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Jun 30, 2020

Transocean Ltd. (RIG)

$1.78 (As of 06/29/20)

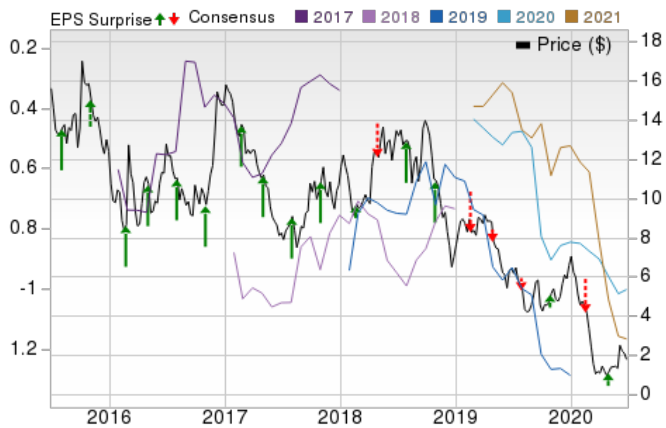
Price Target (6-12 Months): **$2.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 10/02/18) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:D
	Value: D | Growth: F | Momentum: B	

Summary

Being the largest provider offshore contract drilling services, Transocean's recent $10M 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.

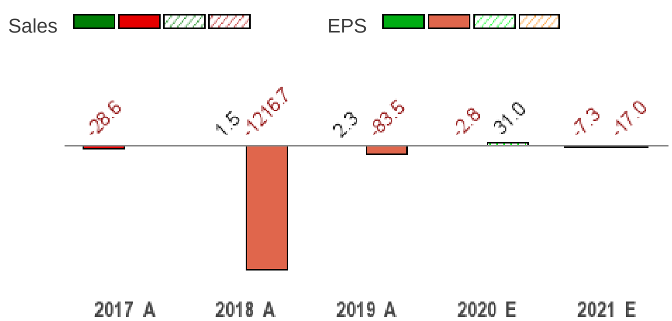
Price, Consensus & Surprise



Data Overview

52 Week High-Low	**$7.28 - $0.76**
20 Day Average Volume (sh)	**42,559,336**
Market Cap	**$1.1 B**
YTD Price Change	**-74.1%**
Beta	**2.41**
Dividend / Div Yld	**$0.00 / 0.0%**
Industry	**Oil and Gas - Drilling**
Zacks Industry Rank	**Bottom 28% (181 out of 253)**
Last EPS Surprise	**0.0%**
Last Sales Surprise	**-4.1%**
EPS F1 Est- 4 week change	**0.0%**
Expected Report Date	**08/03/2020**
Earnings ESP	**0.0%**
P/E TTM	**NA**
P/E F1	**NA**
PEG F1	**NA**
P/S TTM	**0.4**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	636 E	648 E	673 E	655 E	2,783 E
2020	759 A	766 E	748 E	704 E	3,001 E
2019	754 A	758 A	784 A	792 A	3,088 A

EPS Estimates

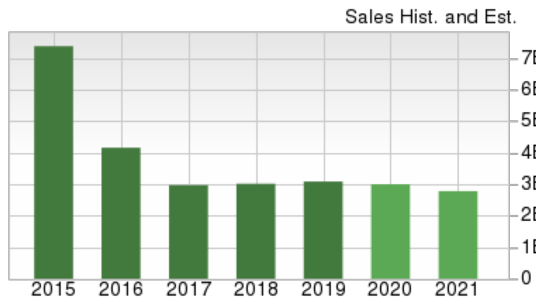
	Q1	Q2	Q3	Q4	Annual*
2021	-$0.24 E	-$0.31 E	-$0.33 E	-$0.33 E	-$1.17 E
2020	-$0.30 A	-$0.30 E	-$0.25 E	-$0.21 E	-$1.00 E
2019	-$0.30 A	-$0.34 A	-$0.38 A	-$0.43 A	-$1.45 A

*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 06/29/2020. The reports text is as of 06/30/2020.

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 robust backlog of $9.6 billion offers earnings and cash flow visibility.

- Transocean's backlog of $9.6 billion as of April reflects steady demand from the customers and 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. Operating and maintenance costs in the first-quarter increased to $540 million from $508 million a year ago. Further, the firm forecasts an year-over-year increase in its operation and maintenance expenses in the second quarter of 2020, 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. Transocean's total debt is currently more than $8.5 billion with only $2 billion in cash and cash equivalents, which continues to fall over the past many quarters. Moreover, the company's debt-to-capitalization as of the end of first quarter was 44.4%, deteriorating from the prior quarter's 43.8%.

