

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

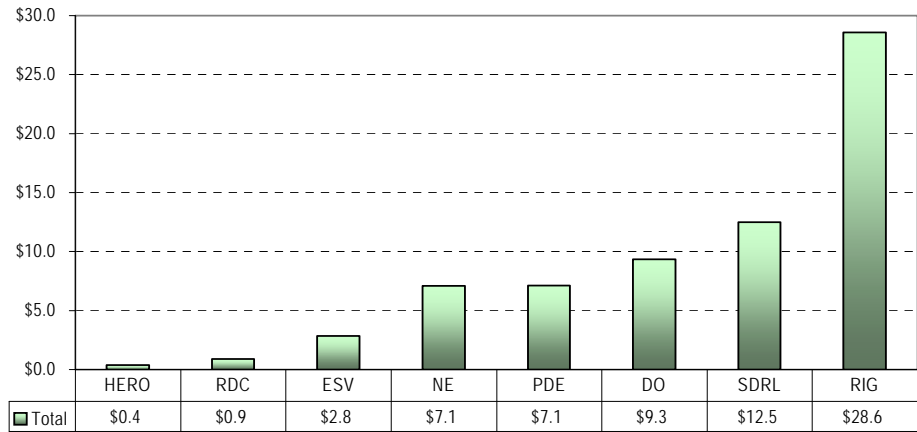
DOW: 10,068.01

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### Exhibit 1. Offshore Drillers Total Backlog

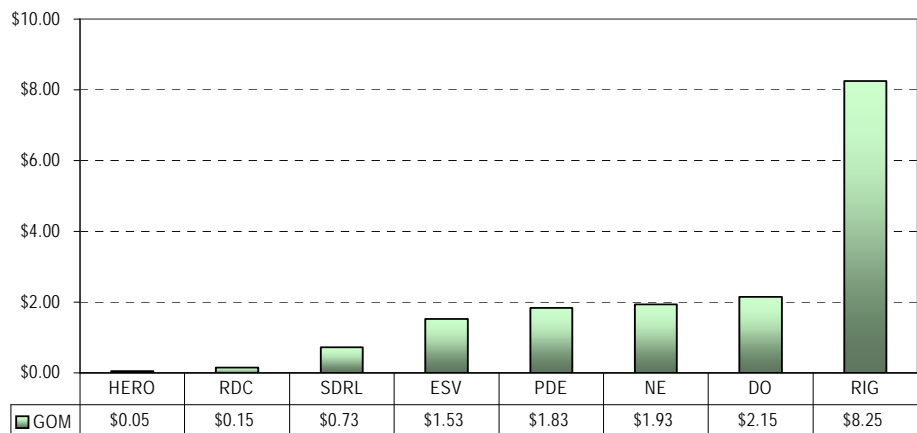
*Transocean backlog is as equal as the total backlog of its next peers group (SDRL, DO and PDE). We expect backlog for the offshore drillers to remain strong.*



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

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

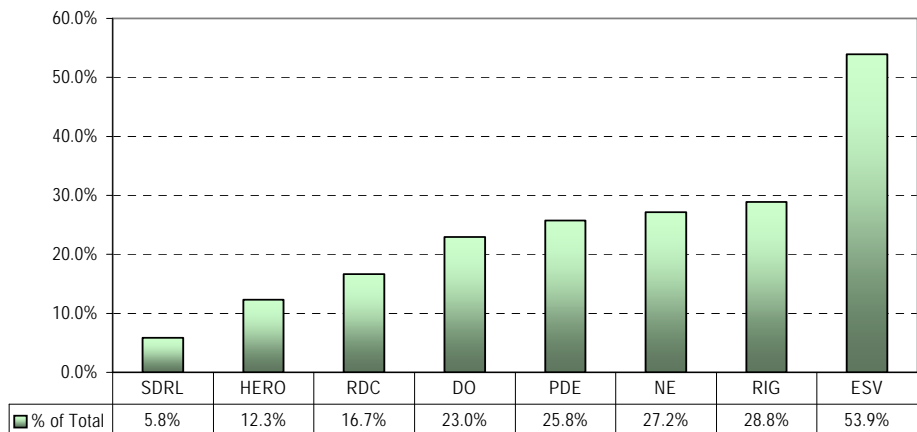
*Despite the uncertainty surrounding the U.S. GOM, backlog are expected to remain strong.*



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.

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