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Transocean LTD. (RIG)

Applied Portfolio Management

Recommendation: Buy

Price $84.83 as of Apr 28, 2010

Sector Global Energy Equipment and Services
Sub-Industry Oil & Gas Drilling

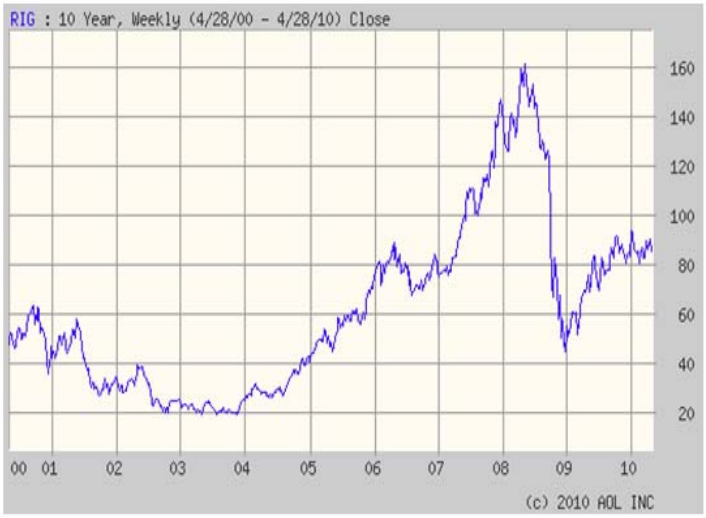
1 Year Target Price $118.37

Summary: This leading provider of contract drilling services for the oil and gas industry operates the world's largest fleet of mobile offshore drilling units

Key Stock Statistics (Source: Scottrade, company reports)

52-Week Range	$65.04-94.88		**EPS 2010 (E)**	13.21
Trailing EPS	$8.6		**EPS 2011 (E)**	14.50
Trailing P/E	9.85		**Shares Outstanding (M)**	321.6
Beta	.87		**Market Cap (B)**	$27.3

Price Performance (Source: AOL Charts)



Revenue/Earnings Data

Revenue (Million $)

	1Q	2Q	3Q	4Q	Year
2009	3,118	2,882	2,823	2,733	11,556
2008	3,110	3,102	3,192	3,270	12,674
2007	1,328	1,434	1,538	2,077	6,377
2006	817.0	854.0	1,025	1,186	3,882
2005	630.5	727.4	762.6	771.2	2,892
2004	652.0	633.2	651.8	676.9	2,614

Earnings Per Share ($)

2009	E3.75	2.50	2.19	2.25	9.91
2008	3.70	3.45	3.45	2.50	13.09
2007	2.63	2.63	4.63	4.16	14.14
2006	0.87	1.07	1.37	2.93	6.12
2005	0.40	1.29	0.71	0.64	3.04
2004	0.10	0.21	0.69	-0.33	0.67

Highlights

- Transocean's current deepwater focus, will lead to high profits, for the foreseeable future.
- The current $31 billion contract backlog will shield Transocean from the currently depressed day-rates

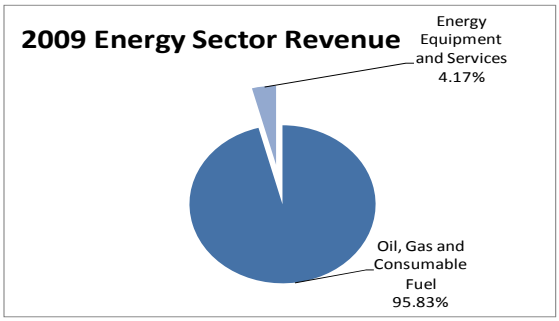
Investment Risks

- A double-dip recession could delay the current recovery, further depressing crude prices.
- The recent Rig explosion in GOM can have a sustained impact on the stock price

Industry Analysis

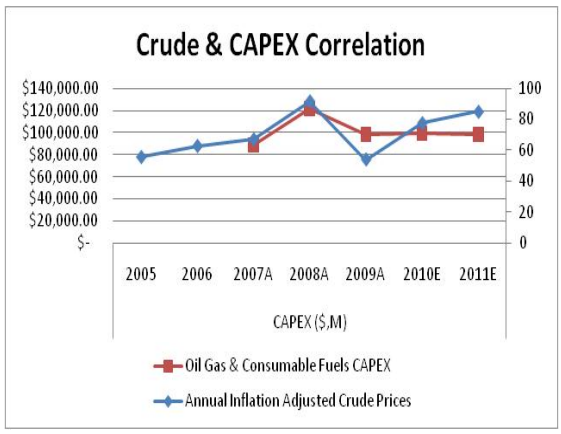
Global Energy Sector Disaggregation

The Global Energy Sector earned just over $6 trillion dollars in revenue for 2009. The sector is comprised of two key segments and several sub-industries that are highly fragmented, and exhibit intense rivalries within industry players. The Global Energy breakdown is:



2009 Global Energy Sector

1. Oil, Gas and Consumable Fuels - Accounted for 95.8% of revenue or $5.8 Trillion
2. Energy Equipment and Services - Accounted for 4.2% of revenue or $252.3 billion



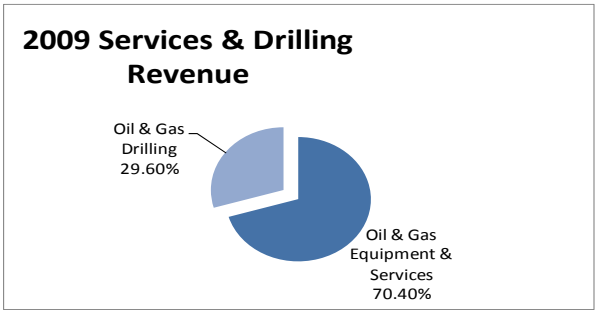
Source - U.S. EIA

Global Energy Sector Demand Drivers

Overall industry demand has a positive correlation with the current state of the global economy. As global economic activity rises, the demand for Crude and Natural Gas will increase in order to power the economic expansion. As a result of the linkage with the economy, fuel commodity prices are extremely volatile. When crude and gas prices are high the Independent Oil Companies (IOCs) and National Oil Companies (NOCs) are driven to spend more on CAPEX, increasing the demand for drilling services, oilfield equipment and well services. According to most sources, a crude oil price between $70 and $80\bbl should be sufficient to drive demand up in the Services sector. Despite the recent economic recession, current crude prices are still relatively higher than at any period other than 2008. This fact supports the thesis that CAPEX will continue to pour in from the IOCs and NOCs for the foreseeable future as reserves are depleted.

