-term Cost of Debt of 5.0% based on the premium of the group's FY18 implied cost of debt to the average 2018 Fed Funds Rate; and
- a 95%/5% split of equity/debt.

Our long-term EBITDA margin assumption is 6%, which in turns leads to a terminal value EV/EBITDA multiple of 5.5x

Figure 259: We use a three-stage DCF model

DCF - US$m					
Assumption	**Beta**	**Risk Prem.**	**WACC**	**LT Growth**	
	1.2	6.7%	10.6%	2.0%	
				EV	**Share**
Present Value Forecast Period				2,930	49%
Present Value Normalisation Period				1,965	33%
Present Value of Terminal Value				1,050	18%
Total Enterprise Value				**5,945**	
Net Debt / (Cash) - 2018				1,549	
Non Contolling Interest - 2018				19	
Implied Equity Value				**4,377**	
Share Count - 2018				683	
DCF Implied Fair Value				6.41	
FX				1.29	
Fair Value (p/sh)				**495**	

Source: Credit Suisse estimates. Priced as of 1st May 2019

Blue Sky/Grey Sky

We establish Blue Sky and Grey Sky valuation scenarios with reference to our SOTP valuation by flexing our revenue growth, EBITA margin and target multiple assumptions.

- *Blue Sky:* For ASA, ASEAAA and STS we model top-line revenue growth in line with the rate seen in 2018 (18%, 10% and 19%, respectively), with underlying margins improving 150bp from 2018 levels. For E&IS we assume revenue growth in line with 2018 levels (8%) but with margins moving up 100bp vs a 7% guidance for the division. Our multiple expands to 7.5x (7.8x pre IFRS 16), which is at the top end of the peer group
- *Grey Sky:* For the Asset Solutions and Specialist Technical Services we model mid-single-digit revenue declines and no improvement in underlying margins relative to 2018 levels. For E&IS we assume no revenue growth (it is a GDP+ division) and with margins falling 100bp from the 7% guidance. Our multiple contracts to 4.8x (5.1x pre IFRS 16) which is at the bottom end of the peer group

Figure 260: Blue Sky/Grey Sky

Blue Sky SOTP		vs base
EBITDA (2020 - $m)	1,275	22%
Multiple (x)	7.5	22%
Equity value (p/sh)	**882**	

Grey Sky SOTP		vs base
EBITDA (2020 - $m)	813	-22%
Multiple (x)	4.8	-21%
Equity value (p/sh)	**221**	

Source: Credit Suisse estimates, as of 1st May 2019

Risks

The main risks we see to our rating and target price are:

- Underlying margins tighten more quickly than we expect driven by better STS revenue growth, which improves the revenue mix or a broader backdrop of pricing inflation across the Oil & Gas markets.
- The company is able to dispose of assets on higher multiples than they have guided.
- Cash conversion stays at current high levels, deleveraging the company faster than we expect and driving investors to focus upon the company's sector-leading FCF yield.

Credit Suisse HOLT

The extended seven-year forecast shown in Figure 261 for sales, margins and returns allow us to express our long-term view of the near-term recovery and factor the next cycle into this business. Based on our key estimates for 2019-2021 returns are expected to improve from 14.3% in 2019 to c.16.9% by 2021. This is supported by our expectations of margins expansion of just over 100bp and stable asset efficiency to 2021. We capture the next cycle and forecast returns to improve further to 17.2% by 2025.

Beyond the explicit seven-year forecast period (2019-2025), HOLT uses a fade model to arrive at its warranted price. CFROI® levels are faded to 6.0% and asset growth is faded to 2.5% (mean reversion to long-term observed levels). The default fade rate is 10%. For this analysis we have used a market implied discount rate of c.5.5% for European Oil & Gas aggregate. The above assumptions indicate a HOLT warranted value of 456p, which compares with our target price of 505p. HOLT fades the CFROI to 6% over 10 years after our forecast window. This normalization may be more aggressive than we would predict and therefore leads to HOLT's lower valuation.

Figure 261: Wood Group plc in HOLT

HOLT - Credit Suisse Analyst Scenario Data

JOHN WOOD GROUP PLC (WG)

Current Price: GBp 470.50 **Warranted Price: GBp 456.45**

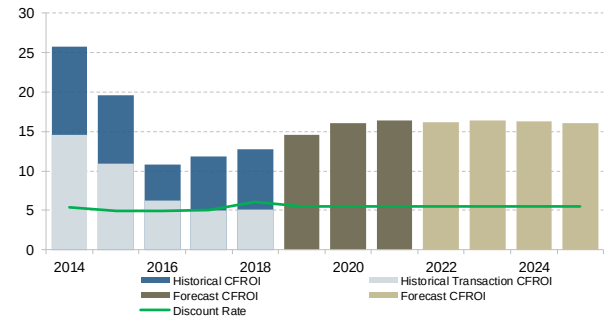
Valuation date: 30-Apr-19

EBITDA Margin (parallel % point change to forecasts) / USD	Sales Growth (parallel % point change to forecasts) -2.0%	-1.0%	0.0%	1.0%	2.0%
-2.0%	-84%	-76%	-68%	-58%	-47%
-1.0%	-55%	-46%	-35%	-23%	-10%
0.0%	-27%	-15%	-3%	11%	27%
1.0%	2%	15%	30%	46%	64%
2.0%	30%	46%	62%	80%	101%

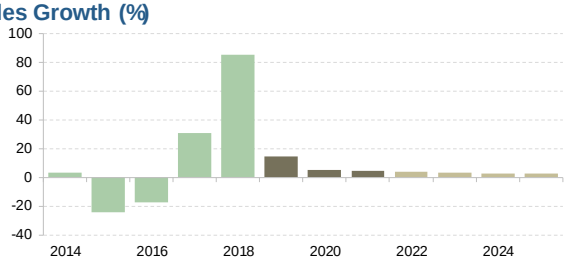
	Dec 17A	Dec 18A	Dec 19E	Dec 20E	Dec 21E
Sales Growth, %	30.9	85.6	14.4	5.3	4.7
EBITDA Mgn, %	6.7	6.1	6.5	7.2	7.7
Asset Turns, x	2.04	2.3	2.4	2.4	2.3
CFROI®, %	11.8	12.7	14.6	16.1	16.4
Disc Rate, %	5.1	6.1	5.5	5.5	5.5
Asset Grth, %	86.7	-10.4	6.9	1.1	4.9
Price to Book, x	2.8	2.6	2.4	2.3	2.2
Economic PE, x	23.9	20.6	16.3	14.4	13.4
Leverage, %	42.7	46.2	52.3	52.3	53.2

More than 10% downside | Within 10% | More than 10% upside

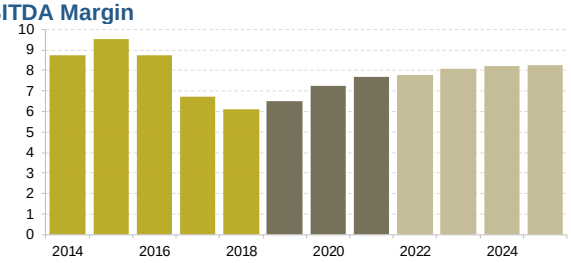
CFROI & Discount Rate (in %)



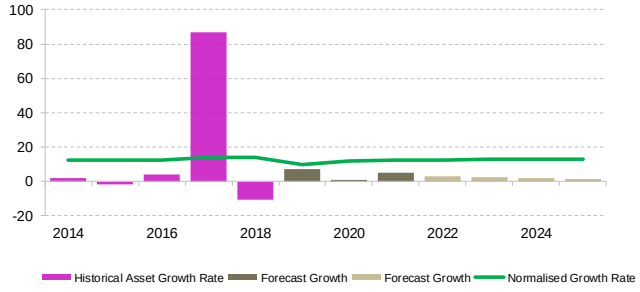
Sales Growth (%)



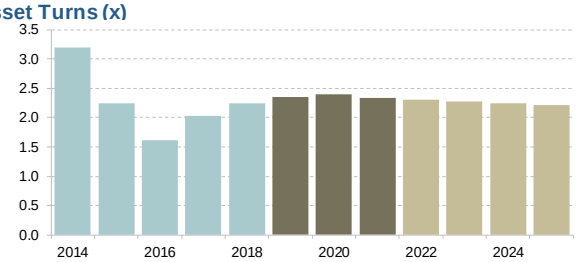
EBITDA Margin



Asset Growth (in %)



Asset Turns (x)



Source: Credit Suisse HOLT®. CFROI and HOLTare trademarks or registered trademarks of Credit Suisse Group AG or its affiliates in the United States and other countries.

