RigLogix
upstream intelligence system

NOVEMBER 15, 2010

Highlighting ENSCO

A Comparison of Operational and Financial Metrics

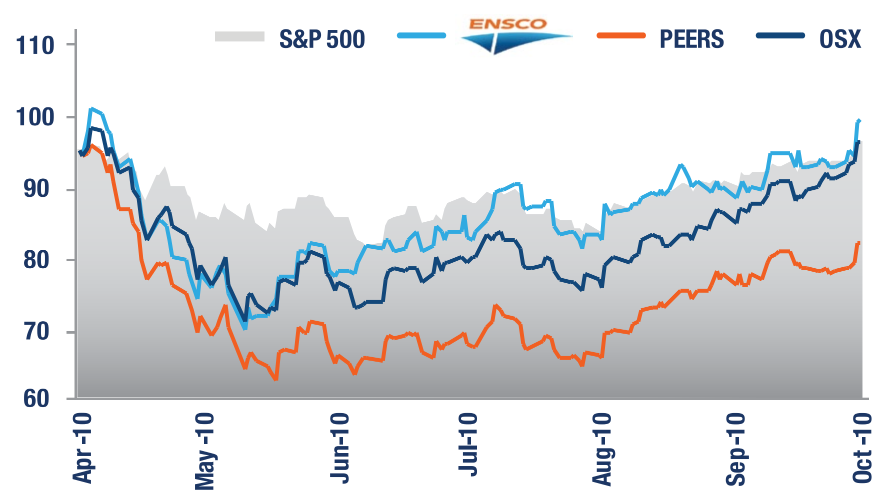
Since the Deepwater Horizon explosion and subsequent oil spill, regulatory concerns and under-utilization in the Gulf of Mexico (stemming from permitting issues that resulted in lost revenue for offshore drillers) have had a hand in pushing the share prices for industry players lower. ENSCO's share price has rebounded from the recent industry-wide decline much more rapidly than its peers. In this report we highlight ENSCO's distinguishing facets that support its premium valuation while also providing a solid overview of the industry.

• FLEET QUALITY DRIVES SUPERIOR UTILIZATION. Utilization at ENSCO has historically fared much better than both the industry as a whole and ENSCO's publicly-traded peers. Since June 2000, ENSCO's utilization has averaged 90% compared to global rates of 82.5% and a peer group's average of 80%. This is due to a desirable fleet mix that is weighted towards the premium jackup market and focused exclusively on the ultra-deepwater floating market.

• HIGHER OPERATING MARGINS. Over the past twelve months, ENSCO has achieved operating margins of 40%, 200 basis points higher than the average of nine of its publicly traded peers. Newly built rigs commencing operations over the next two years have the ability to drive margins higher once revenues for each of these units are fully loaded onto the income statement.

• DESIRABLE BALANCE SHEET. ENSCO's 4% debt-to-cap leaves a considerable amount of financing capacity that could spur earnings growth. From an organic perspective, ENSCO is in a position to purchase another four UDW rigs were it to raise its debt levels to 46% of capital, putting their balance sheet on par with industry comps. This would imply +$2 billion of new debt spent on assets that when fully operational would generate approximately $3.50 in potential annual earnings using conservative operating metrics. Discounting these potential earnings back five years would imply a valuation that is approximately $26 per share higher than the current share price using a P/E multiple of 12x and assuming an 8.5% cost of capital.

Indexed Returns - Post Oil Spill



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FUNDAMENTALS

Price (Nov 12, 2010)	$48.16
Book Value Per Share	$41.62
Market Capitalization	$6,953
Shares Outstanding (mn)	141.1
Average Daily Volume (YTD - mn)	3.0
Float	94%
Dividend Yield (Annual %)	2.9%
Debt-to-Equity	4.5%
Return on Equity (LTM %)	11.2%