Energy Equipment and Services Sub-Industry Disaggregation

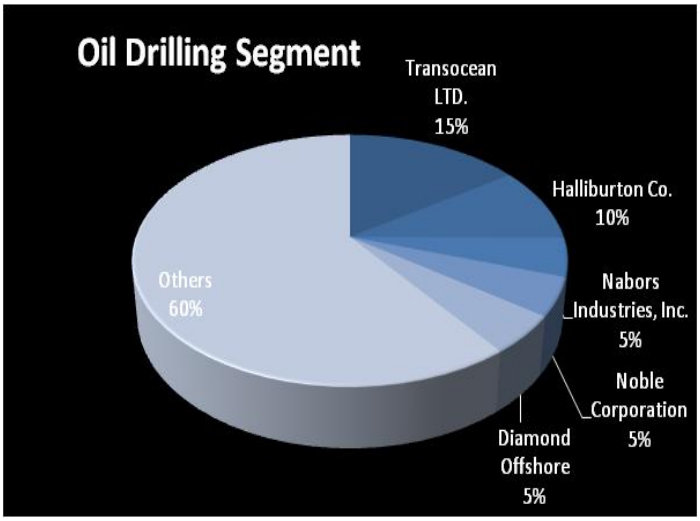
The Energy Equipment and Services industry is further segmented into two sub-industries consisting of Oil & Gas Equipment & Services and Oil & Gas Drilling.



2009 Global Energy Equipment and Services Sub-Industries – 2009 Revenue of $252.3 billion:

1. Oil & Gas Equipment & Services - Accounted for 70.4% of revenue or $177.62 billion
2. Oil & Gas Drilling - Accounted for 29.6% or $74.68 billion

Oil & Gas Drilling Industry Analysis



The Oil & Gas Drilling segment is defined as revenue earned by contractors, while in the process of drilling wells in order to extract Natural Gas and Crude Oil. The segment consists of onshore and offshore drillers. Revenue has grown from $31.7 billion in 2005 to $74.8 billion in 2009, representing a 5-year compound annual growth rate of 23.9%. The Oil & Gas Drilling segment is equitably fragmented with five firms controlling 40% of the market, based on 2009 revenues.

Drilling services are a commoditized service by nature, as anyone can dig a well once they are trained; this leads to intense rivalry between industry players. Buyers have moderate influence on prices, given their sheer size (in terms of revenue). Suppliers in the industry also have moderate influence given their limited numbers. The combination of buyers influence on prices, intense rivalries between industry players, and the supplier's ability to drive up cost, conspire to drive down the industry's profit margins. However, given the capital-intensive structure of the industry (1 rig cost nearly 1 billion dollars to build); the threat of new entrants is weak providing a moat for current industry players. The existence of contracts also limits the ability of buyers to switch between firms. In addition, there is no substitute for the services provided by the drilling segment. These three forces combine to offset the downward pressure on profit margins. Overall, the Oil & Gas drilling sector enjoys moderate pricing power and a

strong moat around the industry. However, the moat between industry players is non-existent given the intense rivalry and commoditized service they provide.

Industry Demand

The major customers for drilling services are IOCs like ExxonMobil, Royal Dutch Shell, BP, Chevron, and ConocoPhillips, as well as NOCs like Aramco (Saudi Arabia), PEMEX (Petroleos Mexicanos), Petrobras (Brazil), and Gazprom (Russia). The result of having such customers is the sharing of demand drivers. As a result, key drivers for the industry are:

Direct Drivers

- CAPEX from Oil, Gas and Consumable Fuels that leads to exploration

In-Direct Drivers

- Current state of the global economy
- Volatile fuel commodity prices

Once an E&P firm decides to drill, they request competitive bids from contractors. The NOCs' and IOCs' selection criterion are:

- Proper equipment to drill given water depth and condition
- Rig availability around desired start date
- Lowest bid price

Industry Supply

Product Offerings

The Oil & Gas drilling segment's product offering can be divided into two segments and several classes, defined as follows: (In order from top day-rate earners to lower day-rate earners):

Floaters

- Ultra-Deep Water – defined as Rigs that are able to operate in waters depth greater than or equal to 7,500 feet
- Deep-Water - defined as Rigs that are able to operate in waters depth between 4,500-7,500 feet
- Mid-Water\Harsh Water- defined as Rigs that are able to operate in waters depth between 4,500-400 feet
    - The major difference between the Mid-Water and Harsh Water Classification is the water condition. Harsh-Water rigs are high-specification semi-submersibles that can operate in rough waters

Jack-ups

- High Spec Jack-ups\ Standard Jack-ups- defined as rigs that are able to operate in water depths up to 400 feet
    - High Spec Jack-ups are able to operate in the harsh environment of the ocean's continental shelf and still perform.
    - Standard jack-ups are better equipped to operate in stable waters such as lakes and marsh lands
- Land Drills – defined as mobile rigs fashioned for the lone portion of drilling on terrain


Petroleum drilling rig. Capable of drilling thousands of feet

Price Determinants (Day rates)

Pricing in the Oil & Gas drilling sector are called day-rates, and can be viewed as a function of rig utilization rates and required drilling depth.

