March 31, 2015

China Oilfield Services Ltd.

2014 Results in Line; Headwinds to Come in 2015, but Still Most Defensive of Peers

Industry View	Stock Rating	Price Target
Attractive	**Overweight**	**HK$14.25**

MORGAN STANLEY ASIA LIMITED+

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We think CNOOC's 2015-17 production plan has laid out a clear picture for COSL - there is sufficient work load, but at a lower rate. Despite headwinds, we think such bonding makes COSL much more defensive during the industry downturn as its fleet should enjoy much higher utilization.

Opinion on shares – neutral: We see the shares rangebound in the near term as 2014 results were in line with our expectation. We think the consensus has already turned bearish, with negative earnings growth as its base case scenario. At 1.0x 15e P/B with ROE of 10% (vs. Chinese OFS peer average of 0.8x 15e P/B and 4.7% ROE), we think downside risk is limited. We believe COSL will also apply stricter cost control measures to offset the negative impact from day rate drop in 2015.

Opinion on results – neutral: The company reported net profit of Rmb7.5 bn in 2014, which was 1% above our estimates but 4% below consensus. By segment:

- **Drilling:** Due to lower day rate and utilization, OP margin declined by 5.5ppts YoY and 8.5ppts HoH in 2H14.
- **Well service:** 2014 OP margin rose by 3.6ppts. Strength from the deep water project in 1H14 was partially offset by a decline in volume and prices in 2H14 due to the sharp fall in oil prices.
- **Marine support & transport**: OP margin improved by 3.6ppts YoY and 9.0ppts HoH in 2H14, thanks to the addition of new fleets and a one-off impairment in 1H14. Net of the one-off effect, 2014 OP margin was stable in 2014 vs. 2013.
- **Geophysical:** Reported a loss in 2H14 due to sharp declines in volume and prices.

Opinion on outlook – minor positive: We think the day rate decline will continue, which we consider the key downside risk for COSL. However, compared with other industry peers, we think COSL will secure high utilization for its existing fleet team, which could make it more defensive. Thanks to CNOOC's commitment to further increase its production volume in 2015-2017, we believe COSL is well positioned to further strengthen its leading market profile in the domestic offshore oil service industry. Meanwhile, the company should look to also capture new overseas opportunities, such as in Mexico, more aggressively to diversify its revenue sources. In the long run, we believe COSL is a market share taker on the back of more competitive service cost and solid parent support.

China Oilfield Services Ltd. (2883.HK, 2883 HK)

China Oil & Gas / China

Stock Rating	**Overweight**
Industry View	**Attractive**
Price target	HK$14.25
Up/downside to price target (%)	17
Shr price, close (Mar 30, 2015)	HK$12.82
52-Week Range	HK$23.40-11.06
Sh out, dil, curr (mn)	1,811
Mkt cap, curr (mn)	Rmb85,655
EV, curr (mn)	Rmb108,042
Avg daily trading value (mn)	HK$230.12

Fiscal Year Ending	**12/13**	**12/14e**	**12/15e**	**12/16e**
ModelWare EPS (Rmb)	1.49	1.55	0.90	1.14
Consensus EPS (Rmb)§	1.38	1.63	1.12	1.21
Revenue, net (Rmb mn)	27,527	32,990	28,635	30,707
EBITDA (Rmb mn)	10,959	12,610	9,194	10,676
ModelWare net inc (Rmb mn)	6,716	7,415	4,298	5,427
P/E	12.6	6.9	10.8	8.6
P/BV	2.3	1.2	1.0	1.0
RNOA (%)	12.0	12.8	7.1	8.4
ROE (%)	20.9	19.9	10.1	12.2
Div yld (%)	2.4	4.4	2.8	3.6

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework
§ = Consensus data is provided by Thomson Reuters Estimates
e = Morgan Stanley Research estimates

Exhibit 1: COSL: A Share Data

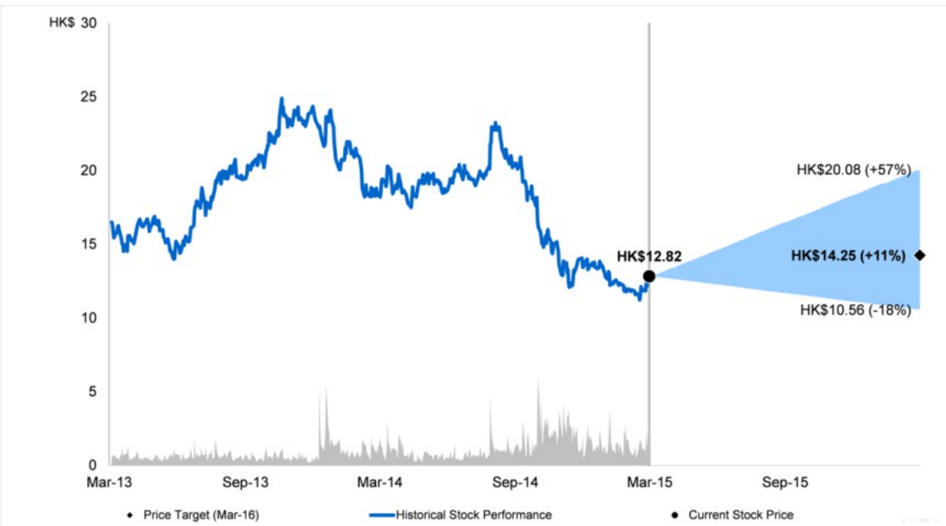
Reuters: 601808.SS	**Bloomberg: 601808 CH Equity**			
Rating				**Underweight**
Price target (Rmb)				**11.46**
Share price, Close, As of Mar 30, 2015 (Rmb)				**22.95**
Fiscal year ending	**12/13**	**12/14**	**12/15e**	**12/16e**
MW EPS (Rmb)	1.49	1.57	0.90	1.14
Revenue, net (Rmb mn)	27,527	32,993	28,635	30,707
P/E, for consensus	14.9	14.6	25.5	20.2
P/B, for consensus	2.7	2.6	2.5	2.2

