

SLB

Best of Int'l & Offshore at attractive valuation

Reiterate Rating: BUY | PO: 62.00 USD | Price: 49.64 USD

SLB is positioned well for Int'l/Offshore growth push

We believe SLB's modest 1% revenue and 2% Adj. EBITDA beat in 4Q masks the true strength of its peer leading exposure to Int'l/Offshore markets, which are emerging as the highlight of the current cycle: 1) 2023 was the highest ever revenue year for SLB in the Mid-East, with line of sight to 2-3 years of growth, 2) Offshore, beginning with shallow water Mid-East, and followed by deepwater, led by Brazil, Guyana, & (now) West Africa & Norway, is set to grow strongly, and 3) gas-focused exploration & development activity for export as well as domestic demand is gaining traction in Mid-East, Africa and Asia-Pac. Meanwhile, SLB's return to its technology roots, and away from asset-heavy & commoditized businesses since 2019, under current CEO Olivier Le Peuch, has reduced the capex intensity of the business. Lastly, SLB's OneSubsea JV with Aker Solutions and Subsea 7, where mgmt. expects orders to grow >25% YoY in '24, brings more exposure to the fast-growing deepwater/subsea market. See our [2024 Outlook](#) for deep dive into Int'l/Offshore. Reiterate Buy & \$62 PO; SLB is our top large-cap pick for 2024.

Pricing + operating leverage + capex discipline = solid FCF

SLB is benefiting from tight Int'l/Offshore S/D, which means more technology, including Digital, adoption, + pricing tailwind. The company's asset light business is set to benefit from strong operating leverage. We note SLB is keeping capex flat at \$2.6bn YoY, even with 12% YoY revenue growth in 2024. Despite large working capital investment, we see SLB generating \$4.3/\$5.0bn in FCF (6.0%/7.1% FCF yield) in '24E/'25E. This yields total cash returns to shareholders of \$5-\$6bn i.e., 7.1%-8.5% of market-cap over 2024-25E.

And current macro malaise offers attractive valuation

SLB, as OFS bellwether, has been weighed down by a worsening macro as OPEC/OPEC+ continue to cut production amid slackening demand growth & quickly growing non-OPEC production. We think US oil production growth would pretty much plateau through 2024, allowing OPEC to continue to manage the market while investing in stated oil (and gas) capacity adds. With SLB now trading at 14.0x/11.9x our '24E/'25E EPS, i.e., an 8%/22% discount to the average of FY2 P/E in 2010-14 & 20%/32% discount to average of FY2 P/E in 2006-08, we see the stock as very attractively valued. This is especially true with our view of an unfolding multi-year Int'l/Offshore cycle, which plays to SLB's strength.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	2.17	2.98	3.54	4.17	4.62
GAAP EPS	2.39	2.91	3.54	4.17	4.62
EPS Change (YoY)	68.2%	37.3%	18.8%	17.8%	10.8%
Consensus EPS (Bloomberg)			3.59	4.27	4.73
DPS	0.65	1.00	1.08	1.20	1.30
Valuation (Dec)					
P/E	22.9x	16.7x	14.0x	11.9x	10.7x
GAAP P/E	20.8x	17.1x	14.0x	11.9x	10.7x
Dividend Yield	1.3%	2.0%	2.2%	2.4%	2.6%
EV / EBITDA*	12.7x	10.1x	8.8x	7.8x	7.3x
Free Cash Flow Yield*	2.0%	5.7%	6.1%	7.1%	8.0%

* For full definitions of *IQmethod*SM measures, see page 5.

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Timestamp: 22 January 2024 04:00AM EST

22 January 2024

Equity

Key Changes

(US\$)	Previous	Current
2024E DPS	1.20	1.08

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Stock Data

Price	49.64 USD
Price Objective	62.00 USD
Date Established	11-Jan-2024
Investment Opinion	C-1-7
52-Week Range	42.73 USD - 62.12 USD
Mrkt Val (mn) / Shares Out (mn)	70,836 USD / 1,427.0
Free Float	99.8%
Average Daily Value (mn)	573.33 USD
BofA Ticker / Exchange	SLB / NYS
Bloomberg / Reuters	SLB US / SLB.N
ROE (2024E)	23.0%
Net Dbt to Eqty (Dec-2023A)	43.2%
ESGMeter TM	High

