

Energy

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Industry Comment

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Oil & Gas Energy Services

Weekly Oilfield Bulletin: Looking More Like a Value Opportunity than a Value Trap

In this report, we are providing what we believe is a near-comprehensive (though hopefully succinct) analysis of the anatomy of the oilfield services’ recent equity meltdown. In doing so, we are going to draw on some lessons from history to: (a) evaluate some of the technical (non-fundamental) features of this equity cycle; (b) take a hard look at the fundamental features that tend to be relevant during major down-cycles, and; (c) briefly outline what has typically happened to some of the major oilfield services asset classes when the sector has historically come off the rails.

Some historical perspective along with our fundamental analysis is telling us that oilfield stocks are more likely to stage a recovery than resume their post-July downward trajectory – the sector should be bought. Our investment thesis is as follows:

- By early last week, most Canadian oilfield stocks were down about 35% from their mid-summer highs. A 35% equity slide is within 500 basis points of the 2002 and 2007 equity downturns in the Canadian oilpatch.
- These two downturns in the oilpatch were driven by of a 17% - 19% year-over-year E&P capital spending decline. The 1998/99 and 2009 downturns involved larger losses for the equities (77% and 60%, respectively), but they also involved much larger 32% and 41% capital spending declines, which were respectively precipitated by US\$12/bbl oil and a global credit crisis.
- Through an informal survey of 32 Canadian E&P companies, producers are signaling a 21% decline – but we have reason to think the decline will be far less severe. Our calculations say that the oilfield equities themselves are effectively pricing-in a 25% E&P capital spending decline for 2012.
- Simulating a 20% year-on-year capex decline, the four oilfield stocks we evaluated would still be on the cheaper side of average historic valuations. This is normal for a downturn – oilfield equities have always previously overshot on the downside (and on the upside as well).
- And finally, history tells us that early in the fourth quarter is a good time of the year in which to be buying oilfield stocks.

Company	Ticker	Oct-07-11 Price	Target Price (6-12 mths)	Dividend Yield	Total Return To Target	Rating
<b>Contract Drillers</b>						
Ensign Energy Services	ESI-TSX	\$13.75	\$24.25	2.8%	79%	Outperform 2
Precision Drilling Corporation	PD-TSX   PDS-NYSE	\$9.54	\$18.25	0.0%	91%	Outperform 2
Savanna Energy Services	SVY-TSX	\$6.81	\$12.25	0.0%	80%	Outperform 2
Trinidad Drilling Ltd.	TDG-TSX	\$6.28	\$12.50	3.2%	102%	Strong Buy 1
Tuscany International Drilling Inc.	TID-TSX	\$0.59	\$1.10	0.0%	86%	Outperform 2
Western Energy Services Corp.	WRG-TSXV	\$6.85	\$12.00	0.0%	75%	Outperform 2
<b>Pressure Pumps</b>						
Calfrac Well Services	CFW-TSX	\$25.65	\$55.00	0.6%	115%	Strong Buy 1
Canyon Services Group Inc.	FRC-TSX	\$9.06	\$22.25	1.1%	147%	Strong Buy 1
GasFrac Energy Services Ltd.	GFS-TSX	\$7.37	\$12.50	0.0%	70%	Outperform 2
Trican Well Service	TCW-TSX	\$15.92	\$31.00	0.6%	95%	Strong Buy 1
<b>Completion Services</b>						
Essential Energy Services Ltd.	ESN-TSX	\$1.61	\$3.10	0.0%	93%	Strong Buy 1
Pure Energy Services Ltd.	PSV-TSX	\$6.41	\$12.00	0.0%	87%	Strong Buy 1
<b>Field Services</b>						
Black Diamond Group Ltd.	BDI-TSX	\$13.00	\$17.50	4.4%	39%	Outperform 2
Enerflex Ltd.	EFX-TSX	\$8.93	\$13.25	2.7%	51%	Outperform 2
Mullen Group Ltd.	MTL-TSX	\$19.13	\$23.25	5.2%	27%	Market Perform 3
Secure Energy Services Inc.	SES-TSX	\$7.14	\$10.25	0.0%	44%	Outperform 2
Strad Energy Services Ltd.	SDY-TSX	\$3.74	\$6.75	0.0%	80%	Strong Buy 1

Raymond James Ltd.

We think that the first 20% of the market sell-off was probably irrational; oil was doing just fine, and in reality, it still is, at least this distance from Cushing, Oklahoma. However, the next 15% of market value erosion was probably more rational given what a significant broad-based drop in asset prices often portends for energy prices.

To some extent the market is doing its level-best to look forward and adequately price the collective view of future fundamentals for energy stocks. However, we also believe that the market can drive these fundamentals. That is, the market isn't just an indicator of future demand; it is also an input to the demand equation.

If we can agree for the moment that the market might occasionally overshoot on both the high and low sides, then we might also agree that in doing so, the market can at times over-capitalize the energy sector and under-capitalize it at other times. Looking at it this way, market sentiment is often a self-fulfilling prophesy – that is right up until it turns, and then it tends to turn hard.

### Technical Evaluation (The Rules That Work Right Up Until They Don't)

A simple review of historic oilfield equity market dynamics (and ignoring the fundamental data) would tell us that oilfield equities are at a crossroads. In some severe equity cycles they have lost twice as much value. In less severe cycles, a 35% decline like the one we've just gone through has coincided with an equity bottom. In almost all cases though, an equity slide such as this foreshadows an imminent decline in the rig counts. However, in this cycle, the decline is overdue. In this section we look at several correlations and contrasts between the recent equity slide and those over the last 15 years.

**Technical Observation 1: A 35% - 40% equities decline is typical of a 'normal' downturn in the oilpatch.**

#### Exhibit 1: Oilfield Services Equities Performance



Source: Bloomberg, Raymond James Ltd.

By early last week, Canadian oilfield equities had bottomed at 35% below their July peaks. They have since staged an interim comeback, returning about 8% of that post-July decline. The questions we are looking at here are: Is a 35% top-to-bottom slide normal for a major equity slide, or is it, by itself, a signal of more to come, and; what happened in prior equity cycles?

As we'll reiterate in the Fundamentals sections of this report, a 35% equity slide, like the one we have seen to this point, is typical of significant downturns in the oilpatch. That is to say, the stocks are pricing-in a major slowdown. How major? Similar to the 2002 and 2007 oilfield declines. However, the most significant declines, such as in 1998/99 and 2009, involved far more severe capital spending reductions by the E&Ps than in 2002 and 2007, which led to a more severe drop in drilling and completion activity, and correspondingly more severe equity market declines. So while in 2002 and 2007, the oilfield equities declined by 39% and 42%, the 1998/99 and 2009 declines were more like 77% and 60%.

As we'll show in the fundamental section that follows, oilfield equities tend to trade over wide multiple ranges in any given year, especially near cycle bottoms. This is another way of saying that the lowest multiples of cyclically low earnings/EBITDA are usually not economically justifiable, but the market somehow manages to get there anyway.

***Technical Observation 2: Oil price declines of 4 - 5 months have always previously precipitated rig count declines.***

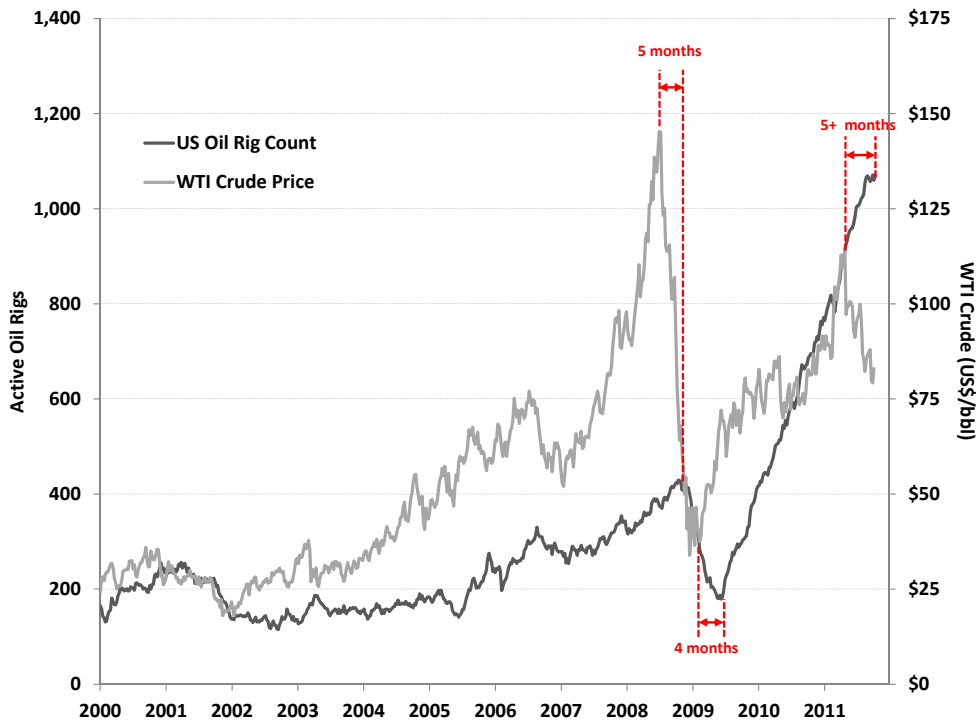
WTI crude hit a 2 ½-year high late in April this year, touching US\$114/bbl. It has since been on a steady downward trajectory of successively lower lows and lower highs, reaching recent bottom at US\$75.67 last week before settling at US\$82.98 on Friday. Brent has followed a nearly identical pattern, though hitting a US\$124.19 high in April, touching down to US\$100.69 last week, and settling on Friday at US\$105.91.

There are a couple of ways of looking at this fact-pattern. The more generous of the two is that the last time oil prices had more or less stabilized in the US\$75-85/bbl range (late 2009 to late 2010), the US rig count kept right on growing, at a torrid pace, without even a discernible pause. So perhaps growth will continue unabated this go-around as well? Salting in a fundamental perspective here, we could point out that service prices are considerably higher today.

In any event, the less optimistic way of looking at this is that oil prices have never declined for this period of time – more than five (5) months now – without causing or at least corresponding with a drop in the rig count.

