

SCHLUMBERGER LTD.

1Q21 Earnings Recap: Broadening International Recovery

Quick Take: SLB ended the earnings day up 2% in-line vs +1% OIH. Even though SLB guidance does not provide much upside to Street est., the underlying commentary around international growth was modestly bullish. Offshore capex could eclipse 2017-2019 levels by 2022-23. SLB is the “go-to” name for international leverage. Reiterate Sector Outperform. SLB and BKR are top picks.

Thesis/Update

We rate Schlumberger Ltd. (SLB) Sector Outperform owing to international leverage. Longer term we prefer international exposure as NAM activity increases would be capped, in our opinion. We est. ~550 U.S. rig count through cycle while international rig count could increase ~50% from here over the next few years. SLB is the “go-to” name for international leverage.

Multi-year international upcycle should begin in 2Q21. SLB reiterated LDD y/y growth in 2H21 with potentially international revenues up y/y in 2021. The company expects global oil demand to be only 2MBBD lower than 2019 level exiting 2021 with the OPEC production coming back. The company is very pleased with the outcome of several international multi-year contract awards, specifically, in the ME and North Sea building a pipeline that will support growth in 2022 and beyond. There are several large LSTK contract tenders underway.

SLB continues to make progress in New Energy leveraging their subsurface expertise and global footprint. The company is approaching the New Energy by diversifying its portfolio covering CCS, lithium, hydrogen, geothermal and geo energy. Within two-three years the company is focused on de-risking the technology investment by working with partners such as in Mendota, CA for bioenergy CCS and with LafargeHolcim for CCS. Once de-risked, the company plans to make larger investments. We do not provide any credit in our est. yet.

SLB expects subsea trees orders to be 200-225 in 2020 and gradually recover to 250-300 over the intermediate period vs ~250 in 2019. BKR had earlier indicated they do not expect subsea trees to recover to 2019 level in the foreseeable future.

The company reiterated double digit FCF margins guide. The near-term focus is on deleveraging as well capex and then shareholder return beyond the dividend already in place. The company is working on two divestments. Canadian APS and rigs in the Middle East. The Middle East transaction is expected to close in the next few months. We peg both together at ~\$2B for now as a placeholder.

Numbers Matter

SLB guided 2Q21 to revs ~+5% and margins up 50-100bps q/q. See more details on earnings call in our [SLB 1Q21 Earnings Call Takeaways](#) note. We model \$1.13B EBITDA for 2Q21, 2% above Street est. Our 2021/22 EBITDA change (-2%)/+4% to \$4,753/\$5,676 or 3/6% above Street est. Simplistically \$4.7B EBITDA less \$525M interest expense, \$300M cash tax (our est.), neutral working capital, \$1.6B capex and adding back \$325M stock comp. implies ~\$2.5B FCF for 2021 or 11% FCF margins.

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Our one-year price target for SLB increases to \$27, from \$26, based on 60% weight to 2030E DCF/share value of \$22.00, 20% to \$32 implying 8% FCF yield of ~\$2.50 on average over the next 5 years and 20% on a mix of 2024E DCF/share value of \$36.00 and \$34.00 based on 10.0x 2023E EV/EBITDA discounted back 2 years at 10%.

Risks to Thesis

- Slow grind: Unlike NAM, international markets move at a slower pace, so estimates increases will be slow.
- Relatively less exposure to energy transition: Though SLB has exposure to geothermal and hydrogen with new ventures, we think energy transition revenues exposure of less than ~5% of the total. BKR is relatively better positioned for energy transition.

Company Model Contd. (US\$M)

