

## RealMoney Investment &amp; Trading Ideas

**SLB Shows More Strength**

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For Rothbort's preview heading into the Schlumberger conference call, please click [here](#).

**Schlumberger** (SLB) disproved this week's market theme that a correction in crude oil prices would be negative for oil service stocks. Some short-term consumer demand destruction has not removed the need to drill and produce more oil.

Schlumberger is seeing strength in demand for its products, and margins have improved in all geographies, with the exception of Canada. Given what the company stated today and what the analysts are expecting, growth in revenue and EPS in 2009 should surpass levels in 2008. The recent drop in Schlumberger's share price was reactionary and technical in nature but had zero relation to the fundamentals for the company, which is clearly a buy and should be owned for long-term accounts.

Schlumberger reported second-quarter 2008 EPS of \$1.16 on revenue of \$6.76 billion. Income from operations rose 9% sequentially and 13% year over year, to \$1.42 billion. Revenue by business segment was as follows:

- \$6.07 billion for Oilfield Services, which was an increase of 8% sequentially and 22% year over year; and
- \$671 million for WesternGeco, which equated to a 1% sequential decline and 1% year over year increase.

North American oilfield pretax margins declined 167 basis points, but improvements in the U.S. land geo markets and in the U.S. Gulf increased demand of high-margin drilling and technology, which offset the weakness in Canada. Without Canada, the pretax margins improved sequentially. In Latin America, increased demand for higher-margin offshore technology in Mexico and Central America plus the product mix in Brazil led to a rebound of pretax margins to 23% in that region. In Europe/Africa, pretax margins improved 181 basis points, to 28.2%.

The effective tax rate of 20.9% was slightly higher sequentially due to the geographic mix of earnings. Schlumberger is projecting a 20% growth rate for the year. The company repurchased \$555 million of stock at an average share price of \$101.90 in the quarter. Net debt stood at \$2 billion at the end of the quarter.

When questioned about 2009, management would not commit to a revenue growth target but did say that there was "no reason to believe that it won't be above 20%." In 2009, geographic growth will come from the North Sea, West Africa, Gulf of Mexico and Brazil for offshore and on land from Russia.

International margins will continue to be lumpy during the year. For example, when China shuts down for the winter, margins should decline.

Inflation is not as big an issue as the operators can spread the cost of rigs. Reliability is becoming more important. Fuel surcharges were reasonably successful.

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At the time of publication, Rothbort was long Schlumberger, although positions can change at any time.

Scott Rothbort has over 20 years of experience in the financial services industry. In 2002, Rothbort founded LakeView Asset Management, LLC, a registered investment advisor based in Millburn, N.J., which offers customized individually managed separate accounts, including proprietary long/short strategies to its high net worth clientele. He also is the founder and manager of the social networking educational Web site [TheFinanceProfessor.com](http://TheFinanceProfessor.com).

Immediately prior to that, Rothbort worked at Merrill Lynch for 10 years, where he was instrumental in building the global equity derivative business and managed the global equity swap business from its inception. Rothbort previously held international assignments in Tokyo, Hong Kong and London while working for Morgan Stanley and County NatWest Securities.

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