RIGLOGIX RESEARCH TEAM

Trey Cowan
Sr. Rig Analyst
1.281.345.4040
tcowan@rigzone.com

Liz Tysall
Data & Research Manager

Mary Jo Mercer
Data Analyst

Sergio Garcia
Creative Director

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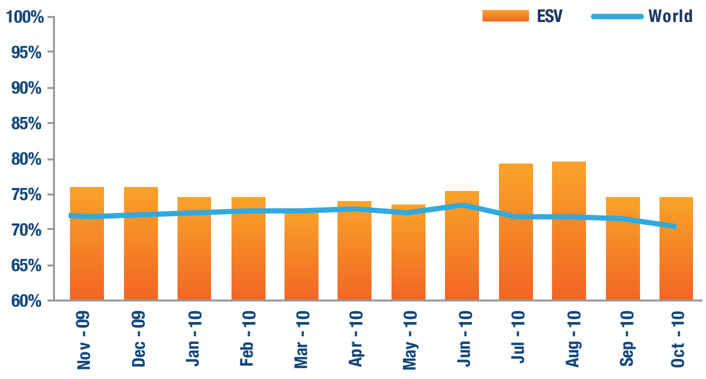
Worldwide Utilization and Dayrates

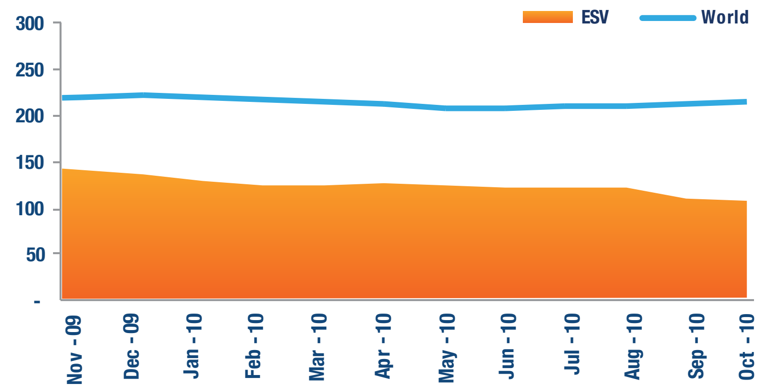
Overall utilization by ENSCO is tracking higher than the industry's average. Specifically, for the month of October, ENSCO's utilization was 78% or 500 basis points above the industry's 73% average. After seeing a little surge during the summer months, ENSCO's monthly utilization rates have slipped of late but are still on par with where the year started. In contrast, global utilization rates have dropped 200 basis points compared to January 2010's pace (75%).

ENSCO's asset mix (jackups versus floaters) is mostly comprised of jackups at 91%. This is significantly higher than the overall global rig fleet mix of 62% jackups and 38% floaters. It is this variance in mix that results in ENSCO's average monthly dayrates falling short of the global averages by approximately $120k/day. We note that when dayrates are compared by rig types, ENSCO's results are more meaningful and consistent with the industry.

