# NABORS INDUSTRIES LTD.

Stock Analysis | Kevin Trocciola, Brian Deshong, Kevin Clerkin, Peter Bombara | Spring 2006

Sector: Basic Materials
Industry: Oil & Gas Drilling & Exploration

Target Price: 50.78
Recommendation: Buy

**OVERVIEW**

Based on our research and valuations, we believe Nabors Industries, Ltd. is an excellent addition to the St. John's University Undergraduate Portfolio. We believe that Nabors is not only undervalued but has the potential for supreme growth.

52 Week Range: 25.38 to 41.35


**KEY RATIOS AND STATISTICS**

| | |
|---|---|
| Ticker: | NYSE: NBR |
| Current Price (5/5/2006): | 39.33 |
| Market Capitalization: | 12.31 billion |
| Price-to-Earnings: | 19.67 |
| Price-to-Earnings (Forward): | 12.60 |
| 5-Year Annual Growth (%) | 36.41 |
| 5-Year Revenue Growth (%) | 21.12 |
| 5-Year EPS Growth (%) | 35.06 |
| Profit Margin (%) | 18.75 |
| Return on Equity (%) | 22.14 |
| Return on Assets (%) | 11.57 |
| 1 Year EPS Growth (%) | 108.33 |
| 1 Year Sales Growth (%) | 44.52 |

**EARNINGS PER SHARE**

| Ending | Q1 Mar | Q2 Jun | Q3 Sep | Q4 Dec | Annual |
|---|---|---|---|---|---|
| 2008 | | | | | 5.43F |
| 2007 | 1.02F | 0.93F | 1.04F | 1.17F | 4.03F |
| 2006 | 0.74F | 0.67F | 0.80F | 0.93F | 3.12F |
| 2005 | 0.40A | 0.41A | 0.56A | 0.65A | 2.00A |
| 2004 | 0.23A | 0.15A | 0.24A | 0.34A | 0.96A |
| 2003 | 0.16A | 0.10A | 0.17A | 0.21A | 0.63A |
| 2002 | 0.14A | 0.09A | 0.06A | 0.08A | 0.36A |
| 2001 | 0.26A | 0.32A | 0.34A | 0.18A | 1.09A |

**A = Actual*
**F = Forecasted*

**HIGHLIGHTS**

- With rising prices, spending will increase for drilling and exploration to try and meet growing demand
- Nabors is looking to fully activate its fleet of rigs as higher oil prices and increased consumer demand for energy have many scrambling to find and produce more oil and gas
- The growth of land rig utilization increased to 95% in 2005 from 86% in 2004
- Previous closing prices are significantly above the 50-day moving average
- We derived our price target by taking the Forward P/E ratio of 12.60 and multiplying it by our 2007 EPS estimate of 4.03 to get $50.78, which is also in line with our cash flow analysis valuation model of $52.05 (page 19).

**AREAS OF OPERATION**

# TABLE OF CONTENTS

# EXECUTIVE SUMMARY & RECOMMENDATION

Oil and gas exploration and production companies need a little help in order to ply their trade all around the globe. As a result they turn to Nabors Industries, one of the world's largest drilling contractors. Overall, the company has nearly 600 land drilling rigs and more than 900 land work over and well-servicing rigs. Nabors Industries operates across the US and in Africa, Canada, Central and South America, and in the Middle East. Its offshore equipment includes platform rigs, jack-ups, barge drilling rigs, and marine support vessels. Nabors also provides oil field hauling, maintenance, well logging, engineering, and construction services and also invests in oil and gas exploration.

Nabors growth story has been amazing from day one. They started at the beginning of 1990 as a land drilling business centered in Canada and Alaska with little international involvement, with a fleet that consisted of only 44 land drilling rigs. Today, Nabors' also operates in the U.S., Lower 48 states, and their worldwide fleet consists of almost 600 land drilling rigs, approximately 565 domestic and 215 international land work over and well-servicing rigs, 43 offshore platform rigs, 19 jack-up units, three barge rigs and a large component of trucks and fluid hauling vehicles. This growth was fueled in part by strategic acquisitions and a growing demand for land drilling. We see tremendous future growth for the company over the next few years.

Natural gas prices are the primary driver of Nabors U.S. Lower 48 Land Drilling, Canadian and U.S. Offshore (Gulf of Mexico) operations, while oil prices are the primary driver of our Alaskan, International and U.S. Land Well-servicing operations. Natural Gas and Oil prices, according to the budget and fiscal plan, are expected to remain high and very volatile in the short term, mainly because of Hurricanes Katrina and Rita's disruption of oil and NG production. Although increases in NG and crude oil bring fourth other energy substitutions, such as coal or electricity, we feel that many consumers cannot switch that easily. This is mainly because the prices of coal and electricity have also been increasing over the past few years. As we can see from the chart, Crude Oil and Natural Gas have been on the rise over the past three years:

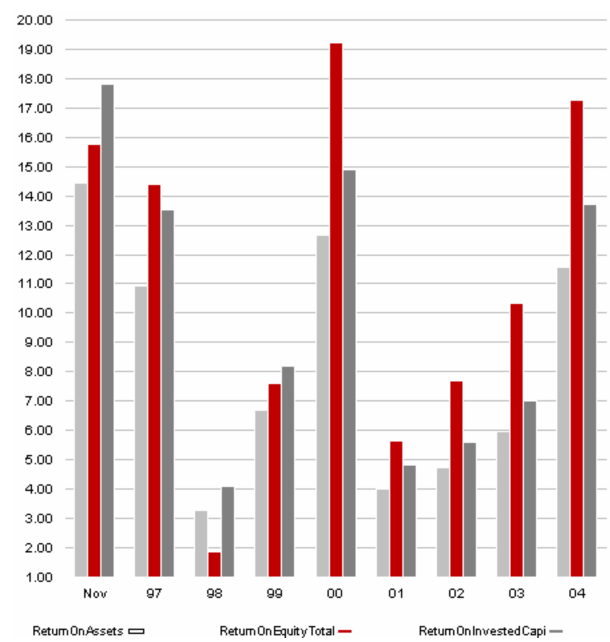
| | Year Ended December 31 | | | Increase | | | |
|---|---|---|---|---|---|---|---|
| | 2005 | 2004 | 2003 | 2005-2004 | | 2004 to 2003 | |
| Commodity prices: | | | | | | | |
| Average Henry Hub natural gas spot price ($/million cubic feet (mcf)) | 8.89 | 5.90 | 5.49 | 2.99 | 51% | .41 | 7% |
| Average West Texas intermediate crude oil spot price ($/barrel) | 56.59 | 41.51 | 31.06 | 15.08 | 36% | 10.45 | 34% |

We recommend buying 600 shares of Nabors at market price. This is an estimated cost of approximately $24,000, and will consist of approximately 1.43% of our total holdings. We have a set price target of $49.81, which is an estimated 28% increase from today's market price. We feel that this company would add diversification, value, and growth to our portfolio for both the long and short-term.

We recommend funding this transaction by selling 177 shares of SPY (ETF) and using cash to cover the difference (if needed). As of May 5, 2006, SPY has grown to over 10% of our portfolio. By selling 177 shares based on the May 5 close, we are able to raise roughly $23,500 and reduce the SPY composition of our portfolio to approximately 8.9%. Any cash used should still keep us within the 20% guideline.

## COMPANY OVERVIEW

Nabors Industries Ltd., based in Barbados, is the world's largest oil and gas land drilling contractor. Nabors operates across the US and in Africa, Canada, Central and South America, and in the Middle East. They are involved in three main business segments, which are contact drilling (89% of 2005 Revenues), manufacturing and logistics (11% of 2005 Revenues), and Oil & Gas (2% of 2005 Revenues). Nabors has remained consistently profitable in every one of the energy industry's cycles, delivering a long-term average return on capital that is among the industry's best. Nabors prides itself in being the industry leader in all aspects of its business. Recent acquisitions include Westburne and Loffland Brothers, and Alberta Ltd, which resulted in the formation of the largest fleet of land rigs in the world and built and solid infrastructure for Nabors.




Demand for land drilling gear and services is booming as higher prices prompt explorers to search for oil and gas in smaller and harder-to-reach deposits. Nabors Industries, the world's largest land driller, is the obvious beneficiary. In the past, land rigs were leased for a month or two. However, with demand surging, the company is signing multiyear contracts for rigs that are still in the planning stages. Over the next two years, Nabors plans to deploy 100 new, highly mobile rigs. That coupled with its dominant position in the U.S., means that it can put its equipment into operation in more places more quickly than any other driller. The company is looking to fully activate its fleet of rigs as higher oil prices and increased consumer demand for energy have majors scrambling to find and produce more oil and gas. Nabors has also expanded its Canada-based drilling fleet by buying Enserco Energy and Ryan Energy Technologies in 2002, as well as reincorporated its business in 2003 in Bermuda in an effort to reduce tax expenses.