- 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 Q1 Loss Meet, Revenues Lag Estimates

Quarter Ending	03/2020
Report Date	Apr 29, 2020
Sales Surprise	-4.07%
EPS Surprise	0.00%
Quarterly EPS	-0.30
Annual EPS (TTM)	-1.45

Transocean posted first-quarter 2020 adjusted loss of 30 cents a share, in line with the Zacks Consensus Estimate as well as the year-ago loss. Strong revenues from the Ultra-deepwater floaters along with increased dayrates led to this result, which was partially offset by a weak revenue contribution from the Harsh Environment floaters.

Meanwhile, this offshore drilling powerhouse generated total revenues of $759 million, missing the Zacks Consensus Estimate of $791 million due to ramped-down activity associated with rigs that were idle and lower revenue efficiency. But the top line improved 0.66% from the prior-year figure of $754 million.

Segmental Revenue Break-Up

Transocean's Ultra-deepwater floaters contributed to 59.6% 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 $528 million and $220 million each, indicating a respective 10.9% improvement and a 14.7% drop from the year-ago reported figures of $476 million and $258 million, respectively.

Revenue efficiency was 94.4%, marginally lower than the fourth-quarter 2019-level. The figure was also declined from the year-ago number.

Dayrates and Utilization

On an encouraging note, average dayrate in the quarter rose to $314,900 from the year-ago level of $306,500. The company witnessed year-over-year higher average revenues per day from Midwater floaters and Harsh environment floaters. Overall, fleet utilization was 60% during the quarter, up from the prior-year utilization rate of 56%.

Backlog

Transocean's backlog record at $9.6 billion as of April reflects a decline of $2.5 billion from the year-ago figure. Since its last fleet status update in October 2019, the company has been successful in securing $10 million worth additional contracts, courtesy of new deals and extensions of its existing projects.

Costs, Capex & Balance Sheet

Operating and maintenance costs increased to $540 million from $508 million a year ago. The company spent $107 million on capital expenditure in the first quarter. Cash provided by operating activities totalled $48 million. The company had cash and cash equivalents worth $1.48 billion on Mar 31, 2020. Long-term debt was $8.57 billion with debt-to-capitalization of 42.8% as of the same date.

Guidance

For the second quarter, the company expects adjusted contract drilling revenues to be $785 million while for the full year, it estimates the same to be $3 billion. Meanwhile, capital expenses for 2020 are anticipated to be $857 million.

Second-quarter operating and maintenance expense is projected to be approximately $545 million whereas for the full year, the same is anticipated to be $2 billion. Further, the company projects its G&A expense for the current quarter and the full year to be approximately $44 million and $175 million, respectively.

Meanwhile, capital spending comprising capitalized interest for the second quarter is predicted to be almost $55 million. For the ongoing year, the company estimates capital expenditure to be around $840 million, consisting of roughly $740 million for the two newbuild drillships and the remaining $100 million for maintenance.

Valuation

Transocean shares are down 74.1% in the year-to-date period and 72.4% over the trailing 12-month period. Stocks in the Zacks subindustry and the Zacks Oil-Energy sector are down 67.8% and 38.7% in the year-to-date period, respectively. Over the past year, the Zacks subindustry and sector are down 70.4% and 41.7%, respectively.

The S&P 500 index is down 6.6% in the year-to-date period and up 2.1% in the past year.

The stock is currently trading at 11.59X trailing 12-month EV/EBITDA, which compares to 9.56X for the Zacks sub-industry, 3.93X for the Zacks sector and 11.14X 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 5.98X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $2 price target reflects 0.43X 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	11.59	9.56	3.93	11.14
	5-Year High	16.35	14.84	10.46	12.86
	5-Year Low	2.79	4.05	3.03	8.25
	5-Year Median	5.98	9.13	6.52	10.85
P/S F12M	Current	0.38	0.6	0.71	3.37
	5-Year High	2.28	3.24	1.46	3.44
	5-Year Low	0.17	0.36	0.59	2.53
	5-Year Median	1.21	1.88	0.99	3.02
P/B TTM	Current	0.1	0.18	0.87	4.12
	5-Year High	0.55	0.89	1.54	4.56
	5-Year Low	0.05	0.11	0.52	2.83
	5-Year Median	0.3	0.62	1.32	3.69

