



► USA – Offshore Drillers

► May 21, 2010

CAUTIOUS VIEW

HIGH RISK

TRADE BRIEF

Shift focus on Backlog....! U.S. GOM = 24.2%....!

- The total estimated backlog for our universe is approximately \$68.7 billion. Out of that total, the U.S. Gulf of Mexico (GOM) equates to \$16.6 billion or approximately 24.2% of the estimated total backlog. Looking forward, this rich contract backlog should backup the strong top line growth that is ahead in the GOM. We also expect utilization rates to sequentially improve once the temporary freeze of drilling permits is lifted which should succeed to drive both budget and backlog upward.
- The U.S. GOM backlog is estimated at \$16.6 billion. As a percentage of total company backlogs, the exposure to the U.S. GOM are as follows: ENSCO (\$1.5 bil.) amounts to an estimated 53.9% share, followed by Transocean (\$8.3 bil.) at 28.8%, Noble (\$1.9 bil.) at 27.2%, Pride (\$1.8 bil.), at 25.8%, Diamond (\$2.2 bil.) at 23.0%, Rowan Cos. (\$0.15 bil.) at 16.7%, Hercules (\$0.05 bil.) at 12.3%, and Seadrill (\$0.73 bil.) at 5.8%. At present, Pride has no rigs working in the U.S. GOM. The *Ocean Ascension* is expected in the GOM on Q310. See Exhibit 1 - 3.
- We believe that it makes sense to concentrate on the backlog and not the turmoil surrounding the market as a result of the financial sector, the Greece fiascoes and the EURO currency which is heavily weighted and indirectly affecting the offshore drillers. We are also of course, keenly aware of the sunken *Deepwater Horizon* that resulted in the month old oil leak but we believe that at this stage, hundreds of men hour and technology are working to contain the leak and investors should give both the companies responsible and the sector credit for these efforts.
- We reiterate putting the global turmoil, the sunken *Deepwater Horizon* and the oil leak aside, and to this effect, the offshore drillers will once again be the go-to defensive sector. Since April 20, the Oil Service Index (OSX) is down by 21.0%. Such behavior by investors is unwarranted and the degree of this heavy of a sell-off is not sustainable.
- A buying opportunity: Today May 21, the Put Options expired. We recommend buying a June Call Options on the following names: Transocean (RIG), Noble (NE), ENSCO (ESV), Diamond Offshore (DO), Pride (PDE) and Rowan Cos. (RDC). We are getting closer to the end of the sell-off. We once again point that shares are reaching new lows for 2010.

OSX: 173.82

S&P 500: 1,071.59

NASDAQ: 2,204.01

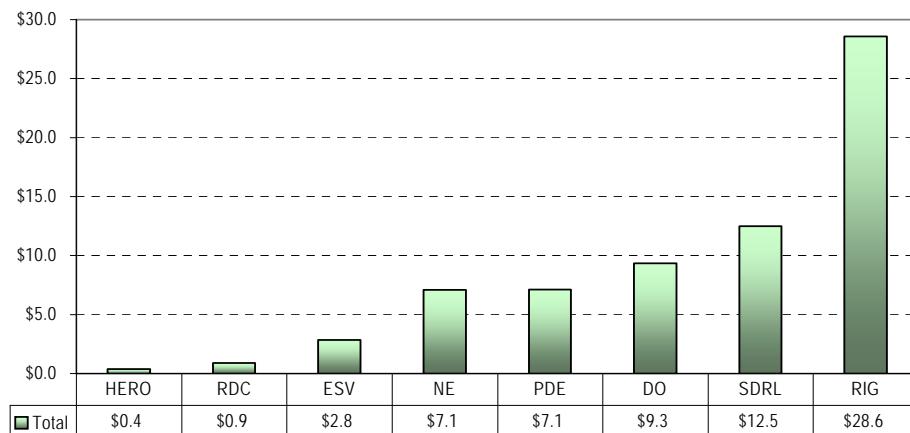
DOW: 10,068.01

Senior Equity Analyst
Zephyrin Group
info@zephiringroup.com



Transocean backlog is as equal as the total backlog of its next peers group (SDRL, DO and PDE). We expect backlog for the offshore drillers to remain strong.