*"The Nabors companies own and operate almost 600 land drilling and approximately 875 land workover and well-servicing rigs worldwide. Offshore, Nabors operates 43 platform rigs, 19 jack-up units and three barge rigs in the United States and multiple international markets. Nabors markets 28 marine transportation and supply vessels, primarily in the U.S. Gulf of Mexico. In addition, Nabors manufactures top drives and drilling instrumentation systems and provides comprehensive oilfield hauling, engineering, civil construction, logistics and facilities maintenance, and project management services. Nabors participates in most of the significant oil, gas and geothermal markets in the world." (Nabors Industries Ltd.)*

## KEY EXECUTIVES

Eugene M. Isenberg Age: 74 Chairman and CEO

Mr. Isenberg has served as Chairman of the Executive Committee of the Board and Chief Executive Officer of Nabors since 1987. He is also currently involved in a number of other executive functions. He has held the position of Director at Danielson Holding Company since 1990. He has also served as Governor of American Stock Exchange since 1996, as well as The National Association of Securities Dealers of the since 1998. Most recently he became a member of the National petroleum Council in 2000. His past credits include Chairman of the board and principal shareholder of Genimar Inc., a steel trading business and building products manufacturing company, as well as serving in various management capacities with the Exxon Corporation from 1955 to 1968.

Anthony G. Petrello Age: 49 Deputy Chairman, President, and COO

Mr. Petrello has served Nabors in a variety of rolls throughout the years. He has acted as Chief Operating Officer since 1992, Deputy Chairman since 2003, and a member of the Executive Committee of the Board since 1991. Prior to joining the Nabors team, Anthony served as a Managing Partner to the law firm of Baker & McKenzie from 1986 until his resignation in 1991. His schooling includes a J.D degree from Harvard Law School, and B.S. and M.S. degrees in Mathematics from Yale University.

Bruce P. Koch Age: 45 Vice President and CFO

Mr. Koch has served as Vice President and CFO of Nabors since 2003. Prior to this he served the company as Vice President of Finance from 1996 to 2003 and as Corporate Controller from 1990 to 1995. Before working at Nabors, Bruce was employed at the accounting form of Coopers & Lybrand from 1983 to 1990. He served a number of positions there including Audit Manager from 1987 until 1990.

Daniel McLachlin Age: 67 Vice President and Secretary

Mr. McLachlin has served Nabors in a variety of rolls for the past twenty two years. He has been Vice president of Administration and Corporate Secretary since 1986. Prior to this he was Manager of Administration from 1984 to 1986, as well as Vice President of Human Resources from 1979 to 1984.

# INDUSTRY ANALYSIS

In the wake of hurricanes Katrina and Rita in the Gulf Coast region of North America, the Oil & Gas Drilling industry has been faced with new problems and fears. Combined, both storms destroyed 11 offshore drilling rigs and caused damage to 22 others. As a result, almost 100% of daily oil production and 80% of natural gas production was ceased. By late November, production was restored to roughly 41% and 32% respectively. It is expected that by Q1 2006, production will be fully restored. Since then, oil prices have soared to record highs. The only *positive* result from these two disastrous hurricanes is the aftermath has served as a wakeup call to the industry. Not only are new and more efficient drilling rigs needed but new sources are needed as well.

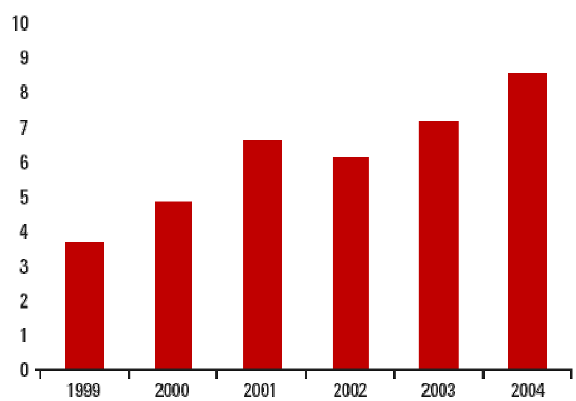
The industry is split in two major divisions, contract drilling and oilfield services, each with its own subdivisions. Nabors Industries Ltd. falls into the contract drilling division specializing mainly in onshore drilling. The growth of land rig utilization increased to 95% in 2005 from 86% in 2004. Because of the major destruction and damage suffered by offshore rigs during the 2005 hurricane season, it is a safe bet that onshore drilling will continue to experience surging growth.

The crude oil bust of 1999 caused many corporations in the industry to tighten budgets and eliminate costs associated with expansion and exploration. Once prices began to rise in early 2000, many were sitting on stockpiles of cash. This brought the industry as a whole into boom status, causing prices of oil to continually rise. Once the events of September 11th took place prices weakened, inventory levels increased and production and exploration diminished. Aging oilfields were disposed and new higher yield and lower-cost alternatives were chosen in the form of deepwater or offshore rigs.

In 2005, natural gas prices soared in the wake of the Gulf Coast hurricanes as much of the US gas infrastructure was damaged. Over 80% of US and Mexican gas production was shutdown resulting in an extreme price surge. In 2004, prices averaged $6.04 per MMbtu whereas towards the end of 2005 prices reached $13.18 per MMbtu. It is estimated that worldwide demand for oil and gas will increase by 2-3% on an annual basis. On the other hand it is estimated that worldwide field decline will reach 4-6% conservatively causing a gap between supply and demand.

**WORLDWIDE FINDING & DEVELOPMENT COSTS**

*(Dollars per barrel of oil equivalent)*




Sources: J.S. Herold.

## COMPETITIVE FORCES

- RIVALRY

Slow industry growth paired with thousands of competitors increase rivalry throughout the industry. The oil industry typically experiences long periods of boom followed by long periods of bust. The drilling industry is considered to be “highly skilled” since workers with the expertise and skills to operate equipment is in high demand. The cost of keeping these workers on staff can be very high. Because of this, almost all drilling companies are subcontracted by oil and gas producers for a period of time. During “bust” periods, the drilling companies are the first to feel the squeeze to lower costs. Exit barriers are also extremely high due to the specialized nature of the products. Aside from scrap value, a rig can do one thing – pump oil. If a rig is not in operation, it provides no value to the company.

- THREAT OF NEW ENTRANTS

There are thousands of oil related companies scattered around the world but the barriers of entry limit all but the strong. Depending on the rig setup, costs start at $100 million and can climb to roughly $500 million and construction typically lasts 3 years until the rig can be delivered. These high costs and long lead time greatly limit startup drillers. In terms of size, Nabors is one of the largest contract drillers in the world and can sustain the potential threat of new competition.

- THREAT OF SUBSTITUTE PRODUCTS

Oil has had a stronghold on our lives since the Industrial Revolution; however due to rising costs and increased demand, alternative products aimed at decreasing our need for oil have been gaining favor in the last few years. One of the biggest emerging threats to the oil industry is ethanol, which is a renewable resource that is easily obtained from corn or sugarcane. The use of ethanol dramatically reduces the need and use of oil. For example, a common automobile engine today runs on E10 which is a mixture of 10% ethanol in gasoline. Companies such as General Motors and Ford Motor Co. have developed new engines which run on E85 or 85% ethanol mixed with gasoline. As gasoline prices increase, support for ethanol is increasing. In a recent press conference, President Bush was said, "follow suit on what we have been emphasizing, particularly through the energy bill, and that is to encourage conservation, to expand domestic production and to develop alternative sources of energy like ethanol."

- BARGAINING POWER OF SUPPLIERS

While there are numerous oil related companies throughout the world, much of the supply is controlled by a small number of powerful corporations. Because of the large amount of capital investment needed, suppliers of rigs, pipelines, refineries and other entities are usually left out. There is not much aggressive competition but they do have significant power over smaller drilling companies. Nabors avoids these potentially damaging factors due to its large size and diversification. Nabors operates in many segments of oil and gas exploration including land and offshore drilling rigs, field hauling, maintenance, construction services and direct investment in exploration.

- BARGAINING POWER OF BUYERS

Oil is a commodity as there is not much difference between one company's oil and another's. As a result, power is shifting towards buyers who demand lower prices and more favorable contract terms. This affects drilling companies adversely. When demand is low, pricing is low and there is minimal need for increased drilling and exploration. On the other hand when demand is high, drilling companies are the first to capitalize on the increased demand since more money is pumped into exploration.