What we have noticed in the US onshore rig count is that it stopped growing mid-to-late August, at least. Moreover, the oil rig count flattened as well appreciably – almost as if it's trying to decide if the hitherto sound fundamentals or the forward-looking bearish technicals will win the day. This is contrast to 2009/10 when the oil rig count was the primary thrust behind the overall US rig count. This would correspond with 4 months following the initial oil price slide.

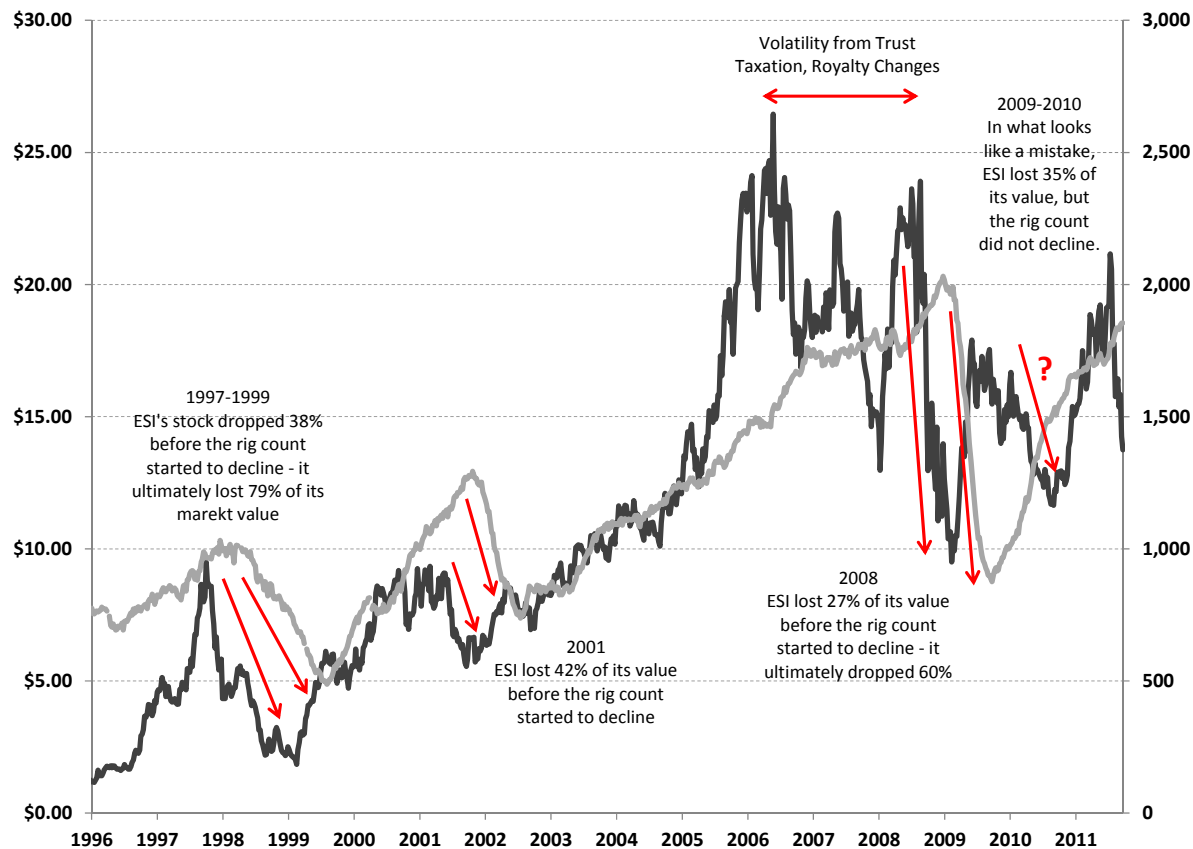
In Canada the rig count reached a peak in mid-September, and has been roughly flat since. Our view is that rig counts won't give us any strong positive signals for the next few months, and could even undergo an interim slide.

**Exhibit 2: Connecting the US Oil Rig Count to Oil Prices**

Source: Bloomberg, Baker Hughes, Raymond James Ltd.

**Technical Observation 3: While the market has previously been wrong about the high-level macro fundamentals, to the best of our interpretation, it has only been very wrong once.**

We admit that you're going to have to step back and squint at Exhibit 3 to see what we're talking about. Notice that in the 1999, 2002, 2007, and 2009 downcycles, the equity market foreshadowed what was to come – usually by 3 - 8 months. Here's where you'll need to squint: notice also that between June 2009 and September 2010, oilfield equities quietly lost 35% of their value, only to find that rig activity kept growing apace. By earlier this week, oilfield equities had given up 35% of their value. Were the equity markets wrong about an impending downturn this time as well? Possibly, but the evidence says it would be unusual.

**Exhibit 3: Ensign's Stock Price Against the Rig Count**

Source: Bloomberg, Raymond James Ltd.

**Technical Observation 4: Curiously enough, oilfield stocks usually only start recovering when the rig count begins declining.**

This may simply be coincidental, but we think it has had a rational fundamental footing: a declining rig count is a logical indicator of reduced future supply. But there's a potential problem with using this rule going forward: Theoretically, this proposition should work best for a natural-gas driven oilpatch where we can at least notionally draw clear connections between the drilling effort and domestic gas supply (in practice, this causal effect isn't as responsive as many might have thought).

But this causal relationship shouldn't work nearly as well for an oil-driven oilpatch. Why? Because domestic producers drive approximately 95% of domestic gas supply – if they stop drilling, it seems straightforward that so too will supply growth. However, North American conventional oil producers drive only about 13% of global oil supply. In fact, a top tier North American gas well is 30 times more impactful on the North American gas supply than a top tier North American oil well is on the global oil supply. In other words, if we stop drilling for oil...so what?

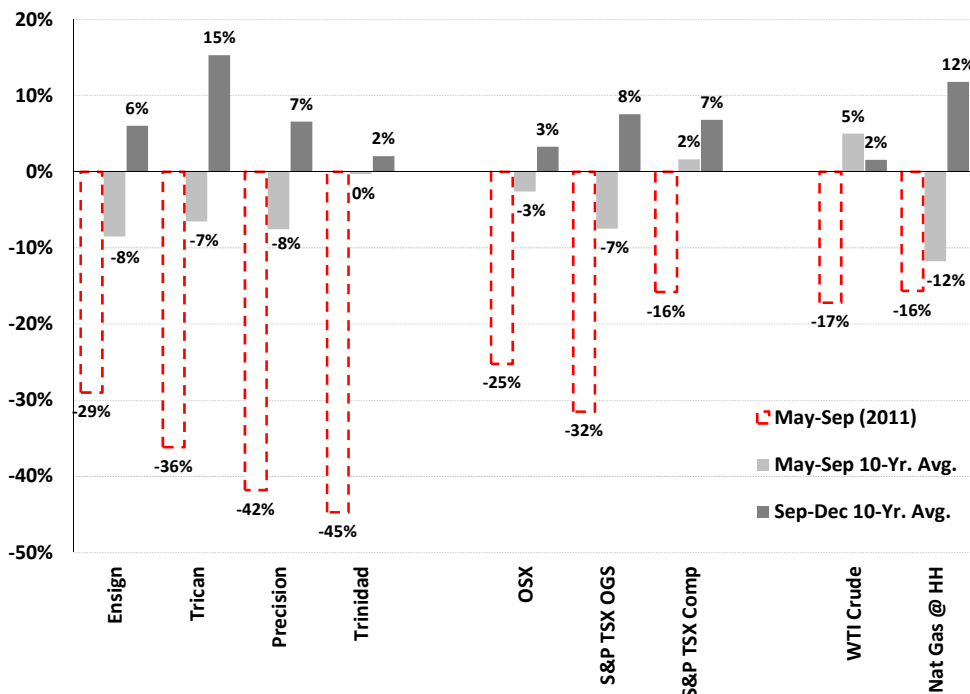
Therefore, in the end, it rests on OPEC to decide how far it is willing to let prices decline before it restricts its own supply. With Brent above US\$100/bbl since January 2011, our bet is that that crude would have to slide further before OPEC takes any bold measures.

**Technical Observation 5: Oilfield stocks tend to perform poorly during the third quarter, and well during the fourth quarter.**

Whether or not it reconciles with Markowitz’s Efficient Markets Hypothesis, we have noticed a persistent pattern in oilfield equity returns, where performance lags from May to September (often badly), and tends to perform strongly from October for the balance of the year. Our thinking is that even though we are discussing broad investment cycle issues in this report, an understanding of typical seasonal patterns can still drive some sector performance.

We show the 10-year average seasonal returns for select Canadian equities, indices, and energy prices, along with 2011’s performance to-date in Exhibit 4. When we look back at prior years to when the usual seasonal pattern didn’t work as advertised (and effectively muted the average returns shown in Exhibit 4), we find that either energy prices move dramatically in the counter-seasonal direction (i.e. up in the third quarter or down in the fourth) or some exogenous factor, such as trust taxation or adverse royalty changes mitigated the effect. Correcting for these factors, we have found the seasonal effect to be material.

**Exhibit 4: Ten Years of Seasonality in Oilfield Equities**



Source: Bloomberg, Raymond James Ltd.

**The Fundamentals**

One theme we wish to reiterate before continuing with our fundamental analysis is that while fundamentals are important market determinants much of the time, and we firmly believe they ultimately drive stock prices, they only provide signposts during extreme up and down markets. Put another way, the fundamentals will tell us something about the destination we will ultimately steer toward, but they say little about the route we’ll use to get there. During extreme periods like this, the fundamentals may make us feel good about our views and decisions, but on their own, they won’t necessarily make investors money.

***Fundamental Observation 1: A typical downturn in the oilpatch means a 16% to 19% year-over-year E&P capex reduction.***

This describes 4 of the last 5 down-cycles in the Canadian oilpatch. In fact, only in 2009 did Canadian aggregate E&P capital spending decline by more than 16% - 19% in a single year. During that year, aggregate E&P expenditures declined a catastrophic 40%.

**Exhibit 5: Year-Over-Year WCSB Capital Spending Declines**

1998	1999	2002	2007	2009
-19%	-16%	-19%	-17%	-41%

Source: CAPP, Raymond James Ltd.

***Fundamental Observation 2: Typical downturns in the oilpatch correspond with a 35% - 40% equity decline.***

To the extent that the market has been working to price-in a 'typical' downturn in the oilpatch, then the 35% routing of the oilfield equities is about all we should expect. That is, the sector may have a couple more points of downside, but on the whole, it should be bought.