- Drilling Depth – once an E&P firm decides it will use its CAPEX funds to drill, the firm must then decide on a drilling location that conforms to one of the five classes available in the Drilling sector. The deeper the desired drilling depth, the more technology and equipment will be needed for the project. This will result in a higher day-rate bracket.
    - Water Conditions are also a secondary concern. If a firm decides to drill at 3,500ft in calm waters such as lakes, the day-rates will be lower. On the other hand, given the same depth but in rougher waters the required rig will have to be a high-spec rig that will command a higher day-rate.
- Rig Utilization – once a classification is selected by the E&P, firm the availability of rigs must be determined. The higher the utilization rate, the fewer rigs are available, the higher the day-rates will be. An E&P firm requests competitive bids in a blind-bid format from various contractors with the lowest bid winning the contract**.**

A Current day-rate schedule is provided in Exhibit 1, showing the relationships explained above.

Oil & Gas Drilling Industry Forecast

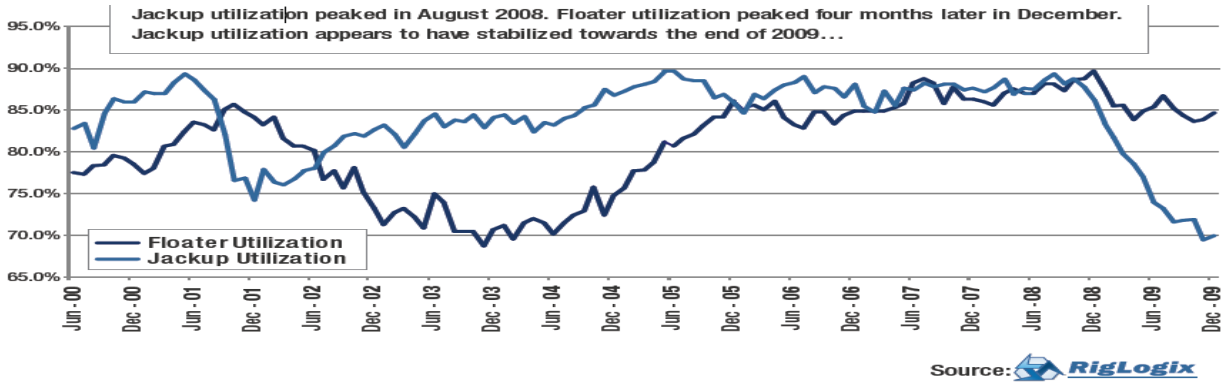
Overall Growth

As the global economy begins to recover from the current recession, the price of crude is expected to follow suit with increased economic activity. As long as crude prices are in the $70-$80\bbls range, the IOCs and NOCs would have the incentive to spend more CAPEX. According to Datamonitor, the Oil & Drilling Segment is forecasted to grow its revenue at a CAGR of 17.5% over the next five years, with a terminal value in 2014 of $167.7 billion. A more conservative forecast would have the industry growing at a CAGR of 11% over the next five years with a terminal value $131.8 billion in 2014. This would provide a margin of safety of 21% given a historical CAGR of 23.5% over the period of 2005-2009.

Demand

Secular Shift

With NYMEX crude future prices hovering in the $90\bbl range from Nov 2010 forward, it can be fairly assumed that E&P firms will continue to restore their CAPEX back to normalized levels, thus prompting increased rig activities. However, the demand coming back into the market will be fundamentally different from pre-2008 periods. As the global oil supply dwindles, E&P firms will be forced to go into deeper waters to acquire their reserves. The deepwater focus should center on the Gulf of Mexico (GOM) and Petrobras (Brazil) regions. This secular shift into deepwater and Ultra-Deepwater exploration will have a significant impact on the supply-side of the industry.



Need for new supply sources

According, to Bank of America's Equity Strategy team, the emergence of India and China as major economies will deplete the spare capacity of crude oil currently available. OPEC, the major supplier of crude, will see its utilization rates jump from 81% to 95% by 2014.

The combination of these two events will push the ceiling on crude prices and force E&P deeper into the sea in order to maintain the world's supply of crude.

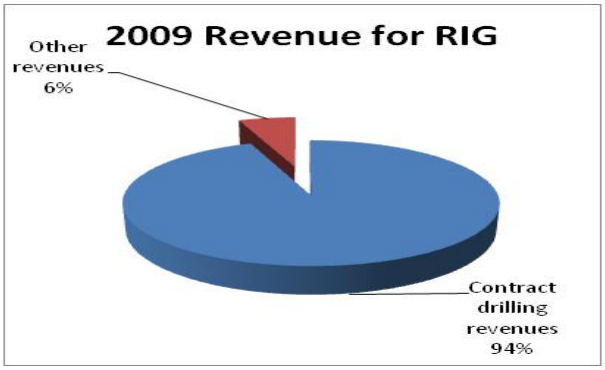
Overall, the secular shift to deepwater drilling, driven by rapidly depleting reserves and soaring energy prices will be the key demand drivers for the industry.

Supply

Although, demand is set to increase over the next couple of years, the services required will be substantially oriented toward deeper waters (>5000ft). This fundamental shift is already being addressed by the industry as over 70 new-build rigs are set to hit the market, with a majority of them being of the deepwater and ultra-deepwater variety. The drilling segment will have an initial overcapacity problem as a result of, a large number of rigs coming off of contracts, and the new-build capacity entering the market. This will result in lower rig utilization numbers, which in turn will drive down day-rates in 2010. However, the turnaround will be swift, as 2011 will see increased day-rates for drilling depths in excess of 3000ft, based on several forecasts (See Exhibit 1). The only potential downside to the new capacity will be the ability of the new-builds to get contract tenders. This will be imperative to the future day-rate levels as utilization rates are key drivers of this number.

