

Schlumberger (NASDAQ: SLB)

Sector: Oilfield Services (NAICS: 213112)

Intrinsic Value	Current Price	52 Week High	52 Week Low	Beta	P/E	Market Cap	Dividend Yield
\$228.02	\$87.91	\$94.91	\$69.08	1.88	19.17	\$115.77B (Large Cap)	1.50%

Industry Trends

The oil-field service industry is highly concentrated. Domestically, there are four major companies that encompass the majority of the industry. Most companies have moved to integrate all services, throughout the life of a well, and are focused on comprehensive project management. Oilfield exploration has seen a recent growth trend, through the increase in fracking wells being pursued. Exploration expenditures globally are expected to surpass \$850 billion by 2018, seen by growth of natural gas in China and Japan, along with growth of over 10% annually from national oil companies such as Venezuela.

Investment Thesis

Schlumberger is the world's leading oilfield service company. Today, SLB has a market cap and revenue that are larger than the rest of the industry in aggregate. SLB has a strong product line, with products that are able to increase the productivity of wells, that it has developed through a devotion to research and development. This competitive advantage has allowed SLB to effectively implement high margin pricing. SLB has a cash flow that is more than twice the rest of the industry, and is devoted to reinvesting cash into research and development in order to maintain product excellence, and returning cash to investors. SLB has consistently raised its dividend each year since 2005, and has purchased \$8 billion in share repurchases, and has approved \$10 billion more to be repurchased by 2018. The company's strong competitive advantage promises to see strong expansion, as the oil exploration industry sees significant growth over the next 5 years. This growth opportunity, matched with management's commitment to shareholders give SLB strong upside potential.

Business Summary

Schlumberger is an oilfield services company. The company provides oil exploration companies technology, infrastructure, and project management resources. The company operates in all sectors of oilfield service through three business units. SLB operates in 85 countries, and is well diversified across geographical regions, with no more than 32% coming from any region. SLB is also diversified across clients, with no client accompanying for more than 10% of revenues.

SLB 5-year stock performance vs. S&P 500:



(Yahoo Finance)

Corporate Social Responsibility:

ESG Disclosure Rating	38.43 (Ind. Avg.: 22.21)
Environmental Disclosure Score	30.23 (Ind. Avg.: 21.59)
Carbon Disclosure Score	92.00 (Ind. Avg.: 62.40)
Social Disclosure Score	30.60 (Ind. Avg.: 20.29)
Governance Disclosure Score	57.14 (Ind. Avg.: 54.80)
Equal Opportunity Policy	1 (Ind. Avg.: 1)
Community Spending	0 (Ind. Avg.: 0)
Total Energy Consumption	5.50 (Ind. Avg.: 2.26)

Source: Bloomberg, Value Line Investment Survey, Yahoo Finance, ValuePro

Competition:

- Four major competitors for Schlumberger include: Halliburton (HAL); Baker Hughes (BHI); Weatherford International (WFT); and National Oilwell Varco (NOV).

Pros:

- SLB product lines are continually ranked as the best performing products. 10 out of 15 of the product lines are the best in the industry, and help to increase the productive efficiency of oilwells by 3-4 times.
- The company has leading products and dominate market share in deep-water, and ultra deep-water exploration, which will be the largest area of exploration over the next 10 years, growing at 15% annually.
- With a cash flow larger than all competitors combined, SLB has the ability to continue the dominance in the market. The company has 125 research and development locations to continually improve product lines and maintain advantage.
- Oil exploration expenditures are estimated to increase at about 15% annually over the next 5-10 years.

Cons:

- The industry consists of many large competitors. Much of the business is facing a "glut" of supplies, meaning that there may be a slowing in the purchase of oilfield supplies in the short-term.
- Many areas of the business are facing regulatory and social implications. Fracking, a growing segment of SLB's business faces significant criticism in terms of environmental impact.
- Many of the customers of industry are large companies, and so revenue is frequently generated from a few large contracts, which could pose risk if terminated.

Value Estimate:

\$135-\$185

(2016-2018)

Estimated Real Annual Return: 11%-19%

Overall Rating:

Expected inflation	3%
Current EPS	\$4.80
Forecasted EPS Growth	18.58%
Credit Quality	A1 (Moody's)
ROE	18.10%
ROA	10.47%
Price/Book	2.34
Debt/Equity	26.22
Debt/Capital	19.68
Current Ratio	1.94
Price/Cash Flow	12.80
10 yr. Risk Free Rate	2.8%
WACC	10.75%

Four Stars

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