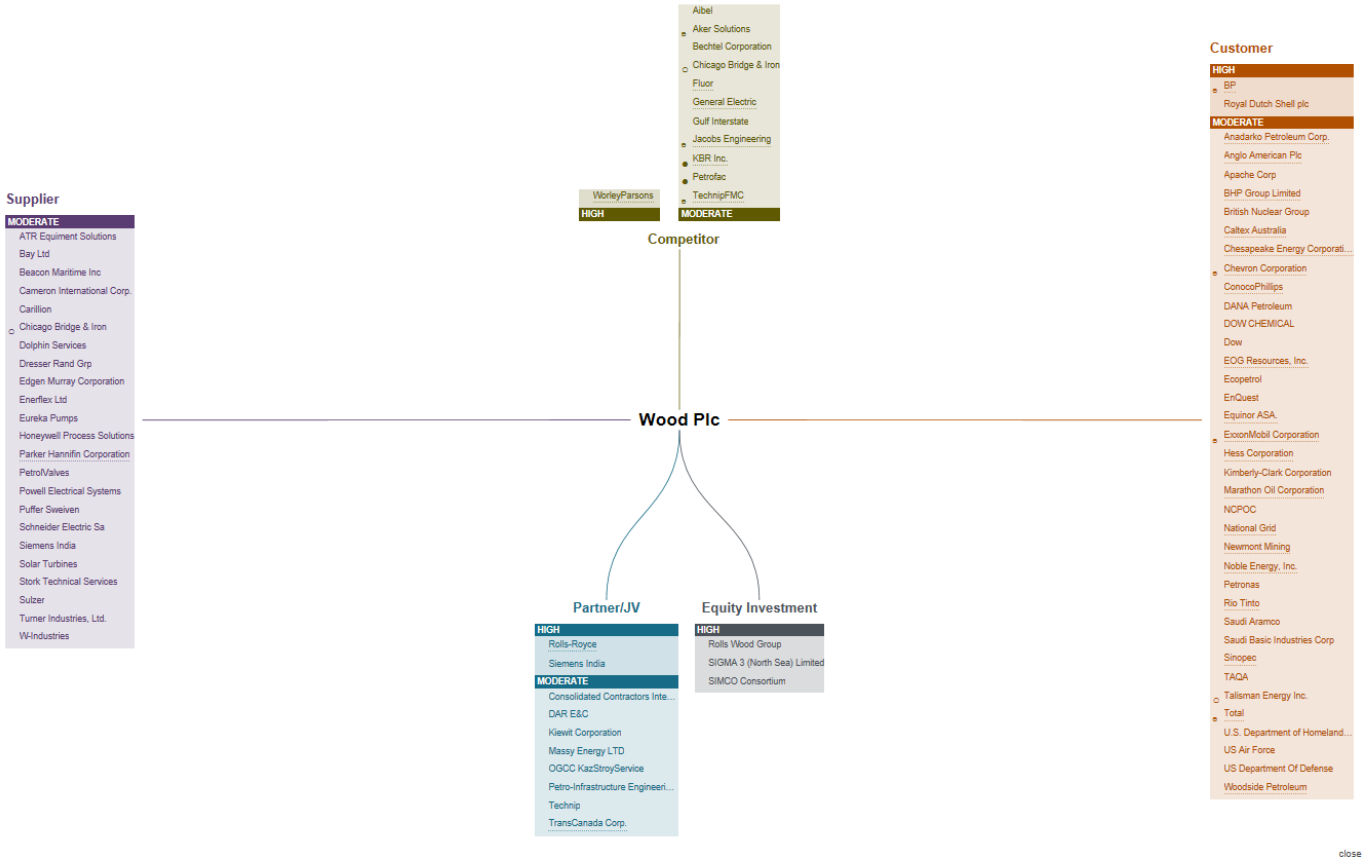
Source: Credit Suisse HOLT

PEERs

PEERs is a global database that captures unique information about companies within the Credit Suisse coverage universe based on their relationships with other companies – their customers, suppliers and competitors. The database is built from our research analysts' insight regarding these relationships. Credit Suisse covers over 3,000 companies globally. These companies form the core of the PEERs database, but it also includes relationships on stocks that are not under coverage.

For more information, see our November 2016 PEERs report: *A chain reaction: Supply chain strategies*.

Figure 262: Wood PLC in PEERs



Source: Credit Suisse PEERs

Management

Robin Watson – CEO

Mr Watson was appointed Chief Executive Officer of Wood in January 2016, having been Chief Operating Officer and an executive member of the Wood Group board since January 2013. He has more than 30 years' engineering and industry experience, with the past 11 years spent in a variety of executive positions and being actively engaged with various industry and governmental representative bodies. Prior to joining Wood Group, Mr Watson worked for Petrofac and Mobil Oil, working both in the UK and internationally.

David Kemp – CFO

Mr Kemp was appointed Chief Financial Officer of Wood Group in 2015 having joined in 2013 as CFO of its Wood Group PSN business. He has more than 20 years' experience in the oil & gas sector. He has held executive roles at Trap Oil Group, Technip, Simmons and Company International, and Hess Corporation, working across finance, mergers & acquisitions and operations.

P&L, cash flow and balance sheet

Figure 263: Divisional and group P&L

Divisionals (USDm)	2017A	2018A	2019E	2020E	2021E
Asset Solutions Americas					
Revenue	**3,187**	**3,762**	**3,903**	**4,177**	**4,385**
Growth	-24%	18%	4%	7%	5%
EBITDA	N/A	227	322	365	410
Margin	N/A	6.0%	8.3%	8.8%	9.4%
Growth	N/A	N/A	42%	13%	12%
Asset Solutions EAAA					
Revenue	**3,723**	**4,072**	**4,320**	**4,536**	**4,763**
Growth	-7%	9%	6%	5%	5%
EBITDA	N/A	257	344	404	436
Margin	N/A	6.3%	8.0%	8.9%	9.2%
Growth	N/A	N/A	34%	17%	8%
Specialist Technical Solutions					
Revenue	**1,320**	**1,565**	**1,601**	**1,665**	**1,748**
Growth	6%	19%	2%	4%	5%
EBITDA	N/A	152	180	200	214
Margin	N/A	9.7%	11.3%	12.0%	12.3%
Growth	N/A	N/A	18%	11%	7%
Environment and Infrastructure					
Revenue	**1,279**	**1,385**	**1,454**	**1,505**	**1,558**
Growth	2.2%	8.3%	5.0%	3.5%	3.5%
EBITDA	N/A	96	119	124	129
Margin	N/A	6.9%	8.2%	8.3%	8.3%
Growth	N/A	N/A	24%	4%	3%
Other					
Revenue	**374**	**252**	**179**	**179**	**179**
EBITDA	-51	-39	-49	-49	-49