Income Statement	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21E	3Q21E	4Q21E	2014	2015	2016	2017	2018	2019	2020	2021E	2022E	2023E	2024E	2025E	2026E
Total Revenues	7,455	5,356	5,258	5,532	5,223	5,495	5,812	6,035	48,580	37,562	29,438	30,440	32,816	32,917	23,601	22,566	25,636	28,053	30,812	33,081	33,669
Corporate Expenses	(228)	(169)	(151)	(132)	(150)	(145)	(130)	(130)	(848)	(768)	(925)	(934)	(936)	(957)	(680)	(555)	(555)	(555)	(555)	(545)	(545)
EBIT	548	227	424	522	514	602	715	794	9,728	6,111	2,584	2,987	3,251	3,021	1,721	2,625	3,548	4,113	4,765	5,308	5,447
EBIT Margin	7.4%	4.2%	8.1%	9.4%	9.8%	10.9%	12.3%	13.2%	20.0%	16.3%	8.8%	9.8%	9.9%	9.2%	7.3%	11.6%	13.8%	14.7%	15.5%	16.0%	16.2%
Incr EBIT Margin	31%	15%	-201%	36%	3%	32%	36%	36%	33%	33%	43%	40%	11%	-228%	14%	-87%	30%	23%	24%	24%	24%
D&A	792	604	587	583	532	532	532	532	4,025	4,078	4,094	3,837	3,554	3,589	2,566	2,128	2,128	2,128	2,128	2,128	2,128
EBITDA	1,340	831	1,011	1,105	1,046	1,134	1,247	1,326	13,753	10,189	6,678	6,824	6,805	6,610	4,287	4,753	5,676	6,241	6,893	7,436	7,575
EBITDA Margin	18.0%	15.5%	19.2%	20.0%	20.0%	20.6%	21.5%	22.0%	28.3%	27.1%	22.7%	22.4%	20.7%	20.1%	18.2%	21.1%	22.1%	22.2%	22.4%	22.5%	22.5%
Interest Expense	(114)	(130)	(128)	(132)	(128)	(126)	(128)	(122)	(316)	(286)	(433)	(406)	(485)	(537)	(504)	(504)	(408)	(326)	(236)	(132)	(50)
Tax	(75)	(22)	(59)	(73)	(74)	(76)	(94)	(107)	(2,063)	(1,102)	(306)	(473)	(465)	(399)	(229)	(351)	(502)	(606)	(725)	(828)	(863)
Tax Rate	17%	23%	20%	19%	19%	16%	16%	16%	22%	19%	14%	18%	17%	16%	19%	17%	16%	16%	16%	16%	16%
Net Income	351	69	228	309	299	390	483	554	7,282	4,659	1,785	2,082	2,261	2,054	957	1,726	2,598	3,141	3,764	4,308	4,493
Other	(7,727)	(3,503)	(310)	65	-	-	-	-	(1,865)	(1,452)	(3,236)	(3,587)	(124)	(12,191)	(11,475)	-	-	-	-	-	-
Diluted Shares	1,387	1,388	1,391	1,411	1,419	1,419	1,419	1,419	1,309	1,275	1,360	1,391	1,392	1,393	1,394	1,419	1,419	1,419	1,419	1,419	1,419
Clean EPS	\$0.25	\$0.05	\$0.16	\$0.22	\$0.21	\$0.27	\$0.34	\$0.39	\$5.56	\$3.65	\$1.31	\$1.50	\$1.62	\$1.47	\$0.69	\$1.22	\$1.83	\$2.21	\$2.65	\$3.04	\$3.17
Cash Flows																					
Net Income	(7,368)	(3,428)	(72)	382	312	390	483	554	5,711	2,135	(1,627)	(1,513)	2,177	(10,107)	(10,486)	1,739	2,598	3,141	3,764	4,308	4,493
D&A	792	604	587	583	532	532	532	532	4,094	4,078	4,094	3,837	3,556	980*4	2,566	2,128	2,128	2,128	2,128	2,128	2,128
WC Changes	(480)	83	(401)	42	(455)	227	(25)	224	(564)	(276)	(246)	(683)	(405)	(327)	(756)	(29)	(287)	(655)	(420)	(125)	(22)
Stock Comp	108	105	105	79	84	85	85	85	329	326	267	343	345	405	397	339	340	340	340	340	340
Other	8,513	3,708	357	(107)	(44)	(44)	(44)	(44)	1,625	2,542	3,773	3,679	40	12,882	12,471	(176)	-	-	-	-	-
CFO	784	803	479	878	429	1,191	1,049	1,383	11,195	8,805	6,261	5,663	5,713	1,842	2,944	4,053	4,981	5,235	5,812	6,651	6,940
SPM	(163)	(61)	(28)	(51)	(85)	(85)	(85)	(85)	(740)	(953)	(1,031)	(1,609)	(981)	(781)	(303)	(340)	(340)	(340)	(300)	(300)	(300)
Seismic	(35)	(26)	(25)	(15)	(7)	(10)	(10)	(10)	(321)	(486)	(630)	(276)	(100)	(231)	(101)	(37)	(160)	(200)	(200)	(200)	(200)
Capex	(407)	(251)	(200)	(258)	(178)	(200)	(200)	(200)	(3,976)	(2,410)	(2,055)	(2,107)	(2,160)	(1,724)	(1,116)	(1,128)	(1,154)	(1,262)	(1,387)	(1,489)	(1,515)
FCF	179	465	226	554	159	896	754	1,088	6,158	4,956	2,545	1,671	2,472	(894)	1,424	2,547	3,327	3,433	3,926	4,663	4,925
Debt Changes	1,419	569	134	(1,104)	-	(719)	(777)	(2,411)	(37)	5,791	(2,377)	(1,612)	(2,048)	(839)	1,018	(3,907)	(2,618)	(2,723)	(3,216)	(3,370)	-
Equity Changes	(26)	-	-	-	-	-	-	-	(4,678)	(2,182)	(778)	(969)	(139)	(278)	(26)	-	-	-	-	-	-
Dividends	(692)	(694)	(174)	(174)	(174)	(177)	(177)	(177)	(1,968)	(2,419)	(2,647)	(2,778)	(2,770)	(2,769)	(1,734)	(706)	(710)	(710)	(710)	(710)	(710)
Other	76	(42)	61	(226)	(12)	-	-	-	811	(49)	374	326	(63)	168	(131)	(12)	-	-	-	-	-
Cash at Beginning	1,137	1,375	1,462	1,219	844	1,051	1,051	1,051	3,472	3,130	2,793	2,929	1,799	1,433	1,137	844	1,051	1,051	1,051	1,051	1,634
Cash at End	1,375	1,462	1,219	844	1,051	1,051	1,051	1,051	3,130	2,793	2,929	1,799	1,433	1,137	844	1,051	1,051	1,051	1,051	1,634	5,849
Balance Sheet																					
Cash	1,375	1,462	1,219	844	1,051	1,051	1,051	1,051	3,130	2,793	2,929	1,799	1,433	1,137	844	1,051	1,051	1,051	1,051	1,634	5,849
Receivables	7,486	5,808	5,552	5,247	5,269	5,042	5,067	4,843	11,171	8,780	9,387	8,084	7,881	7,747	5,247	4,843	5,131	5,786	6,206	6,331	6,352
Inventories	4,148	3,601	3,542	3,354	3,354	3,354	3,354	3,354	4,628	3,756	4,225	4,046	4,010	4,130	3,354	3,354	3,354	3,354	3,354	3,354	3,354
Payables	10,168	9,824	9,201	8,442	7,956	7,956	7,956	7,956	9,246	7,727	10,016	10,036	10,223	10,663	8,442	7,956	7,956	7,956	7,956	7,956	7,956
Total Debt	16,642	17,366	17,763	16,886	16,583	15,864	15,087	12,676	13,330	17,453	17,641	18,199	16,051	15,294	16,886	12,676	10,059	7,335	4,119	749	749
Ratios																					
Net Debt/Cap	41%	47%	47%	48%	47%	45%	43%	37%	20%	28%	25%	30%	25%	34%	48%	37%	28%	17%	5%	-10%	-23%
Net Debt/EBITDA	2.1x	2.5x	2.9x	3.2x	3.4x	3.0x	2.7x	2.1x	0.7x	1.4x	2.2x	2.4x	2.0x	2.0x	3.2x	2.1x	1.3x	0.7x	0.2x	-0.4x	-0.9x
Capex/Sales	5%	5%	4%	5%	3%	4%	3%	3%	8%	6%	7%	7%	7%	5%	5%	5%	5%	5%	5%	5%	5%
Working Capital/Sales	5%	-2%	-1%	1%	3%	2%	2%	1%	13%	13%	12%	7%	5%	4%	1%	1%	2%	4%	5%	5%	5%

