Transocean Ltd. (RIG)

$1.13 (As of 03/19/20)

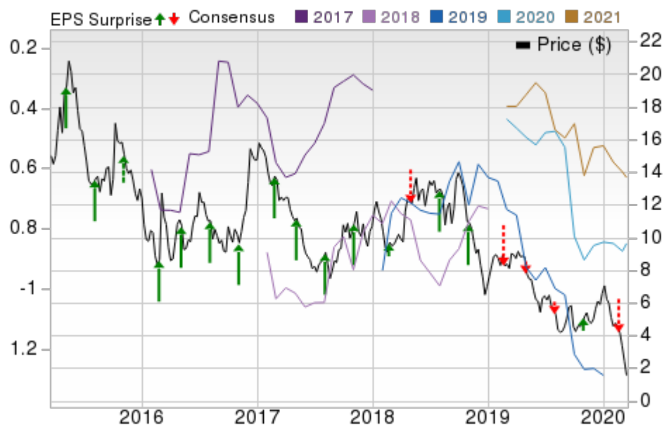
Price Target (6-12 Months): **$2.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 10/19/17) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:C
	Value: B | Growth: F	Momentum: B

Summary

Being the largest provider offshore contract drilling services, Transocean's recent $366M addition to backlog offers cash flow visibility. Further, with U.S. offshore industry signaling signs of revival, Transocean is poised to capitalize on trend effectively, given its technologically advanced and versatile drilling fleet. As it is, the buyout of Songa Offshore and Ocean Rig has boosted its fleet size and future prospects. However, Ocean Rig acquisition has also impacted the financials of RIG, leading to stock issuance, debt addition along with cash reduction. Moreover, Transocean is bearing the brunt of operational inefficiency which is likely to continue in the upcoming quarters as well, limiting the earnings of the firm. Hence, investors are advised to wait for a better chance.

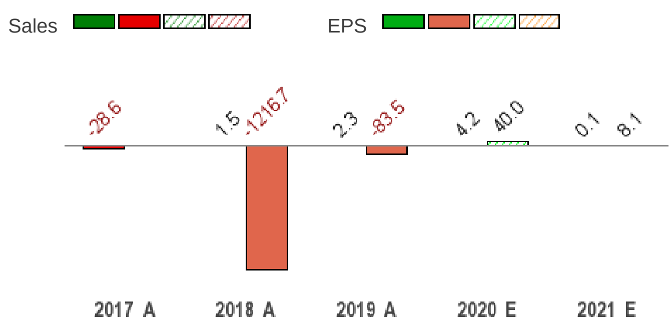
Price, Consensus & Surprise



Data Overview

52 Week High-Low	**$9.79 - $1.01**
20 Day Average Volume (sh)	**34,222,152**
Market Cap	**$692.2 M**
YTD Price Change	**-83.6%**
Beta	**2.15**
Dividend / Div Yld	**$0.00 / 0.0%**
Industry	**Oil and Gas - Drilling**
Zacks Industry Rank	**Top 43% (108 out of 254)**
Last EPS Surprise	**-38.7%**
Last Sales Surprise	**-3.6%**
EPS F1 Est- 4 week change	**0.2%**
Expected Report Date	**05/04/2020**
Earnings ESP	**-3.5%**
P/E TTM	**NA**
P/E F1	**NA**
PEG F1	**NA**
P/S TTM	**0.2**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	710 E	742 E	751 E	760 E	3,222 E
2020	796 E	804 E	794 E	824 E	3,218 E
2019	754 A	758 A	784 A	792 A	3,088 A

EPS Estimates

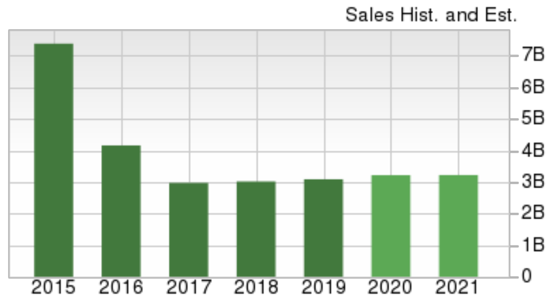
	Q1	Q2	Q3	Q4	Annual*
2021	-$0.29 E	-$0.30 E	-$0.32 E	-$0.33 E	-$0.80 E
2020	-$0.29 E	-$0.20 E	-$0.19 E	-$0.18 E	-$0.87 E
2019	-$0.30 A	-$0.34 A	-$0.38 A	-$0.43 A	-$1.45 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/19/2020. The reports text is as of 03/20/2020.

