Schlumberger

NYSE: SLB
Rating: BUY
Current Price: $26.78
Target Price: $38

Gabriel Papa
Ryan Watts
The Babson College Fund is initiating coverage on Schlumberger NV (NYSE:SLB) with a **BUY** rating, and a $38 price target, representing a 42% upside from current market price.

Our investment recommendation is derived from our conviction in Schlumberger’s ability to continue their leading market position in the dynamic oil and gas market, while maintaining top line growth and operational efficiency. We believe that now is the time to buy, as Schlumberger has recently reorganized itself to better provide the energy solutions of the future and is trading lower than historical levels on an earnings and operating margin basis. Additionally, Schlumberger has an attractive dividend yield and is a top XLE benchmark name. We are differentiated from the street, whose views on the stock are largely optimistic, but missing what we believe to be key edges about Schlumberger’s digital integration and New Energy focuses, which will propel the company, and its stock, into the new era of energy.

**Company Overview:**

Schlumberger NV is an international technology company that provides a variety of oil services and product solutions for their customers, to assist them in accessing energy. SLB was reorganized in 2020 to better prepare itself for the evolving global energy landscape with a customer-centric strategic mission. The organization is comprised of four divisions: Well Construction (36% of revenue), Production Systems (28% of revenue), Reservoir Performance (23% of Revenue), and Digital & Integration (13% of revenue).

**Investment Theses:**

1) Schlumberger’s growth in its digital segment will enable margin expansion as it distributes its digital solutions to exploration and production companies and integrates this technology into its Asset Performance Solutions projects.

2) Schlumberger has invested heavily in research and development and established a considerable portfolio of intellectual property, allowing the company to be a first mover on a number of key strategies.

3) Schlumberger New Energy presents a unique and dynamic opportunity for this powerful, established oil services company to diversify its portfolio into the next generation of energy. This venture will directly contribute to long-term top line growth and operational dominance, as a leader in this space.
Company Overview:

Schlumberger NV is an international oil services company that provides technological solutions to their customers, in order to assist them in their production of energy sources. In terms of size, Schlumberger is the largest oilfield services company in the world, and they offer a wide variety of services to customers across the globe. In the value chain of energy production, specifically in the oil and gas sector, oil production companies depend on oil services companies to provide them with the tools (such as drill equipment) and services (such as geological evaluations) in order to complete the process of extracting and producing oil and gas. Primary customers of Schlumberger include national oil companies, independent operators, and large integrated oil companies, and no customer has exceeded 10% of SLB’s revenue since 2018.

Compared to peers, SLB is the most diversified and historically boasted the highest operating margins compared to peers, although this advantage has contracted within the last four years, potentially as a result of their focus on North America. However, CEO Olivier Le Peuch’s focus on accelerating their technological growth in international markets will likely strengthen their margins as the oil market recovers. Schlumberger has a long history of being at the forefront of energy innovation, and their international focus is being turned towards a new era of energy; one bolstered by technological innovation throughout the value chain. Schlumberger was recently reorganized into four main divisions to achieve this, and to best accommodate the dynamic needs of their customers. This new structure allows SLB to prioritize their “customer-centric” strategy of being better positioned to integrate technology into their portfolio of capabilities. Their four divisions are: Digital & Integration, Reservoir Performance, Well Construction, and Production Systems. SLB draws a majority of their revenue (87% to be specific), from the latter three business segments. Schlumberger’s intricate divisions are supported by a global infrastructure of research and development centers where SLB is constantly developing innovative technology to maximize sustainability, operational efficiency, and economic efficiency. The divisions are strategically implemented around five basins, with each basin having similar themes (economy, strategy needs, technology needs), so that SLB can focus on growing solutions for customers.

Company Divisions:

Digital & Integration: Schlumberger’s Digital & Integration business division is a combination of their software and seismic surveys business and includes their Asset Performance Solutions “APS” business. The main functions of this division are to provide comprehensive, scientifically advanced seismic imaging for customers, to provide information technology infrastructure for clients’ reservoirs and field planning and production enhancement, and their APS business, which is a synthesis of their drilling rig management services and products.

