

National Oilwell Varco (NYSE:NOV)

Sector: Energy (NAICS: 333132)

Intrinsic Value	Current Price	52 Week High	52 Week Low	Beta	P/E	Market Cap	Dividend Yield
\$87.00	\$73.86	\$86.55	\$65.49	1.11	12.25	\$31.8B (Large Cap)	2.49%

Industry Trends

Currently the oil and gas services industry is facing relatively low prices. The Organization of Petroleum Exporting Countries, also known as OPEC, has been artificially lowering the price of oil through increasing global supply. Companies are finding these price trends to be detrimental to operations, causing some firms to reduce, delay or terminate drilling projects. Demand for deep-sea drilling has increased, while more costly methods have seen slumping demand due to declining oil and gas prices. Overall demand for oil is anticipated to increase to a consumption level of 92.9 million barrels per day by 2015 compared to a current level of 91.55 million barrels per day. Projections have demand going as 119 million barrels per day by 2040.

Investment Thesis

National Oilwell Varco has a long-term competitive advantage in the oil and gas services industry. The company is currently the main supplier for numerous drilling projects using a variety of methods. This allows for maintenance on the rigs, which leads to a steady stream of revenue, thus creating a stable cash flow. Due to the current conditions in the oil and gas market, oil and gas stocks have taken a hit. This has given the opportunity to purchase National Oilwell at a discount from its true value.

Business Summary

National Oilwell Varco is a global provider of equipment and services used in oil and gas drilling. They also provide supply chain integration services and inspection services for a variety of rig types. The company has two main sources of revenue, rig technology and petroleum services and supplies. The company recently completed the spinoff of its distribution segment. This spinoff helps to simplify National Oilwell and will increase the company's operational flexibility to focus on their products, services and customers.

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



(Yahoo Finance)

Corporate Social Responsibility:

ESG Disclosure Rating	22.73 (Ind. Avg.: 21.9)
Environmental Disclosure Score	10.85 (Ind. Avg.: 17.93)
Carbon Disclosure Score	N/A (Ind. Avg.: 79.25)
Social Disclosure Score	17.54 (Ind. Avg.: 29.51)
Governance Disclosure Score	55.36 (Ind. Avg.: 53.69)
Equal Opportunity Policy	1 (Ind. Avg.: 1)
Community Spending	N/A (Ind. Avg.: 830.34M)
Total Energy Consumption	N/A (Ind. Avg.: 2.24)

Competition:

- National Oilwell Varco operates in a relatively fragmented industry, so most competitors are small. Two competitors that operate at a similar size to National Oilwell are Schlumberger Ltd (SLB) and Halliburton (HAL), but both companies actively manage the rigs themselves which increases exposure to individual projects.

Pros:

- There is very little direct competition
- National Oilwell has been increasing its dividend since 2009 and has increased by almost 50% in the last three years
- The company has just authorized a \$3 billion share repurchase that will take place over the next three years
- National Oilwell currently has more cash and cash equivalents than debt

Cons:

- The oil and gas industry has been steadily declining for the last few years and many analysts believe the trend may continue
- The products are highly correlated to the demand for oil and gas equipment
- The industry as a whole has a high level of volatility
- Alternative energy use has been increasing and could reduce the demand for oil and gas a substantial amount in the future

Value Estimate:

\$87-\$110

(2020-2022)

Estimated Real Annual Return:

7%-10%

Expected inflation	3%
Current EPS	\$6.00
Forecasted EPS Growth	16.1%
Credit Quality	A2/A+
ROE	11.9%
ROA	7.44%
Price/Book	1.47
Debt/Equity	0.15
Price/Cash Flow	9.27
10 yr. Risk Free Rate	2.43%
WACC	10%

Report Prepared By:

Louis Beck and Nick Chapman

11/10/2014