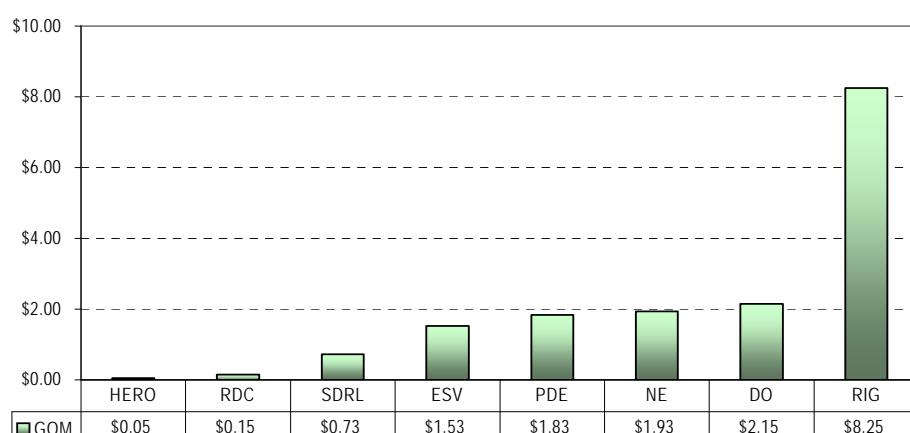
Exhibit 1. Offshore Drillers Total Backlog



Source: \$ in Billion. Company data and Zephyrin Group, Inc. (ZGI) research estimates

Exhibit 2. Offshore Drillers U.S. Gulf of Mexico Backlog

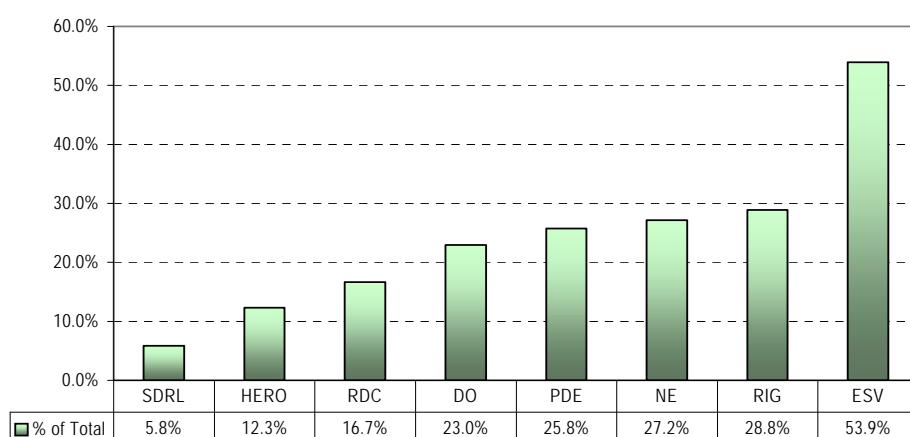
Despite the uncertainty surrounding the U.S. GOM, backlog are expected to remain strong.



Source: \$ in Billion. Company data and Zephyrin Group, Inc. (ZGI) research estimates

Exhibit 3. Offshore Drillers U.S. GOM Backlog as a % of Total Backlog

ENSCO and Transocean have the largest backlog exposure in the U.S. GOM.



Source: \$ in Billion. Company data and Zephyrin Group, Inc. (ZGI) research estimates



Companies mentioned *As of May 20, 2010

Name	Ticker	Price*	Objective	Rating
Basic Energy Services	BAS	\$7.89	N/A	Not Rated
Diamond Offshore	DO	67.90	-	Buy Speculative Risk
ENSCO	ESV	36.84	-	Buy Medium Risk
Hercules Offshore	HERO	2.75	-	Buy Speculative Risk
Noble Corp.	NE	31.33	-	Buy High Risk
Pride International	PDE	24.23	-	Buy High Risk
Rowan Cos.	RDC	22.72	-	Buy Medium Risk
Seadrill Ltd.	SDRL	20.40	-	Buy High Risk
Seahawk Drilling	HAWK	11.26	-	Not Rated
Transocean Inc.	RIG	58.01	-	Buy High Risk

N/A = Not Applicable

IMPORTANT DISCLOSURE:

Rating System: BUY — The stock, securities or shares are expected to achieve a total return of 15% or more over the next 12-18 months, or are expected to outperform its industry peers and the S&P 500. HOLD — The stock, securities or shares are expected to achieve a total return of 10% or less, or are expected to perform in-line with its industry peers and the S&P 500 over the next 12-18 months. UNDERPERFORM/SELL — The stock, securities or shares are expected to underperform its industry peers and the S&P 500 over the next 12-18 months.