A 'typical' 17% - 19% drop in E&P capital spending, such as in 2002 and 2007, has historically yielded 39% - 42% top-to-bottom drop in the equities. However, the most significant declines, such as in 1998/99 when cumulative E&P spending declined 32%, or in 2009 when it declined 41% in a single year, corresponded with catastrophic equity losses of 77% and 60% respectively.

As we'll show below, we do not think a capex decline of more than 20% is in the cards.

***Fundamental Observation 3: Canadian E&Ps are currently signaling plans for a 21% sequential capex decline in 2012.***

This is about as forward looking and fundamental as we can get on a macro scale. To arrive at this conclusion, we borrowed heavily on work from our domestic E&P analysts, Kristopher Zack and Luc Mageau. Together, they surveyed 32 domestic E&P companies that together will allocate about \$15 bln in organic capital spending in 2011 – an amount roughly equal to 40% of the Western Canadian total.

***Fundamental Observation 4: We don't believe them! Realized oil prices are higher and E&P balance sheets are stronger today than 1 year ago.***

E&P capital spending plans have proven to be highly malleable over the years, particularly to the upside. Last year at this time, producers outlined 2011 capital spending budgets that, in retrospect, look to be 9% below what they'll actually spend in 2011. On top of this, realized Canadian oil prices are above \$90/bbl today versus approximately \$75/bbl a year ago and E&P balance sheet are stronger as well – aggregate debt is approximately 1.6x trailing cash flow compared to 1.7x this time last year. And we have noticed that equity capital finds its way into E&P's hands in just about any kind of market.

So while our survey is suggesting a 21% sequential decline in capital spending, our view is that 2012 will be stronger than the surveyed E&P companies are suggesting.

***Fundamental Observation 5: We calculate the equities are currently pricing-in a 25% capex decline for 2012.***

We calculate this figure by mechanically adjusting our EBITDA forecasts downward for several representative service companies until the resulting market multiples (adjusted

for lower future cash positions) coincide with historical down-cycle norms. These norms are approximately 6.0-6.5x EV/EBITDA for drilling contractors and 6.0-7.0x for pressure pumpers.

As noted above, a 25% capital spending reduction would be novel, which isn't to say it can't happen, only that it seems unlikely, especially given our E&P capex survey. More likely is that capital spending falls by less than this amount, if at all. This means that market values have probably over-shot on the downside, which is normal for any oilfield equity cycle.

***Fundamental Observation 6: For every 20% decline in E&P capex, drillers' EBITDAs tend to decline 20% and pumpers' EBITDAs tend to decline 35%.***

Even though drilling and pumping fleets have grown over the last two years, in some cases materially, to the extent that individual companies have on average maintained their market shares, then a 10 or 20 percent decline in producer spending would necessarily result in a 10 or 20 percent reduction in revenues for each company. It's just that this reduced revenue would be spread across a wider equipment base.

We looked at historic revenue, EBITDA, and earnings performance through prior significant capital spending reductions, and used this as a guide to illustrate the likely impact of a 20% North American capex decline on four representative Canadian oilfield companies: Precision, Trinidad, Trican, and Calfrac. We adjusted the results to accommodate features such as non-North American revenue streams (most relevant for Calfrac and Trican), as well as for minimum contracted cash flow streams, as these have been shown to withstand the brunt of even the 40% capex decline in 2009.

Our analysis shows that pumpers' EBITDA tends to be more susceptible to downturns than drillers, due to their inherently higher operating leverage. This is why their multiples tend to gap up more significantly in a downturn. Drilling contractors, by contrast, have extremely variable cost structures.

However, what is most interesting to us about this analysis is that even as we predicate our value assessments on a 20% capex decline, neither set of stocks is expensive. Under the 20% capex reduction scenario, the drillers are trading between 5.6-6.1x EV/EBITDA while the two pumpers are between 6.5-6.7x. EV/EBITDA. These multiples would be reasonable in a normalish-kind of oilfield, but in a year when capex just theoretically dropped 20%, these are lower than historic averages. Oilfield multiples have historically average higher during downturns, as we'll show in the next and final section.

**Exhibit 6: Scenario Analysis – 20% Decline in E&P Capex**

	Precision				Trinidad			
	2011E	2012 Estimates			2011E	2012 Estimates		
		Current	-20%			Current	-20%	
Revenue (\$mIn)	\$1,890	\$2,158	\$1,535	-19%	\$745	\$814	\$637	-15%
EPS	\$0.92	\$1.25	\$0.63	-32%	\$0.58	\$0.83	\$0.40	-32%
EBITDA (\$mIn)	\$684	\$847	\$546	-20%	\$253	\$300	\$209	-17%
BVPS (tangible)	\$6.19	\$7.52	\$6.85	11%	\$6.06	\$6.77	\$6.32	4%
P/E	9.5x	7.0x	14.0x		10.4x	7.3x	15.2x	
EV/EBITDA	4.6x	3.9x	6.1x		5.1x	3.8x	5.6x	
P/B	1.4x	1.2x	1.3x		1.0x	0.9x	1.0x	

	Trican				Calfrac			
	2011E	2012 Estimates			2011E	2012 Estimates		
		Current	-20%			Current	-20%	
Revenue (\$mIn)	\$2,139	\$2,808	\$1,815	-15%	\$1,440	\$1,952	\$1,198	-17%
EPS	\$1.81	\$2.02	\$0.48	-74%	\$3.60	\$4.96	\$0.64	-82%
EBITDA (\$mIn)	\$578	\$750	\$387	-33%	\$373	\$524	\$227	-39%
BVPS (tangible)	\$8.37	\$10.52	\$8.84	6%	\$15.33	\$20.70	\$16.04	5%
P/E	10.9x	9.7x	31.1x		8.5x	6.2x	38.2x	
EV/EBITDA	5.2x	4.4x	6.5x		4.4x	3.4x	6.7x	
P/B	2.4x	1.9x	1.7x		2.0x	1.5x	1.5x	

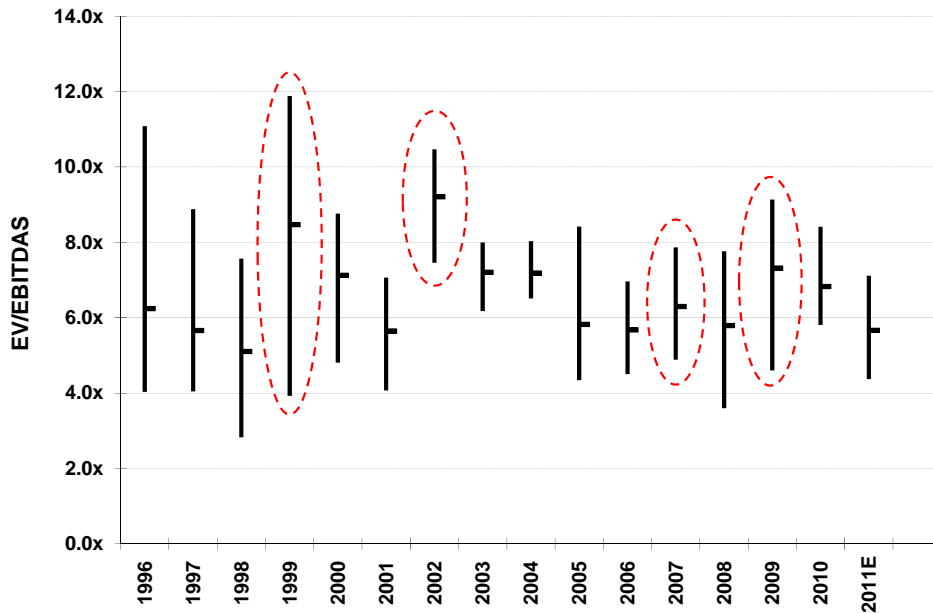
Source: Company documents, Bloomberg, Raymond James Ltd.

**Fundamental Observation 6: Bottom-cycle values historically overshoot the mark.**

We recognize that this isn't an overly profound statement, but it's still worth highlighting the effect. Here we use Ensign to show how multiples usually trade at higher average multiples during cyclical downswings, but that they also trade across a wide range that includes fairly low trough lows, especially during the most severe downturns (about 4.0x EV/EBITDA in 1999 and 4.5x EV/EBITDA in 2009). During the more moderate downturns of 2002 and 2007, multiples only reached as low as 7.5x and 5.0x, respectively.

Recall from Fundamental Observation #5, that under the 20% capex reduction scenario, the drillers are trading between 5.6-6.1x EV/EBITDA while the two pumpers are between 6.5-6.7x EV/EBITDA. These values more or less coincide with the trough multiples observed in previous downturns, such as in 2002 and 2007.

In other words, to the extent that a 20% capex reduction is a reasonable expectation, the stocks are trading in a range consistent with previous market bottoms.

**Exhibit 7: Ensign's Historical EV/EBITDA Multiples**

Source: Ensign Energy Services, Bloomberg, Raymond James Ltd.

**Conclusion – On Balance, the Evidence and Analysis Says It's Time To Buy**

The marriage of our technical and fundamental observations leads us to the conclusion that the equity slide since late July has likely come close to running its course, and that investors today have more upside risk than downside. To summarize:

- ◆ By early last week, most Canadian oilfield stocks were down about 35% from their mid-summer highs.
- ◆ A 35% equity slide is within 500 basis points of typical downturns in the Canadian oilpatch.
- ◆ Typical downturns in the oilpatch have been driven by of a 16% - 19% year-over-year capital spending decline.
- ◆ Producers are signaling a 21% decline – but we have reason to think the decline will be far less severe.
- ◆ Our calculations say that the equities themselves are pricing a 25% decline.
- ◆ Imposing a 20% year-on-year capex decline, the four oilfield stocks we evaluated would still be on the cheaper side of average historic valuations.
- ◆ This is normal for a downturn – oilfield equities have always previously overshot on the downside, presenting a window of opportunity.
- ◆ And finally, from a seasonal perspective, this is historically a good time to buy.

Of all the things that could go wrong with this analysis, the one that stands out in our minds is the potential for oil prices to resume a downward track in the face of successive requirements for European debt restructuring.