Source: Company data, Thomson Reuters, Morgan Stanley Research

Risk Reward Snapshot

Risk-Reward Snapshot: COSL (2883.HK, HK$12.82, OW, PT HK$14.25)

Negatives from CNOOC's capex cut priced-in; Favored pick for oil price recovery on resilient earnings, OW



Source: Thomson Reuters, Morgan Stanley Research

HK$14.25		Derived from our base case, DCF-based SOTP valuation.
Bull Implies 13.5x Bull Case 2015e EPS	**HK$20.08**	**Higher oil prices supports long-term day rate + Segment margins sustain in the long run:** Oil price averages US$100/bbl in the long run, drilling day rate resumes gradual growth, and margins of each segment improve.
Base Implies 12.7x Base Case 2015e EPS	**HK$14.25**	**Large CNOOC capex cut amid lower crude oil price + drilling day rate stabilizes and well services margin stabilizes after 2017:** Strong capex cut by CNOOC pressures day rate and utilization. However, as oil price recovers and industry supply-demand rebalances, day rate and well service margins see improvement in the long run.
Bear Implies 7.6x Bear Case 2015e EPS	**HK$10.56**	**Lower oil price further pressures drilling day rate, capacity expansion and segment margins:** Drilling day rate continues to go down in the long run. Segment margins contract at a faster rate.

Why Overweight?

- Leading offshore oilfield service company in China with dominant market share; long-term relationship with CNOOC makes day rate and utilization more resilient during down cycle;
- Long-term overseas and deep water market growth opportunity backed by established track record in North Sea and continuous fleet expansion;
- Strong free cash flow generation, DCF value at HK$14.25, a 11% premium versus latest price;
- Uncertainties about CNOOC's capex cut have been removed, and negatives have been priced in. Current risk reward is attractive, in our view.

Key Value Drivers

- CNOOC's capex
- Drilling rig day rates and utilization
- Cost control
- Technology breakthrough

Potential Catalysts

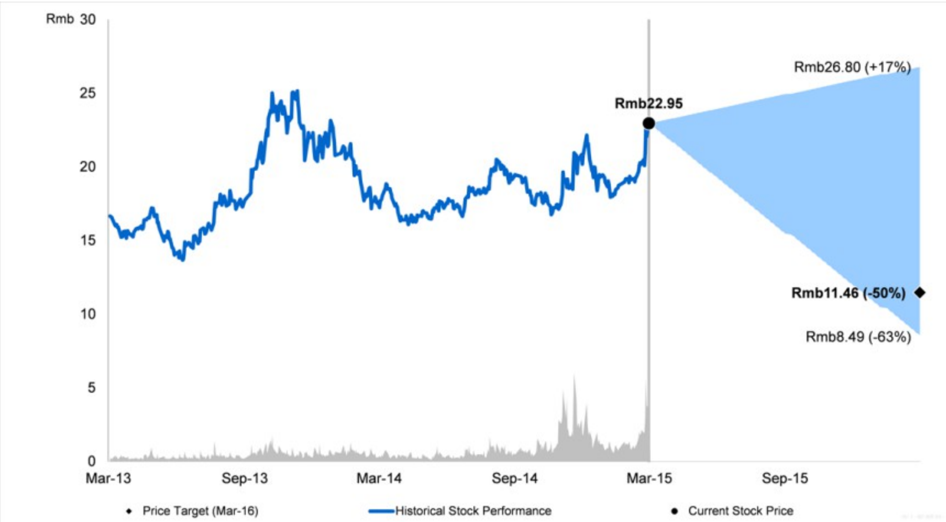
- Gradual recovery in crude oil price
- Improvement in global drilling day rate and utilization
- Faster than expected breakthrough in well service R&D
- New contract win in either deep-water China or overseas market

Risks to Achieving Price Target

- Oil price stays low in the long run
- Further correction in day rates for jack-up and semi-sub rigs due to accelerated supply growth
- Significant cost increase

Risk-Reward Snapshot: COSL (601808.SS, Rmb22.95, UW, PT Rmb11.46)

Intrinsic Value Implies 50% Downside, Trading at >80% Premium to H Shares, UW



Source: Thomson Reuters, Morgan Stanley Research

Rmb11.46		Derived from our base case, DCF-based SOTP valuation
Bull Implies 22.4x Bull Case 2015e EPS	**Rmb26.80**	**Higher oil prices support long-term day rate + Segment margins sustain in the long run:** Oil price averages US$100/bbl in the long run, drilling day rate resumes gradual growth, and margins of each segment improve. We assume A share premium to stay at 66%, which is the average since Sep 2008
Base Implies 12.7x Base Case 2015e EPS	**Rmb11.46**	**Large CNOOC capex cut amid lower crude oil price + drilling day rate stabilizes and well services margin stabilizes after 2017:** Strong capex cut by CNOOC pressures day rate and utilization. However, as oil price recovers and industry supply-demand rebalances, day rate and well service margins see improvement in the long run
Bear Implies 7.6x Bear Case 2015e EPS	**Rmb8.49**	**Lower oil price further pressures drilling day rate, capacity expansion and segment margins:** Drilling day rate continues to go down in the long run. Segment margins contract at a faster rate.