**EQUIPMENT & SERVICES SCOREBOARD**
(Ranked by enterprise value, in millions of dollars)

| | ENTERPRISE VALUE* 11/30/2005 | TOTAL ASSETS 2004 | REVENUES 2004 | REVENUES % CHG FROM 2003 | NET INCOME 2004 | EMPLOYEES 2004 |
|---|---|---|---|---|---|---|
| **OFFSHORE DRILLING** | | | | | | |
| Transocean | 22,073 | 10,758 | 2,614 | 7.4 | 152.0 | 8,600 |
| GlobalSantaFe | 10,550 | 5,998 | 1,724 | (10.0) | 31.0 | 5,325 |
| Noble | 10,095 | 3,308 | 1,066 | 8.0 | 146.0 | 5,300 |
| Diamond Offshore | 8,255 | 3,379 | 815 | 19.6 | (7.0) | 4,200 |
| Ensco International | 7,528 | 3,322 | 768 | (2.9) | 104.0 | 3,600 |
| Pride International | 5,847 | 4,038 | 1,712 | 1.3 | 14.0 | 12,600 |
| Rowan | 4,037 | 2,492 | 709 | 4.3 | 26.0 | 4,392 |
| TODCO | 2,501 | 761 | 351 | 54.3 | (29.0) | 1,970 |
| Atwood Oceanics | 1,157 | 499 | 161 | 11.3 | 8.0 | 1,100 |
| Total | 72,043 | 34,557 | 9,920 | 3.9 | 445.0 | 47,087 |
| **ONSHORE DRILLING** | | | | | | |
| Nabors Industries | 11,611 | 5,863 | 2,394 | 27.3 | 302.0 | 17,260 |
| Patterson-UTI Energy | 5,267 | 1,323 | 1,001 | 28.9 | 109.0 | 6,800 |
| Helmerich & Payne | 2,897 | 1,407 | 593 | 17.0 | 4.0 | 4,251 |
| Unit Corp. | 2,614 | 1,023 | 513 | 71.1 | 90.0 | 2,515 |
| Grey Wolf | 1,589 | 636 | 425 | 48.5 | 8.0 | 2,900 |
| Total | 23,978 | 10,251 | 4,926 | 31.4 | 514.0 | 33,726 |
| **DIVERSIFIED OILFIELD SERVICES** | | | | | | |
| Schlumberger | 57,809 | 16,001 | 11,480 | (17.4) | 1,014.0 | 52,500 |
| Halliburton | 34,025 | 15,796 | 20,464 | 26.0 | 385.0 | 97,000 |
| Baker Hughes | 19,961 | 6,821 | 6,104 | 15.3 | 528.0 | 26,900 |
| BJ Services | 11,634 | 3,331 | 2,601 | 21.4 | 361.0 | 12,825 |
| Weatherford International | 13,166 | 5,543 | 3,132 | 20.9 | 337.0 | 18,400 |
| National-Oilwell Varco | 11,250 | 2,599 | 2,318 | 15.6 | 110.0 | 7,550 |
| Smith International | 8,640 | 3,507 | 4,419 | 22.9 | 182.0 | 13,235 |
| Cooper Cameron | 4,506 | 2,356 | 2,093 | 28.1 | 94.0 | 8,825 |
| Total | 103,182 | 39,953 | 41,131 | 11.0 | 1,999.0 | 184,735 |
| **OFFSHORE SUPPLY, CONSTRUCTION, & EQUIPMENT MANUFACTURING** | | | | | | |
| Grant Prideco | 5,195 | 1,344 | 946 | 12.8 | 65.0 | 4,064 |
| Tidewater | 2,772 | 2,213 | 692 | 6.1 | 101.0 | NA |
| Cal Dive International | 3,173 | 1,039 | 543 | 37.1 | 83.0 | 900 |
| FMC Technologies | 2,882 | 1,894 | 2,768 | 20.0 | 117.0 | 9,000 |
| Hanover Compressor | 2,824 | 2,762 | 1,169 | 9.0 | (54.0) | 5,900 |
| Seacor Smit | 2,276 | 1,766 | 492 | 21.1 | 20.0 | 3,900 |
| Universal Compression | 2,089 | 2,023 | 763 | 10.8 | 34.0 | 2,370 |
| Superior Energy Services | 1,896 | 1,004 | 564 | 12.7 | 36.0 | 3,350 |
| Hornbeck Offshore Svcs | 1,120 | 461 | 132 | 19.4 | (2.0) | 601 |
| Total | 24,228 | 14,506 | 8,069 | 19.4 | 398.0 | 30,085 |
| **Industry Total** | **223,430** | **99,267** | **64,045** | **11.6** | **3,356.0** | **295,633** |

Note: Totals may not add due to rounding. *Enterprise value equals market value plus total debt plus preferred value minus cash equivalents.
Source: Standard & Poor's Compustat.

## STRATEGIES

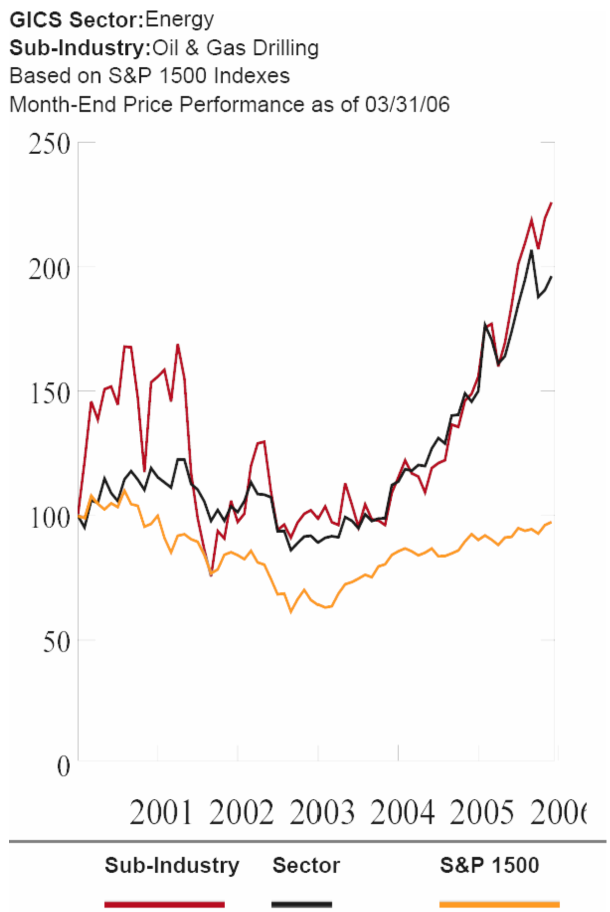
For the past ten years, Nabors has been in a high growth mode, increasing their exposure wherever possible. Since 1995, Nabors has purchased smaller drilling firms and rig properties such as Delta Drilling, Occidental and Adcor-Nicklos Drilling Co., Chesley Pruet Drilling and Samson Rig and Rig Properties. In 1999, Nabors purchased its rival Bayard Drilling Technologies and oil field service firm Pool Energy Services, dramatically increasing its size to what it is today. In 2002, Nabors grew even more with the acquisitions of Canadian drilling contractor Enserco Energy and Ryan Energy

Technologies. In 2003, Nabors reincorporated in Bermuda to reduce heavy taxation faced in the US. On November 3, 2005, Nabors changed their listing from the American Stock Exchange to the New York Stock Exchange.

Nabors has favorable exposure in Alaska, which is source to a large amount of natural gas and hydrate deposits. With the signing of the Energy Act of 2005, tax incentives and streamlined permit processes were created. Royalty relief for oil and gas producers as well as eased rules for natural gas pipelines was also included. Unfortunately there were no provisions for the area known as the Artic National Wildlife Refuge (ANWR) which is believed to be extremely rich in natural gas. Congress passed a bill that would open the ANWR but it was shot down by the Senate. Nabors currently operates in other parts of Alaska as well as Canada, giving it favorable conditions if the ANWR was ever leased by the government for drilling.

## RELATIVE VALUATION

We believe the industry is overvalued based on the S&P 1500 Index however this is mainly due to the industry operating in a "boom" state. Demand has been rising over the past 5 years which has impacted the industry dramatically. With rising demand comes rising prices and rising prices have increased drilling and exploration spending to try and meet growing demand. We believe the industry will continue to grow as the global demand for oil and natural gas continues to climb. The automotive industry in China has been continuously growing. New roads and infrastructure have been built allowing for an increased amount of automobiles to travel on Chinese roads. As time progresses, the amount of automobiles in China will increase dramatically. The demand for oil by the world's largest country will force the industry to grow to meet increased demand. This scenario ignores the alternative uses of oil in applications such as heating, which only increases demand.




**NOTE:** All Sector & Sub-Industry information is based on the Global Industry Classification Standard (GICS)

| | P/E | ROE | ROA |
|---|---|---|---|
| Globalsantafe Corp. | 38.52 | 9.18 | 7.13 |
| Nabors Industries Limited | 19.25 | 21.70 | 11.57 |
| Noble Corp. | 37.62 | 15.64 | 9.36 |
| Patterson UTI Energy Inc | 15.53 | 38.77 | 29.69 |
| Pride International Inc | 48.15 | n/a | 4.63 |
| Transocean Inc | 54.08 | 9.36 | 7.36 |
| Sub Industry Average | 35.53 | 18.93 | 11.62 |

# RISK FACTORS

The following risk factors came directly from the Nabors Industries Ltd. Annual Report filed on March 16, 2006 for the period ending December 31, 2005. Although there are additional risk factors to consider, we chose to focus on the following due to their possibility of occurring in the near future.

*"Fluctuations in oil and gas prices could adversely affect drilling activity and our revenues, cash flows and profitability"*

Nabors is a contract drilling firm and as such it relies heavily on drilling activity for revenue. Short and long-term trends in oil and gas prices can adversely change the outlook for company since drilling and exploration are directly affected by oil and gas demand. Global political, economic and military events can also negatively impact the company as both supply and demand can change dramatically. Weather conditions, such as Hurricanes in the Gulf Coast, government regulations, and consumer demand and pipeline capacity are also factors that affect supply and demand.

