



Overall Rating

Undervalued by 121.2%

Valuation Models (in order of importance)	Analyst Consensus: \$11.80 (USD) Comparables: \$7.10 (USD) Adjusted Book Value: \$7.47 (USD)
Valuation Methods	This company is:
Cash Flow:	Undervalued on a Cash Flow Valuation
Comparable Company:	Undervalued on a Comparable Valuation
Asset:	Undervalued on an Asset Valuation

Information

My name is Michael El-khoury, I am a Student at the University of New Brunswick, majoring in Finance and I am just starting an internship here at StockCalc for the summer. One of my tasks is to do reports on companies using StockCalc's useful tool and external resources.

This Stock is	Technically		
Fundamentally	Buy	Hold	Sell
Under Valued	Buy the Stock	Buy or Wait on Technical	Wait on Technical
Fairly Valued	Buy or Wait on Fundamental	Wait on Both Indicators for Direction	Sell or Wait on Technical
Over Valued	Wait on Fundamental	Sell or Wait on Fundamental	Sell the Stock

Company Overview (RIG:NYS USD)	
Price	4.30
Range	4.27 - 4.60
52 week	4.30 - 14.18
Open	4.29
Vol / Avg.	24.68M/22.32M
Mkt cap	3.66B
P/E	0.00
Div/yield	0.00/0.00
EPS	-4.27
Shares	611.74M
Beta	1.80
Fleet operations	

Transocean operates around the world with rigs in regions ranging from North America, South America, Norway, Middle east and Australia. They have 47 offshore drilling fleets, that vary from ultra-deep water to harsh environment rigs. RIG is the leading international provider for off shore drilling for gas and oil wells. RIG also has a backlog of contracts worth \$11.4 billion and the average day rate in Q2 is now \$314,900/day compared to same period one year ago of \$308,300/day. Essentially meaning that they are charging more to renters, this could also mean that expenses went up. The overall fleet utilization also tumbled by 1% from %57 to 56% during Q2.

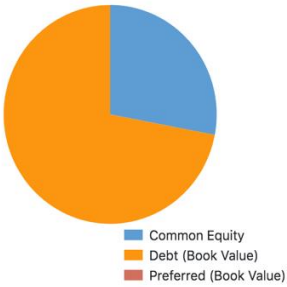
Recommendation

My recommendation for Transocean LTD is a **HOLD**. I looked at the provided information from StockCalc, RIG is fundamentally undervalued noted in the valuation detail section on a basis of cash flow, comparables and asset valuation. Taking a deeper look into the offshore fleet industry, I can see a decrease in demand but also a future increase in demand due to increase, forecasted for 2020. Also RIG has massive debt to equity ratio of 72:28, this generated a WACC 9.09 which explains the high valuation using the cashflow method. (Table 1)

TABLE 1

Cost of Capital				
We have calculated the WACC for RIG:NYS to be 9.09 based on the following assumptions:				
Component	Value	%	K	Cost Of
Common Equity	3719764944	28	Ke	15.76
Debt (Book Value)	9414000000	72	Kd	6.50
Preferred (Book Value)	0	0	Kp	0.00
Enterprise Value	13133764944	100		
Weighted Average Cost of Capital			WACC	9.09