P&L (USDm)	2017A	2018A	2019E	2020E	2021E
Revenue	**6,169**	**11,036**	**11,458**	**12,062**	**12,633**
Growth	25%	79%	4%	5%	5%
EBITDA	**423**	**694**	**917**	**1044**	**1140**
Growth	1%	64%	32%	14%	9%
Margin	6.9%	6.3%	8.0%	8.7%	9.0%
Depreciation & Amortisation	-211	-337	-453	-464	-474
Operarting profit (pre excp)	**212**	**357**	**464**	**580**	**666**
Net finance expense	-32	-87	-108	-105	-104
Share of JV tax & interest	-18	-25	0	0	0
Pre-tax (pre excp)	**163**	**245**	**356**	**475**	**562**
Tax (pre-exceptional)	-28	-70	-85	-114	-135
Effective tax rate	17%	28%	24%	24%	24%
Net income (pre excp)	**135**	**175**	**270**	**361**	**427**
Minority Interests	-2	-1	0	0	0
Exceptionals	-165	-183	-95	-80	0
Reported net income	-32	-9	175	281	427
Adj net income (pre amort & excp)	**240**	**352**	**391**	**482**	**548**
Shares (diluted, m)	451	683	683	683	683
EPS (US$/sh) - Reported	-0.07	-0.01	0.26	0.41	0.62
EPS (US$/sh) - Adjusted	**0.53**	**0.57**	**0.57**	**0.71**	**0.80**
DPS (US$/sh)	0.34	0.35	0.35	0.36	0.37

Source: Company data, Credit Suisse estimates. * Note that 2017 divisional numbers are pro-forma for comparison purposes whereas P&L numbers are reported.

Figure 264: Condensed cash-flow and balance sheet

Cash flow (USDm)	2017A	2018A	2019E	2020E	2021E
Operating profit	5	131	369	500	666
Operating cash flows	249	266	453	464	474
Working capital	-4	228	-87	-6	-50
Tax paid	-100	-84	-85	-114	-135
Cashflow from Operations	**150**	**542**	**650**	**845**	**955**
Capex (net, inc intangible)	-79	-93	-100	-110	-130
M&A spend (net)	-88	-38	0	0	0
Other investing cash flows	732	89	44	6	7
Cashflow from Investing	**565**	**-42**	**-56**	**-104**	**-123**
Change in borrowings	1939	26	0	0	0
DPS cash cost	-126	-231	-240	-242	-246
IFRS 16 payments	0	0	-170	-170	-170
Other financing cash flows	-1887	-106	-84	-81	-81
Cashflow from Financing	**-73**	**-311**	**-494**	**-493**	**-497**
FX	4	-38	0	0	0
Net cash flow	646	151	100	247	335
Cash and cash equivalents	1,226	1,377	1,477	1,724	2,059
Net debt / (cash)	**1,654**	**1,549**	**1,425**	**1,178**	**843**
IFRS 16 Lease Liability			650	650	650
Net debt / (cash) - IFRS 16	**1,654**	**1,549**	**2,075**	**1,828**	**1,493**
Free Cash Flow	**71**	**449**	**380**	**565**	**655**

Balance Sheet (USDm)	2017A	2018A	2019E	2020E	2021E
Property, plant and equipment	234	199	134	107	80
Goodwill and intangibles	6,871	6,657	6,470	6,283	6,106
Other non-current assets	921	865	1,515	1,515	1,515
Non-Current Assets	**8,026**	**7,721**	**8,119**	**7,905**	**7,702**
Inventories	14	14	14	15	16
Trade and other receivables	2,629	2,556	2,701	2,843	2,978
Other current assets	181	111	111	111	111
Cash and Cash equivalents	1,226	1,353	1,477	1,724	2,059
Current Assets	**4,050**	**4,033**	**4,303**	**4,693**	**5,163**
Total Assets	**12,075**	**11,753**	**12,422**	**12,598**	**12,864**
Borrowings	543	985	985	985	985
Derivative financial instruments	0	0	0	0	0
Other Current Liabilities	2,700	2,886	2,945	3,082	3,167
Current Liabilities	**3,244**	**3,870**	**3,929**	**4,066**	**4,151**
Borrowings	2,336	1,917	1,917	1,917	1,917
Other non-current liabilities	1,524	1,356	2,030	2,030	2,030
Non-Current Liabilities	**3,860**	**3,273**	**3,948**	**3,948**	**3,948**
Shareholders equity	4,960	4,591	4,526	4,565	4,746
Non-controlling interests	12	19	19	19	19
Total equity	**4,972**	**4,610**	**4,545**	**4,584**	**4,765**
S/H Equity & Liabilities	**12,075**	**11,753**	**12,422**	**12,598**	**12,864**

Source: Company data, Credit Suisse estimates

Appendix

Oil macro

Our oil price forecasts are not materially different from the current spot rate. The below is extracted from our latest oil price report published on 4 April (Raising Oil but Lowering Gas Price Forecast for 2019; No Change to 2020+).

Raising 2019 Oil Price Forecasts

Figure 265: Revised Credit Suisse Oil Price Deck vs. Prior Forecasts, Consensus and NYMEX Futures Strip

WTI ($/Bbl)	2016A	2017A	2018A	1Q19A	2Q19E	3Q19E	4Q19E	2019E	2020E	2021E	2022E
CS WTI Forecast	**$43.35**	**$50.87**	**$64.97**	**$54.87**	**$57.00**	**$59.00**	**$59.00**	**$57.50**	**$57.00**	**$60.00**	**$60.00**
Prior CS Forecast				$54.00	$52.00	$56.00	$54.00	$54.00	$57.00	$60.00	$60.00
Bloomberg Consensus				$55.00	$60.00	$62.50	$62.75	$60.39	$65.00	$63.00	$63.76
NYMEX Futures Strip				$54.87	$62.54	$62.57	$62.08	$60.33	$59.84	$56.82	$54.73
CS Forecast vs. Prior								*6.5%*	*0.0%*	*0.0%*	*0.0%*
CS vs. Consensus				*-0.2%*	*-5.0%*	*-5.6%*	*-6.0%*	*-4.8%*	*-12.3%*	*-4.8%*	*-5.9%*
CS vs. NYMEX Strip					*-8.9%*	*-5.7%*	*-5.0%*	*-4.7%*	*-4.7%*	*5.6%*	*9.6%*

Brent ($/Bbl)	2016A	2017A	2018A	1Q19A	2Q19E	3Q19E	4Q19E	2019E	2020E	2021E	2022E
CS Brent Forecast	**$45.56**	**$54.87**	**$71.18**	**$63.27**	**$67.00**	**$67.00**	**$69.00**	**$66.60**	**$67.00**	**$70.00**	**$70.00**
Prior CS Forecast				$62.00	$62.00	$64.00	$64.00	$63.00	$67.00	$70.00	$70.00
Bloomberg Consensus				$63.20	$67.44	$70.00	$70.00	$67.46	$70.00	$68.39	$67.81
ICE Futures Strip				$63.27	$68.93	$68.77	$67.92	$67.07	$66.11	$63.57	$61.73
CS Forecast vs. Prior								*5.7%*	*0.0%*	*0.0%*	*0.0%*
CS vs. Consensus				*0.1%*	*-0.7%*	*-4.3%*	*-1.4%*	*-1.3%*	*-4.3%*	*2.4%*	*3.2%*
CS vs. Futures Strip					*-2.8%*	*-2.6%*	*1.6%*	*-0.7%*	*1.3%*	*10.1%*	*13.4%*

