

June 28, 2003

Arcataur Capital Management, LLC
826 North Plankinton • Suite 300
Milwaukee, Wisconsin 53203

414 225.8200
FAX 414 225.0043
www.arcataur.com

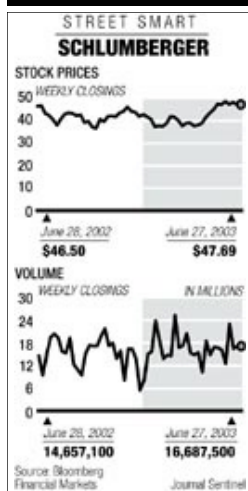
Schlumberger on a rebound, analyst says

It's called a good buy for those who foresee rise in energy production

By KATHLEEN GALLAGHER, kgallagher@journalsentinel.com



Street Smart



Graphic/Journal Sentinel

Investment

Schlumberger Ltd., New York, provides technology services to the international petroleum industry and offers information technology services to the telecommunications, energy and utilities, finance, transport, and public sector markets. Web site: www.slb.com.

Analyst

Ignatius L. Smetek, president and chief investment officer at Arcataur Capital Management LLC in Milwaukee.

- SchlumbergerSchlumberger
- Symbol/Exchange: SLB, New York
- June 27 price: \$47.69
- 52-week range: \$33.40 to \$50.15
- Dividend yield: 1.6%
- Long-term debt to total capital: 52%
- Return on equity (12 months ending 3/31): 9.5%
- Shares outstanding: 582 million
- *Earnings/share (2003): \$1.40
- *Earnings/share (2004): \$2.00
- P/E ratio (2003): 34
- P/E ratio (2004): 24

*Analysts' estimates for year ending Dec. 31.

Schlumberger fell out of favor on Wall Street because of a questionable acquisition, but Smetek says a new management team's cost-cutting and the developing recovery in the oil services industry make these shares look like a good value for investors.

"This stock has had a nice jump off the bottom," he says, "but on a valuation basis, it's still attractive."

Schlumberger, which Smetek says has always been perceived as the savviest company in the oil services industry, incurred Wall Street's wrath when it bought Sema PLC in April 2001. Only about 25% of Sema's business providing information technology services deals with energy or energy services, Smetek says.

"Schlumberger was underperforming the industry, and it had too good a collection of assets to

be doing that - the Sema acquisition was the last straw," he says.

A new management team, led by Chairman and Chief Executive Officer Andrew F.J. Gould, arrived at Schlumberger in late 2002 saying it would cut costs and integrate the oil services piece of Sema and sell the rest. Schlumberger's fourth-quarter numbers still were bad, but the company beat analysts' earnings estimates by 3 cents in the first quarter of 2003.

"They were able to achieve that by improving oil field margins from 10.9 percent in the fourth quarter of 2002 to 17 percent in the first quarter of 2003 - that quarter lent some good credibility to Andrew Gould," Smetek says. "Now management will have to continue to hit singles and doubles to enjoy the credibility it used to have."

Gould's goals may also be assisted by the recovery that appears to be shaping up in the oil services industry. Analysts recently raised their projections for exploration and production spending growth to about 6% in 2003, up from their 4% projection at the beginning of the year, Smetek says.

Meanwhile, partly because of Wall Street's negative view of the Sema acquisition, Schlumberger is trading at about 12 times cash flow compared with an average of 13 times 2003 cash flow for its industry group.

"Due to its breadth and technical superiority, Schlumberger always carried a price to cash flow multiple of about a 25 percent premium to its group," Smetek says.

"Schlumberger is still in a show me state, and you're not really paying up for it at this point."

The biggest risk Smetek associates with this stock is the possibility energy prices could fall if natural gas supplies were higher than expected, the economy headed into a double-dip recession or OPEC started overproducing. There's also a risk that management could falter, but he isn't worried about that.

Schlumberger shares are best for investors who believe energy production is going to rise and energy prices will either stay where they are or go higher, Smetek says. These blue chip shares are good for holding as part of a diversified portfolio, he says.

"This is a safe way to play an improving economy," Smetek says.

He started buying Schlumberger shares in client accounts during the last few months in the mid-\$40s and currently has full positions. Smetek would buy these shares under \$50 and would buy them aggressively under \$45. He says they could go as high as \$60 in the next 12 months.

This column examines one stock through the eyes of a professional investor to show how market pros make investment decisions. Neither Kathleen Gallagher nor the Journal Sentinel recommends specific investments or endorses the recommendations of those interviewed.

From the June 29, 2003 editions of the Milwaukee Journal Sentinel