ENSCO vs. World - Utilization



ENSCO vs. World - Dayrates



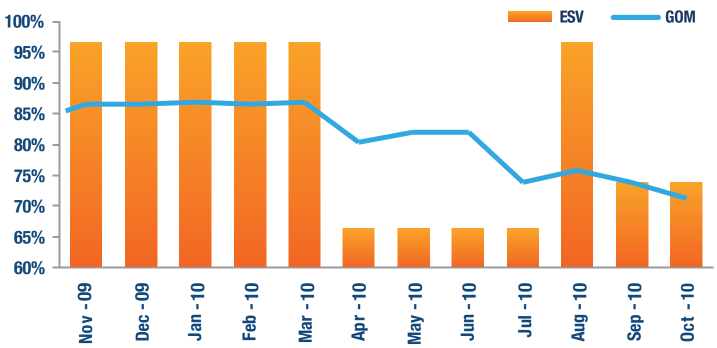
Ensco 8500

Floater Utilization and Dayrates

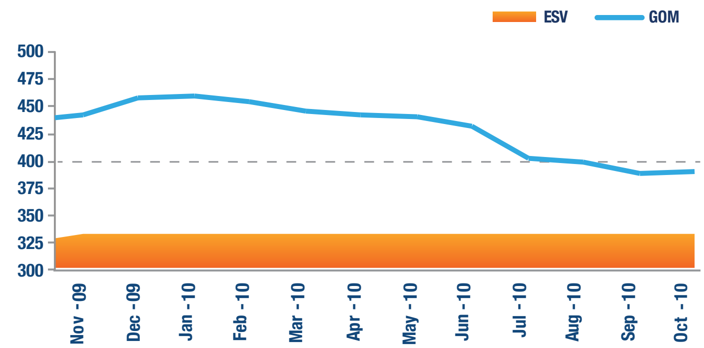
On a regional basis the ENSCO's market share is highly influenced by rig type. Within the Gulf of Mexico, ENSCO's greatest revenue exposure involves servicing the ultra-deepwater market with its semisubmersible fleet. ENSCO's current fleet of four semisubs is approximately 11% of the GOM's deepwater drilling assets.

The dayrate trends illustrated in the chart below include estimated standby rates for ENSCO's fleet. However, a lack of standby rate disclosure by other firms presents a challenge for comparing ENSCO to the industry. When we took averaged rates (excluding standby), we found that ENSCO's average and the industry's average for ultra-deepwater floaters in the Gulf of Mexico were comparable.

ENSCO vs. GOM - Floater Utilization



ENSCO vs. GOM - Floater Dayrates



Summary of Floater Market (As of October 2010)

Region	Active	Marketed	Utilization	Avg Dayrate
Africa (Primarily W Africa)	28	32	88%	$428
Asia Pacific/Australia	43	61	70%	$353
Gulf of Mexico (US)	26	36	72%	$388
Latin America	63	70	90%	$322
Middle East/Eastern Europe	9	12	75%	$445
North Sea	36	39	92%	$400
Total	208	250	83%	$372

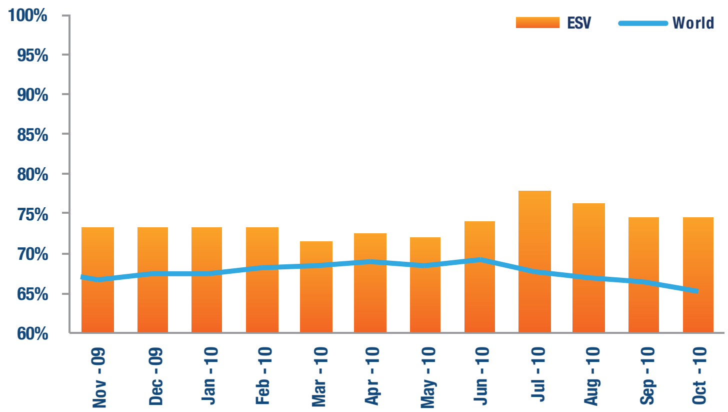
ENSCO (As of October 2010)

Region	Active	Marketed	Utilization	Avg Dayrate
Gulf of Mexico (US)	3	4	75%	$332
Total	3	4	75%	$332

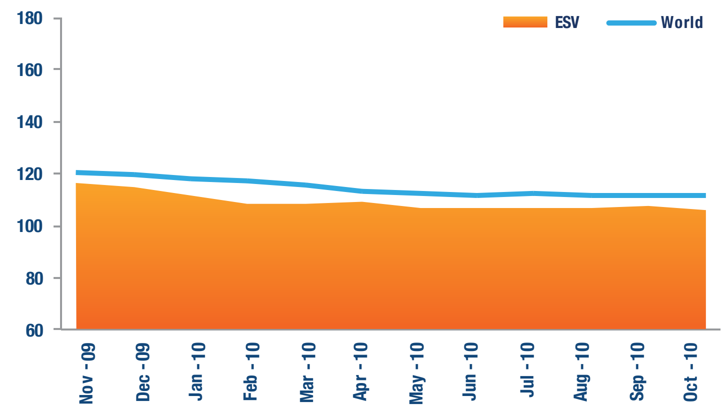
Jackup Utilization & Dayrates

ENSCO's jackup fleet is evenly deployed throughout the world. On average, ENSCO's jackup dayrates are on par with current global rates. The one exception is the North Sea. This is due to variances between conditions within the region. In the southern section (i.e. the UK where ENSCO's rigs are domiciled), dayrates are significantly lower than the Norwegian portion. Overall, the slight discount that ENSCO is receiving appears to be more than offset by the company's ability to optimize the use of its jackups. Specifically, ENSCO's jackups are averaging 80% utilization, compared to an industry-wide jackup utilization of 67%, during the month of October.