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NAM / Int'l / OFS = North America / International / Oil Field Services

Adj. / Cons = Adjusted / Consensus

CEO = Chief Executive Officer

EPS / P/E = Earnings per share / Price/Earning

S/D = Supply / Demand

FCF = Free Cash Flow

mgmt. = management

FY = Forward Year

JV = Joint Venture

iQprofileSM SLB

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	11.0%	14.0%	15.3%	16.4%	16.5%
Return on Equity	19.1%	22.3%	23.0%	24.0%	23.6%
Operating Margin	15.6%	17.5%	18.5%	19.9%	20.8%
Free Cash Flow	1,418	4,038	4,300	5,010	5,695

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.2x	1.5x	1.4x	1.3x	1.3x
Asset Replacement Ratio	1.1x	1.1x	1.1x	1.1x	1.2x
Tax Rate	19.1%	18.7%	18.8%	18.9%	18.9%
Net Debt-to-Equity Ratio	58.8%	43.2%	31.7%	21.2%	11.9%
Interest Cover	9.2x	11.8x	13.6x	15.7x	17.2x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	28,091	33,135	37,160	40,080	42,017
% Change	22.5%	18.0%	12.1%	7.9%	4.8%
Gross Profit	7,368	8,956	10,189	11,332	12,119
% Change	27.8%	21.5%	13.8%	11.2%	6.9%
EBITDA	6,461	8,108	9,330	10,465	11,235
% Change	31.2%	25.5%	15.1%	12.2%	7.4%
Net Interest & Other Income	(451)	(404)	(382)	(367)	(352)
Net Income (Adjusted)	3,121	4,305	5,096	5,967	6,555
% Change	70.4%	37.9%	18.4%	17.1%	9.9%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	3,172	4,386	5,287	6,178	6,786
Depreciation & Amortization	2,147	2,312	2,440	2,475	2,510
Change in Working Capital	(1,699)	(215)	(941)	(873)	(645)
Deferred Taxation Charge	(14)	139	(146)	(271)	(297)
Other Adjustments, Net	113	15	290	290	290
Capital Expenditure	(2,302)	(2,599)	(2,630)	(2,790)	(2,950)
Free Cash Flow	1,418	4,038	4,300	5,010	5,695
% Change	-52.7%	184.8%	6.5%	16.5%	13.7%
Share / Issue Repurchase	0	(694)	(1,145)	(1,451)	(1,727)
Cost of Dividends Paid	(848)	(1,317)	(1,531)	(1,697)	(1,822)
Change in Debt	(1,650)	(231)	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	1,655	2,742	4,366	6,229	8,375
Trade Receivables	7,032	7,812	8,524	9,619	9,927
Other Current Assets	6,316	7,164	7,241	8,393	8,199
Property, Plant & Equipment	6,607	7,240	6,734	6,348	6,077
Other Non-Current Assets	21,525	22,999	23,695	24,396	25,106
Total Assets	43,135	47,957	50,560	54,985	57,684
Short-Term Debt	1,632	1,123	1,123	1,123	1,123
Other Current Liabilities	10,386	12,272	11,974	13,078	12,249
Long-Term Debt	10,594	10,842	10,842	10,842	10,842
Other Non-Current Liabilities	2,534	2,361	2,651	2,942	3,232
Total Liabilities	25,146	26,598	26,591	27,985	27,446
Total Equity	17,989	21,359	23,970	27,000	30,238
Total Equity & Liabilities	43,135	47,957	50,560	54,985	57,684

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Oil Services

Company Description

SLB is the world's largest provider of services and equipment used in drilling, evaluation, completion, production, and maintenance of oil and natural gas wells. Revenues in 2023 totaled \$33.1bn and Adjusted EBITDA was \$8.1bn.

Investment Rationale

We rate SLB Buy. SLB's exposure to international should serve the company well over the longer term, and we think the recovery is underway given the likely capital discipline for US shale Private E&Ps.