Overview

Switzerland-based Transocean, Inc. is the world's largest offshore drilling contractor and leading provider of drilling management services. The company provide rigs on a contractual basis to explore and develop oil and gas. Transocean offers offshore drilling rigs, equipment, services and manpower (with particular emphasis on ultra-deepwater and harsh environment drilling services) to exploration and production companies worldwide.



Transocean's fleet is considered one of the most modern and versatile in the world due to its emphasis on technically demanding segments of the offshore drilling business. Transocean's fleet can be broadly divided into three distinct groups based on drilling capabilities: ultra-deepwater floaters, harsh environment floaters and midwater floaters, which accounted for 63.4%, 35.1% and 1.5%, respectively, of its total revenue for 2019.

Transocean's 31 ultra-deepwater floaters are capable of drilling in water depths of 4,500 feet and more. The company's 14 harsh environment floaters are capable of drilling in harsh environment at water depths between 1,500 and 10,000 feet with greater displacement. The four mid-water floaters operate at water depth of less than 4,500 feet.

Moreover, four ultra-deepwater drillships and one harsh environment semisubmersible are currently under construction. Transocean's fleet is considered one of the most modern and versatile in the world due to its emphasis on technically demanding segments of the offshore drilling business.

Recent Acquisitions: Songa & Ocean Rig

In early 2018, Transocean acquired Norway-based drilling contractor Songa Offshore for $3.4 billion. As a result of the transaction, the company got seven mobile offshore drilling units, including five harsh environment floaters and two midwater floaters.

In December 2018, Transocean snapped up smaller rival Ocean Rig UDW for $2.7-billion. The deal further strengthened its portfolio, in turn expanding fleet size and quality. Notably, the acquisition gave Transocean 11 mobile offshore drilling units, including nine ultra-deepwater floaters and two harsh environment floaters.

Reasons To Buy:

- Transocean's recent addition of $366 million to its backlog since its last fleet status update in October 2019, which showed a backlog of $10.2 billion reflects steady demand from the customers and offers earnings and cash flow visibility.

Transocean's robust backlog of $10.2 billion offers earnings and cash flow visibility.

- Transocean completed two big buyouts in 2018 which has bolstered the offshore game of the company to a considerable extent. The acquisition of Songa and Ocean Rig has not just boosted the Transocean's fleet size, it also likely to provide the company with significant commercial and operational synergies along with boosting long-term growth prospects.

- With U.S. offshore industry witnessing early signs of revival, as evidenced by the increasing project sanctions, Transocean is poised to capitalize on trend effectively, given its technologically advanced and versatile drilling fleet. With more than 100 offshore projects green-lighted in 2019, demand for rigs is likely to improve, benefiting the offshore drilling giant. As it is, the company has been taking necessary steps to enhance its fleet with modern and competitive rigs, while scrapping off old and incompetent drillships, which is expected to make its operations more technically effective and efficient.

Reasons To Sell:

- Over the past few quarters, the company is bogged down by operational inefficiencies which are hurting its margins. Further, the firm forecasts an year-over-year increase in its operation and maintenance expenses in the first quarter of 2020. It also expects its capital outlay to increase in the upcoming quarter, which may limit its earnings.

> Transocean is bogged down by high costs which is limiting its earnings.

- While Transocean's acquisition of Ocean Rig in a stock-cash deal worth $2.7 billion bodes well for long term growth, it has adversely affected the financial position of the company. The transaction has led to stock issuance, debt addition along with cash reduction.

- Notably, Transocean has sold couple of Ocean Rig's drillships including Paros and Eirik Raude owing to high reactivation costs. Also many of the Ocean Rig's drillships are currently stacked, involving stacking costs. Moreover, charges related to the reactivation of such drillships along with the technical challenges to make them operational after such long breaks remain a concern. Rig reactivation and impairment charges amid retirement of drillships are likely to weigh down on the company's margins in the coming periods as well.

Last Earnings Report

Transocean Posts Wider Than Expected Q4 Loss, Sales Miss Mark

Quarter Ending	12/2019
Report Date	Feb 17, 2020
Sales Surprise	-3.57%
EPS Surprise	-38.71%
Quarterly EPS	-0.43
Annual EPS (TTM)	-1.45

Transocean Ltd. posted fourth-quarter 2019 adjusted loss of 43 cents a share, wider than the Zacks Consensus Estimate of a loss of 31 cents and also the year-ago loss of 34 cents due to higher year-over-year costs and expenses.