ENSCO vs. World - Jackup Utilization



ENSCO vs. World - Jackup Dayrates



Summary of Jackup Market (As of October 30, 2010)

Region	Active	Marketed	Utilization	Avg Dayrate
Africa (Primarily W Africa)	17	29	59%	$115
Asia Pacific/Australia	104	129	81%	$119
Gulf of Mexico (US)	32	81	40%	$63
Latin America	33	48	69%	$107
Middle East/Eastern Europe	102	149	68%	$116
North Sea	29	38	76%	$151
World Wide	318	473	67%	$114

ENSCO (As of October 30, 2010)

Region	Active	Marketed	Utilization	Avg Dayrate
Africa (Primarily W Africa)	1	1	100%	$140
Asia Pacific/Australia	8	9	89%	$107
Gulf of Mexico (US)	6	9	67%	$71
Latin America	5	6	83%	$92
Middle East/Eastern Europe	6	10	60%	$112
North Sea	8	8	100%	$123
World Wide	33	41	80%	$102

Rig Type Profiles

ENSCO's jackup fleet (41 rigs) ranks third behind Transocean (65 rigs) and Noble Drilling (43 rigs) when comparing public-traded firms that are listed on U.S. exchanges in marketed size. In terms of asset quality, over half of ENSCO's jackups are rated for water depths of 300′ or greater. ENSCO's premium jackup count of 16 rigs is larger than all other public offshore drillers except Transocean (19 rigs) and Rowan (19 rigs). Premium jackup rigs have not been plagued by the competitive pressures that have resulted in damped utilization levels for jackups with lesser capabilities. Similarly, the newest floating rigs capable of drilling in the deepest waters are in greater demand than prior generations.

ESV vs. Publicly-Traded Fleet Composition (Rig Type)

	Type	Under 300 ft. MidWater	300 ft. DeepWater	Over 300 ft. Ultra-DW	Total	Market Share
Atwood Oceanics	Jackups		1	2	3	1%
	Floaters	1	3		4	2%
Diamond Offshore	Jackups	4	7	2	13	3%
	Floaters	20	7	6	33	13%
ENSCO	Jackups	19	6	16	41	9%
	Floaters			5	5	2%
Noble Drilling	Jackups	15	20	8	43	9%
	Floaters	3	11	6	20	8%
Pride International	Jackups	2	5		7	1%
	Floaters	6	5	5	16	6%
Rowan	Jackups	1	6	19	26	5%
	Floaters					
Seadrill Ltd	Jackups		1	14	15	3%
	Floaters	1	1	11	13	5%
Transocean Ltd	Jackups	14	32	19	65	14%
	Floaters	28	18	26	72	29%
Worldwide Count	Jackups	198	131	147	476	
	Floaters	112	56	83	251	

Geographic Penetration

ENSCO has rigs operating in all of the major regions (Africa, Asia, Gulf of Mexico, Latin America, Middle East, and North Sea) except Africa. When comparing penetration of the jackup markets on a regional basis, the only rivals ENSCO has are Transocean and Noble Drilling. Conversely, ENSCO's entry into the deepwater markets is emerging as they complete their newbuild strategy of deploying ultra-deepwater 8500 series rigs.

ESV vs. Publicly-Traded Fleet Composition (Regional)

	Type	Africa	Asia	GOM	LAM	Middle East	North Sea	Other	Total
Atwood Oceanics	Jackups		1		1	1			3
	Floaters	1	2			1			4
Diamond Offshore	Jackups		1	6	3	3			13
	Floaters	2	6	5	16	1	3		33
ENSCO	Jackups		9	9	5	10	8		41
	Floaters		1	4					5
Hercules Offshore	Jackups	1	3	22		4		1	31
	Floaters								0
Noble Drilling	Jackups	5	4		12	13	9		43
	Floaters		2	8	7	1	1	1	20
Pride International	Jackups	1		2		4			7
	Floaters	4		2	9	1			16
Rowan	Jackups		1	8	2	11	3	1	26
	Floaters								0
Seadrill Ltd	Jackups		9		3	2	1		15
	Floaters	2	2	1	4		4		13
Seahawk Drilling	Jackups			20					20
	Floaters								0
Transocean Ltd	Jackups	13	24		2	19	7		65
	Floaters	14	17	13	10	2	14	2	72
Worldwide Count	Jackups	28	131	80	47	148	38	4	476
	Floaters	32	60	36	69	12	39	3	251