*"We operate in a highly competitive industry with excess drilling capacity, which may adversely affect our results of operations"*

The oilfield services industry in which Nabors operates is extremely competitive. Companies compete on a regional basis and can vary significantly depending on the location. The number of available rigs normally exceeds the demand, which results in pricing competition. A majority of contracts are awarded to the lowest bidder causing an increase amount of pricing competition. Offshore drilling is less competitive due to the smaller amount of rigs.

*"The nature of our operations presents inherent risks of loss that, if not insured or indemnified against, could adversely affect our results of operations"*

Many hazards exist in the drilling, workover and well-servicing industries. These include blowouts, cratering, explosions, fires, loss of well control, loss of hole, damaged or lost drilling equipment and damage or loss from inclement weather or natural disasters. As for offshore operations, hazards of marine operations include capsizing, grounding and collision, damage from hurricanes and heavy weather or sea conditions and unsound ocean bottom conditions. These risks, as well as the risk of political or social unrest (such as war) can adversely affect the company. Nabors has taken steps to protect itself from these inherent risks through contract provisions and insurance. However there is no guarantee that these forms of protection will shield Nabors from further financial loss. Any insurance claim will cause increased premiums that can affect future cash flows.

*"The profitability of our international operations could be adversely affected by war, civil disturbance or political or economic turmoil"*

A significant portion of Nabors' operations exists in the Middle East, the Far East, and Central and South America. These operations are subject to growing political issues such as the threat of war or government takeover.

*"Changes to or noncompliance with governmental regulation or exposure to environmental liabilities could adversely affect our results of operations"*

With drilling oil and gas wells come numerous federal, state and local laws. The cost of staying in compliance with these rules and regulations can be extensive. Nabors is responsible for the prevention of spills as well as the liability for damages if a spill was to occur. Environmental laws can also play a key role. There are numerous regulations dealing with drilling, transportation and disposal of waste that the company must comply with.

*“As a holding company, we depend on our subsidiaries to meet our financial obligations”*

Nabors Industries Ltd. is a holding company with little assets except for the shares of stock of its subsidiaries. It relies solely on the repayments of interest and principal loans as well as dividends and cash flow from subsidiaries. There are no guarantees that the subsidiaries will continue to generate income to pay upstream dividends or cash flow to pay interest and principal on loans.

*“Because our option, warrant and convertible securities holders have a considerable number of common shares available for issuance and resale, significant issuances or resales in the future may adversely affect the market price of our common shares”*

There are 400,000,000 authorized common shares as of February 24, 2006, of which 156,556,748 were outstanding. Additionally, 21,587,691 common shares were reserved for option and employee benefit plans and 10,571,231 shares were reserved for issuance upon conversion or repurchase of outstanding zero coupon convertible debentures and zero coupon senior exchangeable notes. Also, up to 107,603 common shares can be issued on exchange of the shares of Nabors Exchangeco Inc. Nabors Industries Ltd. has also reserved the right to sell up to $700 million of various types of securities. The potential issuance of these shares can negatively impact the market price for common shares as a result of dilution.

*“Provisions of our organizational documents may deter a change of control transaction and decrease the likelihood of a shareholder receiving a change of control premium”*

The board of directors has the right to issue a significant amount of common shares and up to 25,000,000 preferred shares. This includes the determination of the price, voting rights, conversion ratios and the preferences and privileges of the preferred shares without any vote or action by the common share holders.

*“We have a substantial amount of debt outstanding”*

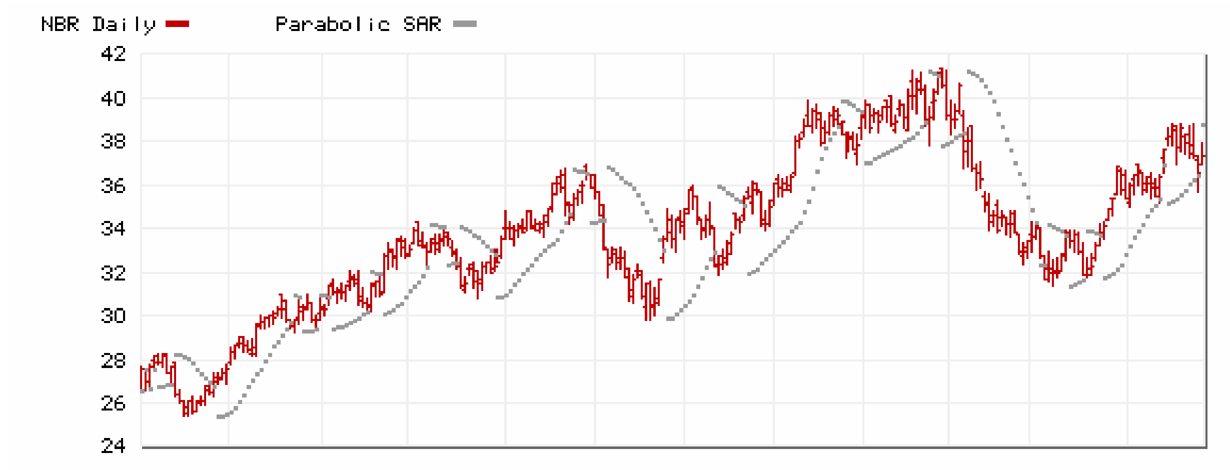
As of December 31, 2005 Nabors Industries Ltd. had roughly $2.0 billion in outstanding debt. This resulted in a funded debt to capital ratio of .35:1 and a net funded debt to capital ratio of .9:1. Redemption of 93% of zero coupon senior convertible debentures occurred on February 6, 2006 resulting in a debt to capital ratio of .25:1 while leaving the net funded debt to capital ratio unchanged. These ratios calculate the amount of leverage a company has in relation to its capital.

*“Our ability to perform under new contracts and to grow our business as forecasted depends to a substantial degree on timely delivery of rigs and equipment from our suppliers”*

There are no guarantees or assurances that the suppliers of Nabors Industries Ltd. will meet expected delivery schedules. A delay may result in financial loss due to contract penalties or failure to meet operating forecasts.

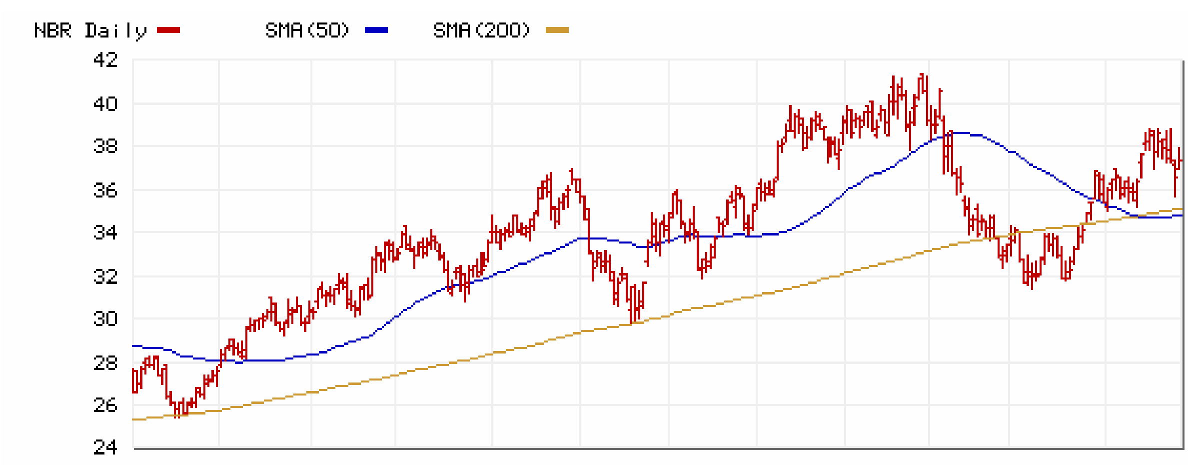
## TECHNICAL ANALYSIS

### PARABOLIC SAR




This method of technical analysis is unreliable during flat periods of trading. However, when the stock is trending as it is now it is a good buy and sell indicator. A parabola above the price line indicates a bearish trend, and a parabola below the price line indicates a bullish trend. As you can see on Nabors' chart above the parabola just switched from above to below the price line which indicates an upward trend is about to begin.

### MOVING AVERAGES




| Moving Average Analysis | | | |
|---|---|---|---|
| Type | Price | % | Slope |
| 10 Day | 37.75 | 98.9 | UP |
| 21 Day | 36.89 | 101.2 | UP |
| 50 Day | 34.85 | 107.1 | UP |
| 200 Day | 35.10 | 106.4 | UP |

For the past year, Nabors has been consistently above its 50 day moving average with each drop below it resulting in a period of prolonged rising stock price. The 200 day moving average has acted as a support until late February when the stock price finally dipped below it. This price drop which began in late January 2006 seems to have bottomed out at around $63, and has begun its traditional period of prolonged rising stock prices. Up/Down volume pattern indicates that the stock is under Accumulation. The 50 day Moving Average is rising which is Bullish. The 200 day Moving Average is rising which is Bullish. Look for Support at 35.71

RELATIVE STRENGTH INDEX


The Relative Strength Index is used to compare the magnitude of a company's recent gains to the magnitude of its recent losses. Generally, a Relative Strength Index of 70-80 indicates a stock is overbought and a Relative Strength Index of 20-30 indicates it is oversold. Nabors' Relative Strength Index recently hit 80 and began to drop which could indicate an upcoming downward trend in the stock. This correction is not definite, however. If we look to the chart above Nabors had a decreasing Relative Strength Index from mid June till late August while its stock price continued to rise.

