

## 08/12/08 - Wellstream PLC - Oil Services Company with a Bright Future

### THE OSTRICH RALLY

It looks like Wall Street is currently enjoying as some pundits like to call it ? an 'ostrich' rally. Like the ostrich, many Wall Street traders have stuck their heads in the ground and are oblivious to what is happening in the world around them.

Little has really changed in the global economic landscape. The emerging market economies continue to rapidly industrialize and 'emerge'. But Wall Street, with blinders on, is solely focused on the slight slowdown in the US economy and not with what is happening economically to the billions of other people on the planet.

All the financial news outlets are talking about "demand destruction" when it comes to commodities, particularly oil. They point to the supposed massive stockpiling of commodities by China for the Olympics as to the cause of the previous sharp rise in commodity prices.

First of all, China's build-up for the Olympics, taken in its entirety, is no more than a blip on China's economic radar screen. The financial news outlets are also conveniently omitting the other side of the story. For the Olympics, China has shut down a good portion of their industries for over a month, so as to help alleviate any air pollution problems for the Games. Might the much ballyhooed "demand destruction" just be temporary and a result of China's lack of demand for commodities over the past month?

### WALL STREET PARTIES WITH FAMOUS CELEBRITY HEIRESS

Investors can choose to party with Wall Street and ignore the billions of people who share the planet with them. A famous celebrity heiress was overheard at the latest Wall Street party, "Like ? we totally don't need oil or to even search for it! That is like, totally, last week's trend! This week's trend is to buy totally HOT sectors like financials and techs."

It may be fun to party with glamorous celebrities but experienced investors will look elsewhere for investment advice. Sophisticated investors realize that the long-term trend in energy demand and prices is up. They realize that the emerging markets have not disappeared and will not stop their rapid growth. The entire energy sector has now been beaten down to levels that represent true value and investors should

be keen to explore that sector for future growth.

## **WELLSTREAM HOLDINGS PLC HISTORY**

One company that definitely should be on the radar screen of investors is the UK-based Wellstream Holdings PLC. Wellstream is a leading designer and manufacturer of high quality, custom-made unbonded flexible pipeline systems for use primarily by the offshore oil and gas industry.

Wellstream has a long and successful history. The company was founded in 1983 in Panama City, Florida. Wellstream established itself as a niche market manufacturer supplying products to a broad range of offshore energy developers worldwide.

In 1995, Wellstream was acquired by Dresser Industries. Following the acquisition, the company began to emerge as a significant market player. Wellstream secured the largest flexible pipe contract ever to be awarded to that date from Norsk Hydro as part of the Troll Ojle and gas development offshore Norway.

In 1998, Wellstream became part of Halliburton, following the merger of Dresser Industries with Halliburton. The company continued to cement its market position during this period with continuing product development. Wellstream became the first company to qualify products for operation in water depths of 2000 meters following many years of work in technical cooperation with Petrobras.

## **WELLSTREAM ? MAJOR OIL SERVICES COMPANY**

In 2003, private equity firm, Candover Investment Partners and a management buy-in group acquired Wellstream. These investors later brought Wellstream public in an IPO in April 2007. The company has two major manufacturing facilities in Newcastle, England and Niteroi, Brazil along with other facilities in Calgary, Canada and Houston, Texas.

By revenue and production volume, Wellstream is the second largest producer of offshore flexible pipeline systems for the oil and gas industry (based on 2006 data). The company provides a range of products and services to support production, well servicing and mooring operations.

Wellstream has also developed two products for the onshore flowline and tank drain markets. One product, called FlexSteel, combines the advantages of flexible pipe with the reliability of steel pipe. The company is also considering entering into a niche segment of the offshore pipeline installation market, to provide a ?supply and

install' package.

## **WELLSTREAM'S STOCK**

Wellstream's stock trades in London with the symbol WSM.L and *here in the US on the pink sheets with the symbol WELLF*. The company's market cap currently is just over \$2 billion with a solid debt-to-equity ratio of only 0.324 and a current backlog of approximately \$150 million in future revenues.

Wellstream, like many oil service stocks recently, has been beaten down. In the US, the stock has had a 52-week range of between 13.75 on the low and 30 on the high. The stock hit that high on April 21st and has now fallen to approximately 20.50, down nearly a third. This takes the stock back to the level last seen in November 2007. The company now trades at an attractive forward PE of only 13.

## **WELLSTREAM and BRAZIL**

Perhaps the most important factor concerning the future of Wellstream is that much of the company's revenues are being generated by the exciting offshore discoveries in Brazil. In 2007, Brazil accounted for around 80 percent of Wellstream's revenues. Also in 2007, the company built their latest state-of-the-art manufacturing facility in Niteroi, Brazil.

Wellstream has been in negotiations for months on a long-term strategic agreement with Petrobras. Some factors in Wellstream's favor during these negotiations are the company's longstanding relationship with Petrobras along with the company's large manufacturing base in Niteroi, Brazil.

Wellstream should have the upper hand in these negotiations since they are one of only two major global subsea flexible pipe manufacturers. Petrobras will not simply be able to source sufficient products from competitors due to little alternative spare capacity.

Investors looking to participate in the major oil discoveries offshore Brazil can do so through Wellstream. The company is selling at a reasonable valuation and with the catalyst of a large long-term agreement with Petrobras is in the offing, the future for Wellstream looks even brighter.

So while Wall Street parties with celebrities and ignores the global energy problem, smart investors will be buying Wellstream at a bargain price.

**Our recommendation: Buy Wellstream (WELLF: OTHER OTC) at or near \$21.00.**

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