Operating Metrics

ENSCO's penetration of the premium markets for both floaters and jackups is at the heart of why its utilization levels compare favorably to its publicly traded peers. Historically, ENSCO's utilization average of 90% has surpassed its peers by 1000 basis points. Currently, ENSCO's utilization rate of 76% is 800 basis points higher than its peers' 68% average.

Utilization and Dayrate Comparison With Public Firms

Companies	Active	Marketed	Current Utilization	Historical Average
Atwood Oceanics	5	7	71%	92%
Diamond Offshore	34	46	74%	85%
Seahawk	6	20	30%	33%
Hercules	16	31	52%	68%
Noble Drilling	49	63	78%	91%
Pride International	14	23	61%	84%
Rowan Companies	16	26	62%	91%
Transocean	93	137	68%	83%
Seadrill	27	28	96%	90%
Peer Average	260	381	68%	80%
ENSCO plc	35	46	76%	90%

Similar to comparisons with the global rig fleet, ENSCO's rigs, on average, command dayrates that are approximately $120k/day below publicly-traded peers. As we previously noted, this is due to the disparity in ENSCO's fleet mix (predominantly jackups) when compared to the average. While in today's marketplace the weakness in overall jackup dayrates is a disadvantage for ENSCO, the short duration of these contracts could work to ENSCO's advantage once a little price inflation enters the market. Here, we would anticipate that ENSCO's revenue growth rate would turn in a better performance than its peers and thus drive a higher valuation in its share price.

Companies	Dayrates ($ 000)	Peak ($ 000)	Off Peak
Atwood Oceanics	286	329	-13%
Diamond Offshore	262	275	-5%
Seahawk	37	84	-55%
Hercules	75	91	-18%
Noble Drilling	152	208	-27%
Pride International	268	268	0%
Rowan Companies	148	189	-22%
Transocean	305	305	0%
Seadrill	338	424	-20%
Peer Average	241	268	-10%
ENSCO plc	116	175	-34%

Financial Metrics

From both a balance sheet and income statement perspective, ENSCO's financial performance outshines its peers. Specifically, ENSCO's operating margins in the most recent quarter and over the past twelve months are significantly higher than the industry average. ENSCO's debt on its books is relatively small by comparison. At just 4% of its market capitalization, ENSCO's lack of debt puts it in an enviable position that clearly sets it apart from its peers that, on average, have approximately 46% debt-to-market capitalization ratios.

Financial Comparison With Public Firms

Companies	Debt to Capital	Operating Margin (MRQ)	Operating Margin (LTM)	FY 2011 EPS	FY 2011 P/E
Atwood Oceanics	10.0%	51.3%	49.1%	$4.36	8.1x
Diamond Offshore	15.4%	39.7%	45.6%	$6.68	10.4x
Seahawk	0.0%	(133.6%)	(96.3%)	($4.41)	NM
Hercules	282.6%	(0.8%)	(10.8%)	($0.57)	NM
Noble Drilling	29.6%	17.7%	42.1%	$4.16	8.7x
Pride International	31.9%	16.2%	12.8%	$2.85	11.7x
Rowan Companies	44.2%	20.1%	22.8%	$2.28	14.1x
Transocean	63.0%	27.9%	34.7%	$7.72	8.3x
Seadrill	63.0%	41.1%	42.2%	$3.32	10.0x
Peer Average	46.4%	28.5%	34.5%		10.2x
ENSCO plc	3.8%	30.6%	39.8%	$4.19	12.0x

Dupont Analysis

The DuPont Corporation devised a method of deconstructing a company's Return on Equity (ROE) into components. This method is commonly referred to as DuPont Analysis. The three components used to derive ROE are Net Profit Margin (net income divided by sales), Asset Turnover (LTM sales divided by total assets), and Leverage Ratio (Assets divided by Equity). Multiplying these three components together yields a company's ROE (net income divided by equity) as all the other components cancel out one another. The value of using the DuPont Analysis is that it enables the observer to gain a better understanding of how a company is achieving its ROE.

