COKER & PALMER
INVESTMENT SECURITIES

EQUITY RESEARCH ALERT

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OILFIELD SERVICES & GREEN ENERGY
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4Q21 Earnings Call Takeaways – Neutral

Quick Take: Neutral. SLB has increased confidence in robust multi-year market growth. SLB's guidance implies $1.30B EBITDA for 1Q22 or 2% below Street est. owing to typically seasonality and about $6.1B EBITDA for 2022, or about 2% above Street. The company is planning a capital market day in 2H22 where long term financial targets including capital allocation will be discussed. We expect increase shareholder returns then. Please see SLB 4Q21 First Take – Modest Positive for more details.

Outlook

SLB has increased confidence in robust multi-year market growth. The company expects more pervasive pricing improvements due to technology adoptions and tightening service capacity.

- 1Q22: SLB guided to historical sequential trends for seasonality most prominently in D&I. Looking at last three years, it would imply about 4-5% revenue decline and ~75bps margins EBIT degradation q/q. That will imply about $6.0B revs., in-line, and EBITDA of $1.30B or 2% below Street est.
- 2022
  - Y/Y NAM spending will increase at least 20% and international low-to-mid teens. Both short cycle and long cycle including deep water activity should grow.
  - NAM activity growth could peak in 1H22 while international should accelerate in 2H22 and 2023.
  - SLB revenues to grow about mid-teens y/y to ~$26.3B vs Street $26.2B est.
  - SLB EBITDA margins to expand ~200bps from 4Q21 to 4Q22 driving annual margin expansion. Simplistically, assuming ~100bps EBITDA margins from 4Q21 for 2022 implies about $6.1B EBITDA or 2% higher.
- 2023
  - EBITDA margins to reach ~25% before the end of 2023.
  - EBITDA to surpass 2019 EBITDA level of $6.6B. Street is already at $7.1B.

Investor Day

SLB plans an investor day in 2H22 where the company plans to provide more color on the three engines of growth – Core, Digital and New Energy. The company will provide financial framework including capital allocation and longer-term financial targets. We think SLB is targeting ~1.25-1.5X net debt/EBITDA in an upcycle (2x mid-cycle) which can be reached in 2H22. The company sees increased dividends and buybacks as part of capital allocation.

New Energy

SLB continues to advance clean energy tech. and low carbon projects. The company had earlier expanded market by taking a position in stationary energy storage. Ventures in hydrogen, lithium, geo-energy and CCUS continue too. The company also had secured five commercial contracts in Europe and one in NAM in Celsius.

Appendix A – Required Disclosures

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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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Coker & Palmer Institutional Ratings Distribution

Category	Count	Percent
Sector Outperform	6	43%
Sector Perform	4	29%
Sector Underperform	4	29%
Total	14	100%

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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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The Exploration and Production (E&P) business in inherently risky. Investors in E&P equities should be fully aware of these risks, which include, but are not limited to, volatile natural gas, NGL's and crude oil prices, regional pricing differences, field and company asset quality, reserve depletion factors, drilling risks, operating costs, company capital structures, operating and working capital needs and ability to raise both debt and equity capital to fund operations. . E&P Valuation Methods used to determine the Price Target: We value E&P companies on many different metrics, including, but not limited to, our estimate of net asset value (NAV), enterprise value to EBITDA or cash flow multiples, price/earnings or cash flow multiples, discounted cash flow analysis and breakup/acquisition values. All our estimates and valuations are highly and inherently uncertain. They are based on, but not limited to, our outlook for the commodity price, our subjective view as to the quality of management, net asset value, quality of the proven and unproven reserves and resources, ability to develop and produce these reserves/resources, financial strength, cash flow, access to capital, and full cycle economics of investments. 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.

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