Reservoir Performance: The Reservoir Performance division provides the technologies and services to customers that allows them to better evaluate and understand underground assets, and then maximize their value based on their analysis. Examples of the primary services offered here include wireline services, testing services, and stimulation and intervention. In the oil and gas industry, a wireline is a conductor cable that is used to survey and acquire subsurface geological data as well as to transport well construction services and tools into the drill shaft. Testing services help production companies measure flow-rate and pressure levels throughout the drill’s composition. Stimulation and intervention is a segment that provides services to companies at the completion of the well construction process, in order to preserve the integrity of the well and maintain efficient production.
**Well Construction:** SLB’s Well Construction division is the ultimate service and product provider for oil and gas production companies and drilling rig manufacturers. This division offers products needed in designing and constructing a well, examples of this include drill bits, drilling fluid systems, and a myriad of drilling tools. These products are designed for both onshore and offshore operations and come with the proper control and handling systems for each environment. Some of the services provided in this segment include mud logging and engineering support services, in addition to well construction logistics.

**Production Systems:** The Production Systems division provides technology frameworks, services, and products to optimize the production process from subsurface reservoirs all the way to refineries. Products supplied by this division include lift equipment, completions equipment, wellhead systems, and valve products for downstream, midstream, and upstream markets. The services in this division include well completion technology and subsea protection systems.

**Oil Thesis:**

Last month, WTI crude was down about 8% amid worries over the spread of the COVID-19 delta variant and weaker economic data. This month, crude oil is positive by around 2% so far on the back of easing concerns over the pandemic. Virus cases have been on a downward trajectory for leading oil consuming nations (United States, China and India) and that has raised optimism that recent restrictions could soon be lifted, thereby increasing the demand for oil. While crude oil sets to remain volatile, we believe that prices will be trending higher through the end of the year on the back of the following:

**An intact global economic recovery trend supporting oil demand:** The International Energy Agency (IEA) estimates that Global oil demand surged by 3.8 mb/d month-on-month in June, led by increased mobility in North America and Europe. This is almost thrice the month-on-month change as compared to the seasonal norm. Latest data showing a decrease in the spread of the COVID-19 virus should be a boost to mobility and thereby support oil demand.

**OPEC+ policy:** OPEC chairman Prince Adbul Aziz Bin Salman has made it very clear that the group can pause or even reverse planned production increases if required. Therefore, we do not think that the recent decision to lift production output each month by 400,000 barrels a day is one that is set in stone. This policy response from OPEC+ further supports our view for higher oil prices.

**Probability of Iranian oil returning to the market this year has declined:** Negotiations on a nuclear deal between Iran and the world remain on pause. The return of additional Iranian barrels of crude oil seems unlikely this year if no deal is reached soon.

Our view of higher oil prices through the end of the year should benefit energy equities. We also regard oil as an inflation hedge should inflation prove to be a bigger risk than the market is currently anticipating.

**Industry Landscape:**

Schlumberger’s main industry peers include other large, diversified, international oil services companies such as Halliburton, Baker Hughes, and NOV, although they compete with OFS companies of all sizes. Despite the level of competition, Schlumberger stands out from the rest with their impressive scale, strong management, and operational excellence. On a simple comparison basis against top oil service companies
(HAL and BKR), SLB has the best current margins, returns, and dividend payout. This factor, combined with their position as the fourth largest XLE benchmark holding, makes them a strong defensive pick for the energy portfolio. The oil services industry growth and business cycles are largely impacted by upstream spending, as this is their primary source of revenue. Uncertainty in oil markets has led to margin contraction for several OFS companies, and it is clear that a level of innovation on top of usual operational excellence is needed for an OFS company to outpace the competition. Between 2014 and the onset of the pandemic, revenues across the sub-sector have been under pressure, and margins along with them, as a result of weakening oil demand and over-capacity from OFS companies investing. This pressure in the fossil fuel space indicates that a pivot towards other areas of the energy sector would be the most beneficial rotation for companies in this space, and the leaders of tomorrow will need to be ahead of this curve.