Source: Credit Suisse estimates, the BLOOMBERG PROFESSIONAL™ service

- **Raising our 2019 WTI/Brent oil price forecasts ($/Bbl) by ~$3.50 to $57.50/$66.50.** OPEC crude production was ~30.55 MMBbld in February, down ~1.8 MMBbld from its October 2018 level. Notably, the decline in output was much steeper than the ~0.8 MMBbld OPEC agreed (from its October level) at the December OPEC+ meeting in Vienna as a result of material declines from Iran related to sanctions (0.6 MMBbld), Venezuela (0.2 MMBbld), and Saudi Arabia producing well below quota. This has resulted in eroding the large surplus in balances in 4Q18, re-balancing the market in 1Q, and sending 2019 futures strip prices ($/Bbl) up ~25% YTD to ~$60/$67. As the market is near balance this year assuming OPEC crude output holds flat with its February level, our revised 2019 WTI/Brent price forecasts is modestly below the current 2019 futures strip prices.
  - **Larger-than-expected Saudi production cuts.** According to the latest OPEC secondary sources, Saudi Arabia's oil production has been reduced from ~11.0 MMBbld in November to ~10.2 MMBbld in January and ~10.1 MMBbld in February, levels already exceeding compliance with its ~10.3 MMBbld quota under the December OPEC+ output cut deal. In addition, the country's energy minister al-Falih has signaled further reduction in its oil output to 9.8 MMBbld in March and April, implying a voluntary cut of 0.5 MMBbld in excess of its quota. As such, we now forecast Saudi crude production to average ~10.2 MMBbld this year, ~200 MBbld below our prior assumption. While current production is near 9.8 MMBbld, our model assumes Saudi output increases to 10.4 MMBbld in 2H19.
  - **Greater production impact from Venezuelan domestic crisis and US sanctions.** We now see Venezuela's liquids production declining ~600 MBbld over the course of 2019, a much steeper drop compared to our prior assumption of

~300 MBbld. The country produced ~1.0 MMBbld of crude oil in February, down >500 MBbld YoY, and we'd note the massive blackout in early March had temporarily halved its oil production by some estimates. We expect the dire economic and humanitarian situations in the country as well as financial sanctions imposed by the US to cause Venezuela's liquids output to deteriorate further this year.

- **Material tightening in 1Q19 global supply/demand balances.** We now estimate global inventories *drew* ~0.2 MMBbld 1Q19 (vs. a ~1.5 MMBbld build in 4Q18), materially tighter (on both absolute and QoQ basis) than our prior assumptions of a ~0.2 MMBbld *build* in 1Q19. The change in our 1Q balances was mainly driven by higher demand (+0.3 MMBbld), and lower OPEC crude volumes (-0.6 MMBbld), offset by higher US liquids production (+0.4 MMBbld).

- **Still expecting WTI and Brent to be largely range-bound during 2019-20.** We maintain our 2020 WTI/Brent price forecasts ($/Bbl) of $57/$67 and continue to expect WTI and Brent prices to stay range-bound at roughly $50-$60/Bbl and $60-$70/Bbl, respectively, during 2019-20. For background, the US provided ~2.1 MMBbld of liquids growth in 2018 at an average WTI price of ~$65/Bbl and we forecast 1.8 MMBbld of US liquids growth in 2019 and 1.5 MMBbld in 2020 at <$60/Bbl WTI prices, meeting the entire incremental global demand in 2019-20 (as production outside of the US declines modestly). **At a >$60/Bbl WTI,** US supply would be incentivized to grow higher, requiring OPEC to further cut production – an unlikely event as the group's is already over-compliant with the current OPEC+ production cut agreement. On the other hand, **a sub-$50/Bbl WTI** would likely stifle US supply growth as we estimate the US E&P sector requires a ~$47/Bbl WTI to fund maintenance capex and dividends. This should meaningfully tighten the global balances at a time when OPEC's effective spare capacity is just ~1 MMBbld above its lowest levels in the past 10+ years and GCC countries' governments requiring much higher crude prices to balance their budget.

- **Collapsing 2019 Midland-WTI spread as Permian takeaway bottleneck subsides.** The Permian oil differential has narrowed substantially from >$15/Bbl in July/Aug 2018 to <$1/Bbl currently. While Permian production growth (particularly in 4Q18 and YTD) has exceeded our expectations, basin takeaway has also expanded at a faster clip than our initial expectations. Year-to-date, the most meaningful positive to Midland-WTI spread was EPD's announcement in January of an earlier than expected start of its Seminole NGL-to-Crude pipeline, which began limited operations in February and expected to be in full service in April 2019. The line adds 200 MBbld of capacity, and bridges the takeaway gap until EPIC's NGL pipeline begins temporary crude service in early 3Q19. Beyond that, with the 590 MBbld Cactus II pipeline starting up in 4Q19, Permian is unlikely to face any oil takeaway bottleneck for the foreseeable future. In fact, the basin is more likely to see excess midstream build-out despite one of the four proposed 1 MMBbld pipelines starting in 2020+ likely being shelved (Permian Gulf Coast joint operated by MMP/ETP/MPLX/DK). As such, we are narrowing our 2019 Midland-WTI spread from ($6.00)/Bbl to ($0.75)/Bbl, with 1H19 average of ($1.20)/Bbl going to par by 4Q19. Longer term, given all of the incremental Permian egress going to the Gulf Coast, we expect Permian crude to trade in-line with WTI (unchanged from prior assumption) with potential upside bias if Brent-WTI remains wide.

Risks to our view

- The YTD strength in oil prices suggests the market is pricing in the likelihood that the **OPEC+ supply agreement** will be extended through year-end. This view was bolstered by recent commentary from Saudi oil minister Khalid al-Falih signaling the consortium was unlikely to change its current policy before gaining greater clarity on how the US treats Iranian waivers and therefore cancelled its April 17-18 meeting. Any

adjustments (if necessary) would be made at the planned OPEC meeting on June 25-6. With the OPEC+ alliance widely expected to extend the current 1.2 MMBbld output cut beyond the initial six month timeframe, the larger risk here would be a surprise decision to dissolve the pact (or reduce the output limits) at the June meeting. To that end, Russian Energy Minister Novak cited last week a preference for extending the production cut agreement for just three months ending in September, potentially providing downside risk to oil prices if the Russian view prevails. The disagreement between the two leaders of OPEC and OPEC+ should lead to oil price volatility until the matter of 2H19 quotas is resolved at the June meeting.

- **Iranian exports** remain a key supply variable, with the Trump administration now seemingly inclined to renew sanction waivers in May for most but not all major importers of Iranian crude with the understanding that combined imports will ultimately need to be cut to <1 MMBbld (vs. current levels of ~1.25 MMBbld). This represents a softer stance vs. the US' prevailing objective to reduce Iranian imports to "zero" – presumably a function of the recent strength in oil prices which is known to irk President Trump and thus reduces the incentive to further restrict global supply at least in the short-term. As a reminder, President Trump granted waivers of >900 MBbld to China, India, Turkey, South Korea, Italy, Greece, Japan, and Taiwan. According to S&P Global Platts Oilgram News, the Trump administration is likely to extend waivers for China, India, Turkey, and South Korea while eliminating waivers for the four other smaller importing countries; we estimate this would reduce Iranian exports by ~200 MBbld but not dramatically lower exports that would lead to a spike in global oil prices.
- Uncertainty surrounding **Venezuelan production** continues to weigh on the supply discussion, with February output down >500 MBbld YoY to ~1.1 MMBbld as US sanctions against state oil company PDVSA (designed to cut off revenue from the Maduro regime) took effect, limiting both the sale of oil by PDVSA as well as curbing its ability to import the diluent necessary to extract heavy crude. On top of the ongoing humanitarian crisis in Venezuela which has paralyzed its oil sector, recent power outages across the country have exacerbated production declines (Platts estimates the outages may have disrupted as much as 500-600 MBbld).
- The mantra of investor-imposed capital discipline which has taken hold across the US E&P sector should serve to slow the pace of **US oil production growth** as upstream producers reign in spending to better align capex with cash flow. We forecast YoY US crude volume growth decelerates from +1.6 MBbld in 2018 to +1.5 MBbld in 2019 and +1.1 MBbld in 2020 – still quite a robust clip. We'd caution that while the pace of growth has been trending lower (+90 MBbld MoM YTD vs. ~140 MBbld in 2018), US production continues to surprise to the upside which suggests higher well productivity and continued efficiency gains – both of which could pose upside risk to our US oil growth forecasts even with no change in aggregate activity levels. And while publicly traded E&Ps continue to highlight renewed financial discipline, the recent strength in oil prices could embolden smaller publicly traded E&Ps or privates to boost activity posing downside risk to prices.
- On the **demand side,** we see near-term risks generally skewed to the downside: while our 2019-20 oil demand forecasts bake in modestly slower global GDP growth of 2.8% and 2.9%, respectively, ongoing risk of a US/China trade war and general concerns over global economic growth could put further downward pressure on oil prices in the context of a broader "risk-off" environment. Our 2019 demand forecast of +1.1 MMBbld is below the low end of the major agencies' (IEA/OPEC/EIA) estimates of 1.2-1.5 MMBbld of YoY growth. Longer-term, adoption of renewable energy sources remains the most significant threat to oil demand growth.