DuPont Analysis

	ESV	DO	RIG	NE	PDE	RDC	ATW	SDRL	AVG
Net Profit	658.4	990	2,493	1,122	134	284	241	1,292	
Sales	1,783.6	3,373	10,149	3,104	1,376	1,760	621	3,528	27.3%
Profit Margin (LTM)	36.9%	29%	25%	36%	10%	16%	39%	37%	
Sales	1,783.6	3,373	10,149	3,104	1,376	1,760	621	3,528	
Assets	7,110.0	6,501	39,330	11,006	6,920	6,561	1,665	15,894	30%
Asset Turnover	25%	52%	26%	28%	20%	27%	37%	22%	
Assets	7,110.0	6,501	37,330	11,006	6,920	6,561	1,665	15,894	
Equity	5,873.0	3,738	20,039	7,201	4,456	3,684	1,304	5,240	1.8x
Leverage Ratio	1.2x	1.7x	1.9x	1.5x	1.6x	1.8x	1.3x	3.0x	
ROE	11%	26%	12%	16%	3%	8%	18%	25%	15%

With such a low leverage ratio, ENSCO could add approximately $2 billion debt to its balance sheet (offset by asset purchases) before approaching the average debt levels of its publicly traded peers. These assets, when fully operational, would likely generate another $500 million in earnings or add $3.50 in EPS per year to the company's bottom line. In our view, this would imply that ENSCO's future valuation could approach $114 (12x future annual earnings of $9.50, five years into the future). Discounting this target back five years at a 8.5% discount rate suggests the upside to the current share price of approximately $50 is $26 or about +50%.

Risk/ Reward Comparison

We constructed a risk/reward profile based on recent peak and trough share prices for ENSCO and its peers. Using the prior four quarters EPS results corresponding to the dates that the highs and lows were set, we calculated the peak and trough Price/Earnings ratios for each of the companies. Then by multiplying consensus 2011 estimates for each firm by the peak and trough P/E ratios, we were able to arrive at both the upside potential and downside risk relative to current share prices.

Risk - Reward Profile

	ESV	DO	RIG	NE	PDE	RDC	ATW	SDRL	AVG
Current 2011 P/E	12.0x	10.4x	8.3x	8.7x	11.7x	14.1x	8.1x	10.0x	10.2x
Consensus EPS	$4.19	$6.68	$7.72	$4.16	$2.85	$2.28	$4.36	$3.32	
Current Price	$50.14	$69.80	$63.92	$36.34	$33.29	$32.18	$35.50	$33.09	
Peak Share Price P/E	11.2x	17.8x	12.6x	13.0x	17.0x	11.1x	23.9x	19.3x	16.4x
Low Share Price P/E	2.8x	5.5x	5.0x	3.6x	3.1x	2.4x	3.4x	2.7x	3.7x
Implied Risk:									
Upside	-7%	71%	53%	49%	46%	-21%	194%	94%	61%
Downside	-77%	-47%	-40%	-59%	-73%	-83%	-58%	-73%	-64%
Recent Peak Price	$82.22	$145.68	$161.40	$67.98	$47.79	$47.34	$62.17	$34.38	
LTM Peak EPS	$7.37	$8.17	$12.77	$5.23	$2.81	$4.27	$2.60	$1.78	
Recent Low Price	$22.11	$54.29	$42.24	$20.62	$11.40	$10.33	$13.49	$5.17	
LTM Peak EPS	$7.90	$9.84	$8.52	$5.74	$3.68	$4.35	$3.96	$1.89	