# RATIO ANALYSIS

Ratio analysis is a tool used to conduct a quantitative analysis of information contained within a company's financial statements. Ratios are calculated from five-year numbers and are then compared to the industry to judge the performance of the company. Ratio Analysis is predominately used by proponents of Fundamental Analysis. The areas that we are going to evaluate are: Profitability, Asset Utilization, Leverage, Liquidity, and Du Pont.

## PROFITABILITY RATIOS

Profitability ratios measure how efficiently a firm uses its assets & manages its operations. Net Profit Margin is simply earnings (or profits) divided by sales, both measured over the same time period. Profit margins are the money left over after paying all of the costs of running the business. Managements that increase profit margins are controlling costs either by squeezing efficiencies out of the business or cutting out unprofitable ventures. A higher net profit margin indicates a higher return on equity. On that note, Nabors Net Profit Margin has been steadily increasing since 2002, and is now at an all time high of 18.75%. In other terms, this means that the company has a net income of about $0.19, for each dollar in sales. This can be attributed to Nabors current rise in Gross Profit, a 77% increase from 2004, and a 114% increase in Net Income. This tells us that costs could be falling, efficiencies are increasing, or there are booming prices for the company’s products, which is all good news for an investor. Compared to the industry average of 18.53%, we can conclude that Nabors has a more profitably company that has better control of its costs compared to its competitors.

Return on Assets (ROA) is an indicator of how profitable a company is relative to its total assets. ROA gives an idea as to how efficient management is at using its assets to generate earnings. Calculated by dividing a company's annual earnings by its total assets, ROA is displayed as a percentage. Sometimes this is referred to as "return on investment." The higher the ROA number, the better, because the company is earning more money on less investment. Nabors current ROA is at an all time high of 11.57%, compared to 3.99% in 2002. This is an indication that Nabors services are much more valuable, and preferred to over their top competitors. A climbing return on assets inevitably leads to a climbing stock price as investors realize that management is skilled at getting profits out of the resources that the business owns. We can conclude that Nabors is in line with industry expectations, 11.62%, which is a very good sign and is investing its capital efficiently.

Return on Equity (ROE), one of the most important profitability metrics, is calculated by dividing Net Profits by Equity. It shows how much return management has earned on the capital that is actually owned by the shareholders, the owners of the business. It is also used as a general indication of the company's efficiency; in other words, how much profit it is able to generate given the resources provided by its stockholders. Investors usually look for companies with returns on equity that are high and growing. A business that has a high return on equity is more likely to be one that is capable of generating cash internally. For the most part, the higher a company’s return on equity compared to its industry, the better. Nabors return on equity has been on the rise over the past five years, from a low of 8.91% in 2003, to a new high of 22.14%, as of 12/31/05. As we can see from our ratio analysis, we believe that this number will continue to grow rapidly into the future. It is also on par and slightly above the industry average of 20.56%, which means that Nabors is probably taking market share away from their top competitors. We can conclude that Nabors and its management are using their money more effectively than its peers.

ASSET UTILIZATION RATIOS

Asset utilization or efficiency ratios, measure how efficient or intensively a firm uses assets to generate sales. Total Asset turnover identifies how much sales we are able to squeeze out of all our assets. Asset turnover measures the firm's efficiency at using its assets in generating sales or revenue; the higher the number the better. It also indicates pricing strategy: companies with low profit margins tend to have high asset turnover; those with high profit margins have low asset turnover. Our Asset Turnover has been quite stable over the past five years, averaging about 0.41, compared to the industry average of 0.48. In other words, for every dollar of assets, the turnover is $0.41. Even though Nabors is lower than the industry average, this necessarily is not a bad thing. What this is telling is that that Nabors has a higher net profit margin than the rest of the industry, which is excellent.

Receivables Turnover suggests that the company may be finding it difficult to collect money owed by customers who took delivery of products. Simply put, it is an activity ratio, measuring how efficiently a firm uses its assets. It is also used as a basic accounting measure used to quantify a firm's effectiveness in extending credit as well as collecting debts. A high ratio implies either that a company operates on a cash basis or that its extension of credit and collection of accounts receivable is efficient. A low ratio implies the company should re-assess its credit policies in order to ensure the timely collection of imparted credit that is not earning interest for the company. Our receivables turnover has been steadily decreasing form the 2001 high of 5.87 to the now low 4.21, compared to the industry average of 5.74. We can conclude that, ideally, this number should be higher and should compare to the industry average. To improve its cash position, the company might put more effort into collecting receivables in a more timely fashion.

LEVERAGE RATIOS

Leverage ratios indicate whether a company uses more debt than equity. It measures the extent to which borrowed or debt funds are used to finance assets, as well as the ability of the firm to meet its debt payment obligations. The Long Term Debt to Equity Ratio looks at the company's capital base. If the ratio is at 1.00, this means that the company's long-term debt (LTD) and equity are equal. Put another way, fifty percent of the company's capital consists of equity (contributed by shareholder-owners) and the other fifty percent was contributed by long-term creditors. The LT Debt to Equity is calculated by taking the long term debt divided by long term debt, and adding in total equity. As we can see, our LTD has been under one, at 0.33 and is on par with the industry average of 0.26, which tells us that our LTD is less than our equity.

The Total Debt to Equity ratio takes into account both long-term and short-term debt. The larger the Total Debt to Equity Ratio is relative to the LT Debt to Equity Ratio, the more risk the company faces from the prospect of rising interest rates. Our Total Debt to equity ratio has fallen from .98 in 2002, to an all time low of .54 in 2005. What this means is that Nabors is borrowing less money, and paying of its debt. Paying down debt is a good use of cash when the debt that’s being retired carries a high interest rate. Instead of money going out the door to pay banks and bondholders, in the future it will become earnings that should drive the stock price higher. This is great news for investors and potential investors. Nabors needs to focus on steadily decreasing this number and comparing to the industry standard of 0.30.

The Times Interest Earned Ratio, or Interest Coverage Ratio, is a metric used to measure the ability of a company to meet its debt obligations. It is calculated by taking a company's earnings before interest and taxes (EBIT) and dividing by the total interest payable on bonds and other contractual debt. It is usually quoted as a ratio and indicates how many times a company can cover its interest charges on a pretax basis since failure to meet these obligations could force a company into bankruptcy. A high ratio can indicate that a company has an undesirable lack of debt or is paying down too much debt with earnings that could be used for other projects, but, it can also be desired by both creditors and management. Nabors times interest earned ratio is currently 19.49%, while the industry averages 13.23%. What this tells us is that Nabors is able to cover their interest expense 19.49 times with operating income, compared to the industry average of 13.23%. This also tells us that that Nabors would yield greater returns by investing their earnings into other projects and borrowing, at a lower cost of capital than what they currently paying for its current debt, to meet its debt obligations.

LIQUIDITY RATIOS

Liquidity Ratios provide information regarding a firm’s ability to pay its bills over a short period of time. Current Ratio compares year-ahead liabilities to cash on hand now plus other inflows the company is likely to realize over that same twelve-month period. These additional expected inflows include such items as Accounts Receivable (payments the company expects to receive within a year from customers who already purchased goods or services) and Inventories (goods the company expects to sell within a year). As a general rule, a current ratio of 1.5 or greater is normally sufficient to meet near-term operating needs. A current ratio that is too high can suggest that a company is hoarding assets instead of using them to grow the business -- not the worst thing in the world, but potentially something that could impact long-term returns. Our current ratio has been very stable and averaged about 2.15 over the past five years, which is very sufficient to meet our operating needs, compared to the industry average of 2.06. As we can see, Nabors is right on target with industry standards, which is excellent.

The cash ratio is the most conservative of the measures of cash resources, as only actual cash and securities easily convertible to cash are used to measure cash resources. The cash ratio measures the extent to which a corporation or other entity can quickly liquidate assets and cover short-term liabilities, and therefore is of interest to short-term creditors. Nabors Cash ratio has increased from 2004 to 0.42, while the industry averages 0.54. What this tells us is that we can liquidate 0.42% of our assets to cover short-term liabilities, while the industry can liquidate 0.54% of assets. Nabors needs to focus on getting this number closer to their 2003 high of 0.97%, and keeping in line with the industry.

MARKET VALUE RATIOS

Market Value Ratios relate the market price of a company’s common stock to selected financial statement items. The P/E ratio, or price-to-earnings ratio, is a valuation ratio of a company's current share price compared to its per-share earnings. In general, a high P/E suggests that investors are expecting higher earnings growth in the future compared to companies with a lower P/E. However, the P/E ratio doesn't tell us the whole story by itself.