(End of extract.)

Valuation under IFRS 16

All of our forecasts incorporate companies' preliminary guidance for the impact of IFRS 16. Speaking with companies and reviewing IBES consensus numbers, we do not believe that the majority of sell-side numbers currently incorporate this impact.

While accounting changes should not change the intrinsic value of a company, with EV/EBITDA being the multiple of choice for the oil services sector, IFRS 16 adoption can have a meaningful impact if not adjusted for correctly. Adding the lease liability to the net debt and therefore EV *does largely offset* EBITDA uplift. However, in most cases some further refinement has been required. Where the Lease Liability/EBITDA uplift is greater than our target multiple on a pre-IFRS basis, we have had to tweak up target multiples for our forecasts (the hit to net debt is not fully compensated for by EBITDA uplift) and vice versa. In reality, though, we have found the magnitude of changes is in the 0.1 to 0.3 turns of EBITDA.

Conversely for our DCFs, our valuation uses pre-IFRS 16 net debt. Although we add back D&A in the cash-flow forecasts derived from NOPAT, we subtract that portion that relates to finance leases; otherwise we would risk over-inflating the cash flow. As we adjust in all periods for this, we address already the financial burden of the finance leases and do not therefore need to incorporate the balance sheet impact. The alternative way of leaving the cash-flow calculation unadjusted and incorporating the Lease Liability into net debt does not, in our view, accurately reflect the fact that these operating leases are needed over the company's lifespan.

Companies Mentioned *(Price as of 01-May-2019)*

ADES Intnl Hldgs (ADES.L, $14.1)
AECOM (ACM.N, $33.47)
ARCADIS (ARDS.AS, €16.83)
Aker Solutions (AKSOL.OL, Nkr44.27, OUTPERFORM, TP Nkr52.0)
Anadarko Petroleum Corp. (APC.N, $72.37)
BP (BP.L, 552.0p)
Baker Hughes Inc. (BHGE.N, $23.55)
Bilfinger (GBFG.F, €32.54)
Borr Drilling (BDRILL.OL, Nkr24.6)
Cactus, Inc. (WHD.N, $34.89)
Chevron Corporation (CVX.N, $117.81)
Chiyoda Corp (6366.T, ¥352)
ConocoPhillips (COP.N, $62.67)
Daelim Industrial (000210.KS, W96,800)
Diamond Offshore Drilling, Inc (DO.N, $9.44)
Dril-Quip, Inc. (DRQ.N, $42.72)
ENI (ENI.MI, €15.22)
Ensco Plc. (ESV.N, $13.23)
Ensign (ESI.TO, C$5.36)
ExxonMobil Corporation (XOM.N, $78.67)
Fluor (FLR.N, $39.15)
Forum Energy Technologies, Inc. (FET.N, $5.78)
Frank's International (FI.N, $5.73)
Gardner Denver Holdings Inc. (GDI.N, $34.61)
Halliburton (HAL.N, $27.59)
Helmerich & Payne, Inc. (HP.N, $56.24)
Hunting (HTG.L, 581.0p, OUTPERFORM, TP 745.0p)
Hurricane Energy (HUR.L, 46.62p)
JGC Corp (1963.T, ¥1,588)
KBR Inc. (KBR.N, $22.45)
Koninklijke Bosk (BOSN.AS, €24.39)
LundinPetroleum (LUPE.ST, Skr310.8)
Maire Tecnimont (MTCM.MI, €3.182)
McDermott International (MDR.N, $7.72)
Murphy Oil Corporation (MUR.N, $25.86)
NCS Multistage Holdings (NCSM.OQ, $3.78)
Nabors Industries, Ltd. (NBR.N, $3.63)
National Oilwell Varco (NOV.N, $24.92)
Nine Energy Service, Inc. (NINE.N, $19.22)
ONGC (ONGC.NS, Rs169.2)
Oceaneering Intl, Inc. (OII.N, $19.46)
Patterson-UTI Energy, Inc. (PTEN.OQ, $12.8)
Petrobras (PETR3.SA, R$29.96)
Petrofac (PFC.L, 446.5p, NEUTRAL[V], TP 539.0p)
Precision Drill (PD.TO, C$3.12)
Rolls-Royce (RR.L, 915.8p)
Royal Dutch Shell plc (RDSa.L, 2413.5p)
SBO (SBOE.VI, €83.4, NEUTRAL, TP €84.0)
Saipem (SPMI.MI, €4.52, UNDERPERFORM, TP €4.1)
Schlumberger (SLB.N, $41.37)
Stantec (STN.TO, C$33.51)
Subsea 7 S.A. (SUBC.OL, Nkr109.6, NEUTRAL, TP Nkr117.0)
TAQA (TAQA.AD, Dhs0.895)
TechnipFMC (FTI.N, $23.77, OUTPERFORM, TP $29.0)
TechnipFMC (FTI.PA, €22.11, OUTPERFORM, TP €26.0)
Tecnicas Reunidas (TRE.MC, €26.6)
Tellurian Inc. (TELL.OQ, $8.85)
Tesco (TSCO.L, 250.8p)
Total (TOTF.PA, €49.55)
Toyo Eng (6330.T, ¥591)
Transocean Inc. (RIG.N, $7.64)
Voestalpine (VLPNY.PK, $7.5)
Weir Group (WEGRY.PK, $12.91)
Wood Plc (WG.L, 469.0p, NEUTRAL, TP 505.0p)
WorleyParsons (WOR.AX, A$14.71)

Disclosure Appendix

Analyst Certification

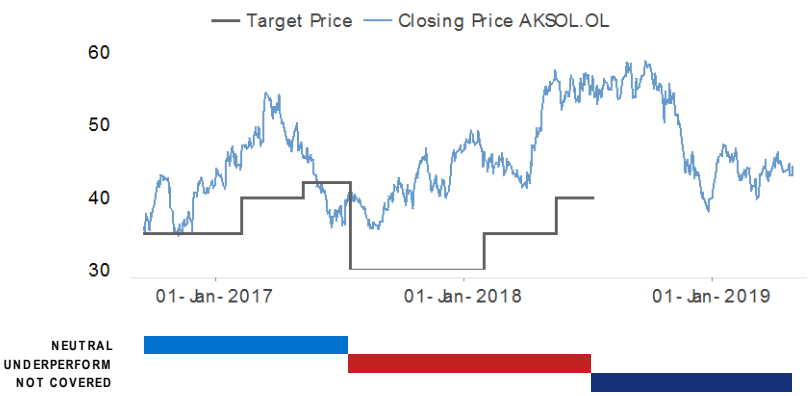
I, David Farrell, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

3-Year Price and Rating History for Aker Solutions (AKSOL.OL)

AKSOL.OL	Closing Price	Target Price	
Date	(Nkr)	(Nkr)	Rating
19-Sep-16	35.91	35.00	N *
09-Feb-17	45.88	40.00	
10-May-17	45.53	42.00	
18-Jul-17	39.31	30.00	U
04-Oct-17	40.59	30.00	*
31-Jan-18	44.40	35.00	
17-May-18	57.44	40.00	
10-Jul-18	56.66		NC

** Asterisk signifies initiation or assumption of coverage.*

Effective July 3, 2016, NC denotes termination of coverage.