## Oilfield Activity Summary &amp; Industry Forecasts

## Equity Indices &amp; Energy Prices

	Price/ Level	Percent Change (%)		
		W/W	M/M	Y/Y
TSX 300 Comp	11,588	-3.8	-12.1	-10.8
TSX Oilfield index	1,252	+2.4	-17.6	+2.7
OSX	197	+3.7	-16.2	-1.7
WTI (US\$/bbl)	82.98	+4.8	-7.1	+0.4
C Par @ Edm. (\$/bbl)	77.84	+2.0	-21.1	+2.8
NYMEX (US\$/mcf)	3.48	-5.0	-11.6	-4.7
AECO-C (\$/GJ)	2.94	-12.0	-14.5	+1.4
USD/CAD	0.96	+1.0	-5.4	-2.8

## Industry &amp; Commodity Forecasts

	2009	2010	2011E	2012E
Active Drilling Rig Count	214	328	377	396
Drilling Rig Utilization	28%	41%	47%	49%
Wells Completed	9,394	13,575	16,000	16,700
Service Rig Utilization	39%	55%	59%	60%
WTI (US\$/bbl)	62.09	79.61	96.07	105.00
NYMEX (US\$/mcf)	4.16	4.38	4.26	4.25
AECO (\$/mcf)	3.99	4.18	3.59	3.58
USD/CAD	0.88	0.97	1.02	1.02

## Canadian Active Rig Counts

	This Wk	Last Wk	Last Yr	13-Wk
				M.A
Active Drilling Rig Count	539	547	423	512
Total Fleet	808	814	808	813
Utilization	67%	67%	52%	63%
Active Service Rig Count	589	581	571	555
Total Fleet	906	906	893	909
Utilization	65%	64%	64%	61%

## Canadian Wells &amp; Licenses

	Year to Date		13-Wk Total	
	2011	2010	2011	2010
Total Completions	11,491	8,263	3,851	2,813
%Oil	59	48	70	53
%Horizontal + Directional	77	68	82	70
%Vertical	23	32	18	30
Well Licenses	12,048	10,132	4,156	3,676
Total Meters Drilled (000s)	19,249	13,757	6,900	4,954
%Development	83	78	85	78
Avg. Well Depths (meters)	3,353	2,994	1,052	1,106

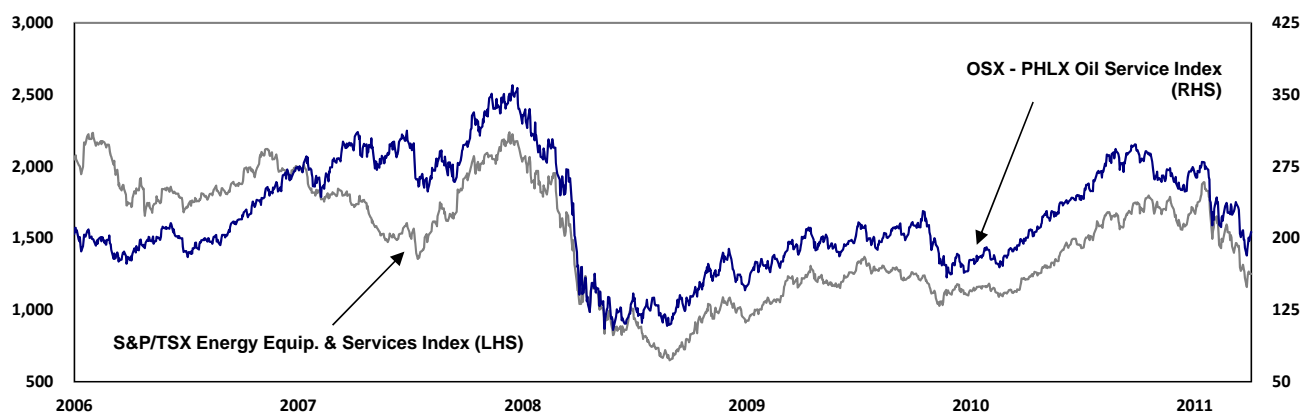
## US Active Rig Count

	This Wk	Last Wk	Last Yr	13-Wk
				M.A
Total US Rig Count	1,990	1,991	1,659	1,949
%Oil	53	54	41	54
%Horizontal + Directional	69	69	68	70
%Vertical	31	31	32	30
Total Land	1,959	1,958	1,640	1,915
%Oil	53	54	42	54
Gulf of Mexico	30	31	19	33
%Oil	63	65	37	58

## International Active Rig Count

	Aug-11	Jul-11	Jun-11	May-11
International Rig Count	1,183	1,150	1,158	1,151
%Oil / %Land	76 / 73	79 / 73	76 / 74	76 / 73
Australia	14	13	15	10
%Oil / %Land	43 / 50	54 / 54	60 / 53	30 / 30
South America	441	438	438	410
%Oil / %Land	87 / 78	89 / 79	87 / 80	87 / 80
Continental Europe	94	90	86	77
%Oil / %Land	49 / 64	50 / 67	47 / 69	47 / 66

## S&amp;P/TSX Energy Equipment &amp; Services Index vs. OSX Phil. Oil Services Sector Index



All figures in C\$, unless otherwise noted.

Sources: Raymond James Ltd., Bloomberg, JuneWarren-Nickle's Energy Group, Baker Hughes

## Canadian Oilfield Activity Charts

### a. Drilling Contractor Utilization – Weekly Observed and Actual Reported Rates

Drilling Contractor	Weekly Observed Utilization (%)				2009												2010		2011	
	This Week	Last Week	Last Year	13-Week M.Avg.	2008	2009					2010					2011				
						Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2			
Akita Drilling	57	68	49	74	42	45	16	26	37	31	49	25	39	31	36	62	30			
Ensign Group	69	70	55	66	36	30	7	18	25	20	42	13	31	37	31	52	16			
Nabors Drilling	53	51	39	51	42	39	13	15	27	24	44	22	33	46	36	61	27			
Precision Drilling	66	66	53	60	38	33	11	20	28	23	50	19	37	47	38	61	21			
Savanna	56	59	51	57	42	31	5	19	31	22	54	18	40	47	40	64	22			
Trinidad Drilling	78	80	63	78	55	50	14	36	43	36	67	34	56	65	55	80	31			
Western (Horizon)	97	100	80	82	50	55	9	30	45	35	46	46	61	65	57	85	40			
<b>INDUSTRY</b>	<b>67</b>	<b>67</b>	<b>52</b>	<b>63</b>	<b>42</b>	<b>36</b>	<b>11</b>	<b>21</b>	<b>32</b>	<b>25</b>	<b>53</b>	<b>20</b>	<b>41</b>	<b>49</b>	<b>41</b>	<b>67</b>	<b>23</b>			

Historical utilization rates shown for Canadian drilling rig operations where available

Ensign Group includes: Big Sky Drilling, Ensign Drilling and Champion Drilling

Savanna includes: Lakota Drilling and Trailblazer Drilling

Prior to 1Q10, Western (Horizon) figures estimated using Nickle's utilization data

### b. Drilling Contractor Utilization – Weekly Observed Rates by Depth Quartile

Depth Quartile		Rigs (% of fleet) Utilization	Ensign Group	Precision Drilling	Savanna	Trinidad Drilling	Western (Horizon)	INDUSTRY
Depth Range (m) / Average Depth (m)								
<b>Q1</b>	80 - 1,900m / 1,396 m		40 (33%) 38%	34 (17%) 35%	31 (42%) 13%	17 (31%) 65%	0 (0%) 0%	31%
<b>Q2</b>	2,000 - 3,000m / 2,515 m		32 (26%) 81%	69 (34%) 59%	9 (12%) 56%	5 (9%) 40%	2 (5%) 100%	67%
<b>Q3</b>	3,000 - 3,500m / 3,273 m		36 (30%) 89%	57 (28%) 81%	12 (16%) 100%	14 (26%) 93%	20 (54%) 95%	86%
<b>Q4</b>	3,500 - 7,000m / 4,169 m		13 (11%) 85%	45 (22%) 82%	21 (29%) 95%	18 (33%) 89%	15 (41%) 100%	85%
<b>Total</b>	80 - 7,000m / 2,838 m		121 69%	205 66%	73 56%	54 78%	37 97%	808 67%

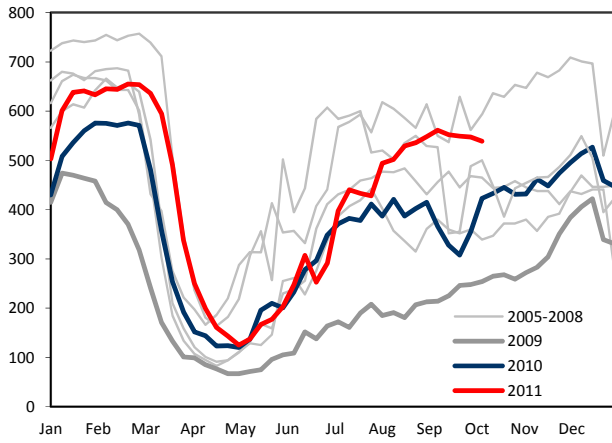
Ensign Group includes: Big Sky Drilling, Ensign Drilling and Champion Drilling

Savanna includes: Lakota Drilling and Trailblazer Drilling

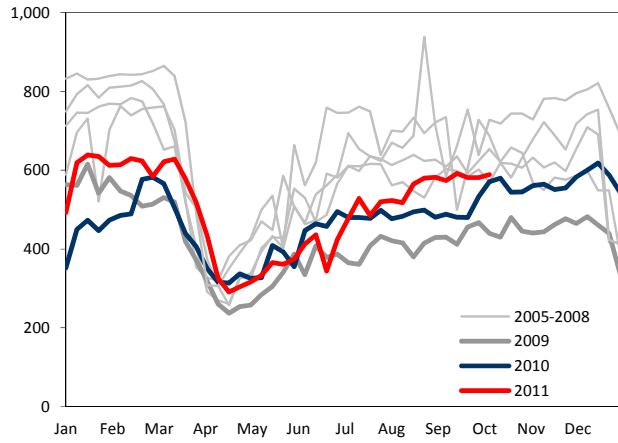
Sources: JuneWarren-Nickle's Energy Group, Company reports, Raymond James Ltd.

