

SLB

Strong INTL/Offshore helps earnings and FCF trajectory

Maintain Rating: BUY | PO: 62.00 USD | Price: 48.56 USD

Modest 4Q EPS and EBITDA beat with FCF roughly in-line

SLB's 4Q Adj. EPS of \$0.86 beat Cons & BofAe \$0.84 primarily on slightly higher revenue and modestly higher margins, helped by higher interest income and lower effective tax rate; 4Q Adj. EBITDA of \$2.28bn beat Cons/BofA by 2%/1%. While D&I revenue and EBIT margin missed slightly, RP and PS beat nicely on revenue & margin while WC was about in-line. 4Q FCF of \$2.28bn handily beat Cons \$1.32bn helped by \$1.14bn working capital draw. SLB repo'd \$100mm worth of shares and boosted dividend by 10%. See Exhibit 1.

SLB sees another strong year of growth in '24 led by INTL

SLB expects long-cycle investments across Middle East, global offshore, and gas basins to be decoupled from short-term commodity price fluctuations. Of note, SLB anticipates record investment levels in Middle East extending beyond 2025, & sees strong offshore activity continuing in Brazil, W. Africa, Eastern Mediterranean, Middle East, and S-E Asia. See our [2024 OFS Outlook](#) for a deep dive on INTL/Offshore opportunity. Of note, SLB guided to 2024 capex of \$2.6bn, same as 2023, and 7% below Cons at \$2.8bn. All of this allows for strong FCF growth in 2024 with SLB planning to increase share repo in 2024.

SLB likely strong today after recent macro-led weakness

SLB is -9.5% over past 3 weeks, underperforming 12m WTI strip (-2.7%), and S&P 500 Energy (-6.8%) over the same period. We think this weakness is largely macro led & SLB suffered as the OFS bellwether. Today's solid result, including 1) +2% EBITDA, 2) +73% FCF, 3) +10% dividend, 4) strong INTL/Offshore outlook, and 5) improving FCF & share repo, help highlight SLB's strong execution in a cycle best suited to its technology-led INTL/Offshore portfolio. While modest D&I miss is one small knock on 4Q, overall strong result/outlook amidst the macro malaise should be enough for SLB to outperform today.

Exhibit 1: SLB 4Q23 Summary Variances

SLB delivered modestly better revenue & margins; significantly stronger FCF on working capital draw

	Actual	4Q23 Cons	BofA	% Beat (Miss) Cons BofA		% Change Q/Q Y/Y	
Total Revenue	8,990	8,943	8,985	1%	0%	8%	14%
Digital & Integration	356	365	367	-2%	-3%	13%	-7%
Reservoir Performance	371	332	359	12%	3%	8%	32%
Well Construction	770	770	789	0%	-2%	1%	13%
Production Systems	442	370	388	20%	14%	39%	86%
Corporate & Other	-193	-180	-189	NM	NM	NM	NM
Total EBIT	1,675	1,613	1,657	4%	1%	12%	21%
Margin %	18.6%	18.0%	18.4%	60bps	19bps	57bps	101bps
EBITDA	2,277	2,233	2,250	2%	1%	9%	19%
Diluted EPS	\$0.86	\$0.84	\$0.84	3%	2%	10%	21%
FCF (OCF-Capex)	2,280	1,320	1,185	73%	92%	120%	167%

Source: Company data, Bloomberg, BofA Global Research

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Equity

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Stock Data

Price	48.56 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)	69,121 USD / 1,423.4
Free Float	99.8%
Average Daily Value (mn)	529.54 USD
BofA Ticker / Exchange	SLB / NYS
Bloomberg / Reuters	SLB US / SLB.N
ROE (2023E)	22.6%
Net Dbt to Eqty (Dec-2022A)	58.8%
ESGMeter™	High

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INTL / OFS / Cons = International Oilfield Services / Consensus

Adj. = Adjusted

S-E = South-East

FCF = Free Cash Flow

OCF = Operating Cash Flow

D&I – Digital & Integration

RP = Reservoir Performance

PS = Production Systems

WC = Well Construction

Repo'd = Repurchased

WTI = West Texas Intermediate



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.

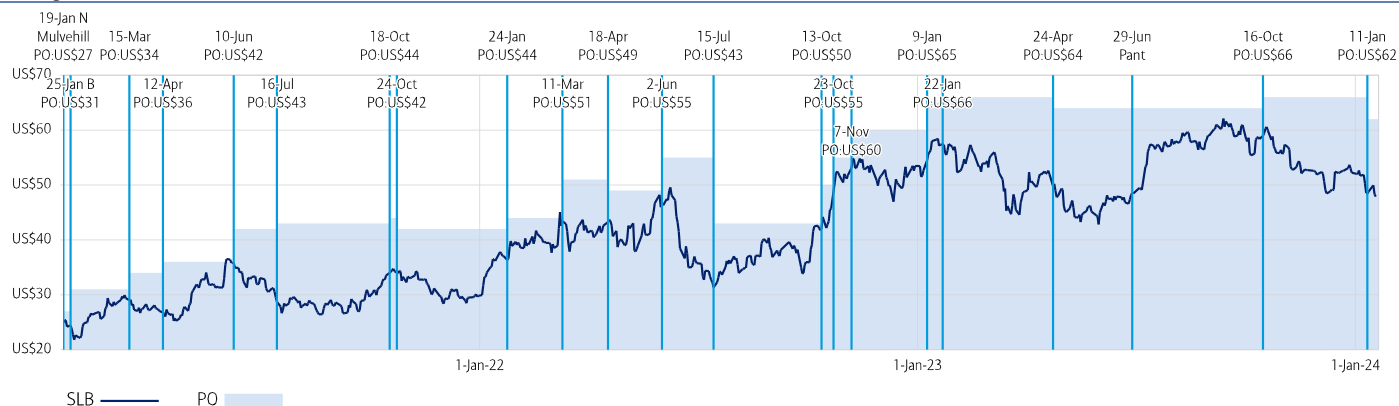
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Schlumberger (SLB) Price Chart



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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%

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