Why Underweight?

- Leading offshore oilfield service company in China with dominant market share; long-term relationship with CNOOC makes day rate and utilization more resilient during down cycle;
- Long-term overseas and deep water market growth opportunity backed by established track record in North Sea and continuous fleet expansion;
- Uncertainties about CNOOC's capex cut have been removed, however, the shares look overvalued - our DCF valuation is at a 50% discount to the current price, and the stock is trading at >100% premium to the H shares, which in our view is unjustified.

Key Value Drivers

- CNOOC's capex
- Drilling rig day rates and utilization
- Cost control;
- Technology breakthrough.

Potential Catalysts

- Normalization of liquidity in A share market
- A share sentiment change on investment theme shift
- Better connect between A-H markets

Risks to Achieving Price Target

- Oil price rebounds quickly
- Higher-than-expected realized day rate
- Continued liquidity increase in A share market

2014 Results Analysis

Summary of Financial and Operational Results

Exhibit 2: COSL: 2H14 & 2014 Financial Results Review

Unit: Rmb mn	1H13	2H13	1H14	2H14	YoY	HoH	2013	2014	YoY
Total revenue	**12,516**	**15,011**	**15,995**	**17,221**	**15%**	**8%**	**27,527**	**33,217**	**21%**
Operating expenses	**(8,869)**	**(11,009)**	**(10,966)**	**(13,825)**	**26%**	**26%**	**(19,879)**	**(24,791)**	**25%**
Depreciation	(1,656)	(1,654)	(1,863)	(1,906)	15%	2%	(3,311)	(3,770)	14%
Staff cost	(1,982)	(2,098)	(2,078)	(2,303)	10%	11%	(4,080)	(4,381)	7%
Repair and maintenance costs	(342)	(588)	(410)	(684)	16%	67%	(930)	(1,095)	18%
Consumption of fuel and others	(2,182)	(2,715)	(2,539)	(3,416)	26%	35%	(4,898)	(5,955)	22%
Subcontracting expenses	(1,619)	(2,295)	(2,393)	(3,053)	33%	28%	(3,914)	(5,445)	39%
Operating Lease expenses	(472)	(622)	(722)	(884)	42%	22%	(1,094)	(1,606)	47%
Other operating expenses	(615)	(1,038)	(806)	(1,360)	31%	69%	(1,653)	(2,165)	31%
Impairment of PP&E	0	0	(156)	(219)	n.m.	41%	0	(374)	n.m.
Operating profits	**3,647**	**4,002**	**5,029**	**3,397**	**-15%**	**-32%**	**7,648**	**8,426**	**10%**
Non-op. income (expenses)	**(247)**	**(274)**	**(203)**	**(236)**	**-14%**	**16%**	**(520)**	**(438)**	**-16%**
Exchange gain/(losses), net	11	(17)	7	(12)	-28%	-284%	(6)	(6)	-11%
Finance costs	(339)	(299)	(298)	(290)	-3%	-3%	(638)	(588)	-8%
Interest Income	82	43	88	67	57%	-24%	125	155	24%
Associates JVs & investments	163	229	240	295	29%	23%	392	535	37%
Profit before tax	**3,563**	**3,957**	**5,066**	**3,456**	**-13%**	**-32%**	**7,520**	**8,522**	**13%**
Income tax	(373)	(421)	(627)	(375)	-11%	-40%	(793)	(1,002)	26%
Profit for the Period	**3,190**	**3,536**	**4,439**	**3,081**	**-13%**	**-31%**	**6,726**	**7,520**	**12%**
Minority Interest	(10)	(0)	(15)	(13)	3804%	-12%	(10)	(28)	169%
Net profits	**3,180**	**3,536**	**4,424**	**3,068**	**-13%**	**-31%**	**6,716**	**7,492**	**12%**
Segment Performance	**1H13**	**2H13**	**1H14**	**2H14**	**YoY**	**HoH**	**2013**	**2014**	**YoY**
Drilling									
Revenue	6,908	7,757	8,603	8,786	13%	2%	14,665	17,389	19%
Operating Profits	2,731	3,033	3,621	2,955	-3%	-18%	5,765	6,576	14%
Well Services									
Revenue	2,655	3,820	3,995	5,539	45%	39%	6,475	9,533	47%
Operating Profits	330	365	938	426	17%	-55%	694	1,364	97%
Marine Support & Transportation									
Revenue	1,600	1,651	1,733	1,736	5%	0%	3,251	3,469	7%
Operating Profits	297	167	82	238	43%	190%	464	320	-31%
Geophysical									
Revenue	1,278	1,695	1,597	1,005	-41%	-37%	2,972	2,602	-12%
Operating Profits	289	437	388	(222)	-151%	-157%	726	166	-77%
Financial Ratio	**1H13**	**2H13**	**1H14**	**2H14**	**ppts chg**	**ppts chg**	**2013**	**2014**	**ppts chg**
OP Margin	**29%**	**27%**	**31%**	**20%**	**-6.9**	**-11.7**	**28%**	**25%**	**-2.4**
Drilling	40%	39%	42%	34%	-5.5	-8.5	39%	38%	-1.5
Well services	12%	10%	23%	8%	-1.9	-15.8	11%	14%	3.6
Marine support & transportation	19%	10%	5%	14%	3.6	9.0	14%	9%	-5.0
Geophysical	23%	26%	24%	-22%	-47.8	-46.3	24%	6%	-18.0
Staff cost % of revenue	16%	14%	13%	13%	-0.6	0.4	15%	13%	-1.6
Consumption of fuel and others % of revenue	17%	18%	16%	20%	1.7	4.0	18%	18%	0.1
Effective tax rate	10%	11%	12%	11%	0.2	-1.5	11%	12%	1.2
Net Margin	**25%**	**24%**	**28%**	**18%**	**-5.7**	**-9.8**	**24%**	**23%**	**-1.8**