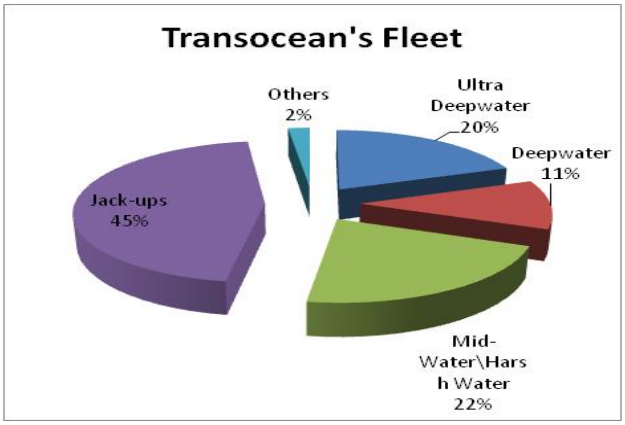
Business Overview

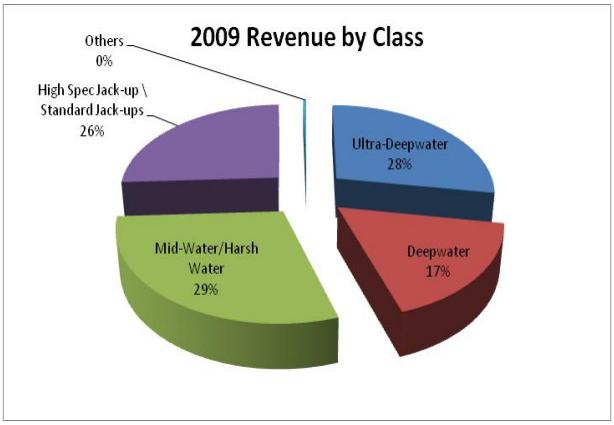
Transocean LTD. is the Oil & Gas Drilling industry leader with a 15% market share. The company was formed in 2007 through a merger with Transocean Inc. and GlobalSantaFe. The combined firm became known as Transocean LTD and touts the largest technologically advanced offshore fleet in the world.



The firm generates revenue through two core businesses. Contract Drilling, which accounted for 94% of the firm's $11.56 billion in revenue, and Oil & Gas Drilling Management Services, which includes occasional E&P activities, and project management services. This revenue which is lumped together under "Other," accounted for only 6% of the firm's 2009 revenue.

Product Offering



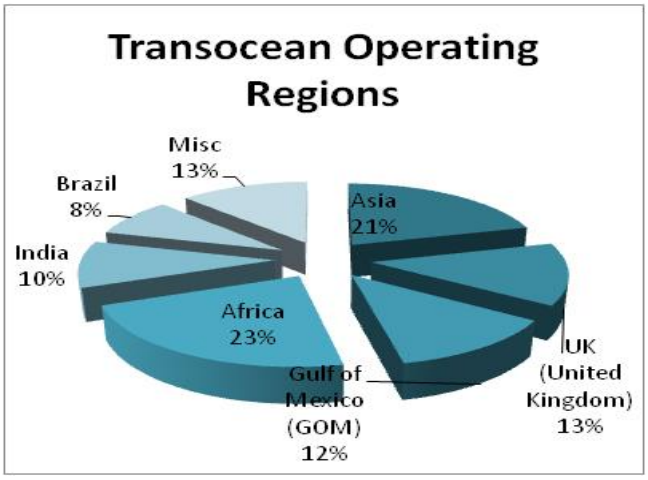


Transocean's Product Offering consists of an industry leading 143 rigs broken up into five classes:

- (28 Rigs) **Ultra-Deep Water** – The Ultra-deep water segment is defined as depths ≥ 7,500 ft.
  - Transocean currently has 23 Rigs available for immediate deployment and 5 new-builds set to rollout over the next years.
  - The firm's offering in this segment is very modern:
    - 96% of the fleet has been in service less than 10 years

        - 43% of the fleet has been in service less than 5 years
    - This asset class had a rig utilization of 91% in 2009
    - Accounted for 28% of Transocean's 2009 Revenue
- (16 Rigs) **Deep-Water** – The Deep-Water is defined as depths between 4,500-7,500 feet
    - Currently has 16 Rigs available for immediate deployment
    - The firm's offering in this segment is rather antiquated
        - The entire fleet has been in service for over 24 years with some upgrades along the way
    - Rig utilization rate was 88% in 2009
    - Accounted for 17% of Transocean's 2009 Revenue
- (26/5 Rigs) **Mid-Water/ Harsh Environment Floaters**
    - The Mid-Water segment is defined as non high-specification Rigs that are able to operate in depths < 4,500 ft
    - The Harsh Environment Floater is defined as high-specification semi-submersibles Rigs that are able to operate in depths between 5,000-1,000 ft **and** in rough weather and water conditions
    - Currently has 31 rigs in this asset class (26 Mid-water & 5 Harsh Environment)
        - 5 of 26 Mid-water Rigs are cold-stacked or idled
    - The firm's offering in this segment is rather antiquated
        - 29 rigs have been in service for over 24 years with some upgrades along the way
    - This asset class had a Rig utilization of 69%/83% respectively
    - Accounted for 29% of Transocean's 2009 Revenue – mainly driven by Mid-Water
- (10/55) **High Spec Jack-ups\ Standard Jack-ups**-
    - The Jack-up segment is defined as depths < 400 ft
        - The difference between the jack-up classes is the operating environment. High Spec Jack-ups are able to drill on average an extra 100 ft in water depths and operate in harsher conditions such as the ocean's continental shelf
    - Transocean currently deploys 10 High Spec Jack-ups and 55 Standard Jack-ups
        - 43% or 24 Standard jack-up rigs are cold-stacked or idled
        - Transocean's Standard Jack-ups are rather antiquated at over 20 years of service, while the High Spec Jack-up is rarely modern with 60% or (6\10 rigs) with under 12 years of service
    - This asset class had a Rig utilization of 53%/57% respectively
    - Accounted for 26% of Transocean's 2009 Revenue – mainly driven by Standard Jack-ups
- (3) **Others**
    - 2 barge drilling rigs and 1 coring drillship
    - This asset class had a Rig utilization of 50%
    - Accounted for <1% of Transocean's 2009 Revenue

Global Reach



The Oil & Gas Drilling Industry is a global industry. As such, an industry player must be willing and able to mobilize and operate rigs anywhere in the world. Although, the cost of mobilizing a rig can be viewed as a downside risk to revenue, the diversification of operations across regions and countries, actually immunizes the industry's revenues from regional recessions and climate changes that can have a negative impact. As the chart illustrates, Transocean is well diversified in its operations.