Meanwhile, this offshore drilling powerhouse generated total revenues of $792 million, missing the Zacks Consensus Estimate of $818 million. But the top line improved 5.8% from the prior-year figure of $748 million. Strong revenues from the Ultra-deepwater and Harsh Environment floaters along with increased dayrates led to this outperformance.

Segmental Revenue Break-Up

Transocean's Ultra-deepwater floaters contributed to 63.4% of total contract drilling revenues while Harsh Environment floaters and Midwater floaters accounted for the remainder. In the quarter under review, revenues from Ultra-deepwater and Harsh Environment floaters totalled $502 million and $278 million each, indicating a 9.8% and 9.9% improvement from the year-ago reported figures of $457 million and $253 million, respectively.

Revenue efficiency was 96.2%, marginally lower than the third-quarter level. The figure was in line with the year-ago number.

Dayrates and Utilization

On an encouraging note, average dayrate in the quarter under review rose to $317,700 from the year-ago level of $293,100 owing to an uptick in activity in the Asia Pacific and Australia. The company witnessed year-over-year higher average revenues per day from midwater floaters. Overall, fleet utilization was 61% during the quarter, down from the prior-year utilization rate of 62%.

Backlog

Transocean's backlog recorded at $10.2 billion as of February reflects a decline of $2 billion from the year-ago figure. Since its last fleet status update in October 2019, the company has been successful in securing $366 million worth additional contracts, courtesy of new deals and extensions of its existing projects.

Costs, Capex & Balance Sheet

Transocean's costs and expenses rose 10.72% year over year to $836 million. Operating and maintenance costs also increased to $575 million from $497 million a year ago. The company spent $128 million on capital expenditure in the fourth quarter. Cash provided by operating activities totalled $147 million. The company had cash and cash equivalents of $1.8 billion on Dec 31, 2019. Long-term debt was $8.7 billion with debt-to-capitalization ratio of 42.28% as of the same date.

Guidance

For 2020, the company expects its adjusted contract drilling revenues to be $3.3 billion, indicating no change from the 2019 figure. Meanwhile, capital expenses for 2020 are anticipated to be $857 million.

Full-year operating and maintenance costs are predicted to be $2.1 billion. Further, the company projects its G&A expense to be approximately of $183 million.

Valuation

Transocean shares are down 83.6% in the year-to-date period and 88.1% over the trailing 12-month period. Stocks in the Zacks subindustry and the Zacks Oil-Energy sector are down 78.1% and 58.7% in the year-to-date period, respectively. Over the past year, the Zacks subindustry and sector are down 84% and 63.6%, respectively.

The S&P 500 index is down 25.4% in the year-to-date period and 16.7% in the past year.

The stock is currently trading at 11.01X trailing 12-month EV/EBITDA, which compares to 7.36X for the Zacks sub-industry, 3.1X for the Zacks sector and 8.87X for the S&P 500 index.

Over the past five years, the stock has traded as high as 16.35 and as low as 2.79X, with a 5-year median of 5.56X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $2 price target reflects 0.37X F12M sales.

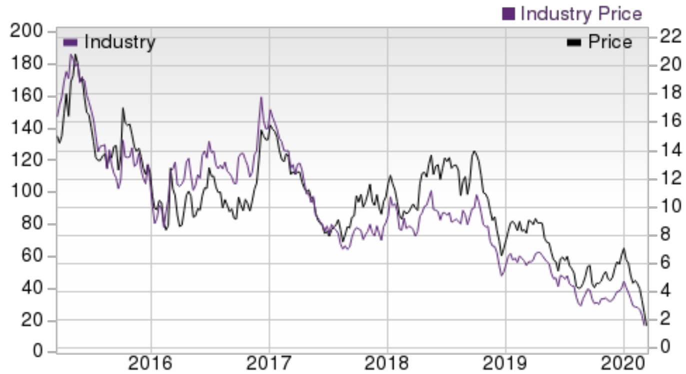
The table below shows summary valuation data for RIG

Valuation Multiples - RIG

		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	11.01	7.36	3.1	8.87
	5-Year High	16.35	13.22	10.36	12.88
	5-Year Low	2.79	4.02	3.1	8.31
	5-Year Median	5.56	8.19	6.51	10.79
P/S F12M	Current	0.21	0.26	0.43	2.58
	5-Year High	2.28	2.53	1.45	3.43
	5-Year Low	0.21	0.26	0.43	2.54
	5-Year Median	1.21	1.51	0.99	3
P/B TTM	Current	0.06	0.11	0.54	3.23
	5-Year High	0.58	0.92	1.6	4.55
	5-Year Low	0.06	0.11	0.54	2.85
	5-Year Median	0.31	0.59	1.31	3.63