It's usually more useful to compare the P/E ratios of one company to other companies in the same industry, to the market in general or against the company's own historical P/E. The P/E is sometimes referred to as the "multiple", because it shows how much investors are willing to pay per dollar of earnings. If a company were currently trading at a multiple (P/E) of 20, the interpretation is that an investor is willing to pay $20 for $1 of current earnings. On that note, Nabors Current P/E ratio is 19.67, compared to the industry average of 35.8. What this tells us is that investors are willing to pay $19.67 for $1 of Nabors current earnings, compared to $35.80 for ever dollar of the industry, which is attractive for future and current investors. We fell that this is a company whose stock has room to move up in price and is relatively undervalued compared to its top competitors.

The Price/Book Ratio is a ratio used to compare a stock's market value to its book value. It is calculated by dividing the current closing price of the stock by the latest quarter's book value (book value is simply total assets minus intangible assets and liabilities). A lower P/B ratio could mean that the stock is undervalued. As we can see, Nabors Price/Book Ratio is currently 3.28, compared to the industry average of 3.31. As with the P/E ratio, we can conclude that Nabors is an undervalued company compared to its peers.

The Price/Cash Flow Ratio is a measure of the market's expectations of a firm's future financial health. It is calculated by dividing the price per share by cash flow per share. This provides an indication of relative value, similar to the price-earnings ratio. Generally, the lower a company's price-to-cash-flow ratio and the bigger its discount from the industry average multiple, the more likely that the firm may be undervalued. Nabors Price/Cash Flow Ratio is currently 10.18, compared to the industry average of 15.36. We can conclude that, in every aspect of the market value ratios, Nabors is currently undervalued compared to the industry.

DU PONT ANALYSIS

The Du Pont Analysis is a method of performance measurement that was started by the DuPont Corporation in the 1920s, and has been used by them ever since. With this method, assets are measured at their gross book value rather than at net book value in order to produce a higher ROI. It is believed that measuring assets at gross book value removes the incentive to avoid investing in new assets. New asset avoidance can occur as financial accounting depreciation methods artificially produce lower ROIs in the initial years that an asset is placed into service. The DuPont System = ROE = (NI / Net Sales) x (Net Sales / TA) x (TA / Common Equity) = Profit Margin x Total Asset Turnover x Financial Leverage. Here is the 3-year ROE breakdown of Nabors:

2005 ROE = (.2297) X (.5020) X (1.92) = 22.14%

2004 ROE = (.1280) X (.4182) X (2.27) = 12.15%

2003 ROE = (.0964) X (.3581) X (2.58) = 8.91%

As we can see from Nabors DuPont Analysis, their ROE has more than doubled over a three-year time span. We our also in line with our estimates, which signifies the accuracy of our research. From this we can conclude that Nabors is more profitable, more efficient, and carries less debt than its peers.

# RATIO ANALYSIS

| | Industry Average | 12/31/2005 | 12/31/2004 | 12/31/2003 | 12/31/2002 | 12/31/2001 |
|---|---|---|---|---|---|---|
| **PROFITABILITY RATIOS** | | | | | | |
| Return on Equity | 20.56% | 22.14% | 12.15% | 8.91% | 6.54% | 19.79% |
| Return on Assets | 11.62% | 11.57% | 5.97% | 4.72% | 3.99% | 12.67% |
| Return on Invested Capital | 13.06% | 13.73% | 0.07% | 5.06% | 4.84% | 14.92% |
| Cash Flow to Sales | 31.96 | 34.37 | 25.76 | 22.8 | 23.95 | 30.66 |
| Gross Profit Margin | 27.55 | 32.49 | 21.76 | 19.57 | 20.26 | 29.9 |
| Operating Profit Margin | 23.77 | 25.26 | 13.6 | 10.77 | 10.59 | 23.52 |
| **ASSET UTILIZATION** | | | | | | |
| Total Asset Turnover | 0.48 | 0.48 | 0.41 | 0.34 | 0.29 | 0.51 |
| Receivables Turnover | 5.74 | 4.21 | 4.43 | 4.58 | 4.58 | 5.87 |
| Inventory Turnover | 72.49 | 49.97 | 60.55 | 58.29 | 49.89 | 70.98 |
| **LEVERAGE** | | | | | | |
| Total Debt % Common Equity | 30.40% | 53.74% | 68.63% | 91.75% | 97.65% | 84.51% |
| Long Term Debt % Common Equity | 25.63% | 33.31% | 41.46% | 79.73% | 74.81% | 84.38% |
| Long Term Debt % Total Capital | 15.54% | 24.99% | 29.16% | 44.36% | 42.79% | 45.76% |
| Dividend Payout | 7.5% | 0 | 0 | 0 | 0 | 0 |
| Times Interest Earned | 13.23% | 19.49% | 6.92% | 2.47% | 2.10% | 8.93% |
| **LIQUIDITY** | | | | | | |
| Quick Ratio | 1.96 | 1.66 | 1.2 | 2.22 | 1.59 | 2.73 |
| Current Ratio | 2.06 | 1.94 | 1.32 | 2.53 | 1.82 | 3.12 |
| Cash Ratio | 0.54 | 0.42 | 0.32 | 0.97 | 0.55 | 0.60 |
| Cash and Equity % Current Assets | 34.37 | 54.39 | 56.96 | 60.68 | 63.63 | 52.54 |
| Accounts Receivable Days | 68.76 | 70.87 | 71.47 | 69.97 | 83.64 | 60.37 |
| Inventories Days Held | 10.9 | 7.2 | 5.95 | 6.18 | 7.22 | 5.07 |
| **DUPONT ANALYSIS** | | | | | | |
| Return on Equity Capital (ROE) | 20.56% | 22.14% | 12.15% | 8.91% | 6.54% | 19.79% |
| Return on Assets (ROA) | 11.62% | 11.57% | 5.97% | 4.72% | 3.99% | 12.67% |
| Financial Leverage | 2.10 | 1.92 | 2.00 | 2.25 | 2.35 | 2.23 |
| Net Profit Margin | 18.53% | 18.75% | 12.63% | 10.23% | 8.28% | 16.85% |
| Total Asset Turnover | 0.48 | 0.48 | 0.41 | 0.34 | 0.29 | 0.51 |

| | Industry Average | Nabors |
|---|---|---|
| **MARKET VALUE** | | |
| Current P/E Ratio | 35.80 | 19.67 |
| Forward P/E Ratio | 16.98 | 12.60 |
| Price/Book Ratio | 3.31 | 3.28 |
| Price/Cash Flow Ratio | 15.36 | 10.18 |

*Industry average represents Nabors' top 5 competitors, which include:
GlobalSantafe Corp., Noble Corp., Patterson UTI Energy Inc., Pride International Inc., and Transocean Inc.
Market Value ratios current as of May 5, 2006

# VALUATION MODELS

| | 2005 | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
|---|---|---|---|---|---|---|
| **Forecasted Revenue Growth** | | 25% | 25% | 20% | 20% | 15% |
| **Revenue** | $3,459.91 | $4,324.89 | $5,406.11 | $6,487.33 | $7,784.80 | $8,952.52 |
| **Operating Cost Margin** | 83.25% | 83.25% | 83.25% | 83.25% | 83.25% | 83.25% |
| **Operating Costs** | $2,880.38 | $3,600.47 | $4,500.59 | $5,400.70 | $6,480.84 | $7,452.97 |
| **Operating Profits** | $579.53 | $724.42 | $905.52 | $1,086.63 | $1,303.95 | $1,499.55 |
| **Taxes** | $93.19 | $116.49 | $145.61 | $174.73 | $209.68 | $241.13 |
| **After Tax Profit** | $486.35 | $607.93 | $759.92 | $911.90 | $1,094.28 | $1,258.42 |
| **Net Investment (% of revenue)** | -35.91% | -35.91% | -35.91% | -35.91% | -35.91% | -35.91% |
| **Net Investment** | ($1,242.45) | ($1,553.07) | ($1,941.33) | ($2,329.60) | ($2,795.52) | ($3,214.85) |
| **Working Capital** | $1,264.84 | $1,581.05 | $1,976.31 | $2,371.58 | $2,845.89 | $3,272.77 |
| **Change In Working Capital** | | $316.21 | $395.26 | $395.26 | $474.32 | $426.88 |
| **Free Cash Flow (in millions)** | | $1,844.79 | $2,305.99 | $2,846.24 | $3,415.48 | $4,046.38 |
| Revenue | | $1,844,789,238 | $2,305,986,547 | $2,846,236,356 | $3,415,483,628 | $4,046,384,922 |
| - Operating Costs | | | | | | |
| - Taxes | | $2,019,121,821 | $2,762,411,041 | $3,731,799,133 | $4,901,344,982 | $6,355,445,856 |
| - Net Investments | | $19,770,122,833 | | | | |
| - Changes In Working Capital | | $3,472,270,000 | | | | |
| Free Cash Flow | | $16,297,852,833 | | | | |
| **Value Per Share** | | **$52.05** | | | | |

| | Y0 | Y1 | Y2 | Y3 | Y4 | Y5 |
|---|---|---|---|---|---|---|
| **Forecasted Future Revenue Growth** | | | | | | |
| Growth Rate | - | 25% | 25% | 20% | 20% | 15% |
| Revenue | $3,459.91 | $4,324.89 | $5,406.11 | $6,487.33 | $7,784.80 | $8,952.52 |