Stock Data

Average Daily Volume 11,549,799

Quarterly Earnings Estimates

	2023	2024
Q1	0.63A	0.74E
Q2	0.72A	0.85E
Q3	0.78A	0.95E
Q4	0.86A	1.00E



Price objective basis & risk

SLB (SLB)

Our PO of \$62.00 is derived from our discounted cash flow valuation, which we believe is a better method to value SLB than EV/EBITDA in these market conditions. We forecast earnings & cash flow through 2030, which we believe is the limit of market recognition, and then forecast a terminal growth of -1.0% due to potential disruptions from the energy transition while using a 6.3% WACC.

Risks to our price objective are global economic weakness, lower O&G prices, reduced upstream capex, regulatory changes, geopolitical upheaval given a global presence, oversupply, technical and operational issues. The company-specific risk is that increasing competition in international markets may permanently result in lower margins, returns and ultimately valuation premium.

Analyst Certification

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US - Oil Services and Equipment Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Atlas Energy Solutions	AESI	AESI US	Saurabh Pant
	Baker Hughes Co.	BKR	BKR US	Saurabh Pant
	ChampionX Corp.	CHX	CHX US	Saurabh Pant
	Chart Industries	GTLS	GTLS US	Saurabh Pant
	Halliburton Company	HAL	HAL US	Saurabh Pant
	Helmerich & Payne	HP	HP US	Saurabh Pant
	NOV Inc.	NOV	NOV US	Saurabh Pant
	Patterson-UTI Energy	PTEN	PTEN US	Saurabh Pant
	SLB	SLB	SLB US	Saurabh Pant
	TechnipFMC plc	FTI	FTI US	Saurabh Pant
	Weatherford International	WFRD	WFRD US	Saurabh Pant
NEUTRAL				
	Liberty Energy	LBRT	LBRT US	Saurabh Pant
	ProFrac	ACDC	ACDC US	Saurabh Pant
UNDERPERFORM				
	Cactus Inc.	WHD	WHD US	Saurabh Pant
	Core Laboratories	CLB	CLB US	Saurabh Pant
	Transocean	RIG	RIG US	Saurabh Pant

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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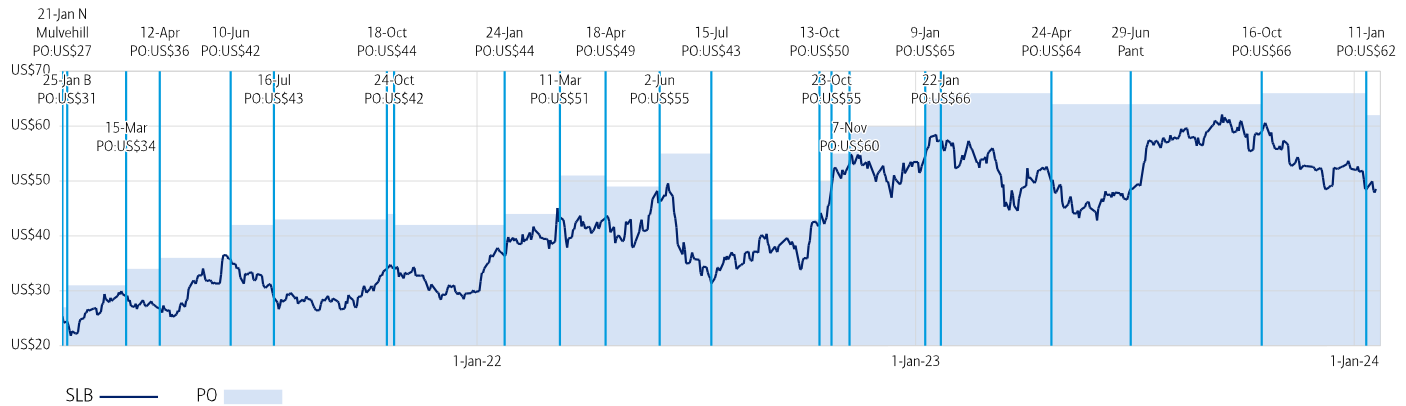
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Schlumberger (SLB) Price Chart



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Equity Investment Rating Distribution: Energy Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	83	61.48%	Buy	64	77.11%
Hold	28	20.74%	Hold	21	75.00%
Sell	24	17.78%	Sell	18	75.00%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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