As of 03/19/2020

Industry Analysis **Zacks Industry Rank:** Top 43% (108 out of 254)



Top Peers

Precision Drilling Corporation **(PDS)**	Outperform
Diamond Offshore Drilling, Inc. **(DO)**	Neutral
Helmerich & Payne, Inc. **(HP)**	Neutral
Nabors Industries Ltd. **(NBR)**	Neutral
Noble Corporation **(NE)**	Neutral
Patterson-UTI Energy, Inc. **(PTEN)**	Neutral
SAIPEM SPA SAN **(SAPMF)**	Neutral
KONINKLIJKE VPK **(VOPKY)**	Neutral

Industry Comparison Industry: Oil And Gas - Drilling

Industry Peers

	RIG Neutral	X Industry	S&P 500	DO Neutral	HP Neutral	NE Neutral
VGM Score	C	-	-	F	C	C
Market Cap	692.21 M	104.27 M	16.45 B	399.34 M	1.39 B	87.93 M
# of Analysts	7	6	13	6	5	6
Dividend Yield	0.00%	0.00%	2.67%	0.00%	22.19%	0.00%
Value Score	B	-	-	C	B	B
Cash/Price	2.47	1.30	0.06	0.30	0.22	1.47
EV/EBITDA	13.96	3.37	10.36	29.04	2.71	-19.86
PEG Ratio	NA	6.38	1.49	NA	6.38	NA
Price/Book (P/B)	0.06	0.08	2.16	0.12	0.35	0.02
Price/Cash Flow (P/CF)	4.46	1.56	8.92	75.84	1.85	1.40
P/E (F1)	NA	15.44	13.12	NA	35.36	NA
Price/Sales (P/S)	0.22	0.13	1.72	0.41	0.52	0.07
Earnings Yield	-76.99%	-90.67%	7.54%	-99.31%	2.81%	-371.43%
Debt/Equity	0.73	0.73	0.70	0.61	0.12	1.03
Cash Flow ($/share)	0.25	0.32	7.01	0.04	6.94	0.25
Growth Score	F	-	-	F	C	C
Hist. EPS Growth (3-5 yrs)	-54.01%	-36.68%	10.85%	-39.81%	-17.65%	NA
Proj. EPS Growth (F1/F0)	40.30%	7.41%	4.90%	-13.01%	-79.31%	14.47%
Curr. Cash Flow Growth	-72.37%	-21.67%	6.03%	-96.96%	25.65%	85.52%
Hist. Cash Flow Growth (3-5 yrs)	-44.46%	-15.12%	8.55%	-64.80%	-8.86%	-46.50%
Current Ratio	2.11	1.58	1.23	1.58	2.75	0.82
Debt/Capital	42.28%	42.87%	42.57%	37.94%	10.76%	50.81%
Net Margin	-40.64%	-20.13%	11.57%	-36.43%	-0.82%	-53.67%
Return on Equity	-7.16%	-8.15%	16.74%	-10.86%	4.29%	-9.13%
Sales/Assets	0.12	0.39	0.54	0.16	0.45	0.15
Proj. Sales Growth (F1/F0)	4.21%	-3.47%	3.13%	-7.72%	-14.71%	-19.78%
Momentum Score	B	-	-	D	F	C
Daily Price Chg	1.80%	2.35%	1.03%	0.00%	-4.41%	16.87%
1 Week Price Chg	-36.48%	-36.52%	-11.01%	82.52%	-36.56%	-33.81%
4 Week Price Chg	-73.72%	-57.57%	-33.45%	-20.98%	-71.85%	-61.08%
12 Week Price Chg	-82.88%	-74.13%	-30.67%	-57.35%	-71.66%	-73.73%
52 Week Price Chg	-88.09%	-86.23%	-23.69%	-73.39%	-77.35%	-88.53%
20 Day Average Volume	34,222,152	273,417	3,981,936	5,945,637	3,338,697	5,294,325
(F1) EPS Est 1 week change	0.00%	-0.18%	-0.01%	-0.23%	-34.06%	-0.13%
(F1) EPS Est 4 week change	0.16%	-11.17%	-0.85%	-12.42%	-48.64%	15.03%
(F1) EPS Est 12 week change	-2.19%	-5.93%	-1.70%	-26.85%	-29.88%	10.76%
(Q1) EPS Est Mthly Chg	-22.11%	-3.45%	-0.88%	-1.37%	-8.43%	24.19%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Value Score	B
Growth Score	F
Momentum Score	B
VGM Score	C

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock.The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment.This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time.ZIR is not a broker-dealer.ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients.Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.