| | 2005 | 2004 | 2003 | 2002 | 2001 | Average |
|---|---|---|---|---|---|---|
| **Revenues (Δ%)** | 44.52% | 27.34% | 28.20% | -30.87% | 59.87% | 25.81% |
| **Operating Cost Margin** | | | | | | |
| Operating Income | $874.14 | $325.60 | $202.52 | $155.27 | $498.82 | - |
| Net Sales | $3,459.91 | $2,394.03 | $1,880.00 | $1,466.44 | $2,121.16 | - |
| Operating Margin | 0.2526 | 0.1360 | 0.1077 | 0.1059 | 0.2352 | 0.1675 |
| Average Operating Cost Margin | 83.25% | | | | | |
| **Taxation** | | | | | | |
| Tax Paid | $225.26 | $33.38 | ($17.61) | $19.29 | $194.49 | - |
| EBIT | $826.28 | $331.78 | $164.44 | $126.00 | $505.40 | - |
| Calculated Tax Rate | 0.2726 | 0.1006 | (0.1071) | 0.1531 | 0.3848 | - |
| Average Tax Rate | 16.08% | | | | | |
| **Net Investment** | | | | | | |
| Capital Expenditure | (907.32) | (544.43) | (353.41) | (316.76) | (701.16) | - |
| - Depreciation Charges | 338.53 | 300.40 | 235.13 | 195.37 | 189.90 | - |
| | (1245.85) | (844.83) | (588.54) | (512.13) | (891.06) | - |
| **Net Investment (% of Revenue)** | -36.01% | -35.29% | -31.31% | -34.92% | -42.01% | -35.91% |

| | | | | | |
|---|---|---|---|---|---|
| Debt | 0.3494 | Risk-free Rate | 5.15 | | |
| Equity | 0.6506 | Beta | 1.41 | | |
| Tax Rate | 0.1608 | Risk Premium | 5 | **WACC** | **9.45** |

# FINANCIAL STATEMENTS

## BALANCE SHEET

| | 12/31/2005 | 12/31/2004 | 12/31/2003 | 12/31/2002 | 12/31/2001 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash | $565.00 | $384.71 | $579.74 | $414.05 | $198.44 |
| Marketable Securities | $858.52 | $515.84 | $339.94 | $457.60 | $343.17 |
| Receivables | $822.10 | $540.10 | $410.49 | $320.30 | $361.09 |
| Total Inventories | $51.29 | $28.65 | $23.29 | $20.52 | $18.52 |
| Raw Materials | $51.29 | $28.65 | $23.29 | $20.52 | $18.52 |
| Work In Progress | n/a | n/a | n/a | n/a | n/a |
| Finished Goods | n/a | n/a | n/a | n/a | n/a |
| Notes Receivable | n/a | n/a | n/a | n/a | n/a |
| Other Current Assets | $320.39 | $111.67 | $162.20 | $157.43 | $109.73 |
| **Total Current Assets** | $2,617.31 | $1,580.97 | $1,515.65 | $1,369.91 | $1,030.95 |
| Property, Plant & Equipment, Net | $3,886.92 | $3,275.50 | $2,990.79 | $2,781.05 | $2,433.25 |
| Property, Plant & Equipment, Gross | $5,582.19 | $4,675.33 | $4,097.01 | $3,636.96 | $3,136.72 |
| Accumulated Depreciation | $1,695.27 | $1,399.84 | $1,106.22 | $855.91 | $703.48 |
| Interest and Advance to Subsidiaries | $222.80 | $506.55 | $674.72 | $517.75 | $432.13 |
| Other Non-Current Assets | n/a | n/a | n/a | n/a | n/a |
| Deferred Charges | n/a | n/a | n/a | n/a | n/a |
| Intangibles | $341.94 | $327.23 | $336.03 | $306.76 | $199.05 |
| Deposits & Other Assets | $161.43 | $172.36 | $85.51 | $88.40 | $56.55 |
| **Total Assets** | $7,230.41 | $5,862.61 | $5,602.69 | $5,063.87 | $4,151.92 |
| **Liabilities** | | | | | |
| Notes Payable | n/a | n/a | n/a | n/a | n/a |
| Accounts Payable | $336.59 | $211.60 | $128.84 | $109.16 | $131.82 |
| Current Long-Term Debt | $767.91 | $804.55 | n/a | n/a | n/a |
| Current Portable Cap Lease | n/a | n/a | n/a | n/a | n/a |
| Accrued Expense | $204.79 | $145.93 | $134.13 | $100.25 | $125.87 |
| Income Taxes | $23.62 | $11.93 | $9.40 | $15.90 | $27.78 |
| Other Current Liabilities | $19.54 | $25.30 | $326.00 | $526.14 | $44.67 |
| **Total Current Liabilities** | $1,352.46 | $1,199.32 | $598.37 | $751.45 | $330.13 |
| Mortgages | n/a | n/a | n/a | n/a | n/a |
| Deferred Charges/Inc. | $716.65 | $385.88 | $372.82 | $402.05 | $285.40 |
| Convertible Debt | $824.79 | $804.55 | $784.81 | $1,254.68 | $1,223.92 |
| Long-Term Debt | $426.96 | $401.24 | $1,200.75 | $359.98 | $343.70 |
| Non-Current Capital Leases | n/a | n/a | n/a | n/a | n/a |
| Other Long-Term Liabilities | $151.42 | $142.24 | $155.67 | $137.25 | $110.90 |
| **Total Liabilities** | $3,472.27 | $2,933.22 | $3,112.42 | $2,905.42 | $2,294.05 |
| **Shareholder Equity** | | | | | |
| Minority Interest | n/a | n/a | n/a | n/a | n/a |
| Preferred Stock | n/a | n/a | n/a | n/a | n/a |
| Common Stock | $0.16 | $0.15 | $0.15 | $0.15 | $14.77 |
| Capital Surplus | $1,591.13 | $1,358.37 | $1,270.36 | $1,233.60 | $1,091.54 |
| Retained Earnings | $1,989.53 | $1,422.64 | $1,120.18 | $927.96 | $1,001.08 |
| Treasury Stock | n/a | n/a | n/a | n/a | $252.78 |
| Other Liabilities | $177.33 | $7.09 | $3.83 | $10.98 | $1.04 |
| **Total Shareholders Equity** | $3,758.14 | $2,929.39 | $2,490.28 | $2,158.46 | $1,857.87 |
| **Total Liabilities & Shareholders Equity** | $7,230.41 | $5,862.61 | $5,602.69 | $5,063.87 | $4,151.92 |

**in millions of dollars*

## CASH FLOWS

| | 12/31/2005 | 12/31/2004 | 12/31/2003 | 12/31/2002 | 12/31/2001 |
|---|---|---|---|---|---|
| Net Income (Loss) | $648.70 | $302.46 | $192.23 | $121.49 | $357.45 |
| Depreciation/Amortization | $338.53 | $300.40 | $235.13 | $195.37 | $189.90 |
| Net Incr (Decr) in Assets/Liab. | ($159.57) | ($53.54) | ($32.72) | $49.61 | $44.57 |
| Cash Flow from Disc. Operations | n/a | n/a | n/a | n/a | n/a |
| Other Adjustments-Net | $201.84 | $13.88 | $1.20 | $34.41 | $102.99 |
| **Net Cash Flow from Operating** | $1,029.50 | $563.20 | $395.83 | $400.88 | $694.91 |
| Incr (Decr) in Prop. Plant & Equip | ($879.85) | ($537.55) | ($342.93) | ($291.66) | ($701.16) |
| (Acq.)Disp. of Subs. Business | ($46.20) | ($0.20) | n/a | ($135.65) | n/a |
| Incr (Decr) in Securities Invest. | $3.82 | ($11.33) | ($65.40) | ($218.25) | ($372.39) |
| Other Cash Flow from Investing | ($36.01) | n/a | n/a | ($8.73) | ($51.29) |
| **Net Cash Flow from Investing** | ($958.24) | ($549.08) | ($408.33) | ($654.29) | ($1,124.83) |
| Issue (Purchase) of Equity | $94.98 | $71.25 | $26.34 | $10.36 | ($239.74) |
| Issue (Repayment) of Debt | ($0.42) | ($302.41) | $155.52 | $465.07 | $684.34 |
| Incr (Decr) in Borrowing | $10.81 | $9.87 | ($0.78) | ($4.50) | n/a |
| Dividends, Other Distribution | n/a | n/a | n/a | n/a | n/a |
| Other Cash Inflow (Outflow) | ($2.74) | $0.11 | ($9.60) | ($4.23) | ($12.19) |
| **Net Cash Flow from Financing** | $102.63 | ($221.19) | $171.48 | $466.71 | $432.41 |
| Effect of Exchange Rate on Cash | $6.41 | $12.04 | $6.70 | $2.31 | ($1.35) |
| Cash or Equivalents at Year Start | $384.71 | $579.74 | $414.05 | n/a | $197.31 |
| Cash or Equivalents at Year End | $565.00 | $384.71 | $579.74 | n/a | $198.44 |
| **Net Change in Cash or Equiv** | $180.29 | ($195.03) | $165.69 | $215.61 | $1.13 |