Revenue Drivers

- **Commodity prices –** As mentioned earlier, the key driver for drilling activities is the future price of Crude and Natural Gas. Transocean's shift to deepwater activities will necessitate a price in the $75-80\bbl range in order to maintain the firm's profitability.
- **Capacity Mgmt –** Transocean has one of the largest fleets in the industry. This effectively makes the firm a market-maker for day-rates. The decision to deploy or idle capacity will determine the day-rates for any given Rig-Class, as such Transocean's profitability is intertwined with its capacity management

Cost Drivers

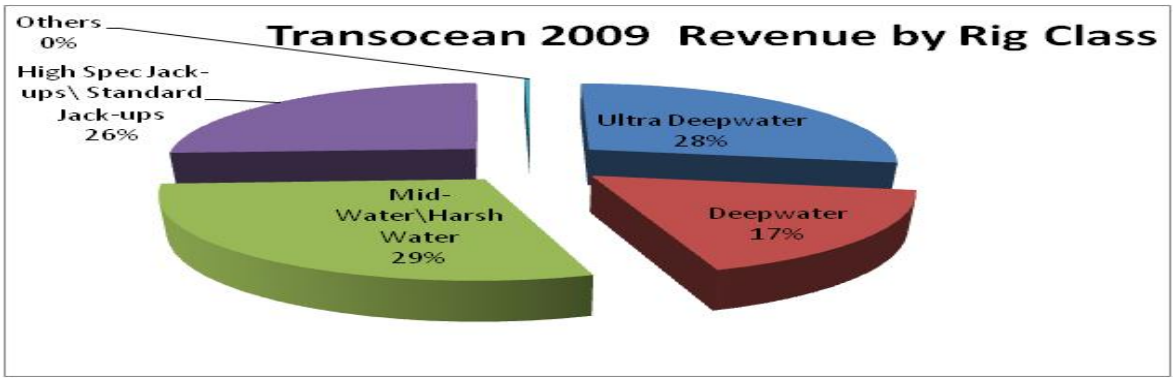
- **Wages & Training–** The industry is highly dependent on skilled personnel that have the industry know-how on well-drilling and the how to properly use the equipment. Therefore, a large amount of capital must be spent in training and salary for employees. Given the specialized nature of the business, and the intense rivalry of the industry, wages is a huge driver of cost in the industry.
- **Insurance -** Given the capital required to purchase a rig (nearly a billion dollars), and the inherent danger in losing your asset to either a well blowout and or hurricane, Insurance is a necessary and expensive requirement in the industry.
- **Capital Expenditure** – Transocean's attempt to differentiate itself from the competition in terms of technology, forces the firm to spend a lot on money on CAPEX. As of 2009 the firm has spent over $7.698 billion in new-builds and maintenance for its "technologically advanced and modern" fleet.
    - Maintenance CAPEX is estimated to be around $0.5 billion per year.
- **Overcapacity** – Given the currently low day-rates for jack-ups, Transocean has to choose whether to operate its rigs at a loss or idle the capacity. When a rig is Cold-

Stacked (idled), the crew is fired or re-assigned and the rig is harbored in shipyard. The only costs incurred are harboring fees and insurance. A downside to having a large fleet is the possibility of having to cold-stack a large amount of capacity to maintain adequate day-rates. As of April 2010, 21% of Transocean's rigs have been cold-stacked – all in the Mid-water and Jack-up segment

- **Mobilization Cost** – Given the mobility of the "floaters" (Mid-water and above) and the global aspect of the industry, it is not uncommon for a rig to be moved from continent to another or even from one side of the world to another in order to earn higher day-rates. During the peak of the drilling cycle in 2008, this cost was borne by the lessee; however in the current market the lessor is responsible for this cost. In 2009 the Mobilization costs for 11 rigs was close to $155 million dollars.

Company Outlook

Product Differentiation- "Premier Deep-Sea Driller"



- **Higher Profit Margins** - Currently, the Drilling Industry is a commoditized market where firm's services are virtually interchangeable and the decision on which contractor to use is based on price. By achieving differentiation, Transocean will be able to build a moat around its core business and operate with greater profit margins. Transocean is trying to differentiate itself by focusing on the Deep-water segment and through product innovation and technological advancement.
- **Deepwater focus** - In 2009, 45% of Transocean's revenue came from drilling depths greater than 4,500 ft, showing that it has succeeded in shifting its core business into the deepwater segment. The firms exposure to the deeper water depths also allows the firm to earn the higher day-rates (exhibit 1). The average daily revenue for the fleet was $295,700 for 2009. A 20% increase from 2008's average.
- **Product Innovation** - The firm has invested billions of dollars in upgrading its fleet in the Deepwater, and Ultra Deepwater segments over the last four years. Transocean also received accolades for building the first drillship capable of operating at depths of 10,000 feet and has also developed several process improvements in drilling

- **Technology and Process Improvements** – With its modern fleet, Transocean has set 19 of the past 23 world records for drilling depth
    - Deepest well ever drilled offshore at 35,050 ft in GOM
- **Strong Customer Base**
    - Transocean's roster of clients include industry bigwigs such as
        - BP at 12% of total revenue
        - Chevron
        - Anadarko
- **Strong Management -** Transocean's Management has a stellar track record of have keen business knowledge and a long-term focus. These qualities are shown in the following example.
    - Strategic decision to make deepwater its primary focus
    - Executing the strategy through CAPEX and its new-build program
    - Acquisition of GlobalSantaFe in 2007 that made it the largest fleet in the world
    - The aggressive prepayment of the large debt load taken on by the GlobalSantaFe acquisition
    - Ignoring the pressure to issue dividends until the firm was sure it could sustain a dividend program