Source: Company Data, Morgan Stanley Research. Note: Prepared based on IFRS, n.m. = not meaningful

Exhibit 3: COSL: 4Q14 & 2014 Segment Operation Review

	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	YoY/ ppts chg	QoQ/ ppts chg	2013	2014	YoY/ ppts chg
Drilling services													
Operating days	**2,898**	**3,192**	**3,255**	**3,342**	**3,061**	**3,532**	**3,704**	**3,601**	**8%**	**-3%**	**12,687**	**13,898**	**10%**
Jackup	2,336	2,405	2,449	2,464	2,187	2,627	2,785	2,782	13%	0%	9,654	10,381	8%
Semi-submersible	562	787	806	878	874	905	919	819	-7%	-11%	3,033	3,517	16%
Utilization rate (Calendar days)	**94.2%**	**96.4%**	**95.6%**	**96.2%**	**87.4%**	**94.6%**	**94.3%**	**90.9%**	**(5)**	**(3)**	**95.6%**	**91.8%**	**(4)**
Jackup	96.1%	96.5%	95.1%	95.5%	84.1%	93.1%	92.5%	91.5%	(4)	(1)	95.8%	90.3%	(5)
Semi-submersible	86.9%	97.2%	97.1%	98.6%	97.1%	99.5%	99.8%	89.3%	(9)	(11)	95.0%	96.4%	1
Marine Support and Transportation Services													
Operating days	**5,894**	**6,035**	**6,120**	**5,867**	**5,701**	**5,940**	**6,125**	**6,205**	**6%**	**1%**	**23,916**	**23,971**	**0%**
Standby vessels	3,385	3,461	3,533	3,574	3,222	3,287	3,412	3,387	-5%	-1%	13,953	13,308	-5%
AHTS vessels	1,402	1,409	1,527	1,247	1,178	1,279	1,216	1,294	4%	6%	5,585	4,967	-11%
PSV vessels	446	442	438	396	630	697	761	791	100%	4%	1,722	2,879	67%
Multi-purpose vessels	301	365	288	282	314	315	368	365	29%	-1%	1,236	1,362	10%
Barges	360	358	334	368	357	362	368	368	0%	0%	1,420	1,455	2%
Geophysical Services													
2D Seismic Data (km)													
2D Seismic Data Collection	6,002	8,852	8,725	2,397	4,037	8,178	7,212	1,764	-26%	-76%	25,976	21,191	-18%
2D Seismic Data Processing	4,966	9,045	3,681	5,964	0	4,034	7,233	5,700	-4%	-21%	23,656	16,967	-28%
3D Seismic Data (km²)													
3D Seismic Data Collection	5,635	7,264	9,438	2,338	4,690	12,395	5,059	2,062	-12%	-59%	24,675	24,206	-2%
3D Seismic Data Processing	3,148	4,284	5,015	11,950	5,679	5,626	3,785	2,686	-78%	-29%	24,397	17,776	-27%

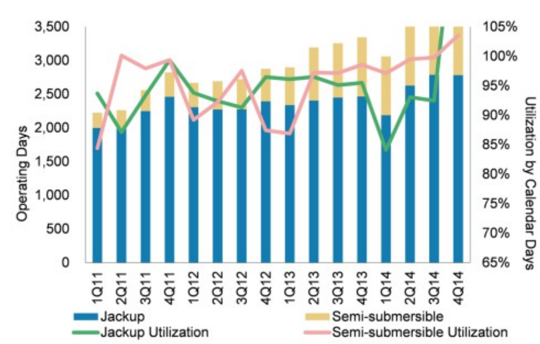
Source: Company Data, Morgan Stanley Research. Note: n.a. = not applicable

Segment Results Review

Drilling

OP declined by 3% YoY and 18% HoH to Rmb3.0bn in 2H14, due to lower day rates and more standby. In 2014, OP rose by 14% as annual operating days and average day rates both increased:

Exhibit 4: COSL: Drilling Operating Days & Utilization



Source: Company Data, Morgan Stanley Research

- **Jackup operating days:** Rose 13% YoY to 2,782 days in 4Q14, and 8% YoY to 10,381 days in 2014. The increase in 2014 was mainly due to the commencement of operation of 2 owned rigs and 3 leased rigs during the year.
- **Jack-up utilization rate:** Declined 4ppts YoY and 1ppt QoQ in 4Q14, and 5ppts YoY in 2014. The drop mainly reflected more days for maintenance and standby.
- **Jack-up day rate:** Rose 9% YoY and fell 5% QoQ in 2H14, and climbed 9% YoY in 2014.
- **Semi-sub operating days:** Declined 7% YoY and 11% QoQ to 819 days in 4Q14, and increased 16% YoY to 3,517 days in 2014. The increase in 2014 was mainly due to the full-year operation of 4 semis that were launched in 2013.
- **Semi-sub utilization rate:** Declined 9ppts YoY and 11ppts QoQ in 4Q14, and rose 1ppt YoY in 2014.
- **Semi-sub day rate:** Rose 2% YoY and fell 1% QoQ in 2H14, and was stable in 2014 vs. 2013.
- **Overall drilling OP margin**: Fell 5.5ppt YoY and 8.5ppt HoH to 34% in 1H14. For 2014, OP margin declined by 1.5ppts YoY to 38%.