Risk Rating: LOW RISK (LR) — Return of 0-10%; MEDIUM RISK (MR) — Return of 0-20%; HIGH RISK (HR) — Return of 0-30% and SPECULATIVE RISK (SR) — Return of 0-50%. **Distribution of Rating:** Buy = 8 (100%); Hold = 0 (0%); Underperform/Sell = 0 (0%)

All of the recommendation and views about the securities and companies in this report accurately reflect the personal views of the research analyst named on the cover of this report.

The Zephyrin Group, Inc. ("ZGI") is an independent e-research company that is incorporated in the State of Delaware on November 2003. The above material has been prepared by ZGI for informational purposes only and should not be construed as an offer to sell or solicitation of an offer to purchase or subscribe for any investment. The information and opinions contained in this document have been compiled or arrived at by ZGI in good faith from sources believed to be reliable, but no representation or warranty, express or implied, is made as to its accuracy, completeness or correctness. All opinions and estimates contained in this document constitute ZGI's judgment as of the date of this document and are subject to change without notice. ZGI makes no guarantee, representation or warranty and accepts no responsibility or liability as to its accuracy or completeness. Expressions of opinion are those of ZGI only and are subject to change without notice. ZGI does not provide an analysis of a company's financial position; financial position and all information should be verified with the "mentioned company" investor relations department. Information about publicly listed companies and other investor resources can be found at the Securities & Exchange Commission website www.sec.gov. We are not registered investment advisors, or broker/dealers or members of any financial regulatory bodies. The information contained herein is not to be regarded as advice to make any particular investment. In receiving this material, each recipient represents, warrants and acknowledges that it has taken, or will take, appropriate steps to: obtain such independent legal, tax, accounting and other professional advice as may be appropriate prior to taking any action in relation to any companies mentioned; form its own independent judgment regarding the risks and rewards associated with any action or inaction relating to any companies mentioned. The information contained herein contains forward-looking statements and information within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 and as defined in the Private Securities Litigation of 1995, including statements regarding expected continual growth of featured company. Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, goals, assumptions or future events or performance may be forward looking statements. Forward looking statement are based on expectations, estimates, and projections at the time the statements are made that involve a number of risks and uncertainties which could cause actual results or events to differ materially from those presently anticipated.

©Copyright 2004-2010 The Zephyrin Group, Inc. ("ZGI"). All rights reserved. The Zephyrin Group, Inc. Website: www.zephiringroup.com - Email: info@zephiringroup.com

This document may not be reproduced, distributed or published in electronic, paper or other form for any purpose without the prior written consent of ZGI. No Group Company accepts any liability whatsoever for any direct, indirect or consequential loss arising from any inaccuracy herein or from any use of this document or its contents. Any unauthorized use, duplication, redistribution or disclosure is prohibited by law and will result in prosecution. ZGI accepts no liability whatsoever for the actions of third parties. ZGI makes no representations or warranties whatsoever as to the data and information provided in any third party referenced website and shall have no liability or responsibility arising out of, or in connection with, any such referenced website. This publication is made available through Thomson One Analytics www.thomsononeim.com First Call research direct portal. This publication is available through Thomson Research Investext <http://research.thomsonib.com> an Institutional research portal. This publication is made available through FactSet Research Systems Inc. www.factset.com a research portal provider. This publication is also made available in the U.K. through Independent Research Ltd. www.inderec.com a research portal provider.

ZGI adheres to the CFA Institute (formerly Association for Investment Management & Research) Research Objective Standards guideline.

This document is intended solely for distribution to the professional investment community. ZGI or any officers, directors does not hold any equity positions in any company or companies mentioned in this report.