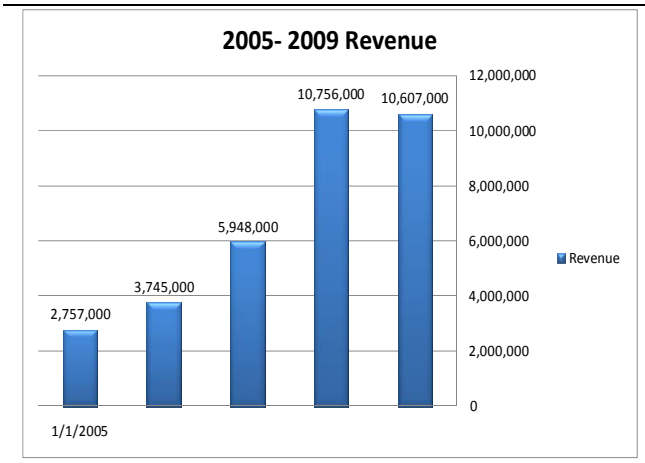
Transocean's commitment to branding and strong management will establish the firm as the best-in-class in the deepwater segment, resulting in strong and sustainable revenue growth over the foreseeable future.

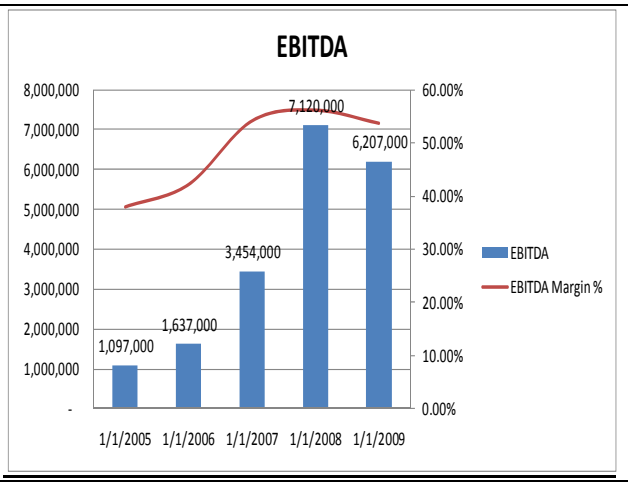
Transocean's Keys to Success

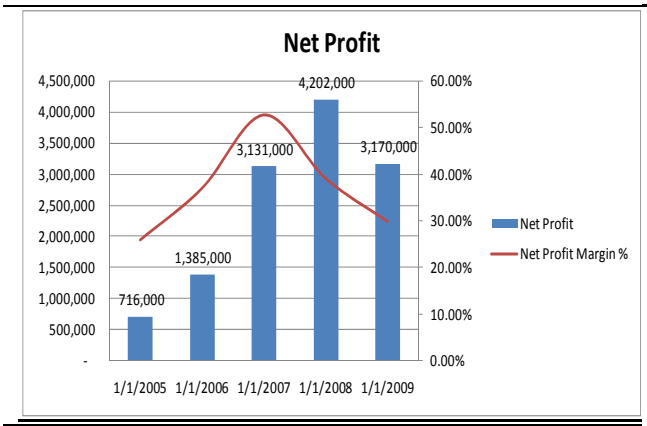
- ✓ Successful Branding Strategy
- ✓ Continued Strategic Leadership and execution from Management
- ✓ Maintain High rig utilization rate
- ✓ Continued focus on selling its Deepwater focus to customers as its core business
- ✓ Divestiture of non-core assets
    - Standard Jack-ups
- ✓ Continued Inventory Management, given the firm's role as a market maker for day-rates
- ✓ Continued Technological Advances in the Drilling Process

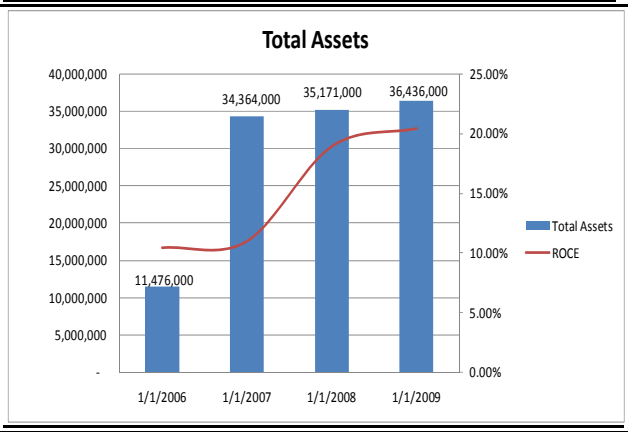
Case for Investment

Financial Overview and trends









Strong Financial Performance

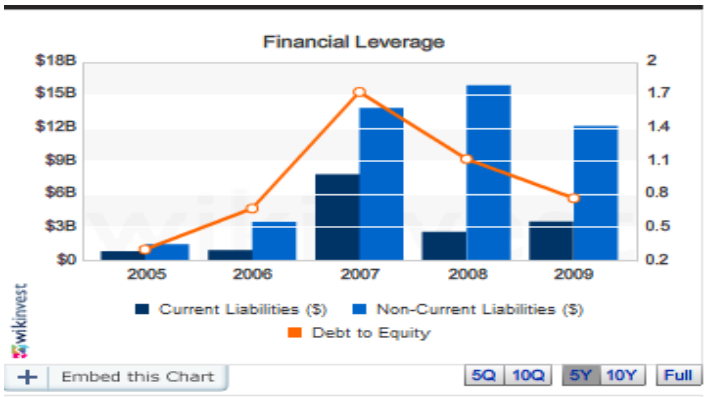
From 2006 – 2008, Transocean was enjoying strong revenue growth with a two year CAGR of 49.25% and strong EBITDA and Net Profit margins. The acquisition of GlobalSantaFe in 2007, added fuel to the roaring fire and has resulted in sustain growth in these ratios. The only negative associated with the acquisition was the high debt levels that resulted from it. The large debt level and pending global recession were for the dip in Net profit margins in 2008 and 2009. The strong Return on Common equity trend illustrates management's effectiveness. Given the strong financial trends, improving economy and aggressive pre-payment of long-term debt, we expect the net profit margins to normalize and trend upwards in the near future. All indicators point toward a strong firm with long-term growth potential.