Capital Structure for RIG:NYS



Company Description

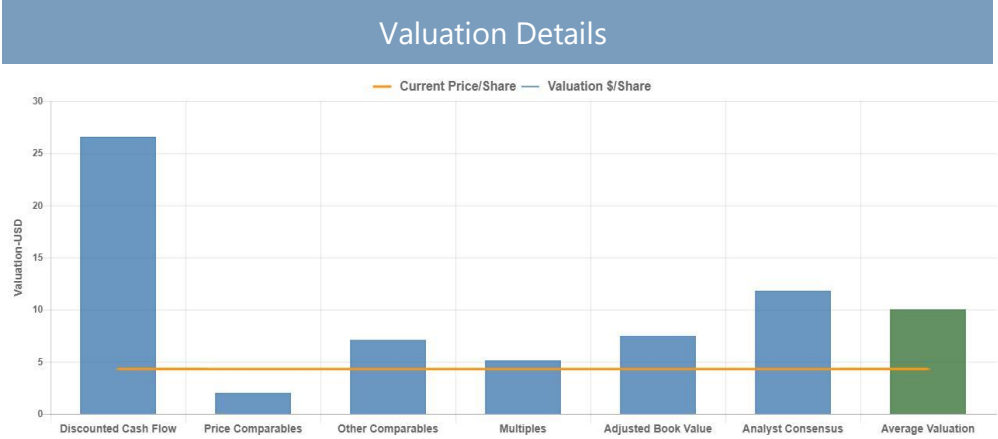
Transocean commands one of the largest deep-water and ultra-deep-water fleets in the world. Its rigs operate globally, but the major deep-water basins are in West Africa, Brazil, and the Gulf of Mexico. Transocean's customers tend to be national oil companies, independents, and international oil companies.

Company Latest News

As of August 14<sup>th</sup>, 2019, Transocean LTD also known as RIG stock prices have dropped by -38.9% over the last month and -65.7% over the last year. RIG's total revenue from Q2 in 2019 decreased to \$754 million from \$790 million from the previous quarter in 2018. It also has a large backlog contract of \$11.4 billion which include their two latest acquisitions in 2018; Songa Offshore and Ocean Rig. Their net debt is \$7.484 billions as of June 30<sup>th</sup> 2019.

Oil and Gas Price Forecast

RIG being apart to the energy sector, their survival depends on the current demand/supply and price of oil and gas. OPEC also known as The Organization of the Petroleum Exporting Countries, suggested that oil prices will continue to bearish for the rest of 2019. Reasons signifying the dropping prices in oil, is the global trade issues with the USA and China and the slowdown of the economy's growth. During April 2019, the price an oil barrel hit its peak around 75\$ a barrel and down to 54\$ barrel today. Some better news is that OPEC forecasting more demand in 2020 with 1.14 million bpd.



Discounted Cash Flow and Sensitivity Analysis for RIG:NYS

Using a discounted cash flow model we generated an intrinsic value of \$26.58 (USD) for RIG:NYS

Sensitivity Analysis

(showing how changes in the input variables impact the DCF calculation)

RIG:NYS	Current Values	Valuation If Dropped *		Valuation If Raised *	
Calculated Value:	\$26.58	1%	5%	1%	5%
WACC (or Ke)	9.09	\$34.70		\$20.76	
Terminal Growth Rate	3.00	\$21.34		\$33.88	
Tax Rate	-0.13	\$28.57		\$24.59	
Cash Flow	1,668,909,000	\$24.33		\$28.83	
Capital Expenditures	0	\$26.58		\$26.58	
Long Term Debt	8,260,000,000	\$27.26		\$25.91	

\* Changes are absolute: ex WACC from 8% to 7%

Comparables Model

Using similar companies and price based ratios we generated a valuation of \$2.00 (USD) for RIG:NYS. We also generated a valuation of \$7.10 (USD) using other metrics and comparables. The comparable companies were Patterson-UTI Energy (PTEN:NAS), Diamond Offshore Drilling (DO:NYS), Helmerich & Payne (HP:NYS), Pacific Drilling (PACD:NYS) and Nabors Industries (NBR:NYS).

Company RIG:NYS	End Date Value	Price Based on Comps	Adjustment Factor (%)
Earnings/Share	(\$1.90) (USD)	\$0.00 (USD)	-39.4
Book Value/Share	\$20.84 (USD)	\$10.05 (USD)	-94.9
Sales/Share	\$5.60 (USD)	\$5.07 (USD)	-48.2
Cash Flow/Share	\$1.01 (USD)	(\$13.77) (USD)	-34.6
EBITDA/Share	(\$0.41) (USD)	(\$4.04) (USD)	18.2