Amongst the “Big 3”, Schlumberger is the most attractive due to their international focus and leading market share position allows them to outperform. SLB’s international focus causes them to derive nearly 80% of revenue (FY2020 data), from international markets, Schlumberger has a long history of dominance, dating back to the early 20th century, and their success is defined by their unparalleled service to each customer combined with their ability to adapt in the dynamic technological environment. These advancements, and technological abilities supported by R&D expenditures, creates a margin advantage for SLB over their peers. In a fragmented industry with serious competitors including the likes of Halliburton and Baker Hughes, to name a few, Schlumberger’s technological advancement in the energy industry has allowed them to achieve dominance, as proven by their new product share of revenue, which has averaged 20% of revenue for the past thirty years.

**Investment Thesis 1:** Schlumberger’s growth in its digital segment will enable margin expansion as it distributes its digital solutions to exploration and production companies and integrates this technology into its Asset Performance Solutions projects.

Historically, Schlumberger has been a leader in the oil and gas services industry and has remained at the forefront of innovation within the industry. In the 1980s, Schlumberger pioneered the use of directional drilling, a technique that today is considered a key component of the shale revolution. Today, the company remains at the forefront of this innovation, investing heavily in its digital solutions and strategic projects to integrate these solutions. Since 2019, the company has expanded users of DELFI Cognitive, its collaborative technology that unites the E&P life cycle in the cloud, by 400% with 150 new contracts signed in 2020. This has driven Schlumberger’s Digital and Integrations segment to be the company’s fastest growing revenue segment. Schlumberger has leveraged key relationships with leading technology providers such as Google Cloud, IBM and Microsoft to create digital solutions that far exceed the capabilities of competitors such as Halliburton. As Schlumberger continues to grow its Digital and Integrations segment, this division will enable margin expansion for the firm as a whole. In the last two quarters, the Digital and Integrations segment has achieved pretax operating margins of greater than 32%. By contrast, in Q1 of 2021 the remaining three segments (Reservoir Performance, Well Construction and Production Systems), averaged pretax operating margins of 9.9%. In Quarter Three and Quarter Four of 2020, the Digital and Integrations segment averaged 29.86% operating margins while the remaining three segments averaged 8.9% operating margins. As Schlumberger shifts its strategy to focus heavily on the distribution of its digital solutions, the company will enable margin expansion across its entire revenue build. Schlumberger will achieve this expansion through both the distribution of these digital offerings to exploration and production customers, as well as through the implementation of these digital solutions in its own Asset Performance Solution (APS) projects. Through these APS projects, the company offers an integrated business model that creates alignment between Schlumberger and the asset holder. Under these arrangements, Schlumberger receives compensation that is directly correlated to the value created on a cash flow or fee per barrel basis,
with Schlumberger’s compensation often occurring above some baseline level of these metrics. By integrating the company's own digital solutions into these projects, Schlumberger will be able to achieve greater returns over these benchmarks, and thus enable greater compensation and higher margins. Schlumberger has already begun to implement this strategy, and has seen impressive results. In 2020, after implementing Agora Edge in Ecuador, the company's AI and IoT solution, Schlumberger was able to increase production in wells with high gas/oil ratios by 30% while reducing field crew visits by 97%. As Schlumberger continues to develop its digital solutions and expands this revenue segment through both the direct distribution of this technology to E&Ps as well as the implementation of this technology in its own APS projects, Schlumberger will enable significant margin expansion and operate using a less capital intensive business model.

The impact of the expansion of Schlumberger’s Digital and Integrations segment is captured through both a higher growth rate in Digital and Integration revenue present in our model than consensus estimates, as well as expanded gross and operating margins throughout the projection period as the Digital and Integrations segment grows as a proportion of total revenue. We project that Digital and Integrations revenue will grow from 13% of revenue in 2020 to 22% of revenue by 2026, and continue to expand as a percentage of revenue beyond the last projection period. We believe that Schlumberger’s competitive advantages in its digital offerings is not accurately being factored in by the street, and believe stronger growth in this segment will drive greater returns for Schlumberger in the future.

**Investment Thesis 2:** Schlumberger has invested heavily in research and development and established a considerable portfolio of intellectual property, allowing the company to be a first mover on a number of key strategies.