### Canadian Oilfield Activity Charts (continued)

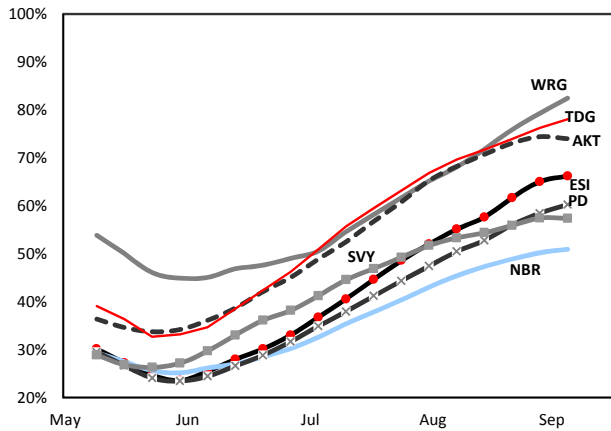
**a. Weekly Rig Count**



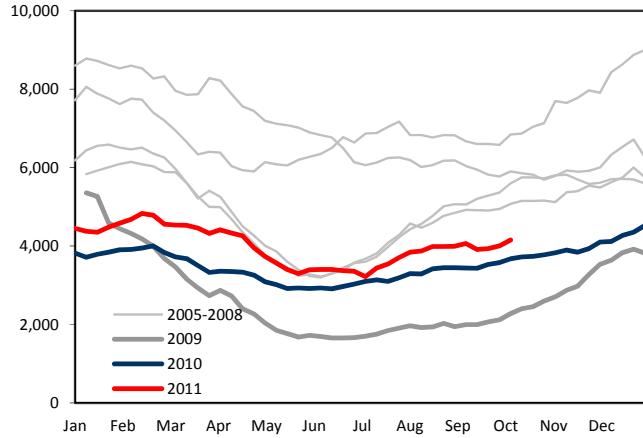
**b. Weekly Service Rig Count**



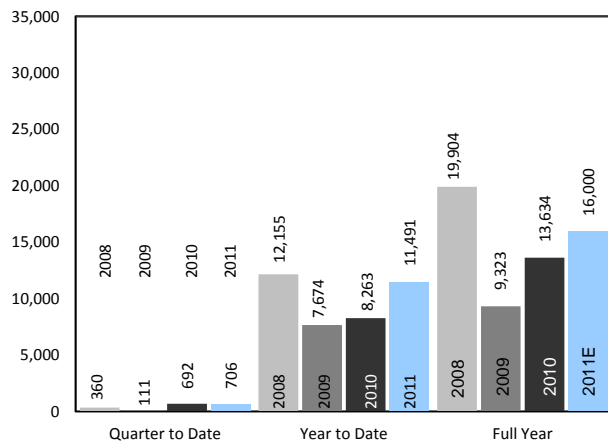
**c. Contractor Utilization (13-Wk MA)**



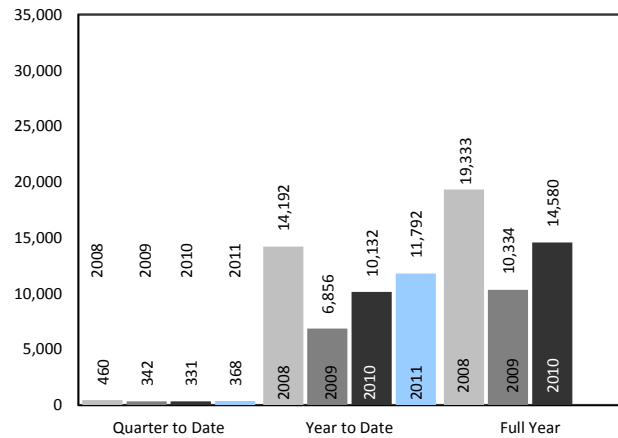
**d. Well Licenses (13-Wk Total)**



**e. Well Completions**



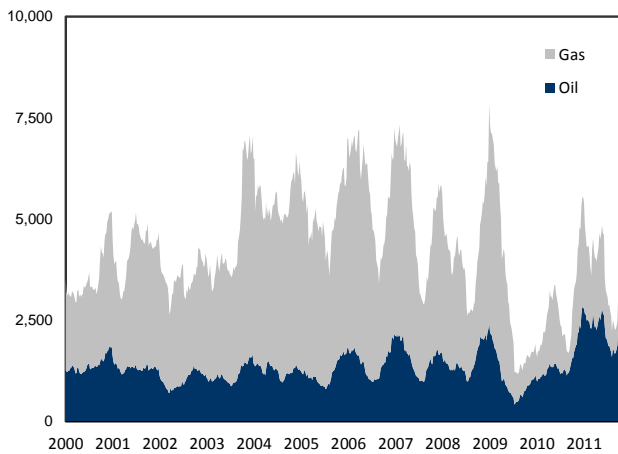
**f. Well Licenses**



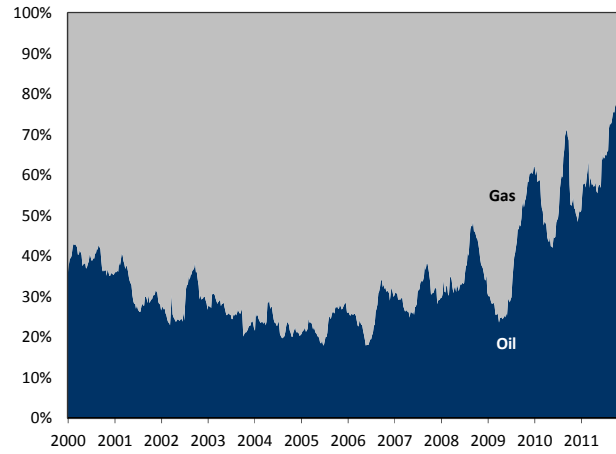
Sources: JuneWarren-Nickle's Energy Group, CAODC, Raymond James Ltd.

### Canadian & U.S. Oilfield Activity Charts

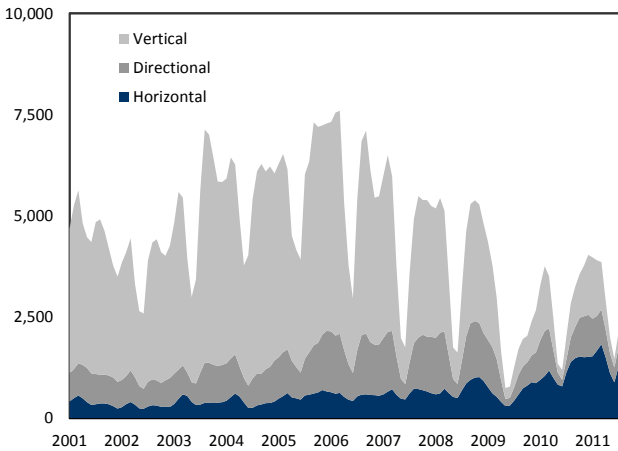
**a. WCSB Well Completions (3-M RT)**



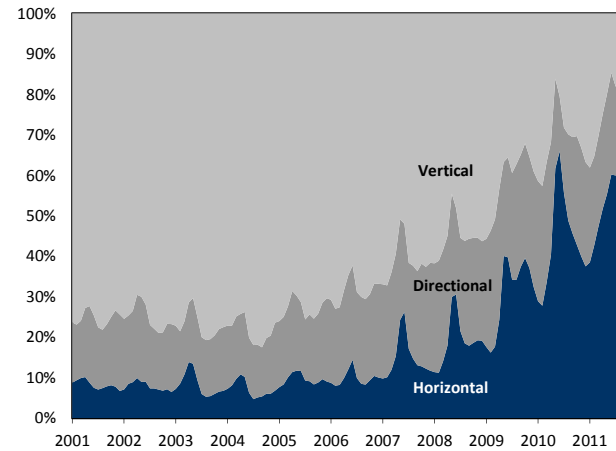
**b. WCSB Well Completions (%)**



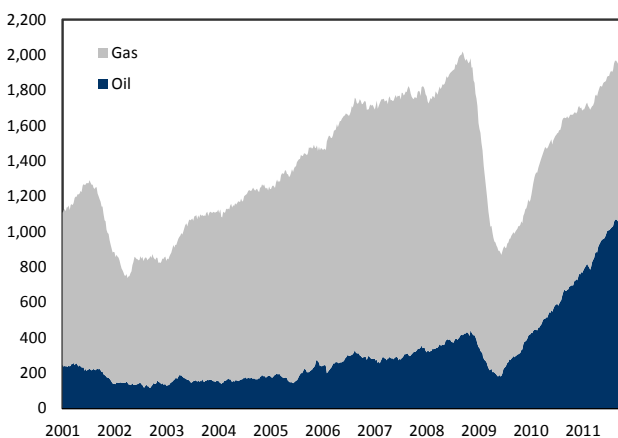
**c. WCSB Well Completions by Type (3-M RT)**



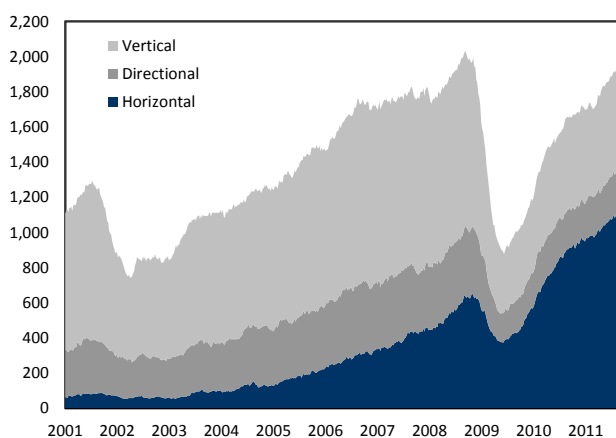
**d. WCSB Well Completions by Type (%)**



**e. U.S. Active Rig Count**



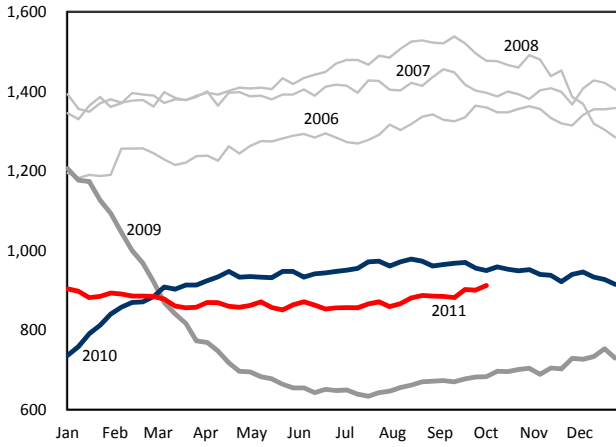
**f. U.S. Active Rig Count by Well Type**