**in millions of dollars*

## INCOME STATEMENT

| | 12/31/2005 | 12/31/2004 | 12/31/2003 | 12/31/2002 | 12/31/2001 |
|---|---|---|---|---|---|
| Net Sales | $3,459.91 | $2,394.03 | $1,880.00 | $1,466.44 | $2,121.16 |
| Cost of Goods Sold | $1,997.27 | $1,572.65 | $1,276.95 | $973.91 | $1,296.94 |
| **Gross Profit** | $1,462.64 | $821.38 | $603.05 | $492.53 | $824.22 |
| R & D Expenditure | n/a | n/a | n/a | n/a | n/a |
| Selling, General & Admin Expenses | $249.97 | $195.39 | $165.40 | $141.90 | $135.50 |
| Depreciation & Amort. | n/a | n/a | $235.13 | $195.37 | $189.90 |
| Non-Operating Income | ($293.87) | ($241.65) | $42.84 | $52.57 | $104.18 |
| Interest Expense | $44.85 | $48.51 | $70.74 | $67.07 | $60.72 |
| **Income Before Taxes** | $873.95 | $335.84 | $174.62 | $140.77 | $542.28 |
| Prov. For Inc. Taxes | $225.26 | $33.38 | ($17.61) | $19.29 | $194.49 |
| Minority Interest | n/a | n/a | n/a | n/a | n/a |
| Realized Investment (Gain/Loss) | n/a | n/a | n/a | n/a | n/a |
| Other Income | n/a | n/a | n/a | n/a | n/a |
| Net Income Before Extra Items | $648.70 | $302.46 | $192.23 | $121.49 | $347.79 |
| Extra Items & Disc. Ops. | n/a | n/a | n/a | n/a | $9.66 |
| **Net Income** | $648.70 | $302.46 | $192.23 | $121.49 | $357.45 |

**in millions of dollars*

# FORECASTING

| | 2001 | 2002 | 2003 | 2004 | 2005 | *2006 Forecasted* |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash | $198,443,000 | $414,051,000 | $579,737,000 | $384,709,000 | $565,001,000 | *$619,545,500* |
| Receivables | $361,086,000 | $320,299,000 | $410,487,000 | $540,103,000 | $822,104,000 | *$793,819,500* |
| Inventory | $18,515,000 | $20,524,000 | $23,289,000 | $28,653,000 | $51,292,000 | *$48,345,810* |
| Deferred Tax Asset | $28,145,000 | $32,846,000 | $36,442,000 | $39,599,000 | $199,196,000 | *$162,852,100* |
| Other Current Assets | $81,588,000 | $124,588,000 | $78,756,000 | $72,068,000 | $121,191,000 | *$106,470,500* |
| Current Assets | $1,030,946,000 | $1,369,908,000 | $1,515,647,000 | $2,020,436,000 | $2,617,308,000 | *$2,735,603,000* |
| Net Property Plant & Equipment | $2,433,247,000 | $2,801,067,000 | $2,990,792,000 | $3,275,495,000 | $3,886,924,000 | *$3,986,379,000* |
| Total Assets | $4,151,915,000 | $5,063,872,000 | $5,602,692,000 | $5,862,609,000 | $7,230,407,000 | *$7,455,003,000* |
| **Liabilities** | | | | | | |
| Accounts Payable | $131,821,000 | $109,163,000 | $128,840,000 | $211,600,000 | $336,589,000 | *$319,876,500* |
| Income Tax Expense | $200,162,000 | $19,285,000 | ($17,605,000) | $33,381,000 | $225,255,000 | *$109,292,900* |
| Current Liabilities | $330,130,000 | $751,454,000 | $598,373,000 | $1,199,316,000 | $1,352,456,000 | *$1,521,602,000* |
| Deferred Tax | $285,401,000 | $377,554,000 | $372,824,000 | $385,877,000 | $716,645,000 | *$667,458,000* |
| Long Term Debt | $1,567,616,000 | $1,614,656,000 | $1,985,553,000 | $1,201,686,000 | $1,251,751,000 | *$1,242,272,000* |
| Total Debt | $1,570,126,000 | $2,107,641,000 | $2,284,938,000 | $2,006,236,000 | $2,019,663,000 | *$2,218,835,000* |
| Total Liabilities | $2,294,049,000 | $2,905,417,000 | $3,112,417,000 | $2,933,216,000 | $3,472,267,000 | *$3,595,617,000* |
| Retained Earnings | $1,001,079,000 | $927,955,000 | $1,120,183,000 | $1,422,640,000 | $1,989,526,000 | *$1,947,604,000* |
| Shareholders' Equity | $1,857,866,000 | $2,158,455,000 | $2,490,275,000 | $2,929,393,000 | $3,758,140,000 | *$3,859,385,000* |
| **Income** | | | | | | |
| Total Operating Revenue | $2,310,693,000 | $1,518,179,000 | $1,923,999,000 | $2,448,152,000 | $3,551,009,000 | *$3,237,701,000* |
| Interest Expense | $60,722,000 | $67,068,000 | $70,740,000 | $48,507,000 | $44,847,000 | *$45,168,740* |
| Income Before Tax | $557,612,000 | $140,774,000 | $174,623,000 | $335,838,000 | $873,950,000 | *$633,641,500* |
| Net Income | $357,450,000 | $121,489,000 | $192,228,000 | $302,457,000 | $648,695,000 | *$524,348,500* |
| EPS: Basic | 2.48 | 0.85 | 1.31 | 2.03 | 4.16 | *3.35* |
| EPS: Diluted | 2.24 | 0.81 | 1.25 | 1.92 | 4.00 | *3.26* |
| **Cash Flow** | | | | | | |
| Capital Expenditures | $712,605,000 | $326,536,000 | $353,138,000 | $544,429,000 | $907,316,000 | *$724,785,900* |
| Depreciation and Amortization | $184,119,000 | $187,665,000 | $226,528,000 | $254,939,000 | $291,638,000 | *$303,017,200* |
| Operating Activities | $704,139,000 | $400,876,000 | $395,738,000 | $563,198,000 | $1,029,500,000 | *$834,676,200* |
| Investing Activities | ($1,136,459,000) | ($654,286,000) | ($408,240,000) | ($549,077,000) | ($958,240,000) | *($622,536,000)* |
| Financing Activities | $434,801,000 | $466,706,000 | $171,484,000 | ($221,189,000) | $102,626,000 | *($146,708,100)* |
| Cash at Year Start | $197,312,000 | $198,443,000 | $414,051,000 | $579,737,000 | - | *$253,886,500* |
| Cash at Year End | $198,443,000 | $414,051,000 | $579,737,000 | $384,709,000 | $565,001,000 | *$619,545,500* |

## THE FINAL WORD

During 2002, The Board of Directors authorized the continuation of a share repurchase program, which does not have an expiration date, under which they may repurchase Nabors common shares in the open market. Under this program, Nabors top brass and employees are authorized to purchase up to $400 million of common shares. Since the 2nd Quarter of 2005, Nabors CEO, Directors, President, Vice President, and Employees have been purchasing shares (over 2,000,000), which is a very bullish trend and potential signal that the company is undervalued.

Fiscal Year 2005 results, which were reported back in February, were incredible to say the least. Adjusted income from operating activities rose by 167% to 879.8 million, compared to $329.7 million in 2004. Net income for 2005 was $659.7 million compared to $302.5 million in 2004, an increase of 118%. Gene Isenberg, Nabors' Chairman and CEO, commented on the Company's results. "Our fourth quarter and full year results set records as the underlying strength of our operations easily overcame several factors, such as downtime on offshore rigs due to hurricane repairs and regulatory recertification, asset retirement charges and a higher effective tax rate". Nabors' ability to deploy growth capital and generate substantially assured returns of greater than 20% was unmatched in the company's history and also in the industry. Here are other key points from the quarterly report: US Land Well-Servicing and US Offshore businesses nearly doubled, Canada set a new quarterly and full year record, US Land Well-Servicing business achieved an 87% increase in 2005, US Offshore unit saw an 88% increase in its full year results, despite a significantly weaker fourth quarter following the hurricanes, International results increased by over 50% during 2005 and are predicted to be even larger this year, etc…

In February, Nabors had announced that they obtained three-year contract commitments for over 100 land rigs, for which 82 are currently under construction. We believe that they are going to be adding more rigs in the future because there are still over 140 rigs currently on the market. We predict that the growth of the company will continue to soar into the future as they pick up more and more land drilling contracts and because of their rising presence in the offshore drilling market.

Over the next five-years, we also expect Nabors potential growth to be about 59.5%, while the S&P 500 index is only expected to grow by 10.60%, while the sector is only expecting a 9.53% growth. This estimate is based on Nabors growing fundamentals, future demand for its products and services, rising oil and natural gas prices, no particular threat of new entrants and forecasted sales growth. We also see revenue growth close to 30% in Fiscal Year 2006, along with operating margins of about 40% in Fiscal Year 2007. Lastly, we believe that Nabors will trade at a premium compared to its competitors because of its greater presence, domestic and international growth, and leadership in the industry.

## REFERENCES

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