Source: Thomson Financial

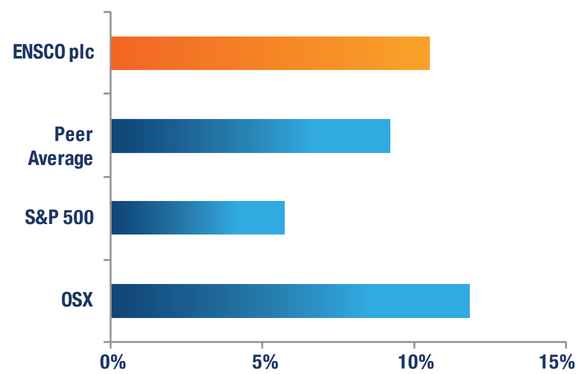
Both Rowan Companies and ENSCO are trading at forward P/E ratios that are above those achieved when the companies' share prices were trading at their peak. A literal interpretation of these patterns would indicate that the share prices for both, at this point in the cycle, hint at overvaluations. Given that both are dominant players in the high-spec jackup market, this provides some support for their premium valuations.

Taking the 50% upside to valuation based on a raising debt levels closer to industry norms yields a more balanced risk profile than the negative 7% upside implied by using historical peak multiples. Further, it is our opinion that this opportunity and other factors, such as higher margins and a pattern of consistent execution of operating strategies, are all influencing the market's premium valuation of ENSCO. Thus, overlaying our analysis with the recent share price action collectively points to a scenario of continued momentum where ENSCO's shares are likely to continue climbing as long as commodity prices for oil and gas remain stable.

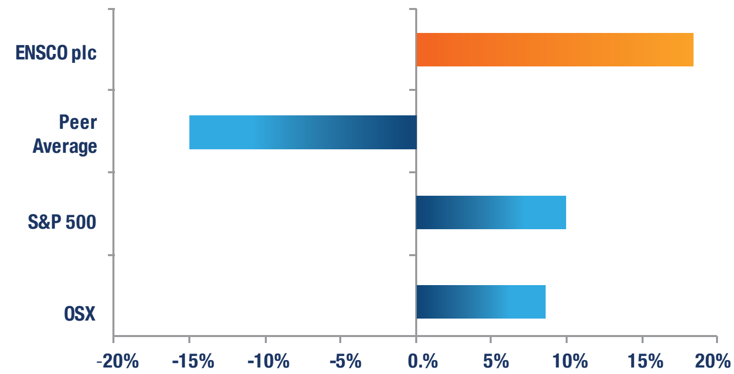
From a relative valuations perspective, ENSCO's shares are currently trading at premium to its peers based on consensus 2011 P/E ratios. Specifically, ENSCO's shares are trading at a 17% premium at 12.0x 2011 consensus EPS estimates of $4.19. The peer group trades at 10.2x 2011 earnings estimates. To summarize what we have detailed previously: we believe the premium valuation is warranted because of ENSCO's lower debt profile and industry-leading margins.

Share Price Performance

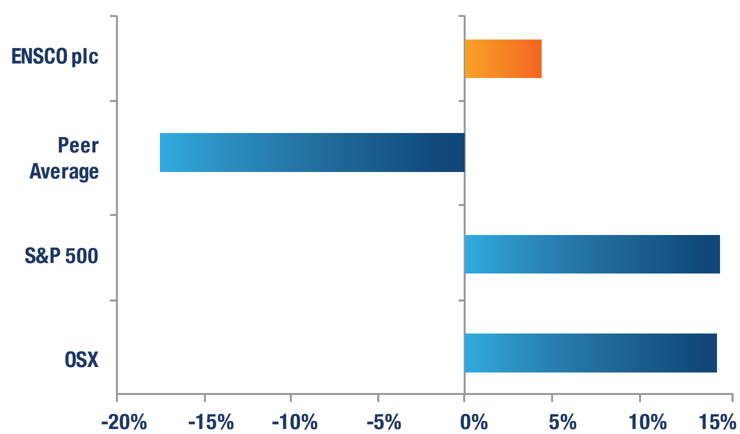
Returns Past Month (Ending Nov 5, 2010)



2010 Year-to-Date Returns



Returns Past Year (Ending Nov 5, 2010)



Past Three Years (Compounded Annual Growth Rate)