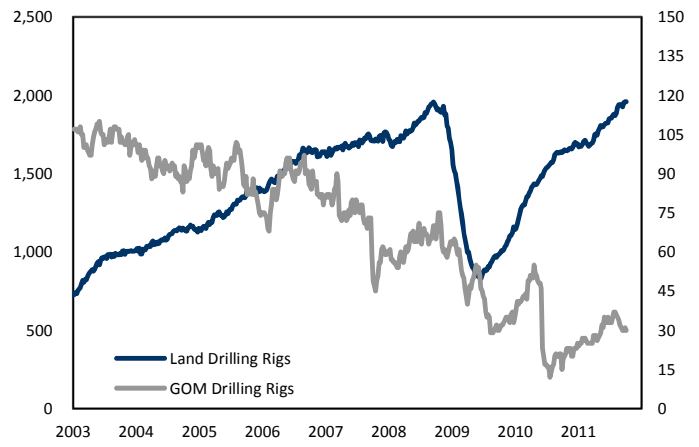
Sources: JuneWarren-Nickle's Energy Group, Baker Hughes

### U.S. & International Oilfield Activity Charts

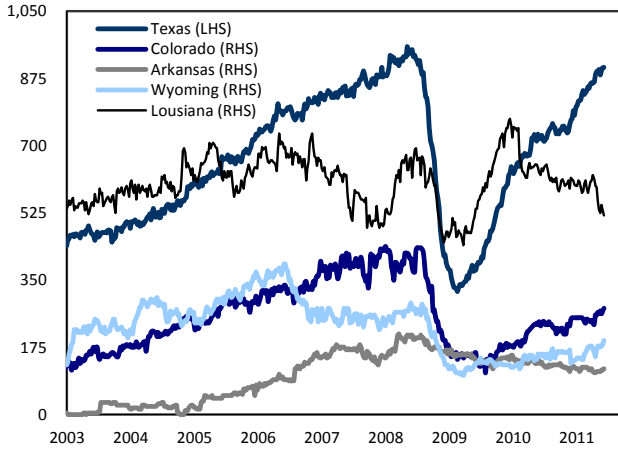
**a. U.S. Active Land Rigs Targeting Gas**



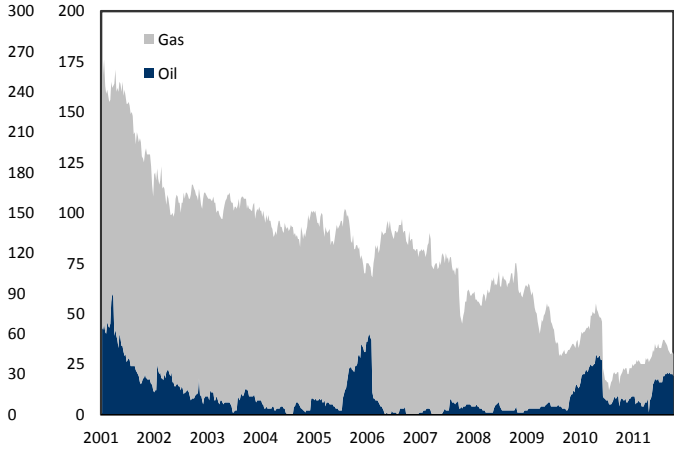
**b. U.S. Active Land and GoM Rig Count**



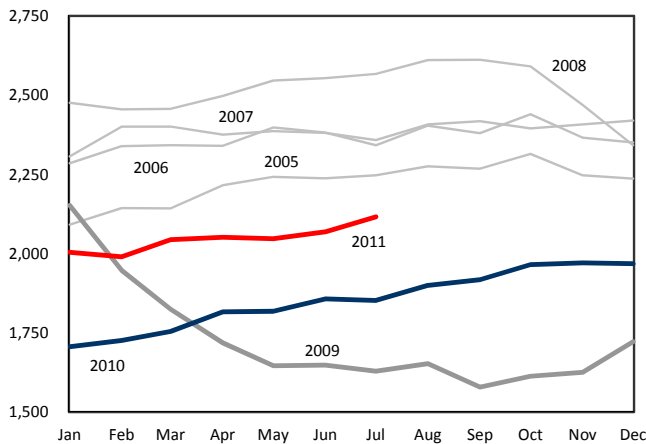
**c. U.S. State Drilling Rig Counts**



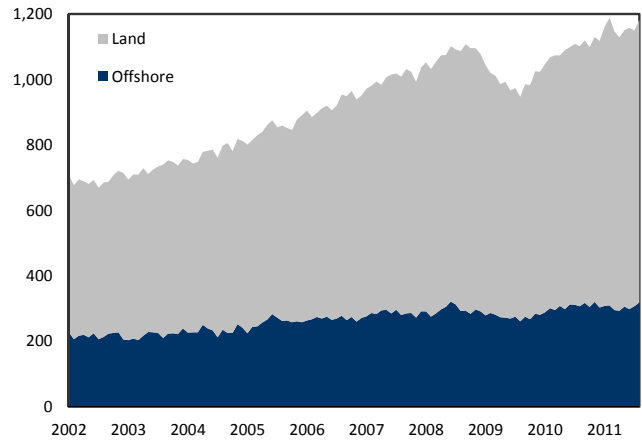
**d. U.S. GoM Active Rig Count**



**e. U.S. Active Well Service Rig Count**



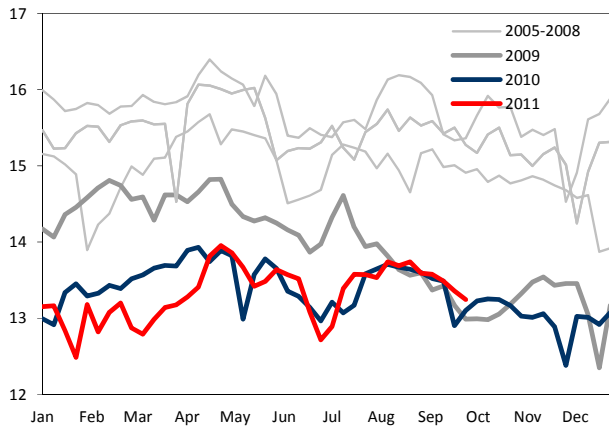
**f. International Active Rig Count**



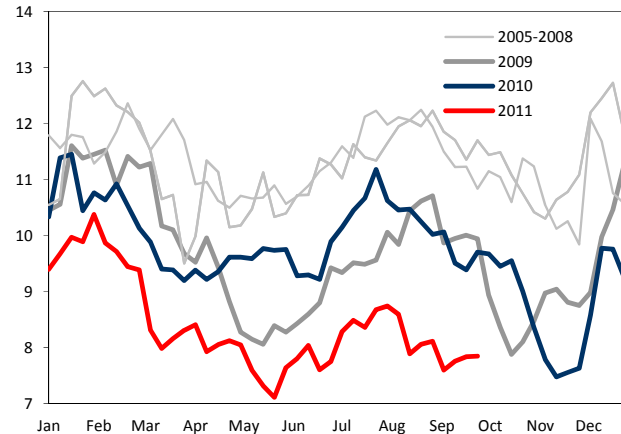
Sources: EIA, Baker Hughes, Raymond James Ltd.

### Natural Gas Charts

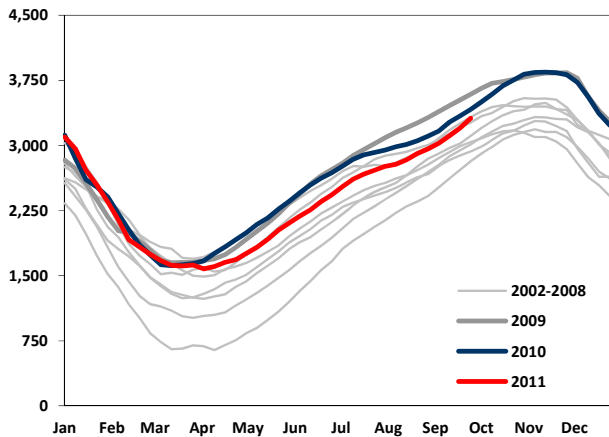
**a. Cdn Natural Gas Production (Bcf/d)**



**b. Cdn Natural Gas Exports to U.S. (Bcf/d)**



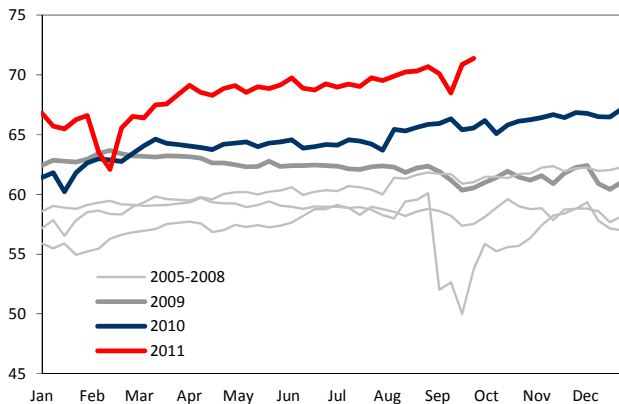
**c. US Natural Gas Storage (Bcf)**



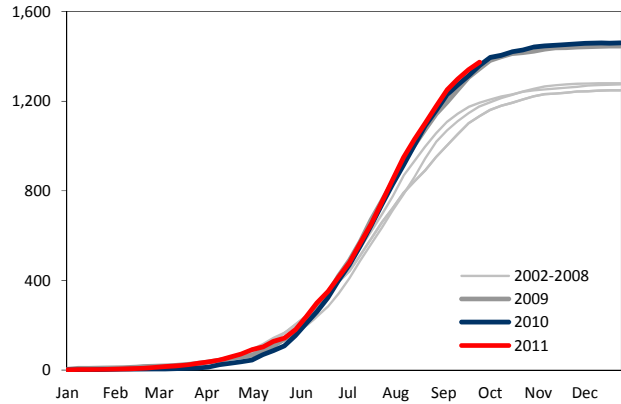
**d. North American Gas Prices (US\$/mcf)**



**e. U.S. Natural Gas Production (Bcf/d)**



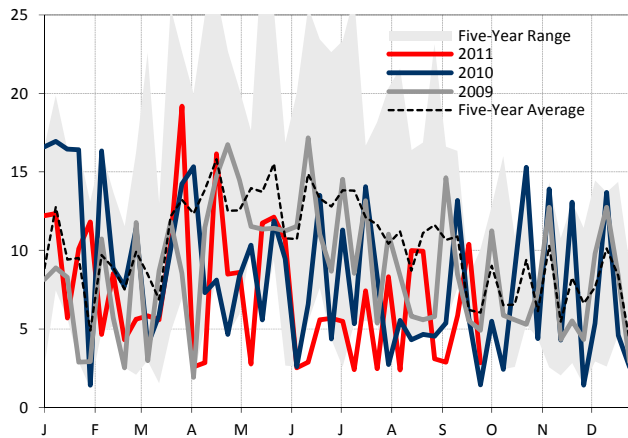
**f. Cumulative Cooling Degree Days**



Sources: Bloomberg, NOAA, Bentek Energy, Raymond James Ltd.