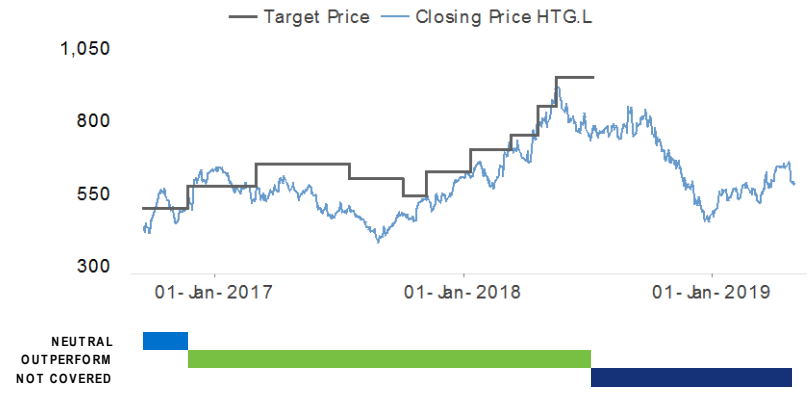


3-Year Price and Rating History for Hunting (HTG.L)

HTG.L	Closing Price	Target Price	
Date	(p)	(p)	Rating
19-Sep-16	434.10	500.00	N *
23-Nov-16	528.50	575.00	O
03-Mar-17	571.50	650.00	
18-Jul-17	503.00	600.00	
04-Oct-17	475.60	540.00	*
08-Nov-17	544.50	625.00	
11-Jan-18	606.50	700.00	
12-Mar-18	719.00	750.00	
20-Apr-18	786.00	850.00	
17-May-18	910.00	950.00	
10-Jul-18	782.50		NC

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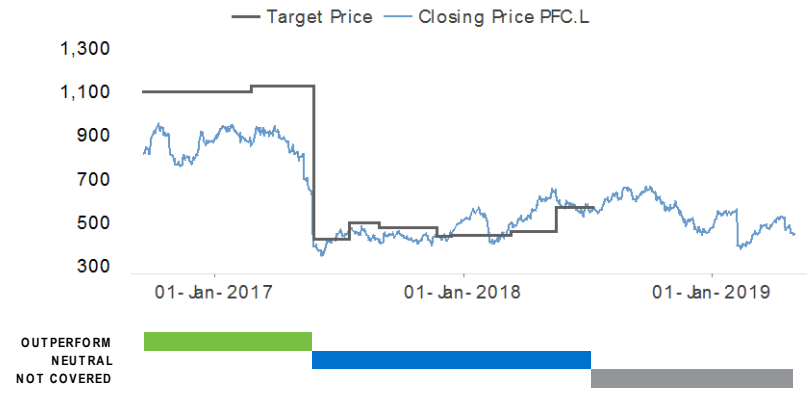


3-Year Price and Rating History for Petrofac (PFC.L)

PFC.L	Closing Price	Target Price	
Date	(p)	(p)	Rating
19-Sep-16	818.00	1100.00	O *
23-Feb-17	853.50	1125.00	
26-May-17	389.00	425.00	N
18-Jul-17	468.00	500.00	
30-Aug-17	413.50	475.00	
04-Oct-17	439.20	475.00	*
23-Nov-17	442.80	435.00	
14-Dec-17	451.10	440.00	
12-Mar-18	498.70	460.00	
17-May-18	616.80	570.00	
10-Jul-18	566.40		NC

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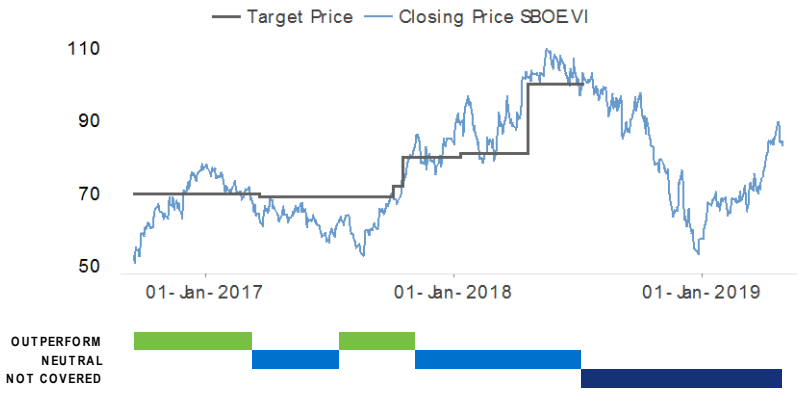


3-Year Price and Rating History for SBO (SBOE.VI)

SBOE.VI	Closing Price	Target Price	
Date	(€)	(€)	Rating
19-Sep-16	52.64	70.00	O *
13-Mar-17	67.07	70.00	N
21-Mar-17	64.50	69.00	
18-Jul-17	63.11	69.00	O
04-Oct-17	70.69	72.00	
18-Oct-17	74.77	80.00	
08-Nov-17	86.00	80.00	N
11-Jan-18	89.00	81.00	
20-Apr-18	102.00	100.00	
10-Jul-18	103.10		NC

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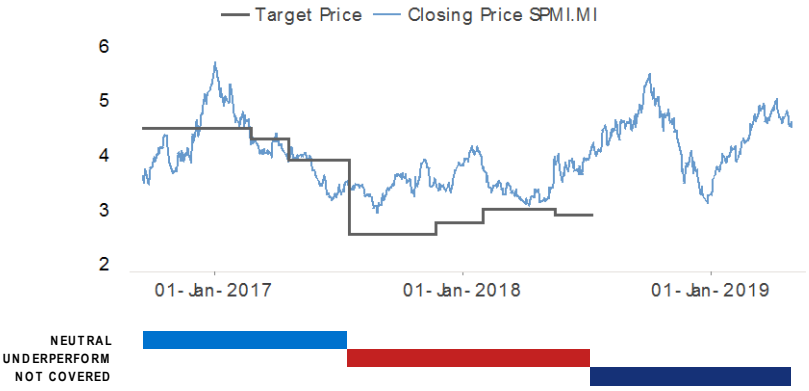


3-Year Price and Rating History for Saipem (SPMI.MI)

SPMI.MI	Closing Price	Target Price	
Date	(€)	(€)	Rating
19-Sep-16	3.62	4.50	N *
24-Feb-17	4.21	4.30	
21-Apr-17	3.89	3.90	
18-Jul-17	3.45	2.55	U
04-Oct-17	3.57	2.55	*
23-Nov-17	3.52	2.75	
31-Jan-18	3.77	3.00	
17-May-18	3.96	2.90	
10-Jul-18	4.15		NC

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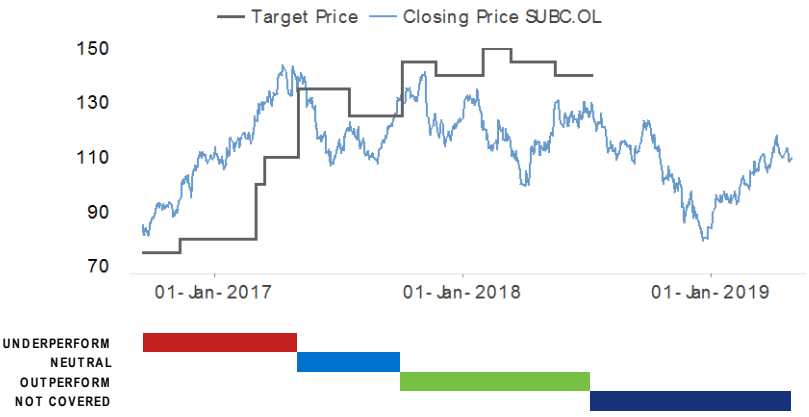