Notably, drilling segment revenue included the US$65mn settlement fee received from Statoil Petroleum with respect to the dispute over standby fees.

COSL currently manages 44 drilling rigs. By geography, it has 14 rigs operating in Bohai, 9 in South China Sea, 4 in East China Sea, 14 in international markets, 2 being maintained and commissioned in shipyard and 1 standby. By rig type, it has 33 jack-ups and 11 semi-subs. The company also has 2 accommodation rigs and 5 module rigs.

Exhibit 5: COSL: Drilling Overall Day Rates Improved by 8% YoY and Declined by 1% HoH

ten throusand US$.day	1H13	2H13	1H14	2H14	YoY	HoH	2013	2014	YoY
Jack-up	11.8	11.4	13.0	12.4	9%	-5%	11.6	12.7	9%
Semi-submersible	32.8	31.4	32.3	32.1	2%	-1%	32.1	32.2	0%
Drilling Rigs Sub-total	**16.9**	**16.1**	**17.6**	**17.6**	**9%**	**0%**	**16.5**	**17.6**	**7%**
Accommodation	25.8	26.8	27.7	28.5	6%	3%	26.3	28.1	7%
Average	**17.4**	**16.6**	**18.1**	**17.9**	**8%**	**-1%**	**17.0**	**18.0**	**6%**

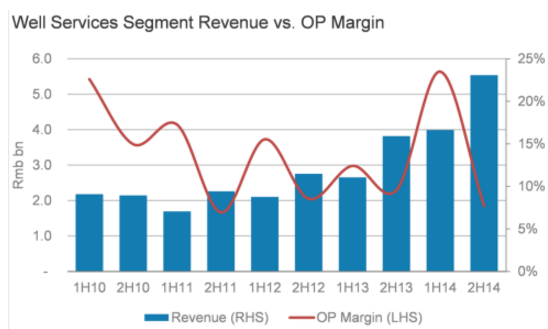
Source: Company Data, Morgan Stanley Research

Well Services

OP increased 17% YoY and decreased 55% HoH to Rmb426mn in 2H14. The YoY rise was mainly thanks to technological improvement and the increase in the number of drilling rigs, while the HoH decline is mainly due to the high base from the deep water project in 1H14 and falling oil service prices as oil prices declined. OP margin in 2H14 was down 1.9ppt YoY and 15.8ppt HoH to 8%.

For 2014, OP jumped 97% YoY to Rmb1.4bn. OP margin rose 3.6ppts to 14%, thanks to completion of the deep water project in 1H14.

Exhibit 6: COSL: Well Services Segment Revenue vs. OP Margin

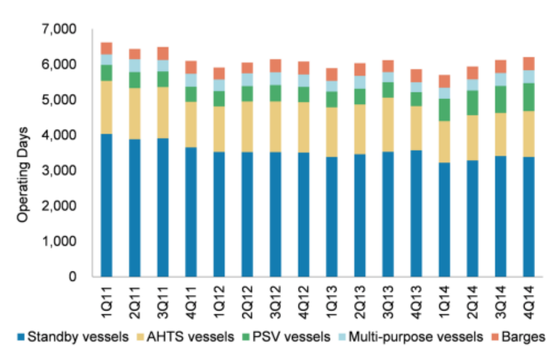


Source: Company Data, Morgan Stanley Research

Marine Support & Transportation

OP rose 43% YoY and 190% HoH to Rmb238mn in 2H14. Excluding effects of asset impairment loss of Rmb143.7 in 1H14, OP was flat in 2014 vs 2013. Self-owned vessel operating days were flat in 2014 vs 2013.

Exhibit 7: COSL: Marine Support and Transportation Operating Days of Self-Owned Vessels



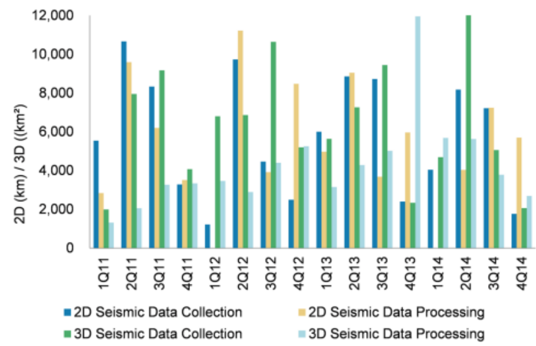
Source: Company Data, Morgan Stanley Research

Geophysical

OP turned into negative in 2H14 due to decreases in volume, utilization and prices. For 2014, OP was down 77%.

- **2D seismic data collection:** Volume fell 26% YoY and 76% QoQ in 4Q14, and 18% YoY in 2014.
- **2D seismic data processing:** Volume declined 4% YoY and 21% QoQ in 4Q14, and 28% YoY in 2014.
- **3D seismic data collection:** Volume slid 12% YoY and 59% QoQ in 4Q14, and 2% YoY in 2014.
- **3D seismic data processing:** Volume fell 78% YoY and 29% QoQ in 4Q14, and 27% YoY in 2014.
- **Geophysical OP margin:** Declined >45ppts both YoY and HoH in 2H14. 2014 OP margin dropped 18ppts.

Exhibit 8: COSL: Geophysical Volume of Self-Owned Rigs



Source: Company Data, Morgan Stanley Research

Capex

Capex stood at Rmb5.3bn in 2H14, down 27% YoY. For 2014, capex stood at Rmb8.1bn, down 6% YoY.