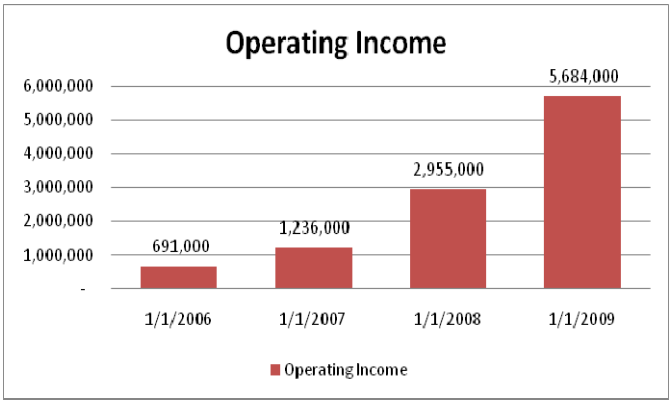
Strong Operating Performance

Transocean was able to maintain a rig utilization rate of 89% on its High Specification floaters (all rigs with depth capacity > 5,000) in 2009. During the course of business, the firm has also gained firm commitment contracts on its rigs for the next five years to the tune of $31 billion dollars. As a result, the firm was able to capture business at the peaks of 2008's day-rates and bring them into this current downturn. This will maintain Transocean's profit levels, since it is not currently exposed to the lower day-rates prevalent in the current market. Overall, Transocean has achieved rig utilization rates of 91%, 75 and 42% for the period of 2010-2012 respectively.

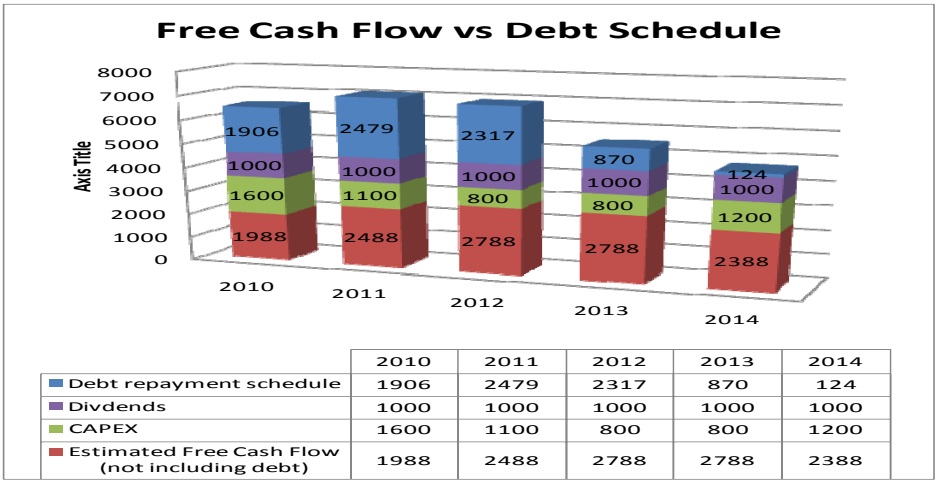
***Exhibit 3 show the firm's uncommitted rigs for the next five year,

Improving Financial Condition





As previously mentioned, the acquisition of GlobalSantaFe resulted in a large debt capacity for the Transocean. Since the debt-to-equity ratio peaked at a whopping 137% in 2007, the firm has instituted an aggressive pay-down plan that is shown on the attached chart (Financial Leverage). As of the end of 2009 the firm's ratio is at 57%. Although the number is 20bps higher than industry at 37%, Transocean really has no equivalent in the industry in terms of its operating size and therefore comparison is difficult. To further support its debt level the firm has a debt coverage ratio of 9.1, the firm's proven earning power, as evidenced by the Operating Income chart, shows that it's able to generate enough income to cover the debt obligation as well.



	2010	2011	2012	2013	2014
Debt repayment schedule	1906	2479	2317	870	124
Divdends	1000	1000	1000	1000	1000
CAPEX	1600	1100	800	800	1200
Estimated Free Cash Flow (not including debt)	1988	2488	2788	2788	2388

This chart illustrates Transocean's ability to generate sufficient FCF (Free Cash Flow) to cover its maturing debt over the next five years. The FCF coverage ratio (FCF\Debt) is 1.04, 1, 1.20, 3.20, and 19.26 for 2010-2014 respectively.

Overall, although the firm's large debt capacity is of concern, the firm's ability to generate large core earning, current $31 billion backlog, sufficient FCF and the ability to maintain an

adequate debt coverage level should afford an investor a margin of safety of around 8% over the next three years.

Future Dividends

Transocean has recently announced an annual stock dividend of $3.11 per share as of July 2010. Based on the current stock price of $84.83, the dividend yield would be 3.66%. It has long been rumored that although Transocean is the superior firm in comparison to its counterparts like Diamond Offshore, it has always traded at a discount to the firm because of the lack of dividends payout. This recent event should equate the transfer into a value appreciation of the stock in the near future.

Earnings Projections and Future Value

Current Valuation

Given the current valuation metrics illustrated in the table below, Transocean's December 31, 2009 market price of $82.80 has plenty of room to grow.

