



Schlumberger Upside Call Spreads Open into Dip

Ticker/Price: SLB (\$35.15)

Analysis:

Schlumberger (SLB) into weakness with 7,270 February \$37.5/\$42.5 call spreads bought for \$0.96. This follows buyers in the January \$32.50 calls last week and the Feb. \$40 calls over 10,000X. SLB has also seen notable June call buys and put sales in May and Jan. 2021. Shares are forming a big weekly base with the 200-MA just above at \$38.25 and a positive RSI divergence into recent lows. A move higher targets \$45 initially but a lot of room above with a low-volume gap from late 2018 stretching back to \$60. The \$51.13B company trades 21X earnings, 1.56X sales, and 22.3X cash with a 5.5% yield. They see a 18.5% rebound in EPS next year and 22.5% the following year with revenues up 2.5% and 6.5%. SLB continues to see strong performance Internationally with improvements in margins and growth across all of their product lines. They continue to invest in tech and outlined a long-term digital strategy in October that focuses on reinventing SLB for a new generation. As part of the overhaul, new CEO Olivier Le Peuch announced plans to explore exiting unprofitable businesses and restructuring others. He expects first announcements in December, a positive catalyst. Analysts have an average target for shares of \$45 with 15 buy and 5 hold ratings. Tudor Pickering upgrading to Buy from Sell last week while Deutsche Bank with a \$42 PT and Buy rating on 11-19. They think international markets are firmly in recovery mode which benefits SLB most since they've got such a dominant position in the market. SLB should benefit during a low-price environment with a focus on lower well costs, increased productivity and efficiency. Short interest is 2%. Hedge fund ownership fell 12.4% in Q3. Harding Loevner a concentrated holder. SLB last saw insiders buying stock in December 2018 when the EVP of Wells bought \$375k at \$37.55 while a director bought \$1M in stock at \$63.56. SLB will be at the Cowen Energy conference next week, 12/9.

Hawk Vision:



Hawk's Perspective: SLB is a top operator but the environment remains very challenging for the industry with E&P names cutting back on spending, but could set up better into 2H20.

Confidence Ranking: \$\$