Exhibit 9: COSL: 2H14 Capex Decreased 27% YoY

Capex (Rmb mn)	1H13	2H13	1H14	2H14	YoY	HoH	2013	2014	YoY
Drilling	1,014	5,666	1,254	2,229	-61%	78%	6,681	3,483	-48%
Well services	219	583	229	952	63%	316%	802	1,181	47%
Marine support and transport	51	507	634	1,597	215%	152%	558	2,231	300%
Geophysical	108	483	667	517	7%	-23%	591	1,184	100%
Total	**1,392**	**7,239**	**2,783**	**5,296**	**-27%**	**90%**	**8,631**	**8,079**	**-6%**

Source: Company Data, Morgan Stanley Research

2015 Outlook

Financial Outlook

According to the 2014 annual results announcement, it the company expects that:

- The revenue and operating profit for 2015 will decrease significantly as compared with 2014.
- The trend of work load and prices in China's offshore oil and gas market will be similar to the global market.
- The company will actively implement cost control and efficiency improvement initiatives.
- Business of the four main segments of the company will be notably affected in 2015.

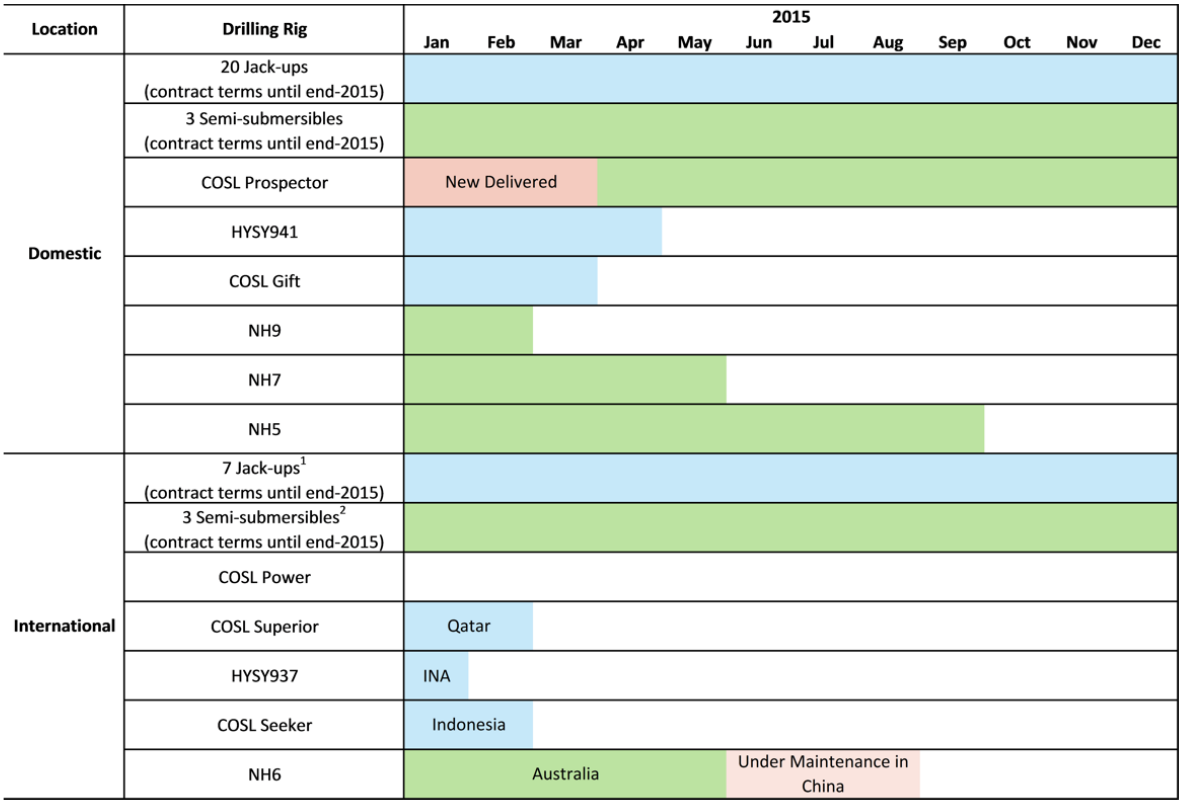
2015 Rig Operating Status

COSL plans to focus on working with its sister company CNOOC in maintaining high utilization, which we believe can give COSL stronger resilience than its global peers in industry headwind. Base on COSL 's rig status update as of Feb 3, 2015:

- By geography: COSL has secured 89% of contracts in the domestic market and 72% of contracts in the overseas market.
- By rig type: COSL has secured 85% of contracts for jackups and 77% of contracts for semi-subs.

Exhibit 10 shows details of COSL's rig operating status in 2015. However, the company confirmed that day rate is subject to downward pressure.

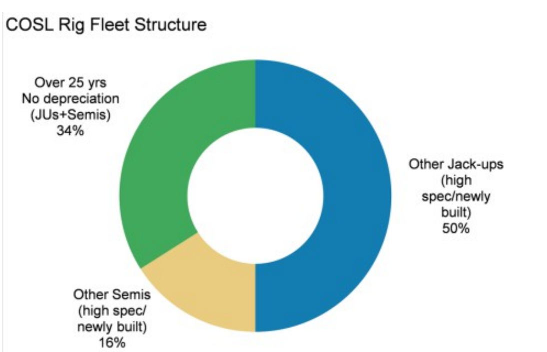
Exhibit 10: COSL: Rig Operating Status in 2015



Source: Company data, Morgan Stanley Research. Note: 1. COSL Hunter is serving a contract while a subsequent contract is pending confirmation. 2. COSL Pioneer has suspended its operation and it is expected to resume operation in August. 3. Data above as of 3 February 2015 and may subject to change; rigs under maintenance are not shown; 4. Jack-ups are marked in blue and semis are marked in green.