Valuation Metrics	Stock	5-yr Industry Average	Stock's 5-yr Average
Price to Earnings	8.33	20	14
Price to Book	1.29	3.32	2.4
Price to Sales	2.29	7.56	4.7
EV\EBITDA	6.39	9.32	
EV\RIG	1.63	1.5	1.23

**Source: Yahoo Finance, Forbes and Student Data

Earnings Projection

Based on our previous industry analysis, and data gathered from Datamonitor and IBISworld, we are comfortable in forecasting industry revenue CAGR of 5% over the next five years. From 2009's ending revenue of $74.8 billion, the Industry revenue will look as follows:

	2009	2010	2011	2012	2013	2014
Industry Revenue ($ in billions)	74.8	78.5	82.5	86.6	90.9	95.5

With the industry's future revenue in place, we can now proceed to forecast Transocean's revenue stream. The first assumption needed is the firm's growth rate. For the following reasons we forecast the revenue stream to grow at a 16% CAGR:

- Firm's strong operating performance over the last five years
- $31 billion backlog to protect against low day-rates
- Exposure to the higher-end of day-rates through its floaters
- Competitive advantage that it is gaining in deepwater drilling

The final assumption needed is the income statement trend, which was calculated by taking a five-year trend average over all entries. The results are as follows:

	12/31/2008	12/31/2009	12/31/2010E	12/31/2011E	12/31/2012E	12/31/2013E	12/31/2014E
Revenues	12,674,000	11,556,000	13,638,471	16,468,454	19,885,658	24,011,932	28,994,408
Net-Margin	33.15%	27.53%	33.72%	33.72%	33.72%	33.72%	33.72%
Net income	4,202,000	3,181,000	4,598,574	5,552,778	6,704,979	8,096,263	9,776,237
Shares	318000	320000	320000	320000	320000	320000	320000
EPS	13.21	9.94	14.37	17.35	20.95	25.30	30.55

Given our earnings per share we can now value the stock using several methods:

Valuation Metric		Multiples	Forecasted price	Weighting	Contribution to total
Price to Earnings	13.21	9.00	$ 118.89	16.67%	$ 19.82
Price to Book based on 2009	64.00	2.00	$ 128.00	16.67%	$ 21.33
Price to Sales	42.62	3.00	$ 127.86	16.67%	$ 21.31
EV\EBITDA based on 2009	12.95	9.00	$ 116.55	16.67%	$ 19.43
EV\RIG	71.93	1.50	$ 107.90	16.67%	$ 17.98
DCF			$ 111.03	16.67%	$ 18.51
Final Forecasted Price					$ 118.37

Discounted Cash-flow method had the following assumptions:

- Using the pro-forma Income statement revenue was forecasted out to 2014
- Growth rate was 16%
- Required rate of return was 15%

Our one-year price target of $118.37 for Transocean's stock suggests a potential appreciation of 39.54%. As you can see in the multiples used for the various valuation metrics versus the industry standard that plenty of room left to grow for the stock. This wiggle room called margin of safety allows us some room for error in our estimations.

Catalysts

- **Economic Activity - C**ontinued recovery from the global recession will trigger economic growth that will in turn drive the price of Crude and Gas upward
- **Dividends –** The firm's expected announcement of a dividend payout, will bring the stock in line with industry norms which should spark an upward trend

Investment Risks

- A double-dip recession could further depress the price of crude and delay any future economic growth
- If the Oil & Drilling segment is unable to handle its forecasted overcapacity in the Floater segment it will lead to depressed day-rates and lower earnings for the firm
- As witnessed in late April, any kind accident during the course of operation can lead to severe downward pressures on the stock price. With long lasting effects.

Appendix

Exhibit 1 – Forecasted Day Rates thru 2011

Table 3: Dayrate Forecast

Floaters (kpd)	2006	2007	2008	2009	1Q10E	2Q10E	3Q10E	4Q10E	2010E	2011E	2012E
>7,500ft	452	494	533	502	454	454	453	453	453	491	569
3,000-7,500ft	335	374	379	353	326	328	329	331	328	361	418
<3,000ft	306	294	363	299	291	290	290	289	290	313	360
Floater Avg	**359**	**367**	**429**	**397**	**357**	**357**	**357**	**357**	**357**	**389**	**452**
Jackups (kpd)											
>300ft	160	159	166	114	107	109	111	115	110	131	147
200-300ft	115	89	89	74	68	69	71	73	70	83	94
<200ft	72	62	62	38	51	51	52	54	52	61	68
Jackup Avg	**141**	**120**	**127**	**98**	**93**	**94**	**96**	**100**	**96**	**114**	**128**

Exhibit 2 – Transocean Backlog as of Dec 31, 2009

	For the years ending December 31,					
	Total	2010	2011	2012	2013	Thereafter
Contract backlog	(In millions, except average dayrates)					
High-Specification Floaters	$ 25,704	$ 6,258	$ 6,219	$ 4,776	$ 4,104	$ 4,347
Midwater Floaters	3,412	1,894	735	438	118	227
High-Specification Jackups	374	223	84	65	2	—
Standard Jackups	1,601	935	462	135	34	35
Other Rigs	80	28	26	26	—	—
Total contract backlog	$ 31,171	$ 9,338	$ 7,526	$ 5,440	$ 4,258	$ 4,609
Average contractual dayrates	Total	2010	2011	2012	2013	Thereafter
High-Specification Floaters	$ 465,000	$ 448,000	$ 479,000	$ 482,000	$ 480,000	$ 441,000
Midwater Floaters	337,000	344,000	366,000	338,000	261,000	265,000
High-Specification Jackups	168,000	166,000	162,000	185,000	185,000	—
Standard Jackups	130,000	141,000	128,000	109,000	84,000	78,000
Other Rigs	73,000	73,000	73,000	73,000	—	—
Total fleet average	$ 385,000	$ 335,000	$ 386,000	$ 414,000	$ 452,000	$ 413,000

Exhibit 3 – Transocean Uncommitted fleet rate Backlog as of Dec 31, 2009

	Years ending December 31,			
Uncommitted fleet rate	**2010**	**2011**	**2012**	**2013**
High-Specification Floaters	9%	25%	42%	51%
Midwater Floaters	33%	73%	84%	95%
High-Specification Jackups	64%	86%	90%	100%
Standard Jackups	61%	80%	94%	98%