RIG:NYS	Ratios Used	Average Values	PTEN:NAS	DO:NYS	HP:NYS	PACD:NYS	NBR:NYS
0.00	PE Ratio	0.00	0.00	0.00	0.00	0.00	0.00
0.21	PB Ratio	0.48	0.55	0.24	1.08	0.22	0.31
0.77	PS Ratio	0.91	0.63	0.85	1.56	1.27	0.23
4.26	PCF Ratio	4.36	2.40	8.37	5.32	0.00	1.36
13.76	EV to EBITDA	9.86	4.85	19.59	8.40	0.00	6.60

Multiples

Using a multiples approach we generated a valuation of \$5.13 (USD) for RIG:NYS

Company RIG:NYS	End Date Value	Price Based on Comps	Adjustment Factor
Earnings/Share	(\$1.90) (USD)	\$0.00 (USD)	0
Book Value/Share	\$20.84 (USD)	\$7.52 (USD)	0
Sales/Share	\$5.60 (USD)	\$5.30 (USD)	0
Cash Flow/Share	\$1.01 (USD)	\$2.56 (USD)	0
EBITDA/Share	(\$0.41) (USD)	\$0.00 (USD)	0

Ratios	Ratio Average
PE Ratio	4.56
PB Ratio	0.36
PS Ratio	0.95
PCF Ratio	2.54
EV to EBITDA	0.00

Adjusted Book Value versus Historical Price to Book

The average the Price to Book ratio for RIG:NYS for the last 10 years was 0.35. We ran the Adjusted Book Value for RIG:NYS and generated a book value of \$21.24 (USD). By multiplying these we get an adjusted valuation of \$7.47 (USD)

Analyst Data

In the Stockcalc database there are 5 analysts that provide a valuation for RIG:NYS. The 5 analysts have a consensus valuation for RIG:NYS for 2019 of \$11.80 (USD).

Analyst Recommendation					
Buy	Hold	Sell	Rating (of 5)	Guidance	As Of
4	1	1	4.0000	Outperform	2019-8-12

Current Price: 4.3 USD

Analyst Consensus			
USD Millions	2019	2020	2021
Mean EPS	-0.96	-0.35	0.14
# EPS Analysts	7	6	3
Mean Revenue	3,216.40	3,578.80	4,162.60
# Revenue Analysts	5	5	3
Mean Target Price	11.80		
Mean Cash Flow	0.70	1.13	1.28
Mean EBITDA	1,004.50	1,314.50	1,620.30
Mean Net Income	-504.00	-158.00	85.00
Mean Debt Outstanding	7,775.30	8,001.30	8,122.90
Mean Tax Rate			25.00
Mean Growth Rate			
Mean Capital Expenditure	395.00	693.90	824.30

## Explanation of Valuation Models

We have up to 6 valuation points for each company in the database.

The Discounted Cash Flow (DCF) valuation is a cash flow model where cash flow projections are discounted back to the present to calculate value per share. DCF is a common valuation technique especially for companies undergoing irregular cash flows such as resource companies (mining, forestry, oil and gas) going through price cycles or smaller companies about to generate cash flow (junior exploration companies, junior pharma, technology firms...).

The Price Comparables valuation is the result of valuing the company we are looking at on the basis of ratios from selected comparable companies: Price to Earnings, Price to Book, Price to Sales, Price to Cash Flow, Enterprise Value (EV) to EBITDA. Each of these ratios for the selected comparable companies are averaged and multiplied by the values for the company we are interested in to calculate a value per share for our selected company.

We have included the Other Comparables as a way to value companies that cannot be valued using Earnings based ratios. This technique is very useful for companies still experiencing negative cash flows such as mining exploration firms. We use Cash/Share, Book Value/Share, MarketCap, 1 Year Return, NetPPE as the ratios here. Each of these ratios for the selected comparable companies are averaged and multiplied by the values for the company we are interested in to calculate a value per share for our selected company.

Multiples are similar to Price comparables where we look at current or historic ratios for the company in question to assess what it should be worth today based on those historic ratios. We use the same 5 ratios as in the price comparables and value the company with its historic averages.

With Adjusted Book Value (ABV) we calculate the book value per share for the company based on its balance sheet and multiply that book value per share by its historical price to book ratio to calculate a value per share.

If we have Analyst coverage for the company we use the consensus target price here.

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