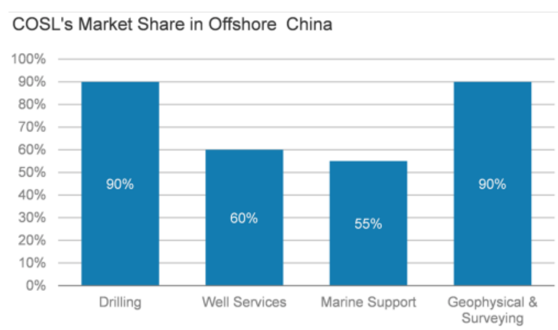
Notably, COSL's fleet team also has a low cost structure (**Exhibit 11**), with 34% of the operating rigs of over 25 years with no depreciation, yet in good condition.

Exhibit 11: COSL: Rig Fleet Structure



Source: Company Data, Morgan Stanley Research

Exhibit 12: COSL: Market Share in Offshore China



Source: Company Data, Morgan Stanley Research

2015 Capex Plan

COSL budgeted Rmb 6.5-7.5bn capex for 2015, down by 7-20% from the level of 2014. Of the budgeted capex, 80% is for projects in progress, such as the building of oilfield service vessels.

Valuation

H shares

We derive our price target of HK$14.25, based on our SOTP valuation that consolidates the DCF value for each division. We use DCF as the major valuation methodology for COSL for three main reasons: 1) COSL has a long operating history and established track record, and therefore it has predictable future cash flows; 2) COSL's business expansion requires continuous capex to maintain its business scale; 3) With no direct exposure to material crude oil price fluctuations, COSL can generate sustainable free cash flow.

We apply a DCF valuation to each segment, rather than making an aggregate forecast: This is because each business division differs in terms of growth drivers, the capex cycle and profitability. We believe this gives a much clearer picture regarding the intrinsic value of COSL. We apply a standardized WACC of 9.1% (unchanged) to each business division, because capital budgeting is considered at the corporate level. We use: 1) risk-free rate of 3.5%; 2) equity beta of 1.3x; 3) equity risk premium of 7%; and 4) target equity/assets ratio of 0.6x.

Exhibit 13: COSL: SOTP Valuation

Rmb bn	Valuation Methodology	Pct. of Total	NAV
Drilling	DCF	61%	45
Well services	DCF	28%	21
Marine support & transportation	DCF	6%	4
Geophysical	DCF	5%	4
Total NAV			**74**
Shares outstanding (bn)			4.77
Per share value (HK$)			**HKD/Share**
Drilling			11.86
Well services			5.51
Marine support & transportation			1.07
Geophysical			0.95
- Net debt / share			**5.14**
Fair value (HK$/share)			**14.25**
Latest stock price			12.82
Upside / downside			**11%**

e = Morgan Stanley Research estimates, Source: Company Data, Morgan Stanley Research

A shares

Our price target for A shares is based on our valuation for H shares adjusted by currency exchange rate, since the company's fundamentals are the same. We acknowledge historical valuation differences in the A and H markets, but we see the discount/premium narrowing thanks to the A-H MMA. Our PT is Rmb 11.46, implying downside of 50%.

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(as of February 28, 2015)

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Overweight/Buy	**1161**	**35%**	**321**	**41%**	**28%**
Equal-weight/Hold	**1459**	**44%**	**370**	**47%**	**25%**
Not-Rated/Hold	**101**	**3%**	**10**	**1%**	**10%**
Underweight/Sell	**609**	**18%**	**88**	**11%**	**14%**
TOTAL	**3,330**		**789**		

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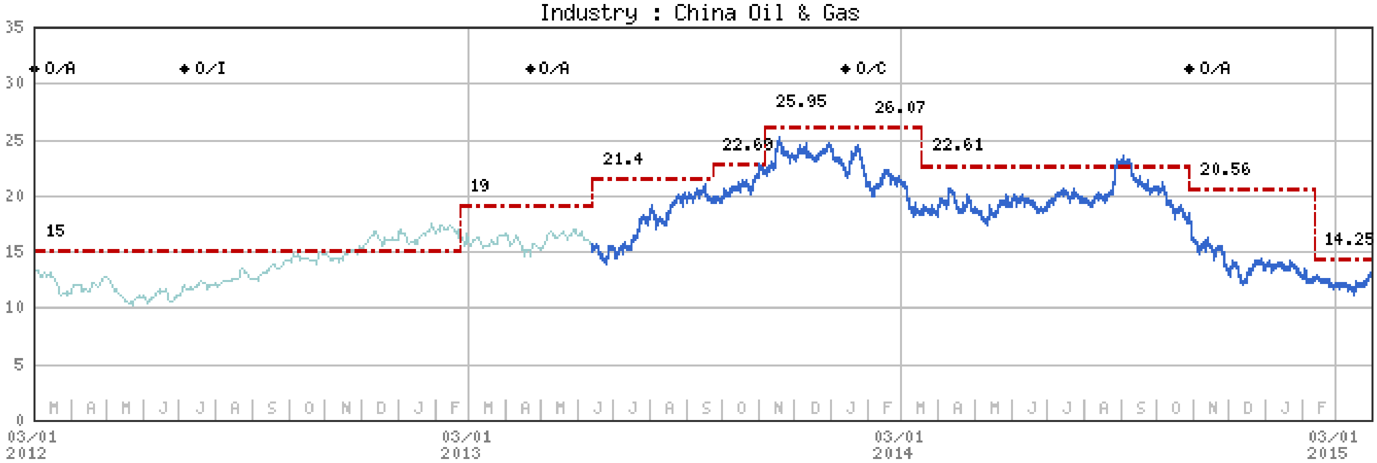
Stock Price, Price Target and Rating History (See Rating Definitions)