Schlumberger’s continuous innovation is fueled by the company’s significant long term investment into research and development. Schlumberger invests more than any other services company in research and development on a dollar basis, investing over $500 million in R&D in each of the last three years ($580 Million in 2020, $717 in 2019 and $702 million in 2018) (10k). Over the last ten years since 2011, Schlumberger has invested over $10 billion in R&D, while its next closest competitor invested only $6 billion over that time (Sinopec Oilfield Services). Additionally, over this time period Schlumberger has spent more on research and development as a percentage of revenue, at 2.6% of revenue over this time period. This has resulted in Schlumberger accumulating a large portfolio of thousands of patents, enabling the company to efficiently benefit from the research and development it conducts. In 2020 alone, Schlumberger added 111 new patents to its portfolio. Schlumberger also utilizes international talent in the R&D space, which is a cost-efficient way to manage development. Additionally, this extensive portfolio of intellectual property enables Schlumberger to quickly and successfully introduce new products to market at scale, with new product share of revenue averaging roughly 20% historically. As Schlumberger shifts strategies to focus on its digital offerings, along with its new Energy projects, the company will be able to rely on its extensive portfolio of intellectual property to scale these operations. Due to Schlumberger's leadership in spending on research and development, the company currently far exceeds its competitors' capabilities in its digital offerings. Currently, while competitors work to develop their remote operations capabilities, Schlumberger is developing its autonomous operations capabilities.
**Investment Thesis 3:** Schlumberger New Energy presents a unique and dynamic opportunity for this powerful, established oil services company to diversify its portfolio into the next generation of energy. This venture will directly contribute to long-term top line growth and operational dominance, as a leader in this space.

The energy sector, more specifically the oil and gas subsector, faces an extremely daunting task as the 21st century ticks onward and the global economy searches for renewable energy sources. According to the IEA, over 40% of the world’s final energy consumption comes from oil, and nearly 100% of that final consumption comes from our everyday life activities. For the time being, oil and gas is here to stay; our world’s infrastructure simply cannot support a rapid transition from fossil fuels to renewable energy technologies. However, as the stock market is a discounting mechanism, now is the time that we need to begin investing in the technologies of tomorrow that will cultivate and strengthen the energy transition.

The search for new energy sources is such a pertinent topic because energy is essential for our modern lives, it has a place in nearly every industry. In order for there to be a true transition, there will need to be countless structural changes across the planet. For this transition to happen most effectively, or even at all, it must be conducted in a global, effective manner, by a company that has the proper global reach and influence. Schlumberger is uniquely positioned to be one of the companies leading this change, as they have already begun building their portfolio of new energy technologies, called Schlumberger New Energy, with sector exposures in hydrogen as an energy carrier, carbon capture technologies, geo-energy for heating and cooling, geothermal power, and lithium batteries. With New Energy, SLB is working in the same way they have in the past, just this time they are partnering with companies and industries outside of fossil fuels, to provide them with the services and products they need to change the world’s energy landscape. By expanding their capabilities, SLB is committed to being a first-mover in the renewable energy services space. By leveraging Schlumberger’s global capabilities and expanding into these high-growth industries, SLB will forge a leadership position in this evolving economy of the future, which has numerous financial benefits such as diversifying and strengthening their revenue streams. New Energy makes Schlumberger a more desirable service provider, when compared to peers, as they have the agility to be a driving partner in the efforts towards de-carbonization and have more projects focused on new energy sources than the rest of their OFS peers. New Energy rounds out SLB, further making them the premier services company because none of their other competitors are able to innovate at this grand, international level. We believe that the street is fundamentally omitting how impactful this New Energy portfolio is to the company’s future growth prospects, as short-term oil demand concerns are weighing on the oil services sector.