3-Year Price and Rating History for Subsea 7 S.A. (SUBC.OL)

SUBC.OL	Closing Price	Target Price	
Date	(Nkr)	(Nkr)	Rating
19-Sep-16	84.90	75.00	U *
11-Nov-16	94.00	80.00	
03-Mar-17	123.50	100.00	
16-Mar-17	130.00	110.00	
05-May-17	139.50	135.00	N
18-Jul-17	119.70	125.00	
04-Oct-17	130.50	145.00	O *
23-Nov-17	123.90	140.00	
31-Jan-18	120.00	150.00	
12-Mar-18	117.00	145.00	
17-May-18	127.40	140.00	
10-Jul-18	130.00		NC

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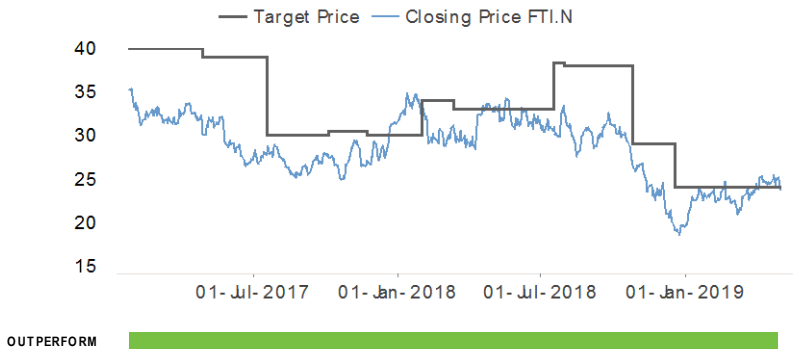
Effective July 3, 2016, NC denotes termination of coverage.



3-Year Price and Rating History for TechnipFMC (FTI.N)

FTI.N	Closing Price	Target Price	
Date	(US$)	(US$)	Rating
25-Jan-17	35.27	40.00	O *
28-Apr-17	30.13	39.00	
18-Jul-17	27.81	30.00	
04-Oct-17	27.55	30.50	*
23-Nov-17	27.06	30.00	
31-Jan-18	32.46	34.00	
12-Mar-18	31.10	33.00	
17-Jul-18	30.66	38.28	*
31-Jul-18	32.55	38.00	
26-Oct-18	26.35	29.00	
19-Dec-18	19.10	24.00	
19-Feb-19	23.95	24.00	*

** Asterisk signifies initiation or assumption of coverage.*



3-Year Price and Rating History for Wood Plc (WG.L)

WG.L	Closing Price	Target Price	
Date	(p)	(p)	Rating
21-Feb-17	753.00	850.00	O
13-Mar-17	762.50		R
09-Oct-17	722.50		NR
26-Oct-17	700.50	875.00	O *
13-Dec-17	629.50	865.00	
22-Mar-18	567.80	750.00	
10-Jul-18	646.80		NC

** Asterisk signifies initiation or assumption of coverage.*

Effective July 3, 2016, NC denotes termination of coverage.



As of December 10, 2012 Analysts' stock rating are defined as follows:

Outperform (O) : The stock's total return is expected to outperform the relevant benchmark* over the next 12 months.
Neutral (N) : The stock's total return is expected to be in line with the relevant benchmark* over the next 12 months.
Underperform (U) : The stock's total return is expected to underperform the relevant benchmark* over the next 12 months.

**Relevant benchmark by region: As of 10th December 2012, Japanese ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. As of 2nd October 2012, U.S. and Canadian as well as European ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. For Latin American and Asia stocks (excluding Japan and Australia), ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark (India - S&P BSE Sensex Index); prior to 2nd October 2012 U.S. and Canadian ratings were based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe. For Australian and New Zealand stocks, the expected total return (ETR) calculation includes 12-month rolling dividend yield. An Outperform rating is assigned where an ETR is greater than or equal to 7.5%; Underperform where an ETR less than or equal to 5%. A Neutral may be assigned where the ETR is between -5% and 15%. The overlapping rating range allows analysts to assign a rating that puts ETR in the context of associated risks. Prior to 18 May 2015, ETR ranges for Outperform and Underperform ratings did not overlap with Neutral thresholds between 15% and 7.5%, which was in operation from 7 July 2011.*

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Volatility Indicator [V] : A stock is defined as volatile if the stock price has moved up or down by 20% or more in a month in at least 8 of the past 24 months or the analyst expects significant volatility going forward.

Analysts' sector weightings are distinct from analysts' stock ratings and are based on the analyst's expectations for the fundamentals and/or valuation of the sector* relative to the group's historic fundamentals and/or valuation:
Overweight : The analyst's expectation for the sector's fundamentals and/or valuation is favorable over the next 12 months.
Market Weight : The analyst's expectation for the sector's fundamentals and/or valuation is neutral over the next 12 months.

Underweight : The analyst's expectation for the sector's fundamentals and/or valuation is cautious over the next 12 months.
**An analyst's coverage sector consists of all companies covered by the analyst within the relevant sector. An analyst may cover multiple sectors.*

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Global Ratings Distribution

Rating	Versus universe (%)	Of which banking clients (%)
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Neutral/Hold*	39%	(27% banking clients)
Underperform/Sell*	13%	(21% banking clients)
Restricted	2%	

**For purposes of the NYSE and FINRA ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.*

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The analyst(s) responsible for preparing this research report received compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Aker Solutions (AKSOL.OL)

Method: Our OUTPERFORM rating and NOK 52 valuation for Aker Solutions is based upon equally weighted SOTP and DCF approaches. Our DCF valuation uses a 3 stage model with an explicit 7 year forecast, a subsequent 10 year normalisation period and a terminal value derived by using a 10% WACC and a 2% terminal growth rate. The DCF FV is NOK 52. Our SOTP valuation is based upon FY2 EBITDA. Overall the group multiple is 7.3x. We apply this to multiple to both divisions. We think applying the same multiple across divisions (rather than trying to derive divisional multiples which achieve the group 7.1x target multiple) is fair due to the fact that the mix of revenue in each division is a blend of high- and low-margin work. Our SOTP FV is NOK 51. Owing to the upside potential to our TP we rate the shares Outperform.

Risk: Our TP is NOK 52 and our rating is OUTPERFORM. Risks include a lack of awards over 2H19 which causes us to reduce 2020 revenue forecasts, overly competitively won contracts which reduce margins and poor project execution. If working capital unwinds more than to the 2%-4% of revenue which is being guided to then we would also see this as a negative given the stocks already poor screening on FCF yield.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Hunting (HTG.L)

Method: Our OUTPERFORM rating and GBp 745 valuation for Hunting is based upon equally weighted SOTP and DCF approaches. Our DCF valuation uses a 3 stage model with an explicit 7 year forecast, a subsequent 10 year normalisation period and a terminal value derived by using a 10.2% WACC and a 2% terminal growth rate. The DCF FV is GBp 744. Our SOTP valuation is based upon FY2 EBITDA and we apply multiples to each division individually. Overall the group multiple is 7.6x. Hunting is sometimes thought of in the context of an industrial company rather than an Oilfield Services company. We note that the median multiple for the UK SMID Industrial sector is 9.6x 2020E EV/EBITDA (range of 7x to 22x). Our SOTP FV is GBp 747. Owing to the upside potential to our TP, we rate the shares Outperform.