China Oilfield Services Ltd. (2883.HK) - As of 3/30/15 in HKD
Industry : China Oil & Gas



Stock Rating History: 3/1/12 : O/A; 7/6/12 : O/I; 4/22/13 : O/A; 1/13/14 : O/C; 10/29/14 : O/A

Price Target History: 6/29/11 : 15; 2/22/13 : 19; 6/13/13 : 21.4; 9/23/13 : 22.69; 11/6/13 : 25.95; 1/28/14 : 26.07; 3/18/14 : 22.61; 10/29/14 : 20.56; 2/11/15 : 14.25

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target -- No Price Target Assigned (NA)
Stock Price (Not Covered by Current Analyst) Stock Price (Covered by Current Analyst)
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Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)
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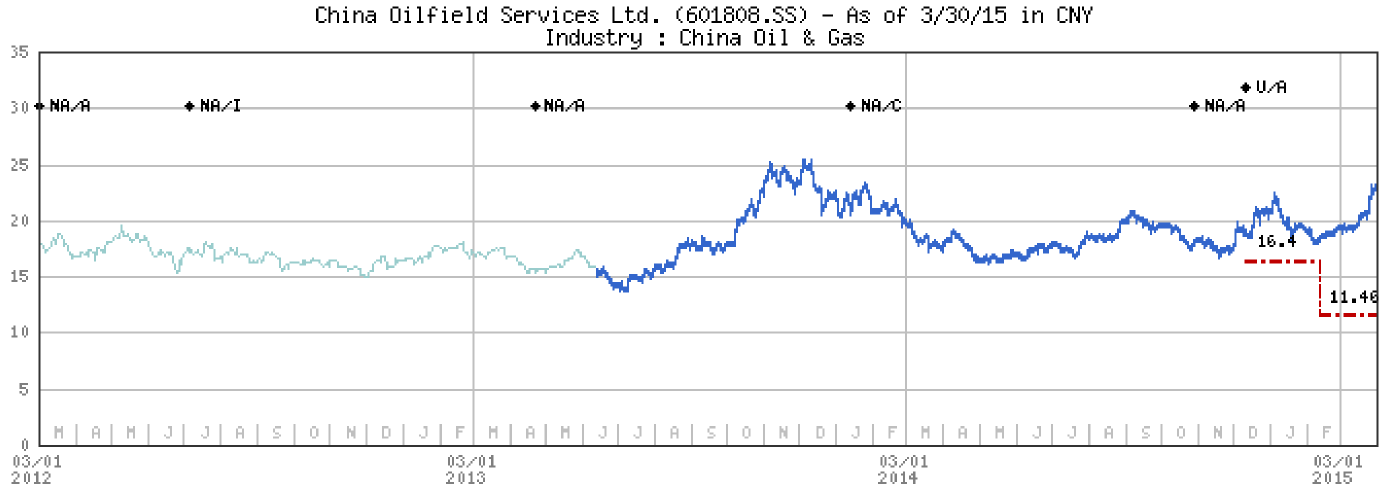

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Price Target History: 12/11/14 : 16.4; 2/11/15 : 11.46

Source: Morgan Stanley Research   Date Format : MM/DD/YY   Price Target -·   No Price Target Assigned (NA)
Stock Price (Not Covered by Current Analyst)   Stock Price (Covered by Current Analyst)
Stock and Industry Ratings (abbreviations below) appear as ◆ Stock Rating/Industry View
Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)
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INDUSTRY COVERAGE: China Oil & Gas

COMPANY (TICKER)	RATING (AS OF)	PRICE* (03/30/2015)
Meng CFA, Andy		
China BlueChemical (3983.HK)	O (02/11/2015)	HK$2.91
China Oilfield Services Ltd. (601808.SS)	U (12/11/2014)	Rmb22.96
China Oilfield Services Ltd. (2883.HK)	O (01/13/2012)	HK$12.82
China Petroleum & Chemical Corp. (0386.HK)	O (10/29/2014)	HK$6.12
China Petroleum & Chemical Corp. (600028.SS)	E (02/11/2015)	Rmb6.49
CNOOC (0883.HK)	O (07/14/2009)	HK$10.80
Hainan Rubber (601118.SS)	U (10/16/2014)	Rmb9.80
Hilong Holding Limited (1623.HK)	O (06/13/2013)	HK$1.89
Honghua Group Ltd. (0196.HK)	U (03/18/2014)	HK$0.91
Inner Mongolia Junzheng (601216.SS)	U (12/11/2014)	Rmb20.05
Offshore Oil Engineering (600583.SS)	U (12/11/2014)	Rmb13.24
PetroChina (601857.SS)	U (02/11/2015)	Rmb11.89
PetroChina (0857.HK)	E (02/11/2015)	HK$8.51
Qinghai Salt Lake (000792.SZ)	U (10/16/2014)	Rmb30.42
Sinofert Holdings (0297.HK)	O (10/16/2014)	HK$1.55
Sinopec Kantons (0934.HK)	O (03/18/2014)	HK$5.65
Sinopec Shanghai Petrochemical Co Ltd (0338.HK)	O (02/11/2015)	HK$2.95
SPT Energy Group Inc (1251.HK)	E (02/11/2015)	HK$1.30
Tianhe Chemicals (1619.HK)	O (07/24/2014)	HK$1.17

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