### Natural Gas Charts (continued)

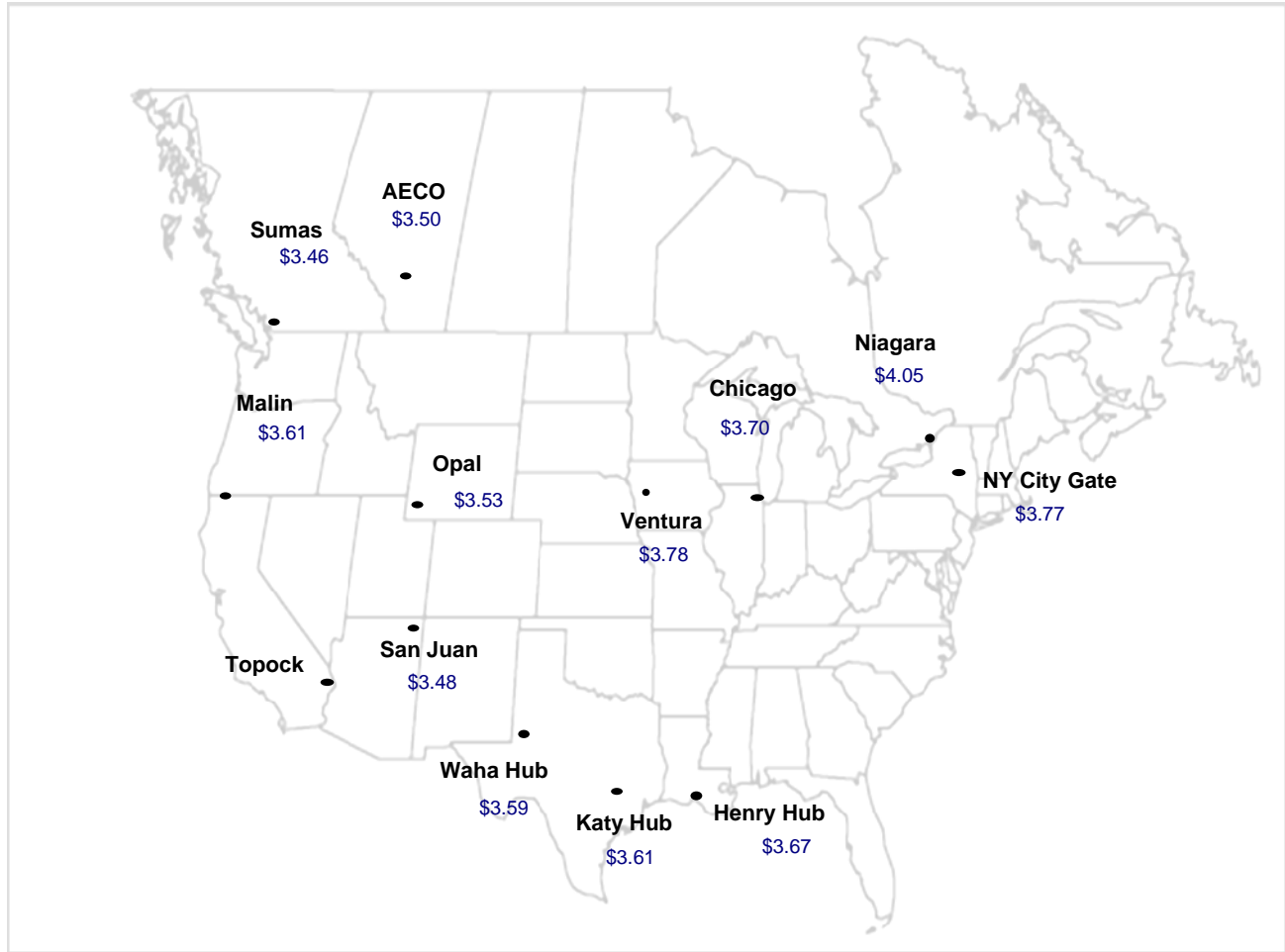
**a. Weekly U.S. LNG Imports (Bcf)**



**b. LNG Netbacks - Landed (US\$/mcf)**

Destination Port	Sep-11	Oct-11	Nov-11
Cove Point	\$4.01	\$3.82	\$3.85
Altamira	\$4.13	\$3.97	\$3.98
Lake Charles	\$3.53	\$3.36	\$3.38
Spain	\$10.85	\$10.40	\$10.68
Belgium	\$10.19	\$9.85	\$10.61
UK	\$10.16	\$8.89	\$10.11
India	\$14.83	\$15.61	\$15.73
Japan	\$16.60	\$17.25	\$17.15
Korea	\$16.60	\$17.25	\$17.15

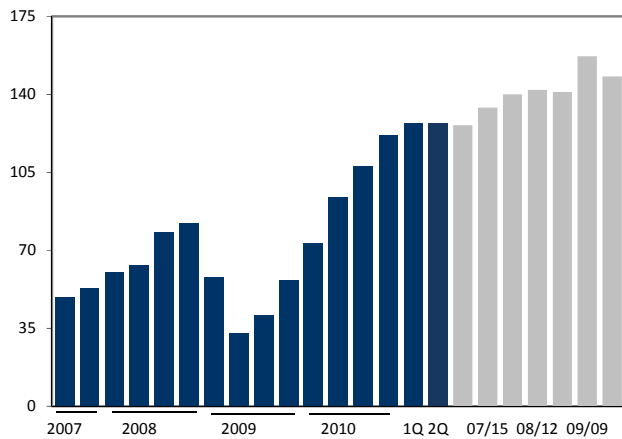
**c. N.A. Gas Spot Prices (US\$/mcf)**



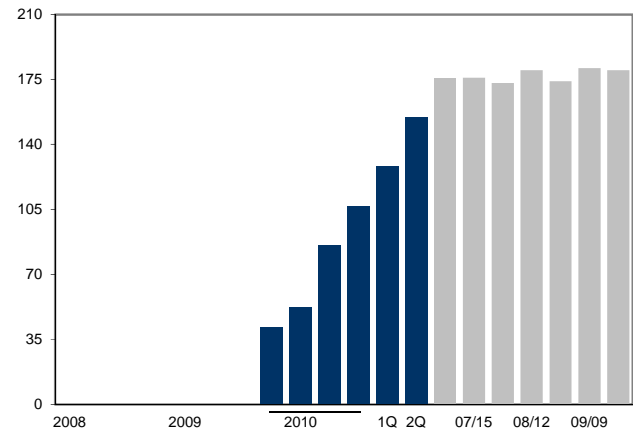
Sources: Bloomberg, Waterborne Energy, Raymond James Ltd.

### U.S. Unconventional Rig Counts

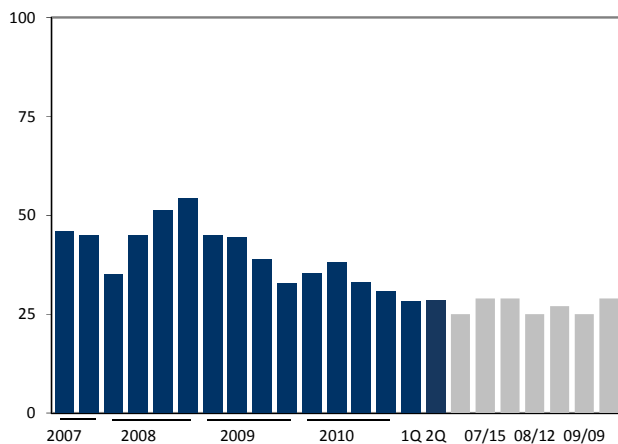
**a. U.S. Bakken Shale Active Rigs**



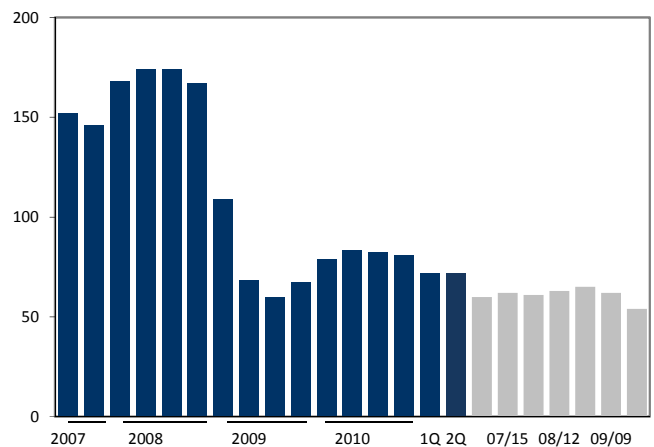
**b. Eagle Ford Shale Active Rigs**



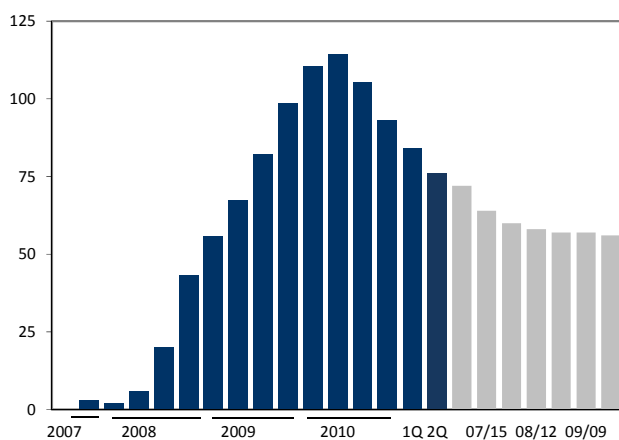
**c. U.S. Fayetteville Shale Active Rigs**