Risk: Our TP is GBp 745 and our rating is OUTPERFORM. Risks include, a slow down in US completions activity, driven by a lower oil price or less intensity per well due to technological advances. A loss of market share or pricing war with key competitors in the provision of perforating equipment. Continued deferment of drilling in Canada and Europe, potential for value-destructive M&A

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Petrofac (PFC.L)

Method: Our NEUTRAL rating and GBp 539 valuation for Petrofac is based upon equally weighted SOTP and DCF approaches. Our DCF valuation uses a 3 stage model with an explicit 7 year forecast, a subsequent 10 year normalisation period and a terminal value derived by using a 10% WACC and a 2% terminal growth rate. The DCF FV is GBp 551. Our SOTP valuation is based upon FY2 EBITDA and we apply multiples to each division individually. Overall the group multiple is 5.1x. Our divisional target multiples have been shaped by Petrofac"s peer group. Our SOTP FV is GBp 526. Owing to the limited upside potential to our TP, we rate the shares Neutral.

Risk: Our TP is GBp 539 and our rating is NEUTRAL. Risks include: resolution of the SFO investigation and better clarity on the quantum and timing of any fine is the biggest risk to our target price. Upside risks come from higher than expected order intake levels in 2019 which would impact our 2020 revenue forecasts whilst on the down-side the biggest risk is that competitive pressures result in lower margins than we model.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for SBO (SBOE.VI)

Method: Our NEUTRAL rating and EUR 84 valuation for Schoeller-Bleckmann is based upon equally weighted SOTP and DCF approaches. Our DCF valuation uses a 3 stage model with an explicit 7 year forecast, a subsequent 10 year normalisation period and a terminal value derived by using a 9.9% WACC and a 2% terminal growth rate. The DCF FV is EUR 80. Our SOTP valuation is based upon FY2 EBITDA and we apply multiples to each division individually. Overall the group multiple is 8.2x. This is slightly above the current peer group average of 7.9x. We think that this is justified by the leading returns the company delivers. Our SOTP FV is EUR 87. The limited upside potential to our TP justifies a Neutral rating.

Risk: Our TP is EUR 84 and our rating is NEUTRAL. Downside risks to our rating include market share erosion and pricing pressure in the US as well as a period of poor corporate returns. Upside risks come from quicker-than-expected recovery for international markets and further well times and accretive M&A.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Saipem (SPMI.MI)

Method: Our UNDERPERFORM rating and EUR 4.1 valuation for Saipem is based upon equally weighted SOTP and DCF approaches. Our DCF valuation uses a 3 stage model with an explicit 7 year forecast, a subsequent 10 year normalisation period and a terminal value derived by using a 9.9% WACC and a 2% terminal growth rate. The DCF FV is EUR 4.0. Our SOTP valuation is based upon FY2 EBITDA and we apply multiples to each division individually. Overall the group multiple is 5.1x. This is below the 6.4x multiple Saipem has traded at over the past decade, but we believe that legal issues, lack of expansionary capex and more competitive offshore market in Saipem's key focus areas makes this de-rating valid. The average over the past five years has been 5.4x. Our SOTP FV is EUR 4.25. Owing to the downside potential to our TP we rate the shares Underperform.

Risk: Our TP is EUR 4.1 and our rating is UNDERPERFORM. Risks include a potential break-up scenario whereby Saipem derives better-than-expected valuations, an improvement in higher margin order intake, and a benign outcome from SPM's various legal situations.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Subsea 7 S.A. (SUBC.OL)

Method: Our NEUTRAL rating and NOK 117 valuation for Subsea 7 is based upon equally weighted SOTP and DCF approaches. Our DCF valuation uses a 3 stage model with an explicit 7 year forecast, a subsequent 10 year normalisation period and a terminal value derived by using a 11.2% WACC and a 2% terminal growth rate. The DCF FV is NOK 122. Our SOTP valuation is based upon FY2 EBITDA and we apply multiples to each division individually. Overall the group multiple is 5.3x. This is above the long-term average of 5.0x, but reflects what we believe to be the company's strong relative positioning within the supplier-led integrated subsea business model which could provide less competitively priced work, and potential growth in renewables, which is not captured because of timing in our 2020 EBITDA forecasts. Our SOTP FV is NOK 112. Owing to the limited upside potential to our TP we rate the shares Neutral.

Risk: Our TP is NOK 117 and our rating is NEUTRAL. On the upside, the risk to our rating is that Subsea 7 grows order intake quicker than we expect and the recovery in top line is quicker than we expect. On the downside, poor project execution, perhaps symptomatic of taking on projects at the bottom of the cycle with poor terms and conditions, could negatively impact market confidence in the quality of backlog.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for TechnipFMC (FTI.N)

Method: We value TechnipFMC at USD 29. Our valuation is based upon equally weighted SOTP and DCF approaches. Our DCF valuation uses a 3 stage model with an explicit 7 year forecast, a subsequent 10 year normalisation period and a terminal value derived by using a 9.68% WACC and a 2% terminal growth rate. Our terminal EV/EBITDA multiple is 6.9x. The DCF FV is USD 29. Our SOTP valuation is based upon FY2 EBITDA and we apply multiples to each division individually. Overall the group multiple is 7.9x and leads to a FV of USD 28. Upside to current fair value warrants OUTPERFORM rating.

Risk: Our TP is USD 29 and our rating is OUTPERFORM. Risks include: lower-than-expected oil prices, E&P capex and industry activity levels, a change in the competitive landscape including irrational bidding at the low point in the cycle and the rise of competing technologies, worse-than-expected order intake trends, poor project planning / execution, and working capital fluctuations.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for TechnipFMC (FTI.PA)

Method: Our OUTPERFORM rating and EUR 26 valuation for TechnipFMC is based on an EURUSD FX rate of 1.11. Our valuation is based upon equally weighted SOTP and DCF approaches. Our DCF valuation uses a 3 stage model with an explicit 7 year forecast, a subsequent 10 year normalisation period and a terminal value derived by using a 9.7% WACC and a 2% terminal growth rate. The DCF FV is EUR 26. Our SOTP valuation is based upon FY2 EBITDA and we apply multiples to each division individually. Overall the group multiple is 7.9x. Group multiple is a premium to peers reflecting Technip's superior bidding opportunities. Our SOTP FV is EUR 25.

Risk: Our TP is EUR 26 and our rating is OUTPERFORM. Risks include: lower-than-expected oil prices, E&P capex and industry activity levels, a change in the competitive landscape including irrational bidding at the low point in the cycle and the rise of competing technologies, worse-than-expected order intake trends, poor project planning / execution, and working capital fluctuations.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Wood Plc (WG.L)

Method: Our NEUTRAL rating and GBp 505 valuation for Wood is based upon equally weighted SOTP and DCF approaches. Our DCF valuation uses a 3 stage model with an explicit 7 year forecast, a subsequent 10 year normalisation period and a terminal value derived by using a 10.6% WACC and a 2% terminal growth rate. The DCF FV is GBp 495. Our SOTP valuation is based upon FY2 EBITDA and we apply multiples to each division individually. Overall the group multiple is 6.1x. Overall our Asset Solutions and STS multiple equates to 6.5x which is slightly above the peer group average of 6.1x. We think that is reasonable given the greater share of engineering in the revenue mix and lower lump sum construction risk. Our SOTP FV is GBp 516. Owing to the limited upside to our TP, we rate the shares Neutral.

Risk: Our TP is GBp 505 and our rating is NEUTRAL. Risks include: higher than expected oil and gas expenditure driven by i) higher oil prices or ii) a greater focus on production growth by customers. The E&IS division may grow at a faster rate than we model on better "internationalization". Finally the company may dispose of assets at higher multiples than guided to, allowing for it to deleverage at a faster rate than expected

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See the Companies Mentioned section for full company names
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