The measurable impact of the New Energy portfolio is difficult to capture, and it has short and long-term benefits across the firm’s capital structure. We have modeled in some key assumptions relating to this project, including enhanced revenue growth (5.85% CAGR through 2023 vs. Street 4.6%, considerable given the breadth of SLB coverage) across all four business divisions as well as gross and operating margin expansion. When compared to street estimates, our assumptions present sharper CAGRs through 2025 (see “BCF vs. Consensus” exhibit) in terms of Gross Margin, EBITDA, EBIT, and Net Income growth. We see much of this growth coming from existing customer relationship with E&P companies looking to de-carbonize and further optimize operations, as well as these new ventures, which will translate in further operating margin expansion from 12% ('21) to nearly 20% by 2026.
**Investment Catalysts:**

1. **Resurgence in Travel**

The disruption in travel caused by COVID-19 had a significant negative impact on oil prices at the start of the pandemic. However, as vaccine roll outs and other preventative measures have been implemented, travel has begun to increase at a steady rate. Throughout 2020, travel in United States airports, based on the number of individuals passing through TSA checkpoints has increased significantly. From January of 2021 to August of 2021, average traveler throughput per day at TSA checkpoints has increased 44%. Passenger numbers in the United States currently sit between 75-80% of 2019 levels. Despite an increase in COVID-19 cases caused by the Delta variant, travel has continued to rise. On Friday, September 3rd, more travelers passed through US Airports than any day since early March of 2020. Additionally, holiday travel is expected to increase dramatically this season, not only surpassing last year holiday travel numbers but surpassing pre-Covid levels of holiday travel.

2. **Management**

Olivier Le Peuch began his tenure as CEO of Schlumberger in August of 2019. Olivier has been at Schlumberger since 1987, and prior to taking over as CEO, served as the Chief Operations Officer. Olivier has set out strategic goals of establishing less capital intensive business models, and has shifted the core focuses of the firm in an attempt to deliver stronger returns. So far in 2021 as the COVID-19 recovery ensues, he has shown an ability to successfully implement this strategy to deliver strong margins. In Q2 2021, the company achieved its highest pretax segment operating margin since 2015. In both Q1 and Q2 of 2021, as well as Q4 of 2020, management has been able to beat expected revenue and expected earnings. The management of Schlumberger has been able to achieve cost cutting strategies throughout COVID-19, and will now be able to accurately assess where continued cost cutting measures can be extended to continue to drive margin expansion.

3. **Human Capital**

In the current climate of uncertainty caused by COVID-19, disruptions to operations have impacted nearly every firm's ability to ensure continuity across their firms. Fortunately, Schlumberger has a unique and diverse employee base representing 160 different countries. Schlumberger’s extensive pool of human capital in international markets enables the company to leverage a large network of local engineers and scientific talent, at a relatively low cost. This dynamic employee base will allow Schlumberger to better manage any potential disruption in operations caused by COVID-19, as compared to companies with more centralized employee bases that are not able to react as quickly to each market in which they operate. Schlumberger's international employee base serves as an asset to the firm's agile operations, rather than merely a labor expense, as it enables continuity across operations on a global scale that firms with more centralized employee bases will not be able to achieve.

**Investment Risks**

1. **Oil Price Volatility**

While Schlumberger has diversified into new energies aside from their traditional fossil fuel focus, they are still largely reliant on Exploration and Production oil and gas companies (E&P). For these E&P companies,
capital investments (to services providers) will be based on their evaluation of whether or not they can achieve a desired return from any exploration or development (activities that require service providers). As oil prices increase, or the costs associated with extraction decrease, these companies will tend to raise their spending, and vice versa in the opposite environment. For this reason, the volatility of oil markets can hurt a derivative company such as Schlumberger.

2. **Oil Demand**

While we believe that the demand for oil will continue to rise as the world (not just the United States) emerges from the depths of the pandemic, the demand environment is still uncertain. It is challenging to predict how the landscape will evolve as regulations lift and land, and these fluctuations may have short term impacts. Long-term, this is not a concern, although in the short term the factors influencing oil production and price should be considered.

3. **Environmental Disaster**

Schlumberger operates in over 100 countries, which means they are subject to the various environmental regulations and laws of each region. While Schlumberger is incredibly environmentally conscious, they are still exposed to the potential of unforeseen environmental disasters, like Halliburton’s Macondo incident in 2010, more famously known as the Deepwater Horizon disaster. This is not an idiosyncratic risk, although it is important to acknowledge in this industry.