Source: Bloomberg; Company reports; CPI est.

Appendix A – Required Disclosures

Analyst Certification

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Coker Palmer Institutional (CPI) is restarting formal rating systems. The firm has a three-tiered rating system, with ratings of Sector Outperform, Sector Perform, and Sector Underperform. Each Research Analyst assigns a rating that is relative to his or her coverage universe or an index identified by the Research Analyst that includes, but is not limited to, stocks covered by the Research Analyst.

The rating assigned to each security covered in this report is based on the CPI Research Analyst's 12-month view on the security. Research Analysts may sometimes express in research reports shorter-term views on these securities that may impact the price of the equity security in a manner directly counter to the Research Analyst's 12-month view.

Appendix A – Required Disclosures Contd.

These shorter term views are based upon catalysts or events that may have a shorter-term impact on the market price of the equity securities discussed in research reports, including but not limited to the inherent volatility of the marketplace. Any such shorter-term views expressed in research report are distinct from and do not affect the Research Analyst's 12-month view and are clearly noted as such.

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Sector Outperform (SO)

The stock is expected to outperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

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The stock is expected to perform approximately in line with the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.

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Coker & Palmer Institutional Ratings Distribution

Category	Count	Percent
Sector Outperform	3	33%
Sector Perform	4	44%
Sector Underperform	2	22%
Total	9	100%

Price Target Methodology:

Coker Palmer Institutional (CPI) price targets are based on 60% weighting to DCF value through 2030, 20% weighting to FCF yield and a combined 20% weighting to traditional EV/EBITDA and DCF based through 2024.

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Oilfield Services (OFS) business is inherently risky. OFS investors should be fully aware of these risks, which include, but are not limited to, volatile natural gas, NGL's and crude oil prices, demand for and competition for a company's product and/or service, asset quality, customer risks, changes in operating costs, company capital structures, operating and working capital needs and ability to raise both debt and equity capital to fund operations. We value OFS equities on many different metrics, including but not limited to, our subjective view as to the quality of management, discounted cash flows, net asset values, enterprise value to EBITDA or cash flow multiples, price to earnings or cash flow multiples, reinvestment risk and full cycle economics. These factors are uncertain and our outlook is subject to change, sometimes quite quickly. Any changes in the above factors can impede achievement of our valuation assessments.

Appendix A – Required Disclosures Contd.

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