As of 06/29/2020

Industry Analysis **Zacks Industry Rank:** Bottom 28% (181 out of 253)

Top Peers

Company (Ticker)	Rec	Rank
Diamond Offshore Drilling, Inc. **(DO)**	Neutral	4
HelmerichPayne, Inc. **(HP)**	Neutral	3
Nabors Industries Ltd. **(NBR)**	Neutral	3
Noble Corporation **(NE)**	Neutral	3
Precision Drilling Corporation **(PDS)**	Neutral	3
PattersonUTI Energy, Inc. **(PTEN)**	Neutral	3
SAIPEM SPA SAN **(SAPMF)**	Neutral	4
KONINKLIJKE VPK **(VOPKY)**	Neutral	3

Industry Comparison Industry: Oil And Gas - Drilling

Industry Peers

	RIG	X Industry	S&P 500	DO	HP	NE
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	4	3	3
VGM Score	D	-	-	-	B	F
Market Cap	1.09 B	154.35 M	21.46 B	NA	2.06 B	84.75 M
# of Analysts	4	4	14	3	4	4
Dividend Yield	0.00%	0.00%	1.95%	%	14.83%	0.00%
Value Score	D	-	-	C	A	F
Cash/Price	1.84	0.85	0.07	NA	0.19	2.30
EV/EBITDA	15.19	3.88	12.54	NA	4.00	-19.01
PEG Ratio	NA	NA	2.81	NA	NA	NA
Price/Book (P/B)	0.10	0.14	2.93	NA	0.59	0.03
Price/Cash Flow (P/CF)	7.03	0.82	11.53	NA	2.76	1.35
P/E (F1)	NA	15.84	20.96	NA	NA	NA
Price/Sales (P/S)	0.35	0.17	2.25	NA	0.80	0.06
Earnings Yield	-56.18%	-56.18%	4.53%	NA%	-8.04%	-520.59%
Debt/Equity	0.75	0.60	0.76	0.00	0.14	1.42
Cash Flow ($/share)	0.25	0.38	7.01	0.04	6.94	0.25
Growth Score	F	-	-	F	C	C
Hist. EPS Growth (3-5 yrs)	-54.01%	-38.41%	10.93%	-43.26%	-7.65%	NA
Proj. EPS Growth (F1/F0)	30.86%	-24.98%	-10.50%	-18.95%	-187.86%	-16.45%
Curr. Cash Flow Growth	-72.37%	-21.95%	5.51%	-96.96%	25.65%	85.52%
Hist. Cash Flow Growth (3-5 yrs)	-44.46%	-14.88%	8.62%	-64.80%	-8.86%	-46.50%
Current Ratio	2.06	1.65	1.30	0.31	2.97	0.94
Debt/Capital	42.77%	37.65%	44.51%	0.00%	12.18%	58.71%
Net Margin	-47.72%	-35.31%	10.62%	-117.37%	-19.47%	-129.80%
Return on Equity	-7.44%	-9.70%	15.82%	-12.45%	2.64%	-10.23%
Sales/Assets	0.13	0.39	0.55	0.17	0.45	0.16
Proj. Sales Growth (F1/F0)	-2.83%	-2.57%	-2.61%	-8.89%	-35.34%	-29.29%
Momentum Score	B	-	-	-	C	F
Daily Price Chg	0.00%	0.00%	1.71%	NA%	2.90%	10.87%
1 Week Price Chg	-15.24%	-13.12%	-3.90%	NA%	-13.12%	-18.90%
4 Week Price Chg	28.06%	-1.24%	-2.17%	NA%	-5.53%	164.86%
12 Week Price Chg	58.93%	46.83%	14.42%	NA	15.22%	46.83%
52 Week Price Chg	-72.40%	-72.40%	-8.82%	NA	-62.76%	-81.75%
20 Day Average Volume	42,559,336	310,942	2,732,041	0	2,562,523	34,842,352
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	-3.75%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	-1.11%	-9.20%	-3.75%
(F1) EPS Est 12 week change	-11.21%	-29.26%	-10.60%	-5.57%	-1,955.60%	-31.60%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	-7.69%	1.09%	-8.11%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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.

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.

Value Score	D
Growth Score	F
Momentum Score	B
VGM Score	D

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.

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