**M&A Activity:**

Schlumberger has completed numerous acquisitions to further strengthen its operations. Two major acquisitions, including the company’s acquisition of Smith International in 2010 and Cameron International in 2016 have shaped Schlumberger’s current operating segments. Schlumberger bought out Smith International for $11.4 billion in an all-stock deal. The acquisition expanded Schlumberger’s production of drilling products, with Smith’s commitment to innovation aligning directly with Schlumberger’s commitment to remaining a technological leader, as Smith Bits has accumulated 53% of the global records in the drill bit industry. Additionally, the acquisition of Cameron in 2016 for $14.4 billion, structured as a hybrid cash and stock buyout, laid the foundation for Schlumberger’s Production Systems segment. Cameron provided a unique opportunity to gain a significant market share in fragmented services verticals such as blow out prevention, for which the only competitors to Cameron include Barker Hughes and National Oilwell Varco, as well as subsea equipment for which Cameron’s only competitors are Baker Hughes and TechnipFMC. The synergies created through Schlumberger’s reservoir characterization segment with Cameron’s subsea equipment technology enables Schlumberger to achieve significant competitive advantages, as submersible pumps must be customized to a wide variety of downhole operating environments. While this acquisition provided a number of key synergies for Schlumberger, the company remained committed to strategic capital discipline and sold the North American pressure pumping business that came with the acquisition of Cameron to Liberty Oilfield Services. Schlumberger has been able to leverage strategic acquisitions to expand its product portfolio and realize new competitive advantages, while remaining disciplined in their investments and avoiding continued investments into value destructive operations.
**ESG:**

Schlumberger has improved its CDP Climate Change ESG rating from a B in 2019, to an A- in 2020. The company has laid the groundwork to reduce its greenhouse gas emissions by 30% by 2025, and was already able to achieve a 14% decrease in 2020 alone. Additionally, Schlumberger has a strong history of recruiting talent where they work, and the company's employee base now represents over 160 different countries. Additionally, the company remains committed to its diversity and inclusion efforts, with 27% of its new positions in 2020 being filled by women.

**Valuation Summary:**

Our valuation utilizes a blended approach, using DCF valuation and Comparable Companies Analysis, to arrive at our target price of $38, representing an upside of 42% from market close on September 10, 2021.

**Comparable Company Analysis:**

For the comparable company analysis, we identified six key competitors. The competitors included in this analysis consist of international and domestic oil and gas service providers, whose operations span the value chain. For the valuation, we used “next twelve month” data for three relevant valuation metrics: EV/EBITDA, P/E and EV/EBIT. We utilized a 60% weight on the EV/EBITDA metric, while underweighting both the P/E metric and EV/EBIT at 20% each. This weight allocation was determined in order to reflect the relevance of each multiple in reflecting the value of an international oil and gas services company. Seeing as Price to Earnings is an earnings based multiple that can easily be distorted by discrepancies in international accounting policies, this multiple should hold less weight in the valuation of Schlumberger’s operations. By contrast, EV/EBITDA allows for a more accurate interpretation of a capital intensive company's value, and is impacted less by the cyclical nature of the industry.

In determining an accurate percentile to be applied to this analysis, we conducted a benchmarking analysis comparing the operations of Schlumberger to the operating metrics of competitors. This benchmarking analysis factored in operating margins, growth rates and capital structure metrics to accurately reflect the multiple percentile that should be applied to Schlumberger. Based on the metrics we utilized we believe Schlumberger’s technology and management deserve a premium over other competitors, we believe the use of a 60% multiple is appropriate for this analysis.

**Discounted Cash Flow Analysis:**

Our discounted cash flow (DCF) analysis incorporates our main assumptions about Schlumberger’s ability to protect and grow revenues, while also maintaining operational efficiency. We project strong free cash flows throughout our projection period, which is a result of their financial discipline and strong management, leading us to forecast strong capital stewardship. Our base, bear, and bull cases incorporate various assumptions about the growth prospects and industry factors to represent worst to best case scenarios. For our terminal value exits, we have used both a perpetual growth rate method with a 2% PGR, and an EBITDA multiple exit, using SLB’s NTM EV/EBITDA of 9.12x. We blended these two together, with a 50/50 weighting, to arrive at our DCF target price of $41.

Our revenue build breaks down Schlumberger’s product and services revenues into their main business segments, and we projected out the expected growth for each segment. These assumptions take into account...
our thesis points, which reflect a focus on digitization and new energy products and services, as well as a continued focus in the oil and gas industry, as long as it stays a primary energy source.