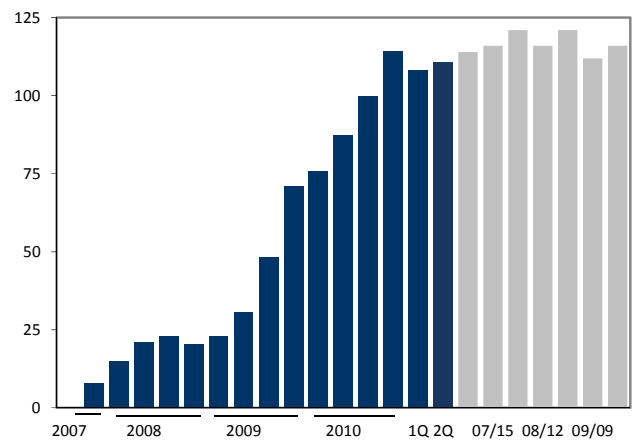
**d. U.S. Barnett Shale Active Rigs**



**e. U.S. Haynesville (La.) Shale Active Rigs**



**f. U.S. Marcellus Shale Active Rigs**



Sources: The Land Rig Newsletter

Energy Services

Company Name	Symbol	Closing Price	Target Price	Stock Rating	Target Return	Mkt Cap (\$miln)	Dividends		EPS (\$)		P/E (x)		EV/EBITDA		Debt/EBITDA		FCF Yield		Current P/B		ROIC		Analyst
							\$/sh	Yield	11E	12E	11E	12E	11E	12E	11E	12E	11E	12E	11E	12E	11E	12E	
<b>Contract Drillers</b>																							
Ensign	ESI	\$13.75	\$24.25	OP 2	79.1%	\$2,098	\$0.38	2.8%	\$1.46	\$2.01	9.4x	6.9x	4.8x	4.0x	1.2x	5%	18%	1.3x	12%	14%	AB		
Precision	PD	\$9.54	\$18.25	OP 2	91.3%	\$2,632	\$0.00	0.0%	\$0.95	\$1.28	10.1x	7.5x	\$696	\$860	1.8x	(12%)	15%	1.6x	12%	13%	AB		
Savanna	SVY	\$6.81	\$12.25	OP 2	79.9%	\$577	\$0.00	0.0%	\$0.54	\$0.88	12.7x	7.7x	\$133	\$180	1.5x	(5%)	17%	0.7x	6%	9%	AB		
Trinidad	TDG	\$6.28	\$12.50	SB 1	102.2%	\$759	\$0.20	3.2%	\$0.58	\$0.83	10.8x	7.6x	\$253	\$300	2.1x	8%	20%	1.1x	8%	10%	AB		
Tuscani*	TID	\$0.59	\$1.10	OP 2	86.4%	\$206	\$0.00	0.0%	(US\$0.04)	US\$0.06	nmlf	9.6x	7.0x	US\$91	5.8x	(27%)	22%	0.5x	2%	6%	AB		
Western	WRG	\$6.85	\$12.00	OP 2	75.2%	\$401	\$0.00	0.0%	\$0.99	\$0.98	6.9x	7.0x	\$88	\$120	1.1x	(4%)	17%	1.1x	15%	12%	AB		
<b>Pressure Pumps</b>																							
Callfrac	CFW	\$25.65	\$55.00	SB 1	115.0%	\$1,123	\$0.15	0.6%	\$3.60	\$4.96	7.1x	5.2x	\$373	\$524	1.2x	(13%)	8%	1.8x	19%	21%	AB		
Canyon	FRC	\$9.06	\$22.25	SB 1	146.7%	\$550	\$0.10	1.1%	\$1.39	\$2.09	6.5x	4.3x	\$149	\$229	0.0x	1%	13%	2.1x	35%	38%	AB		
GasFrac	GFS	\$7.37	\$12.50	OP 2	69.6%	\$453	\$0.00	0.0%	\$0.05	\$1.05	nmlf	7.0x	\$24	\$125	1.2x	(34%)	26%	1.8x	2%	22%	AB		
Trican	TCW	\$15.92	\$31.00	SB 1	95.4%	\$2,319	\$0.00	0.6%	\$1.81	\$2.02	8.8x	7.9x	\$578	\$750	0.7x	(7%)	(4%)	2.0x	21%	19%	AB		
<b>Completion Services</b>																							
Essential Pure	ESN	\$1.61	\$3.10	SB 1	92.5%	\$198	\$0.00	0.0%	\$0.19	\$0.30	8.4x	5.3x	\$61	\$95	1.8x	(6%)	29%	1.2x	8%	11%	AB		
Field Services	PSV	\$6.41	\$12.00	SB 1	87.2%	\$155	\$0.00	0.0%	\$0.82	\$1.27	7.8x	5.0x	\$47	\$67	0.7x	(10%)	40%	1.2x	15%	20%	AB		
Black Diamond	BDI	\$13.00	\$17.50	OP 2	39.0%	\$482	\$0.57	4.4%	\$1.06	\$1.18	12.3x	11.0x	\$88	\$103	0.9x	(8%)	12%	2.3x	13%	14%	AB		
Enerflex	EFX	\$8.83	\$13.25	OP 2	51.1%	\$690	\$0.24	2.7%	\$0.61	\$0.82	14.7x	10.9x	\$113	\$129	1.4x	8%	12%	2.3x	5%	6%	AB		
McCoy	MCB	\$2.77	\$5.50	OP 2	100.0%	\$75	\$0.04	1.4%	\$0.41	\$0.48	6.8x	5.8x	\$21	\$24	0.3x	30%	33%	1.5x	16%	17%	SH/BC		
Mullen	MTL	\$19.13	\$23.25	MP 3	26.8%	\$1,530	\$1.00	5.2%	\$1.21	\$1.20	15.8x	16.0x	\$268	\$285	1.9x	5%	6%	4.8x	11%	11%	AB		
Secure	SES	\$7.14	\$10.25	OP 2	43.6%	\$636	\$0.00	0.0%	\$0.43	\$0.61	16.7x	11.6x	\$65	\$104	0.2x	(3%)	7%	2.7x	12%	15%	AB		
Strat	SDY	\$3.74	\$6.75	SB 1	80.5%	\$139	\$0.00	0.0%	\$0.42	\$0.64	8.9x	5.8x	\$49	\$65	1.1x	(32%)	36%	1.2x	10%	13%	AB		
Median					83.5%			0.3%	\$0.71	\$1.02	9.2x	7.3x	4.9x	4.0x	1.2x	(5%)	17%	1.6x	12%	13%			

Source: Bloomberg, Raymond James Ltd.  
\*Note: Tuscani reports in USD

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### Raymond James Ltd. (Canada) definitions

**Strong Buy (SB1)** The stock is expected to appreciate and produce a total return of at least 15% and outperform the S&P/TSX Composite Index over the next six months. **Outperform (MO2)** The stock is expected to appreciate and outperform the S&P/TSX Composite Index over the next twelve months. **Market Perform (MP3)** The stock is expected to perform generally in line with the S&P/TSX Composite Index over the next twelve months and is potentially a source of funds for more highly rated securities. **Underperform (MU4)** The stock is expected to underperform the S&P/TSX Composite Index or its sector over the next six to twelve months and should be sold.

### Raymond James & Associates (U.S.) definitions

**Strong Buy (SB1)** Expected to appreciate, produce a total return of at least 15%, and outperform the S&P 500 over the next six to 12 months. For higher yielding and more conservative equities, such as REITs and certain MLPs, a total return of at least 15% is expected to be realized over the next 12 months. **Outperform (MO2)** Expected to appreciate and outperform the S&P 500 over the next 12-18 months. For higher yielding and more conservative equities, such as REITs and certain MLPs, an Outperform rating is used for securities where we are comfortable with the relative safety of the dividend and expect a total return modestly exceeding the dividend yield over the next 12-18 months. **Market Perform (MP3)** Expected to perform generally in line with the S&P 500 over the next 12 months. **Underperform (MU4)** Expected to underperform the S&P 500 or its sector over the next six to 12 months and should be sold. **Suspended (S)** The rating and price target have been suspended temporarily. This action may be due to market events that made coverage impracticable, or to comply with applicable regulations or firm policies in certain circumstances, including when Raymond James may be providing investment banking services to the company. The previous rating and price target are no longer in effect for this security and should not be relied upon.

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**Strong Buy (1)** Expected to appreciate, produce a total return of at least 15%, and outperform the Stoxx 600 over the next 6 to 12 months. **Outperform (2)** Expected to appreciate and outperform the Stoxx 600 over the next 12 months. **Market Perform (3)** Expected to perform generally in line with the Stoxx 600 over the next 12 months. **Underperform (4)** Expected to underperform the Stoxx 600 or its sector over the next 6 to 12 months.

### Suitability Categories (SR)

For stocks rated by Raymond James & Associates only, the following Suitability Categories provide an assessment of potential risk factors for investors. Suitability ratings are not assigned to stocks rated Underperform (Sell). Projected 12-month price targets are assigned only to stocks rated Strong Buy or Outperform.

**Total Return (TR)** Lower risk equities possessing dividend yields above that of the S&P 500 and greater stability of principal.

**Growth (G)** Low to average risk equities with sound financials, more consistent earnings growth, possibly a small dividend, and the potential for long-term price appreciation.

**Aggressive Growth (AG)** Medium or higher risk equities of companies in fast growing and competitive industries, with less predictable earnings and acceptable, but possibly more leveraged balance sheets.

**High Risk (HR)** Companies with less predictable earnings (or losses), rapidly changing market dynamics, financial and competitive issues, higher price volatility (beta), and risk of principal.

**Venture Risk (VR)** Companies with a short or unprofitable operating history, limited or less predictable revenues, very high risk associated with success, and a substantial risk of principal.

## Rating Distributions

	Coverage Universe Rating Distribution			Investment Banking Distribution		
	RJL	RJA	RJ LatAm	RJL	RJA	RJ LatAm
<b>Strong Buy and Outperform (Buy)</b>	76%	58%	39%	54%	15%	32%
<b>Market Perform (Hold)</b>	23%	37%	53%	30%	5%	3%
<b>Underperform (Sell)</b>	1%	5%	8%	0%	5%	0%

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