**Portfolio Fit:**

Schlumberger will be a key piece in the BCF energy portfolio, providing exposure to a diverse, international oil services conglomerate that pays a solid dividend and is a top name in the XLE benchmark. In the energy space, we are looking towards the future while adequately acknowledging the history of energy, and what it will take to revolutionize the space. With this addition, we look to slightly trim from our two other holdings (EOG and PXD) in order to add SLB, so that our portfolio will be diversified into both production companies and service providers, allowing us to outperform XLE.
Disclosures

Babson College Fund
The Babson College Fund (BCF) is an academic program in which selected students manage a portion of the Babson College endowment. The program seeks to provide a rich educational experience through the development of investment research skills and the acquisition of equity analysis and portfolio management experience. Please visit Babson College Fund for more information.

Definition of Ratings
BUY: Expected to outperform the S&P 500 producing above average returns.
HOLD: Expected to perform in line with the S&P 500 producing average returns.
SELL: Expected to underperform the S&P 500 producing below average returns.

References
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Schlumberger NV Investor Relations Materials
Analyst Reports (Evercore ISI, BMO)
James West, Evercore ISI

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Energy Transition Outlook:

DNV GL’s Energy Transition Outlook 2020 forecast that rapid electrification, dominated by solar photovoltaics and wind, will transform the energy mix.

Historic Share Price Performance:

Return on Invested Capital, Assets, and Common Equity:
Valuation Summary:

Margin Analysis:

Target Price Calculation:
### DCF Sensitivity Analysis:

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### Football Field:

- **52-Week Trading**: $14 to $37
- **DCF - WACC**: $36 to $47
- **DCF - Scenario**: $15 to $52
- **CompCo**: $24 to $89

Current Price: $26.78  
Price Target: $47
## BCF vs. Consensus:

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</tr>
<tr>
<td>Revenue</td>
<td>22,824</td>
</tr>
<tr>
<td>Consensus</td>
<td>22,996</td>
</tr>
<tr>
<td>Difference</td>
<td>(1%)</td>
</tr>
<tr>
<td>Gross Margin</td>
<td>22%</td>
</tr>
<tr>
<td>Consensus</td>
<td>19%</td>
</tr>
<tr>
<td>Difference</td>
<td>15%</td>
</tr>
<tr>
<td>EBITDA</td>
<td>5,021</td>
</tr>
<tr>
<td>Consensus</td>
<td>4,885</td>
</tr>
<tr>
<td>Difference</td>
<td>3%</td>
</tr>
<tr>
<td>EBIT</td>
<td>3,195</td>
</tr>
<tr>
<td>Consensus</td>
<td>2,809</td>
</tr>
<tr>
<td>Difference</td>
<td>14%</td>
</tr>
<tr>
<td>Net Income</td>
<td>2,235</td>
</tr>
<tr>
<td>Consensus</td>
<td>1,799</td>
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<tr>
<td>Difference</td>
<td>24%</td>
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<tr>
<td>Earnings per Share</td>
<td>$1.60</td>
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<tr>
<td>Consensus</td>
<td>$1.26</td>
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<tr>
<td>Difference</td>
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<tr>
<td>CAPEX</td>
<td>1,369</td>
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<tr>
<td>Consensus</td>
<td>1,315</td>
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<td>Difference</td>
<td>4%</td>
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<tr>
<td>Free Cash Flow</td>
<td>3,139</td>
</tr>
<tr>
<td>Consensus</td>
<td>2,573</td>
</tr>
<tr>
<td>Difference</td>
<td>22%</td>
</tr>
</tbody>
</table>

### Endnotes:

1. Fourth largest XLE holding
2. Operating Margin: HAL 9.89%, SLB 9.09%, BKR 5.69%
3. EBITDA Margin: SLB 17.18%, HAL 16.68%, BKR 11.52%
4. The basins are: Americas Land, Offshore Atlantic, Middle East and North Africa, Asia, and Russia and Central Asia
5. SLB is usually compensated on a cash flow generated or a fee-per-barrel basis, above a mutually agreed baseline.